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SUBCOMMITTEE ON INSURANCE, HOUSING AND COMMUNITY OPPORTUNITY

"The Obama Administration's Response to the Housing Crisis"

OCTOBER 6, 2011

Chairman Biggert, Ranking Member Gutierrez, and Members of the Subcommittee, thank you for the opportunity to testify today regarding HUD's response to the housing finance crisis.

As you know, the housing crisis that triggered the recent recession has cost upwards of 8 million jobs and destabilized countless neighborhoods across the country. Indeed, when this Administration took office, the nation was mired in the greatest housing and economic crisis since the Great Depression. The economy was shedding 750,000 jobs per month, home prices had fallen for 30 straight months, and foreclosures were surging to record levels month after month. In the face of such realities, the Obama Administration had no choice but to respond.

As a result, we are making real progress. More than 5.1 million families have had their mortgages modified since April, 2009–twice the number of foreclosures completed in that time–and I'm proud of the role HUD and FHA have played in helping to achieve these results, assisting in stemming the tide of this crisis and beginning to rebuild our housing market and economy.

But of course, much more remains to be done, which is why I'd like to discuss with you today the four strategies that are guiding our work at FHA:

1) Ensuring access to the housing market,
2) Keeping people in their homes,
3) Stabilizing home prices and communities, and
4) Reducing uncertainty and strengthening our housing market for the future.

Ensuring Access to the Housing Market

In the face of an economic crisis that experts across the political spectrum predicted could turn into the next Great Depression, the Obama Administration stepped in with a plan to aggressively confront the economic crisis as soon as we took office, including taking vital steps to stabilize the housing market. At the center of these efforts have been the FHA and Ginnie Mae, which stepped in to play critical countercyclical roles that have helped stem the crisis, enabling a robust refinancing market to emerge.

Since its inception in 1934, a primary element of FHA's mission has been to act as a countercyclical force by ensuring adequate flows of private mortgage capital amid distressed market conditions. During the present economic downturn, FHA has done just that. As the conventional mortgage market contracted, FHA saw its market share increase from less than 2 percent to as much as 30 percent. Since the start of this Administration, FHA has insured $739 billion in single family mortgages and more than $25 billion in multifamily mortgages.

As a result, because of FHA, nearly 2 million first time homebuyers have been able to realize the dream of homeownership since President Obama took office. And FHA has been a uniquely powerful pathway to the middle class for minorities. According to the latest Home Mortgage

Disclosure Act (HMDA) data, in 2010, 60 percent of African Americans and Latinos who bought a home have used FHA insurance.

Of course, making these results possible has been the most sweeping combination of reforms to credit policy, risk management, lender enforcement, and consumer protection in FHA history. These reforms have strengthened FHA's financial condition and minimized risk to taxpayers, while allowing FHA to continue fulfilling our mission of providing responsible access to homeownership for first-time homebuyers and in underserved markets.

One such reform is the "two-step" credit score policy for FHA borrowers, which we implemented last year. Those with credit scores below 580 are now required to contribute a minimum down payment of 10 percent, or have equity of 10 percent at the time of refinance. Only those with stronger credit scores are eligible for FHA-insured mortgages with the minimum 3.5 percent down payment.

And to balance the need to provide access to our mortgage markets with the need to protect taxpayers from financial risk, we established FHA's first Office of Risk Management. With this new office and additional staffing, FHA is expanding its capacity to assess financial and operational risk, perform more sophisticated data analysis, and respond to market developments.

As a result of these efforts, FHA is in a stronger financial position today – meeting the housing needs of American families at no cost to taxpayers. Put simply, Madam Chair, FHA has done its job.

Keeping People in Their Homes

Keeping people in their homes has been a central component of the Administration's comprehensive strategy to address the problems plaguing the housing market. According to our latest Housing Scorecard, more than 5.1 million modification arrangements were started between April 2009 and the end of August 2011 – including nearly 1.7 million HAMP trial modification starts, more than 1 million FHA loss mitigation and early delinquency interventions, and more than 2.4 million proprietary modifications under HOPE Now. That is more than double the number of foreclosure completions for the same period (2.2 million).

These efforts have driven mortgage modifications in the private market – and fundamentally changed the way they are conducted. Outrageously, before President Obama was inaugurated, the majority of loan modifications servicers were executing actually raised payments. Administration efforts have helped set a standard for affordability in the private market, which has resulted in the average modification lowering monthly payments by $330.

FHA Refinance Programs

FHA refinance programs have enabled over 1.5 million homeowners to take advantage of today's low interest rates, making their mortgages more affordable and helping them weather the current recession. Since the start of this Administration, over 700,000 homeowners have been able to reduce their monthly mortgage payments through FHA's Streamline Refinance program. An additional 113,000 have benefitted from FHA's standard refinance program. And during that same period, nearly 850,000 families have been able to refinance out of conventional mortgages into more sustainable FHA-insured loans.

FHA Loss Mitigation Programs

HUD has long required servicers to adhere to high standards in the servicing of FHA-insured loans. Central to our efforts to keep families in their homes has been the FHA loss mitigation and early delinquency interventions which our servicers are required to utilize. As you know, FHA requires servicers it approves to actively engage struggling homeowners to prevent avoidable foreclosures – what we call "loss mitigation." We do this to ensure that help is being provided before homeowners get into trouble – not just after the fact, by which time it's much less likely that families will be able to stay in their homes. FHA's loss mitigation program has helped more than half a million homeowners keep their homes in the last year alone – protecting families, but also the taxpayer, by reducing the number of defaults in FHA's portfolio.

Available loss mitigation programs include:

- **Special Forbearance**: a written repayment agreement between a lender and a mortgagor that contains a plan to reinstate a loan that is a minimum of three payments due and unpaid.
- **Mortgage Modification**: a permanent change in one or more of the terms of a mortgagor's loan, which if made, allows the loan to be reinstated, and results in a payment the mortgagor can afford.
- **Partial Claim**: a lender advances funds on behalf of a mortgagor in an amount necessary to reinstate a delinquent loan; the mortgagor, upon acceptance of the advance, executes a promissory note and subordinate mortgage payable to HUD upon sale of the property or payoff of the first mortgage.
- **Pre-Foreclosure Sale**: allows a mortgagor in default to sell his or her home and use the sale proceeds to satisfy the mortgage debt even if the proceeds are less than the amount owed.
- **Deed in Lieu of Foreclosure**: a mortgagor voluntarily deeds collateral property to HUD in exchange for a release from all obligations under the mortgage.
- **FHA Home Affordable Modification Program (FHA-HAMP**): allows the use of a partial claim up to 30 percent of the unpaid principal balance combined with a loan modification to bring the payment to an affordable level.

Through the end of August 2011, FHA-approved loan servicers performed over 631,000 loss mitigation actions, and through those efforts more than 526,000 homeowners have been able to retain their homes.

Unemployment Forbearance Programs

We've also adapted as the nature of the challenge has changed. Where bad loans were the initial cause of the high foreclosure rates, today, the biggest driver of foreclosures is the ripple effect the overall crisis has had on our economy. On July 7, 2011, the Obama Administration announced adjustments to FHA requirements that will make it easier for unemployed borrowers to qualify for the program and require servicers to extend the forbearance period for qualified FHA borrowers from four months to 12 months. Nearly 12,000 FHA borrowers have benefited from our unemployment forbearance program during this administration, and this extension will provide greater assistance to even more borrowers while they seek employment. In addition, effective October 1, 2011, the Administration is requiring servicers participating in the Making Home Affordable Program (MHA) to extend the minimum forbearance period to 12 months wherever possible under regulator and investor guidelines. These adjustments will provide much needed assistance for unemployed homeowners trying to stay in their homes while seeking re-employment. These changes are intended to set a standard for the mortgage industry in providing more robust assistance to unemployed homeowners in the economic downturn.

Emergency Homeowners Loan Program

Another unique program which the Department has been tasked with administering is the Emergency Homeowners Loan Program (EHLP). The Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L.111–203) (the Dodd-Frank Act), made available $1 billion for HUD to establish the Emergency Homeowners' Relief Fund, a reauthorized 1975 program, for the purpose of providing emergency mortgage assistance. HUD is administering the authority provided by the Dodd-Frank Act as the Emergency Homeowners' Loan Program (EHLP).

EHLP offers a zero interest, forgivable bridge loan to homeowners who have experienced a substantial loss of income (a reduction of at least 15 percent) due to unemployment or underemployment caused by adverse economic conditions or medical conditions. Approved homeowners are eligible to receive one-time EHLP assistance to pay certain arrearages to bring them current, as well as ongoing monthly assistance to help them make their monthly first lien mortgage payments (including payments of principal, interest, taxes, and insurance). Assistance is limited to a maximum duration of 24 months, or up to a maximum loan amount of $50,000 in mortgage payment assistance, whichever occurs first. The EHLP loan is secured by a junior lien against the approved homeowner's principal residence and is forgivable over a 5-year principal reduction period.

Under EHLP, HUD is assisting borrowers in Puerto Rico and the 32 states otherwise not funded by Treasury's Innovation Fund for the Hardest Hit Housing Markets program (18 states and DC). EHLP consists of two programs – grants to 5 states that already had substantially similar state programs and a HUD direct loan program administered by HUD for the remaining 27 states and Puerto Rico.

Under the statute we had until September 30, 2011 to qualify borrowers for the program. We received approximately 100,000 applications and ultimately nearly 12,000 qualified for funding, with most assistance commitments between $35,000 and $45,000. At that level of assistance, we will allocate roughly $400 million to $500 million of the $1 billion appropriated for the program.

We understand that there is disappointment that the program is not reaching more families. We too are disappointed and recognize that the program set-up took longer than anticipated.

As a part of start-up we needed to promulgate regulations, contract with a national counseling intermediary and its member agencies around the country, contract with a fiscal agent, work out agreements with a number of lenders, identify and train HUD staff to work on the program, train counseling agencies, and design and build several complex data management systems.

The primary reason for the relatively low acceptance rate than expected is the eligibility criteria required by the statute. In addition to being unemployed or underemployed, for example, eligible applicants must:

- Be unemployed or underemployed due to economic or medical hardship;
- Demonstrate a substantial loss of income;
- Show that if they become reemployed they will be able to resume payment;
- Be at least 90-days delinquent; and
- Be facing a foreclosure action (as certified by their lender).

Certainly, no one anticipated how challenging the statutory requirements made it to qualify as many homeowners as we hoped – HUD found that the vast majority (around 75 percent) of ineligible applicants were disqualified due to the statutory requirements.

HUD worked closely with counseling agencies down to the last few days and hours before the application deadline to make certain as many homeowners as possible qualified for assistance. And we adjusted processing requirements to the greatest extent possible to ensure maximum access.

As with any new program, it took time to identify contractors, set up fiscal controls, and ensure the program was being run fairly. With more time, we could make a number of adjustments that would allow more homeowners to benefit from the program.

EHLP is only one part of the Administration's broad response to the foreclosure crisis and we are committed to working with stakeholders to continue to find solutions to help as many homeowners as possible.

Housing Counseling

To ensure families are able to access the resources available to them, since the start of this Administration, HUD-approved housing counselors have served more than 7.5 million families. Distressed homeowners working with a counselor are nearly twice as likely to receive a mortgage modification.

HUD's Housing Counseling Assistance Program certifies and provides much needed funding resources for housing counseling agencies throughout the nation. Housing counselors equip households with the information they need to make smart housing choices. A lack of education regarding mortgage financing programs and options was a serious contributor to the current housing crisis. HUD's Housing Counseling Program is the only federally dedicated source of funding for the full spectrum of housing counseling services. Since 2005, HUD-approved housing counseling agencies have assisted more than 13.4 million households—predominantly lower-income and minority families—with a broad range of counseling services. Now more than ever, these services are desperately needed as we look to facilitate the recovery of our housing markets.

In FY 2011, more than 399,000 households were served through HUD Housing Counseling grant funded activities. Over 134,000 households received foreclosure prevention counseling. More than 93,000 households were provided with pre-purchase counseling. And almost 11,000 seniors received reverse mortgage counseling.

Housing Counseling Works

Housing counselors are a crucial source of assistance for distressed homeowners. A nationwide Urban Institute study by Mayer, et, al., (2010)[1] of the National Foreclosure Mitigation Counseling Program found that borrowers in foreclosure were 70 percent more likely to get up to date on payments if they received counseling. The same Urban Institute study showed that homeowners who received a mortgage modification to resolve a serious delinquency were 45 percent more likely to sustain that modification if it was obtained with the help of counseling. To help families keep their homes and avoid mortgage scams, on September 2, 2011, HUD awarded more than $10 million to housing counseling agencies and intermediaries to provide counseling regarding mortgage modifications and mortgage scams.

HUD housing counseling grants are a significant source of financing for the thousands of HUD-approved housing counseling agencies that provide vital assistance to communities nationwide. As we seek to recover from the present housing crisis, ensuring that households have the knowledge and information necessary to make good housing choices is a solid investment in preventing such a crisis in the future.

How HUD Is Improving the Counseling Program

Despite this strong evidence, HUD's housing counseling grant funding was eliminated in the FY 2011 budget. We are working to address concerns and enhance both speed and accountability in the program.

Historically, running the grant competition and obligating 100 percent of the housing counseling grant funds has taken approximately 240 days (eight months) from the time appropriations are made, meaning that grant funds are typically not available to housing counseling agencies until the following fiscal year. We know that is not quick enough.

HUD has developed a Department-wide plan to streamline its processes and reduce that timeframe to no more than 180 days, which means taxpayer dollars will be used to provide counseling services to families in the same fiscal year appropriations are made. This includes streamlining clearance processes so that all HUD Notices of Funding Availability (NOFAs) are published to Grants.gov as quickly as possible after appropriations are made. Through these efforts, HUD has reduced the average number of days between appropriations and NOFA publication from 338 days in FY 2010 to 60 days in FY 2011, an 82 percent reduction.

HUD will also use HUDStat, HUD's performance measurement and accountability process, to track its progress in meeting NOFA clearance and funds obligation deadlines. The results will be shared with the Secretary and his Senior Team on a weekly basis.

Improvements specific to the housing counseling program include:

[1] Mayer, Neil, Peter A. Tatian, Kenneth Temkin, and Charles A. Calhoun. 2010. "National Foreclosure Mitigation Counseling Program Evaluation: Preliminary Analysis of Program Effects," The Urban Institute, December.

- Earlier drafting and publication of the housing counseling NOFA (the 2012 Housing Counseling Assistance Program NOFA has already finished Departmental clearance and has been forwarded to OMB for review)
- Streamlined application for high performing agencies
- Shorter timeline for obligation of grants
- The development of a risk model
- Provision of technical assistance to new agencies
- Utilization of remote monitoring
- Intermediary financial oversight

We are making real strides in speeding the award process and improving oversight. And HUD-supported housing counseling services are making a difference in helping families make some of the most important decisions in their lifetimes. As such, I would strongly encourage this Subcommittee to support restoring funding for this program in FY 2012.

Stabilizing Home Prices and Communities

Of course, helping families stay in their homes is one important piece of the housing challenge. The more we can do in this regard, the better off both families and communities are. However, this is not always possible and that has created an overhang of foreclosed properties on the market dragging down property values. There are currently approximately a quarter million REO properties owned by FHA and the GSEs.

Existing REO Disposition Activities

To respond to the challenges presented by the influx of foreclosed properties, HUD has made dramatic changes to the way in which it manages its own real estate owned (REO) properties. Through new contracts aligned to specific functions within the management and marketing of REO properties, FHA has generated efficiencies, spurred competition among contractors, reduced the potential for conflicts of interest for contractors, and most importantly, improved the speed at which properties are sold.

As a result of these process and program improvements, FHA's REO inventory as of September 25, 2011 is 42,000, which is 18 percent below FY 2010 ending inventory balance of 51,000, despite a very significant spike in properties conveyed to the Department. Through August 31, 2011, the average number of days needed to sell HUD REOs decreased by 23 days (10.5 percent) compared to fiscal year 2010.

In addition to seeking to dispose of REO properties as quickly as possible to prevent unnecessary losses, FHA also seeks opportunities to utilize its REO properties for purposes beneficial to communities. Through partnerships with local communities and non-profits, HUD continues to create new and operate traditional REO disposition and sales programs, including:

- **Asset Control Area Program** – which offers properties in revitalization areas to local governments and nonprofits at a 50 percent discount for resale to income eligible families (typically first-time homebuyers);

- **Good Neighbor Next Door Program** – which offers properties in underserved communities at a 50 percent discount to police officers, firefighters, teachers, and emergency medical technicians;
- **Discount Sales Program for States, Cities, HUD Approved Nonprofits** – which offers properties in revitalization areas at up to 30 percent discount;
- **First Look** – which offers properties at discounts up to 10 percent for NSP grantees;
- **Dollar Home Sales Program** – which offers properties in HUD's inventory for 180 days or more to local governments for $1; and
- **Bulk Sales to PHAs for Disaster Relief** – which offers properties at a 50 percent discount to PHAs serving families in Presidentially-declared disaster areas (e.g., Alabama and Missouri).

Recently Announced RFI Process
But we need to do more, which is why FHA joined with FHFA and Treasury to issue a "Request for Information" which will facilitate new ways we can dispose of this inventory – while ensuring we protect taxpayer dollars and stabilize neighborhoods. Responses to the RFI were due on September 15, and to date we've received over 4,000 comments. FHFA, HUD and Treasury have begun to evaluate the ideas and options submitted and we expect to move forward in the coming months to put the best ideas we've received to work in providing real solutions to the challenges presented by the influx of REO properties.

Mortgage Acquisition and Disposition Initiative
Already, we are exploring alternative strategies designed to help stabilize communities while also bringing value to the MMI Insurance Fund. One such strategy we are currently exploring on a pilot basis is our Mortgage Acquisition and Disposition Initiative ("601 – Note Sales Program"). The initiative gives the Department a second acquisition option: acquiring mortgages upstream as opposed to waiting until borrowers have lost their homes to foreclosure and the properties become REOs. Prior to participating in this program, servicers are required to exhaust all of FHA's standard loss mitigation options. Once they have done so, rather than proceeding to foreclosure and eviction, they submit a claim and assign the defaulted mortgage to FHA with the borrower still in the home. This option aligns the interests of the servicer and FHA to review the mortgage and identify strategies for the borrowers to keep their homes. Once they are assigned, FHA sells the mortgages to a new entity through open auctions, held quarterly. Regardless of the loan's performance, the entity who acquires the notes from FHA is prevented from foreclosing on the borrower for an additional six months. This program provides yet another way to combat the housing crisis by keeping borrowers in their homes and decreasing the number of vacant REO properties.

The Neighborhood Stabilization Program
The Neighborhood Stabilization Program (NSP) was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. Through the purchase and redevelopment of foreclosed and abandoned homes and residential properties, the program is offering communities the chance to stabilize and revitalize neighborhoods. Already, we've invested $7 billion to address more than 95,000 vacant and abandoned properties that comprise about 20 percent of the REO in targeted areas. And we've begun to see the "ripple effects" these investments have – reducing vacancy rates and lifting property values. According to the analysis

by The Reinvestment Fund (TRF), one of our technical assistance providers, comparing communities with NSP investment to similar communities without NSP investment shows that most NSP clustered investment areas did better than at least one of their comparable markets during the time period studied:

- 67 percent saw better home sale price changes;
- 73 percent saw better vacancy rate improvements; and
- 47 percent saw better home sale and vacancy rate improvements.

Project Rebuild

The success of these efforts led President Obama to propose, as part of the American Jobs Act, Project Rebuild, which would create 200,000 jobs. Project Rebuild would build on the success of neighborhood stabilization with a few important innovations based on lessons learned – by encouraging more private sector participation, allowing the rehabilitation of commercial properties, and forging stronger partnerships with non-profits.

For additional information on the Project Rebuild program, I would refer the Subcommittee to the written testimony submitted by my colleague, Mercedes Marquez, HUD's Assistant Secretary for Community Planning and Development, who has purview over NSP and would also administer Project Rebuild. But Project Rebuild's inclusion in the American Jobs Act reflects President Obama's belief that rebuilding neighborhoods is essential to rebuilding our economy and, at $15 billion, reflects the scale of our commitment.

Reducing Uncertainty and Strengthening Our Housing Finance System

The Importance of a Robust and Responsible Private Mortgage Market

To date, FHA has helped over 1.5 million families refinance into safe, stable mortgage products. However, as the President emphasized in his speech before Congress last month, too many borrowers face hurdles when it comes to refinancing their mortgages.

One such barrier faced by homeowners is the widespread issue of negative equity. FHA is now providing assistance to some borrowers facing this situation through its Short Refinance Option, whereby property values and mortgage obligations are realigned. To date, more than 700 families have sought assistance through this program and more than 300 refinances have been completed. But due to the fact that servicer participation is voluntary and has been less than expected, this program has not been as successful as we had hoped.

FHFA is working with HUD and Treasury to find ways to identify and address the barriers that limit refinance options of all types. Eliminating obstacles for borrowers could help many more homeowners refinance mortgages into safer, more sustainable products, taking advantage of the lowest interest rates in half a century. Refinancing would save these homeowners an average of $2,600 each in the first year alone – providing a critical boost to our economy and increasing labor mobility.

FHA and the GSEs have stepped into the void left when private capital for mortgage finance dried up early in the housing crisis. They have played, and continue to play, this critical countercyclical role. But as we return to normal market function, we are committed to shrinking government's oversized footprint in the mortgage market. The government-backed share of the current mortgage market is well in excess of 90 percent, which is far higher than we would like in normal times.

Over the past few years, FHA-insured loans account for about a third of the home purchase market – around twice its historical norms and about five times its share leading up to the crisis. FHA's countercyclical activities have been critical in keeping private mortgage capital flowing during the crisis.

But this level of government exposure is neither sustainable nor desirable – and the time has come to begin bringing back private capital without FHA insurance. And there are signs that this process is already underway. The share of the market represented by FHA-insured loans has been trending downward. The expiration of higher FHA loan limits is another small step in the reduction of our market share.

Towards a New System of Housing Finance

Bringing private capital back into the housing finance system does not mean eliminating all government involvement in housing finance. We believe that a government role, targeted correctly, and with the right protections for taxpayers, should remain an important component of any future system. That is why all three of the reform options presented in the Administration’s white paper, “Reforming America’s Housing Finance Market: A Report to Congress,” include a strong, resilient FHA and solid consumer and investor protections.

To that end, reforming and strengthening FHA is the first of four primary areas of reform to achieve broader mortgage access and housing affordability. The other crucial components of reform are a commitment to affordable rental housing, a flexible and transparent funding source for access and affordability initiatives, and strong measures to ensure that capital is available to creditworthy borrowers in all communities, including rural areas, economically distressed regions, and low-income communities.

A Reformed and Strengthened FHA

Within the existing authorities granted to us by Congress, we have already begun the necessary process of making changes to FHA to ensure that it will be able continue its mission, as mentioned above. FHA has already made the most sweeping combination of reforms to credit policy, risk management, lender enforcement, and consumer protection in its 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.

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. Accordingly, we are very grateful for the flexibility we were granted by the 111th Congress with regard to our mortgage insurance premiums. Strengthening FHA for the future also means reviewing what types of administrative flexibilities it needs in order to best operate its multiple business lines, as well as recruit and retain the level of talent required. Finally, FHA must also have the technology and talent needed to run a world-class financial institution.

Strengthening and reforming FHA in a way that is healthy for its long term finances and ensures that FHA is able to continue its mission of providing access to mortgages for low- and moderate-income families is a central component of broader systemic reforms. While FHA has already changed its policy to require that borrowers with lower FICO scores make larger down payments, 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, including providing access to homeownership for first-time homebuyers and underserved markets.

And similar to the Administration's broader reform of the U.S. housing finance system, FHA will take any steps for reform carefully to ensure that they do not undermine the broader recovery of the housing market. Similarly, as we consider changes in such areas as down payments and LTV ratios, we will make sure to retain the flexibility to respond to changing market conditions, so that we are able to manage risk, and maintain access, as effectively as possible.

A commitment to affordable rental housing
With half of all renters spending more than a third of their income on housing-and a quarter spending more than half their income- this Administration believes that as part of a balanced housing policy there should be a range of affordable options for the millions of Americans who rent. Reducing government's role in the single family market makes this commitment even more critical.

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.

Long-term Options
Beyond the key foundations of a new, reformed housing finance system based on the principles discussed above, the extent of any government guarantee in the system has yet to be determined - and our report presents three options. While I would refer the committee to the report itself for a detailed discussion of the advantages and drawbacks of each, I would note that the issue most likely to impact American families is the question of the availability and pricing of long-term, fixed-rate financing under each of the options. For decades, the 30-year, fixed rate mortgage has allowed families to safely build wealth and climb the ladder to the middle-class. So as we consider the options for a future housing finance system, I believe we should consider carefully the implications of these choices on the availability and pricing of those mortgages.
In all of these options, however, a reformed and strengthened FHA remains an important participant in the market. This Administration believes there continues to be an important role for government in ensuring access to mortgage credit and housing affordability - one that incorporates lessons learned from the past. We will continue to ensure that creditworthy low- and moderate-income borrowers have access to affordable mortgages.

Conclusion

Chairman Biggert, between these efforts and the Obama Administration's proposals to reform the housing finance system, it is clear that FHA will continue to play a central role in the continued recovery of the housing market – and to provide access and affordability to low- and middle-income Americans. And as the reforms we have already made demonstrate, FHA has the capacity to perform this role in a way that minimizes risk to the taxpayer.

I look forward to working with this committee—and this Congress—to ensure that FHA has the tools it needs to fulfill that mission.

Thank you again for this opportunity to testify. I would be glad to respond to any questions.