



Brad M. Bolton, *Chairman*
Derek B. Williams, *Chairman-Elect*
Lucas White, *Vice Chairman*
Tim R. Aiken, *Treasurer*
Sarah Getzlaff, *Secretary*
Robert M. Fisher, *Immediate Past Chairman*
Rebeca Romero Rainey, *President and CEO*

December 5, 2022

Department of Housing and Urban Development
451 7th Street SW
Washington DC 20410

RE: Request for Information Regarding Small Mortgage Lending

Dear sir or madam,

The Independent Community Bankers of America (ICBA)¹ appreciates the opportunity to comment on the Federal Housing Administration's (FHA) request for input (RFI) regarding barriers to the origination of small mortgages in the FHA program and any potential policy solutions that may help expand affordable homeownership opportunities in markets with lower home prices.

ICBA commends FHA for exploring ways to expand the market for small mortgages and for its overall mission to help provide mortgage financing options for low- to moderate-income borrowers. FHA rightly recognizes many of the barriers that prevent the origination of FHA loans and for small mortgages in particular – the costs and complications to originate and service such loans make it economically untenable for most FHA lenders and further disincentivizes many community banks from making FHA loans. This is compounded by the fact that since the Great Recession the costs of compliance, combined with growing mortgage

¹ The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services.

With nearly 50,000 locations nationwide, community banks constitute roughly 99 percent of all banks, employ nearly 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding nearly \$5.9 trillion in assets, over \$4.9 trillion in deposits, and more than \$3.5 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

The Nation's Voice for Community Banks.®

WASHINGTON, DC
1615 L Street NW
Suite 900
Washington, DC 20036

SAUK CENTRE, MN
518 Lincoln Road
P.O. Box 267
Sauk Centre, MN 56378

866-843-4222
www.icba.org

origination and servicing costs, have caused many lenders to curtail their mortgage lending or exit the market completely.

ICBA Suggestions

ICBA strongly urges FHA to revisit any rules and compliance standards that make small dollar loans inaccessible for qualified borrowers or, more broadly, deter community banks from making FHA loans. Community banks are experts at understanding the communities in which they lend. Their knowledge and experiences should be leveraged by FHA as they lend in rural communities with low- to moderate-income borrowers that could greatly benefit from small mortgages. Moreover, a recent demonstration project lead by the Urban Institute and the Housing Council of America determined that a “typical Black-owned bank is considered a community bank and typically serves predominantly Black communities.”² The findings concluded that “(a)ddressing the regulatory burdens and access to capital to ensure Black-owned banks can be vehicles for small-dollar mortgages will be an important part of the ongoing conversation and market expansion.”³ To that end, ICBA’s Minority Bank Advisory Council works closely with minority banks throughout the country and would be an excellent resource for FHA going forward.

FHA should therefore work with community banks and other stakeholders to make FHA lending more accessible and desirable for local lending institutions. This may include being more flexible with underwriting requirements while reducing compliance burdens and costs. Due to the costs and frictions inherent in FHA lending, many community banks currently choose to portfolio small mortgage loans, reflecting a recent study that showed the percentage of small purchase loans held in portfolio is more than three times as large as its portion of all purchase loans.⁴

Additionally, FHA should work with lenders to address some of the underlying costs of lending in low-cost areas. In general, the fixed origination and servicing costs make smaller loans less economically viable in communities with large populations of low- to moderate-income borrowers. Along with rising Title insurance costs, the availability and costs of appraisals

² https://www.urban.org/sites/default/files/publication/103381/the-micromortgage-marketplace-demonstration-project_0_0.pdf, p. 13.

³ Ibid.

⁴ https://www.urban.org/sites/default/files/publication/98261/small_dollar_mortgages_for_single_family_residential_properties_2.pdf, p. 18.

exacerbate the ability to make small dollar mortgages, often slowing down the mortgage process as well. We therefore suggest expanding the use of automated valuation tools, appraisal waivers, and in-house property evaluations in these markets.

ICBA looks forward to working FHA on this important issue. If you have any questions regarding the content of this letter, please contact the undersigned at tim.roy@icba.org.

Sincerely,

Tim Roy
AVP – Housing Finance Policy

The Nation's Voice for Community Banks.[®]

WASHINGTON, DC
1615 L Street NW
Suite 900
Washington, DC 20036

SAUK CENTRE, MN
518 Lincoln Road
P.O. Box 267
Sauk Centre, MN 56378

866-843-4222
www.icba.org