MORTGAGE BANKERS ASSOCIATION

February 3, 2023

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

RE: Concerns Regarding New LLPA Changes Effective May 1, 2023

Dear Director Thompson,

The Mortgage Bankers Association[1] (MBA) appreciates the Federal Housing Finance Agency's (FHFA) recent efforts to implement a pricing framework that supports Fannie Mae and Freddie Mac's (the Enterprises) mission to facilitate equitable and sustainable access to homeownership while strengthening the safety and soundness of the Enterprises and gradually improving their capital position. The industry continues to adjust to the first two iterations of changes to the pricing framework - increases to loan level pricing adjustments (LLPA) for certain second homes and high balance loans and LLPA waivers for certain first-time homebuyers, Home Ready and Home Possible loans, HFA Advantage and HFA Preferred loans, and single-family loans supporting the Duty to Serve program. Together, those changes significantly rebalanced the LLPA framework toward mission-focused lending.

The third iteration of changes, however, will raise costs for borrowers in the heart of the Enterprises' traditional market and impose significant operational challenges for the industry. The timing of these changes is especially troubling given current stressed housing market conditions already making affordability a challenge, and the fast-approaching peak homebuying season. MBA is particularly concerned about the addition of an LLPA for loans with a debt-to-income ratio (DTI) greater than forty percent and recommends removing it from the Enterprises' pricing framework. The reasons for introducing DTI ratio in the Enterprises' pricing framework remain unclear. The general Qualified Mortgage definition

[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.

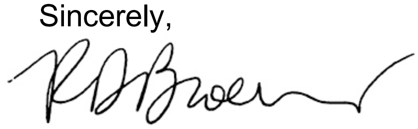
was revised to exclude DTI ratio as studies demonstrate that as a stand-alone measure, DTI ratio is not a strong indicator of a borrower's ability to repay. Further, an LLPA tied to DTI ratio poses a multitude of operational issues and subsequent quality control concerns for lenders.

A borrower's income and expenses can change several times throughout the loan application and underwriting process, especially considering evolving assumptions concerning the nature of debt and income, and the growth in self-employment, part-time employment, and "gig economy" employment. These changes in income and expenses can cause the DTI ratio to fluctuate as items of income and expense disclosed during the application process are later verified during underwriting, which could now result in multiple changes to a borrower's loan pricing. Such pricing changes may result in difficult compliance challenges as lenders are forced to evaluate if such changes constitute a valid change in circumstance under TRID, potentially requiring redisclosures and delays in the closing process. In addition to the added level of complexity and scrutiny the DTI ratio LLPA brings to income and expense calculation, lenders are concerned multiple pricing changes could jeopardize borrower trust and lead to the appearance of a "bait and switch" when offering loan pricing.

A DTI-based LLPA will also create problems for post-closing quality control activities. Lenders are currently facing a rising number of repurchase requests from the GSEs, the majority of which are related to income calculations, according to data from the Enterprises. The addition of a hard DTI pricing threshold could increase the frequency of "defects" for minor calculation changes in the DTI ratio.

MBA believes the DTI ratio LLPA is unworkable and should be removed. It is important to consider how often both monthly income and debt payments change during the loan process, and how complex it will be to provide an accurate rate to borrowers given this addition to the Enterprises' pricing framework. MBA would like to partner with FHFA to convene a small group of lenders to fully examine the difficulties of implementing a DTI-based LLPA. Based on feedback received thus far from a large percentage of our membership, there are many operational and compliance issues that would require extensive training, as well as updates to processes and technology systems. Working with industry participants will provide the opportunity to find alternative approaches to mitigating the Enterprises' exposure to high DTI ratios that do not pose hardships to both lenders and borrowers. MBA appreciates its ongoing partnership with FHFA and requests the opportunity to discuss this critical issue further at your earliest convenience.

Sincerely,



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