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MORTGAGE BANKERS ASSOCIATION

September 6, 2022

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: Recommended Updates to the FHA 203(k) Mortgage Program to Address America's Housing Supply Issues

Dear Commissioner Gordon:

The Mortgage Bankers Association (MBA)[1] thanks the Federal Housing Administration (FHA) for its continued commitment to addressing the country's housing affordability challenges, caused in large part by the nation's critically low housing supply.

We appreciate your recent comments regarding FHA's intention to modify the 203(k) Rehabilitation Mortgage Insurance Program, which, with appropriate returns, can be instrumental in revitalizing the country's existing housing stock. This, in turn, would advance the Biden Administration's objective of increasing the availability of affordable housing particularly for low- and moderate-income households.

To make the program more appealing to borrowers and lenders alike, MBA members have developed the following suggested improvements for FHA's consideration. We believe these program updates will reduce the impediments faced by borrowers attempting to utilize the program and bring its requirements in line with similar well-functioning rehabilitation programs offered by Fannie Mae and Freddie Mac (the Enterprises).

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[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 390,000 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, commercial banks, mortgage brokers, 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.

<u>203(k) Rehabilitation Mortgage Consultants (4000.1.I.B.2(2)(a))</u>
Many lenders that originate 203(k) rehabilitation mortgages have difficulty locating FHA-approved 203(k) consultants to oversee home renovations, as is required in the program guidelines. This is a particularly challenging issue in rural areas where consultants often are not readily available, causing increased wait times and costs, raising the financial burden on borrowers, and severely limiting access for those who would most benefit from the program. While a list of FHA-approved consultants is available through the FHA 203(k) Consultant Roster, it often provides information that is outdated, delivering inaccurate contact information or listing consultants who no longer wish to participate in the program.

To make the program more accessible and cost-effective, FHA should permit the use of a broader population of consultants to oversee home renovations in instances when FHA-approved consultants are not readily available – an option already afforded by the Enterprises. Additionally, FHA should consider increasing the validation frequency of its Consultant Roster so that borrowers and lenders have an accurate choice of consultants who are actively participating in the program, while also providing ongoing training for both prospective and currently active consultants and vendors.

<u>Limited 203(k) Rehabilitation Mortgages (4000.1.II.A.8.a(A)(2))</u>
FHA's expense allowances should reflect the present-day market cost for supplies and labor. The current allocation for FHA's Limited 203(k) Rehabilitation mortgages is capped at $35,000 (for properties located outside of Qualified Opportunity Zones). This limit does not accurately reflect the increased market costs of building supplies and labor since it was established. At its current level, this limit precludes even relatively minor rehabilitation projects from qualifying for the Limited 203(k) offering. FHA should increase the Limited 203(k) Rehabilitation mortgage expense limit to $50,000 to reflect current market labor and supply costs. FHA also should put in place a process by which it revisits this limit on a more frequent basis.

<u>203(k) Rehabilitation Mortgage Refinance (4000.1.II.A.8.viii.(2)(b)(i))</u>
The requirement for an as-is appraisal in addition to the requirement for an as-repaired appraisal leads to increased burdens and costs without commensurate benefits for borrowers, lenders, or FHA. It often is difficult for an appraiser to find as-is comparable sales given the rehabilitation work that is needed on subject properties. More broadly, it is difficult to see how this as-is valuation provides information that is particularly relevant for the transaction. The requirement for both an as-is value and an as-repaired value in a refinance transaction simply results in unnecessary complexity because the as-repaired value will incorporate the adjusted as-is value. This leads to additional costs borne by the borrower, putting the 203(k) offering further out of reach for many households. FHA, therefore, should remove the second appraisal requirement.

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MBA appreciates FHA's willingness to address the persistent housing affordability challenges by undertaking efforts to increase the nation's housing supply. The 203(k) program has the potential to be a potent tool in these efforts, and we believe the reforms described above can help the program reach this potential.

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