SBA Office of Advocacy
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Fact Sheet

Advocacy: the voice of small business in government

ADVOCACY SUBMITS COMMENTS ON THE FEDERAL HOUSING ADMINISTRATION'S LENDER APPROVAL RULE

On December 23, 2009, the Office of Advocacy of the U.S. Small Business Administration (Advocacy) submitted a comment letter to the Department of Housing and Urban Development, Federal Housing Administration's (hereinafter, "FHA") on its proposed rulemaking on *Continuation of FHA Reform-Strengthening Risk Management Through Responsible FHA-Approved Lenders*. A copy of Advocacy's comments can be found at: www.sba.gov/advo/laws/comments.

- The purpose of the proposed rule is to streamline, modernize, and strengthen the mortgage insurance functions and responsibilities of FHA, as authorized by provisions contained in the National Housing Act, as amended by the FHA Modernization Act of 2008, and further supported by the Helping Families Save Their Homes Act of 2009.

- FHA proposes to no longer to approve loan correspondents as participants in FHA programs. Mortgagees would be required to ensure that their loan correspondents meet applicable requirements. The proposal would also increase the net worth requirement for FHA approved mortgagees for the purpose of ensuring that approved mortgagees are sufficiently capitalized.

- FHA prepared a certification for the Regulatory Flexibility Act (RFA) section of the preamble. After working with industry representatives, Advocacy questioned the basis of this certification. Advocacy asserted that at least 40 percent of the approved mortgagees had a net worth that was less than $1 million. Although HUD did not state that these approved mortgagees were small, it is fair to assume that at least 40 percent probably are small given their net worth.

- The new net worth requirements will eliminate a large number of smaller wholesale lenders who are currently servicing mortgage brokers. Those lenders will lose the current income that they receive by participating in the FHA program and mortgage brokers may have a difficult time finding new lenders to obtain the FHA product. Because only FHA-approved mortgagees are allowed to request FHA case numbers and other information, the proposal interferes with a correspondent's ability to obtain information for FHA loans or access FHA's website. The lack of access is time consuming and potentially costly if the customer decides to go elsewhere for the loan.

- Advocacy encouraged FHA to prepare an IRFA to determine the economic impact that this proposal may have on small entities and to consider less costly alternatives such as a net worth requirement that is not so excessive.

For more information, visit Advocacy's webpage at www.sba.gov/advo or contact Jennifer Smith at 202-205-6943.