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BEFORE THE

UNITED STATES HOUSE

COMMITTEE ON FINANCIAL SERVICES,

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

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Good morning, Chairman Ney, Ranking Member Waters, and distinguished Members of the Subcommittee, thank you for inviting the Department to testify on the subject of H.R. 4110, the FHA Single Family Loan Limit Adjustment Act of 2004. We appreciate this opportunity to provide the Subcommittee with the Department's comments on this proposed legislation. In addition, on behalf of the Administration, let me express our thanks for the Committee's unanimous approval of H. R. 3755, the Zero Downpayment Act of 2004 two weeks ago. In particular, let me also thank the authors of the proposal under consideration today, Rep. Gary Miller and Committee Ranking Member Barney Frank for their support of our zero downpayment initiative. The Zero Downpayment Act, if enacted into legislation, will assist at least 150,000 credit worthy American families buy their first home each year.

The Administration and the Department are firmly committed to helping more American families achieve the dream of homeownership. Today, overall homeownership rates are at record high levels. In the first quarter of FY 2004, that rate remained at the all time record high of 68.6% reached in the third quarter of FY 2003. There are now 72,666,000 American families that own their own homes. For the year 2003, overall, the homeownership rate was 68.3 percent, also a new record.

Minority homeownership also set records. For the first time ever, the majority of minority households are now homeowners, with a record rate of 50.8 percent for the first quarter of 2004. There are now 14,860,000 minority homeowners. This shows the progress HUD and the rest of the housing industry is making in increasing homeownership opportunity in this country.

This is a good record and we want to improve on it. There still remains a homeownership gap between non-Hispanic whites and minorities. While more than half of minority households own their own home, this compares with three-quarters of non-Hispanic whites.

In June 2002, President Bush announced an aggressive homeownership agenda to clear away the barriers to homeownership and add 5.5 million new minority homeowners by the end of the decade. In order to accomplish this goal, the Administration has developed new tools and resources for future homeowners. For example,

- More than two dozen major companies and organizations have committed to increasing the number of loans to low-income families, financing the construction of more affordable housing and providing financial counseling to potential buyers. This includes pledges to provide more than $1.1 trillion in mortgage purchases for minority homebuyers this decade;

- Since announcement of the President's goal in June 2002, more than 1.5 million minority families have moved into homes of their own;

- The American Dream Downpayment Initiative (ADDI) was signed into law on December 16, 2003. ADDI authorized $200 million a year in formula grants to help homebuyers with down payment and closing costs;

- The Administration doubled the budget request for housing counseling funds - from $20 million to $40 million - and Congress has responded by appropriating the funds. The proposed FY 2005 HUD Budget proposes a further increase to $45 million;

- And HUD looks forward to continuing to work with the Committee to move the Zero Down Payment Act toward enactment.

The Federal government's primary vehicle for increasing homeownership in America is the Federal Housing Administration (FHA), now proudly celebrating its 70th anniversary. FHA is the Federal government's single largest program to extend access to homeownership to individuals and families who lack the savings, credit history, or income to qualify for a conventional mortgage. FHA pioneered the 30-year, self-amortizing mortgage, has insured in excess of 30 million mortgages during its history, and has never relied on appropriated funds but has rather existed solely on the mortgage insurance premiums paid by homebuyers using its programs. In FY 2003, FHA insured almost $150 billion in mortgages for over 1.3 million households, most of them first-time homebuyers.

However, in some areas of the country, including areas of Massachusetts and California, the variety of state and local regulatory barriers have added thousands of dollars to the cost of construction, and subsequently the cost of homeownership. I know from personal experience that Representative Frank has recognized these problems for many years. In June 2003, HUD launched a Department-wide effort called the "America's Affordable Communities Initiative" to work with states and local communities to reduce regulatory barriers that impede the production and rehabilitation of affordable housing throughout America. The AACI team is not only developing new approaches and incentives that encourage efforts at the local level, the team is also reviewing and reforming HUD's internal regulations that may be impacting housing affordability. Leading by example, the AACI team is aggressively pursuing the reduction of unnecessary barriers to affordable housing. In addition, over the last three years, the Federal Housing Administration has taken a number of steps to reduce Federal regulatory barriers to homeownership, including:

- **FHA's TOTAL Mortgage Scorecard Deployment**
  FHA created and deployed in 2004 an empirical-derived, statistically proven mortgage scorecard for installation in various automated underwriting systems. By using automated underwriting systems that employ the TOTAL (Technology Open To Approved Lenders) mortgage scorecard, lenders are able to dramatically reduce the paperwork associated with underwriting FHA insured mortgages, and reduce underwriting staff costs as well. In addition, some borrowers, previously thought to represent too great of an insurance risk by subjective underwriting requirements, may now have their mortgages approved by an objective electronic system.

- **Elimination of Paper Mortgage Insurance Certificates**
  FHA announced in 2003 that it will no longer issue, and lenders need no longer keep copies of, paper mortgage insurance certificates. By relying on FHA's system of records with electronic transmission of data, FHA has significantly reduced the paperwork and custodial requirements of issuing and maintaining this document and reduced lender costs.

- **Elimination of Planned Unit Development (PUD) Approval Requirements**
  In 2003, FHA eliminated policies and procedures for approving planned unit developments (PUDs). Based on FHA's experience with PUDs, and the role that state and local officials play in the development of PUD projects, HUD has abolished its requirement for a detailed examination of the legal and budget documents associated with PUDs. This reduces costs to lenders and developers, and possible delays to the mortgage closing.

- **Minimum Distance Requirements Between Private Wells and Sources of Pollution for Existing Properties**
  FHA announced in 2002 an alternative to existing HUD regulations where state and local statutes differ from FHA guidelines with respect to the distance between domestic wells and septic drain tanks. By allowing state and local requirements to prevail where they are less onerous than HUD's, FHA has eliminated an additional regulatory step that was previously required.

- **Streamline Refinances-Revised Mortgage Amount Calculations**
  In 2001, FHA revised the procedures for calculating the maximum mortgage for these refinances. It both simplified the process as well as eliminated, in most cases, the need for the homeowner to bring cash to settlement when refinancing to lower the mortgage payment.

- **Pre-Approval Requirements for New Construction and an Alternative to the Inspection Requirements - Single Family Loan Production**
  FHA announced in 2001 the expansion of the definition of "Pre-Approval" to include the issuance of a building permit by a local jurisdiction prior to construction and offers an alternative to inspection requirements by accepting a Certificate of Occupancy in lieu of an inspection and its attendant expense. These changes streamline the process for FHA insurance of single family production.

The goal of H.R. 4110, the FHA Single Family Loan Limit Adjustment Act of 2004, as we understand it, is to raise FHA mortgage limits, particularly in high cost areas. Currently, the FHA loan limit for a single family house is capped by either 87 percent of the Freddie Mac limit in high costs areas or with a floor of 48 percent of the Freddie Mac limit in all other areas. The cap is the lesser of the 87 percent limitation or 95 percent of the local median single family house price. Alaska, Guam, Hawaii and the Virgin Islands are permitted to have limits up to 150 percent of the FHA limit if justified by the local median housing price.

While we recognize the worthy intention behind the proposal, the Department does not support H. R. 4110 at this time. Our analysis indicates that the proposed changes to the law would result in the following:

- The statutory limit that caps the FHA loan amount regardless of the local median housing price would be removed.
- In all areas of the country, the 1-family limit would no longer be determined by using 95 percent of the area median, but rather 100 percent of the area median;

- The statutory "floor" limit of 48 percent of the conforming limit would remain intact. As it is now, nearly 90 percent of all US counties are at the "floor" and would not benefit from this legislation.

The effect of removing the cap would be to dramatically increase the mortgage limits in certain extreme high cost areas with more modest increases elsewhere. Specifically, lifting the 87 percent of the Freddie Mac limit would affect only a few metropolitan areas, all either in California or in the northeastern United States. For example, if the legislation were enacted, the limit in San Francisco would rise to $568,200; in New York the limit would rise to $374,400 and in Boston the limit would rise to $432,700.

It is unclear that this is the market the Federal Housing Administration should serve, and that it is unserved by the conventional market or the government sponsored enterprises. In California, for example, in FY 2003, FHA endorsed 102,398 single-family mortgages in the state of California, second only to the state of Texas at 138,143 out of a total of more than 1.3 million single family endorsements.

In addition, legislation to raise FHA's mortgage limits may result in a need for increased commitment authority. For example, two mortgages in California at the higher mortgage limit would amount to $1.2 million and take as much authority as six mortgages in Columbus, Ohio. Consequently, FHA could expend more insurance authority but serve fewer households under this proposal.

This concludes my statement, Mr. Chairman. I thank the Subcommittee for the opportunity to meet with you today to discuss this proposed legislation.