



MORTGAGE BANKERS ASSOCIATION

Federal Government Shutdown Implications for the Mortgage Industry

As Congress considers a continuing resolution to extend funding for federal government operations, the federal agencies are preparing for the possibility of a shutdown when the current funding expires just past 11:59pm Eastern on Thursday, September 30. While both Democrats and Republicans in Congress have indicated a desire to avoid a shutdown, ongoing negotiations related to the federal debt limit, the bipartisan “hard” infrastructure package, and the use of budget reconciliation to fund “soft” infrastructure priorities complicate this process.

A shutdown would necessitate a furlough of certain federal employees and significant curtailment of agency operations. Employees exempted from a furlough include those performing emergency services protecting human life and property, executing minimal activities to suspend agency operations, and engaging in other work deemed “excepted” by the Office of Management and Budget (OMB) and agency heads. Agencies and employees are “exempt” from furloughs if they are not affected by a lapse in appropriations. In prior guidance from OMB Director Sylvia M. Burwell to the heads of agencies that was effective during the 2013 furloughs, “activities essential to the preservation of essential elements of the money and banking system of the United States, including borrowing and tax collection activities of the Treasury,” were exempt from shutdowns. OMB provides several helpful [resources](#) in the event of a lapse in funding, including a set of [Frequently Asked Questions](#).

Although it is difficult to quantify all of the impacts of a federal government shutdown, lenders processing FHA, VA, and USDA loans, or loans that need tax transcripts or Social Security number verification, should anticipate delays and reduced functionality from FHA, VA, USDA, IRS, and SSA. A shutdown lasting a few days would inconvenience lenders in processing loans; a longer delay, however, clearly would have more serious impacts. While a shutdown may not occur at all, MBA will keep its members notified of any and all relevant updates.

See below for a summary of potential mortgage-related impacts stemming from a federal government shutdown. Please note that these potential impacts are based on prior federal government shutdowns and the latest guidance issued by federal agencies, though all are subject to change.

I. HUD (including FHA and Ginnie Mae)

Based on prior shutdowns, the Department of Housing and Urban Development’s (HUD) operations, including the activities of the Federal Housing Administration (FHA) and Ginnie Mae, would be reduced considerably, which may impede the processing and closing of certain mortgage loans.

According to HUD’s 2019 [contingency plan](#), FHA will endorse new single-family loans, with the exception of Home Equity Conversion Mortgages (HECM) and Title I loans, during a shutdown – as long as FHA does not run out of commitment authority. Single-

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family endorsements that require assessment by an FHA underwriter will not be able to be finalized, though FHA will support manual endorsement actions such as case number cancellations or transfers. Minimum operations needed to support FHA's existing portfolio, such as processing and payment of claims or ensuring the continuity of the asset disposition process, will be maintained. Other actions that require intervention by FHA personnel are likely to be delayed.

With respect to multifamily housing, no applications for multifamily FHA mortgage insurance will be processed or accepted and loan processing is expected to slow. As in the case of previous federal government shutdowns, closings will be conducted for FHA Multifamily Initial Endorsements for 221(d)(4) and initial/Final Endorsement for 223(f)s on projects with firm commitments. HUD is expected to review construction inspections once the government reopens. The FHA Office of Multifamily Housing is expected to provide further guidance to lenders.

In the case of a government shutdown, Ginnie Mae will retain much of its functionality, as it may incur obligations and continue its operations under an emergency exception. Several functions are permitted under this emergency exception, including the ability to issue commitment authority, guarantee mortgage-backed securities (MBS), receive and process monthly MBS data, review and process transfers of mortgage servicing rights, and, crucially, make payment to securities holders.

II. VA

The Department of Veterans Affairs (VA) loan guaranty program historically has been exempt during a federal government shutdown. The loan guaranty program was excluded because of its entitlement program status and therefore VA was able to guarantee loans during a shutdown. Loan guaranty certificates of eligibility and certificates of reasonable value, however, were delayed. Much like HUD, in 2019 VA published a [contingency plan](#) detailing the expected impact on its operations should there be a lapse in appropriations.

III. USDA

The Department of Agriculture (USDA) housing programs would be limited in their functionality during a federal government shutdown. Single-family housing guaranteed lenders can close loans only if they are in possession of a valid Conditional Commitment. Following loan closing, lenders may request issuance of a Loan Note Guarantee under standard procedures, but these requests may not be reviewed by USDA staff until the conclusion of a shutdown. During this period, the lender assumes the risk for the loan (until a Loan Note Guarantee is issued).

Multifamily housing rental assistance and voucher payments on existing contracts will be made as part of collections and tenant certifications activity.

The USDA Rural Development [contingency plan](#) contains further details on the potential impact of a federal government shutdown.

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IV. IRS

Concern has been raised about the ability of the Internal Revenue Service (IRS) to issue tax return transcripts should a government shutdown occur. Without tax transcripts, loan processing may be delayed. Prior shutdown experience suggests that the IRS would halt processing of paper-submitted requests. As with FHA, IRS online networks may be available, but this is not certain.

V. Social Security Administration

For verification of borrowers' Social Security numbers, lenders rely on either third-party vendors or the Social Security Administration (SSA). In previous shutdowns, SSA has retained only employees that deal directly with the processing of new claims and benefits. Lenders therefore may not be able to continue to verify Social Security numbers through SSA.

VI. GSEs and FHLBs

Fannie Mae and Freddie Mac, the government-sponsored enterprises (GSEs), would not be affected directly by a federal government shutdown, except to the extent that they rely on verification and other functions of HUD, IRS, and SSA. The Federal Home Loan Banks (FHLBs) would not be affected directly, either.