MORTGAGE BANKERS ASSOCIATION

March 16, 2016

Edward L. Golding
Principal Deputy Assistant Secretary, Office of Housing
U.S. Department of Housing and Urban Development
451 7th Street, S.W.
Washington, D.C. 20410

Dear Principal Deputy Assistant Secretary Golding:

The Mortgage Bankers Association (MBA)[1] urges the Federal Housing Administration (FHA) to update its policies and procedures regarding the assumption of FHA-insured mortgage loans. With many economists expecting interest rates to rise over the next few years, MBA anticipates that the number of assumption requests will grow as well. Yet, certain FHA guidelines surrounding assumptions have not been updated since the mid-1980s, making it virtually impossible for lenders to recover the actual costs that are incurred while processing them.

All FHA loans are assumable, meaning that a homebuyer can take on the obligations of the existing note held by the seller, rather than originating a new loan. Assumable loans are an important source of affordable mortgage credit- especially in a rising rate environment, where consumers are able to obtain access to home financing at a below-market interest rate. The assumption option also provides borrowers with the flexibility to take on the obligation of a family member or remove an ex-spouse from the loan.

Pursuant to FHA guidelines, lenders are required to honor all written requests to process assumptions with a formal release of liability for all mortgages executed after December 15, 1989. FHA guidelines also stipulate that prospective borrowers seeking to assume an existing mortgage must be qualified for creditworthiness by the lender in much the same way as if a loan were being originated. In a rising interest-rate environment, this option becomes increasingly popular, since borrowers would rather assume a lower rate than take on a new loan at a higher one. This means that lenders with a significant number of FHA loans in their servicing portfolio must dedicate increased time and resources to processing assumption requests.

---

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 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 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 over 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.

Current FHA guidelines cap the maximum fee that lenders are allowed to charge to process an FHA assumption at $500 plus the cost of a credit report. This $500 figure was set in 1986, and was not indexed for inflation. It was also set in an era before lenders were required to complete a full underwrite of the assuming borrower and execute the release-of-liability. Today, after 30 years of inflation, rising loan processing costs, and a fundamental change in procedure, lenders lose money every time they process a loan assumption. Only a fraction of the work-hours and physical costs associated with conducting the creditworthiness review are recouped by the $500 assumption fee. Even without accounting for staff salaries, lender-incurred expenses in the assumption process include underwriting and processing fees as well as third party charges for title agents and closing the loan. Under FHA guidelines, none of these fees can be charged to the assuming borrower, so to the extent that the incurred fees surpass the $500 cap, lenders are forced to make up the difference by paying out of their own pocket to process an assumption file that generates no additional revenue.

Based on MBA's discussions with member companies, estimates for the total cost of processing an assumption file today range from $1,700 to $2,500. The lower figure represents some of the largest banks who have dedicated assumption "departments" with maximized efficiency. The higher figure represents smaller community banks and independent mortgage bankers, many of whom must pull personnel from their traditional work functions in order to periodically process assumptions as they come in. Once accounting for the $500 assumption fee charged to the borrower, this means that lenders report *losses* of between $1,200 and $2,000 per assumption.

If the $500 fee had been indexed for inflation in 1986, MBA estimates that the allowable fee today would have more than doubled. Beyond this, MBA research reveals that in the past 15 years alone, total production expenses per loan have grown by 150 percent. This combination of baseline inflation and increased production costs has made assumptions significantly more expensive to process. While falling interest rates over the past few decades have limited the number of assumption requests, when rates do begin to rise, the number of requests will skyrocket. As of the end of 2015, Ginnie Mae has over $1.6 trillion in outstanding guarantees, a majority of which represents FHA financing. Due to the recent prolonged period of rock-bottom rates, a very large portion of this pool will be ripe for assumption as soon as rates begin their climb. If left unchecked, lenders across the country will be saddled with a massive increase in expenses and servicer appetite for FHA loans will be significantly reduced.

In light of these facts, MBA urges FHA to raise the maximum fee that may be charged to process assumptions to $2,500 for all FHA loans currently held in a servicing portfolio and those that are originated in the future. MBA also requests that this $2,500 figure be indexed for inflation. These modifications will ensure that lenders are able to adequately cover their assumption processing costs today and in the future, and in so doing, will sustain the great benefit of assumability for generations of FHA borrowers to come.

Should you have questions or wish to discuss any aspect of these comments further, please contact Tamara King, Vice President of Residential Policy at (202) 557-2758 or tking@mba.org; or Matt Jones, Regulatory Assistant at (202) 557-2758 or mjones@mba.org.

Sincerely,

Pete Mills
Senior Vice President
Residential Policy and Member Engagement