



Testimony of Henry V. Cunningham, CMB

Mortgage Bankers Association

Before the

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Committee on Financial Services**

Hearing on

**“Perspectives on the Health of the
Single Family Insurance Fund”**

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Chairman Bachus, Ranking Member Frank and members of the committee, thank you for the opportunity to testify on behalf of the Mortgage Bankers Association (MBA) on the recent release of the Federal Housing Administration's (FHA) FY 2011 Actuarial Report, and its findings on the state of the Mutual Mortgage Insurance Fund (MMIF). My name is Hank Cunningham, and I am President of Cunningham and Company, an independent mortgage banking firm with offices throughout North Carolina. Our company was founded in 1990 and we are proud to have helped open the door to homeownership for over 30,000 homebuyers. I have more than 37 years of professional mortgage experience, am immediate past Chairman of MBA's Residential Board of Governors and also serve on MBA's Board of Directors. Thank you for holding this hearing on the actuarial soundness of FHA's insurance fund.

FHA is an essential element of the American housing finance system and is especially important to segments of the population who need a little extra help in securing safe, decent affordable housing – whether through the American dream of homeownership or the foundation of affordable rental housing.

More than any other national program, FHA focuses on the needs of first-time, minority, and low- and moderate-income borrowers. According to recent data provided by the Department of Housing and Urban Development (HUD), both first-time homebuyers and minorities continue to make up a significant portion of FHA's customer base. As of October 2011, approximately 76 percent of FHA-insured home purchase loans were made to first-time homebuyers, and 33 percent of these first-time homebuyers were minorities. Minorities also comprise a higher percentage of the FHA market than the conventional mortgage market.

Last decade, there were discussions about whether FHA was truly necessary, or if the private sector could assume its functions. The significance of FHA in the housing finance system has been underscored, however, by the recent economic crisis that began in late 2008 and resulted in the retreat of the private sector and an illiquid mortgage market. FHA's counter-cyclical role has proven invaluable to maintaining liquidity in the single family market and has helped buttress the country's unstable housing finance system. With the contraction of the private sector, FHA's market share has grown to almost 30 percent of all loan originations and has reached as high as 50 percent in some areas of the country. In 2011, FHA and other government housing programs have typically accounted for 40 to 50 percent of all purchase mortgages, according to MBA data.

The Mortgage Bankers Association has always been a proponent for a strong and vibrant FHA. Our members called for updates and enhancements to FHA's risk management, scope and operations well before the current market disruptions reestablished FHA's prominence as a catalyst for bringing liquidity to the housing finance system. In 2009, MBA created an executive level task force that called for swift and appropriate measures to protect the safety and soundness of the program, including raising net worth requirements for FHA approved lenders, reevaluating credit

and underwriting standards, reexamining the insurance premium structure, and establishing sensible consumer and lender protections for the Home Equity Conversion Mortgages (HECM), or reverse mortgages, program.¹

FHA made a series of single family risk management and lender oversight and enforcement changes over the last two years designed to protect its financial stability, including raising the annual mortgage insurance premium 25 basis points (bps) this year to 110 or 115 bps (depending on the loan-to-value ratio), increasing down payment requirements from 3.5 percent to 10 percent for borrowers with credit scores below 580, eliminating FHA's approval of loan correspondents, raising lender net worth requirements in all programs, re-examining HECM policies, and establishing the Office of Risk Management, which provides risk assessments for all FHA programs. MBA commends HUD and FHA for taking proactive measures in order to reduce taxpayers' exposure.

Although many of the policy changes resulted in fewer approved lenders and slightly more expensive mortgage financing for consumers, the industry believes that it was imperative to put safeguards in place early to ensure the future viability of FHA. These changes put FHA on more stable footing and allowed it to continue to support the housing market.

On November 15, 2011, FHA released its annual Actuarial Report, which provides an update on the financial health of the MMI Fund, a system of accounts used to manage FHA's single family mortgage insurance programs. The report continues to show that the capital reserve account of the MMI Fund is well below the two percent statutory threshold. It has fallen to 0.53percent in 2009, to 0.50 percent in 2010, and now to 0.24 percent in 2011. While the announcement in 2009 that the Fund had fallen below two percent was a major wake-up call, this Actuarial Report is a fresh reminder that the country is still in the aftermath of a significant recession. The two percent target was established by Congress in order to ensure that FHA could withstand the stress of a major housing and mortgage market disruption, an event like the one the industry is currently experiencing.

MBA recognizes, however, that the agency will need to continue to diligently monitor the Fund and make reasonable management decisions to ensure it remains a viable low downpayment option for its targeted population. We support upcoming program changes such as prudently strengthening lender oversight and monitoring, increasing staff of the Office of Risk Management and Regulatory Affairs and integrating that staff into various business lines, and leveraging new technology resources. These changes are necessary to buttress FHA against forces that are beyond the agency's control, such as a sharp decrease in house prices and changes in state foreclosure laws, which could undermine its strategic planning and cause additional stress on the Fund.

¹ See Mortgage Bankers Assn., [The Future of the Federal Housing Administration \(FHA\) and the Government National Mortgage Association \(Ginnie\)](http://www.mortgagebankers.org/files/ResourceCenter/FHA/TheFutureofFHAandGinnieMae.pdf). (September 2010), <http://www.mortgagebankers.org/files/ResourceCenter/FHA/TheFutureofFHAandGinnieMae.pdf>.

FY 2011 FHA Actuarial Report

The Actuarial Report provides an assessment of the fiscal health of FHA and its financial outlook. These reports provide a snapshot of the FHA portfolio at a particular point in time, which in this case was the end of FY2011. As expected, the capital reserve ratio of the MMI Fund continues to be below the minimum congressional requirement of two percent. The capital reserve fund is now at 0.24 percent, down from 0.50 percent in FY 2010. Given that the country just went through an extremely severe recession from which it is still recovering, it is not surprising that FHA is experiencing significant losses on loans made prior to the boom, as well as losses on the large volume of new business. Clearly, high unemployment and stagnant housing markets are weighing heavily on the MMI Fund.

Highlights of the Actuarial Report include:

- The capital reserve ratio of the MMI Fund remained positive at 0.24 percent. In the FY 2010 report, the ratio was 0.50 percent. The capital reserve ratio measures excess beyond forecasted net claim costs on outstanding loans.
- The Actuarial Report cites several important reasons for the decline in the capital reserve ratio, including:
 - Continued home price declines;
 - Loans from 2006-2008 that are hitting serious delinquency (90+ days) rates above expectations, and have been for over a year, meaning that claims are likely;
 - Seriously delinquent loans that have corrected have a higher re-default potential; and
 - Expectation of more claims due to foreclosures in 2012. (In 2011, the controversy over “robo-signings” delayed many foreclosures. The expectation is that all delayed foreclosures of defaulted loans will ultimately go to claim.)
- FHA’s total cash plus investments is estimated at \$33.7 billion – \$7.7 billion higher than predicted last year by the independent actuaries. This difference is due to a decrease in claims and the impact of the change in insurance premium structure implemented in FY2011 combined with an increase in new insurance endorsements in FY2011, which are close to \$11 billion (nearly double that of FY2010).
- The economic net worth (ENW) of the Fund fell by \$2.1 billion this year – from \$4.7 billion to \$2.6 billion – as FHA continued to build loss reserves to prepare for higher expected claims in the coming years.

- FHA assets are \$7.7 billion higher than predicted in the FY2010 Actuarial Report due to the premium increase made effective in April 2011, and a slowdown in foreclosures because of the robo-signing controversy.
- The robo-signing controversy caused claims to decrease because some major servicers and states temporarily suspended foreclosures until processes could be appropriately validated. The expectation of the actuaries is that all FHA loans caught up in the controversy will result in a claim payout in 2012.
- The MMI Fund should exceed two percent by FY2014 under the best case scenario, assuming a home price recovery in 2012 and growth in home prices beginning in 2013.
- FHA predicts the chance of the Fund going negative is close to 50 percent. Any cash infusion from the United States Treasury would be for the pre-2010 books. Future home price declines would need to be significant in order to greatly impact the 2010 book of business.

MBA has reviewed the audits of the MMI Fund. These audits used a wealth of data and sophisticated modeling techniques. Different choices of model specifications or economic assumptions might have led to somewhat different results, but these audits appear to have been conducted carefully and professionally, and hence are a valid basis for the important public policy discussion regarding FHA in which we are now engaged. MBA believes that minor specification changes in the default model, or subtle differences in the treatment of the data, would not have yielded significantly different results. Uncertainty regarding the economy is a more important factor.

With regard to economic uncertainty, MBA wishes to underscore that the soundness of FHA's financial position is intricately tied to whether the assumptions and predictions that were used as the basis for the Actuarial Report hold true. While the industry is cautiously optimistic about the growth in home prices over the next few years, MBA recognizes that the economy is in a precarious state and that it is difficult to forecast economic trends, such as interest rates, in such uncharted waters.

Importantly, FHA's capital adequacy requirements are designed to be analogous to those for private institutions – they minimize the likelihood that taxpayers would need to provide funds to FHA. For a private sector financial institution, regulatory capital measures are a key measure of financial health. Banks and other financial institutions set aside reserves to cover expected losses on lending, but also hold capital to cover unexpected losses that may arise from changes in economic or financial market conditions or loan performance. Regulators require financial institutions to hold sufficient capital to minimize the likelihood that they would become insolvent during a crisis. FHA's requirements are modeled after these sound and proven practices.

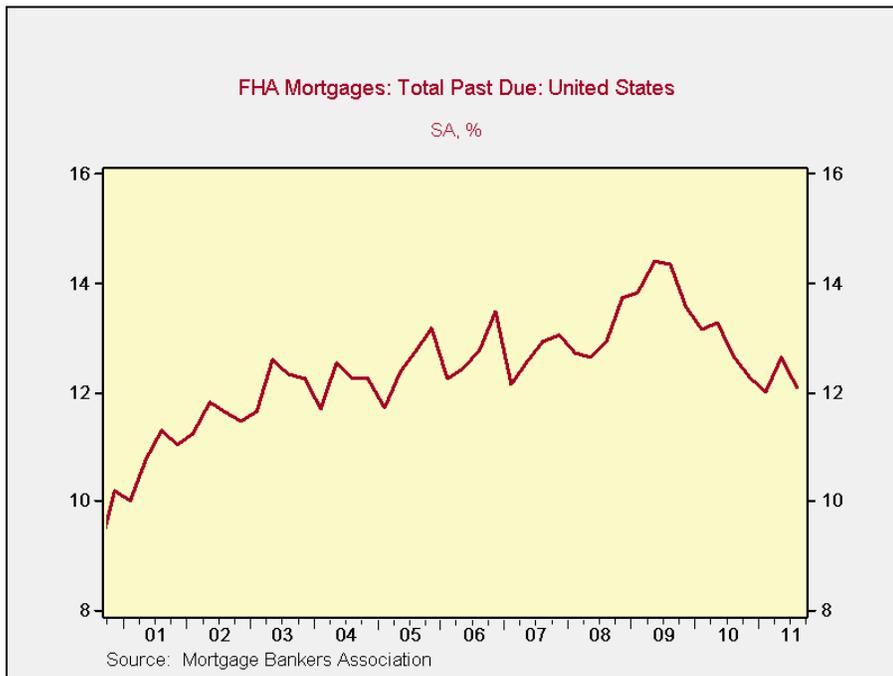
National Delinquency Survey

On November 17, 2011, MBA released its third quarter National Delinquency Survey (NDS) results. While the survey showed that delinquency rates improved in the third quarter, the foreclosure data indicates we are still not out of the woods and that serious issues continue to vary by geography. Depending on location, different trends are driving these results. The increase in the foreclosure starts rate this quarter was driven by large increases from a few servicers, concentrated in certain “hardest hit” states like Florida and California. For most servicers, the foreclosure starts rate was little changed over the quarter. In these “hardest hit” states, the few large changes reflects the progression of delinquent loans through the foreclosure process. Outside of these states, improvement has continued, although at a slow pace due to the weak job market.

The 30-day delinquency rate, the measure of early stage delinquency, reached its lowest level since the second quarter of 2007, a sign that new mortgage delinquencies have slowed. This is an indication that the overall housing market is beginning to recover and should positively impact FHA. Foreclosure starts, however, increased this quarter, the first increase in a year after declining for three straight quarters, and is now back up to the levels of the first quarter of 2011. This trend is largely driven by loans leaving the loss mitigation process and the ending of state remediation programs and foreclosure moratoria.

The percentage of loans in the foreclosure process was unchanged from last quarter but up from the third quarter of last year. The foreclosure inventory rate remains quite elevated, but is at the lowest point since last year. Similar to last quarter, the top five states (California, Florida, Illinois, New York, and New Jersey) in terms of the number of loans in foreclosure make up more than 52 percent of the national total. FHA should closely monitor its concentrations in those states. The disparity in loans in foreclosure between the judicial and non-judicial states continues to widen as backlogs continue with more new foreclosures entering the pipeline.

The FHA data reflects the influence of the overall delinquency trends and its causes (see chart below). Compared to the second quarter of 2011, on a seasonally adjusted basis, the overall delinquency rate decreased for all loan types. FHA loans experienced declines, with the delinquency rate decreasing 53 basis points to 12.09 percent. The seasonally adjusted delinquency rate decreased 42 basis points to 4.32 percent for prime fixed loans and decreased 103 basis points to 10.73 percent for prime adjustable rate mortgage (ARM) loans. For subprime loans, the delinquency rate decreased 138 basis points to 21.24 percent for subprime fixed loans and decreased 211 basis points to 25.07 percent for subprime ARM loans.



The percent of loans in foreclosure, also known as the foreclosure inventory rate, remained unchanged from last quarter at 4.43 percent. The rate for FHA loans increased three basis points to 3.27 percent. The foreclosure inventory rate for prime fixed loans remained unchanged at 2.56 percent. The rate for prime ARM loans decreased 11 basis points from last quarter to 9.05 percent. The rate for subprime ARM loans increased 50 basis points to 22.73 percent and subprime fixed loans saw a decrease of 19 basis points to 10.82 percent.

The non-seasonally adjusted foreclosure starts rate increased five basis points for FHA loans to 0.78 percent and increased seven basis points for prime fixed loans to 0.69 percent, 34 basis points for prime ARM loans to 2.16 percent, six basis points for subprime fixed to 2.50 percent and 103 basis points for subprime ARMs to 4.65 percent.

Compared with the third quarter of 2010, the foreclosure inventory rate increased five basis points for FHA loans, 11 basis points for prime fixed loans, 194 basis points for subprime fixed, and 95 basis points for subprime ARM loans. The foreclosure inventory rate decreased 100 basis points for prime ARM loans.

An analysis of the Actuarial Report and NDS indicates risks to the MMI Fund. MBA recommends that FHA closely monitor its increasing delinquencies, given its continued rise in volume and seasoning of loans. However, FHA's new premium structure, current prudent policies, and strong, experienced leadership should be a bulwark against further decline. FHA is much better positioned to withstand the unpredictable economic future because of the following indicators:

- The FY2011 book of business has an expected economic value of close to \$11 billion, nearly double the actuaries' projection for this book in last year's report.
- The credit quality of FHA borrowers in FY2011 continues to improve, with the average decision credit score across all borrowers increasing to over 700. The second quarter of FY2011 had an average borrower credit score of 704, with 38 percent having a credit score over 720.
- Although premium revenue was down in FY2011 (due to lower volumes of new insurance and the change to a greater reliance on annual rather than upfront premiums), over time FHA expects total premium receipts will be higher under the new rate structure.
- Re-defaults from 2010 and 2011 cures are declining from the high reached in 2009. In 2010, re-default declined from 39 percent to 30 percent, a reduction of nine percent.

The Return of the Private Market

A key component of putting private capital on the front lines is to revitalize our secondary mortgage market by updating our housing finance system. Since the creation of Fannie Mae in the 1930s, the federal government has played a key role in providing stability to the secondary mortgage market. The current housing crisis has tested the government's role and led to calls for a fundamental rethinking of how the government plays its part.

MBA has put forward a suggested framework for government involvement in the mortgage markets, with a particular focus on the roles currently played by Fannie Mae and Freddie Mac. MBA's recommendations represent a clear, concise and workable approach to ensuring liquidity to the mortgage market. The proposed framework carefully balances the government's ability to ensure liquidity with the need to protect taxpayers from credit and interest rate risks associated with mortgage finance. It is a plan that promotes the return of private capital while limiting the government's footprint in mortgage finance, helping the markets function efficiently while protecting taxpayers. MBA looks forward to working with Congress on this vital issue.

Another threat to the return of the private market continues to be the outcome of the Qualified Residential Mortgage (QRM) and the Qualified Mortgage (QM) rulemakings. One of the Dodd-Frank Wall Street Reform and Consumer Protection Act's (Dodd-Frank) most significant provisions requires issuers of asset backed securities to retain an economic interest in a portion of the credit risk for any asset that the issuer securitizes. MBA supports the concept of risk retention and believes Congress' intent in crafting this section was to address errant securitizer and originator behavior inherent in

the originate-to-sell model by better aligning the interests of borrowers, lenders and investors in the long-term performance of loans.

This “skin in the game” requirement, however, is not a cost-free policy option. Recognizing these costs, Dodd-Frank establishes an exemption from risk retention requirements for QRMs. The QRM exemption was intended to recognize that traditional mortgage loans – standard products, properly underwritten and with appropriate documentation – were not the cause of the recent crisis, and securitization of these loans should remain unimpeded in order to return the U.S. mortgage securitization market to being among the most liquid in the world. By requiring a QRM exemption, the statute would keep consumer costs lower for QRMs, with higher costs for non-QRM loans. MBA believes the proposed regulations and structure of the QRM deviate significantly from what Congress intended and are likely to have a dramatic impact on the housing finance system unless they are substantially revised. MBA recommended several revisions to the proposed regulations in a comment letter submitted to federal regulators on August 1, 2011.²

MBA shares the belief expressed by the Obama Administration in its February 2011 report to Congress, *Reforming America’s Housing Finance Market*, and countless others that the role of the government, including FHA, in the housing finance market must be rolled back. Yet, the proposed QRM definition produced by the six regulators appears to conflict directly with the administration’s plan for reforming the housing finance system, as it would make it more difficult for private capital to re-enter the housing finance market.

It is not at all clear from the proposal whether the regulators reflected on the relationship between the proposed QRM definition and the FHA’s eligibility requirements in light of FHA’s statutory exemption from risk retention. Because of the wide disparity between FHA’s downpayment requirement of 3.5 percent and the currently proposed QRM requirement of 20 percent, MBA is concerned that the FHA programs will be over-utilized.

MBA suggests a better solution to meeting the requirements of Dodd-Frank is to allow the use of credit enhancements, such as private mortgage insurance, to offset part of the downpayment requirement for QRMs to provide some of the financing for low downpayment loans that FHA provide.

Furthermore, MBA believes the QM proposal issued by the Federal Reserve is a better starting point for achieving Dodd-Frank’s goal of ensuring that the market originates safe, sustainable mortgage products than the QRM proposal. Section 1411 of Dodd-Frank prohibits making a mortgage loan unless the originator makes a reasonable determination, in good faith, based on verified and documented information at the time the loan is consummated, that the consumer will have a reasonable ability to repay the

² See <http://www.mortgagebankers.org/files/Advocacy/2011/CreditRiskRetentionProposedRuleCommentLetter.pdf>

loan, including any mortgage related obligations. Section 1412 provides that if the loan meets the QM definition, it is presumed to meet the ability to repay requirements. The Consumer Financial Protection Bureau is charged with prescribing rules to implement Section 1412.

By statute, FHA-insured mortgages – because of their stringent underwriting requirements and the statutory definition of points and fees – meet the definition of a QM.

MBA believes that because the QRM and QM constructs were intended to achieve the same purpose of ensuring better, more sustainable lending, both constructs should be essentially the same. If a QM definition is well structured as a bright line safe harbor, it will be the chosen means for lenders to comply and, therefore, the best way to incent the sound underwriting mandated by Dodd-Frank.

A QM safe harbor will increase the availability and affordability of credit for the largest number of qualified borrowers, without establishing hardwired numerical limits. The QRM proposal, on the other hand, would have the effect of excluding a large number of borrowers from the most affordable, sustainable mortgage products and directing them into FHA-insured mortgage products, which would not be advantageous to the swift return of the private market.

Sustained FHA Activity and Stabilization of the Housing Market

To ensure the long-term sustainability of FHA and the stabilization of the housing market, MBA recommends the following:

Increased Resources and Operational Efficiencies

MBA believes a critical requirement for achieving, sustaining, and protecting the housing market's long-term vigor is ensuring that FHA has the resources it needs to operate in a modern, high-tech real estate finance industry. MBA thanks Congress for recognizing this and giving FHA almost \$599 million for salary and expenses and administrative costs, approximately \$7 million more than FY2011, which can be used to bolster FHA's resources and hire quality staff to manage its growing portfolio. Although FHA's market share is likely to decrease in the future as more private capital returns to the mortgage market, we recognize that FHA will still need the resources to manage endorsements for the lifespan of these loans and we support giving FHA the funds and flexibility to do so.

MBA also strongly supports funding to upgrade technology to improve operational efficiencies. New and updated technology would enable FHA to better monitor lenders, protect against fraud, and generally be better equipped to handle the challenges of a modern marketplace. An example of how FHA could modernize its technology for the betterment of consumers and lenders is by permitting the use of electronic signatures (e-signatures) for all mortgage origination forms required by FHA. E-signatures,

acceptable under federal law and by FHA on certain documents, would help reduce processing issues that impair the home-buying process. E-signatures would reduce the volume of lost paperwork, reduce the time required to close a loan, lower borrower costs, and reduce signature fraud. MBA has requested that FHA implement a revised policy accepting the use of e-signatures on all of its loan documents. MBA has also advocated that FHA adopt the Mortgage Industry Standards Maintenance Organization (MISMO) single family data standards, as Ginnie Mae, Fannie Mae, and Freddie Mac have done. Data standardization would help FHA improve efficiencies and lower costs.

Lender Enforcement that is Fair, Transparent, and Responsible

MBA supports high standards for all lenders that participate in FHA programs in order to protect FHA's viability, the lender's reputation, and the reputation of the industry. MBA members recognize and accept accountability for instances of fraud and negligence within their control and we appreciate the effort of FHA in providing increased risk management policies to ensure the future financial security of its insurance funds, including necessary lender enforcement efforts.

Heightened enforcement of lenders is useful and necessary, but requires due process. Lenders incorporate sophisticated quality control systems to minimize the possibility of indemnifications. MBA supports FHA's efforts to rid the industry of lenders who do not uphold these high standards; however, we strongly advocate for FHA to establish policies and processes that are fair, clear, and transparent, and which allow lenders to have sufficient opportunity for appealing decisions and remediating problems. MBA looks forward to working with this committee and FHA on upcoming changes that address this very serious issue.

Real Estate Owned Properties Disposition that Encourages Neighborhood Stabilization

On September 15, 2011, MBA responded to the Request for Information (RFI) issued by the Federal Housing Finance Agency (FHFA), in consultation with HUD and the Department of Treasury that solicited recommendations for addressing the real estate owned (REO) properties in Fannie Mae, Freddie Mac, and FHA's portfolios. Policymakers and MBA recognize that housing's supply and demand imbalance must be resolved before the country can fully recognize a sustained economic recovery. Although the focus of the RFI was to reduce the agencies' inventories through bulk sales, MBA believes a multi-pronged approach that includes encouraging owner-occupancy, local investors and bulk sales is the best way to address the significant over-supply of housing and the unique real estate characteristics in some parts of the country. As part of this approach, one of MBA recommendations was to expand finance options for local investors, including lifting the moratorium for investors in FHA's 203(k) program.

MBA believes a top priority during this transition should be to stabilize neighborhoods and long-term home prices through actions that reduce the overhang of distressed

properties. A reduction in the current REO inventory will provide for the swiftest and most efficient return to market stability. As the country moves to correct the supply and demand imbalance, it is critical that policymakers balance taxpayer interests, investor interests, and consumer protections to ensure responsible asset disposition.

Local investors understand their particular markets and have a long-term stake in the stabilization of their neighborhoods. Providing affordable, responsible financing options to investors not only eliminates REO properties, but also empowers neighborhoods by giving local residents an increased stake in its success. These tools would be especially beneficial in urban neighborhoods that face the challenges of older housing stock and neighborhood blight.

FHA should introduce an investor program – specifically one that includes a renovation option. One solution would be to temporarily lift the moratorium on investors participating in FHA's Section 203(k) Rehabilitation Loan Program. The Section 203(k) program helps buyers of properties in need of repairs reduce financing costs, thereby encouraging rehabilitation of existing housing. With a Section 203(k) loan, the buyer obtains one FHA-insured, market-rate mortgage to finance both the purchase and rehabilitation of a home. Loan amounts are based on the lesser of the sum of the purchase price and the estimated cost of the improvements or 110 percent of the projected appraised value of the property, up to the standard FHA loan limit. HUD began promoting Section 203(k) to homeowners, private investors and non-profit organizations in 1993. Private investors were often able to find undervalued properties, renovate them and sell them for more than the purchase price plus the cost of improvements, or provide much needed rental housing. Motivated by this profit potential, many investors successfully renovated and sold properties ranging from individual homes to entire blocks, thereby expanding homeownership opportunities, revitalizing neighborhoods, creating jobs, and spurring additional investment in once blighted areas.

In 1996, however, following a report by HUD's Inspector General describing improprieties concentrated in New York and insufficient departmental oversight, HUD placed a moratorium on all Section 203(k) loans to private investors. The Inspector General noted rampant fraudulent activity that resulted in financial gain for the participants and un-rehabilitated houses in the neighborhoods.

MBA agrees that safeguards in any program are necessary to prevent abuse and to ensure that the program meets its intended purpose. MBA recommends that FHA lift the moratorium on investors participating in the 203(k) and reinstate it as a pilot to facilitate the purchasing and rehabilitating of REO properties by local investors. In recognition of the historical abuses of the program, MBA also recommends that the program be modified to ensure responsible lending and minimize fraudulent activity. MBA's members welcome the opportunity to work with FHA to develop a program that meets these criteria.

Support of the Home Equity Conversion Mortgage Program

In 2011 and 2012, FHA took steps towards ensuring that the HECM reverse mortgage program remains a viable financing option for seniors. During the past 15 months, FHA has made significant programmatic changes including introducing the HECM Saver for borrowers who want to borrow less than the maximum amount available under the standard HECM; adjusting the principal limit factors used to determine the maximum claim amount for a HECM loan to assure that the HECM Standard could be self-supporting; providing guidance to lenders regarding the treatment of taxes and insurance defaults by HECM borrowers; and increasing HECM annual premium rates from 0.50 percent to 1.25 percent.

FHA also reiterated in October 2011 that the HECM program criteria is only a baseline standard for lenders and that lenders can include additional financial capacity and credit assessment criteria and processes in the origination and approval of HECMs. MBA appreciates that FHA continues to work as a partner with lenders to strengthen the HECM program and to ensure that borrowers are able to meet their financial obligations related to the mortgage.

Although the HECM program required a transfer of \$535 million from capital accounts in FY2011, HECMs are less impacted by near-term economic conditions than the forward mortgages book of business. The Actuarial Report states that because of the programmatic changes FHA implemented, the funds injected into HECM are expected to be paid back in a relative short period of time – by 2015. MBA strongly supports the HECM program and applauds FHA for proactively taking steps to protect a program that is becoming an increasingly important financial option to American seniors.

Support of Housing Counseling Programs

MBA appreciates that the House and Senate restored \$45 million to the FY2012 HUD budget for counseling. These funds support the delivery of a wide variety of housing counseling services to potential homebuyers, homeowners, low- to moderate-income renters, and the homeless. Counselors provide information to help households improve their housing conditions and choices, avoid foreclosure, and understand the responsibilities of tenancy and homeownership.

Funding for counseling is especially critical to seniors because the statute authorizing the HECM program mandates that reverse mortgage counseling be a requirement for receiving a reverse mortgage. Because FHA policy bars lenders from paying for reverse mortgage counseling (to eliminate any conflict of interest), the reverse mortgage counseling fee becomes the borrower's responsibility. Regrettably, seniors who need the proceeds of a reverse mortgage the most are the ones least likely to afford the counseling fee.

Counseling remains a valuable component of the homebuying process and MBA looks forward to working with Congress on increasing resources for this very necessary program.

Multifamily

Although not the focus of the hearing today, MBA believes that it is important to take this opportunity to highlight a few multifamily issues. With the decline in the homeownership rate from 69 percent in 2006 to 66 percent in 2011, the importance of multifamily rental housing has been underscored from both public policy and demographic perspectives. As the number of renter households is expected to continue to increase substantially over the next decade, FHA is poised to provide essential support to this market. Since the inception of the housing crisis, FHA's countercyclical impact has been pivotal to maintaining liquidity and stability in the multifamily and healthcare sectors.

MBA commends FHA and its multifamily staff for its work. FHA's endorsement of \$11.605 billion in multifamily rental housing loans in FY2011 is impressive, and the performance of FHA-insured multifamily loans remained strong, with very low default rates.³ MBA is also grateful to Congress for approving an increase in the FY2012 commitment authority for FHA multifamily and healthcare programs.

As a result of unprecedented market demand and volumes, however, FHA's resources have been strained. The backlog in the pipeline of applications has historically been an issue but the unprecedented market demand and volumes have created additional strain to the system, with delivery times getting increasingly long. Because of its impact on local economies, FHA's multifamily programs foster employment while supporting rental housing. We urge Congress to maintain its full support of such programs.

Conclusion

MBA appreciates FHA's vital role in providing liquidity to our nation's distressed housing markets and the traditional countercyclical role it is playing in promoting an economic recovery. We are also grateful for the steps the agency has taken to place itself on surer financial footing and avoid the need for taxpayer funding.

While FHA is not projected to need assistance, there is a real risk that it could require taxpayer support. We think that many of the changes FHA has already made have positioned the program to fare better in the years ahead, but additional changes could further bolster the fund. MBA stand ready to work with Congress and FHA to ensure the agency continues to provide homebuyers with safe, affordable mortgage financing, while also encouraging the return of private capital that will take some of the strain off FHA's programs.

³ See, e.g., Ginnie Mae, Office of Mortgage-Backed Securities, Presentation at the 2011 Midwest Lenders Association (May 2011) (reflecting multifamily portfolio delinquencies as of March 2011 at 1.3 percent).