# SUSTAINABLE HOUSING FINANCE: THE GOVERNMENT'S ROLE IN MULTIFAMILY AND HEALTH CARE FACILITIES MORTGAGE INSURANCE AND REVERSE MORTGAGES

## HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND INSURANCE

OF THE

## COMMITTEE ON FINANCIAL SERVICES

## U.S. HOUSE OF REPRESENTATIVES

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# SUSTAINABLE HOUSING FINANCE: THE GOVERNMENT'S ROLE IN MULTIFAMILY AND HEALTH CARE FACILITIES MORTGAGE INSURANCE AND REVERSE MORTGAGES

**Thursday, May 16, 2013**

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND INSURANCE,
COMMITTEE ON FINANCIAL SERVICES,
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 2:55 p.m., in room 2128, Rayburn House Office Building, Hon. Randy Neugebauer [chairman of the subcommittee] presiding.

Members present: Representatives Neugebauer, Luetkemeyer, Royce, Garrett; Capuano, Cleaver, Clay, Sherman, Himes, Sinema, and Beatty.

Also present: Representatives Fitzpatrick, Heck, and Ellison.

Chairman NEUGEBAUER. The committee is called to order.

This Subcommittee on Housing and Insurance hearing is entitled, "Sustainable Housing Finance: The Government's Role in Multifamily and Health Care Facilities Mortgage Insurance and Reverse Mortgages."

We will have opening statements, with a limit of 10 minutes per side.

There may be Members in attendance today who are not assigned to the Housing and Insurance Subcommittee, but without objection, we will let those Members participate in the hearing, as well.

I ask unanimous consent that the members of the Financial Services Committee who are not members of the subcommittee, who have joined us today, will be entitled to participate in the hearing.

I will now give my opening statement.

We have had a number of hearings on FHA, and this is one that will focus on an area of FHA that quite honestly doesn't get a lot of attention. But if you are going to look to Congress doing its job, we have two responsibilities. And one of those is oversight. So, we are going to hear somewhat of a report from the people who head up those various programs, about the steps of that program. But also, as we are possibly looking at some FHA reform, I think it is important for our Members to understand all of the aspects of FHA.

I think one of the things that we have found consensus on, on both sides of the aisle, is that FHA has played an important role in housing over a number of years.

I think there has also been some consensus that maybe there has been some mission creep at FHA, and that they possibly have moved outside of their historical mission.

One of the troubling things, though, that we have learned is that FHA is having a little bit of a solvency issue, and that they have basically a negative net worth. That then puts the taxpayers at risk. And one of the things that we want to focus on today is what should be the core mission of FHA, and have a better understanding of some of these other businesses.

One of those businesses is the reverse mortgage program. And basically, that program is troubling to me, because it now has a negative economic value of about $2.8 billion, a capital ratio of negative 3.6 percent, and it comprises 7 percent of the single family guaranteed program, but it is 17 percent of the MMI—its fund losses.

Secretary Donovan, in fact, was quoted the other day as saying that, of the $943 billion that the Administration thinks they are going to have to tap the Treasury for, a good deal of that can be attributed to the Home Equity Conversion Mortgage (HECM) portfolio.

I think one of the troubling things about HECM borrowers, or reverse mortgage borrowers is they aren't really required to meet any income or credit qualification, and these lax underwriting standards have resulted in higher default rates, many times, leaving many of these seniors in financial hardship. And so, we want to hear more about that.

The FHA Multifamily Program—I think a lot of people don't realize, some do, that FHA has a multifamily program. I have a couple of questions about that. One concerns the transparency of the Multifamily Home Program—FHA does not disclose or publish any delinquency rates or financial data. Nor is the Multifamily Program required to have a minimum capital reserve ratio.

And again, we have to remember what the core business of FHA is. They are a mortgage insurance company. And so, they are insuring mortgages on single family houses. They are insuring mortgages on multifamily projects, but wherein for the single family, they are required to keep a certain amount of reserve, on the multifamily, they are not required to keep that reserve. Nor are they really reporting the results of that program.

And so, we want to talk a little about prioritization, transparency.

The other piece that I do want to talk about is the prioritization piece. And one of the things that we know is that FHA is approaching their commitment authority for Fiscal Year 2013.

But we understand that the agency also has continued to refinance existing developments that are financed outside of FHA, which could be at the expense of FHA taking on new projects. And so, we want to have a little bit more discussion about that.

And then finally, the hospital program, in which FHA is basically guaranteeing the debt of a number of the hospitals around the country and exhausting large amounts of their multifamily commitment authority on these large hospital projects. And what we are learning is that there is not very many transactions in this area, but that the transaction amounts can be rather large. And I think that the question I have is, should that be a mission of FHA, and if there are so few transactions it appears to me that private financing for these projects must be fairly available and maybe that might be one of the things that we might want to look at is whether FHA should continue funding—or guaranteeing hospital loans in the future.

So I look forward to the panel. I think we have a great panel, composed of people who are very knowledgeable on these various programs.

And with that, I will now yield to my good friend, Mr. Capuano, the ranking member of the subcommittee, for such time as he may consume.

Mr. CAPUANO. Thank you, Mr. Chairman.

And I want to thank the panelists for being here and for your enlightened testimony. I have already read most of it, and actually understood a fair amount of what I read, surprisingly.

But today, we are trying to figure out what to do with the housing market and how to deal with it.

Obviously, we all agree that we have some issues with it, though obviously, there may be some differences on the extent of those problems and what to do about them. For instance, a couple of years ago, everybody was lamenting Fannie Mae and Freddie Mac, yet at the moment nobody acknowledges the fact that they have already paid over $65 billion in dividends; that is 35 percent of what they borrowed. And we are anticipating another $66 billion being paid by the end of the second quarter.

That is going to be over 70 percent of what they repaid. Yet, because of a law that makes no sense to me, we are not allowed to use that to offset their principal. So they are going to pay us these dividends and still owe us the full amount of money.

And even when it comes to the FHA, as we delve into this more—I am no different than anybody else; I learn as we go. And I will tell you that it comes as a little bit of a surprise to me to find out, not too long ago, but after we got involved with this oversight, that the HECM program is really what drives the MMI fund into a problem, and that the non-HECM aspect of the MMI fund are actually in reasonable shape and getting better by the day.

That doesn't mean that we don't have to deal with it. I totally agree with the chairman that we still have an obligation to make sure that we don't get into these problems again, to the best of our ability, and that they do perform their mission and so we can move forward and continue to build the middle class and maintain the middle class we have.

But at the same time, I also think that what has happened over the last several years and what is happening now and the rebound in some of these things that we need to be a little bit careful about how much we tinker with this. We should do something. We absolutely have some certain things that I think we can agree on relatively quickly. But whatever it is we do, I think, for me, I am not interested in killing the golden goose that has produced such stable homeownership across the country for so many middle-income people, including myself.

So with that, I just put that caveat out there. I don't think there is disagreement on that. But nonetheless, I think it is important to state that with all the issues that we do know that are there, we still have to be careful in fixing it to make sure that we don't over-fix it or over-tighten so that there is no housing market going forward.

With that, I yield back.

Chairman NEUGEBAUER. I thank the gentleman.

And now, Mr. Fitzpatrick is recognized for 1 minute.

Mr. FITZPATRICK. Thank you, Mr. Chairman, for allowing me a moment here in your hearing.

I believe that the Home Equity Conversion Mortgage program, when used properly, can be very useful as a tool for our Nation's seniors, giving them access to capital in their retirement to help improve or maintain their quality of life.

Of course, we are all concerned with the health of FHA and the need to reform the system in order to ensure its sustainability.

The legislation that I am working on with the gentleman from Washington, Mr. Heck, will give HUD the tools it needs to provide timely and appropriate reforms to the HECM program to ensure that reverse mortgages are still an option for older Americans. So I thank you for the opportunity to participate, and I look forward to the testimony of the witnesses.

Chairman NEUGEBAUER. I thank the gentleman.

And now the gentleman from Missouri, Mr. Clay, is recognized for 2 minutes.

Mr. CLAY. Thank you, Mr. Chairman. Thank you for conducting this hearing.

And I am really interested in the testimony of the witnesses. However, I do want to bring to the attention of the witnesses and the committee that recently Secretary Donovan announced consolidation and closures of HUD offices around the country in the area of multifamily housing. However, there was no discussion with the stakeholders in the regions that are being affected by the closures. In fact, many Members of Congress were not informed until the announcement by your agency, blindsiding them as to how this decision was being made.

This brings us to the main problem we are having with these closures. How did you come to make these decisions? What criteria did you use to develop the list of closures? What plan do you have to replace the services that these offices that are currently providing?

The notice in the Federal Register relating to the current multifamily transformation initiative made sweeping claims about improving efficiency and improving the service provided to HUD's customers, a HUD regional system and keeping the other 40 offices as satellites so that you can remain in the communities you serve. And I need to know why that wouldn't work.

Over the last 2 years, you have rolled out extensive training for all multifamily housing staff under the names Sustaining Our Investments and Breaking Ground. Now under this plan, you are expecting that nearly 400 of those trainees will not be working for the agency by 2016.

Aside from the fact that the investment in these employees will be lost, I am concerned about how much you spent on consultants, training costs, travel costs, and work hours that were lost for the weeks of training, and what the taxpayers got for their money.

I see my time is up, Mr. Chairman, but I am sure when we get to the round of questioning, we will be able to discuss that.

I yield back.

Chairman NEUGEBAUER. I thank the gentleman.

And now the gentlewoman from Ohio, Mrs. Beatty, is recognized for 2 minutes.

Mrs. BEATTY. Thank you, Mr. Chairman, and Ranking Member Capuano.

And I thank the witnesses for being here today.

Today, we look to determine what role the government should play in the multifamily, healthcare, and reverse mortgage markets. Throughout these hearings, though, there seems to be a consistent and recurrent theme that the government is somehow crowding out the private market for capital.

With respect to FHA's multifamily housing, it was the strong performance in this portfolio that has historically generated offsetting receipts for the Treasury and which prompted the request for additional commitment authority. And the GSEs that purchased and guaranteed multifamily mortgage loans have driven the market for affordable and specialized multifamily projects.

Similarly, with regard to healthcare programs, the government ensures and the securitizers lower the cost of building and rehabilitating nursing homes, assisted living facilities, and hospitals, which in turn reduces the overall cost of healthcare.

We have seen the government's share of the market decline in an inversely proportional manner that is that of private capital. The one area where I do have concern is the Home Equity Conversion Mortgage, or the reverse mortgage program. So I look forward to discussing ways to improve the reverse mortgage program to develop risk-based pricing methods which take into account the possibility of broad property value decline.

Thank you, and I yield back.

Chairman NEUGEBAUER. I thank the gentlewoman.

We will now hear from our witnesses. With us today are: Charles Coulter, Deputy Assistant Secretary for Single Family Housing at the U.S. Department of Housing and Urban Development; Marie Head, Deputy Assistant Secretary for Multifamily Housing, U.S. Department of Housing and Urban Development; and Roger Miller, Deputy Assistant Secretary for Healthcare Programs, U.S. Department of Housing and Urban Development.

Each of you will be recognized for 5 minutes to give an oral presentation of your testimony. And without objection, each of your written statements will be made a part of the record.

Mr. Coulter, you are recognized for 5 minutes.

**STATEMENT OF CHARLES COULTER, DEPUTY ASSISTANT SECRETARY FOR SINGLE FAMILY HOUSING, FEDERAL HOUSING ADMINISTRATION, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Mr. COULTER. Thank you.

Thank you for the opportunity to testify on FHA's Home Equity Conversion Mortgage or HECM program.

HECM is a government-insured reverse mortgage which enables seniors ages 62 and older to convert a portion of the equity in their homes into cash, allowing them to age in place. The proceeds of a HECM loan can address a variety of financial needs faced by seniors, including healthcare costs, other unexpected expenses or to augment monthly income.

HUD has endorsed nearly 778,000 HECM loans since the creation of the program, including 54,000 in Fiscal Year 2012.

The HECM program has a variety of consumer protections, including mandatory counseling for borrowers, a guarantee of timely cash advances, caps on fees, anti-churning disclosures to ensure that refinancing is not solely for the benefit of lenders, and a prohibition on cross-selling HECMs and annuities by anyone who participates in HECM origination or counseling.

The mandatory counseling requirement is perhaps the most important consumer protection feature. It ensures that borrowers understand a reverse mortgage and allows them to make informed choices about their financial future. Beginning in 2009, FHA made a number of improvements which have reduced risk both to the fund and to homeowners. We lowered the maximum principal limit twice—once in 2009, and again in 2010—reducing the amount borrowers can draw against their homes.

In Fiscal Year 2011, we created the HECM Saver, a lower cost option for borrowers willing to accept a smaller equity draw upfront as a lower risk complement to the HECM standard option.

In January 2013, we announced a temporary consolidation of the fixed-rate standard program into the fixed-rate saver, reducing the amount borrowers can draw, further reducing risk.

Additionally, in January 2011, we issued extensive guidance on the handling of property charge-related delinquencies, including detailed requirements of notifications to borrowers, reporting to HUD, and lost mitigation and counseling options

Despite all of these efforts, FHA must and will take additional action with regard to the HECM program to ensure it has a negative credit subsidy going into Fiscal Year 2014.

The President's Fiscal Year 2014 budget anticipates that the MMI fund may experience a $943 million shortfall. The HECM program alone has a negative capital position of over $5 billion in contrast to the forward portfolio which is expected to have a positive reserve of $4 billion.

As you know, any decision to draw from Treasury will depend on the actual performance of the entire fund during the remainder of this Fiscal Year. We have several legislative requests in our Fiscal Year 2014 budget that will allow FHA to: increase our ability to develop a strong, consistent, and transparent lender enforcement model; improve recoveries on defaulted loans; and allow FHA greater ability to respond quickly to risks as they emerge.

One of these requests granting FHA the explicit authority to make changes to the HECM program via the Mortgagee Letters is crucial. We must make changes swiftly to preserve the program, protect consumers, and minimize risk going forward.

Specifically, we would like to limit the amount of the allowable draw, require the establishment of an escrow or set-aside or mandatory property obligations including taxes and insurance in appropriate circumstances, and mandate the use of a financial assessment by lenders originating HECM loans.

HUD is also seeking congressional assistance to clarify the rights and responsibility of a nonborrowing spouse of a HECM borrower. Absent help from Congress, we will be forced to make changes that could cripple the program in order to address critical risk management concerns, preventing seniors from accessing a tool that allows them to age in place with dignity while ensuring their needs are met. In the past 30-plus years, nearly three-quarters of a million seniors have done just that.

These are seniors like Larry and Helen Driscol who, despite their best efforts to plan ahead, outlived their retirement savings and were facing a health crisis. Twenty years into Larry's retirement, they needed help. Despite downsizing to a smaller home, their monthly expenses were outpacing their income.

The HECM program gave them a way to keep their home, afford Helen's treatment for cancer, and continue to assist their son who was disabled, just as it has for hundreds of thousands of other seniors.

The HECM program plays an important role in housing finance and ensures that seniors who have worked hard to achieve the American dream have options as they live their remaining years with dignity and confidence.

Thank you, and I would be happy to answer any questions you may have.

[The joint prepared statement of Mr. Coulter, Ms. Head, and Mr. Miller can be found on page 36 of the appendix.]

Chairman NEUGEBAUER. Thank you.

Ms. Head, you are recognized for 5 minutes.

**STATEMENT OF MARIE HEAD, DEPUTY ASSISTANT SECRETARY FOR MULTIFAMILY HOUSING, FEDERAL HOUSING ADMINISTRATION, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Ms. HEAD. Thank you.

Chairman Neugebauer, Ranking Member Capuano, and members of the subcommittee, thank you for the opportunity to speak today.

FHA insurance has long assisted the Nation in meeting the need for safe, decent, and affordable housing by providing mortgage insurance for private financing of multifamily rental housing.

More than one-third of American families rent their home and over 8.5 million unassisted families with very low incomes spend more than 50 percent of their income on rent.

FHA's ability to play a critical countercyclical role in the multifamily housing market during the financial crisis ensured access to credit when conventional financing retreated from the market.

FHA's programs also create employment opportunities in a variety of fields. In Fiscal Year 2012 alone, multifamily programs directly or indirectly created about 54,000 jobs across the Nation.

That countercyclical role, combined with historically low interest rates, led to an unprecedented increase in demand for FHA multifamily mortgage insurance. Our production increased more than sixfold, rising from $2.3 billion in Fiscal Year 2008, to over $14 billion in Fiscal Year 2012. A significant share of the demand for FHA insurance reflects the increased demand for rental housing during the period.

At the same time FHA has been supporting our economic recovery, we recognize that private capital must return to the market, and we have already taken a number of actions to encourage it to do so.

The Mortgage Bankers Association estimates that while the number of FHA-insured initial endorsements is up overall, its share of the market is down to 17 percent from its record high of 22 percent in Fiscal Year 2010.

This is in part because we implemented the first changes to the underwriting criteria for market rate products in over 40 years, we increased premiums for the first time in 10 years, we established a large loan policy with increased underwriting requirements, and implemented a concentrated risk underwriting policy to strengthen underwriting requirements for borrowers with larger portfolio risk.

These risk management efforts ensure the solvency of the General Insurance and Special Risk Insurance (GI/SRI) fund and have resulted in a decrease in our default rate to less than one-quarter of a percent, down from ½ percent in 2009. And, as I promised this committee last year, our GI/SRI claim rates are now available publicly on our Web site for the first time.

FHA multifamily programs continue to play an important role in our fragile but growing recovery. That is why an additional $5 billion in commitment authority for the GI/SRI fund in Fiscal Year 2013 is critical.

This additional commitment authority comes at no cost to the taxpayers while facilitating the construction of over 15,000 new rental and healthcare units, 40 percent of which will be affordable. It could lead to the creation of nearly 22,000 jobs and return an additional $200 million in receipts to the Treasury.

Without this additional commitment authority, we will be forced to shut down the multifamily and healthcare programs in mid-August, delaying shovel-ready projects vital to the economic recovery in communities across the country and hindering our Super Storm Sandy recovery efforts.

Finally, FHA multifamily continues to focus on business re-engineering efforts that update our operating model for a 21st Century. Last month, we announced a transformation that includes restructuring headquarters, consolidating our field presence, and several other major operating improvements.

In headquarters, we will reduce the number of business lines from 6 to 4. In the field, 17 hubs that manage 50 offices will be consolidated into 5 hubs that manage 5 satellite offices. This transformation centers on a plan to nationally balance work loads, implement additional risk-based processing standards for underwriting and managing assets, enabling more efficient business management, and providing consistent and timely delivery of our programs to our customers.

Once fully implemented, the transformation has the potential to save an estimated $40 million to $48 million annually.

In conclusion, Mr. Chairman, FHA serves as an important complement to private mortgage financing while delivering on our mission to provide safe, decent, and affordable housing and contributing to a positive fiscal environment that shapes the future of rental housing.

Thank you for the opportunity to speak today, and I would be pleased to answer any questions.

[The joint prepared statement of Mr. Coulter, Ms. Head, and Mr. Miller can be found on page 36 of the appendix.]

Chairman NEUGEBAUER. Well-timed, right on the money, 5 minutes.

Ms. HEAD. Thank you.

Chairman NEUGEBAUER. Mr. Miller, you are recognized for 5 minutes.

We will see how you do. No pressure. No pressure.

[laughter]

**STATEMENT OF ROGER MILLER, DEPUTY ASSISTANT SECRETARY FOR HEALTHCARE PROGRAMS, FEDERAL HOUSING ADMINISTRATION, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Mr. MILLER. Thank you, Chairman Neugebauer, and Ranking Member Capuano.

I appreciate the opportunity to testify today on the importance of FHA's healthcare programs, how they support FHA's mission by helping communities obtain and maintain access to modern medical facilities by ensuring those facilities get necessary capital financing to continue to serve vulnerable populations and generate an average of $87 million in receipts to the Treasury each year.

FHA's Office of Healthcare Programs facilitates the construction and refinancing of healthcare facilities through private commercial lenders by providing mortgage insurance, not direct loans or grants by helping private lenders serve a broader swathe of the market.

Heatlhcare facilities are built, modernized or refinanced increasing access to care particularly in rural or distressed areas, decreasing overall healthcare cost, and filling a need not met by the private market in loan.

Using the GI/SRI commitment authority, the Section 232 program provides mortgage insurance for residential care facilities like nursing homes, assisted living facilities, and board and care homes, while the Section 242 program provides insurance for hospitals. Due to the economic crisis, access to healthcare financing facilitated by commercial bond insurers decline, healthcare insurance providers left the market and the number of facilities seeking FHA insurance grew.

Today, our market share is approximately 8 percent for hospitals and 12 percent for residential care. In Fiscal Year 2012 alone, FHA insurance programs supported the construction, improvements, substantial rehabilitation or refinancing of 791 healthcare facilities with more than 91,000 beds. But rather than displacing the private market, we encourage it.

Our hospital program frequently produces graduates: facilities that due to the benefit of FHA-insured financing are able to develop operational efficiencies, and improve their own financial performance enough to seek financing in the private market.

One recent graduate, Hillcrest Baptist Medical Center in Waco, Texas, provided critical care to dozens of the injured following the tragic explosion at a fertilizer plant in West, Texas. Hillcrest asserts that they would not have been able to construct the badly needed replacement hospital that served as the lead trauma facility during the emergency, nor enter into a new partnership that improved the financial standing without the 242 program.

To continue to minimize any risk, we are constantly improving our portfolio process to ensure the strength and long-term stability of the GI/SRI fund. We encourage and engage in proactive asset management to give properties the support they need before they get in trouble. And, in addition to reviews done by the program office, loans over a certain threshold are also reviewed by FHA's Office of Risk Management to ensure that all risk factors are properly identified.

LEAN business process reengineering has also played an integral part in streamlining our business operations, despite increased volume. We have completed and revamped our Section 232 documents, adding specificity and HUD additional rights and risk management capabilities.

Through our work, the office has maintained claim rates of less than 1 percent across our portfolios in Fiscal Year 2012, and we are on track to do the same in 2013.

This careful stewardship has also allowed our Sections 232 and 242 programs to return $0.75 billion in receipts to the U.S. Treasury since 2000.

As part of our efforts to strengthen whole communities by addressing specialized financing needs, we are seeking Congress' help to permit critical access hospitals to become eligible for FHA insurance again.

Mr. Chairman, by continuing to offer mortgage insurance for vital healthcare facilities, the Federal Government encourages private lending, promotes economic growth, and better enables underserved communities to meet medical needs.

Thank you, and I look forward to your questions.

[The joint prepared statement of Mr. Coulter, Ms. Head, and Mr. Miller can be found on page 36 of the appendix.]

Chairman NEUGEBAUER. Thank you, Mr. Miller.

Now, each Member will have 5 minutes for questions, and I will first recognize myself for 5 minutes.

Mr. Coulter, let's kind of review the stats a little bit—$2.8 billion negative economic value in the HECM program. Is that correct?

Mr. COULTER. Actually, the President's budget updated that number to roughly $5 billion.

Chairman NEUGEBAUER. So it is $5 billion negative?

Mr. COULTER. That is correct at this point in time.

Chairman NEUGEBAUER. Whoops. So the capital ratio, roughly what is the negative percentage on it now that it is—if $2.8 billion was 3.6 percent, that is probably going to bump it up to 7-something percent, right? Just calculate.

Mr. COULTER. Yes. It would bump it up. That is correct.

Chairman NEUGEBAUER. I will give you a little credit here. I will round it off at 7 percent, and I think it is going to be a little higher than that.

So the HECM portfolio is only 7 percent of the MMI fund, but it is representing almost 17 percent—and it looks like that number will be higher—of the fund's losses.

And, as you recall, Secretary Donovan requested $943 billion lifeline from taxpayers into his budget, and alluded to a lot of that had to do with the HECM program—580,000 reverse mortgages originated through HUD, and 54,000 of those are in default. So, nearly one in 10 of those loans are in default, and we have kind of gotten those seniors in a rough spot.

And so we have a program that is supposed to be tailored to help seniors, but what we have is a program that not only puts the taxpayers kind of at risk, but we also have a program here that has probably put some of our seniors in not very good financial shape.

Here is the question I have, we have seen a huge—the private sector has pretty much abandoned the reverse mortgage business. I don't think currently today, there are any private companies making any reverse mortgage loans. I think that some of them used to, but they have gotten out of that business.

So that has left FHA with 100 percent of the reverse mortgage business.

The question I have is, are there other financial products that can do similar things to what you have outlined the benefits to seniors, of providing them the ability to use the equity in their home?

I guess the first question is, if everybody else has gotten out of the reverse mortgage business, why are we still in the reverse mortgage business?

Mr. COULTER. You are absolutely correct to focus on the financial performance of these products, first of all. And we take the financial performance of this program and our overall portfolio very seriously.

I will say that the Treasury draw amount or potential is $943 million, not billion. So—

Chairman NEUGEBAUER. I apologize.

Mr. COULTER. —but that is not to say that it is not material.

In terms of your question about why should we stay in this program, FHA was set up by Congress to meet the affordable financing needs of underserved markets.

If you think about seniors today, the baby boom generation is aging. Those seniors are not going to have the benefits that our parents did of defined pension plans, reasonably healthy 401(k) plans, and they are going to be heavily reliant on their home equity. This program allows them to responsibly tap into that home equity.

Now, a kind of clear follow-up from your perspective would be, well, can we do it financially responsibly on a go-forward basis and can we address the fact that there are 10 percent of these loans that are in tax and insurance default?

The answer is yes. And that is one of the reasons that we have asked Congress for support to make changes to this program that will get it structurally back on the right track.

Chairman NEUGEBAUER. I think that one of the questions I have is that I think FHA is trying to be in two businesses here where, one, they are trying to be in the mortgage insurance business, but two, they are also now in the annuity business.

And I question whether FHA has the expertise within the organization, because I guarantee that if you make me a reverse mortgage at 63 years of age, and nobody has to pay that back until they die, I am married to a woman whose parents and grandparents lived a very, very long time, and you would have to advance me a very small amount of money for the government to come out.

Otherwise, what is going to end up happening is that at some point in time, that loan is going to be underwater, and somebody is going to have to pick up the tab. And we know who picks up that tab.

So, I hear your reforms and I think the Mortgagee Letter is something that is being considered to give you that authority.

But I think the overriding question is I think we have to have a lot further discussion about whether this is a program that: one, we should be doing; and two, if we are getting 1 in 10 seniors in trouble financially with this program, then we are not doing what we should be doing.

My time has expired.

I now recognize Mr. Cleaver, the gentleman from Missouri, for 5 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman.

I want to be parochial, first, to talk about the HUD reorganization. And Kansas City, Missouri, is a regional—actually, you moved your office over in Kansas. But it is a regional center. And so, we have not been impacted by the reorganization, as I currently look at what has been done.

But in making the decision, was there any kind of community participation—for example, with CBDG, there is a community hearing requirement. You have—you are supposed to. I know some people—some examples, some communities that didn't do it.

But so what happened when you made decisions to close certain HUD offices?

Ms. HEAD. Thank you for that question. There are two pieces of the reorganization at HUD. One of the pieces is to close small, sub-State offices. And in those offices, there is no program management of the different FHA programs and so there also are other offices in the State that can serve the same function for program delivery.

So that is one piece of this.

Then, there is the multifamily consolidation piece. And in the multifamily consolidation piece, we are not closing offices. We are consolidating our multifamily functions into the 10 offices that we—that I mentioned in my opening statement.

So in 40 or better years, the multifamily operating model has not been refined. This is our attempt to make sure that we are providing efficient program delivery to our customers in a manner that is not a risk to the taxpayers.

Mr. CLEAVER. Yes, I—

Ms. HEAD. So part of—I am sorry, I will answer your question.

Mr. CLEAVER. No.

Ms. HEAD. We did look at a number of things when choosing the offices that would be in the remaining 10 offices, including how we would continue to provide the market information that was needed in the different markets.

So under the restructuring of multifamily, we will have dedicated teams in the other offices that will function to provide the services in the States that you are talking about.

Mr. CLEAVER. I actually believe that HUD and all the Federal agencies at this austere time should make decisions such as those that you made. My question is not about making efficient moves. But I know there are communities—there are Members, for example, who sent questions because there were offices closed in their communities, without any prior information-sharing with the community.

So with the closings, I think you did the right thing. I am conveying to you the concern of some of my colleagues.

Because I want to move to the reverse mortgage issue, and with reverse mortgages, there are a lot of benefits, but there are some burdens as well.

Is the HUD interest rate lower than the conventional interest rate? On these reverse mortgages, sometimes the interest rates can be very high. So where do we come in?

Mr. COULTER. The interest rate on these loans is a function of where the ultimate security trades.

We put out principal limit factor tables that currently come down to 5 percent, and we are planning on publishing principal limit factor tables that come down to interest rates below that.

Typically the interest rate, the fixed rate of interest on these loans is generally in the 4 percent range.

Mr. CLEAVER. You said 3 percent to 4 percent?

Mr. COULTER. Four percent or higher.

Mr. CLEAVER. Oh, okay.

I yield back, Mr. Chairman.

Chairman NEUGEBAUER. I thank the gentleman.

And now, the vice chairman of the subcommittee, Mr. Luetkemeyer, is recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Ms. Head, with regards to multifamily housing, it seems that they are competing quite heavily for the available credit authority in the GI/SRI fund. In fact, there is a concern you may run short before the end of the current Fiscal Year. It is my understanding that the Department has been focused on refinancing existing multifamily insured loans in the existing portfolio, and even refinancing existing developments that are outside of FHA.

I started out with a preface for my questions, but I have several of them with regards to, don't you think that your mission would be better fulfilled if you used the commitment authority to actually loan to multifamily housing in the underserved areas?

Ms. HEAD. Thank you for that question.

So, the requested commitment authority will enable us to continue to play the role that you are referring to in the much-needed underserved markets. Part of the commitment—

Mr. LUETKEMEYER. Forgive me for interrupting, but are you going to change the way that you are doing it?

Ms. HEAD. The way that we are—

Mr. LUETKEMEYER. This was one of my later questions, but since you brought it up already, my question right now is, when you are already close to the limit and you are refinancing things that are outside—you are refinancing stuff within FHA and you are refinancing stuff that is outside of FHA, instead of new stuff, what is going to change?

Ms. HEAD. The commitment authority is needed to continue to refinance our existing portfolio. Fifty percent of our pipeline—I am sorry, sir. Am I not understanding your question?

Mr. LUETKEMEYER. Okay. You are also refinancing stuff outside of FHA. You are doing Fannie and Freddie stuff. So—

Ms. HEAD. No sir, I don't believe we are doing Fannie and Freddie stuff. And I can tell you the differences between the Fannie and the Freddie markets that we do. So, FHA does not offer the same programs as the GSEs. While there are some similarities between the FHA and the GSEs—

Mr. LUETKEMEYER. You are not refinancing any other loans other than FHA loans?

Ms. HEAD. Of the GSEs?

Mr. LUETKEMEYER. Yes.

Ms. HEAD. We are refinancing some of those loans that come to us for FHA insurance.

Mr. LUETKEMEYER. What percentage of your loans are?

Ms. HEAD. Are Fannie and Freddie? I do not have that information.

Mr. LUETKEMEYER. Can you get that information to us?

Ms. HEAD. I am happy to get you that information.

Mr. LUETKEMEYER. Okay. Now, with regards to the new commitment that you are wanting, how much of that is going to be for refinancing outside FHA?

Ms. HEAD. About 40 percent is our existing portfolio that we are refinancing this year, both in healthcare and in multifamily. Then, there is about 25 percent that are new construction loans. So that would leave probably another 25 percent to 30 percent that are not in our portfolio.

But we provide—those loans that come to us in other underserved markets are not necessarily in the GSEs' portfolios.

Mr. LUETKEMEYER. Okay. Why are we refinancing existing loans?

Ms. HEAD. Because there is a need in the marketplace for us—

Mr. LUETKEMEYER. You are refinancing due to rate? Are you refinancing due to—they purchase a different residence and you are refinancing it to a different residence? Or are you taking the same house and just refinancing the loan to add more money to it?

Ms. HEAD. Let me clarify. Multifamily is the finance of the apartment complexes, the healthcare facilities, and the hospitals. That those fall under the GI/SRI funds. So, we are not refinancing folks' homes that are—

Mr. LUETKEMEYER. I am using "home" as a form of multifamily housing unit—

Ms. HEAD. No, that is okay—

Mr. LUETKEMEYER. —instead of all by itself. So, you are refinancing the entity. Okay?

Ms. HEAD. We are refinancing the multifamily properties in order to provide more affordable rental housing for the marketplace in many underserved communities.

Mr. LUETKEMEYER. Are they rehabbing them? Or why are you doing that?

Ms. HEAD. Many of them are being rehabbed.

Mr. LUETKEMEYER. Or is it due to rate?

Ms. HEAD. Pardon me?

Mr. LUETKEMEYER. Is it due to rate? Have you got a better rate now than what they are financed at previously?

Ms. HEAD. The FHA mortgage insurance does provide a lower rate for these entities, which, again, makes them affordable in the marketplace in many tertiary markets.

Mr. LUETKEMEYER. Okay. What are the standards you have when you take into consideration refinancing a loan?

Ms. HEAD. What are our standards?

Mr. LUETKEMEYER. Yes.

Ms. HEAD. We have a set of underwriting guidelines that we use in order to underwrite those loans. Are you asking me for the specific criteria for those loans?

Mr. LUETKEMEYER. Yes.

Ms. HEAD. They range from 70 percent of value, which is comparable to the—some of what the GSEs do—to 85 percent of loan-to-value.

Mr. LUETKEMEYER. Okay. What are the criteria? Are they geographic, population, political considerations?

Ms. HEAD. They are not political considerations, no, sir. We are providing the need to finance in underserved market areas more than anything else, and providing affordable housing in those—

Mr. LUETKEMEYER. Urban versus rural—does it make a difference?

Ms. HEAD. I am sorry. I am—

Mr. LUETKEMEYER. Is it urban versus rural? Is that a criteria?

Ms. HEAD. We serve underserved markets both in rural areas and in tertiary markets and in some urban areas.

Mr. LUETKEMEYER. Can you give me a percentage of where you go with urban versus rural? It is 80 percent urban, 20 percent rural?

Ms. HEAD. I would have to get those statistics for you.

Mr. LUETKEMEYER. All right. Thank you very much. My time is up.

Chairman NEUGEBAUER. I thank the gentleman.

And now the gentlewoman from Ohio, Mrs. Beatty, is recognized for 5 minutes.

Mrs. BEATTY. Thank you so much, Mr. Chairman, and Mr. Ranking Member.

Mr. Coulter, let me ask you this question: Is there a way in which private capital can be brought into the reverse mortgage market in any substantial volume?

Mr. COULTER. The chairman mentioned earlier that private capital has exited this market and he was absolutely correct. If you go back to 2006, 2007 when the market was heating up, you did see some private capital start to enter this marketplace, in particular in the jumbo and super-jumbo space. So, there is interest from private capital, but until you get to a house price path that is strong and stable, you are not going to see any new interest.

Mrs. BEATTY. And let me ask you, what could HUD, or what is HUD able to do to improve its reverse mortgage program without congressional action? And what, if any, congressional action is sought?

Mr. COULTER. Without congressional action, we can change the mortgage insurance premiums, which we have done. In 2010, we increased them by 75 basis points. Or we can reduce the principal limit factors. And we did that twice, once in 2009, and once in 2010, with the introduction of the Saver program, which basically reduces the amount of the principal limit factor and reduces the amount of the up-front mortgage insurance premium charged for it. So that was done in 2010.

And we did it again at the beginning of this year as a result of the actuarial results. We effectively collapsed the fixed-rate standard and fixed-rate Saver programs to mitigate the risk on the fixed-rate side of the portfolio.

So we can—the answer to your question of what we can do is deal with principal limit factors and deal with mortgage insurance premiums. We have asked for your support, because we believe that we want to make structural changes to this program that ensure it is viable for the long term. Those changes include capping the amount of the up-front draw. They include instituting a financial assessment, and I know there was a note made earlier that we don't do a financial assessment today. That is correct and we believe we should.

And the third thing we would like to do is have an escrow account and/or set-aside to deal with the tax and insurance defaults. And the one thing that I would note here on the tax and insurance default, again the chairman mentioned a 10 percent default rate. That is absolutely the correct number, but the median amount outstanding on those defaults is $3,000. So we are not dealing with a huge dollar-amount on those types of defaults, and we do believe that an escrow account or a set-aside can materially cure that issue.

The last thing that we would like to do, and we would like your support on, is to deal with the issue of nonborrowing spouses. Again, it is important to build this program on an actuarily sound basis. We need to know who the youngest of the mortgagors will be that we have to underwrite the property against or underwrite the mortgage against. And we want to make sure that issue is crystal clear on a prospective basis.

Mrs. BEATTY. Thank you.

Thank you, Mr. Chairman. I yield back.

Chairman NEUGEBAUER. I thank the gentlewoman.

And now the gentleman from Missouri, Mr. Clay, is recognized for 5 minutes.

Mr. CLAY. Thank you so much.

And I will direct my questions to Ms. Head. By your own estimates, Ms. Head, you are expecting to lose nearly 400 people who feel they have no choice but to leave HUD due to this forced relocation program. Most of your anticipated savings are as a result of the reduction in staff.

If that is the primary goal, why did the agency choose not to conduct a reduction in force (RIF?) Don't veterans and high performers have more protections in a RIF than in the process you have chosen?

Ms. HEAD. Thank you for the question, Congressman.

In our decisions to make this—we were trying our best to make sure that any employee who wanted to remain with Multifamily would have the opportunity to remain with Multifamily. The reduction in force process that is throughout the Federal Government can have what we considered more devastating effects on our employees.

So we have offered every—are committed to every Multifamily employee having an opportunity in the new structure through relocation to other offices and also opportunities to move into additional jobs.

Mr. CLAY. Okay. Do those opportunities include retraining or some kind of association with local community colleges to—so that they can do some kind of cross-transfer at HUD?

Ms. HEAD. Yes, sir. One of the things that we are looking at and committed to is making sure that employees are getting trained. So we have in our estimates for the—for this restructuring, training benefits for all employees.

To your question about opportunities across the organization, we are also committed to looking at how we could manage that so that, it needs to be understood that we are not closing Multifamily offices. The offices that will remain have other program areas. And we are looking at how we can make sure that employees have opportunities within those other areas if they want to stay in their geographic location.

Mr. CLAY. I guess I am looking for the least disruptive way to consolidate these offices and to give those employees who you have trained over the years the option of staying in those communities where they have a home and a family.

Have you taken that into consideration?

Ms. HEAD. Yes, sir. As I said, we are looking at opportunities for employees, because there are—will still be HUD offices in those geographic locations. There will be opportunities within those offices for the staff.

Mr. CLAY. Okay. Now, I understand that you are allowing multifamily employees in the Seattle office to slide into newly created positions in the Office of Healthcare Programs, Mr. Miller's division.

Why are you not providing then, equal opportunity to multifamily housing employees around the country and especially in offices where the Office of Healthcare Programs has a significant presence, like Saint Louis, Jacksonville, Milwaukee, and Los Angeles?

Ms. HEAD. When the LEAN program, which is in the Office of Healthcare, was created, I believe in 2008—when the consolidation on the healthcare programs happened—the Seattle hub was instrumental in implementing that program. And as part of that implementation, the Office of Healthcare Programs now is understaffed.

And we believe that with an opportunity to make sure that the expertise was—and the resources were used, as part of the restructuring.

Mr. CLAY. Can you do those in those other four cities?

Ms. HEAD. That would be more difficult to do in those other cities, because those folks have not been involved in the healthcare programs in the past.

Mr. CLAY. So, what is the—

Ms. HEAD. Also, as Mr. Miller has staffing needs, he will post jobs, possibly in some of those locations, where people would have the opportunities to apply for them.

Mr. CLAY. What is going to happen to the majority of my constituents in Saint Louis when you close that office?

Ms. HEAD. This is a Multifamily consolidation. And in other offices where there will be a Multifamily presence, there will be dedicated teams that will support your State.

Mr. CLAY. I am going to be following you closely, and hopefully, we will be able to resolve this.

Ms. HEAD. I am happy to answer any questions for you, sir.

Mr. CLAY. It is always a pleasure.

I yield back.

Ms. HEAD. Thank you.

Chairman NEUGEBAUER. I thank the gentleman.

And now the gentleman from Washington, Mr. Heck, is recognized for 5 minutes.

Mr. HECK. Thank you.

First, I would like to thank the chairman and the ranking member for the courtesy of allowing me to participate today. Thank you very much.

Mr. Coulter, these are HECM questions.

I think you are probably familiar with the relatively brief text that Mr. Fitzpatrick and I have been developing with respect to granting you additional authority. And my question is, you have already enumerated several changes you would like to make.

Does this language of the proposed legislation give you what you need to address this problem?

Mr. COULTER. Yes, sir. We appreciate your efforts. And we do believe that it gives us the flexibility we need to make the changes that I noted earlier.

Mr. HECK. And in that regard, you are confident that you could significantly reduce the number of seniors who are being materially affected in a negative way, as well as enhancing the portfolio's assets?

Mr. COULTER. I am. I believe that we can put this—with the changes that I noted, I believe that we can put this program on a positive track, and ensure that it is serving the market constructively, serving seniors constructively, and that we can get it on sound financial footing.

Mr. HECK. In addition to the proposed legislation, are there any other things that you can do to help spouses better understand their circumstance, and borrowers, their obligations, as well?

Mr. COULTER. It is an excellent question, and we clearly need to continue to work closely with the industry, with CFPB, and with housing counseling.

We have an office of housing counseling now. We have engaged them, and they are very focused on ensuring that as we move forward respectively with this program, the counseling that is mandatory ensures that the seniors who are taking this product know what they are getting themselves into, they know exactly what their obligations are, and they recognize that it is part of an overall financial planning solution, not just a way to tap into the money up front. It is a mechanism that they should be using over their life to tap into it when they have unexpected financial needs.

Mr. HECK. And finally, Mr. Coulter, just to be crystal clear, can you state unequivocally that if this legislation that Mr. Fitzpatrick and I have been proposing were to be adopted, that unequivocally, there would be fewer seniors hurt, and your portfolio performance would improve?

Mr. COULTER. I can. I do very firmly believe that with the legislation that you are moving forward, we can put—we can make changes that are substantive, and as I said earlier, will get this program on a track that ensures that fewer seniors are negatively impacted. We will get the right seniors into the right program. We have a program that effectively serves a market that is highly sensitive at that point in their life. And we all want to do everything we can to ensure that we give that product only where it is appropriate, and only where it preserves homeownership in a constructive way.

So, the answer to your question is yes.

Mr. HECK. Thank you, Mr. Coulter.

Mr. Chairman, I ask unanimous consent to submit the series of questions from both Mr. Fitzpatrick and myself for the agency to respond to.

Chairman NEUGEBAUER. Without objection, it is so ordered.

Mr. HECK. I yield back the balance of my time, and thank you again, sir.

Chairman NEUGEBAUER. The Chair recognizes the ranking member has asked unanimous consent to enter in the record a written statement from the National Council of State Housing Agencies.

Without objection, it is so ordered.

I now recognize the ranking member, Mr. Capuano, for 5 minutes.

Mr. CAPUANO. Thank you, Mr. Chairman. And I thank the witnesses for being here.

Let me just say to Mr. Miller, I am informed, and I want to make sure that I get this right, that the two programs together—the multifamily and the healthcare programs, have returned $750 million to the Treasury since the year 2000? Is that approximately right, do you know?

Mr. MILLER. Thanks for the question.

Let me just clarify that the Office of Healthcare Programs has two other programs. One is the Skilled Nursing Program, and the other one is the Hospital Program. It does not have multifamily involved with it.

And, yes, indeed, we have returned $750 million.

Mr. CAPUANO. So that amount is just out of the healthcare end?

Mr. MILLER. That is correct.

Mr. CAPUANO. Okay. Thank you.

Ms. Head, my understanding is that the Multifamily is in reasonably good shape financially, as well. Is that correct?

Ms. HEAD. Yes, sir, that is absolutely correct.

Mr. CAPUANO. Thank you.

Mr. Coulter, that leaves the reverse mortgage. I am not going to say "HECM," because nobody knows what it means except you and us. It is the Reverse Mortgage Program.

Am I right to understand, based on the numbers, that if the Reverse Mortgage Program were not in the MMI fund—it was pulled out, like it used to be in a separate fund—it was just the single family aspect of the fund, that there would be no need to draw on the Treasury this year? Is my math correct here?

Mr. COULTER. That is a correct statement, yes.

Mr. CAPUANO. So the biggest problem is the reverse mortgage part? I just want to make sure my understanding of the whole math thing is correct.

I have a couple of other questions.

I know that you have instituted some changes. Have you instituted any changes relative to the amount of the lump sum that is allowed to be taken out at the beginning? Because as I read it—and I have read the information—it seems to me, that is probably the biggest problem. And never mind the reduction in residential value, because that is across-the-board. But one aspect to this is the fact that you give out lump sums at the beginning, and people can use the money the way they want, within a reasonable period of time. Either people outlive it, or they have to spend it on other things. And all of a sudden, they are in serious trouble.

Have you done anything to limit the amount of the lump sums up front?

Mr. COULTER. So, first of all, you are absolutely correct. And that is the biggest concern we have, the amount of the up-front draw. The fact that we have gravitated to a program that is predominantly fixed-rate, where borrowers are taking a large up-front draw, or basically tapping out the entire line up-front.

What we have done is we reduced the principal limit factors on the fixed-rate standard, basically collapsing it with the fixed-rate saver so that—refuse the amount that they can draw up-front. But as I noted earlier, what we want to do is restrict the amount that borrowers can take up-front to a maximum of some percentage for mandatory obligations. And those mandatory obligations would include closing costs on the loan and in mortgage liens.

Mr. CAPUANO. I want to back up to one of the other things that is relative to—I think enters the provision that we roll the reverse mortgage fund into the MMI fund. I think that is right.

Knowing what we know now, would you agree that maybe we should have the reverse mortgage fund separate from the single family house? Again, just—for me—my argument is, I want to focus on what the problems are. I don't want to take a program, or any program—not just here, but any program that has trouble—and mix it in with a program that has significantly less trouble, and so we can focus on what the problems are. And I think we have spent a fair amount of time looking at the entire FHA portfolio, when in truth, the biggest problem is simply the reverse mortgage aspect. And I am just curious—one of the things I have been thinking about is requiring the reverse mortgage coverage to go back into a separate fund.

Would you think that is something worth pursuing?

Mr. COULTER. I would say it is something that is definitely worth exploring, and we would definitely be interested in working with you on that.

Mr. CAPUANO. The last aspect—as we go forward, I just want to point out two things.

Number one is, personally, I have some real problems with some of the issues we are dealing with regarding surviving spouses. People who own their homes—the average person, their home—they have no idea the legal way that they own their home, whether it is jointly, or as tenants in common. They just sign documents. Many of them—the people we are dealing with signed them 40 years ago. They don't have a clue how they own the home.

And because somebody needs some money and they do a reverse mortgage, I think the worst possible thing that a society can do is—for all intents and purposes—put people in a position where they have to lose their home—not them—one spouse dies, and while they are dealing with the death of their spouse, they then have to move out of their home.

And for me, just—I want to put this on record—I have some very serious problems with the way we deal with surviving spouses now. And I will have some very serious problems moving forward.

I know it is not really an issue that we should be discussing today, but I just want to put that on record. Because it permeates the whole program.

Mr. COULTER. I agree with you. And what we want to do is underwrite the loan to the younger of the two spouses to ensure that it is actuarially sound against that younger spouse.

Mr. CAPUANO. That is all well and good, except age isn't always the sole determining factor. Who dies first is a factor, but it is not the sole determining factor.

So I wouldn't care how old the surviving spouse was, even if it was the older spouse, it is still a problem.

People who live in their homes for 40 years under this situation should be able to stay in their home until the last spouse goes.

And with the chairman's indulgence, one other aspect. I don't have—as I understand it, the people who are actually selling these things are not Federal employees. They are private companies that do it through the FHA.

Mr. COULTER. Correct.

Mr. CAPUANO. I don't know about anybody else, but I watch TV late at night to put me to sleep. It is a great way to go to sleep; turn the TV on.

I go to sleep to the sound of someone trying to sell me a reverse mortgage. And the way I count it, I have four very well-known actors from four of my favorite shows, one game show host from one of my favorite game shows, and one of my favorite singers from the 1950s, all of whom are telling me to take out a reverse mortgage, and everything is safe.

I think one of them actually says something like, "I don't know anything about finances, but I played a financial person in real life."

Is there anything we can do to knock these ads out or at least reduce them? These people are not working for free, I presume, nor would I expect them to. They are very well-known names. I am sure they are fine Americans. And I am sure they are getting paid top dollar.

Maybe if we—I don't know if you have the ability to say to the people that you contract with, "You can't spend that kind of money on advertising." Is that a possibility?

Mr. COULTER. I don't believe so. It is a possibility—we do work with other regulatory agencies. We have talked to the Consumer Financial Protection Bureau (CFPB) about this. So we do care about how this program is marketed. We are not doing the marketing, obviously. And one of the things that we are ensuring is we are coming behind that marketing or whatever else is drawing the borrower to the table and ensuring that there is good counseling they get—

Mr. CAPUANO. It is just when you see some of your favorite actors on TV telling you something is safe—I think that raises questions. And, personally, I would have some problems renewing those contracts with people who won't take your suggestions, if not your insistence.

I appreciate the chairman's indulgence.

Chairman NEUGEBAUER. And what the ranking member didn't know is one of the ideas that I had was actually to bring those actors for the second panel.

[laughter]

I now yield 5 minutes to the gentleman from California, Mr. Sherman.

Mr. SHERMAN. Thank you.

Ms. Head, clearly we need more affordable housing. That tends to be multifamily rental housing. You folks stepped up at an important time. Where would we have been in 2010 or 2011 if you hadn't been there to provide insurance for those building multifamily housing?

How much less would we have built?

Ms. HEAD. There would have been a substantial amount of building not done. And we created, as I mentioned, during the countercyclical market, about 54,000 jobs in the market with our new construction loan program.

Also, we provided the capital for much of the affordable housing in the country to be preserved during that time.

Mr. SHERMAN. Thank you.

You are closing a number of offices. We just found out one of them is in Los Angeles. How will you be able to serve Southern California without a Los Angeles office? And since it is my understanding you are going to have an office in every State, Southern California is as big as 10 or 15 States put together, so how are you going to serve Southern California without an L.A. office?

Ms. HEAD. We are consolidating Multifamily offices throughout the country. And our proposal is that we will have offices in 10 States for multifamily.

In the State of California, the San Francisco office will serve the State. And they are already doing much of that out of the San Francisco office now.

In fact, our San Francisco hub director in Multifamily is managing the L.A. office.

Mr. SHERMAN. Hmmm.

Ms. HEAD. The L.A. office itself will remain open, by the way.

Mr. SHERMAN. So you are not closing the L.A. office; you are just running it out of San Francisco.

Ms. HEAD. No, sir. The multifamily staff will be consolidated into the San Francisco office, but there will be a hard presence in the L.A. office.

Mr. SHERMAN. Okay.

I am trying to understand the reverse mortgage. I can understand how there would be problems for the consumer—too high an interest rate or, as the ranking member points out, a situation where you have to leave your home when one of the spouses dies, but the other would ordinarily continue.

What I am trying to understand is why from the lender/insurer side, there are losses in this area. Who does the FHA insure—one of the ways to lose in a reverse mortgage is the person lives for a very long time. You have to make monthly payments.

Do you assume the risk or not? Do you insure against the risk that somebody will take out a reverse mortgage and live a long time?

Mr. COULTER. We do. So we have to insure that the program is actuarily sound in terms of longevity. And certainly the fact that people are living longer, which is a great thing, does add complications to this particular product.

Specific to your question about how we lose money anytime the loan accrues to a balance that exceeds the value of the property, that happens a lot more frequently when somebody lives for a long time, or when the house price path is different than what you expect it to be.

Mr. SHERMAN. Okay.

I have pretty much run out of questions.

Thank you.

Chairman NEUGEBAUER. I thank the gentleman.

I am going to go another round here for those Members who are interested. And I will recognize myself for 5 minutes.

This is going to be kind of a lightning round, so I would ask our witnesses to be brief.

I want to make some clarifications here, because we have thrown around a lot of terms, and it is easy sometimes to get confused.

Now, Mr. Coulter, you have testified that you probably wouldn't have needed the—nearly a billion dollars had it not been for HECM, but I just want to make it clear that you testified that the negative economic value of the reverse mortgage is $5 billion, but in the annual report, the total number of negative economic value is $16.3 billion, so this isn't all the reverse mortgage.

So of the $16.3 billion, $5 billion, so about a third of the negative economic value, is attributed to the reverse mortgage program.

I think we just need to make sure we are keeping—

Mr. COULTER. Just to clarify, Mr. Chairman, the numbers you are referencing are from the actuary report, and those numbers are the $2.8 billion and the $16 billion that you referenced.

I am working off of the President's budget numbers, which are similar, but slightly different.

Chairman NEUGEBAUER. Okay.

Mr. COULTER. Those numbers are $22.4 billion. You take off $3.3 billion in capital reserves, that takes you down to about $19.1 billion.

We expect receipts of $18.1 billion during Fiscal Year 2013, that is how you get to the $1 billion.

Chairman NEUGEBAUER. Mr. Coulter, I appreciate that. But what we do know about the Administration's numbers is that they have failed year after year after year actually to meet those projections.

And so, we will go back to the actuarial number, which—this actually makes this case a little bit different, $2.8 billion from the report for a total of $16 billion.

So I think we all agree that the reverse mortgage is a part of the problem, but I don't want to mislead anybody that it is the only issue here in the fund.

And, Ms. Head, I wanted to—oh, wait, I want to go back to you, Mr. Coulter. And I appreciate the fact that you are bringing some positive solutions to stop this bleeding.

I guess the question is why we waited 5 years to start bringing these forward? And I appreciate Mr. Heck and Mr. Fitzpatrick's efforts to work on this. But why did we wait for 5 years to bring these changes?

Mr. COULTER. We definitely appreciate the work of Congress as well. And I would say that we have not waited 5 years.

If you go back to 2009 and 2010, we reduced the principal limit factors twice. In 2010, we raised premiums by over 100 percent. And we have introduced measures to ensure that the HECM program in terms of tax and insurance defaults, which you referenced earlier, that there is a program to ensure that those are worked out.

So we have done things for the HECM program very similar to what we have done on—

Chairman NEUGEBAUER. I heard that. But you are just now asking for this additional authority. And I guess the question is, why didn't we ask for that additional authority in 2009 and 2010 and 2011, instead of why, here into 2013, we are just now asking for that additional authority?

Mr. COULTER. I would say that we took definitive action in the fall when we saw that the negative net economic value of the HECM portfolio was going to be significant. We began working with the industry. We determined at that point in time that the structural changes that we wanted to make could not all be done by a Mortgagee Letter; we would have to go through rulemaking.

So we took the steps and we did what we could by Mortgagee Letter in January of 2013. The balance either has to be done through rulemaking or with your support, through a Mortgagee Letter.

And, Ms. Head, I want to go back to a—you answered a question. Somebody asked, "Is the fund healthy," and you said, "Yes."

Do you have a financial statement showing that the fund balance you have would substantiate that it is healthy, that you have documentation to support that this multifamily fund is actuarily sound?

Ms. HEAD. Yes, sir. And it is the combination—the GSI–FGI–SRI fund.

Yes, we can provide you some information—

Chairman NEUGEBAUER. Does it show a breakout between—I would just like to see the breakout of what you—when you tell me that this is—

Ms. HEAD. The Multifamily piece?

Chairman NEUGEBAUER. It is trust and verify, and I am to the verification standpoint now, so if you could furnish that to us.

Ms. HEAD. We have the annual financial audits that we can share.

Chairman NEUGEBAUER. Yes.

Ms. HEAD. May I also clarify for the gentlemen the 223(f) program that he mentioned earlier, our refinance.

Chairman NEUGEBAUER. We are going to give him additional time here in just a minute.

Ms. HEAD. Okay. Thank you. I have his statistics.

Chairman NEUGEBAUER. And so then, Mr. Miller, according to HUD, the Section 242 program has a portfolio of $9 billion; and what proportion of that $9 billion is concentrated in the State of New York?

Do you know?

Mr. MILLER. Yes I do, 23 percent.

Chairman NEUGEBAUER. Twenty-three percent.

I have information here that shows that $5 billion of that—so it would be more like 50 percent.

Could you furnish me information on that?

Mr. MILLER. I would be glad to—

Chairman NEUGEBAUER. Thank you.

The other question is that you stated that the 242 program provides capital to finance hospitals in underserved private capital markets. Is that right?

Mr. MILLER. That is correct.

Chairman NEUGEBAUER. Yes.

So are you familiar with the New York Presbyterian Hospital in New York City?

Mr. MILLER. Yes, yes I am.

Chairman NEUGEBAUER. And that is a nationally ranked hospital, isn't it?

Mr. MILLER. Yes, it is.

Chairman NEUGEBAUER. In fact, I think President Clinton went there for his heart surgery, is that correct?

Mr. MILLER. Yes, he did.

Chairman NEUGEBAUER. Would you say that is an underserved hospital?

Mr. MILLER. The association that we had with New York Presbyterian—actually it was New York Hospital in 1985, so our association with them began back then.

And, at that point, they really weren't—they were underserved. They weren't doing very well financially and they continued in our program. In 1995, they had another insured loan that they took out. And in 1997, there was a merger with Presbyterian Hospital.

So it did become New York Presbyterian Hospital.

Our association continued with them and they grew and they continued to provide even better care as the years went on. And—

Chairman NEUGEBAUER. So the point—I appreciate that history, but in 2013, you gave almost $763 million financing assistance, which included a $500 million loan modification.

I guess the question is—to me, that should be a fairly financially stable entity and I would not think that it is serving an underserved area. And that is quite a bit of commitment authority.

Mr. MILLER. Yes. Thank you for that question.

As I told you, we have an ongoing relationship with them. And in 2010, and 2012 by the way, they did refinancing through Ginnie Mae, and they got a very good rate through that. So, a loan modification in and of itself makes good sense because it, as you well know, decreases the interest that they are paying.

So it made good sense because they are able to pass that along to others, including being able to deliver $81 million of indigent care in that region.

Chairman NEUGEBAUER. There are a lot of hospitals providing indigent care. I think the question here is—and I think Mr. Luetkemeyer is going to pursue that, but we are doing these refinancings and everybody is coming to FHA and to Freddie and Fannie for lower interest rates because they are doing that, basically using the American taxpayers as a backstop or as a risk premium—risk enhancement.

And so, if we are going to use these programs, whether it is as a single family program to get people started in the housing business, and if we are going to use the FHA for low- and moderate-income Multifamily housing, and we are going to use the hospital program for underserved areas, to me the intent of FHA is kind of the first grade teacher.

And, so then, at some point in time, you graduate and these entities have the ability to provide their own credit enhancement in that they have a hospital with a great reputation. But for us to come back and start refinancing—of course one of the reasons a lot of people are coming to that is, one, you have nonrecourse financing, you have longer terms than the private market will generally give, and then you put the taxpayers' credit enhancement on top of it, so it makes you look very lucrative.

But the question is, when we sit here and look at these numbers of negative economic values, it doesn't sound like the taxpayers are necessarily getting the right end of that deal.

So, we have seen some information here that is probably going to require some additional information to follow up.

With that, my time is way beyond extended. So I now yield to the ranking member for 5 minutes, or maybe even a little bit more.

Mr. CAPUANO. Thank you, Mr. Chairman.

I would just like to submit for the record 4 letters and one news article that I don't think I have to read. I am just going to—

Chairman NEUGEBAUER. Without objection, it is so ordered.

Mr. CAPUANO. Thank you, Mr. Chairman.

The only other thing I would like to say is a follow-up about your point. There are numbers all over the place, and they are all good numbers. I just wanted to say that is part of the problem—one of the reasons I want to get—I would like to get the reverse mortgages out of the MMI. There are a lot of numbers here. They are all big numbers, and they all kind of interact. And they are all legitimate.

But there is one other number as well, which is, Mr. Coulter, how much money is currently sitting in the MMI fund as of your most recent knowledge?

Mr. COULTER. Over $30 billion.

Mr. CAPUANO. Over $30 billion that is sitting there waiting to be—if necessary to be used. And the last I have heard from most knowledgeable observers is that money is not—technically it is in jeopardy, like technically—theoretically, my guess is I am bankrupt because I get mortgages and stuff, and theoretically we all are on some levels, but in reality, nobody really expects that money to be eaten up this year or even the following year.

I know that I wouldn't even ask you to go on the record on that, because that puts you on the record, but that is my understanding of it.

And, with that, Mr. Chairman, again I want to thank you for this hearing. I want to thank the panel very much. And I yield back the balance of my time.

Chairman NEUGEBAUER. Thank you.

I now recognize the last questioner, Mr. Luetkemeyer, for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

It is also very instructive and rewarding to know that the gentleman from Massachusetts enjoys watching Fox news.

Ms. Head, do you have some good news for me?

Ms. HEAD. I have some statistics for you, sir.

Mr. LUETKEMEYER. Yes ma'am.

Ms. HEAD. Five percent to 10 percent of the 223(f) program—our refinance program—comes from GSE. So less than 10 percent comes from GSE.

Mr. LUETKEMEYER. Okay.

Ms. HEAD. Our Multifamily portfolio is broken into 25 percent rural, 50 percent suburban, and 25 percent urban.

Mr. LUETKEMEYER. Okay, very good—

Ms. HEAD. The total percentage of the refinance portfolio year to date for 2013 is about 40 percent of our business.

Mr. LUETKEMEYER. So, 40 percent is refinance.

Ms. HEAD. Yes, sir.

Mr. LUETKEMEYER. Okay, one of the concerns that we have—and I have another question for Mr. Coulter in a minute, but then I didn't get time to develop all of the questions I was trying to get to here with regards to the refis and the private market and what all is going on there. But at some point when you refinance something, these people who you are refinancing have to have enough equity in that thing and then go to the private market.

As a result, there have been complaints and considerations and some folks are saying that you are crowding out the private market, because you are taking some of these loans and you are refinancing them and they could go to the private market.

How do you answer that—

Ms. HEAD. So the private market—

Mr. LUETKEMEYER. —question?

Ms. HEAD. —does not always go into the same underserved areas that we go into. They—

Mr. LUETKEMEYER. Ms. Head, ma'am, I have a banking background. I am a former bank regulator. I know all about the Community Reinvestment Act (CRA). Don't tell me that they don't go into places that are underserved.

Ms. HEAD. There are some private mortgage companies that do not go into certain areas. And FHA provides the—

Mr. LUETKEMEYER. Are they crowding out all the rest of the folks?

Because how can the other lenders not go into some of these other areas that are underserved? That is part of the mandate of the Community Reinvestment Act. This is some of the problems that some of these institutions have gotten into because they have gone into some of these areas—

Ms. HEAD. I am—

Mr. LUETKEMEYER. —and been forced to make some of these loans.

Ms. HEAD. I have also been in the mortgage banking industry for many years.

I started out at FHA 20 years ago and spent 15 years at Prudential Financial doing mortgage—

Mr. LUETKEMEYER. You said 50 years?

No, you said 15.

[laughter]

Ms. HEAD. Fifteen.

Mr. LUETKEMEYER. All right. There we go.

[laughter]

Ms. HEAD. My southern accent—

Mr. LUETKEMEYER. I love your accent by the way, but I—

Ms. HEAD. Thank you.

Mr. LUETKEMEYER. You look 29, so I was kind of serious about that word.

Ms. HEAD. Oh yes, okay.

So what was the answer you wanted, sir?

[laughter]

I did spend 15 years in the mortgage banking business—

Mr. LUETKEMEYER. Okay, very good.

Ms. HEAD. —with Prudential, and I do know that, as a private mortgage company, there were markets that we did not go into. And part of that was because of the underwriting structure at FHA that enables us at FHA to serve some of those private—underserved areas.

Mr. LUETKEMEYER. I don't want to get into an argument with you, but I can tell you that I can list you a half a dozen banks right now that are either in my district or just outside my district that are being required by the FDIC, the Comptroller or whomever—the regulatory authorities—to go into underserved areas in order for them to be able to get a new branch or a new—or be able to get a consolidation or go purchase another bank. That is a requirement they are having to do.

So I have a hard time understanding that. And as a result, what you are doing is crowding out the private market from being able to go into those places. And that is my point I am trying to get to. So perhaps we will agree to disagree for a moment.

Mr. Coulter, I have have a minute-and-a-half left. So, another issue that has popped up with regards to—it is a kind of a novel idea that some folks have—some groups have had with regards to eminent domain. They are asking municipalities in some instances to take over residences, then turn around and ask other entities to refinance them by lowering the principle on it.

I was aware that this was happening in St. Louis—I see my good friends from St. Louis are here—but the local city council voted against this, but I am aware that it was already in my State. So I am very concerned about this.

The other day, former Commissioner David Stevens was here. He testified that FHA has published a statement that Fannie and Freddie will no longer—will not be permitted to repurchase loans acquired through eminent domain, and that such a program will represent a cost ultimately borne by the taxpayers.

So by doing that, you, FHA, are going to be the default and in fact, in the business plan of the groups that are pushing this, they highlight the role of FHA.

So my question to you is: Does the current leadership of FHA share former Commissioner Stevens' view that FHA should not be in the business of insuring loans acquired through eminent domain?

Mr. COULTER. The issue of eminent domain—I think the Secretary has spoken on this. And he has expressed a high degree of concern about it. I wasn't aware of the GSE statement in terms of they won't finance properties acquired through eminent domain. We will certainly take a look at it and consider doing something similar. I am reasonably confident that would be supported up through the Secretary.

Mr. LUETKEMEYER. Okay. Are you going to give us a written statement, then, with the position on where you are going to stand on this?

Mr. COULTER. Sorry? Ask the question again.

Mr. LUETKEMEYER. Are you—you have deferred my question here. I want a yes or no. And if I can't get a yes or no, can you get me a written answer to my question?

Mr. COULTER. I would be happy to give you a written answer, yes.

Mr. LUETKEMEYER. Okay. Thank you very much.

I yield back. Thank you, Mr. Chairman.

Chairman NEUGEBAUER. I now recognize Mr. Ellison for 5 minutes.

Mr. ELLISON. Thank you, Mr. Chairman. And I would like to thank the ranking member as well, and the panel.

I am from Minneapolis. I am really, really proud to say that our HUD Multifamily program in Minneapolis is a model. And I believe when it comes to proactive portfolio management, they are really, really doing us all proud. Our interagency stabilization group has 25 years of proven success.

And this collaboration with HUD and partners has preserved, built, and managed thousands of desperately needed affordable housing units, something that we are really concerned about because our vacancy rate in the Twin Cities is down to about 2 percent and low-income people are being hurt the most by this short supply.

So, I would encourage HUD to be open to suggestions for modifications to the transformation plan. And I believe that this Congress has ideas that will build on and improve your ability to achieve your goals.

Are you all open to suggestions about the modification to the transformation plan?

Ms. HEAD. Yes, sir. We are open to having discussions, and I understand that Deputy Secretary Jones and I will be meeting with you next week to discuss some of this.

Mr. ELLISON. And let me publicly thank you for that. I know that there are all kind of pressures and all kind of directions, and you have to do what you think you have to do. But being able to discuss things openly sometimes leads to a better place.

Ms. HEAD. Thank you, and we appreciate that.

Mr. ELLISON. Yes. I would also like to just talk to you a little bit about affordable housing in general. I mentioned my own city, my own State, where the rents have just been jacked up for even the most low-income people. It has caused a homelessness problem. We have 3,500 kids in Minneapolis who go to school every day from a shelter. It is a disgrace, a national one.

I say that to just sort of set the table a little bit. I have heard—and I can't verify this; I am hoping you can—that only one in four individuals or families who qualify for housing assistance actually receive that assistance. Do you all have any information on that?

Ms. HEAD. We do have some statistics on that we can share with you.

Mr. ELLISON. Okay.

Ms. HEAD. I am sorry I can't quote them off—

Mr. ELLISON. No, it is okay. But I am interested in hearing that. And like I said, in Minneapolis, there are more than 10,000 people on the waiting list for public housing. They have actually closed the list. And so if you are a family in need of this service, you can't even put your name on the list because the list is closed.

Not a single family has moved off that list and received safe, affordable housing in the past 15 months. And I fear that no more will due to the sequester and continued cuts to housing.

Can you share with me just—this is a general question—how you all analyze this problem of the availability of affordable housing particularly for low-income families? Do you think at this time we are in an acute crisis stage?

I think we are, but what do you think?

Ms. HEAD. I would say that it is clear that there are still huge demands across the country for affordable housing. I would definitely agree with you on that. We do analyze through our policy development and research. We do a lot of analysis of where those needs are. And part of those statistics are part of our underwriting decisions when we are underwriting loans.

Mr. ELLISON. Right.

Ms. HEAD. That is how we manage it from the FHA mortgage insurance program. And of course, we do know that we have waiting lists across the country for our project-based rental assistance programs, too, our Section 8 program. So there does continue to be a demand for affordable housing.

I will share with you also that last year we implemented a low-income housing tax credit pilot program so that we could ensure that FHA was playing in the right market, where we could provide additional affordable housing. And those loans are being expedited through the process in our organization.

Mr. ELLISON. With the limited time I have, could you just elaborate on your thoughts on why it is important for the public sector, HUD and others, to be involved in making sure that there is housing availability for the low-income?

Ms. HEAD. As part of FHA's mission, we are here to provide safe, sanitary, affordable rental housing. And in the current market crisis that we have been in where many, many folks lost their homes, the demand for the rental assistance across the country and the rental programs across the country escalated. We have been in a position to provide that and we have played our countercyclical role in that realm.

Mr. ELLISON. Mr. Chairman, may I ask one last question, sir?

Chairman NEUGEBAUER. Absolutely.

Mr. ELLISON. Thank you.

Could you please elaborate on the health and educational impacts, particularly on kids, when their family's home is insecure because of the housing environment that they are in, and therefore why your mandate and mission is important?

Ms. HEAD. That is a tough question for me to answer.

Mr. ELLISON. Okay.

Ms. HEAD. It is. Obviously, many of us would understand that when folks are homeless throughout the country, it does have emotional impacts and other impacts on the community and on the individuals. So, I think all of us realize that.

Mr. ELLISON. Thank you.

I yield back, Mr. Chairman.

Chairman NEUGEBAUER. I thank the gentleman.

And now the gentleman from California, Mr. Royce, is recognized for 5 minutes.

Mr. ROYCE. Thank you, Mr. Chairman. I would like to return to this eminent domain question, and maybe get a little bit more concrete answer from you on that question.

I originally raised this question with FHA Commissioner Dave Stevens. And he, of course, made the point, as has been reiterated here, that FHA should be barred from refinancing loans acquired through eminent domain. We have a situation in California, of course, where a number of municipalities are exploring what is likely unconstitutional, and that is the new use of eminent domain to seize residential mortgages.

And the point that I would make to you is that with Fannie and Freddie not being in the program, then such a program if it is done just by FHA would represent a cost ultimately borne by taxpayers, and we would, under that scenario, be leaving the FHA open to adverse selection as the only conduit for loans seized this way.

And the other point I would make, and maybe you could comment on this, but the group pushing this approach has highlighted the role of the FHA in their business plan. So you had commented that the Secretary has spoken on this. If the Secretary has spoken on it, could you tell us what the Secretary expressly said about it?

Mr. COULTER. To my knowledge, eminent domain has not occurred—or no governmental entity has enforced eminent domain at this point in time. There is—

Mr. ROYCE. Yes, at this point in time, but this is about the future.

Mr. COULTER. And what I am telling you is in terms of what FHA will or won't do in the future, I am not going to make policy on the fly. I will, however, get back to you in writing and—

Mr. ROYCE. Okay. Then, let me put it this way. Maybe I can be more precise with an exact question that you could answer at this time. Does the current leadership of FHA share former Commissioner Stevens' view that FHA should not be in the business of insuring loans acquired through eminent domain?

Mr. COULTER. We absolutely share those concerns. And I think the Secretary has been clear on that. And I would further add that—

Mr. ROYCE. You share those concerns. You share that view. That was the question. You share the view. As I understand it, what you are saying is the FHA should not be in the business of insuring loans acquired through eminent domain. You share that view. Those were his words, and I was trying to see if those are your—

Mr. COULTER. My words are that we share the concerns about a government entity taking properties through eminent domain. The policy that you are articulating is a policy that the GSEs have out. We have not evaluated that policy to determine what, if anything, FHA would do prospectively. It would be highly improbable, I believe, for FHA to put itself in a position where we would be the only insurer on those types of refinance transactions.

Mr. ROYCE. Because of the adverse selection problems and everything else, I assume. And maybe because of the unconstitutionality of it on the face of it. But what do you think about the fact that the group pushing this approach has highlighted the role of the FHA in their business plan? Could I have your commentary?

Mr. COULTER. I think they are highlighting a principle that has not been vetted, endorsed, or reviewed by Single Family Housing, FHA, or, I believe, HUD.

Mr. ROYCE. My time has expired, Mr. Chairman. Thank you very much.

Chairman NEUGEBAUER. I thank the gentleman.

And I thank each of the panelists. I think this has been a good discussion. I think Members probably have a little better understanding of these programs, but I think we also exposed that we have some areas to work on.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

And without objection, this hearing is adjourned.

[Whereupon, at 4:36 p.m., the hearing was adjourned.]

# APPENDIX

May 16, 2013

Statement of Randy Neugebauer
Subcommittee on Housing and Insurance
"Sustainable Housing Finance: The Government Role in Multifamily, Healthcare Facilities Mortgage Insurance and Reverse Mortgages"
May 16, 2013

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Thank you all for attending this important hearing examining FHA's reverse mortgage – or HECM - program and its multifamily portfolio, including its hospital program. This is the fifth in a series of hearings on FHA and I would like to thank Ranking Member Capuano and all of the members of this Subcommittee for the thoughtful and productive dialogue we have had regarding FHA reform thus far.

In our previous hearings, we learned that FHA is nearing insolvency, putting taxpayers at risk of another government bailout; that FHA is operating far outside its historical mission, which is hindering the development of a sustainable housing finance market; and that despite being an insurance company, FHA runs its operations contrary to the most basic principles of insurance. The Administration FY 2014 budget proposal confirmed this with its request of a $943 million draw down from Treasury to balance FHA's books.

We also learned that members on both sides of the aisle strongly support FHA's core mission of providing access to credit for lower-income borrowers and first-time homebuyers; and that notwithstanding that support, there still is a general consensus in favor of strengthening and improving FHA.

The hearings thus far have focused on FHA's core business of single-family, forward mortgages. But as we look to tackle *broad* FHA reform, I thought it was important that the Subcommittee explore other aspects of FHA's business. This will be the focus of today's hearing. Specifically, this hearing will give us a better understanding of FHA's reverse mortgage program, its hospital program, and its multifamily operations -- which will further enlighten the reform debate.

With regard to FHA's reverse mortgage program, there are many trouble areas that I would like to address today. The program, which allows seniors to access the equity in their homes, currently has a *negative* economic value of $2.8 billion and a capital ratio of *negative* 3.6%. And while the HECM portfolio accounted for only 7% of the agency's single-family loan guarantees, it accounted for 17% of its losses. In fact, HUD Secretary Donovan recently identified FHA's HECM portfolio as the main driver behind the agency's request for a $1 billion lifeline from U.S. taxpayers in the President's FY14 budget.

In addition to the impending fiscal nightmare, the poor performance of the reverse mortgage program raises questions about its sustainability and its overall impact on seniors. Unlike a borrower who obtains a traditional mortgage, a HECM borrower is not required to meet an income or credit qualification. It is these types of lax underwriting standards that have resulted in elevated default rates, leaving scores of seniors in worse financial hardship than they were prior to obtaining a HECM loan.

With regard to FHA multifamily, I would like to address member concerns related to transparency and prioritization. Unlike the single-family side of its business, FHA multifamily does not publish delinquency rates and financial data or maintain a minimum capital reserve ratio for its GI/SRI fund. As a result, Congress cannot fully assess the fiscal state of FHA's multifamily insurance programs.

And as FHA approaches its multifamily commitment authority cap for FY13, the Agency has been refinancing existing developments that are financed outside of FHA –be it through GSEs or other private lenders – at the expense of new construction projects that could use the FHA commitment to expand housing availability. This poor prioritization leads me to believe that the FHA multifamily program lacks a clearly defined purpose.

And finally, with regard to FHA's hospital program, I would like to get a better understanding why the Agency is exhausting large amounts of its multifamily commitment authority to insure large, urban hospitals. Taking away the fact that the hospital program appears to depart from FHA's core mission of providing access to credit for first-time homebuyers and lower-income borrowers, the program appears to be skewed to large, urban areas that have access to the capital and municipal finance markets. And so, I am concerned that new multifamily housing projects may be denied in favor of giving urban areas slightly better financing for hospitals that would more than likely be built regardless.

I look forward to hearing from our witnesses today and I look forward to working with my colleagues on a robust FHA reform bill.

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**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
WASHINGTON, DC 20410

**Written Testimony of**
**The Office of Housing/Federal Housing Administration**
**U.S. Department of Housing and Urban Development (HUD)**
**Hearing before the House Financial Services Committee**
**Subcommittee on Housing and Insurance**

**"Sustainable Housing Finance: The Government's Role in Multifamily and Health Care Facilities Mortgage Insurance and Reverse Mortgages"**

**Thursday, May 16, 2013**

Chairman Neugebauer, Ranking Member Capuano, and Members of the Committee, we welcome the opportunity to appear today before the sub-committee to discuss the critical importance of and the challenges facing the FHA's multifamily, healthcare and reverse mortgage programs.

***The Role of FHA Programs in the Economic Recovery***

When this Administration took office, the economy was on the brink. The nation was losing 753,000 jobs a month, our economy had shed jobs for 22 straight months and consumer confidence had fallen to a 40-year low. In the face of this turmoil, the Obama Administration took dramatic steps to prevent a complete financial meltdown. As a result, an economy that was shrinking is growing again. And, while this economic growth is promising, it is still fragile.

Through FHA programs, HUD has played a critical role in this recovery, enabling potential homebuyers and developers to finance transactions where other sources of credit were constrained as a result of the financial downturn. FHA was created during the Great Depression to provide mortgage financing to those who are not readily served by the market. During the most recent downturn, FHA expanded access to credit to segments of the mortgage finance market, including single family, multifamily and health care, that were underserved as a result of the credit crisis. Combined with historically low interest rates, and improvements in HUD business operations, FHA continues to see unprecedented, though steadily declining, demand for FHA insurance across all product lines.

Under the FHA's General and Special Risk Insurance Fund (GI/SRI), FHA insurance has long assisted the nation in meeting the need for safe, decent and affordable housing by facilitating access to financing to develop, rehabilitate and refinance multifamily rental housing and healthcare facilities, and from 1989-2008, FHA backed reverse mortgage or Home Equity Conversion Mortgage (HECM) loans were also insured under the GI/SRI Fund. While HECMs are no longer in the GI-SRI, they continue to serve an important role in meeting FHA's mission.

***Home Equity Conversion Mortgage Program***

The HECM program, authorized by section 255 of the National Housing Act (NHA), is FHA's reverse mortgage program. The HECM program enables an FHA approved mortgagee to extend insured mortgage financing to an eligible homeowner, 62 years of age or older, who wants to convert the equity in his or her home and withdraw some of that equity if they successfully complete mandatory housing counseling. The withdrawal of equity may take a variety of forms, as authorized by the NHA and selected by the mortgagor. The amount that a mortgagor is able to withdraw from the equity in the home under a HECM loan is determined by the "principal limit." Equity payments to the mortgagor may be in the form of monthly payments for life or a fixed term of years, in lump sum, or through a line of credit. The home, which serves as security for the mortgage, must be the mortgagor's principal residence for the duration of the loan.

The reverse mortgage offers an opportunity for seniors to age in place while also having access to cash at a time in life when many experience a reduction in income. Traditional debt, such as first- or second-lien home equity loans or lines of credit, can also provide cash, but the requirement for periodic repayment and an income sufficient to service the debt make this alternative approach less than an ideal solution for lower income seniors wishing to age in place. While the sale of a home may provide cash, it also entails moving to alternate housing where studies[1] have shown that most older Americans prefer aging in place. As a result of these considerations, the question of how retirees might be best able to use home equity—often their largest asset—to help fund their retirement has been brought to the forefront of financial planning discourse.

For older Americans, equity in the home has come to represent a major share of their total wealth. However, owner-occupied housing, as an asset, is largely indivisible—a home cannot easily be sold in increments as can a stock portfolio or have equity withdrawn gradually like a savings account. Thus, liquidating housing wealth to help meet cash needs during retirement is not easily accomplished. Converting home equity to cash generally requires the sale of the entire asset or the ability to issue debt against home equity.

A reverse mortgage is debt issued against home equity which can provide significant sums of cash without the sale of the home and without the need to make periodic repayments. Because no repayment of the mortgage balance is due until the borrower no longer occupies the home as his or her principal residence, traditional underwriting is not typically required to demonstrate the borrower's financial capacity (income) to service the debt.

The HECM loan is a reverse mortgage that offers lenders an FHA insured mortgage insurance guarantee. The HECM loan program was originally designed to meet the special needs of elderly homeowners by reducing the effect of the economic hardship caused by the increasing costs of meeting health, housing, and subsistence needs at a time of reduced income and to encourage and increase the involvement of mortgagees and participants in the mortgage markets in the making and servicing of reverse mortgages for elderly homeowners. The FHA guarantee, which is available so long as the loan is originated following FHA guidelines, enables lenders to provide better loan terms to borrowers than would be available without the FHA mortgage insurance guaranty.

[1] Bayer, Ada-Helen, and Leon Harper. 2000. *Fixing to Stay: A National Survey on Housing and Home Modification Issues.* Washington, DC: AARP, available at: http://assets.aarp.org/rgcenter/il/home_mod.pdf

***The Impact of HECM on the FY 2013 MMI Fund Budget Re-estimate***

The President's budget forecasts that the FHA MMI Fund, which provides the fiscal capital to support FHA's single family and reverse mortgage guarantees, will use $943 million of its mandatory appropriation authority to supplement its reserves at the end of FY 2013. The MMI Fund currently has approximately $32 billion in cash available to pay claims, so this is not a cash on hand problem; it is one of setting aside the right size of loan loss reserves. The $943 million figure is based on an annual re-estimate of the reserves FHA will need to hold as of September 30, 2013, for the payment of expected losses over the next 30 years on its portfolio of guaranteed loans as of last September, based upon Federal Credit Reform Act (FCRA) scoring. This re-estimate is done as part of the development of the President's Budget.

The potential for a mandatory appropriation to the MMI Fund is largely due to the existing reverse mortgage portfolio. This product, particularly as it has been structured to date, is sensitive to borrower longevity, home prices, and economic conditions. Lower than anticipated home price appreciation substantially affected the expected performance of the portfolio relative to FY 2011 estimates. Further, changes to the ways in which borrowers utilize the HECM product have shifted the risk profile of the program.

Originally designed to be used like an annuity, in recent years market circumstances and lender preferences have shifted greater numbers of borrowers to take full draws via the Fixed Rate Standard product. Thus, borrowers are taking all of the funds available to them up-front and often do not have the resources necessary in later years to pay property taxes and insurance, thereby triggering a default on the loan. Due to these changes in usage and performance, the budget estimates that the use of the HECM program results in a negative value of $5.2 billion and a disproportionately negative impact to the Fund.

Since 2009, FHA has worked to re-evaluate the HECM program and make adjustments, where necessary, to ensure program sustainability, ensure the program maintains a negative subsidy, and reduce risks to the Insurance Fund.

On October 1, 2009, the principal limit factors reduced the available amount of funds to borrowers by 10%, thereby reducing program risk. A second reduction to the principal limit factors, ranging from 10-15%, occurred October 4, 2010, when the traditional one-size-fits-all HECM product that had existed since the program's inception was replaced by two new HECM products, Standard and Saver, both of which also substantially raised the annual mortgage insurance premium to offset risk. The Standard product is designed to appeal to seniors who need the most cash from HECM and who are less concerned about upfront loan costs. Standard raised the annual mortgage insurance premium from 0.5% of the outstanding loan balance to 1.25%, maintained the original upfront premium of 2% of the loan's maximum claim amount, and adopted new, lower principal limit factors. On the other hand, Saver is designed to minimize upfront costs to appeal to seniors who need less cash, and who may want a shorter term "bridge" loan to meet current needs. Saver also raised the annual premium to 1.25%, but reduced upfront premium to 0.01%, and adopted factors that are lower than the Standard factors.

In 2010, FHA revised its post endorsement technical review process to provide a more disciplined approach to reviewing HECM loans to ensure program requirements are met and implemented a new process to review FHA-approved lenders who service HECM loans. Additionally, in January 2011, HUD issued extensive guidance on the handling of property charge-related delinquencies with detailed requirements related to notifications to borrowers, reporting to HUD, loss mitigation and counseling support. Furthermore, in January 2011, HUD issued policy guidance requiring mortgagees to offer loss mitigation options that will allow the borrower to bring the mortgage into compliance with FHA's requirements.

And, with the results of the 2012 independent actuarial report, FHA took immediate action to better align the HECM program with its objective of enabling seniors to age-in-place. These changes, which will significantly impact consumer use of the program, will protect FHA from losses and reduce the likelihood of borrower defaults. In administrative guidance dated January 30, 2013, FHA consolidated the Fixed Rate Standard program with the Fixed Rate HECM Saver product, which will result in a reduction of the maximum amount of funds available to a HECM borrower.

Additionally, in an effort to reduce losses associated with the conveyance and disposition of properties mortgaged with a HECM, FHA will issue new incentives for estate executors of HECM borrowers to dispose of properties themselves rather than conveying them to HUD. Currently, executors are permitted to either sell such properties or convey them to HUD when the loan is called due and payable. Reversing the historical trend, over the past few years, larger numbers of executors have been choosing to convey these properties to FHA rather than sell them, adding costs and reducing recoveries for FHA. By incentivizing the sale of properties by executors, FHA is able to avoid property management, maintenance, and marketing costs associated with the REO disposition process, thereby reducing losses to the Fund on these properties.

Whether there will be an actual need for a mandatory appropriation from the Treasury General Fund to the MMI fund will not be determined until September 2013, and will be based on FHA's realized revenues and any other developments through the end of the fiscal year. Notably, any mandatory appropriation to FHA would not involve approval from Congress, as all federal loan programs have this standing authority. As we consider this potential mandatory appropriation, we must also acknowledge that FHA played a crucial, countercyclical role in bringing the housing market from the brink of collapse to a place where it is positive and growing again. This task did not come without its stresses which we are experiencing today. Nevertheless, FHA will remain vigilant in implementing the policies and practices discussed here to protect the Fund and make every effort to maintain a negative credit subsidy for the HECM program through FY 2014 and beyond.

To make such changes in a timely fashion and preserve the program for seniors, FHA is seeking explicit statutory authority to temporarily make changes to the HECM program via Mortgagee Letter while formal rule making is simultaneously in progress. Specifically, given this explicit authority, FHA would make the following changes via Mortgagee Letter in FY 2013:

- Limit the amount of the allowable draw;
- Where appropriate, mandate the use of escrow accounts or a set-aside to ensure continued and timely payment of property charges including taxes and insurance, and;
- Require the use of a financial assessment as part of the loan origination process to ensure the appropriateness of HECM products for potential borrowers.

In addition, the President's Budget proposes a statutory change to the National Housing Act to clarify the rights and responsibilities of the non-borrowing spouse on a HECM loan. HUD cannot effectively administer this program if the existence of a non-borrowing spouse prevents the loan from being due and payable following the death of mortgagor (borrowing spouse). The actuarial soundness of the program – which dictates the amount of money that a mortgagor can draw out of the equity in the home—is based on the value of the home, the interest rate on the note, and lastly but most importantly, the age of the youngest mortgagor.

As always, the Department is evaluating its existing program rules and requirements governing the HECM program and is pursing administrative action to the degree allowed under the current statute to address these structural issues. However, if we are unable to take the appropriate steps to ensure the HECM program is fiscally sound for the long run, HUD will have to take aggressive short terms steps to strengthen the program and address its impact to the Fund prior to FY 2014. With the support of Congress, FHA can make the HECM program financially sound ensuring that fiscally responsible seniors from all walks of life can continue to enjoy the benefits of homeownership during retirement.

***Office of Multifamily Housing Programs***

FHA insurance has long assisted the nation in meeting the need for safe, decent and affordable housing by facilitating financing to develop, rehabilitate and refinance multifamily rental housing. The financial recession, combined with historically low interest rates, and improvements in HUD business operations, led to an unprecedented increase in demand for FHA mortgage insurance. This was particularly pronounced in certain types of multifamily housing and in regions of the country where conventional lending was inaccessible absent federal credit enhancement. While multifamily new construction volumes have declined in recent years, falling from $4.0 billion in FY 2010 to $3.3 billion in FY 2012, multifamily refinance transactions, especially refinancing of loans already insured by FHA, have increased by 60 percent, from $6.9 billion in FY 2010 to $11.1 billion in FY 2012.

At a time when more than one-third of all American families rent their homes and over 8.5 million unassisted families with very low incomes spend more than 50 percent of their income on rent or live in severely inadequate conditions, it is more important than ever to provide a sufficient supply of affordable rental housing for families of modest means – particularly since, in many communities, affordable rental housing does not exist without public support for construction or preservation. FHA's ability to play a countercyclical role in the multifamily housing market helped keep private investment flowing when conventional financing resources had otherwise retreated from the market.

Demand for new FHA insurance for new construction and refinancing of multifamily properties increased more than six-fold from 2008 to 2012, rising from $2.3 billion in FY 2008 to $14.5 billion in FY 2012. By the end of 2012, FHA's portfolio of multifamily loan guarantees had an unpaid principal balance of $59.8 billion on 10,542 loans. And today, while volume increases have stabilized, HUD expects elevated levels of mortgage insurance activity through FY 2013. A significant share of the demand for FHA insurance reflects the larger demand for rental housing, particularly in many metropolitan areas which face an inadequate supply of multifamily housing. The ongoing demand for new rental housing is directly attributable to two factors, both connected to the market downturn: (1) as many as 3.9 million former homeowners have been displaced by mortgage distress and are now in the rental market and (2) as many as 4.3 million new renter households, including many who postponed new household formation between 2008-2012 (for example, the number of 25 to 34 year olds living with parents was almost 50% higher in 2011 than in 2003).

In addition to providing critical liquidity to the marketplace, FHA insured multifamily developments also have a significant impact on communities by expanding affordable housing options, spurring economic development, and creating jobs. FHA estimates that the multifamily new construction loans endorsed by FHA in FY 2012 alone directly created 22,146 jobs, and supported the creation of 32,380 additional indirect or jobs. In total, FHA-insured multifamily projects yielded approximately 54,526 jobs throughout the nation. Clearly, FHA's multifamily new construction insurance program offers much more than just financing -- it creates jobs and improves the quality of life in communities nationwide.

While FHA's countercyclical role was crucial to mitigating the worst of the financial recession, its expanded footprint in multifamily finance is intended to be temporary. FHA sees its role today as encouraging the return of private capital back into the mortgage market while balancing the need to remain a supportive mechanism for all types of housing moving forward, particularly for underserved markets and for lower income families.

To that end, in order to continue to serve this role while private capital returns to the housing finance market, the Administration supports an additional $5 billion in commitment authority for the General and Special Risk Insurance Fund (GI/SRI). This would increase the total commitment authority available to FHA to endorse multifamily as well as healthcare loans for FHA insurance to $30 billion in FY 2013, up from the $25 billion level in FY 2012 and consistent with the President's FY 2014 budget request. This additional commitment authority will impose no cost on taxpayers and will enable FHA to continue to serve its crucial, countercyclical role in these markets, facilitating the financing of affordable multifamily housing, residential care facilities and urgently needed hospitals. Of particular importance here is the ability to insure refinance transactions which reduce risk to the fund by allowing facilities to take advantage of today's historically low interest rates, lowering their monthly payments. This fiscal year, we estimate that nearly 60 percent of the FHA-insured healthcare portfolio and 40 percent of the insured multifamily housing portfolio will seek refinancing opportunities through FHA. And, following the impact of Hurricane Sandy, we have experienced a three-fold increase in the number of concept meetings held for projects seeking FHA insured financing in the impact area.

**Managing Risk and Building Efficiencies**

The central role of housing in the U.S. economy demands that Federal agencies involved in housing policymaking manage programs and policies to support housing as a stable component of the economy, and not a vehicle for over-exuberant and risky investments. Since the start of this Administration, and in light of - though not necessarily because of - this heightened countercyclical role, FHA has taken a number of comprehensive steps to improve its risk management capabilities and processes to ensure the ongoing solvency of the FHA insurance funds. In Multifamily, we have engaged in a series of program specific steps to ensure that we are taking the appropriate steps to manage and mitigate risk. These changes reflect the first update to some of the standards governing FHA insured multifamily programs in 40 years. Leveraging the lending industry's best practices and standards, these changes are a much needed step to insure that FHA multifamily programs are sound and will continue to be available to fulfill our mission of providing liquidity to the multifamily market and decent, affordable rental housing to our nation's communities. These changes also ensure that FHA's multifamily programs are designed to meet the needs of communities across the nation.

During FY 2012, FHA implemented a Low-Income Housing Tax Credit Pilot Program establishing a Single Underwriter Role and separate lender approval for underwriting for more complex loans that combine FHA programs with Low-Income Housing Tax Credits. This pilot and the underwriter model are the basis for the proposed risk based processing and underwriter role in the proposed operating model changes.

This shift is a result of analyzing outcomes associated with the Multifamily Accelerated Processing (MAP) program, which show that certain FHA programs demand skilled lenders and underwriters with specialized knowledge. Currently, HUD offers the full range of FHA programs without regard to specialized expertise.

As part of risk mitigation, FHA has already implemented revised underwriting standards to raise debt service coverage ratios, lower loan to value and loan to cost ratios, increase project reserves and sponsor equity investment, and limit sponsor cash out. Underwriting ratios are now targeted to different property types based on their risk profiles, with lower ratios for subsidized affordable housing properties and higher ratios for market rate properties.

*Breaking Ground.* Completed in mid-FY 2012, Breaking Ground was an initiative in Multifamily Housing Development to reduce backlogs, improve time frames, and create an early warning system that allows for more effective risk management by creating extensive tools to monitor and access credit for multifamily insured loans. These tools include a stronger credit review of borrowers; an early warning system that targets loans early in the process that do not meet FHA underwriting criteria; and a dashboard monitoring tool to track accountability of field offices; and establishment of a queue in order to more efficiently manage workload and provide greater transparency to lenders.

Adopting this approach has produced positive results. Offices that had large application backlogs prior to Breaking Ground have reported processing efficiency improvements, methodically clearing out older applications – the number of applications in process for over 90 days dropped from 191 to 50 in just seven months. In addition, offices that began Breaking Ground without a large backlog have begun to meet aggressive application processing time cycles. The Department will continue to track these metrics and looks forward to reporting on these results.

*Sustaining Our Investments.* The Sustaining Our Investments initiative, which was fully implemented last month, has resulted in an overhaul of the processes used to manage the portfolio of the Office of Multifamily Asset Management. The initiative focuses on Risk Based Management – allowing project managers at both the Headquarters and field level to focus day-to-day operations on managing at-risk loans in the portfolio. Risk-based reports keyed on financial and physical risk triggers direct project managers to act early on potential problems with particular assets. The first step in this initiative was to complete a full ranking of FHA's entire multifamily market rate portfolio to better assess and address potential risk factors. The ranking of the non-insured portfolio is now underway and scheduled for completion this summer.

*Loan Committee.* FHA Multifamily has also implemented a new loan committee approval process, aligning Hub and Program Center commitment authority and practice to ensure consistency in underwriting throughout the regional offices, as well as to provide a platform to share best practices. Loan committees at the Hub and National levels provide oversight for high-risk transactions in the multifamily insurance program, based on loan size and a project's number of units. Loan committee approval processes are standard practice in the lending community and are an important tool to prudently manage credit risks and ensure the integrity and stability of the GI/SRI insurance fund.

*Concentrated Risk.* FHA Multifamily issued a Mortgagee Letter strengthening underwriting review requirements for mortgage insurance applications from borrowers whose FHA insured unpaid principal balances equal or exceed $250,000,000. The guidance meets an immediate need for clarity on how lenders and HUD Offices should treat borrowers with this level of insured debt. The Mortgagee Letters expands the scope of analysis and heightens the level of credit underwriting for these borrowers, thereby reducing the risk of defaults and claims.

*Premium Increase.* Given the unprecedented increase in the number and dollar volume of loans insured under the GI/SRI, particularly with respect to "market rate[2]" loans, in the President's FY 2013 Budget proposal, the Department announced proposed premium increases for programs in the GI/SRI. Implemented on October 1, 2012, this was the first premium increase in 10 years for these programs.

GI/SRI funds provide financing for the FHA multifamily and healthcare loan guarantee programs and several very small specialized loan products. This account also continues to hold a sizable portfolio of single family loan guarantees (HECM, condominium, and rehabilitation loans) insured prior to FY 2009 when responsibility for new lending under these programs was transferred to the Mutual Mortgage Insurance Fund.

In contrast, premiums for single family programs situated in FHA Mutual Mortgage Insurance (MMI Fund) have been increased five times since 2010. As with the premium increases for MMI programs, higher premiums for market rate loans originated under the GI/SRI funds ensure that FHA products are priced appropriately to compensate for FHA's risk, consistent with current market conditions. This premium change should also have the indirect benefit of encouraging the return of private capital to the nation's mortgage markets.

**Transforming the Multifamily Business Model**

While these significant changes have truly changed the way FHA does business, our efforts to more effectively and efficiently serve our customers while managing risk to the portfolio will continue. Last month, we announced that beginning in late FY 2013, the Office of Multifamily Housing plans to begin changes to its operating model that includes reorganizing its Headquarters structure and consolidating Field Office Operations. Phased in over two and a half years, and scheduled for completion by FY 2016, this plan will increase efficiency and consistency, modernize our services, and once fully implemented has the potential to save an estimated $40 to $45 million in annual costs.

By taking proactive steps, the Office of Multifamily Housing Programs will better serve customers and stakeholders, by operating more efficiently and consistently and improving risk management, all in an era where HUD and agencies across the government are working diligently to determine how best to do more with less. This transformation builds upon the success of *Breaking Ground* and *Sustaining Our Investments* through four initiatives:

1. *Launching more routine and effective workload sharing across the country.* By more equitably distributing workloads in the areas of Production and Asset Management, Multifamily Housing will be able to reduce unevenly distributed pressure on staff and reduce customer wait times and the application backlog. A workload sharing pilot is already in process throughout the country, receiving positive feedback from customers and staff.
2. *Introducing risk-based processing and underwriters in the Office of Multifamily Production.* In order to increase processing efficiencies, improving customer service and more effectively manage risk, FHA Multifamily will segment and process applications according to their risk profile and complexity, assigning an underwriter to oversee the review of the application from start to finish, drawing in technical experts as needed.

[2] Generally, market rate housing covers a range of rental housing opportunities. In the FHA portfolio, market rate housing is generally affordable to those at approximately 80% of area median income.

3. *Creating Specialist Support in the Office of Multifamily Asset Management.* The newly created positions of Troubled Asset Specialist and Account Executives will allow Multifamily to assign the most experienced staff to focus on risky, complex or troubled assets, ensuring that the most skilled staff is engaged to manage risk to the portfolio. Other Account Executives with less expertise will focus on non-troubled portfolio while building the expertise and skill sets to manage more complex transactions.
4. *Streamlining organizational structures.* In headquarters, FHA Multifamily will reduce the number of offices by merging the Office of Housing Assistance and Grants Administration and the Office of Housing Assistance Contract Administration Oversight into other existing Headquarters offices. A dedicated Associate Deputy Assistant Secretary role will be created to support the field while leadership also examines other offices for ways to streamline and reduce duplication of efforts. In the field, 17 hubs will be consolidated into five – with each Hub/Region having a satellite office. A full implementation the total number of field offices with Multifamily presence will decline from 50 to 10. Impacted employees will have the ability to relocate, accept a buy-out, or take early retirement. All employees will have the opportunity to remain with the Department albeit possible in another location or role with the department.

**Preserving Affordable Units in Small Multifamily Buildings**

As part of the FY 2014 Budget, HUD is seeking legislation to facilitate lending to small multifamily properties which are an important provider of affordable, but unsubsidized, housing for low and moderate-income families. According to the 2010 American Community Survey, nearly one-third of renters live in 5 to 49 unit buildings. These buildings also tend to have lower median rents than do larger properties: $400 per month for 5-49 unit properties as compared to $549 per month for properties with 50 of more units. Because they are expensive to finance, particularly in this environment, these properties are at risk of divestment.

HUD is proposing two legislative changes-one change to the Section 542(b) Risk Share program that would allow the Department to explore flexibility with the 542(b) Risk Share program to work with experienced affordable housing lenders to make Risk Share loans to small properties and the second change would allow Ginnie Mae to securitize risk share loans under Section 542(b).These changes would allow HUD to enter into Risk Share agreements with qualified lenders –such as well-capitalized Housing Finance Agencies or Community Development Financial Institutions – that have demonstrated experience making loans to support affordable housing and neighborhood stabilization. Under these Risk Share agreements, qualified lenders could make refinance, acquisition or rehab loans available to small (5 to 49 unit) properties. Lenders approved by Ginnie Mae could then securitize those loans on the secondary market, increasing the availability of capital for more multifamily lending.

HUD's proposal to improve the resources available to small building owners is part of the Department's broader commitment to re-balance the nation's housing policy to support rental housing and neighborhood revitalization. As Federal and state budgets shrink and the need for quality, affordable rental housing is on the rise, it's critical that we support small businesses who are finding solutions that work for families and for local economies – especially when those solutions come at no cost to the taxpayer. We look forward to working with Congress to ensure the availability of these unsubsidized, affordable housing units.

***Office of Healthcare Programs***

FHA's healthcare programs are integral to HUD's community development mission and also serve as a critical resource to facilitate mortgage financing for the construction, renovation, acquisition, or refinancing of residential care and hospital facilities. These programs improve access to quality healthcare in communities across the country and help to reduce the cost of healthcare by reducing the debt service costs of healthcare facilities. As with other FHA programs, the healthcare programs play a critical role in ensuring the availability of financing for hospitals and residential care facilities for which traditional forms of financing have either been unavailable or cost prohibitive. These programs have played a critical role during the economic crisis and recovery as hospitals and residential care facilities have faced constrained access to credit. Particularly given our nation's aging population and increasing health care costs, strong support for quality, accessible health care is an essential component in achieving the Department's mission of strong, sustainable, inclusive communities and quality, affordable housing and services for all Americans.

The Office of Healthcare Programs is located within HUD's Office of Housing and all its programs are part of the Federal Housing Administration (FHA). The office administers healthcare mortgage insurance to support the continuum of care in communities across the United States, as authorized under Sections 232 and 242 of the National Housing Act. Through the Section 232 Mortgage Insurance for Residential Care Facilities, FHA insures mortgage loans for nursing homes, assisted living facilities, and board and care homes. Under Section 242, FHA provides mortgage insurance for hospital facilities across the nation which would otherwise not have access to financing to open their doors or continue to serve their communities. By enabling the more affordable financing and refinancing of underserved healthcare facilities nationwide, the programs decrease overall healthcare costs and help fulfill a capital financing need where that need cannot be satisfied by private markets. Also, as healthcare facilities are major economic engines that are often the leading providers of jobs in their local communities, these projects, including those insured by FHA, generate substantial economic activity in local communities and create much needed jobs. These programs, like all FHA insured mortgage programs, do so while operating at a negative credit subsidy, generating offsetting negative subsidy receipts to taxpayers.

Today, while the economy seems to be rebounding and with it, sources of private capital, we continue to expect high levels of mortgage insurance activity for FY 2014 due in large part to refinancing activity, particularly of loans already insured by FHA, as healthcare facilities take advantage of current low interest rates. Furthermore, following implementation of a final rule in 2013, hospitals can now obtain FHA-insured refinancing loans. As of March 31, 2013, the FHA's portfolio of healthcare loan guarantees had an unpaid principal balance of $28.3 billion on 2,898 loans.

**Section 242: Hospital Insurance**

In 1968, Section 242 of the National Housing Act was enacted to support the capital financing for urgently needed hospitals and encourage private lending. Since the Section 242 program's inception, over 400 mortgage insurance commitments have been issued for hospitals in 43 states and Puerto Rico. FHA serves all types of acute care hospitals nationwide, ranging from small rural facilities to large urban teaching hospitals. Since the inception of the program, 8% of hospitals nationwide have received FHA insured financing, with a large percentage of the portfolio consisting of rural or non-urban hospitals. The program has "graduates"—with the support of FHA, many hospitals gain financial strength and stability and are eventually able to refinance into conventional products. An example is Hillcrest Hospital in Waco, Texas, which received an FHA-insured loan in 2006 to replace its aging facility. The new hospital, completed in 2009, has been successful in providing services to the community and has also been successful financially. It merged with a strong hospital system and was able to repay its FHA-insured loan in March 2013 using conventional financing. Recently, the new Hillcrest served as the first-response trauma facility treating over 60 victims of the fertilizer plant explosion in west Texas.

As of March 31, 2013, FHA's Section 242 portfolio consists of 109 active loans for 84 hospitals, totaling $8.6 billion in unpaid principal balances. The program is mostly utilized by underserved, urgently-needed hospitals that have sound track records but are unable to secure capital to enable them to operate a financially stable facility at reasonable interest rates including small, financially strong, rural hospitals or large hospitals that serve a substantial indigent populations. By insuring mortgages for these hospitals, FHA enables the financing of projects such as construction, replacement, expansion, modernization, equipment purchases, or refinancing, at rates that ultimately reduce healthcare costs.

Due to strong underwriting and proactive asset management, the program operates at no cost to the taxpayer, has consistently maintained a cumulative net claim rate of less than 1%.

**Section 232: Residential Care Facilities**

Congress established Section 232 of the National Housing Act in 1959 to support the needs of a vulnerable aging population in residential care facilities across the country. Since then, over 7,000 Residential Care Facility mortgage insurance commitments have been issued in all 50 states under the Section 232 program. Under this authority, FHA provides mortgage insurance to residential care facilities nationwide including nursing homes, assisted living facilities, and board and care homes. The program's primary mission is to provide mortgage insurance for much needed nursing homes that provide for housing, care, and treatment of frail elderly and persons unable to live independently and require skilled nursing care.

As of March 31, 2013, FHA's Section 232 portfolio consists of 2,789 active loans for 2,680 residential care facilities, totaling $19.8 billion in unpaid principal balances. Loans insured under Section 232 support roughly 12% of the skilled nursing market in the United States, with 70% of the portfolio consisting of skilled nursing facilities. 28% of the Section 232 portfolio consists of assisted living facilities with the remaining 2% being board and care homes. HUD has implemented rigorous asset management and loan monitoring processes in recent years that has resulted in reducing defaults and maintaining a claim rate of less than 1%.

**Evolution of FHA Healthcare Programs – Balancing Risk and Improving Processes**

This Administration, in continuing to improve the program has brought in positive risk management changes to both balance risk and improve processes within the Office of Healthcare Programs. Given the unprecedented increase in the number and dollar volume of loans insured under GI/SRI, in FY 2013, premium increases for FHA's General Insurance and Special Risk Insurance healthcare programs were instituted to increase the stability of the insurance fund. With the premium increases, FHA Healthcare loans are priced more appropriately to encourage the return of private capital while, at the same time, continuing to ensure sufficient levels of available capital in these sectors.

*Proactive Asset Management.* In FHA's Office of Healthcare Programs, weekly loan committees are held to review and approve loan submissions and to monitor healthcare industry trends and risks. By implementing proactive asset management using early intervention monitoring tools, the Office of Healthcare Programs succeeded in maintaining claim rates of less than one percent in both healthcare facility mortgage insurance programs in FY 2012.

*LEAN Business Process Reengineering.* LEAN Business Process Reengineering has also played an integral part in streamlining business operations within FHA's healthcare programs. Despite volume increases, LEAN Processing improvements reduced loan processing times while increasing risk management efforts. Revised program requirements and documents were established to enhance accountability for borrowers, operators, and lenders. To further manage risk in the healthcare portfolio, in areas of large risk concentrations, such as insuring portfolios of multiple healthcare facilities, reviews are conducted at both the corporate and individual loan levels. In the residential care facility mortgage insurance program, implementation of a Master Lease Structure to cross-collateralize properties not only works to improve the overall risk profile of FHA's healthcare portfolio, but ultimately reduces claims.

The Office of Healthcare Programs is in ongoing collaboration with HHS, CMS, and state public health departments to support efforts to ensure quality of care for the most vulnerable populations. Also, by incorporating state survey inspection results, cost reports, and data from other Federal and state agencies into FHA's underwriting and asset management procedures, the shared utilization of data and cross-collaboration has been instrumental in keeping healthcare claim rates low within FHA.

The Office of Risk Management conducts a separate analysis from the Program office for loans over a certain threshold. This third party review allows Risk Management to conduct a separate analysis of higher loan amounts to ensure risk factors are properly identified and mitigated. The Office of Risk Management works across all business lines (Single Family, Multifamily, and Healthcare) to identify and balance risk to the FHA mortgage insurance fund.

**Critical Access Hospitals**

As part of the efforts of FHA's Healthcare programs to strengthen communities by addressing specialized financing needs, HUD is seeking passage of the language in the THUD Appropriations Bill to permit rural Critical Access Hospitals to be eligible for FHA insurance. Before their eligibility expired in 2011, 29 Critical Access Hospitals received FHA-insured loans, with results that were positive, both in terms of loan performance and the jobs created by hospital construction projects. Also, quality of life improved in their communities; these hospitals by definition are geographically remote from other hospitals, and they provide not only emergency, outpatient, and acute inpatient services but also nursing and rehabilitation services that avoid the need for the elderly and recuperating patients to leave the community for care.

We appreciate the Congress' long standing support for Critical Access Hospitals by amending Section 242 to permit these important facilities to be eligible for FHA insurance, and hope that this language will be approved to allow Critical Access Hospitals to continue to be eligible for FHA insurance.

***<u>Conclusion</u>***

Each of these programs meet a critical need in targeted areas where private capital has been either unavailable or insufficient to meet the demands of the market – whether it be seniors looking for supplemental income through equity in their homes, critical access hospitals and hospitals that serve a unique targeted need, or affordable rental housing. We look forward to working with stakeholders and the committee to ensure that FHA has the tools it needs to more effectively manage the HECM program, so that it remains a viable option to seniors while putting the program on more sound fiscal footing, and so that the multifamily and healthcare programs have the commitment authority they need to ensure that healthcare providers and affordable housing developers can continue to meet the critical demands of their communities.

By targeting resources where they are most needed, making tough choices in order to do more with less, and ensuring the protection of taxpayer interests, FHA's Single Family, Multifamily, and Healthcare Programs, are ensuring more Americans have the opportunity to realize or maintain the economic security of the middle class and have access to safe, decent, affordable housing and healthcare opportunities. We remain focused on transforming the way we do business will ensure that we can continue to remain an effective support to the market – and that helps build the economy from the middle class out and ensures that we create opportunity for everyone, everywhere. Thank you.

**Baptist** Hospitals of Southeast Texas
*Performing Sacred Work Everyday*

May 15, 2013

Mr. Roger E. Miller
Deputy Assistant Secretary for Healthcare Programs
U.S. Department of Housing and Urban Development
451 7th Street SW
Washington DC 20410

Dear Mr. Miller:

As you know, Baptist Hospitals of Southeast Texas owns and operates two hospitals which serve Jefferson, Orange, Hardin and Jasper Counties in Texas. Together, our two hospitals employ 1747 and provide care to 195,724 patients each year.

In 2000 we needed to upgrade our physical plant. A major Wall Street bank worked with us to prepare an offering statement for the issuance of tax-exempt bonds. When the bonds were brought to market, there were no willing buyers. Our bonds were not attractive to investors because we provide a great deal of care to beneficiaries of the Medicaid program and to those who are uninsured. Providing care with little or no compensation left us with narrow operating margins. While we were a good hospital, providing excellent care and operating "in the black", we weren't strong enough for Wall Street. We had a failed bond issue.

The physical improvements to our plant could not be delayed. After reaching out to local commercial lenders to no avail, we were introduced to HUD's Section 242 mortgage insurance program. Using HUD mortgage insurance as credit enhancement, in August 2001 we were able to issue tax-exempt bonds to fund our $107 million project and refinance our existing debt. Those bonds were rated AAA which brought us the most-favorable interest rate available in the market. That reduced interest rate allows us to use our operating funds to continue to employ fine healthcare providers and to provide care to the poor and uninsured.

In our fiscal year ended June 30, 2012, we provided $102,241,000 of care to the uninsured and $160,497,000 to beneficiaries of the Medicaid program. We do this in a facility that has been upgraded so that it also appeals to those patients who have commercial insurance and could go anywhere for care. The healthcare environment is competitive, and we are able to hold our own in-part because of the facility we have built and the savings we have achieved through our Section 242 loans.

While the loan review process was rigorous and the covenants that you have imposed are strict, we know that they are meant to keep us a strong, performing hospital in your portfolio and we appreciate that. Baptist Hospitals of Southeast Texas looks forward to our continued relationship with your office.

Very truly yours,

Gary Troutman, Chief Financial Officer

BAPTIST HOSPITALS

P.O. DRAWER 1591 ■ BEAUMONT, TX 77704 ■ PHONE: 409-212-5000 ■ WEBSITE: WWW.MHBH.ORG

608 STRICKLAND DRIVE ■ ORANGE, TX 77630 ■ PHONE: 409-883-9361 ■ WEBSITE: WWW.MHBH.ORG

Guadalupe Regional
MEDICAL CENTER

May 15, 2013

Dear Bob,

I write this letter to formally reiterate what you have already heard from many of the leaders at Guadalupe Regional Medical Center: our success as a free standing community hospital would certainly be in jeopardy today had it not been for the HUD revenue bonds that allowed for the facility remodel that was completed in 2010. The multi-year process of rebuilding our circa-1965 facility began with in depth strategic planning and community-wide recognition that the previous band-aid approaches to remodeling our hospital was inadequate to meet growing population needs, increasing medical technology demands, new market competition, and simple patient safety and convenience issues such as semi-private rooms and non-compliant ADA bathrooms.

We realized that a full master planned restructuring of our facility was necessary, and that significant funding would be required to accomplish our goals. At the time that we sought financing, our operating margin exceeded BBB medians. However, our liquidity, cash to debt ratio, and EBITDA margins were below BBB medians, making a standard bond issue problematic. Achieving these benchmarks would have taken many years and may have proven impossible, given the outdated facility and lack of opportunity funds. Fortunately for our community, GRMC was able to meet the financial expectations for a HUD 242 project, thereby allowing us to obtain FHA insurance as security for the bond issue, and to obtain a lower interest rate due to AAA credit ranking. As a result, we were able to transform and expand our facility into the well designed, functional, adequately sized, and modern and sleek facility that it has become.

GRMC is now seen as a model for Seguin and our surrounding area, not only as a regional medical facility but as a leader in providing vision to the community for outstanding service. This significant expansion has helped us to recruit and retain physicians and clinical staff to our organization – not only do we look the part of a regional medical center, but the new space has allowed us to expand services such as the new cardiac cath lab and hyperbaric wound care program. The increased space has a direct correlation to patient satisfaction, such as through the expanded Emergency Department with improved patient flow, and the public dining space. We have been recognized by Healthgrades as being in the top 100 hospitals of this nation for orthopedic surgery, and in the top 15% for gynecological surgery and treating respiratory failure – these domino effects can be traced back to recruiting top notch staff. We continue to be a community outreach leader in areas such as the development of a chronic disease clinic to treat the unfunded, providing corporate health fairs and physician led free public educational events, affiliating with regional health care systems for programs such as Maternal Fetal Medicine and an upcoming medical helicopter service, mentoring a wide range of health care students, and providing millions of dollars of charitable care each year. GRMC has undoubtedly developed a very positive reputation in our community over the past few years.

None of the above could have been accomplished or continued without the cornerstone of our new facility and without the funding made possible through HUD.

With sincere thanks,
Robert Haynes, CEO

HILLCREST
BAPTIST MEDICAL CENTER
SCOTT&WHITE HEALTHCARE

RECEIVED
MAY 2 - 2013
HEALTH CARE PROGRAMS

April 24, 2013

Roger E. Miller, Deputy Assistant Secretary
U.S. Department of Housing and Urban Development
451 7th Street SW, Room 6264
Washington, DC 20410

~~Dear Mr. Miller:~~

As you may be aware, Hillcrest Baptist Medical Center recently defeased the bonds which were issued with FHA insurance in 2006 for the construction of a replacement hospital facility in Waco, Texas. Because of improved financial performance for Hillcrest since our project began, and because of our affiliation in 2009 with Scott & White Health Care, we were able to arrange replacement financing without the benefit of FHA insurance and taking advantage of lower market rates, resulting in further cost savings going forward.

However, we wanted to express our sincere appreciation for the benefits which the Section 242 Mortgage Insurance Program provided to our institution. Without this program, Hillcrest had no viable options for financing its badly-needed replacement facility and would have continued to experience declining market share to its competitor as the growth in our market moved further away from our previous location. And, without the new facility made possible by the FHA insurance, Hillcrest would not have been a viable partner for Scott & White in our market. That affiliation has not only helped us with improved volumes and access to capital, but also provided benefits such as ongoing viability of our Herring campus through the consolidation of all inpatient rehabilitation services for the entire Scott & White system at that campus.

While we would have worked diligently to continue to make Hillcrest a vibrant provider in our community, realistically it would have been difficult for Hillcrest to survive in a meaningful way without the assistance of the Section 242 Program. While someone might have filled any voids created by a diminished Hillcrest presence, the importance of a vibrant Hillcrest was again demonstrated recently in the response by Hillcrest as the lead trauma facility in our region to the fertilizer plant explosion in the nearby community of West, Texas.

Again, we just wanted to express our appreciation to you, as the head of the agency which oversees this program, and to all of the staff with which we worked over the years. We especially wish to recognize Paul Giaudrone, who worked with us on the initial commitment process, and Bob Deen in the Ft. Worth office for the support he has given us through the years on a number of approvals needed to continue to meet the changing needs of our community.

Sincerely,

Glenn A. Robinson, FACHE
Chief Executive Officer

Richard W. Perkins
Chief Financial Officer

cc: Roger Lukoff, Associate Deputy Assistant Secretary
U.S. Department of Housing and Urban Development
451 7th Street SW, Room 6264
Washington, DC 20410

Paul Giaudrone, Director of Underwriting – Office of Hospital Facilities
U.S. Department of Housing and Urban Development
451 7th Street SW, Room 2247
Washington, DC 20410

Geoff Papsco, Director – Office of Hospital Facilities
U.S. Department of Housing and Urban Development
451 7th Street SW, Room 2247
Washington, DC 20410

Robert V. Deen, Senior Healthcare Account Executive
U.S. Department of Housing and Urban Development
Office of Healthcare Programs
801 Cherry Street, 25th Floor, Unit 45
Fort Worth, Texas 76102

March 6, 2013

The Honorable Barbara Mikulski
Chairwoman
Committee on Appropriations
United States Senate
Washington, DC 20510

The Honorable Richard Shelby
Vice Chairman
Committee on Appropriations
United States Senate
Washington, DC 20510

The Honorable Harold Rogers
Chairman
House Appropriations Committee
U.S. House of Representatives
Washington, DC 20515

The Honorable Nita Lowey
Ranking Member
House Appropriations Committee
U.S. House of Representatives
Washington, DC 20515

Dear Chairs and Ranking Members:

Recently, the Federal Housing Administration (FHA) notified Congress that it had exceeded 75 percent of its commitment authority to insure mortgages under the General Insurance/Special Risk Insurance (GI/SRI) Fund for multifamily rental and health care facilities. On behalf of our organizations, we urge Congress to act expeditiously to provide FHA with an additional $5 billion of commitment authority to ensure continued access to these important programs. This is not a new appropriation. Failure to provide the additional commitment authority has the potential to cause significant disruptions to financing for apartments, hospitals, and health care facilities that serve millions of Americans.

During this continued period of significant turmoil in the credit markets, FHA's multifamily programs are providing needed stability and liquidity for project development and rehabilitation, acquisition, and recapitalization. In addition, FHA mortgage insurance is critical to the preservation of much-needed affordable housing. Any suspension of these important programs will negatively impact the availability of affordable credit and could result in some projects losing subsidy funds or being delayed so long that the projects become infeasible.

A shut-down of the programs will hurt our nation's economy just as we are beginning to see signs of a recovery. The National Association of Home Builders estimates that this additional authority will fund as many as 40,000 units, leverage $2.2 billion in wages, and nearly 47,000 jobs. The FHA multifamily mortgage insurance programs generate enough revenue to cover their cost, thus the additional commitment authority would not require any budget offsets.

We thank you for your attention to this issue and stand ready to work with you on inclusion of the commitment authority in the Continuing Resolution to keep FHA's multifamily programs operating through the fiscal year.

Sincerely,

**Council for Affordable and Rural Housing**
**Institute of Real Estate Management**
**LeadingAge**
**Mortgage Bankers Association**
**National Apartment Association**
**National Association of Housing Cooperatives**
**National Association of Affordable Housing Lenders**
**National Affordable Housing Management Association**
**National Association of Home Builders**
**National Association of Realtors**
**National Leased Housing Association**
**National Multi Housing Council**

cc: Senate Committee on Banking, Housing and Urban Affairs and House Financial Services Committee

**Statement of**
**The National Council of State Housing Agencies**
**To the House Financial Services Subcommittee on Housing and Insurance**
**On the Government's Role in Multifamily Housing Mortgage Insurance**
**May 16, 2013**

Thank you Chairman Neugebauer, Ranking Member Capuano, and members of the House Financial Services Subcommittee on Housing and Insurance, for convening this hearing on multifamily housing finance programs. We appreciate the opportunity to present written testimony for the hearing record in support of strengthening FHA's affordable multifamily lending capacity by authorizing Ginnie Mae to securitize FHA-insured multifamily loans under the FHA-Housing Finance Agency (HFA) Risk-Sharing program. Enhancing this program's proven ability to address our nation's growing affordable rental housing need at no cost and with minimal taxpayer risk is a sound, prudent course of action at this time.

The Financial Services Committee included this authority in the Housing Preservation and Tenant Protection Act, H.R. 4868, which it reported in 2010. HUD, FHA, Ginnie Mae, and several affordable housing industry groups all support the proposal, which the Administration included in its FY 2013 and FY 2014 Budgets.

The National Council of State Housing Agencies (NCSHA) is a national nonprofit, nonpartisan association that represents the interests of state HFAs before Congress and the Administration. NCSHA's members are the HFAs of the 50 states, the District of Columbia, New York City, Puerto Rico, and the U.S. Virgin Islands.

HFAs administer several key federal housing programs, a number of which are essential to affordable rental home production efforts, including tax-exempt Housing Bonds, the Low Income Housing Tax Credit (Housing Credit), HOME, and the FHA-HFA Risk-Sharing program. We thank you for your long-standing, bipartisan support of these programs and urge you to seize every opportunity to preserve and strengthen them, especially as Congress strives to further reduce the federal deficit and reform our housing finance and tax systems.

State HFAs are widely known for their safe and sound first-time homebuyer lending programs, which have provided a reliable source of affordable mortgage money for working families over many decades in strong and weak economies. HFAs apply the same rigor in their multifamily development evaluation and underwriting as they do in their single-family work and with similar success. Default and foreclosure rates on Housing Credit and Housing Bond-financed rental housing developments are extremely low.

**Address the Growing Need for Rental Housing**

A strong arsenal of financing tools is essential to combat the shortage of affordable rental housing in this country, which is becoming even more severe as the full impact of the prolonged housing and economic crises is felt. Harvard University's Joint Center for Housing Studies' report, *The State of the Nation's Housing 2012*, found that the housing bust and the Great Recession helped to swell the ranks of low-income renters in the 2000s, increasing the already intense competition for a diminishing supply of affordable units. Some 10.7 million households, fully 27 percent of all renters, now spend over half their incomes on housing.

According to the Joint Center, the number of renters earning $15,000 or less (in real terms) grew by 2.2 million between 2001 and 2010. The number of rental units that were both adequate and affordable to these households, however, declined by 470,000 over this period. As a result, the gap between the supply of and demand for these units widened. By 2010, the shortfall of affordable units had more than doubled to 5.1 million units.

To address this problem while facing serious federal and state fiscal constraints, the Joint Center asserts that, "The challenge for policy makers is therefore to use scarce public resources as efficiently as possible, but without undermining the nation's ability to address the urgent needs of its citizens." The FHA-HFA Risk-Sharing program is a proven example of one such approach.

**Authorize Ginnie Mae to Securitize FHA-HFA Risk-Sharing Loans**

Congress has the opportunity now to make greater use of a sound and proven housing program and delivery system to support the development of affordable rental homes by allowing Ginnie Mae to securitize FHA-HFA Risk-Sharing loans. In granting this authority, Congress would:

- Make the highly successful FHA-HFA Risk-Sharing program even more effective, efficient, and productive;
- Achieve greater affordability within FHA-financed rental housing;
- Increase FHA multifamily productivity while reducing FHA's workload and risk;
- Further utilize the well-established, state-based HFA delivery system; and
- Generate revenue for the federal government.

**Build on the Highly Successful FHA-HFA Risk-Sharing Program**

Established in 1992 to increase and speed up FHA's multifamily mortgage production by drawing upon state HFA multifamily lending experience and expertise, the FHA-HFA Risk-Sharing program has been very successful, with 26 state HFAs financing over 1,000 loans, totaling nearly $6 billion in principal and supporting more than 110,000 affordable rental homes. This activity has generated jobs, increased tax revenue, and promoted economic growth.

The FHA-HFA Risk-Sharing program allows state HFAs that meet rigorous financial standards to underwrite FHA multifamily loans in return for sharing the risk of losses on those loans. To qualify to participate in the program, an HFA must have a "top-tier" rating by a nationally recognized rating agency or otherwise demonstrate its capacity as a sound and experienced agency based on its track record in financing multifamily housing, fund balances, administrative capabilities, investment policies, internal controls, financial management, portfolio quality, and state and local support. The HFA must have at least five years of experience in multifamily underwriting. It also must maintain adequate reserves, hold a top-tier rating, or establish a dedicated account acceptable to HUD to demonstrate its ability to fulfill its financial obligations to FHA.

Under the program, FHA provides full insurance on the loans, and the HFA agrees to accept up to 90 percent of the risk of losses on them. The more risk an HFA assumes, the more underwriting flexibility FHA permits it. In the event of a default, FHA and the HFA apportion the loss according to the risk-sharing agreement they have made.

The program's loan default rates are very low and premium revenue has exceeded total claims, generating net revenue for the federal government. Since 2009, there have been 26 claims within the FHA-HFA Risk-Sharing program, as compared with 434 multifamily claims with full FHA insurance. According to HUD's Office of Evaluation, the FHA-HFA Risk-Sharing program's claim rate has been 2.6 percent since 2009, while the claim rate for multifamily loans with full FHA insurance has been 4.9 percent.

**Seize This Opportunity to Make the FHA-HFA Risk-Sharing Program Even More Productive and Efficient**

Permitting Ginnie Mae to securitize FHA-HFA Risk-Sharing loans would reduce the cost of financing rental housing developments, making it possible to achieve lower rents and reach even lower income tenants. If Ginnie Mae were to securitize FHA-HFA Risk-Sharing loans, HFAs predict the interest rate on the underlying mortgages could be reduced by as much as 200 basis points, or two percent. This rate reduction would lower rents and potentially reduce the need for and cost of other federal housing subsidies.

Most FHA-insured multifamily loans are packaged into Ginnie Mae securities issued by lenders. Ginnie Mae guarantees the timely payment of interest and principal, which increases investor interest and drives down the interest rates on the securities and the underlying loans.

FHA-HFA Risk-Sharing loans, however, cannot be securitized through Ginnie Mae, so they have historically been financed through other means, including tax-exempt Housing Bonds or GSE participation investments. The statutory prohibition against Ginnie Mae securitization was put in place when the Risk-Sharing program was untested. The program now enjoys more than 20 years of proven success.

Ginnie Mae securitization of FHA-HFA Risk-Sharing loans would increase liquidity, reduce financing costs, and enable HFAs to make more loans supporting the development and preservation of affordable rental housing. This housing activity would in turn stimulate local economies by creating jobs, increasing tax revenue, and expanding investment.

The FHA-HFA Risk-Sharing program increases efficiency by delegating processing, underwriting, and servicing to state HFAs. This reduces the workload on HUD staff and leads to faster loan processing than is common under the traditional FHA insurance programs. Strengthening the FHA-HFA Risk-Sharing program by allowing Ginnie Mae securitization will multiply these advantages and amplify the Risk-Sharing program's benefits.

**Achieve Greater Affordability in FHA-Financed Rental Housing**

Unlike virtually all other FHA multifamily loan insurance programs, all developments financed under the FHA-HFA Risk-Sharing program must qualify as affordable housing under the same requirements that apply to the Housing Credit and Housing Bond programs. This means that:

- 20 percent of the development's units must be both rent-restricted and occupied by households with incomes of 50 percent or less of the HUD-determined area median income (AMI); or

- 40 percent of the units must be both rent-restricted and occupied by families whose income is 60 percent or less of AMI.

A rent-restricted apartment's rent cannot exceed 30 percent of the imputed income based on the income limit for that apartment, i.e., the 50 percent and 60 percent of AMI limits mentioned above. HFA responsibilities under the Risk-Sharing program include identifying the appropriate rent and income limits for each development to ensure compliance with program affordability requirements.

In contrast, virtually all other major FHA multifamily mortgage insurance programs do not carry any rent restrictions or income limit affordability requirements. According to HUD, "The Risk-Sharing program is an increasingly important part of HUD's strategic goal to support affordable housing preservation and development."

**Allow a Limited But Important Expansion of Ginnie Mae Activity**

Enacting this authority would not expand significantly Ginnie Mae's role in affordable housing. Ginnie Mae already securitizes FHA-insured loans. Congress provided $500 billion in mortgage-backed securities guarantee authority to Ginnie Mae in FY 2013, and Ginnie Mae is requesting the same amount for FY 2014.

HUD's FY 2014 Budget estimates total HFA Risk-Sharing loan activity of $170 million in FY 2013, one percent of all expected FY 2013 FHA multifamily loan activity and less than a fraction of one percent of all estimated Ginnie Mae activity. Even if allowing Ginnie Mae securitization of FHA-HFA Risk-Sharing loans doubled the program's volume, it would still total less than one percent of all Ginnie Mae activity.

Based on a survey NCSHA conducted of all HFAs last year, allowing Ginnie Mae securitization would likely lead to a small increase in total program volume. Though the increase is expected to be small, it would represent vital affordable housing lending that would probably not be conducted without federal support.

Authorizing Ginnie Mae to securitize Risk-Sharing loans makes sense even in light of imminent housing finance reform. Enacting this authority does not limit the range of Congress' potential future actions or change Ginnie Mae's role in the multifamily housing market. It is just a small common sense change that would permit Ginnie Mae to securitize FHA's Risk-Sharing loans in addition to the many other FHA multifamily loans it already securitizes.

**Reduce Taxpayer Risk**

Allowing Ginnie Mae to securitize FHA-HFA Risk-Sharing loans would reduce the risk to and involvement of the federal government in affordable housing by allowing state HFAs, which are best suited to meet the needs of their communities with this innovative tool, to take on a portion of that risk and underwrite the loans. In addition, FHA-HFA Risk-Sharing loans securitized by Ginnie Mae may replace some loans that would have been fully insured by FHA, reducing taxpayer risk by transferring some of that risk to HFAs.

**Generate Revenue for the Federal Government**

The Congressional Budget Office (CBO) estimated in 2010 that allowing Ginnie Mae to securitize HFA Risk-Sharing loans would result in $20 million in mandatory savings over 10 years ($2 million annually). The Administration's FY 2014 Budget documents also show that the Risk-Sharing program is a money-maker for the federal government.

**Allowing Ginnie Mae Securitization of Risk-Sharing Loans Is a No-Cost, Low-Risk, Prudent, Helpful Proposal**

In conclusion, the FHA-HFA Risk-Sharing program has been very successful since its inception. Given the program's proven track record, lifting the prohibition on Ginnie Mae securitization is a prudent decision that would help meet our nation's affordable housing challenges with minimal risk and no additional cost to the federal government.

http://www.nola.com/health/index.ssf/2012/10/new_hospital_for_eastern_new_o.html#

# New hospital for eastern New Orleans receives needed federal mortgage insurance

By Laura Maggi, NOLA.com | The Times-Picayune
on October 01, 2012 at 5:41 PM

The $130 million redevelopment of Methodist Hospital in eastern New Orleans is moving forward on schedule, as city officials announced Monday that the project has received key federal backing. The mortgage insurance provided by the federal government means Mayor Mitch Landrieu's administration has the necessary financing for the new 80-bed hospital, said Karen DeSalvo, city health commissioner.

Demolition of a building on the Methodist Hospital campus was photographed July 5. July 5 2011
John McCusker, Times-Picayune archive

The $97.6 million loan guarantee from the U.S. Department of Housing and Urban Development will allow the city to receive a low-interest rate from its lender. It also keeps the project on schedule to break ground at the end of the year, DeSalvo said.

"It is the critical milestone that needed to happen at the right point in the process to make sure we didn't skip a beat," DeSalvo said. The hospital will return emergency services to the eastern New Orleans area, which have been extremely limited since Hurricane Katrina.

DeSalvo says an urgent care center that has been operating on-site helped demonstrate to federal evaluators that there is a demand for health-care services in the area. More than 8,000 people have been treated at the center between the end of July 2011 and Sept. 30, 2012.

The hospital project is ready to be finished by the end of next year. The Lemoine Company has been selected to construct the building, DeSalvo said.

The non-profit hospital, which will be owned by the state-chartered Orleans Parish Hospital Service District A, will be run by the Franciscan Missionaries of Our Lady. Daughters of Charity, already providing primary care services in eastern New Orleans, will have a clinic on site.

**Financial Services Committee Hearing:**
**"Sustainable Housing Finance: The Government's Role in Multifamily and Healthcare Facilities and Reverse Mortgages"**

**May 16, 2013**

**Questions for the Record from Representatives Heck and Fitzpatrick**

*How would HUD use the new mortgagee letter authority to make Home Equity Conversion Mortgage (HECM) more financially sound?*

Mortgagee Letter 2013-27, made structural changes to the HECM program to ensure its viability across market cycles. Specifically, we made three material changes to the program:

Up-Front Draw: The risk to FHA increases when the borrower draws most of their available proceeds at loan closing. In addition, that behavior creates risk for the borrower, increasing the probability that they will not have access to equity at a future date when they may desperately need it. FHA restricts the amount of the up-front proceeds available at closing to address this problem.

Financial Assessment: This program has historically been based on home equity rather than borrower eligibility. While borrowers are counseled on how to appropriately leverage the HECM as part of a responsible financial management framework, borrowers were not underwritten. The ML ensures, before granting loan approval, that a borrower has demonstrated willingness and ability to meet his/her financial obligations and to comply with the mortgage requirements. At the release of the Mortgagee Letters 13-27 and 13-28, through Federal Register Notice FHA concurrently sought additional comments on the financial assessment requirement which will be used to help inform a future rule on changes to the program. The comment period ended October 15, 2013 and HUD is reviewing the submissions.

Taxes and Insurance Set-Aside: If the borrower financial assessment highlights risk associated with the borrower meeting their financial obligations, FHA may require a Life Expectancy Set-aside of loan proceeds or borrower authorization for mortgagor to pay required tax and insurance payments out of the HECM line of credit or term/tenure payments to ensure funds are available to pay taxes and insurance during the term of the HECM. From an operational standpoint, putting this requirement in-place will take time, but we believe it is appropriate for the program.

In the 2014 Budget, language was added to change the definition of "mortgagor and the spousal protection that currently exists under Section 255(j) of the National Housing Act. HUD believes that its 25 year interpretation and implementation of sec 255(j) is clear and correct. That provision is a mortgage insurance requirement that must be met in order for the loan to be eligible for insurance. The mortgage documents must contain a provision that the lender cannot call the loan due as long as the mortgagor occupies the property; if the mortgagor dies and there is another co-mortgagor who occupies the property, the co-mortgagor cannot be displaced.

The litigation has cast some doubt on the Department's long standing interpretation (which was implemented in 1989 by notice and comment rulemaking). In order to clarify the basis for HUD's long-standing interpretation, which has been made less clear due to the pending litigation, HUD is seeking these legislative amendments. Without these amendments, HUD will have to significantly revise how the program operates.

*Would making reforms to the HECM program via mortgagee letter be a better option for improving FHA loan performance than by using the current authority HUD has to make regulatory changes?*

A mortgagee letter is a more appropriate and expeditious means of making the necessary critical changes to the program. Absent Congressional support, HUD had limited authority to make these changes. In addition to the program changes authorized under HR 2167, HUD reduced principal limit factors and changed pricing. HUD changed PLFs twice in 2009 and, with the introduction of the SAVER program, in 2010. HUD also materially changed program pricing concurrent with the introduction of the SAVER program in 2010. Despite these changes, the 2012 actuarial review showed a significant and material negative economic value. We immediately took action based on this data, eliminating the Fixed Standard program effective April 1, 2013. HUD can and will take these types of aggressive, corrective steps to ensure that the MMI Fund is protected to minimize risk to taxpayers. However, the correct way to ensure the HECM program effectively provides for seniors prospectively is outlined above and we thank Congress for support which allowed HUD to make these adjustments immediately rather than after an extended rule making effort. That said, this authority would still require HUD to engage in rulemaking to promulgate final regulations for the program. However, in that period of time, HUD would be able to execute against these critical changes to protect the program and the MMIF.

*Specifically with regards to defaults and how that is affecting FHA's finances, how might HUD use this new authority to address that concern?*

To promulgate policies that increase the probability that: the borrower(s) will have a significant equity position in the property and, therefore, a vested interest in maintaining it; borrowers that are unable or unwilling to meet their financial obligations are not set-up for failure; and, payment of taxes and insurance from HECM proceeds are available if the borrower is high risk. These steps, in combination with the guidance on T&I defaults in ML 2011-01 will enable HUD to ensure the program better protects borrowers and the Fund.

*Given the rise in home prices across the country over the past 16 months and that the data used for the audit last November was collected well before the audit results were announced, do you think the next audit will show an improvement in HUD's HECM book of business?*

We are optimistic that the FY2013 actuarial study will show improvement in the value of the HECM portfolio due to an improving housing market and the application of the refined model applied in FY2012. However, that does not negate the need for fundamental reforms in the program to reduce HUD's risk exposure for newly originated loans. As with all mortgage loans, the HECM program remains sensitive to economic conditions however the structural changes we made will enable us to more effectively provide the program assisting seniors to age-in-place while also protecting the FHA insurance Fund.

**Financial Services Committee Hearing:**
**"Sustainable Housing Finance: The Government's Role in Multifamily and Healthcare Facilities and Reverse Mortgages"**

**May 16, 2013**

**Questions for the Record from Representative Steve Stivers**

*HUD is poised to award contracts for the Section 8 Project Based Contract Administration program under its Notice of Funding Availability it issued last year. Through this NOFA, HUD could be limiting the universe of potential competitors for each state's contract to one state-level Housing Finance Agency per state. This could preclude Public Housing Authorities such as Columbus Metropolitan Housing Authority (CMHA) in my district from competing for contracts.*

HUD has not limited the universe of potential competitors for each state's contract to one state-level Housing Finance Agency. PHAs are created by state law, and state law defines a PHA's authority. Accordingly, the NOFA provides: "HUD requires that each applicant, whether an in-State or an out-of-State applicant, establish through an RLO [reasoned legal opinion] that the State statute under which it was created authorizes it to operate throughout the entire State in which the entity proposes to serve as PBCA." In certain states, the state's attorney general has indicated that, under that state's laws, only one public body, a state-level Housing Finance Agency, has been given the authority as a public body by that state to carry out the actions required to be the PBCA in that state. In such states, in determining whether a PHA was eligible under the program, HUD has deferred to the attorney general's written analysis of that state's laws as that state's highest legal authority short of the state's highest court. The attorney general of Ohio has not indicated that Ohio has limited the authority of its public bodies in this way. In response to Congressman Stivers' specific example, the Columbus Metropolitan Housing Authority was not precluded from applying under the NOFA. The Columbus Metropolitan Housing Authority has applied through its affiliate, the Affordable Housing Service Corporation, and was awarded the contract.

*Is it HUD's intention to award its section 8 PCBA contracts by adhering to the NOFA that it issued last year?*

Yes, it is HUD's intention to award Section 8 PBCA contracts pursuant to the terms set forth in the 2012 NOFA unless we are prevented from doing so by the U.S. Court of Appeals for the Federal Circuit.

*Under the terms of the NOFA and your agency's subsequent explanation of it, it appears that HUD will be providing a preference in its awarding processes that will result in state Housing Finance Agencies being awarded the contracts for their respective states rather than allowing the more than 4,000 Public Housing Authorities in the US to compete for the contracts. Has HUD analyzed the impact of not allowing all public housing organizations, whether they are PHAs or HFAs to compete for these contracts?*

HUD is not providing a preference for state Housing Finance Agencies or prohibiting public housing authorities from competing for the contracts. Largely because of the legal questions raised by several state attorneys general opining on their respective states laws, HUD has elected not to award a PBCA contract to a public housing agency that is competing in a state outside its state jurisdiction unless there is no qualified in-state applicant for such state.
Many public housing agencies have applied through the 2012 NOFA. HUD is not limiting public housing authorities from competing within the states of their jurisdiction. However, HUD makes no claim of expertise in the area of state law. In part for this reason, HUD routinely requires a legal opinion from a licensed attorney within a state subject to grant competitions to confirm an applicant's authority to act in the capacity necessary. Since HUD began awarding contracts for PBCAs in 1999, it has required applicants to provide such a legal opinion indicating that it has authority to act in the capacity necessary to carry out the PBCA contract within that state. A state's attorney general is the highest legal authority on that state's laws, outside that state's court system, and HUD routinely defers to a state attorney general on its interpretation of its state's laws.

*What are the costs of HUD not permitting open competition among all the housing organizations in the US for the contracts to administer the Section 8 PCBA program?*

HUD estimates that the PBCA contracts entered into through the 2012 NOFA (and those from the 2011 NOFA) will save the Department approximately $100 million annually, relative to the costs of contracts previously in place. HUD believes that the U.S. Housing Act of 1937 requires it to contract with PHAs for Section 8 PBCA contracts.