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National Association of Federally-Insured Credit Unions

June 30, 2021

The Honorable Jon Tester
311 Hart Senate Office Building
U.S. Senate
Washington, D.C. 20510

The Honorable Cynthia Lummis
124 Russell Senate Office Building
U.S. Senate
Washington, D.C. 20510

Re: S.2131, the *Improving FHA Support for Small-Dollar Mortgages Act of 2021*

Dear Senator Tester and Senator Lummis:

I write today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) to express our strong support for S. 2131, the *Improving FHA Support for Small-Dollar Mortgages Act of 2021*. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve nearly 125 million consumers with personal and small business financial service products.

The *Improving FHA Support for Small-Dollar Mortgages Act of 2021* would require the Federal Housing Administration (FHA) to conduct a review of any barriers to small dollar mortgages (under \$100,000) and report to Congress on plans to remove those barriers. NAFCU believes this is an important step to ensure that affordable mortgage credit is available to low-and-moderate-income (LMI) households. Recent research from the Urban Institute looked at 2019 *Home Mortgage Disclosure Act* (HMDA) data and found that nationwide, homes priced under \$100,000 constituted only 26.7 percent of home sales, and of those sales, “only 23.2 percent were purchased with a mortgage, compared with 73.5 percent of homes priced at or above \$100,000.” Moreover, their research found that while the FHA’s mission is to ensure affordable mortgages are available to underserved, LMI households, the 2019 HMDA data revealed that the FHA loan share for small dollar mortgages (under \$100,000) was lower across all incomes compared to the FHA loan share for larger loans (\$100,000 or more).¹

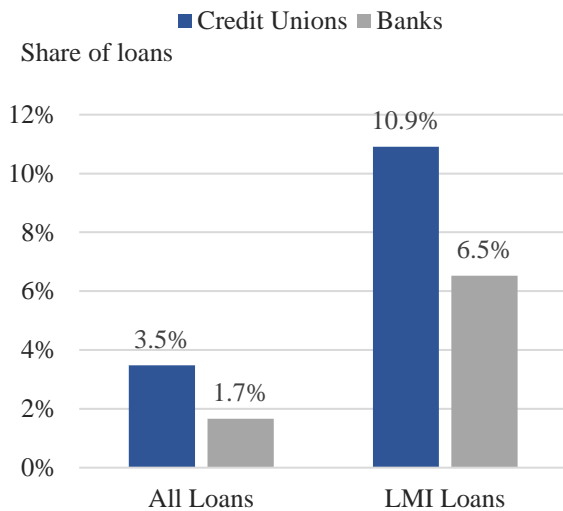
Credit unions have long been an important source of credit to many Americans looking to purchase a home, and credit unions are willing to make small-dollar mortgage loans as they are an important tool to help their members, including those who are LMI. The Urban Institute’s research has suggested that denial rates for small-dollar mortgages are higher partly because they are less profitable, hence most lenders are not incentivized to make these loans.² But credit unions, guided by the mission of serving their members rather than a profit motive, are far more likely than banks to originate such loans. In so doing, they make the dream of homeownership a reality for thousands of members that may not otherwise have access to mortgage credit.

¹ Zhu, Linna and Rita Ballesteros. 2021. “Making FHA Small-Dollar Mortgages More Accessible Could Make Homeownership More Equitable.” Washington, DC: Urban Institute.

² McCargo, Alanna, et.al. 2018. “Small-Dollar Mortgages for Single-Family Residential Properties.” Washington, DC: Urban Institute.

The charts below outline how credit unions outperform banks in terms of small dollar loans, both as a share of overall lending and LMI loans specifically.

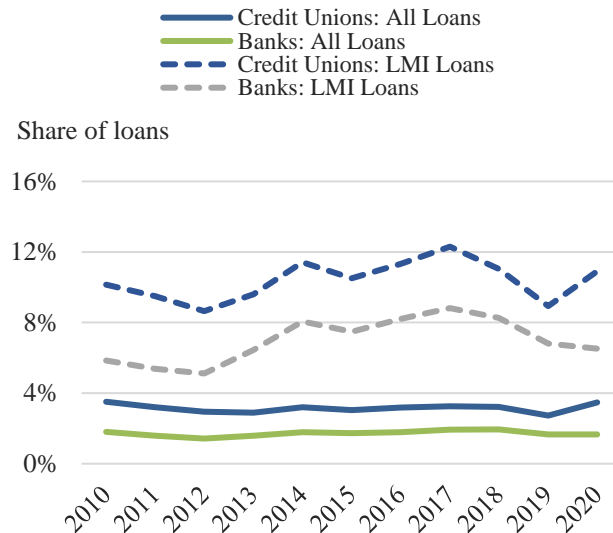
Small Dollar Loans



Notes: Small dollar loans are those with an origination amount of \$100,000 or below. Low- and moderate-income (LMI) loans are those where the borrower's income is less than 80 percent of the area median income (AMI) or where the property is located in a low-income census tract (one in which the tract median income is less than 50 percent of the AMI). All figures represent first-lien, owner-occupied, single-family purchase loans.

Source: NAFCU analysis of 2020 HMDA data

Small Dollar Loans



Notes: Small dollar loans are those with an origination amount of \$100,000 or below in 2020, indexed for inflation in prior years. Low- and moderate-income (LMI) loans are those where the borrower's income is less than 80 percent of the area median income (AMI) or where the property is located in a low-income census tract (one in which the tract median income is less than 50 percent of the AMI). All figures represent first-lien, owner-occupied, single-family purchase loans.

Sources: NAFCU analysis of HMDA data, Case-Shiller U.S. National Home Price Index (annual average)

S. 2131 is an important step to help expand the availability of small dollar loans, and we thank you for introducing this legislation. We appreciate your leadership and ongoing focus on issues important to credit unions, including affordable housing. We look forward to working with you on these issues. Should you have any questions or require any additional information, please do not hesitate to contact me or Sarah Jacobs, NAFCU's Associate Director of Legislative Affairs, at 703-842-2231 or sjacobs@nafcu.org.

Sincerely,

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the U.S. Senate