



**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**  
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**on**

**Fiscal Year 2013 Budget Request of the Federal Housing Administration**

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Chairman Murray, Ranking Member Collins, and Members of the Committee, thank you for the opportunity to testify today regarding the Fiscal Year 2013 Budget request for the Federal Housing Administration.

When this Administration took office, the economy was on the brink. Only weeks before this Administration took office, the nation was losing 753,000 jobs a month, our economy had shed jobs for 22 straight months, house prices had declined for 30 straight months, and consumer confidence had fallen to a 40-year low and dramatic steps were taken to prevent a complete financial meltdown. Today, an economy that was shrinking is growing again – and instead of rapid job loss, more than 3.7 million new private sector jobs have been created in the last 23 months, and national unemployment has fallen to a near 3-year low.

And, because the Obama Administration moved to keep interest rates low and restore confidence in the housing market more than 13 million homeowners have refinanced their mortgages since April 2009 – putting nearly \$22 billion a year in real savings into the hands of American families and into our economy. As financing options tightened for millions of Americans due to uncertainties in the credit markets, the Federal Housing Administration (FHA) played a critical role in returning stability to the housing market by providing access to credit to the millions of families seeking to purchase a home during the worst housing market in generations. This countercyclical role is part of FHA's core mission, and it remains vital as we take further steps to strengthen the housing market.

Today, because we provided a range of solutions to responsible families fighting to hold on to their homes, more than 5.6 million families have been able to reduce their payments and modify their loans to more sustainable terms and foreclosure notices are down nearly 50 percent since early 2009. The resources we provided for communities struggling with concentrated foreclosures have enabled them to fund better uses for almost 100,000 vacant and abandoned

properties through our Neighborhood Stabilization Program. Most important of all, because of our commitment to economic growth and recovery, our economy has added private sector jobs for 23 straight months, totaling 3.7 million jobs.

But we know there's still more work to do to ensure that America can create an economy built to last. The Fiscal Year 2013 Budget for the Department of Housing and Urban Development (HUD) tackles these challenges head on. And, as part of HUD's efforts, FHA is continuing its efforts to help responsible families at risk of losing their homes and providing quality affordable rental housing to some of our nation's most vulnerable families. The President's Fiscal Year 2013 Budget also reflects the reality that we cannot create an economy built to last without taking responsibility for our deficit. The caps set by the Budget Control Act of 2011 promise over \$907 billion in total discretionary cuts over the next 10 years, and every department shares a responsibility to make tough cuts so there's room for investments to speed economic growth. Indeed, the overall HUD Budget makes tough choices in order to contribute to deficit reduction in a substantial way.

The HUD Budget provides \$44.8 billion for HUD programs, an increase of \$1.4 billion, or 3.2 percent, above fiscal year 2012. This program funding level (i.e., gross budget authority) is offset by \$9.4 billion in projected FHA and Ginnie Mae receipts, leaving net budget authority of \$35.4 billion, or 7.3 percent below the fiscal year 2012 enacted level of \$38.2 billion. Today, I would like to discuss FHA's contributions to the HUD budget and the overall housing market with you in more detail.

### ***Responding to the Market Disruption***

This Administration entered office confronting the worst economic crisis since the Great Depression— as mortgages were sold to people who couldn't afford or understand them, while banks packaged them into complex securities that they made huge bets on, leaving American homeowners with the tab. And, while the largest factors contributing to this crisis were market driven, the American people have turned to Congress and the Administration for leadership and action in righting our nation's housing market.

HUD remains firmly committed to working together with communities and individuals to cope with these unprecedented challenges. The Federal Housing Administration (FHA) and Government National Mortgage Association (GNMA) continue to have a significant impact on the nation's economic recovery. The activities of the Federal Government are critical to both supporting the housing market in the short term and providing access to homeownership opportunities over the long term, while minimizing the risk to taxpayers. FHA has stepped up to face these unprecedented challenges, playing an important countercyclical role in the housing market today.

Three years ago, as credit markets froze, FHA remained one of the few vehicles available for homeowners to obtain financing through purchase and refinance loans. As a result, FHA's market share grew. This increase in volume reinforced the need for FHA to strengthen credit policy and risk management practices and make lenders accountable. FHA has also taken steps to adjust its premium structure and improve recoveries on its Real Estate Owned (REO) portfolio. These efforts combined are intended to ensure that the Mutual Mortgage Insurance

Fund (MMIF) has sufficient resources to account for its growth, while also supporting the housing market. And as a result of these efforts, the books of business originated since this Administration took office reflect higher credit quality than FHA historical averages. Yet, we know that there is much work to be done.

While the number of homeowners at risk of losing their home is down significantly, there are still too many families that face hardships and are underwater, and unaffordable monthly payments put them at an increased risk of default, dragging down markets, reducing labor mobility and consumer spending alike. That is why FHA is also taking steps to ease the process whereby FHA borrowers can refinance into new FHA insured loans and take advantage of today's low interest rates, and will work with Congress and other stakeholders to allow non-GSE homeowners who are underwater to refinance into a separate FHA refinance program.

And in areas where the housing crisis has hit the hardest, foreclosures, large volumes of vacant properties, and resultant blight and abandonment, continue to drag down property values and destabilize communities. That is why FHA is working with its Federal partners at Treasury and the Federal Housing Finance Agency to develop programs to convert REO properties to rental properties. By reducing vacancy rates and lowering the overhang of foreclosed properties, this initiative has the potential to stabilize both house prices and neighborhoods, contributing to a more rapid recovery for communities struggling to emerge from the recent recession.

Overall, the efforts of FHA have been integral in providing liquidity in a time of market constriction, keeping people in their homes and addressing the shadow inventory.

### ***Overview of the FHA Fiscal Year 2013 Budget***

FHA has insured over 40 million mortgages through its Single Family, Multifamily and Healthcare programs since its inception in 1934. In exchange for adherence to strict underwriting, application and servicing requirements established by HUD and the payment of mortgage insurance premiums, FHA-approved lenders are able to file a claim with the FHA if a borrower defaults on their mortgage loan.

FHA, directly and through its partners in the housing counseling industry, has played a key role in mitigating the effect of economic downturns in the real estate market. Due to FHA's traditional countercyclical role, the volume of FHA insured loan products increased substantially beginning in 2009 and, while FHA loan volumes have decreased since that peak, the pressures on FHA and its borrowers have also increased due to the economic downturn.

In Fiscal Year 2013, HUD is requesting \$400 billion in loan guarantee authority for the Mutual Mortgage Insurance Fund (MMIF), which will provide an estimated 0.8 million single-family mortgages, and \$25 billion in loan guarantee authority for the General and Special Risk Insurance Fund (GI-SRI), which will provide an estimated 156,000 units in multifamily housing properties and an estimated 80,600 beds in healthcare facilities.

The need for this investment is clear as FHA has played a critical role in stabilizing the nation's mortgage market. At a time when liquidity and access were needed most in the housing market to facilitate the recovery of the broader economy, FHA stepped in to ensure that mortgage capital

continued to flow. However, FHA's expanded role is and should be temporary and, to that end, FHA is taking steps in all of its business lines to encourage the return of private capital into the mortgage market while balancing the need to remain a supportive mechanism for all types of housing moving forward.

*FHA Multifamily and Healthcare Mortgage Insurance Programs*

FHA Multifamily and Healthcare Mortgage Insurance Programs operate under FHA's GI-SRI Fund. These programs encourage critical mortgage financing opportunities that strengthen communities by addressing specialized financing needs including insurance for loans to develop, rehabilitate and refinance multifamily rental housing, nursing home facilities and hospitals.

FHA has steadily provided liquidity in the market during times of economic constriction. Combined with historically low interest rates, FHA has seen exponential growth in this area. Commitments for FHA insured multifamily housing and healthcare facilities rose from \$4.3 billion in Fiscal Year 2008 to \$17.5 billion in 2011. FHA's multifamily and healthcare programs have helped private lenders fill the gap left with the shrinkage of the conventional finance resources. And while this market seems to be rebounding, we continue to expect high levels of mortgage insurance activity for the remainder of Fiscal Year 2012 and through Fiscal Year 2013, albeit below the peak in 2011. As of September 2011, the FHA's portfolio of multifamily and healthcare loan guarantees had an unpaid principal balance of \$76.4 billion on 12,666 loans and counting.

Given this unprecedented increase in the number and dollar volume of loans insured under GI-SRI, the Fiscal Year 2013 Budget also includes premium increases for FHA's General Insurance and Special Risk Insurance programs that serve market rate multifamily properties and healthcare facilities. These changes, the first premium increase in 10 years for these programs, are intended to ensure that FHA products are priced appropriately to compensate for FHA's risk and encourage the return of private capital to our mortgage markets. The proposed increases range from 5 basis points for 223(a)(7) refinancing to 20 basis points for 221(d)(4) new construction or rehabilitation activity.. Premiums for affordable housing projects (such as those with HUD rental subsidies and low income housing tax credits, as well as those insured under FHA risk-sharing programs) will not be increased.

With the proposed premium increases, FHA Multifamily and Healthcare loans will be priced more appropriately to encourage the return of private capital while, at the same time, continuing to ensure sufficient levels of available capital in these sectors. The increase in premiums also reflect new realities – the Multifamily annual book of business is five times greater than it was just three years ago, and the risk profile has changed dramatically. FHA's multifamily apartment portfolio is now more than 50 percent market rate by unit count and 70% by unpaid principal balance (UPB), which adds a new component of risk, and a need to take steps to ensure the future viability of the portfolio. With interest rates at a record low the existing portfolio loans could remain in FHA's portfolio longer than the average time frames and will need to be managed prudently. FHA will publish the proposed increased in the Federal Register in the next 30-60 days and welcomes feedback during the comment period.

During this period of increased activity, FHA has also taken steps to reduce the processing time of loan applications. The Office of Multifamily Housing has centralized processing of Section 223(a)(7) loans to the Office of Affordable Housing Preservation which allows Multifamily Field Office staff to work on the increasingly complex transactions in their pipeline. Additionally, Multifamily Housing and Healthcare have initiated a queue and early warning screening system in order to more efficiently manage workload and provide greater transparency to lenders and borrowers regarding the status of their loan applications. Finally, FHA is conducting monthly performance dialogues with field staff to discuss progress toward meeting processing goals and identify proactive solutions to address performance deficiencies in order to ensure that every effort is taken to reduce processing times and get funds into communities.

This process is already producing results. Survey results demonstrate that staff morale has improved significantly in the offices participating in the pilot roll out of this new process. HUD staff feel encouraged to come up with new and better ways of doing things and these offices are processing applications for multifamily insurance more efficiently and effectively. Offices that had a large backlog of applications have begun to methodically clear out older applications. For instance, our Denver office went from having thirty applications that were older than ninety days in their pipeline to having only twenty-four overdue applications. In Chicago, 100 percent of the 223(a) (7) loans were processed in less than thirty days and 50% of its 223(f) transactions in less than forty-five days in January.

In addition, as part of the efforts of FHA's Multifamily and Healthcare programs to strengthen communities by addressing specialized financing needs, HUD is seeking authorization to extend support for Critical Access Hospitals and Small Multifamily Buildings (5-50 units).

We are appreciative of the Congress' long standing support for Critical Access Hospitals by amending Section 242 to permit these important facilities to be eligible for FHA insurance. The most recent amendment to the statute expired on July 31, 2011, and without action to once again to extend the authority under Section 242 to allow these hospitals to be eligible, no additional Critical Access Hospitals will be endorsed for FHA insurance. We are grateful to the bipartisan group of Senators that has co-sponsored S.1431, which would provide this important extension for five additional years and we hope that the House (where H.R. 2573 would also extend the critical access authority) and Senate will pass this language this year.

Additionally, as part of the Fiscal Year 2013 Budget, HUD is seeking authority to facilitate lending to small multifamily properties which are an important provider of affordable, but unsubsidized, housing for low and moderate-income families. According to the 2010 American Community Survey, nearly one-third of renters live in 5 to 50 unit buildings. These buildings also tend to have lower median rents than do larger properties: \$400 per month for 5-49 unit properties as compared to \$549 per month for properties with 50 or more units. Because they are expensive to finance, particularly in this environment, these properties are at risk of divestment. We look forward to working with Congress to ensure the availability of these unsubsidized, affordable housing units.

The efforts of FHA's Multifamily and Healthcare programs are essential in achieving the Department's mission of strong, sustainable, inclusive communities and quality, affordable housing and services for all Americans.

*FHA Single Family Mortgage Insurance Program*

The MMIF is the largest fund covering activities of FHA, and is used to pay the claims associated with FHA insured single family mortgage loans. Since 1934, mortgage insurance provided by FHA has made financing available to neighborhoods and geographic areas facing economic uncertainty and to individuals and families not adequately served by the conventional mortgage market. Over 30 percent of all FHA-insured homebuyers are minorities, with 60 percent of all African American and Hispanic homebuyers relying on FHA insured mortgage financing to purchase their homes. In the last year, over half of all African Americans and forty-five percent of Hispanics who purchased a home did so with FHA-insured mortgage products. In addition, 75 percent of first time homebuyers use FHA insured financing.

The Fiscal Year 2013 Budget request will enable FHA to continue its mission of providing access to mortgages for low- and moderate income families and to play an important countercyclical role in the stabilization and recovery of the nation's housing market. By facilitating the availability of credit through a variety of FHA-approved lenders, including community banks and credit unions, FHA has helped over 2 million families buy a home since President Obama took office.

Due to reduced liquidity in the conventional mortgage market, FHA saw a surge in activity, reaching a peak in 2009. However, FHA's loan volume has declined 34 percent from its peak in 2009, and its market share is decreasing for the first time since 2006, thereby laying the ground work for private capital to return to the single family market. Today, FHA's total market share is 15.6%, down from 17% in 2010 and over 21% in 2009.

*Strengthening FHA Mutual Mortgage Insurance Fund and Paving the Way for Private Capital to Return*

While FHA's portfolio has grown in recent years, the fund has also experienced significant losses. The books of business in the few years before 2009 have largely driven the high number of claims to the MMIF. This was driven by overall economic and unemployment trends as well as by the combined effects of, unscrupulous and non-compliant practices on the part of lenders, and a seller-funded downpayment assistance program that allowed many borrowers to obtain mortgages without a meaningful down payment. As a result, the books of business FHA insured prior to the start of this Administration have severely impacted the health of FHA's MMIF. But thanks to our efforts since taking office, I can say that the long term outlook for FHA and the MMIF are now much better than they were in 2009.

The change in trajectory in the performance of FHA-insured loans is no accident. Immediately upon taking office, this Administration acted quickly and aggressively to protect FHA's MMI Fund and to ensure its long term viability. We have taken more steps since January 2009 to eliminate unnecessary credit risk and assure strong premium revenue flows in the future than any

Administration in FHA history. Indeed, the gains FHA has experienced since 2009 are the result of systematic tightening of risk controls, increased premiums to stabilize near-term finances, and expanded usage of loss mitigation workout assistance to help homeowners avoid foreclosure, stricter lender enforcement, and improved recovery strategies for FHA's REO portfolio.

And, we continue to take steps to further strengthen the Fund. In the 2013 Budget we announced a 10 bps annual premium increase on all FHA insured loans to comply with the requirement passed by Congress late last year, as well as an additional 25 bps annual premium increase on "jumbo" loans making the total increase for these larger loans 35bps. And just last week, we announced a 75 bps increase in FHA's upfront mortgage insurance premium that will further increase receipts to FHA by over \$1 billion in fiscal years 2012 and 2013, beyond the receipts already included in the President's budget submission, while having minimal impact on consumers.

In addition, we have also taken significant additional steps to increase accountability for FHA lenders. Via a final rule which took effect on February 24, 2012, we clarified the basis upon which FHA will require indemnification from lenders participating in our Lender Insurance program, making clear the rules of the road for lenders and giving FHA a solid foundation for requiring indemnification by lenders for violations of FHA guidelines. And we continue to seek expanded authority via legislation that will further enable us to protect the MMI Fund from unnecessary and inappropriate losses associated with lenders who violate our requirements. Specifically, FHA is pursuing authority to hold our Direct Endorsement (DE) lenders to the same standards as our Lender Insurance (LI) lenders by instituting required lender indemnification for DE lenders who do not follow FHA requirements. Current FHA only has this authority for LI lenders. Additionally, FHA is seeking authority to take enforcement actions against all lenders on a broader, geographic basis rather than just at the branch level. This authority would allow FHA to address systematic risk to the MMIF.

Recently, we announced another step to hold lenders accountable for their actions via the settlements with some of America's largest lenders. Through these settlements, FHA will receive over \$900 million compensation for losses associated with loans originated outside of FHA requirements, or for which FHA's servicing requirements were violated.

Despite the unprecedented efforts of this Administration to alter the trajectory of FHA, considerable risks remain. The FHA MMI Fund has two components: the Financing Account, which holds enough money to accommodate all expected losses on FHA's insured MMI portfolio as of the end of the current fiscal year; and the Capital Reserve Account, which is required to hold an additional amount equal to 2 percent of the insurance in force. Since 2009, the Fund's capital reserve ratio has been below that 2 percent level.

The President's Budget always includes estimates regarding the status of the Capital Reserve at the end of the current fiscal year. This estimate is based on estimates and projections of future economic conditions, including house prices and other economic factors which may or may not come to pass. The 2013 Budget estimate for the FHA Capital Reserve account does not include the almost \$1 billion of added revenue over the remainder of Fiscal Year 2012 and Fiscal Year 2013 from the additional premium increases announced this week or the proceeds from FHA-approved lenders under the terms of the mortgage settlements. With these additional revenues accounted for, the Capital Reserve is estimated to have sufficient balances to cover all future

projected losses, as long as economic conditions do not significantly worsen. Moreover, the Budget estimates that FHA will add an additional \$8 billion to the MMI Capital Reserve Account in 2013, and return to the congressionally mandated capital reserve ratio of 2 percent by 2015.

Office of Housing Counseling

HUD's Housing Counseling Assistance program was developed over 40 years ago at a time of severe divestment in housing, unaffordable interest rates, high unemployment and irresponsible lending practices. Over time, this program has evolved in depth and complexity, as have the issues that it has had to address. Today, housing counseling is more critical than ever as homeowners seek assistance to navigate the many hurdles associated with obtaining a modification. We know that but for the work of counselors, many homeowners wouldn't have received assistance at all and would likely have lost their home to foreclosure. And it is critical for the many first time homebuyers looking to secure financing in a market where credit and underwriting standards have dramatically tightened. Housing counseling also assists renters to budget, save, repair their credit, avoid scams and access unbiased information about housing and financial choices. Last year, HUD housing counseling grants resulted in direct assistance to approximately 186,000 households and leveraged additional non-Federal funding so that HUD-approved housing counseling agencies could educate and counsel nearly 2 million American households last year.

It is tragic that public and private support for housing counseling has been shrinking at a time of great need. We hear anecdotally that housing counseling agencies are laying off skilled, trained housing counselors as traditional sources of funding such as charitable contributions from financial institutions has diminished. Yet recent studies confirm the value of HUD-approved housing counseling. Research evidence documents the role of housing counseling in reducing mortgage delinquency and foreclosure, on helping first-time buyers access and sustain homeownership, and on the special role of counseling related to HECM reverse mortgages. Most studies have found that pre-purchase counseling leads to positive results, reducing delinquency anywhere from 19 to 50 percent, although one study reported no impact.

HUD-approved housing counseling is also effective in the context of mortgage delinquency and default. A nationwide Urban Institute study by Mayer, et al., (2010) of the foreclosure mitigation counseling program (which uses the HUD housing counseling program infrastructure as a base) found that borrowers in foreclosure were 70 percent more likely to get up-to-date on payments if they received the 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.

Today, HUD approves, monitors and supports more than 2,600 counseling organizations. Through the new Office of Housing Counseling, HUD will support a network of agencies and counselors, trained and certified to provide tools to current and prospective homeowners and renters so that they can make responsible choices to address their housing needs in light of their financial situation. Further, the Office of Housing Counseling will work to make this network

accessible throughout the country to those who need objective and reliable information in order to make sound housing and budget decisions, especially those with low to moderate incomes or otherwise underserved, or those at risk of housing loss or homelessness.

For Fiscal Year 2013, HUD requests \$55 million for the Housing Counseling Assistance Program which is expected to inform over 186,000 households about their housing choices in the areas of purchase or refinancing of their home; rental housing options; reverse mortgages for seniors as part of required Home Equity Conversion Mortgage (HECM) counseling; foreclosure prevention; loss mitigation; preventing evictions and homelessness; and moving from homelessness to a more stable housing situation. These funds will also be used to launch the Office of Housing Counseling which was created as part of the Dodd-Frank Wall Street Reform Act.

The majority of the funds requested in the budget, nearly \$45.5 million, are expected to be distributed competitively to support direct provision of a holistic range of services that are appropriate for local market conditions and individual needs. An additional \$6 million will be used to strengthen the quality of housing counseling through training grants which will ensure that individual counselors and organizations develop the knowledge and capacity to meet the new certification requirements which HUD must implement under Dodd-Frank. The remaining \$3.5 million will be used for administrative contracts and support geared towards streamlining internal HUD processes and enhancing oversight.

Last Fiscal Year, Congress appropriated \$45 million for this program. I am proud to tell you that we expect that the awards for the portion of those funds used for grants will be announced next week, ahead of the aggressive schedule set by the Fiscal year 2012 Appropriations Act. This will ensure that these funds get into the hands of the counseling agencies that need them as quickly as possible.

### ***FHA as Part of the Administration's Efforts to Bolster the Housing Market***

The increase in FHA's market share is directly tied to its countercyclical role in the recent economic crisis. In addition, FHA is playing a critical role in the Administration's work in tackling ongoing foreclosure challenges. Between April 2009 and December 2011, more than 5.6 million mortgage modifications were started – including more than 950,000 permanent HAMP modification saving households an estimated \$11 billion in monthly mortgage payments and nearly 1.2 million FHA loss mitigation actions and early delinquency interventions. Between April 2009 and December 2011, more than 5.6 million mortgage modifications were started – including more than ,950,000 permanent HAMP modification and nearly 1.2 million FHA loss mitigation actions and early delinquency interventions--saving households an estimated \$11 billion in monthly mortgage payments.

As part of the Administration's commitment to help responsible homeowners stay in their homes, we have actively sought to use our current programs and authorities to make homeownership sustainable for millions of American families. Examples of our efforts include:

- *FHA Streamline Refinance* – An option that allows borrowers with FHA-insured loans who are current on their mortgage to refinance into a new FHA-insured loan at today’s low interest rates without requiring additional underwriting, permitting these borrowers to reduce their mortgage payments. This program benefits current FHA borrowers – particularly those whose loan value may exceed the current value of their home – and by lowering a borrower’s payment, also reduces risk to FHA. To help more FHA borrowers take advantage of this program, this week FHA announced an adjusted premium structure for these loans, reducing premiums for all Streamline Refinance transactions that are refinancing FHA loans endorsed on or before May 31, 2009, to further incentivize refinance activity. These changes – reducing the upfront mortgage insurance premium for these loans to 1 bp and the annual to 55 bp - will ensure that borrowers benefit from a net reduction in their overall mortgage payment while still ensuring FHA has the resources to pay any necessary claims. This change to the premium structure of Streamline Refinances is also consistent with the annual premium that these borrowers were subject to when their loans were originated.

And, because we see potential for more widespread use of this product, FHA will make changes to the way in which streamline refinance loans are displayed in the Neighborhood Watch Early Warning System (Neighborhood Watch) to reduce lender concern about the potential impact associated with taking responsibility for loans they have not underwritten, making them more willing to offer these loans to borrowers who are current on mortgages already insured by FHA.

- *Short Refinance Option* – In 2010, FHA made available an option that offers underwater non-FHA borrowers, who are current on their existing mortgage and whose lenders agree to write off at least 10 percent of the unpaid principal balance of the first mortgage, the opportunity to refinance into a new FHA-insured mortgage.

To protect FHA’s MMI fund, a line of credit in the amount of \$8 billion has been set up to cover losses the fund might incur as a result of the FHA Short Refinances having a higher than normal default rate. The funds, from the TARP program, are available in the event any of the short-refis go into default. To date, there have been no claims filed for the short-refis and the program has not used any of the TARP funds.

- *Homeowners Bill of Rights* - As another critical component to the recovery of the housing market, the President has also put forward a homeowners Bill of Rights – a single, straightforward set of commonsense rules that families can count on when they’re shopping for a mortgage, including the right to a new, simple, clear form for new buyers that gives people confidence when they’re making the most important financial decision of their lives. And those rights shouldn’t end when homeowners get the keys to their new home. When Americans lose their job or have a medical emergency, they should know that when they call their lender, that call will be answered and that their home won’t be sold in foreclosure at the same time they are filling out paperwork to get help.

FHA servicing standards will be updated to incorporate the principles in the Homeowner Bill of Rights.

- *REO to Rental* –A glut of vacant foreclosed properties continues to drag down property values and meanwhile, rental rates are rising as those who lose their homes to foreclosure seek rental housing, creating an unprecedented imbalance of supply and demand between the purchase and rental markets. This problem requires a creative, innovative mode of addressing the inventory of unoccupied homes in our communities. When there are vacant and foreclosed homes in neighborhoods, it undermines home prices and stalls the housing recovery. The Administration began tackling this issue through the Neighborhood Stabilization Program (NSP) and our efforts have expanded our efforts through the REO to Rental initiative.

As part of the Administration’s effort to help lay the foundation for a stronger housing recovery, the Department of Treasury and HUD have been working with the FHFA on a strategy to transition REO properties into rental housing. Repurposing foreclosed and vacant homes will reduce the inventory of unsold homes, help stabilize housing prices, support neighborhoods, and provide sustainable rental housing for American families.

With about a quarter of a million foreclosed properties owned by HUD and the GSEs, this August, HUD joined with FHFA and Treasury to issue a “Request for Information” to generate new ideas for absorbing excess inventory and stabilizing prices. In all, about 4,000 submissions were received and, over the past several months, the interagency task force has been reviewing the submissions and formulating strategies based on the best practices gathered from the RFI. Throughout this process, the task force has continuously met with industry members, community groups and other key stakeholders to make sure they are heard in the strategy development process. Ultimately, we expect a range of strategies to emerge; however the most commonly discussed centers around selling REO properties to buyers who will convert and market them as rental units.

Last week, Fannie Mae announced the first pilot program as part of the RFI, releasing details on its plan to sell homes that are part of its tenant in place portfolio. This is the first of a several collaborative efforts to clear the nation’s shadow inventory, an effort that FHA is an active part of. We plan to learn and leverage all we can from this initial pilot as we work towards conducting a series of additional pilots throughout the rest of the year.

- *Broad Based Refinance* – Last, the President has called on Congress to open up opportunities to refinancing for responsible borrowers who are current on their mortgage but whose loans aren’t backed by FHA or the GSEs. Under the proposal, borrowers with standard non-GSE, non-FHA loans will have access to refinancing through a new program run through FHA.

The program will be simple and straightforward. Any borrower with a loan that is not currently guaranteed by the GSEs or insured by FHA can qualify if they meet the following criteria – each of which is designed to help reduce risk to the taxpayer:

- *They are current on their mortgage:* Borrowers will need to have been current on their loan for the past 6 months and have missed no more than one payment in the 6 months prior.

- *They meet a minimum credit score.* Borrowers must have a current FICO score of 580 to be eligible. Approximately 9 in 10 borrowers have a credit score adequate to meet that requirement.
- *They have a loan that is no larger than the current FHA loan limits in their area:* Currently, FHA limits vary geographically with the median area home price – set at \$271,050 in the lowest cost areas and as high as \$729,750 in the highest cost areas
- *The loan they are refinancing is for a single family, owner-occupied principal residence.* This will ensure that the program is focused on responsible homeowners trying to stay in their homes.
- *They are currently employed.* To determine a borrower's eligibility, a lender need only confirm that the borrower is employed.

Borrowers will apply through a streamlined process designed to make it simpler and less expensive for both the borrower and the lender. The President's plan includes additional steps to reduce program costs, including:

- *Establishing loan-to-value limits for these loans.* The Administration will work with Congress to establish risk-mitigation measures which could include requiring lenders interested in refinancing deeply underwater loans (e.g. greater than 140 LTV) to write down the balance of these loans before they qualify. This would reduce the risk associated with the program and relieve the strain of negative equity on the borrower.

*Cost-Savings to the Borrowers who Participate in this New Program:* Given today's record low interest rates, we estimate that on average, borrowers who participate in this program would reduce their monthly payments by between \$400 and \$500 a month.

*Option to Rebuild Equity in their Homes through this Program:* All underwater borrowers who decide to participate in this refinancing program through the FHA outlined above will have a choice: they can take the benefit of the reduced interest rate in the form of lower monthly payments, or they can apply that savings to rebuilding equity in their homes. The latter course, when combined with a shorter loan term of 20 years, will give the majority of underwater borrowers the chance to get back above water within five years, or less.

To encourage borrowers to make the decision to rebuild equity in their homes, we are proposing that the legislation provide for incentives to borrowers who chose this option. Possible incentives include paying for closing costs or a lower MIP. To be eligible, a participant in this option must agree to refinance into a loan with a term of no more than 20 years and with monthly payments roughly equal to those they make under their current loan

*A Separate FHA Fund:* The broad based refinance program will have a separate fund that is funded through premiums established and direct funding provided under this program with its net cost offset by the financial crisis fee. The program's premium structure will be designed in a way to ensure that homeowners have the incentive for lower monthly payments through the program. By maintaining a separate fund and funding source for

this program the broad-based refinance will not be contingent on appropriations action and will have no impact on FHA's MMI Fund.

Expanded refinance options for homeowners with non GSE and non FHA loans, along with changes to the FHA Streamline Refinance, create a critical patchwork of refinance programs for responsible borrowers who are current on their mortgage loans. Through the efforts of HUD and its Administration partners, working together with Congress, we can ensure that every family can have the opportunity to take advantage of today's historically low interest rates. This will save homeowners thousands of dollars a year, and as a result provide much needed payment relief and further strengthen the economy.

***Conclusion***

Madam Chairman, this budget reflects this Administration's belief that the recovery of our housing market is essential to the restoration of our economy and that FHA is critical to restore health and confidence to the housing market in particular. By targeting resources where they are most needed, making tough choices in order to do more with less, and ensuring the protection of taxpayer interests, FHA's Single Family, Multifamily, Healthcare and Housing Counseling Programs, are ensuring more Americans have the opportunity to realize or maintain the economic security of the middle class. And the work this Administration has done has established a strong foundation upon which we will construct an economy built to last. Thank you.