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USMI®

U.S. Mortgage Insurers

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2021 Access & Affordability Policy Priorities

PRIMARY ISSUES

Regulatory Priorities
- Loan-Level Price Adjustments (LLPAs)
- Fannie Mae's HomeReady & Freddie Mac's Home Possible
- Coordinated & Consistent Housing Policies

Legislative Priorities
- CARES Act and COVID-19
- Down Payment Assistance (DPA)
- Coordinated & Consistent Housing Policies

SECONDARY ISSUES

Removing Other Barriers to Homeownership
- Housing Supply
- Credit Score Reform
- Student Debt Forgiveness

REGULATORY PRIORITIES

I. Loan-Level Price Adjustments (LLPAs)	
Issue	In 2008, the government sponsored enterprises (GSEs) added LLPAs as a means to stabilize the housing finance system and further shield the GSEs against the risk of mortgage defaults. These crisis-era fees were levied on homebuyers in addition to other fees and costs for managing risk and largely based on two factors – credit score and size of the down payment. These arbitrary upfront fees can impose significant costs on homebuyers and disproportionately affect access to conventional mortgage credit for first-time and other homebuyers without large down payments.
Position	Fees and charges imposed by the GSEs, such as LLPAs, arbitrarily increase costs to creditworthy borrowers, many of whom are traditionally underserved borrowers. While it is essential to carry out prudent lending and underwriting, and to account for the risk of the loans guaranteed by the GSEs, G-fees should be based on transparent actuarial analysis of the mortgage credit risks being incurred and should fully reflect the risk-reducing benefits of MI. Therefore, LLPAs should be reduced or eliminated to reflect the credit risk that is covered by MI on low down payment loans. When the risk-reducing benefits of MI are not factored into GSE fees, consumers are charged twice for the same risk reduction. This double charging is particularly burdensome for low- and moderate- income, underserved, and first-time homebuyers.
Recommendation	GSE fees should be based on transparent actuarial analysis of the mortgage credit risks being incurred and should fully reflect the risk-reducing benefits of MI. MI-protected mortgages should be exempted from LLPAs (or subject to reduced LLPAs) due to their effect of double-charging borrowers, particularly low-income, minority and first-time homeowners.

II. HomeReady/Home Possible	
Issue	The GSEs developed affordable mortgage products – Fannie Mae's HomeReady and Freddie Mac's Home Possible – as a way to better serve creditworthy low- and moderate-income borrowers in traditionally underserved communities. These loan products feature underwriting criteria that allow for the GSEs to acquire and guaranty higher risk loans while also providing benefits to borrowers, including reduced or waived LLPAs, lower mortgage insurance premiums, and down payments as low as 3%.
Position	The HomeReady and Home Possible programs are targeted low down payment programs that offer options and credit flexibilities to help borrowers attain homeownership. In addition to a down payment requirement of as little as 3%, these programs offer consumers more options to responsibly increase homeownership for more borrowers. These programs were introduced in 2014 and grew to roughly 1% of the GSEs portfolio by 2019. In 2019, changes were made to these programs (area median income or AMI maximums) to enhance their focus on low-income borrowers. The GSEs can and should work with lenders, mortgage insurers, and other stakeholders to refine these programs to ensure that borrowers have the best sustainable access to mortgage finance credit, while also ensuring adequate risk protection to the GSEs and taxpayers.
Recommendation	The GSEs could reintroduce programs similar to HomeReady and Home Possible, but these programs should be done in connection with private mortgage insurers and lenders to better tailor risk protection and to better reach underserved borrowers. Further, mortgage insurers can collaborate with the GSEs to identify other similar programs to reach more qualified low-income, minority and first-time homebuyers while ensuring these borrowers are afforded the safeguards to maintain sustainable lending and risk protection to the GSEs from private MI.

III. Consistent & Coordinated Housing Policy: QM Safe Harbor	
Issue	On December 10, 2020, the Consumer Financial Protection Bureau (CFPB) issued a final rule concerning the General Qualified Mortgage (QM) definition that will take effect on July 1, 2021, upon the expiration of the GSE Patch. The new General QM framework replaces the 2013 debt-to-income (DTI) based definition and QM status will now rely on a mortgage's pricing in relation to the average prime offer rate (APOR). The final set the Safe Harbor threshold at 150 basis points (bps) over APOR and the Rebuttable Presumption threshold at 225 bps over APOR. The new price-based General QM will broadly inform underwriting standards and practices across the mortgage market and impact the number and characteristics of borrowers with access to the conventional market.
Position	USMI has a strong interest in ensuring that regulations work to encourage an appropriate balance between consumers' access to affordable mortgage lending, consumer protections, and sustainable homeownership. The distinctions between QM loans with Safe Harbor status and those with Rebuttable Presumption status matter – the dividing line between the two is critical to help maintain the balance between the appropriate consumer protections and access to credit. In this way, it is essential that the CFPB increase the spread that is used to delineate Safe Harbor loans to 200bps over APOR, consistent with the APOR threshold that the CFPB recommended for QM status in its June 2020 Notice of Proposed Rulemaking (NPR) on the General QM definition. While moving this threshold is essential to balance consumer protections with access to credit and create a more consistent and level playing field between the Federal Housing Administration (FHA) and conventional markets, the most important data point to understand and consider regarding the Safe Harbor threshold is the impact on individual borrowers. Based on 2019 HMDA data, approximately $23 billion in GSE purchase origination volume was mortgages with loan-to-value (LTV) ratios above 80% and pricing in excess of 150 bps over APOR Safe Harbor line. Further, Black and Hispanic borrowers were twice as likely as white borrowers in 2019 to have mortgages with pricing spreads in excess of 150 bps over APOR. Under the 2020 final rule, these borrowers would only be left with the option to obtain an FHA-insured loan since many lenders in the conventional market do not want to originate rebuttable presumption mortgages, a result that dramatically decreases these borrowers' competitive choices in terms of lenders and product offerings.
Recommendation	The Biden Administration should revisit the General QM rulemaking and amend the final rule to increase the QM Safe Harbor limit to 200bps over APOR to ensure that qualified borrowers are not limited in their mortgage options because of the arbitrary and misplaced Safe Harbor threshold at 150 bps over APOR.

LEGISLATIVE PRIORITIES

I. COVID-19 Relief	
Issue	On March 27, 2020, the “Coronavirus Aid, Relief, and Economic Security Act” (CARES Act) was signed into law to provide economic stimulus in response to the fallout of the COVID-19 pandemic. The CARES Act included moratoriums on evictions and foreclosure associated with “federally-backed mortgages,” which includes mortgages insured or guaranteed by the GSEs, FHA, Veteran Affairs (VA), and U.S. Department of Agriculture (USDA). Homeowner relief also included the ability to request a 180-day forbearance and a 180-day extension.
Position	USMI supports COVID-19 relief measures for homeowners, particularly the mortgage forbearance programs enumerated in the CARES Act and implemented by Federal Housing Finance Agency (FHFA) and the GSEs. In addition to keeping homeowners in their homes during the pandemic and allowing them to regain financial stability, the forbearance programs have kept the national housing market stable. This has prevented homeowners from losing equity in their homes. USMI members stand behind COVID-19 relief efforts and each MI company has released announcements and provided ongoing information regarding the treatment of loans impacted by COVID-19, including those that receive COVID-19 related forbearance.
Recommendation	Federal policymakers should prioritize forbearance availability and homeowner assistance while supporting broader relief that will help keep future homebuyers on track to homeownership and bolster the overall housing market. It is also imperative that there be clear and consistent communication to borrowers, to ensure they understand their forbearance options as well as what to do and what to expect when they are reaching the end of their forbearance periods.

II. Down Payment Assistance (DPA)	
Issue	Throughout the country, non-profit organizations, as well as states, counties, and cities, operate DPA programs that provide financial assistance for creditworthy homebuyers who lack the funds for a down payment. Eligibility standards and terms vary from program to program and DPA can come in the form of a grant, zero or low interest loan, or mortgage tax credit certificates.
Position	USMI members' businesses are centered around helping low- and moderate-income families attain homeownership with down payments of less than 20% as the industry recognizes that down payment is often cited as the number one barrier to homeownership. That is one reason why we believe that having competitive options, other than just FHA, is critical for first-time, and low- and moderate-income individuals. Down payments do matter – there is ample evidence that borrowers with lower down payments pose additional risk to lenders, the GSEs and the financial system. Therefore, simply eliminating the requirement of a down payment, or not creating a credit risk mitigant and offset for a lower down payment may help the borrower initially but does not create sustainability for the borrower or for the housing finance system. However, there are ways to mitigate this risk and ensure that minority, low- and moderate-income, and first-time homebuyers have access to the conventional market in a sustainable and affordable manner. It is critical to ensure access to tools such as MI supplement DPA programs, where applicable, as well as responsible credit standards and prudent underwriting as part of homeownership strategies that are both accessible and sustainable.
Recommendation	Existing DPA programs – and any expansions – should balance responsible underwriting that promotes sustainable homeownership and access to affordable low down payment mortgages. DPA programs should be targeted to serve the creditworthy borrowers who are unable to attain even a 3% or 3.5% down payment. It is important that DPA programs are structured and operated in a sustainable manner so as to not create excessive leverage and risk within the mortgage finance system, or pose undue risk to taxpayers and the economy, which will ultimately hurt vulnerable homeowners most. As federal policy makers look to increase homeownership, it is essential that it is done in a manner that promotes sustainable homeownership for borrowers, as it does more harm to a family to get into a home that they can then not afford. There are meaningful ways to enhance borrower sustainability, such as by using part of a DPA to establish a reserve account for certain borrowers. Reserve accounts have been proven to be predictive of a borrower's ability-to-repay their loan, and by focusing on reserve accounts, HUD not only prioritizes getting people into homes, but also helping them be successful homeowners.

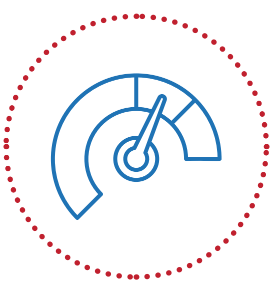
III. Coordinated & Consistent Housing Policy: Complementary Roles for FHA & Conventional Markets	
Issue	Conventional loans with private MI and mortgages insured by the FHA are the two primary methods for Americans to attain homeownership with down payments of less than 20%. Currently, certain federal policies inadvertently and arbitrarily drive volume to a specific program and decrease lender and mortgage products options for some consumers. While some overlap should be expected, federal housing policies should neither encourage inappropriate competition between the conventional and FHA markets, nor shortchange borrowers.
Position	History has demonstrated the harm that underserved communities experience when the mortgage market is bifurcated, and when minority borrowers have fewer options in terms of lenders and product offerings than white borrowers. This is why it is critical that low- to moderate-income, first-time, and minority borrowers should not be left with only the option of an FHA-insured loan. For example, in 2019, there were approximately 3,200 HMDA reporting lenders for conventional purchase loans versus only about 1,200 for FHA purchase loans. The FHA serves an important countercyclical role in the housing finance system; however, it is important that policymakers recognize there is a vibrant conventional market that can serve many borrowers and prudently help them access affordable mortgage finance. This not only ensures these consumers have more competitive options available to them, but also increases taxpayer protection so that private capital can shoulder more of the risk rather than FHA, which is 100% taxpayer-backed. It is important that the FHFA, FHA, and CFPB collaborate to implement a transparent housing policy that promotes access to credit and prudent mortgage underwriting, and creates a level playing field through transparent and consistent standards.
Recommendation	1. The FHA-insured market and the conventional market should complement one another rather than compete. The conventional market – where the credit risk is backed by private capital – is well positioned to play a bigger role in facilitating access to affordable credit. It can do so without unnecessarily increasing the government or taxpayers' risk exposures. 2. FHA should focus on its mission of supporting borrowers who do not have access to traditional financing and utilize proper risk management strategies to ensure it can play its countercyclical role through all market cycles. 3. Instead of asking how FHA-insured lending can be expanded, the debate should revolve around how to prudently make low down payment mortgages more affordable and accessible to ensure risk is being appropriately managed. 4. FHA pricing, most notably the annual mortgage insurance premium (MIP), should be calibrated to reflect the FHA's unique risk profile and ensure the financial health of the Mutual Mortgage Insurance Fund (MMIF) and the FHA's ability to serve new borrowers. Inappropriate MIP reductions could reduce the MMIF's ability to cover future losses and drive up demand, which in turn increases home price appreciation (HPA) further and hurts affordability at the lower end of the market most.

REMOVING OTHER BARRIERS TO HOMEOWNERSHIP

I. **Housing Supply:** All qualified borrowers should have access to the wealth-building and stability that homeownership offers. To meet the housing demands of today's borrowers and future homebuyers, and to ensure there is access to affordable housing, USMI strongly believes the nation must address the critical lack of affordable housing supply. The lack of housing supply for starter homes is particularly acute, and strong demand has driven up prices for entry-level housing to nearly unattainable levels for many first-time and minority homeowners. While shortages are typically associated with urban areas, they are now becoming prevalent in more rural areas.

The year 2020 saw the largest mortgage origination volume since 2003 – for both the conventional and FHA markets – even with unprecedented challenges presented by the COVID-19 pandemic. Despite this record mortgage volume and historically low interest rates, there remain significant housing affordability challenges for many borrowers across the country, including that nationwide HPA has skyrocketed in recent years. Moreover, the segment of the market that has experienced the largest and fastest HPA has been the lower end of the market, which over the last year saw an increase of nearly 11%. A driving force behind the high HPA is the fact that consumer demand continues to outpace new home construction, thereby exacerbating housing affordability by driving up home prices and putting homeownership further out of reach for many prospective homebuyers, most notably for minority and first time borrowers.

There are several reasons for these supply constraints; however, regulatory barriers for building and zoning residential construction, and addressing other regulatory bottlenecks at the federal, state, and local levels are imperative. Further, policymakers must consider other macro-policy issues that directly effects costs of home construction, such as labor issues, and lumber costs. It is imperative that federal, state, and local officials work together to create more consistent and coordinated housing policies, and to identify and reduce or eliminate red tape that only add to the costs of constructing affordable homes.



II. **Credit Scoring:** Today's borrowers are more diverse than the borrowers of previous decades – and the borrowers of tomorrow will be even more. It is critical the housing finance industry continue to evolve to support borrowers and provide mortgage credit access to these diverse groups, while ensuring the guardrails in the housing finance system are in place to protect borrowers, and there continues to be sustainable lending and strong underwriting to ensure viability and sustainability of the housing finance system. Some stakeholders, from both the industry and the consumer community, have advocated for significantly changing credit scoring policies and have promoted new credit scoring models aimed to increase the number of consumers who can be scored.

III. **Student Debt Forgiveness:** Federal policies that reduce or eliminate consumers' current student debt could be a boon for the housing industry since many consumers could use that money to save for down payments. This could especially help millennial and first-time homebuyers who have found it difficult to both pay their monthly student loan bills and save for long term goals such as purchasing a home. While this policy proposal has long been popular in the progressive wing of the Democratic party, it is gaining traction with more moderate (New Dems) and fiscally conservative (Blue Dog) elements of the Democratic caucus in the U.S. House of Representatives. Proposals range from forgiving a certain amount of student loan debt to making it easier for borrowers to refinance given the current historically low interest rates.