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Chairman,

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The Expanding American Homeownership Act of 2007: H.R. 1852 and Related FHA Modernization Issues

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Chairwoman Waters and Ranking Member Biggert, thank you for holding this hearing and inviting the Mortgage Bankers Association (MBA)[1] to share its views with the Subcommittee on H.R. 1852, the "Expanding American Homeownership Act of 2007," and other issues related to the modernization of the Federal Housing Administration (FHA). My name is John Robbins and I am the Managing Director and Special Counsel of Wachovia Securities Wholesale Mortgage Business, and Chairman of the Mortgage Bankers Association (MBA). Formerly, I was Chief Executive Officer of American Mortgage Network (AmNet), a wholesale mortgage bank I co-founded which is based in San Diego. AmNet was acquired by Wachovia Bank in 2005, and continues to operate as a part of Wachovia's Corporate and Investment Bank. I am here today because MBA believes Congress must act to make important legislative changes to the National Housing Act if the FHA is to continue to be a financially sound tool for lenders to use in serving the housing needs of American families who are not served or are underserved by conventional markets.

When I started in the mortgage business, the programs of FHA were invaluable in enabling us to serve families who otherwise would have no other affordable alternative for financing their home. I have spent over 36 years working with FHA and have made billions of dollars in loan originations to families who have become homeowners as a result of FHA's programs. We worked hard to be a good partner with FHA in administering its programs and, together, FHA and AmNet enabled thousands of families to purchase their first home.

Today, though, the story is very different. While my company has grown significantly, our ability to use the FHA program has declined precipitously. In 2003, FHA made up approximately 16 percent of our overall production. Last year, however, only a little more than 1 percent of our business went to FHA.

While most lenders have been able to adapt quickly to changes in the mortgage markets, FHA has been prevented from doing so. The needs of low- and moderate-income homebuyers, of first-time homebuyers, of minority homebuyers, and of senior homeowners have changed. FHA's programs, though, have not followed their historic path of adaptation to meet these borrowers' changing needs.

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 500,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 3,000 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

The numbers are troublesome. In 1990, 13 percent of total originations in the U.S. were FHA-insured mortgages. Currently, that number has dropped to under 3 percent.[2] More importantly, in 1990, 28 percent of new home sales (which are typically a large first-time homebuyer market) were financed through programs at FHA or the Department of Veterans Affairs (VA); today that number has dropped to under 12 percent.

MBA cites these numbers not because we believe that there is a certain market share that FHA should retain, but rather because these numbers are consistent with many lenders' views that FHA has not kept up with changes in the market. These numbers point to a decline, not just in market share, but in FHA's potential to positively impact homeownership. This loss of impact does not stem from the fact that FHA is no longer relevant, but rather that statutory constraints prohibit FHA from adapting its relevance to consumer needs today.

A recent anecdote illustrates this point very well. A story ran in *RealtyTimes*® almost two years ago, on June 21, 2005, in which a Baltimore, Md. real estate agent unabashedly advises homebuyers to avoid FHA financing. The agent states: "Approved FHA loan recipients, same notice to you, don't bother bringing it to the table during a sellers market. More times than not, your offer will be rejected. We know that VA and FHA loans allow you the means of purchasing more home for the mortgage, but it only works if you are the only game in town." His advice was based on the often true notion that FHA-insured financing is slower and more laborious than conventional financing, which means FHA's valuable programs are not reaching the people they should.

FHA Background

FHA was created as an independent entity by the National Housing Act on June 27, 1934, to encourage improvement in housing standards and conditions, to provide an adequate home financing system by insurance of housing mortgages and credit and to exert a stabilizing influence on the mortgage market. FHA was incorporated into the newly formed U.S. Department of Housing and Urban Development (HUD) in 1965. Over the years, FHA has facilitated the availability of capital for the nation's multifamily and single-family housing market by providing government-insured financing on a loan-by-loan basis.

FHA offers multifamily and single-family insurance programs that work through private lenders to extend financing for homes. FHA has historically been an innovator. Over the past several decades, the mission of FHA's single-family programs has increasingly focused on expanding homeownership for those families who would otherwise either be unable to obtain financing or obtain financing with affordable terms. FHA's multifamily programs have allowed projects to be developed in areas that otherwise would be difficult to finance and

[2] Source: *Inside Mortgage Finance, March 2, 2007.*

provides needed rental housing to families that might otherwise be priced out of a community.

Additionally, the FHA program has been a stabilizing influence on the nation's housing markets due to the fact that it is consistently available under the same terms at all times and in all places. FHA does not withdraw from markets.

The Need for FHA Today and Tomorrow

The FHA single-family programs are vital to many homebuyers who desire to own a home but cannot find affordable financing to realize this dream. While the FHA has had a number of roles throughout its history, its most important role today is to give first-time homebuyers the ability to climb onto the first rung of the homeownership ladder and to act as a vehicle for closing the homeownership gap for minorities and low- and moderate-income families.

Despite this country's recent record high levels of homeownership, not all families share in this dream equally. As of the fourth quarter of 2006, the national homeownership rate stood at 68.7 percent, but only 51 percent of minorities owned their own home. Only 48.2 percent of African-Americans and 49.5 percent of Latinos owned their own homes. This compares with 76 percent of non-Hispanic white households.

By the end of 2006, 84.5 percent of families earning more than the median income owned their own home, while only 52.9 percent of families below the median income owned their own home.[3]

These discrepancies are tragic because homeownership remains the most effective wealth-building tool available to the average American family.

FHA's Record

More than any other nationally available program, during the 1990s, FHA's impact focused on the needs of first-time, minority, and/or low- and moderate-income borrowers.

In 1990, 64 percent of FHA borrowers using FHA to purchase a home were first-time homebuyers. Today, that rate has climbed to about 80 percent. In 1992, about one-in-five FHA-insured purchase loans went to minority homebuyers. That number in recent years has grown to more than one-in-three. Minorities make up a greater percentage of FHA borrowers than they do conventional market borrowers.

FHA is particularly important to those minority populations experiencing the largest homeownership gaps. According to recent data provided by HUD, both

[3] Source: U.S Census Bureau, Housing and Household Economic Statistics Division

first time homebuyers and minorities continue to make up a significant portion of FHA's customer base. To date in FY 2007, FHA has insured 115,624 purchase mortgages and 91,702, or 79.3 percent, went to first time homebuyers. Minorities have received 28,762 FHA-insured mortgages, or 31.4 percent[4]

Data also demonstrates FHA's tremendous service to those American families earning near or below the national median income. Ironically, as the above numbers reveal, FHA's mission to serve underserved populations has become increasingly focused during the same period as the decline in FHA's presence in the market. FHA's impact is being lost at the very time when it is needed most. The result is that American families are either turning to more expensive financing or opting not to buy a home.

It is crucial that FHA keep pace with changes in the U.S. mortgage markets. While FHA programs can be the best and most cost-effective way of expanding lending to underserved communities, we have yet to unleash the full potential of these programs to help this country achieve important societal goals.

To be effective in the 21st century, FHA should be empowered to allow it to develop products and programs to meet the needs of today's homebuyers and anticipate the needs of tomorrow's mortgage markets, while at the same time being fully accountable for the results it achieves and the impact of its programs.

Under the strong leadership of its current Commissioner, Brian Montgomery, FHA has undertaken significant changes to its regulations and operations in a very short time. In just a little more than one year, FHA streamlined the insurance endorsement process, improved appraisal requirements and removed some unnecessary regulations. By doing so, Commissioner Montgomery has also instilled a spirit of change and a bias for action within FHA.

MBA compliments the Commissioner on his significant accomplishments to date, though we recognize that more work lies ahead. MBA is confident in the Commissioner's ability to address these and other issues that are within his control. There is much, though, that is beyond FHA's control and needs Congressional action.

Single-family FHA-insured mortgages are made by private lenders, such as mortgage companies, banks and thrifts. FHA insures single-family mortgages with more flexible underwriting requirements than might otherwise be available. Approved FHA mortgage lenders process, underwrite and close FHA-insured mortgages without prior FHA approval. As an incentive to reach into harder-to-serve populations, FHA insures 100 percent of the loan balance as long as the loan is properly underwritten.

[4] Source: *FHA Outlook*, March 1-15, 2007

FHA has a strong history of innovating mortgage products to serve an increasing number of homebuyers. FHA was the first nationwide mortgage program; the first to offer 20-year, 25-year, and finally 30-year amortizing mortgages; and the first to lower downpayment requirements from 20 percent to ten percent to five percent to three percent. FHA has always performed a market stabilizing function by ensuring that mortgage lending continued after local economic collapses or regional natural disasters when many other lenders and mortgage insurers pulled out of these markets.

FHA's primary single-family program is funded through the Mutual Mortgage Insurance Fund (MMIF), which operates similar to a trust fund and has been completely self-sufficient. This allows FHA to accomplish its mission at little or no cost to the government. In fact, FHA's operations have transferred surplus funds to the U.S. Treasury each year, thereby reducing the Federal deficit. FHA has always accomplished its mission without cost to the taxpayer. At no time in FHA's history has the U.S. Treasury ever had to "bail out" the MMIF or the FHA.

Unleashing FHA's Potential

In reviewing the status of FHA over the past decade, MBA has come to the conclusion that FHA faces severe challenges in managing its resources and programs in a quickly changing mortgage market. These challenges have already diminished FHA's ability to serve its public purposes and have also made it susceptible to fraud, waste and abuse. Unaddressed, these issues will cause FHA to become less relevant, and will leave families served by its programs with no alternative for homeownership or affordable rental housing.

In the fall of 2004, MBA formed a *FHA Empowerment Task Force* comprised of MBA member companies experienced in originating single-family and multifamily FHA loans. The Task Force discussed the long-term issues confronting FHA with the goal of developing legislative proposals that would empower it to manage its programs and policies more effectively.

The Task Force identified FHA's inability to efficiently develop products, higher costs of originations, lessening prominence in the market, out-dated technology and adverse selection as problems for FHA. Per the Task Force's recommendations, MBA proposed the following three steps to unleash FHA from overly burdensome statutory processes and restrictions, and to empower FHA to adopt important private sector efficiencies:

1. FHA needs greater autonomy to make changes to its programs and to develop new products that will better serve those who are not being adequately served by others in the mortgage market.

2. FHA needs the ability to use a portion of the revenues generated by its operations to invest in the upgrade and maintenance of technology to adequately manage its portfolios and interface with lenders.

3. FHA needs greater flexibility to recruit, manage and compensate employees if it is to keep pace with a changing financial landscape and ensure appropriate staffing to the task of managing $450+ billion insurance funds.

Flexibility to Create Products and Make Program Changes

FHA programs are slow to adapt to changing needs within the mortgage markets. Whether it is small technical issues or larger program needs, it often takes many years and the expenditure of great resources to implement changes. This process overly burdens FHA from efficiently making changes that will serve homebuyers and renters better and protect FHA's insurance funds. Today's mortgage markets require agencies that are empowered to implement changes quickly and to roll out or test new programs to address underserved segments of the market.

A prime example of this problem can be found in the recent experience of FHA in offering hybrid adjustable rate mortgage (ARM) products. A hybrid ARM is a mortgage product which offers borrowers a fixed interest rate for a specified period of time, after which the rate adjusts periodically at a certain margin over an agreed upon index. Lenders are typically able to offer a lower initial interest rate on a 30-year hybrid ARM than on a 30-year fixed rate mortgage. During the late 1990s, hybrid ARMs grew in popularity in the conventional market due to the fact that they offer borrowers a compromise between the lower rates associated with ARM products and the benefits of a fixed rate period.

In order for FHA to offer this product to the homebuyers it serves, legislative approval was required. After several years of advocacy efforts, such approval was granted with the passage of Public Law 107-73 in November 2001. Unfortunately, this authority was not fully implemented until the spring of 2005.

The problem began when PL 107-73 included an interest rate cap structure for the 5/1 hybrid ARMs that was not viable in the marketplace. The 5/1 hybrid ARM has been the most popular hybrid ARM in the conventional market. As FHA began the rulemaking process for implementing the new program, they had no choice but to issue a proposed rule for comment with a 5/1 cap structure as dictated in legislation. By the time MBA submitted its comment letter on the proposed rule to FHA, we had already supported efforts within Congress to have legislation introduced that would amend the statute to change the cap structure.

MBA's comments urged that, if passed prior to final rulemaking, the 5/1 cap fix be included in the final rule.

On December 16, 2003, Public Law 108-186 was signed into law amending the hybrid ARM statute to make the required technical fix to the interest rate cap structure affecting the 5/1 hybrid ARM product. At this point, FHA was ready to publish a final rule. Regardless of the passage of PL 108-186, FHA was forced to go through additional rulemaking in order to incorporate the fix into regulation. Thus, on March 10, 2004, FHA issued a Final Rule authorizing the hybrid ARM program, with a cap structure that made FHA's 5/1 hybrid ARM unworkable in the marketplace. It was not until March 29, 2005 that FHA was able to complete rulemaking on the amendment and implement the new cap structure for the 5/1 hybrid ARM product.

The hybrid ARM story demonstrates well the statutory straitjacket under which the FHA operates. A four-to-six-year lag in introducing program changes is simply unacceptable in today's market. Every month that a new program is delayed or a rule is held-up means that families who could otherwise be served by the program are prevented from realizing the dream of homeownership or securing affordable rental housing.

Ability to Invest Revenues in Technology

Technology's impact on mortgage markets over the past 15 years cannot be overstated. Technology has allowed the mortgage industry to lower the cost of homeownership, streamline the origination process, and has allowed more borrowers to qualify for financing. The creation of automated underwriting systems, sophisticated credit score modeling, and business-to-business electronic commerce are but a few examples of technology's impact.

FHA has been detrimentally slow to move from a paper-based process, and it cannot electronically interface with its business customers in the same manner as the private sector. During 2004 and 2005, over 1.5 million paper loan files were mailed back and forth between FHA and its approved lenders and manually reviewed during the endorsement process. Despite the fact that FHA published regulations in 1997 authorizing electronic endorsement of loans, FHA was not able to implement this regulation until January of 2006, eight years later. This delay occurred despite the fact that over the same eight years, FHA's operations generated billions of dollars in excess of program costs that were transferred to the U.S. Treasury.

MBA believes FHA cannot create and implement technological improvements because it lacks sufficient authority to use the revenues it generates to invest in technology.

Improvements to FHA's technology will allow it to improve management of its portfolio, garner efficiencies and lower operational costs, which will allow it to reach farther down the risk spectrum to borrowers currently unable to achieve homeownership. MBA believes that such an investment would yield cost savings to FHA operations far in excess of the investment amount.

Greater Control in Managing Human Resources

FHA is restricted in its ability to effectively manage its human resources at a time when the sophistication of the mortgage markets demands market participants to be experienced, knowledgeable, flexible and innovative. To fulfill its mission, FHA needs to be able to attract the best and brightest. Other Federal agencies, such as the Federal Deposit Insurance Corporation (FDIC), that interface with and oversee the financial services sector are given greater authority to manage and incentivize their human resources. MBA believes that FHA should have similar authority if it is to remain relevant in providing homeownership opportunities to those families underserved by the private markets. FHA should have more flexibility in its personnel structure than that which is provided under the regular Federal civil service rules. With greater freedom, FHA could operate more efficiently and effectively at a lower cost. Further, improvements to FHA's ability to manage its human capital will allow FHA to attract and manage the talent necessary to develop and implement the strategies that will provide opportunities for homeownership to underserved segments of the market.

MBA believes the above three changes will allow FHA to become an organization that can effectively manage risk and self-adapt to shifting mortgage market conditions while meeting the housing needs of those families who continue to be not served or underserved today.

Legislative Activity in the 110th Congress

MBA supported much of the FHA legislation before the 109th Congress, and I would like to take a moment to offer our perspective on various provisions contained in recently introduced pieces of legislation.

Overall, MBA is very pleased with the steps both H.R. 1852 and H.R. 1752 would take towards providing FHA with the authority necessary to make its products viable options for consumers. Both proposals provide for flexible downpayments, flexible risk-based premiums, an increase in mortgage limits, an extension of mortgage terms, reform of FHA's condominium program, and changes to the Home Equity Conversion Mortgage (HECM) program. MBA would like to review a number of provisions that are a part of those bills.

Raising Maximum Mortgage Limits for High Cost Areas

Both H.R. 1852 and H.R. 1752, if enacted, would raise FHA's maximum mortgage limits to 100 percent of an area's median home price (currently pegged at 95 percent) and raise the ceiling to 100 percent of the GSEs' conforming loan limits (currently limited to 87 percent) and the floor to 65 percent (currently 48 percent). There is a strong need for FHA financing to be relevant in areas with high home prices. MBA supports these increases because raising the limits to the GSEs' conforming limits in these areas strikes a good balance between serving a greater number of borrowers and taking on additional risk.

Additionally, in many low cost areas, FHA's loan limits are not sufficient to cover the costs of new construction. New construction targeted to first-time homebuyers has historically been a part of the market in which FHA has had a large presence. MBA believes raising the floor will improve the ability of first-time homebuyers to purchase modest newly constructed homes in low-cost areas since they will be able to use FHA-insured financing.

Downpayment Requirements

MBA supports the elimination of the complicated formula for determining the downpayment that is currently detailed in statute. The calculation is outdated and unnecessarily complex. The calculation of the downpayment alone is often cited by loan officers as a reason for not offering the FHA product. Both H.R. 1752 and H.R. 1852's revised downpayment calculations make significant progress towards addressing this issue.

MBA also supports improving FHA's products with downpayment flexibility. Independent studies have demonstrated two important facts: first, the downpayment is one of the primary obstacles for first-time homebuyers, minorities, and low- and moderate-income homebuyers. Second, the downpayment itself, in many cases, is not as important a factor in determining risk as are other factors. Many borrowers will be in a better financial position if they keep the funds they would have expended for a large downpayment as a cash reserve for unexpected homeownership costs or life events.

MBA is pleased that both legislative proposals provides downpayment flexibility. We believe that FHA should be empowered to establish policies that would allow borrowers to qualify for FHA insurance with flexible downpayment requirements and decide the amount of the cash investment they would like to make in purchasing a home. We stand ready to work with this Congress to ensure that such flexibility maximizes homeownership opportunities for underserved communities without compromising the safety and soundness of FHA.

Adjusting Mortgage Insurance Premiums for Loan Level Risk

MBA believes that FHA would be able to serve more borrowers, and do so with lower risk to the MMIF, if they are able to adjust premiums based on the risk of each mortgage they insure. A flexible premium structure could also give borrowers greater choice in how they utilize the FHA program.

It is a fact that some borrowers and loans will pose a greater risk to FHA than others. At some level, FHA should have the authority to adjust premiums based upon some borrower or loan factors that add risk. Such adjustment for risk need not be a complicated formula. MBA believes FHA could significantly mitigate the risk to the MMIF by selecting a small number of risk factors that would cause an adjustment from a base mortgage insurance premium (MIP).

A current example of this would be the fact that borrowers receiving a gift of the downpayment on a FHA-insured mortgage are charged the same premium as a borrower who puts down three percent of their own funds, despite the fact that FHA's experience indicates that the former represents a higher risk loan. FHA could better address such a risk in the MMIF by charging a higher MIP to offset some of the additional risk that such a loan poses. In this manner, while a borrower receiving a gift of funds for the downpayment will still receive the benefits of FHA financing, they themselves would share some of the risk, rather than having the risk born solely by those making a three percent downpayment.

Creating a risk-based premium structure will only be beneficial to consumers, though, if FHA considers lowering current premiums to less risky loans. We would not support simply raising current premiums for higher risk borrowers.

Lengthening Mortgage Term

H.R. 1852 and H.R. 1752 would authorize FHA to develop products with mortgage terms up to 40 years. Currently, FHA is generally limited to products with terms of no more than 30 years. Stretching out the term will lower the monthly mortgage payment and allow more borrowers to qualify for a loan while remaining in a product that continues to amortize. MBA supports lengthening the mortgage terms and believes FHA should have the ability to test products with these features and, based on performance and homebuyer needs, to improve or remove such products.

Improvements to the Reverse Mortgage Program

MBA supports H.R. 1852 and H.R. 1752's proposed changes to the FHA's Home Equity Conversion Mortgage (HECM) program: the permanent removal of the current 250,000 loan cap and the creation of a single, national loan limit for the HECM program. The HECM program has proven itself to be an important financing product for this country's senior homeowners, allowing them to access the equity in their homes without having to worry about making mortgage payments until they move out. The program has allowed tens of thousands of senior homeowners to pay for items that have given them greater freedom, such as improvements to their homes that have allowed them to age in place, or to meet monthly living expenses without having to move out of the family home.

MBA believes it is time to remove the program's cap because the cap threatens to limit the HECM program at a time when more and more seniors are turning to reverse mortgages as a means to provide necessary funds for their daily lives. MBA further believes that the HECM program has earned the right to be on par with other FHA programs that are subject only to FHA's overall insurance fund caps. Additionally, removing the program cap will serve to lower costs as more lenders will be encouraged to enter the reverse mortgage market.

Additionally, authorizing the HECM program for home purchase will improve housing options for seniors. In a HECM for purchase transaction, a senior homeowner might sell a property they own to move to be near family. The proceeds of the sale could be combined with a reverse mortgage, originated at closing and paid in a lump sum, to allow a senior to purchase the home without the future responsibility of monthly mortgage payments. Alternatively, a senior homeowner may wish to take out a reverse mortgage on a property that is less than one year old, defined as "new construction" by FHA.

Finally, the HECM program should have a single, national loan limit equal to the conforming loan limit. Currently, the HECM program is subject to the same county-by-county loan limits as FHA's forward programs. HECM borrowers are disadvantaged under this system because they are not able to access the full value of the equity they have built up over the years by making their mortgage payments. Currently, a senior homeowner living in a high-cost area is able to access more equity than a senior living in a lower cost area, despite the fact that their homes may be worth the same and they have the same amount of equity built up. Reverse mortgages are different than forward mortgages and the reasons for loan limits are different, too. FHA needs the flexibility to implement different policies, especially concerning loan limits.

Improvements to FHA Condominium Financing

MBA supports both of these legislative proposals to move FHA's coverage of condominium units from the General Insurance Fund to the Mutual Mortgage Insurance Fund. It is unfortunate to note that FHA insurance on condominium units has dropped at a higher rate than the overall decline in FHA's originations. This decline contradicts the fact that in costly markets, condominium units are typically the primary type of housing for first-time homebuyers. FHA should have a much bigger presence in the condominium market.

As this Committee moves the process of FHA reform forward, there are issues that I would like to bring to your attention that warrant particularly close consideration.

The Definition of “Higher-Risk” Borrowers

H.R. 1852 would create a category of “Higher-Risk” borrowers, defined as those borrowers with a Fair Isaac Corporation (“FICO“) score of less than 560. MBA, as outlined above, supports the principle of recognizing that different borrowers carry different risks and that those risks should be priced appropriately. Tying the definition of that risk to a specific FICO score, however, may create unanticipated problems for borrowers in the future. Though the FICO score is widely recognized as a powerful tool to determine an individual’s credit risk, it is the product of a proprietary algorithm owned solely by Fair Isaac that is not subject to any oversight and is constantly being adjusted. As a result, a score of 560 does not represent the same risk it did ten years ago, and it likely won’t represent the same risk ten years from today. But once Congress establishes a specific credit score as a standard, it will take another act of Congress to adjust that standard in the face of an evolving marketplace. MBA suggests giving the Secretary authority to set underwriting and corresponding pricing standards for a “Higher-Risk” category so that borrowers in the future will not have to wait on the sometimes cumbersome Congressional process.

Creation of an Affordable Housing Fund

H.R. 1852 would authorize the creation of an Affordable Housing Grant Fund. This Fund would be financed by any excess revenue generated by higher mortgage insurance premium (MIP) limits and lifting the Home Equity Conversion Mortgage program limitation caps. Though the goal —more affordable housing— of this proposed fund is certainly laudable, MBA does not believe the Fund provides the most efficient means to achieve more affordable housing and may slow passage of this important legislation.

MBA notes with great concern the Administration’s Fiscal Year 2008 Budget proposal released in February which estimates that the FHA mortgage insurance fund will go into the red in fiscal year 2008 unless changes to the existing program are made or budget authority to provide additional credit subsidy is given to the Agency. In response to the expected increased costs associated with higher defaults and lower originations, the Administration projects increases in the up-front MIP from 150 basis points (1.5 percent) to 166 basis points will be needed. In addition, the annual MIP is assumed to increase from 50 basis points to 55 basis points. On a $200,000 loan, this is an extra $320 (from $3,000 to $3,321) due at the closing table and an additional $100 (from $1,000 to $1,100) the borrower must pay each year for the same loan. This may not seem like a lot of money, but for your typical FHA borrower —who is likely to be trying to purchase their first home and may not have much in the way of a savings— this could be the difference between owning a home or continuing to sit on the sidelines of homeownership.

The Federal assistance that FHA provides to low- and moderate-income households provides critical support for extending homeownership possibilities that the private market cannot fully address. Since no additional budget authority to cover these costs were included in the Budget, the FHA would need to either raise premiums, curtail credit to some borrowers who today could get loans, or some combination. We note that even with the passage of comprehensive reform legislation envisioned last year, the Administration's estimates conclude that premium increases may be necessary. In that light, rather than diverting any excess premium revenue resulting from this legislation to a separate fund, MBA believes that the most effective way to lower the cost of homeownership is to return that money to homeowners through lower insurance premiums.

MBA would also like to applaud legislation introduced in the Senate, S. 947, the "21st Century Housing Act." This bill contains the following MBA-supported provisions:

Investment in FHA Infrastructure – Human Resources

MBA supports authorizing the Secretary of HUD to appoint and fix the compensation of FHA employees and officers. S. 947 calls on the Secretary to consult with, and maintain comparability with, the compensation of officers and employees of the Federal Deposit Insurance Corporation. While MBA has similar concerns as outlined above regarding the funding mechanism detailed in the bill for this provision, we firmly believe that giving FHA greater flexibility in investing in its human capital is critical if it is to attract and retain the talent it needs to become a stronger and more effective program serving the needs of our nation's homeowners and renters.

Investment in FHA Infrastructure – Information Technology

Again, MBA strongly supports investment in FHA's information technology. S. 947, if enacted, would authorize funding to pay for much needed technology improvements. While MBA would rather see any potential excess funding used to lower premiums, MBA believes that upgrading FHA's technology is critical to improving FHA's management of its portfolio and lowering its operational costs. MBA also believes that such an investment will allow FHA to reach farther down the risk spectrum to borrowers currently unable to achieve homeownership.

Additional FHA Issues

Treatment of FHA Non-Conveyable Properties

On March 21, 2007, the House passed H.R. 1227, the "Gulf Coast Hurricane Housing Recovery Act of 2007." This bill provides critical relief to mortgage servicers who hold title on damaged properties in the Golf Coast. FHA provides credit insurance against the risk of foreclosure losses associated with loans originated according to FHA standards. FHA generally pays an insurance claim when it takes title (conveyance) to a property as a result of foreclosure. To convey a property and receive insurance benefits, however, FHA requires that the property be in "conveyance condition" (i.e., repaired and saleable condition). Properties that have sustained damage attributable to fire, flood, earthquake, tornado, hurricane, boiler explosion (for condominiums), or the lender's failure to preserve and protect the property are not eligible for insurance benefits unless they are repaired prior to conveyance of the property to the FHA. While HUD has in the past accepted properties in "as is" (damaged) condition on a case-by-case basis, this is rarely done. Moreover, HUD will deduct from the "as is" claim the estimated cost of repair. HUD should accept conveyance of damaged properties and not adjust the claim for the cost of repair when there was no failure on the part of the servicer to obtain hazard or flood insurance pursuant to federal law. In addition, to the extent that a property is not conveyable or has other problems (i.e., condemned, demolished by local, state, or federal government or there is concern about environmental issues that preclude a private servicer from taking title to the property), HUD should be permitted to pay the full claim without the servicer taking conveyance of the property or HUD taking conveyance of the property. At this time, MBA does not believe HUD has the statutory authority to manage claims in this manner. MBA applauds the House's swift action on this issue, and urges the Senate to pass H.R. 1227, especially in light of HUD's and Louisiana's actions to revamp the Road Home grant program in a manner that no longer promotes rebuilding. This decision exacerbates servicers' losses.

FHA Multifamily Programs

While the thrust of recent modernization efforts focus on FHA's single-family programs, it is important to underscore the critical role of FHA's multifamily programs in providing decent, affordable rental housing to many Americans. Approximately 30 percent of families and elderly citizens either prefer to rent or cannot afford to own their own homes. FHA's insurance of multifamily mortgages provides a cost-effective means of generating new construction or rehabilitation of rental housing across the nation. FHA is also one of the primary generators of capital for healthcare facilities, particularly nursing homes.

While the FHA has implemented a number of significant improvements to its single-family program over the last two years, the same focus needs to be applied to improving the multifamily programs. MBA hopes that process improvements on the multifamily side of FHA will soon be discussed and implemented.

MBA is particularly pleased by the provision in H.R. 1852 to raise the mortgage limits in high cost areas from 140 percent and 170 percent, respectively, to 170 percent and 215 percent. In the face of rapidly rising building costs in many of the nation's cities, this increase is necessary to allow developers to continue providing affordable housing in those areas that need it the most.

Response to Natural Disasters

Hurricane season will again be upon us. The disasters of Hurricanes Katrina and Rita point to the need for a financially solvent FHA that is not restricted by onerous processes and procedures. The FHA program must be ready to assist homeowners and renters who lost everything amid the destruction of the hurricanes. It must have the necessary wherewithal to step in and help work out the existing mortgages in disaster areas. FHA must have the programs necessary to meaningfully assist in the rebuilding effort. Giving FHA the mechanisms to fund adequate technology improvements, flexibilities in managing human resources, and greater authority to introduce products will ensure FHA can step in to help communities when disasters occur. It is critical that Congress act quickly to ensure that FHA is adequately prepared to help homeowners and renters before the next major disaster strikes.

Seller Funded Gift Programs

Without Congressional action this year, many families face a serious risk of being unable to access FHA financing due to a recent ruling by the Internal Revenue Service (IRS). On May 4, 2006, the IRS released Revenue Ruling 2006-27, which may lead the IRS to rescind the nonprofit status of a large number of organizations who receive funding from property sellers in providing downpayment assistance to FHA borrowers. FHA regulations require that nonprofits providing a downpayment gift have an IRS nonprofit exempt status. Due to the ruling, the IRS has indicated that it is investigating 185 organizations which provide downpayment assistance.

MBA expects this ruling to have a dramatic effect on FHA's purchase production. Before the ruling, more than one-third of FHA purchase loans had some type of downpayment assistance. Such programs currently serve tens of thousands of FHA's primary clientele: first-time homebuyers, low- and moderate-income families and minorities.

Conclusion

Finally, as Members of this Subcommittee are well aware, recent unrest in the mortgage industry has led to a number of lenders either significantly tightening underwriting standards or leaving the business altogether. MBA believes the individuals who will be most directly impacted by these events are the consumers that FHA was created to serve: first-time homebuyers, low-income families, and those with less than perfect credit histories. It is in light of these realities that we ask this Congress to move quickly and empower FHA with the authority it needs to provide these consumers with affordable, viable lending options needed to help them achieve homeownership.

On behalf of MBA, I would like to thank the Subcommittee for the opportunity to present our views on the important programs offered by FHA. MBA looks forward to continuing to work with Congress and HUD to improve FHA's long-standing mission and ability to serve aspiring homeowners and those seeking affordable rental housing.