April 26, 2023

The Honorable Tom Cole
Chairman
THUD Appropriations Subcommittee
House Committee on Appropriations
2358-A Rayburn House Office Building
Washington, DC. 20515

The Honorable Mike Quigley
Ranking Member
THUD Appropriations Subcommittee
House Committee on Appropriations
1016 Longworth House Office Building
Washington, DC. 20515

The Honorable Brian Schatz
Chairman
THUD Appropriations Subcommittee
Senate Committee on Appropriations
Room S-128, The Capitol
Washington, DC. 20510

The Honorable Cindy Hyde-Smith
Ranking Member
THUD Appropriations Subcommittee
Senate Committee on Appropriations
Room S-128, The Capitol
Washington, DC. 20510

Dear Chairman Cole, Ranking Member Quigley, Chairman Schatz, and Ranking Member Hyde-Smith:

The Community Home Lenders of America (CHLA)[1] writes to request that the Appropriations Committees include full funding and critical administrative provisions in the FY 2024 THUD Appropriations bill, in order to maximize the effectiveness of the Federal Housing Administration (FHA) and Government National Mortgage Association (Ginnie Mae) - two vital homeownership programs.

While all federal government programs are important and should be well managed, FHA and Ginnie Mae are somewhat unique, as they are complex business enterprises that require high levels of expertise and nimbleness, necessary to respond quickly to rapidly changing market conditions.

Moreover while both programs are consistently profitable, strong management maximizes financial results for taxpayers, by minimizing losses on loans or MBS, consistent with program objectives.

We would also point out that top professionals that work at FHA and Ginnie Mae have skills that command much higher private sector salaries, making their hiring and retention more difficult.

Therefore, CHLA writes to request the following in the FY 2024 THUD appropriations bill:

(1) **Grant payscale comparability, consistent with FIRREA, to such number of top officials as appropriators deem appropriate at both FHA and Ginnie Mae.**

(2) **Lift the arbitrary salary cap on the positions of FHA Commissioner/HUD Assistant Secretary of Housing and President of Ginnie Mae.**

(3) **Provide enhanced contracting flexibility for FHA.**

(4) **Fully fund FY 2024 budget requests for FHA and Ginnie Mae Salaries & Expenses.**

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[1] CHLA is the only national trade association focused exclusively on small and mid-sized independent mortgage banks (IMBs).

Importance of FHA and Ginnie Mae to First-Time, Minority, and Underserved Borrowers

FHA and Ginnie Mae are vital to first-time homebuyers, particularly for minority and other underserved borrowers. These programs are also critical to CHLA lender/members that serve these borrowers.

According to FHA's 2022 **Annual Report**, last year 83.52% of all FHA loans were to 1st time homebuyers - compared to only 46.5% for the rest of the mortgage market. 43.75% of all FHA loans were to low-income households, compared to 22.91% for the rest of the market. And FHA insured 60.21% of all low down-payment (<5% down) loans to black households, 61.3% all low down-payment loans to Hispanic households, and 52.55% of all low down-payment loans to rural households.

In turn, Ginnie Mae facilitates this strong FHA homeownership performance by providing a secondary market to securitize FHA loans (as well as VA and RHS loans) at affordable long-term interest rates.

These two programs are also consistently and highly profitable - contributing billions of dollars each year through the Congressional scoring process to fund (offset) critically important HUD affordable housing programs, such as public housing, Section 8, and McKinley-Vento homelessness prevention.

The latest HUD budget estimates that FHA Title 2 forward loans will generate $4.787 billion in taxpayer profits (negative credit subsidies) in the current fiscal year FY 2023 and $2.725 billion in profits in FY 2024. If you include all FHA loans (by including FHA HECM and multifamily loans), estimated FHA profits total $6.42 billion in FY 2023 and $3.85 billion in FY 2024.

The latest HUD budget also estimates that Ginnie Mae will generate $1.61 billion in taxpayer profits (negative credit subsidies) in the current fiscal year and $1.409 billion in profits in FY 2024. Year in and year out, Ginnie Mae consistently makes a significant profit - even in 2008, the year of the housing crisis!

FY 2024 FHA and Ginnie Mae Budget Requests

Per the FY 2024 HUD Budget, ***"The Budget requests $165 million in the MMI account for administrative expenses to support a range of FHA functions, such as loan underwriting, claims processing and risk monitoring.*** These activities are vital to consumers and mortgage lenders. These expenditures more than pay for themselves in terms of reducing risk and loan losses. Moreover, FHA loan insurance is a dynamic, market-based process. Thus, it is critical that FHA has the resources to stay on top of the market, assessing and controlling risks, while pursuing affordable access to credit initiatives.

Regarding the latter, the budget goes on to state that ***"This amount includes up to $15 million for a new Small Balance Mortgage Demonstration to increase access to FHA financial for lower cost homes."*** FHA has done good work in identifying and working to address barriers to the use of lower dollar amount loans, which disproportionately serve lower income homebuyers and homebuyers in rural areas.

Separately, per the FY 2024 HUD Budget, "***The Budget . . . provides $61 million in spending authority from offsetting collections (Commitments and Multiclass Fess) for the salaries and expenses of GNMA."***

CHLA appreciates that appropriators have a duty to ensure that all taxpayer funds are spent wisely.

However, CHLA believes it would be a mistake to shortchange FHA and Ginnie Mae salaries and expenses. A failure to fully fund these budget requests would be particularly unfair, since the two programs combined will generate billions of dollars in profits (negative credit subsidies) in FY 2024.

Payscale Comparability

Both FHA and Ginnie Mae operate under funding and operational constraints that are inconsistent both with the significant taxpayer profits that they generate and with the need for highly trained and professional staff that is essential to operate complex, real world financial programs whose market conditions are constantly changing.

The first constraint is the payscale caps that apply to FHA and Ginnie Mae, but not to other comparable housing and financial services federal agencies.

Under the 1989 FIRREA law, individuals working for other comparable financial agencies like the Federal Housing Finance Agency (FHFA) and the Federal Deposit Insurance Corporation (FDIC) have what is referred to as "payscale comparability." This is the ability to pay salaries in excess of the basic cap on federal government salaries. This authority was adopted in large part in order to help these agencies hire and retain qualified employees that have much higher compensation options in the private sector. We would also note that the lower FHA and Ginnie Mae payscales create incentives for highly qualified individuals to leave FHA and Ginnie Mae to go to work for agencies like FHFA and the FDIC.

Congress's decision not to extend payscale conparability to FHA and Ginnie Mae significantly challenges the ability of FHA and Ginnie Mae to retain "the best and the brightest." This exclusion is arbitrary, since financial expertise and market experience is just as vital to operating FHA and Ginnie Mae as it is to comparable agencies like FHFA and the FDIC.

Artificial Caps on Salaries of FHA Commissioner and Ginnie Mae President

Compounding this disparate treatment is the fact that salaries have been artificially capped since the FY 2014 appropriations bill for the individuals in charge of running FHA and Ginnie Mae - the FHA Commissioner (who is also the HUD Assistant Secretary of Housing) and the President of Ginnie Mae.

By comparison, the salaries of each of these two top housing officials is more $100,000 **below** the salary of all of the 100 highest paid individuals at the FDIC and more $50,000 **below** the salary of all of the 100 highest paid individuals at the FHFA. And, remarkably, individuals that report to these two top housing officials have a higher salary than they do!

Given the great importance of these positions and the specialized skills they require, this makes no sense.

We would point out that the last two FHA Commissioners - one from each political party - waited a very long time to be confirmed. This precipitated a lack of leadership at the head of FHA which undermined FHA's ability to take decisive actions in response to fast changing market conditions. Notably, the last vacancy occurred in the middle of the COVID crisis, a period in which Congress had created a forbearance option encouraging borrowers not to make FHA payments (without penalty).

Coming on top of this historical difficulty of being confirmed, the arbitrary cap on the salary of the FHA Commissioner and the Ginnie Mae President exacerbates concerns that qualified individuals might have in agreeing to take these important jobs.

We have been fortunate that the last two FHA Commissioners have both been qualified and experienced. However, it does not make sense to continue policies that exacerbate these factors.

Therefore, CHLA calls on appropriators to lift the arbitrary cap on salaries for the FHA Commissioner and Ginnie Mae President.

<u>Need for More Contracting Flexibility for FHA</u>

Finally, in light of the billions of dollars that FHA (and Ginnie Mae) generate in profits each year - as well as the benefits of maximizing program efficiency to maximize profits to taxpayers - CHLA continues to be concerned about the lack of contracting flexibility that applies to FHA.

We would note that, compared to FHA, Ginnie Mae: (1) has more legal authority to directly incur contracting expenses outside of the S&E cap and (2) has more flexibility in how contracting is conducted.

CHLA believes such limitations have over the last several years delayed FHA's ability to carry out essential Information Technology (IT) upgrades, leaving FHA somewhat in the horse and buggy era in terms of technology - at a time when mortgage origination increasingly relies on state-of-the-art technology. This negatively affects FHA to interface effectively with mortgage lenders.

Unfortunately, all FHA contracting must go through a cumbersome process that applies to all HUD contracts. Moreover, FHA contracting is subject to administrative process and constraints, such as Federal Acquisition Regulations.

We are not claiming FHA is more important than other HUD functions. Rather, we argue that rapidly changing market conditions create the need for FHA to act more quickly and nimbly than other HUD functions, such as general management and supervision of competitive grant programs.

Just in the last few years, we have experienced a number of dramatically changing market circumstances affecting FHA loans - such as COVID (with spiking default rates), a Congressionally mandated forbearance requirement, and mortgage rates that recently doubled in the space of less than a year.

Ginnie Mae has much more flexible contracting flexibility than FHA does. Therefore, we ask appropriators to consider including provisions in the FY 2024 THUD appropriations bill to grant FHA more contracting flexibility, commensurate with flexibility already granted to Ginnie Mae.

Such flexibility can be provided at no added appropriations cost, while at the same time maintaining essential appropriations financial controls and accountability for the expenditures that FHA makes.

Thank you for consideration of these recommendations.

Sincerely

COMMUNITY HOME LENDERS OF AMERICA