December 5, 2022

CHLA Comment Letter
Request for Information Regarding (FHA) Small Mortgage Lending
FR-6342-N-01

The Community Home Lenders of America (CHLA) is a national non-profit association of small and mid-sized community-based mortgage lenders.

We're pleased to add our recommendations to the public policy discussion on how to make smaller FHA mortgages more viable in the marketplace.

1. **Definition of Lower-Balance Mortgages**

On the question of what ought to comprise the definition of lower-balance mortgages, our lenders recommend HUD consider using the 80% of the current (and future) FHA county limits. This will capture differences among rural, urban, and suburban areas across the country. A lower limit, such as a flat $75,000 or $100,000, would be meaningless for many of our recommendations because few if any mortgages are originated at these levels due to the lack of suitable inventory, or the suitable (price wise) inventory is located too far away from sustainable income and employment sources.

As noted below, we make recommendations regarding the recommended FHA QM points and fees policy changes under the metrics existing already in regulation (and not using the 80% of county median measure.)

2. **Changes Needed for Condos, a Key Housing Option for First-Time Buyers**

Due to recent rises in home prices, which are expected to remain elevated even after the current Federal Reserve tightening cycle, condominiums are increasingly a key part of low balance housing inventory, and a key option for first-time buyers. Condos are often sought by single parents and seniors – two groups that struggle with upkeep of a SF home. For these groups, SF homes become more costly as they often need to hire people to perform regular maintenance (due to time or physical limits).

At the same time, the mortgage plumbing system still seems to contemplate that the best option is a single-family home, despite much of this inventory being too expensive for most first-time buyers; the same plumbing system treats condos as an exotic option that ought remain a minor part of homeownership solutions.

While it's true the risk profile of condominiums is different from SF properties, we must move the mortgage world to a place where condominiums are considered essential and more of a routine qualifying and underwriting process.

RECOMMENDATIONS: Please see Attachment A.

3. Revamped Downpayment Assistance Guidelines

While third-party downpayment assistance programs (DPA) performed poorly in the runup to the Great Recession, HUD ought examine how, given current conditions, qualifying lenders could provide reformed lender DPA for low-balance mortgages. This program would be limited to those lenders with the requisite track records and would include among other parameters an individual lender's Compare Ratio.

Part of the challenge for FHA's prior third-party downpayment assistance programs was a lack of correct oversight, and financial incentives that did not line up with HUD's and the family's interests. Lenders have a built-in incentive to make this program work; should they provide flawed downpayment assistance services, HUD will require indemnifications that come directly from the pockets of the mortgage lenders' owners.

The lenders with solid FHA underwriting experience, and with the natural financial incentive to make this work for families, can accomplish the mission here. We are willing to engage you further here in a detailed discussion to address any safety and soundness concerns for the FHA program overall.

RECOMMENDATION: devise a suitable pilot program and select initial lenders to test the program.

4. HUD 203k Flexible Criteria Needed

FHA standard 203K renovation loans are very restrictive in comparison to the Fannie Mae Homestyle rehabilitation product. HUD 203K's have a minimum dollar amount for eligible improvements, which hinders participation. Additionally, eligible improvements are restricted to the point where lenders and consumer shy away from using it. (Please see Attachment B.) Increasingly, affordable housing stock (which is more likely to be lower-balance mortgages) needs improvement to comply with basic HUD appraisal standards. Multiple restrictions on the 203Ks make it difficult to obtain financing on the affordable housing stock that is available.

RECOMMENDATION: To be part of the low-balance FHA mission, HUD should align its 203K renovation program with the Fannie Mae product that offers flexible guidelines without limitations on improvements and dollar amounts. (With the exception of a complete teardown, Fannie Mae has no other limitations on the Homestyle renovation product.)

5. **Reduce High Guarantee Premiums that Preclude Low-Balance Mortgages**

Reducing the monthly fee for mortgages below 80% of the HUD county ljmits would also boost this product's acceptance in the marketplace. CHLA is on record for general guarantee fee reform that brings all FHA premiums in line with actual risk, including ending life of loan premiums for all FHA mortgages with an LTV threshold of 78%. For low-balance loans, the life of loan premium should end when the true actuarial return is achieved, meaning a low-balance mortgage life of loan premium could cease at an LTV higher than 78%. As you know, currently HUD collects revenues here far in excess of expected losses.

RECOMMENDATION: for low-balance mortgages, end life-of-loan premiums when the combined up-front and life-of-loan premiums equal the actual loss risk on a new FHA mortgage.

6. **Adjust Allowable Points and Fees for FHA Mortgages between $60,000 and $100,000**.

The cost of mortgage production itself is often an impediment for the lowest-balance FHA mortgages, and of course most lenders simply will not originate these outside the QM regimen. The existing HUD loan balance/points and fees grid works well today above $100,000, but for the category of mortgages between $60,000 and $100,000, where the current points and fees cannot exceed $3000, the marketplace expenses for underwriting these mortgages often exceeds this level, preventing the families from being able to access this credit.

We are still examining possible changes to FHA mortgages below $60,000, and will weigh in later on this market segment.

RECOMMENDATION: For FHA mortgages between $60k and under $80k, allowable points and fees ought be 6%; for mortgage between $80k and under $100k, allowable points and fees ought be 5%.

Thank you for identifying this policy issue as needing examination and consultations, and we look forward to continuing this discussion. Our members have a long history of helping FHA families succeed here, and we agree that more must be done to make this low-balance market segment work for everyone.

Sincerely,

COMMUNITY HOME LENDERS OF AMERICA