MORTGAGE BANKERS ASSOCIATION

September 28, 2022

The Honorable Marcia Fudge
United States Secretary
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

The Honorable Brian Deese
Director
National Economic Council
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20512

The Honorable Gene Sperling
Senior Advisor to the President
American Rescue Plan Coordinator
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20512

Dear Secretary Fudge, Director Thompson, and Director Deese:

The Mortgage Bankers Association (MBA)[1] appreciated the opportunity to participate in the Biden Administration's roundtable discussion to recommend solutions to increase the supply of affordable homes – both to rent and own. MBA appreciates the Administration's steadfast efforts to ensure all Americans have a roof over their head. We have been, and will continue to be, a critical partner in this effort.

Increasing the supply of affordable housing is a top priority for MBA. MBA successfully fought for federal and state policies to increase the long-term supply of affordable housing, and its members also established the landmark CONVERGENCE initiative in 2019. CONVERGENCE drives collective action with lenders, other industry practitioners, and government partners to facilitate new solutions to our nation's rental and homeownership affordability challenges.

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[1] The Mortgage Bankers Association is the national association representing the real estate finance industry, an industry that employs more than 400,000 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: mortgage companies, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mba.org.

The industry has been hard at work as well, creating both private sector and public-private sector partnerships that are starting to show promise. In fact, there are 1.7 million housing units under construction, of which 870,000 are in multifamily properties. While we support further increasing the supply of affordable rental housing, it is worth noting what is already in the production pipeline.

The Administration's roundtable discussion was a fruitful exercise to identify both long-term solutions and "quick hits" to help increase affordable housing supply. Below is a summary of MBA's recommendations. We look forward to continuing to work with both Congress and the Administration to find common-sense solutions to ensure every American has a safe, decent, and affordable place to live.

I. Practical Solutions and Legislative Efforts

Reduce the FHA Mortgage Insurance Premium (MIP): The FHA MIP has been at its current level for seven years. The Mutual Mortgage Insurance Fund (MMIF) is well capitalized, and COVID-19 related forbearances continue to decline, with an overwhelming majority of borrowers exiting and now staying current on their mortgage. In fact, the MMIF Capital Reserve Ratio of over 8% is four times the statutory minimum reserve ratio of 2%. During a time of declining housing affordability amidst higher mortgage rates and home price increases, a reduction in the MIP would help lower costs for prospective first-time home buyers and low-and moderate-income (LMI) and minority households looking to purchase a home through the FHA program.

Support YIMBY Legislation and Anti-Exclusionary Zoning Policies: State and local laws that create narrow zoning in urban areas can severely limit the ability to build affordable homes for purchase and for rental housing. We encourage the Administration to support efforts to liberalize anti-exclusionary zoning laws across the country. In Congress, MBA supports bipartisan, bicameral legislation, the *Yes In My Backyard (YIMBY) Act* (S. 1614 and H.R. 3198), which would provide the federal government with new tools to encourage localities to remove legal and regulatory barriers that impede new construction and housing development. MBA also supports the *Housing Supply and Affordability Act* (S. 902 in the Senate and H.R. 2126 in the House). This legislation was included in the House-passed *Build Back Better Act* and would create the Local Housing Policy Grant (LHPG) program administered by HUD to support local efforts to expand housing supply.

Support Neighborhood Homes Investment Act: In Congress, MBA supports bipartisan, bicameral legislation, the *Neighborhood Homes Investment Act* (S. 98 and H.R. 2143), which provides a tax credit to rehabilitate blighted single-family homes and helps revitalize neighborhoods across America by increasing the supply of affordable, entry-level homes.

Increase FHA Multifamily Statutory Loan Limits: FHA's base statutory limits are one of the caps used to limit the amount of multifamily mortgages HUD will insure. These mortgages are also capped by other factors such as debt service coverage and loan-to-value requirements. The FHA Multifamily statutory base limits have not been adjusted since 2003 and have not kept pace with construction costs. The amounts currently in the statute (after adjustments for inflation using CPI) are significantly below multifamily construction costs throughout the country, particularly for the standard of decent, safe, and sanitary housing HUD would like to support. In fact, almost all jurisdictions are treated as "high-cost areas" under the current limits.

We recommend that HUD and the Administration forcefully support legislative efforts to raise the multifamily statutory loan limits to better reflect today's construction environment for rental housing.

Enhance and Improve the Low-Income Housing Tax Credit (LIHTC): Since its inception in 1986, the LIHTC is one of the most successful programs to create affordable rental housing (3.6 million units in total) across the country. In Congress, MBA supports bipartisan, bicameral legislation, the *Affordable Housing Credit Improvement Act* (S. 1136 and H.R. 2573), which would expand and strengthen the LIHTC to address the nationwide affordable housing shortage by building more than two million new affordable rental housing units over the next decade while ensuring the program better serves a variety of at-risk and underserved communities. We encourage the Administration to support ongoing congressional efforts to expand the LIHTC program.

II. <u>Residential Recommendations to Implement Immediately</u>

Review and Revise Ginnie Mae's Risk-Based Capital (RBC) Requirements Prior to Implementation: It is important to ensure – while we implement the many good ideas that came from our roundtable discussion – that we also avoid any unintended negative impacts or "unforced errors" harmful to consumers or the housing market. Specifically, Ginnie Mae recently finalized its proposed capital and liquidity standards which include an RBC requirement for independent mortgage banks (IMBs). While we recognize the need for stronger capital and liquidity standards to ensure the safety and soundness of Ginnie Mae issuers, the RBC requirement, and more specifically the treatment of mortgage servicing rights (MSRs) under the final rule, is extremely punitive.

IMBs are involved in 80-90% of all combined FHA, VA and USDA (Rural Housing Service) lending. The loans are then securitized into Ginnie Mae securities. The RBC requirement runs the risk of driving some lenders away from FHA/VA/USDA programs and would increase costs and reduce access to affordable housing for first-time homebuyers, LMI, minority, rural, and veteran borrowers. MBA remains concerned that there was not adequate analysis performed to determine the impact of the RBC requirement on IMBs and ultimately the consumers that need these government programs. Further, any analysis that was performed was not made public and was not open to industry participation. MBA respectfully requests Ginnie Mae to delay implementation of this requirement, perform further analysis to avoid any adverse consumer or market impacts, and explore alternative options.

Modify HomeReady and Home Possible Eligibility Criteria: The GSEs' HomeReady and Home Possible income thresholds were lowered by FHFA from 100% of AMI to 80% of AMI in July 2019**.** Under the prior policy, there were no income limits for properties located in low-income census tracts. At a minimum, the income thresholds should be returned to 100% of AMI**.** An increase in this threshold would better serve borrowers who have the means to meet their monthly mortgage obligations but may lack family resources or wealth to assist with a larger down payment. Another idea that should be explored (in addition to an across-the-board increase in the income thresholds) is a special purpose credit program that raises the income thresholds even higher (i.e. 120% or 140% of AMI) for Black and Hispanic borrowers to expand homeownership opportunities while remedying prior exclusion from this opportunity.

Revise GSE Pricing: Loan Level Price Adjustments (LLPAs) should be lowered from their current levels to improve access to credit for historically underserved borrowers, including LMI, first-time buyers, and minority buyers (or with a particular focus on features common to these borrowers). This can be accomplished in several ways, including targeting certain home types such as manufactured housing or condos, or by a general "flattening" of the LTV/FICO Grid. Such LLPA reductions for "core mission borrowers" would be an appropriate follow-up to the steep LLPA increases from January 2022 for second homes and high-balance conforming loans.

III. Multifamily Recommendations to Implement Immediately

Increase the FHA Multifamily Large Loan Limit Threshold: The large loan limit threshold found in the Multifamily Accelerated Processing (MAP) Guide should be increased from $75 million to $120 million.[2] The large loan limit threshold was originally put in place in 2011 and created more stringent underwriting requirements for loans above $60 million, including increased Debt Service Coverage Ratio (1.30x) and Loan-To-Cost (75%) requirements. The current threshold of $75 million has not been re-addressed since 2016, and the upper tier has not been increased since 2014.

Since the adjustment to $75 million in 2014, the cost of construction has increased significantly, as the Producer Price Index (PPI) by Commodity for residential construction

[2] See Multifamily Accelerated Processing (MAP) Guide Revised March 19, 2021, Chapter 3, Section 3.10. Available at: 4430GHSGG.pdf (hud.gov)

goods has increased by 44%.[3] Furthermore, the actual average mortgage amount per unit for new construction has doubled since 2011, the year in which the large loan limit threshold was first put in place.[4] Since the last time HUD addressed large loan limits in 2016, the average mortgage amount per unit has grown by 50% for new construction projects.[5] Finally, large loans in the HUD multifamily program have not been proven to present a greater risk to the federal government. The rate of default on HUD's Multifamily Portfolio is extremely low and has remained consistent since 2014, primarily hovering in a range of .03% to .9%, rarely increasing over 1%.[6] The default rate as of May 2022 is .09%. From October 1, 2000, through today, no assignments or partial payment of claims have been filed on loans greater than $50 million. According to the Terminated Mortgages Database, only three loans greater than $60 million in the multifamily housing program have defaulted (all of which were originated in the 1980s).[7]

There are large multifamily loans over the $75 million threshold with experienced, well capitalized borrowers that are not able to move forward due to the stricter underwriting requirements. An increase in the threshold will help facilitate more production of government insured rental housing units at a time when supply is needed, with de minimis risk to the FHA, and ultimately, the taxpayer.

Create Efficiencies in the MAP Guide for Environmental Reviews: MBA respectfully requests that HUD withdraw its application of choice-limiting actions to its multifamily Section 223(f) program (refinance and rehabilitation of existing properties).The imposition of choice-limiting actions, which are generally considered to include any work or activity taken at a property while an environmental review is pending,[8] delays borrowers and operators from making reasonable repairs to buildings and units that desperately need updating. Importantly, such delays reduce the ability to provide sorely needed multifamily housing with negligible benefit to the renter.

Imposing choice-limiting actions on HUD-insured multifamily deals, particularly the 223(f) properties, is problematic – it causes significant cost, delay, and complexity to desperately needed moderate and affordable housing with little to no benefit to the renter. We greatly

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[3] See Producer Price Index by Commodity: Inputs to Industries: Net Inputs to Residential Construction, Goods (WPUIP2311001) | FRED | St. Louis Fed (stlouisfed.org). The index was at 216.10 in September of 2014 and 311.2 as of March 2022.

[4] See FHA MF and OHP Firm Commitments and Endorsements Database FY01-FY22Q3 (for Firm Commitments/New Construction only). Available at: https://www.hud.gov/sites/dfiles/Housing/documents/FHA_MF_and_OHP_Firm_Commitments_and_Endorsements_Database_FY01_FY22_Q3.xlsx

[5] See Id.

[6] See Commercial Mortgage Portfolio Reports. Available at: FHA Commercial Mortgage Portfolio | HUD.gov / U.S. Department of Housing and Urban Development (HUD)

[7] Terminated Multifamily Mortgages Database: HUD Terminated Multifamily Mortgages Database | HUD.gov / U.S. Department of Housing and Urban Development (HUD) for loans closed after October 1, 2020.

[8] See 24 C.F.R. § 50 and 58

appreciate the need to protect tenants from environmental hazard, but there is little to no risk to tenants in permitting repairs on existing properties that have already been subject to extensive environmental reviews when constructed in the first place. The net effect of preventing repairs in this manner is a delay in putting much needed multifamily units back online and available for rent. Imposing choice-limiting actions on 223(f) deals further frustrates reasonable maintenance activities and makes HUD loan products less attractive, sometimes leaving borrowers with more expensive financing options for the rehabilitation of moderate- and low-income housing. Higher costs of financing can lead to higher rents and more expensive housing for tenants.

Train MAP Contractors to Process Construction Loan Applications: During COVID, the FHA MAP queue used to assign an underwriter had been as long as nine months in some regions. HUD successfully engaged a contractor who has helped drastically reduce the pipeline to zero months in some regions, and two or three months in others (understanding that the rising rate environment has also been a factor). Considering the strength of the process, teaching contractors how to process construction applications could be an efficient way to prioritize the production of new affordable rental housing units.

IV. Support State Efforts to Increase the Supply of Affordable Rental Housing

Many states have created effective policies to produce affordable rental housing. New York created a highly successful program in 2016, known as the 421a program, that was unfortunately allowed to expire in June. New York state offered a property tax exemption for housing projects in New York City that included a percentage of units earmarked for lower income renters. Nearly 70% of rental housing built over the past decade used the tax abatement, according to NYU's Furman Center.

Other states are working to create innovative tax credits to refurbish unused hotel and retail spaces. We encourage the Administration to support such efforts across the country.

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Again, MBA and our members are grateful for the opportunity I was given to participate in the White House's Roundtable discussion on increasing the supply of affordable housing to both rent and own. We look forward to continuing to work with the Administration and Congress to ensure every American has access to safe, decent, and affordable housing options. If you have any questions or would like to discuss any of the above items further, please contact Mike Flood, Senior Vice President of Commercial and Multifamily at (202) 557-2745 or mflood@mba.org or Bill Killmer, Senior Vice President of Legislative and Political Affairs (202) 557-2736 or bkillmer@mba.org.

Sincerely,

Robert D. Broeksmit, CMB
President & Chief Executive Officer
Mortgage Bankers Association

cc: Ambassador Susan E. Rice, Director, Domestic Policy Council, The White House