



MORTGAGE BANKERS ASSOCIATION

December 10, 2024

The Honorable Julia Gordon
U.S. Department of Housing and Urban Development
Commissioner, Federal Housing Administration
451 7th Street SW
Washington, D.C. 20410

RE: Draft Mortgagee Letter Concerning Boarder Income

Dear Commissioner Gordon,

The Mortgage Bankers Association (MBA)¹ appreciates the opportunity to offer comments on the Department of Housing and Urban Development's (HUD) Draft Mortgagee Letter 2024-XX: Revisions to Policies for Rental Income from Boarders of the Subject Property (draft ML). We commend the Federal Housing Administration's (FHA) efforts to expand eligibility through flexibilities in boarder income policies, recognizing the evolving dynamics of housing affordability and further aligning its policies with the Government Sponsored Enterprises. This revision could enable more first-time and low- to moderate-income borrowers to access homeownership. While MBA and its members support the intent of the draft ML, additional policy clarifications are necessary to enhance its effectiveness and ensure successful implementation.

Mitigating Lender Risk

From a lender risk perspective, we urge caution in balancing expanded access with sustainable underwriting practices. Specifically, we recommend that the FHA TOTAL Mortgage Scorecard incorporate an automated flagging mechanism for borrowers who rely on multiple income sources to meet FHA's qualification requirements.

This approach would enhance early risk detection by identifying cases where over-reliance on various income sources might indicate financial instability. A flagging system could

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 275,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,000 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

prompt further manual underwriting or impose limits on the number of acceptable layered underwriting flexibilities. Such a safeguard would mitigate potential risks associated with complex financial profiles and ensure the long-term success of borrowers.

Additionally, we encourage FHA to monitor, on an ongoing basis, the usage of this boarder income provision and assess its impact on loan performance over time. Specifically, tracking the frequency of its use and the associated default rates would provide valuable insights into any heightened risk of borrower default linked to this income source. Such data would enable FHA to make informed policy adjustments, ensuring the provision remains a viable tool for expanding homeownership while maintaining sound risk management practices.

Clarification Questions

Borrower Reserve Requirements

We request clarification on whether lenders will be required to maintain additional reserves for loans involving boarder income. In its 2023 Mortgagee Letter² on rental income from accessory dwelling units, FHA required lenders to verify that borrowers have at least two months of principal, interest, taxes, and insurance (PITI) reserves. Given the potential variability and risk associated with boarder income, similar clarity around reserve requirements would enable lenders to more confidently serve this type of mortgage applicant.

Gaps In Boarder History

We recommend that FHA provide additional clarification on the 9-month income option. Specifically, it is clear that the policy allows for averaging nine months of boarder income over a 12-month period to determine the qualifying amount. However, the circumstances under which a borrower can have a 12-month history but only nine months of received rents remain unclear. Is FHA allowing for months of non-payment from a boarder, including delinquent payments? Alternatively, does this provision account for scenarios where there was a gap in tenancy during the past 12 months, leaving the borrower without rental income for those periods? Clarifying these circumstances would ensure consistent application of the policy and provide clearer guidance to lenders.

Applicability to Loan Types

Please confirm whether the proposed boarder income policy applies both to loans for home purchases as well as to refinance transactions. This distinction is critical for lenders to implement appropriate underwriting procedures and assess borrower eligibility consistently across different loan types.

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² Mortgagee Letter 2023-17

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MBA greatly appreciates FHA's continued use of the FHA Drafting Table and the opportunity to provide comments on the HUD draft ML. Should you have questions or wish to discuss this issue further, please contact Darnell Peterson at dpeterson@mba.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Pete Mills". The signature is fluid and cursive, with a large initial "P" and "M".

Pete Mills
Senior Vice President
Residential Policy and Strategic Industry Engagement
Mortgage Bankers Association