



NEWS from U.S. Senator

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**Opening Statement of Senator Patty Murray
Chair, THUD Appropriations Subcommittee
Hearing on FHA- March 8, 2012**

Good morning, I want to welcome Acting Federal Housing Administration Commissioner Carol Galante to the Subcommittee today to talk about FHA. Ms. Galante you have assumed this role at a pivotal time both for the market and FHA and I want to thank you for your service.

FHA's Role in Supporting the Market

Back in early 2007, this Subcommittee held a hearing on FHA that raised questions about its role and relevance, as its market share had fallen to around 3 percent. At that time, home prices were on a seemingly unstoppable climb. And based on the belief that home prices would continue to rise, credit flowed freely.

Millions of Americans became homeowners—many through exotic mortgage products that required little documentation, and included attractive offers like interest-only payments and no down payment. FHA's traditional 30-year fixed mortgage, which required documentation and underwriting, simply could not compete.

But the promises made—to homeowners and investors alike—were too good to be true. When the risks associated with these mortgages began to materialize, it was far too late. And when defaults and foreclosures skyrocketed, the impact was felt not only by defaulting homeowners, but also by entire communities that watched their home values plummet, investors who bet on these products and lost, and older Americans who saw their pensions disappear.

FHA quickly stepped in after the crash to ensure a functioning mortgage market, the primary function for which it was designed during the Great Depression.

There is no question that stepping into the faltering housing market exposed FHA to greater risk. But it took on this risk in order to support the broader housing market, and without its support, the cost to the market and to taxpayers today would likely be far higher.

So, today, we are not asking about FHA's role and relevance. FHA now supports nearly 30 percent of the purchase market and almost 16 percent of all loans, including refinances. And its value has been made clear over the past few years. Instead, we are now asking: How we protect the taxpayer from the risks associated with its increased role in the market, and how and when do we scale back FHA's presence in the market?

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Fiscal Soundness of FHA's Mutual Mortgage Insurance Fund

FHA's fiscal soundness depends in large part on broader market and economic conditions.

As Secretary Donovan testified to last week, the biggest factor in the health of FHA's Mutual Mortgage Insurance Fund is the direction of home prices.

While we are seeing signs that the housing market has hit bottom and is starting its climb back up, risks remain.

With over 22 percent of mortgages in the U.S. underwater, elevated levels of foreclosures, and an extensive shadow inventory of properties, the path of home prices remains uncertain.

I look forward to having a discussion about the potential risks that remain in the market, and what steps can and should be taken to strengthen the market and FHA.

New Proposals to Aid the Market

This week, the President announced changes to the FHA Streamline Refinance Program that will make it easier for existing FHA borrowers to benefit from low interest rates.

And in February, the Administration released a plan to further aid the market by creating opportunities for homeowners to refinance into more affordable mortgages.

It has also pushed for greater use of principal write-downs.

These proposals offer opportunities to make mortgages more affordable for homeowners, while at the same time putting money back into their pockets and in some cases giving them a chance to build equity once again.

These proposals aren't without their own risks and costs. Allowing conventional borrowers to refinance into FHA loans adds risk to FHA—even if not directly to the MMI Fund.

Under the Administration's proposal, this cost would be covered by a Financial Crisis Responsibility fee paid by banks.

In addition to the financial risks, policies such as principal write-downs also raise concerns about moral hazard.

In evaluating these proposals, we must have an understanding of what is currently holding the market back from a stronger recovery, and if the long-term benefits of public intervention outweigh the short-term costs.

The Administration is also looking at ways to address the growth in the number of government-owned properties.

FHA, along with Fannie Mae and Freddie Mac, own about a quarter of a million foreclosed properties. These properties are costly for the government to manage and contribute to the decline of home prices.

As we look for ways to address the shadow inventory, millions of Americans are unable to find affordable housing.

According to a study released by HUD last year, over seven million Americans pay more than 50 percent of their income on housing, which represents a 20 percent increase in worst case housing needs between 2007 and 2009.

So, I am glad to see that FHA, along with the Federal Housing Finance Agency, the conservator of Fannie Mae and Freddie Mac, is looking at converting Real Estate Owned or “REO” properties into rental housing.

I am interested in hearing from Acting Commissioner Galante on the interest this proposal has garnered, as well as the challenges and benefits associated with it.

Support for FHA Operations

While much of FHA’s fiscal soundness depends on the overall market, there are measures that FHA can take to improve its financial standing.

The Administration recently announced premium increases to provide additional funding to the Mutual Mortgage Insurance Fund.

In addition, the budget also includes proposals to increase premiums for its multifamily and healthcare programs.

Similar to its single-family business, FHA’s presence in these areas has grown in recent years, and these premiums should help strengthen the General and Special Risk Insurance Fund.

Amid the discussions about solvency of the funds and FHA’s future in the market, this Committee cannot lose sight of FHA’s day-to-day operations. So, I will be asking critical questions, including: Does FHA have the appropriate staff to manage its portfolio? Does it have the tools it needs to assess and manage risk? And does it have the means and authority to protect taxpayers from fraudulent lenders and excessive losses?

In recent years, this Committee has worked to provide FHA with the resources to increase its hiring; support a new Risk Office; and invest in much-needed technology upgrades.

In a constrained budget environment, federal employees and administrative expenses are often the first items to be cut, but in the long-term, costs resulting from weak oversight are bound to outweigh any savings that would result from cutting FHA’s workforce.

Closing

And as we climb back from the housing crash, we must also remember the lessons learned from the rise and fall of the housing market.

We must have soundly underwritten mortgages and a process that is fair and transparent from the moment a potential homeowner applies for a mortgage all the way through loss mitigation or foreclosure.

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This crisis has also taught us the importance of having a balanced national housing policy—one that includes both rental and homeownership opportunities.

At the same time, we must be careful not to overcorrect—as is happening today—and close the door to homeownership for hardworking, responsible Americans.

I believe that we should continue to strive for a market in which Americans who work hard, provide for their families, and pay their bills, have an opportunity to own a home.

And I think that FHA will continue to be part of that vision.

I look forward hearing from Ms. Galante and with that I turn it over to Senator Collins.

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