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STATEMENT

of

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On

FHA Multifamily Loan Limit Adjustment Act of 2003

Before the

Subcommittee on Housing and Community Opportunity

Committee on Financial Services

United States House of Representatives

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Good Morning Mr. Chairman, and Members of the Subcommittee, my name is Linda Cheatham, and I am Senior Vice President of Berkshire Mortgage Finance. I am appearing on behalf of the Mortgage Bankers Association of America (MBA)*. MBA is grateful for the opportunity to present its views to the Housing and Community Opportunity Subcommittee today on HR 1985, the FHA Multifamily Loan Limit Adjustment Act of 2003. MBA applauds Representative Gary Miller (R-CA) and Ranking Member Barney Frank (D-MA) for introducing HR 1985. This bill would increase the maximum FHA multifamily mortgage limits for high-cost areas, a critical step in the effort to increase the nation's affordable multifamily housing stock.

I have over 30 years of experience with FHA multifamily insurance programs, most recently as head of FHA production at Berkshire Mortgage Finance, a multifamily mortgage banking company that originated over $190 million in FHA-insured multifamily loans last year.

MBA strongly supports the Federal Housing Administration's multifamily mortgage insurance programs. FHA multifamily mortgage insurance has operated successfully for over 65 years working with private sector partners, to expand the supply of rental housing. Over the past six decades, this public/private partnership has leveraged more than $100 billion of private sector investments to provide rental housing for more than 4 million families and the elderly throughout the country.

What are the FHA multifamily programs and how do they work?

The Federal Housing Administration (FHA) was created under the National Housing Act of 1934. It was developed initially to attract private and public sector credit into the housing market to meet mortgage financing needs of low-, moderate-, and middle-income Americans by insuring long-term, fully amortizing single-family and multifamily mortgages. From it's beginning, a major responsibility of FHA has been to enhance the nation's multifamily housing stock. FHA facilitates the construction and maintenance of multifamily housing by providing mortgage insurance to finance the construction, purchase, rehabilitation, or the refinancing of rental housing, and cooperatives. Over the years, FHA has been expanded to include programs for the finance of special needs groups such as the elderly and disabled. Each of the programs is referred

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*MBA is the national association representing the real estate finance industry. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership prospects through increased affordability; and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters excellence and technical know-how among real estate finance professionals through a wide range of educational programs and technical publications. Its membership of approximately 2,600 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mbaa.org.

to by the section of the National Housing Act, as amended, under which it is authorized.

FHA's multifamily mortgage insurance programs enable qualified borrowers to obtain long-term, fixed-rate, nonrecourse, financing for a variety of multifamily property that are affordable to low- and moderate-income families. Out of the cash flow of a property approved for FHA-insured financing, the borrower pays a mortgage insurance premium (MIP) to the lender, which is then passed through to FHA in return for the insurance. The MIP charged is intended to compensate FHA for its risk and the cost of doing business, including the expected cost of default. Recent calculations by HUD and OMB of the cost of the programs show that virtually all of the FHA multifamily insurance programs operate on a break-even basis or make money for the government.

Why is it necessary to increase the FHA multifamily mortgage limits?

According to a paper, "Multifamily Rental Housing in the 21st Century" written by Kent Colton and Kate Collignon in January 2001 for the Joint Center on Housing Studies at Harvard University, economic growth over the past decade has actually served to exacerbate the nation's shortage of decent, affordable housing. According to the white paper, in 1997, there were only 76 affordable apartments for every 100 extremely low-income renter households. And those low-income households lucky enough to find affordable housing were often paying a higher percent of their income for it in 1998 (27.7 percent) than they did in 1978 (25.5 percent), because rent increases during that period surpassed renter household income growth.

Housing affordability issues are not restricted to low-income households. The Center for Housing Policy, a subsidiary of the National Housing Conference, reported in a November 2002 study, "America's Working Families and the Housing Landscape 1997-2001", that more than 4.8 million working families had critical housing needs in 2001 (defined as spending more than half their income on housing or living in physically dilapidated units). And their numbers have been increasing. In the four years between 1997 and 2001, the number of these households jumped 60 percent (or by 1.8 million). The Center says that a total of 14.4 million of the nation's families have critical housing needs, and that, increasingly, having a job does not fully guarantee a family a decent place to live at affordable cost.

Further, according to the Colton/Collignon study, the growing affordability gap is the result of two trends: a shrinking supply of low-cost housing, and an expanding demand from an increase in the number of low-income households. Colton & Collignon state the overall challenge in the future is to provide housing that working families can afford, but in many communities the economics will simply not allow developers and builders to construct units where the rents will be affordable.

Haven't FHA multifamily loan limits increased over the past two years?

MBA applauds Congress and the Administration for taking steps over the past two years to update the FHA multifamily loan limits. First, the FY2002 VA-HUD Appropriations Act provided for a 25 percent increase in the multifamily loan limits, which addressed problems resulting from increased construction and land costs over the last decade. This increase in the FHA loan limits was essential, as multifamily loan limits had been unchanged for ten years, and had virtually shut down the FHA new construction programs in most major cities, and second-tier cities in the country. Second, in 2002, Congress passed and the President signed into law the FHA Downpayment Simplification Act, S 2239, which will index the FHA multifamily loan limits to the Consumer Price Index (CPI) beginning in January 2004. This was a crucial next step in making FHA multifamily mortgage insurance a key financing mechanism for the production of rental housing. Unfortunately, the current maximum FHA multifamily mortgage limits are inadequate and continue to constrain new construction and rehabilitation in many urban and suburban areas, where construction costs are significantly higher than in the rest of the country.

Why increase FHA multifamily loan limits one more time?

One final step to increase the FHA multifamily loan limits in high-cost areas still remains as the last hurdle to make these programs as effective as they can be in providing affordable rental units. H.R. 1985 establishes an additional mechanism for addressing the need for new construction or substantial rehabilitation in extremely high-cost areas of the country by giving the Secretary of HUD the authority to increase the maximum high-cost percentage in extremely high-cost areas to 170 percent.

A look at recent FHA new construction or substantial rehabilitation activity and the cost of renting an apartment in certain high-cost areas illustrates the need for this legislation. According to the Center for Housing Policy study published in May 2003, "Paycheck to Paycheck: Wages and the Cost of Housing in America," the following are fair market rents for a two-bedroom apartment in selected high cost areas, and the hourly wage needed to afford them:

Market	Monthly Rent	Required Hourly Wage
Boston, Massachusetts	$1,250	$24.04
Los Angeles, California	$823	$15.83
Nassau/Suffolk, New York	$1,230	$23.65
San Diego, California	$1,012	$19.46

Also, according to the Center's study, in 2001, the percent of monthly income needed to pay the rent for a two-bedroom apartment in Boston for janitors was 69 percent, and for retail salespersons in Boston was 81 percent.

While FHA multifamily loan limits were increased in 2002, as stated earlier, according to Department of Housing and Urban Development data, there were no FHA-insured multifamily loans for new construction or substantial rehabilitation approved in Massachusetts in FY 2002 and FY 2003; there was one loan approved in California in each of FY 2002 and FY 2003; and there was one loan in New York in FY 2002 and no loans in FY 2003.

Clearly, without higher FHA multifamily loan limits in high-cost markets, critical housing needs will go unmet. Those who will be most affected will include low- and moderate-income families, including important community service providers such as teachers, firefighters, and police officers. By increasing the maximum loan limit for FHA's multifamily programs, these programs can help provide the housing opportunities necessary for the economic and social well being of our nation.

Mr. Chairman, it is critical to institute this final step to update the FHA multifamily loan programs in order for the programs to reach their full potential and serve the many needy working families in America. Mr. Chairman, MBA stands ready to work with you to advance this important legislation.