CHLA COMMUNITY HOME LENDERS of AMERICA

January 2025

CHLA 2024 REPORT ON INDEPENDENT MORTGAGE BANKS (IMBs)

Leading the Market in Mortgage Loans for First-time, Minority, and Other Underserved Borrowers

Community Oriented | Consumer Focused

Small Businesses with no Taxpayer Backstop

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A Note to CHLA Members and the Public

The Community Home Lenders of America (CHLA) is pleased to release this year's annual report on independent mortgage banks (IMBs).

*CHLA is the **only** national association that exclusively represents IMBs. Our members are small and mid-sized community-oriented IMBs that originate, securitize or sell, and service affordable single family mortgage loans.*

Each year CHLA publishes its IMB Report, to educate the public, the press, Congress, and federal officials about IMBs. Following are highlights:

- **IMBs originate 83% of all single-family mortgage loans**
  [By Loan Type: FHA = 89%. VA = 94%. Fannie/Freddie = 75%. Ginnie Mae = 94%].
- **IMBs outperform bank loans to minorities, other underserved borrowers.**
- **IMB loans have greater consumer protections than bank loans.**
- **IMBs (particularly smaller ones) have almost no taxpayer or systemic risk**
- **2024 was a year of significant public policy advocacy successes for IMBs – including replacing GSE repurchase demands with indemnifications, more Ginnie Mae flexibility, and a CFPB focus on exploding 3rd party provider costs.**
- **Congress and the CFPB should streamline regulatory compliance for smaller IMBs, so that these small business can expand consumer mortgage choices.**
- **A Fannie Mae/Freddie Mac exit from conservatorship must protect small IMBs, with G Fee parity, a robust cash window, no new Wall Street Bank charters.**
- **It is past time to rein in abusive trigger leads and create competition to curb exploding third party mortgage service provider fees like FICO credit scores.**

To those in Washington that make public policy, we urge you to take the time to read this report and factor this information into the decisions you make.

To IMBs that are not CHLA members, we urge you to join our cause and strengthen CHLA's fight for policies that support IMBs' strong access to credit record.

Taylor Stork
President, CHLA

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HOME LENDERS of AMERICA

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EXECUTIVE SUMMARY

Following is a summary of: the current state of mortgage lending; the dominant role independent mortgage banks play in facilitating affordable homeownership; and the key findings and information included in this CHLA IMB Report:

- **High mortgage rates, combined with home prices still sticky on the high side, continue to cause significant affordability challenges for homebuyers.**
- **The collapse of the mortgage refi market has resulted in some IMB lenders going out of business or merging with larger IMBs - but IMB profit margins are stabilizing.**
- **IMBs pose almost no taxpayer or systemic risk, largely due to their business model of originating and selling off or securitizing federal agency mortgage loans.**
- **IMBs are subject to stronger consumer protection requirements than banks – as all loan originators are licensed and all IMBs are subject to CFPB supervision.**
- **IMBs continue to dominate mortgage lending and decisively outperform banks in mortgage loans to minorities, veterans, and other underserved borrowers.**
- **Smaller IMBs that lack the loan volume economies of scale of large lenders are being overwhelmed by regulatory compliance costs and time burdens – that are often redundant or that serve little or no benefit in actually protecting consumers.**
- **Homebuyers benefit from a broad base of mortgage lenders and servicers, with smaller IMBs increasing both competition and consumer choices.**
- **Federal mortgage programs (FHA, VA, RHS, and GSE) are meeting mortgage needs effectively - while generating billions in annual profits to taxpayers.**
- **Mortgage closing costs are exploding, due to limited competition among third party service providers like FICO, Equifax Work Number, and title insurance.**
- **Mortgage borrowers are being inundated by abusive trigger lead text, email, and phone call solicitations that are neither desired by nor beneficial to the borrower.**
- **The emerging practice of buyers paying realtor buyer commissions in response to Sitzer does not appear to be hurting low down payment homebuyers, at least so far.**
- **Technological developments are rapidly changing how mortgages are originated.**
- **Sustained and energetic federal advocacy on behalf of IMBs is critical to fostering sound public policies that allow IMBs to continue to serve homebuyer needs.**

CHLA 2025 Policy Positions and Priorities

FEDERAL HOUSING ADMINISTRATION (FHA)

- **CHLA FHA Modernization Plan.** (1) Update Information Technology (IT), (2) Pay Scale Comparability, (3) Flexible Contracting Authority, (4) Allow use of receipts for actions that reduce FHA risk or losses**.**
- **CHLA proposal to streamline condo project approvals**. Increase transparency and reduce response times for approval of eligible condo projects - working towards DE-type authority for such approvals.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GINNIE MAE)

- **Liquidity Backstop.** Expand the PTAP program or adopt the Ted Tozer Plan – to reduce Ginnie Mae risk, increase the confidence of warehouse lenders, and improve liquidity for all Ginnie Mae issuers.
- **Pool Flexibility.** Allow Ginnie Mae loan level pooling, along with other pooling flexibilities.
- **CHLA Ginnie Mae Modernization Plan.** (1) Full funding of salaries/administrative expenses, (2) Pay Scale Comparability, (3) Flexible Contracting Authority, (4) Ongoing commitment to broad issuer base.

FANNIE MAE AND FREDDIE MAC (FHFA)

- **End Fannie Mae, Freddie Mac Conservatorships.** Adopt a Utility Model, with small lender protections: G Fee parity, a robust, non-discriminatory cash window, and no GSE charters for Wall Street Banks.
- **Complete Substitution of Repurchase Demands with an Indemnification Fee option.** Fannie Mae and Freddie Mac should complete the task of replacing repurchase demands with a fair indemnification fee.

FEDERAL MORTGAGE PROGRAM FEES SHOULD BE BASED ON RISK

- **No G Fee Budget Offsets.** Repeal the 10 Basis point GSE fee that pays for non-housing spending.
- **End FHA Life of Loan Premiums.** FHA premiums should cease at 78% LTV – to avoid fee overcharging.
- **No VA Mortgage Fee Offsets.** VA Blue Water fees should not be reinstated to pay for other programs.

TAX POLICIES

- **Restore Portion of Mortgage Interest Deduction Benefits Lost in Last Tax Bill.** Adopt CHLA's Mortgage Interest Credit (MIC) for 1st Time Homebuyers, a 1st time homebuyer tax credit, or a higher SALT cap.
- **Make QBI permanent** (the 20% Small Business Qualified Business Income deduction).

LO COMP REFORM

- Allow reduced LO compensation to match offers for a borrower that has been working with an LO.
- Allow a different LO Compensation level for State HFA Bond Financed Mortgage Loans.
- Allow reduced LO Compensation to cover costs caused by loan originator mistakes.

REJECT CALLS TO EXTEND CRA OR CRA-LIKE REQUIREMENTS TO IMBs

- **States Should Not Adopt CRA for IMBs.** CRA for IMBs is neither appropriate nor necessary – and is counter-productive, as the experience in Massachusetts has demonstrated.
- **The CFPB Should Not Adopt a Backdoor CRA for IMBs.** The CFPB should not use ECOA or fair housing laws to dictate where IMBs locate branch offices or how to conduct their business marketing.

CHLA HOMEBUYER MORTGAGE BILL OF RIGHTS

1. The Right to Be Protected from Abusive Trigger Lead Solicitations.
2. The Right to Real Competition in the pricing of FICO Credit Scores.
3. The Right to Third-Party Mortgage Service Provider Competition to bring down mortgage closing costs, for FICO credit scores, credit reports, employment verification, and origination software services.
4. The Right to Obtain a Mortgage Loan Through a Qualified, Fully Licensed Mortgage Loan Originator.
5. The Right to Full Disclosures and Protections in the use of Dual Compensation.

REGUALTORY BALANCE FOR SMALLER IMBs

- **Tiered CFPB Regulation for Smaller IMBs.** The CFPB should more fully and transparently implement the Dodd-Frank requirement to tier CFPB regulation by a firm's size, volume, and risk.
- **No Regulation by Enforcement**. The CFPB should not levy fines or take enforcement action without giving smaller IMBs the chance to correct good faith compliance errors (as bank regulators do).
- **Streamline state IMB exams**. States should do streamlined multi-state exams of IMBs, ending duplication in multiple states that put small IMBs at a competitive disadvantage.

2024 Public Policy Advocacy Successes for IMBs

The year 2024 was challenging for both borrowers and mortgage lenders, as mortgage rates remained high, mortgage loan profit margins remained compressed, and regulatory burdens for IMBs continue to grow.

On a positive note, there were many IMB advocacy victories in 2024, including:

REPLACING GSE REPURCHASE DEMANDS WITH AN INDEMNIFICATION OPTION

- In January, **Freddie Mac** launched a Pilot Program of fee-based alternatives to repurchase demands, waiving fees for small lenders. At year end, Freddie expanded this fee-based approach to all lenders.
- For a detailed account of how advocacy made a difference in making this happen, see next section.

GINNIE MAE – INCRASED FLEXIBILITY FOR SMALLER ISSUERS

- In November, Ginnie Mae provided flexibility to issuers that hedge [see Risk-Based Capital Rule].
- Congress finalized a large funding increase for Fiscal Year 2025 for Ginnie Mae administrative costs. CHLA had led a coalition Letter to Congress warning of layoffs at Ginnie Mae without a funding boost.

FHA – INCREASED FLEXIBILITY

- In May, FHA doubled the cap on lender loan assumptions from $900 to $1,800 – long a CHLA priority.
- In February, FHA adopted its Payment Supplement Loss Mitigation option, avoiding the need to buy loans with partial claims out of Ginnie pools. An August 2022 CHLA Letter had asked for flexibility.

THE CFPB SHINES A SPOTLIGHT ON THIRD PARTY SERVICE PROVICER FEES

- Using a phrase CHLA coined earlier, the CFPB launched an Inquiry into mortgage closing cost "junk fees." CHLA's Comment Letter highlighted FICO, Equifax Work Number, and title insurance costs.

THE CFPB STREAMLINES ITS PROPOSED OFFENDER REGISTRY

- In July the CFPB simplified IMB compliance in its Offender Registry Rule, allowing submission of four existing NMLS data fields. A February 2023 CHLA Letter had asked for streamlined compliance.

VA ENDS PROHIBITION AGAINST HOMEBUYERS FUNDING REALTOR COMMISSION

- In June, the VA eliminated its prohibition against borrowers paying for closing fess. CHLA had made this request in a March Letter, to adapt to realtor commission changes in wake of Sitzer.

FICO ENDS SWEETHEART PRICING FOR A SELECT GROUP OF 50 LENDERS

- In January, FICO rescinded a deeply discounted rate for credit scores for a select group of 50+ lenders that had been put in place a year before. CHLA was the only national group calling for an end to this discriminatory pricing.

SENATE ACTION ON ABUSIVE TRIGGER LEADS

- In November, the Senate approved a strong provision to rein in abusive trigger lead solicitations, as part of the must-pass "National Defense Authorization Act" (NDAA).
- CHLA had been the first national group to press for such reforms [November 2022 Letter the CFPB].
- After Congress dropped this provision in conference, CHLA immediately asked the CFPB to adopt the Senate trigger lead provisions through administrative action.

GSE Repurchase Policy Changes Show Power of Advocacy

THE PROBLEM

- As mortgage rates skyrocketed in 2022, so too did the cost of Fannie Mae and Freddie Mac repurchase demands, with repurchase loan sales in the scratch and dent market rising to as high as 40% per loan.

CHLA LEADERSHIP

- CHLA was the first trade group to make this a priority, sending a Letter to FHFA in May 2023, asking Fannie and Freddie to offer an indemnification for performing loans instead of a repurchase demand.
- CHLA explained how lender repurchase loss rates greatly exceeded GSE loss risks, how repurchases discourage loans to underserved borrowers, and how borrowers loss mitigation protections.
- CHLA also wrote FHFA, Fannie, and Freddie, advocating for giving correspondent lenders a seat at the table along with the aggregators, when contesting repurchase demands on a timely basis.
- In order to document how GSE repurchase demands were excessive, CHLA submitted Member loans with repurchase demands to the GSEs, many resulting in rescissions or indemnification offers instead.

URBAN INSTITUTE REPORT ON REPURCHASES

- November 2023 Urban Institute report "GSE Repurchase Activity and Its Chilling Effect on the Market" highlighted how excessive repurchase demands reduce loans to minorities, underserved borrowers.

POLICY CHANGES

Federal Housing Finance Agency (FHFA)

- On January 31, 2024, FHFA released the 2024 Scorecard for Fannie Mae and Freddie Mac – which included a goal for progress and improvements in their respective repurchase policies.

FREDDIE MAC

- November 2023 Freddie Mac had announced a Pilot creating a fee-based repurchase alternative (an indemnification fee) for performing loans, waiving the indemnification fee for smaller lenders.
- Throughout 2024 Freddie increased indemnification offers in lieu of repurchase demands for loans.
- On October 28, 2024, a Freddie Mac Statement, announced that *"it will expand its performing loan repurchase alternative pilot to lenders nationwide beginning in the first quarter of 2025. The company also announced a new fee-only option for performing loans. Under that option, lenders can obtain immediate representations and warranties (R&W) relief in lieu of repurchasing a defective loan under the company's traditional performing loan remedies framework. Finally, Freddie Mac committed to greater transparency and reporting on repurchases."*

FANNIE MAE

- February 2024 Fannie Mae announced a Notice of Potential Defect to give lenders advance notice of a defect so that the defect may be able to be resolved before triggering a repurchase request.
- In May 2024 Fannie Mae released an Analysis of top defects, citing remedies and tools for lenders to use to prevent these most common defects.

These actions by Freddie Mac, Fannie Mae, and FHFA demonstrate that sustained advocacy for a sensible policy solution to a critical industry problem can achieve a significant financial and operational benefit to mortgage borrowers and lenders alike.

Regulatory Streamlining is Needed for Smaller IMBs

DUPLICATIVE, UNNECESSARY REGULATIONS UNDERMINE SMALLER IMB'S ABILITY TO SERVE HOMEBUYERS

- Regulatory compliance costs and burdens have a disproportionate impact on smaller IMBs – and have contributed to industry consolidation, with smaller IMBs selling to larger IMBs with economies of scale.
- No other financial product is subject to as many rules and regulations as mortgages are.
- IMBs are regulated by: (1) the CFPB, (2) each state they operate in, & (3) federal agency loan programs.
- Smaller IMBs do not have the regulatory economies of scale large that large mortgage lenders do.
- Many proposed CFPB rules (e.g., the Offender Registry and Uniform Contract rules) serve little or no consumer benefit as they are redundant with other rules – but have hundreds of mind-number pages.
- These concerns are magnified when, as sometimes happens, the CFPB pursues "regulation by enforcement" – taking enforcement action against mortgage lenders for actions that are not transparently rule violations.
- This is a major problem for small IMBs who lack resources to hire compliance attorneys and lobbyists.
- Unlike federal banking regulations, the CFPB does not typically create meaningful small IMB exemptions or make a significant effort to streamline smaller IMB compliance with regulations

REFORM OF LO COMP RULES IS NEEDED TO AVOID UNINTENDED ADVERSE CONSEQUENCES

- The Loan Originator (LO) Comp provision was designed to curb yield spread premium abuses - aggregators offering incentives to mortgage brokers to steer borrowers into higher rate mortgages.
- The LO Comp provision enacted into law expanded this to include compensation to loan originators by their employing mortgage firm - an unprecedented regulation of compensation practices **within** a firm.
- This has created unintended and adverse consumer consequences that can harm consumers – e.g.,

(1) Makes it harder for lenders to match offers when a borrower finds a competing loan offer.
(2) Makes it harder for lenders to originate State HFA bond deal mortgage loans to first time homebuyers.
(3) Makes it harder for mortgage bankers to broker out loans where lender does not have a loan product.

Therefore, Congress and/or the CFPB should create more LO Comp flexibility for these loan situations.

THE CFPB IS REQUIRED BY STATUTE TO TAILOR REGULATION BY LENDER SIZE, VOLUME, AND RISK

- While 97% of banks are exempt from CFPB supervision, 100% of IMBs are supervised by the CFPB.
- The Dodd-Frank statute requires the CFPB to tailor their supervisor actions and focus by lender size and volume, and by the degree of risk the activity poses to consumers.

Therefore, the CFPB should promulgate guidelines to exempt smaller IMBs from CFPB exams and restrain from taking enforcement action against smaller IMBs unless there are external complaints or state referrals.

CRA FOR IMBS IS NOT APPROPRIATE – EITHER BY INDIVIDUAL STATES OR BY THE CFPB

- States, like Illinois and New York, are increasingly enacting CRA requirements for IMBs.
- The CFPB has increasingly used the Equal Credit Opportunity Act to impose CRA-like requirements on IMBs – directing IMBs to locate offices in certain communities, in spite of the fact IMB loans are overwhelmingly not originated in person in branches.
- CRA is not appropriate for IMBs, as IMBs, unlike banks, do not take deposits out of communities to invest elsewhere. IMBs bring in outside capital (e.g., FHA loans) to make loans within communities.
- In Massachusetts, CRA for IMBs has been counterproductive, reducing the relative footprint of IMBs.

Therefore, (1) states should reject adoption of laws imposing CRA on IMBs, and (2) CFPB oversight should focus on actual discrimination and loan performance, instead of micromanaging the operations of IMBs.

A GSE Conservatorship Exit <u>Must</u> Protect Smaller Lenders

A decade ago, Congress launched an effort to enact legislation to take Fannie Mae and Freddie Mac (the GSEs) out of conservatorship. That legislation was seriously flawed, endangering the role of smaller lenders to fully participate in the origination of loans by Fannie and Freddie – with provisions to grant large Wall Street Banks new GSE charters with a taxpayer backstop and excessive risk sharing requirements that would have jeopardized affordable mortgage loans.

These flawed efforts were beaten back through the efforts of the GSE Main Street Coalition of consumer groups and small lender groups (CHLA, CMLA, ICBA, LBA). Testimony by these small lender groups at a Senate Banking Committee hearing was the decisive turning point in Congress abandoning these flawed policies, and the GSE legislative effort died.

However, expectations are rising that the GSEs will soon exit conservatorship in the Trump Administration.

Legislation is not necessary to take Fannie and Freddie out of conservatorship; FHFA and Treasury have authority under HERA to do so. In fact, Congressional action could harm smaller lenders – by giving large Wall Street Banks and other special interests with their PACs and lobbyists disproportionate influence.

There are many moving parts to a GSE exit from conservatorship. However, CHLA is focused on preserving access to credit and on creating a level playing field, with an emphasis on protecting smaller IMB lenders, i.e.

G FEE PARITY

- Volume discounts to firms like Countrywide and WAMU were a factor in the failure of Fannie and Freddie. And preferential pricing harms consumers by reducing competition, raising mortgage rates & reducing loan choices.
- FHFA under the first Trump Administration adopted a conservatorship policy of "G Fee Parity."
- Post conservatorship, it is essential to have requirements that bar preferential pricing based on lender size or loan volume – through cash window pricing, buy-up/buy-down grids, or any proxy that undermines G Fee parity.

A ROBUST CASH WINDOW

- A cash window with pricing competitive with securitization execution for **<u>all</u>** seller-servicers is critical for small IMB lenders, or the market will be dominated by a small group of large aggregators.
- There is no guarantee that such practices will continue after a conservatorship exit. Therefore, there should be explicit legal requirements for the GSEs to maintain such a robust cash window.

NO GSE CHARTERS TO WALL STREET BANKS

- Large Wall Street Banks would like nothing more than to gain exclusive access to a new GSE charter backstopped by federal taxpayers. Pitched under the guise of "more competition" for the GSEs, new charters for Wall Street Banks would actually reduce mortgage loan competition by creating vertical integration and giving large Wall Street Banks an unfair advantage over other mortgage lenders.
- Thus, Congress should reject lobbying by banks to create more GSE charters – maintaining Fannie and Freddie's role of purchasing qualified mortgage loans on level terms from all seller-servicers.

A TRUE UTILITY MODEL

- Fannie Mae and Freddie Mac should operate under a "Utility Model" – with FHFA preventing the GSEs from: (1) raising G fees disproportionately to maximize profits, (2) engaging in excessive loan risks, or (3) engaging in activities that deviate from their affordable single-family and multi-family loans.

- Fannie Mae and Freddie Mac should remain fully committed to their affordable housing mission – with Housing Goals, a Duty to Serve Underserved Markets, and maintaining critical mortgage product types.

NO BACKDOOR ADVANTAGES FOR MEGA LENDERS

- Fannie and Freddie should not engage in upfront risk sharing deals with Wall Street Banks - or any other activities that give these Banks exclusive control or an advantage with taxpayer-backed loan

Action is Needed to Curb Trigger Leads, End FICO Monopoly

CONSUMERS ARE BEING BOMBARDED WITH ABUSIVE TRIGGER LEAD SOLICITATIONS

- Mortgage borrowers are often bombarded right after they apply for a mortgage loan with intrusive emails, texts, and phone calls – "trigger lead" solicitations that borrowers neither asked for nor desire.
- CHLA took the lead in calling out trigger leads in a November 2022 Letter to the CFPB highlighting abuses, citing violations of the "Firm Offer of Credit" requirement, and asking the CFPB to take action.
- CHLA also proposed a solution: borrowers be given the choice at the time of the loan application whether or not they wish to receive trigger lead solicitations.
- In late 2024, the Senate responded by including a strong trigger lead solicitation provision in the Defense bill – a provision CHLA had helped fix by protecting the lender that originated the loan a borrower is now refinancing.
- After pushback from credit bureaus, the Senate bill died in conference.
- The Senate then passed their trigger lead bill by unanimous consent – but that bill also died.
- CHLA then wrote the CFPB, offering a roadmap on how to adopt the Senate bill administratively.
- **The key to ending abusive trigger lead practices – by Congress, the CFPB, or the FTC - is to continue to shine a spotlight on abusive trigger lead practices and protect borrowers that don't want them.**

CLOSING COSTS ARE RISING, DRIVEN BY LACK OF SERVICE PROVIDER COMPETITION

FICO Costs

- Fair Isaac (FICO) has raised credit score prices by 400% in the last few years
- FICO is able to do this because they have a virtual monopoly in this market.
- CHLA first called these excessive prices out in a January 2024 White Paper [updated in April 2024].
- As FHA, Fannie Mae, and Freddie Mac require FICO scores for mortgage loans, they could regulate their pricing, capping at reasonable levels. The CFPB has also explored ways to rein in such costs.
- Until this occurs, the only effective action to keep prices from going even higher is increased public attention to the monopoly FICO has, creating public pressure to keep pricing reasonable.

Employment Verification Costs

- **Equifax Work Number (WN)** is by far the largest provider of electronic verifications of employment. Estimates are that Equifax WN is used in over 60% of all mortgage loans – and is used in the overwhelming majority of loans in which income verification is done electronically through a third-party service provider.
- A March CHLA Letter asked FHA and FHFA to "*scrutinize the cost of electronic verifications of employment on FHA and [GSE] loans and take appropriate actions to limit costs to reasonable levels.*"
- Federal loan programs (FHA, RHS, VA, GSEs) should develop alternative employment-verification models that would help create competition and more reasonable pricing, to rein in closing costs.

Title Insurance Costs

- The CFPB has singled out title insurance costs as being excessive and lacking competition, particularly for refinances.
- CHLA has played a lead role in Washington lobbying for greater use of Attorney Opinion Letters (AOLs) as a way to save an estimated $1000 per closed mortgage.
- As part of that effort, CHLA supports Fannie Mae's pilot program, which FHFA recently approved, to lower title insurance costs on refinance loans.

NARRATIVE - INDEPENDENT MORTGAGE BANKS

What Are Independent Mortgage Banks

What IMBs Are

- IMBs are non-bank firms that underwrite, originate, close, and service mortgage loans.
- IMBs largely originate federal agency loans (FHA, VA, RHS, Fannie Mae, Freddie Mac) and then securitize (retaining servicing) or sell to the Fannie/Freddie cash window, or sell them to aggregators.
- IMBs fund their operations with their own capital and with loans from warehouse banks.
- Small and mid-sized IMB owners have "skin in the game" - with their own net worth at risk.

What IMBs are Not

- **IMBs are Not Wall Street.** It was large Wall Street banks – not small or mid-sized IMBs - that created the risky mortgage-backed securities (MBS) that caused the 2008 housing crisis.
- **IMBs are Generally Not Portfolio Lenders.** The great majority of mortgage loans that IMBs originate are federal agency mortgage loans (FHA, RHS, VA, Fannie Mae, and Freddie Mac). This reduces risk.
- **IMBs are Not Mortgage Brokers.** IMBs close loans with their own funds - and are financially accountable for underwriting errors through FHA indemnifications and Fannie/Freddie reps and warrants.

IMBs Are Not Taxpayer Insured or Otherwise Backstopped

- Bank deposits are backstopped by federal taxpayers through the FDIC. **IMBs are not.**
- Banks access government sponsored Federal Home Loan Bank advances. **IMBs do not.**
- Banks have access to cheap federal funds through the Federal Reserve. **IMBs do not.**

IMBs Focus on Loans to Minorities, Underserved Borrowers in all Business Cycles

IMBs' sole business is mortgage lending and servicing - not cross selling financial products to well-heeled customers, a large bank priority. When many banks left mortgage lending or imposed credit overlays after the 2008 crisis, IMBs ramped up lending, focusing on minorities and underserved borrowers.

IMB Owners Are Personally Liable for Underwriting Errors, Financial Performance.

Unlike too-big-to-fail bank executives who are shielded from the consequences of poor mortgage underwriting or financial performance, IMB owner/executives bear the direct financial impact of an FHA indemnification or GSE loan buyback, as well as the firm's broader financial performance.

Small/Mid-sized IMBs Pose Little Taxpayer or Systemic Risk; Are Highly Regulated

Small and mid-sized IMBs pose no systemic risk and little taxpayer risk. IMBs are:
(1) regulated by each state in which they do business,
(2) regulated by the CFPB (unlike 97% of banks),
(3) subject to SAFE Act licensing requirements (unlike banks),
(4) (if an FHA lender) subject to Net Worth and Quality Control requirements,
(5) (if a Ginnie Mae issuer or GSE seller-servicer) supervised and subject to Net Worth, liquidity requirements,
(6) subject to all federal and state mortgage regulations.

Significant Differences Exist between Small and Large IMBs

Smaller, community oriented IMBs differ from large IMBs (as well as from large banks) in key ways:

(1) Smaller IMBs pose little or no systemic risk or taxpayer risk if they go out of business.
(2) Smaller IMBs tend to grow organically and have less complex financial structures.
(3) Smaller IMBs have a more personalized relationship with their mortgage borrowers.
(4) Smaller IMBs are the true small businesses in the mortgage loan/servicing business.

CHLA advocates for federal mortgage policies that reflect these fundamental differences between community-based small/mid-sized IMBs and mega-IMBs.

IMBs Dominate Mortgage Lending and Out-Perform Banks

IMBs are THE dominant force in mortgage lending, originating 83% of all single family loans.

ALL MORTGAGE LOANS: **83.4% Market Share**

- ***IMBs originate 83.4% of all mortgage loans, as of October 2023.***
  [Source: December 2024 Urban Institute Monthly Chartbook - page 13].

FHA MORTGAGE LOANS: **89% Market Share]**

- ***The IMB share of FHA loans has increased from 57% in 2010 to 89% in 2024.***
  [Chart - page 20]. [Source: FHA Annual Report for Fiscal Year 2024 – Page 51]

- ***"FHA mortgage insurance . . . makes credit available to borrowers whom the conventional market does not adequately serve, including first-time homebuyers, minorities, lower-income families and residents of underserved areas (central cities and rural areas).***
  [Source: FY 2025 Administration HUD Budget Appendix - page 552].

- ***83% of FHA loans are to first-time homebuyers, compared to 50% for the rest of the market.***
  [Source: FHA Annual Report for Fiscal Year 2024 - Page 19].

VA MORTGAGE LOANS: **94% Market Share**

- ***The nonbank (IMB) share of VA mortgage loan origination is 94%, as of November 2024.***
  Source: Ginnie Mae Global Markets Analysis Report, December 2024 – page 49].

- VA loans are 0% down mortgage loans for our nation's veterans and active-duty personnel.

GINNIE MAE SECURITIES ISSUANCE**:** **94% Market Share**

- ***The IMB (non-bank) share of Ginnie Mae issuance increased from 12% in 2010 to 94% in 2024.***
  [Chart - page 14] [Source: Ginnie Mae Global Markets Analysis Report, December 2024 p. 48].

- To some extent, this reflects the strong growth in the non-bank share of FHA, VA, and RHS loans over this period. It is also a result of many banks abandoning the correspondent loan business after the 2008 housing crisis, while IMBs increased their role as Ginnie Mae issuers**.**

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

FANNIE MAE AND FREDDIE MAC LOANS**: 75% Market Share**

- ***Fannie Mae: Nonbanks (IMBs) originate 74.8% of Fannie Mae loans, as of November 2024.***
  [Source: December 2024 Urban Institute Monthly Chartbook - page 13].

- ***Freddie Mac: Nonbanks (IMBs) originate 76.1% of Freddie Mac loans, as of November 2024.***
  [Source: December 2024 Urban Institute Monthly Chartbook - page 13].

IMBs Lead in Affordable Mortgage Loans to Minorities, Underserved Borrowers

URBAN INSTITUTE FEBRUARY 2022 REPORT: "WHO SERVES MORE PEOPLE OF COLOR IN MORTGAGE LENDING: BANKS OR NONBANKS"

- ***". . .banks substantially underperformed nonbanks in serving borrowers and neighborhoods of color."***
- ***". . . 5.6 percent of bank loans were made in neighborhoods of color in 2018 and 2019, compared with 9 percent of nonbank loans."***
- ***". . . banks make proportionally fewer loans to LMI neighborhoods of color and borrowers than nonbanks, largely because. . . banks have a narrower credit box. . . bank loans tend to have higher average credit scores and lower average debt-to-income ratios."***

GREENLIGHTING INSTITUTE NOVEMBER 2020 REPORT

A Greenlighting Institute report "Home Lending to Communities of Color in California" concluded:

- ***"Women of color . . . are more likely to access a loan from a non-bank lender than from a mainstream bank."***
- ***"When Black, Asian and Latino low-income households do access home purchase loans, it is more likely to be from a non-bank lender."***
- ***"Non-bank lenders make twice as many home purchase loans to low-income borrowers as mainstream banks."***

URBAN INSTITUTE REPORTS SHOW IMBS DO BETTER SERVING FINANCIALLY CHALLENGED BORROWERS

- The average credit score for IMB agency mortgage loans is 23 basis points lower than for bank loans.
- The average debt-to-income for IMB loans is 2 percentage points higher than for bank loans. [Source for both: December 2024 Urban Institute Monthly Chartbook – pages 18 and 19]
- An August 2017 Urban Institute Report "Housing Finance at a Glance" found that ***". . . the median FICO score for nonbank originations has been consistently less than the median FICO for bank originations for all three agencies"*** (Fannie, Freddie and GNMA].
- That same report also noted 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."

FEDERAL HOUSING ADMINISTRATION (FHA) and VETERANS AFFAIRS (VA) LOANS

- **IMBs originate 89% of FHA loans. In 2024, 83% of FHA loans were for first-time homebuyers, and FHA's share of Black and Hispanic borrowers was twice the percentage of all other mortgage loans.**
- **IMBs originate 94% of VA loans – zero down loans for veterans and active duty personnel.**

BANKS BROADLY RETREATED FROM MORTGAGE LENDING AFTER THE 2008 HOUSING CRISIS

- **Following the 2008 Housing Crisis, many banks abandoned or reduced their mortgage lending:**
    - Many banks imposed credit overlays (even for FHA-insured loans with limited lender risk) - limiting their mortgage loans to borrowers with higher FICO scores and no credit blemishes.
    - Many large banks terminated their correspondent lending business for smaller loan originators.
    - Many banks sold off mortgage servicing portfolios and scaled back their loan servicing.

IMBs STEPPED IN TO FILL THE LOAN GAP – SINCE MORTGAGES ARE ALL THEY DO

- **IMBs originate mortgage loans in all markets - good and bad - because that is all that IMBs do.** This is key to understanding why IMBs filled the gap left by the banks' retreat from mortgage lending (driven in part by Internal Rate of Return considerations) and by bank use of credit overlays (driven in part by a focus on cross-selling lucrative financial products to well-heeled customers).

IMB Mortgage Loans Have Stronger Consumer Protections than Bank Loans

IMB LOAN ORIGINATORS (LO's) HAE MUCH STRONGER REQUIREMENTS THAN BANK LO'S

In order to be licensed as a mortgage loan originator (LO) at a non-bank (IMB), every LO must:
(1) pass the SAFE Act Test,
(2) pass an independent background check, and
(3) complete 20 hours of pre-licensing SAFE Act courses.
In order to maintain that mortgage license, every LO at a non-bank (IMB) must complete at least 8 hours of SAFE Act continuing education courses each year.

All bank loan originators are exempt from all four requirements. Thousands of registered bank LOs failed the SAFE Act test – and their customers don't even know it!

IMBs Are subject to Regulation by the CFPB – Unlike 97% of Banks

IMBs are subject to regulation and supervision by every state in which they do business.

All IMBs are also subject to duplicative supervision and enforcement by the CFPB – while 97% of banks are below $10 billion in assets and thus exempt from CFPB supervision and enforcement.

Commenting on this discrepancy, 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"*** - noting that before Dodd-Frank, these companies were regulated by the states which continue to license and supervise them.

IMB Loans Have Stronger Distressed Borrower Protections than Bank, PLS Loans

The great majority of mortgage loans that small and mid-sized IMBs originate are federal agency mortgage loans (FHA, VA, RHS, Fannie Mae, Freddie Mac). These loans require use of effective loss mitigation options (e.g., partial claims and loan modifications) to keep people in their home.

The 2008 housing crisis show that severe harm to borrowers of non-regulate Private Securitization Loans (PLS), with no real loss mitigation requirements and borrowers' well-being taking second priority to bank protection of second lien mortgage loan interests. Some 13 years later, only limited progress has been made in protecting distressed borrowers in PLS loans.

Banks do a somewhat better job in serving distressed borrowers – but generally have don't have required application of standardized loss mitigation options that exist for federal agency loans. Notably, the Congressional COVID-19 requirement to offer a mandatory forbearance option to borrowers only applied to federal agency loans; it was only optional for bank portfolio loans.

IMBs Subject to All Federal Consumer Mortgage Rules – Plus State Requirements

IMBs are subject to the same federal consumer protection mortgage requirements as banks: Fair Housing, ECOA, HMDA, RESPA-TILA, QM, LO Comp, Anti-Steering, TRID, HOEPA, and others.

IMBs are also subject to consumer protection laws in every state in which they originate loans.

Demolishing the Myth that IMBs Are Risky

The 2008 Housing Crisis highlighted the financial risk of the nation's largest mortgage participants, such as Lehman Brothers, Bear Stearns, AIG, Countrywide, and WAMU. This culminated in trillions of dollars in federal financial assistance for these entities, and the collapse of the economy.
In contrast, virtually no federal bailout funds went to small or mid-sized IMBs during this crisis.

Yet, various players in Washington continue to propagate the myth that IMBs are very risky.
There may be some legitimate concern that the largest IMB servicers are systemically significant.
However, the reality is that small and mid-sized IMBs pose little or no financial or systemic risk.

TAXPAYER RISK

Unlike banks, IMBs (1) do not have access to FDIC-insured, taxpayer backed deposits, (2) are not eligible for Federal Home Loan Bank (FHLB) advances, and (3) do not have access to the Federal Reserve window. Like banks, IMBs do underwrite mortgage loans directly or indirectly backed by taxpayers (FHA, RHS, VA, Fannie/Freddie) - but these programs have strict underwriting guidelines and lender net worth requirements, with penalties for faulty underwriting.

SYSTEMIC RISK

While dissolution or bankruptcy of one or a few large banks or IMBs could have market-wide consequences, the demise of a number of smaller IMBs poses no real systemic risk. The consequences of a smaller IMB going out of business is minimal: the IMB is no longer a loan source going forward and it is relatively easy to find a servicer to take over its servicing portfolio.

CONSUMER RISK

IMBs are subject to all federal mortgage rules and objectively are subject to more extensive consumer protections than banks (see page 15), since unlike banks: (1) every mortgage loan originator at an IMB must meet stringent SAFE Act testing and licensing requirements, and (2) all IMBs (no matter how small) are subject to CFPB supervision, exams and enforcement.

IMBs ARE HEAVILY REGULATED AND SUPERVISED

One claim feeding the myth that IMBs pose a major financial risk is the related myth that IMBs are not subject to any real financial regulation or supervision. **This claim is demonstrably false.**

The great majority of loans by small and mid-sized IMBs are federal agency loans (FHA, RHS, VA, Fannie Mae and Freddie Mac – with FHA, RHS, and VA loans securitized through Ginnie Mae. These programs have strong net worth and liquidity requirements and ongoing supervision. *[See the 4-page Chart on page 22 of this Report **(Regulatory Comparison – Non-Bank Mortgage Lenders and Banks)** that compares IMB and bank financial, supervisory, and regulatory requirements with respect to mortgage lending].*

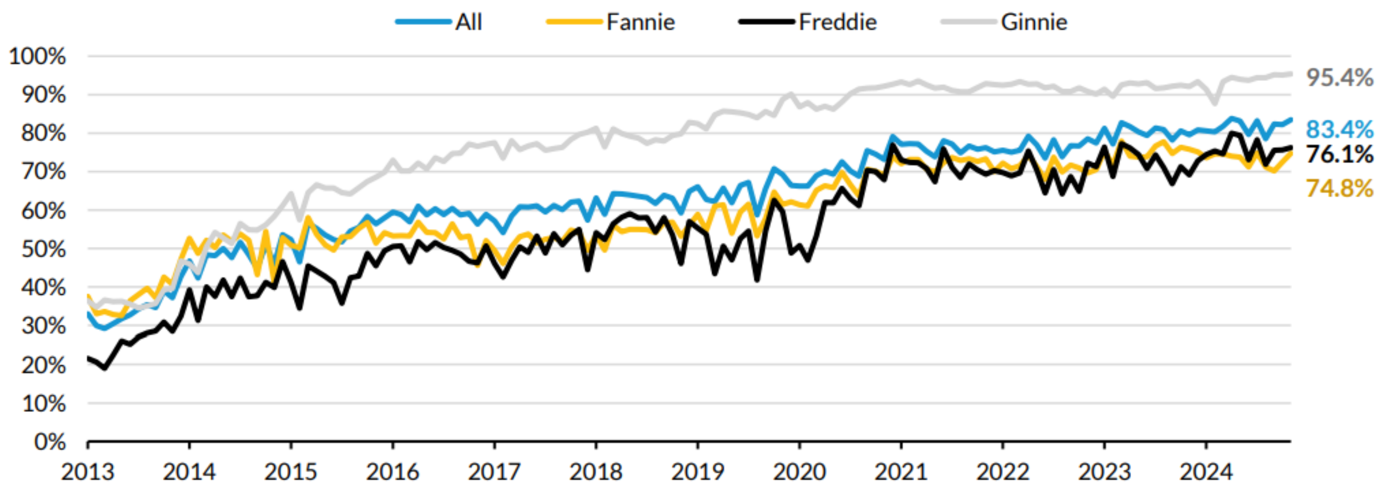
IMB SUPERVISION DIFFERS FROM BANKS – BECAUSE NO TAXPAYER BACKSTOP

IMBs are subject to regulations and supervision in every state they do business in. Fannie/Freddie have net worth and liquidity requirements for seller servicers. Ginnie Mae has net worth, liquidity requirements, and supervisory authority for issuers. FHA has Quality Control (CQ) requirements. IMBs are also subject to financial scrutiny and discipline by the warehouse lenders that fund them.

There is a simple reason banks are subject to federal safety and soundness regulation and IMBs are not.
Taxpayers backstop banks through FDIC-insured deposits, FHLB advances, and Federal reserve advances. In contrast, IMBs have no taxpayer backstop. Banks also engage in risky commercial loans and investments. In contrast, IMBs only originate and generally sell or securitize mortgage loans.

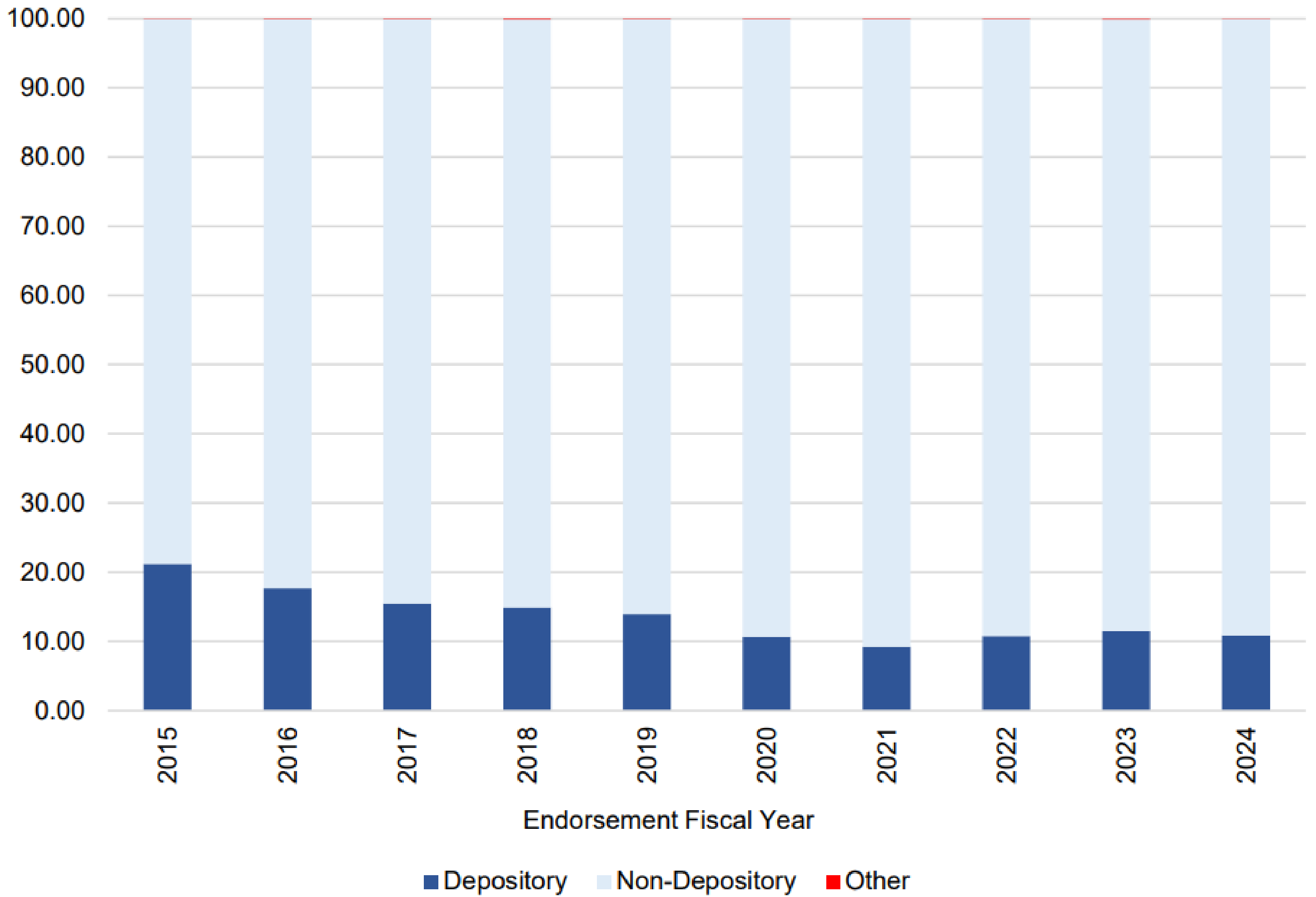
CHARTS

IMB Market Share of Single-Family Mortgage Originations



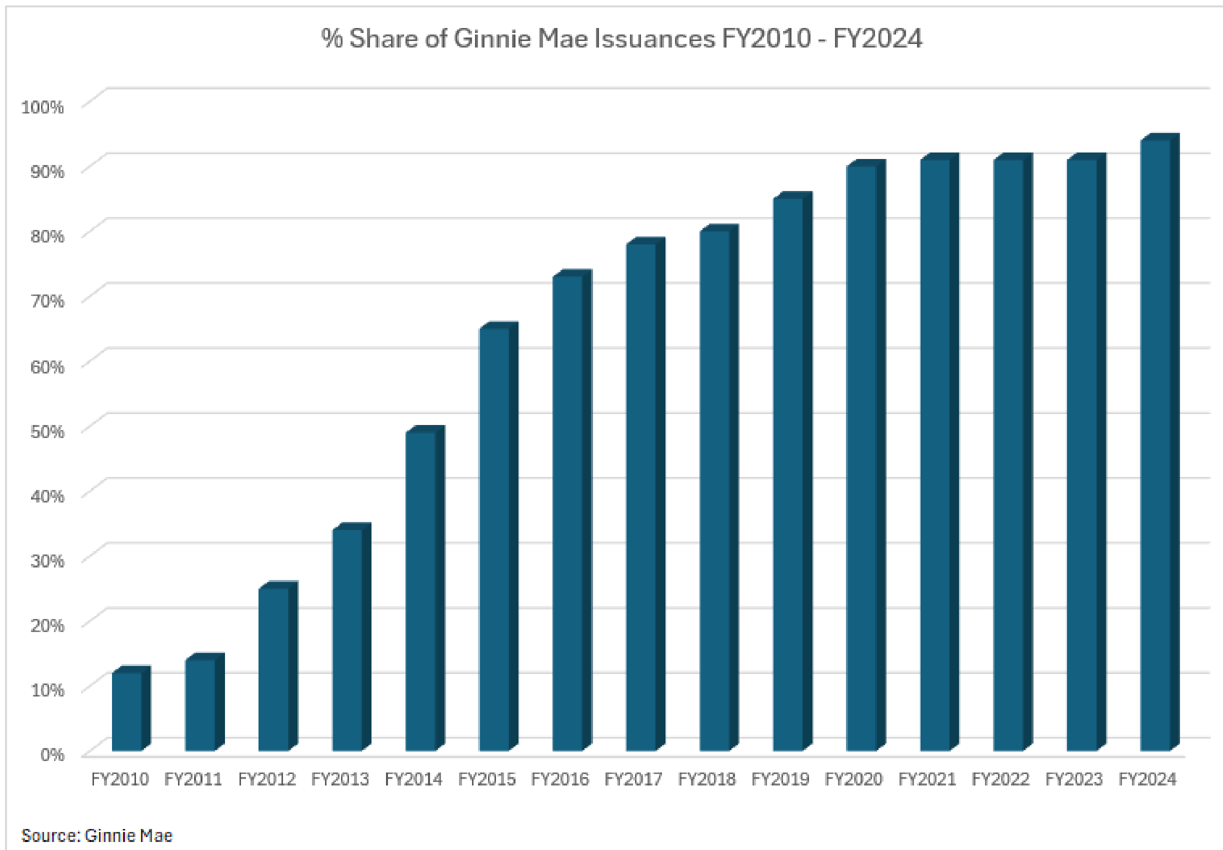
COMMUNITY HOME LENDERS of AMERICA

IMB Share of FHA Single Family Mortgage Originations



IMB Market Share Ginnie Mae Issuance

Ginnie Mae Issuances by Nonbanks Have Skyrocketed from 12% to 94% since 2010



REGULATORY COMPARISON: NON-BANK (IMB) MORTGAGE LENDERS VS. BANKS

Single Family Mortgage Loans

CONSUMER REGULATION

	NON-BANKS	BANKS
SAFE ACT: Mortgage Loan Originator Requirements	Every 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 Supervision, Enforcement and Exams	All non-bank mortgage lender/servicers are subject to CFPB supervision, enforcement, and exams– for compliance with RESPA, LO Comp, servicing, and all other statutory mortgage requirements	EXEMPTION: 97% of all banks are exempt from CFPB enforcement [i.e. all banks with under $10 billion in assets are exempt]
Consumer Compliance by Primary Regulator	Non-bank lender/servicers are subject to supervision and periodic consumer compliance exams for federal mortgage regulations in every state they do business in.	IDENTICAL – except this supervision and 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, QM, predatory lending prohibitions, and Reg Z and X servicing requirements (except that some exemptions exist for servicers servicing fewer than 5,000 loans)	IDENTICAL

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REGULATORY COMPARISON: NON-BANK (IMB) MORTGAGE LENDERS VS. BANKS (Cont.)

FINANCIAL REGULATION
Mortgage Servicing Net Worth, Capital, and Liquidity Requirements

	NON-BANKS	BANKS
GINNIE MAE (GNMA)	* *Net Worth Requirement* - $2.5 million, plus 0.35% (35 basis points) of GNMA UPB, plus 0.25% of GSE and non-agency servicing. * *Liquidity Requirement*: 0.1% (10 basis points) of GNMA UPB, plus 0.07% of scheduled GSE UPB, plus 0.035% of actual GSE UPB, and 0.035% of non-agency UPB. Also, for Issuers >$1 billion UPB, additional 0.5% for loans held for sale and rate locks. * *Capital Requirement:* 6% Net Worth/Total Assets Ratio * *Risk-based Capital Requirement:* The basic 6% ratio is adjusted by excess MSRs over net worth and risk-based weighting of assets, such as 250% for Gross MSRs. * Quality Control (QC): Required QC plan - underwriting, origination, servicing, and secondary marketing * Must meet GNMA requirements for bond administration, delinquency guidelines, and others	* Generally, must 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 0.35% of Ginnie Mae servicing, plus.25% of all other servicing obligations. * *Liquidity Requirement*: 0.035% (3.5 basis points on total agency (combined Fannie, Freddie, and GNMA) serviced loans PLUS 2% of non-performing agency loans that exceed a 6% default ratio, plus 0.5% of hedged loan commitments. * Seller-servicer Agreement spells out origination and servicing responsibilities, including Quality Control * Audits of loan files * Repurchase Obligations are imposed if underwriting rules are not followed	* SIMILAR, except banks 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 developed model prudential servicing standards for non-bank lender/servicers, comparable to FHFA.	* Federal banks are not subject to state regulations regarding servicing net worth or liquidity requirements. * State banking requirements vary by state

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REGULATORY COMPARISON: NON-BANK (IMB) MORTGAGE LENDERS VS. BANKS (Cont.)

Federal Agency Mortgage Loan Origination Program 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 if lender does 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 adjusted net worth of $250,000 and have unrestricted credit lines of at least $1 million	* SAME
Fannie/ Freddie/ FHFA	* See previous Servicing section for seller/servicer requirements.	* See previous Servicing section for seller/servicer requirements
Non-Agency	* PORTFOLIO – No mortgage specific regulations – except few non-banks originate mortgages for portfolio *MBS – Subject to securities regulation	* PORTFOLIO – no mortgage regulations * MBS – Subject to securities regulation

REGULATORY COMPARISON: NON-BANK (IMB) MORTGAGE LENDERS VS. BANKS (Cont.)

Financial Regulation of Mortgage Lenders as a Going Concern

	NON-BANKS	BANKS
Net Worth & Liquidity Requirements and Examinations	* Non-bank mortgage lenders are subject to net worth, liquidity, and bonding requirements set by each state in which they do business, plus periodic state exams. These requirements are generally lower than banks, since their deposits are not guaranteed by the FDIC (and ultimately federal taxpayers), as banks are. 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 of a non-bank failure: 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 the 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: The FDIC guarantee can result in losses to the FDIC fund. During the 2008 housing crisis, the federal government also provided hundreds of billions in dollars of TARP loans to banks.