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CHLA Report on Independent Mortgage Bankers (IMBs)

September 2017

IMBs Lead the Way:

Access to Mortgage Credit; Personalized Origination and Servicing

Community Home Lenders Association (CHLA)
September 5, 2017

Preface

The Community Home Lenders Association (CHLA) is the distinct national voice and advocate for small and mid-sized independent mortgage bankers (IMBs), and the only national association that exclusively represents non-bank mortgage bankers. CHLA educates Congress and federal agencies on how IMBs led the way in making affordable mortgage loans, particularly for 1st-time homebuyers, as many banks exited the market after the 2008 Housing Crisis.

CHLA is pleased to release its inaugural annual Report on IMBs - highlighting the critical importance of independent mortgage bankers to consumers, to mortgage markets, to the housing market, and ultimately to the economy.

Banks and credit unions (depository institutions) and investment banks provide the great majority of credit for our nation's businesses and individuals. However, the mortgage market is different. **A majority of new mortgage loans are now being originated by non-bank lenders (IMBs).**

IMBs are also important and distinct for a number of other reasons:

- IMBs are the true small businesses in the mortgage market;
- IMBs are heavily regulated, yet they are not backed by taxpayers - unlike banks (whose deposits are FDIC-insured) or investment firms (whose clients accounts are SIPC-insured);
- Since the 2008 housing crisis, IMBs have significantly increased their market share of mortgage lending, as many banks exited the market or imposed credit overlays; and
- IMBs – particularly small and mid-sized lenders - provide more personalized service (both in mortgage origination and servicing) than the large, national banks and other national lenders.

This CHLA report explains:

1. **Who IMBs are,**
2. **IMBs' critical role in the mortgage market,**
3. **How IMBs are regulated at both the federal and state level, and**
4. **Key mortgage issues before Congress and federal agencies affecting IMBs.**

The report concludes by outlining CHLA's Policy Agenda, which distinctly reflects the interests and priorities of IMBs at the federal level.

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Who Independent Mortgage Bankers (IMBs) Are

Small Businesses
IMBs are small businesses that originate mortgage loans and service those loans.

Not Taxpayer Insured
Unlike banks that have deposits backed by the taxpayer (FDIC), IMBs rely on their own capital, plus outside loans, commonly from warehouse banks. IMBs' success is based on personal relationships and financial stability; they put their reputation and capital on the line every day.

Extensively Regulated
Non-bank IMBs are arguably the most heavily regulated type of mortgage lender. IMBs are: (1) regulated by the CFPB, (2) regulated by every state they do business in, and (3) regulated by federal lending programs they utilize (FHA, RHS, VA, Fannie, Freddie). Moreover, every mortgage loan originator (LO) at an IMB must (a) pass the SAFE Act test, (b) pass an independent background check, (c) complete 20 hours of SAFE Act pre-licensing courses, and (d) complete 8 hours of annual continuing education. LOs at banks and credit unions are EXEMPT from ALL of these requirements.

Committed to Mortgage Lending
IMBs' primary or only business is mortgage lending, not cross selling other products like credit cards, insurance, or stocks and bonds. When the 2008 housing crisis hit, many banks left the mortgage business when it did not meet their return on investment requirements. IMBs stepped up their efforts to keep mortgage credit flowing – because that is what they do for a living.

Committed to Local Communities
As small businesses located in the community, IMBs create local jobs and serve borrowers who live in the community. Unlike large impersonal national mortgage loan servicers, IMBs keep the servicing of these loans local and personalized. In the aftermath of the 2008 housing crisis, IMBs worked closely with defaulted borrowers – while complaints about the big banks proliferated.

What IMBs are Not
- **IMBs are not Wall Street.** They did not slice and dice the kinds of exotic or risky mortgage backed securities (MBS) that brought down the mortgage market in 2008.
- **IMBs are not mortgage brokers.** They close all their loans with their own funds, and are directly accountable for the quality of loans they underwrite (indemnification in the case of FHA and reps and warrants in the case of Fannie Mae and Freddie Mac loans).
- **IMBs are not typically portfolio lenders.** A majority of mortgage loans that IMBs underwrite are through lending programs like the Federal Housing Administration (FHA), Rural Housing Service (RHS), Veterans Administration (VA), Fannie Mae and Freddie Mac. These programs have strict underwriting standards, and net worth requirements that IMBs must follow.

IMBs' Response to the Housing Crisis

Causes of the Housing Crisis

While public debate continues about the origins of the housing crisis, there is little dispute that major factors leading to the crisis were: (1) the explosion of the subprime mortgage market through the funding and securitization of risky mortgage loans by the large investment banks, (2) rating agencies inappropriately rated the resulting MBS, and (3) banks, insurers like AIG, and other investors either investing in or guaranteeing these risky MBS. To maintain market share, Fannie Mae and Freddie Mac got into trouble through Alt A loans and risky MBS purchases.

Like all other mortgage loan originators, IMBs participated in underwriting some subprime loans. However, their role was dwarfed by the origination levels of banks and mortgage brokers.

Moreover, AIG, major investment banks, and large FDIC-insured banks received hundreds of billions of dollars in US taxpayer bailout assistance through TARP and Federal Reserve advances. In contrast, IMBs did not receive taxpayer assistance – and do not pose a systemic risk.

Response to the Housing Crisis – IMBs Lead the Way on Access to Credit

- The turbulence of the housing crisis resulted in the collapse of Private Label Securities (PLS). FHA, Fannie Mae and Freddie Mac stepped in to insure or purchase most new mortgage loans.

- **Many large banks scaled back their mortgage business.** For example, Bank of America terminated their correspondent lending business for smaller originators. And, many banks imposed credit overlays, even for FHA-insured loans - limiting mortgage loans to only the highest FICO or credit quality borrowers.

- **While banks were retreating from mortgage lending, IMBs filled the resulting mortgage access to credit gap through increased levels of mortgage origination.**

- This is confirmed in an August 2017 Urban Institute Report entitled *"Housing Finance at a Glance."* In a section entitled **"The Growing Importance of Nonbanks in the Mortgage Market,"** the Urban Institute Report states that ***"Nonbank financial institutions have played an increasingly important and growing role in servicing and originating mortgages in the post-crisis years.*** *. . . But the role of nonbanks goes beyond just originating more mortgages.* ***They have also played an important role in easing access to mortgage credit."***

- **Nonbanks also led the way in providing mortgage credit for first-time homebuyers and low- and middle income borrowers.** The same Urban Institute Report states that **". . . the median FICO score for nonbank originations has been consistently less than the median FICO for bank originations for all three agencies"** [referring to Fannie, Freddie and GNMA]. The report also notes that **"the median DTIs of non-bank loans are higher, indicating the nonbanks are more accommodating in the DTI dimension as well as the FICO dimension."**

- Finally, regarding mortgage servicing, the great majority of post-crisis consumer complaints and large servicing fines and settlements were focused on the largest bank mortgage lenders. **IMBs were generally credited with better, more responsive servicing, including better loss mitigation to keep distressed borrowers in their home.**

IMB Share of the Mortgage Market Has Grown Significantly

The retreat of banks from mortgage lending and the extent to which IMBs stepped up efforts to provide mortgage credit to fill the gap is backed up by hard market share analysis.

BROAD MORTGAGE MARKET:

- The August Urban Institute Report provides market share tables and says: ***"Within the agency space (i.e. Fannie Mae, Freddie Mac and Ginnie Mae-backed loans), the share of mortgages originated by nonbanks has doubled from 30 percent in 2013 to 60 percent in 2018."***

FANNIE MAE AND FREDDIE MAC

- **Fannie Mae:** The August Urban Institute Report states that: ***"Nonbanks currently account for 50 percent of Fannie Mae purchases (up from 37 percent in 2013). . .."***

- **Freddie Mac:** The August Urban Institute Report states that: ***"[Nonbanks currently account for] 47 percent of Fannie Mae purchases (up from 17 percent in 2013)."***

FHA

As the Administration's FY 2018 Budget notes, "*The Federal Housing Administration (FHA) provides mortgage insurance to encourage lenders to make credit available to borrowers for whom the conventional market does not adequately serve. These include first-time homebuyers, minorities, lower-income families, and residents of under-served areas (central cities and rural areas)."* Historically, FHA has served a disproportionate portion of 1st time homebuyers, thus playing a critical access to credit role in promoting homeownership and stabilizing housing prices.

In May, CHLA released data and charts from FHA and GNMA showing the dramatic increase in non-bank market shares in these programs. These charts are shown on pages 7 and 8 of this Report.

- **The chart on page 7 shows that the IMB non-bank market share of FHA has increased from 57% in 2010 to 85% in 2016. Historical data going back several decades shows that IMBs have always played a critical role in FHA lending - consistently averaging over 50% of the FHA market. But the chart shows that nonbanks are now dominating FHA lending.**

GNMA

GNMA facilitates a secondary market for FHA, Rural Housing Service (RHS) and Veterans Administration (VA) mortgage loans – through issuance of GNMA-backed securities.

- **The chart on page 8 shows that IMB non-bank market share of GNMA issuance increased in that same period, but in a more dramatic fashion – from 12% in 2010 to 73% in 2016.**

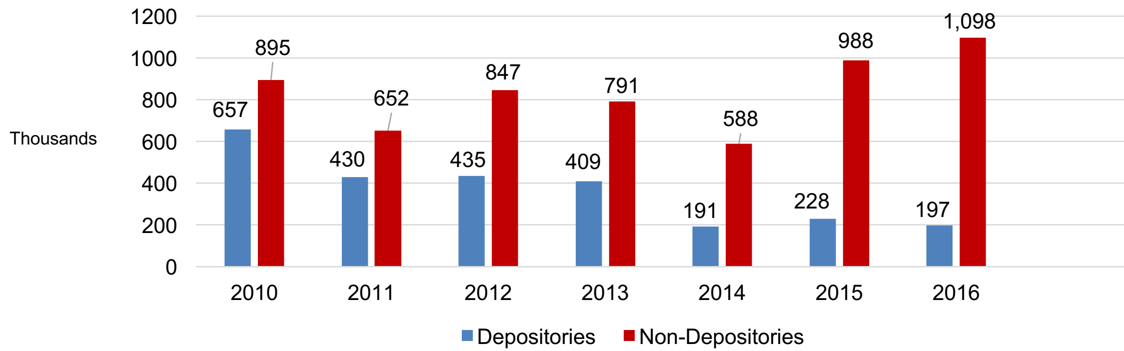
  This increase is more dramatic than the FHA increase. CHLA believes GNMA growth is due to two factors. As noted in the chart on page 7, the nonbank share of the FHA market has grown measurably during the period. Secondly, as banks left the correspondent loan business, more IMBs began using GNMA to securitize their FHA loans through GNMA issuance**.**

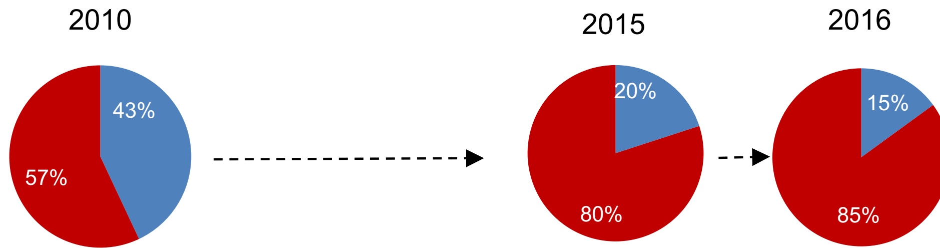
IMB SHARE OF FHA MARKET

1

Federal Housing Administration Endorsements: 2010 - 2016

Originator Profile: Non-Depository vs. Depository

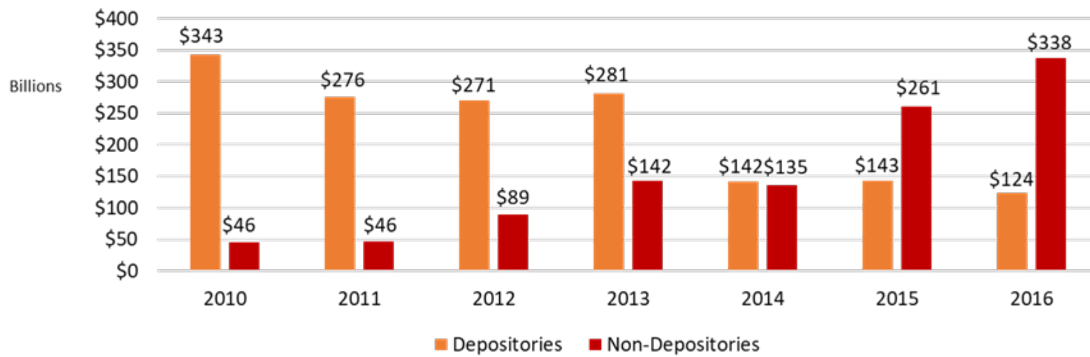




Source: FHA. Numbers of Loans in Thousands

IMB SHARE OF GNMA MARKET

Ginnie Mae



Source: GNMA. Dollar Amounts in Billions

IMBs are Extensively Regulated

The 2008 housing crisis showed that even the largest financial institutions can have financial and consumer problems – which led to many new regulations. Unfortunately, for some, the myth that non-bank mortgage lenders are not fully scrutinized persists. But this perspective is contradicted by the facts. The following four pages extensively compare regulation of banks vs. non-banks. **Not only are IMBs extensively regulated - in many areas they are more regulated than banks.**

IMB Loan Originators Meet MUCH More Rigorous Standards than Bank Loan Originators

In order to be licensed as a mortgage loan originator (LO) at a non-bank, every LO must:
(1) complete 20 hours of pre-licensing SAFE Act courses, (2) pass the SAFE Act Test, (3) pass an independent background check, and (4) complete 8 hours of SAFE Act continuing education courses each year. **In contrast, all bank and credit union LOs are exempt from all four of these requirements – and thousands of registered bank LOs have actually failed the SAFE Act test.**

IMBs Are subject to Duplicative Consumer Regulation – Unlike 99% of Banks

IMBs are subject to regulation and supervision by every state in which they do business. With regard to the broad range of consumer rules, expanded by Dodd-Frank, **IMBs are also subject to duplicative supervision and enforcement by the CFPB. In contrast, 99% of banks are exempt from CFPB supervision and enforcement**. Commenting on this issue, the June 2017 Treasury Report on regulation stated that ***"The CFPB's supervisory authority is duplicative and unnecessary"*** – calling it ***"unjustified as applied to non-banks"*** and noting that before Dodd-Frank, these companies were regulated by the states which continue to license them and supervise them.

IMBs Are subject to Extensive Regulation as Underwriters of FHA, RHS, VA, Fannie/Freddie Loans

A majority of loans originated by IMBs involve federal loan programs – FHA, RHS, VA, Fannie Mae and Freddie Mac. These programs impose strong net worth and operational requirements governing both mortgage loan origination and servicing – which apply almost identically to non-banks and banks. These programs also impose financial penalties for faulty underwriting: indemnification in the case of FHA and reps and warrants for GSE loans.

IMBs Are subject to All the Federal (and State) Consumer Mortgage Rules

IMBS are subject to all the consumer protection rules that apply to all mortgage lenders, including RESPA, QM, LO Comp, Anti-Steering, TRID, HOEPA, TILA servicing requirements, and others.

IMB Financial Regulation Differs from Banks -- Because there is no Federal Taxpayer Backstop

Non-bank mortgage lenders are subject to net worth, liquidity, and bonding requirements set by the states they do business in, as well as periodic state exams. They are also subject to significant financial scrutiny by warehouse lenders that fund them. It is true that financial supervision of IMBs is not as rigorous as financial supervision of banks. There is a simple reason for this difference: **Bank deposits are guaranteed by the FDIC, and ultimately federal taxpayers; IMB assets are not.** And, non-bank mortgage lenders have a single product line (mortgage origination and servicing), while banks offer a wide range of financial products and services, which requires more supervision.

REGULATORY COMPARISON ---
NON-BANK MORTGAGE LENDERS AND BANKS - Single Family Mortgage Loans

Community Home Lenders Association
[First Released 9/2/15] [Updated 9/5/17]

CONSUMER REGULATION

	NON-BANKS	BANKS
SAFE ACT: Mortgage Loan Originator Requirements	**<u>Every</u> individual Mortgage Loan Originator at a non-bank must:** *** Must be licensed under state law** *** Complete SAFE Act Mortgage Test** *** Complete 20 hours SAFE Act Pre-licensing Courses** *** Complete 8 hours/year of SAFE Act Continuing Education** *** Pass an Independent Background check** *** Additional state requirements**	**Loan originators working at a bank:** *** Must be registered as a loan originator** *** EXEMPT from SAFE Act Test** *** EXEMPT from Pre-Licensing Requirement [training required commensurate with job]** *** EXEMPT from Continuing Education** ***EXEMPT from independent background check; the bank must conduct its own background check**
CFPB Enforcement and Exams	**<u>All</u> non-bank mortgage lender/servicers are subject to CFPB enforcement and exams– covering compliance with RESPA, LO Comp, servicing, and all other statutory mortgage requirements**	**EXEMPTION: 99% of all banks are exempt from CFPB enforcement [i.e. banks with under $10 billion in assets are exempt]**
Consumer Compliance by Primary Regulator	**Non-bank lender/servicers are subject to regulation and periodic consumer compliance exams (RESPA, LO Comp rules, servicing requirements, etc.) in every state in which they do business.**	**IDENTICAL – except these exams are conducted by their banking regulator.**
Dodd/Frank Provisions	**Non-bank servicers are subject to all Dodd-Frank consumer protections – RESPA, TILA, LO Comp rules, predatory lending prohibitions, and Reg Z and X servicing requirements (except that some exemptions exist for servicers servicing fewer than 5,000 loans)**	**IDENTICAL**

Servicing Net Worth/Liquidity Requirements

	NON-BANKS	BANKS
GINNIE MAE (GNMA)	* Net Worth Requirement - $2.5 million, plus .35% (35 basis points) of GNMA combined securities obligations and commitment authority * Liquidity Requirement: Liquid assets of at least the greater of $1 million or .1% (10 basis points) of GNMA securities obligations * Capital Requirement: 6% Net Worth/Total Assets Ratio * Quality Control (QC): Required QC plan - underwriting, origination, servicing and secondary marketing * Must meet GNMA requirements for bond administration, delinquency guidelines, and others	* Generally have to be "Well Capitalized," in accordance with bank regulatory standards * SIMILAR * SIMILAR
Fannie/ Freddie/ FHFA	* Net Worth Requirement: $2.5 million, PLUS a dollar amount that represents .25% of the unpaid principal balance (UPB) of the seller/servicers' total portfolio of 1-4 unit residential mortgage loans for which the entity is obligated to service. * Liquidity Requirement: .035% (3.5 basis points on total agency (combined Fannie, Freddie, and GNMA) serviced loans PLUS 2% (200 basis points) of non-performing agency loans that exceed a 6% default ratio * Seller-servicer Agreement spells out origination and servicing responsibilities, including Quality Control * Extensive audits of loan files * Repurchase Obligation if underwriting rules not followed	* SUBSTANTIALLY SIMILAR, except banks are permitted to use assets and capital from their banking operations to qualify
Non-Agency	* There is no national standard; each state can set forth its own requirements. * CSBS has proposed new model prudential servicing standards for non-bank lender/servicers, comparable to FHFA standards.	*Federal banks are not subject to state regulations regarding servicing net worth or liquidity requirements. * State banking requirements vary by state

Loan Origination Net Worth and Operational Requirements

	NON-BANKS	BANKS
FHA	* Net Worth Requirement of $1 million + 1% of FHA loans > $25m [up to max of $2.5 m] * FHA approval of a Quality Control (QC) Plan * Credit Watch – loan default performance must be within reasonable numerical bands * Individualized loan (PETR) reviews * Audits of FHA loans; and HUD IG audit authority * Indemnification of losses where lender did not follow FHA loan underwriting guidelines *Enforcement authority over FHA requirements	* SIMILAR
RHS	* Must be approved for loan origination or servicing by FHA, VA, Fannie Mae, Freddie Mac, or the Farm Credit System * Must have a quality control (CQ) plan * Periodic compliance reviews	* IDENTICAL. Banks also deemed approved if supervised by the FDIC, Federal Reserve, OCC, or Federal Housing Finance Board. * IDENTICAL * IDENTICAL
VA	"Non-supervised" VA approved lenders must have a minimum net worth of $250,000 and have unrestricted credit lines of at least $1 million	* SAME
Fannie/ Freddie/ FHFA	* See previous Servicing section for their requirements	* See previous Servicing section for requirements
Non-Agency	* PORTFOLIO – No mortgage specific regulations – except few non-banks originate mortgages for portfolio *MBS – Subject to securities regulation	* PORTFOLIO – no mortgage specific regulations * MBS – Subject to securities regulation

	NON-BANKS	BANKS
Net Worth & Liquidity Requirements and Examinations	*** Non-bank mortgage lenders are subject to net worth, liquidity, and bonding requirements set by the states in which they do business, and periodic state exams** **These requirements are appropriate in light of their risk, and the fact that unlike banks, their deposits are not guaranteed by the FDIC, and ultimately federal taxpayers** **Moreover, non-bank mortgage lenders have a single product line – mortgage origination and servicing – and many predominately originate federally guaranteed loans** *** Impact of non-bank lender going out of business:** **1. Servicing advance obligations and MSR transfers**– Per above, GNMA, FHFA/GSE, and state regulations protect consumers and the agencies with respect to these obligations **2. Indemnification/repurchase obligations**– Per above, GNMA and FHFA/GSE regulations protect agencies from counterparty risk, and aggregators and securitizers set standards for non-agency loans to address their counterparty risk **3. Other Impacts:** All losses are absorbed by private parties – the owner(s) of the firm (who may also have other assets at risk through a personal guarantee) and other parties (warehouse lenders, counterparty entities). There is no federal taxpayer impact Thus, the main impact of a non-bank mortgage lender failure is that they will no longer be able to originate mortgage loans	*** Banks are subject to net worth and safety and soundness regulations, and periodic bank examinations by their respective bank regulator** **These are driven by federal taxpayer exposure through a guarantee of their deposits by the FDIC** **Regulation also addresses risk of other products and activities that banks engage in, such as construction lending, small business loans, etc.** *** Impact of bank going out of business:** **1. IDENTICAL** **2. IDENTICAL** **3. Other Impacts of bank failure:** FDIC resolution kicks in, to protect taxpayers in conjunction with the FDIC guarantee of bank deposits

Legislation of Importance to IMBs

GSE Reform

On July 20, 2017, six small lender groups, including CHLA, testified before the Senate Banking Committee to present important small lender priorities in GSE reform legislation. These include:

- **Full Small Lender Access**. A reformed system must maintain full small lender access to the Cash Window and preserve fully competitive securitization options to maximize competition.
- **Recapitalizing the GSEs Under a Utility Model**. The GSEs should be recapitalized so they can maintain their securitization role – with a Utility Model to avoid a repeat of pre-crisis excesses.
- **Prohibit Vertical Integration**. The large vertically integrated Wall Street Banks should not be able to use their securitization powers to control or gain an advantage in mortgage origination.
- **Risk Sharing that protects taxpayers and small lenders**. Risk sharing should not be done in a way that hurts small lender access. In particular, CHLA is concerned about up-front risk sharing.
- **G Fee Parity [i.e. no volume discounts].** There was a consensus among hearing witnesses and support by many Committee members for continuation of the current policy that provides for equal G Fee pricing for all lenders, a statutory provision scheduled to expire in 2021.
- **Legislation should build on current system, and not be overly complicated or disruptive**. The housing market is critical to the economy, so reform should not be disruptive, but transitional.

Financial Choice Act/Regulatory Reform

On June 8, 2017, the House of Representatives passed H.R. 10, the Financial Choice Act, by a vote of 233 to 186. This legislation includes a number of provisions that would affect IMBs.

- **CFPB Exam Exemptions**. Eliminates CFPB authority to conduct exams.
- **UDAAP.** Eliminates CFPB authority to take action against firms based on Unfair Deceptive or Abusive Acts or Practices (UDAAP).
- **Third Party Vendor Audits**. Eliminates CFPB authority to conduct audits of third party vendors.
- **CFPB Accountability**. Includes provisions to make the CFPB more accountable, such as making CFPB funding subject to appropriations and allowing the Director to be removed without cause
- **Transitional Licensing**. Grants mortgage loan originators that work at a bank or other depository institution a transitional period to work for a non-bank, to give them time to complete the far more rigorous loan qualification requirements that apply to non-bank LOs.

Targeted CFPB Enforcement Exemption for Small IMBs [Williams Bill]

H.R.1964, the "Community Mortgage Lender Regulatory Act of 2017" (sponsored by Rep. Williams [R-TX]) would provide a targeted CFPB exemption for smaller IMBs. This bill would provide a parallel exemption to the one community banks now have – and is consistent with statements in the recent Treasury Department regulatory report about duplicative CFPB enforcement of non-banks. For qualified smaller IMBS, the CFPB could not conduct exams, carry out third party vendor audits, or take enforcement action (except with a referral from a state or other federal regulator).

Extension of Flood Insurance. On September 30, the National Flood Insurance Program (NFIP) is scheduled to expire unless Congress re-authorizes and extends the program. In the wake of Hurricane Harvey, such action is more important than ever.

Federal Agency Issues of Importance to IMBs

Federal Housing Administration

- **Premiums**. Premium levels are still higher than pre-crisis levels. The prior Administration initiated a 25 basis point cut in annual premiums, but the current Administration suspended it.
- **Life of Loan.** Many groups want the FHA to reverse the 2013 action by the prior Administration to end the longstanding practice of terminating premiums when a loan pays down to 78% LTV.
- **Technology Fee**. The FY 2018 budget proposed a 4 basis point fee to pay for FHA technology upgrades – a fee that would ultimately be passed along to borrowers.
- **Lender Loan Assumption Fee.** Last year, FHA raised the permissible lender assumption fee to $900. CHLA believes this amount is still well below the lender cost of executing an assumption.
- **Balanced Indemnification Policy/Quality Assurance/Ending False Claims Act enforcement**. With default rates low and FHA performance strong, many groups are calling for an end to the use of the False Claims Act – as well as maintaining balanced QA and indemnification policies.

Federal Housing Finance Agency

- **Suspend Dividends/Avoid a Treasury Advance**. FHFA Director Watt has called the GSEs' lack of capital caused by the Sweep Agreement their "most serious risk." Many groups are calling on FHFA to suspend dividends to build a modest capital buffer to avoid a Treasury advance.
- **Developing a Capital Restoration Plan for Fannie and Freddie**. It is now more than 9 years since Fannie and Freddie entered conservatorship – yet FHFA has yet to even begin work on developing a plan to end conservatorship, a step that would help Congress on GSE reform.
- **Maintaining G Fee Parity**. Many groups support G Fee parity. CHLA believes equitable lender treatment should be extended to other areas such as DU/LP waivers and reps and warrants.
- **Conducting Risk Sharing in a Neutral Manner.** Fannie and Freddie do risk sharing on the great majority of new loans. This should be done in a way that preserves full lender access.
- **Alternative Credit Scoring Models**. Many groups and some in Congress are calling on FHFA and the GSEs to accelerate efforts to develop alternative credit scoring models.
- **Common Securitization Platform (CSP) and Single Security.** Work continues on this, though many groups are concerned about calls to turn this over to the large Wall Street Banks.

GNMA

- **Non-bank issuer Supervision**. GNMA has raised concerns about growth of non-bank issuance. GNMA supervision should be balanced and proportionate to lender size and issuance.

CFPB

- **Regulation, Supervision, and Enforcement of IMBs**
  (1) Exams
  (2) Third Party Vendor Management Audits
  (3) Enforcement [and concerns about so-called "Regulation by Enforcement"]
  (4) TRID
  (5) HMDA
  (6) Providing Adequate Guidance on Mortgage Rules

- **SAFE Act Parity – LO Comp Rule**. Dodd-Frank added a provision requiring that all mortgage loan originators, including those that work at banks, be "qualified." However, the CFPB failed to impose even a basic requirement that all loan originators must pass the SAFE Act test.

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CHLA 2017 POLICY AGENDA

The Community Home Lenders Association is the distinct national voice and advocate for small and mid-sized independent mortgage bankers (IMBs), and the only national association that exclusively represents non-bank mortgage bankers. CHLA educates Congress and agencies on how community-based IMBs are leading the way in providing affordable mortgage loans, particularly for first-time homebuyers, as many banks have exited the market after the 2008 Housing Crisis.

Following are key CHLA policy priorities to improve access to mortgage credit for consumers:

REGULATORY RELIEF FOR IMBs

IMBs are the most regulated segment of the mortgage industry, subject to supervision and enforcement by every state they do business in - and unlike 99% of banks, regulated by the CFPB. Further, unlike **all** banks, IMBs must meet all SAFE Act requirements. CHLA supports more balanced, uniform regulatory treatment:

- **HR 1964 [Rep. Williams (R-TX)] – legislation exempting small IMBs** *(less than $50 million net worth and fewer than 25,000 loans/year)* **from CFPB exams and enforcement actions**.
- **Opportunity for small/mid-sized IMBs to correct CFPB compliance problems** prior to imposition of fines and enforcement action - similar to how banks and credit unions are regulated.
- **SAFE Act Parity**. Borrowers should have the same consumer protections whether a mortgage loan is originated by a bank, credit union, or IMB. At a minimum, mortgage loan originators that work for banks and CUs should be required to pass the SAFE Act test and an independent background check in order to be registered to originate loans, just as all IMB loan originators must now do.

FEDERAL HOUSING ADMINISTRATION

Since the FHA Fund is strong and defaults are at record lows, FHA should stop overcharging borrowers:

- **Reduce annual premiums** on FHA loans - from 85 to 55 basis points.
- **End Life of Loan Premiums** - revert to pre-2013 policy, by terminating the charging of premiums when a loan pays down to 78% of value (as is required for PMI for non-FHA loans).
- **Raise permissible lender fee for loan assumptions** from $900 to $3,000.

FANNIE MAE AND FREDDIE MAC

In March, CHLA released a comprehensive plan to reform the GSEs. CHLA's plan is the most effective plan in terms of putting the interests of small and mid-sized IMBs first – including formal protections to ensure IMB competitiveness for both cash window and securitization execution. Plan components are:

- **FHFA suspension of dividends** to build a capital buffer and avoid a Treasury advance.
- **FHFA to develop a capital restoration plan** for Fannie/Freddie to exit conservatorship.
- **A true utility model** – excluding Wall Street Banks from **any** financial interest in new charters to compete with Fannie and Freddie and gain an advantage in the primary market.
- **Formal small lender protections regarding risk sharing** - a prohibition on up-front risk sharing, a ban on volume discounts, and real protections against vertical integration.
- **Codifying and making taxpayer reforms permanent**: risk sharing, portfolio limits, bans on no doc loans, strong underwriting standards, and a strong regulator (FHFA).