THE FUTURE OF HOUSING IN AMERICA: OVERSIGHT OF THE FEDERAL HOUSING ADMINISTRATION

HEARING

BEFORE THE

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THE FUTURE OF HOUSING IN AMERICA: OVERSIGHT OF THE FEDERAL HOUSING ADMINISTRATION

Wednesday, February 11, 2015

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:09 a.m., in room HVC–210, Capitol Visitor Center, Hon. Jeb Hensarling [chairman of the committee] presiding.

Members present: Representatives Hensarling, Royce, Lucas, Garrett, Neugebauer, McHenry, Pearce, Westmoreland, Luetkemeyer, Huizenga, Duffy, Hurt, Stivers, Fincher, Stutzman, Mulvaney, Hultgren, Ross, Pittenger, Wagner, Barr, Rothfus, Messer, Schweikert, Dold, Guinta, Tipton, Williams, Poliquin, Love, Hill; Waters, Maloney, Velazquez, Sherman, Meeks, Capuano, Clay, Lynch, Green, Cleaver, Ellison, Perlmutter, Himes, Carney, Sewell, Foster, Kildee, Delaney, Sinema, Beatty, Heck, and Vargas.

Chairman HENSARLING. The Financial Services Committee will come to order.

Without objection, the Chair is authorized to declare a recess of the committee at any time.

Today, we welcome the Honorable Julian Castro, the Secretary of the U.S. Department of Housing and Urban Development. We welcome him for his first appearance before our committee.

He is most famously known, of course, for being the brother of our colleague Joaquin Castro, and as you may have figured out, not just brother but twin brother.

We are speaking to Julian, I trust, as opposed to Joaquin. It is often difficult to tell the difference.

Prior to his appointment last year to become Secretary, Secretary Castro served as the mayor of San Antonio. Before that, he served on its city council.

And so I must admit, on behalf of the several fellow Texans here, Mr. Secretary, we take great pride in your appointment.

Secretary Castro holds a bachelor's degree from Stanford, and a law degree from Harvard.

Again, it is a pleasure to welcome you before the committee.

The purpose of this hearing is to examine the financial health of the Federal Housing Administration. I would note for Members that the Secretary has agreed to come back to the committee, frankly, in a matter of weeks in order to testify on the HUD portion of the President's budget submission. So Members are certainly free to ask about that, but I am informing Members that there will be another opportunity soon to ask questions about the President's budget submission.

I also wish to note for Members that Secretary Castro—and I want to thank our witness—has agreed to stay for as long as Members are in the hearing room to ask questions. But I will notify all Members that the Chair intends to call a recess at approximately 1 p.m. and recess for approximately a half-hour. Assuming there are still Members left in the queue, the Secretary will return and we will continue to take Member questions.

I now recognize myself for 3 minutes for an opening statement.

Last year, as I think we all know, was the 50th anniversary of the war on poverty, and 50 years later and $20 trillion later, unfortunately, still 15 percent of our fellow Americans remain at the poverty level. So it is hard to judge the war on poverty as a success. And perhaps the bigger failure is not living up to President Johnson's goal, "not only to relieve the symptoms of poverty but to cure it and, above all, to prevent it."

Now, arguably, one of those important weapons in the war on poverty has been HUD, with its many programs and its many employees. And this year is the 50th anniversary of HUD. So I wish to announce to all Members that this committee will make an extensive review and thorough examination of the successes and failures of HUD, and not just measure the inputs but measure the outputs, as well, and most importantly, again, to paraphrase President Johnson, to find out how these programs can be designed to lift people from lives of poverty, lives of government dependency, and lift them to the dignity of work and self-sufficiency.

I look forward to working with you, Mr. Secretary, on this examination and exploring various avenues where we can work together.

Now, to today's hearing, this is the second part examining what appears to many to be an Administration's taxpayer-funded race to the bottom to become the Nation's largest subprime lender. Whether FHA or FHFA wins that contest, I know that the marginal home buyer on the bubble and the poor, beleaguered taxpayer will certainly be the big losers in this race.

We all recall the famous admonition from Spanish philosopher George Santayana, who said, "Those who cannot remember the past are condemned to repeat it." History has taught us that the root cause of the financial crisis was not "deregulation" but "dumb regulation," in helping put people into homes they could not afford to keep. And now, the FHA, with exceedingly low downpayments and a recently announced approximately 40 percent cut in its premiums, appears to be doing that—all at a time when the FHA continues to violate Federal law by keeping a woefully insufficient capital reserve and right after receiving its first-ever taxpayer bailout. This cannot be allowed to stand.

With respect to subprime lending, what consenting adults do with their money is their business, but what the FHA does with taxpayer money is our business. And do we really want the Federal Government to be leading the charge into subprime lending?

We have all heard from our constituents. I heard from a gentleman named Walter in Mesquite: "I am one of those who got a house I never should have gotten. I could not afford to buy a home, but no one told me that. Now I am behind and underwater on a house I never should have bought."

Again, the Administration should not be leading the way, putting people like Walter into homes they cannot afford to keep. We need a sustainable housing policy—sustainable for homeowners, sustainable for taxpayers, and sustainable for our economy. The best program of affordable housing is a growing and healthy economy built from Main Street up, not built from Washington down.

I now yield 3 minutes to the ranking member.

Ms. WATERS. Thank you very much, Mr. Chairman.

And welcome, Secretary Castro.

Today, this committee will review the Federal Housing Administration, an entity that has provided opportunity to over 34 million first-time, low-income home buyers over the past 80 years.

Secretary Castro, I am pleased this committee is holding this hearing today because it gives me an opportunity to publicly thank you and President Obama for responding to the calls of a wide array of advocates, interest groups, lawmakers, and civil rights organizations in acting to reduce FHA's annual mortgage insurance premiums.

Groups ranging from the National Association of REALTORS® and the Mortgage Bankers Association to the NAACP and the National Low Income Housing Coalition have joined with lawmakers in both the House and the Senate, including myself and Representative Capuano, to urge the important action you took in January.

Your decision enjoys such broad support because providing this much-needed mortgage relief will deliver critical assistance to millions of families looking to purchase a home and enable countless others to save millions of dollars in mortgage payments over the years to come.

Secretary Castro, although today you will likely take a fair amount of criticism from my colleagues on the other side of the aisle for your decision, I would like to take a moment to remind them that when the private sector virtually left our struggling housing market during the worst of the crisis, the FHA stepped up and provided the liquidity that kept it afloat.

Despite the steps toward recovery the economy has taken since then, the housing sector continues to suffer from a tight lending environment, and a strong FHA is still very necessary.

I would also note that FHA is far from bankrupt, holding approximately $40 billion in reserves, continuing to generate revenue, and taking critical steps to recover its capital reserves, which are projected to show a positive balance in 2015.

So, Secretary Castro, I thank you for your efforts and encourage you to continue working to expand access to credit to more low- to moderate-income and minority families.

Thank you, and I yield back the balance of my time.

Chairman HENSARLING. The gentlelady yields back.

The Chair now recognizes the gentleman from Missouri, the chairman of our Housing and Insurance Subcommittee, Mr. Luetkemeyer, for 2 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

And welcome, Mr. Secretary. We are glad to have you with us today.

As Yogi Berra said, it is like deja vu all over again. This committee has examined and sounded the alarm on FHA and called for more responsible risk management for years, yet nothing seems to change.

Mr. Secretary, you described the trajectory of FHA as strong. I am afraid the enthusiasm you expressed isn't novel. We have heard and continue to hear that the outlook is rosy, that another bailout won't be needed. But I fear the trajectory of FHA is a downward one.

If a private company operated the way FHA operates, it would be shut down. FHA holds less than one-quarter of the capital it is statutorily required to hold in its Mutual Mortgage Insurance Fund (MMIF). The private industry has capital requirements too, but unlike FHA, which has a cap requirement of 2 percent, the requirement for private-sector mortgage insurers is 4 percent and will soon be going to 8 percent. Much of the capital FHA does hold has come from a taxpayer bailout and Justice Department settlements. I fear that has created a false sense of security surrounding the fiscal health of the agency.

In spite of all this, the agency has decided to lower mortgage insurance premiums. This policy change squeezes what could be a more robust private industry out of the market and increases taxpayer exposure. FHA keeps trying to grow its way out of the problem. That hasn't worked, and isn't going to work this time. FHA needs to return to its original mission and put in place sound tenets of underwriting to protect against future taxpayer bailouts.

Mr. Secretary, it is your job to make sure we aren't heading down the same dangerous road that we traveled during the financial crisis and leading up to the taxpayer bailout of FHA. Thank you for appearing today. I look forward to working with you on this and many other important issues facing your Department.

I yield back, Mr. Chairman.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentleman from Missouri, whom I know still prides himself on having been from Texas once, the ranking member of our Housing and Insurance Subcommittee, Mr. Cleaver, for 2 minutes.

Mr. CLEAVER. Thank you, Chairman Hensarling, Ranking Member Waters, and members of the committee.

Good morning, Mr. Secretary. I do, as a person born and raised and educated in Texas, take pride in your appearance and your filling this role for us. I look forward to learning more about the changes that are being implemented at the FHA and your thoughts on the future of housing in our country.

The American Dream, to many Americans, is simple. Many tire and toil just to have an opportunity to raise their family in a place they call their very own home. Owning a home is a part of the American Dream. It is a person's private piece of paradise.

The pride of homeownership often fosters not only a desire to take care of one's personal property but also an effort to protect the integrity and appearance of the surrounding neighborhoods, as well. Affordable housing not only is a key component to a vibrant, expanding, and prosperous community but also has the opportunity to enhance someone's "somebody-ness." I speak experientially; I have seen it in my own life.

It is important to take a moment to highlight the important role that the FHA plays in housing.

The FHA has historically played, and even today plays, a significant role in aiding first-time home buyers and low-income families with purchasing a home, a role that is crucial as the housing market continues to heal. As have many in this room today, I relied on the FHA to purchase my first home. And when the economy crashed and the bottom fell out of the housing market, the FHA played a significant role. What we have to do is fill this gaping cavity left by private lenders who are not able to lend.

And so I am looking forward, Mr. Secretary, to the opportunity not only to hear what you are doing but to also be of support in the role that FHA has played.

Thank you.

Chairman HENSARLING. Mr. Secretary, again, welcome to the committee. And you are now recognized for your testimony, sir.

STATEMENT OF THE HONORABLE JULIAN CASTRO, SECRETARY, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary CASTRO. Chairman Hensarling, Ranking Member Waters, and members of the committee, thank you for inviting me to speak to you today about the Federal Housing Administration's efforts to expand opportunities for working families, to further strengthen the Mutual Mortgage Insurance Fund, and to help continue the economic momentum our Nation is building every day.

We gather this morning at an important time for our Nation: 2014 was the best year for job growth since the 1990s, and over the last 59 months, businesses have created 11.8 million new jobs, the longest streak of private-sector job growth on record. And, in recent years, we have seen existing single-family home sales rise by 50 percent. Housing starts have doubled, and home equity grew by $4 trillion.

It is clear that housing is reemerging as an engine of economic prosperity. The Federal Housing Administration has been instrumental in this progress. It has provided access to credit for generations of underserved borrowers and has been a stabilizing force in the housing market.

Unfortunately, there are some who try to include FHA with all the bad actors that caused the housing crisis. That couldn't be more inaccurate. FHA never pushed the toxic products that did so much damage. It didn't bring down the market; it actually helped to save it. FHA both stepped in and stepped up to fill the void created when private capital retreated—work that independent economists say prevented a further collapse in home prices.

And now that our Nation has turned the page on the crisis, we have a responsibility to give even more Americans the chance to participate in this growth.

One challenge that we must address is the high cost of homeownership. FHA raised its annual mortgage insurance premiums by 145 percent between 2010 and 2014. Think about what this means for folks who got an FHA-backed loan last fiscal year. FHA will collect an average of $17,000 in fees from them over the life of that loan. And at the same time, for those who may encounter hardship, we expect the average loss to be only $4,700.

These numbers show that the costs facing families who want to pursue the American Dream are too high and unnecessarily so. And it simply isn't right to unduly burden borrowers in the present because of the misbehavior of others in the past.

That is why, last month FHA took action to restore some fairness in the market and to make homeownership more affordable for working families.

FHA reduced annual mortgage insurance premiums by a modest half a percentage point. We expect this to save more than 2 million households over $2 billion during the next 3 years. That is money that can now be used on everything from a child's education to retirement savings. It will also encourage more than 250,000 new borrowers to enter the market, and create tens of thousands of jobs.

FHA is in a strong position to take this modest measure. We have taken aggressive action to improve our underwriting standards, including introducing a credit-score floor, requiring a higher downpayment from borrowers with a FICO score under 580, and imposing higher minimum-net-worth requirements for lenders. And FHA is back in the black as a result.

Our Mutual Mortgage Insurance Fund has a net worth of $4.8 billion, according to the independent actuary's most recent annual report to Congress. It has grown more than $21 billion in just 2 years. And even with this reduction, premiums are still 50 percent higher than pre-crisis levels.

Furthermore, we expect the Fund's value to grow by at least $7 billion annually over the next several years, with the expectation that we will exceed the 2 percent ratio within 2 years. And our loans will still represent quality because our underwriting standards ensure that we are lending to responsible borrowers.

So our actions maintain a careful balance between strengthening our Fund and advancing our mission. That is why dozens of nonpartisan groups, from the National Association of REALTORS® to the National Community Reinvestment Coalition to the Mortgage Bankers Association, are supporting our measures. And we will continue to work with stakeholders to preserve FHA's role as a champion for opportunity.

Over its 80-year history, FHA has helped 40 million families become homeowners—more than half of all first-time home buyers. In the States that this committee represents, nearly 7 million households have FHA-insured loans. FHA, as well as Ginnie Mae, also sparks robust economic activity, from the construction site to the local hardware store to the investment community. This work has played a critical role in growing the American middle class.

With so many Americans working incredibly hard every single day to advance their position in life just a little bit, the question you and I must answer now is this: How can we continue to strengthen the MMI Fund and ensure that everyone who is responsible and ready and willing to own can achieve their dreams in a growing housing market?

The good news is that HUD and this committee have a track record. We have partnered for progress before, from adjusting the Home Equity Conversion Mortgage (HECM) program to eliminating seller-funded downpayment assistance—measures that have strengthened the Fund. Thank you for your bipartisan support on those measures.

And I look forward to continuing this work to ensure that FHA provides a pathway to prosperity for the American people. Opportunity is our mission, and responsibility is our approach. And that is what this premium reduction supports.

Thank you.

[The prepared statement of Secretary Castro can be found on page 70 of the appendix.]

Chairman HENSARLING. Thank you, Mr. Secretary.

The Chair will now yield himself 5 minutes for questions.

Mr. Secretary, we have spoken about this privately, I sent you a letter on this matter, about FHA lowering their premiums by approximately 40 percent and its impact on the MMIF.

You agree, I assume, that the Housing Act, 12 U.S.C. 1711, says that you shall—shall—keep a 2 percent capital reserve. It is not "may," it is not "might," it is not "hope." The statute says "shall." Correct? Do you agree with that?

Secretary CASTRO. I agree that is a requirement.

Chairman HENSARLING. Okay.

Do you agree that currently—because in your testimony I think you say, even with the one-off items of the settlement, the taxpayer bailout, you are below the 2 percent statutory level capital reserve. Is that correct?

Secretary CASTRO. We still are.

Chairman HENSARLING. You are still below it.

So you agree, then, that HUD has been—and, again, you are relatively new on the job. We have been here before. But you agree HUD is in violation of the law?

Secretary CASTRO. We are not at the 2 percent ratio.

Chairman HENSARLING. Okay. So, you said it was the law; you said you are not at 2 percent. Does that mean you are in violation of the law?

Secretary CASTRO. It means that we are not at the 2 percent ratio. We are working—

Chairman HENSARLING. I sense you do not care to state the obvious, Mr. Secretary.

So I guess, here is my question. And with all due respect, again, you are relatively new on the job, but many of us have been here before, listening to your predecessors, listening to Ms. Galante's predecessors saying, "In no time flat, the Mutual Mortgage Insurance Fund is going to recover." We get all these rosy projections, and none of the projections have ever proven accurate. So, we are concerned.

And I guess, after all these years, at what point does HUD and FHA intend to follow the law? Is there some point?

Secretary CASTRO. I appreciate the question, Mr. Chairman.

I am actually here today with much better news than you all have heard over the last couple of years, because we have grown the Fund by—

Chairman HENSARLING. I understand that, Mr. Secretary. The question I have would be to understand when you expect to comply with the law.

Secretary CASTRO. We are working very hard to reach the 2 percent—

Chairman HENSARLING. Okay. So there is not—if you are working very hard, you just cut off an income stream. You just lowered premiums by 40 percent.

Secretary CASTRO. The fact is—

Chairman HENSARLING. That is revenue that could have gone back to number one, help compensate the taxpayers for their bailout; and number two, help get you back to compliance with the law.

Secretary CASTRO. The fact is that, over the last several years since the housing crisis started and with the help at different junctures of this committee, as I mentioned, several safeguards have been put in place that have helped strengthen the economic value of the Fund.

As I mentioned, for the first time ever, we put in place a credit-score floor of 500. We required—

Chairman HENSARLING. Mr. Secretary, that may be accurate, but I am not quite sure it is relevant to the question.

I guess this is the fear many of us have, particularly with members of the Obama Administration. We just had the IRS Commissioner recently testify in front of the House Ways and Means Committee that, "Whenever we can, we follow the law."

And my fear is that FHA and HUD is now adopting even a lower standard, and that is: "Whenever we want to, we follow the law." Because, clearly—

Secretary CASTRO. Not at all. We are working toward getting at the 2 percent. And, in fact, we have made tremendous progress over these last couple of years. In fact, we are back in the black. We have—

Chairman HENSARLING. Okay. But is the MMIF stronger or weaker with less revenue? Because you have just cut out a revenue stream.

Secretary CASTRO. The Fund, as I mentioned, is on a strong path to reaching 2 percent. We anticipate that within the next 2 years, it will reach 2 percent.

It is also important, Mr. Chairman, to note that there are a series of safeguards that were put in place that have strengthened the Fund. We have increased premiums 5 times. However—

Chairman HENSARLING. Okay. You also just lowered them 40 percent, Mr. Secretary.

And, again, I am trying to figure out the consequences. This has been going on for years, predating you. And, for example, I know that if private citizens in the United States—in my district or in anybody else's district—violate the law, there are repercussions.

HUD itself—I am looking at a chart here: "Failure to timely submit financial reports." I won't name the entity, but you fined them $40,000. Here is another entity recently: "Respondent committed knowing and material violations." They were fined $12,000. Here is another $16,000 fine, an $11,000 fine, a $16,000 fine.

Who at HUD is going to take responsibility, who at the FHA is going to take responsibility and comply with the law? It appears there is a double standard, one for those who are ruled and one for those who do the ruling.

So is anybody at HUD going to pay a fine for failure to comply with the law?

Secretary CASTRO. All of us at HUD and FHA are working hard to reach that 2 percent capital reserve ratio. And, in fact, the proof is in the pudding. We are moving toward that 2 percent capital reserve ratio.

Chairman HENSARLING. Again, with all due respect, Mr. Secretary, we have heard that before. I have no doubt that you are sincere and you believe what you say, but this committee has not been fooled once, they have been fooled twice, three times. I am not sure we have been fooled; we have been told this. We have had this whispered into our ears before. It hasn't proven true.

And, again, you are in violation of the law that is there to protect taxpayers and homeowners. That has to stop.

I now yield 5 minutes to the ranking member.

Ms. WATERS. Thank you very much, Mr. Castro. As I said in my opening statement, we are very pleased about the actions that you took.

And I would like to have you reiterate the amount of reserves that you presently have. Is it $40 billion?

Secretary CASTRO. It is $46 billion.

Ms. WATERS. Would you say that again?

Secretary CASTRO. $46 billion in cash reserves.

Ms. WATERS. Thank you very much.

Again, I thank you for heeding my call and the call of countless groups, consumer advocates, and other Members of Congress, urging the FHA to take a close look at its premium structure and to weigh the impact of such historically high rates on affordability and access to credit.

Now that the FHA has taken the important step of reducing its premiums by half a percent, I would like to focus on how this decision will benefit first-time home buyers, low- and moderate-income families, and minorities.

Secretary Castro, how much of a monetary difference do you anticipate this premium reduction will have on these home buyers?

Secretary CASTRO. We anticipate that the average FHA borrower will save $900 annually because of this premium reduction and that, over the next 2 years, 2 million borrowers will save collectively about $2 billion. We also anticipate that 250,000 new borrowers will be drawn to the market because of the premium reduction.

Ms. WATERS. That is substantial.

Some are concerned that the premium reduction will jeopardize the Mutual Mortgage Insurance Fund and put taxpayers at risk.

Can you explain how the premium reductions will actually benefit the Mutual Mortgage Insurance Fund by increasing volume and ensuring long-term stability?

Secretary CASTRO. We do anticipate an increase in volume. That is accurate. And as I mentioned to the chairman, as well, the premium increases that we have seen over the last few years—there have been five of them—have been part of a series of safeguards of measures that we took to improve the health of the Fund.

I mentioned the credit-score floor on the borrowers' side and the 10 percent downpayment that is now required on the borrowers' side. This committee worked on the elimination of seller-assisted downpayments, which also has helped improve the health of the Fund.

On the lender side, we actually have made our net-worth requirements for lenders more stringent so that our lenders are more sturdy. We have thrown more than 300 lenders off of the FHA rolls because they didn't meet our standards.

So, even with this premium reduction, we are still going to have premiums at 50 percent higher than they were when we started the housing crisis, and we have each of these strong safeguards also in place to ensure that the health of the Fund continues. We anticipate that the Fund will grow in net value by $7 billion each year over the next several years.

Ms. WATERS. Many groups have applauded your decision to reduce mortgage insurance premiums because it will expand access to credit for creditworthy buyers who are not currently being served by the conventional market.

Can you describe for us the impact a premium reduction will have and who it will primarily benefit?

Secretary CASTRO. This is going to benefit all future FHA borrowers and folks who refinance through FHA. It is going to benefit hardworking families in the United States. Historically, the FHA has served folks of modest means who are hardworking, who want to be able to own a home, who are responsible. These are the folks—everyday Americans who are working hard, who are trying to have a piece of the American Dream and want to do it responsibly—who are going to benefit by this premium reduction and making it more affordable for them to own a home.

And we believe that we can do both, strengthen the health of the Fund and also continue to fulfill the historic mission of FHA to provide everyday, hardworking Americans, middle-class families, folks from different walks of life, the opportunity to access credit so that they can own a home.

Ms. WATERS. According to 2013 HMDA data, FHA accounted for 46.3 percent of home purchases by African-American households, 47.9 of purchases by Hispanic households, and minority buyers continued to represent nearly one-third of FHA-insured first-time home buyers.

Can you elaborate on the importance of FHA for minority home buyers?

Secretary CASTRO. You mentioned the huge impact that FHA has had in terms of first-time home buyers. I mentioned in my opening remarks that about 50 percent of first-time home buyers historically have come through FHA. That is particularly true in communities of color, and that continues to be the case.

And so, across-the-board in communities of color, folks of modest means who are working hard and who are responsible—and I really need to stress that point because, again, FHA was not part of the problem. It did not push the toxic products. People think of that—those are other entities. FHA has always had sound underwriting, and we have made that even stronger over the last couple of years so that we can serve what has been a unique but responsible market of borrowers for the FHA.

Ms. WATERS. Thank you.

I yield back the balance of my time.

Chairman HENSARLING. The Chair now recognizes the gentleman from Missouri, Mr. Luetkemeyer, chairman of our Housing and Insurance Subcommittee.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Secretary Castro, as a former bank examiner, one of the things that we would do when we went into a bank was look at the capital account, look at its activities, and if it was short on capital, we would look at its income stream and we would find ways to encourage the bank to increase its income, cut its expenses, reduce its liabilities. And it seems as though you are doing just the opposite of those things here with what you are doing.

For instance, what is you past-due ratio right now with your loan portfolio?

Secretary CASTRO. I would be glad to get you that number. I don't have that number in front of me, but—

Mr. LUETKEMEYER. Mr. Castro, you are telling me that as Secretary of FHA, you don't know the past-due figure of your own book of business today?

Secretary CASTRO. I would be glad to get you that figure.

Mr. LUETKEMEYER. Oh, my gosh. How can you tell me, then, anything with confidence today? Anything you say today with regards to income for your agency can be taken with a grain of salt.

Secretary CASTRO. The fact is that our books of business from 2010 on are some of the strongest books of businesses that we have had in FHA history. In fact—

Mr. LUETKEMEYER. Mr. Castro, if you look at your income stream and you take out the $1.7 billion that the taxpayers—who are the ultimate backstop on your agency, are they not?

Secretary CASTRO. Yes. Actually, that was the first time in FHA's history—

Mr. LUETKEMEYER. So the ultimate backstop, then, for your agency are the taxpayers, correct?

Secretary CASTRO. Again, FHA today has $46 billion—

Mr. LUETKEMEYER. Who paid the last bill, Mr. Secretary? The last bill was paid by the taxpayers. So they are the ultimate backstop. You can't argue that.

And then we have a whole lot of other income to your agency. What is the net income this past year for your agency? And when I say "net income," take out the settlements. What income did you actually—

Secretary CASTRO. And we provided this information to the chairman. If you take out the settlements of $2.2 billion and the mandatory appropriation of $1.7 billion, that was $3.9 billion that was backed out. Even with that, I may note, first of all, it is still a positive capital reserve ratio, but, secondly—

Mr. LUETKEMEYER. All right. What is the net figure? What is the net income figure for last year?

Secretary CASTRO. To go back to your question before, our serious delinquency rate this year is 7 percent.

Mr. LUETKEMEYER. Seven percent. Okay.

Now, next question: What is your net income for 2014? Do you know yet?

Secretary CASTRO. I can get you that figure momentarily here.

Mr. LUETKEMEYER. Oh, my gosh. Okay. We have an income figure that we don't know for sure. And so how do we know, by cutting your revenue source 40 percent, that you are going to even be in the black this next year when you have a 7 percent past-due ratio?

What is the normal default rate on your past-dues? Do you know that?

Secretary CASTRO. In fact, we have improved our default rates significantly—

Mr. LUETKEMEYER. Do you know what your default—do you know what the percentage number is?

Secretary CASTRO. The default rate today has fallen significantly. It is less than—

Mr. LUETKEMEYER. Do you know what the default rate is? I know the numbers in your testimony; I saw them. But it is a percentage of the figure that you gave us. But I want to know what the figure—

Secretary CASTRO. I want to make sure that I am accurate, and so we will get you that figure.

Mr. LUETKEMEYER. Ballpark figure. We are just talking ballpark.

Secretary CASTRO. It is less than—

Mr. LUETKEMEYER. One percent, 2 percent, 10 percent of your past-dues are going to default totally?

Secretary CASTRO. It is 7.2—it is less than 10 percent.

Mr. LUETKEMEYER. Okay. So, 10 percent of 7 percent, you are looking at seven-tenths of a percent of your portfolio is going to go south on you, roughly. So you are going to seven-tenths of a percent of your total portfolio.

If you do that, your net income, which we don't have a clue what it is today, isn't going to cover your losses if you take a 40 percent cut on your income. I'm sorry, it just doesn't compute.

Secretary CASTRO. I disagree.

And I would also note that these projections are not the projections of FHA or HUD that are made on an annual basis to determine our capital-reserve ratio and project out where its headed. Those are projections—

Mr. LUETKEMEYER. Mr. Castro, I am asking very simple questions here. If our bankers ever came in to examine the HUD, you would be on the problem-shop list, if not closed, tomorrow. You would be gone. Or you would have to recapitalize. This is totally unacceptable.

A question for you with regards to this. You don't price risk like a normal private-sector mortgage insurance company does. You just have a flat fee.

And I notice that—here it is. I saw a graph the other day of the private-sector mortgage insurance folks. And anything under—on a $250,000 home, a 30-year mortgage, 3½ percent past-due rate, anything under 680, they are upsidedown on this.

And you are competing with them for that business. So, basically, you are taking on—if they don't compete for the business, you are taking on the most risky part of the whole portfolio. Because they can't afford to insure it at that rate for which you are insuring it.

Secretary CASTRO. I want to make sure that we are accurate, Congressman. Our net income in 2014 was approximately $8 billion.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from New York, Mrs. Maloney, ranking member of our Capital Markets and Government Sponsored Enterprises Subcommittee.

Mrs. MALONEY. Thank you very much, Secretary Castro, for joining us today.

I understand that there has been some concern about FHA's legacy reverse mortgage book, but I don't think that should prevent FHA from continuing to offer reverse mortgages. They are a valuable product in the right circumstances, particularly for seniors.

In fact, one area in which I think FHA could improve its reserve mortgage program is by extending it to owners of housing co-ops. This is an extremely important issue to the City of New York, where co-ops account for a large portion of the housing, especially for seniors. Most New Yorkers live vertically, not horizontally, and a large majority of them are in co-ops.

And my question is, will you consider allowing owners of housing co-ops to participate in FHA's reverse mortgage program?

Secretary CASTRO. Thank you very much for the question. And, I want to commend the work of the committee in addressing issues with regard to our reverse mortgage portfolio. As folks know, that has been a challenge for FHA.

And I am certainly willing to follow up with you, Congresswoman, and your staff and have a dialogue on that.

Mrs. MALONEY. Okay. Thank you. And we will.

Despite FHA's 50-basis-point premium reduction, FHA's premiums are actually still very high by historical standards. And I know there has been a push by housing advocates and those wanting housing to be affordable so that we can continue the American Dream of homeownership for the middle class and most Americans.

In fact, many in the industry had pushed for an even larger reduction. How did you settle on the half-percentage-point reduction? And how did you arrive at that number?

Secretary CASTRO. There has been a tremendous amount of work over the last several years, and this committee has been a part of that work, to improve the health of the Mutual Mortgage Insurance Fund, including putting in several of the safeguards that I mentioned on the borrower side, and the lender side. And because of that, we have seen the results. We have seen delinquencies go down by 27 percent, serious delinquencies, since 2013. We have seen our recovery rates go up by 62 percent; foreclosure starts, down 61 percent.

So the first concern was ensuring that we will have continued strengthening of the Mutual Mortgage Insurance Fund. At the same time, FHA has the historic mission of providing access to credit for everyday, hardworking Americans of modest means who are trying to have a part of the American Dream and own a home.

And we believe that this achieves that strong balance of continuing to strengthen the Fund. Premiums are still going to be 50 percent higher than they were at the beginning of the housing crisis. All of the other safeguards are still in place. We see the results of that. And so we believe it is the right time to afford that opportunity.

I will also say, as I mentioned in my opening remarks, we see that for our 2014 book of business it is one of the two most profitable years for FHA in its history, and we are collecting $17,000 from these folks who are borrowing through FHA. And, at the same time, we calculate our risk at $4,700.

We believe that this 50-basis-point reduction strikes a good balance between strengthening the Fund and meeting our mission.

Mrs. MALONEY. Okay. Congratulations.

Some of my colleagues have come forward with their questioning about lowering the premiums and have indicated that we should instead charge risk-based premiums which would reflect the likelihood that a borrower would default.

But in your testimony, you said that the credit profile of FHA borrowers has improved substantially with new standards. So using a risk-based approach, this should lead FHA to reduce its insurance premiums since these borrowers are less likely to default. And that is exactly what you did last month, to increase affordability for many Americans.

My question is, in your opinion, after the 50-basis-point cut in premiums, is the FHA charging enough in premiums to compensate for the risk that these new borrowers pose?

Secretary CASTRO. Yes, we are. And we will continue to do so.

The average credit score for the FHA borrower last year was 680, which is a very high credit score historically for FHA. And, as I mentioned, our net income was $8 billion in 2014. We are projected to continue to have profitable years in the next few years to come, in fact, to see the Mutual Mortgage Insurance Fund grow in net value by at least $7 billion a year over the next several years.

So we are, I think, in the right spot.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from New Jersey, Mr. Garrett, the chairman of our Capital Markets and GSEs Subcommittee.

Mr. GARRETT. Thank you, Mr. Chairman.

And thank you, Mr. Secretary.

I want to talk to you about a slightly different topic—one where we may have some agreement on both sides of the aisle—which is predatory lending and the horrendous problems that it caused.

Back in August 2012, a White Paper out of the Center for American Progress talked about this. Julia Gordon decried the practice of loan originators who "steered borrowers toward risky subprime loans, citing predatory pricing gimmicks, encouraged borrowers to borrow far more than they could manage." I also know that such loans, as you may imagine, tended to default at a significantly higher rate than conventional mortgages.

So, as I say, I think this is something that you and I can agree with her on and decry that practice. As a matter of fact—I see you nodding—over at the CFPB, Director Cordray has made it a priority of his to look into predatory lending. I suppose you agree that is an appropriate role for Director Cordray to do.

With that all being said, what should we make, then, of the FHA? The FHA engages in each one of those practices that Ms. Gordon talked about. They employ various pricing gimmicks and strategies, many of which you just talked about, such as the exceedingly low downpayments you have talked about; low credit scores that you just talked about; inadequate up-front pricing, which has been talked about in the past; and high maximum dollar value loan limits, which has also just been talked about. These are all things that you are advocating at the FHA.

And I guess it would be okay if, at the end of the day, the results were positive. But the numbers that we see are a default rate at the FHA nearly 150 percent higher than prime lending.

So isn't it true, isn't it fair to say that all of what Ms. Gordon and American Progress, all of what you and I just agreed to are the criteria as to what Director Cordray should be looking into are actually the practices right now of the FHA? Predatory lending.

Secretary CASTRO. I appreciate the question.

Let me say, Congressman, that there is no doubt that the FHA has played a unique role in the landscape of lending, and that role has been a very positive one—

Mr. GARRETT. Would you agree that predatory lending leads to devastating impacts upon families? Would you agree with that?

Secretary CASTRO. I agree with that. I don't agree that FHA is—

Mr. GARRETT. Which one of these things that I just listed—and I am just basically quoting from what you just spoke about for the last half-hour—are you not doing? Are you not engaging in low credit scores? Are you not engaging in lower downpayments? Are you not engaging in lower premiums?

These are all things you just spoke about for the last half-hour. These are all things that the Center for American Progress identified for other lenders as being predatory lending. So why is it okay for you to engage in predatory lending but not for the other institutions that Richard Cordray at the CFPB is examining?

Secretary CASTRO. FHA has done that responsibly, with strong underwriting—

Mr. GARRETT. Would you say it is responsible—if an individual has a loan with a local institution and it is predatory lending and they are now out of their home, devastated because of it, do they care whether that loan was done responsibly by you or irresponsibly by some other institution? Either way, they are out on the street. Do they care that you were responsible or, as in your earlier words, "working hard at it?" Either way, this family has been devastated by your conduct, haven't they?

Secretary CASTRO. Again, FHA did not push the toxic products, the no-doc loans, the no income, no job, and no assets (NINJA) loans—

Mr. GARRETT. I am not talking about that. Actually, that is not true.

Secretary CASTRO. —the kinds of products that I think folks associate with the housing crisis.

In fact, you mentioned the downpayments. That has been in place for 50 years at FHA. For 50 years, it has offered middle-class families the opportunity—

Mr. GARRETT. But now that we see that there is a problem, now that we see that you are not following the law, now that we see that the American taxpayer has to bail out the FHA, we see that the FHA is not rectifying the situation. They are doubling down.

One of the ways that you are doubling down is by the lowering of the premiums. And to quote you, you said this will save $900 per year. That is $75 per month. Other actuaries have looked at it and said it is only $25, but split the difference, $50.

Do you look at an individual family and—basically, your new method is trying to entice people to come to an FHA loan to save the 25 or 50 bucks? What happens when that family has a loss—a furnace that breaks, some other hazard problems in the house, what have you? That is when the family then will not be able to pay their mortgage again, and they lose and they are out on the street.

Don't you care about those people? Are you so inclined to write more loans that you are just trying to entice them for 20 or 30 bucks to get into a house that they can't afford? Don't you care about these people, that they are getting in over their head once again? This is what brought us to this crisis in the first place, and you are going down the exact same road.

Secretary CASTRO. Well—

Mr. GARRETT. It is amazing that you come here and you basically want to engage in predatory lending and entice people to go into these things and not show any care for the people and the devastation it may do to these families.

Secretary CASTRO. Not at all. I assume intelligence in the American people and that, with regard to FHA-insured loans, that we have always had strong underwriting.

I would also note that the premium reduction is not changing who actually qualifies for an FHA-insured loan. That is not what we are talking about today. We are not talking about changing who qualifies for a loan. It is simply making it more affordable for hard-working Americans—

Mr. GARRETT. But it is used to entice them to take the loans.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from New York, Ms. Velazquez, for 5 minutes.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Congratulations, Mr. Castro, and welcome to this committee.

By making mortgage payments more affordable, FHA's reduction in insurance premiums will greatly help first-time home buyers in high-cost areas such as Brooklyn, where the median home price is $570,000.

Beyond helping creditworthy borrowers access mortgage credit, please describe the economic impact FHA expects the premium reduction to have on high-cost areas.

Secretary CASTRO. I appreciate the question, Congresswoman.

This is a premium reduction that is going to have a positive impact across-the-board. Of course, that is also true in high-cost areas. As I mentioned earlier, we expect that for the average borrower, this is going to save about $900 per year. So it is making it more affordable for middle-class families.

What we see out there is folks who are working hard, who are responsible, they are ready to own a home, but it often is difficult for them to get 20 percent as a downpayment. And that is where, historically, FHA has stepped in.

Ms. VELAZQUEZ. What will be some of the economic ripple effects of such action? Will it create jobs? More construction?

Secretary CASTRO. There was one analysis recently that suggested that this premium reduction will support about 140,000 jobs in the United States.

Ms. VELAZQUEZ. FHA's move to lower interest premiums will help minority and first-time home buyers, for whom the FHA single-family insurance program is a primary source of mortgage credit. To further help these borrowers, FHA has indicated that it plans to increase awareness of its housing counseling programs in Fiscal Year 2016.

How, specifically, does FHA plan to conduct outreach around housing counseling? And do you have any measurable goals being set in respect to this?

Secretary CASTRO. Thank you for that question.

In fact, housing counseling has been, we believe, one of the most impactful tools in empowering borrowers to make smart decisions and, also, on the credit-risk side, reducing those borrowers as a credit risk. And so HUD fully supports ample housing counseling efforts. In fact, in the Fiscal Year 2016 budget, we have increased our ask by 28 percent in terms of funding for housing counseling.

And I would be glad to follow up with you and your staff about—

Ms. VELAZQUEZ. Very good.

Secretary CASTRO. —the robust program that we have out there on housing counseling.

Ms. VELAZQUEZ. Thank you.

As we all know, homes in Hispanic and African-American neighborhoods disproportionately lost value during the recession, and the housing recovery in this area is still lagging.

Beyond the recent reduction in FHA insurance premiums, what additional steps will FHA take to ensure that Hispanic and African-American borrowers are not left behind in the housing recovery?

Secretary CASTRO. Of course, as I mentioned earlier, communities of color have long been a significant portion of FHA business. In fact, as Ranking Member Waters mentioned, today, nearly half of African-American and Hispanic borrowers go through an FHA-insured product.

So we believe that there has been an ample track record of success of outreach. Of course, we are always sensitive to that, and we believe communities of color and the mainstream community, that folks who are hardworking, folks of modest means but who are responsible, that they ought to have the chance, through FHA, to access credit so that they can purchase a home.

And the results of the hard work that have been done over these last few years, including work by this committee, have improved FHA's standing. The fact that FHA is stronger today because of these safeguards that have been put in place means that we can do more responsible loans to communities of color and help to lift them up.

Ms. VELAZQUEZ. Thank you.

Thank you, Mr. Chairman.

Chairman HENSARLING. The gentlewoman yields back.

The Chair now recognizes the gentleman from Texas, Mr. Neugebauer, chairman of our Financial Institutions Subcommittee.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here this morning.

I want to go back to some of the comments from Chairman Luetkemeyer, and probably Chairman Hensarling brought this up, as well.

But the current status of the Fund is that it doesn't meet the minimum requirement. In fact, it hasn't met the minimum requirement for a very long time. And we have had some of your predecessors come in with some very interesting predictions of when the Fund would be back into the statutory requirement. And since I have been on this committee, that has obviously not happened.

So when we come in and we say in just 2 years or 4 years that you will be able to get to 2 percent, that is not necessarily—it is kind of hard for me to actually believe that.

But one of the issues that comes up that bothers me a little bit is that you are currently not meeting the minimum standard, and now you are proposing to reduce the premium by 50 basis points.

The question I have is, when you decided to do that, did the independent actuary know that prior to making their report in November, or did you decide to do that after that report had been issued?

Secretary CASTRO. This was a decision that was made after the annual report was released so that we could have the benefit of understanding the stronger standing of the Mutual Mortgage Insurance Fund.

Mr. NEUGEBAUER. So I am just wondering what the independent actuary would have said if they had known that you were going to reduce your premium by 50 basis points.

Did anybody get back with those folks and say, hey, we are thinking about lowering the premium by 50 basis points, how would this impact our ability to reach the goal within the period that you are projecting?

Secretary CASTRO. First, again, this was a decision that was made after the annual report—

Mr. NEUGEBAUER. I know, but when you are making decisions, it is good to make decisions with good information. And so my question to you is, did anybody at FHA call the independent actuary and ask them, hey, what if we did this, how would that impact the Fund?

Secretary CASTRO. I don't want to make a categorical statement on that. However, I do not—

Mr. NEUGEBAUER. It is either, yes, you did, or no, you didn't. I don't know that it is—

Secretary CASTRO. That is an independent actuary, and so that is not someone on FHA's staff—

Mr. NEUGEBAUER. I know, but—

Secretary CASTRO. —that regularly consults, in terms of coming up with numbers.

Mr. NEUGEBAUER. But you rely on that information to make your decisions, right?

Secretary CASTRO. And we look forward to getting the 2015 actuarial report, as well, that will give us, I believe, another strong measure on the progress of the Mutual Mortgage Insurance Fund.

Mr. NEUGEBAUER. Mr. Secretary, you have a book of business that you say is seriously delinquent, 7 percent. I understand that the percent of loans past due at FHA is actually 14 percent.

And if the FHA is going to be, as you say in your testimony, the buffer for the marketplace, the countercyclical safety net—and so you have a 14 percent delinquency, you have a 7 percent serious delinquency, and you just lowered your premium by 40 percent.

I guess what all of us are trying to understand is, if that was any other financial institution in this country, you would be under regulatory supervision. Nobody else gets to operate that way.

And, as many of my colleagues on both sides of the aisle have said, if FHA is going to be that buffer, it has to be a strong financial institution. And the independent review also said that you needed $85 billion to survive another major housing downturn like the one we experienced in 2008, and you are nowhere near that.

So I guess the question is, why didn't you talk to the people who did that review to see how that might impact them? Because that is a fairly major business decision.

Secretary CASTRO. Again, the FHA staff conducted its analysis in terms of receiving the 2014 annual review, and then projecting what the impact of the mortgage insurance premium reduction would be. We also look forward to getting the 2015 annual review from the independent actuary. We have seen serious delinquencies drop by 27 percent since 2013, and 2013 and 2014 have been the most profitable years for the FHA. So we are, the FHA and its Mutual Mortgage Insurance Fund is on a much stronger path to reaching 2 percent than it has been before.

Mr. NEUGEBAUER. I assume my time has expired.

Chairman HENSARLING. The Chair will recognize the gentleman from California, Mr. Sherman.

Mr. SHERMAN. Thank you, Mr. Chairman. I wanted to commend you, Mr. Secretary, for running the FHA program so well that you are able to reduce the premiums, help homeowners, and still be actuarially sound. If you were running the program poorly, taking bad risks, your actuarially calculated necessary premium would be much higher. It is my understanding that even at this reduced premium, you are still going to be making what, for want of a better word, is a profit, and building your reserves over 2015. Is that correct?

Secretary CASTRO. That is correct.

Mr. SHERMAN. And I point out that some have cited the statute and said, well, you are supposed to be at 2 percent. You are not at 2 percent. You are getting to 2 percent. And to think that you have to get to 2 percent immediately would—you could try to get there in a month by raising your premium to 28 percent instead of point whatever percent, and then nobody—you would kill the program. It is physically impossible for you to get to a 2 percent reserve immediately even though the statute, if you read it absolutely literally, would tell you that is what you should do, and so you are doing the only thing you can do, which is set a premium that generates a profit, and builds you toward a 2 percent reserve of the future. Is that correct?

Secretary CASTRO. That is what we are doing.

Mr. SHERMAN. Good. My first home was a condo. Condos are often the first home for a lot of first-time home buyers. Yet, purchasing a condominium with FHA mortgage insurance is sometimes difficult due to requirements that FHA has in place. I understand that FHA is reforming these policies. I would like to know when the new rules will be out, and whether you are confident that they will make it easier for that first-time home buyer to buy a condominium.

Secretary CASTRO. Thank you very much, Congressman. Yes, we have certainly heard the concerns on condo ownership, and it is something that our staff has been working on and a process that we are going through. I would be glad to follow up with you on a more exact date within 2015 when we anticipate getting that work done.

Mr. SHERMAN. And I would also point out that as we build communities, because you are not just "H," you are also "UD," urban development, as we build communities, if we get people in the condos, that is more transit-friendly-type of development. It is less energy, less water, which is very important in not only your State, but particularly mine. And so it makes a lot of sense to allow people, particularly first-time home buyers, to buy condominiums.

Another thing that would make some sense is everything we can do to wean the world and the United States off of oil, and create energy efficiency. A number of my State is going to have its EV-ready standards for electric vehicles just to say to those who are building new homes, put the wiring there just in case. Just run the conduit so that they can recharge their vehicles. I believe it is Boulder, Colorado. Some other jurisdictions say, run some conduit up to the roof so that if they are going to put in solar panels—I wonder what you can do either by who FHA decides to grant insurance to or other policies in your Department, to have new homes spend the very small amount necessary just to have the wiring get to the roof and the garage.

Secretary CASTRO. I appreciate the opportunity to discuss this a little bit. In fact, FHA, for some time now, has offered several products for folks who are interested in greening up their homes, or having an energy-efficient home in the first place, including capacity for electric vehicles, as you mentioned, and solar panels. The 203k program is a good example of that, and we can get you and your staff more information on the menu of items that the FHA offers.

Mr. SHERMAN. We look forward to working with you on that, but I am talking about just kind of what I would call light green lines. The whole home isn't green. It is just green-ready at a very low cost to have the—it is a lot easier to put the wiring in before you put the walls in, or before you complete the structure.

So I look forward to working with you on that, and I yield back.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Michigan, Mr.

Huizenga, chairman of our Monetary Policy and Trade Subcommittee.

Mr. HUIZENGA. Thank you, Mr. Chairman, and thank you, Secretary Castro. I have a lot of ground that I want to cover. Just to tell you very briefly, I come from western Michigan which is a mix of sort of gentrified suburban and urban, and very, very rural. In fact, one of the 10 poorest counties in the Nation resides in my district. And I am concerned about buyers, not the builders' organizations, not the REALTORS'® organizations, and in fact, I am a former REALTOR®, and I am still part of homebuilders' organizations locally.

I am not concerned about the lenders. I am not concerned about the title companies or the attorneys, and certainly not the guarantors such as FHA because all of those people are simply vehicles for the families who are trying to realize a dream. And I care about them. I care about those buyers who are in there. I was actively involved in real estate in the late 1980s through the late 1990s, and saw 20 percent down became 10 percent down, became 5 percent down, became 0 percent down, and it is indelibly marked in my brain.

At the first closing I went to—and we are not talking about big massive houses—they slid a check across to the seller and to the buyer and it was a 120 percent loan to value. And I cannot allow, with all that is in my power, us to slide back in there. I wanted people in homes. Your historical role has been to help those low- and middle-income families. I understand it is maybe not statutorily what you are supposed to do, and I think with a $600,000-and-some-odd loan to value, it is hard to argue that is low- and moderate-income. But I want people in homes because it adds to stability if they can keep their home.

And probably the most satisfying moment I ever had in my real estate career was when I got Jill—Jill had become a friend of the family, and Jill's husband had left her and she was in a mobile home—into her first home with her two kids. Jill, and frankly, me, were crying at the closing because of what this meant for her and for her kids. And I had to sit there, and as her kids are kind of like what is going on with mom, right, I had to explain to her why that was so important for that. And the downturn ruined people of all creeds, color, and frankly, economic status. We can't repeat this.

And it is not about your balance sheet, frankly. It is not about the bank's balance sheet. It is not about the business for the REALTORS® and for the developers and the builders. It is for their sakes that people are trying to get in there. Now, you have stated the premiums are too high. But in April of 2014, in a Washington Post interview, FHA Commissioner Carol Galante said, "I don't think that we have reached a tipping point though, and I can clearly say we are not going to continue to increase premiums. But it is also not a time to do a wholesale rollback of the premiums. FHA's financial condition is not where it should yet be."

I am concerned that there is kind of a two-tiered system here as well. FHA is exempt from the qualified mortgage rule, the QM rule that the CFPB has been putting out. And if it is good enough for our community banks and our credit unions, why would it not be good enough for FHA? The most basic thing that I learned when

I got my REALTOR'S® license is that people aren't brown, they are not yellow, they are not white, they are not red; they are green. People are green. They can either afford it, or they can't afford it. All right? And I am afraid that the actions that FHA has put forward are sending us back on a path where people are going to be potentially ruined.

I would like to hear from you in the remaining few moments here why you believe that this is the right direction to go, and why not serving those low- and moderate-income families, why that can't be done in the private sector when you have consumed so much of that marketplace, and are exempt from some of the rules, and as my friend Blaine Luetkemeyer has pointed out, exempt from any of the sort of regulatory boundaries that are put in place for our credit unions and our community banks that service these people?

Secretary CASTRO. You and I agree that we need more stories like Jill's story of folks who are hardworking and able to access credit so that they can afford to own a home. And the fact is that we have taken, in addition to increasing premiums 5 times over these last several years, several measures to ensure that the Mutual Mortgage Insurance Fund is healthy. We never had the kind of lesser underwriting standards that a lot of the private sector had. FHA has always had stronger underwriting standards. We have strengthened those even more by creating that credit score floor of 500, requiring 10 percent down for the riskiest borrowers in our portfolio, those with less than a 580 credit score. We have improved lenders that we work with by requiring a higher net worth there. So all of that adds up to the place we are today where we can say, look, 3 years ago we started hearings on this issue. And we are in a much stronger spot, and on a strong path to reach that 2 percent capital reserve ratio.

The question then becomes, how do we strike a strong balance between continuing to strengthen that Fund, and also affording opportunity for folks who are hardworking to be able to access credit. Now remember, we are not changing any of the policies on who can access that credit. This is simply a reduction in the cost to those borrowers. And the fact is that by reducing this cost, that we are going to—

Mr. HUIZENGA. That is not going to be the reality of it, and my time has expired.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from New York, Mr. Meeks.

Mr. MEEKS. Thank you, Mr. Chairman, and thank you, Mr. Secretary. Let me just go back. FHA has been in existence since 1934, is that correct?

Mr. CORDRAY. That is right.

Mr. MEEKS. And basically what FHA has done is help promote long-term stability in the housing market over that whole period of time, is that not correct?

Secretary CASTRO. That is true.

Mr. MEEKS. And in 2008 when there were no-doc loans that were going out, when there was zero down, when there was no verification for anything, just giving folks—was FHA the one that was giving out those kinds of loans, or encouraging those to be utilized? Was that FHA?

Secretary CASTRO. FHA never pushed the toxic products. When folks think about the no-doc loans, the NINJA loans, that was not FHA. FHA has always had stronger, full underwriting, and we have strengthened that even further in the last few years.

Mr. MEEKS. And so in one extent, as a result of the bad acts of some who are still in business, and some who still want people to come to them for mortgages that we are not talking about them now, but you were victimized and because of the financial crisis, and the bad acts of others, is what caused you for the first time in the history of FHA when we were in the worst recession of our country since the Great Depression to fall under that 2 percent, is that correct?

Secretary CASTRO. We did require a mandatory appropriation in 2013 as a result of going through the worst housing crisis that we have seen in quite a while.

Mr. MEEKS. And let's look at who your customers are. Are they taxpayers?

Secretary CASTRO. Sure, our customers are borrowers.

Mr. MEEKS. And so, these are taxpayers who are concerned about everything and would like to benefit. In fact, I think on a bipartisan basis, we have all been talking about the one area of individuals who have been left out of the recovery. It has not been the banks. It has not been the corporate America. It has not been—you look at the stocks. All I can see it, it has been who? The middle class. Is that not correct?

Secretary CASTRO. It has been very difficult for middle-class Americans to be able to access credit. That is true.

Mr. MEEKS. And don't you think that the middle class of this country—many of them are renters are they not, currently?

Secretary CASTRO. A lot more of them are renting today because they can't access credit or it is not affordable.

Mr. MEEKS. And in fact, those middle-class people that we say that we want to help, that we say have been locked out of this economy, there was an article in Forbes that found that over a quarter million renters had been priced out of the housing market because of the high FHA premiums. Is that correct?

Secretary CASTRO. Yes, there was one analysis, I believe, by the National Association of REALTORS® that said that in 2013, there were 400,000 folks who were priced out because of high FHA premiums.

Mr. MEEKS. And those are all potential middle-class U.S. taxpayers who could be your customers, and that would create a greater opportunity for you to get the revenue back in so that you can get back to that 2 percent. Can you do it without them?

Secretary CASTRO. We can't do it without the borrowers, and we are on a strong path to getting there.

Mr. MEEKS. I know when I go shopping on Christmas, a lot of these businesses have reduced prices. Why? Because they are trying to entice me to get into their store so that I can buy from them because they look at Christmastime and those times as what, the largest opportunity to create income for their businesses so they can survive through the year. So what do they do? They slash the prices to make what? More money. Is that something that you think you are trying to do here?

Secretary CASTRO. What we are trying to do is ensure that we can affordably offer access to credit and still strengthen the health of the Mutual Mortgage Insurance Fund, that we can strike a strong balance there.

Mr. MEEKS. So you are going to make sure then—you are not going to do what some others did—that the people that you are loaning money to have the ability to pay it back. You are going to make sure of that, right?

Secretary CASTRO. We always have at FHA, sure.

Mr. MEEKS. Others didn't do it. That caused the crisis, right? You are going to make sure that there is a downpayment, that there is a reasonable downpayment, 10 percent. You are not going to give them 0, like some others did that created the financial crisis, you are going to make sure that there is a reasonable amount for a middle-class family who would like to participate in the American dream, in this case, a taxpayer will have that opportunity to live that dream. Is that correct?

Secretary CASTRO. That is our goal, yes.

Mr. MEEKS. And in that, you will make sure that—and we have learned from not your irresponsible behavior, but others' irresponsible behavior—you will not allow anyone to go below that, but yet, give an opportunity for others who desire to be—who are taxpayers and want to live the American dream. Is that your mission?

Secretary CASTRO. That certainly is.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Wisconsin, Mr. Duffy, chairman of our Oversight and Investigations Subcommittee.

Mr. DUFFY. Thank you, Mr. Chairman. I was listening to Mr. Meeks' questions and I thought he was going to go somewhere else—I am over here, Mr. Castro. How are you doing? I thought he was going to go somewhere else with the Christmas analogy where stores lower prices to lure more customers in, and it is true, American consumers go and buy more. And then in January, they are slapped upside the head with massive credit card bills that they have a really hard time paying back. So they are enticed into low prices, but then they realize how hard it is to pay back some bad decisions they made in December. I think that is all too good of an analogy of what we are talking about today.

I want to go back to some of the questions that the chairman asked earlier. You are required by law, you have admitted it, to have a 2 percent capital reserve. You agree with that, right?

Secretary CASTRO. Sure.

Mr. DUFFY. And you are at about a quarter of that now, is that right?

Secretary CASTRO. We are at .41 in the latest annual report.

Mr. DUFFY. Okay, and is it your testimony today that by lowering your fee by 40 percent, that is going to allow you to more quickly get into compliance with the law?

Secretary CASTRO. My testimony is that this is not going to have a significant impact on the timeframe for reaching the 2 percent.

Mr. DUFFY. So decreasing your fees by 40 percent is not going to have any impact. How do you analyze that? What is the rationale?

Secretary CASTRO. We believe that this will not have a significant impact, that we will still be able to get, within 2 years, the 2 percent capital reserve.

Mr. DUFFY. No, no, no. I heard you say that. But I am concerned when you are lowering your fee by 40 percent that your testimony is you have done the analysis and you are going to get there about the same time. What is the analysis, because I don't get that?

Secretary CASTRO. It goes to the comments that I made earlier. The only reason that we strengthen the Fund is not due to just an increase in premiums. It is a series of safeguards that we have put in place that have enhanced recovery, also ensured that the lenders we work with—

Mr. DUFFY. No, no, that is not my question though. You have said that by lowering the fee, it is not going to affect your ability to get to that point of 2 percent any quicker. If you have done all of those great things, I applaud you for that, your recovery, and better underwriting standards. But if you had the current fee of 1.35 instead of .85, you would get there more quickly because in conjunction with the current fee, not the reduced fee, and all of the great reforms that you have had, we would get to 2 percent far more quickly, right?

Secretary CASTRO. I agree with you that we would get to 2 percent a little bit more quickly, but not significantly more quickly than we are on a path to get there now.

Mr. DUFFY. But that is our point. You are in violation of the law. You should do everything you can to get into compliance with the law. And reducing those fees at a time when you are not in compliance, for us, really rubs us the wrong way. We don't like it.

I am going to switch gears on you. I have been on this committee for a little over 4 years and I have heard a lot of my colleagues across the aisle talk about the financial crisis. And they are able to talk about real stories from their communities. Oftentimes, these communities are minority communities who have been hit hard, where people who bought homes they couldn't afford have lost those homes. And now they have lost their homes, they have been financially wrecked, and they are out on the street. Right? And I just heard you testify that half of the loans you guarantee are African-American borrowers, and a quarter of them are Hispanic borrowers, is that correct?

Secretary CASTRO. No, that of loans to African-Americans and Hispanics, nearly 50 percent are FHA-insured loans.

Mr. DUFFY. Is there any correlation between the fact that in the crisis it is Hispanics and African-Americans you see getting hurt, who we hear about on this committee, but it is the very policies that you are advocating for that are getting these same folks in the homes that they can't afford. You don't see that correlation?

Secretary CASTRO. I have a very different perspective on that, Congressman. The FHA, for 80 years now, has been a part of ensuring that hardworking folks of different backgrounds could access credit responsibly.

Mr. DUFFY. Did FHA avoid the crisis in 2008, the financial crisis?

Secretary CASTRO. FHA didn't cause the crisis.

Mr. DUFFY. I didn't ask that.

Secretary CASTRO. FHA felt the effect.

Mr. DUFFY. In 80 years, you know how financial crises can affect FHA and can affect home consumers. So following on Mr. Garrett, low downpayments, low credit scores, which concerns us, but the qualified mortgage put out by the CFPB, is that to protect consumers or protect banks?

Secretary CASTRO. I—

Mr. DUFFY. Answer the question. Who is it for?

Secretary CASTRO. The—

Mr. DUFFY. Protect consumers or protect banks?

Secretary CASTRO. My hope is that consumers are effectively protected by measures—

Mr. DUFFY. Consumers. I hope that Mr. Cordray would agree with you that he is trying to protect consumers. I have some disagreements with Mr. Cordray, but on this one, he is saying he is trying to protect consumers and not banks. Why is it good for everybody else to follow the QM rule and protect consumers, but you at FHA, you don't have to follow the same—

Secretary CASTRO. FHA has always had very strong underwriting. FHA is different, markedly different from a lot of the—

Mr. DUFFY. Are you committed to following the QM rule now? Yes?

Secretary CASTRO. We are committed to ensuring that we enhance our underwriting.

Mr. DUFFY. I will take that as a "no."

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Massachusetts, Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman. Thank you, Mr. Secretary. Mr. Secretary, I want to get back to this massive—I am over here, way over to the extreme—well, your left which is good, Jeb's right, which is not possible. Mr. Secretary—

Chairman HENSARLING. Not possible.

Mr. CAPUANO. It is not possible. Not desirable by either one of us either. This 2 percent deal, as I read the law, there are two requirements that we have set forth when you go below that 2 percent reserve fund. One of them is that you endeavor to get back to the 2 percent, "endeavor," a word that Congress picked, not you. And the other one is that you are required to draw down Treasury funds to bounce up that percentage. Are you endeavoring to get back to the 2 percent?

Secretary CASTRO. Very strongly, absolutely.

Mr. CAPUANO. Because you are not just passing out loans like water anymore. You have a lot of other restrictions on the loans that you give out, and you are heading in the right direction.

Secretary CASTRO. We were always much stronger than most private-sector actors and we are even stronger today in part because of the work of this committee.

Mr. CAPUANO. And you are—and you drew the funds down from the Treasury, correct?

Secretary CASTRO. We drew $1.7 billion.

Mr. CAPUANO. Did you use any of that Treasury money?

Secretary CASTRO. We did not. That was money to cover the future potential losses.

Mr. CAPUANO. I know what it is for, but I think that law is stupid that requires you to borrow taxpayers' money that you don't need, and you have proven that you didn't need it because you didn't use it. So I happen to think that law is stupid and I am trying to change it. But to my reading, you have adhered to the law. You are endeavoring to do what you are supposed to do, which is the word that Congress used, number one; number two is, you took down money that you didn't need to do—to sit there. So as far as I am concerned, you are doing well. I actually think that you also have other mandates for FHA and for HUD which is to encourage homeownership amongst responsible people. You are trying to balance that need, as we balance different things that are required of us. Thank you, Mr. Secretary. I think you are doing a good job.

As far as I am concerned, too, the fact that we don't have any good stories about certain people who have been priced out of the market is because you cannot have a good story when you don't create good stories. You were trying to create that good story, according to Moody's, which is not known as a liberal bastion of thinking or policy. They say that this half percent cut will open up at least 60,000 more people to buy a home. The REALTORS® Association has a much higher number. So I actually think you are trying to create more of those good stories while being fiscally responsible.

One last question on this issue: If the reserve fund is challenged tomorrow because your assumption was wrong, and all of a sudden things go bad, is there anything to prevent you from increasing this fee again?

Secretary CASTRO. It is fair to say that we put several tools in place, safeguards in place so we will continue with those safeguards. Obviously—

Mr. CAPUANO. My friends on the other side want you to raise that fee. We don't want you to raise this fee because we want more people to qualify, and it looks like with the lower fee you can manage it in a responsible way. If I am wrong, if you are wrong and by lowering the fee somehow you put the Fund in jeopardy, is there anything that prevents you from increasing the fee tomorrow?

Secretary CASTRO. There is nothing that prevents that. That is one tool in the toolbox, and we will continue like—

Mr. CAPUANO. So you can do exactly what they want to do if you were forced to do it because we were wrong. Nothing is jeopardized. And you have plenty of money in the Fund to allow you the time to do that. We are talking about a problem that doesn't exist. I want to talk about one other issue that does exist where a policy that I do disagree with HUD and FHA on, and that is the Distressed Asset Stabilization Fund. Right now, as I understand it, for those properties that you are forced to take, you basically sell them to the highest bidder and the highest bidder has no interest and no knowledge of where these properties are; they are simply buying paper.

I personally don't think that is the best way that HUD could be going. First of all, I think you would be getting more money if you broke them up, individual properties to individual consumers are worth more to one—than it is to one consumer who is there to make profits, and you would be helping stabilize neighborhoods because those individuals or those community groups would care about those communities, and I would strongly encourage, Mr. Secretary, as your next step, to break that monopoly up.

I am not here to enrich or to not enrich the Lone Star fund, which bought thousands of properties recently, and I don't know where Somerville, Massachusetts is. They just bought a piece of paper. I would much prefer that those distressed properties in my district be offered to the highest bidder on an individualized, at least a small lot process, preferably to community organizations whose responsibilities are to create affordable homeownership and to build communities. I think you can make more money, and I think you could service our communities better if you took a more mayoral approach towards this as opposed to a macroeconomic approach. I know it is a different issue that you came in to talk about, but I wanted to get my 2 cents in, since I think you are doing a great job in the FHA.

Secretary CASTRO. Thank you very much, Representative. Let me just say, I look forward to following up with you and with your staff. We have heard concerns about the DASP program. One of those has been, for instance, from nonprofits who would like to be able to participate and perhaps with, they feel, a keener eye toward neighborhood revitalization, and so we are looking at how we might accomplish that and would love to follow up with you.

Chairman HENSARLING. The time of the gentleman has expired. The Chair recognizes the gentleman from New Mexico, Mr. Pearce, the vice chairman of our Housing and Insurance Subcommittee, and I ask that he yield to the Chair for a brief moment.

Mr. PEARCE. I do.

Chairman HENSARLING. What the Majority is interested in, is having the Obama Administration actually obey the law, and the law says, 12 U.S.C. 1711(f), written on November 5th, enactment day of November 5, 1990, "The Secretary shall endeavor to ensure the Mutual Mortgage Insurance Fund attains a capital ratio of not less than 2 percent within 10 years after the date of enactment, and shall ensure that the Fund maintains at least such capital ratio at all times thereafter."

That is what the statute says. I yield to the gentleman from New Mexico.

Mr. PEARCE. Thank you, Mr. Chairman. And thank you, Mr. Secretary. I appreciate your comments today. I think Mr. Huizenga was making a very critical point that many times we, you, whomever, will sit in these chairs and we speculate what we are going to do to help those people, to be more fair to those people. I participated in my first year in making an award from some department in HUD that allowed a young woman to move into a home in Anthony, New Mexico. Anthony is predominantly a poor community, so it was nice to have the help there. Several years later, she caught me at a town hall and said, "Do you remember coming to my house? You actually helped move boxes in from the trucks."

And I said, "I do remember that." And she said, "I was sort of led into that by this free money from the government. What I did is put my money down. I bought a house that I could not afford because I just wanted to believe that I could do it. I ended up losing the whole thing. Everything I owned went with it." That is what we do in the sense of fairness. That is what we do when we do not have adequate underwriting standards, when we don't bother to take a look at if people can make the payments or if they can't.

Now, people in New Mexico are relatively ambivalent about the whole concept of GSEs, and the problems that the GSEs caused, until I explained that you, the taxpayer, are getting to pay for the bad mortgages for your neighbor down the street, whether they made it or they are enticed into it, or whether the government helped them, doesn't matter. If it goes bad, you the taxpayer are paying for their mortgage and yours. That is when people get hostile. So a couple of years ago we actually started concentrating on that in this committee, and the President began to talk about needing to reform the GSEs.

Now, that wasn't being driven by polls, because there are probably not 10 people in the world who understand the function of GSEs out there in the voting public. So he was aware just how angry people were getting because they were having to pay for other people's mortgages because of lax underwriting standards. You have made the comment several times today that you, FHA, did not cause a problem. Would you care, in 15 seconds, to talk about how the problem was created or is that not something you care to get into?

Secretary CASTRO. Of course, I am here to testify on FHA, Congressman, and I know that—

Mr. PEARCE. Basically then, let me fill the gap for you. In order to drive housing goals set by this body and many people in this committee, we are pushing banks to give loans, no-doc loans, doesn't matter. We are going to take them over here. We are going to transition them out of your hands really quickly, going to put them on those GSEs and it never matters, because we are going to securitize. And we are going to spread the risk out over the entire world. We are going to chop them into pieces. Nobody would ever know exactly what went wrong. And as soon as the first house didn't continue to escalate in price, the whole damned thing collapsed down and took away about half of the minority homeowner's value.

Blacks and Hispanics have suffered more under the abuses coming from Wall Street than any other population. And so when you hear us sitting in this committee being concerned that you are not watching the balance sheet, understand that it is because poor people end up paying the bill all the time. You have made the assertion that you have 47 billion there for your stable. Is that basically—is that a fair characterization?

Secretary CASTRO. Forty-six.

Mr. PEARCE. How much money did you have in the bank when you took the money from the taxpayers? How much money did you have in the bank at that point?

Secretary CASTRO. So—

Mr. PEARCE. No, just the number. How much money did you have in the bank when you took—

Secretary CASTRO. I want to make sure that I am correct on this. We were at a negative capital reserve ratio at that time. We still have—

Mr. PEARCE. My point is that you had money in the bank and you still had to take funds from the government. I would like to get into just the issue of the False Claims Act, if you are actually helping to mitigate the problems there, because that is going to shut off more loans to low-income potential homeowners than anything else. So again, we have major troubles down the road and I think this hearing is just trying to clear the air. Are you watching the circumstances around it? Our past experience says we doubt it. But we will still—in the west, we trust our neighbors, but we brand our cows, so I am just here to brand the cow.

Secretary CASTRO. Just to answer your question, we had $40 billion at that time, at the time of the mandatory—

Mr. PEARCE. This cash in the bank does not say that we are solvent.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Texas, Mr. Green, ranking member of our Oversight and Investigations Subcommittee.

Mr. GREEN. Thank you, Mr. Chairman, and I thank the ranking member as well, and I thank you, Mr. Secretary, for appearing today.

Mr. Secretary, I think it appropriate to examine some of the history of FHA. It is important to note that before FHA, loans were, generally speaking, 3 to 5 years, there was no amortization, and you had these huge balloon payments. FHA transformed the housing market such that middle-class Americans could afford housing. It has been a real friend, if you will, to this country. And why is FHA below 2 percent? Because FHA played a countercyclical role in the debacle that took place that brought this economy to its knees, or nearly to its knees, depending on who you were. For many people, it was a depression. For some, it was a recession.

FHA, according to the Center for American Progress, prevented home prices from dropping 25 percent. FHA saved 3 million jobs. FHA saved $1 trillion in economic output. FHA saved $3 trillion in lost property values. FHA kept interest rates from skyrocketing. FHA prevented another Great Depression. And as has been indicated, the law required and FHA complied and received $1.7 billion, of which FHA has not spent.

Truth be told, FHA has been the reason that this economy is in the shape that it is in today. Probably not solely, but generally speaking, it has made a significant contribution. Now, with reference to the 2 percent, the chairperson is imminently correct. It does say, "shall endeavor." And it does say, "shall insure thereafter." My suspicion is that you are endeavoring to bring us back to 2 percent, and that you will thereafter keep us at 2 percent. But I think the law also anticipates, and we who passed the law, obviously anticipate, that things might not go as well as anticipated, else we would not have built into the law the opportunity for FHA to receive moneys from the Treasury in difficult times.

So I am greatly appreciative of the work that you are doing. I think that without your good deeds and good works, FHA could continue to bump along. But I think you are going to help us to bring it back and revitalize it. And in the process, continue to allow people who, but for FHA, could not afford a home.

Finally this, and I will give back some time. I appreciate people who care about the least among us. I appreciate it. Although I must tell you, some of us are not part-time freedom fighters. Some of us were born into this. Some of us wake up to it and go to bed with it. Some of us inherited it. Some of us don't have the luxury of selective outrage. Some of us have received a duty and an obligation to continue to make a difference in the lives of the least of us, not on some days, but every day.

So for some of us, this day is not unlike any other. We are here to do what we can to help the least among us. And sometimes that requires that we take some difficult positions. Sometimes we have to stand in the face of some extreme challenges. But I want you to know this, Mr. Secretary, Dr. King was still right. The arc of the moral universe still bends toward justice. Carlyle is still right: "No lie is going to live forever." William Cullen Bryant is still right: "Truth, crushed to earth, shall rise again." Stand strong, Mr. Chairman. Stand strong, Mr. Secretary.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Georgia, Mr. Westmoreland.

Mr. WESTMORELAND. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for being here. Basically, FHA is a mortgage insurance company, correct?

Secretary CASTRO. Correct.

Mr. WESTMORELAND. What percentage of the mortgage does FHA guarantee?

Secretary CASTRO. Generally, our most common product is 97 percent of the value.

Mr. WESTMORELAND. For a normal mortgage insurance company, what percentage of the value do they insure, typically?

Secretary CASTRO. Typically, in the private sector, there would be a 20 percent downpayment and so the mortgage would be—

Mr. WESTMORELAND. Well, not necessarily. But what would they go up to?

Secretary CASTRO. That would be 80 percent under a usual—

Mr. WESTMORELAND. They guarantee 80 percent of the mortgage?

Secretary CASTRO. Insure 80 percent of the mortgage.

Mr. WESTMORELAND. Okay. So if the mortgage is, if the house is $100,000—

Secretary CASTRO. I'm sorry, insure 100 percent of the mortgage, which is 80 percent of the sale. There is a 20 percent downpayment, and the mortgage is insured.

Mr. WESTMORELAND. So if you have a $100,000 house, with an $80,000 mortgage, the private insurance company will insure the whole $80,000?

Secretary CASTRO. I guess I was a little bit confused, if you are talking about FHA, or if you are talking about the private mortgage insurers.

Mr. WESTMORELAND. FHA, what is that number?

Secretary CASTRO. We insure 100 percent, and—

Mr. WESTMORELAND. Of the mortgage amount?

Secretary CASTRO. That is right. Yes.

Mr. WESTMORELAND. And what percent does that private mortgage insurance company—

Secretary CASTRO. Typically, the mortgage insures 30 percent of the UPB at 95 percent of loan to value.

Mr. WESTMORELAND. Okay. So you all—you insure quite a bit more, correct?

Secretary CASTRO. Sure.

Mr. WESTMORELAND. I am a little confused here about a couple of things in your testimony. I am a builder. I was a builder, and a real estate agent. And in your testimony, you said that home building had doubled. Since when?

Secretary CASTRO. Over the last several years, we have seen home building double since the beginning of the housing—

Mr. WESTMORELAND. Could you get me where you saw that information—

Secretary CASTRO. Sure.

Mr. WESTMORELAND. —because I want to share it with some people at home.

Secretary CASTRO. I would be glad to do that, Congressman.

Mr. WESTMORELAND. Okay, thank you. And also, but you said home prices have rebounded about 20 percent in the last 3 years. Could you get me that data, too? Because I want to share that with my appraiser, so we can go over that.

The other thing you said in testimony is that the average fees I guess you will collect is $17,000, and FHA expects that the average loss from borrowers for these loans would be $4,700. So you are insuring 97 percent, or 95 percent of the loan, but if something goes south, you are only going to lose $4,700?

Secretary CASTRO. Across our class of 2014 borrowers, we expect that loss to be $4,700 per borrower, the average loss to be $4,700, and we are collecting $17,000 in mortgage insurance premiums from those 2014 borrowers.

Mr. WESTMORELAND. Okay. Can you tell me how many mortgages you all insured in 2014?

Secretary CASTRO. Sure. We can get you that number.

Mr. WESTMORELAND. Do you know how many loans that you will insure in 2015?

Secretary CASTRO. We expect that in this year, we are going to do about 800,000 loans.

Mr. WESTMORELAND. About 800,000?

Secretary CASTRO. Yes.

Mr. WESTMORELAND. Okay. You were talking about how many loans that you did. How many of those loans in 2014 were refinance loans, and how many do you project will be refinance loans in 2015?

Secretary CASTRO. My best recollection is that it is in the range of 150,000 are refinances, and we expect between 100,000 and 200,000 refinances in 2015.

Mr. WESTMORELAND. Okay. But you don't know what dollar amount those loans are going to bring in, correct?

Secretary CASTRO. We would be glad to get you that, Congressman.

Mr. WESTMORELAND. And I know that you were mayor of San Antonio. Did you ever lower taxes?

Secretary CASTRO. During my tenure of service, sure. We did.

Mr. WESTMORELAND. You lowered your taxes in town? Did your revenues go up?

Secretary CASTRO. San Antonio is a growing city, so they did.

Mr. WESTMORELAND. Okay, so you cut your taxes and revenue went up. Sounds like a good idea to me.

Mr. PEARCE [presiding]. The gentleman's time has expired. The Chair now recognizes the gentleman from Missouri, the ranking member of our Housing and Insurance Subcommittee, Mr. Cleaver. And if the gentleman would suspend, I believe we are going to take a 5-minute break right now. We will recess for 5 minutes. We will be right back.

[recess]

Mr. PEARCE. I notice the palace guard has arrived. You didn't lose your charge, did you?

Mr. Cleaver, I regret to inform you that under an arcane rule of the House, your time elapsed while his time elapsed, and so, but with unanimous consent, we would recognize Mr. Cleaver for 30 seconds.

Mr. Cleaver, go ahead, 5 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman. Mr. Chairman, in keeping with the Christmas motif of this hearing, is it in order that I ask Mr. Perlmutter a question?

Mr. Secretary, do you believe that all people who purchase merchandise on sale during Christmas experience regret in January?

Secretary CASTRO. I don't believe that everyone who makes a purchase in December regrets it in January, no.

Mr. CLEAVER. Thank you. Are you familiar with the term "disambiguation?" It is esoteric. It actually means time travel. And how long have you been Secretary?

Secretary CASTRO. I have been Secretary for about 6 months now.

Mr. CLEAVER. Yes. So I am amazed at your command of all of the facts, but unless you can go back in time for a year, do you think that in 6 months, you have acquired all of the information that you will acquire, say, in another 6 months?

Secretary CASTRO. I have no doubt that in another 6 months, I will have acquired even more information than I have today. Sure.

Mr. CLEAVER. Yes, I believe so as well.

And I think Einstein was wrong, but I have a degree in sociology. Let me find out, Fair Isaac says that a good credit score is 550. Tell me again what the HUD, FHA score for borrowers is at presently?

Secretary CASTRO. The average credit score for an FHA borrower in 2014 was 680.

Mr. CLEAVER. So that is hardly giving loans to unworthy borrowers based on credit scores. Is that—

Secretary CASTRO. These are strong credit scores. I just also would note again, that we set a credit score floor of 500 and also for folks with FICO scores under 580, we now require a 10 percent downpayment.

Mr. CLEAVER. Yes, so Fair Isaac says 550 is good, and most of us, most creditors look at that score, is that accurate? So FHA does, in fact, have strong underwriting criteria.

Secretary CASTRO. Absolutely.

Mr. CLEAVER. The one thing that I think is kind of important, at least to me, is that about a half million Americans, even though they were minorities, were able to get FHA loans in 2014. And I think you were projecting 800,000 this coming year.

Secretary CASTRO. That is correct.

Mr. CLEAVER. Is there any projection on how many people actually apply for FHA loans but are determined not to be creditworthy, and are turned down?

Secretary CASTRO. We can certainly get that you figure.

Mr. CLEAVER. But it would be a substantial number?

Secretary CASTRO. Of course, sure.

Mr. CLEAVER. Yes. I guess I am trying to get to the point where—there seems to be this belief that FHA is just giving money away to people who are not creditworthy, and I didn't want this hearing to end with anybody believing that is, in fact, happening.

Secretary CASTRO. It is a very good point, Congressman. I can't stress enough that FHA, for its 80-year history, has been lending to responsible, hardworking Americans. And it continues to do so to this day with very strong underwriting standards—folks who may be of modest means but are responsible Americans.

And I know that there has been some discussion, as well, comparing FHA to the banks. FHA is not a private bank. FHA has a distinct mission, and it has been fulfilling that mission in a strong way, lending to responsible Americans who are of modest means, hardworking, lower-income and middle-class-income folks. And we have seen a track record of success over its 80-year history. More recently, we have seen a strengthening of the Mutual Mortgage Insurance Fund, even against the backdrop of the challenges that we had before.

Mr. PEARCE. The gentleman's time has expired.

Mr. CLEAVER. Thank you, Mr. Chairman.

Mr. PEARCE. Thank you.

The Chair now recognizes the gentleman from Ohio, Mr. Stivers.

Mr. STIVERS. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here.

Just taking off on the gentleman from Missouri, would you be surprised to know that Fair Isaac actually calls a 550 to a 620 credit score subprime?

Secretary CASTRO. That would not surprise me, no.

Mr. STIVERS. And did you know that they call a 620 to a 680 score acceptable? And the first time they actually define it as good credit is 680 to 740. So I just wanted to clarify some of the previous remarks.

I know some of the other questioners asked you about the $1.7 billion bailout, and your response, essentially, was that you didn't really use that money. But it is in your account; Treasury designated that to your account.

So when it goes to your account—just like if I gave you $1,000 from my account to yours, can Treasury or the rest of the Federal Government use that $1.7 billion while it is in your account?

Secretary CASTRO. That became part of the cash reserves of—

Mr. STIVERS. So they can't use it, right?

Secretary CASTRO. —FHA. It was assigned to FHA.

Mr. STIVERS. So it is your money now. Whether you use it or not, it is in your account, right?

Secretary CASTRO. It is in FHA's account, true.

Mr. STIVERS. Great.

My next question goes back to something everybody is kind of asking about, the 2 percent capital-reserve requirement. Do you see that as a requirement or a suggestion?

I understand you were not there then, and it has actually improved during your tenure. But do you consider that a requirement under the law or a suggestion?

Secretary CASTRO. I certainly do consider it a requirement for us to get there. And that is why we have worked very hard, and, as you know, we are—

Mr. STIVERS. Great.

Secretary CASTRO. —projected to get there within—

Mr. STIVERS. And how long do you think it will take you to get there?

Secretary CASTRO. We believe that within the next 2 years we will reach that 2 percent capital-reserve ratio.

Mr. STIVERS. So I did some back-of-the-napkin math, and maybe it is not right, but you said you have a 0.7 delinquency rate on your $1 trillion portfolio. That is a $7-billion-a-year loss for those delinquencies. You were bringing in about $8 billion in cash flow before you lowered your rates. When you subtract those out, that means you are probably putting about $1 billion towards your reserves.

You had, I will be generous and say $5 billion, because it was $4.8 billion. You need to get to $12 billion. So, by my math, it takes 7 years.

What do you think is going to change in your cash flow that maybe I am not accounting for here?

Secretary CASTRO. Our net income this year was $8 billion. We expect the value of the Fund to grow by at least $7 billion over the next several years. And because of that strong and steady growth, we anticipate getting to the 2 percent within the next 2 years.

And the result of that is going to be all of the actions that we have taken in conjunction with this committee to put safeguards in place to recover more revenue than we used to, to ensure that our borrowers are as strong as possible—we have strengthened our underwriting. The result of all of those actions is going to be us getting to that 2 percent capital-reserve ratio.

Mr. STIVERS. I hope you are right. I have seen rosier projections from FHA every year than that reality. I have only been here for 4 years on the committee, but it has been my experience that every year FHA comes in and tells me how great it is going to be, and then it doesn't turn out that great. But I hope you are right, Mr. Secretary.

I just have, I guess, two more questions.

The first is on risk-sharing. You have had the authority to do risk-sharing since way before you became Secretary, and FHA has never used it. The value of risk-sharing would be we could see whether FHA is underpricing or overpricing based on the risk you have.

And I am curious if you plan to work with the private sector to do some type of risk-sharing so we can see what the cost of the risk you are insuring actually would be in the private marketplace?

Secretary CASTRO. Yes. I appreciate the question very much.

We are, at FHA, pursuing our two missions: to play that countercyclical role; and also to afford opportunity to hardworking Americans of modest means to be able to access credit and own a home. And to the extent that we can accomplish that, we are willing to consider ways of doing business that might make sense. And so, I am certainly willing to follow up with you—

Mr. STIVERS. I will follow up personally on that. I really appreciate it. I have been asking for more risk-adjusted pricing at FHA for the entire 4 years I have been here. Because I think, frankly, some homeowners are overpaying at FHA and some are underpaying. And if you did underwriting where you charged people based on the risk they bring to the Fund, you could appropriately price it for everybody.

I only have 14 seconds left, but last week there was a report from your Inspector General. I don't know if you have had a chance to read it, but I want to read a quick quote out of it.

It says, "Because HUD failed to implement adequate policies to monitor the agency's compliance with lobbying requirements, HUD lacked assurance that other agencies did not spend Federal funds on lobbying activities." I will just do "dot, dot, dot" there.

Are you working on that?

Secretary CASTRO. We absolutely are. In fact, I know the IG testified that at the very beginning of my tenure one of the things that we did was to send out a joint letter to all of our employees, saying that we expect our employees to comply with ethical standards and also to cooperate with the Inspector General in any reviews or investigations.

With regard to the question you are asking about, about anti-lobbying, the anti-lobbying law, we have specifically included or highlighted that in the ethics training that we just did a couple of months ago.

Mr. STIVERS. That is great, because we don't want people to get—

Mr. PEARCE. The gentleman's time has expired.

Mr. STIVERS. —more Federal dollars.

Thank you, Mr. Secretary.

I yield back.

Mr. PEARCE. The Chair now recognizes the gentleman from Colorado, Mr. Perlmutter.

Mr. PERLMUTTER. Thank you, Mr. Chairman.

And, Mr. Secretary, thank you for being here.

You have gotten a lot of leading questions and cross-examination from my friends on the Republican side of the aisle, so obviously they want to see what you are made of and how tough you are in taking these questions. The trouble is their questions are, sort of, out of "Alice in Wonderland," through the looking glass.

If you look at the report that you have given to us today and just start with Exhibit 1, where it shows that in 2005, 2006, and 2007, FHA made very few of the mortgages or endorsed very few of the mortgages—it was all in the private sector. But they failed miserably, the toxic assets there. And this was all under the Bush Administration, I would remind my friends. Then the only game in town, starting in 2009, was FHA.

Is that sort of what Exhibit 1 shows?

Secretary CASTRO. That is right. We saw our market share go up very significantly.

Mr. PERLMUTTER. Because the private sector either was wiped out because they made so many lousy loans or they were too afraid to be in the market at that time. So FHA, as the backstop, was the only thing available. Is that right?

Secretary CASTRO. That is—

Mr. PERLMUTTER. I think I will do some cross-examining—I will lead you, too.

Secretary CASTRO. Yes. We played our countercyclical role and did see market share go up.

Mr. PERLMUTTER. So looking, then, to kind of the subject that we are all talking about, you want to lower some of your fees, because, if you look at Exhibit 8, which is credit scores, in 2008 almost 50 percent of the loans endorsed by FHA at that time were less than 619 FICO score. Okay?

Today, October to December of 2014, only 2.3 percent. So 25 times more in 2008 than today. Today, in 2014, 48 percent of the loans the FICO score is over 680, compared to 18 percent back in 2008.

So you are making loans to—at least, buyers on paper, by their FICO score, are much better borrowers—pardon me, "borrowers" is what I meant.

Secretary CASTRO. That is correct.

Mr. PERLMUTTER. Okay.

And we can see, as we go through these exhibits, especially exhibits 12, 13, 14, 15, 16, 17, and 18, delinquencies are way down compared to 2006, 2007, 2008, 2009, and 2010. Is that a fair statement?

Secretary CASTRO. That is fair. That is correct. We have seen—

Mr. PERLMUTTER. They are about one-tenth of what they were.

Secretary CASTRO. Yes. And just in the last 2 years, as I mentioned, we have seen serious delinquencies go down by 27 percent.

Mr. PERLMUTTER. All right.

So the one that I really want to focus on, which goes to the solvency and the productivity of this program, is Exhibit 2–8. It is on page 40. Or, pardon me, 2–7, book value by cohort.

If you look at that—and I would suggest to my friends on the Republican side of the aisle that they do that—the book value of the FHA loans under the Bush Administration was terribly in the red; before, under the Clinton Administration, just barely positive; under the Bush Administration, deeply in the red—broke, if you will. And since the Obama Administration took over, now very valuable in terms of the book value.

Is that a fair statement?

Secretary CASTRO. Yes. It is fair to say that the value of these books has increased tremendously over the last several years.

Mr. PERLMUTTER. Okay.

So what you are trying to do now is you are working towards fulfilling that capital-reserve requirement. You are not doing it overnight, but you are doing it steadily, and every year you are adding to that. But you have limited many of your borrowers to these very high credit scores. Wouldn't you say that is fair to say?

Secretary CASTRO. That is right. The average borrower, as I said, has a credit score around 680. So it is a higher category of borrower.

Mr. PERLMUTTER. So you are in a position now—with a stronger economy than we had in 2006, 2007, 2008, the end of the Bush Administration; you have strong borrowers, where the bulk of your borrowers are above 680 now—to be able to move forward with another mandate that you have, which is to provide funds for responsible borrowers and to move affordable housing forward where possible.

Secretary CASTRO. We absolutely are achieving both of those things. We are committed to both of those things.

Mr. PERLMUTTER. Isn't that what you want to do? Isn't that what this is all about?

Secretary CASTRO. And, sir, as I said, we are striking that strong balance between continuing to improve the financial health of the Fund and also meeting our historic mission of opening up opportunity for hardworking Americans who are responsible to be able to access credit to own a home.

Mr. PERLMUTTER. Okay. Thank you.

I yield back.

Mr. PEARCE. The gentleman yields back. The gentleman's time has expired.

And the Chair recognizes the gentleman from South Carolina, Mr. Mulvaney.

Mr. MULVANEY. Thank you, Mr. Chairman.

Thank you, Mr. Secretary.

I want to come back to some of the discussions we have had earlier about the 2 percent capital requirements and the projections.

I hope you understand our frustration when we start talking about future trajectories and future projections. Before you were responsible, we got an estimate in 2009 that the 2 percent statutory requirement would be hit in 2012. In 2010, we were told it would be hit in 2014. In 2011, we were told again it would be hit in 2014. In 2012, that date moved to roughly 2017. Last year, we were told it would be hit in 2016. And, again, you are telling us here again today it will be hit in 2016, even with the change to the premium, which I want to talk about in a second.

I had a chance to look at the actuarial review and the assumptions that were made. Were you aware, sir, in the assumptions in the 2014 projection that you have used here today and relied on very heavily to say you will be at the statutory requirement by 2016, were you aware that the baseline study assumed no recession, ever?

Secretary CASTRO. As you know, Congressman, this is a—

Mr. MULVANEY. I am just asking you, Mr. Secretary, if you were aware of it or not.

Secretary CASTRO. I—

Mr. MULVANEY. If the answer is no, believe me, it wasn't easy to find, so I am not going to think you are a bad person because of it.

Would it surprise you that the baseline assumption never assumes a recession? In fact, would it surprise you that the baseline assumption assumes that unemployment never goes down below 5 percent after 2018, ever?

Secretary CASTRO. This is an independent actuary's assessment. This is not FHA's or HUD's assessment.

Mr. MULVANEY. No, but it is what you are relying on when you come to tell us, don't worry, we are still going to hit our statutory requirement by 2016. Yes, it is performed by somebody else and it uses somebody else's analytics, Moody's more specifically, but it is the basis for what you are testifying to, to Congress.

So I am simply asking you if you knew that it assumed there were no recessions and that unemployment was at historic lows for long periods of time?

Secretary CASTRO. I had a chance to review the annual report, yes, if that is the question.

Mr. MULVANEY. So you were aware, then, in your review of the annual report that under three of the eight scenarios the Fund actually goes negative and needs another bailout at some point in the future?

Secretary CASTRO. We believe that within the next couple of years, 2 years—

Mr. MULVANEY. Let's talk about that, because you mentioned that to Mr. Duffy, and he asked you specifically a question of whether or not the premium reduction would materially change the date you expect to hit 2 percent. You said, no, not significantly.

So let's talk about that. How does it change the date?

Secretary CASTRO. First, still within 2 years we anticipate reaching—

Mr. MULVANEY. But it must change, right?

Secretary CASTRO. It does. And I acknowledged—

Mr. MULVANEY. So how much does it change by?

Secretary CASTRO. —earlier that does change it by a few months—

Mr. MULVANEY. And what is your basis for saying that, sir?

Secretary CASTRO. —less than a year.

We would be glad to share with you our analysis on—

Mr. MULVANEY. Great. Because I couldn't find that on the Web site.

So you are saying you did do analysis, and the end result of that analysis was that it changed it by no more than a year, maybe only a couple of months.

Secretary CASTRO. There was analysis done on that, of course.

Mr. MULVANEY. Thank you very much.

We have heard today—I heard Mr. Sherman talk before about endeavoring to follow the law. Maybe it was somebody else. Mr. Sherman said that we don't expect it to be immediate. And I think that makes sense.

When was the last time that FHA was in compliance with the legal requirement of the 2 percent capital reserve?

Secretary CASTRO. I believe that was 5 or 6 years ago.

Mr. MULVANEY. I think that is right. Would you recommend to a private citizen that they come to an entity to borrow money that hasn't been in compliance with the law for 6 years?

Secretary CASTRO. I certainly would recommend that folks come to FHA who are looking for an affordable, proven way—

Mr. MULVANEY. So you would recommend that they come to FHA even though FHA is undercapitalized by law?

Secretary CASTRO. I absolutely would recommend FHA—

Mr. MULVANEY. And you would recommend to them that they would come to FHA even though FHA right now, with the change in the premium, is offering what essentially amounts to and what many folks on both side of the aisle would have called several years ago teaser rates on the premiums in order to build market share.

Secretary CASTRO. No. I just have a different perspective, Congressman, on that.

Mr. MULVANEY. I appreciate that.

Let me finish with this—assuming that I can find my notes, which I can't.

You testified earlier that you threw a couple of lenders off the rolls at FHA. I assume you did that because they weren't following the rules.

Secretary CASTRO. For different reasons.

One of the things that we did was that we increased the net-worth requirement from $250,000 to $1 million to strengthen the financial standing—

Mr. MULVANEY. In order to make sure they are more financially stable, I guess.

Secretary CASTRO. Certainly.

And we also—

Mr. MULVANEY. You also sued some of the larger banks in the Nation and won and received payments from them. I assume that was because they didn't follow the rules either.

Secretary CASTRO. There certainly has been fraud, and, because of that fraud, there have been—

Mr. MULVANEY. So I guess my point is this. And we have had this similar conversation in the past—in fact, the recent past with Mr. Watt at FHFA. And it seems like what we are seeing once again is a habit with the Administration, before you were here and since you have been here now, to not only not follow the law but to hold yourself to an entirely different standard than you are holding everybody else. And I just don't think that is appropriate.

But I thank you for your time.

Mr. PEARCE. The gentleman's time has expired.

The Chair now recognizes the gentleman from Delaware, Mr. Carney.

Mr. CARNEY. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for being here, you and your team. I appreciate it. This has actually been helpful to me to think through this issue.

Mr. Duffy, my friend Mr. Duffy, said earlier in the hearing that you are in violation of the law. I think I got that right. And he said you should be doing everything to get back in compliance. We have heard from a number of lawyers on both sides of the aisle; I am not one. But this issue of endeavoring to get in compliance I think is the appropriate way of looking at this.

It seems to me it would be inappropriate—and I think Mr. Mulvaney suggested he agrees with this in his questioning, as well—immediately, because you would be imposing that burden on borrowers who would have to absorb that higher rate in that particular short-term period of time, and that gradually you would gradually increase the rate or set it at a level that would get you in compliance over a period of time.

Is that what you are trying to do?

Secretary CASTRO. Yes. We are trying to continue to strengthen the health of the Fund, certainly. And we are projected to grow by at least $7 billion in net value over the next several years because of all of the measures that we have taken. And premiums are still 50 percent higher than they were when the housing crisis started.

And, at the same time, as you suggest, be able to serve the Americans that FHA has always served.

Mr. CARNEY. Right. So that was, kind of, the next part of my questioning. And that is, how do you feel like you are doing that part of your mission right now, when, as I say—I heard you say your average credit score now is 680. To the extent that reflects your target market, it seems a little high. You have a floor of 500, and for those under 580, you require 5 percent.

How do you feel that you are addressing that part of your mission, to help those potential home buyers?

Secretary CASTRO. I certainly see these steps that we have taken as prudent and necessary to return the Fund to the 2 percent capital-reserve ratio. At the same time, what we want at FHA is to be able to afford as much opportunity—

Mr. CARNEY. So it is kind of a balancing act, right?

Secretary CASTRO. It certainly is. It always is.

And, for instance, the fact that we have now put a 10 percent downpayment requirement on folks who have less than a 580 FICO score, that didn't used to be the case before. And so the effect of that, of course, is that you are making it harder for folks who would be responsible and—

Mr. CARNEY. So, as we think about this capital number or target, 2 percent, kind of like we would the national debt when there was a lot of discussion about that, we wouldn't want to pay down the national debt next year, would we? Because that would impose a huge burden on the taxpayers next year. We would want to stabilize it first and then gradually lower it by responsible fiscal and tax policy, wouldn't we?

Secretary CASTRO. Yes, I think doing it smartly. And that is what we are doing at FHA.

Mr. CARNEY. Right.

I am disappointed that my friend Mr. Stivers left, because he talked about the pricing of risk and the market pricing of risk and risk-sharing. It sounded like you said you are not actually doing that. I would encourage you to do that. And I have a method in mind, because Mr. Delaney, Mr. Himes, and I have been working on a GSE reform bill, the essence of which is to—Mr. Perlmutter hates our bill, but anyway—appropriately price risk.

So it would be helpful—right now, Fannie Mae and Freddie Mac are doing that. Right? They are selling off some of that risk, and we are getting a better idea of how those mechanisms work. So it might be helpful for us to understand what that pricing mechanism might look like if you would do it, as well.

Do you intend to do that? You said you are not doing that—

Secretary CASTRO. What I said is that we are open to thinking through that and following up with you. That is not something that we are doing right now. We are open to considering ideas like that as long as we can meet our fundamental mission.

There also is, as you know, Congressman, a cost involved to FHA to be able to administer that. And so we are concerned about ensuring that, to the extent that ever came to pass, we would have the resources to be able to do that.

But we would love to follow up with you on—

Mr. CARNEY. Yes, I would love to. We have had some assistance from your folks already, and we appreciate that very much.

It is really the unfinished businesses, if you will, of the near financial collapse, we think, where there has been some considerable disagreement here on this committee. Members of this committee want the government to be completely out of that. We think that would risk the 30-year fixed-rate mortgage. We think our mechanism appropriately would price that risk, and we hope to move that forward.

So thank you very much for your testimony today, and good luck to you.

Secretary CASTRO. Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from California, Mr. Royce, Chair of the House Foreign Affairs Committee.

Mr. ROYCE. Thank you, Mr. Chairman.

Mr. Secretary, it is good to see you.

Secretary CASTRO. It is good to see you.

Mr. ROYCE. It is good to see Castros in both of my committees today.

But as it relates to housing finance reform, the President's budget, recently released, had these words. It said, "The Administration will continue to work with Congress to pass comprehensive reform centered on several core principles." And then it goes to the first among those principles, and it says we need to "require more private capital in the system."

I would ask you, Mr. Secretary, do you agree with that concept?

Secretary CASTRO. Certainly.

Mr. ROYCE. Okay.

So if we then go to the January announcement by the FHA that it would lower the annual premiums charged to borrowers by 50 basis points, wouldn't that run counter to the principle of getting more private capital back into the system?

Secretary CASTRO. I really appreciate having the opportunity to answer this question, because I know that this is an issue that has come up. And there is no question that there is some overlap there.

However, I think you saw fairly assertive statements by folks like Radian and United, these private mortgage insurers, that their business is not going to be significantly impacted by this change in policy.

So we have seen private capital in fact increase in the market. Significantly, we have seen our market share at FHA come down as we played our countercyclical role. And I don't believe that this is going have much of an impact on their business.

Mr. ROYCE. I know you will have an opportunity to come back and testify on the budget. I think that is later this month, isn't it, or next month? But—

Secretary CASTRO. Next month, yes.

Mr. ROYCE. Next month. But it just seems to me, at the end of the day, Mr. Secretary, that if—and I would just ask you this question. Do you believe the move to cut premiums by 40 percent will increase or decrease the amount of private capital in the system? I understand your explanation, but logically, what will be the consequence of that?

Secretary CASTRO. I don't believe that there is going to be much of a consequence. And folks like Radian and United have made it clear that they don't believe there is much of a consequence either.

Mr. ROYCE. Economically, there is a consequence. And increasing the already outsized or oversized role that the government has in this and in housing finance, the FHA appears, in this case, to be attempting to restore its own solvency here by growing out of the problems. And, thus, you compete in a system like that with the GSEs. You end up competing, and the private sector, logically, is crowded out, as your market share grows and grows and grows.

If we hadn't been down this road before and had we not been debating this in 2005 and 2006 and 2007, I wouldn't be as concerned about it. But I watched the consequences of this. And as we talk about pricing risk, I watched the consequence of not being able to price risk adequately.

And, clearly, the President is right when he says, if we get more private capital into the system, that is going to provide more stability, that is going to make it easier to properly appropriately price risk.

But to the extent that you have government-sponsored enterprises that can short-circuit the supply and demand on this and arbitrarily take risks, especially when they are undercapitalized, the long-term consequence is that the private sector is crowded out, and the taxpayer is left holding the bag.

And that is my concern at the end of the day and why I wish that you would look more towards the stability and getting the reserves up so that when we hit headwinds again financially or hit troubled waters, you can stay afloat, rather than what happened last time.

Secretary CASTRO. We absolutely are committed and working toward getting to the 2 percent. And we have seen a $21 billion increase in the net value of the Fund. We anticipate that it is going to grow at least $7 million a year over the next several years.

Mr. ROYCE. I know, but I see where the premium cut directly affects the ability to reach that 2 percent, pushes it off into the far-distant future. And so that is why we are raising the point. It just logically is not taking us where the words put out by the White House in the budget statement—it doesn't comport.

But thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Michigan, Mr. Kildee, for 5 minutes.

Mr. KILDEE. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for your testimony today.

I would like to go in a slightly different direction than some of the discussion that has taken place so far.

First, I understand that HUD has begun its preparations for the—as the U.S. national committee for Habitat III, which is the U.N. Conference on Housing and Sustainable Urban Development, is set to take place in October of 2016. And I would just like to take the opportunity to contribute in the development of the U.S. report, particularly in the theme areas of equity, opportunity, affordable housing, and capacity-building. So if your staff could let my office know how we might offer suggestions and participate in that, I would really appreciate it.

I would like to comment on my principal area of focus and ask for your commentary. I worked on urban revitalization as a career before I came here, and particularly the challenges of our older industrial cities.

And I certainly want to reiterate that the challenges in these particular communities can't be underestimated. We can talk a lot about how we rationalize the marketplace and particularly in the housing sector, but I am sort of focused on the "U–D" part of HUD's charge in this context. There are many communities for which even a rising economic tide is not sufficient to restore opportunity. Older industrial cities particularly fit that description.

So, knowing that, I wonder if you might comment on, first of all, the difficulty of getting more direct support through programs like CDBG, the Neighborhood Stabilization Program, HOME, knowing that it is going to be a challenged environment to increase resources coming from Congress, as much as I think that would be a good investment.

Has HUD considered any flexibility for CDBG, for example, for those recipient communities that might have an allocation but have limited infrastructure to wisely use the dollars, either through direct support through nonprofits—I know we have the SC2 program as an example. I think that could be more robust, quite frankly. Or maybe even in the case of Michigan, where we had a strong NSP2 allocation, thinking about some flexibility in terms of program income.

And then, finally, if you could comment on HUD's consideration of the creation of a renovation reserve fund. If a fund such as that were federally-capitalized, I think there would be significant opportunity for redevelopment of abandoned properties, derelict properties in our older industrial communities, which I think would leverage private capital soon thereafter.

If you could comment on your thoughts on those areas, I would certainly appreciate it. Thank you.

Secretary CASTRO. Thank you very much, Congressman, for the opportunity to address, as you say, the urban development aspect of HUD. It is something that is important to me, as a former mayor.

And you are right that resources have been constrained, particularly when we look at CDBG and HOME, over the last several years. We have seen since 2010 a 50 percent decline in HOME funding and a 25 percent decline in CDBG funding. That has a real impact on communities throughout the United States.

One of the things I am encouraged by in next year's Fiscal Year 2016 budget and I am sure we will have an opportunity in a few weeks to discuss at greater length is an upward-mobility initiative that would allow up to 10 communities, as part of a pilot project, to combine CDBG with CSBG and two other programs and would invest $300 million in Health and Human Services to administer funds that would flexible across those four program areas that I think would give some of the flexibility to communities that you are talking about. I certainly know how valuable that is in making projects happen on the ground.

We are also, though, very proud of the work that has been down by the Administration to try and break down the silos that exist within the Federal Government and also locally. The Department of Education now is speaking to HUD, is speaking to Energy, the EPA, and so forth, and that is being mirrored on the ground through SC2, Promise Zones, the work that Choice is doing with planning grants and also implementation funds.

All of that adds up to, I think, getting a bigger bang for the buck in local communities. And whether it is doing something about vacant lots or making housing more affordable in an area or just, as we used to do a lot of in San Antonio, investing in infrastructure—

Mr. KILDEE. Right.

Secretary CASTRO. —bottom-line infrastructure, we are trying to find creative ways that we can make those resources go further.

With regard to the U.N., the Habitat III meeting, we just had our first meeting. And as the Chair of the U.S. national committee, I look forward, of course, to visiting with you and your staff on how we can work together.

Mr. KILDEE. Thank you very much.

Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from North Carolina, Mr. Pittenger.

Mr. PITTENGER. Secretary Castro, you manage a trillion-dollar book of business—larger than any other aspect of our insurance mortgage market, greater than half of it. The scope of your mission, as you defined it, is first-time buyers and low-income, minority people. You said clearly several times that you are not a bank.

I would ask you, though, sir, do you believe that the scope of your mission in the practices that you have stated that you said are prudent practices, do you believe that these practices should be commensurate with the same kinds of standards in the private market?

The private market is competitive. They are trying to aggressively build their book of business. They are out there—do you feel that your standards should be somewhat consistent with who they are and what they are doing and what their standards are?

Secretary CASTRO. I agree with you that whether it is a bank or it is FHA, we need to take prudent measures to ensure that we are in good financial health.

Earlier, a question was asked, for instance, about qualified mortgages. We have our own QM that tests the ability to pay and ensures that the loans that we insure at FHA are sound ones.

So I think you and I agree with regard to implementing prudent policy—

Mr. PITTENGER. My point, though, is that you believe that if you had a competitive private market out there which is trying to build a book, that certainly they are trying to be as aggressive as they can, with prudent standards, to build their business.

I think the point I want to drive toward is the very people that you seek to represent are the same people, that demographic group, who have been hurt the worst because of the very low standards that we had.

I would like to point out, I had a conversation yesterday, Mr. Secretary, with a risk management officer of a major financial institution. And we went over some of their standards with those of FHA.

Your percent of loans past due is 14 percent. Is that correct? Their percent of loans past due is 2 to 3 percent.

The minimum required downpayment is 3.5 percent by FHA. The minimum requirement downpayment for this institution was 20 percent.

Then the required FICO score, 580. You said that your average is 680. The average for this institution is between 730 and 740.

These are enormous, significant differences in the underwriting standards between the private market and FHA, and yet they are seeking to be as aggressive as they can to build their portfolio.

I would ask you, then—we want you to be successful. The footprint of the government is very heavy there, and, as such, the American taxpayer, we don't want a demise. And yet it seems to me, with the lowering of the premiums, the downpayment requirements, you are setting yourself up again for failure, and inconsistent with the private market, who is seeking to attract these same individuals.

Could you kindly respond to that?

Secretary CASTRO. Yes. The FHA has been a profound success throughout its history. If we think about the unique market that FHA serves, to have a default rate that is less than 10 percent—now, you mentioned delinquencies. We have seen our serious delinquencies fall by 27 percent in the last 2 years.

So, because of these safeguards that we have put in place, at times in conjunction with the work of this committee, to its credit, we are on a much more solid footing than—

Mr. PITTENGER. Right.

Secretary CASTRO. —we were before.

Mr. PITTENGER. Mr. Secretary, my dad used to say that beauty is in the eyes of the beholder. And perhaps, from your view, that could be. But I have just outlined to you the differences between the private market and FHA in their underwriting standards. They are trying to be aggressive out there to build their book. And yet your standards are far lower, and, as such, the outcomes are much more deficient. With 14 percent past-dues and the private market at 2 to 3 percent, that is a big variation.

So I would suggest to you that you need to look at stronger standards if you want to be successful in the long term.

I yield back.

Chairman HENSARLING. The gentleman yields back.

The Chair wants to remind all Members that I intend to recess the committee in 10 minutes. We will reconvene at 1:30 in order to give the Secretary a break.

Rough translation: Mr. Ellison, Mr. Barr, you are in luck. Mr. Heck and the rest of you, you are temporarily out of luck.

The Chair now recognizes the gentleman from Minnesota, Mr. Ellison, for 5 minutes.

Mr. ELLISON. Mr. Secretary, thank you very much.

And let me also thank the chairman and the ranking member.

We have spent a lot of time today—and I have tried to watch the proceedings on TV, given that we have so many things happening at the same time around here—talking about single-family portfolio.

But I would like to ask you to offer your views on the multifamily portfolio and how you believe it has performed and why its performance is important for housing in America.

Secretary CASTRO. Thank you, Representative Ellison, for giving me the chance to comment on another very significant part of the work that FHA does.

Our multifamily portfolio is immensely important. It also plays, to some extent, this countercyclical role. We saw, I believe, the volume during the housing crisis go up from about $3 billion to $13 billion of FHA-insured loans in multifamily.

That is particularly important now because FHA helps create more affordable multifamily housing at a time when, from community to community, we are seeing a crisis in terms of rental affordability.

Mr. ELLISON. Right.

Secretary CASTRO. So the ability of the FHA to underwrite and insure sound loans for affordable multifamily housing, I would argue, is important or perhaps even more important to housing options as it has ever been.

Mr. ELLISON. Thank you very much for that.

And I just want to mention that we have sort of a historic spike in the number of people who are spending significantly more than a third of their income in rent. And, of course, what does that do? That means less food, less other things that the family needs. And so, I certainly appreciate the role that FHA has played in this area.

Also, I would like, if you would, to discuss FHA's requirement to hold reserves that cover claims over a 30-year period. How does that compare to the Financial Accounting Standards Board's requirements for reserves, the need to be held by private financial institutions? And are you aware of any other Federal loan program that has such a stringent accounting requirement?

Secretary CASTRO. Yes. So for the Federal Government and each of its lending entities, the fact that we have a 2 percent capital-reserve ratio is unique in the government. There is no one else that is required to have the kind of capital reserves that FHA is required to have.

It was mentioned earlier and it is accurate to say that in the private sector there is a higher reserve ratio that is often held. But FHA is unique in its role and in its requirements in terms of our capital reserve.

Mr. ELLISON. So, apples to apples.

Secretary CASTRO. That is right.

Mr. ELLISON. Yes.

So I also just, kind of, want to make this comment. I represent the Fifth Congressional District of Minnesota. All of us here have to represent our districts, although we have a national purview, too, as well. And there are about 113,000 homes with mortgages in the Fifth District, and more than half are FHA-insured. And I don't think these families I represent would say that they are subprime borrowers.

I just want to just make the point, and I think it is important to say, that FHA has in the past and does play a very important role. And I know that this is the place where we argue over these things all the time, but I just think that, as you have to deal with the criticism and the counter point of views, that there are some people who really appreciate the role that FHA has played and HUD has played.

And, also, in terms of just making sure that diverse communities get a chance to have homeownership, FHA has insured loans to a high percentage of African-American and Latino communities. I wonder, would you care to comment on your work in that area?

Secretary CASTRO. FHA has been enormously important for the ability of folks who are of modest means of all different backgrounds but particularly communities of color, African-Americans and Latinos, to be able to access credit so that they can afford a home. Ranking Member Waters was very, I think, apt to point out that nearly 50 percent of African-American and Latino home buyers have an FHA-insured loan these days.

And so, when we think about ensuring that there is opportunity for everyone in the United States, FHA is an invaluable component of that.

Mr. ELLISON. Thank you, Mr. Secretary.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Kentucky, Mr. Barr, after which we will recess.

The gentleman is recognized.

Mr. BARR. Thank you, Mr. Chairman.

Mr. Secretary, welcome to the committee.

As you know, the Consumer Financial Protection Bureau has finalized its Ability-to-Repay/Qualified Mortgage Rule. We have talked about that a little bit today. Ostensibly, that rule is designed to promote safe and sound mortgage loans. It is designed to prohibit private lenders, mortgage originators from making loans that the Bureau deems too risky.

The Basel capital ratio rules that are applied to community banks require those institutions to reserve at least 6 percent capital. The FHA's policy of insuring 97 percent loan-to-value mortgages is arguably, seriously more risky than these QM compliance loans. And yet the FHA's capital-reserve ratio, which you are currently not meeting, is only 2 percent. And you are below that. You are well below that. And the only reason you are at 0.4 percent is because of a taxpayer bailout of $1.6 billion.

So the question is this: If your loans were not statutorily exempt from the QM rule, how many of your loans, what percentage of your portfolio, of the loans that you insure would be QM-compliant?

Secretary CASTRO. First, in the legislation that spelled out QM, FHA was specifically singled out—

Mr. BARR. Right.

Secretary CASTRO. —as separate from that. And that is why, legislatively, statutorily, we are not under the umbrella—

Mr. BARR. I recognize that.

Secretary CASTRO. —just to be clear.

Mr. BARR. But if you were not exempt, what percentage of the loans that you insure would be compliant with what the Consumer Financial Protection Bureau deems to be non-risky loans?

Secretary CASTRO. We have our own QM rule to ensure ability to pay, and so my—we can get you the exact figure.

Mr. BARR. Let me ask you this. I understand you have a different set of underwriting standards. Do you believe that the Bureau's rule is flawed and that you have a better methodology?

Secretary CASTRO. No. What I believe is that we were told to—and we have—come up with a separate process.

Mr. BARR. So the separate process is inconsistent with the Bureau's process?

Secretary CASTRO. No. I would say that both are intended to ensure that loans that are made—that underwriting is strong. FHA has historically and continues to this day to have very strong underwriting.

Mr. BARR. You didn't answer the question about the percentage. Maybe you don't know exactly the percentage of your loans that you insure that would be noncompliant with QM.

But let me ask the question this way: By lowering the mortgage insurance premium by 50 basis points, by insuring mortgages with an ultra-low 3½ percent downpayment, is the FHA more likely or less likely to insure non-QM loans that the Bureau would deem risky?

Secretary CASTRO. We will continue to insure loans of the same quality, because this is not changing anything about who is actually able to qualify for a loan. This is all about the affordability for folks who do qualify.

Mr. BARR. The American people are looking at this. They are looking at the Bureau, a Federal regulator, new Federal regulator, that is restricting access to mortgage credit. They are looking at FHA and FHFA and seeing a return to some of the more lenient standards of mortgage underwriting. And they are wondering, what is it that the Federal Government is telling us? Very conflicting messages.

What do you say to the American citizens who are looking at this and are very, very confused about what the government is telling them?

Secretary CASTRO. I would say that we are fighting for everyday Americans who are working hard, who are playing by the rules and want an opportunity to be able to get a home loan in a time when it has been very difficult, that we believe in them and we believe that they can responsibly own a home because the FHA has had strong underwriting, but it also affords folks the opportunity to get—

Mr. BARR. But your underwriting would promote loans that another Federal agency would deem risky. It is a double standard.

Let me just continue on the idea of this double standard. You talk about the noncompliance with the capital-reserve ratio, a congressional mandate, that you are below 2 percent, and that you are working hard to come into compliance.

My question would be, for a community bank that is not meeting the Basel requirements of 6 percent, would a Federal regulator, an examiner conducting an exam at a bank—how would a Federal regulator look at that community bank if the bank's excuse was, "We are working hard to come to compliance?" Would the regulator excuse that kind of a response in an exam?

Secretary CASTRO. I can only speak to FHA. And at FHA, we have seen a $21 billion increase in the net value of the Fund over the last 2 years. We have taken these very aggressive measures to improve the health of the Mutual Mortgage Insurance Fund, and it is expected to grow by at least $7 billion a year over the next several years and get to that 2 percent. So, the results are there.

Mr. BARR. The lack of coordination between what FHA is doing and what the Bureau is doing is puzzling to a lot of Americans. I would suggest you take that into consideration.

Thank you. I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair wishes to advise Members that Floor votes are expected somewhere in the 1:50 to 2 p.m. range. I encourage those who have not had a chance to question the Secretary to return promptly at 1:30.

The committee now stands in recess until 1:30.

[recess]

Chairman HENSARLING. The committee will come to order. The Chair now recognizes the gentleman from Washington, Mr. Heck, for 5 minutes.

Mr. HECK. Thank you, Mr. Chairman, and Mr. Castro. Welcome to Washington, D.C., and to the committee. Earlier in your comments, you made repeated references to your mission, which I would paraphrase, but I think accurately, to meet housing needs of the borrowers that the Single Family Mortgage Insurance program is designed to serve. I have a problem with that assertion. My problem is, when you use the term, "mission," it renders it or has the connotation of something some consultant facilitated your executive management group to come up with. But in fact, Mr. Secretary, it is a legal obligation, is it not?

Secretary CASTRO. It certainly is part of the DNA of the FHA, sure.

Mr. HECK. Not just culturally, but statutorily?

Secretary CASTRO. Sure.

Mr. HECK. So last night, an incredible earth-moving event occurred. Jon Stewart announced his retirement from The Daily Show, and it got me to thinking about all the things that he had said over the years that caused me to sit back and ponder, one of which was, when we amplify everything, we hear nothing. And I fear that we have amplified something here today which caused us not to hear something else, namely, that you are "in violation of the law." But of course, the law has many faces. So I thought I would go back and check, as it were, the controlling legal authority. And here is what the National Housing Act says. And I want to make it really clear that this is an 81-year old statute that was reaffirmed both in 1959 and in 2008 by this Chamber. It says that if you determine that the Fund is not meeting the operational goals established under paragraph (7), you may make appropriate premium adjustments. And here is one of your operational goals. Here is one of your legal obligations. This language will be familiar to you: "To meet the housing needs of the borrowers of the single family mortgage insurance program it is designed to serve."

So I think my point, and I am soliciting your response, is yes, you have a legal obligation under the law to get to 2 percent reserve, but you also have a legal obligation to serve the borrowers that this program was designed to serve. And it just seems to me, Mr. Secretary, and please respond, that what you have attempted to do is balance those two legal obligations, and it seems to me that the reduction of the insurance premiums was a way you were able to reconcile what could be construed as conflicting legal obligations. Do you agree?

Secretary CASTRO. Yes, I agree that we have both of those requirements in front of us. We are working hard to get to 2 percent. We have seen incredible progress toward that, so there is better news today than there has been in the past. At the same time, from its very beginning, FHA has had the mission and the responsibility to afford opportunity to Americans who are working hard, who may be of modest means, but who are responsible, and also deserve the opportunity to be able to own a home.

Mr. HECK. Not just a mission, but a legal obligation to serve them.

So quickly, let me ask you once again about HECM, the reverse mortgage program. As you know, I was involved with my friend, Congressman Fitzpatrick, in reforming that legislation a year-and-a-half ago. If I read the balance sheet correctly and the independent actuary's assessment, you are making progress, but what is not clear to me is whether or not the changes brought about by passage of the Reverse Mortgage Reform Act that Mr. Fitzpatrick and I worked on together, have themselves, if you can bifurcate the performance of your legacy HECM program with those reverse mortgages that have been underwritten since enactment of the reform legislation. Can you do that?

Secretary CASTRO. I believe the analysis can be done. I am not sure that it has been done. But we would love to follow up with you if you would like for us to look at that analysis.

Mr. HECK. I would very much appreciate the clarification.

Secretary CASTRO. I will say more generally, that I thank you and the committee for working on this. You are right that HECM has been a challenging part of our portfolio, and we believe that the legislation will help to stabilize it and to strengthen those books of business as HECM goes into the future.

Mr. HECK. You are welcome, Mr. Secretary. Please extend your gratitude to Mr. Fitzpatrick as well. I had one more question, but I yield back the balance of my time. Thank you, Mr. Chairman.

Chairman HENSARLING. The Chair now recognizes the gentleman from Texas, Mr. Williams, for 5 minutes.

Mr. WILLIAMS. Thank you, Mr. Chairman, and Mr. Secretary, it is good to see you. It is always good to see a Texan in Washington. I am a private-sector guy. I come from the private sector. I have been a small business owner for 44 years. Much like you, I am a salesman. You are selling houses; I am selling cars. And I believe that less government is the best government. I believe government out of our lives is a good thing. I believe in competition. I believe in fair competition. I believe in not having to compete against the Federal Government every single day that you get out of bed.

I have listened to the talk of FICO scores, and downpayments, and I am glad you are doing that, but I would like to tell everybody that that is nothing new in the private sector. That is not a new concept. It is a concept that has always been done. As I said, I am in the car business. And when I listen to what you have to say, it reminds me of our business. And I have to tell you, your business model scares the heck out of me. When we talk about volume, and without margin by reducing fees, and trying to improve capital standards, that doesn't work. It doesn't work in business. And it won't work in what you are doing. And also the comment about reducing, or reviewing lenders and taking them out of the ability to do business with a lot of people because they don't meet standards, when we talked a lot about today how you all are not meeting any standards, and are probably breaking the law. I think it is laughable when we talk about that.

And so, I would ask you this: We talked about the $1.68 billion that you all drew on the U.S. Treasury. Similar to the flood insurance program, should FHA be required to borrow with interest the $1.68 billion, as opposed to just pocketing it? And would you support the FHA repaying that back to the taxpayers and the small business owners who invested in that, because if I am a business owner, I am going to have to pay it back. Why should you not have to pay it back? It is the peoples' money.

Secretary CASTRO. I appreciate the question. I think we have a different perspective on the value of FHA, obviously. And the fact is that FHA has served a fundamental purpose in offering opportunity to responsible Americans throughout its 80-year history. In terms of the mandatory appropriation that we received, that is governed by statute, Congressman, and so I—

Mr. WILLIAMS. I understand, but do you think they should pay it back? Do you think you should pay it back, because it bailed you out? So should you pay it back to the people?

Secretary CASTRO. We are going to administer the Fund as we need to to get to that 2 percent and as we are governed by statute.

Mr. WILLIAMS. Okay, we talked about that past due. What is past due? Is it 30 days, 90 days, 120 days? What is it?

Secretary CASTRO. You have different types of delinquencies. A delinquency, a serious delinquency obviously, an overall default, our default rate is less than 10 percent. We have had a reduction in serious delinquencies of 27 percent since 2013. So I just want to say, again, and give the committee some credit for putting in place the safeguards that have allowed us truly to be at a spot today where we have better news than we have had in the past, and understand our commitment to working with you to get to that 2 percent.

Mr. WILLIAMS. But what constitutes when you say, okay, we have to foreclose on this? Or we have—tell me, what is that period of time?

Secretary CASTRO. Yes, it is—

Mr. WILLIAMS. In the car business, if you fall 60 days past due, that is not a good thing.

Secretary CASTRO. Just so that I am clear, serious delinquency is 90 days past due.

Mr. WILLIAMS. Ninety days. I got you. All right. And then also, in our time remaining, I would ask you this: Do you believe the FHA should be run and operated like a private insurance company? The private sector, of course, has to be accountable. They have to update technology and they have to manage it right, manage the personnel and so forth. Do you think it should be run like a private insurance company and do you believe that right now your agency is what I would say nimble enough to handle $1 trillion in insurance risk?

Secretary CASTRO. I believe that FHA has been a profound success. It is not a private business. It is not a bank. It has served a unique set of borrowers, and the question is, do we believe in that mission, or do we not? And I fundamentally believe that we can accomplish getting to that 2 percent ratio and also fulfilling that obligation that we have to afford opportunity to middle-class Americans.

Mr. WILLIAMS. Thank you, Mr. Chairman. I yield back.

Chairman HENSARLING. The gentleman yields back. The Chair now recognizes the gentleman from New Hampshire, Mr. Guinta, for 5 minutes.

Mr. GUINTA. Thank you, Mr. Chairman. And thank you, Mr. Secretary, for being here. I want to look at this from a little bit of a different perspective. You and I share a very similar background. You were a mayor. I was a mayor. So I want to ask you the question from this perspective. I understand you are running a $46 billion budget now. When I was mayor, I ran a $300 billion budget. San Antonio was significantly larger. We had relationships with the public housing organization in my city. I am sure you did in yours. My question would be, as a mayor, if an agency or entity came to you with the facts and figures that you are presenting to us, would you as a mayor feel and deem those facts acceptable: $1.7 billion in a taxpayer bailout, the repayment rate—or the delinquent rate from 14 percent down to 10 percent. Would you look at that as a mayor, and feel that would be a reasonable risk for the people that you represent to continue to take?

Secretary CASTRO. As you know, as mayor the thing that you are concerned about is results. And what we have seen is we have seen the results of strong safeguards that we have put in place. So we have seen serious delinquencies go down by 27 percent, recovery rate go up by 62 percent. We have seen a $21 billion increase in the net value of the Fund and projections for $7 billion increases each year over the next several years. So from the perspective of getting things done, we have gotten improvement done. So yes, I do have confidence in FHA.

Mr. GUINTA. So you are making improvements. Are you meeting the metrics that you are setting for FHA?

Secretary CASTRO. We are working to get to the 2 percent capital reserve ratio and we are having very good success at getting there.

Mr. GUINTA. When was the last time you were at the 2 percent, FHA? When was the last time?

Secretary CASTRO. It was, I believe, 6 years ago.

Mr. GUINTA. So 6 years ago, if you took over FHA, at what time period would you say would be acceptable to get back to the 2 percent?

Secretary CASTRO. Well—

Mr. GUINTA. In terms of being a results-driven kind of guy.

Secretary CASTRO. I would say, Congressman, of course I was not here at the time and so I don't want to speak for anything in the past. I would just say, as someone who has been on the job 6 months, I have been impressed by the results that FHA is now getting. The two most profitable books of business in the history of FHA have been 2013 and 2014. And we are projected within the next 2 years to get to that 2 percent. So if we talk about results, and that is what we are concerned about on the ground, as mayors, there is no question that today we have a story of results at FHA.

Mr. GUINTA. Earlier in the testimony, you had talked about decreasing the premiums. I understand that from 2010 to 2014, premiums increased 145 percent. Did you think that was good public policy to increase premiums on these very people that you were advocating to try to provide homeownership?

Secretary CASTRO. I believe that was one of the tools, one of the safeguards that was put in place. I see the value of having done that.

Mr. GUINTA. So then what changed from that period of time, to now, where the premium is reduced—where you have reduced it by 40 percent knowing that you still have an obligation of almost 1.6 percent to get to the 2 percent cap?

Secretary CASTRO. A couple of things. Because of this panoply of safeguards that have been put in place, the health of the Fund has grown $21 billion over the last—

Mr. GUINTA. And these are safeguards that had not been in place ever in the history of FHA?

Secretary CASTRO. Most of them, that is true, or had not been in place in a while. A good example of this is eliminating seller-assisted downpayments. That is something that this committee led the charge in. That helped. Our estimate is that if those had not ever been—had not been a part of the calculus of the business that we were doing, that the Fund would have $16 billion more in value. So just to answer your question, the fact that the results are there, the strong improvement is there; secondly, that the projection is that we are going to continue to have strong results; and then the third thing is, we are charging these folks $1,700, collecting from them $1,700 when we expect the loss to essentially work out at $4,700. We have to do something for average—

Mr. GUINTA. Reclaiming my time for a moment, so you are comfortable with a balance sheet that looks, that has a $1.7 billion exposure on it despite the fact that you feel we are making results and we are going to get there eventually. Despite the fact that we haven't met that goal in 6 years, you are comfortable with a $1.7 billion deficit on the balance sheet?

Secretary CASTRO. It is incorrect to say that we have a $1.7 billion deficit. We have $46 billion in cash reserves right now. And let me just—

Mr. GUINTA. But you took a loan, essentially taxpayer-backed, of $1.7 billion.

Secretary CASTRO. We took a mandatory appropriation from the Treasury, sure.

Mr. GUINTA. Thank you.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Pennsylvania, Mr. Rothfus, for 5 minutes.

Mr. ROTHFUS. Thank you, Mr. Chairman, and welcome, Mr. Secretary. I want to call your attention to a recent Politico magazine article entitled, "The Real Bank of America." This article highlights the fact that the Federal Government has $3 trillion in loans on the books. In addition, the article discussed the September 2013 taxpayer bailout of the FHA which cost Americans $1.7 billion. It cited HUD's former Chief Financial Officer saying that, "In fact, the FHA has been receiving silent taxpayer-funded bailouts throughout President Obama's first term, bailouts that went unnoticed because of the odd process the government uses to calculate the budget costs of credit programs." Could you elaborate further on what the former HUD CFO in the article was referring to?

Secretary CASTRO. Yes, of course. I won't speak for other folks. Let me just say, if it is the same article that I believe you are referring to that suggested that somehow there was a $75 billion bailout or something to that effect, that is just a completely inappropriate way to characterize the revenue that has flowed between the capital reserve account and the financing account of FHA.

In fact, we did take a $1.7 billion mandatory appropriation, but I would not characterize that as a bailout either, and I certainly would not suggest that the usual business that statutorily designated of moving dollars from one account to another account that all came in through FHA fees, that is somehow a bailout either. That is completely incorrect.

Mr. ROTHFUS. I want to talk a little bit about what you are referring to with the $70 billion-plus. In fact, the article went on to say that the well-publicized $1.7 billion figure ignored tens of billions of additional dollars in unpublicized budget re-estimates after FHA mortgage losses repeatedly turned out worse than expected. Re-estimates don't require a public announcement or a congressional appropriation. Agencies just use what is known as their "permanent and definite authority" to stick the shortfalls on the government's tab. "That's real money," is what the HUD former CFO said. Quote: "They forecast bogus profits every year and when it turns out they are way off, they just say oh, well." Re-estimates of FHA losses have produced $73 billion worth of, "Oh, well," since credit reform, most of it since the housing bust.

Is that really the attitude that the FHA should have about taxpayer balance, "Oh, well?"

Secretary CASTRO. I disagree completely with the premise of the article and the comments. In fact, these transactions are transactions that are statutorily required and they are a regular part of doing business. And they represent the transferring from one account to another account to be able to ensure that all potential losses to the book of business are covered. These are not funds from the taxpayer. These are funds from fees collected by FHA.

Mr. ROTHFUS. We talked a bit about today about trying to get to the 2 percent requirement that you are supposed to have. Can you assure the committee that the FHA will not need another taxpayer bailout?

Secretary CASTRO. There are certainly no guarantees that I can make except to say that we have had two of the most profitable years in FHA history in 2013 and 2014 and I do not anticipate at any time in the foreseeable future, another mandatory appropriation.

Mr. ROTHFUS. We talked a little bit earlier about—I think you testified that the average was what, $900 in savings because of reducing the premium from 1.35 down to .85?

Secretary CASTRO. That is right.

Mr. ROTHFUS. What is the average mortgage that you are talking about, mortgage size that is recognizing that kind of savings?

Secretary CASTRO. The average mortgage is about $180,000.

Mr. ROTHFUS. So for the average $180,000, you are testifying that the average savings can be $900?

Secretary CASTRO. To the average borrower in 2015.

Mr. ROTHFUS. Okay. Thank you. I yield back.

Chairman HENSARLING. The Chair now recognizes the gentleman from California, Mr. Vargas, for 5 minutes.

Mr. VARGAS. Thank you very much, Mr. Chairman. Mr. Secretary, it is a pleasure to be here. I have to say, I have driven through Texas a few times and I always wonder how you guys can stand those long drives. I see it today why it is. You guys have stamina. Stamina.

Now, I do want to ask this: The FHA has played somewhat of a countercyclical role since the financial crisis, and I know that you guys have been criticized for bringing down the rates on your mortgage insurance premiums, but others have criticized the other way saying you haven't come down low enough, in the sense it still has a historically high level compared to the past. Could you comment on that, because we still get a lot of pressure at home from a lot of the REALTORS® saying, we have to do more. And the FHA should do more. Here you are hearing the opposite, you ought to do less, but at home we hear the opposite, you guys have to do more. Could you comment on that?

Secretary CASTRO. That is a good question and one that has been asked of FHA over the years. Certainly, there have been many voices calling for lower premiums and some voices since the announcement saying that perhaps we should have gone lower, as you say, and it is clear, we have folks saying don't do it at all. But as we said, again, after the annual report came out in November, our responsibility is to make decisions that are consistent with our fundamental statutory obligations and also meet our historic mission. And so we wanted to be sure to strike that strong balance between continuing to improve the health of the MMI Fund and also affording opportunity for folks of modest means who are hard-working to be able to access credit for a home loan. And 50 basis points in that regard was the best lending spot, we felt.

Mr. VARGAS. I guess I would ask this: There is that continued—the economy seems to be recovering. You take a look at the stock market, certainly, and look at the job growth. One of the things that doesn't seem to be coming back as robustly as before, and certainly not in California, certainly not in my district, is the sale of homes and the home market. So some people are pushing saying, you ought to do more. In fact, the reality is that it is pretty healthy, as you have been saying. The Fund is somewhat healthy. I was, just like some of my colleagues here, I was the vice president of Liberty Mutual and we did insurance, and the reality is that you have up markets, and you have down markets. And here there seems to be an opportunity for you, and it seems like you could do more.

And so, again, I just want to push you. And I know they are pushing you the other way. But when you go home, they push the other way saying you ought to do more. So could you just comment a little further on that?

Secretary CASTRO. It is the case that we are always monitoring each of these things, the volume, of course, the health of the Mutual Mortgage Insurance Fund. We want to be able to afford opportunity to folks. I believe that the 50-basis point reduction is sound and it makes sense. If the question is, will it make sense in the future to lower the premiums again, that could be the case. But we are going to make a decision based on the evidence in front of us, and ensuring that we continue to strengthen the Mutual Mortgage Insurance Fund and balance our mission of affording opportunity.

Mr. VARGAS. But the indices seem to show that you are going the right way. In other words, even though you have been beat up a little bit here by violating the law, even though you just got there, the reality is, the Fund is strong and getting stronger. So, will you continuously look at this? Because, again, the pressure at home is very different from what I have heard here today.

Secretary CASTRO. We will continue to look at the insurance premiums as we look at all aspects of FHA. As I mentioned before, 2013 and 2014 were the most profitable books of business in FHA's history. And we will have a better sense of this, I believe, when we get the next annual report in November of this year.

Mr. VARGAS. Thank you very much, and again, thank you for staying here for so darn long. I haven't seen that in any other committee. So thank you very much.

Secretary CASTRO. Thank you.

Mr. VARGAS. I yield back.

Chairman HENSARLING. The gentleman yields back. The Chair now recognizes the gentleman from Arizona, Mr. Schweikert.

Mr. SCHWEIKERT. Thank you, Mr. Chairman, and Mr. Secretary, we really are appreciative that you have given us this much time. Let's see if I can bounce through a series of concepts and questions as fast as possible. You have an executive risk officer. Has that risk officer signed off on where you are going right now ratio-wise?

Secretary CASTRO. We do have a Chief Risk Officer and this was another one of the safeguards that was put in place, and I think very—

Mr. SCHWEIKERT. That risk officer has put their little stamp or seal, or however it is done, saying where we are at is acceptable, and our growth in the reserves is acceptable?

Secretary CASTRO. That has certainly been a part of the formulation of this and calculation, sure.

Mr. SCHWEIKERT. But they said yes?

Secretary CASTRO. To the extent that they are part of the team working on it, then absolutely yes.

Mr. SCHWEIKERT. But that is not a risk officer's job. A risk officer's job is sort of a binary, "go, no go." Did they give you a "go" or a "no?"

Secretary CASTRO. I have not received any negative word on it.

Mr. SCHWEIKERT. Okay, so you so far have a risk officer who has basically been part of the team but been silent on this is acceptable where we are at. And it is okay to grab something from the staff because that is a big—

Secretary CASTRO. Because I want to make sure that I am answering the right question here. The Chief Risk Officer has said, yes, that he supports this measure. I think if your question is, has he said that verbally or has he signed something—

Mr. SCHWEIKERT. Typically we want them to sign things, and look, remember, you are managing a huge book of business as ultimately a loan guarantor, and the Risk Officer is comfortable with your ratios where you are at and where you are going. Has that Risk Officer also sat down with you and said, here is what happens if over the next 24 months, 36 months, we move into an upward-moving interest rate environment?

Secretary CASTRO. Yes, the Chief Risk Officer has been part of the dialogue in the room with myself and the staff as we discussed this in terms of where we are at now, and the projections.

Mr. SCHWEIKERT. One of my side suggestions, because you and your brother—many folks believe have great political projectories, have them sign off on it as just sort of an indemnification of life. Remember, black swans do happen. Do you know what your 60-day impairment is?

Secretary CASTRO. In terms of our delinquencies?

Mr. SCHWEIKERT. Yes, right now, last month, what was your impairment on 60-day?

Secretary CASTRO. We can get—I don't have that figure right in front of me, but we can get it to you, Congressman.

Mr. SCHWEIKERT. It is a quick mission question. If you were to define the mission of the FHA guarantee system, when I am one of those who got his real estate license when he was literally still in high school. So I remember sitting through those classes, and looking at your age, it was probably long before you were even paying any attention to this. We used to hear the stories—FHA first-time home buyers. What do you think the mission of an FHA loan is today?

Secretary CASTRO. The mission of FHA today is the same mission that it has always been, to afford opportunity for folks who are of modest means, who are hardworking and responsible, be they first-time home buyers or other folks to be able to access credit so that they can purchase a home, and there are millions and millions of Americans, 40 million who have been served by FHA with that mission.

Mr. SCHWEIKERT. And when we heard the discussions that bounce up around here of you are also a countercyclical provider, do you roll that into part of your FHA's mission?

Secretary CASTRO. I do, absolutely. I mentioned earlier it has both of these missions and we have seen that recently. We have seen it play a countercyclical role. In fact, as the committee knows, and has been testified to before, there was a very on-point analysis that demonstrated if it had not played that countercyclical mission, then home prices, for instance, would have declined another 25 percent, and—

Mr. SCHWEIKERT. I would love to, and staffers, can you send me that data, just because there is something, I believe, wrong in those calculations, so I would love to get my hands on that. For many of us who have spent our lives around substantially what you are specializing in now, and this may be a difference between one side of the dais to the other side, a neighborhood has a foreclosure. It is bad. Two, three foreclosures, it is now the entire neighborhood that begins in a cascade effect of suffering. And so in many ways, that mission you talk about is to help that hardworking taxpayer have access to credit, but at the same time, I would beg of you to also think about the entire neighborhood, and the protection of the entire neighborhood from what happens when the cascade effect begins. And with that, I yield back, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Missouri, Mr. Clay, the ranking member of our Financial Institutions Subcommittee.

Mr. CLAY. Thank you so much, Mr. Chairman. Thank you for conducting this hearing, and thank you, Secretary Castro, for coming before us today. And before I get into my questions, Mr. Chairman, I would ask unanimous consent to enter several documents into the record.

First, I have four letters from outside groups urging FHA to reduce its premiums, one of which is signed by over 40 organizations. I also have a chart prepared by the Urban Institute that shows a distribution of volume and share of GSE, VA, and FHA originations in 2014 broken down by loan-to-value ratio and FICO score. The chart demonstrates the importance of FHA for higher LTV loans and the stark differences between borrowers served by the FHA and the GSEs.

Chairman HENSARLING. Without objection, it is so ordered.

Mr. CLAY. Thank you, Mr. Chairman. And also, I listened to my friend from Arizona and others about the FHA and its role in the housing industry. And I just wanted to make my colleagues aware that in the 1930s when the FHA was originally founded, that agency initially conducted as official U.S. housing policy over discrimination practices in barring African-Americans from securing FHA-backed mortgages, and purposely steering African-American borrowers to higher-priced predatory loans.

In other words, they couldn't get the regular FHA-backed mortgage that most other Americans were getting at the time to realize the American dream. So they were steered into these higher-priced loans at the behest of official government policy. And it took the elimination of restrictive covenants through the Supreme Court's ruling in *Shelley* v. *Kraemer,* as well as the passage of fair housing laws into the 1960s, in order to level the playing field in the U.S. mortgage market so that people could be treated fairly when they went to apply for a mortgage.

I am sure the Secretary is aware of the history of the FHA. And I would like to make my colleagues aware of that history also because for 30 or 40 years, people were at a disadvantage, who tried to play by the rules, who tried to get money at a rate that was affordable to them to purchase a home. And they were put at a disadvantage, and so I heard the word "foreclosure" mentioned and what happens to neighborhoods when there are foreclosures.

I know all too well what happens. I represent an area in north St. Louis County which has been devastated. Up to 10 years ago, it was a middle-class neighborhood with home values that were considered upper-middle-income levels. And then all of a sudden, people wanted to refinance their homes, and they were steered into these high-priced mortgages. Equity was stripped out of the homes, and what do we have now? We have a lot of vacant houses. People don't live in them. They can't afford to finance them, and so that is what happens in foreclosure to communities that are vulnerable. And let me mention that most of these homeowners were upper-income African-American homeowners who did not, for some reason, qualify for conventional mortgages, and were steered into predatory loans and now they have gone through foreclosure and lost their property.

But let me ask the Secretary, I just have one question—oh, my time is up. I yield back.

Chairman HENSARLING. Indeed, the gentleman doesn't have any time to yield back, but I certainly listened carefully to the gentleman, and indeed, that was a fairly accurate history and we will work with him to continue to make sure that these scourges do not occur again on our watch. At this time, I will recognize the gentleman from Colorado, Mr. Tipton.

Mr. TIPTON. Thank you, Mr. Chairman. Mr. Secretary, thank you for taking the time to be here. Sir, traditionally, the FHA has had as its mission to provide access to creditworthy low- and moderate-income and first-time borrowers, and play a countercyclical role in the market in times of credit contraction. Is that still the parameters that you believe are the mission of the FHA?

Secretary CASTRO. That is still the heart of our mission, playing a countercyclical role and affording opportunity for hardworking, responsible Americans to be able to access credit to purchase a home.

Mr. TIPTON. Okay. Right now, the FHA has roughly 50 percent of the market share that is in place in the whole mortgage market, insurance market. Do you think that is too high?

Secretary CASTRO. Congressman, I would just say that we fulfill our mission and we play a countercyclical role. We have seen our market share from the beginning of the housing crisis go up and we have started to see it come back down. So we see that FHA is playing its countercyclical role. We welcome private capital into the market, and I mentioned earlier that is something that we recognize of—

Mr. TIPTON. To step back a little bit, when you just defined what the mission of the Federal Housing Administration is, is 50 percent of the market in that low-income, underserved area countercyclical area, 50 percent of the whole market? Does it meet that criteria?

Secretary CASTRO. I would say, first of all, that it depends on where the market is at, whether it is playing a countercyclical role or not. And we have seen over the last couple of years that the FHA did play its traditional countercyclical role as its market share increased, and now has started to decline as private actors have come back with more force into the market.

Mr. TIPTON. I will come back to this, but since you bring up the countercyclical portion of this, you had indicated that you have had two of the most profitable years, so the market stabilized, but yet you are trying to get a bigger share of the market by lowering rates, is that correct?

Secretary CASTRO. What we are trying to accomplish by lowering these premiums, is to strike a strong balance.

Mr. TIPTON. But you are at 50 percent plus now.

Secretary CASTRO. We are—our goal is to strike a strong balance between continuing to improve the health of the Fund and also afford opportunity for the folks that FHA—

Mr. TIPTON. So that 50 percent, that is all low-income, underserved markets is what you are telling us?

Secretary CASTRO. Well—

Mr. TIPTON. 50 percent of the market right now.

Secretary CASTRO. It is the folks that FHA has historically served. It is folks who are—some of them are lower-income, first-time home buyers.

Mr. TIPTON. Just my basis for a little bit of reflection here, the overall market share has fluctuated from as little as 3 percent in the 2000s, to more than 30 percent of new mortgage purchases during the crisis. Normally, it is in the 10- to 15-percent range, so you are already well above that.

Secretary CASTRO. We did see—I agree with you that we saw the market share increase. We have also seen it start to come back down. That is the countercyclical role that FHA plays. I believe that there is a strong value—

Mr. TIPTON. So again, has the market normalized pretty much? You just said you had two of the most profitable years in your history.

Secretary CASTRO. That is correct, 2013.

Mr. TIPTON. So why are you trying to get more business by lowering rates?

Secretary CASTRO. Getting more business—

Mr. TIPTON. You are at .41 percent capitalization.

Secretary CASTRO. Again, getting more business was not the primary driver of our—

Mr. TIPTON. Is that going to happen? Are you going to take a bigger share than 50 percent now that the—

Secretary CASTRO. The primary drivers of our decision have been ensuring that we have a strong and growing Mutual Mortgage Insurance Fund; and also, we think that everyday hardworking Americans deserve a shot to own a home in the United States, and that FHA has played a unique role in making that happen, and we are committed to it continuing to play—

Mr. TIPTON. In a normalized market that you say we are now in, what would be the proper size of the FHA?

Secretary CASTRO. I won't get into hypotheticals about the market except to say that I believe that it is very clear that we have produced results in terms of improving the Mutual Mortgage Insurance Fund, and we are committed to working with the committee to continue to strengthen the Fund.

Mr. TIPTON. And you have indicated that you are obviously comfortable with lowering the rates, and just a final question here in the waning moments that we have here, how big is too big for the FHA in terms of the overall market?

Secretary CASTRO. We are going to continue to serve the unique market that we have served for 80 years now and this premium reduction helps ensure that we continue to strengthen the Fund, but at the same time, we make a home loan a little bit more affordable to everyday, hardworking Americans.

Mr. TIPTON. Thank you, sir.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Maine, Mr. Poliquin.

Mr. POLIQUIN. Thank you, Mr. Chairman. Mr. Secretary, you and I have been looking at each other across these 2 tables for 4 hours. We both should have medals for doing this, but I am thrilled to death that we finally have a chance to have a dialogue, sir. You received a very large agency, Mr. Castro, about 8,000 employees with an annual budget of $46 billion. Is that right, sir?

Secretary CASTRO. That is correct.

Mr. POLIQUIN. Okay, and Mr. Tipton mentioned just a minute ago, along with others, that you folks backstop with taxpayer dollars more than half of every home mortgage in America. Is that correct, sir?

Secretary CASTRO. We have a significant market share.

Mr. POLIQUIN. Thank you, and you do that by using, again, taxpayer dollars to backstop this insurance in the event that there is a problem in the market. Now in 2007, before the housing crash, before the Great Recession, you folks had about $410 billion worth of mortgage insurance for which the taxpayers were on the hook. Now, that number is $1.1 trillion. Okay. So my question is, and to dovetail what Mr. Tipton said, how big do you want to get, sir?

Secretary CASTRO. Congressman, thanks for the question. I think you and I may have a different way of looking at this. If you are talking about the amount of insurance in force, then it is certainly true that I believe that is over $1 trillion now.

Mr. POLIQUIN. Yes, $1.1 trillion, sir.

Secretary CASTRO. And as I mentioned in the conversation, we saw FHA play its traditional—

Mr. POLIQUIN. Is $2 trillion—how about $3 trillion, maybe $4 trillion? Do you have a number, sir? You must have a plan. You are running a very large, very significant organization. You must have a business plan. How big do you want to get, sir?

Secretary CASTRO. We are going to continue to serve the market that FHA was created by statute to serve.

Mr. POLIQUIN. Do you think going from $410 billion before the housing market crash now to $1.1 trillion, and you have just said, I think, or you implied that you are not quite sure how far you want to go, do you think that increases the risk to the taxpayer who is backing up your product or not, sir?

Secretary CASTRO. Yes, the goal that we have is to ensure—

Mr. POLIQUIN. I think we can both agree it probably increases the risk to the taxpayer since they are more on the hook now than they were several years ago, is that correct?

Secretary CASTRO. Not at all. I think that confuses the case. I think that is just a confused way of looking at this. The fact is that we have $46 billion in cash reserves right now. There has not been a time—

Mr. POLIQUIN. But the taxpayer is on the hook for $1.1 trillion.

Secretary CASTRO. There has not been a time at FHA where—

Mr. POLIQUIN. But they are on the hook for $1.1 trillion, is that correct?

Secretary CASTRO. There has not been a time—

Mr. POLIQUIN. We have been sitting here for 4 hours, Mr. Castro, looking at each other. It is a very straightforward question. We are on the hook for $1.1 trillion.

Secretary CASTRO. They are not on the hook for that because that has not been presented in terms of claims, and so the fact is—

Mr. POLIQUIN. But if there were to be claims, we would be on the hook for that amount of money, is that correct?

Secretary CASTRO. I am not going to address a hypothetical that has—

Mr. POLIQUIN. Okay, the mortgage bankers have indicated with data that FHA loans are much more delinquent than those from the nongovernment financial institutions. We have talked about that. In addition to that, your mission statement says, in part, operate with a high degree of public and fiscal accountability, fiscal prudence. Do you think having a huge government organization that is responsible for more than half of all the mortgage insurance in America that puts the taxpayers on the hook for $1.1 trillion, and then you folks don't know how big you want to get, do you think that lives up to your mission statement of being fiscally accountable, fiscally prudent, sir?

Secretary CASTRO. We have taken steps to continue to be fiscally prudent. Perhaps we just have a different view of whether the government has any role. I believe that it does. I believe that it is important, and we have seen at times when the private sector did not serve this unique market, and FHA has done so.

Mr. POLIQUIN. Let's talk about the private sector, Mr. Castro, if you don't mind. I believe that your organization is a classic example of a large government entity that is crowding out nongovernment entities from participating in this market, that puts the taxpayers more and more on the hook because you want to get, presumably, as big as you can. Now, is there someone by the name of Carol Galante who works for you, sir?

Secretary CASTRO. Carol Galante was the previous FHA—

Mr. POLIQUIN. Does she work with you now? Is she at your organization?

Secretary CASTRO. She is not. As of November, she is no longer there.

Mr. POLIQUIN. Okay. About a year-and-a-half ago, she indicated that you folks, and I will be thrilled to end this way, sir, would be open to an opportunity to help open up the mortgage insurance market to nongovernment entities. Would you be willing to consider having nongovernment entities work in tandem with you folks such that they can participate in a market that you now dominate that will add more jobs and more stability to the housing market? Would you be interested in that, sir?

Secretary CASTRO. Yes, if your question, Congressman, was about risk-sharing—

Mr. POLIQUIN. Yes, it is.

Secretary CASTRO. —and we indicated earlier that that is a dialogue that we are willing to have.

Mr. POLIQUIN. Great. I will call your office tomorrow, and I appreciate it very much. Thank you, Mr. Castro.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentlelady from Utah, Mrs. Love.

Mrs. LOVE. Thank you. Thank you for being here, Mr. Secretary. I know that these questions are really hard and I just want you to know, I acknowledge that. What is the expected default rate among the homeowners that you expect to help through lower premiums and the lowering of some of these standards?

Secretary CASTRO. We have a default rate of less than 10 percent. It has improved over the last couple of years. We also have seen our serious delinquencies, which refer to 90-day delinquencies, drop by 27 percent since 2013, because 2013 and 2014 have been some of our strongest books.

Mrs. LOVE. All right, 10 percent. So you said about 10 percent or less is what you are expecting the default rate. Okay, so what happens to those people when they go into default? What happens to them?

Secretary CASTRO. That is a great question. And in fact, and I want to thank, in part, the committee—

Mrs. LOVE. Do they lose their home?

Secretary CASTRO. There is a long process before that happens. In fact, I think, to the credit of FHA, and in part, to the committee, we have improved our loss mitigation process.

Mrs. LOVE. Okay, I just—

Secretary CASTRO. So we work with folks through housing counseling, and through other measures to try and avoid default.

Mrs. LOVE. So they lose their homes. They end up losing their credit. Yes? When they lose their home, they end up losing their credit for a while, is that correct?

Secretary CASTRO. Not everybody who goes into serious delinquency loses his or her home.

Mrs. LOVE. Okay, now what happens to the value of the homes in that neighborhood? What happens to the other people who have gotten into homes responsibly when somebody ends up defaulting on their home? What happens to the values of the homes in that neighborhood?

Secretary CASTRO. I would just disagree with the premise of your question.

Mrs. LOVE. I just asked you what happens to the value of a home in the neighborhood where somebody has defaulted on their loan.

Secretary CASTRO. I think the answer to that is that it varies. Sometimes those homes are sold, and somebody new moves in, and so you have a variety of experiences out there in terms of what happens under the circumstance.

Mrs. LOVE. Okay, Federal Reserve Bank of Atlanta Economic Review: "Given that foreclosure properties generally sell at a discount, the natural question arises as to whether these distressed properties, in turn, put downward sale prices pressure on neighborhood properties resulting in negative externalities."

Another quote from the White House blog, your predecessor, Shaun Donovan stated that, "We all understand the impact the foreclosure crisis has had on homeowners, but the crisis hurt communities, too. Foreclosed and vacant homes have a debilitating effect on neighborhoods, and often lead to blight neighborhoods, decay, and reduced property values."

We have talked about what is seen here. There is a great economist named Frederic Bastiat who talks about what is seen and what is unseen. One of the things that he says is that there is a difference between good economists and bad economists, and good directors and bad directors. The bad ones confine themselves to the visual effects of what is seen, get more people into homes, but then a really good one actually looks beyond that and sees both accounts. That which is seen, and that which must be foreseen. What I am trying to say is, this is not just the fiscal issue for me. This is a moral issue. This is about us taking people and bringing them to the lowest common denominator.

What happens to the values of homes when people default on homes? What do these neighborhoods start to look like? Think about that. What do you say to the people who have gotten into their homes responsibly, and all of a sudden because of so many different foreclosures around that area, realize that their neighborhoods are going into decay, that they have lost the value in their home. What do you say to those people?

Secretary CASTRO. I would say that, first of all, if they are in that neighborhood, the chances are that those responsible home buyers went through FHA, because we have been doing our work.

Mrs. LOVE. Okay, you are a mayor. I am a mayor. I have seen—are you telling me that you haven't seen the effects of neighborhoods that had the potential of being great and that you see all of these neighborhoods that are foreclosed and people lost the value of their homes, and neighborhoods turn into something that is less than desirable, what they wanted in the first place, somewhere where they can grow and they thrive. This is about bringing people from the lowest common denominator up.

The last thing I want to bring up is a map that was actually sent here by our ranking member that was introduced, and this shows distressed neighborhoods from 2008 to 2012. And the only thing I want to leave you with is that the people who are in—who run these areas have the same political view as you do. In the words of the President during the State of the Union Address, if it is not working, it is time to do something different. We need to do everything we can, by not just worrying about one family, but worrying about as many people as possible.

Chairman HENSARLING. The time of the gentlelady has expired. The Chair now recognizes the gentleman from Arkansas, Mr. Hill.

Mr. HILL. Thank you, Mr. Chairman. Mr. Secretary, I am glad to have you with us. You can just pretend you are on the river walk and we are having a margarita and it is all peaceful. We are glad to have you and thanks for your service to your country. I have heard a lot of talk today about hardworking and responsible people that FHA tries to serve, and as a former banker, I certainly had many customers who availed themselves of the FHA program and the reverse mortgage program. So I certainly know and appreciate the products of your mission.

But I want to talk to you a little bit about something we haven't really touched on too much today, although my colleagues from Colorado and Arizona did briefly, and that is narrowing the scope of truly, the folks you are trying to help. This issue of trying to help first-time, low- to moderate-income home buyers at FHA, clearly FHA has had mission creep over the years, some statutorily directed to do that, others not. And I am curious, in an effort to help truly low- and moderate-income people, would the Department consider dropping its maximum loan size that it would approve under the FHA?

Secretary CASTRO. Thank you for giving me the opportunity to address that, Congressman. I do know that this is an issue that has been quite the subject of debate and conversation. Of course, as you know, these loan limits are set by Congress, and so FHA is working within the loan limits that have been set by Congress. We believe that they are workable loan limits that do help us meet our mission to serve lower-income and moderate-income hardworking families. And so we realize there is a conversation happening in Congress, but that is set by you all.

Mr. HILL. But you have really almost 80 percent of your loans are certainly under $300,000, and you have an average loan size in Fiscal Year 2014 of $168,000 if you include refis. I think you said a few minutes ago 180, so we don't need to quibble over that small difference. And I am just wondering, why would the Department accept direction from Congress to lower the maximum loan limit size for FHA if you were so directed? In other words, you wouldn't lobby or testify against it, is my question?

Secretary CASTRO. We are always willing to work with Congress on this issue, and other issues, of course. But we believe that we are meeting our mission right now, and with the loan limits we have in place, and as has been brought up, there has been a lot of talk about ruining neighborhoods, or other things. That is not FHA. The FHA has been lending with strong underwriting to responsible folks throughout its history with this 3, 3.5 percent downpayment for 50 years. And so I just want to put that very clearly on the record and let you know that I credit the committee with some of the work it has done in the past to help us strengthen the

MMI Fund and we look forward to continuing to work with you to do that.

Mr. HILL. Thank you for that. We talked about loan limits. The George Washington School of Business noted in May 2012 that more than 30 percent of FHA loans went to families making 115 percent or greater of the average median income. So again, consistent with this mission, do you all have a target for median incomes that you are trying to hit since that is relatively affluent by national standards? Talk to me a little bit about that.

Secretary CASTRO. We are at FHA serving the market that we are intended to serve, folks who are lower- and moderate-income folks. I can't say that there is a numerical target for that. There is a range that exists.

Mr. HILL. But HUD sets a low- to moderate-income target. They define it. What is the definition of low- to moderate-income under HUD's current rulemakings?

Secretary CASTRO. I would say that it sets it, but not in the context of the FHA. What we want to do with FHA is, first of all, ensure that a borrower is qualified and if a borrower is qualified within the loan limits that had been statutorily passed down to FHA, then we are going to loan to that borrower. Does it make sense to look at those loan limits from time to time? Congress has certainly done that. We are comfortable with the loan limits where they are, but are always open to a conversation with you all about that in the future.

Mr. HILL. I appreciate that. It just seems to me that we want to be focused on our low- to moderate-income focus at HUD for all of your programs and anything we can do to target that is the mission. And that when you don't, you crowd out the private sector as many people have suggested here. So thank you very much, Mr. Chairman. I yield back.

Chairman HENSARLING. The gentleman yields back. There are no other Members remaining in the queue.

Secretary Castro, we very much appreciate your appearance here today.

The Chair notes that some Members may have additional questions for this witness, 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 this witness and to place his 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.

This hearing stands adjourned.

[Whereupon, at 2:32 p.m., the hearing was adjourned.]

A P P E N D I X

February 11, 2015

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

Written Testimony of Julián Castro
Secretary of U.S. Department of Housing and Urban Development (HUD)

Hearing before the House of Representatives
Committee on Financial Services

February 11, 2015

Thank you, Chairman Hensarling and Ranking Member Waters, for this opportunity to testify on the work of the Federal Housing Administration (FHA).[1]

Over the last 80 years, FHA has played a critical role in building America's middle class. By offering a full faith and credit guarantee on mortgage loans, FHA encourages the private market to provide access to affordable credit, supporting the creation and preservation of affordable housing. FHA has helped more than 40 million families become homeowners and provided millions more with the opportunity to rent an affordable home.

Throughout its history, FHA has also stepped in to play a necessary countercyclical role – taking on the risk that was required to protect the market. During the recent economic crisis, FHA kept the housing market functioning by dramatically increasing volume and market share when private credit froze. Our single-family market share increased nearly seven-fold, from three percent before the crisis to a peak of more than 21 percent. Economists from Moody's Analytics have said that without FHA, home prices would have fallen a devastating 25 percent further.[2] FHA acted as it was designed to do, filling the void left by private credit.

In response to the independent actuary's analysis, FHA took early and aggressive action to safeguard taxpayer dollars. It did so even as such actions might make it harder for FHA to fulfill its mission mandate of providing access to credit during this difficult period. We strengthened underwriting standards, overhauled our loss mitigation process, and increased insurance premiums five times since 2010. The result of these actions is a $21 billion improvement to the value of the Mutual Mortgage Insurance (MMI) Fund in just two years. With FHA's most recent independent actuarial analysis showing ongoing improvement, and the overall housing market's continued recovery, it is clear FHA has turned the page on the recession.

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[1] For purposes of this testimony, FHA refers to the single family mortgage insurance programs.
[2] Griffith, John. "The Federal Housing Administration Saved the Housing Market" Center for American Progress, October 2012.

A Stronger Economy and a Growing Housing Market

When President Obama took office, our housing market was in free-fall, and rising unemployment and plunging house prices posed incredible challenges for families and the broader economy. The President took immediate action to address these issues and to protect the middle class. These steps helped millions of Americans stay in their homes, save money on their mortgages, and turn their communities around.

Thanks to the determination of hardworking families across the Nation, and the bold actions of the Obama Administration, our nation's economy is in a period of progress. Job growth is the strongest it's been since the technology boom of the 1990s. The unemployment rate is now lower than it was before the financial crisis. The Federal deficit is at its lowest level since 2007.

The housing market is also coming back as an engine of prosperity. Homeowners' equity has grown more than $4 trillion since 2009. Homebuilding has doubled, helping construction workers get back on the job. Home prices have rebounded by approximately 20 percent over the last three years.[3] Housing has reemerged as a source of stability and wealth building. I'm proud to say that the FHA has played an enormous role in this growth. For example, we've insured more than half the loans of first-time buyers in recent years. Building on this progress, FHA continues to look for new ways to expand opportunity for responsible families and to strengthen the housing market.

Mutual Mortgage Insurance Fund is Back in the Black

In order to effectively carry out FHA's mission, we have to ensure that our finances are strong. We have taken aggressive actions to improve FHA's portfolio performance which has improved our financial standing as measured by the independent actuarial analysis. The 2014 Annual Report to Congress on the Financial Health of the Mutual Mortgage Insurance Fund (MMIF)[4] provided the results of the 2014 independent actuarial analysis. It showed that the MMIF is back in the black.

The value of the Fund is positive and has grown $21 billion in value in the last two years. It gained nearly $6 billion in value over the previous year and now stands at $4.8 billion in economic value. The current capital ratio is .41 percent and we have over $46 billion in available cash to pay claims. Across a number of measures, the portfolio has seen significant improvements, including:

- 27 percent drop in seriously delinquent rates since the beginning of 2013;
- 62 percent improvement in recovery rates since 2009;
- 61 percent reduction in foreclosure starts since 2012; and
- 83 percent decline in early payment defaults since 2007.

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[3] http://www.fhfa.gov/DataTools/Downloads/Pages/House-Price-Index.aspx

[4] The MMIF serves the forward single family program, and since 2009, the Home Equity Conversion Mortgage program. It does not include the multifamily or healthcare programs.

In 2014 alone, we saw delinquency rates continue to decline by 14 percent and recovery rates improve by 16 percent.

FHA's aggressive approach was necessary to preserve and protect the MMIF. We strengthened underwriting standards, overhauled our loss mitigation process, increased annual insurance premiums five times since 2010, and made additional premium adjustments, like reinstating FHA's life-of-loan premium policy. All these actions have contributed to the stronger FHA we have today. As we look to the future, we must ensure that more Americans can participate in our Nation's economic progress.

FHA's historically high premiums were limiting affordability for our borrowers and this almost certainly discouraged some first time homebuyers from entering the market. The National Association of Realtors estimates that in 2014 between 234,000 and 255,000 creditworthy borrowers were priced out of the market because of high premiums.[5] While necessary to properly price for risk, the premium increases from 2010 to 2014 raised FHA's annual premium 145 percent. Prior to the decision to lower the annual premium, FHA was collecting almost four times the amount needed to cover the risk posed by its newest borrowers. According to the independent actuary, for new loans insured in Fiscal Year (FY) 2014, FHA will collect an average $17,000 in fees from borrowers over the lives of the loans. FHA expects that the average loss from borrowers for these loans will be $4,700.

Further complicating matters, interest rates have fluctuated and fallen over the past several years, just as FHA premiums climbed. The benefit that would have accrued to potential borrowers and spurred first time homebuyers was partly eliminated by FHA's premium increases. In the absence of affordable interest rates in the last 5 years, the difficulties in the housing market would have been worse. With FHA firmly on the right track, our responsibility now is to provide responsible borrowers, who are ready to buy, with affordable options to purchase a home.

FHA Reduces Premiums by Half a Percentage Point and Boosts Economy

In recognition of these improvements, market factors, and FHA's mission, we reduced annual mortgage insurance premiums to a more reasonable level– from 1.35 percent to 0.85 percent. The reduction applies to single family, forward mortgages with case numbers issued on or after January 26, 2015. It does not apply to the following:

- Mortgages with amortization terms less than or equal to 15 years;
- FHA-to-FHA Streamline Refinance mortgages that were endorsed on or before May 31, 2009;
- Section 247 Hawaiian Homeland mortgages;
- FHA's reverse mortgage product, the Home Equity Conversion Mortgage (HECM); or
- Title I mortgages.

[5] http://www.consumerfed.org/pdfs/2015-01-07-1-07-PM-FHA-Premium-Coalition-Letter.pdf

To qualify for FHA mortgage insurance, loans must be underwritten to FHA's standards—which we have recently strengthened—and lenders are required to perform extensive loss mitigation to keep borrowers in homes and prevent claims. This premium change does not change either of those requirements. Borrowers must still meet all qualifications for obtaining an FHA-insured loan and lender responsibilities have not changed. Families still have to qualify for an FHA loan—but when they do, they will find a more affordable path to homeownership.

As a result of this change, FHA's annual mortgage insurance premiums will still be 50 percent higher than their pre-crisis levels. FHA's other insurance premium policies remain in effect and unchanged. The upfront mortgage insurance premium will remain at 1.75 percent. FHA's requirement that insurance be paid for the life of the loan also remains in force. Between January 2001 and June 2013, it was possible for borrowers to cancel remittance of insurance premiums but retain FHA insurance on a loan, once the remaining principal balance was less than 78 percent of the initial loan. FHA reinstated this requirement in 2013 after it became clear that canceling this requirement negatively impacted FHA during the crisis.

This new premium level is sufficient to account for risk while still improving affordability and facilitating access for responsible, creditworthy borrowers. Our estimates show that this premium change will not alter FHA's positive trajectory and will not materially lengthen the amount of time it will take for FHA to return to the mandatory two percent capital reserve ratio, considering loan volume and improved risk profiles. The market has responded positively to this approach. In fact, the Mortgage Bankers Association believes that reducing premiums reduces the risk to the portfolio over time.[6] Economists at Moody's Analytics recently released an independent report on FHA's premium reduction, which demonstrates that this action will help the economy and protect the long-term health of the Fund. The report found, "While there is no magic policy bullet, allowing the FHA to reduce its insurance premiums for first-time and lower-income homebuyers will provide a meaningful boost. It also will protect taxpayers, as the premiums are high enough to put the FHA on solid financial ground." Additionally, Moody's predicts that the cut will support 140,000 more jobs and close approximately one-tenth of the current labor market gap.[7]

In practical terms, the Administration estimates that this increased affordability will make it possible for nearly 250,000 new buyers to purchase their first houses over the next three years. We project we will expand the number of first time homebuyers served by FHA by over 16 percent over FY 2014. Moody's Analytics estimates a similar magnitude of effect with 45,000 additional households purchasing a home this year as a result of the decrease, and an additional 100,000 in 2016.[8]

The reduction will also help more than two million future homeowners save an average of $900 per year over the next three years. FHA also anticipates between 100,000 to 200,000 households will refinance with FHA to take advantage of potential savings. These are dollars that can now

[6] http://www.ohiomba.org/wp-content/uploads/2014/12/MBA-Letter-to-Julian-Castro.pdf
[7] http://www.housingwire.com/articles/32398-senators-mortgage-bankers-tell-hud-time-to-lower-fha-premiums
[8] http://www.housingwire.com/articles/32747-moodys-fha-premium-cut-will-increase-home-sales-by-45000-this-year

be used to pay for a child's education, to save for retirement or to spend at local, small businesses—benefiting the overall economy. The lower premium also increases home purchasing power by producing savings equivalent to a significant drop in the home price.[9] This is critical given that increasing home prices, while good for the economy, present a serious barrier to entry for first time homebuyers.

Stronger Safeguards and Stronger Fund

FHA does not now and has never offered the toxic products that led to the housing crisis. FHA's strong underwriting standards remain in place, and borrowers must demonstrate an ability to repay their loan. This measured reduction in premiums is possible because FHA has also worked hard to strengthen its own finances to ensure it can serve future generations. Today's lending standards are not only stronger than the immediate pre-crisis period, but also much stronger than historical norms. For example, beginning in 2009, FHA instituted a credit score floor and requires manual underwriting for higher-risk borrowers. It has been and will continue to be policy to extend access only to borrowers who can sustain their payments on a well-underwritten and fully documented mortgage.

It is important to stress that this premium reduction has been made is such a way to ensure that the trajectory of the Fund remains strong and that FHA does not take on unnecessary or undue risk. FHA is appropriately positioned to continue to play its important roles of ensuring affordable access to credit for underserved borrowers and supporting the housing market during times of economic instability. This is decidedly a result of the aggressive and effective policies that FHA took to respond to the financial crisis:

- *Raising premiums five times.* Despite the difficulty in raising premiums during a recession, FHA made the necessary changes to increase receipts to the Fund. This was necessary in order to properly price for risk and continue to collect enough payments to account for increased losses as a result of the crisis. Between 2010 and 2014, FHA raised annual mortgage insurance premiums 145 percent. We also reinstituted life-of-loan insurance. Our most recent action adjusts premiums but leaves them substantially higher than before the crisis.

- *Strengthening underwriting standards.* This included introducing a credit score floor and requiring a higher down payment for borrowers with credit scores below 580.

- *Continuing to avoid "toxic" or risky products.* This included products that had become popular in the private market during the period leading up to the crisis, like option ARM, interest only, and "no-doc" loans. FHA consistently required rigorous underwriting and the use of appropriate documentation.

[9] http://housingperspectives.blogspot.com/2015/01/what-effect-will-lower-fha-mortgage.html

- *Addressed HECM losses.* Using the authority granted to FHA by the Reverse Mortgage Stabilization Act, FHA continues to make critical changes to reduce the volatility of the HECM reverse mortgage program and better protect consumers.

- *Improving risk management.* This included creating the Office of Risk Management and Regulatory Affairs, hiring a Chief Risk Officer, and developing new modeling tools to help FHA understand the impacts of policy and market conditions.

Other actions that have directly benefited the health of the Fund include:

- Working with Congress to eliminate seller-assisted down-payment assistance which posed a serious risk to the health of the MMIF.

- Imposing higher minimum net worth requirements for lenders which mitigates counterparty risk and ensures that entities have sufficient capital to remain in business.

- Introducing revised loss mitigation waterfall which evaluates at-risk or defaulted borrowers in a consistent manner and provides the right options to help homeowners and protect FHA.

- Expanding the pre-foreclosure sale program, helping borrowers avoid foreclosure and improves recoveries to FHA's MMIF.

- Revamping and expanding the note sale program through the Distressed Asset Sales Program (DASP) to better manage the Fund and further improve recoveries.

To date, foreclosure starts are down 61 percent from the 2012 peak and early payment delinquencies are at their lowest levels since 2007. FHA's newest books of business continue to perform very well, further increasing the Fund's value. FHA's 2014 Annual Report to Congress demonstrates that the MMIF's health has improved significantly and will continue to do so. Even if the financial contributions of FY 2014's settlements and the mandatory appropriation are excluded, the Fund would still have ended 2014 with a positive reserve – demonstrating continued improvement regardless of the effects of one-time events. The Administration estimates that the MMIF's value will still continue to increase by at least $7 billion a year for the next several years.

Going forward, FHA will continue to execute on the policies that have allowed the MMIF to make this tremendous turnaround so quickly. Ongoing prudent Fund management will include:

- Keeping annual premiums significantly above their pre-crisis levels;
- Keeping upfront and life-of-loan mortgage premiums unchanged;
- Continuing major reforms of the HECM program which has been a significant strain on the performance of the Fund; and
- Continuing aggressive loss avoidance actions.

This progress has put us in a sound position to reduce premiums and bring new creditworthy borrowers into the market. To be clear, this premium change only makes an FHA loan more affordable for qualified families. All other FHA requirements will remain the same. As it has always done, FHA will continuously monitor the portfolio to identify and address new or emerging risks.

All these factors make FHA confident that the impact of this premium change on the Fund will be minimal. As we continue to manage the Fund responsibly we will deliver on the dual mission of ensuring access to affordable credit for underserved borrowers and strengthening and preserving the Fund for future generations of borrowers.

Transforming FHA

In addition to the efforts we are taking to strengthen the MMIF and make homeownership more affordable for creditworthy families, we also continue to focus on improving our organization across the board. For example, through our Multifamily Transformation efforts, the Office of Multifamily Housing[10] which operates assisted housing programs for the elderly and disabled as well as Project Based Rental Assistance and FHA Multifamily programs is proactively making changes to better fulfill its mission, while doing more with less.

The Multifamily transformation, as amended by the Congress, will help the Office of Multifamily Housing better serve its customers and stakeholders, operate more efficiently, engage and fully utilize staff, and improve risk management. And we have already begun to see the powerful impact this new approach can have on the ground through the positive feedback from HUD staff and stakeholders who have already gone through the first wave of the transformation in the Southwest region. These efforts, when complete, will yield real benefits for our employees, our external partners, and families across the country.

Conclusion

At its heart, FHA helps to make the housing market fairer – ensuring that qualified but underserved families are able to take advantage of the benefits of homeownership. This is what has motivated FHA to adjust premiums to a reasonable extent, ensuring that they are appropriate to cover risk, affordable for borrowers, and sufficient to keep FHA's finances strong. FHA has played an important role in opening the door to opportunity and growing the middle class. Given the economic recovery and the health of the MMIF, this moderate premium reduction is simply an important next step to continue to support our working and middle class families. Our Nation is smart enough to heed the lessons of the past without forsaking our future. The answer isn't to stop supporting homeownership—it's to do it right. FHA is on track and well positioned to continue its 80 year history of creating opportunities for hard-working Americans.

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[10] FHA multifamily housing programs are not part of the MMIF.

COMMUNITY
Home Lenders Association, Inc.
2101 Wilson Boulevard, Suite 610
Arlington, VA 22201
(571) 527-2601

Community Home Lenders Association Calls for FHA Fee Cut

Pricing Policy Should Shift Emphasis Towards Borrower Affordability

Contact: Scott Olson
571-527-2601

For Immediate Release
February 18, 2014

The Community Home Lenders Association (CHLA) today called for a reduction in the annual insurance premium the Federal Housing Administration (FHA) charges homebuyers.

CHLA's call came in the form of a letter (enclosed in word form) to the Office of Management and Budget, suggesting that such a reduction be included in the FY 2015 budget.

The CHLA proposal would reduce the annual premium from the current 1.35% to .75% (and to .5% for borrowers who complete prepurchase counseling). CHLA also calls for a subsequent reduction in the annual premium to .5% when the FHA MMIF fund reaches a 2% net worth level. CHLA suggested a partial offset of revenue loss by raising the upfront annual premium.

"We commend what the FHA has done in rebuilding the FHA fund, and in making program changes to improve loan performance," said Scott Olson, CHLA Executive Director. *"But we think it is time to ease up on the heavy annual premiums that are becoming a drag on home purchase affordability. This can be done consistent with a steady FHA fund replenishment."*

CHLA noted that last year's FY 2014 budget projected the FHA to net nearly $13 billion in profits, an estimated 7.25% in profits on every loan. To partially offset the revenue reduction from a decrease in the annual premium, CHLA is proposing that FHA increase the upfront premium from its current 1.75% to as much as 3%. This would reduce the revenue loss; using last year's baseline, FHA would still generate $10 billion in profits, and continue to build up the MMIF fund.

CHLA's approach moves towards FHA's more historical pricing structure, in place before it significantly ramped up annual premiums in recent years. FHA's recent annual premium hikes more directly affected debt to income ratios, making loans and home purchases less affordable.

In its letter to OMB Director Sylvia Matthews Burwell, the CHLA said: *"We believe that continuation of the current high premium levels runs the risk of prioritizing too rapid an increase in FHA's net worth at the expense of home purchase affordability with respect to FHA loans. "*

January 7, 2015

The Honorable Julian Castro
Secretary
U.S. Department of Housing and Urban Development
451 Seventh Street, S.W.
Washington, DC 20410

Dear Secretary Castro:

The undersigned organizations urge FHA to reduce the cost of its single-family mortgage insurance premiums to expand access to safer and more affordable mortgages to more creditworthy households.

As you know, FHA has twin missions to provide access to mortgage credit and to protect the integrity of the Fund. These missions are best accomplished using a dynamic evaluation of the FHA book of business, performance over time, and market fundamentals.

In recent years, a combination of strong management, significant premium increases, and improvement in the economy has put the agency well on track to meet its capital reserve requirement by 2016, while policy changes to reduce risk layering have helped decrease risk.

However, considering FHA's significant drop in volume and market share in recent years, it appears that the premium increases have kept many potential borrowers on the sidelines. Indeed, the premium increases may be *hurting* the financial condition of the fund, not helping it. Since 2011, annual insurance premiums have increased by nearly 150 percent, while its upfront fees have risen by 75 percent.[1] The increases in the annual insurance premium have had the most significant impact on loan affordability.

According to your agency's latest actuarial report, the number of families purchasing homes with FHA-insured mortgages has declined in recent years and remains 44 percent below the historic norm.[2] Although the recent Actuarial Review notes that FHA collected $11 billion in premiums above expected losses in FY2014, the reduced volume of FHA originations directly translates into a *slower rate of recapitalization* for the MMI Fund[3]. According to a new analysis released by the Urban Institute, it is possible for the FHA to price new business more appropriately for the risk while still continuing to build its reserves.[4]

A recent Mortgage Bankers Association analysis estimates that the April 2013 premium increase resulted in a 5 percentage point reduction in FHA's share of purchase originations, which equates to a $2.9 billion decrease in MMIF economic value. [5] What's more, now that Fannie Mae and Freddie Mac will begin purchasing loans

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[1] John Griffith, "As the FHA's Finances Continue to Improve, It's Time to Focus on Access," *Housing Horizon*, November 18, 2014, available at http://blog.enterprisecommunity.com/2014/11/finances-continue-improve.
[2] U.S. Department of Housing and Urban Development, "Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund Fiscal Year 2014," available at http://portal.hud.gov/hudportal/documents/huddoc?id=FY2014FHAAnnRep11_17_14.pdf.
[3] Integrated Financial Engineering Inc., "Actuarial Review of the Federal Housing Administration Mutual Mortgage Insurance Fund Forward Loans for Fiscal Year 2014," available at http://portal.hud.gov/hudportal/documents/huddoc?id=AR2014MMIFwdRpt.pdf.
[4] Laurie Goodman, Bing Bai, and Jun Zhu, "FHA: Time to stop overcharging today's borrowers for yesterday's mistakes," Urban Institute , Jan. 6, 2015, available at http://blog.metrotrends.org/2015/01/fha-time-stop-overcharging-todays-borrowers-yesterdays-mistakes/.
[5] Mortgage Bankers Association Letter to Julian Castro, December 18, 2014, available at http://static.ow.ly/docs/MBA%20Letter%20to%20Julian%20Castro_12%2018%202014%20%282%29_2PaU.pdf.

with down payments of as little as three percent, FHA could find itself losing additional market share, which could put additional downward pressure on the fund. On the other hand, the GSEs' re-entry into the very low down payment segment of the market also could cause FHA to be adversely selected, which suggests that fee reductions should leave a buffer for these types of dynamic drivers.

It is important to note that many lower-wealth borrowers and borrowers of color who historically have relied on FHA loans cannot access the conventional credit market today. In 2013, 70 percent of home purchase loans made to African Americans and 63 percent of these loans made to Hispanics were backed by government agencies rather than by the GSEs or the private market.[6] Consequently high FHA premiums may be keeping many borrowers out of the market entirely, not just shifting from one credit channel to another, especially borrowers of color. According to analysis from the National Association of Realtors, 234,000 to 255,000 creditworthy borrowers were priced out of the housing market in 2014 because of high FHA premiums.

The combination of higher pricing for lower-wealth borrowers along with other constraints on credit, such as lender overlays, poses a continuing serious challenge to the mortgage market as a whole. For example, the Urban Institute estimates that the combination of these factors has locked out of the market as many as 1.2 million borrowers who would be able to access mortgages during normal market conditions.[7]

FHA played a crucial role in keeping the mortgage market afloat and supporting our economic recovery, preventing even more catastrophic home price declines and staving off a double-dip recession.[8] That support came at a steep cost to the agency's capital reserve, and we commend FHA for all it has done to keep mortgage credit available throughout the Great Recession while improving the financial health of the Mutual Mortgage Insurance Fund. However, we believe it is now time for FHA to enable more households to access homeownership by reducing mortgage insurance premiums while still maintaining fiscal prudence and continuing the trajectory toward full replenishment of the fund.

We look forward to FHA's continued health and robust participation in the market as the economy continues to improve.

Sincerely,

American Escrow Association

American Land Title Association

Americans for Financial Reform

Asian Real Estate Association of America

Center for American Progress

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[6] Neil Bhutta and Daniel R. Ringo, "The 2013 Home Mortgage Disclosure Act Data," (Washington: Federal Reserve, 2014), available at http://www.federalreserve.gov/pubs/bulletin/2014/pdf/2013_HMDA.pdf.

[7] Laurie Goodman, Jun Zhu, and Taz George, "Where Have All the Loans Gone? The Impact of Credit Availability on Mortgage Volume," Urban Institute, March 13, 2014, available at http://www.urban.org/publications/413052.html.

[8] Mark Zandi, "FHA role may be bloated, but we'd be much worse off without it," *Washington Post*, December 15, 2011, http://www.washingtonpost.com/realestate/fha-role-may-be-bloated-but-wed-be-much-worse-off-without-it/2011/12/09/gIQAIed3vO_story.html.

Center for New York City Neighborhoods

Center for Responsible Lending

Community Associations Institute

Community Home Lenders Association

Community Mortgage Lenders of America

Connecticut Fair Housing Center

Consumer Action

Consumer Federation of America

Consumer Mortgage Coalition

Credit Union National Association

Empire Justice Center

Enterprise Community Partners, Inc.

The Greenlining Institute

Habitat for Humanity International

Leading Builders of America

League of United Latin American Citizens

Manufactured Housing Institute

Mortgage Bankers Association

NAACP

National Association of Federal Credit Unions

National Association of Hispanic Real Estate Professionals

National Association of Home Builders

National Association of Neighborhoods

National Association of Realtors

National Coalition for Asian Pacific American Community Development

National Community Reinvestment Coalition

National Community Stabilization Trust

National Consumer Law Center (on behalf of its low-income clients)

National Council of La Raza

National Council of State Housing Agencies

National Fair Housing Alliance

National Housing Conference

National Housing Resource Center

National People's Action

National Puerto Rican Coalition

National Urban League

Real Estate Services Providers Council, Inc

Real Estate Valuation Advocacy Association

The Realty Alliance

Cc: Mr. Biniam Gebre
Acting Commissioner
Federal Housing Administration

MBa

MORTGAGE BANKERS ASSOCIATION

December 18, 2014

The Honorable Julian Castro
Secretary
U.S. Department of Housing and Urban Development
451 7th Street, S.W.
Washington, D.C. 20410

Secretary Castro:

MBA has been a consistent supporter of FHA throughout its 80-year history. We recognize the need for FHA to be on a sound financial footing so that it can support its mission of providing financing to first-time homebuyers and other underserved borrowers. At this time, however, MBA thinks mortgage insurance premiums are counterproductively high and recommends that they be reduced to better serve borrowers and meet FHA's stated policy objectives.

FHA has a statutory mandate to recapitalize the Mutual Mortgage Insurance Fund (MMIF) in order to achieve a two percent capital ratio. That ratio currently stands at 0.41%. The rate of recapitalization is affected by a tradeoff between the pricing of FHA insurance on one hand, and the corresponding volume of endorsements and their credit quality, on the other. High insurance premiums tend to decrease volume and worsen credit quality, a dynamic that is exacerbated when there are other competitive sources of mortgage funds available in the market.

The announcement that Fannie Mae and Freddie Mac are about to begin purchasing loans with down payments as low as three percent will have just such an impact on FHA's origination volumes. A recent study by Bank of America/Merrill Lynch Global Research indicates that approximately 30 percent of FHA's 2014 volume between 95 and 97 percent loan to value (LTV) would qualify for at least one of the new GSE programs. The study further estimates that most of those borrowers would opt for a conventional loan, given the cost advantages of private mortgage insurance.

The pace of recapitalization of the MMIF depends critically on the ability of recent vintages and near term future books of business to contribute positively to the overall economic value of the MMIF. Reduced origination volume directly translates into a slower rate of recapitalization, even without considering the credit quality changes to the portfolio.

Of course, the value of the MMIF is obviously also sensitive to the particular mix of borrowers that results from FHA's pricing strategy. FHA insurance pricing is comprised of an up-front fee as well as an annual life of loan premium. Because these fees are fixed across borrowers, i.e., average rather than risk-based pricing, there is an implicit subsidy from higher credit quality borrowers with lower expected claims to lower credit quality borrowers with higher expected claims. However, in today's market, it is increasingly possible for higher credit quality borrowers to acquire better mortgage pricing elsewhere. A good example, again, would be the reentry of Fannie Mae and Freddie Mac into 95% - 97% LTV lending.

When such competition is present, the flight of relatively better credit risk borrowers can lead to adverse selection whereby the resulting pool of FHA borrowers is of lower quality than forecasted. The result of adverse selection is to slow the recovery of the economic value of the fund because of a higher claims rate relative to a fixed premium, even if FHA's credit quality remains sound.

FHA is intentionally relinquishing its counter-cyclical role of supporting the entire mortgage market in favor of its historic mandate to support underserved portions of the market, and especially first time homebuyers. This is a worthy goal. However, MBA believes that this goal can be achieved over a longer time frame with somewhat lower pricing, with the advantage that the MMIF could be returned to its mandated level more quickly.

As housing markets and the economy more generally have recovered from the Great Recession, other government and government-sponsored mortgage programs have become increasingly competitive in vying for mortgage originations. At the same time, FHA has increased both the up-front mortgage premium, as well as the annual MIP, moved to life-of-loan MIP rather than automatic cancellation, and lower loan limits. While the higher premiums helped to increase the economic value of the MMIF in the wake of the crisis, leaving these premium levels unchanged now that the conventional market is recovering exposes the fund to adverse selection that will slow the MMIF's return to solvency and over time could reverse its recovery.

In addition, the sustained higher MIPs have directly impacted the ability of first time home buyers to attain an FHA mortgage, reducing support for this segment of the market. With respect to purchase origination volume, our analysis of FHA loan level data suggests the most recent increase to annual MIPs in April of 2013 resulted in a loss of nearly 5 percentage points in FHA's share of all purchase originations in the US. For refinances, the loss in share was nearly 1 percentage point. Based on the per loan value of endorsements provided in the FY2013 Actuarial Review of FHA MMIF Forward Loans, the loss in volume for purchase and refinance mortgages equates to a $2.9 billion decrease in MMIF economic value.

We also examined changes in the expected distribution of borrowers by credit quality as reported in the FY2013 and FY2014 Actuarial Reviews. The change in the forecasted credit mix of borrowers resulted in a $1.5 billion loss in MMIF value for just the FY2014 forward book. Combined, we estimate that the capital ratio could have been as high as 75-80 bps rather than 41 bps if a lower pricing strategy had been utilized.

And these estimates serve as a lower bound to losses in both volume and credit quality due to MIP pricing. The pricing for the new 97 LTV product for first time buyers by the GSEs means that competition for the best credit quality borrowers is increasing.

Looking forward, the economic value of the MMIF will also be sensitive to the path of interest rates. An unexpected fall in rates instigating more refinances would be negative for the MMIF, as stronger credit borrowers would prepay, and FHA would be less likely to recapture these borrowers if the MIP remains high. Higher than expected interest rates, if accompanied by economic growth, would be less damaging as it could draw additional first-time homebuyers into the market.

As you know, there is long lag time before pricing and underwriting changes show up in the performance of the fund. For this reason, it is important to anticipate the impact of current pricing and underwriting standards on the future performance of the MMIF. We think it is important for HUD to take steps now to restructure and reduce FHA's premiums in ways that also support long-term actuarial soundness.

In closing, we recommend that FHA lower premium rates to reflect what has been learned from the most recent rounds of increases, namely that the gain in premium revenue was more than offset by a loss of volume and a drop in credit quality for new endorsements. For the medium term, FHA should prioritize their objectives of strengthening the economic value of the fund, and increasing their support for first-time homebuyers in the market, allowing a longer time before reaching their target mix of business.

Sincerely,

Bill Cosgrove
Chairman
Mortgage Bankers Association

cc: Biniam Gebre
Acting Assistant Secretary and FHA Commissioner

NATIONAL
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Jamie Gregory, Deputy Chief Lobbyist

500 New Jersey Ave., NW
Washington, DC 20001-2020
Ph. 202-383-1194 Fax 202-383-7580
www.REALTOR.org

April 7, 2014

The Honorable Carol Galante
Assistant Secretary for Housing – Federal Housing Commissioner
US Department of Housing and Urban Development
Washington, DC 20410

Dear Commissioner Galante:

I am writing on behalf of the one million members of the National Association of REALTORS® (NAR) with concerns about the Federal Housing Administration's (FHA) high annual mortgage insurance premiums and mortgage insurance that is required for the life of the loan. Home purchases are becoming increasingly out of reach for many qualified borrowers who rely on FHA financing.

The National Association of REALTORS® is America's largest trade association, including NAR's five commercial real estate institutes and its societies and councils. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,400 local associations or boards, and 54 state and territory associations of REALTORS®.

As you know, NAR supports the critical role that the FHA plays in the nation's housing finance system. During times of economic stress, FHA has helped to provide access to safe, affordable mortgage financing for millions of American families. Unfortunately, during the most recent economic crisis, FHA's Mutual Mortgage Insurance Fund suffered significant losses. FHA has been under pressure to improve the health of the fund and reach a 2 percent capital reserve ratio. Increasing the FHA premium structure was one way the FHA sought to achieve this goal.

Now that the MMI Fund is on a path to recovery, NAR urges FHA to lower the annual mortgage insurance premiums and eliminate the requirement that mortgage insurance is held for the life of the loan. This will slow the rate of prepayments that are having a negative effect on the fund. According to HUD's data, full payoffs, with no subsequent refinance with FHA, were 81 percent of FHA's prepayments.[1] In 2012, only 50 percent of FHA prepayments were full payoffs. Prepayments in FY 2013 were at their highest level since the end of FY 2004. It is possible to increase the upfront premiums and lower the annual MIP and continue to replenish the MMI Fund.

Achieving homeownership has become more difficult with current FHA mortgage insurance premiums. In 2014, FHA fees make up nearly 20 percent of a monthly mortgage payment. On a $150,000 loan, at 4.5 percent interest, the mortgage payment is 13 percent higher today than it was in 2008 (See Table 1).

EQUAL HOUSING OPPORTUNITY

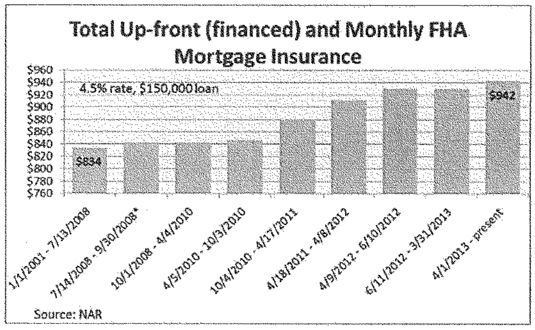


Table 1

In 2014, the mortgage insurance premium of 1.35 percent is 80 basis points higher than the rate of 0.55 percent in 2010. The 80 additional basis points pushed an estimated 1.45 million to 1.65 million renters over a sustainable debt-to-income level for purchase of a home in 2013 (see Table 2). Adjusting for FHA market share and taking repeat buyers into account, these changes may have priced out as many as 125,000 to 375,000 home buyers.

Year	MIP	Change in MIP from 2010	Renters Impacted
10/4/2010 - 4/17/2011	90	35	550,000 to 750,000
4/18/2011 - 4/8/2012	115	60	1,000,000 to 1,250,000
4/9/2012 - 6/10/2012	125	70	1,200,000 to 1,400,000
6/11/2012 - 3/31/2013	125	70	1,250,000 to 1,450,000
4/1/2013 - present	135	80	1,450,000 to 1,650,000

Source: NAR, Census and Genworth Data

Table 2

Many of the potential home buyers who are priced out of FHA cannot migrate to private mortgage insurance (PMI) either due to higher cost or lack of availability. PMI[2] currently charges 1.1 percent annually for a borrower with a down payment less than 5 percent and a FICO score of 720 or higher. The rate rises to 1.31 percent if the FICO is between 680 and 720 and 1.48 percent if the FICO is below 680. Combined with the higher funding cost of roughly 37.5 basis points for a conventional execution (e.g. the difference in base 30-year fixed rates, estimated at roughly 4.5 percent vs 4.125 percent for a prime borrower with no fees) as well as loan level pricing adjustments (LLPA) and the adverse market delivery fee (AMDC), only borrowers with the highest credit could afford to migrate to GSE financing. For example, the monthly payment for the 2013 median priced home financed through a conventional loan with a down payment less than 5 percent and a FICO score of 670 is $92 higher than if it were financed through the FHA. Likewise, for a larger down payment of 5 to 10 percent with a FICO of 670, the cost of PMI falls to 1.15 percent, but the payment is still $58 per month more expensive than FHA when all costs are included.

Many first-time home buyers, who are priced out of FHA and unable to migrate to private mortgage insurance, are likely under the age of 44. Since 2008, income growth has been slowest among Millennials, ages 33 and younger, and Generation Xers, ages 34-44 (see Table 3). Of these young buyers, over 40 percent are minorities. If most of the people buying homes in the next two decades are now under the age of 44, then more than one in four homebuyers will be Hispanic or Asian.[3]

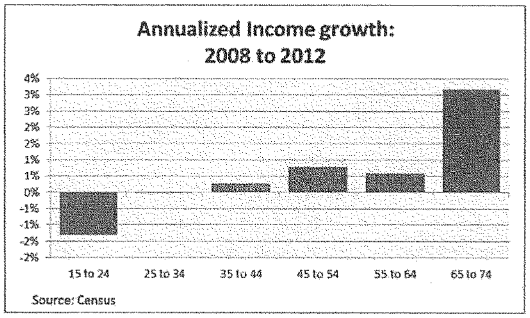


Table 3

FHA has played an important role in helping young and minority borrowers become homeowners. In 2012, FHA insured more than half of the purchase money loans made to African Americans and Hispanics.[4] Providing access to credit for these homebuyers is a critical means of building wealth. A recent research paper by the Joint Center for Housing Studies at Harvard concludes that even after the decline in housing prices and the increase of foreclosures beginning in 2007, homeownership continues to be a significant source of household wealth, particularly for lower-income and minority households.[5] The study notes that, "efforts to save for a down payment lead to a large jump in wealth that is then further supported by at least modest appreciation and some pay down of principal over time. Renters may have the opportunity to accrue savings and invest them in higher yielding opportunities but lack strong incentives and effective mechanisms for carrying through on this opportunity…and those who made a failed transition from owning to renting are no worse off financially than those who remained renters over the whole period."[6]

NAR is aware that HUD has proposed a new program called Homeowners Armed With Knowledge (HAWK). The pilot program will offer reductions in FHA mortgage insurance premiums if a homebuyer completes housing counseling. We look forward to learning more about who might be eligible for the program and how and when HAWK will be implemented. While HAWK is a step in the right direction, NAR is concerned about the amount of time it will take to develop the program and make it available to home buyers. We have many qualified homebuyers who need help now, but are being shut out of the market due to record high annual premiums and mortgage insurance for the life of the loan.

Thank you for your time and consideration of this timely issue. If I may be of any assistance to you, please do not hesitate to contact me or our Regulatory Policy Representative, Sarah Young, at (202) 383-1233 or scyoung@realtors.org.

Sincerely,

Steve Brown

Steve Brown
2014 President, National Association of REALTORS®

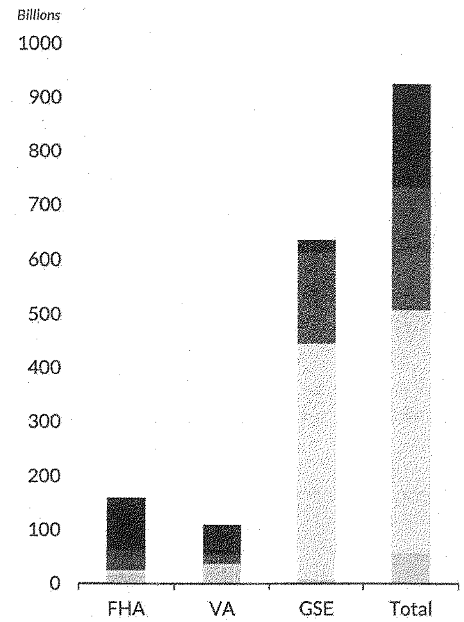
[1] U. S. Department of Housing and Urban Development (HUD) Office of Risk Management and Regulatory Affairs, Office of Evaluation, Reporting and Analysis Division, *FHA Production Report*, December 2013.
[2] Genworth Financial data on PMI.
[3] The Changing Face of America (2011, August) *National Association of REALTORS Global Perspectives Newsletter*. Retrieved from http://www.realtor.org/sites/default/files/global-perspectives-2011-08-US-demographic-shift-full-issue.pdf

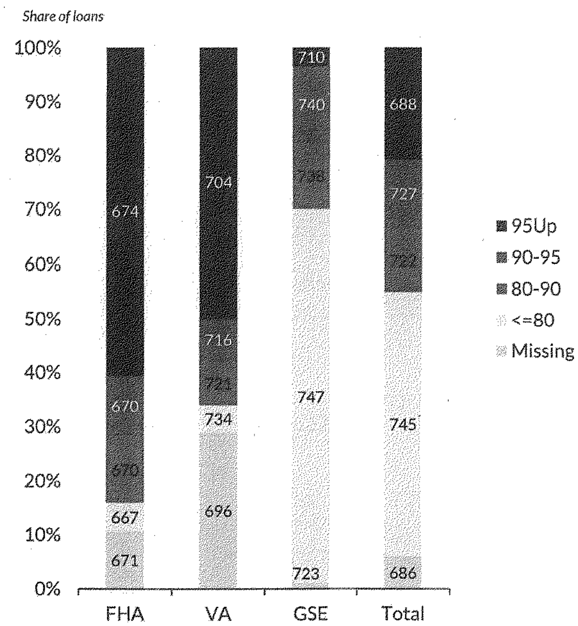
[4] U. S. Department of Housing and Urban Development (HUD), *Annual Report to Congress FY 2013 Financial Status FHA Mutual Mortgage Insurance Fund*, December 2013.

[5] Christopher Herbert, Daniel McCue, and Rocio Sanchez-Moyano. "Is Homeownership Still an Effective Means of Building Wealth for Low-income and Minority Households? (Was it Ever?),"49, Joint Center for Housing Studies, Harvard University, September 2013.

[6] Ibid, 26-27.

Volume and share of 2014 GSE, FHA, and VA originations by LTV and FICO





Sources: eMBS and Urban Institute.

Questions for the Record
Committee on Financial Services

Hearing on "Future of Housing in America: Oversight of the Federal Housing Administration"

Witness: The Honorable Julian Castro, Secretary,
U.S. Department of Housing and Urban Development

Hearing Date: February 11, 2015

Representative Mick Mulvaney

1. **Question:** Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Consumer Financial Protection Bureau (CFPB) is required to publish rules and forms that combine certain disclosures that consumers receive as part of a mortgage loan under the Truth in Lending Act (TILA) and the Real Estate Settlement Procedures Act (RESPA). The Consumer Financial Protection Bureau published its final rule December 31, 2014 to update the regulations related to TILA and RESPA. These new regulations set forth new disclosures and new forms that must be used for nearly all mortgage transactions. The new TILA-RESPA forms and disclosures must be used on and after August 1, 2015, and will impact all Federal Housing Administration loans. Secretary Castro, has CFPB Director Richard Cordray, or any other staff of the CFPB, communicated with you or any of your staff about the implementation of the TILA-RESPA integrated disclosure forms? What coordination, if any, has HUD or FHA had with CFPB on the development and/or implementation of the new mortgage disclosure forms? Please summarize all communication and coordination that has taken place.

   Response: The Dodd-Frank Act required most HUD staff that worked on RESPA issues to transfer to CFPB with the RESPA administrative function. The research consultants in HUD's Office of Policy Development and Research who worked part-time on HUD's 2008 RESPA rulemaking did not transfer, however. During various times in 2011 and 2012, while the CFPB was developing its combined disclosure forms, these HUD staff sent CFPB written comments on the various draft forms in response to requests by CFBP staff. FHA staff also participated in interagency calls during this period and submitted discrete questions on the proposal to CFPB staff, which CFPB staff and FHA staff discussed in a separate, follow-up call.

   The CFPB issued its final rule to update the regulations related to TILA and RESPA on December 31, 2013. (Please see the December 31, 2013, Federal Register edition at 78 FR 79730.) CFPB's December 31. 2013, final rule provides an effective date of August 1, 2015 for these new regulations, providing a 21-month transition from the publication date and a 20-month transition from the effective date.

CFPB undertook outreach to all Federal agencies prior to issuance of its final rule. In August 2013 and again in October 2013, CFPB held meetings to which HUD, and other Federal agencies such as the Federal Reserve, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Department of Treasury, the Federal Housing Finance Agency, to name a few, were invited. HUD did not submit any written comments to the CFPB but expressed its support for the approach proposed to be taken by the CFPB at these meetings.

2. **Question:** Prior to Dodd-Frank, responsibility for issuing new or revised RESPA regulations fell to HUD. In November 2008, HUD issued revised RESPA rules and disclosure forms, which took effect in January 2009, with full effect in January 2010. Shortly before the full effective date, HUD announced a policy to "exercise restraint in enforcing new regulatory requirements under [RESPA]." The purpose was to exercise restraint in enforcement actions against FHA-approved lenders who otherwise demonstrated that they were making a good faith effort to comply with RESPA's new requirements. This policy also included a request to other federal and state enforcement agencies to exercise the same restraint on non-FHA originators and other settlement service providers acting in good faith. Given the complexity of TILA and RESPA disclosures, as well as CFPB's new regulation and its impacts on the mortgage industry and consumers, do you think the CFPB should demonstrate a similar commitment to the mortgage industry as HUD and institute a similar "restrained enforcement" policy? Why or why not?

   Response: HUD's transitional policies for the 2008 RESPA rule recognized that the rule was novel in many aspects and the housing market was in tumult. We defer to CFPB for an explanation of its transitional policies for subsequent RESPA and TILA regulations. We note, however that the current regulatory and economic landscapes create a different context than when the 2008 rule was created. For example, HUD's 2008 rule transformed RESPA requirements, and the housing market exhibits more stability now than during the implementation of the 2008 rule, which occurred in January 2010, during the worst of the housing crisis.

Representative Patrick E. Murphy

3. **Question:** Secretary Castro, I am concerned with FHA's current policy for clearing title on Real Estate Owned (REO) Properties. In my understanding that in some cases FHA is not permitting the sale of foreclosed REO

Properties because a previous mortgage is unreleased of record. The mortgage has been satisfied, and in the private marketplace, a title insurance policy effectively clears the transfer of the property. However, current FHA requirements on clearing title are slowing down home sales for properties already facing foreclosure. What steps is FHA taking to resolve this issue?

Response: Under HUD's existing regulations for FHA-insured loans, an FHA-approved mortgagee transferring a foreclosed property to HUD must convey good, marketable title (24 CFR § 203.366) and satisfactory title evidence (24 CFR § 203.385) showing that on the date of conveyance there are no outstanding prior liens (24 CFR § 203.386). Title evidence showing a prior unreleased lien for a mortgage *without* documentation confirming payment in full does not satisfy these regulatory requirements.

Sale upon property conveyance and insurance claim payments is one of the methods used by FHA to reduce losses to the Fund from claims payments. At the height of the foreclosure crisis, FHA experienced a higher number of foreclosed properties being conveyed by mortgagees without the Department receiving good, marketable title. Title defects in properties conveyed to HUD were sometimes not discovered until FHA and the potential purchaser of the property were at the closing table. This significantly delayed property sales, increasing holding costs and reducing recoveries for FHA. In an effort to address this matter FHA published a Mortgagee Letter, dated May 31, 2013, entitled "*Updated Clarification Regarding Title Approval at Conveyance*". This Mortgagee Letter reiterates the requirement that good, marketable title must be provided when the mortgagee conveys a property to HUD, and specifically delineates the enforcement actions FHA will take if a title defect is discovered during a settlement transaction for the sale of a HUD-owned property.

Since issuing this guidance, there has been a significant decrease in the number of properties conveyed to HUD with title defects. It is imperative that FHA's regulations requiring marketable title and its Mortgagee Letter citing the sanctions to be levied against servicers who fail to comply with this requirement remain in effect. Together, these measures allow FHA to continue to transfer the titles of HUD-owned properties to subsequent purchasers, such as non-profits, units of local government, Good Neighbor Next Door program participants, first time and underserved homebuyers and investors.

4. **Question**: Furthermore, H.R.83, the CR/Omnibus that Congress passed and the President signed on December 16, 2014 requires FHA to report on actions being taken to reduce costs and timeframes taking title following a foreclosure. Can Members of Congress expect that the report will be

delivered within the 180 days directed by the law and what sort of solutions do you anticipate will accompany the report?

Response: Yes, HUD intends to deliver this report on or before June 15, 2015, which HUD has calculated to be the 180th day following enactment of HUD's Fiscal Year 2015 appropriations. The report will reference HUD's most advantageous solution with respect to addressing Congress' concern regarding increased costs associated to the Department in acquiring title post foreclosure. This solution is referred to as HUD's Claims without Conveyance of Title (CWCOT) procedure, which has resulted in higher recovery rates to FHA's Mutual Mortgage Insurance Fund when compared to HUD's property disposition recovery rates. Under CWCOT, all FHA-approved mortgage servicers are required to bid an FHA pre-established "Reserve Amount" at the Foreclosure/Trustee Sale. This Reserve Amount takes into consideration costs that would normally be incurred through the lengthy process of FHA acquiring title. As a result, CWCOT enables FHA to reduce its holding costs significantly because the foreclosed property is sold without the Secretary acquiring it in inventory.

In addition, the report will include key performance data on HUD's various disposition strategies, which includes CWCOT.

Representative Marlin A. Stutzman

5. **Question:** What metrics did the Department of Housing and Urban Development (HUD) rely upon to support the reserve calculations required by Notice H 2012-27? (Revised Requirements for Project Capital Needs Assessments, Estimated Reserves for Replacements and Remedies for Accessibility Deficiencies)

   Response: The objectives of Notice H 2012-27 were threefold:

   1. To coordinate and align guidance for Reserve for Replacement (RfR) underwriting for insured mortgages (Multifamily Accelerated Processing Guide, Guidebook 4430.G) with corresponding guidance for Asset Management of these same mortgages in portfolio (Asset Management Handbook 4350.1).
   2. To assure realistic and accurate description of physical conditions at existing properties offered as security for insured mortgages.
   3. To assure identification and correction of violations of the several statutes requiring that housing be accessible for persons with disabilities.

   Measures taken to meet these objectives have resulted in both an increase in the number of immediate repairs as well as some increases in anticipated future replacements, both of which can increase costs incident to closing a refinancing or acquisition transaction. Results are project specific and relate to actual physical conditions. There was no fixed metric or expectation of costs applicable to all projects – HUD standardized the requirements and is in the process of evaluating the impact as transactions close under the new requirements. Notice H 2012-27 uses a formula based on 5% of uninflated needs during the estimate period, essentially a contingency amount equal to a single year's contribution (vs. 12 years in previous HUD Asset Management Guidance, HB 4350.1). This formula was tested against a number of actual 20 year RfR schedules supplied by a committee of the Mortgage Bankers Association and the results confirmed that the formula was effective in providing a contingency allowance (or minimum balance) sized to correspond to actual conditions for each property.

The Notice standardized this minimum to $250 per unit per annum. This standardization has minimal impact since $250 per unit per annum is the most standard minimum figure used in the industry among GSE and other lending platforms.

By comparison to prior MAP Guide instructions, expected additional costs ranged from $5 to $30 per unit per annum and for older properties (the most affected) could negatively impact mortgage amounts by 1 or 2 points. A handful of transactions will be infeasible under the new standard, reflecting the need for additional capital in order to ensure the long term physical integrity of the properties.

6. **Question:** Have those metrics been relied upon for similar decisions in the past?

   Response: No. HUD had previously relied on a variety of different standards, without an efficient or practicable means of measuring the project specific or per unit impact. The forthcoming automation efforts (through the C.NA e tool and the Automated Submission and Application Processing systems under development) will address the data limitations. With respect to the standards in the past, prior to H 2012-27, required minimum annual deposits to the Reserve for Replacement accounts varied from $150 per unit per annum to $250 per unit per annum. Prior to H 2012-27 we required that Reserve for Replacement schedules be estimated for the full term of the mortgage plus two years, typically 37 years, an estimate period we considered unrealistic. The Notice shortened the estimate period to 20 years, facilitating more realistic estimates and generally reducing the burden of funding needs.

The MAP Guide was silent on whether any minimum balance is required in Reserve for Replacement accounts in future years. Meanwhile Asset Management guidance varied but was most commonly expressed as $1,000 per unit, and could require as much as 12 years' worth of monthly deposits – a standard which was inconsistently applied and only incidentally related to the projects actual needs.

7. **Question:** How did HUD project the rate of construction of non-tax credit new construction properties would change after the Notice?

   Response: As we anticipated, there was no impact on the level of non-tax credit new construction properties. Although non-tax credit new construction volume has declined since the Notice was published, we believe that is due to the continued strengthening of the private market and other factors. The 2010 Risk Mitigation Notice provided upper and lower limits to the formula calculation for such deals, but the 2012 Notice did not impact new construction properties. Moreover, our overall volume of new construction / substantial rehabilitation pipeline has remained steady since the Notice was published, with the slight decrease in market rate new construction and substantial rehabilitation volume made up with an increase in tax credit production.

	Market Rate (i.e. non-Tax Credit) New Construction/Sub Rehab - MF FHA Firm Commitments		
	Pre-PCNA notice	Post-PCNA notice	
	April 2012 - March 2013	April 2013 - March 2014	April 2014 - March 2015
# of loans	105	107	98
$ Volume (millions)	$2,145	$1,913	$1,743

	Tax Credit New Construction/Sub Rehab - MF FHA Firm Commitments		
	Pre-PCNA notice	Post-PCNA notice	
	April 2012 - March 2013	April 2013 - March 2014	April 2014 - March 2015
# of loans	69	88	107
$ Volume (millions)	$555	$787	$939