

TESTIMONY OF SCOTT C. SYPHAX, CEO OF THE NEHEMIAH CORPORATION  
OF AMERICA BEFORE THE COMMITTEE ON FINANCIAL SERVICES,  
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

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My name is Scott Sypfax and I'm President and CEO of the Nehemiah Corporation of America. It is an honor to be here today to submit testimony to the Housing and Community Opportunity Subcommittee regarding H.R. 3755, The Zero Downpayment Act of 2004. I particularly appreciate the opportunity to provide my thoughts on where we can add to the effectiveness of this bill.

Before I address the legislation, I would like to provide a bit of background on my company and the industry we founded. Nehemiah is a nationwide, self-supporting faith-based non-profit. We receive no money or funding from local, state or federal government sources. We started in 1997 with the goal of helping deserving families seeking to become homeowners achieve this American Dream. Starting with a \$5,000 loan from a small Baptist church in Sacramento, we piloted the country's first down payment assistance program. Buyers receive funds for the down payment from a revolving loan fund. Sellers replenish the loan fund once their property is sold, thus ensuring an ever ready source of capital to provide assistance to credit worthy, FHA-approved homebuyers.

In our seven years, we have been able to help more than 170,000 families become homeowners across all fifty states. We have given away more than \$675 million in down payment gifts, resulting in well over \$23 billion in home sales. On a monthly basis, Nehemiah helps more than 3,000 families achieve the American Dream of homeownership by giving them a down payment gift. This week alone, we have helped more than 600 families achieve their dream. This is all at no additional cost or burden to the US taxpayer. In fact, according to a soon to be published independent study by a well known Washington, DC economic think tank, our default rates are in line with traditional FHA rates. In short, ladies and gentlemen, down payment assistance works for buyers, sellers and America.

In addition, a recent study completed by a California-based think-tank demonstrated that down payment assistance has had an enormously positive impact not only on individuals and families, but also on entire communities and local governments. In towns and cities all across this nation, a rebirth is happening thanks to down payment assistance.

In Columbus, Ohio, for example, we have been able to help over 7,300 families become homeowners since 1998. In the process, we gave away nearly \$35 million in down payment assistance that resulted in the purchase of more than \$1 billion worth of homes. During this period, on average, these families have seen their equity increase more than \$3,100 that cumulatively amounts to over \$23 million. This in turn has resulted in over \$100 million in property taxes in the Columbus metropolitan area. In Franklin County alone, Nehemiah recipients have contributed \$72 million in property taxes. With down

payment assistance, the benefit is not confined to individuals; rather it is spread throughout the community.

While Nehemiah is the oldest and largest non-profit source of down payment assistance in the country, our brother and sister non-profits have played a big role as well. Collectively, the industry has helped nearly half-a-million families become homeowners. In just a few short years, our industry has grown very quickly, working with the nation's homebuilders, realtors and mortgage lenders. In fact, we are now responsible for approximately 10-15 percent of all FHA insured sales each month and between 3-4 percent of all homes sales across the nation. Down payment assistance is no longer just a good theory; it is a working, thriving, active movement that is sweeping across this country.

Our industry has grown so quickly because it plays a vital role in helping people overcome what I believe to be an artificial barrier to homeownership -- the down payment. I have long felt and stated publicly that the removal of the down payment obstacle to homeownership for creditworthy applicants should be a national priority. Indeed, I applaud the Bush Administration and Rep. Tiberi for taking bold leadership in this area. Having said that, I have concerns about this proposed legislation and the potential unintended negative consequences that would impact working class families whose interests must be considered if the program is to be successful in increasing homeownership nationally.

In January of this year, FHA Commissioner Weicher announced that as part of HUD's Fiscal Year 2005 budget request, the FHA would eliminate the statutory requirement of a minimum three percent down payment for an FHA-insured single-family mortgage for first-time homebuyers. We celebrated this announcement in that it represented a major victory for working class American families. When Commissioner Weicher and Secretary Appointee Jackson announced the program, Nehemiah was elated by the Administration's position. I personally reached out to offer our support publicly and privately, believing that Nehemiah's experience as the pioneer of zero down payment loans -- seven years and 170,000 families later -- was the clearest validation of the approach that the Administration was taking on this subject.

Down payments originally emerged in the marketplace because they give the homeowner an ownership interest in the form of equity, which in turn gives the homeowner an incentive to make monthly payments and maintain and improve their property. The importance of a buyer having equity is known to all, and that is one reason we think private down payment assistance works so well. The average Nehemiah homebuyer has 3% equity the day they move into their home. That's enough to help provide home owners with an incentive to continue paying their mortgage even when they go through a period of economic hardship, like divorce, illness or job loss.

Mr. Chairman, our primary concern with the current draft of H.R. 3755 is that the burden of coming up with a down payment is shifted back onto the consumer through increased costs. As I understand it, the program will be funded through increased surcharges, potentially higher mortgage rates and mortgage insurance premiums – all paid for by the homebuyer. Nehemiah is very concerned that these increased costs will expand the risk that families utilizing the program will not be able to meet their mortgage obligations.

While we are heartened that this product adds another tool in the toolbox for moving families into homeownership, Nehemiah is committed to ensuring that families targeted by this program are able to meet the financial realities that this program will demand. Otherwise, those who may qualify could face more challenging economic pressures than those under the existing FHA program. This needs to be addressed and corrected. We would like to work with the Administration and Congressman Tiberi to ensure this unintended result does not become a reality.

Unlike families who today use privately funded down payment assistance, under the proposed new system, homebuyers could move into a home in which they have negative equity of up to eight percent. Under this scenario, when a homebuyer goes through economic hardship the homeowner may be more willing to simply walk away from the home and let the lender foreclose. Whereas, a family that receives a down payment assistance gift has equity from day one and, consequently, a real incentive to stay and fight to keep their home.

The importance of an upfront equity interest may seem less critical today than in previous years because recent rising real estate prices have added equity value for new homebuyers almost from the date of purchase. However, in regions in this country like the Rocky Mountains states, the economy has still not recovered and rising home prices are not a given. Ultimately, it is Nehemiah's view that homeownership is important not only to the stability it brings to communities, but also in the potential long-term prosperity and asset accumulation it creates for low and moderate income families. This issue is not only well understood by lenders, but by community and civil leaders who work on a daily basis to improve the nation's towns and cities.

Mr. Chairman and members, Nehemiah believes that the following issues need to be addressed if we are to enact historic legislation that truly helps lower income homebuyers realize the American dream of homeownership:

- No additional monthly surcharges on the homebuyer

- A limitation on premium pricing mortgage rates associated with these homes and homebuyers
- A hard cap on mortgage insurance premiums increases

I believe with these changes H.R. 3755 will fulfill its goal of increasing homeownership for low and moderate income Americans, while protecting the government's understandable interest in limiting occurrences of default.

Without these changes, H.R. 3755, while a positive public policy step forward in eradicating the notion that a down payment is a prerequisite of becoming a homeowner, will fall short of the promise that this legislation inspires. Nehemiah has long stood for the principle that access to homeownership should not be dictated by the accident of birth, being born into a family with the means to assist a struggling young family with a down payment. Rather, it should be open to all who demonstrate the basic financial capability and credit worthiness to meet their mortgage obligation. H.R. 3755 has the potential to advance that principle upon which Nehemiah was founded. However, if changes are not forth coming, we might as well simply continue to offer the zero down payment option primarily through the down payment assistance industry. We already put working class Americans in homes, give them equity from day one, have strong working relationships with homebuilders and the financial markets and – perhaps most importantly – our assistance costs the government and the home buyer nothing.

It is my hope that my remarks have conveyed some insight from the non-profit that pioneered the concept of down payment assistance in this country. We believe that H.R. 3755 is the opening statement in an extremely important dialogue on expanding homeownership in this country. At this point, this legislation is still a promise, but not a final solution. Nonetheless, I believe it can be improved to accomplish the goals set out by President Bush, Secretary Appointee Jackson and Commissioner Weicher. I want to again commend Congressman Tiberi for taking up such important legislation and for his commitment to delivering vital homeownership legislation. Nehemiah stands ready to assist in bringing this promise of opportunity for millions of hardworking families to fruition.

I thank you for the opportunity to address this committee.