March 21, 2024

The Honorable Julia Gordon
Commissioner, Federal Housing Administration
Department of Housing and Urban Development
451 7th Street SW
Washington, DC. 20410-8000

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
400 7th Street SW
Washington, DC. 20019

Dear FHA Commissioner Gordon and FHFA Director Thompson:

The Community Home Lenders of America (CHLA)[1] writes to ask the Federal Housing Administration (FHA) and Federal Housing Finance Agency (FHFA) to scrutinize the cost of electronic verifications of employment on FHA and Enterprise loans and take appropriate actions to limit costs to reasonable levels.

Verifications of employment are generally a requirement on FHA and Enterprise mortgage loans. The current cost of each verification " pull" ranges from $55 to $70. Moreover, an income verification is required both during loan underwriting and just prior to closing. Therefore, the cost on a two-borrower application can easily reach $280 just for the cost of employment verifications. If a borrower is pre-approved, costs are even higher if the verifications become outdated because it takes time to buy a home.

Borrowers are not generally aware of this cost, but the impact is clear. Because these employment verifications are a requirement of the loan, the costs get passed along to the borrower.

Moreover, the market lacks real competition. Equifax Work Number (WN) is by far the largest provider of electronic verifications of employment. We estimate that Equifax WN is used in over 60% of all mortgage loans – and is used in the overwhelming majority of loans in which income verification is done electronically through a third party service provider.

If an employer uses WN, lenders are then required to use WN for all verifications, since employers will not complete manual VOEs. Often a verification upfront is necessary due to OT/Commission/variable income or Day 1 Certainty. Subsequently, the lender will need to get a verbal within 10 days of closing.

As a result, this third party mortgage cost seems to fit many of the characteristics identified in the CFPB's recent blogpost entitled **"Junk Fees are Driving Up Housing Costs."** These include:

- Costs *"are fixed and do not fluctuate with interest rates or change based on the size of the loan. As a result, they have an outsized impact on borrowers with smaller mortgages, such as lower income borrowers, first-time homebuyers, and borrowers living in Black and Hispanic communities."*
- *There is "little competition. . . the lender simply picks from a very small universe of providers, and the costs are then passed on to the borrower."*
- *"Homeowners can choose to pay closing costs out of pocket, but that can reduce their down payment amount.* Borrowers who can't bring cash to the table often have to pay more, through higher interest rates or mortgage insurance payments."

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

Mortgage lenders have little or no ability to scrutinize or restrain these income verification costs. Therefore, since FHA and Enterprise loans require their submission as condition of the mortgage loan, CHLA asks that these fees and the non-competitive nature of this market be scrutinized – and that whatever legal and appropriate actions that are available are pursued.

Thank you for your consideration of this request.

Sincerely

COMMUNITY HOME LENDERS OF AMERICA

CC:

Hon. Rohit Chopra, Director, Consumer Financial Protection Bureau
Ms. Priscilla Almodovar, CEO, Fannie Mae
Mr. Michael Hutchins, Interim CEO, Freddie Mac
Equifax