



September 17, 2008

The Honorable Steve Preston
Secretary
U.S. Department of Housing and Urban Development
451 Seventh Street, S.W.
Washington, D.C. 20410

Dear Secretary Preston:

The Mortgage Bankers Association (MBA)¹ supports the Federal Housing Administration (FHA) in its efforts to assist delinquent borrowers through *FHASecure*. MBA believes the *FHASecure* program brings value to distressed borrowers and the mortgage market and that *FHASecure* should continue to operate and make FHA-insured loan refinancing available to delinquent borrowers. However, MBA also believes that *FHASecure* should be expanded to increase the number of distressed borrowers eligible for the program. Some recommended options are listed below.

FHA staff recently asked whether *FHASecure* should continue to be offered while the Hope for Homeowners program (HFH) is being established.² While the HFH program will be another positive loss mitigation tool, we believe it will be geared toward a different borrower population. In many ways *FHASecure* is a more flexible product. The program design is not set in statute and permits bifurcation of the mortgage, among other positive features. This flexibility justifies its existence during this time of elevated delinquencies. As a result, the *FHASecure* program needs to be extended beyond the current sunset date of December 31, 2008, and should remain a viable program until the current crisis subsides.

HUD and *FHASecure* are part of the solution, especially when capital is scarce and troubled borrowers are in need of help. Analysis shows FHA applications have increased 142 percent during the week of August 15, 2008, when compared to the same week one year ago. It is our understanding that FHA refinances now comprise over 80 of all FHA endorsements.

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 370,000 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 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 over 2,400 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

² Sections 1401 – 1404 of P.L. 110-289 (July 30, 2008).

While FHA endorsements have risen, many borrowers continue to experience difficulties in making their regular mortgage payments. These same borrowers might be suitable for an FHA-insured loan under *FHASecure* if the program is expanded. FHA has the authority to make changes to the program's underwriting to allow more distressed borrowers to qualify. MBA would support the following changes and encourages the Secretary to consider these recommendations:

- **Permit delinquent fixed-rate loans to be eligible** – Currently, FHA allows delinquent borrowers with adjustable-rate loans to refinance into *FHASecure* mortgages under certain conditions. Delinquent borrowers with fixed-rate mortgages are not currently eligible. Nonetheless, many borrowers with conventional fixed-rate products have experienced financial hardships for the same extenuating circumstances as ARM borrowers. We recommend that *FHASecure* be expanded to allow the refinance of delinquent conventional fixed-rate loans with extenuating circumstances.
- **Allow delinquencies prior to reset and for reasons other than a rate reset on Interest Only and Payment Option mortgages** – While interest rate changes are one factor affecting delinquency and foreclosure rates, other factors are also impacting these figures. Many borrowers are experiencing financial hardships for reasons other than rate resets. As a result, we recommend that FHA eliminate the requirement that borrowers be current six months prior to rate reset on Payment Option mortgages and Interest Only mortgages. Instead, we recommend that borrowers demonstrate that their delinquencies were due to extenuating circumstances and that they are now capable of affording the new *FHASecure* loan. Similarly, we recommend that FHA eliminate the requirement that lenders demonstrate that a delinquency post-reset was due to an interest rate change, as it is extremely hard for an originator to document. In many cases, the borrower does not become immediately delinquent, but relies for some period of time on savings or investments, making it hard to clearly evidence the reason for default.
- **Reducing the risk of late endorsements** – Lenders must have assurances that FHA will not change its late endorsement policy to require a six-month good payment history. Such a requirement would increase the credit risk to the servicer and reduce the effectiveness of the program.
- **Increase the debt-to-income (DTI) ratio and permit 40-year amortization** – In an effort to help more distressed borrowers, we recommend raising the published DTI threshold and permitting 40-year amortization mortgages. We would welcome further discussions on this issue.
- **Create appropriate compensating factors** – Current borrowers and certain delinquent borrowers are eligible for *FHASecure* even if their DTIs exceed 31/43 percent, provided, however, that there are compensating factors. Those factors are designed for purchase money transactions and not for delinquent refinances. MBA urges FHA to publish compensating factors that more appropriately deal with the *FHASecure* product. MBA is exploring alternatives and will provide recommendations in the near future. In addition, we urge FHA to consider appropriate compensating factors for borrowers that are 90-

days delinquent. Currently, this category of borrower is not eligible to exceed the DTI ratios for any reason.

- **Pool certain refinances with simultaneously created seconds into Ginnie Mae I and II** - Today, a current borrower can refinance his or her first lien mortgage into an FHA-insured loan even when there is a preexisting second that is “underwater.” These loans are eligible for pooling into Ginnie Mae I and Ginnie Mae II. However, a current borrower who refinances a loan into an *FHASecure* mortgage with a simultaneously created “underwater” second must be pooled into a multiple issuer specified Ginnie Mae II M FS pool. Price is significantly worse on these securities, resulting in higher interest rates to borrowers. Assuming no other material underwriting distinction, borrowers in both scenarios are similarly situated from a credit risk perspective. As a result, we request that Ginnie Mae consider pooling *FHASecure* loans made to current borrowers with newly created seconds into Ginnie Mae I and Ginnie Mae II.
- **Allow more severe delinquencies** – Currently, borrowers who are more than 90-days delinquent are not eligible for *FHASecure* even if the new monthly payment under the *FHASecure* loan would make the loan affordable and resolve the delinquency. We request that FHA consider allowing more severe delinquencies to be eligible for *FHASecure*.

Once again, these expansions will help more distressed borrowers recover from their hardship and enjoy the benefits of an FHA-insured mortgage. Should you have any questions please contact Vicki Vidal, Associate Vice President of Loan Administration at (202) 557-2861 or vvidal@mortgagebankers.org. We welcome the opportunity to work together to achieve important enhancements to this critical program.

Sincerely,



John A. Courson
Chief Operating Officer

cc: The Honorable Brian Montgomery
The Honorable Joseph Murin
Margaret Burns
Vance Morris
Steve Ledbetter