

Congress of the United States
Washington, DC 20515

November 2, 2009

The Honorable Shaun Donovan
Secretary
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

Dear Secretary Donovan:

As Ranking Members of the Oversight and Government Reform Committee and the Financial Services Committee, we are troubled by recent reports concerning the financial health of the Federal Housing Administration (FHA). Since the collapse of the subprime mortgage market, the FHA has assumed a greater role, insuring 23 percent of all new single family mortgage loans made this year.¹ FHA's portfolio currently consists of a total of 5.2 million single-family home loans.²

On September 18th, FHA Commissioner David Stevens announced that an upcoming actuarial study of the health of FHA will show the Mutual Mortgage Insurance Fund's (MMIF) capital reserve ratio will drop below the congressionally-mandated threshold of two percent.³ This announcement from Commissioner Stevens follows recent news accounts calling into question the health of the FHA program. A September 29, 2009, *Wall Street Journal* editorial states:

At a 50 to 1 ratio, the FHA will soon have a smaller capital cushion than did investment bank Bear Stearns on the eve of its crash. Its delinquency rate (more than 30 days late in payments) is now above 14% or from two to three times higher than on conventional mortgages. Its cash reserve ratio has fallen by more than two-thirds in three years.⁴

In addition, the Department of Housing and Urban Development's (HUD) Inspector General (IG), Kenneth Donohue, stated in a *BusinessWeek* article that he fears the FHA "faces a tsunami" of loans featuring aggressive sales tactics and indicative of

¹ See Dina ElBoghdady, "Housing Agency's Cash Reserves Will Drop Below Requirement," *The Washington Post* (September 18, 2009), available at <http://www.washingtonpost.com/wp-dyn/content/article/2009/09/17/AR2009091704594.html>.

² See U.S. Department of Housing and Urban Development web site, available at http://portal.hud.gov/portal/page/portal/HUD/federal_housing_administration.

³ See David H. Stevens, Assistant Secretary for Housing/FHA Commissioner, testimony before the Financial Services Committee, U.S. House of Representatives (October 8, 2009), available at http://www.house.gov/apps/list/hearing/financialsvcs_dem/stevens_testimony_-_hud.pdf.

⁴ See *The Wall Street Journal* (September 29, 2009), available at <http://online.wsj.com/article/SB20001424052970204488304574428970233151130.html>.

potential fraud.⁵ The HUD IG also noted that he is concerned that fraudulent sub-prime lenders are reconstituting themselves and could potentially bring bad loans to the FHA portfolio.

FHA's significantly increased market share gives rise to concerns that the agency lacks the technological and management capacity to perform proper oversight of its single-family loan insurance portfolio. Since FHA provides a 100 percent guarantee on all the mortgages it insures, taxpayers will be responsible for every dollar owed on loans that go into foreclosure. This inevitably means the Federal government is assuming substantially more financial risk. If not addressed promptly, problems at FHA may result in another massive taxpayer-funded bailout that this country cannot afford and which the American people will not accept.

While FHA's presence in the marketplace is clearly increasing the ability of some borrowers to obtain mortgages, any inability of FHA to properly protect the MMIF, monitor fraud, and prevent bad actors from participating in the program could end up costing the American taxpayer dearly. Congress and HUD must take whatever steps are necessary to ensure that this program operates in a manner that does not expose the taxpayer to yet another bailout. In order to assist the Committees with their oversight of the solvency of FHA, please provide the following information no later than close of business on Monday, November 16, 2009:

1. A copy of HUD's "new draft report on FHA's worsening balance sheet," as referenced in *The Wall Street Journal* editorial entitled "Subprime Uncle Sam" on September 29, 2009;
2. Additional information and data to support FHA Commissioner David Stevens' September 18th statement that FHA will not need to ask Congress for any "special subsidy or special funding of any kind" related to the upcoming actuarial report finding that FHA will drop below its congressionally mandated 2 percent reserve;
3. All records and communications between HUD or FHA employees referring or relating to the decline in FHA's reserve fund or the increase in defaults and foreclosures of FHA-endorsed loans;
4. A full and complete explanation of the Administration's plans to prevent the need for any bailout of FHA by the taxpayers;
5. The process used to monitor the compliance of FHA-delegated underwriters and brokers with program rules and regulations, and how their performance with respect to default, foreclosure, and loss rates is monitored. As a follow-up, an

⁵ See Chad Terhune and Robert Berner, "The Subprime Wolves are Back," *BusinessWeek* (December 1, 2008), available at http://www.businessweek.com/magazine/content/08_48/b4110036448352.htm?chan=magazine+channel_to_p+stories.

explanation of the FHA's use of sanctions for participants that do not follow FHA rules and procedures to ensure that the agency can deter bad actors from participating;

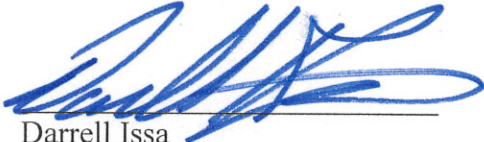
6. The number of single-family FHA loan endorsements (excluding Home Equity Conversion Mortgages endorsements here and below) by quarter from the first quarter of 2003 to the third quarter of 2009;
7. Loan performance statistics on all single-family FHA loan endorsements by quarter from the first quarter of 2003 to the third quarter of 2009, where "loan performance" is defined by the following variables: (a) 90 day-delinquency rate; (b) 120 day-plus-delinquency rate; (c) rate of loans in foreclosure; (d) rate of loans that went to "loss mitigation retention;" (e) rate of loans that went to "loss mitigation (property sales);" and (f) rate of loans that went to "other claims (conveyances)." Please provide this data aggregated by quarter as well as broken out into the following categories:
 - (a) Purchase Money loans in both the aggregate and broken out by loan-to-value ratios of: "<=85%," ">85%-90%," ">90%-95%," and ">95%;"
 - (b) Refinance loans in both the aggregate and broken out into "cash-out" and "rate-and-term" categories;
 - (c) FICO scores of the borrowers broken out by: "<600," "600-629," "630-659," "660-689," and ">690;"
 - (d) Loans obtained by borrowers who utilized the recently enacted \$8,000 first-time home buyer tax credit versus loans obtained by borrowers who did not do so; and
 - (e) Loans obtained by borrowers who utilized seller-funded down payment assistance program versus loans obtained by borrowers who did not do so; and
8. Regarding loans that went to "loss mitigation retention," an enumeration and description of the retention methods utilized, the number of loans utilizing each retention method by year mitigation action taken, the average dollar cost loan for each enumerated retention method by year, and the percentage of loans benefiting from loss mitigation retention by year that subsequently went to loss mitigation (property sales) or to other claims (conveyances).

Please note that, for purposes of responding to this request, the terms "records," "communications," and "referring or relating" should be interpreted consistently with the attached Definitions of Terms.

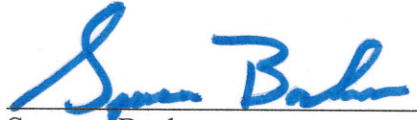
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Thank you for your cooperation in this matter. If you have any questions regarding this request, please contact Christopher Hixon or Brien Beattie with the Oversight and Government Reform Committee staff at (202) 225-5074 and Cindy Chetti and Tallman Johnson with the Financial Services Committee staff at (202) 225-7502.

Sincerely,



Darrell Issa
Ranking Member
Committee on Oversight and
Government Reform



Spencer Bachus
Ranking Member
Committee on Financial Services

cc: The Honorable Edolphus Towns, Chairman,
Committee on Oversight and Government Reform
The Honorable Barney Frank, Chairman, Committee on Financial Services

Attachment

Definition of Terms

1. The term "record" means any written, recorded, or graphic matter of any nature whatsoever, regardless of how recorded, and whether original or copy, including, but not limited to, the following: memoranda, reports, expense reports, books, manuals, instructions, financial reports, working papers, records notes, letters, notices, confirmations, telegrams, receipts, appraisals, pamphlets, magazines, newspapers, prospectuses, interoffice and intra office communications, electronic mail (e-mail), contracts, cables, notations of any type of conversation, telephone call, meeting or other communication, bulletins, printed matter, computer printouts, teletypes, invoices, transcripts, diaries, analyses, returns, summaries, minutes, bills, accounts, estimates, projections, comparisons, messages, correspondence, press releases, circulars, financial statements, reviews, opinions, offers, studies and investigations, questionnaires and surveys, and work sheets (and all drafts, preliminary versions, alterations, modifications, revisions, changes, and amendments of any of the foregoing, as well as any attachments or appendices thereto), and graphic or oral records or representations of any kind (including without limitation, photographs, charts, graphs, microfiche, microfilm, videotape, recordings and motion pictures), and electronic, mechanical, and electric records or representations of any kind (including, without limitation, tapes, cassettes, disks, and recordings) and other written, printed, typed, or other graphic or recorded matter of any kind or nature, however produced or reproduced, and whether preserved in writing, film, tape, disk, videotape or otherwise. A record bearing any notation not a part of the original text is to be considered a separate record. A draft or non-identical copy is a separate record within the meaning of this term.
2. The term "communication" means each manner or means of disclosure or exchange of information, regardless of means utilized, whether oral, electronic, by document or otherwise, and whether face-to-face, in a meeting, by telephone, mail, telexes, discussions, releases, personal delivery, or otherwise.
3. The terms "referring or relating," with respect to any given subject, means anything that constitutes, contains, embodies, reflects, identifies, states, refers to, deals with or is in any manner whatsoever pertinent to that subject.