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

Introduction

Chair Smith, Ranking Member Rounds, and members of the Subcommittee, thank you for the opportunity to testify on behalf of the Mortgage Bankers Association. Lenders are indispensable partners to USDA's Rural Housing Service, as we are both the providers and servicers of RHS loans. These programs are worthy of our nation's commitment to them.

In 2021, there were 114,000 mortgage loans backed by USDA. This represented less than half of one percent of total loan volume. The average loan size was approximately $180,000. The total amount of Section 502 Guaranteed Loans obligated for Minnesota was $448 million and $170 million in South Dakota. It is imperative to be mindful of this small market share and smaller loan size when discussing proposals that might further restrict lending or impose additional costs on service delivery.

The focus of my testimony is the opportunity to build on recent progress so that RHS lending can better serve consumers and industry participants alike. We can advance this objective by addressing three areas: better workflow, better technology, and (if these two areas are achieved) better loan products.

Better Workflow

I would like to start my discussion of better workflow by commending RHS on its recently proposed rule to implement a provision of HOTMA, enacted in 2016, to enable the Secretary to delegate approval authority to "Preferred Lenders." Lack of any delegation authority is a major barrier and has kept RHS out of alignment with FHA and VA lending.

In some cases, response times from RHS to approve a loan can take up to ten days, resulting in some borrowers having to delay their home closings. For financing multifamily properties, delays can be a "deal-killer." Buildings for rural 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. USDA should proceed with updates that provide full delegation to approved lenders to be responsive to their customer's needs for both residential and multifamily lending.

Better Technology

The technology backbone of RHS operations is widely acknowledged as outdated. It is less advanced than those used by several other government housing agencies, Fannie Mae and Freddie Mac, and lenders. USDA should have the budget 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.

The technology focus for RHS is centered on its Guaranteed Underwriting System (GUS). Further work is needed to ensure this system fully supports RHS borrowers and lenders. For example, 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. RHS offerings need to be more attractive for loan officers working "on the ground" with consumers. When a problem occurs with the system, it requires substantial manual intervention.

Today, RHS collects a $25-per-loan fee from lenders to fund system upgrades. While this funding has already delivered results, it has increased the cost of each loan. It has also created a non-appropriated fund that should be reviewed closely. USDA and Congress should prioritize funding for RHS technology upgrades through annual appropriations and ensure adequate oversight of IT modernization. RHS should also update its interfaces for the remittance of annual fees. Today, servicers must manually review and submit payments, which is cumbersome and outdated.

Better Loan Products

Once capacity is improved, various RHS loan parameters should be reviewed to ensure they don't restrict 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 could examine limits on the program's population size and geographic parameters.

The Subcommittee should review the lien repayment required under the Direct Loan program and work to ensure that federal funds are provided in a timely manner to serve borrowers throughout the entire year.

Finally, RHS can expand pilot projects and finance a broader variety of housing types to match GSE standards, including manufactured housing and accessory dwelling units (ADUs). RHS financing them will increase affordable housing options in rural areas.

Conclusion

Once again, on behalf of all MBA members, I appreciate the opportunity to testify. I also deeply appreciate USDA's ongoing engagement with lenders and other stakeholders to address the three specific topics that I outlined today. I look forward to your questions.