June 13, 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: Proposed Supplemental Performance Metric

Dear Commissioner Galante:

MBA appreciates the Federal Housing Administration (FHA) for its initiative in proposing the Supplemental Performance Metric (Metric). The Metric and other recent proposals issued as a part of "Blueprint for Access" demonstrate FHA's commitment to working with industry to identify and mitigate factors that impede qualified borrowers from purchasing homes.

MBA believes that a healthy mortgage market serves all qualified borrowers. Today, too many potential borrowers are unable to access FHA-insured financing because of the credit overlays employed by many lenders. While there are numerous risk factors and uncertainties that have led to these overlays, lender concerns about managing the FHA's Lender Compare Ratio (Compare Ratio) are a significant contributor.

Other major contributors to credit overlays include fear of expensive indemnifications for minor underwriting defects, False Claims Acts lawsuits, and penalties for failure to meet outdated foreclosure timelines. We are encouraged by FHA's efforts to work with industry to provide clarity and relief in these areas as well. Addressing these challenges as part of a comprehensive set of reforms is critical to providing lenders the certainty they need to roll back credit overlays.

MBA believes that a lender's performance is not adequately summarized by its Compare Ratio alone. The Compare Ratio has created a "race to the top" in which lenders are forced in many cases to only lend to borrowers with stronger credit profiles for fear that the resulting performance of loans made to borrowers with weaker credit profiles will lower their compare ratio and lead to FHA terminating their origination authority. MBA understands that FHA is constrained by statute from making substantial changes to the Compare Ratio; however, it will be important for FHA to precisely outline what role the Metric will play in lender enforcement. FHA should outline whether the Metric is intended as a permanent solution to mitigate lenders' concerns on performance measurement or is an intermediate step while FHA seeks additional authority.

In addition to benchmarking to the broader market, MBA believes that it is also important to FHA, lenders, and the public to compare a lender's performance to FHA's designated level of risk tolerance. A single benchmark to FHA's designated level of risk tolerance would allow lenders to easily know where they stand and manage their portfolio accordingly.

MBA believes that the target credit score bands in proposal should be eliminated. The objective should be to provide access to credit for all qualified borrowers – not achieve a certain type of customer mix. Lenders originate loans in many different geographical areas with diverse borrower profiles. For lenders to best serve their individual markets, they should be free to manage their portfolios to meet the needs of their communities. Managing to a single benchmark or target seriously delinquent (SDQ) rate is the simplest and most effective way to meet this goal without constraining lenders to a predetermined credit score mix. In addition to the above overarching concerns, MBA has developed the below comments and questions for FHA.

Additional Concerns

- **Provide certainty in the use of the Metric.**

  MBA urges FHA to clearly outline the purpose and use of the Metric. It is not clear whether violating the acceptable ratio in the new Metric will have consequences on its own absent a lender triggering an unacceptable score on the Compare Ratio. MBA believes that if a lender has a Metric ratio below the acceptable ratio (125 percent in the proposal) that FHA should make clear that the lender will not be subject to termination.

- **Provide equal weight to the Metric on the Neighborhood Watch website.**

  FHA's proposal indicates that the Metric will be available as an "additional column" on the Neighborhood Watch website. MBA urges that FHA provide the Metric and Compare Ratio equal weight on the Neighborhood Watch website to ensure that investors and other interested parties are aware of all lender performance measurements.

- **Place Housing Finance Agency (HFA) downpayment assistance loans in a separate credit bucket.**

  Downpayment assistance programs operated by state and local Housing Finance Agencies (HFA) paired with an FHA loan are an important entry point for homeownership for low-to-moderate income families. These programs provide participants with housing counseling and financial education and encourage homeownership in a responsible and well-regulated manner. Because of the credit and downpayment characteristics of many borrowers who participate in HFA programs, lenders remain reluctant to make these loans because of the impact they will have on their Compare Ratios. Lenders have informed MBA that the proposed Metric will do little to ameliorate these concerns, as the Metric does not separately account for the performance of HFA loans.

MBA believes that HFA loans should be placed in a separate credit bucket. Importantly, there is precedent for this type of action. In February 2012, HUD announced that in an effort to expand access to FHA Streamline Refinance loans, it would remove those products from the public Compare Ratio. MBA believes that action led many lenders to make that important product available to more borrowers.

- **Smaller lenders may be impacted by a metric which is too volatile.**

  MBA urges FHA to be mindful of the effects on smaller lenders of moving to a new metric. Even under the current compare ratio, smaller lenders can see substantial volatility in their relative performance just because their overall origination volume is relatively low. Dividing production into multiple buckets could potentially lead to further volatility in each of the supplemental metrics, which could send a false signal regarding a lender's performance. While the proposed Metric would compensate by measuring each lender against FHA's own target rather than their peers, for a smaller lender, a relatively small number of poorly performing loans could still be misinterpreted. MBA recommends that FHA consider using for small lenders a rolling average for both the Compare Ratio and the Metric.

Technical Issues/Questions

- Currently, Compare Ratios are updated monthly. Will the Metric be updated on the same schedule?
- FHA currently calculates Compare Ratios for loans originated within the previous 12 and 24 month time periods. Will the Metric be calculated at similar intervals?
- Will the Metric's weighted SDQ target be a national standard?
- How often will FHA update the targeted risk mix and SDQ targets?
- How will the SDQ targets be established? Setting an SDQ rate that accurately reflects the expected performance for each cohort will be critically important – we urge FHA to get industry input when determining the target default rates.
- Will there be a lender by lender view of the risk mix by credit score, along with the corresponding SDQ detail and Metric in the FHA database like there is for the variables that are used in Compare Ratio?
- The document released by FHA outlining the Metric indicates that some information about lender performance will be visible in the public view and other information will be visible in the lender view in Neighborhood Watch on the FHA Connections website. It will be important to outline what information will be available in the public view as opposed to the lender view.
- What is FHA's planned implementation's date for the Metric? Will there be additional opportunity for industry input as additional details are revealed?

MBA appreciates the opportunity to comment on the proposed Metric and we look forward to working with FHA to further develop the proposal. If you have any questions regarding our letter, please contact me, 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 your consideration of our comments

Sincerely,

Pete Mills
Senior Vice President
Residential Policy and Member Services