



May 9, 2019

The Honorable David Price
Chairman
House Appropriations Subcommittee on
Transportation, Housing and Urban Affairs
2108 Rayburn House Office Building
Washington, DC 20515

The Honorable Mario Diaz-Balart
Ranking Member
House Appropriations Subcommittee on
Transportation, Housing and Urban Affairs
440 Cannon House Office Building
Washington, DC 20515

The Community Home Lenders Association (CHLA) writes to urge appropriators to take two important actions in the FY 2020 THUD appropriations bill: (1) authorize a higher pay scale for the Federal Housing Administration (“FHA”) commensurate with higher pay scales for other federal financial regulators and (2) re-authorize lapsed funding authority under the 2008 HERA statute for critical FHA technology upgrades.

CHLA is composed of small and mid-sized non-bank mortgage lender/servicers, and is the only national association that exclusively represents independent mortgage bankers (IMBs), which currently originate over 80% of new FHA loans.

These two proposals would enhance FHA’s ability to manage this mortgage program, which plays a critical role in access to mortgage credit for low and moderate income, minority, veteran, rural, and other underserved homebuyers.

To date, FHA has enabled 47.5 million families become homeowners. Over the past year, more than one million individuals and families benefited from the value of an FHA insurance endorsement to purchase or refinance their homes, including over 640,000 first-time homebuyers. And, as the FY 2020 HUD budget shows, FHA is projected to generate over \$7 billion in net profits (negative credit subsidies) for taxpayers.

FHA Pay Scale

CHLA believes that a professional, well-trained FHA staff is essential both to the integrity of the program and to ensure that endorsements are processed efficiently.

Unfortunately, there are significant discrepancies between the basic federal government pay scale that applies to FHA personnel and the salaries of comparable personnel in the private sector in the Washington DC area, and even of other federal financial regulatory agencies, which are permitted to offer on average 30% higher salaries. Thus, it is not uncommon for FHA to serve as a training ground for the private sector or other federal agencies, losing talented employees because of these scale discrepancies.

Congress has long recognized the importance of a permissible higher wage scale for financial experts at other federal agencies. For example, the OCC schedule utilizes 14 pay bands, each with a wider range of salaries than the GS grades applicable to FHA. The occupations within the agency are divided into 8 categories, and each category is associated with 1-4 of the pay bands. Provisions are also made on the schedule for promotional and special increases, and merit bonuses.

The OCC schedule, or something similar, could be utilized by FHA. It offers the ability to define categories of responsibility to which higher compensation levels would be attached, thus improving FHAs ability to attract and retain specialized expertise. Granting such authority to FHA would make it commensurate with existing higher pay scales for other federal financial regulators, such as the Federal Housing Finance Agency (FHFA), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve, and the Securities and Exchange Commission (SEC).

Moreover, higher wage scales would not necessarily result in higher overall salary and expenses (S&E) because FHA would be expected to work within the S&E budget set by Congress in the annual HUD appropriations bill, similar to the SEC.

Multiyear Funding for Critical FHA Technology Upgrades

CHLA also supports funding for critical technology upgrades to FHAs legacy systems. These upgrades are essential to ensuring that FHA can effectively monitor its portfolio of 7.95 million insured single family mortgages and 14,452 insured multifamily projects in its portfolio. It is also essential that this be done on a multi-year basis – or even ideally as a full up-front capital funding, which is repaid over several years.

Despite overseeing the largest mortgage insurance portfolio in the U.S. mortgage finance system -- Single Family Insurance-in-Force for FY 2018 totaled \$1.2 trillion -- FHAs technology is widely considered to be out of date. An October 2018 HUD Inspector General report identified FHAs IT systems as a weakness and significant management challenge, noting concern about the “lack of systems capabilities and automation to respond to changes in business processes and the IT operating environment.”

Technology upgrades are a key component to driving efficiency and reducing risk for an agency that insures approximately one quarter of all mortgages. As noted in the IG report, the “mortgage industry is moving toward an entirely electronic loan process” and FHA along with Ginnie Mae intends to do the same. Upgrading technology will result in more effective quality control processes that should help to resolve lender uncertainty, which directly reduces lender participation in the FHA program.

Congress has previously acted to provide such authorization through a provision of the Housing and Economic Recovery Act, which authorized FHA to use \$25 million annually from profits to fund IT upgrades. Due to the financial crisis, that authority was not used, and it expired after five years. We respectfully request your support in reenacting this five-year funding provision this year so that FHA can modernize its technology platform.

We also believe that it is more equitable to finance these needed improvements from the substantial annual FHA profits than it is to adopt the FY 2020 HUD budget proposal to impose a new \$25 per loan fee, which would inevitably result in this fee being passed along to FHA borrowers in the form of higher loan fees.

We appreciate your consideration of these requests as well as your support of FHA and increased homeownership, and would be pleased to discuss this letter in more detail.

Sincerely,

COMMUNITY HOME LENDERS ASSOCIATION

CC: The Honorable Maxine Waters, Chairwoman, House Financial Services Committee
The Honorable Patrick McHenry, Ranking Member, House Financial Services Committee