HPC
HOUSING POLICY COUNCIL

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Dr. Ben Carson, Secretary
U.S. Department of Housing and Urban Development (HUD)
451 7th Street, SW
Washington, DC 20410

Dear Secretary Carson:

The Housing Policy Council (HPC), a trade association representing the leading companies in housing finance - including national and regional depository and non-depository lenders and servicers, technology vendors and data providers, and mortgage and title insurers – welcomes the opportunity to share member insight for consideration in your HUD Reform Plan. HPC members have a long history of engagement with both the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae) and support President Trump's interest in revitalizing and modernizing these two critical agencies.

Collectively, FHA and Ginnie Mae represent a key pillar of the US housing finance system, facilitating the flow of global capital into the US mortgage market, channeling funds through a broad range of diverse lending institutions that provide access to credit for homebuyers and homeowners in communities across America. FHA and Ginnie Mae operate in a corporate world composed of private institutions, from the creditors who originate loans for families and individuals to the investors who commit capital to Ginnie Mae mortgage-backed securities. While the end-user beneficiaries of FHA home loans are US households, the stakeholders with which these two government agencies interact are the private sector market participants that deliver the products into the marketplace for the government and those that commit dollars to back these assets.

That said, the type of reform that is most needed and that would have the most impact for these two organizations is a fundamental modernization of their authority and status to enable the agencies to keep pace with changing market conditions, trends in marketplace practices, fluctuations in counterparty engagement, and shifts in consumer profiles and needs. For FHA and Ginnie Mae policy and practice to align, complement, and support the broader market, HUD Reform measures should be designed to provide: 1) autonomy to make intelligent, informed, independent business decisions that address their mission and risk management obligations 2) access to and control of their revenue, to ensure a continuous flow of resources to manage the operations of the organizations and administration of their programs.

HPC has developed a legislative proposal that would accomplish these objectives for FHA, converting the agency into a Government Corporation housed within

HUD. The HPC input in this letter will focus on this proposal and how it would fulfill the goals set forth in the President's Memorandum on Housing Finance Reform.

Given the commercial nature of the FHA's mission and functions, the designation of Government Corporation and its associated benefits, is infinitely reasonable. In 1948, President Truman highlighted the rationale for the Government Corporations Act, pointing out that some government programs were inherently commercial in nature and therefore needed additional independence and resources, ". . . the corporate form of organization is . . . adapted to the administration of government programs . . . of a **commercial character** – those which are **revenue producing**, are at least potentially **self-sustaining**, and **involve a large number of business-type transactions** with the public. In their business operations, such programs **require greater flexibility** than the customary type of appropriations budget ordinarily permits."

FHA fits this description well and HPC believes that converting FHA into a Government Corporation would enable the agency to fulfill its critical mortgage insurance responsibilities as well as its mission of serving homebuyers and homeowners. As a Government Corporation, with additional autonomy and resources, FHA could build out its risk management capabilities dramatically, investing in improvements to origination and servicing policies, enhancing and expanding the agency's risk controls and practices, adopting state-of-the-art technology, procuring vendor support to ensure that all quality control and enforcement activities are uniform, continuous, and assertive. FHA could also be a better business partner to the various stakeholders who serve FHA borrowers, such as lenders, servicers, housing counselors, realtors, and homebuilders. FHA could and should have an ongoing policy dialogue, training sessions, and outreach events for these key partners, who are the primary contact for many consumers seeking information and advice about FHA financing.

HPC believes that an FHA Government Corporation could continue to be housed within HUD and could retain a budget arrangement that permits FHA to provide offsetting receipts to support other Federal and HUD housing programs. Most importantly, however, HPC advocates for FHA to have full access to and control over its own revenue, to cover the cost of the corporate business operations as well as to satisfy all insurance claims. Among the benefits that FHA could achieve with resources and autonomy are the following:

- **Procurement Activities** – FHA Corporation could identify, secure, and oversee a broad range of skilled vendors and contractors, competitively selected on the basis of industry experience and capabilities;

- **Technology** – FHA Corporation could engage high-quality, high-capacity technology firms, with experience delivering mortgage market tools, solutions, and platforms used broadly across the industry and continuously updated;

- **Staffing** – FHA Corporation could hire and retain adequate numbers of talented staff to handle the complex credit risk management and counterparty oversight work of the agency, compensating staff at levels commensurate with the Federal banking regulators;

- **Legal Work** – FHA Corporation could manage its own cadre of regulatory and enforcement attorneys with FHA knowledge and extensive housing finance expertise.

- **CEO** – FHA Corporation could be led by an executive appointed for five years, to provide a level of stability, continuity, and sustainability in the direction and operations of the organization.

Today, FHA is severely hampered by the inadequacy of its resources and limitations on its decision-making authority and the situation has worsened over the decades, with the severity of the constraints intensifying as the volume of FHA business was growing. The detrimental impact on FHA can be seen in the poor quality of the agency's service, risk management capabilities, and basic commercial business operations.

From a mission perspective, FHA serves proportionally more first-time homebuyers, minority borrowers, and low- and moderate-income households than the two GSEs combined. Yet, FHA has very limited resources to support consumers, communities, and the industry with educational materials, outreach events, or training sessions. With more independence and additional capital to invest in appropriate and ongoing community outreach, FHA would be in a position to appreciate and address the changing needs and financial profile of the American consumer, developing innovate products and enhanced underwriting approaches. Historically, FHA borrowers rely on multiple sources of income and the fragmentation and volatility of household income and obligations complicate the standard analysis of continuity and stability of income. Better risk analytics, state-of-the-art tools, and engagement with the target population would all help FHA fulfill its mission.

From a risk management perspective, FHA is the largest mortgage insurance company in America, yet the agency's credit risk management and counterparty oversight tools and practices hearken back to the 1980s, as a result of insufficient investment. FHA desperately needs technology upgrades, high-capacity vendors, and additional qualified staffing. The FHA origination processes rely heavily on the use of the GSE automated underwriting systems, an arrangement that has disadvantaged FHA's risk management capacity by limiting the amount of key borrower information transmitted to FHA prior to insurance endorsement. Further, FHA's servicing practices are woefully out of synch with the rest of the marketplace. FHA's outdated and inefficient approach to loss mitigation puts FHA borrowers at a severe disadvantage.

FHA borrowers have an exponentially higher likelihood of default yet qualify for FHA modifications at a much lower rate than GSE borrowers, simply due to flawed program rules. Given the risk profile of the FHA borrower, FHA modification programs should be designed to efficiently identify and assess consumers in financial distress and seamlessly reduce their mortgage payments. Instead, FHA policy requires more intensive underwriting of the borrower to qualify for home retention than that used to approve them for the loan. This results in higher foreclosure rates and higher loss severities for FHA, a perverse outcome, given the traditional incentive of a mortgage insurance company to minimize losses.

Finally, from a commercial business perspective, FHA's product is delivered into the marketplace by private lending institutions and mortgage assets are managed by private servicers, both of which expect and need engagement from a partner that functions in accordance with customary commercial business behavior and practices. The misalignment of FHA's origination and servicing policies and practices render the production and management of FHA loans more difficult, costly, and risky for lending institutions. Exacerbating this problem is inconsistent application and enforcement of the FHA standards. FHA's counterparty oversight processes require the agency to evaluate the quality control plans of all approved lending institutions, yet FHA's own quality control and quality assurance practices are executed in an uneven and unreliable manner that makes calibration with the FHA standards difficult, if not impossible, for lenders. FHA's counterparties cannot measure, manage or mitigate risk – be it credit, operational, or reputation risk – properly within an environment that lacks certainty and predictability

To address these fundamental and entrenched problems, FHA needs resources and independence. In sum, as a Government Corporation, FHA could fulfill the goals of the President's March 2019 request, in the Memorandum on Housing Finance Reform mandate to HUD:

(i) Assuming additional responsibility to develop innovative approaches to reach and serve low- and moderate-income families;
(ii) Reducing taxpayer exposure through more effective risk management practices; and
(iii) Upgrading its technology platform and applications to be more aligned with and keep pace with the private market firms with which FHA does business.

With the additional authority, autonomy, and resources derived from Government Corporation status, FHA could address the various subcategories of issues identified by the President as well. For example, with staffing and legal resources, it would be simple for FHA to tackle the fundamental weaknesses in the HECM program, which stem primarily from severely inadequate servicing policy. With additional staff and technology dollars, FHA could not only assess the risks and benefits of down payment assistance,

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but also develop new rules and controls that would dictate eligible providers, permissible models, and acceptable terms while also collecting critical activity and performance information to continuously improve the programs. With autonomy to manage its programs and staffing and legal resources to carry out the business, FHA could encourage depository institutions to re-enter the FHA marketplace, through clear and consistent application and enforcement of FHA rules that are not only well-publicized, but reinforced through continuous dialogue with the private firms that produce and manage FHA assets.

We thank the President and HUD for the opportunity to offer our thoughts and ideas on the HUD Reform Plan. Should you want additional information or want to discuss any of the issues that were included in the President's Memo, we would be happy to meet with you. Please do not hesitate to call on us; you can contact Meg Burns, our SVP for Mortgage Policy at 202-589-1926.

Yours truly,

Edward J. DeMarco

Edward J. DeMarco
President
Housing Policy Council