MORTGAGE BANKERS ASSOCIATION

Statement of
David Battany
Executive Vice President, Capital Markets
Guild Mortgage
On Behalf of the Mortgage Bankers Association

Senate Banking, Housing, and Urban Affairs Committee
Subcommittee on Housing, Transportation, and Community Development

Examining the U.S. Department of Agriculture's Rural Housing Service: Stakeholder Perspectives

September 20, 2022
2:30 P.M.

Testimony of David Battany
Senate Banking, Housing, and Urban Affairs Committee
Subcommittee on Housing, Transportation, and Community Development
September 20, 2022

Chair Smith, Ranking Member Rounds, and members of the Subcommittee, thank you for the opportunity to testify on behalf of the Mortgage Bankers Association (MBA).[1] My name is David Battany, and I am the Executive Vice President for Capital Markets at Guild Mortgage. Incorporated in 1960, Guild Mortgage was one of the first lenders to participate in the Rural Housing Service's (RHS) programs and is now the fourth-largest rural mortgage lender nationwide. At Guild, I lead the company's efforts in the capital markets and am responsible for overseeing our work in pricing, hedging, credit policy, and investor relationships. Guild is a top five rural lender in Nevada, Montana, North Dakota, and South Carolina and we perform both lending and servicing throughout the country.

I currently serve as a member of MBA's Residential Board of Governors and co-chair of MBA's Affordable Homeownership Advisory Council. MBA's policy and advocacy efforts on rural housing matters have focused on providing education to members and other stakeholders regarding RHS offerings, promoting system upgrades at RHS, and ensuring RHS programs operate efficiently for the benefit of borrowers as well as industry participants. MBA supports ensuring RHS programs are appropriately targeted, accessible to borrowers, and deliverable for lenders.

I am also co-chair of the Credit and Lending Committee of the National Housing Conference 2022 Black Homeownership Collaborative and a board member of Habitat for Humanity. On a personal note, I grew up in rural Colorado and the values instilled in me there have stayed with me throughout my career in the mortgage industry.

The Lender's Perspective

I applaud the committee's oversight of the U.S. Department of Agriculture's (USDA) Rural Housing Service and your consideration of the lender perspective of rural homeownership programs. Lenders are indispensable partners to RHS, as they are both the providers and servicers of RHS loans. These programs are worthy of our nation's commitment to them. RHS loan programs play a vital role in increasing the availability of mortgage credit for rural Americans.

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 390,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,200 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

This hearing comes at a time when there are new challenges to serving rural homeowners – from helping our employees and customers recover from the economic impact of COVID-19 to originating a home loan when the average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances just rose to 6.01%. The focus of my testimony, however, is the opportunity to build on recent progress to make RHS lending better serve consumers and industry participants alike. The Subcommittee can advance this objective by addressing three areas: better workflow, better technology, and, if these two areas are achieved, better loan products.

The Rural Mortgage Market

The rural market is constrained by its very nature with limited housing supply, much of which is aging single-family housing. Rural residents do, however, have available to them to varying degrees the same housing finance options available to other borrowers in addition to RHS programs. These include options offered by Fannie Mae, Freddie Mac, the Federal Housing Administration (FHA), and the Department of Veterans Affairs (VA), as well as loans offered without government backing. RHS home loans are offered by a wide variety of mortgage lenders – from independent mortgage banks (who issued 73% of such loans in 2021), to depository institutions, including community banks and credit unions – throughout the country. Although small relative to the scale of the multi-trillion-dollar mortgage market, RHS loans are meaningful lifelines to economic security for the individuals they help and the communities they bolster.

In 2021, the mortgage industry originated $1.8 trillion in new loans and refinanced $2.5 trillion. In that same year, the total volume of USDA/Farm Service Agency loans was 114,524 loans. This represented just 0.49% of all loan volume. The total amount of Section 502 Guaranteed Single-Family Housing Loans obligated, for example, was $448 million in Minnesota and $170 million in South Dakota. The average loan size was approximately $180,000, less than half the national average for a conventional loan. It is imperative to be mindful of this small market share and smaller loan size when discussing any potential reforms and proposals that might further restrict lending or impose additional costs on service delivery.

Better Workflow

I would like to start by commending RHS on its new proposed rule to implement a provision of the *Housing Opportunity Through Modernization Act* (HOTMA), enacted in 2016, to enable the Secretary of Agriculture to delegate approval authority to "Preferred Lenders." USDA currently does not delegate approval authority to lenders in this manner. This is a major barrier to more robust lender participation and puts RHS out of alignment with the processes available in FHA and VA lending. The existing processes require a conditional commitment from USDA staff, and while such commitments are rarely denied, there are instances in which delays in receiving such commitments can cause problems for borrowers and lenders. Market participants have noted that, in some cases, these delays can extend as long as ten days. In such cases, borrowers often have missed their closing dates, causing significant problems with their transactions. USDA should move forward with a more comprehensive set of process updates that provide full delegation to approved lenders. This overdue change would accelerate approval processing timeframes to the benefit of applicants and bring USDA into closer alignment with FHA and VA practices.

Delays in closing can be a “deal-killer” for financing multi-family properties, as well. Apartments and buildings for workforce housing require a combination of debt, tax credits, and equity financing that must come together quickly or they will be applied to other deals. One MBA member, for example, relayed to me that he was unable to close apartment projects in Tennessee and Texas because of months’ long delays waiting for a response from RHS.

The RHS staff has shown a commitment to fostering strong relationships with lenders and servicers throughout the industry. Improvements could be made, however, in the ability of lenders and servicers to get timely clarification on program guidelines when contacting RHS representatives, as well as making policy changes and guideline updates more readily accessible.

Better Technology

The aging technological infrastructure supporting the backbone of RHS operations is widely acknowledged as outdated and in need of substantial upgrades. The systems in place at RHS are less advanced than those used by several other government housing agencies, Fannie Mae and Freddie Mac, or most lenders. Dedicated resources are needed to ensure RHS can keep pace with changes in the market, evolving data security threats, and changes in the ways in which mortgage loans are originated and serviced.

Much of the technology focus for RHS is centered on its Guaranteed Underwriting System (GUS). The use of an automated underwriting system decreases time-consuming and expensive manual file reviews, improves performance monitoring, and reduces program risk, but further work is needed to ensure this system fully supports RHS borrowers and lenders. Additional investments in the GUS interfacing with industry loan origination systems, for example, would make RHS offerings more attractive for loan officers working “on the ground” with consumers. When problems occur, they often require substantial manual intervention and data re-entry to support the program’s mission. Under the current design, RHS imposes limits on the number of “runs” a lender can make for each borrower, making it difficult for a lender to perform pre-qualifications without exceeding the maximum limit. More broadly, updated technological infrastructure is needed to ensure the secure operations of RHS programs.

RHS has begun to assess and collect a $25 per-loan technology fee from lenders in the Section 502 program. While this funding has already delivered results, it has increased the cost of each loan and created a non-appropriated fund that should be reviewed closely. MBA believes that USDA and Congress should provide sufficient funding for RHS technology upgrades through the annual appropriations process and ensure adequate oversight of information technology modernization efforts. RHS should also update its interfaces for the remittance of annual fees from lenders for RHS products to create an efficient, automated, and secure integration between the USDA and servicers' systems. Today, servicers must manually review and submit payments of annual fees – a process which is cumbersome and outdated.

I would also encourage USDA to engage in and leverage the Mortgage Industry Standards Maintenance Organization's (MISMO) industry standards setting process in support of its modernization initiatives. Using MISMO standards helps eliminate friction and bifurcation across the industry by creating consistency in loan data and loan processes.

Better Loan Products

Once the capacity to serve rural borrowers is improved, various RHS loan parameters could be reviewed to ensure they are not unduly restricting access to credit or responsible use of RHS offerings. The RHS debt-to-income limits, for example, are far more stringent than those associated with other types of government-backed lending. RHS requirements related to borrower reserves, borrower deposits, existing tradelines, qualifying income, and tax transcript history would benefit from sensible updates, as well. Congress and USDA also should collaborate to examine existing population limits on RHS loan eligibility to ensure the program's geographic parameters remain appropriate.

RHS also could explore options for increasing the availability of financing for a variety of different types of housing types to match GSE standards. These options include loans secured by both new and existing manufactured housing throughout the country, as well as for accessory dwelling units (ADUs). These housing types have benefitted from advances in technology and design that make them promising approaches to increase the supply of high-quality, affordable housing in rural communities.

Although most lending is completed through the guaranteed loan program, I also would like to bring to your attention concerns regarding Single-Family Housing Section 502 Direct Loans. Congress should ensure funds are provided in a timely manner to enable the program to serve borrowers throughout the entire year. In some instances, lenders have needed to hold a loan until additional funds are made available. Further, rural housing loan volume may be impacted by the "subsidy recapture" imposed through the Direct Loan program. The government subsidy provided for these loans is subject to repayment when the property is sold. This creates a disincentive for those homeowners who are aware of it to sell a home, and for many others, a very unwelcome surprise if they do sell. An unresolved lien on a property can delay the loan closing and even stop a sale when a homeowner cannot repay the subsidy. I would encourage the Subcommittee to evaluate the utility of this lien repayment requirement, which if properly addressed could (in a small way) bolster the supply of affordable rural housing.

Other Rural Lending Issues

MBA commends Chair Smith and Ranking Member Rounds for taking action to improve and encourage access to quality affordable housing on trust land through your sponsorship of S.3381, the *Tribal Trust Land Homeownership Act of 2021*. For Department of Housing and Urban Development (HUD) / Section 184 Native American Loan Guarantees, the Bureau of Indian Affairs must locate and produce a Title Status Report that is used in lieu of title insurance in those transactions. These are all paper files and often are subject to lengthy processing delays. Your legislation will reduce processing delays, thereby encouraging more lenders to participate in trust land mortgage lending.

Rural communities face a well-documented shortage of suitable housing stock and underproduction of homes that meet the needs of the rural workforce. I would encourage the Subcommittee to advance a combination of legislation that together opens the aperture for new housing, such as the bipartisan S.902, the *Housing Supply and Affordability Act (HSAA),* which creates a new Local Housing Policy Grant (LHPG) program administered by HUD to support local efforts to expand housing supply. Zoning reforms, combined with diversification of federal and state financing for rural housing, such as robust Low- and Middle-Income Housing Tax Credits and the financing made available in S.4445, the *Affordable Housing Bond Enhancement Act*, will strengthen the rural housing supply.

Finally, borrowers in rural areas would be well served by greater access to remote online notarization (RON). As the federal investment in broadband access reaches rural communities, they will be able to use a remote online notary in the loan closing process. Authority to perform RON, however, currently is limited to 41 states. I would encourage the Subcommittee members to support S.1625, the *SECURE Notarization Act*, introduced by Senators Warner (D-VA) and Cramer (R-ND), to help rural borrowers access a more reliable and timely mortgage closing process.

Conclusion

Once again, on behalf of all MBA members, I appreciate the opportunity to comment on the Rural Housing Service's loan programs. I also deeply appreciate USDA's ongoing engagement with lenders and other stakeholders to address the three specific topics that I have outlined today. I look forward to your questions and to working with the Subcommittee to develop practical solutions to the issues addressed at this hearing.