NCSHA

Testimony on the FHA Single Family Loan Limit Adjustment Act
Before the House Committee on Financial Services
Subcommittee on Housing and Community Opportunity
by
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Chairman Ney, Ranking Member Waters, and members of the Subcommittee, I am Barbara Thompson, executive director of the National Council of State Housing Agencies. Thank you for this opportunity to testify on behalf of NCSHA in support of the FHA Single Family Loan Limit Adjustment Act of 2004, H.R. 4110.

NCSHA represents the Housing Finance Agencies (HFAs) of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands. State HFAs issue tax-exempt private activity bonds (Housing Bonds), allocate the Low Income Housing Tax Credit (Housing Credit), and administer HOME Investment Partnerships (HOME) funds in nearly every state to finance affordable homeownership and rental housing for America's low- and moderate-income families.

I want to thank Committee Ranking Member Frank and Representative Miller for introducing H.R. 4110. By raising the FHA single-family mortgage loan limit to the local median home price, this legislation will help many families across the country achieve the American dream of homeownership.

FHA Mortgage Insurance: An Essential Homeownership Tool

Since 1934, FHA's single-family insurance program has helped more than 30 million families obtain home mortgages. FHA-insured mortgages are used most often by first-time home buyers, low- and moderate-income buyers, minority buyers, and buyers who cannot qualify for conventional mortgages with loan-to-value and payment-to-income ratios more restrictive than FHA's.

FHA's single-family program is self-sustaining, operating at no cost to American taxpayers. Independent audits show FHA's capital ratio—the primary indicator of the program's financial health—exceeds congressionally mandated standards and is likely to continue to into the future. Allowing FHA to serve a larger portion of the affordable housing market will further strengthen its actuarial soundness by enabling it to build an even higher-quality, more diverse loan portfolio.

The Mortgage Revenue Bond Program and FHA Insurance

FHA is essential to the success of the Mortgage Revenue Bond (MRB) first-time home buyer program, which HFAs operate in every state. MRBs have made first-time homeownership possible for more than 2.4 million low- and moderate-income families. Another 100,000 families each year become homeowners with the help of MRB mortgages.

State HFAs issue MRBs to finance low-interest mortgages for low- and moderate-income first-time home buyers. Investors purchase MRBs at low interest rates because the income from them is tax-free. The interest savings made possible by the tax-exemption is passed on to first-time home buyers in the form of below-market interest rate mortgages.

MRB loans are available only to first-time home buyers who earn no more than the greater of area or statewide median income. (Families of three or more can earn up to 115 percent of the greater of area or statewide median income.) The price of homes purchased with MRB-financed mortgages is limited to 90 percent of the average area purchase price.

The MRB program relies heavily on FHA single-family mortgage insurance. In 2002, nearly 60 percent of all MRB loans financed by state HFAs were insured by FHA. In some states, including Ohio, Utah, and Mississippi, more than 90 percent of state HFA-financed MRB loans were FHA-insured.

MRB borrower use of FHA insurance is widespread for several reasons. FHA insurance is frequently less expensive for the borrower than private mortgage insurance, and down payment requirements are generally lower than those in the conventional market. FHA is often the best option, and sometimes the only option, for prospective homebuyers with low credit scores. In addition, bond rating agencies view bonds backed by FHA-insured mortgages as more secure because of FHA's federal guarantee. HFAs utilizing FHA insurance leverage their resources more effectively by receiving higher bond ratings and maintaining a lower loan loss reserve.

The Problem With the Current FHA Maximum Mortgage Limits

Unfortunately, in some high-cost areas of the country, FHA is not as useful as it might be because its maximum mortgage limits lag median home prices. As a result, some families, including teachers, police officers and municipal workers, have limited or no access to FHA insurance, making it difficult for them to buy homes in the communities where they work.

Current FHA limits constrain the availability of MRB loans in some metropolitan areas of several states. The current FHA maximum mortgage limit of $290,319 is simply too low in some high-cost areas for MRB borrowers to purchase some MRB-eligible homes with FHA insurance.

In Boston, for example, a family earning the maximum income allowable under the MRB program could afford a home priced at 78 percent of the area median purchase price. However, this family could not buy that home with FHA insurance, because the FHA maximum mortgage limit is 71 percent of the area median purchase price.

In Oakland, an MRB-qualified family earning the maximum allowable income could afford a home priced at 67 percent of the area median purchase price but could not buy that home with FHA insurance, which in that area is limited to 59 percent of the median purchase price. Without an increase in the FHA mortgage limits, the gap between the price of homes MRB borrowers can afford and the price of homes insurable through FHA will continue to widen as area median incomes rise over time.

FHA maximum mortgage limits also impede MRB borrowing in places such as Ann Arbor, Michigan; Madison, Wisconsin; Minneapolis, Minnesota; San Francisco and San Jose, California; Danbury and Stamford-Norwalk, Connecticut; Washington, D.C.; Bergen-Passaic and Middlesex-Somerset-Hunterdon, New Jersey; and Nassau-Suffolk, New York. H.R. 4110 would enable families living in these and other high-cost areas to use FHA-insured MRB loans to access a larger universe of moderately priced homes. This is particularly important for families for whom FHA is the only mortgage insurance option.

Increasing FHA loan limits will also help families not eligible for the MRB program to purchase homes. In New Jersey, for example, median home prices exceed the FHA maximum mortgage limit in 12 of 21 counties. New Jersey counties included in the New York City metropolitan area have an area median home price of $352,600, well above the $290,319 FHA limit, and the median home price is expected to reach $373,100 by the end of this year.

The Need for MRB Ten-Year Rule Relief

Before closing, I want to ask for your continued help in removing another serious constraint on the MRB program, the Ten-Year Rule.

The MRB Ten-Year Rule each year prevents tens of thousands of qualified low- and moderate-income first-time home buyers from benefiting from MRB mortgages. The rule forces states to use payments on MRB mortgages to retire MRBs outstanding more than ten years, rather than fund new mortgages to low- and moderate-income families.

This year alone, the Ten-Year Rule will cost state HFAs $3 billion in low-cost MRB mortgage money that would otherwise be available to help working families buy their first homes. Massachusetts loses $288,000 in MRB mortgage money each day to the Ten-Year Rule. Ohio loses more than $450,000 a day, and California forfeits more than $1 million every day.

The Housing Bond and Credit Modernization and Fairness Act, H.R. 284 and S. 595, would repeal the Ten-Year Rule. Introduced by Representatives Houghton (R-NY) and Neal (D-MA), H.R. 284 has 348 House cosponsors, including most members of this Subcommittee.

Corporate/jobs tax legislation passed by the Senate last month (S. 1637) and reported by the House Ways and Means Committee June 14 (H.R. 4520) appears to be the only possible tax vehicle for passage of Ten-Year Rule relief this year. Though the House Committee-reported bill does not contain Ten-Year Rule relief, the Senate bill includes a one-year repeal of the rule for MRBs outstanding and prospective repeal for MRBs issued after the bill's enactment.

Though only temporary relief, the Senate provision is an important step toward permanent repeal of the Ten-Year Rule. Please help us ensure the survival of this provision in the House-Senate corporate/jobs bill conference by communicating your support for the Senate Ten-Year Rule relief provision to Ways and Means Chairman Thomas and House leaders.

Thank you for this opportunity to testify. NCSHA stands ready to assist you in advancing H.R. 4110 and making homeownership a reality for more of America's working families.