MORTGAGE BANKERS ASSOCIATION

October 10, 2022

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

MBA Recommended Origination-Focused Amendments to the FHA Single Family Housing Policy Handbook

Dear Commissioner Gordon,

The Mortgage Bankers Association (MBA)[1] applauds the Federal Housing Administration (FHA) for its continued efforts to assist borrowers impacted by the COVID-19 national emergency, its ongoing engagement with mortgage industry stakeholders, the recent release of Mortgagee Letter 2022-09 and 2022-11, and the updates made to the FHA Single Family Housing Policy Handbook 4000.1 (Handbook). These updates remove unnecessary barriers for borrowers to utilize available FHA-insured mortgage offerings.

In May of this year, MBA submitted a prioritized list of recommendations to address the top issues identified by our members active in the FHA lending space, many of which were adopted by FHA. As a follow-up, we have composed additional recommendations for FHA to consider in future amendments to the Handbook.

FHA Handbook Origination Priorities

1. **Reinstate Borrower Verbal Verification of Employment (4000.1 II.A.4.c.ii(C)(3))**
   In a recent pivot in policy, FHA has eliminated the option to document a borrower's previous employment through a verbal verification of employment (VVOE). The

[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 2,200 companies includes all elements of real estate finance: independent mortgage banks, commercial banks, mortgage brokers, 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.

Handbook presently requires lenders to document the previous employment to show stability in the same line of work, establishing the likelihood that current income will continue (when the current position has been held less than two years) in written form. At a minimum, VVOEs contain dates of employment and positions held. These are the key items necessary to determine stability. MBA recommends that FHA reinstate the option for lenders to verify borrower employment through written or verbal confirmation.

2. **Eliminate Sourcing Assets on Non-Credit Qualifying Streamline Refinances (4000.1 II.A.8.d.vi(C)(4)(h))**
   MBA recommends FHA eliminate its Handbook requirement that lenders source funds to close when processing non-credit qualifying streamline refinances. FHA's requirement that a lender source funds nullifies the effectiveness of the streamlined refinance by requiring lenders to conduct a capacity analysis. A non-credit qualifying refinance does not demand a lender perform a credit or capacity analysis or obtain an appraisal.

3. **Align Minimum Property Requirements (4000.1 II. D.3.b)**
   For a loan to be insured by FHA, the property must meet FHA's Minimum Property Requirements (MPRs). As written, FHA's MPRs are outdated and do not reflect the accepted practices of the real estate market. The MPRs fail to align with the Uniform Residential Appraisal Report used by most of the industry, triggering a unique appraisal process and frequently extending the appraisal timeline beyond the period needed for conventional loans. Sellers and real estate agents often reject FHA offers in favor of conventional financing because satisfaction of the MPRs can delay the purchase contract or closing. MBA recommends FHA align its MPRs with the requirements of Fannie Mae and Freddie Mac by focusing on basic safety, structure, and soundness.

4. **Clarify FHA Well Water Testing Requirements (4000.1 II.A.3.a.ii(O)(2)(a) and II.A.3.a.ii(O)(3)(a) and 4000.1 II.A.3.a.ii(F))**
   FHA should provide clarity on well water testing requirements for new construction. FHA requires a Well Water Test for properties that are newly constructed. The guidance for "Required Documentation for New Construction," however, asks for a local Health Authority well water analysis and/or septic report only when required by the local jurisdictional authority. MBA requests that FHA provide clarification as to whether a well water test is needed only when required by the local jurisdiction or for all new construction.

   If a water test is not required by the local jurisdiction and FHA accepts the omission of the water test on those grounds, FHA should further provide clarity on alternative documentation required to confirm that each living unit contains a continuing and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household, as required per the FHA Handbook.

5. **Facilitate Collateralized Loans (4000.1 II.A.4.d.iii(K)(1)(c))**

FHA should eliminate the requirement that assets supporting collateralized loans must be held by an independent third party when the asset's value is not determined by the lender. The Handbook requires borrowers who wish to obtain collateralized loans against financial assets (such as deposit accounts, certificates of deposit (CDs), investment accounts, stocks, bonds, and real estate) to obtain such loans from an independent third party. This constraint prohibits borrowers from seeking collateralized loans from the financial institution providing their mortgage loan and necessitates that lender direct borrowers to competing institutions. FHA has stated that the requirement is in place to ensure that lenders do not inflate the value of financial assets. A financial asset such as a deposit account, CD, investment account, stock, and bond has a defined value that is readily accessible in the market, eliminating the possibility of the lender inflating the value of such assets. With respect to collateralized loans being secured by real property, appraisals already are performed by an independent third party, removing the risk of a lender inflating the asset's value. MBA therefore requests FHA remove this requirement from the Handbook.

6. **Expand Definition of a Family Member (4000.1 II.A.1.a.i(E)(1)(a))**
MBA recommends FHA amend its definition of a family member to include nieces, nephews, and cousins. The Handbook currently requires lenders to ensure that all purchasers are Borrowers, with the exception of family members as defined in the Handbook. While the current definition allows for a borrower to list an aunt or uncle on the sales contract, it excludes the listing of a niece or nephew. Because the degree of relation is the same, MBA requests FHA modify its definition of a family member to include nieces, nephews, and first cousins.

MBA appreciates FHA's willingness to continue to engage with the industry and its consideration of these recommended revisions to the FHA Single Family Housing Policy Handbook. Should you have questions or wish to discuss these issues further, please contact Darnell Peterson, Senior Policy Advisor, at (202) 557-2922 or dpeterson@mba.org.

Sincerely,

Pete Mills
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Residential Policy and Strategic Industry Engagement
Mortgage Bankers Association