To:  

From:  
Eileen M. Fitzgerald  
Chief Executive Officer  
NeighborWorks America

999 North Capitol Street NE, Suite 900  
Washington, DC 20002

Date:  October 22, 2013

Subject:  Section 502 Direct Single Family Housing Loan Program:  
Creation of a Certified Loan Application Packaging Process  
Rural Housing Service, USDA

Dear Ladies and Gentlemen:

On behalf of NeighborWorks® America (also known as the Neighborhood Reinvestment Corporation) I want to thank the United States Department of Agriculture (“the Agency”) for the opportunity to provide comments in regard to the Proposed Amendments to the Regulations for the Section 502 Direct Single Family Program to create a certified loan application packaging process for eligible loan application packagers, as published in the Federal Register on Friday, August 23, 2013.
Please note that these comments have not been submitted to or approved by NeighborWorks America’s board. These views do not necessarily represent the views of its board members, either collectively or as individuals.

These comments reflect the views of NeighborWorks America’s management, which have been formed in consultation with a number of NeighborWorks America’s more than 235 local and regional nonprofit affiliated NeighborWorks organizations.

NeighborWorks America has a long history of supporting affordable housing and community development efforts in rural areas. In the NeighborWorks network, there are 173 organizations which do some work in rural areas, and 104 NeighborWorks organizations with a significant portion of their services in rural areas. In FY 2012, 19% of clients of NeighborWorks organizations resided in rural census tracts, and 16% of rental units produced were in rural areas.

NeighborWorks America is strongly supportive of the effort that the Agency has put into proposing these amendments to the 502 Direct program. We applaud the general direction of the proposed amendments, and we are very supportive of the increased levels of partnership between the Agency and high performing nonprofit organizations that these amendments represent.

NeighborWorks America, in partnership with the Agency, the Housing Assistance Council (HAC) and Rural Communities Assistance Corporation (RCAC), has been a key supporter of the Section 502 Direct loan packaging regional demonstration pilots. We have provided the Agency’s five Section 502 Direct loan packaging regional demonstration pilots with a total of $620,000 in annual operating grants over a four-year period (fiscal years 2010, 2011, 2012, and 2013). Of the five organizations which have lead the regional demonstration pilots, three –FAHE, NeighborWorks Dakota Home Resources and GROW Dakota – are chartered NeighborWorks organizations.

In partnership with the Agency, HAC, and RCAC, NeighborWorks America has developed and hosted a series of three-day 502 Direct loan packaging trainings, the content of which has been approved by the Agency. Since 2009, NeighborWorks America itself has hosted eight of these Loan Packaging Certification three-day training classes at our national NeighborWorks Training Institutes. HAC and RCAC have hosted trainings as well. More than 500 practitioners have successfully completed these trainings.
NeighborWorks America provides the following comments in response to the specific proposed revisions.

**Reporting Requirements**

In response to comments invited on paperwork reduction issues (1), (2), (3) and (4), NeighborWorks respectfully encourages the Agency to develop a system to collect the reports via a web-based interface.

The burden for the Agency-Certified Loan Application Packagers, Qualified Employers, and the Agency-Approved Intermediaries to report on their activities will be lessened significantly by the usage of a web-based portal for reporting and for submission of the loan packages to the Agency. In the foreclosure counseling area, there have been substantial efficiencies achieved through the employment of Hope LoanPort, a web-based tool which allows foreclosure counselors to submit foreclosure loan packages electronically through a secure web portal. Since the Agency has been clear that the actual underwriting of every loan packaged by a participating nonprofit is an essential government function, we believe it is reasonable to expect that the Agency will maintain or develop the capacity to track all loans package submitted by Qualified Employers and Agency-Approved Intermediaries and approved for funding by the Agency.

Further, in the spirit of partnership, we suggest that the Agency prepare quarterly reports back to the Agency-Approved Intermediaries and Qualified Employers on their records of loans closed following nonprofit packaging. We also suggest that the Agency track loans and servicing so they can provide internal and external reports on loan performance and delinquency. Data on the performance of these loans, as well as data on performance relative to the Agency's portfolio as a whole, will be extremely useful management tools for Agency-Approved Intermediaries and Qualified Employers.

**Certified Loan Application Packaging Process**

*Section B2. Qualified Employers*
NeighborWorks America has substantial experience working with federal enforcement agencies and other partners to prevent mortgage loan scams and mortgage modification scams. We have observed many cases where scammers have defrauded homeowners and homebuyers. We applaud the Agency for establishing standards for nonprofits to participate in the certified loan application packaging process.

There are many excellent nonprofit organizations who have experience with homeownership counseling and loan packaging, but do not have three years experience with the Direct single family loan program. For this reason, NeighborWorks America suggests adding a Provisionally Qualified Employers category. Provisionally Qualified Employers would be defined as having one or more Agency-Certified Loan Application Packagers, and having less than three years experience with the Agency’s Direct single family program. The Provisionally Qualified Employers would be required to meet all the other qualifications of Qualified Employers as outlined in the amendment.

Provisionally Qualified Employers would receive allowable fees for services rendered upon closing, but they would be required to utilize an Agency-Approved Intermediary for quality assurance review of the loan packages prior to submission to the Agency. In this way, the Agency will be encouraging increased participation while moving the nonprofit industry to a higher overall performance standards.

Section B3. Agency-Approved Intermediaries
NeighborWorks America respectfully suggests that the Agency, at its discretion, designate those intermediaries which have served as one of the five demonstration pilot site intermediaries as Agency-Approved Intermediaries, whether or not they have had five years experience with the Agency’s Direct single family housing loan programs. It is NeighborWorks America’s opinion that these five intermediaries have gained sufficient experience with the intermediary requirements of the 502 Direct program to serve in this capacity.

Section C. Packaging Fee Provisions
NeighborWorks America respectfully suggests that the Agency cap the packaging fee at no more than three percentage points of the national average area loan limit, consistent with the cap on allowable fees for for-profit lending partners under the 502 Guaranty program.
NeighborWorks America applauds the Agency for raising the fee to $1,500 from $750 as is the current practice in most areas. However, we respectfully point out that a $1,500 fee is still less than what would be required to fully recover the costs for the range of customer readiness activities involved in a successful 502 Direct closed package.

NeighborWorks America also suggests that the initial fee should be $1,500 whether or not an intermediary is involved. An organization which does not work with an intermediary will be required to perform loan quality assurance on their own loan packages, and will be required to absorb the cost of those activities. Since a clear separation of duties is required, and thus different staff members from the Agency-certified loan application packagers must perform the quality assurance in either case, the cost of these activities will be very similar whether they are performed at the Qualified Employer or an Agency-Approved Intermediary level.

NeighborWorks America would also like to applaud the Agency’s decision not to dictate how fees are divided between Agency-Certified Packagers, Qualified Employers, and Agency-Approved Intermediaries. It is NeighborWorks America’s experience that the nonprofits involved in 502 Direct packaging are good judges of how to fairly discern who has earned certain levels of fees based on the work performed by each team member.

Finally, NeighborWorks America would like to suggest that packaging fees should be allowed for all 502 Direct loans including RHS Real Estate Owned properties and Mutual Self-Help. It is important to compensate the loan application packagers for the work that they perform in preparing borrowers and packaging high quality loans no matter which variation of the 502 Direct program is utilized. It is no longer the case that loan packaging costs are adequately covered in the Section 523 grant. It is our understanding from conversations with NeighborWorks organizations that reduced levels of Section 523 funding and interrupted flows of grant awards, coupled with reduced Rural Development field staff, have added new cost burdens to already cost-burdened projects.

**Solicitation of Comments**

*Inclusion of Intermediaries*

The Agency has specifically solicited comments on the inclusion of intermediaries in the certified loan application packaging process. NeighborWorks America has had significant experience and involvement with the demonstration pilot, from our support for the initial concept of using nonprofit intermediaries to increase the quality control of 502
Direct loan applications, to the annual operating grants we have made to the five demonstration pilots. This experience has confirmed for us that there is significant value added in including intermediaries in the 502 Direct loan packing process. While the production has varied across the five pilot regions, in each case, the demonstration pilot has established that the intermediaries play an important role in improving the quality of loan packages submitted to the Agency, and in improving the processing time for loan applications.

To that end, steps should be taken to encourage the certification of additional intermediaries. Informal scans by NeighborWorks America indicate that interest among nonprofit organizations that are likely to meet the Agency-Approved intermediary qualifications could more than double the number of intermediaries who participate.

NeighborWorks America is very supportive of the idea of creating a certification process for intermediaries. We agree with the intermediary standards as proposed by the five demonstration pilot intermediaries as outlined in the February 28, 2013, letter to Administrator Treviño.

NeighborWorks America respectfully suggests that the Agency consider outsourcing the certification and recertification of Agency-Certified Loan Application Packagers, Qualified Employers, and Agency-Approved Intermediaries, given the time burden the Agency will absorb in managing the process.

In terms of the handling of the coverage areas for Agency-Approved Intermediaries, NeighborWorks America suggests a flexible approach. In order to best achieve the desired outcome of uniform access, NeighborWorks America believes that the Agency should encourage interested intermediaries to self-identify the rural areas they intend to serve in an open RFP process. An informal scan indicates that there may be areas of the nation that are not covered by the existing intermediaries who have expressed interest in this work. In other areas, more than one intermediary could serve the same service area. In addition, there is no consistent pattern to the service areas that could become a qualifying norm. These factors will make it difficult for the Agency to determine which intermediaries should serve which areas of the country. Allowing the intermediaries to self-identify service areas is the best strategy to help achieve the goal of providing access to the 502 Direct loan program to all eligible households in rural areas around the nation.

Funding Priorities
NeighborWorks America applauds the Agency’s decision to give priority to loans received via the certified loan application packaging process ahead of the current fifth priority of “all other applicants.” Priority funding will help make this program a success.

Limiting Qualified Employers and Intermediaries to Nonprofit Entities
NeighborWorks America sees the value in healthy competition. However, we note that nonprofits have unique experience in preparing low income borrowers, and in serving in the intermediary role for the 502 Direct loan packaging process. Therefore, NeighborWorks America is very supportive of the Agency’s decision to limit Qualified Employers and Agency-Approved Intermediaries to Nonprofit Entities.

It is NeighborWorks America’s experience that homeownership education and counseling provided by nonprofit NeighborWorks organizations is extremely effective. NeighborWorks America partnered with Neil Mayer & Associates and credit reporting company Experian to survey borrowers of 75,000 mortgage loans that originated in 2007, 2008 and 2009. The results, released in March of this year, found that people who participated in NeighborWorks housing counseling and education before they buy were nearly one-third less likely than those who did not receive assistance to fall behind on their mortgages for 90 days or more in the first two years. The benefit was the same whether homebuyers were new or repeat borrowers.

Background Information Regarding NeighborWorks America

NeighborWorks America was established by Congress in 1978 as the Neighborhood Reinvestment Corporation. The Corporation receives a direct annual federal appropriation. The corporation’s Board of Directors is made up of senior representatives of the federal financial regulatory agencies (the Federal Reserve; the Federal Deposit Insurance Corporation; the Comptroller of the Currency; the National Credit Union Administration) and the U.S. Department of Housing and Urban Development.

The primary mission of NeighborWorks America is to expand affordable rental and homeownership opportunities and to strengthen communities across the United States. NeighborWorks America provides support to more than 235 local and regional community-based NeighborWorks organizations, as well as training and service to the
broader community development field. NeighborWorks organizations serve urban, suburban and rural communities in all 50 States, the District of Columbia and the Commonwealth of Puerto Rico.

In FY 2012 alone, NeighborWorks America and the NeighborWorks organizations generated more than $4.6 billion in direct reinvestment in distressed communities across the nation, and helped 305,000 low- and moderate-income families purchase and preserve their homes, and live in safe, decent rental housing.

Closing Comment

In closing, NeighborWorks America would like to thank the Agency for its efforts to create a certified loan application packaging process for eligible loan application packagers, which NeighborWorks America strongly supports.

Please feel free to contact me or Kirsten Johnson-Obey, Senior Vice President for Public Policy and Legislative Affairs (at 202-760-4000 or kjohnson-obey@nw.org) for any clarification of these comments.

Sincerely,

Eileen M. Fitzgerald
Chief Executive Officer