MORTGAGE BANKERS ASSOCIATION

December 20, 2022

The Honorable Julia Gordon
Assistant Secretary for Housing and Federal Housing Commissioner
Federal Housing Administration
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

Mr. John Bell, III
Executive Director
Loan Guaranty Service
U.S. Department of Veterans Affairs
810 Vermont Avenue, NW
Washington, DC 20420

RE: Request for Increase of the Allowable Fee for Assumptions

Dear Commissioner Gordon and Director Bell:

The Mortgage Bankers Association[1] (MBA) and its members appreciate the Federal Housing Administration (FHA) and the Department of Veterans Affairs' (VA) demonstrated commitment to improving access to affordable homeownership for low- to moderate-income borrowers, and our Nation's veterans, respectively. Today's potential borrowers are faced with a challenging homebuying environment and high mortgage interest rates.

In MBA and our members' interaction with both potential homebuyers and current homeowners, discussions of assumptions as they relate to FHA-insured and VA-guaranteed loans are increasing. Many potential sellers who took advantage of historically low rates in the past 5 years are beginning to discern that their low rate, assumable FHA loan is a marketable asset when it comes time to sell. At the same time, homebuyers and their real

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 390,000 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 2,100 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

estate professionals are recognizing the affordability benefits of the assumability feature and structuring sales contracts to capture that value.

Assumption requests require a full underwrite of the new borrower(s). Servicers of FHA and VA loans are obligated to process loan assumptions and limited by agency requirements in the fee they may assess for the transaction. The allowable fee for processing either an FHA-insured or VA-guaranteed loan is not remotely close to the costs the lender/servicer incurs in reviewing, underwriting and processing an assumption request. Moreover, the fee has not been indexed to correspond with inflation. MBA urges FHA and VA to increase the allowable fee for processing assumptions to $3,500 and install a mechanism to ensure its periodic adjustment, indexed to the Consumer Price Index (CPI).

Assumptions on the Rise

In a rising interest-rate environment, the option to assume a mortgage becomes increasingly popular. With such a widespread between today's market rates and the those on recent vintage originations, many borrowers can benefit from assuming a lower rate on the existing loan for a large portion of their indebtedness rather than take on a new loan at a significantly higher rate. In addition, sellers in a rapidly slowing market will find that the assumability feature can help bridge affordability gaps and help the seller obtain a better price. In this market, lenders with a significant number of FHA loans in their servicing portfolio must dedicate increased time and resources to processing assumption requests.

According to MBA's Weekly Applications Survey, the 30-year fixed-rate mortgage rate peaked at 7.16% the third week of October 2022, a rate previously unseen since December 2001.[2] In the past three years, the sizable refinance boom resulted in more than 20 million refinance transactions between Q4 2019 and Q3 2022, with most of these loans having rates below 4%, or even below 3%.[3]

Secondary market data also highlight the large percentage of existing loans in the market have interest rates well below today's market rates. FHFA estimates that nationwide, almost 86% of government loan contracts have an interest rate lower than 5%.[4] Figure 29 (next page) from Ginnie Mae's September 2022 edition of their *Global Markets Analysis Report*, shows outstanding Ginnie Mae MBS Balance by Coupon.[5] MBA notes that approximately 80% of outstanding Mortgage-Backed Securities (MBS) balances have coupon rates below 4%. The average coupon in August 2022 was 2.98%.[3]

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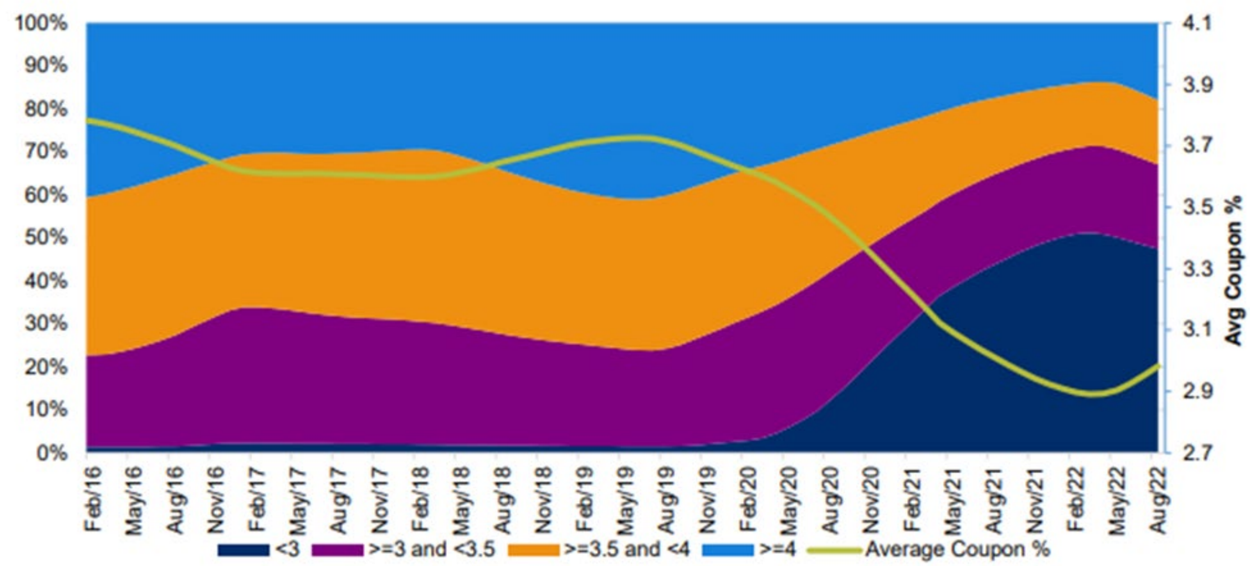
[2] Available at: https://www.mba.org/news-and-research/research-and-economics/single-family-research/weekly-applications-survey

[3]. See MBA Mortgage Refinance Forecast, available at: https://www.mba.org/news-and-research/forecasts-and-commentary

[4] Data from a "nationally representative five percent sample of residential mortgages in the United States." See FHFA's Outstanding Residential Mortgage Statistics, available at: https://www.fhfa.gov/DataTools/Downloads/Pages/National-Mortgage-Database-Aggregate-Data.aspx

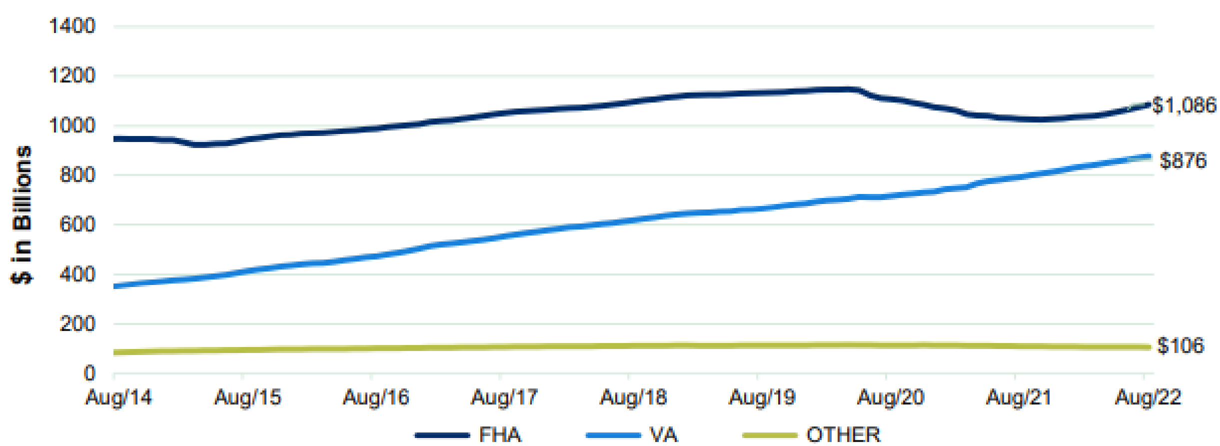
[5] Ginnie Mae, "Global Markets Analysis Report" (September 2022) Available at: https://www.ginniemae.gov/data_and_reports/reporting/Documents/global_market_analysis_sep22.pdf

Figure 29. Outstanding Ginnie Mae MBS Balance, by Coupon.



For context, Figure 26 (below) from the same report outlines the composition of outstanding Ginnie Mae MBS. In August 2022, FHA collateral comprised 52.5% and VA collateral comprised 42.4% of Ginnie Mae MBS outstanding.[6]

Figure 26. Composition of Outstanding Ginnie Mae Mortgage-Backed Securities.



Data on volume of assumptions remains scarce, but one large MBA member lender who processes both VA and FHA assumptions reports a 2021 to 2022 (YTD) year over year (YOY) increase in assumption inquiries of 60%, and a 93% increase YOY in the number of assumptions closed. While overall current volume of assumptions remains relatively low, MBA believes increased media attention, greater buyer and seller awareness, and

[6] Ginnie Mae, "Global Markets Analysis Report" (September 2022) Available at: https://www.ginniemae.gov/data_and_reports/reporting/Documents/global_market_analysis_sep22.pdf

encouragement from those in the real estate industry promise to drive a significant rise in volume.

Conversations about the benefits of assuming a low interest rate are beginning to hit the national stage. Online news articles suggest assumptions are the “secret” to a low rate.[7] Realtor® associations are informing their members on the benefits.[8] Industry publications are predicting increased interest in assumable loans.[9] If servicers see a significant rise in the volume of assumptions, coupled with the embedded losses for each assumption processed due to insufficient reimbursement, lenders and servicers will be further discouraged from participating in the VA and FHA market.

MBA strongly encourages FHA and VA to reconsider their assumption allowable fees now, before their servicing counterparties suffer a wave of losses in the event of the widespread popularization of assumptions in the marketplace.

Processing an Assumption

Based on MBA’s discussions with member companies, estimates for the total cost of processing an assumption file today range from $2,120 to $3,130. 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 and servicers, many of whom must pull personnel from their traditional work functions to periodically process assumptions as they come in. Once accounting for the $300 VA or $900 FHA assumption fee charged to the borrower, this means that lenders report losses of between $1,220 and $2,830 per assumption.

If the fees had been indexed for inflation in 1989, MBA estimates that the allowable fee today for both FHA and VA would have more than doubled.[10] Beyond this, MBA research suggests that in the past 15 years alone, total underwriting and processing expenses per loan have grown by 130 percent.[11] The 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, now that rates have risen the number of requests is expected to skyrocket. As of the end of 2015, Ginnie Mae has over $1.6 trillion in outstanding guarantees, more than 95% of which represents FHA and VA 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

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[7] Tennyson, “The Secret to an Ultra-Low Mortgage Rate? Assume the Loan, If You Can” Yahoo Finance. November 23, 2022.
[8] Groves, “Is Your Seller’s Mortgage Assumable?” Florida Realtors. November 30, 2022.
[9] Ostrowski, “Soaring mortgage rates spur interest in assumable loans” Bankrate. November 7, 2022.
[10] MBA arrived at this figure using a baseline of $300 for VA and $500 for FHA, indexed to today’s value using the U.S. Bureau of Labor Statistics CPI Calculator. MBA select 1989, as it was the first year both FHA and VA allowed for a fee collected for assumptions within their guides. Both figures increased approximately 2.4 times.
[11] MBA calculated the average costs (includes processing, underwriting, closing and production support costs like technology, quality control, and trailing docs) from 2003-2007 compared to 2017-2021. The figure rose from $1,187 to $2,730.

massive increase in expenses and servicer appetite for FHA and VA servicing rights will be significantly reduced.

Proposed Solution

In light of these facts, MBA urges FHA and VA to change their policy to allow a fee of up to $3,500 per assumption and set the allowable fee to be indexed periodically to inflation. Lenders agreed that $3,500 would best cover the costs of production for all servicers of FHA and VA loans. MBA suggests the change apply to all FHA and VA loans currently held in a servicing portfolio and those originated in the future. 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 ensure the great benefit of assumability is available for generations of FHA and VA borrowers and sellers to come.

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MBA appreciates its strong partnership with the Federal Housing Administration and Department of Veterans Affairs. MBA strongly encourages both agencies to consider this important update to their assumptions policies. Should you have questions or wish to discuss these issues further, please contact Hanna Pitz, Assistant Director of Housing Finance Policy, at (202) 557-2796 or hpitz@mba.org.

Sincerely,

Pete Mills
Senior Vice President
Mortgage Bankers Association