



August 15, 2014

Kathleen Zadareky
Deputy Assistant Secretary for Single Family Housing
U.S. Department of Housing and Urban Development
451 7th Street, S.W.
Washington, D.C. 20410

Re: FHA Single-Family Housing Policy Handbook

Dear Deputy Assistant Secretary Zadareky:

The Mortgage Bankers Association (MBA)¹ applauds the Department of Housing and Urban Development (HUD) for its efforts to develop a new comprehensive Federal Housing Administration (FHA) Single-Family Housing Policy Handbook (Handbook) and to seek input to ensure its accuracy and completeness. MBA greatly appreciates the effort that HUD has already put into creating the draft Handbook and looks forward to working with HUD to implement the Handbook as its sections are finalized. MBA would also like to thank HUD for granting additional time to comment on the draft *Quality Control, Oversight and Compliance* (QC) section of the Handbook; MBA believes doing so has allowed the industry to provide thorough and comprehensive feedback.

MBA has worked closely with its members to develop a list of issues and clarifications which we believe HUD should address before releasing the final versions of the QC section of the Handbook. As instructed, MBA has submitted its feedback through the appropriate channel established by HUD.

Through its review, MBA has become strongly concerned that a core focus of the QC section is enforcement. MBA members recognize and accept the responsibilities that come with being an FHA-approved lender; however, today lenders spend an inordinate amount of time responding to a wide range of indemnification requests that concern minor or inconsequential concerns and that in many cases are ultimately revoked based on lenders' responses. MBA believes that the focus of quality control should be on loan performance, not technical defects or minor errors. MBA does not believe a "gotcha" environment is productive because it forces lenders to restrict credit and deny otherwise creditworthy borrowers access to FHA-insured financing. Furthermore, placing "Enforcement" in the QC section sends the message that enforcement is a major goal of quality control. MBA believes quality control should be a partnership between FHA and lenders focused

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, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mba.org.

on improving the quality of FHA loans and ensuring sustainable homeownership, not the imposition of penalties.

In the coming months, as HUD works to finalize these sections of the Handbook, MBA would like to continue to work with HUD staff to ensure that the finalized sections of the Handbook appropriately balance risk management with the ability of lenders to serve FHA's targeted population.

In addition to the individual line level items contained in MBA's feedback, MBA also has several high level recommendations regarding the Handbook content and the rollout plan which are discussed below.

Maintain QC Timelines

The draft QC section would require that mortgages selected for post-closing review be selected within 30 days from closing and be reviewed within 60 days after closing. Under current guidelines, the review of a specific mortgage should be completed within 90 days of closing. The 90 day timeline for reviews is already tight for many lenders and lenders report that they simply do not have the resources to conduct these reviews within 60 days of closing. In order to meet the new shorter timeframe, lenders would have to add review capacity at additional expense. The costs associated with this expanded quality control capacity will ultimately be passed onto consumers.

Eligibility Verification Printouts Should Not Be Kept With QC Results

Eligibility verification printouts are typically classified as personal protected information (PPI) which lenders store in accordance with human resource (HR) protections and not among mortgagee quality results. Just as HUD restricts access to the CAIVRS system in order to ensure that only those persons/entities with a need to know may view such personal information, lenders are under a similar responsibility to their employees to ensure PPI is stored in compliance with their HR policy. Thus, eligibility printouts should not be kept with quality control results.

Make Available a List of Revisions to the Draft Handbook

Many lenders and vendors have already begun examining the QC section of the Handbook to ensure that they are prepared to update their systems and compliance procedures once HUD issues a finalized version. The goal of these preliminary assessments is to help lenders comply with the policies within sections of the Handbook as they are finalized. After HUD has the opportunity to analyze the feedback it receives on the draft Handbook, MBA understands that HUD will most likely be making revisions to the draft Handbook. When HUD does publish revised Handbook sections, MBA strongly urges that HUD provide a list of all of the revisions that were made between the first draft and revised drafts. Providing a comprehensive list of revisions will allow lenders to effectively use their preliminary assessments of the draft Handbook as they prepare to comply with the final Handbook.

Clearly Outline Which Mortgagee Letters Have Been Superseded by the Handbook

FHA provides lenders with frequent and timely written guidance through Mortgagee Letters that the industry has benefited from for decades. Now, as portions of the Handbook are implemented, MBA is worried about the potential for confusion around what Mortgagee Letters remain in effect and which letters are superseded by the provisions in the Handbook. MBA believes that this is particularly important to HUD achieving its goal that the Handbook will be the “single authoritative source” for HUD’s single-family processes. MBA would like FHA to clearly communicate what Mortgagee Letters would no longer apply once the Handbook is finalized.

Provide 45 Days to Review Any Revisions to the Draft Handbook

Once HUD has issued a finalized QC section of the Handbook, MBA strongly urges allowing at least 45 days for lenders and other stakeholders to provide input on the revisions. It is important to allow lenders and other interested parties sufficient time to examine the revised Handbook sections for further policy changes which may implicate compliance procedures or system changes.

Provide 180 Days to Implement the Handbook

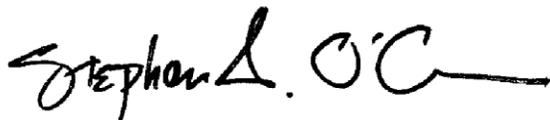
MBA strongly recommends that once HUD has published a finalized Handbook sections that HUD provide lenders with at least 180 days to implement the new guidance. The number of policy changes in this section of the Handbook is substantial. Lenders report that they will need at least 180 days to program and test their systems and compliance systems once HUD issues a finalized QC section. Lenders are still working to implement the many rules required by Dodd–Frank Wall Street Reform and Consumer Protection Act. Most lenders will not begin programming their systems until the guidelines and procedures in the Handbook are finalized, thus it is critical to allow sufficient implementation time after finalization.

Conclusion:

Again, MBA greatly appreciate HUD’s work to develop the Handbook and HUD’s efforts to seek needed input. MBA looks forward to working with HUD to implement sections of the Handbook as they are finalized.

Should you have questions or wish to discuss any aspect of these comments further, please contact Joe Gormley, Assistant Regulatory Counsel at (202) 557-2870 or jgormley@mba.org; or Andrew Szalay, at (202) 557-2941 or aszalay@mba.org.

Sincerely,



Stephen A. O'Connor
Senior Vice President Public Policy & Industry Relations
Mortgage Bankers Association