



To: Mike Crapo, Chairman  
Sherrod Brown, Ranking Member

**U.S. Senate Committee on Banking, Housing, and Urban Affairs**  
534 Dirksen Senate Office Building  
Washington, D.C. 20510

Gentlemen:

The Community Mortgage Lenders of America (THE CMLA) is in full support of the *Self-Employment Mortgage Access Act* (S. 3401) introduced by U.S. Sens. Mark R. Warner (D-VA) and Mike Rounds (R-SD), both members of the Senate Banking Committee.

The Act will help mid-size and small community-based mortgage lenders expand access to mortgages for the self-employed, gig workers, and other creditworthy individuals with non-traditional forms of income by allowing lenders to verify an applicant's income using additional forms of documentation other than the W-2, while at the same time protecting consumers.

Small businesses, including mortgage lenders, are the backbone of our economy and vital to communities across the country. Therefore, we should allow them access to mortgage credit in a fair and common-sense manner without unfairly punishing them for their entrepreneurial spirit.

Because there is an increasing number of Americans making their living through alternative working arrangements, otherwise credit worthy individuals are being shut out of the mortgage market because they do not have traditional documentation of their income, such as paystubs or W-2.

This legislation gives smaller lenders flexibility in the form of alternative documentation that can be used in the mortgage process, making it easier for American families to obtain homeownership, while continuing to protect consumers from predatory lending.

In response to the mortgage crisis, in 2010, Congress included in the *Dodd-Frank Wall Street Reform and Consumer Protection Act* a requirement that creditors determine whether a borrower can afford to repay a mortgage loan as part of the lending process. In January 2013, the Consumer Financial Protection Bureau (CFPB) adopted the Ability-to-Repay (ATR) Rule, which requires lenders to look at a customer's income, assets, savings, and debt in relation to monthly loan payments in order to satisfy the requirements for a Qualified Mortgage (QM). Since the QM standard was finalized, lenders and investors in the mortgage market have shown a clear preference for QM loans due to the potential for liability associated with making non-QM loans.

1629 K Street, Suite 300  
Washington, DC 20006  
(202) 827-9989



Unless a loan is eligible for sale to the government-sponsored enterprises (GSEs) or insurance by government agencies, QM loans require lenders to satisfy the rigid requirements of the CFPB's Appendix Q guidelines. These guidelines often result in a less precise calculation of income for borrowers with non-W-2 income sources, such as rental income, retirement income, or income from self-employment. The effect is creditworthy individuals relying on non-traditional income, who represent up to 42 million Americans, or 30 percent of the labor force, are unduly constrained in their ability to obtain a mortgage.

In a 2018 report by the U.S. Small Business Administration, there are currently 30.2 million small businesses in the United States representing 99.9% of total business, and employ 58.9 million or 47.5% of all workers.

Additional information reported by Gabrielle Pickard-Whitehead on August 9, 2018, a survey conducted by Guidant Financial, a small business financing company, which interviewed more than 2,600 small business owners and entrepreneurs, both male and female, found the number of African American small business owners in the United States has increased by a staggering 400% in just a year.

The survey found that in 2018, 45% of small business owners were minority ethnic groups. This was already a dramatic increase from 2015, when the amount of minority business owners was just 15%. The biggest increase among minority small business owners however has been the huge increase in the number of African American small business owners in a year-over-year period between 2017 and 2018.

Following African Americans, Hispanics were the next largest group of minority small business owners representing 14% of the business owners interviewed for the survey. Meanwhile, Asians made up 8% of the business owners surveyed while Native Americans made up 4%.

The research also showed some of the reasons behind the prolific growth of minority small business ownership. Specifically, 62% of African American small business owners cited their desire to pursue their passion as the reason for starting a business. Another 53% of African American business owners said they were ready to be their own boss, and 30% said they decided to become a small business owner because an "opportunity presented itself."

The impact of women-owned businesses on the U.S. economy is large and continues to grow. For instance, how many women-owned businesses are there in the United States? How much do those businesses make? What industries are those businesses in?



Answers to these questions and more are in a new report from the Small Business Administration’s Office of Advocacy, “Women’s Business Ownership: Data from the 2012 Survey of Business Owners.” Their new report evaluates the state of women-owned businesses using the Census Bureau’s Survey of Business Owners, or SBO.

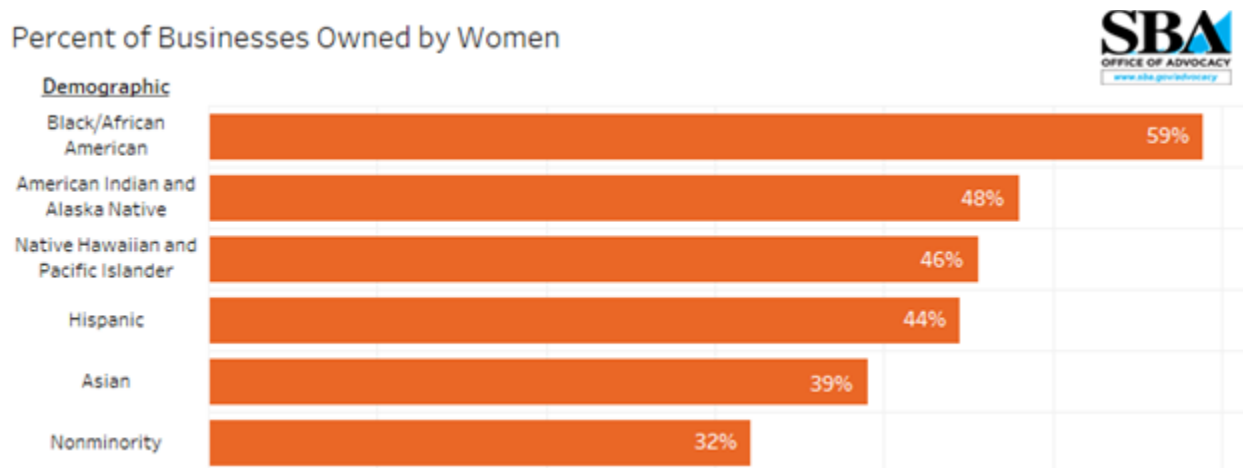
The data from the SBO illustrates the large impact of women entrepreneurs:

- Women-owned businesses employ over 8.4 million workers and generate \$264 billion in payroll.
- Almost all (99.9%) of women-owned businesses are considered small businesses (fewer than 500 employees).
- 36 percent of all businesses are women-owned, and they account for 12 percent of all sales and 15 percent of employment.
- An additional 2.5 million businesses are owned equally by women and men. These businesses account for an added \$189 billion in payroll for 6.5 million workers.
- As majority and joint business owners, women entrepreneurs generate \$2.5 trillion in sales.

Women-owned businesses appear in every industry group, but are more prevalent in the service sector. For example, in the child day care industry, women own more than 660,000 businesses – 89 percent of the industry. Child daycare is one of 36 industries with more women-owned businesses than male-owned.

Also noteworthy is that minority communities have higher shares of women-owned businesses. For example, 59 percent of Black/African-American businesses and 44 percent of Hispanic businesses are owned by women, versus 32 percent of non-Hispanic white businesses.

Percent of Businesses Owned by Women





Women-owned businesses are a key to our nation's overall economic success, and their importance is growing.

By expanding the types of documentation that self-employed individuals could submit to demonstrate they are a credit worthy borrower, mortgage lenders would have the ability to keep a loan in qualifying mortgage status, thus providing a better, and less costly, loan to the borrower.

Types of documentation including IRS Form 1040 Schedule C for sole proprietorships, IRS Form 1040 Schedule F for farming, IRS Form 1065 Schedule K-1 for partnerships and IRS Form 1120-S for S Corporations provide accurate verifiable income information which should be used for qualification purposes.

In many cases these documents are familiar and understood more by mid-size and small lenders because they are also included within the group of borrowers which do not have traditional forms of income documentation. Most of these companies are individually owned enterprises which regularly must maintain information vital to produce verifiable income for themselves and their employees in the forms listed above.

The ability to repay and associated Qualified Mortgage rules, which emerged from the Dodd-Frank Act, are important consumer protections. This bill would provide direction and a common-sense approach to the CFPB in its application of the statutory requirements. In addition, the *Self-Employment Mortgage Access Act* will give lenders and consumers an easier, less burdensome way to meet QM requirements without weakening their important protections for consumers.

This bipartisan, common sense legislation allows responsible expansion of mortgage credit access using prudent and well-established underwriting standards, which have been in place for years at Fannie Mae, Freddie Mac, FHA, VA, and USDA, to validate a borrower's ability to repay a mortgage, thus enabling lenders to be fair to all borrowers.

Since the financial crisis and implementation of QM, experience has shown us that without proper lender guidance on underwriting standards for borrowers without traditional income documentation, many consumers have been underserved. By expanding that beyond Appendix Q, this bill will broaden access for mortgages for self-employed, non-traditional workers and low- to moderate-income borrowers.

THE CMLA thanks you for the opportunity to present our viewpoint and your consideration for passage of this bill.