



3138 10th Street North
Arlington, VA 22201-2149
703.522.4770 | 800.336.4644
f: 703.524.1082
nafcu@nafcu.org | nafcu.org

National Association of Federally-Insured Credit Unions

May 27, 2022

Regulations Division
Office of General Counsel
Department of Housing and Urban Development
451 7th Street SW, Room 10276
Washington, DC 20410-0500

RE: Increased Forty-Year Term for Loan Modifications (Docket No.: FR-6263-P-01; RIN No.: 2502-AJ59)

Dear Sir or Madam:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing in regard to the Department of Housing and Urban Development's (HUD) proposal to amend its current regulation to allow for mortgages to recast the total unpaid loan for a new term limit of 480 months. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 130 million consumers with personal and small business financial service products. NAFCU supports the proposed rule and recommends that HUD allow for the option of the origination of 40-year mortgage loans.

General Comments

HUD's mission is to create strong, sustainable, inclusive communities and quality affordable homes for all.¹ HUD explains that it is working to strengthen the housing market to bolster the economy and protect consumers; and to utilize housing as a platform for improving quality of life. This proposed rule is a step in the right direction to further HUD's mission by allowing mortgagees to provide a 40-year loan modification and will assist more borrowers in retaining their homes after a default while mitigating losses to the Mutual Mortgage Insurance (MMI) Fund. The Federal Housing Administration (FHA) is a part of HUD that provides mortgage insurance on loans made by FHA-approved lenders. When a borrower defaults on an FHA-insured mortgage the FHA covers the lender's loss with money from the MMI. FHA-insured mortgages give borrowers with less appealing credit scores access to homeownership.

The most common cause of default by homeowners is delinquent loan payments; many times, delinquent loan payments are due to a borrower's inability to continue to afford their monthly payments. Job loss or salary reductions coincide with the need for reduced payments and the ability to remain in one's home. A lower monthly payment may be exactly what is needed to keep a borrower in their home and continue to build wealth through homeownership. During the COVID-19 pandemic, some borrowers experienced employment disruption which lead to issues with cash flow. Credit unions helped and continue to help their members by providing them with temporary

¹ <https://www.hud.gov/about/mission>.

and permanent loan modification options including extending loan terms. Lowering the monthly payment by extending the term of the loan can help to prevent foreclosures and allow the housing finance market thrive.

Foreclosures have an impact on more than just the homeowner. Foreclosures represent a loss for lenders and in the case of FHA-backed loans, that loss is transferred to the MMI Fund. An increase in foreclosures causes a lender to tighten their underwriting and lending practices in order to reduce their risks, making it more difficult for other borrowers to obtain loans. It hurts the borrower because not only are they now out of a home, but their credit greatly suffers. In most instances homeowners are unable to obtain homeownership again after they have lost their home to foreclosure. Foreclosures also have a negative impact on surrounding property values. Avoiding foreclosure is beneficial to our nation's economy as a whole. There has been an increase in the foreclosures in the FHA's loan portfolio, which is mainly due to the end of the foreclosure moratorium on July 31, 2021.²

While there are some negative aspects to a 40-year mortgage, they are completely outweighed by the benefits of retaining homes. A 40-year mortgage inevitably slows the time it will take for a borrower to build equity, but when a borrower is in default retaining their home is more important than building equity at a rapid rate. A 40-year mortgage will also cost the borrower more if they take the entire 40 years to pay off the loan, but in some cases, this may be the only option available aside from losing the home. Additionally, the need for FHA partial claims may be reduced by a 40-year mortgage; further reducing the need for an additional lien on a property.

Parity among all lenders is necessary for the housing finance system and allows FHA borrowers to receive comparable opportunities for home retention. Allowing FHA loans to have a 40-year loan modification in the event of a default brings the FHA up to speed with other government-backed entities the secondary market, such as the Government-Sponsored Enterprises (GSEs). Currently, the National Credit Union Administration, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, GSEs, and the United States Department of Agriculture all allow 40-year loans. Expanding mortgage maturity limits for FHA-backed loans in the case of delinquency would provide needed parity with other lenders.

This proposal will also incentivize more credit unions to become FHA lenders. Credit unions want to be able to provide their members with a variety of options for mortgage lending. NAFCU supports credit unions having more options for government-backed loans, including through the FHA. HUD aligning its policies with other regulators allows credit unions to offer similar products across the board and gives borrowers more options to find the mortgage that best suits them.

HUD should approve an option for the FHA to insure 40-year term mortgages from origination.

Many credit unions have found that 40-year products enable borrowers to enter loans with affordable monthly payments. Younger, first-time homebuyers can benefit from a longer

² <https://www.housingwire.com/articles/hud-says-fha-delinquencies-positive-sign-as-it-weighs-premium-pricing/>.

amortization. Of course, if a borrower finds themselves in a better situation down the line they can refinance for a bigger payment and shorter loan term to reduce the total amount of interest paid and build equity faster. A smaller payment, longer-term mortgage can allow many people to get their foot in the door of homeownership and get the home they want, closing the racial homeownership gap. It can also allow a family that may be on a tight budget to achieve homeownership because it will keep more money in their pocket every month as opposed to a traditional 30-year mortgage. The allowance of a long-term mortgage loan will not affect the safety and soundness of the housing finance system or the credit union system. In fact, smaller more affordable mortgage payments also mean fewer risks for the lender.

Conclusion

NAFCU appreciates the opportunity to comment on this proposal and applauds HUD for providing borrowers with options to retain their homes. NAFCU supports the proposed rule and recommends that HUD approve an option for the FHA to insure an option for 40-year term mortgages. Should you have any questions or require additional information, please do not hesitate to contact me at (703) 842-2268 or amoore@nafcuh.org.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Moore', with a stylized flourish at the end.

Aminah Moore
Senior Regulatory Affairs Counsel