NCSHA

October 11, 2018

Ms. Kate Jensen
Finance and Loan Analyst
Single Family Housing Guaranteed Loan Program
U.S. Department of Agriculture
STOP 0784
1400 Independence Ave. SW.
Room 2250
Washington, DC 20250-1522

RE: 83 FR 41056

Dear Ms. Jensen,

On behalf of the state Housing Finance Agencies (HFAs) it represents, the National Council of State Housing Agencies (NCSHA)[1] appreciates the opportunity to respond to the United States Department of Agriculture's (USDA) August 17, 2018 request for information (83 FR 41056) on the maximum interest rate for single-family loans insured through USDA's Single Family Housing Guaranteed Loan Program (SFHGLP). NCSHA appreciates USDA's willingness to revisit SFHGLP guidelines to ensure the program best meets the needs of rural low- and moderate-income homebuyers.

NCSHA believes that the current maximum interest rate for SFHGLP loans, which is set at one percent above the prevailing Fannie Mae rate for conventional loans, is suitable for most loans originated under the program. It allows participating lenders to originate SFHGLP loans in a cost-effective manner while also protecting borrowers against excessive costs. That being said, in the recent market environment, the current cap has been problematic for loans in which the borrower receives cash assistance from a state HFA or other entity in conjunction with an SFHGLP program loan. Consequently, we urge USDA to consider increasing the caps for those loans in which the borrower receives cash assistance from an HFA.

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[1] NCSHA is a nonprofit, nonpartisan organization. None of NCSHA's activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.

USDA and State HFAs: A Strong Partnership

HFAs are state-chartered, mission-driven housing agencies. Though they vary widely in their characteristics, including their relationship to state government, HFAs share a common mission of providing affordable housing lending help to responsible borrowers who need it. They are well-known for their safe and sound lending programs, which have provided a reliable source of affordable mortgage money for working families over many decades in strong and weak economies.

HFAs have proven over many decades that affordable housing lending done right is good lending. HFAs have never engaged in subprime or other risky lending. Any revenue HFAs generate from their lending and other activities is reinvested by them to further their affordable housing mission.

For many years, HFAs have enjoyed a strong partnership with USDA through SFHGLP and its other single-family programs, whose public purpose to serve homebuyers in underserved rural communities dovetails with HFAs' affordable homeownership mission. USDA's single-family programs insure around 10-percent of HFA single-family mortgages each year. This share is much higher in several states with more rural areas.

HFA participation in USDA's homeownership programs is widespread. A survey conducted this year by NCSHA found that, in 2017 alone, 27 HFAs originated more than 4,600 mortgages to low-and moderate-income rural borrowers combined through USDA's single-family programs. HFAs predicted they would originate nearly 5,000 such loans in 2018.

USDA previously recognized HFAs' strong track record of responsibly supporting affordable homeownership when it exempted HFA programs loans from its Qualified Mortgage rule (RIN: 0575-AD00). Both the Consumer Financial Protection Bureau (CFPB) and Federal Housing Administration (FHA) have also exempted HFA program loans from their Ability-to-Repay/Qualified Mortgage rules.

Responses to USDA Questions

3. *Should a higher maximum allowable interest rate cap be established? If so, what maximum rate is recommended, and why?*

4. *Does the current maximum interest rate create any barriers to loan making in eligible rural areas? If so, how and under what circumstances?*

As mentioned above, NCSHA recognizes that the current maximum interest rate for SFHGLP loans is suitable for most loans originated through the program. A notable exception are those transactions in which the borrower receives down payment assistance or other cash assistance from a state HFA to help them with a home purchase.

The provision of down payment and cash assistance is a critical component of HFAs' efforts to promote affordable and sustainable homeownership. Through such assistance, HFAs allow responsible consumers who are unable to save up for a substantial down payment purchase a home. In 2016, HFAs provided down payment and other cash assistance to almost 98,000 borrowers, just over 77 percent of all HFA program borrowers that year.

While SFHGLP's underwriting guidelines do not require borrowers to pay a minimum down payment and allow insurance for loans with loan-to-value (LTV) ratios of up to 100 percent, HFAs may still provide borrowers with down payment assistance in conjunction with SFHGLP loans to allow them to start building up equity. In addition, HFAs may provide cash assistance to homebuyers who are taking out a 100-percent LTV SFHGLP loan to help them with substantial closing costs and/or help them build up savings that can be used pay for any unknown home expenses that may arise. Such assistance can be critical for lower-income families.

HFAs often provide cash assistance to borrowers through grants. When borrowers choose to receive such grants, they sometimes agree to pay a higher interest rate on their first mortgage loan than they would otherwise. State HFAs are typically self-sustaining entities responsible for financing their affordable homeownership programs. Consequently, it is often necessary for HFAs to charge borrowers receiving cash assistance an increased interest rate. This allows HFAs to offer such assistance to additional borrowers in the future.

HFAs have told us that, while they have little issue complying with the rate cap for SFHGLP loans for borrowers who do not receive down payment or cash assistance, current market conditions have made it difficult for loans in which borrowers do receive down payment assistance to fit under the cap. This precludes a helpful option for lower-income rural borrowers.

Given the valuable benefits that HFA down payment assistance and cash assistance programs offer to low- and- moderate-income rural borrowers, we ask that USDA increase the maximum allowable interest rate for SFHGLP loans in which borrowers receive such assistance. Increasing the cap by 50 basis points would help ensure that such loans remain available for those underserved borrowers who could benefit. Alternatively, USDA could eliminate the interest rate limit for such loans.

6. *If the maximum allowable interest rate cap were to be increased or eliminated, what protections exist to prevent consumers from being overcharged?*

As mentioned above, HFAs are public-purpose, mission-driven instrumentalities of government that exist to meet the affordable housing needs of their states. They are accountable to state legislatures, governors, and publicly appointed boards. They have a strong history of responsible underwriting and putting the needs of borrowers first. USDA has recognized this track record on several occasions. Consequently, it is clear that USDA could increase, or even eliminate, the maximum interest rate cap for SFHGLP loans with HFA-provided down payment and/or cash assistance and be confident that consumers' interests will still be protected.

Thank you for your consideration. We would be happy to discuss these issues with you at your convenience.

Sincerely,

Garth Rieman
Director, Housing Advocacy and Strategic Initiatives