MORTGAGE BANKERS ASSOCIATION

January 3, 2024

The Honorable Julia Gordon
Assistant Secretary for Housing and Federal Housing Commissioner
Office of Housing – Federal Housing Administration
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

Re: Mortgagee Letter 2023-XX: Revisions to Increase the Maximum Rehabilitation Costs for Limited 203(k), Rehabilitation Period for both Standard and Limited 203(k), and Consultant Fees Schedule for the 203(k) Rehabilitation Mortgage Insurance Program (Section 203(k) Program).

Dear Commissioner Gordon,

The Mortgage Bankers Association (MBA)[1] appreciates the opportunity to provide feedback on the Federal Housing Administration's (FHA) proposed modifications to the FHA 203(k) Rehabilitation Mortgage Insurance Program (203(k) Program). We commend the FHA for its steadfast dedication to addressing the nation's housing affordability challenges, primarily driven by the critically low housing supply.

MBA supports the FHA's mission to explore avenues for increasing the housing stock. MBA leadership has established addressing housing supply as a top policy priority for 2024. The 203(k) Program can be a significant tool to produce more affordable housing by revitalizing existing housing stock and providing more options for first-time homebuyers. MBA is pleased to see that the draft Mortgagee Letter (ML) includes some of the reforms for which MBA advocated in its previous response to FHA's Request for Information in 2023.

MBA has formulated additional recommendations in line with our collective efforts to make the program more attractive and function more efficiently for both borrowers and lenders.

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 300,000 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 2,200 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.

These suggestions aim to further enhance the proposed changes and strengthen the overall effectiveness of the 203(k) program.

Limited 203(k) Expense Caps Increase

MBA applauds FHA's proposal to increase the rehabilitation disbursement cap from the current $35,000 to $50,000 (and $75,000 in specific high-cost regions) under the Limited 203(k) program. Despite the Federal Reserve's decision to halt interest rate hikes, the nation still grapples with persistent inflationary pressure and interest rates just below 20-year highs. In tandem, the expenses associated with labor and raw materials continue to rise. In light of these economic conditions, MBA strongly supports raising the dollar cap for the Limited 203(k) program. Specifically, MBA recommends extending the $75,000 cap FHA proposes for high-cost regions to include all areas. This will ensure that the rehabilitation funds are sufficient to cover the real cost of a typical renovation – a cost that has increased in all markets – not just high-cost regions.

203(k) Rehabilitation Program Completion Timeline

As mentioned in MBA's response to the April 2023 RFI, ongoing supply chain challenges are continuing to affect shipping and renovation schedules. FHA has proposed a requirement for projects to be completed within 10 months for the Standard 203(k) program and 7 months for the Limited 203(k) program. While MBA is appreciative of FHA's effort and views the change as an improvement, our lenders have expressed concerns that even these modified durations remain insufficient due to labor shortages in construction and ongoing supply chain challenges. MBA members report that even simple repairs are experiencing delays beyond the required timeframe. For instance, lenders have observed instances where it takes up to 5 months for something as simple as a replacement garage door order to be fulfilled. By extending these timelines to better reflect current market conditions it allows lenders to focus on completing renovations, not on submitting extension requests to FHA.

Additionally, variations in the time required to obtain construction permits, depending on the region or municipality, often mean delayed project starts, forcing lenders to file extensions. Notably, FHA's allowable timeline is considerably shorter than that offered by the GSEs, which permit up to 15 months for renovations to be completed. To address these challenges, MBA recommends that FHA adjust its rehabilitation timeframes to 12 months for the Standard 203(k) and 9 months for the Limited 203(k).

Lack of Program Awareness

Over the last decade there has been a precipitous decrease in the origination volume of the 203(k) program. This is likely influenced by lenders consistently running into programmatic limitations, some of which were described earlier, that are not otherwise an issue when working with the GSE rehabilitation programs. Additionally, however, MBA members note a significant lack of awareness of the 203(k) program among the general public. Currently, promotion of the 203(k) program heavily relies on word-of-mouth efforts by a specific group of mortgage loan officers and brokers specializing in renovation lending. In response, MBA suggests that FHA initiate a public education campaign to enhance awareness of the benefits associated with the 203(k) program. This campaign should specifically target first-time, low-, and middle-income borrowers and could be more effective when combined with collaboration from state and local housing agencies, as well as engagement with the real estate agent community. Moreover, MBA also recommends FHA require FHA Approved Housing Counseling Agencies and non-profit housing groups to make "renovation loan programs" a part of any first-time homebuyer education programs for the borrower to be eligible for down payment assistance or other grants.

Allowing the Use of Outside Rehabilitation Mortgage Consultants

Numerous MBA members engaged in originating 203(k) rehabilitation mortgages encounter challenges in finding FHA-approved 203(k) consultants, as mandated by the Standard 203(k) program, to supervise home renovations. The suggested increase in the consultant fee schedule is a positive move, but it does not adequately resolve the issue, particularly for borrowers residing in rural areas and/or certain markets with an acute shortage of consultants. To address this, MBA recommends that FHA permit lenders to use external consultants to oversee home renovations in situations where FHA-approved consultants are not readily accessible. As an example, FHA could allow the utilization of non-profit organizations such as Habitat for Humanity or other field service companies, who may already be well versed in FHA minimum property standards. Importantly, this is already a component of the GSE renovation products, and there are currently multiple known and respected entities that provide this service to the marketplace.

Retail Store Contractors

As stated earlier, individuals in rural and/or underserved areas frequently encounter difficulties in finding 203(k) consultants. However, this is often also true with respect to finding acceptable contractors to facilitate the desired rehabilitation projects. In light of this challenge, MBA suggests that FHA explore and develop policies that enable commercial retailers with contracting/construction capacity to participate in completing such work. Currently, these retailers face barriers to direct participation in the 203(k) program due to its stringent documentation requirements. By allowing these retailers to engage directly, not only does it broaden the pool of available contracting options for borrowers, but it also serves to significantly mitigate risks for borrowers, lenders, and FHA – given the inherent advantage in terms of recourse.

In the event that the work is not completed within the designated timeline or does not meet the required standards, having retail stores as participants allows for a more structured and accountable process. This not only safeguards the interests of borrowers but also ensures a more robust framework for borrowers, lenders, and FHA to address any shortcomings promptly. Retail outlets are more financially stable as they maintain physical locations and have regular business hours for borrower access to their employees and management. Consequently, expanding the program to include commercial retailers not only addresses the issue of contractor scarcity in rural areas but also introduces a more resilient mechanism for oversight and accountability throughout the rehabilitation process.

Conclusion

MBA acknowledges and values FHA's dedication to tackling the ongoing housing affordability issues prevalent nationwide, specifically in the context of rehabilitating and enhancing the existing housing stock. Reforms to the 203(k) program are a key opportunity to address these challenges, and we are optimistic that our recommended tweaks to the proposed ML reforms will unlock the full potential of the program, substantially improving housing supply, housing quality, and options for homebuyers.

Should you have questions or wish to discuss these issues further, please contact Darnell Peterson, Senior Policy Advisor, at (202) 557-2922 or dpeterson@mba.org.

Sincerely,

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