July 16, 2026

Mr. Joseph Gormley
Acting FHA Commissioner, Federal Housing Administration
U.S. Department of Housing and Urban Development
450 7th Street SW
Washington, DC 20410

Dear Acting Commissioner Gormley:

The Community Home Lenders of America (CHLA) writes to submit comments on implementation of Section 105, *"FHA Small-Dollar Mortgages,"* of the "*21st Century Road to Housing Act*."

Section 105 provides that FHA *"may establish a pilot program to increase access to small-dollar mortgages" (*loans below $100,000) and gives FHA statutory authority to take three actions to accomplish that objective. FHA small dollar loans are critical to affordable mortgage credit in rural and underserved areas and for low- and moderate income homebuyers seeking to buy affordable lower price homes.

CHLA is the only national trade association that exclusively represents independent mortgage banks (IMBs). Per **CHLA's 2025 IMB Report,** IMBs originate 90% of all FHA loans. Following are our conclusions about Section 105, which reflect detailed conversations with CHLA member lenders:

- Lenders generally lose money on small balance loans, and while lenders often originate such loans because they want to serve their customers, the economics of small balance loan origination creates significant disincentives for lenders and loan originators to pursue and originate them.

- **Therefore, the most effective – if not the only way – to measurably increase the origination of FHA small dollar loans is to implement subsection 105(a)(1), which authorizes *"direct payments"* to loan originators to incentivize the origination of small-dollar mortgages.**

- FHA use of Subsection 105(a) (3) authority to subsidize borrower down payments, closing costs, appraisals, and title insurance would be helpful to such borrowers - but this is not likely to cause a measurable increase in small dollar FHA loans, since small dollar loan down payments are low.

- FHA could make combined payments to lenders and borrowers of up to 3% per loan and still make a profit on these loans, using **Fiscal Year 2027 HUD budget** estimates [page 583] that each FHA Title 2 mortgage loan generates a profit (negative credit subsidy) of 3.14%.

- While subsection 105(2) gives FHA authority to *"adjust terms and costs"* imposed by FHA on small dollar loans, we are not able to identify any loan terms that materially dis-incentivize small dollar loans – at least not without compromising the safety and soundness of such FHA loans.

- Even if FHA provides direct payments to lenders to incentivize small dollar loans, the inflexibility of LO Comp rules may undermine such incentives at the loan originator level.

- Qualified Mortgage (QM) points and fees rules create a disincentive for small dollar FHA loans – an issue Section 402 of the "21st Century Road to Housing Act" asks CFBP and FHA to address.

ANALYSIS

CHLA member lenders have been discussing this small dollar provision for months. Our consensus conclusion is clear: the main factor in small dollar FHA loan origination volume not meeting market needs is that lenders usually lose money on them, as smaller profits from a low loan size do not offset what are largely fixed origination costs. This creates dis-incentives to pursue and originate such loans.

While it may seem self-serving to suggest direct payments to lenders that originate small dollar FHA loans, Section 105 explicitly authorizes this, and we have concluded it is the only option in Section 105 that is likely to measurably increase origination of small dollar FHA loans. Moreover, even if FHA makes payments to lenders, small dollar loans will at best be only marginally profitable for mortgage lenders.

Subsection 105(a)(2) gives FHA authority to *"adjust terms and costs"* imposed by FHA on small dollar loans. However, we have not identified any loan terms that materially dis-incentivize small dollar loans - at least not without compromising the safety and soundness of such FHA loans.

Subsection 105(a)(3) gives authority for FHA to provide *"direct grants"* to borrowers with small dollar FHA loans, to cover down payments, closing costs, appraisals, and title insurance. While such payments would undeniably be helpful to such borrowers, we do not believe this would have a material impact in increasing small dollar loan volume. FHA down payments for small dollar loans are generally not a problem, due to the combination of the low loan amount and low FHA down payment requirement.

From an operational standpoint, we note that direct payments to the lender and/or borrower in an amount of up to 1.75% of the loan amount could be easily administered, simply by withholding the 1.75% upfront FHA premium customarily collected and transmitted to FHA and using it for payments FHA prescribes.

Finally, we would note that if FHA authorizes direct FHA payments to lenders to incentivize origination of small dollar loans, the inflexible LO Comp rules would prevent lenders from being able to pass along even a penny of such increased compensation to the loan originator on a loan, in order to incentivize loan originators to pursue small dollar loans. That is because LO Comp inflexibly requires that compensation of a mortgage loan originator by their lender employer must be identical by percentage for **all** loans.

This is just one of many ways in which the LO Comp rules harm consumers. CHLA has published a **White Paper** explaining why Congress or the CFPB should modify the application of LO Comp to exclude its unprecedented restriction on payments to employees based on consumer protection objectives.

Thank you for your consideration of our recommendations. We would be happy to discuss these issues with you and your staff.

Sincerely

COMMUNITY HOME LENDERS OF AMERICA