NATIONAL ASSOCIATION of REALTORS®

Steve Brown, ABR, CIPS, CRS, GREEN
2014 President

Dale A. Stinton
Chief Executive Officer

GOVERNMENT AFFAIRS DIVISION
Jerry Giovaniello, Senior Vice President
Gary Weaver, Vice President
Joe Ventrone, Vice President
Scott Reiter, Vice President
Jamie Gregory, Deputy Chief Lobbyist

500 New Jersey Ave., NW
Washington, DC 20001-2020
Ph. 202-383-1194 Fax 202-383-7580
www.REALTOR.org

June 4, 2014

The Honorable Carol Galante
Assistant Secretary for Housing – Federal Housing Commissioner
US Department of Housing and Urban Development
Washington, DC 20410

Dear Commissioner Galante:

I am writing on behalf of the one million members of the National Association of REALTORS® (NAR) to submit our comments on FHA's Proposed Supplemental Performance Metric. NAR appreciates FHA's efforts to provide an additional metric to evaluate lenders in addition to the Lender Compare Ratios.

The National Association of REALTORS® (NAR) is America's largest trade association, including NAR's eight affiliated institutes, Societies and Councils, five of which focus on commercial transactions. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,400 local associations or boards, and 54 state and territory associations of REALTORS®.

The proposed Supplemental Performance Metric is a step in the right direction and NAR feels that is will help compare lenders to an FHA acceptable rate, rather than an industry average. This step is crucial in an environment where lenders are instituting credit overlays on FHA insured mortgages.

FHA Proposal

FHA currently compares a lender's early seriously delinquent (SDQ) performance for single family loans in a geographic area to other mortgagees in the same area. FHA proposes a supplemental analysis (see chart below) that will assess lender performance based on the lender's national default rate within three credit bands (below 640, 640 to 680 and above 680) and compare it to an FHA target rate of 1.6 percent. If a lender's SDQ rate is less than 125 percent of the target rate, FHA has indicated that "this may be a consideration to not take further action under the Initiative." In the example below, the lender's SDQ rate is 118 percent of the weighted SDQ target, or 1.89 percent. If the SDQ was 125 percent of the target, or 2.0 percent, FHA would likely proceed with the Credit Watch Termination Initiative. FHA would continue to permit the lender to appeal any proposed termination.

Distribution and SDQ* Rates				Scores		
	<640	640-680	>680	Weighted SDQ	Compare Ratio	Supplemental Metric Ratio
Target						
Mix	25%	50%	25%	1.60%		
SDQ	3.0%	1.5%	0.4%			
FHA Portfolio						
Mix	9%	38%	53%	1.01%		
SDQ	2.6%	1.5%	0.4%			
Lender 1 - Example						
Mix	30%	60%	10%	1.89%	187%	118%
SDQ	2.9%	1.6%	0.6%			

*Serious Delinquency Rates

NAR Comments

Need more certainty in value of Supplemental Performance Metric
NAR believes that the benefit of the Supplemental Performance Metric needs to be more definitive. If a lender has a supplemental metric ratio below the acceptable compare ratio (proposed 125 percent), we would like to see more certainty that the lender will not be subject to termination.

Serious delinquency rate target of 1.6 percent is too low
FHA's Neighborhood Watch SDQ rate declined below 2 percent in 2011. Before that date, the early SDQ rate had not been below 2 percent for the first twelve years of the Credit Watch Program. We ask FHA to reconsider the target rate of 1.6 percent and increase the acceptable rate to at least 2 percent. Establishing a higher baseline now would allow lenders to loosen credit overlays and ease the fear of back-end enforcement actions by FHA.

Effective Cap on Percentage of Business with Lower Credit Scores
NAR is concerned that the 25 percent target for business in the lower credit score category (<640) may be too low for lenders that specialize in lending to low-income borrowers. We ask that the target mix be increased to 50 percent. Making this change would have the effect of increasing the target 1.6 percent weighted SDQ to a higher level.

Compare ratio of 125 percent
In its other Credit Watch calculations, FHA uses an SDQ rate of 150 percent of the industry average for Lender Insurance sanctions and 200 percent for Credit Watch penalties. We are concerned that 125 percent may provide too narrow of a tolerance particularly for smaller lenders where 5 to 10 additional early defaults could cause a significant swing in its compare ratio. Consequently, lenders may be compelled to manage their performance at much lower default rates, which will not encourage lending to qualified borrowers across the credit spectrum.

NAR appreciates the opportunity to comment on this proposed Metric. If you have any questions regarding this letter, please contact me or our Regulatory Policy Representative, Sarah Young, at 202-383-1233 or scyoung@realtors.org.

Sincerely,

Steve Brown

Steve Brown
2014 President, National Association of REALTORS®