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Statement

by

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President

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on behalf of the

Mortgage Bankers Association of America

before the

House Financial Services Committee

Subcommittee on Housing and Community Opportunity

hearing on

"HOUSING AFFORDABILITY FOR AMERICA ACT OF 2002"

on

Wednesday, April 24, 2002

Madame Chairwoman, and Members of the Subcommittee, my name is John Courson, and I am President of Central Pacific Mortgage Company in Folsom, California. I am appearing before you today in my capacity as Chairman-elect of the Mortgage Bankers Association of America (MBA)[1]. MBA is grateful for the opportunity to present our views to your subcommittee today on H.R. 3995, the "Housing Affordability for America Act of 2002."

We applaud the Chair and Vice-Chair of the Subcommittee on Housing and Community Opportunity for sponsoring this legislation. MBA believes that this bill will play an important role in efforts to increase Americans' access to affordable housing, both for those families buying their first home and those who are living in rental housing. MBA has endorsed H.R. 3995, and we look forward to working with you and other Members of the Subcommittee as this the bill moves through the Congress.

I have over 40 years of mortgage banking experience, spanning all areas of loan origination and branch production. Since taking over the leadership at Central Pacific Mortgage (CPM) ten years ago, the company has grown from a handful of branches to over 90. Prior to joining CPM, I served as President of Fundamental Mortgage Corporation and President and Chief Executive Officer of Westwood Mortgage, both of Dallas, Texas.

I am currently a member of MBA's Board of Directors. I have also served as president of the California and Michigan Mortgage Bankers Associations, and as a director of the Texas Mortgage Bankers Association.

Importance of FHA as a Source of Credit for Affordable Housing

MBA strongly supports the Federal Housing Administration's (FHA) single family and multifamily mortgage insurance programs. FHA single family mortgage insurance has operated successfully for over 65 years working with private sector partners, such as mortgage lenders, builders, real estate agents, and community organizations to expand homeownership opportunities. In fact, MBA's members originate over 80 percent of all FHA mortgages. Over the past six decades, this public/private partnership has enabled 25 million families to realize the dream of homeownership. In addition, FHA multifamily insurance programs have enabled private sector partners to produce thousands of rental housing units throughout the country.

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[1] **MBA is the national association representing the real estate finance industry. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand home ownership prospects through increased affordability; and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters excellence and technical know-how among real estate finance professionals through a wide range of educational programs and technical publications. Its membership of approximately 2,900 companies includes all elements of real estate finance; mortgage companies, mortgage brokers, commercial banks, thrifts, life insurance companies and others in the mortgage-lending field. For additional information visit MBA's web site: www.mbaa.org.**

In the single family market, lenders generally require mortgage insurance on all homes purchased with less than a twenty percent downpayment. This is because borrowers with loans that are greater than eighty percent of the value of their home are at greater risk of default. If a borrower defaults on an insured loan, the lender may foreclose on the loan and file a claim for reimbursement of any losses with the mortgage insurance company. FHA, as an alternative to private mortgage insurance, offers more flexible guidelines and allows borrowers who wouldn't necessarily qualify for conventional loans the ability to purchase homes. For example, FHA would permit a borrower to carry more debt than a private mortgage insurer would permit. FHA also permits lower down payments; permits closing costs to be included in the mortgage; and allows borrowers to rely on gifts to pay their downpayment. For these benefits, FHA borrowers are charged an insurance premium to cover the costs that FHA incurs in paying insurance claims, and this premium is included with the borrower's monthly mortgage payments.

MBA wishes to see every effort made to provide decent, safe, and affordable housing for all Americans. The FHA program is a major contributor to the realization of this goal as it promotes homeownership among a variety of income levels. Homeownership, in turn, has been shown to promote investment and participation in one's community. FHA largely serves young first-time homebuyers, borrowers who can only make low downpayments, households in urban areas, minority homebuyers, and lower income borrowers. In FY2001, first-time homebuyers comprised 79.8 percent of FHA's borrowers. In FY2001, 40 percent of FHA borrowers were minorities. Because of the population it serves, MBA supports maintaining a strong, flexible, and fiscally sound FHA program.

FHA's single family mortgage insurance program is self-sustaining. Insurance premiums and property sales pay for all costs incurred in the administration of the program, leaving sufficient reserves to pay estimated future losses. The FHA single family insurance fund is in excellent financial condition. Deloitte and Touche's most recent financial audit of the fund indicates that FHA's capital ratio, the primary indicator of FHA's fiscal health, exceeds congressionally-mandated standards today, and is projected to do so in the future under a variety of economic scenarios.

FHA insurance has always been available to creditworthy borrowers, in both good as well as challenging economic times. Particular parts of the country have experienced depression or near-depression periods over the last 15 to 20 years, during which FHA continued to insure mortgages in all states, even when other mortgage insurers and investors abandoned these areas.

MBA Views on H.R. 3995

MBA strongly supports most provisions of H.R. 3995, and would like to offer some suggestions for improvement in other provisions. The following represents our views on specific provisions in the bill.

Title II – Housing Affordability for America Act, Single Family FHA Program

Section 221 – Downpayment Simplification

The bill provides for the permanent extension of the downpayment simplification formula for FHA single family mortgages. The formula to calculate the necessary minimum downpayment for FHA mortgages was first implemented by the Congress as a pilot program in just a few states in 1996. This pilot program was deemed successful and temporarily expanded to all states in 1998. The program was extended again in 2000. By all accounts, the program has been successful in making the downpayment calculation more understandable for homebuyers and real estate agents, easier to calculate for lenders, and has made the amount of cash needed for a downpayment more affordable for homebuyers. A permanent extension of the downpayment calculation is needed so that we do not revert back to the pre-1996 calculation that was complex and required more cash for downpayments. In fact, we estimate that as many as 300,000 borrowers may be shut out of homeownership if this downpayment calculation is not extended. Therefore, MBA very strongly supports the provisions in this legislation that will make the FHA downpayment simplification calculation permanent.

Section 222-Reduced Downpayments for Teachers and Public Safety Officers

The bill will reduce the downpayment to a minimum of one percent (from the normal minimum of three percent) for teachers and public safety officers using an FHA-insured mortgage to buy a home in the area where they work. Under the provisions of H.R. 3995, the home would have to be their primary residence and they would have to occupy it for at least three years. MBA strongly supports concept and the goals of this program.

Municipal employees and teachers contribute to the health, safety, and vitality of the communities they serve. However, many of these teachers, fire fighters, and policemen cannot afford to purchase homes in the communities in which they work. This program would provide valuable assistance to hard-working, dedicated public servants, especially young entry-level workers, to enable them to purchase a home.

With regard to this section of the legislation, we recommend that the legislation simply reduce the upfront insurance premium that is paid on these loans, instead of setting up the complex deferral and refund structure for the upfront premium contained in Section 222(b). The current Section 222(b) is needlessly complex and will present an administrative burden for the Department of Housing and Urban Development (HUD) to administer. Instead, we believe that the same objective can be accomplished by merely reducing the upfront insurance premium to be charged to these borrowers (similar to the method that is proposed in Section 224 of the legislation) to an amount that is less than the current 1.5% that all borrowers pay now. Reducing the upfront premium will simplify the administration of this program for HUD and still result in savings for the homebuyer.

Section 223-Community Partners Next Door Program

The bill will permit teachers and public safety officers to purchase, at a 50 percent discount off the listing price, HUD foreclosed homes located in the neighborhoods where they work and where the neighborhoods need revitalization. The property would have to be intended as their primary residence and they would have to occupy the home for at least three years. HUD foreclosed properties in depressed neighborhoods often are sold to investors who have little motivation to fix them up. Selling these homes at a discount to individuals and families who want to live in the community where they work is good public policy. MBA supports these provisions.

Section 224-Public Safety Officer Home Ownership in High Crime Areas

This provision establishes a three-year pilot program that would allow a public safety officer to purchase a home as a primary residence for no downpayment if the home is located in a high crime neighborhood, and the officer agrees to occupy the home for three years. For the reasons previously stated above, MBA supports this pilot program.

Section 226-Risk Based Capital Levels for MMI Fund

This section establishes a new risk-based formula for establishing the capital ratio of the Mutual Mortgage Insurance Fund (MMIF). The new formula would be the sum of: one percent of the unamortized insurance in force, plus an amount that would permit the MMI Fund to withstand defaults and prepayments associated with a broad range of adverse economic circumstances, including: historical regional and national experience in which insured mortgages experienced high rates of default and prepayment; events that may plausibly occur in the future, notwithstanding that such events may not have occurred in the past, which could result in high rates of defaults or prepayments, or both; and, circumstances under which multiple such events occur simultaneously or in rapid succession.

The risk-based capital level would be established by HUD after consulting with the Office of Management and Budget (OMB), the Congressional Budget Office (CBO) and the Comptroller General of the U.S. Every three years, the economic assumptions would be reviewed and modified accordingly.

MBA supports a strong and actuarially sound MMI Fund. Current statutes already require an annual actuarial study of the MMI Fund to assure its financial soundness and requires that it meet a statutorily mandated capital ratio of 2%.

We believe that the proposed risk-based capital formula is unnecessary, costly, and overly burdensome for the agencies to administer. The capital ratio of the MMIF has steadily grown since 1989, when the Congress established minimum capital ratio requirements because of the poor financial health of the Fund. HUD has been able to increase the net worth of the MMI Fund to over 2 percent since 1995, and now to an estimated 3.75% in 2001.

Further, the proposed risk-based capital requirement could undermine FHA's ability to bolster depressed housing markets. By making it more expensive to insure loans in areas temporarily experiencing economic hardship, FHA's ability to act as a counter-cyclical force would be diminished – an outcome that is at odds with FHA's historical mission of being the insurer of last resort in all markets at all times. The end result would be deeper housing recessions in those areas that need help the most.

At the very least, the proposed legislation should include a cap on the capital ratio that can be mandated by HUD, in order that increases in FHA insurance premiums do not make FHA loans unaffordable. Also, this section should be amended to use the amount of the amortized insurance in force instead of the unamortized amount of insurance in force. Using the amortized amount of insurance represents the real current amount of Fund liabilities. Using the unamortized amount of insurance does not take into account the payments being made each month by FHA borrowers to pay off their mortgages.

Section 227-Hybrid Adjustable Rate Mortgages

The FHA Adjustable Rate Mortgage (ARM) has been a valuable tool for expanding homeownership opportunities. The conventional mortgage industry has found ARMs to be a method of financing homes for those families whose entry into homeownership would be difficult at higher interest rates. ARMs allow families to buy homes at lower interest rates, and therefore lower monthly payments. Then, as a family's income grows, it is easier to make the monthly mortgage payment. Last year, FHA hybrid ARMs were signed into law, providing an even greater number of mortgage products for FHA borrowers. However, the current statute limits the first interest rate adjustment on the 5/1 ARM to a maximum of one percent, which does not provide adequate pricing flexibility for lenders to be able to offer this product. MBA strongly supports the technical change in Section 227 to the hybrid adjustable rate mortgage that will enable lenders to offer 5/1 hybrid ARMS at lower interest rates and allow more families to qualify for FHA hybrid ARMs.

Section 228-Uniform National Loan Limit for Home Equity Conversion Mortgages

MBA strongly supports a uniform nationwide loan limit for FHA Home Equity Conversion Mortgages (HECMs). A HECM can be used by seniors who are "house rich" but "cash poor" to convert the equity in their home into monthly cash payments. FHA loan limits for "forward" or traditional mortgages vary by county, depending upon housing costs in the area. Presently, the maximum loan limit for an FHA-insured loan in a high cost area is 87 percent of the Fannie Mae/Freddie Mac conforming limit. In this way, the FHA program is focused on serving primarily low- and moderate-income families who would not qualify for conventional financing and private mortgage insurance. This approach for calculating loan limits, however, does not make sense for HECMs.

Because the county-by-county FHA loan limits also apply to reverse mortgages, some unintended inequities result. For example, under current law, a senior living in Des Moines with a home worth $175,000 can get a reverse mortgage for only $144,336 (the

FHA loan limit in Des Moines) while a senior living in Los Angeles with a home worth $175,000 can get a reverse mortgage for the full $175,000 because the loan limit in Los Angeles is $237,500. There should be no disparate treatment of seniors in this fashion. There is no rationale for having county-by-county FHA loan limits for reverse mortgages, because this is a program that serves seniors who already own their homes and there is only a budding conventional market for reverse mortgages.

Section 229-Prohibition of Investors and Nonprofit Owners Under [Section 203k] Rehabilitation Loan Program

This section bans investors and nonprofit lenders as borrowers under the Section 203k Rehabilitation Mortgage Insurance Program. Since 1996, by administrative direction, HUD has banned private investors from the Section 203k program and the program has suffered from recent abuses by nonprofits. However, MBA does not support the statutory ban of investors and nonprofits from the Section 203k program. Section 203k is the only mortgage insurance program that FHA still has in operation that can be used for the rehabilitation of single family properties to revitalize neighborhoods. Often, private investors are the first to enter a neighborhood and begin revitalization efforts in hopes for a subsequent profitable return on their investments. Therefore, MBA does not support eliminating this method of revitalization. For several years, MBA has proposed to HUD a series of strong controls that could be placed on the Section 203k program to allow private investors to resume use of the program. With proper safeguards in place, such as a limit on the number of mortgages that an investor may have at any one time and lower loan-to-value ratios for investor loans, we believe that the 203k program can be a successful and effective tool for neighborhood revitalization.

<u>Title II – FHA Multifamily Programs</u>

Section 201 – Indexing of multifamily mortgage limits

MBA strongly supports this section of the bill. This provision amends the National Housing Act and requires the Secretary of HUD to index the multifamily mortgage limits each year to the annual construction cost indexes of the Bureau of the Census of the Department of Commerce. In many areas of the country, where land and construction costs are particularly high, new production has slowed significantly or ceased. The FY2002 VA-HUD Appropriations Act provided for a 25 percent increase in the multifamily loan limits, which addressed problems resulting from increased costs over the last decade. This provision will further help to address the issue of feasibility for new projects in these high cost areas by addressing future cost increases.

Section 202 – High cost areas

This section establishes an additional mechanism for addressing the need for new construction or substantial rehabilitation in extremely high cost areas of the country by increasing the maximum high cost percentage from 110 percent to 140 percent in any geographic area. It also provides the Secretary of HUD discretion to increase that

amount to 170 percent on a project-by-project basis. MBA strongly supports providing the Secretary with additional authority to increase the maximum mortgage limits in extremely high cost areas. While we support the 170 percent authority provided in the bill, we note that in some cities, such as Boston, New York and San Francisco, the 170 percent will still be inadequate. We recommend that the Secretary be given discretionary authority to go to the same limits in other high cost areas as established in the statute for Alaska and Hawaii.

Title IX - Other Housing Programs

Section 901 – GNMA guaranty fee

MBA strongly supports this section of the bill. Although Ginnie Mae performs a critical role in the mortgage market, with approximately $600 billion of Ginnie Mae mortgage-backed securities (MBS) currently outstanding, the agency often has been marginalized in the government's budget process and housing finance policy. Individuals and factions that misunderstand Ginnie Mae's function, or are interested only in the generation of additional revenue for the government, have repeatedly proposed the sale (i.e. privatization) of Ginnie Mae. Such was the case in 1998, when "raising revenue" was placed before housing needs, and a 3 basis point increase in the Ginnie Mae guarantee fee (for single-family pools) was signed into law, effective in FY2004.

A guaranty fee increase of even 3 basis points would decrease homeownership opportunities for thousands of families annually. The increased cost of $30 million or more per year would penalize families who are in need of government programs to buy a home. There is no financial basis for a guarantee fee increase because Ginnie Mae is currently operating at a profit, and has done so throughout its existence.

Section 908 – Subsidy Layering Review

MBA strongly supports this section of the bill. Currently, HUD must conduct a separate subsidy layering review of each FHA-insured loan that also includes low-income housing tax credits. This provision would streamline and expedite the process by having FHA rely on the state finance agency's subsidy layering determination.

Madame Chairwoman, thank you for the opportunity to share our views on this important legislation. FHA and Ginnie Mae offer essential programs to millions of families as they work to achieve homeownership or find affordable rental housing. MBA is eager to work with you and your subcommittee to achieve our common goal of providing safe, decent, and affordable housing through a sound and efficient Federal Housing Administration and Government National Mortgage Association.