



## FHA REFORM: BROKER ORIGINATION OF FHA LOANS

### NAMB Position

A stated objective of the Federal Housing Administration (FHA) is to increase origination of FHA loan products and expand homeownership opportunities for first-time, minority, and low and moderate-income families. NAMB believes the solution to increased FHA loan production is to allow more stores—mortgage brokers—to offer FHA loan products directly to consumers. Today, mortgage brokers originate the **majority** of loans and therefore, provide HUD with the most viable and efficient distribution channel to bring FHA loan products to the marketplace.

Presently, FHA requires mortgage brokers to submit annual financial audits to participate in the FHA program. NAMB believes annual bonding requirements offer HUD a better way to ensure the safety and soundness of the FHA program than requiring originators to submit audited financial statements to HUD. NAMB advocates that FHA replace the annual audit for mortgage broker participation in the FHA program with a surety bond payable to FHA. *Nearly every state has implemented bonding rather than an audit to satisfy licensing requirements. States have found bonding to be the preferred method of recourse for citizens and the lending industry.*

### Issues

- NAMB supports increased access to FHA loans so that prospective borrowers who may have blemished or almost non-existent credit histories, or who can afford only minimal down payments, have increased choice of affordable loan products and are not forced by default to the sub-prime loan market.
- The bonding requirement would increase the amount of competition for originating FHA loans. Current annual audit and net worth requirements are cost prohibitive and time consuming for small business mortgage brokers. The cost of hiring an accountant who meets government auditing standards and the man-hours needed to compile and report the needed data is simply impractical for a small business. As a result, many mortgage brokers decide not to originate FHA loans.
- A surety bond adds an additional layer of protection for consumers and the FHA program that does not currently exist. A surety bond remains intact for its stated existence and is not fleeting. Therefore, a surety bond is reliable where as net worth and audit requirements only establish the ability to recover in the event of a loss for that one moment in time.
- Annual audit and net worth requirements are unnecessary. Originators are already governed by contract agreements with their respective FHA-approved lenders, affording HUD adequate protection against loss. FHA-approved lenders are currently the backstop for liability under the FHA program as the delegated underwriter, and will remain the backstop under a surety bond construct. A surety bond does not alter this current allocation of risk.
- Government auditing standards are designed for large business enterprises. A large portion of those standards cannot be effectively applied to very small businesses such as brokers.
- HUD has never proven, nor even offered evidence, that audited financials and net worth requirements have any relationship to loan performance and loan origination quality.
- HUD's net worth requirement is of little value for indemnification because a company in trouble can easily dissipate its net worth. Because the net worth for brokers usually needs to be in cash, it tends to destabilize a small business by robbing it of needed operating funds.
- Make permanent the temporary FHA loan limit increases included in H.R. 5140, the "Economic Stimulus Act of 2008."

## **Status / Outlook**

NAMB continues to work with key members and staff of the House of Financial Services Committee and the Senate Banking Committee on draft legislation that will broaden the scope of the FHA program and aid in expanding homeownership through increased origination of FHA loans.

On January 9, 2009, NAMB Past-President George Hanzimanolis testified before the House Financial Services Committee at a hearing entitled, "FHA Oversight of Loan Originations." The testimony stressed four main issues:

- Removal of the \$250,000/\$63,000 net worth;
- Require FHA originator applicants to be on an individual basis and subject to registry requirements of the SAFE Act;
- Update the Neighborhood Watch Early Warning System; and
- Increase the efficiency and speed of reviews performed by the Mortgagee Review Board.