



December 5, 2022

Julia R. Gordon
Assistant Secretary for Housing/Federal Housing Commissioner
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

RE: Request for Information Regarding Small Mortgage Lending: Docket #HUD-2022-0076

Dear Commissioner Gordon,

The National Council of State Housing Agencies (NCSHA)¹, on behalf of its state housing finance agency (HFA) members, respectfully submits these comments in response to the U.S. Department of Housing and Urban Development's (the Department's) Request for Information (RFI) Regarding Small Mortgage Lending.

Our members share the Department's goals of supporting underserved communities and promoting homeownership. State HFAs further their mission to provide affordable mortgage finance through partnerships with mortgage lenders, including local or regional depository institutions and mortgage banks. Additionally, 16 state HFAs service the mortgages originated under their affordable mortgage programs—the remainder either use a servicer or sell their mortgage loans to a master servicer. In 2021, 61 percent of HFA single-family program loans were insured by the Federal Housing Administration (FHA).

We agree with the Department's conclusion that a primary barrier to small balance mortgage loan lending is the cost to originate and service small mortgage loans in relation to the limited potential compensation afforded by them. Some mortgage origination fees and costs are fixed and are not a function of the size of the mortgage loan. Examples include appraisal, recording, and credit report fees, as well as loan review and processing costs. Because such fees and costs are fixed, as they become a higher percentage of the loan amount the lender runs the risk of running afoul of various high-cost mortgage loan tests.

Additionally, lender interest in small balance loans is less than it is for higher balance loans because of the limited income opportunity small balance loans present for lenders and loan officers. One state HFA tries to offset lender compensation disincentives by encouraging

¹ NCSHA is a nonprofit, nonpartisan organization. None of NCSHA's activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.

lenders to originate loans of \$50,000 or less by paying them a fixed \$5,000 servicing release premium and giving the homebuyers obtaining the loans access to downpayment assistance.

In response to RFI Question Six, which asks what changes to policies, regulations, features, or processes of the current FHA program would encourage mortgagees to do more lending for small mortgages, we offer two suggestions.

First, we recommend FHA review whether requirements for being a Direct Endorsement Underwriter could be lowered for underwriters serving rural markets or targeted metropolitan statistical areas where home prices are particularly low. One obstacle plaguing smaller, rural markets is the relatively smaller number of home purchase transactions completed in a year.

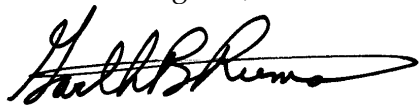
By definition, rural markets are more sparsely populated, have fewer properties that come up for sale in any given period of time, and generally have lower sales prices – particularly for the homes purchased by the low- to moderate-income homebuyers served by state HFAs and who typically use FHA insurance. We recommend FHA consider whether its Direct Endorsement Underwriter requirements may be disqualifying individuals who simply do not see the minimum volume of transactions necessary to be full-time for a single Mortgagee.²

Second, we suggest FHA consider revising its current lending restriction on properties with deed restrictions that survive foreclosure. Often, deed-restricted properties are lower priced, reserved for lower income families, and directly serve those homebuyers most in line with FHA's mission. Currently, FHA's policy is more restrictive than Fannie Mae's and Freddie Mac's, which permit lending on properties where the deed restriction survives foreclosure. Fannie and Freddie also offer pay-ups to seller/servicers for some loans delivered with deed restrictions.

We recommend FHA create an exception or permit waivers to allow FHA lending on properties with deed restrictions that survive foreclosure, when enforced by a governmental entity for the purpose of providing affordable housing opportunities. This would further FHA's mission, preserve affordability of deed-restricted properties, and increase access to low-priced, affordable housing stock.

We welcome the opportunity to answer any questions you may have and thank you for your consideration.

With Kind Regards,



Garth Rieman
Director of Housing Advocacy and Strategic Initiatives

² HUD Handbook 4000.1, Section I.B.3.b.i on page 111.