



**NAHB**  
NATIONAL ASSOCIATION  
OF HOME BUILDERS



**Testimony Of**  
**David F. Wilson**  
**On Behalf Of the**  
**National Association of Home Builders**  
**Before the**  
**United States House Committee on Financial Services**  
**Subcommittee on Housing and Community Opportunity**  
**On**  
**H.R. 3043**  
**“The Zero Downpayment Pilot Program Act of 2005”**  
**June 30, 2005**

## Introduction

Mr. Chairman, Ranking Member Waters, members of the Housing and Community Opportunity Subcommittee, on behalf of the more than 220,000 members of the National Association of Home Builders (NAHB), thank you for the opportunity to testify before you today on H.R. 3043, the “Zero Downpayment Pilot Program Act of 2005,” introduced by Representative Patrick Tiberi (R-OH). My name is David F. Wilson and I am the 2005 President of NAHB and a home builder and developer from Ketchum, Idaho. I have served as a senior officer of NAHB since 2002 and am a past President of the Idaho Building Contractors Association and the Wood River Idaho Building Contractors Association.

Let me begin by saying that NAHB supports H.R. 3043. Since its creation in 1934, the Federal Housing Administration has been an innovator in creating mortgage products that serve families that are either not served or underserved by the private market. This legislation will allow FHA to continue in this important tradition of innovation to address a primary obstacle that prevents many minority and low- and moderate-income families from becoming homeowners: the funds necessary for a downpayment. Furthermore, this legislation will enable FHA to temporarily remove this impediment to homeownership in a prudent manner and without negatively impacting FHA’s Mutual Mortgage and General Insurance Funds.

H.R. 3043 would authorize the Secretary of Housing and Urban Development to insure zero downpayment mortgages for one-to-three unit residences provided that the borrower occupies one of the units. Currently, FHA requires most buyers to make a 3 percent minimum cash contribution to the

downpayment and closing costs under its 203(b) program. H.R. 3043 would eliminate this requirement. Homebuyer counseling would be required for all borrowers in the program, which NAHB believes is important. Loans in this program would be insured through HUD's Mutual Mortgage Insurance (MMI) Fund. As a pilot program, H.R. 3043 would enable 50,000 families to achieve homeownership. To assist in mitigating risk to FHA, the program would carry higher upfront and annual mortgage insurance premiums (MIPs) than HUD's other FHA single family programs. The upfront MIP is projected to be in the area of 2.25 percent compared with 1.50 percent for the FHA's standard mortgage insurance programs, while the annual MIP would start at 75 basis points and would decrease to 50 basis points after five years of satisfactory payment performance. Because the upfront MIP is normally included in the amount borrowed, the higher upfront and annual MIP would be reflected in slightly higher monthly payments.

### Obstacles to Homeownership

Research suggests that the greatest obstacle faced by potential first-time homebuyers, especially low-income, minority individuals and families, is not the ability to make monthly mortgage payments, but rather the ability to assemble enough funds to pay the downpayment and closing costs. H.R. 3043 directly addresses this problem. According to a 1999 study by the US Census Bureau entitled "Who Can Afford to Buy A Home?", one of the top three reasons why families and individuals could not afford to purchase a house was a lack of cash or other financial assets for the downpayment and closing costs.

Data on accumulated wealth among homeowners and renters from the Federal Reserve's Survey of Consumer Finance support this point. These data

highlight the lack of wealth available to renter households for making a downpayment. Eighty-seven percent of all renters have less than \$50,000 in wealth (these are the likely funds to be used for a downpayment to buy a home) while for minority renters that figure rises to ninety-four percent. With so little wealth and absent some downpayment assistance, it is inordinately difficult for large numbers of renters, especially minority renters, to become homeowners.

Many of these same renters also lack sufficient credit history or have less-than-perfect credit and, thus, cannot be served by existing zero downpayment products in the marketplace. For example, in the conventional market both Fannie Mae and Freddie Mac will purchase some form of no downpayment loan. Since zero downpayment options were introduced in the late 1990s, both of these secondary market organizations have expanded their suites of community development loan products aimed at reaching cash-strapped borrowers who wish to purchase homes in underserved markets. These products, created to reach borrowers in underserved markets offer alternatives to downpayments, such as soft second, or forgivable, mortgages from government agencies, employers or nonprofit organizations. For most if not all of these products, however, accessibility is still limited to borrowers having the most sterling credit records. There is a significant segment of the population that is not served by these conventional-market options who would benefit from an FHA-insured mortgage loan program. NAHB believes it fits well within the mission of FHA to provide a zero downpayment product to help facilitate more homeownership for this underserved population.

## Safe and Sound FHA Operation

NAHB further believes that a zero downpayment program can be carried out in a safe and sound manner without harm to FHA's insurance funds.

First, the role of the downpayment in determining the credit worthiness of a potential homebuyer has diminished as underwriting technology has improved. Before the advent of automated underwriting, the amount of downpayment a prospective borrower could afford was a dominant factor in the underwriting decision. However, as the level of sophistication of automated underwriting tools has advanced, the ability of these tools to differentiate between high and low credit risk borrowers has improved. Specifically, FHA now requires lenders to use the Technology Open to Approved Lenders (TOTAL) Mortgage Scorecard, when evaluating application for FHA-insured loans. This tool, which continues to be refined by FHA, will allow lenders to better evaluate borrowers before bringing them into the program.

Second, the risk to FHA from a zero downpayment product can be mitigated through appropriate underwriting and financing criteria. Again, NAHB points to HUD's own zero downpayment proposal where the MIPs will be higher than FHA's regular loan program to compensate for the higher risk of default. As stated earlier, the upfront MIP would be set at approximately 2.25 percent as compared to 1.50 percent, and the annual MIP would be 0.75 percent as compared to 0.50 percent. After five years, once borrowers have established a solid mortgage payment track record, the annual MIP would be reduced to 0.50 percent, the same as the regular program. HUD estimates that this approach results in no net cost to

the FHA MMI Fund and only increases the monthly payment on a \$100,000 mortgage by \$50.

Finally, housing counseling can further lower risk to FHA by ensuring that first-time homebuyers understand the process and the ongoing responsibilities of being a homeowner. HUD's own zero downpayment proposal included in its Fiscal Year 2006 budget request requires such counseling and we applaud that. The value of these programs is well documented and there are many local and state organizations around the country that provide housing counseling services. HUD itself funds many of these services through several grant programs of its own; however, these programs could be better organized and even enhanced to be more effective.

#### Enhancing the Soundness of the MMIF

Currently, the only way to address downpayment barriers for FHA borrowers is through downpayment assistance programs facilitated by nonprofit third parties. While these programs have contributed positively to homeownership expansion efforts, more options are needed. HUD's research has shown that loans assisted by these third party programs have experienced a much higher default rate than FHA's overall insured loan portfolio without compensating the FHA for the higher risk of loss. The FHA zero downpayment pilot program proposed in H.R. 3043 addresses the downpayment hurdle while allowing FHA to establish mortgage insurance premiums, underwriting and homebuyer counseling requirements targeted to that type of transaction.

## Inclusion of Condominium/Cooperative Loans

NAHB is pleased that H.R. 3043 would apply to condominiums and cooperatives. In many communities around the country, single family detached homes are far out of the price range for low- and moderate-income families. Condominiums and cooperatives, on the other hand, are often within their reach and can provide the same wealth-building benefits for families as well as community development benefits for these neighborhoods.

## NAHB Support for Homeownership Initiatives

A zero downpayment program would be a valuable addition to FHA's homeownership expansion tools that make homeownership possible for families otherwise unserved in markets throughout the nation and under all economic conditions. It is also an excellent opportunity to address the needs of prospective minority homeowners - an area in which NAHB has been working closely with the administration and other housing industry groups.

As one of the original partners in the "Blueprint for the American Dream," NAHB and its state and local affiliates are engaged in a number of efforts in support of the administration's initiative. NAHB has joined with HUD and other Blueprint partners in promoting events around the country designed to increase public awareness of minority homeownership opportunities. NAHB is dedicated to increasing public education regarding the many existing programs - public and private - that can help families achieve the dream of owning their own home. In addition, NAHB has been working with its network of state and local affiliates to find markets that could most benefit from education and outreach initiatives.

Finally, NAHB is working with other Blueprint partners to identify opportunities for cooperative outreach efforts.

### Housing America's Working Families

NAHB believes that housing America's working families should be a key part of this nation's housing policy. Of particular concern to the building industry, are those men and women who work in their local communities, often as public employees, but cannot afford to live there. We need more funding for special programs that can help families buy or rent a home that meets their needs. These include downpayment assistance programs and tax credit programs that make rents more affordable. These programs make a difference for millions of families who are on the edge of affordability.

H.R. 3043 can help address our nation's "workforce" housing problem. The bottom line is that we need to move housing up on the list of priorities at all levels of government.

In addition, NAHB supports H.R. 1549 and S. 859, two important proposals which would implement a homeownership tax credit.

### Conclusion

NAHB is pleased to note that this legislation is one of many proposed homeownership promotion initiatives under consideration by the Congress. Mr. Chairman, thank you again for the opportunity to share our views on the "Zero Downpayment Pilot Program Act of 2005". The members of NAHB work daily with families who want to partake in the American dream and own their first home. Time and again, our members witness the wealth-building effects of

homeownership for families and the community-building effects of  
homeownership for neighborhoods. H.R. 3043 will expand the number of those  
who can share in the American dream of homeownership.

We look forward to working with this committee, the Congress and the  
administration on expanding homeownership opportunities.

Thank you.