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"Are There Government Barriers to the Housing Market Recovery?"

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Chairwoman Biggert, Ranking Member Gutierrez, and Members of the Subcommittee, thank you for the opportunity to testify today on behalf of the Obama Administration's efforts to encourage the return of private capital to the housing market, particularly as that effort relates to the Federal Housing Administration. We are committed to ensuring that government will continue to facilitate, and not be a barrier to, recovery of the housing market.

Today, I want to discuss three major elements that inform and underpin those efforts: the current state of the housing market and FHA's role in it, the reforms we've already put in place to protect the taxpayer and facilitate the return of a robust private mortgage market, and the role that this Administration envisions going forward for a reformed and strengthened FHA within a 21st century housing finance system.

Administration Efforts to Stabilize the Housing Market

Madam Chairwoman, this Administration quickly took several steps to confront the economic crisis as soon as taking office two years ago, including steps to stabilize a housing market that was declining rapidly with seemingly no bottom.

House prices were in freefall -- having fallen every month for 30 straight months before President Obama took office. Home equity had been slashed in half—losing $6 trillion total—which wiped out wealth for many families. And we were losing an average of 753,000 jobs a month and were in the middle of 22 straight months of job losses.

With the market collapsing and private capital in retreat, the Administration had no choice but to take action.

Federal Reserve and Treasury Department mortgage-backed securities purchase programs helped keep mortgage interest rates at record lows. To ensure mortgages were available at those low rates, the Administration also provided critical support for Fannie Mae and Freddie Mac, while the FHA and Ginnie Mae stepped in to play a larger role in the home purchase market and enabled a robust refinancing market to emerge. As reported in the Obama Administration's January Housing Scorecard[1], since April 2009, nearly 13 million homeowners have been able to refinance their mortgages to benefit from lower interest rates, saving them an average of $140 per month or $17.6 billion annually.

[1] The Obama Administration Housing Scorecard is posted monthly at http://portal.hud.gov/hudportal/HUD?src=/initiatives/Housing_Scorecard

And collectively, the FHA's loss mitigation policies and the Administration's Home Affordable Modification Program (HAMP) set an example for mortgage modification efforts that the private market took too long to adopt but has finally begun to incorporate into their servicing practices. More than 4.1 million distressed borrowers have received mortgage assistance since April 2009—including HAMP modifications, FHA loss mitigation activities, and voluntary private efforts as part of the HOPE NOW alliance—more than twice the number of foreclosures completed during that time. Monthly foreclosure starts are down more than 30,000 per month from this same time one year ago. While the sharp decline may be partially attributed to servicer process reviews in light of foreclosure processing deficiencies (which I will address later in this testimony), and this number may trend upwards as servicers revise and resubmit foreclosure paperwork in coming months, we are seeing encouraging signs that fewer families are entering delinquency in the first place. Our combined efforts to take action in the housing market have stopped the 30-month slide in home prices. And most importantly, the Administration's broader economic policies have produced 13 straight months of job growth in the private sector.

The Importance of a Robust and Responsible Private Mortgage Market

A critical component to further recovery of the broader economy, and to reducing the financial risk to taxpayers, includes this Administration's affirmative steps to facilitate the return of private capital to the housing finance system in a responsible way.

One such step includes reforming FHA's mortgage insurance premium structure to levels that are more reflective of market pricing and will rebuild FHA's capital reserves, which I will discuss later in my testimony. I would like to take this opportunity to thank Congress for enabling this reform through bipartisan passage of H.R. 5981 in the 111th Congress. FHA immediately took steps to implement reform after President Obama signed this bill on August 11, 2010. FHA lowered its upfront mortgage insurance premium once while increasing its annual mortgage insurance premium on three occasions, including the most recent change announced on February 14th. With this reformed revenue structure and improved risk mitigation efforts, FHA is projected to generate approximately $9.8 billion in receipts for the U.S. Treasury in FY 2011, a significant increase compared to the $565 million of receipts generated in FY 2009, prior to the reforms implemented by this Administration. While materially strengthening our balance sheet, we have ensured that FHA-insured loans remain affordable for first-time and lower-income homebuyers – for example, the annual premium increase announced on February 14th will translate to average increased housing costs of only $30 more per month from newly insured loans – and the monthly fee on existing FHA-insured homeowners remains unchanged. This increased revenue will enable FHA to further strengthen its capital reserves at a robust pace while continuing to responsibly insure new home purchases and refinances that contribute to stabilizing the housing market. Additionally, these changes have already begun to create market conditions that facilitate greater competition in the private mortgage market and the return of private capital to the housing sector. But we want to make sure that the health of the capital markets is not restored on the backs of low and moderate income families, so we will be looking for reforms that balance the impacts to these borrowers as we consider further FHA reforms.

The return of private capital is particularly important given that today, Fannie Mae, Freddie Mac, FHA and Ginnie Mae collectively insure or guarantee more than nine out of every ten new mortgages.

FHA's current share of the housing market

During the height of the boom of private involvement in the housing market in 2006, FHA-insured mortgages constituted less than 4 percent of the number of new home purchases. This was a significant decrease from FHA's historically traditional share of approximately 10-15 percent and an indication that the private sector was aggressively extending credit. All too painfully, we learned that was this extension was often irresponsible. As poorly underwritten subprime loans and other products that were securitized into private label securities (PLS) began to default at an alarming rate, their defaults led to losses throughout the private market and private capital vanished from the housing sector at an unprecedented pace – in 2006, more than $1 *trillion* of mortgages were securitized into PLS; in 2008, that figure was less than $60 *billion*[2].

FHA's temporarily elevated market share of more than one-third of new home purchases is the result of our efforts to fulfill our mission to be a countercyclical facilitator of responsible capital liquidity in the housing sector at times in which the fully private sector exits the market abruptly. I would like to remind the Committee that FHA does not lend directly to homeowners, but instead insures lenders against losses that may result in the event of a borrower default, under the condition that lenders are required to abide by extensive documentation and underwriting guidelines to originate sustainable mortgages, and they are required to provide numerous loss mitigation opportunities to help borrowers avoid default or foreclosure. By facilitating the availability of this vital liquidity through a variety of approved community banks, credit unions, and national lenders, FHA has helped over 2 million families buy a home since President Obama took office – 80 percent of whom were first-time buyers. FHA has also helped nearly 1.5 million existing homeowners refinance into stable, affordable products, with monthly savings exceeding $100 in most cases.

FHA's countercyclical role in the multifamily (apartment) market is equally important. In 2008, FHA supported the development of about 49,000 rental homes. Now, however, conditions are very different, reflecting the sharp decline in fully private financing and most notably commercial mortgage-backed securities. In 2010 alone, FHA supported the development or refinancing of more than 150,000 rental units with a total dollar volume of nearly $11 billion – almost four times the level of two years earlier, and now almost 25 percent of the multifamily market. And I'd like to thank Congress for passing legislation last summer – H.R. 5872, the General and Special Risk Insurance Funds Availability Act of 2010 – to increase FHA's commitment authority for our multifamily and healthcare facilities insurance programs, a key step that helped make this increased support possible to help facilitate the production and refinancing of multifamily properties that are critical for a more balanced housing sector. In response to this unprecedented demand, as in our single-family programs, FHA simultaneously implemented the most significant reforms to FHA's multifamily programs to strengthen underwriting guidelines and minimize financial risk to taxpayers while providing this critical support.

Towards a New System of Housing Finance

Ultimately, however, we do not want FHA to have such a substantial share of the market – and we are very aware of the risks this elevated role poses. While the FHA's countercyclical role has

[2] Source: Inside Mortgage Finance, HMDA, and Mortgage Bankers Association

been essential to providing liquidity to the housing market to prevent further disruptions in the broader economy, the Obama Administration believes that meeting the diverse housing homeownership and rental needs of the country requires a strong, safe, and healthy market for private capital.

FHA Reforms to Date

That is one reason the FHA has already taken significant steps to facilitate the return of private capital, making the most sweeping combination of reforms to credit policy, risk management, lender enforcement, and consumer protection in FHA history. These reforms have strengthened our financial condition and minimized risk to taxpayers, while allowing us to continue fulfilling our mission of providing responsible access to homeownership for first-time homebuyers and in underserved markets.

In addition to the reformed mortgage insurance structure that I described earlier, FHA implemented a "two-step" credit score policy for FHA purchase borrowers. Purchase borrowers with credit scores below 580 are now required to contribute a minimum down payment of 10 percent. Only those with stronger credit scores are eligible for FHA-insured mortgages with the minimum 3.5 percent down payment.

The goal of these reforms is to balance the need to provide access to our mortgage markets with the need to protect taxpayers from financial risk. That's also why in October of 2009, we hired the first Chief Risk Officer in the organization's 75 year history -- and last July, we received Congressional approval to formally establish this position and create a permanent risk management office within FHA, for which the Risk Officer is now Deputy Assistant Secretary. With this new office and additional staffing, we're expanding FHA's capacity to assess financial and operational risk, perform more sophisticated data analysis, and respond to market developments.

Further, we've strengthened credit and risk controls – toughening requirements on our Streamlined Refinance program, making several improvements to the appraisal process and to condominium policies, and implementing the two-step credit score policy discussed above. We are very grateful for the support that Congress has provided with our efforts to reduce fraud and risk. Through the $20 million Combating Mortgage Fraud funds that Congress granted HUD in FY2010, we have already begun to implement several risk management and systems modernization reforms to incorporate modern risk and fraud tools and counterparty data consolidation.

Additionally, FHA introduced policy changes and improved lender oversight and enforcement to increase the quality of FHA insured loans. In April 2010, we published Final Rule (FR5356-F-02) "Federal Housing Administration: Continuation of FHA Reform – Strengthening Risk Management Through Responsible FHA-Approved Lenders." This rule eliminated FHA approval for loan correspondents and increased net worth requirements for lenders, thereby strengthening FHA's counterparty risk management capabilities.

The Need for FHA Reform Legislation

Of course, the job is far from over. As important as the new premium authority established by Congress is, Secretary Donovan and I remain committed to comprehensive FHA reform legislation that enhances FHA's lender enforcement capabilities and risk management efforts critical to our ability to monitor lender performance and ensure compliance. And we hope Congress will pass comprehensive FHA legislation as quickly as possible.

Indeed, last year the House of Representatives passed an FHA reform bill, H.R. 5072, and shortly after a Senate companion, S. 3704, was introduced. In addition to provisions strengthening FHA's lender enforcement ability, the bill also includes technical clarifications that will allow for third party loan originators to close FHA insured loans in their name. This third party originator provision is particularly important to ensuring that several hundred community banks are able to continue originating FHA loans.

Additionally, HUD is seeking Congressional authority to extend FHA's ability to hold all lenders to the same standard and permit FHA to recoup losses through required indemnification for loans that were improperly originated and for which the error may have impacted the original loan decision, or in which fraud or misrepresentation were involved.

We also hope to work with Congress to give FHA additional flexibility to respond to stress in the housing market and to manage its risk more effectively. This will mean giving FHA flexibility to adjust fees and programmatic parameters more nimbly than it can today. FHA should also have the technology and talent needed to run a world-class financial institution.

Results from FHA Reforms to Date

As you know from the Secretary's Annual Report to Congress on the Financial Status of the FHA Mutual Mortgage Insurance (MMI) Fund at the end of FY 2009, the secondary reserves held in FHA's Capital Reserve Account to support single-family loan guarantees had fallen below the required two percent level by the end of FY09 – to 0.53 percent of the total insurance-in-force. Combined with reserves held in the Financing Account, the MMI Fund held more than $31 billion. These combined funds are set aside specifically to cover losses over the next 30 years and, while they have been sufficient to avoid the need for taxpayer assistance, they were lower than required by Congress and, frankly, below what is considered to be acceptable by this recently confirmed management team. Even prior to the release of the actuarial review, we took several steps to strengthen the Fund, as I have described earlier in this testimony as well as at several previous hearings before this Committee.

Just more than a year later, I am pleased to inform you that tangible, measureable progress has been accomplished and continues to be underway to improve the financial condition of the Fund, hold lenders more accountable, and reduce risk to taxpayers.

Summary of FY 2010 Actuarial Review[3]

Total capital resources (combined Capital Reserve Account and Financing Account) in FY 2010 increased by $1.5 billion to $33.3 billion. While the overall capital ratio held steady at 0.5% reflecting that more conservative economic forecasts and model changes offset the benefits of improved borrower credit profiles and increased premium income. On a standalone basis, had capital resources not been shifted from the forward loan accounts to HECM accounts to cover

[3] HUD's Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund FY 2010 can be found at http://www.hud.gov/offices/hsg/rmra/oe/rpts/actr/2010actr_subltr.pdf

HECM budget reestimates, the capital ratio of single-family forward loans (96% of the portfolio) would have increased from 0.42% in FY 2009 to 0.79% in FY 2010, demonstrating significant improvement in loan quality and underlying reserves. Without any additional policy actions, and incorporating the more conservative economic forecasts, the capital ratio for the entire MMI Fund was projected by the independent actuaries to be 1.99% in 2014 and then exceed the 2% statutory requirement in 2015. Furthermore, we have implemented a wide range of additional policy actions that are expected to strengthen the Fund even more quickly than forecasted.

- The quality of loans made in 2009 and 2010—the years FHA has done the most significant volume—is much improved. FY 2010 is the highest quality FHA book-of-business on record.

- Credit score distribution continues to be significantly improved. The average credit score on current insurance endorsements has risen to nearly 700. And for the second straight quarter, average credit scores are equal across refinance and purchase books of business.

- Loan performance, as measured by early period delinquency and seasonally adjusted serious delinquency rates, continues to show significant improvement. FHA's seasonally adjusted 90+ day delinquency rate in December 2010 was 5.8% compared to 7.45% in December 2009. Furthermore, FHA loans continue to perform significantly better than all product types except fixed prime loans. According to the Mortgage Bankers Association's Q3 2010 National Delinquency Survey, FHA's 90+ day delinquency rate was 5.03%, compared to 2.22% for prime fixed, 7.72% for prime ARMs, 11.46% for fixed-rate subprime, and 18.39% for subprime ARMs.

It is clear that FHA is in a stronger position today than we were the year before. While we are not yet completely out of the woods—and while loans insured before 2009 are responsible for 70 percent of the single family loan losses we continue to expect—based on the evidence we're seeing, FHA is weathering the economic storm. And we're doing so, Madam Chairwoman, while simultaneously reducing financial risk to taxpayers and helping to create a firm foundation for the recovery of the housing finance system. Perhaps no element is more crucial to that system's recovery than facilitating a more responsible return of private capital – and FHA is already taking significant action to help capital return to the market.

Paving the Way for a Robust and Responsible Private Mortgage Market

However, these steps are only the beginning to ensuring the return of a robust and more responsible private mortgage market. That is one reason why the Administration is working to produce a more balanced, comprehensive national housing policy that supports homeownership and rental housing alike, providing people with the options they need to make good choices for their families.

Toward that end, Madam Chairwoman, the Obama Administration delivered a report to Congress last week, *Reforming America's Housing Finance Market*[4], which provides a path forward for reforming our nation's housing finance system. I'd like to outline briefly the changes and

[4] Report can be found at http://portal.hud.gov/hudportal/documents/huddoc?id=housingfinmarketreform.pdf

options this report suggests for consideration by Congress and stakeholders, including consumers and industry participants.

Long-Term Options for the Housing Finance System

Given this hearing's focus on facilitating the return of private capital to the market in the near term, a detailed discussion of the structure of a reformed housing finance system in the years and decades to come is beyond the appropriate scope of my testimony. My colleagues at this table and the Administration as a whole remain committed to continued dialogue with this committee, all Members of Congress and housing stakeholders as we take the steps necessary to restructure the U.S. housing finance system. I will however outline the three options presented by the Administration for consideration as we work towards this goal. The purpose of the options is to be sensitive to the critical importance that housing plays in America and the need to be thoughtful and deliberative in order to allow all to participate as we move forward.

One common thread in each of these options is the FHA – which this Administration believes must be part of the solution when it comes to facilitating the return of private capital and a more balanced national housing policy.

The first option would limit the government's role in insuring or guaranteeing mortgages to FHA and other programs targeted to creditworthy lower- and moderate-income borrowers, leaving the vast majority of the mortgage market to the private sector. The second option would complement the FHA's role with a backstop mechanism designed to help ensure access to credit during a housing crisis. And the third option would include, alongside the FHA, limited government reinsurance for the securities of a targeted range of mortgages that would be designed to increase liquidity and access and respond to future crises.

Whatever path we choose, one thing that is clear is that abruptly and prematurely withdrawing today's levels of support for housing finance would be irresponsible – and could threaten access to credit for American families looking to buy a home or refinance their mortgage. It could cause home prices to decline substantially, reducing the value of what is often the largest asset that most families will ever own. And it could do severe damage to the housing market, which remains one of the largest sectors of our economy.

Steps to Shrink Government's Oversized Footprint in Housing Finance

I'll begin by describing ways the Administration is proposing to shrink government's oversized footprint in housing finance through the FHA.

Returning FHA to its traditional role as targeted lender of affordable mortgages.

We want to return FHA to its traditional role as a targeted lender of affordable mortgages. Indeed, before the crisis, the FHA was largely a targeted provider of mortgage credit access for underserved low- and moderate-income Americans and first-time homeowners – and the Administration proposes to return the FHA to its pre-crisis role. As Fannie Mae and Freddie Mac's market presence shrinks, the Administration will coordinate similar reforms at FHA to ensure that the private market–not FHA—picks up that new market share.

To accomplish this objective, we recommend decreasing the maximum loan size that can qualify for FHA insurance – first by allowing the present increase in those limits to expire as scheduled on October 1, 2011, and revert to the limits established under HERA.

As we work with the Federal Housing Finance Agency (FHFA) to pursue increased pricing for guarantees at Fannie Mae and Freddie Mac, we will also increase the price of FHA mortgage insurance. We have already acted on this front, raising premiums three times since the beginning of this Administration, including the 25 bps increase in the annual mortgage insurance premium that was announced on February 14, 2011 as part of the President's FY 2012 Budget and that I discussed earlier in my testimony. This will continue the ongoing effort to strengthen the capital reserves of FHA, and put it in a better position to gradually shrink its market share. Going forward we will coordinate reforms of Fannie Mae and Freddie Mac with changes at FHA to help ensure the private market, not FHA, fills the market opportunities created by reform.

Additional Near-Term Steps to Encourage the Return of Responsible Private Capital

In the housing finance reform white paper, the Administration also details several near-term steps that we have begun to take and will accelerate to encourage the return of responsible private capital to the housing sector.

The first step is to withdraw the government's support for the housing market gradually and in a manner that encourages the "crowding-in" of private capital accompanied with strengthened capital standards, consumer protections, and reduced risk to the financial system. We will shrink the government's oversized footprint in housing finance and help bring back private capital to the mortgage market. Central to this effort is winding down Fannie Mae and Freddie Mac at a deliberate pace that doesn't pose further risk to taxpayers, jeopardize recovery in the housing market, or constrain families' access to mortgage credit. But Madam Chairwoman, make no mistake – this Administration believes that the current level of government support for housing finance is unsustainable and unacceptable for the permanent state of this market because it exposes taxpayers to far too much risk.

Secondly, we will pursue housing finance reforms with care so as not to harm our economic recovery, but we will do so in a fair and equitable way so that all Americans have access to a choice of affordable housing. The Obama Administration believes we have an imperative to fundamentally reform our nation's broken housing finance market. But we also have a responsibility to the American people to make sure that, as we move forward with our reform efforts, we do no harm to the housing market or our nation's economy.

Third, we will fix fundamental flaws that occurred at every link in the housing finance chain, which were deeply scarring to homeowners and eroded private investor confidence in the entire system, which directly led to the need for the government to take unprecedented action to prevent further losses for all taxpayers. These flaws allowed too much risk to build up in the market. And the resulting damage inflicted severe harm on homeowners, lenders, investors, and our nation's broader economy. That blow to confidence is an important reason why the housing market remains fragile and will take time to fully heal.

We have a responsibility to continue our work fixing the fundamental flaws in the mortgage market to help restore confidence among homeowners, lenders, and investors. That process is already underway as we continue to fundamentally transform the mortgage market through the Dodd-Frank Wall Street Reform and Consumer Protection Act, including through HUD's role as a member of the interagency group working to define the types of loans deemed Qualified Residential Mortgages. But we need to build on that progress and make additional reforms to strengthen underwriting and capital standards, help fix our broken servicing and foreclosure processes, and make sure consumers have the information they need to make the choices that are best for them when buying a mortgage.

This crisis has also taught us that appropriate consumer protection requires immediate action to institute long overdue reforms to mortgage servicing compensation structures, servicing standards, and foreclosure processing procedures.

HUD is working with the FHFA to explore alternative servicing compensation structures to align industry incentives and better protect homeowners. A compensation structure that corrects for the current structure's shortcomings could help ensure servicers are appropriately incentivized to invest the time and effort to work with troubled borrowers to avoid default or foreclosure. HUD is also working with other federal agencies and regulators to fully investigate the issues that recent foreclosure revelations have raised, including working with the Financial Fraud Enforcement Task Force, the Office of the Comptroller of the Currency, the Federal Housing Finance Agency, and the Federal Reserve Bank.

In May, FHA launched an in-depth review of several of its largest servicers, looking in particular at whether their foreclosure prevention efforts fully comply with the FHA's rules and regulations. FHA is ensuring these servicers address the issues of concern identified through its reviews. This includes extensive consultation with servicers' senior management and assigned work groups; customized training and planning assistance; ongoing evaluations of servicers' progress in correcting deficiencies and improving compliance; and potential, fines, penalties, and claim reimbursements imposed by FHA on servicers.

Fourth, Madam Chairwoman, we will seek to find common ground on the tools we must use to help bring back private capital to the market. There will be reasonable debate about the appropriate pace of the transition, but there is broad agreement that we need to move forward to exit the government's current oversized role in housing finance on a responsible timeline. Much of our immediate efforts will be focused on the challenge of working towards that shared objective. It's our hope that this will serve as a foundation for longer term reforms as we work to build a housing finance market where the private sector, not the government, is the primary source of mortgage credit and bears the primary risk for losses.

Finally, this Administration believes that the government must help ensure that all Americans have access to quality housing that they can afford.

A System with Transparent and Targeted Support for Access and Affordability

The Administration believes that we must continue to take the necessary steps to ensure that Americans have access to an adequate range of affordable housing options. This does not mean all Americans should become homeowners. Instead, we should make sure that all Americans who have the credit history, financial capacity and desire to own a home have the opportunity to take that step. At the same time, we should ensure that there are a range of affordable options for the 100 million Americans who rent, whether they do so by choice or necessity.

The report recommends focusing initially on four primary areas of reform:

- A reformed and strengthened FHA.
- A commitment to affordable rental housing.
- Measures to ensure that capital is available to credit-worthy borrowers in all communities, including rural areas, economically distressed regions, and low-income communities.
- A consistent, flexible and transparent funding source to support targeted access and affordability initiatives.

A Reformed and Strengthened FHA

As I have mentioned, housing finance reform depends on a reformed, strengthened FHA – a process which this Administration has begun, but which must continue to reduce the government's role in the market.

As such, the Administration will make sure that credit-worthy borrowers who have incomes up to the median level for their area have access to FHA mortgages, in a way that does not allow the FHA to expand during normal economic times to a share of the market that is unhealthy or unsustainable. While FHA has already changed policy to require that borrowers with lower FICO scores make larger down payments, FHA will consider other options, such as lowering the maximum loan-to-value ratio for qualifying mortgages more broadly. In considering how to apply such options, FHA will continue to balance the need to manage prudently the risk to FHA and the borrower with its efforts to ensure access to affordable loans for lower- and middle-income Americans. And similar to the Administration's process for broader reform of the U.S. housing finance system, FHA will seek comment on the appropriate pace of change.

However, as we consider changes in such areas as down payments and LTV ratios, we continue to believe that it is essential to avoid permanently locking in such changes. Rather, we will work with Congress, as we did in last year's premium increase legislation, to give FHA more flexibility to respond to market conditions and manage its risk more effectively.

A Commitment to Affordable Rental Housing.

Reducing government's role in the single family market requires a commitment to affordable rental housing – which is a critical component of a comprehensive balanced national housing policy. A housing policy that supports sustainable homeownership as well as the increased need for rental housing would ensure three desirable outcomes for families, and for the housing market as a whole.

It would ensure that people who are in a financial position to own a home have access to the capital they need to do so.

It would guarantee that families are not set up to fail with mortgages that enable them to buy homes they simply cannot afford.

And it would make financing available to those who will build the rental housing that we need to provide choices for the growing number of families for whom homeownership may not be the best option.

As such, exploring ways to provide greater support for rental housing is also essential to shrinking government's role in the market. One option would be to expand FHA's capacity to support lending to the multifamily market. Utilizing existing multifamily expertise so that FHA and other entities continue the industry's current best practices and retain valuable human capital would help achieve this objective.

We will also consider a range of reforms, such as risk-sharing with private lenders to reduce the risk to FHA and the taxpayer, and developing programs dedicated to hard to reach property segments, including the smaller properties that contain one-third of all rental apartments.

But with half of all renters spending more than a third of their income on housing—and a quarter spending more than half—this Administration believes there should be a range of affordable options for the millions of Americans who rent.

The Challenge Ahead

And so, Madam Chairwoman, it is clear that we must work together to chart a path forward.

During my tenure as FHA Commissioner I've seen firsthand that one of the leading barriers to private sector involvement in the market isn't government at all – but a "trust deficit" faced by the industry in its relationship with the American people.

As long as consumers, particularly the younger generation, associate the housing industry with exploding ARMs, predatory loans, and foreclosures, restoring a healthy balance in American housing policy will be a struggle.

But Madam Chairwoman, given that I had spent my entire career in the private sector before coming to the FHA, I also know that government cannot do it alone.

Whether it is through gradually shrinking the government's role in the market without disrupting our economic recovery, strengthening the mortgage market to rebuild confidence, or removing barriers to the return of capital, this Administration is not only committed to restoring a healthy balance in the housing market – it is committed to working with Congress to find the common ground we need to build a 21st century system of housing finance rooted in a strong, healthy market for private capital.

FHA's role in restoring this balance will be critical, and we look forward to working closely with Congress to ensure that we build a system that works better for borrowers, lenders, investors and the broader American economy.

Madam Chairwoman, thank you again for this opportunity to testify. I would be glad to respond to any questions.