

**Opening Statement of the Honorable Bob Ney  
Chairman, Subcommittee on Housing and Community Opportunity**

**Hearing on**

**“H.R. 3043, the Zero Downpayment Pilot Program Act of 2005”**

**Thursday, June 30, 2005**

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This morning the Subcommittee meets to discuss Congressmen Pat Tiberi and David Scott’s legislation to create more homeownership opportunities for first-time homebuyers. Re-introduced last week, H.R. 3043 would eliminate the downpayment requirement for families and individuals who buy homes with FHA-insured mortgages.

Theoretically, downpayment requirements were established to assure the lender that a borrower would be less likely to default or risk foreclosure on a home if there was some personal investment stake. Before the invention of automated or computerized underwriting to determine credit scores, lenders believed that downpayments were one of the best techniques to assess the creditworthiness of a potential borrower.

After hearings conducted on March 24, 2004 and a Full Committee markup on June 3, 2004 on the predecessor bill, H.R. 3043 incorporates the 2004 reported bill as well as key revisions that would establish the bill as a pilot program, limit the pilot to 50,000 loans, and sunset the program in 2010.

Today’s hearing will allow us to continue our discussions from the previous Congress as to whether this proposal would increase defaults and foreclosures for FHA-related mortgages, placing the Federal government at a higher liability. The new legislation incorporates several safeguards that protect FHA’s Mutual Mortgage Insurance Fund and enhance provisions developed during last year’s markup. It appears these changes will help make the pilot program responsive to concerns that without adequate safeguards, zero downpayment requirements will lead to increased foreclosures. However, critics continue to state that it is unclear whether removing downpayment requirements could be a sound underwriting decision and whether borrowers without downpayment contributions from their own resources would pose a greater credit risk.

As we debated Cong. Tiberi and Cong. Scott’s Zero Downpayment proposal last year, we learned that the biggest obstacle to homeownership for most families is the inability to come up with enough cash to meet down payment and closing costs. Minority families in particular are burdened by high down payment requirements. As of the first quarter of 2005, the racial divide in homeownership remains wide, with 76 percent of white households owning their own home, compared with 48.8 percent of African American households and 49.7 percent of Hispanic households.

Lagging minority homeownership rates are a serious concern. Minority households are expected to account for two-thirds of household growth over the coming decade.

As we continue our debate on legislation such as Zero Downpayment and other homeownership initiatives, improving the ability of such households to make the transition to homeownership will be an especially important test of the nation's capacity to create economic opportunity for minorities and immigrants and to build strong, stable communities.

This is an important piece of legislation before our Subcommittee today, and I look forward to working with Congressmen Tiberi and Scott as this bill works its way through the legislative process.