MORTGAGE BANKERS ASSOCIATION

July 14, 2014
Carol J. Galante
Assistant Secretary for Housing/Federal Housing Commissioner
Department of Housing and Urban Development
451 7th Street SW
Washington, DC 20410

**RE: Docket No. FR–5786–N–01: Homeowners Armed With Knowledge (HAWK) for New Homebuyers**

Dear Commissioner Galante,

The Mortgage Bankers Association (MBA)[1] appreciates the opportunity to comment on the Department of Housing and Urban Development (HUD) proposed Federal Housing Administration (FHA) Homeowners Armed with Knowledge (HAWK) housing counseling program (the Proposal). MBA commends HUD's efforts to provide borrowers who receive HUD-certified counseling with mortgage insurance premium (MIP) reductions. MBA agrees that housing counseling can serve as a positive mechanism for distinguishing which potential borrowers are financially ready to purchase a home.

In the past, MBA has expressed its concerns that FHA's high annual premiums and required life of loan mortgage insurance have left too many creditworthy families without affordable access to credit. The HAWK program is a serious proposal which begins to address this issue. However, MBA believes that that the Proposal could be restructured to offer borrowers greater material reductions in their monthly payments. MBA is also concerned with several other aspects of the proposal, including: requiring lenders to bear the cost of some portions of the counseling; the utility of post-closing counseling; and limiting the initial phase of the HAWK program to lenders and servicers selected by FHA.

**Background**

The MIP rate plays a pivotal role in determining whether a borrower can afford an FHA-insured mortgage. From 2008 to 2013, HUD raised FHA's single-family annual MIP five times. For a 30-year fixed-rate FHA-insured mortgage, the annual MIP increased from 0.50 percent to 1.35 percent. With these changes, a family receiving a $100,000 FHA-insured loan today will pay over $600 per year in additional premiums than would have been required in 2008. Furthermore, in June 2013, FHA extended the requirements for MIP payments to the entire life

[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.

of most its insured loans. Previously, borrowers would stop paying the MIP once the loan-to-value (LTV) ratio on their home reached 78 percent. Together, these changes have greatly increased the cost of an FHA-insured loan for all borrowers.

The current premium structure is pricing many creditworthy first-time buyers out of the market. Over the long run, high premiums on relatively low-risk business expose FHA to the risks of adverse selection because borrowers with better credit profiles will choose not to obtain an FHA loan or refinance to a conventional loan as soon as they are able. In addition, a high premium structure will over time result in higher risk borrowers – those with lower credit scores and the inability to meet downpayment requirements of other programs – turning to FHA as the "lender of last resort."

FHA's current risk management practices are moving the Fund toward financial health. These efforts have led to a significant improvement in the performance of 2010-2013 books of business, with those books adding approximately $31.3 billion in economic value to the Fund. With this perspective in mind, MBA respectfully offers the following comments.

**Rebalance all premium reductions to the annual MIP.**

Under the Proposal, first-time homebuyers in the HAWK program would receive a 50 basis point reduction in the upfront MIP and a 10 basis point reduction in the annual MIP at loan closing. If the homeowner then completed post-closing counseling and did not have any 90-day delinquencies during their first 18 payments, they would receive an additional 15 basis point reduction in the annual MIP beginning in the 25th month of the loan.

MBA understands that HUD estimates the ratio of how upfront and annual MIP payments contribute to the MMI Fund to be 5:1; thus, every 5 basis points in upfront premium contribute to the Fund at the same rate as 1 basis point in annual premium. Additional reductions in the annual premiums would have a much greater impact on lowering monthly mortgage payments than the proposed upfront MIP reduction, even if the upfront premium is financed. Consequently, MBA strongly recommends shifting the reduction in the upfront MIP to the annual MIP for participants in the HAWK program.

Under MBA's alternative proposal, HAWK borrowers would receive a 20 basis point reduction in the annual MIP from the first payment and an additional 15 basis point reduction in the annual payment in the 25th month of the loan after making 18 payments within all program guidelines. There would be no reduction in the upfront MIP. On a $200,000 loan, assuming a four percent base note rate, 30-year term, financing the upfront MIP, and the borrower completes all counseling and makes all payments within program guidelines, MBA's alternative proposal would save a borrower $15,368.88 over the full 30 year life of the loan as compared to savings of $12,834.24 over the same time period under FHA's HAWK proposal.

<u>Payment Scenarios</u>

| | **Current Scenario** | **HAWK Proposal** | **MBA Alternative** |
|---|---|---|---|
| Upfront MIP | 175 bps ($3,500) | 125 bps ($2,500) | 175 bps ($3,500) |
| Unpaid Principle | $203,500 | $202,500 | $203,500 |
| Annual MIP (life of loan) | 135 bps | - | - |
| Rate to Borrower | 5.35% | - | - |
| P+I Payment | **$1,136.37** | - | - |
| Annual MIP (years 1 & 2) | - | 125 bps | 115 bps |
| Initial Rate to Borrower | - | 5.25% | 5.15% |
| Initial P+I Payment | - | **$1,118.21** | **$1,111.16** |
| Annual MIP (after incentive) | - | 110 bps | 100 bps |
| Incentive Rate to Borrower | - | 5.1% | 5% |
| Incentive P+I Payment | - | **$1,099.47** | **$1,092.43** |
| **Total Payments** | **$409,093.20** | **$396,258.96** | **$393,724.32** |
| **Total Savings Over Life of Loan** | - | **$12,834.24** | **$15,368.88** |

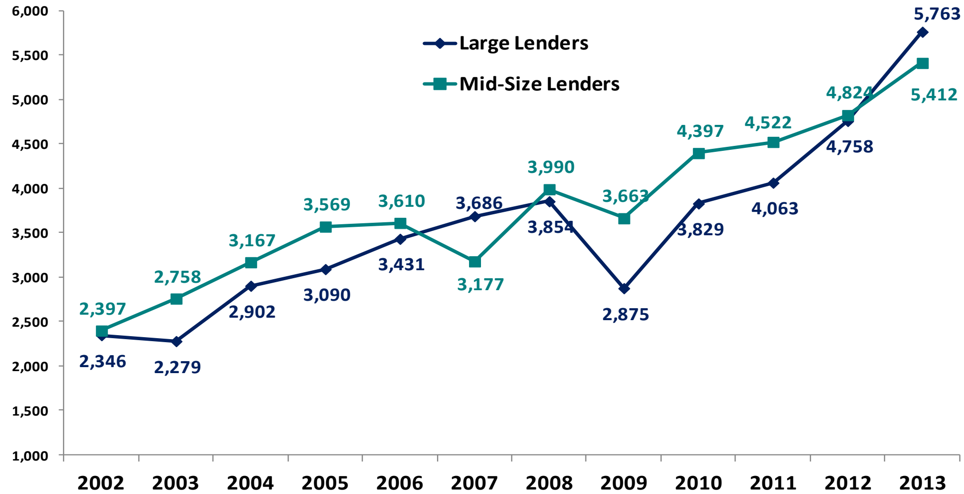
Assumptions: $200,000 loan size, 4% base note rate, 30-year term, upfront mortgage insurance premium financed, under the HAWK and MBA proposals the borrower completes all counseling and makes all payments within program guidelines

In addition, stronger credit borrowers are more likely to prepay, particularly if there is a significant incentive because of high life of loan MIPs. Maintaining the current upfront premium would better protect the fund from this adverse selection, i.e., stronger credit borrowers prepaying, leaving only weaker credit borrowers remaining in the pool.

**Lenders should not be required to pay for any portion of the counseling.**

Under the Proposal, lenders would be required to reimburse the borrower or housing counseling agency—depending on who bore the cost, up to a maximum of $400—for a borrower's pre- and post-closing counseling. Even without changes in this area, the cost of originating loans has rapidly risen over the past several years as regulatory burdens on lenders have increased.

Retail Sales and Fulfillment Expenses ($ per Loan)




Source: MBA/STRATMOR Peer Group Survey

MBA strongly opposes any proposal to require lenders to pay for any portion of the HAWK counseling. FHA's proposal states that borrowers and the Mutual Mortgage Insurance (MMI) Fund will benefit from the HAWK program. Borrowers benefit through lower payments and FHA believes that loans made will perform better which will benefit the MMI Fund. MBA believes that it would be unfair to require lenders to pay for counseling when the borrower and MMI Fund will more directly benefit from the program.

**Eliminate post-closing counseling.**

MBA believes that that post-closing counseling in the Proposal will be of limited benefit to borrowers making timely payments and will be difficult to operationalize. After closing, loans are frequently sold to investors and the loan servicing is transferred. The post-closing certificate would have to be submitted by the borrower to the correct party in order for the borrower to receive the additional incentive reduction in the annual MIP. For those borrowers making on-time payments, counseling is unnecessary. FHA should instead focus its resources on borrowers who are having difficulties in making timely payments.

MBA strongly urges FHA to eliminate post-closing counseling and instead provide the additional reduction in the annual MIP to all borrowers who make the first 18 payments within program guidelines.

**Significantly tighten delinquency requirements.**

Under the Proposal, borrowers who have completed all counseling requirements and made 18 months of mortgage payments with no instances of 90-day delinquencies will receive the additional 15 basis point reduction in the annual MIP. MBA believes that this standard is too lenient and would allow borrowers to maintain rolling delinquencies of up to 89 days and still remain eligible for the additional MIP reduction. Such a policy would be contrary to HUD's stated goal of improving the financial performance of the MMI Fund because it could incent borrowers to engage in behavior that will cause borrowers to default.

MBA urges HUD to implement a standard that would allow borrowers one 30 day delinquency in the first 18 months of the loan after closing. A 1x30 delinquency standard would impress upon borrowers the importance of making timely payments, but still allow borrowers one mistake during the first 18 months of their loan as they become accustomed to making mortgage payments.

**Open the HAWK program to all FHA lenders from inception.**

HUD has proposed that the HAWK program be structured in two phases, an initial phase open to a limited number of borrowers and a limited number of FHA selected lenders and servicers to test the operational aspects of the program, and a second phase open to all first-time homebuyers up to the limit established by FHA and all interested FHA-approved lenders and servicers.

Piloting the initial phase of the HAWK program with only FHA selected lenders would provide those select lenders a significant competitive advantage over lenders who were not chosen to participate. MBA understands that FHA will need time to test the operational aspects of HAWK, but MBA strongly believes that the program should be open to all lenders from inception to ensure a competitive lending marketplace and equitable geographic distribution of the program. Instead of constricting the number of lenders and services who may participate in the first phase of HAWK, MBA suggests that all lenders and servicers interested in the program each be given access to a limited number of HAWK loans until such time that the program is fully operational.

**Other Recommendations**

- **Pre-purchase counseling completion certificates should be valid for two years.** Pre-purchase counseling will entail a significant investment in time and money for the potential borrower. Upon completion of pre-purchase counseling, consumers may realize they need to save more money for a downpayment and reserves or that they are not ready to assume the responsibilities of purchasing and maintaining a home. Consequently, MBA believes that the pre-purchase counseling completion certificate should be valid for no less than two years. Two years would provide borrowers sufficient time to consider whether purchasing a home is appropriate without feeling pressured to take on a financial responsibility they are not ready for.

- **Coordinate HAWK counseling with other programs which require housing counseling.** Some lending programs, including many housing finance agency downpayment assistance programs, already require some form of housing counseling. MBA urges HUD to coordinate HAWK counseling requirements with other programs requiring counseling as borrowers may be less likely to participate in the HAWK program if they are required to receive counseling that is duplicative or presents an additional investment in time and money.

- **Set clear guidelines for housing counselors.** Housing counselors will play an important role in the HAWK program and many borrowers may look to them for advice or help in the mortgage lending process. Because of this influence, MBA believes that the housing counselor's role should be limited to an educational role. Housing counselors should not be allowed to assist a borrower in shopping for a loan or negotiating terms with a lender.

- **Create a robust campaign to inform borrowers of the HAWK program**.
  MBA believes that borrowers will need to be educated on the existence of the HAWK program to ensure that they can begin the required counseling before applying for a loan. HUD should work with all stakeholders including lenders, real estate agents, and housing counseling agencies to ensure that potential borrowers are aware of the HAWK program prior to applying for a loan so that they may undertake pre-purchase counseling in order to qualify for the program.

- **Provide guidance for how the good faith estimate (GFE) and truth in lending (TIL) statement should be disclosed for borrowers participating in the HAWK program.**
  When the application is taken, lenders would have evidence of the pre-purchase counseling but not the pre- or post-closing counseling. Absent this written guidance lenders could not be assured the lower MIPs should be used to calculate the GFE and TIL disclosures.

**Conclusion**

MBA appreciates FHA's work to develop this Proposal. We commend your effort to address the high cost of FHA-insured loans; however, we strongly urge that FHA restructure the MIP reductions for HAWK participants to provide additional material reductions in their monthly payments. In addition, as this program moves forward, MBA urges FHA to conduct ongoing monitoring to ensure that the HAWK program contributes to the actuarial soundness of the MMI Fund.

We look forward to working with FHA on this important issue.

Should you have questions or wish to discuss any aspect of this comment further please contact Tamara King, Assistant Vice President for Loan Production, at (202) 557-2758 or tking@mba.org, or Joe Gormley, Assistant Regulatory Counsel, at (202) 557-2870 or jgormley@mba.org.

Thank you for the consideration of our comments.

Sincerely,

Stephen A. O'C

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Senior Vice President of Public Policy & Industry Relations
Mortgage Bankers Association