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H.R. 3755—ZERO DOWNPAYMENT ACT OF 2004

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

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H.R. 3755—ZERO DOWNPAYMENT ACT OF 2004

Wednesday, March 24, 2004

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:03 a.m. in Room 2128, Rayburn House Office Building, Hon. Robert Ney, [chairman of the subcommittee] presiding.

Present: Representatives Ney, G. Miller, Hart, Tiberi, Renzi, Waters, Carson, Lee, Sanders, Watt, Clay, B. Miller, Scott, and Davis.

Chairman NEY. We will go ahead and come to order. And members will be coming in, the Subcommittee on Housing and Community Opportunity. And today is, I think, a very, very important hearing.

And we will start today with the Honorable John Weicher, Assistant Secretary for Housing-Federal Housing Commissioner, U.S. Department of Housing and Urban Development.

Thank you.

STATEMENT OF THE HONORABLE JOHN C. WEICHER, ASSISTANT SECRETARY FOR HOUSING-FEDERAL HOUSING COMMISSIONER, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. WEICHER. Thank you, Mr. Chairman and distinguished members of the subcommittee. And thank you for the opportunity to testify today regarding the Administration's zero downpayment initiative.

This major new mortgage insurance product is specifically designed to help first-time home buyers purchase a home.

I also want to thank Congressman Tiberi for introducing H.R. 3755, the Zero Downpayment Act of 2004, and the 30 members, both Democrats and Republicans, who have co-sponsored this important bipartisan legislation.

Under this new program, FHA will insure 100 percent of the cost to acquire the home for first-time home buyers. We would allow them to finance the full purchase price, as well as all of the closing costs. Potential home buyers would not have to make the minimum down payment of 3 percent that is required in our regular Home Mortgage Insurance Program, Section 203(b).

Studies have consistently shown that the single biggest obstacle to homeownership for most families is the inability to come up with enough cash to meet downpayment and closing costs. Many poten-

tial home buyers pay the equivalent of a monthly mortgage in rent, but are unable to save toward a downpayment on a home. Minority families in particular are burdened by high downpayment requirements.

This Administration is committed to helping all Americans address this barrier to home ownership, including minority families who have been shut out of home ownership opportunities in the past. We are proud of this effort, and we are proud of the results.

In the fourth quarter of last year, the homeownership rate stood at an all-time record of 68.6 percent, and minority homeownership also set records. For the first time ever, over half of all minority families are now homeowners, with a record rate of 50.6 percent in the fourth quarter of last year.

This is a good record, and we want to improve on it. There remains a significant home ownership gap between non-Hispanic whites and minority families.

In June, 2002, President Bush announced the blueprint for the American Dream Partnership to create 5.5 million new minority homeowners by the end of this decade. Some of the participants in the partnership are here to testify today on this legislation.

The Zero Downpayment Program would move the nation significantly closer toward this goal.

We project that the new zero downpayment program would serve about 150,000 new home buyers in the first year alone. It would be structured to assist those credit-worthy but cash-poor working individuals and families who have been excluded from purchasing their first home.

We have designed this program to minimize defaults, and to protect the Mutual Mortgage Insurance Fund. FHA has made conservative financial assumptions regarding the program. In order to cover the costs of the program, families who qualify for the zero downpayment program would be charged a higher insurance premium on their home loan.

There would be no net cost to the MMI fund. The President's budget projects that the additional $19 billion in mortgage commitments will generate revenue of about $184 million in the first year. Borrowers would be held to the same underwriting guidelines as those who apply for FHA standard 3-percent downpayment mortgage. They must meet the same payment income and debt-to-income ratios, and the same credit standards.

We propose to add two additional requirements to help families become, and remain, homeowners.

First, our new FHA total mortgage scorecard must be used to evaluate the overall creditworthiness of borrowers. The total scorecard allows FHA lenders to better predict which borrowers are good risks, and which are bad risks. This will help lenders and help FHA determine which families are most likely to remain homeowners after they buy their home.

Also, it will require any home buyer to have homeownership counselling. And as we discussed at your hearing last week, Mr. Chairman, housing counselling can be very effective in reducing mortgage delinquency.

Over the last three years funds for housing counselling have doubled, from $20 million to $40 million. The Administration has requested increases, and Congress has appropriated the money.

The proposed fiscal year 2005 HUD budget proposes a further increase, to $45 million. We estimate that about half of this $5 million increase will be spent on counselling in conjunction with the zero downpayment mortgage.

The Administration and the Department are firmly committed to helping more American families achieve the dream of homeownership. We believe that the Zero Downpayment Mortgage will be a financially sound and effective means to help them.

That concludes my statement, Mr. Chairman. I want to thank you again for the opportunity to meet with you today to discuss this exciting new initiative.

[The prepared statement of Hon. John C. Weicher can be found on page 129 in the appendix.]

Chairman NEY. I want to thank you gentlemen. I would note we are going a little bit irregular here, but I wanted to get your testimony in because we have another panel.

Also, as far as statements, we will entertain some. And then as members come in, we would not do that except for the ranking Member. But we entertain as we speak, and for the members present, I am going to be brief and ask, without objection, the rest of mine be submitted for the record.

I just want to say that this bill by Congressman Tiberi and Congressman David Scott I think is extremely important, and it reflects the legislative proposal by the Bush Administration that they have got into their fiscal year 2005 budget for HUD. And this, of course, as you said, would eliminate the downpayment in some cases.

I think the downpayment is a very difficult thing for many people to, as we know, to get. They can pay the payment, they can watch their budget, they can work a second job, and they have got their part of the American dream. But they might have to wait eight, nine, 10 years to get that. And that is why I think this bill by Congressman Tiberi is one of the most important bills. I credit Congressman Tiberi for pushing this bill and being out front on it, and Congressman Scott, also.

And I would note with the racial divide in homeownership, it remains wide. It is 75.5 percent of white households owning their own home, compared with 49.4 percent of African-American households, and 47.7 percent of Hispanic households. I know we can do a lot better. I think this bill will also help with that important issue.

With that, the gentleman from Vermont, do you have a statement?

Mr. SANDERS. Thank you, Mr. Chairman, and I am delighted that our guest is here with us today.

This is an important hearing, and I appreciate you holding it. Making homeownership available to more people certainly is a goal that we all share. And the idea of having people not having to make any initial downpayments is a step in the right direction.

But I think there is a lot more to be done in addressing what, to my mind, is one of the major crises facing our country. And that

is the fact that millions and millions of Americans today are paying a very substantial part of their income for housing.

Not only do we have a major homeless problem in America, a growing problem, but we should recognize that there are millions of Americans today who are paying 40, 50, or 60 percent of their incomes in housing. That is unacceptable.

And while this particular piece of legislation addresses some problems, it certainly does not go anywhere near as far as it has to go in addressing the major housing crises facing our country.

Mr. Chairman, I am also delighted that you have invited, as a member of one of the panels, Sheila Crowley, who is the President of the National Low-Income Housing Coalition. That coalition, to my mind, has done an extraordinarily good job in raising consciousness on the housing crisis in bringing not only low-income and working people into this issue, but many business people as well. And I look forward to hearing what Ms. Crowley has to say.

Mr. Chairman, owning your own home is the American dream. But having a bank foreclose on your home because you did not have enough money to make your monthly mortgage payments could quickly turn the American dream into a nightmare. And I think our guest understands that foreclosure today is at an all-time high, and is one of the major problems facing homeowners, especially lower-income homeowners, in this country.

Mr. Chairman, Ms. Lee and I, and some 211 Members of the United States Congress, in a very strong tripartisan effort, have introduced the National Affordable Housing Trust Fund. That is H.R. 1102. And that legislation would provide the resources necessary for states and localities to produce, rehabilitate, and preserve at least 1.5 million affordable housing rental units in the next decade, targeted to those families most in need.

It is the legislation which in fact would go a long way to solve the real housing crisis in this country.

In addition to that, and importantly, given the job situation in this country, that particular legislation, because we would invest substantial sums of money in the construction of affordable housing, would put an estimated 1.8 million people to work.

Mr. Chairman, let me end by simply asking you if you would allow those of us, the 211 Members of the House who are on this legislation, to have a hearing on this important bill. I would be very appreciative. Is that something you think we could do?

[The prepared statement of Hon. Bernard Sanders can be found on page 63 in the appendix.]

Chairman NEY. The time of the gentleman has expired. I will take it under advisement. I will take a look at it. I cannot make a decision on the spot.

I am going to try to hold to the time very strictly, for a couple reasons. We have three panels. And so as I call the time, both sides, I just want to hold to it strictly.

Mr. Tiberi.

Mr. TIBERI. Thank you, Mr. Chairman. I appreciate the opportunity to talk a little bit about the Zero Downpayment Bill which I recently introduced with 32 other individuals who are co-sponsoring the bill, including Congressman Scott.

But I am going to ask if I can submit my comments for the record, but just say, as a former realtor, I have personally witnessed what homeownership can do to a person, to a family. Homeownership has the incredible ability to not only build wealth for a family, but have a positive impact on a neighborhood.

And I look forward to working with not just this Subcommittee, but the full Committee in the Congress and the folks at HUD. Commissioner, I look forward to working with you. I hope my experience in working with you on this is better than our previous experience. I will leave it at that.

But I would like, Mr. Chairman, to submit my comments for the record, because I know the Commissioner's time is important, as are the members of the panels that we are going to be hearing from.

Chairman NEY. Without objection.

[The prepared statement of Hon. Patrick J. Tiberi can be found on page 67 in the appendix.]

Chairman NEY. The gentlelady from California.

Ms. LEE. Thank you, Mr. Chairman. I, too, would like to submit my statement for the record. And I just want to say to you, this is a very interesting approach to solving a chronic affordable housing problem in this country, specifically when you look at the homeownership rates in terms of ethnic minorities. You see about 75 percent for white households, 49 percent for African-American households, and about 47 percent for Latino households. So hopefully this bill will just begin a process of trying to close those disparities.

Thank you. And I would like to, again, submit my statement.

Chairman NEY. Thank you, gentlelady. Without objection, we will enter it for the record.

[The prepared statement of Hon. Barbara Lee can be found on page 60 in the appendix.]

Chairman NEY. Mr. Miller?

Mr. MILLER. Thank you very much, Mr. Chairman.

Secretary Weicher, I would like to applaud you on RESPA. That is something that we started working with Secretary Martinez, when he first took over. We thought we were going in the right direction, and I don't know what happened. But I want to applaud you on what you have done on drawing that. And hopefully we can work together to resolve this. This is a critical link in the homeownership process, and I think we need to do everything we can to make sure that the final product overhauls the process without really confusing home buyers. But I wanted to applaud you for doing that.

The last few times we have talked, it was the only time we ever had a disagreement, HUD and I, on an issue, so that was a problem for us.

But there is a huge housing crisis in affordability in this nation. I have been in the building industry for over 30 years, and was a real estate broker in the past. And in California we have about a 56.9 percent homeownership rate, which is about 10 percent under the nation. The median home price in California is about $35,000 higher than the second- and third-place portions of this nation, and it is really a huge problem.

And if you look at most people who have to put 20 percent down in California, that is $75,000. Less than 5 percent of this nation can afford that on their capital, other than what they have invested in real estate. And this is really a critical issue. And the zero downpayment assistance hearing I think is very important.

A good friend of mine, Frank Williams, he is the Director of the Building Industry Association of—he started a group called Heart, which is a non-profit. He started it in 1995. And in 1998 they started the zero downpayment assistance, where they would give virtually grants to people coming in. It was done without any assistance from the federal government at all. And they put about 40,000 families in homes, with zero downpayment, where they would have the private sector pick up the downpayment for them. And it was started with just a couple developers that invested some money. They give a grant to this Heart Foundation, and they have built that, through loans and such, where they are helping a tremendous amount of people who have never owned a home before.

They have taken quite a few mothers who were on welfare, didn't have jobs, and they have hired them. They are working in their office now, and have put them in homes. And there is a lot to be done in this nation to get people in homes.

This is a great start. This is just a beginning. I mean, yes, we have to look at entry level, but we have to look at where do they go past that. And we have done nothing to encourage affordable housing, anything other than just a Section 8. And if you don't have affordable move-up from Section 8, you don't have adequate Section 8 as we know.

So I am not going to protract this. I look forward to this. I know later this year we are going to try to be working with Mr. Frank on FHA, dealing with a loan limit, so we must increase there because it is just not kept up. You can't even get an FHA loan in California because of the limits that we have. We have to do something about that.

But I thank you for today, and thank you for your testimony.

Chairman NEY. Well, thank you. Mr. Scott.

Mr. SCOTT. Yes, thank you very much, Mr. Chairman. And I appreciate this opportunity. This is an important piece of legislation, for there is nothing more important and vital to a person than to be able to purchase a home. It enriches their lives and begins them on the path of very good significant wealth-building.

I want to thank Chairman Ney and Ranking Member Waters for holding this hearing today on House Resolution 3755, the Zero Downpayment Act. And I am very, very proud to join with Congressman Tiberi to introduce this legislation, which would eliminate the downpayment requirement for families and individuals who buy homes with FHA-insured mortgages.

This legislation, as you may recall, follows the Committee passage of the American Dream Downpayment Act last year, which I was also a co-sponsor of.

It is very important, I just want to highlight just a couple of points, why this program is so important. This new Zero Downpayment Program will be available to first-time home buyers seeking loans insured by the Federal Housing Administration. It will make homeownership possible for those who meet FHA underwriting re-

quirements, and who could easily afford a monthly payment, but because of their circumstances, have simply not had the opportunity to save for a downpayment.

FHA loans typically require a minimum downpayment of 3 percent. Families who qualify for zero downpayment mortgages will be charged a modestly higher insurance premium on their home loan.

For example, on a $100,000 mortgage, a zero downpayment borrower will pay approximately $50 a month more than a regular FHA borrower. The higher premium will completely cover the costs of the program, meaning there is no additional cost to the taxpayer.

Now, while downpayment assistance is an important tool to help increase homeownership, we must also provide home counselling programs. And I am sure that our first panelist, of course, the Honorable John C. Weicher, Assistant Secretary of Housing-Federal Housing Commissioner of the United States Department of Housing Development, knows the importance of housing counselling. We talked with him last week on a hearing on our other bill.

Last week this Committee discussed that bill. House Resolution 3938, which was introduced by Chairman Ney, Representative Velasquez, and myself. This legislation will create a new homeowner counselling office within HUD. It would create a nationwide toll-free number to receive consumer complaints regarding predatory lending, and refer victims to consumer protection agencies, provide for a multi-media outreach program to vulnerable populations, and provide grants to community counselling organizations.

I mention that because this Zero Downpayment Program is wonderful. And it is very important that we put folks in their homes. But if we do not provide that counselling, if we do not provide a way for them to make sure they can keep the home, that they have the necessary information and counselling information to help, it is much like giving a man a rope on which he can either pull himself up, or he can hang himself.

So I want to make sure that as we move forward with the zero downpayment, to know that it is equally important to make sure, as we help to get people out on this first step, that we understand the importance of providing them with housing counselling as we move along.

And African-American families and other minority families in particular are burdened by high-downpayment requirements.

Chairman NEY. Time has expired.

Mr. SCOTT. Homeownership, of course, is a major step, as I said, in wealth accumulation and movement up the economic ladder. And it is very important, this is a very important step. I am very, very excited and energized on our move on this.

Thank you, Mr. Chairman, for allowing me to make that statement.

Chairman NEY. Thank you. Gentlelady from California, our Ranking Member.

Ms. WATERS. Thank you very much, Mr. Chairman and members. I thank you for scheduling this hearing to consider the many important issues raised by H.R. 3755, the Zero Downpayment Act of 2004, introduced by Congressman Pat Tiberi and Congressman Scott.

This bill would eliminate the downpayment requirement for families and individuals who buy homes with FHA-insured mortgages.

While the homeownership rate has risen, the racial divide in homeownership remains wide, with 75.5 percent of white households owning their own home, compared to 49.4 percent of African-American households, and 47.7 percent of Hispanic households.

During the past part of 2003, presently section 203(b)(9) of the National Housing Act requires that each FHA borrower to make a cash downpayment of at least 3 percent of the cost of the home. While H.R. 3755 does not explicitly waive this 3-percent minimum cash downpayment requirement, it is clear that it is the sponsor's intent.

Currently, depending upon the state in which they reside, FHA borrowers may borrow from 97.15—15 percent, that is—up to a ceiling of 99.25 percent of appraised value. H.R. 3755 is intended to let a borrower put zero cash down, and borrow around 104.5 percent to 105 percent of the value, depending on the closing costs.

H.R. 3755 is identical in language to the legislative proposal submitted in the Administration's funding year 2005 budget. The bill authorizes HUD to insure mortgages for one-family residences that are loan-to-value in excess of 100 percent of appraised value by specifically allowing a loan equal to the sum of the home's appraised value, the up-front FHA premium, and all approved closing costs.

The Administration projects that this loan product will create 150,000 home buyers in the first year alone. OMB projects that the proposal will make money for the government; that is, it will have a negative cash subsidy.

FHA borrowers pay both an up-front premium and an annual fee on single-family loans. The Administration's budget proposal assumes increased revenue from charging a higher premium to those potential borrowers who utilize the zero downpayment option.

According to the budget proposal, those higher premiums would be sufficient to cover any anticipated losses expected by FHA's mortgage insurance funds. Although H.R. 3755 does not include any language addressing the fees to be charged for this new loan product, HUD has indicated publicly that it plans to charge an up-front premium of 2.5, 25 percent, and that is versus the current 1.5 charge for all FHA loans, plus an annual fee of .75 percent for the first five years of the loan, versus what is now .5 percent charge for all FHA loans.

The bill also authorizes the HUD secretary to establish any additional requirements as may be necessary or appropriate, including requirements regarding mortgage and/or property eligibility.

If this bill is enacted, HUD has indicated an intention to use this authority to establish several additional requirements through administrative regulation. For example, while the bill itself does not require it, a January 19, 2004 HUD press release on the Zero Downpayment Proposal states that HUD would also require families to undergo pre-purchase housing counselling.

The questions included in our invitation to today's witnesses cover many of the issues that I hope will be addressed today. I would like to raise a few more policy questions.

I hope that our witnesses will discuss whether they believe this product should be limited to those who lack the resources to come up with the current downpayment requirement, or whether it also should be available to those who can come up with the downpayment, but prefer not to do so.

Simply put, is some kind of certification of financial necessity an appropriate condition for access to this product? If not, why not?

Secondly, will this product expose the mortgage insurance fund to unreasonable risk? Given that FHA delinquency and foreclosure rates have risen steadily in recent years, and that FHA past-due rate, as of the third quarter of 2003, is now 12.13 percent, don't we need to proceed cautiously in this area? What role, if any, do downpayment requirements play today in avoiding defaults of foreclosures?

While it is the subject of considerable controversy, a recent audit by the HUD Inspector General also suggested that mortgages made through gift assistance programs carry default rates far above average. How do gift assistance programs fit into the equation?

Finally, there are several technical issues that require clarification, such as whether the bill should be limited to first-time home buyers. And if not, whether refinancing should be covered.

Mr. Chairman, above all else, as we consider this bill and other potential legislation before our subcommittee, we need to ensure that we pursue a balanced agenda that makes fair and affordable housing opportunities to all of our people, whether they are renters or owners. H.R. 3755 raises important questions, but it is only one piece of a far larger puzzle.

I look forward to our witnesses. And I thank you again for scheduling this hearing.

Chairman NEY. Well, thank you, gentlelady. We will move on to questions. The witness, Mr. Weicher, has testified.

The one question I have is, what is the relevance of downpayments in truly assessing the creditworthiness of a person? How relevant do you think they are?

Mr. WEICHER. Mr. Chairman, we certainly know that downpayment initial loan to value is an important aspect of risk. And as you all have mentioned, we have, in our basic 203(b) program, a statutory requirement of a 3-percent downpayment.

But we also know that there are other factors which are more important. In particular, credit history, credit experience. That is the most important predictor of the ability of a family to maintain a home once they have moved into it. And we are requiring, in our proposal, that all mortgage applications for the program would be risk-assessed by our new total scorecard, which is the best indicator we have found, best predictor of whether a borrower will default on the mortgage or not.

And in addition, we are requiring counselling for any borrower who participates in the program. And we know that families who receive counselling are better able to stay in their home. Pre-purchase counselling, our default rates on families with pre-purchase counselling are lower, significantly lower, than the default rates for families who do not.

So while LTV is important, there are other factors that are important, too. And we are taking them all into account as we make this proposal to you.

Chairman NEY. Do you think underwriting is relaxed when no downpayment is required?

Mr. WEICHER. It is not our intention to relax our underwriting criteria at all, in the Zero Downpayment Program, Mr. Chairman. We will use the same underwriting standards, the same payment-to-income and debt-to-income ratios, the same credit history standards. And we add the additional requirements of counselling and the Total Scorecard.

We have no intention to relax our underwriting standards in this program.

Chairman NEY. Does the bill cover condominiums and cooperatives?

Mr. WEICHER. No, Mr. Chairman, it does not. Condominiums and cooperatives are insured under a different insurance fund, the GSRI fund, General and Special Risk Insurance fund. As such, their premiums are established on a different basis than we establish the premiums for single-family home purchases. And we believe it is appropriate to start with single-family homes in this program in the MMI fund. And if it is successful, then we would certainly look to extend it to condominiums and cooperatives.

Chairman NEY. The reason I ask that question, I wanted to follow up with one last one, but, in rural areas in particular you don't have a lot of condominiums, obviously. It is not that popular. You have spatterings. In the urban centers you will have condominiums.

And I just wondered, is there receptivity from HUD to consider condominiums, to include them? And also, let us go a step further. If there is a rental unit in the situation, and somebody could actually come in, buy with no downpayment, and they have got a rental unit, like two or three units. And so they almost become their own entrepreneur. Would you take a look at that, be willing to? Or is there a problem with that?

Mr. WEICHER. Well, with respect to your first point on condominiums and cooperatives, we would be willing to look at that. It would require a different scoring, because it is in a different insurance fund and has a different premium structure.

With respect to allowing zero down for families that are buying two- to four-unit properties and planning to live in one and rent out the others, we have limited, in our suggestion, the bill to single-family homes. We certainly don't object to people buying two- to four-unit properties and becoming landlords, as you indicated. That is one way to build wealth. We do think that one ought to have some equity to take on a bigger project than owning your own home. We would think that looking at two to fours would be something we would do I think farther down the road.

Chairman NEY. My time is running out, and I haven't talked to the gentleman from Columbus, Ohio, Mr. Tiberi. But I just think personally we have got to be open-minded in the sense that if you have a low-income person, and they don't have a downpayment, but they have that rental stream in there, you are almost creating, I don't want to say wealth, but you are almost creating an instant

type of infusion of money into their checking account to help them pay for something.

It is almost like if you are on a low income, you have to take this step first, and you have to have a downpayment, and then you have to get your own unit, and then you can go on to something that has a rental attached. I just think personally we ought to keep an open mind to that type of thing.

The gentlelady?

Ms. WATERS. Mr. Chairman, I want to question how you set the criteria for other persons who would be requesting no downpayment. I recognize that you would be looking at the credit history, the same way that you would do in a regular lending situation.

But given that there is no money on the front end, and I like that, does that mean now that it is going to be a little bit more difficult? Are you going to look a little bit closer? And who is eligible? Exactly who is eligible for this, and how do you review this person's ability to pay their mortgage?

Mr. WEICHER. Ms. Waters, the people that we expect to be helping would be typically young families, people with good jobs, people who have not built up the cash, the assets to put down the normal downpayment and closing costs.

Ms. WATERS. Excuse me if I interrupt you. Young families with good jobs. Define that a little bit better for me.

Mr. WEICHER. Well, I think steady jobs, jobs where the income from the job will cover the mortgage payment that is necessary to support homeownership. Families with stable jobs, but families who have not yet built up the equity to become homeowners. We expect to enable families. Some families will become homeowners sooner, and other families will become homeowners who would perhaps never become homeowners at all.

We establish our criteria in terms of income and credit history, and we look at the debt that the family currently is supporting. And we require counselling for any family buying a home in the Zero Down Program. And we assess the creditworthiness of the borrower through our new mortgage Scorecard, the Total Mortgage Scorecard, which becomes part of a lender's automated underwriting system, and is the best predictor we have seen of the ability of a family to support a home.

We can distinguish who is a good risk for us, and who is not as good a risk for us, better with that than we have ever been able to do before. And so we can reach a little farther down in the risk spectrum than we have been able to do.

Ms. WATERS. One of the problems we have had with predatory lending is, we have racial minorities who compare equally with whites in terms of income and what appears the ability to pay. And they are driven into sub-prime lending, while their counterparts, who are non-minority, are not. How do we avoid that kind of thing with giving consideration to who gets the no downpayment opportunity?

Mr. WEICHER. Well, I think you will hear from a number of representatives of industry groups who are certainly not predatory lenders about their interest in marketing this program to potential home buyers. I think you will hear that they see this as a way of reaching people that they are not now able to reach.

I might say also that we have a second proposal, which is not directly the subject of this hearing, a legislative proposal called Payment Incentives Program, which is intended to reach families who would be in the sub-prime market, or in some cases who are in the sub-prime market, and enable them to access FHA as home buyers or as refinancers. And in that we are reaching down into the sub-prime market and helping families finance or refinance into FHA with the lower rates that FHA provides, compared to the sub-prime market.

Ms. WATERS. Thank you.

Chairman NEY. Thank you. And I am going to ask also, Mr. Tiberi, Chair to the subcommittee, I have to go to Transportation. We have a markup. If I don't get to that markup, Columbus, Ohio may also lose some money somewhere, and LA, and other parts of the country. So, thank you.

Mr. TIBERI. Commissioner, Ms. Waters mentioned the all-time high of 12-percent default coming in the end of last quarter of 2003. How do you explain the default at 12 percent? And do you have concerns about this bill maybe contributing to what some opponents might say is an even higher default rate?

Mr. WEICHER. Mr. Chairman, the 12-percent figure is actually the mortgage bankers' reported overall delinquency rate; not defaults, but 30-day delinquencies, 60-day delinquencies, and 90-day delinquencies and longer. And defaults start at 90 days' delinquencies, certainly for FHA they do.

Our 90-day delinquency rate, our default rate, if you will, is under 3 percent. The measure we use is our claim rate, foreclosures and claims. And when a lender forecloses on an FHA mortgage, we pay a claim, and the family loses the home. That rate, our claim rate, is running at 1.5 percent. And I might say that the rates peaked, all of those rates peaked in fiscal year 2003, and in the first part of fiscal year 2004. The year to date, all of those rates are down. Our claims are down slightly from where they were in 2003, our defaults are down from where they were in 2003. And this is what we expect.

Claims, foreclosures are a lagging economic indicator. The economy turns up before the claim rate, the FHA claim rate, the foreclosure rate hits its peak, because families try to hang onto their home as long as they can, and they hang on during the downside of the cycle, but some of them are just unable to keep it up in the early stages of the recovery.

So we see, in 2004, a normal pattern of improving defaults, improving foreclosures, improving claims, and we expect that to continue.

Mr. TIBERI. How do the FHA rates compare with the conventional market rates?

Mr. WEICHER. Our rates are higher than the conventional market because we are there to take risks that the conventional market is not able to take. We have, of course, the full faith and credit of the Government of the United States behind FHA. We have it, we exist in order to help people who the conventional market cannot help because the risk is too great. We can do that. And we can do it, and we do it, without losing money.

Mr. TIBERI. On the same subject, is the Department proposing any revisions of the Loss Mitigation Program as part of this effort?

Mr. WEICHER. Mr. Chairman, I am very happy to say that we have sent to you, to the Congress, for the 15-day review period a new proposed rule to establish treble damages for lenders who fail to engage in loss mitigation.

We think this will certainly get the attention of the small number of lenders who, in our experience, are not actively pursuing loss mitigation as much as other lenders are, and we think this will help.

But overall, we track the loss mitigation activities of all of our lenders. We have 25,000 lenders, and we have the data on the loss mitigation that each of those 25,000 is undertaking. And we track both whether they are engaging in loss mitigation and what the outcome is of loss mitigation.

Our outcome on loss mitigation is very successful. Over half of the families who participate in loss mitigation have cured their default, are current on their mortgage within a year after they have gone into default and started loss mitigation. And we have never seen anything as successful as that.

Mr. TIBERI. That is great. The mortgages in this area are understandably a bit more risky than the FHA standard 203 product. How will your Total Scorecard assess the risks with this new program?

Mr. WEICHER. Well, the Total Scorecard takes into account a number of pieces of information about the loan, and about the borrower, and provides a judgment of whether the loan meets our standards automatically or should be referred for manual underwriting. The specific how is complicated, because it is a mathematical algorithm which produces the results.

But we will require it to be used for every family who is participating in this program. And we know, from a lot of research that we did as we were developing the Scorecard, that this does a better job of predicting risk than anything we have seen, anything of ours or anything that we have seen from anyone else.

At the high-risk end of our market, if I can put it this way, we can do a better job of distinguishing who is a good high risk and who is a bad high risk. And we can provide loans to families who we otherwise would not be able to provide it to. We think that will fit with Zero Down very, very nicely.

Mr. TIBERI. Just a quick follow-up, and then I am going to turn it over to Ms. Lee. On that particular subject, what factors do you weigh most heavily?

Mr. WEICHER. We look at the terms of the loan. We look at the borrower's credit history. We look at the borrower's income and obligations against the income. There are half a dozen factors which we look at that fit into the Scorecard.

Mr. TIBERI. Thank you. Ms. Lee.

Ms. LEE. Thank you very much, Mr. Chairman. First let me just say this is, as I said earlier, a very interesting proposal, and I really do applaud HUD for attempting a program to target low- and moderate-income families with the Zero Downpayment incentive, really.

But it does take a risk. Much like the affordable housing programs presented and performed by Fannie May and Freddie Mac take on actually the same target families. So that is why I think that the HUD mission of creating affordable housing is so important, and must stay in HUD.

A couple things I would like to just ask you with regard to the counseling aspect of that. I am not sure, you said earlier that in the bill, or at least in the implementation of the program, you are going to require counseling. But I am not sure that that requirement, as the bill is written, is in that.

And I would just like to ask you, Mr. Weicher, if you are familiar with the language in the bill that backs up what you said with regard to requiring the counseling for this new program.

Mr. WEICHER. Ms. Lee, the counseling requirement is in the Administration's proposal, and we are certainly prepared to work with you all to establish the counseling requirement in the legislation. It is certainly our intention.

We believe, we know that counseling is important to enable borrowers to stay in their home, to buy the right home and stay in the home. And we included that requirement in our proposal. And we included it in our analysis of how the program would work.

Mr. TIBERI. Good, okay. So Mr. Chairman, I would like to work on an amendment to this legislation that would put it, at least write it into the law. Because I think it is very important for you to have those tools, whatever you have, to ensure that you are covered on that front.

Secondly, let me ask you how this whole issue with regard to predatory lending works with regard to this new program.

Now, I understand that you will only allow lenders to participate in an FHA program if the loan is at a certain interest rate. But in a refinance position, how do you prevent an individual, a family, from being, say, targeted by predatory lenders who have received this downpayment assistance under this new effort? Is there any provision that says that we will not allow predatory lenders to participate in this no downpayment assistance program?

Mr. WEICHER. What we have is, we have the requirements that we have built into the program, which we think will discourage predatory lending. I think this relates to your previous question about counseling.

The counseling requirement we believe will help borrowers know a predatory loan when they see one. And we also think that the Scorecard will identify whether a family is qualified for that loan.

Beyond that, what we have been doing consistently is attacking predatory lending practices through FHA rule-making. We and FHA and this Administration have issued literally half a dozen final rules combating predatory lending, preventing flipping, preventing the sale of a property by anyone other than the owner of record, establishing qualifications for appraisers. And you can't really have a really predatory loan in many cases without an appraiser being involved in it. Qualifications for home inspectors.

We think that we are attacking predatory lending across the board. And when we find predatory lenders, we sanction them, and we get them out of our program. I preside over the Mortgagee Review Board in the Department, which is six of the senior policy offi-

cials in the Department. And every two months we meet and discuss cases which our staff have developed about particular lenders who are abusing FHA's programs. And we sanction them, and we throw them out of the program, and we assess civil money penalties. And we certainly intend to do that here.

Ms. LEE. So you think existing law then covers this new program?

Mr. WEICHER. We think it does. And we certainly intend to monitor it very closely, and we intend to monitor our lenders, some of whom are sitting behind me, very closely as this program unfolds.

If I may say, the first time I came to HUD, Ms. Lee, which is literally 31 years ago, I came in the aftermath of a scandal where a homeownership assistance program was being abused by some builders and some lenders. And I was part of the group that cleaned up afterwards. And I am very cognizant of the importance of running this program for the benefit of the people that we are all here to help.

Mr. TIBERI. The gentlelady's time has expired.

Ms. Hart?

Ms. HART. Thank you, Mr. Chairman. You actually began to ask a question that I would like to have a more comprehensive answer to, if we can get it.

Secretary Weicher, you started to talk about the criteria regarding the way an applicant is approved. And in your testimony you mentioned this FHA total technology open to approve lenders that you use as a Scorecard?

Mr. WEICHER. Yes.

Ms. HART. And you say that there are half a dozen criteria, but obviously they are ones that we typically would expect.

Is there anything that is unique to this Scorecard that is different than a normal credit check that would be done for an applicant?

Mr. WEICHER. Well, we look at more than a credit check. We look at credit scores, we look at things like FICO scores. We look at the borrower's position. We look at the reserves that the borrower has. We look at the debt/income ratios and payment/income ratios. We look at the terms of the loan, as well. We are looking both at the borrower and at the purchase, at the loan, and seeing that they fit together.

You could be a borrower with a very good credit score and all the other criteria, and be in a loan which you could not afford. We meld them together in looking at whether this borrower is a good risk in this loan. And we know that it works. There was a lot of research done on this, in this Administration and in the previous Administration, before we put Total in place last year.

Ms. HART. Can you elaborate on the kind of success it has had? Like why has it eliminated more people? Or what has it done to show you that it is successful?

Mr. WEICHER. On the one hand, it has identified some borrowers to whom we should not be making loans that we otherwise would have. And on the other hand, it has identified borrowers who we do make loans to, who we should make loans to, who we would otherwise have not done.

It doesn't cut in one direction or the other. It allows finer distinctions as to degrees of risk, and it works both ways.

Ms. HART. Then would you say that the Zero Downpayment Program is something that would benefit——

Mr. WEICHER. Yes. And that is why we are requiring lenders to use the Total Scorecard in underwriting borrowers for this program.

Ms. HART. Are the lenders that you have discussed this with really excited about seeing something that can actually reduce their risk, as well? Is that what you think?

Mr. WEICHER. Yes. I think you will certainly hear from them, but we have certainly heard from major lending organizations and individual lenders, that they think this is a very good idea.

I announced this on behalf of the Administration at the National Association of Home Builders convention around the time the President's budget was announced. And there was substantial enthusiasm there.

I have spoken at the mortgage bankers' meetings, heard enthusiasm there, as well. And I have stressed that we are going to be monitoring performance under this program carefully, and I haven't heard anybody object.

Ms. HART. Okay, thank you. I yield back.

Mr. TIBERI. Mr. Scott from Georgia.

Mr. SCOTT. Thank you very much, Mr. Chairman.

Mr. Weicher, how significant is the impact of home buyer education to the success of being a homeowner, in your opinion?

Mr. WEICHER. Mr. Scott, let me first say that we appreciate your co-sponsorship of the Zero Downpayment Act.

Mr. SCOTT. Thank you.

Mr. WEICHER. And I want to say we appreciate the bipartisan support that we have had, the 32 Members, I believe, from both sides of the aisle who have supported this legislation.

Answering your question directly, we think counseling is important, and that is why we are requiring it. We know that the families who have counseling in FHA have a better experience than the families who do not. And we know from studies which Freddie Mac has done and which analysts at a number of universities have done, including the Ohio State University, that counseling works. And we stress it.

And as you know, of course, we have increased the funding for counseling in this Administration. We and the Congress, working together, have doubled the funding for counseling in this Administration. And we are asking you all for an additional increase, an increase of $5 million this year, half of which we anticipate will go to supporting counseling in the Zero Downpayment Program.

Mr. SCOTT. This is an extraordinary program. I do believe that we could very well create six million new homeowners by 2010, most of whom I believe could very well be minorities and African-Americans. This is an excellent opportunity to close this gap.

But there is a risk. There is a considerable risk. You have had a program, a gifting procedure, non-profit groups who, through gifts, have been able to provide downpayments. And you did a study, your Inspector General. And it determined that there was

tremendous downward pressure on foreclosures and defaults, and the risks were up.

That could very well be exacerbated and increased when we move to Zero Downpayment, the potential for risk on foreclosure goes up. Counseling is extraordinarily important in this regard.

Last week, before our Committee, we had a bill which my hope is that this Zero Downpayment legislation proves even more so, and your comments a few minutes ago, the need for housing counseling.

However, when the question was put to you concerning getting additional help, if I am not mistaken, and hopefully you might correct that at this point, you left me with the impression that you might not be in favor of this office. You might not be in favor of this help. You might not be in favor of the toll-free number. You might not be in favor of these additional resources that Chairman Ney's housing counseling bill would offer.

I certainly hope that you would take this opportunity to say that that is not so.

Mr. WEICHER. Let me comment on several points that you make there.

We certainly support housing counseling, and I hope I made that clear last week and this week both. We believe that the program we are operating in the Office of Housing is a very successful program. That program represents more than two-thirds of the housing counseling grant programs of the Department. There are only two others, and both are much smaller and are targeted to specific populations for specific purposes.

Our program has a toll-free number which we believe works well. Since the program does work well, we don't see an advantage to a restructuring of the offices that provide, that manage those programs.

That being said, let me say that with you, we very much believe that what we are doing with Zero Down, what we want to do with Zero Down, what you all want to do with Zero Down is a very important way to promote homeownership for all Americans.

We think, as you may know, 40 percent of FHA's first-time home buyers are members of minority groups. And we think with Zero Down that proportion will be higher. I certainly hope you are right that we can reach six million by the end of the decade.

We are on track to meet and exceed the goal that the President announced a year and a half ago of five and a half million additional minority home buyers by the end of the decade. And this is going to be one important way of doing that.

Mr. TIBERI. The gentleman's time has expired.

Mr. SCOTT. May I—just one final point?

Mr. TIBERI. One quick question.

Mr. SCOTT. One quick point is that one of the reasons why this program and this Zero Downpayment Program will work is because of increased emphasis on financial literacy and homeowner counseling.

I think you and I are certainly on the same path. However, if we do not make some alterations, say for instance within the toll-free number, to have, as I said before, a human being on the other end, and to be able to have the website, and be able to have these other

things that are components, I think you will agree that our chances for success of this program goes down.

My point is this. That one of the beauties of this program is the safeguards that are in it. One, limiting the program to potential borrowers who have been screened through the automated underwriting, and the use of credit scores. The increased borrower premium, which we are putting more responsibility on them.

But the most important is that it will require the financial counseling. And if we do not have a two-way street, you can't counsel.

So I do want to take this as another opportunity to allow you to work with us as we move our financial literacy and home counseling bill forward, to have an expanded open mind to understand that the success of the Zero Downpayment Program that you are embracing and I am embracing needs an additional infusion of housing counseling to be successful, that is tailored to this day and time to the very lower income and minority groups that you are trying to reach.

Mr. TIBERI. Mr. Davis.

Mr. DAVIS. Mr. Weicher, let me return to the area of questioning raised by Ms. Lee from California before she left.

She had asked, I think, about why this particular bill doesn't contain anti-predatory provisions, why it doesn't contain specific stipulations or restrictions that would prevent entities that engage in predatory lending practices from participating or benefiting from this program. And I think that your answer was that HUD is already a very vigilant advocate against predatory lending, so it would somehow be redundant to include those provisions in this bill.

Our colleague and Ranking Member, Mr. Frank, is sometimes fond of pointing out that this is not exactly an institution noted for its aversion for redundancy.

Let me give you another crack at answering that question. Do you object to, or would you object to an amendment that included anti-predatory provisions in this bill?

Mr. WEICHER. I think the question would turn on what kind of provisions you all think would be appropriate.

Mr. DAVIS. Give us a little bit of guidance.

Mr. WEICHER. Well, let me say, we have gone after predatory lending, and we continue to go after predatory lending——

Mr. DAVIS. Well, when I say give us some guidance, give us——

Mr. WEICHER. I know. In all of our programs. I don't really see what we would add here in this program that we are not doing across the board in our current programs.

I would need to sit down and talk with you and work with you to see if there are specific changes that would be appropriate for this program beyond it. But because we are vigilant in combating predatory lending, and we work at it hard, we don't make a particular distinction in this program.

Mr. DAVIS. What are the three most significant things that you think HUD is doing right now to combat predatory lending? Don't give me a sermon on it, but just give me one, two, three.

Mr. WEICHER. The anti-flipping rule, which says that we won't insure a mortgage if it has been sold twice in 90 days.

Mr. DAVIS. All right, so anti-flipping is one.

Mr. WEICHER. That is one. We prohibit the sale by anyone other than the owner of record. We will not insure a mortgage if you are selling a home that is owned by Mr. Scott.government

Mr. DAVIS. That is number two.

Mr. WEICHER. Number three is we have established tighter qualifications for appraisers to qualify for the FHA appraiser right. That is three.

Mr. DAVIS. That is number three. Would you object to including those three provisions in this bill?

Mr. WEICHER. I do not think they would be necessary in this bill, but we can talk about that.

Mr. DAVIS. Would they be hurtful?

Mr. WEICHER. They would be putting in statute provisions which are regulatory, and provisions which are easier to improve by regulation than they are by statute. I think we would want to sit down and look at specifics with you.

Mr. DAVIS. Well, one of the reasons we enact statutes around here is because we are trying to codify certain things that right now don't have the force of being law. And I think all of us on this Committee would certainly share your commitment and your attachment to these issues. And just to speak for one Member, I would encourage you to look favorably on an amendment to incorporate the things you described.

And let me come at this in a little bit of a different way. I understand that HUD has touted its success in combating predatory lending. Let me try to go a little bit empirical instead of anecdotal about it.

Over the last three years, can you give me some estimate to the degree to which predatory lending has declined, let us say beginning in 2001 with the beginning of the Bush Administration, to today, 2004, three years into the Administration? Can you give me some kind of an empirical assessment of what the extent of predatory lending would have been in the industry three years ago, and what improvements have been made in the last three years?

Mr. WEICHER. I think we would need to take it, if you will permit me, provision by provision, regulation by regulation.

Predatory flipping was a particular problem in the Baltimore area at the beginning of this Administration. Our work on predatory lending, specific work with folks in Baltimore, and our new regulation have cut flipping down in Baltimore very sharply. I would have to give you the numbers for the record, but have cut it down very sharply.

Mr. DAVIS. Well, let me ask this question to save time, because the clock is running on us.

Mr. WEICHER. Sure.

Mr. DAVIS. Can you get for this Committee in writing a statistical analysis, nationwide, the degree to which predatory lending has lessened, and how the Administration's programs have helped reduce predatory lending in the last three years? Is that data that you think can be obtained and provided to us?

Mr. WEICHER. We can give you some data, Mr. Davis. We will give you what we can.

Mr. DAVIS. And if I can just sum up this way, Mr. Weicher. The frustration I think some of us have on this side of the aisle is we

understand the Administration's commitment, and we understand the statement that progress has been made, but I think some of us want to see what that means when you say that progress has been made. Because if we are going to take the position that we don't need additional statutory protections because the regulations are working, I would like to see what working means. I would like to see what empirically that means.

I think other people on this side of the aisle would probably share that.

Thank you, Mr. Tiberi.

Mr. TIBERI. Thank you, Mr. Davis. Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman, for this hearing, and I thank Mr. Weicher for being here.

Mr. Weicher, sometimes in our homeownership initiative we find that first-time home buyers have accumulated some savings. Under this bill, could this savings be applied to keep some of the costs down for first-time home buyers? Instead of them getting negative equity, couldn't they get positive equity under this bill?

Mr. WEICHER. Yes, Mr. Clay. If you have some savings to begin with, then you can certainly apply those savings to the downpayment and the closing costs. And if you have enough, you can certainly move into our regular program, and the insurance premium will be lower.

If you are talking in terms of having some assets, some savings, but you don't apply them to the downpayment, then we do take into account, in the total Scorecard, the resources that the family has, the reserves that the family has which can be used for housing or other purposes down the road.

Mr. CLAY. Which may push them into a better program, as far as——

Mr. WEICHER. Right, sure.

Mr. CLAY.—interest rates and what-have-you, and insurance premiums.

Well, perhaps we should build a sliding scale into this bill. What do you think about that?

Mr. WEICHER. Well, I think that we would prefer to see the Zero Downpayment Program enacted. That would enable families to participate with something more than zero down if they chose to.

I think it would start to get very complicated to start modifying the premium structure, to make that kind of fine gradation on the premium structure, and still make sure of what the consequences are for FHA and for the home buyer.

Mr. CLAY. Well, you know, I guess I am thinking a little pessimistically. What if somebody qualifies under this program, and then within the first six months they lose their job and have to sell their home? They may end up owing money. And I guess I am kind of trying to preclude all of that from happening, and to at least leave somebody with something. I guess that is the way I am looking at it and approaching it.

Mr. WEICHER. Well, that is a reasonable concern. And we certainly try, in all of our programs, as do other lenders, to make sure that the people who are borrowing money from us are good risks to make the payments and maintain the home.

And we all also know that some of the people to whom we loan money or whose mortgage we insure will not make it. And we have thought long and hard about that in developing this proposal. And we do take into account the buyer's overall financial resources in this program, and in any of our programs, as we consider whether or not they should qualify for it. And we expect the counselors will be looking at that, as well.

Mr. CLAY. Thank you for that. Do you support a national affordable housing trust fund to put more affordable housing online?

Mr. WEICHER. Mr. Clay, the proposals that I have seen would use the reserves of the FHA MMI fund to support a national housing trust. And those are the reserves we have to pay the claims and to cover the losses that we have on those families that do default on their mortgages, and that do lose their homes.

And those resources, we have a statutory mandate to have an adequate capital reserve in the program. We are in excess of that mandate as established by the Grant and Gonzalez National Affordable Housing Act in 1990.

But I don't see the social benefit of taking money that is intended to serve moderate-income, lower-income, middle-income first-time home buyers, and using it for low-income and moderate-income renters.

And I might say also that the FHA reserves, if spent for any purpose, including a national housing trust fund, do score as federal outlays. That sometimes gets lost in some of the discussions I have heard about the national housing trust.

Mr. CLAY. Although the cap is at a surplus, you don't necessarily favor using that.

Mr. WEICHER. No, I do not. The last time I was at HUD in the Administration of the first President Bush with Secretary Kemp, we had to put the FHA MMI program on an actuarially-sound basis, because the fund was very close to being insolvent, and was not run, in the opinion of the outside auditors, on a sound basis.

We, working with the Members of Congress at that time, working with such folks at Senator Sarbanes, who is still here, and Mr. Frank, we put a lot of effort into working out a balance between continuing to serve the people that we were all trying to serve, and making sure that the taxpayers were not put at risk. And I would like not to run that risk.

Mr. CLAY. Thank you for your answer. Thank you, Mr. Chairman.

Mr. TIBERI. Thank you. Mr. Secretary, thank you for spending an hour and 15 minutes with us today. I look forward to working with you and officials at HUD on this proposal, and hopefully we can get something done for folks who would like to get into a house and can't at this point in time.

Mr. WEICHER. Thank you, Mr. Tiberi. Thank you and Mr. Scott for your introducing and supporting this legislation.

Mr. TIBERI. Thank you. I will ask now that the second panel be seated. In the interim, I am going to submit for the record a letter from the National Association of Realtors, without objection.

[The following information can be found on page 141 in the appendix.]

Mr. TIBERI. Okay, thank you all. I am going to have a couple folks introduce a couple individuals. And I am going to start by introducing Ms. Carson from Indiana, who is in the middle of a markup, and I will allow her to introduce her guest.

Ms. CARSON. Thank you very much, Mr. Chairman. And thank you very much to the esteemed panelists for being here today.

Unfortunately, I am not going to be able to hear all of your testimony, because I am in a markup in Transportation. But I assure you that I will refer to the record in terms of your invaluable input that you will leave for the edification of this Committee.

During the interim, I want to welcome my constituent here, Mr. Michael Petrie, who is President of the PR Mortgage and Investment Corporation of Indianapolis, and he is also Chairman of the Greensfort Township State Bank in Spartasburg, Indiana. And he is also Chairman-elect of the Mortgage Bankers' Association. Welcome.

Mr. Petrie began his mortgage banking career in 1980 at Merchant's Mortgage Corporation, as a commercial loan originator, and rose to the position of Executive Vice President in charge of the Commercial Real Estate Division. Petrie co-founded P/RMIC in August of 1990, which specializes in multi-family and health care financing through programs provided by FHA, DNMA, RHS, and Freddie Mac.

Mr. Petrie currently serves as a member of the MBA Board of Directors, the Commercial Real Estate Multi-Family Finance Board of Governors, where he serves as Chairman of the Residential Board of Governors Resbag.

He has previously chaired the MBA Board of Directors Technology steering, legislation, and MARPAC committees. He is currently a member of all these other wonderful things that I won't belabor at this particular time.

Mr. Petrie received his Bachelor's in business administration, with a concentration in finance, and his MBA from our prestigious Indiana University. And it is certainly a joy to have you here, Mr. Petrie. Thank you so much for coming, as well as the rest of you, also, individuals. Thank you.

Mr. TIBERI. Thank you, Ms. Carson. I am going to ask Mr. Scott to introduce a constituent of his from Georgia.

Mr. SCOTT. I certainly will. Thank you very much, Mr. Chairman.

We are delighted to have with us Pastor Warren L. Henry, Sr. He is the senior Pastor of the Kingdom of God Evangelistic Church Ministry, which is located in my district in Georgia, in College Park, Georgia.

Pastor Henry also serves as the Vice Chairman of the Housing Authority of Fulton County, which is located in the Atlanta metropolitan area.

Pastor Henry is also a chaplain for the Fulton County Sheriff's Department, performs invocation activities for the Fulton County Board of Commissioners.

Pastor Henry is also very active in the community as a social activist. He chairs the faith-based organization that has been connected with the Housing Authority of Fulton County's Red Oak Renaissance Hope Six Project. He has also been active in commu-

nity activities connected with the redevelopment of Red Oak, Roosevelt Highway, Ben Hill Road, and Washington Road, outstanding communities in my district located in South Fulton County.

He also has several ministries which his church has focused on, in housing, child care, community and economic development activities.

We are delighted to have this distinguished Pastor and leader of our community, Reverend Warren L. Henry. We look forward to your testimony.

Mr. TIBERI. Thank you. I will speak loudly. Can everyone hear okay?

Sheila Crowley is the President and CEO of the National Low Income Housing Coalition. Warren L. Henry, Sr., Vice-Chair of the Housing Authority of Fulton County in Atlanta Georgia. Thomas J. Finnegan, III, President of the Huntington Mortgage Group in Columbus, Ohio. Michael F. Petrie, President, P/R Mortgage and Investment Corporation, on behalf of the Mortgage Bankers Association and James R. Rayburn, President of the National Association of Home Builders.

STATEMENT OF SHEILA CROWLEY, MSW, PH.D., PRESIDENT, NATIONAL LOW INCOME HOUSING COALITION

Ms. CROWLEY. Thank you, Mr. Tiberi. And I appreciate the invitation to testify today.

This hearing on H.R. 3755, the Zero Downpayment Act of 2004, provides a good opportunity to begin a discussion about the core assumptions surrounding the Bush and Clinton Administrations' policy of expanding homeownership in the United States.

Homeownership is highly valued in our culture, and expanding access to homeownership for members of racial minorities who have historically been excluded from doing so is fair and just.

The policy seems to be working. The rate of homeownership in the United States is higher than it has ever been, and the resources that the federal government expends to underwrite homeownership are immense. And they range from the combined value of the mortgage interest tax deduction, the real estate tax deduction, and reduced taxes on capital gains, which equalled $109.3 billion in 2003. All the way to the fact that we even use Section 8 vouchers for homeownership now. And last year Congress created the American Dream Downpayment Program.

An FHA zero downpayment mortgage insurance product would add one more tool to the considerable two blocks that Congress has filled over the years to build homeownership.

The main question seems to be whether or not potential homeowners should be able to obtain mortgages without putting any money down. Conventional wisdom is that they should not. A downpayment has traditionally been used to signal a borrower's commitment to the loan and ability to save enough funds in reserve to make payments on the loan, even if income is reduced.

The lack of a downpayment has traditionally been used to prevent borrowers from obtaining a home mortgage, and therefore limiting access to homeownership only to people who already have developed a nest egg or who have family members who will give them

a loan or give them the money. Many of us bought our first homes that way.

Breaking down this barrier to homeownership is the objective of most homeowner assistance programs today, and I think there is no functional difference between a zero downpayment loan and a loan made possible because of a downpayment assistance grant to the borrower.

The more important question is whether or not homeownership is the best form of housing tenure for all the families who are targeted by these programs. The idealization of homeownership with promises of wealth accumulation can push people into taking out mortgages before they are ready or they are able.

The financial and emotional damage to a family from failure at homeownership is catastrophic. All the counseling—and counseling is extremely important—but all the counseling in the world doesn't manufacture income where it doesn't exist. Anyone whose income is anything short of reasonably permanent should be counseled to approach homeownership with caution, not enticed into taking a risk.

There are 55 million low-income people in the United States today who live in homes they cannot afford, and almost half, 48 percent of them, live in homes that are owned by the families that live there.

The problem with this legislation is not what it does, but how far off the mark it is in addressing the most serious housing problem; that is, the shortage of rental housing stock that is affordable and available to the lowest-income families. And while the federal government is directing hundreds of billions of dollars into homeownership, the lack of basic rental housing causes millions of Americans to live precariously close to the edge of homelessness.

Twenty-nine million low-income people in the United States live in rental housing they can't afford. Ten million of them live in renter households that have incomes at 30 percent of the area median income or less; that is about $19,000 a year in Columbus. And they pay more than half of their household income for their housing.

Moreover, during the nineties, when we had the most expansive economy imaginable, analysis of rental housing cost changes in the last decade show slight improvements for all income groups but the very lowest. The shortage of rental housing units affordable for families with incomes of 30 percent of the area median income or less actually grew by 15 percent in the last decade.

In 2000, for every 100 renter households in the United States with incomes less than 30 percent of the area median, there were only 43 affordable and available rental housing units. In Ohio the number is 53 affordable and available rental housing units for every 100. In California it is 22.

What does it matter that low-income renters can't afford basic housing? Besides the obvious negative social consequences for the families, it is the renters who become homeowners. And renters who are unable to find and maintain stable rental housing that they can afford will never be in a position to become homeowners. If for no other reason than to expand the pool of potential home-

owners, it is good public policy to invest in rental housing that the lowest-income families can afford.

Once again, I urge this Committee to take up H.R. 1102, the National Affordable Housing Trust Fund Act, which will create capital grants to go to states and localities to distribute, through competition, to capable developers to build and operate affordable housing for extremely low-income renters.

This is the missing tool in the affordable housing toolbox today.

The premise of H.R. 3755 and all other federal housing programs is that the affordable housing problem in the United States will not be solved by the market and economic growth alone, and public intervention is required. H.R. 3755 is simply not enough.

Thank you.

[The prepared statement of Sheila Crowley can be found on page 73 in the appendix.]

Mr. TIBERI. Thank you, Ms. Crowley. Pastor Henry.

STATEMENT OF PASTOR WARREN L. HENRY, VICE-CHAIRMAN, HOUSING AUTHORITY OF FULTON COUNTY, ATLANTA, GEORGIA

Mr. HENRY. Good morning, and thank you, Mr. Chairman and Ranking Members for holding this hearing and inviting me to speak on behalf of our Fulton County Housing Authority, based in Atlanta, Georgia, on H.R. 3755, the Zero Downpayment Act of 2004, introduced by Representative Patrick Tiberi, and co-sponsored by our esteemed Georgia Congressman David Scott.

I do feel that our housing authority is uniquely qualified to speak on this piece of legislation. Our housing authority was one of the first public housing authorities in the state of Georgia to utilize the Section 8 Housing Homeownership Voucher Program to give our residents the opportunity to move from dependency to self-sufficiency through homeownership.

However, the hurdle of bringing together the downpayment required to access this opportunity has often been challenging.

Fulton County has been at the forefront of trying to find creative ways to address this issue. FHA programs have been used by our housing authority residents to gain access to homeownership opportunities. In fact, we believe the FHA programs are one of the best and cost-effective approaches to expanding lending opportunities to low- and moderate-income families, first-time home buyers, and minorities.

In 2002 more than one-third of the FHA origination loans in recent years were made to minority householders, compared to just 18 percent of conventional loans.

Additionally, more than half of FHA loans approved in 2002 went to households earning less than $50,000, compared with 27 percent of conventional loans in that same span of time.

H.R. 3755 provisions which would allow for FHA to provide approved zero downpayment mortgages for first-time home buyers would allow FHA to maximize its fullest potential in assessing historically undeserved minority and economically-challenged communities. This would be achieved by using this new financing tool to help create and promote sustainable communities.

Additionally, the obvious financial and social benefits with homeownership are self-evident. Homeowners can build the equity and potential capital liquidity that is the essence of full inclusion within our economic and social system.

Obviously the acquisition of a home is an important responsibility that must be engaged with reverence and commitment. As such, we believe it is extremely important that anyone seeking to access FHA funding through this initiative should have the opportunity to seek housing counseling, where appropriate.

Additionally, potential beneficiaries of this program should have the ability to access FHA, HUD, or other counseling programs, services, before during and through the loan approval process.

H.R. 3755 is also important because it allows FHA to operate with the same efficiencies, objectives, and resources that will allow it to maximize its fundamental mission: providing housing resources to all Americans.

Additionally, programs such as the Zero Downpayment Act of 2004 have the ability to be revenue-generating. This is achieved through the eventual Federal Mortgage Insurance Premium revenues, that will be charged to the home buyers and/or property owners, that go directly to the Federal Treasury.

As a member of the faith-based community and as a member of the Housing Authority of Fulton County Board of Commissioners, I know first-hand the transforming impact homeownership can bring to both individuals and to a community.

Fulton County is blessed to have a number of areas where homeownership opportunities are expanding. However, in order for our county to truly fulfill its promises, as indicated in the HUD comprehensive planning document, which makes affordable housing the number-two priority of the county government, we will need to have the tools available to maximize the opportunity to expand housing options and choices for our residents.

We believe, we truly believe the provisions contained in H.R. 3755 have the potential to take us a long way in achieving this goal, by allowing FHA to broaden its lending powers to more individuals desirous of homeownership.

Consequently, we believe H.R. 3755 is a bill that takes FHA in the right direction. FHA has done a great deal of good work, but its principle mission to expand homeownership opportunities for all Americans has yet to be fulfilled.

We believe the goals and objectives contained in H.R. 3755 is an important step in this process, and would like for the Committee to give due consideration to this important legislation.

On behalf of the Board of Commissioners of the Housing Authority of Fulton County and its Executive Director, Ms. Betty A. Davis, thank you again for the opportunity to testify today. We look forward to working with you to expand the opportunities of homeownership to as many deserving Americans as possible.

Thank you again for this opportunity to speak with you this morning.

[The prepared statement of Warren L. Henry Sr. can be found on page 98 in the appendix.]

Mr. TIBERI. Thank you, Reverend Henry. I would like to introduce again my constituent, who used to be a Pennsylvanian, and their loss is our gain. Mr. Finnegan.

STATEMENT OF THOMAS J. FINNEGAN, III, PRESIDENT, HUNTINGTON MORTGAGE GROUP

Mr. FINNEGAN. Thank you very much, Mr. Chairman. And thanks to Chairman Ney and Ranking Member Waters, and the other members of the subcommittee, to give me the opportunity to testify here this morning in strong support of H.R. 3755, the Zero Downpayment Act of 2004.

And as you just mentioned, I am Tom Finnegan, President of Huntington's Mortgage Group. Huntington Bank is a subsidiary of Huntington Bank Shares, Inc., which is a $30 billion regional bank holding company in Columbus. And through our affiliated companies, we have more than 138 years' experience serving the financial needs of customers.

We provide innovative retail and commercial financial products and services through more than 300 regional banking offices in Indiana, Kentucky, Michigan, Ohio, and West Virginia.

I have been with Huntington for approximately eight years, and have over 25 years of experience in the mortgage industry and in working with FHA-insured loans.

In 2003 my company funded $6.1 billion in mortgage loans, including $425 million in FHA-insured loans. And we currently service approximately $600 million in FHA-insured loans.

And while of course the mortgage industry has experienced an exceptional upturn over the last few years, there are still many Americans who have not yet achieved the dream of homeownership. H.R. 3755 will significantly enhance the housing market by allowing lenders, such as ourselves, to extend mortgages to hard-working Americans with good credit who simply cannot afford the lump-sum downpayment traditionally required with FHA loans.

At our company, our mortgage specialists, who are the folks who are responsible for counseling home buyers each day about their financing options, they report that saving for a downpayment is the single most common roadblock for first-time home buyers. And we find that many of these potential customers easily qualify for a mortgage payment that equals what they are currently paying in rent. These first-time home buyers have long rental histories, have made their payments on time, have solid income sources, and they do have the desire to purchase now. But they don't have the additional money saved for a downpayment.

For example, if a potential buyer were purchasing a $190,000 home in Columbus, Ohio, the buyer's downpayment for an FHA loan in today's program would be 3 percent of the purchase price, or $5,700. In the event that this family was able to put aside $100 a month, it would take over five and a half years for them to save the downpayment and achieve their goal. The Zero Downpayment Act would allow this family to move into a home today. And lenders such as ourselves would embrace the program because the FHA would back the Zero Down Program, and borrowers would pay a slightly higher insurance premium to cover that exposure.

And as an example for conventional 3-percent-down products backed by the FHA, Huntington charges, of course, the initial premium of 1.5 percent of the loan amount, or $2,850 on the $190,000 home in my example. The Zero Down loans would require a premium at 2.25 percent, or $4,275 on that same home, a difference of just $1,425. The premium, of course, would be added to the principle of the loan, and would be included then in the mortgage financing.

Zero Down borrowers would see an increase from half of 1 percent to three-quarters of 1 percent in their annual insurance premiums for the first five years of the loan. For our family purchasing the $190,000 home, this increase in monthly payment is under $100 a month.

The option to pay higher insurance premiums instead of paying a large lump-sum downpayment will allow families to avoid losing the benefit, the time value of investing today, and begin immediately to build wealth and equity in their home.

In addition, when families are not forced to spend their savings balances down to zero, they have the resources to cover unexpected emergencies and other expenses that are typically associated with homeownership.

H.R. 3755 contains a number of safeguards to protect both borrowers and the housing market. As a lender, managing our credit portfolios and mitigating risk determines the success of our business, and our support and confidence in the Zero Downpayment Act is based on two important factors.

First, the families that will be served by this program will still have to qualify for the financing, and meet at least the same credit standards as all Huntington FHA program borrowers would need to meet.

In addition to meeting Huntington's and FHA's underwriting requirements, the borrower must be able to easily afford the monthly mortgage payment. Certainly underwriting of the Zero Down loans either manually or through the FHA's Total Scorecard, should focus on the borrower's capacity to make the monthly payment, as well as their credit history and their cash reserve position.

As I mentioned previously, by substantially lowering the up-front cash required for the downpayment by the borrower, the program enhances the individual's ability to conserve cash for future needs.

Second, the Zero Downpayment Act will build upon the track record and success of current FHA programs in expanding the dream of homeownership to low- and moderate-income families, which is a goal of ours, of course, at Huntington.

As a lender that partners actively with the FHA, we have the confidence in FHA's ability to create a program structure that will protect and educate consumers, maintain a healthy lending environment, and grow the housing market.

The built-in safeguards afforded by H.R. 3755 are preferable, in our opinion, to current market solutions to the downpayment roadblock. Like many mortgage loans, the current FHA program allows for gift funds to cover the required 3-percent downpayment. Many non-profits have recognized this need for downpayment assistance, and provide these gifts in partnership with home builders and home sellers.

And we believe that the more direct approach offered by H.R. 3755 is preferable. It eliminates the need for additional involvement of third parties. It eliminates extra paperwork, and allows for the direct negotiation of a sales price with a home seller, without regard to the financing method being chosen.

In closing, I reiterate Huntington's strong support for H.R. 3755. And we certainly thank Chairman Ney and you, Congressman Tiberi, for your leadership on this important legislation. By acting quickly, Congress can provide stimulus to the housing market, and help working families, particularly those in the low- and moderate-income communities, to achieve the American dream of homeownership.

So again, thank you for providing Huntington the opportunity to testify today, and I welcome any questions.

[The prepared statement of Thomas J. Finnegan III can be found on page 92 in the appendix.]

Mr. TIBERI. Thank you. Mr. Petrie.

STATEMENT OF MICHAEL F. PETRIE, PRESIDENT, P/R MORTGAGE AND INVESTMENT CORPORATION

Mr. PETRIE. Good morning, Mr. Chairman, Chairman Ney, Ranking Member Waters, and Members of the Committee.

Thank you for inviting the Mortgage Bankers Association to share its views on H.R. 3755, the Zero Downpayment Act of 2004. The Mortgage Bankers Association represents over 2700 members, with over 400,000 employees. Our members represent 70 percent of the residential mortgage market.

As you know, the U.S. currently enjoys an all-time-high homeownership rate, 68.6 percent. However, MBA would like to draw attention to the 31.4 percent of households that do not own their own homes. The challenge that keep these families from reaping the benefits of homeownership include insufficient income poor credit, lack of information, and the problem we are addressing here today, the lack of an ability to provide the downpayment.

The gaps in homeownership rates of minority households need to be addressed. In the fourth quarter of 2003, while 75.5 percent of non-Hispanic white households owned their own homes, only 49.4 percent of black households and 47.7 percent of Hispanic or Latino households owned their own homes.

MBA believes these minority homeownership gaps are a problem, and has provided every Member of the Committee with the exact size of the problem in his or her district.

The downpayment hurdle disproportionately affects minority and low- and moderate-income families who may be able to make monthly housing payments, but find it difficult to save for the downpayment. MBA believes that in order to expand homeownership opportunities, we must overcome the downpayment challenge.

We believe the FHA Zero Downpayment Loan Program can help address this specific challenge. In the past the amount of downpayment was considered an indicator of credit risk; that is, the willingness and ability of a borrower to make monthly payments on a mortgage.

But lenders have learned over time that a borrower's credit profile is a much better indicator of the performance of a loan than is the amount of a downpayment.

The national credit information system, preserved under the Fair and Accurate Credit Transactions Act of 2003, allows lenders to efficiently assess a borrower's credit information, and effectively evaluate risk. Automated underwriting systems have allowed lenders to accurately gauge multiple risk factors with less reliance on benchmarks like downpayments.

MBA understands that FHA Zero Downpayment loans will be required to be underwritten through FHA's automated underwriting system, the Total Mortgage Scorecard, which specifically takes into account a borrower's credit score and cash reserves, among other criteria.

MBA believes that using the Total Mortgage Scorecard will allow FHA to ensure a sound program.

FHA has been an innovator in the mortgage market. By reducing the downpayment from 20 percent to 3 percent today, as it will insure mortgages up to 97 percent of the value of a property. MBA supports H.R. 3755 as an important, innovative next step for FHA to reduce the downpayment challenge. It will serve those families who, but for a wealth constraint, would otherwise make good borrowers, and will serve these families without cost to the taxpayers.

It is important to note the benefits of FHA's Zero Downpayment Program will be realized without any cost to the taxpayers.

Even with the higher default rates FHA is currently experiencing due to the recent recession, MBA believes that FHA currently has ample resources to cover these expenses. And the proposed higher mortgage insurance premium has been calibrated to cover any costs associated with the program.

The fact is, with H.R. 3755, FHA could reach additional minority and low- or moderate-income families than it does today, and do so in a financially responsible manner.

MBA applauds Congressman Tiberi for introducing this bill and demonstrating his commitment to closing the homeownership gap.

Once again, thank you for allowing MBA to testify today. We would be happy to furnish any additional needed information to the Committee as it considers this bill.

Thank you.

[The prepared statement of Michael F. Petrie can be found on page 102 in the appendix.]

Mr. TIBERI. I am impressed, right under the five minutes. That is very good.

Mr. Rayburn.

STATEMENT OF JAMES R. RAYBURN, PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. RAYBURN. Mr. Chairman, Ranking Member Waters, Members of the Committee. On behalf of the more than 215,000 members of the National Association of Home Builders, thank you for the opportunity to testify before you today.

My name is Bobby Rayburn, and I am the President of NAHB. I am a home builder and developer of affordable single-family and multi-family housing from Jackson, Mississippi.

Let me begin by saying that NAHB supports H.R. 3755, introduced by Representatives Pat Tiberi and David Scott. This legislation continues a long tradition of innovation at FHA by addressing a primary obstacle preventing many minority and low- and moderate-income families from becoming homeowners. They simply do not have the money for a downpayment.

H.U.D. estimates that 150,000 families would be able to achieve homeownership if this proposal is enacted. Furthermore, it enables FHA to do so in a prudent manner, without negatively impacting the Mutual Mortgage Insurance Fund.

According to a Census Bureau study, one of the top reasons why families and individuals could not afford to purchase a home was the inability to come up with the up-front cash needed for closing. Recent data from the Federal Reserve indicate 87 percent of all renters have less than $50,000 in wealth available for making a downpayment. For minority renters, that figure rises to 94 percent. With so little wealth and absent some downpayment assistance, it is difficult for large numbers of renters, especially minority renters, to become homeowners.

Also, many of these families are not served by conventional mortgage products. Currently, the chief way to address downpayment barriers for FHA borrowers is through downpayment assistance programs facilitated by non-profit third parties. While these programs have contributed positively to homeownership expansion efforts, more options are needed. H.R. 3755 addresses the downpayment hurdle, while allowing FHA to establish mortgage insurance premiums, underwriting and counseling requirements targeted to this financing program.

Since a significant portion of the population is not served by existing downpayment assistance options, NAHB believes a zero downpayment program will meet these needs, and fits well into the mission of FHA.

I would like to take a moment to expand on why NAHB further believes that this program can be carried out in a safe and sound manner, without harm to FHA.

First, the ability to differentiate between high and low credit risk borrowers has been enhanced through technological improvements in automated underwriting. This allows better evaluation of borrowers before bringing them into the program.

Second, the risk to FHA has been mitigated through risk-based pricing, such as proposed by HUD, in the form of higher up-front and annual mortgage insurance premiums. HUD estimates that this approach results in no net cost to FHA, and increases the monthly payment on a $100,000 mortgage by only $50.

Finally, housing counseling can lower the risk to FHA by ensuring that prospective first-time home buyers understand the responsibilities of actually being a homeowner. The value of these programs is well documented. However, NAHB believes that HUD's approach to counseling could be more effective.

The building industry supports the methodology to centralize and streamline and enhance housing counseling services at HUD, taken under H.R. 3938, Expanding Housing Opportunities Through Education and Counseling Act, introduced by Chairman Ney. This pro-

posal provides tools to open doors to homeownership, while putting forth the resources to help keep home buyers in their homes.

In an effort to expand homeownership opportunities even further, NAHB suggests that H.R. 3755 be amended to include condominiums and cooperatives as eligible options. In many communities these homeownership alternatives are more within the reach of low- and moderate-income families than single-family detached homes, and can provide the same wealth-building and community development benefits.

Mr. Chairman, thank you again for the opportunity to share our views on the Zero Downpayment Act of 2004. The members of NAHB daily work with families who want to achieve the American dream and own their own first home. As NAHB's President, I have made housing America's working families a priority, and I believe that H.R. 3755 will expand the number of those who can share in the dream of homeownership, and help address our nation's work force housing problem.

We look forward to working with this Committee, the Congress and the Administration on expanding homeownership opportunities.

Thank you.

[The prepared statement of James R. Rayburn can be found on page 116 in the appendix.]

Mr. TIBERI. Thank you, sir. I want to thank all of you for your testimony today, and again reiterate what Chairman Ney said at the outset of the hearing. Unfortunately, we are competing with a number of Committees that have votes today, and that is why only Mr. Scott and I are left. But we will try to make up for the lack in numbers here with you today.

But thank you, your testimony was very, very good.

Mr. Finnegan, I will begin with you. You and I had an opportunity to be at an event together with Chairman Ney in Columbus, and also the President of the Columbus Urban League, who stated that they have a housing expo every year, minority homeownership expo. And they have found consistently, on a yearly basis, that the number one roadblock to homeownership is coming up with the downpayment. And you stated so as well in your written testimony.

Also in your written testimony, on page three, you stated that families served by this program, meaning the Zero Downpayment Proposal, will still have to qualify for the financing and meet at least the same credit standards as all Huntington FHA program borrowers.

Could you kind of explain to us the underwriting process that lenders like Huntington go through? And the differences between an FHA mortgage-backed insurance product and a conventional one?

Mr. FINNEGAN. Well, the FHA underwriting process has historically been a manual process, going back in time, where the underwriter would take into consideration the traditional elements of risk, including a capacity to pay. There are, of course, FHA underwriting guidelines that are promulgated that underwriters of these products have to follow.

And the capacity of the person to pay, the reserve position that they do have, and their unique circumstances in terms of their em-

ployment, stability of employment, and so on are factored into the underwriting process by the FHA-delegated or direct endorsement underwriter.

And it differs from the conventional underwriting process to the extent that the FHA program is, in fact, a program that has set out to enable people to reach deeper into the population in terms of the ability to own a home, and that is factored into the underwriting process in terms of the credit background and so on, compared to conventional underwriting guidelines.

The new FHA Total Scorecard will now automate that process to a degree. And as has been mentioned a number of times today, including in my testimony, Mr. Chairman, the FHA Total Scorecard will be a great assist to our FHA underwriters in making the determination about creditworthiness of the borrowers. So that in this program, where the downpayment is being eliminated as part of the process, the Scorecard will help us to look at the other factors more carefully, so that risk is mitigated, despite the fact that it is a zero down program.

Mr. TIBERI. Are there any products in the private sector or in the general market that can meet some of the demand for zero downpayment, in your opinion?

Mr. FINNEGAN. Mr. Chairman, there are some products like that out there. Certainly market forces have been at work. And including the FHA program itself has been mentioned there are gift programs that are available, where somebody can supply a gift to the homeowner, and that can be used in lieu of the downpayment.

During that process, though, other factors are at work. That money has to be funded from someplace, and typically there is a housing price adjustment that may be necessary in those programs in order to allow the funds to be available for the non-profit or the gift giver to make the gift.

And again, we feel that the direct approach offered by H.R. 3755 is preferable, because it eliminates the additional effort associated with trying to negotiate into the sales price of a home the fact that there is going to be a gift required. And in the bill, the seller of the property will just be allowed to do that direct approach.

There are also conventional programs, zero down. Huntington, in its efforts to serve low- and moderate-income communities, does have programs that are at or near zero down that we do in targeted low- and moderate-income census tracts for the benefit of low- and moderate-income buyers in those communities as a way for us to reach deeper into those communities. And we are perfectly willing to do that in the appropriate circumstances.

But again, an additional tool in the form of the FHA program is most welcome by us as a way to expand our resources to reach into those communities.

Mr. TIBERI. Thank you. I just want to take a few extra minutes. Mr. Rayburn, if you could answer this question quickly.

You mentioned in your testimony about adding condos and cooperatives. Chairman Ney earlier today mentioned that, as well. How about two-families, doubles, tri-families, four-families, in terms of getting some folks to help you, renters helping you meet the mortgage payment? Is that something that you think we should look at, as well?

Mr. RAYBURN. While those are always attractive, it just brings on additional management skills and the like. But we would certainly welcome that as an alternative, yes, sir.

Mr. TIBERI. And one final question. On Monday your organization was at a forum to discuss housing affordability, and there was a considerable amount of discussion regarding local zoning and government regulation and what that does to increased housing costs. As a former realtor, I certainly saw how local government and state government can sometimes add to the cost of affordable housing.

Is there anything that Congress can do? What are your thoughts?

Mr. RAYBURN. Well, we would certainly welcome that opportunity, I can assure you, Mr. Chairman. Because local units of government, in some cases state governments, add a lot of dollars to all housing, let alone the entry-level and affordable housing, both on the ownership side, as well as rental.

Now, when it comes to impact fees, large-lot zoning and the like, we would certainly be glad to have our staff sit down with you and come up with better ways that the Congress could address that. We would be glad to do so.

Mr. TIBERI. And you would agree that sometimes some of those regulations would add a barrier to downpayments?

Mr. RAYBURN. Most often.

Mr. TIBERI. Thank you. I appreciate that.

Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

Let me ask Pastor Henry. I certainly appreciate your statement and coming up, we are delighted to have you.

There are some who are concerned that this no downpayment program will have an unintended effect of enticing people into homeownership who are simply not ready for this awesome responsibility, and feel that it will result in foreclosures, and could very well put the FHA insurance fund at risk.

What is your response to that? And how could that be prevented?

Mr. HENRY. Congressman Scott, there are thousands of citizens that have a desire to become homeowners, that if we just looked at those numbers, we would never be able to entertain those who may cause that kind of problem.

But be that as it may, such as the Housing Authority of Fulton County, we have provided what we think is one of the best-recognized housing programs, due to the fact that we provide counseling. We provide excellent housing counseling that will take our residents from their present state of being, with their problems with credit, their debt problems, and begin to work them through a process to eliminate and remove those creative challenges that they have, allowing them to save their money and understand the responsibilities of becoming a homeowner.

Since 2002 we have successfully put a number of residents into homes. And even at this present time, they have no problem paying their mortgage, because we constantly stay with them.

I think that housing counseling for individuals who have the American dream to own a home, that that provision should be provided. And this bill certainly will do that.

But I think the housing counseling, as you reiterated and stressed, is a key. And I think again that our housing authority is

an example of the success, that it does work when you first give individuals the sense of having dignity, to own a home, and working with them, helping them to believe that they can become that homeowner.

Mr. SCOTT. Thank you very much.

Mr. Rayburn, you had mentioned—and incidentally, we appreciate the plug you put in for the Ney/Scott Housing Counseling Bill.

Mr. RAYBURN. Thank you, sir.

Mr. SCOTT. We are eagerly moving ahead for that very strongly.

The safeguards that we have built in here to try to make sure that these foreclosures and the risks that we are taking is limited, out of the four of them, three are basically policy items to do: the credit scores, the automatic underwriting, the increasing of the borrower's premiums, and limiting eligibility to first term.

But the other safeguard is the housing counseling and the financial literacy. And you pointedly made reference to the Ney/Scott bill. How essential do you feel it is that, as we move forward with this additional venture, especially when we are dealing with persons that have not had a home before, one of the requirements is that this be a first homeowner, how important do you feel the Ney/Scott bill would be as an adjunct to this?

Mr. RAYBURN. Congressman, I believe it is very important. As I testified, it is so essential that we help train those families and educate those families in the responsibilities and opportunities of homeownership.

As I stated earlier in the very first of my testimony, I am an affordable housing builder of both single-family homes for owner occupancy, as well as for multi-family rental opportunities.

While the goal is always to move families from those rental units to homeownership, and not all of them will make it, but even in the rental units what we do is to work with the various different agencies that already provide the case management, the GED education in so many areas, and on and on and on, to help and promote the idea that you, too, can become a homeowner.

And we do not practice what is probably being alluded to in some of the written testimony, and maybe some of the oral testimony. We don't believe it is the right thing to do to park people in a rental unit forever, and not give them an opportunity. We believe that it is the right thing to do to educate them and help them become a homeowner. Always have the goal of homeownership there. But you have to provide the education first.

Mr. SCOTT. Absolutely. Thank you very much.

Mr. TIBERI. Mr. Scott, if you could wrap up the question, we will give Mr. Sanders an opportunity.

Mr. SCOTT. Yes. Ms. Crowley, you mentioned your concern about the rental aspect of housing in your statement. But I wasn't clear where you came down on this bill.

Most of your comments were on what you felt was the real issue here in affordable housing, as dealing with the affordable rental housing. What is your opinion of this legislation we have before us, the Zero Downpayment?

Mr. TIBERI. The gentleman's time has expired. Ms. Crowley, go ahead and answer the question.

Ms. CROWLEY. We don't have any particular objection to the bill. We have some concerns about the lack of specificity around some of the requirements in the bill itself. We have looked at the bill. We have many members who have weighed in on this bill, and there are varying opinions about it.

As I said, our concern is, as one of our members said to me, this is like taking an eyedrop to fill up a bucket. And it is a small piece to add to all the larger pieces. But it is still off-target.

And if we really want to do something about expanding homeownership in a significant way in this country, and we really want to have a healthy, solid housing system, you can't neglect rental housing at the cost of homeownership.

So we think that there needs to be balance. And that is what the basis of our statement is from.

Mr. TIBERI. Mr. Sanders.

Mr. SANDERS. Thank you very much, Mr. Chairman.

Ms. Crowley, I agree with your assessment of the Zero Downpayment concept. I don't think it is a bad idea; I think it may help some people.

The negative of it might simply be that it will deflect attention from the real crisis facing this country.

I know your organization has been working very hard on the National Affordable Housing Trust Fund, which now has 211 co-sponsors in the House.

What has amazed me about the work that your organization has done in support of this is the number of organizations from all walks of life that have jumped in to support the Affordable Housing Trust Fund concept.

How many organizations are there? And why would even many business groups show the kind of support that they have?

Ms. CROWLEY. The exact number at this point is 4,960-something. They come in every day. We are adding elected officials. The most recent elected official who came on was the Mayor of Dayton, Ohio. So we not only have non-profit and faith-based groups, but growing numbers of state and local officials who are interested in this.

And you know, the simple answer to your question about why businesses would care about this is that they are in a community where there is insufficient housing for everybody that they need in their work force, then they have a hard time filling out the jobs that they offer. And you can see in any community, for any community to be viable there is a range of jobs that have to be filled. And if you don't have a range of housing that matches the people and the income in those jobs, then you have some kind of, there is a mismatch. And you end up with people who have serious commutes that inhibit their ability to do their job. All those kinds of things.

So there should be balance in any community between what the work force is and what their housing needs are, and we are out of balance.

Mr. SANDERS. Let me just pick up on that point. We have heard, appropriately enough, the importance of education in terms of homeownership, and I think nobody argues with that.

But in order to have decent housing, you need decent income. And the reality is that in America, poverty is growing pathetically,

in my view. The minimum wage here in Washington has not been raised for many years, and people are earning $5.15 an hour.

Now, your organization did a study which talked about housing accessibility for lower-income people. If I am out working for six, seven bucks an hour, am I able to afford decent housing for my kids in many parts of America? Could you touch on that?

Ms. CROWLEY. You are referring to our study called "Out of Reach," where we calculate the housing wage. And that is what one must earn per hour, if you work full time, in order to be able to afford modest rental housing. And on a national basis, that is $15.21 an hour.

Mr. SANDERS. Say that again. You need to earn more than $15 an hour to be able to, what, rent?

Ms. CROWLEY. Yes. To be able to afford basic rental housing, meaning that $15 an hour, if you work full time, 40 hours a week, 52 weeks a year. In order to be able to afford basic rental housing, meaning you don't pay more than 30 percent for your housing, which is the standard of affordability.

Mr. SANDERS. And I think there is no argument up here, or I would trust down there, that there are tens of millions of American workers who do not make that.

Ms. CROWLEY. And that is aggregated on a national basis. It ranges from about $8 an hour in rural places to the San Francisco Bay area, $33 an hour.

And minimum wage, full-time minimum wage work is $10,700 a year. And so in all cases, there is no place where a minimum wage worker can afford basic housing.

So there is a huge gap. And people often think when we are talking about extremely low-income people that we are not talking about people who are in the work force. And that is simply not the case.

As I said, in Columbus, the extremely low-income level is $19,000 a year. Well, you know, there is a big difference between minimum wage at $10,700 and $19,000 a year. And those are all the people who go to work every day, to do the things that are required for the rest of us to do our work every day.

Mr. SANDERS. Right.

Ms. CROWLEY. So they are an integral part of our economy and our system. They are the people who work in day care centers, they are the people who work in nursing homes, who serve you your coffee when you go to the coffee shop in the morning, a whole range of people.

Mr. SANDERS. Mr. Chairman, I thank you for this hearing. I think it has been useful, and I think this legislation is a reasonable idea.

But I don't think there is a lot of disagreement that, given the enormity of the housing crisis, that this legislation addresses it. I would appeal to you, as I did to Mr. Ney, to have a hearing on the National Affordable Housing Trust Fund, which has 211 co-sponsors.

Mr. TIBERI. Thank you.

Mr. SANDERS. Thank you very much.

Mr. TIBERI. The gentleman's time has expired. I want to thank the witnesses of the second panel. Unfortunately, we have four

votes. So if the third panel can get ready, we will be back, at least I will be back, in 30 minutes—I can't speak for anybody else—to reconvene the third panel. Thank you for your patience.

And again, thank you, second panel.

We will officially be recessed for 30 minutes.

[Recess.]

Mr. TIBERI. Welcome back. I guess you guys have probably been here. Let me apologize again. I am sorry for the—boy, not only did it clear out up here, it cleared out over there, as well.

Thank you for your patience. I really appreciate it on this very busy day.

Let me just go ahead and introduce the third panel.

Deane Dolben is the President of the Dolben Company, Inc. He is testifying today on behalf of the National Multi-Housing Council and the National Apartment Association. Thank you very much for being here.

Conrad Egan is the Executive Director of the National Housing Conference, having previously served as Executive Director of the Millennial Housing Commission. Thank you for being here, sir.

Basil Petrou is the Managing Partner of Federal Financial Analytics, Inc., providing financial and analytical services on legislative and regulatory issues. Thank you for being here.

Scott Syphax is President and CEO of the Nehemiah Corporation of America. The Nehemiah Corporation is one of the largest nonprofit community development organizations in the country. Thank you for being here.

Let me pass on the next person just for a second, and go to the final person.

Ann Ashburn is the President and CEO of AmeriDream, Inc. Ms. Ashburn has also served as the Co-Chairman of the National Association of African-Americans in Housing Homeownership Task Force. Thank you for being here.

And finally, a constituent of mine, live and in person from Columbus, Ohio. I would like to thank Jerome Witcher, who is a realtor for Art Lee Realtors in Columbus, Ohio. Thank you for being here today, Mr. Witcher.

With that, I would like to remind everybody that, without objection, your written statements will be made part of the record. You will be recognized for a five-minute summary of your testimony, and afterwards you will be asked questions by Members of the Committee, or at least, me.

With that, let us begin with Mr. Dolben.

STATEMENT OF DEANE DOLBEN, PRESIDENT, THE DOLBEN COMPANY, AND DIRECTOR, NATIONAL MULTI-HOUSING COUNCIL

Mr. DOLBEN. Thank you very much. Chairman Tiberi and distinguished members of the subcommittee, my name is Deane Dolben. I am President of the Dolben Company, which operates approximately 8,000 apartment homes in Massachusetts, Maryland, Michigan, New Hampshire, Rhode Island, and Virginia.

I am also the 2004 President of the National Apartment Association, and a Director of the National Multi-Housing Council.

It is my pleasure to testify today on behalf of the NMHC and the National Apartment Association. NAA's than 30,000 members provide rental homes to more than 5 million families across America.

We commend you for your leadership, and we thank the members of the subcommittee for your valuable work addressing the important issue of housing in America.

You may wonder why two rental housing organizations are testifying on a bill to create zero downpayment mortgages for homeownership. Actually, we also support homeownership. In fact, many apartment firms sponsor rent-to-own programs.

But we also believe that there is such a thing as too much homeownership. And the time has come to ask whether a homeownership above all else, and at any cost policy, is wise.

Three key facts have been overlooked, as the homeownership bandwagon has gained steam.

First, not everyone has the means to own and maintain a house.

Second, too much homeownership is not good for local communities.

And third, not everyone wants to own a house.

I know some will assume that we are only concerned about our profits. But the impact of this initiative on our profits is negligible.

Harvard University estimates that even if the homeownership rate rose by 3 percentage points over the current decade, there would still be up to 6 million new renters, more than enough to fill the nation's apartments. When it comes to profitability, housing is not a zero-sum game.

However, the federal budget is a zero-sum game. And every dollar allocated to homeownership incentives is a dollar taken away from other housing programs that can more effectively address our most pressing housing needs, such as suburban sprawl, urban decline, the affordable housing shortage, and the need to house our aging citizens.

We also risk harming hard-working families when we oversell homeownership. Currently, 51 percent of working families with critical housing needs are owners, not renters. And the only group whose housing conditions worsened between 1999 and 2001 were low- and moderate-income homeowners.

FHA foreclosures are already at record levels. In fact, in Philadelphia some people are trying to suspend the city's foreclosure auctions, because they say that "this is the worst time for foreclosures basically since the Great Depression." And that hundreds of people are losing their homes every week.

With no cash reserves, a growing number of households are one paycheck away from financial disaster. Therefore, at a minimum, any new homeownership incentive needs to be supported with substantial counseling resources.

Too much homeownership is also not good for our communities. If new owners cannot afford to maintain their homes, the value of nearby homes drops. Communities also lose much-needed tax revenue, and incur high costs associated with vandalism and other social problems when homes are abandoned.

One research report says that total losses to all stakeholders conservatively average $73,300 per foreclosed FHA-insured loan, and $26,600 per foreclosed conventional loans.

Too much homeownership creates other economic costs. One study estimates that a Minneapolis/St. Paul region forgoes $265 million per year in consumer spending and business income because it lacks sufficient housing for essential employees.

This country has a real housing problem it needs to solve, but it cannot be solved exclusively on the back of homeownership.

Further, while homeownership can be fantastic, unsustainable homeownership does not serve anyone. We need to refocus our limited resources on those programs that can serve the most families dealing with critical housing needs.

We urge you to support a housing policy that is balanced, encourages production, and reduces overall housing costs.

Thank you for the opportunity to testify today.

[The prepared statement of Deane Dolben can be found on page 84 in the appendix.]

Mr. TIBERI. Thank you. Mr. Egan.

STATEMENT OF CONRAD EGAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL HOUSING CONFERENCE

Mr. EGAN. Thank you, Mr. Chairman, for the opportunity to appear before you and other members of the subcommittee about H.R. 3755, the Zero Downpayment Act of 2004, on behalf of the National Housing Conference.

First of all, let me state very strongly that the Conference supports H.R. 3755, but even more strongly with a great sense of caution.

Let me, first of all, tell you why we support 3755. First, by reducing the FHA single-family downpayment to zero under certain circumstances, more families would be able to purchase homes. These families would otherwise be unable to begin to accumulate assets and grow wealth through homeownership.

Secondly, to the extent that homeownership stabilizes and improves communities, H.R. 3755 would support those positive outcomes.

Third, when administered in a safe and sound manner, H.R. 3755 would add value to FHA's book of business and its volume, thus increasing its viability.

And finally, fourth, an FHA Zero Downpayment Program would bring FHA's national standardization in underwriting, pricing, and practices to a newly-emerging segment of the market.

However, and here comes the qualifications, NHC's support of H.R. 3755 comes with a strong cautionary note. Although we applaud HUD's intentions to require pre-purchase counseling, to raise the up-front MIP to 2.25 percent, and to maintain high credit quality standards, we would further suggest that HUD incorporate additional safeguards in its administration of the program. Including, first of all, additional post-purchase counseling and crisis intervention assistance, paid for by HUD funding, and provided by bonafide HUD-approved agencies with mandatory referrals of loans more than 30 days delinquent.

I, too, want to add my support to the Ney/Scott Bill, H.R. 3938, and would note that it does specifically include post-purchase counseling.

Secondly, without diminishing availability to creditworthy borrowers, higher than usual credit standards for both payment ratios and FICO scores accompanied by higher than normal sampling ratios of lending practices.

Third, tight appraisal standards.

Fourth, careful and quick attention to any concentrations of defaults and foreclosures that may occur.

And finally, fifth, effective collaboration with local officials, agencies, and organizations to ensure positive community outcomes.

In summary, Mr. Chairman, we would suggest that following enactment, this product be treated as a trial program, with careful attention to ensuring the ongoing actuarial viability of the product, and very close monitoring, possibly by third parties, to ensure positive outcomes for borrowers and communities.

Assuming that these safeguards and procedures are implemented, NHC would suggest that this product be expanded to include condominiums and co-ops.

In conclusion, Mr. Chairman, let me make a separate, but related, point that others have also made here today.

N.H.C. strongly supports expanding homeownership opportunities for more Americans. We are therefore, based upon that position, compelled to note that a continuing lack of good, affordable rental housing is diminishing that potential for a growing number of this nation's families. Many remain mired in unstable, costly, inadequate rental housing, without the ability to develop good credit histories, and to accomplish those resources necessary to achieve homeownership.

Therefore, Mr. Chairman, NHC strongly urges you and your colleagues to also pay priority attention to preserving and increasing the supply of good, affordable rental housing in this nation.

Thank you, Mr. Chairman

[The prepared statement of Conrad Egan can be found on page 89 in the appendix.]

Mr. TIBERI. Thank you. Mr. Petrou.

STATEMENT OF BASIL N. PETROU, MANAGING PARTNER, FEDERAL FINANCIAL ANALYTICS, INC.

Mr. PETROU. Thank you, Mr. Chairman.

I am Managing Partner of Federal Financial Analytics, a consulting firm that advises financial institutions and trade associations on the implications of legislation and regulation on the mortgage and housing markets.

There are a few points I would like to make regarding the benefits and risks associated with the new FHA Zero Downpayment Program.

First, I strongly support the Administration's goal of increased homeownership, with the focus especially on low-income and minority individuals. It is critical that new programs to accomplish these goals focus not only on giving borrowers a mortgage in the short term, but also on helping them keep their homes for the long term.

Second, zero downpayment loans are viewed by the private sector as higher risk, resulting in reliance on careful underwriting. FHA entry into these loans must be carefully structured to prevent risk to borrowers, communities, and the rest of the MMI fund.

Third, to protect borrowers, communities, and the MMI fund, HUD should consider limits beyond those currently proposed for the new program. These could include targeting the program to low- and moderate-income borrowers, reliance only on proven FHA lenders, and increased sampling.

The borrower's initial downpayment is a major factor in limiting first-time homeownership for low- and moderate-income buyers, but it is also a proven major risk factor, especially during periods of economic stress.

For the past five years lenders working with private mortgage insurance companies, community groups, and government-sponsored enterprises, have tailored zero downpayment programs to balance the risks and the rewards to homeowners.

Failure by FHA to tailor underwriting criteria to the unique nature of these mortgages could harm those it wants to help.

Once closing cost fees and the FHA's own up-front financable insurance premium are added to the loan amount, the zero downpayment borrower starts homeownership owing 103 percent or more of the property's value. In a neighborhood with very low or no home price appreciation, this borrower has to wait a long time before they can rely on the proceeds from the sale of the house to pay off the mortgage.

For this reason, the new program should be tested to ensure that poor loan performance will not put the MMI fund in jeopardy, since the cumulative claim rates and loss severity rates on foreclosed properties likely will be higher during periods of stress for these mortgages than for other FHA loans.

Certainly higher claim rates and loss rates are the experience of the private sector when dealing with very low downpayment mortgages, and the same appears to be true for FHA.

Also, the program should be designed to bring new borrowers into the FHA, rather than serve as a means for those borrowers who have the wherewithal to make a 3-percent downpayment simply to avoid doing so. An FHA fund with a relatively large share of zero downpayment borrowers would significantly increase the MMI fund's risk exposure during periods of regional house price declines.

Neighborhoods are also at risk from a poorly-planned program. The combination of a bad appraisal, economic problems for the borrower, and stagnant home values can result in a high level of foreclosures in those neighborhoods where these mortgages will be concentrated. The result of concentrated foreclosures is further downward pressure on home prices that escalate the downward spiral for that neighborhood.

To assure the success of the Zero Downpayment Program, I urge that HUD consider applying the following criteria.

First, HUD should target the program to borrowers with incomes below area median income, focusing on borrowers seeking properties in low- and moderate-income census tracts, and/or setting the area maximum loan amounts for this program below the current applicable FHA limits.

Two, to prevent inappropriate use of this new program, the FHA lender should be required to attest that the borrower did not have sufficient cash to qualify for another FHA loan.

Three, during the early years of the program, HUD should limit it to those lenders proven to be careful underwriters of FHA loans. These lenders are most likely to carefully review the quality of the appraisal being given for the property.

Finally, as part of its quality control process, FHA currently reviews 10 percent of the post-endorsement loans in its single-family program. Given the significantly higher risk associated with zero downpayment loans, the sampling of FHA loans within this program should be higher for at least the first several years.

Thank you.

[The prepared statement of Basil N. Petrou can be found on page 108 in the appendix.]

Mr. TIBERI. Thank you. Mr. Syphax.

STATEMENT OF SCOTT C. SYPHAX, CHIEF EXECUTIVE OFFICER OF THE NEHEMIAH CORPORATION OF AMERICA

Mr. SYPHAX. Thank you, Mr. Chairman. My name is Scott Syphax, and I am the President and CEO of the Nehemiah Corporation of America.

It is an honor to be here today to submit testimony to the House Community Opportunities Subcommittee regarding H.R. 3755. I particularly appreciate the opportunity to provide my thoughts on where we can add to the effectiveness of this bill.

Before I address the legislation specifically, I would like to give you a bit of background on the industry we founded and my company.

Nehemiah Corporation is a nationwide, self-supporting, faith-based non-profit. We receive no money from local, state, or federal government sources.

We started in 1997 with a goal of providing deserving families, seeking to be homeowners, a downpayment. Starting with a $5,000 loan from a small Baptist church in Sacramento, we piloted the country's first privately-funded downpayment assistance program.

In our seven years we have been able to help over 170,000 families become homeowners across all 50 states and many U.S. territories. We have given away over $675 million in downpayment gifts, resulting in over $23 billion in real estate sales.

On a monthly basis, Nehemiah helps more than 3,000 families achieve the American dream of homeownership by providing them with a downpayment gift. This week alone we have helped so far over 600 families achieve that dream. And this is at no additional cost or burden to the U.S. taxpayer.

In fact, according to a soon-to-be-published independent study by a well-known Washington, D.C. think tank, our default rates are in line with traditional FHA rates.

In short, ladies and gentlemen, downpayment assistance works for buyers, sellers, and America.

In addition, a recently-completed study by another think tank demonstrated that downpayment assistance has also had an enormous positive impact not only on the individuals and families served, but on entire communities and local governments. In towns and cities across this nation a rebirth is happening, thanks to downpayment assistance and removing downpayment barriers.

In Columbus, Ohio, for example, Nehemiah recently testified before a local city council meeting, in that we were able to help over 7,300 families become homeowners since 1998. In that process of giving away nearly $35 million in downpayment assistance, resulting in the purchase of over $1 billion worth of homes, the families that we have served—and this is the important part—have seen their equity increase by more than $3,100 per family, with a cumulative impact of that equity and wealth appreciation of over $23 million.

This, in turn, has resulted in over $100 million in property taxes for the Columbus metropolitan area. In Franklin County alone, Nehemiah recipients have contributed $72 million in property taxes. With downpayment assistance and the removal of downpayment barriers, that benefit is not confined just to individuals, but it has spread throughout the community.

Our industry has grown so quickly because it provides a vital role in helping people overcome what I believe to be the artificial barrier of homeownership: the downpayment. I have long felt, and publicly stated, that the removal of this barrier to homeownership for creditworthy applicants should be a national priority. And I want to applaud you, Congressman Tiberi, and the Bush Administration, for taking such bold leadership in addressing this area.

I can tell you that when Nehemiah started, this was an extremely controversial subject, opposed by many.

Having said that, I do have to share with you a couple of concerns about this proposed legislation, in order that we can have a dialogue about the potentially unintended negative consequences that might impact working-class families unless these are fully vetted and addressed.

In January of this year, when Commissioner Weicher announced, as part of HUD's fiscal reauthorization, that FHA would eliminate the statutory requirement for the 3 percent down, we were elated. We celebrated this announcement, and we publicly reached out to offer our support, believing that our experience in helping over 170,000 families was the clearest validation that the approach that the Administration was taking on the subject was indeed valid.

Mr. Chairman, our primary concern with the current draft of 3755 is that the burden of coming up with the downpayment, as opposed to historic downpayment assistance, is now going to be borne by the homeowner. We don't think that that is altogether a bad thing, but let me explain the dilemma.

In using private downpayment assistance and other sorts of programs such as ours, the home buyer walks into a minimum of 3-percent equity into that house from the day that they receive their keys.

In this particular program as it is proposed today, they will likely walk in with zero equity, or, as the gentleman who spoke before me referenced, potentially negative equity.

While there is a risk/reward tradeoff that has to take place, and that is fine, the beauty of H.R. 3755 is that it makes downpayment assistance ubiquitous. Anyone can participate in this program, given that they meet the financial wherewithal and the other criteria that are being developed by HUD.

However, our concern is that in the increased fees that potentially are put in place to finance the program, that you disadvantage the least among us able to pay. That extra $25 to $50 a month, while maybe not meaningful to some of us, for those that we are all attempting to serve with this legislation in the low- and moderate-income categories, that money is very, very dear.

And because of our experience, and the studies that we have done in showing that downpayment-assisted families can successfully be homeowners, we suggest that it be carefully evaluated before any decision is made as to what the increase in the MIP that is imposed on this program. We want to ensure not only that we get people into the program, but that we guarantee their long-term success.

We are heartened that this tool, that this particular product as it is conceived, will, in fact, add another tool to the toolbox of homeownership, and move more families into homeownership.

However, we are also committed to ensuring those families will be successful using this program.

To restate in conclusion, Nehemiah believes that this legislation is an important step forward for America. And we congratulate you, Congressman Tiberi, in taking this initiative.

However, we would like to work with you and the Administration in ensuring, one, that no additional monthly surcharges that are unnecessary are imposed upon home buyers.

Two, that there is a limitation and careful analysis to ensure that there are not excessive mortgage premium pricing actions taking place that are predatory in nature.

And that three, that there be a sunset on whatever mortgage insurance premium uptick there is for these particular borrowers.

With these changes, we believe that H.R. 3755 will be a positive step forward in public policy, and help move more families into homeownership.

Thank you for the opportunity to address the Committee.

[The prepared statement of Scott Syphax can be found on page 125 in the appendix.]

Mr. TIBERI. Thank you for your insights. Mr. Witcher?

STATEMENT OF JEROME WITCHER, REALTOR, ART LEE REALTY, INC.

Mr. WITCHER. Mr. Chairman, Members of the Committee, thank you for allowing me to take a few minutes of your time.

I think it is a very good idea to offer zero downpayment to qualified persons that have a desire to own a home, but do not have a downpayment of their own. The passage of this bill will allow more potential buyers to acquire their own home. I know that with the proper guidelines, this could be a blessing to those that wish to purchase a home of their own.

The downpayment is the biggest hurdle that most people have to face when acquiring a property.

The purchase of homes for families not only improve the neighborhoods, but also increase the tax base for the local communities, and can have a ripple effect on the whole area. And therefore, we should see a decrease in crime, and a rise in property values.

The value of requiring downpayments for potential FHA-insured borrowers for the reason, if you have something invested in a project, you are less likely to let that property go. However, no one can ever be sure, when certain situations arise, such as job loss, illness, or divorce.

There are several programs that are currently out on the market today. Most require some type of counseling to the potential buyer.

The lenders do credit reports, background checks, work history, et cetera. Some may charge slightly higher fees to offset the costs of providing this service, but most home buyers are happy to get in without coming up with a downpayment. The purchases are still from the buyer's range of financing.

The underwriting of loans for conventional and jumbo markets is a difficult one with no downpayment, because of the loan size. I think it could be possible, but to me, it requires a very strong individual with a lot of reserves.

The market today finds a good number of higher-priced homes in the foreclosure market, whether due to downpayment or other unknowns.

The differences between minority applicants and other groups are, most minorities have very few liquid assets available for the use of a downpayment. However, just because funds for a downpayment are not available does not mean that they are not able to repay their mortgage loans.

Note, this group is one of the fastest-growing segments because it includes Latinos, African-Americans, women, and a lot of these women are single mothers.

I would only recommend that FHA not insure a mortgage without a downpayment only in cases where the job time is short and other negative items may appear.

However, everyone has had some type of bad experience in their life, and to focus just on them is wrong. We should focus on what people have done since having these negative experiences. There is so much interest in things that have happened five to 10 years ago, that it still affects some people today.

The approved loans today look primarily at credit scores from computers to see if someone qualifies. And if the computer says you did not meet that score, you are automatically rejected without any personal touch by another person. They flat-out reject you. That keeps a lot of possible buyers out of the market, which I think is wrong.

We need to not just rely on the reports, but to have someone review the application—and this is review an application if it was rejected—and talk to the buyer to find out what they found, and the necessary things that need to be done so that we can still keep this person in the loop. It may take a little grooming, so to speak, but we can put these people there. If not, they kind of go back.

We need to not only rely on reports, but review the application. And that way we can keep people in order to buy a house. No, I don't think so, because some people will always rent, regardless of their incomes, because they do not want the responsibility of taking care of something. And this should not effect the rental market.

I think it may have some effect, but nothing major relating to the FHA insurance fund. I think that if the people are screened and

counseled properly in the beginning, the losses that will occur will be minor.

First of all, the lenders should all come under state rules and licenses, and have inspections done by state authorities to constantly monitor their business practices.

The FHA foreclosures in low-income neighborhoods could be lessened if the buyers are properly educated about the pitfalls about borrowing and repaying of funds. The biggest problem that has been happening is that the appraisal of properties have been overpriced, and the lenders are giving more than 100 percent loan to value. For example, 103-percent loan programs and higher.

There have also been higher loan rates for areas of inner-city purchases than in other areas. Yes, I think you would find some actual buyers willing to purchase some of these units, these are multiple units, two to four units, if they were available for income property. Like I would buy one, and I would rent out the other three units and live in one, and I would have equity and income coming in. So I think if that program was available, it would be a good deal.

In summary, I feel that the Zero Downpayment Program would be a great shot in the arm to increase homeownership, improve neighborhoods, and to help move the economy towards a more productive one.

Thank you.

[The prepared statement of Jerome Witcher can be found on page 133 in the appendix.]

Mr. TIBERI. Thank you, Mr. Witcher. I appreciate it.

Ms. Ashburn, last but not least.

STATEMENT OF ANN ASHBURN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AMERIDREAM, INC.

Ms. ASHBURN. Thank you, and good morning, Mr. Chairman and distinguished members of the subcommittee. Thank you for the opportunity to testify today in support of the subcommittee's efforts to break down a major barrier to homeownership downpayment costs.

My name is Ann Ashburn, and I am President and CEO of AmeriDream, a national non-profit organization committed to increasing homeownership opportunities. AmeriDream provides a full range of homeownership-related services, including downpayment assistance, home buyer education, loss mitigation, community redevelopment, charitable contributions, and soon, mortgage payment protection.

Over the last five years AmeriDream's downpayment assistance program has helped more than 130,000 low- and moderate-income families become homeowners. Given AmeriDream's extensive experience in putting real families into real homes, and in serving essentially the same clientele that this proposal would target, AmeriDream is pleased to offer itself as a resource to the subcommittee as it seeks to refine and perfect this bill.

In that spirit, Mr. Chairman, I would like to offer two general observations about the bill, and then suggest three specific refinements for consideration.

I would begin with our general observations.

First, as the subcommittee considers how best to address the issue of downpayment costs, we would respectfully encourage members to leverage the experience and resources of the charitable sector, perhaps by ensuring a federal role for HUD-approved providers in a public/private partnership.

Non-profits like AmeriDream have been meeting the downpayment challenge successfully for years. To coin a phrase, charitable downpayment providers have been there, and we have done that, over 130,000 times at AmeriDream alone, in the past five years, all without government funding, taxpayer dollars, or additional potential risks to home buyers or the FHA insurance fund.

Second, we would suggest that in considering how best to promote homeownership through zero down loans, the subcommittee safeguard against potential concerns to home buyers, such as higher monthly payments, higher interest rates, and larger mortgages. Additionally, the subcommittee should bear in mind that homeowners taking on zero down loans would enter homeownership with zero, or even negative, equity, a position that could make them likely to default on their loans.

I would note by way of comparison that purchasing a home with downpayment gift assistance, whether from government programs such as the President's American Dream Downpayment Act, from relatives, or from non-profit organizations, it gives homeowners lower monthly payments and positive equity in their homes.

In addition to these general observations, AmeriDream would also propose three specific refinements.

First, we believe that the subcommittee should require participating borrowers to demonstrate reasonable creditworthiness.

Second, we believe it would be appropriate to require participating borrowers to complete a HUD-certified homeownership counseling program, a topic we know to be of strong interest to this subcommittee.

Finally, we believe that the subcommittee should require use of a HUD-authorized automated underwriting model.

I elaborate on each of these suggestions in my written testimony, and I would be pleased to discuss these recommendations in further detail.

In sum, AmeriDream wholeheartedly supports efforts to overcome major barriers to homeownership, and we believe that this bill could be made even more effective by fostering a public/private partnership, by including minimum credit and home buyer education requirements, and by leveraging technology to its fullest potential.

I hope that AmeriDream's experience and longstanding commitment to our shared objective of increasing homeownership, particularly among home buyers of modest means, has provided the subcommittee a useful perspective this morning.

I would like to conclude with a brief testimonial from Mr. Ollie Hunt of Columbus, Ohio, who is one of AmeriDream's home buying success stories. "We wanted to buy a house, but it seemed impossible to come up with the money for a downpayment and closing costs. Then we learned of the AmeriDream program. We are grateful for this program. It made it possible to own our own home, and

in over two years we have not been late on our payment once. We love our home."

I applaud your leadership in calling this morning's hearing. And Congressman Tiberi, I commend you for introducing this important piece of legislation.

Thank you so very much for this opportunity to testify before you today. AmeriDream stands ready to work with the subcommittee as it considers this important legislation.

Thank you.

[The prepared statement of Ann Ashburn can be found on page 68 in the appendix.]

Mr. TIBERI. Thank you. Thank you all, actually, for your testimony today, and especially for your patience in waiting around for our vote.

Ms. Ashburn, I am going to start with you. You mentioned in your written testimony, and also in your testimony today, about a public/private partnership with respect to this issue. How do you envision that? Any thoughts off the top of your head on how that structure would work?

Ms. ASHBURN. We would like to work with the Committee and with HUD to establish guidelines on who would be appropriate downpayment gift providers. And some of those details we can go into outside of the hearing.

And we see that, since we have all of this experience, Nehemiah included, we have been doing this for a very long time. We have gained a lot of experience. With that experience, both of us have implemented programs to support these home buyers.

And I will just speak for AmeriDream, and let Scott do Nehemiah. But AmeriDream has done home buying education, loss mitigation, and soon it will be mortgage payment protection.

We are five years old, AmeriDream is. We have learned a lot in five years, and we have gained a lot of speed in five years, to not only do downpayment assistance for 130,000 home buyers, but to recognize the additional needs that they need in order to be successful. We have added all these supplemental programs. So why have you guys waited five years to learn what we have already gone through? It has been a lot of pain, it has not been easy. And we offer that in a public/private partnership.

Mr. TIBERI. Well, you know, it is amazing. Because I think Mr. Syphax mentioned it, it wasn't too long ago, as a realtor, that even publicly talking about zero down was something that was even rationally thought about.

Let us talk about Columbus, Ohio. There is no question that both of you, Nehemiah and AmeriDream, have provided some incredibly valuable resources to people who want to be homeowners. There is no questioning that.

As I mentioned earlier, and you may have heard, Sam Gresham, who is the President of the Columbus Urban League, a supporter of this legislation who couldn't testify today, publicly stated that in Columbus every year, the Urban League does minority home expo. And the number one issue that participants at the expo say or figure out is, the number one barrier for them to become homeowners isn't income. It is not qualifying for the monthly payment. It is what Mr. Witcher said, is the assets to provide for a downpayment.

And they turn away hundreds and hundreds of people every year just at the expo who don't qualify, or haven't been hooked up, I guess, with either Nehemiah or AmeriDream.

Why is that, do you think, Ms. Ashburn, that there are still hundreds, or maybe thousands of people out there that aren't being served?

Ms. ASHBURN. I think we have made great efforts over the years to reach out to people. And speaking on behalf of AmeriDream, it really was no challenge at all. There were interested people out there that were already seeking help from their lenders. They would find out from their lenders that they couldn't qualify because they didn't have the downpayment. And the lender would kind of pull us off the shelf and say there is hope out there for you, because we have got this program, if you can meet all these other qualifications.

So we experienced that this was the first round of people that were already thinking about homeownership, and so they were already in the lenders' offices.

We have recently partnered with a lot of outreach organizations into minority communities. As you mentioned, the Co-Chair of NOAH, the National Organization of African-Americans in Housing, on their round table. We partnered with NHREP, the National Hispanic Real Estate Professionals Association. Because we recognize that not everybody is thinking about homeownership, or people are thinking I know the way the process works, and I need a downpayment, and I don't have it, so why even bother. I can qualify, I can make the payments, I can pay my rent, but why bother? I don't have that pot of money.

So we are working with these other organizations to reach out into these communities.

Mr. TIBERI. Mr. Syphax, do you have any follow-up to that from your perspective?

Mr. SYPHAX. Well, I think that Ms. Ashburn was very eloquent. We have many of those same partnerships.

All that I would add is that, going back to the initial question by your local Urban League leader in Columbus, is that the reason that circumstance exists is because there has historically been a wealth disparity between ethnicities in this country. That wealth disparity has a cumulative effect over generations.

The reason that Nehemiah got started, while most people focus on either our homeownership, our faith-based, or our community development programs, but really if you get behind the essence of why Nehemiah started, it was really about asset development and wealth accumulation for low- and moderate-income folks. We look at homeownership as a portal that takes people through, that gives them life possibilities.

And what your Urban League leader is dealing with is people who don't come from families with enough historical wealth that they can transfer that down to their children and grandchildren.

We do work with folks like Urban Leagues and others throughout the United States. But in fact, we think that this piece of legislation, with a little bit more massaging, is really going to start to have an impact that hopefully will snowball into that 5.5 million new homeowners. But it is really the public policy step of saying

it is okay not to have a downpayment, and that you are worthy of homeownership.

Mr. TIBERI. Thank you. Mr. Witcher, you have been a realtor for many, many years; a wealth of experience. You made mention of the point about the build-up of wealth. How often do you see what Ms. Ashburn and Mr. Syphax just described in your daily work as a realtor? Can you give us any examples?

Mr. WITCHER. It is every day. Every day you get calls from people that are interested in buying a property. I deal with a lot of first-time buyers. I deal with everybody, but especially I have been in affordable housing for the last 10 years or so has been the first-timer. Because those are the ones that are struggling to get to that level, that second level.

Like Scott said, a lot of them, they don't have economic wealth. I mean, their family didn't own a home, so they have rented all their lives. So there is no economic base.

So the biggest problem I hear every day is well, you know, we got our credit cleaned up, but we don't have the downpayment. What can you do? So you try to find sources that you can refer them to. And each source has their own particular criteria of, you know, you jump through this hurdle here, we can help you.

I have worked with both of these two in the past, and they are both good. And we need more like them. If they can improve on their programs—and I think the bottom line comes out to basically educating the buyer. Letting the buyer know the responsibilities of homeownership; that it is not just a place to go party and sleep, but it is an investment.

And if you can build that equity up in that one property, those that have the desire can take some equity out and acquire an additional property, like income property, and keep it going. And then instill it into their children, and their friends, their nephews, whatever, the understanding of wealth builds wealth.

And then I think, you know, some of the disparities will disappear.

Mr. TIBERI. Thank you. Mr. Egan, you mentioned that you would like to see the Zero Downpayment Program run as a demonstration, on a trial basis. Can you demonstrate to us how that demonstration should be structured?

Mr. EGAN. Thank you, Mr. Chairman, for the question.

First of all, I am not suggesting that this particular proposal not be enacted until there is a trial program or an experimental period.

What I am saying is that after enactment, in the process of administering the program, I think that many of the recommendations that others have made here today should become a part of HUD's administration of that program. Including attention to the qualification standards, I would suggest higher qualification standards. As Mr. Petrou has suggested, I would suggest higher sampling ratios of lending practices. I would suggest probably more-frequent-than-normal monitoring of the actuarial effect of this program on HUD's overall insurance funds. And then many of the other things that were suggested here, about post-purchase counseling, and paying very close attention to possible concentrations in defaults and foreclosures.

But I want to make very clear that I am not suggesting that in lieu of enactment. I think the program should be enacted. I think it should be fully put underway. But subject, during a two- to three-year period, to very close scrutiny.

Mr. TIBERI. I wish you had a vote. Thank you.

Mr. Petrou, you suggested in the last page of your testimony that FHA's post-endorsement review of loans be increased. Can you elaborate on how that idea would maybe protect FHA and their mortgage insurance?

Mr. PETROU. On this particular program it should be increased from what they do in the normal programs, because of the unique nature of the risk in these programs.

FHA has to make sure that it is getting the kind of product that is performing the way it anticipated. Because of the high LTVs here, 103, 105 percent and because of FHA's reliance on appraisal. Appraisal is much more important when you are dealing with a 103-percent initial LTV loan than when you are dealing with a 95-percent LTV loan, or an 80-percent LTV loan.

To the extent that FHA is given an incorrect appraisal, that will really put the borrower in a very difficult position. Because, it takes years, through amortization of the mortgage, to pay that mortgage down to the initial value of the home.

So if FHA is off on its appraisal, if the house is over-appraised, FHA has a problem.

With sampling, FHA sees the performance of what is going on and it sees the performance of what the lenders have been doing. FHA can then make adjustments to this program.

Mr. TIBERI. Thank you. Mr. Dolben, I have been involved in the business for almost 20 years, 19 years, the rental or real estate business. And I have got to tell you, I have never heard someone say what you said. I have never heard it before. Too much homeownership could be bad for the community. That is shocking to me. I will have to really haze my friend, Steve Gladman, over those comments in days and weeks to come.

Can you expand on that? Because I am absolutely stunned by that statement.

Mr. DOLBEN. Sure. I think the basic concept is that the housing crisis in our country, there isn't one answer for all people.

Mr. TIBERI. Agreed.

Mr. DOLBEN. Homeownership isn't necessarily the housing answer for all of the people in our country.

Mr. TIBERI. Agreed.

Mr. DOLBEN. We have a housing shortage, and the cost of housing makes it difficult for both homeowners and renters to afford quality housing. So we believe that resources should be allocated and policy created that have a balanced housing policy, and make housing more affordable.

Mr. TIBERI. Let me ask you this question. Would you agree with this statement, that anyone who would like to buy a home and be a homeowner should have the opportunity to do so?

Mr. DOLBEN. The question is whether or not that form of housing is the appropriate housing for that person; whether they have the financial resources, and whether it makes sense for them.

Mr. TIBERI. If they have the financial resources to make the monthly payment and are creditworthy, should they be a homeowner?

Mr. DOLBEN. We need to have adequate housing that is affordable to them. And the question is whether there is sufficient housing stock and rental stock that is currently affordable to all Americans.

Mr. TIBERI. Boy, spoken like a true advocate for your members.

Let me tell you, I own rental property, so I understand the concern. But I am with Mr. Witcher on this. I have friends who wouldn't buy a home if there was a gun put to their head. I think there is going to be a rental market regardless of whether this bill passes or not.

But I am passionate about trying to provide opportunities for those who really want a piece of the American dream, the American dream being becoming a homeowner and having an opportunity to build wealth with equity. And that is why I think this is so important.

And I have friends in the rental industry now that jokingly say that they might have to throw in a car with the apartment lease to rent their apartments. So I understand the concern. But again, I don't think that this is about anything that you all should really be concerned about, but I understand your perspective. And I appreciate your coming today to share that perspective.

Mr. DOLBEN. Thank you for the opportunity to voice them.

Mr. TIBERI. Thank you. You guys have been great. Since you have been so patient, I am going to break with regular order and say if anyone has a suggestion or one more shot at the apple here. Do any of you have any? Thank you, Scott.

Mr. SYPHAX. It is more of a comment on Mr. Dolben's comment.

Nehemiah owns and operates over 1,800 units of income-restricted rental housing throughout the western United States, and we consider rental housing to be an extremely important component of an overall housing strategy.

However, I have to tell you, based on our roots, coming from a small black Baptist church in Sacramento that serves low-income people, that homeownership, as you say, for every single person that is otherwise qualified in making that opportunity available to them is the thing, first and foremost, that will keep people moving into the middle class in this country.

And the historic limits that have been placed on homeownership through what we consider to be invalid assumptions about you are somehow not worthy of homeownership unless you have a downpayment with you, I think really speaks against the ideals of this country.

Homeownership should not be defined by an accident of birth, being lucky enough to be born into a family with means. It should be available to everyone who demonstrates the worthiness, creditwise and income-wise, to move into that, so that they, too, can join the middle class.

Mr. TIBERI. Boy, I couldn't have said it any better. And I am a product of that, being the first in my family to graduate from high school. My dad didn't get a credit card until he was 60, because he

didn't really believe in credit. He believed in paying cash for everything.

But home equity for my mom and dad today is their wealth. And thank God for that opportunity for them. So amen.

Mr. EGAN. Mr. Chairman, let me build on the comment.

Mr. TIBERI. Yes, Mr. Egan.

Mr. EGAN. Let me build on the comments that have been made most recently, and go back to my statement, where the National Housing Conference is trying to make the connection between good, affordable, stable rental housing situations, and the opportunity, therefore, to grow the credit history, to grow the other resources necessary, so that those who choose can then move into homeownership.

Or if they don't, they can stay in a very safe, stable environment. And therefore, as my friend Nic Retsinas, who runs the Joint Center for Housing Studies at Harvard, often says—he, by the way, as you may know, was one of Mr. Weicher's predecessors—the best homeownership program for this nation is a good, strong, affordable rental program.

Mr. TIBERI. Well, thank you. Anybody else, before I give the order?

All right. Let me go ahead and, for the record, statements for the record, American Society of Home Inspectors, National Association of Housing Corporations, National Association of Realtors. I will ask for unanimous consent. Hearing no objection, so ordered.

And finally, the Chairman notes that some members may have additional questions for this panel and the previous panels, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses, and to place their responses in the record.

I look forward to working with you, and I know the Chairman does, as well, as does Mr. Scott, to craft a piece of legislation that at the end of the day not only can you all support, but more importantly that will be good for those who want to become homeowners and get part of the American dream.

So thank you all very much for your time. I really appreciate it. And this hearing is adjourned.

[Whereupon, at 1:40 p.m., the Subcommittee was adjourned.]

A P P E N D I X

March 24, 2004

Opening Statement
of
Chairman Bob Ney, Subcommittee on Housing and Community Opportunity

On

FHA Zero-Downpayment

This morning the Subcommittee meets to discuss Cong. Pat Tiberi's legislation to create more homeownership opportunities for first-time homebuyers.

H.R. 3755 was introduced by Cong. Tiberi and Cong. David Scott on February 3, 2004 and reflects a legislative proposal incorporated in the Bush Administration's FY 2005 budget for the U.S. Department of Housing and Urban Development. The legislation would eliminate the downpayment requirement for families and individuals who buy homes with FHA-insured mortgages.

The Administration's budget proposal assumes increased revenue from charging a higher premium to those potential borrowers who utilize the zero downpayment option. According to the budget proposal, those higher premiums would be sufficient to cover any anticipated losses expected by FHA's mortgage insurance funds.

Since the creation of the Federal Housing Administration (FHA) under the National Housing Act in 1934, downpayments have been a requirement of potential borrowers seeking to purchase loans insured by the Federal government. FHA is not a direct lender; instead, the Federal agency guarantees loan payments for mortgages on moderately priced owner-occupied property through the issuance of mortgage insurance certificates.

Theoretically, downpayment requirements were established to assure the lender that a borrower would be less likely to default or risk foreclosure on a home if there was some personal investment stake. Before the invention of automated or computerized underwriting to determine credit scores, lenders believed that downpayments were one of the best techniques to assess creditworthiness of a potential borrower; or, on the alternative, downpayments were a good indicator of credit risk.

These downpayment requirements have ranged from as high as 20 percent to as low as three percent. Traditionally, mortgage loans for investment properties, as opposed to owner-occupied properties, required a larger downpayment, e.g. twenty percent. Recently, some conventional mortgage lending products, purchased by the secondary markets or held in institutional investment portfolios, dropped to zero downpayments, contingent on certain underwriting conditions.

The proponents of Cong. Tiberi's legislation estimate that approximately 150,000 families, in the first year, will take advantage of the Zero Downpayment

Mortgage. Moreover, because the legislative initiative could alter significantly the mortgage lending industry, the initiative would move the nation closer to the Administration's goal of creating 5.5 million new minority and low-income homeowners by 2010.

Conversely, today's hearing will allow us to discuss whether this proposal would increase defaults and foreclosures for FHA-related mortgages, placing the Federal government at a higher liability. Critics state that it is unclear whether removing downpayment requirements could be a sound underwriting decision and whether borrowers without downpayment contributions from their own resources would pose a greater credit risk.

During the enactment of the American Dream Downpayment Act last year, we learned that the biggest obstacle to homeownership for most families is the inability to come up with enough cash to meet down payment and closing costs. Minority families in particular are burdened by high down payment requirements. The racial divide in homeownership remains wide – with 75.5 percent of white households owning their own home, compared with 49.4 percent of African American households and 47.7 percent of Hispanic households during the last part of 2003.

Lagging minority homeownership rates are a serious concern. Minority households are expected to account for two-thirds of household growth over the coming decade. Improving the ability of such households to make the transition to homeownership will be an especially important test of the nation's capacity to create economic opportunity for minorities and immigrants and to build strong, stable communities.

Opening Statement

Chairman Michael G. Oxley

Financial Services Committee

Subcommittee on Housing and Community Opportunity
H.R. 3755, the Zero Downpayment Act

March 24, 2004

Mr. Chairman, Americans place a high value on homeownership, and that is why this Committee has remained focused on removing the barriers that prevent families from owning their own homes. Last year, this committee was instrumental in the enactment of the American Dream Downpayment Act to provide $200 million in downpayment assistance to first-time homebuyers. Today, we are here to discuss another important piece of legislation, H.R. 3755, the Zero Down Payment Act of 2004 legislation to eliminate the down payment requirement for families and individuals who buy homes with FHA-insured mortgages.

Today, we enjoy an impressive homeownership rate of 68.5 percent, yet minority homeownership rates are only at 50 percent. H.R. 3755 will go a long way to helping us close the minority homeownership gap.

Studies show that the single biggest obstacle to homeownership for most families is the inability to come up with enough cash to meet downpayment and closing costs. Minority families in particular are burdened by high downpayment requirements.

This new Zero Downpayment program will be available to first-time homebuyers that meet FHA's underwriting requirements and who could easily afford monthly payments, but have not had the opportunity to save for downpayments.

FHA loans typically require a minimum downpayment of three percent. In addition, FHA underwriting rules allow applicants to have higher household debt ratios: monthly housing payments can be as high as 29 percent of monthly household income, and total monthly debt can go to 41 percent of monthly household income. Both these standards are more generous than most lenders and the prime market now allow.

This new zero downpayment option along with FHA's existing standards will mean that, in the first year alone, an estimated 150,000 new families will be able to purchase homes. Families qualifying for the zero downpayment mortgages will be charged modestly higher insurance premiums on their home loans. For example, on a $100,000 mortgage, a zero down payment borrower will pay approximately $50 a month more than a regular FHA borrower. The higher premium will completely cover the costs of the program, meaning there is no additional cost to the taxpayer.

This is an important initiative and I look forward to working with Chairman Ney, Congressmen Tiberi and Scott to enact this important new initiative.

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STATEMENT OF THE HONORABLE WM. LACY CLAY
Before the
Subcommittee on Housing and Community Development
"Zero Down Payment Act of 2004"
March 24, 2004

Good morning Chairman Ney, Ranking Member Waters, Members of the committee and witnesses.

The national homeownership rate was reported at 68.6% for Americans owning their own homes in the fourth quarter of 2003. More families than ever before were making an investment in their financial future, their neighborhoods, and of course, their families.

This statistic is not universal however. The minority homeownership rate is considerably less than the non-minority homeownership rate.

I have national figures from the Mortgage Bankers Association that show that in the fourth quarter of 2003, 75.5% of non-Hispanic White households owned their own home, while only 49.4% of Black households and only 47.7% of Hispanic or Latino households owned their own homes.

The Mortgage Bankers Association also reported that the most recent data available for Missouri's 1st Congressional District indicates that while 72.9% of non-Hispanic White households own their own home, only 51.5% of Black households and only 47.7% of Hispanic or Latino households own their own homes.

The passage of this legislation will allow more potential buyers to purchase their own home. We know that for a great number of minorities the down payment is one of the most difficult hurdles to overcome when buying a home. This situation exists because most minorities do not have an abundance of liquid assets. The lack of liquid assets does not have a direct correlation to an increased likelihood of foreclosure. Often times it frees up monies to make improvements to the home or buy necessary appliances.

Thank you Mr. Chairman for having this hearing on this important issue and I ask unanimous consent to include my statement in the record.

Congresswoman Barbara Lee
March 24, 2004
Subcommittee on Housing and Community Opportunity
Hearing: H.R. 3755, Zero Downpayment Act of 2004

Chairman Ney, Ranking Member Waters, I thank you both for convening this important hearing on H.R. 3755, and I want to thank the distinguished witnesses who have come before us today.

The Zero Downpayment Act of 2004 is an interesting approach at solving a chronic affordable housing problem in this country.

To date, the homeownership rate is 54% for White households, 36% African American households, and 35% LATINO households in my district.

These percentages are in comparison to the 75% for White households, 49% for African American households and 47 for Latino households.

Changing these numbers and attacking the growing disparity in the minority homeownership rate goes far beyond covering a person's downpayment or closing costs?

As the Administration continues to push for increased homeownership numbers, the reality remains that the high cost of housing, the lack-luster economy, and the growing job-loss numbers are the real problems.

Our economy is creating an environment where people who have homes are struggling to maintain and keep them; people who want homes are struggling to purchase homes, and people who rent are trying to make rental payments in a market that continues to skyrocket.

This legislation is based on providing the American dream of homeownership to more low and moderate income families,

but I argue that housing is more than an American Dream; it is a basic human right.

And while homeownership is important, if we are truly committed to fulfilling housing as a basic human right, we must expand our focus to other issues as well.

We must look at our commitment to end homelessness, our commitment to increase the affordable housing stock for renters and homeowners, and we must look deeper into the root causes of why people aren't homeowners.

Today, as we discuss lifting the down payment barrier, let us not forget that the fundamental change that is needed is comprehensive financial literacy.

To build wealth in a community, help people understand their credit, and empower people to make their money work for them is what financial literacy creates.

Let us not forget that we need a base standard of education for all housing counselors across the country.

If we are committed to increasing our number of homeowners, let us not forget the need for a national affordable housing stock production program, or the need to strengthen the enforcement and penalties for predatory lenders.

We must strengthen our loss mitigation tools, commitment to foreclosure counseling, and temporary foreclosure assistance.

Homeownership, particularly for the minority community is about much more than a down payment, and if we believe passing this legislation will truly create 150,000 new homeowners, we are sadly mistaken.

I am committed to passing legislation that will help people live affordably, safely, and with dignity.

I look forward to working with the committee on this and more comprehensive approaches to solving the housing crisis.

I thank the committee again for this hearing and to all of our witnesses who will testify to these goals today, thank you.

Statement of Congressman Bernard Sanders on the National Affordable Housing Trust Fund
Wednesday, March 24, 2004, 10AM
2128 Rayburn

Mr. Chairman, thank you for holding this important hearing on H.R. 3755, the Zero Downpayment Act of 2004 which is similar to an Administration proposal incorporated in the President's Fiscal Year 2005 budget. I am especially pleased that you invited Sheila Crowley, the President of the National Low Income Housing Coalition to testify this morning. Sheila has been an outstanding leader on behalf of low income families throughout the country and has spearheaded the tremendous grassroots effort to enact a National Affordable Housing Trust Fund into law this year. As the author of the National Affordable Housing Trust Fund Act, I am delighted to have Sheila here with us today.

H.R. 3755 would allow Americans to purchase their own homes without providing a downpayment on mortgages insured by the Federal Housing Administration. The Office of Management and Budget (OMB) has estimated that this proposal will increase FHA profits by $180 million next year because people who take advantage of the zero downpayment program will be paying higher insurance premiums to the Federal Housing Administration.

Mr. Chairman, this is an interesting proposal that deserves consideration. The supporters of this bill claim that 150,000 families would take advantage of the Zero Downpayment Mortgage in the first year. However, it is unclear how many of these families would not become home-owners without this initiative.

Mr. Chairman, owning your own home is the American dream. But, having a bank foreclose on your home because you didn't have enough money to make your monthly mortgage payments could quickly turn the American dream into a

nightmare. Therefore, we must ensure that this legislation does not increase the record number of home foreclosures that we are experiencing all over this country.

Mr. Chairman, those are my initial concerns about what is in this legislation. But, even more importantly, I would like to express my concerns about what is not included in this legislation and is not the topic of this hearing: the tremendous lack of affordable housing rental units and homes in this country.

Mr. Chairman, according to the bipartisan National Millennial Housing Commission, created by Congress, and co-chaired by our former colleague Susan Molinari, "The addition of 150,000 [affordable housing rental] units annually would make substantial progress toward meeting the housing needs of extremely low income households, but it would take annual production of more than 250,000 units for more than 20 years to close the gap."

Mr. Chairman, H.R. 3755 does not provide the funding necessary to build one affordable housing rental unit or home that is so badly needed in this country. It would not provide assistance to those most in need: extremely low income families who would be ineligible for the zero downpayment program because they would not have enough money for the monthly mortgage payment and the higher FHA insurance premium.

On the other hand, legislation that I introduced last year to create a National Affordable Housing Trust Fund (H.R. 1102) would provide the resources necessary for states and localities to produce, rehabilitate and preserve at least 1.5 million affordable housing rental units in the next decade targeted to those families most in need. 25% of the money in H.R. 1102 could also be used to construct affordable single family homes for low to moderate income families.

Not only would H.R. 1102 take a serious bight out of the affordable housing crisis, it would also lead to the creation of some 1.8 million new jobs according to a study by the Center for Community Change.

Mr. Chairman, the National Affordable Housing Trust Fund would be paid for by using the profits generated by the Federal Housing Administration's mortgage insurance program which Deloitte and Touche has calculated to be $33 billion over the next seven years.

As I indicated earlier, if the Zero Downpayment Act is signed into law it will increase the FHA profits by some $180 million a year according to OMB. Mr. Chairman, wouldn't it be a great idea if we used this money to create a National Affordable Housing Trust Fund which has been endorsed by nearly 5,000 national, local and state organizations throughout the country representing banks, business leaders, unions, religious affiliations, environmentalists, and affordable housing advocates and 211 Members of Congress including 15 Republicans?

Mr. Chairman, on July 22, 2003, half of the Members of the Housing Subcommittee and 6 Republicans sent a letter to you requesting a hearing on the National Affordable Housing Trust Fund. Unfortunately, we have not heard back from you regarding our request.

Mr. Chairman, given the overwhelming tri-partisan support for this legislation, I would like to ask you the following questions:

1) Will you hold a hearing on the National Affordable Housing Trust Fund, and if so, when?
2) If the Zero Downpayment Act is marked-up, will you allow me to offer an amendment to this bill to create a National Affordable Housing Trust Fund?

Mr. Chairman, this country is in the midst of an affordable housing crisis. According to a recent study by the National Low Income Housing Coalition, 95 million Americans, or one-third of the entire country, lack safe, decent and affordable housing. According to a report by the Harvard University Joint Center for Housing Studies, over 14 million families are paying more than 50 percent of their limited incomes on housing. And, according to the National Housing Trust Fund Campaign: "In no jurisdiction ... can a full-time minimum wage worker afford the fair market rent. On average, families across the country must earn $14.66 an hour -- more than twice the minimum wage -- to afford a two-bedroom apartment at fair market rent."

Mr. Chairman, we could provide a serious solution to the affordable housing crisis by incorporating the National Affordable Housing Trust Fund into the Zero Downpayment Act, and I look forward to working with you on this issue.

Good morning, and thank you Mr. Chairman for holding this important hearing.

Recently I introduced HR 3755, the Zero Down Payment Act of 2004, which will eliminate the down payment requirement for families and individuals who buy homes with FHA-insured mortgage. Currently, HR 3755 has a growing bipartisan list of 33 cosponsors.

Today we enjoy an impressive homeownership rate of 68.5 percent, yet in the fourth quarter of 2003, **75.5%** of non-Hispanic White households owned their own home, while only **49.4%** of Black households and only **47.7%** of Hispanic or Latino households owned their own homes.

In my congressional district alone, **69.9%** of Non-Hispanic White households own a home while only **41.1%** of Black households and only **31.4%** of Hispanic or Latino households own their own homes. I believe the legislation that I introduced is an important step in the right direction to address this obvious homeownership gap.

The Zero Down Payment Mortgage would be available for first time homebuyers that meet FHA's underwriting requirements, but because of their circumstances have not had the opportunity to save for a down payment. This legislation does not lower the credit standards for FHA borrowers; the same standards used for all borrowers will be used for those who participate in the Zero Down Payment program.

Those who qualify for this program will be charged a slightly higher premium on their mortgage. For example, for a $100,000 mortgage, a Zero Down Payment borrower would pay approximately $50 more per month than a regular borrower. The higher premium that is charged will cover the cost of the program, meaning no additional cost to taxpayers. HUD has estimated that up to 150,000 families in the first year alone will be able to take advantage of this new program.

Since its creation in 1934, FHA has been an innovator in serving families that are not properly served by the private market. My legislation will allow the federal government to continue to support homeownership while remaining fiscally responsible.

As a former realtor, I have witnessed the positive effects that homeownership has for both families and neighborhoods. Buying a home is usually a family's largest single investment. As they build equity in that home, that family is building wealth.

Offering FHA mortgages with no down payment will unlock the door to homeownership for hundreds of thousands of American families, particularly minorities. Those who can afford the monthly payment, but have been unable to save for a down payment, should not be deprived of the American dream of homeownership.

Doing things right
for America's homebuyers.℠

Testimony Of

Ann Ashburn
President and Chief Executive Officer,
AmeriDream, Inc.
Gaithersburg, MD

Before the
Financial Services Subcommittee on
Housing and Community Opportunity
of the U.S. House of Representatives

Hearing on H.R. 3755,
the "Zero Downpayment Act of 2004"

March 24, 2004

Good morning. Chairman Ney, Ranking Member Waters, and distinguished Members of the Subcommittee, thank you for this opportunity to testify regarding H.R. 3755, the "Zero Downpayment Act of 2004."

My name is Ann Ashburn, and I am President and Chief Executive Officer of AmeriDream, Inc., a national non-profit organization committed to increasing homeownership opportunities. Our credo is: "Doing things right for America's homebuyers." AmeriDream provides a full range of homeownership-related services, including down payment gift assistance, homebuyer education, loss mitigation counseling, community redevelopment, charitable contributions, and soon, mortgage payment protection. Over the last five years, AmeriDream's down payment assistance program has helped more than 130,000 low- and moderate-income individuals and families become homeowners, many for the first time. Each and every month, this program is helping more than 3,000 hard-working families achieve the American dream of homeownership. AmeriDream is especially proud to note that almost 30% of our down payment gift funds are distributed to minority homebuyers – individuals and families for whom the dream of homeownership has often seemed out of reach for far too long, as this Subcommittee well knows.

AmeriDream wholeheartedly encourages efforts by the Administration and this Subcommittee to break down major barriers to homeownership – particularly with respect to high down payments and closing costs. AmeriDream strongly supported the enactment of the American Dream Downpayment Act last year, and we urge the Subcommittee to continue its focus on issues related to down payment assistance throughout the remainder of the 108th Congress. To that end, Mr. Chairman, I applaud your leadership in calling this morning's hearing, and, Congressman Tiberi, I commend you for introducing the important piece of legislation before us.

We appreciate this Subcommittee's recognition that when government seeks to take on a new area of responsibility, policymakers are often well served to draw on the experience and successes of the private- and charitable-sectors for guidance in designing a workable and effective program. In considering significant housing policy reforms, in particular, policymakers must evaluate a host of potentially far-reaching consequences, while bearing in mind the enormous investment, both financial and emotional, that homeownership involves for most families. Given AmeriDream's extensive experience in putting real families into real homes – more than 130,000 of them over the past five years – and our intimate familiarity in serving precisely the clientele that this proposal would target, AmeriDream is pleased to offer itself as a resource to the Subcommittee as it seeks to refine and perfect H.R. 3755.

I am particularly grateful to have been invited to present AmeriDream's views at today's hearing, Mr. Chairman, because the Zero Downpayment initiative, as embodied in H.R. 3755, seeks to address an issue with which we have considerable familiarity and extensive experience. Indeed, the underlying purpose and intent of this proposal reflect AmeriDream's very mission – "to expand affordable housing opportunities for underserved groups and to promote the value of homeownership as the foundation for building strong communities and individual prosperity."

Although eliminating the down payment barrier to homeownership can seem like a daunting challenge in light of the complexity of the issues involved and the potentially far-reaching policy consequences at stake, the charitable sector has shown that it is possible to craft a successful program while balancing all of the relevant concerns. Based on our years of experience in serving first-time homebuyers, including many who struggle to meet basic mortgage qualifications, AmeriDream would respectfully offer a few suggestions on how this important piece of legislation might be made even more effective. In that spirit, Mr. Chairman, I would like to offer a few general observations about the bill and then suggest three specific refinements for the Subcommittee's consideration.

I would begin with our general observations. As the Subcommittee considers the merits of the Zero Down proposal, we would submit that Members should strive to balance the potential appeal of Zero Down loans to homebuyers, on the one hand, against the possible drawbacks of such loans to some of those potential homebuyers and the communities in which they live, on the other. Potential drawbacks of Zero Down loans to prospective homebuyers include higher monthly payments, due to higher insurance premiums, and larger mortgages. Moreover, homeowners taking on a Zero Down loan would enter homeownership with zero, or even negative, equity. To the extent that homeowners are more likely to default on their loans when they lack equity in their homes, the Subcommittee may wish to consider what effects the availability of Zero Down loans may have on the future health of the FHA insurance fund. I would note, by way of contrast, that purchasing a home with down payment gift assistance – whether that assistance comes from government programs such as the President's American Dream Downpayment Initiative, from relatives, or from non-profit organizations – leaves the homeowner with lower payments and positive equity in their homes.

As the Subcommittee considers how best to bring the considerable, though limited, resources of the federal government to bear on the challenge of high down payment costs, we respectfully suggest that Members not overlook the integral role that non-profit providers such as AmeriDream can continue to play in helping low-income homebuyers achieve the dream of homeownership. While we warmly welcome the federal government's efforts to address the issue of high down payments, we believe that charitable gift providers can continue to make a valuable contribution in this area as part of a public-private partnership. In our view, the goal of increasing homeownership is too important an objective to ignore the long experience and deep expertise of reputable charitable providers: the best solution is for us to work together.

To this end, we would encourage the Subcommittee to seek appropriate ways to leverage the substantial experience and resources of charitable down payment gift providers, perhaps by ensuring a formal role for HUD-approved providers that demonstrate a clear, publicly minded commitment to our shared goal of increasing homeownership. While the federal government has recently begun to propose important initiatives to help low- and middle-income homebuyers overcome the barrier of high down payments, non-profit providers have been meeting this challenge successfully for years. To coin a phrase, Mr. Chairman, charitable down payment providers have been there, and we've done that – over 130,000 times at AmeriDream alone over the past five years. And we continue to help hard-working families achieve the American dream today through our full range of homeownership-related services, all without government funding, taxpayer dollars, or additional potential risks to homebuyers or the FHA insurance fund.

AmeriDream would welcome the opportunity to participate in a well-designed public-private partnership, Mr. Chairman, and we stand ready to work with this Subcommittee and the Administration in exploring how the charitable sector can most productively assist the government's efforts.

Moreover, Mr. Chairman, as the Subcommittee well knows, when Congress legislates significant reforms in policy areas that could give rise to uncertain consequences, it often does so by introducing those reforms gradually – by phasing them in over time or by establishing a demonstration project to evaluate a program's effectiveness. Clearly, much is at stake for the first-time homebuyer, the average taxpayer, and the overall economy (which has been buoyed of late by a thriving housing sector) with respect to the proposal before us, and little is known about the precise consequences of the Zero Down program, especially on minority homebuyers and their neighborhoods. Accordingly, the Subcommittee may wish to consider how it can appropriately advance this important policy objective in a way that both reduces potential risks and enhances the program's likelihood of success. One option that the Subcommittee might consider would be a gradual phase-in of the program (e.g., permitting FHA to insure 98% of a given loan in year one, then 99% of a loan, and finally 100% of a loan). Another option might be to introduce the program as a demonstration project (e.g., restricting the program to a relatively small number of lenders with strong performance records and/or placing an initial cap on the volume of mortgages insured).

In the course of assisting 130,000 homeowners achieve the American dream, we have learned a lot about the particular elements that contribute to a successful down payment program. So in addition to these general observations, Mr. Chairman, AmeriDream would like to propose three specific refinements to H.R. 3755 for the Subcommittee's consideration. I will be brief in describing these possible improvements now, but I would be happy to discuss them in greater detail during the question and answer period.

- **Require participating borrowers to demonstrate reasonable credit-worthiness.** First, the Subcommittee should require participating borrowers to demonstrate reasonable credit-worthiness. Most Zero Downpayment programs offered in the conventional mortgage market impose some sort of minimum credit requirement. For example, in order to qualify under Freddie Mac's Zero Down mortgage, borrowers must have a credit score of at least 700 or receive an "accept" from Loan Prospector, the agency's scoring model. While we would leave it to the Subcommittee's discretion to determine what specific credit requirements might be appropriate, we believe that some form of credit standard would be an important addition to the legislation in light of the uncertain effects of permitting FHA to insure Zero Down mortgages.

- **Require pre- and post-homebuyer counseling.** AmeriDream applauds the Subcommittee's continued attention to the issue of homebuyer counseling, as evidenced by the panel's interest in holding a public hearing on this topic last week. In the context of the Zero Down proposal, we believe that the Subcommittee should require participating borrowers to complete a HUD-certified counseling program, both before and after purchase. Many housing programs offered in the conventional mortgage market require some form of counseling for first-time homebuyers. Moreover, a recent study by

Freddie Mac concluded that pre-purchase counseling can reduce the risk of default by as much as 34%. Because a well-designed borrower counseling program can have a significant impact on loan performance and can help offset additional credit risk, the completion of pre- and post-purchase counseling is an appropriate requirement for borrowers seeking to participate in the proposed Zero Down program.

- **Require use of a HUD-authorized automated underwriting model.** In our view, the Subcommittee should also require that all borrower applications for participation in the Zero Down program be processed and approved by a HUD-authorized automated underwriting model. Automated underwriting models and similar technological advances hold great promise in controlling the credit quality of loans by ensuring that all relevant risk factors are considered. Furthermore, a recent study comparing the assessments of human underwriters to the classifications produced by Freddie Mac's Loan Prospector found that automated underwriting did a significantly better job of identifying loans that ultimately performed. This greater precision resulted in higher approval rates, especially for lower income and minority families. For these reasons, it would be appropriate for the Subcommittee to require the use of a HUD-authorized automated underwriting model in processing and approving borrower applications for participation in the Zero Down program.

Mr. Chairman, I hope that AmeriDream's experience, expertise, and long-standing commitment to our shared objective of increasing homeownership – particularly among homebuyers of modest means – has provided the Subcommittee a useful perspective this morning. AmeriDream would be pleased to work with the Subcommittee on this issue further over the weeks and months ahead, and I look forward to answering any questions you may have regarding this bill or my testimony this morning. On behalf of AmeriDream's nearly 100 employees and outreach representatives, the more than 130,000 homeowners we have served so far, and the countless small and minority-owned businesses we help support in carrying out our mission, thank you so much, Chairman Ney and Ranking Member Waters, for this opportunity to testify before you today.

Dedicated solely to ending America's affordable housing crisis

Testimony of
Sheila Crowley, MSW, Ph.D., President
National Low Income Housing Coalition
U.S. House of Representatives Financial Services Committee
Subcommittee on Housing and Community Opportunity
March 24, 2004

Chairman Ney, Ranking Member Waters, and Members of the Housing and Community Opportunity Subcommittee, thank you for the invitation to testify today. I am Sheila Crowley, President of the National Low Income Housing Coalition. NLIHC is dedicated solely to ending the affordable crisis in the United States. Our members include non-profit housing providers, homeless service providers, fair housing organizations, state and local housing coalitions, public housing agencies, housing researchers, private property owners and developers, state and local government agencies, faith-based organizations, residents of public and assisted housing, and other people and organizations concerned about low income housing across the country.

This hearing on H.R. 3755, the Zero Downpayment Act of 2004, provides a good opportunity to begin a discussion about the core assumptions surrounding the Bush and Clinton Administrations' policy of expanding home ownership in the United States. Home ownership is called the American Dream. The homes that they own are most families' greatest financial asset. Homeowners are considered to be the anchors of their communities. Benefits accrue to children that are attributed to their families' status as home owners. Expanding access to home ownership to members of racial minorities who have been historically excluded from doing so, sometimes by public policy design, is just and fair.

The policy seems to be working. The rate of home ownership in the United States is higher than it ever been. The resources that the federal government expends to underwrite home ownership are immense. The combined value of the mortgage interest tax deduction, the real estate tax tax deduction, and reduced taxes on capital gains was $109.3 billion in 2003, the second largest federal tax expenditure exceeded only by deductions for health care costs.[1] The Federal Housing Administration insured 1.2 million homes last year and the Veterans Administration another 382,000. By some calculations, the federal government subsidizes Fannie Mae and Freddie Mac at a rate of $15 billion a year. Direct appropriations fund home ownership subsidies through the Neighborhood Reinvestment Corporation. HUD funds support Habitat for Humanity and other national intermediaries that subsidize home ownership. HOME and CDBG funds are used by states and localities to help low income people become home owners. Even

[1] Dolbeare, C. N. & Saraf, I.B. (2003, December). *Changing priorities: The federal budget and housing assistance 1976-2008.* Washington, DC: National Low Income Housing Coalition.

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Section 8 Vouchers are now used to help people make mortgage payment. And just last year, Congress created the American Dream Downpayment program and appropriated $87 million to fund it.

An FHA zero downpayment mortgage insurance product would add one more tool to the considerable tool box that Congress has filled over the years to support home ownership. It is a fine tool to add. HUD projects that 150,000 families a year will be able to buy homes with this new tool. It should be applied, however, to all home ownership opportunities including condominiums and co-ops.

I have not seen any evidence that these will be families that otherwise would be unable to buy their homes. Further, as I understand it, half of these families would qualify for existing FHA mortgage insurance. But meeting unmet housing needs is not the criterion used to evaluate home ownership housing policy proposals.

The main question here seems to be whether or not potential homeowners should be able to obtain home mortgages without putting any money down. Conventional wisdom is that they should not. A downpayment has traditionally been used as a market signal to indicate the borrower's commitment to the loan and his or her ability to save and accumulate enough funds in reserve to make payments on the loan even if income is reduced or other temporary adverse conditions befall the borrower and to meet the irregular and unexpected costs of homeownership. The lack of a downpayment has traditionally been used to prevent a borrower from obtaining a loan to purchase a home, thereby limiting access to homeownership to people who already have a nest egg of their own or who have family members who will loan or give them the money. Breaking down this barrier to home ownership presented by lack of funds for a downpayment is the objective of most home owner assistance programs. There is no functional difference between a zero downpayment loan and a loan made possible because of a downpayment assistance grant to the borrower. This proposal is not breaking new ground in this regard.

What is important in the development of a zero downpayment mortgage insurance product offered by FHA is that, as a government program, it will provide greater protections for consumers. Less than scrupulous for-profit lenders with zero downpayment programs will be not be able to compete and be forced out of business.

The question beyond whether or not this proposal is a good idea is whether or not home ownership is indeed the best form of tenure for all of the families who are targeted by these programs. The idealization of home ownership as the preferred form of tenure with promises of wealth accumulation can push people into taking out mortgages before they are really ready or able.

The financial and emotional damage to a family from failure at home ownership is acute. Counseling is important, but all the counseling in the world cannot manufacture income where it does not exist. Anyone whose income is anything short of permanent should be counseled to approach home ownership with caution, not enticed into taking a risk. Home ownership does not inoculate people from housing affordability problems. Fifty-five million low income people in

the United States live in homes that they cannot afford and 48% of them are live in homes that they own.[2]

The problem with this legislation is not what it does, but in how far off-the-mark it is in addressing the most serious housing problem in the United States, which is the shortage of rental housing stock that is affordable and available to the lowest income people. While the federal government is directing hundreds of billions of dollars into home ownership, the lack of the most basic form of housing causes millions of Americans to live precariously close to the edge of homelessness and too many to fall into homelessness. Twenty-nine million low income people in the United States live in rental housing they cannot afford. Ten million people live in renter households with incomes below 30% of the area median and pay more than half of the household income for their housing. [3] Thirty percent of area median income is $15,630 in Knox County, OH and $15,090 in Los Angeles.

Moreover, during the 1990s when we had the most expansive economy imaginable, analysis of rental housing cost changes from 1990 to 2000 based on U.S Census data shows slight improvement for all income groups but the very lowest. The shortage of rental housing units affordable for families with incomes of 30% of the area median or less grew by 15% during the last decade. In 2000, for every 100 renter households with incomes less than 30% of the area median in the nation, there were only 43 affordable and available rental units. In Ohio, the number is 53 for every 100; in California, it is 22 for every 100.[4] Extremely low income renters remain the people in our country whose housing needs are the most acute and who are the most neglected by the federal government.

Why does it matter that low income renters cannot afford basic housing? Besides the obvious negative social consequences for the families, it is renters who become new homeowners. Renters who are unable to find and maintain stable rental housing that they can afford will never be in a position to become homeowners. If for no other reason than to expand the pool of potential homeowners, it is good public policy to invest in rental housing for the lowest income families.

Once again, I urge this committee to take up H.R. 1102, the National Affordable Housing Trust Fund Act, which would create capital grants to go to states and localities to distribute through competition to capable developers to build and operate affordable housing for extremely low income renters. This is the missing tool in the affordable housing tool box. H.R. 1102 has 211 co-sponsors today. Nearly 5,000 organizations and elected officials have endorsed the National Housing Trust Fund Campaign, including Mayor Rhine McLin of Dayton, OH, who just endorsed.

Although not explicit in H.R. 3755, the Administration's proposal for the zero

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[2] Crowley, S., Pelettiere, D., Trekson, M., & Schaffer, K. (2004, February). *America's neighbors: The affordable housing crisis and the people it affects*. Washington, DC: National Low Income Housing Coalition.
[3] Ibid.
[4] Nelson, K.P, Treskon, M., & Pelettiere, D. (2004, March). *Losing ground in the best of times: Low income renters in the 1990s*. Washington, DC: National Low Income Housing Coalition.

downpayment FHA product calls for an increased cost in insurance to the borrower. FHA Commissioner Weicher reported at a briefing earlier this year that HUD calculates this would produce net income of $180 million a year to the MMI Fund. Although I wonder if these borrowers are of enough increased risk to warrant higher premiums, I must say that we support growing the surplus in the MMI Fund. As you know, H.R. 1102 calls for all revenue to the MMI Fund above the current 2% reserve requirement to be the dedicated source of revenue for the National Housing Trust Fund. The latest actuarial review of the MMI Fund by Deloitte & Touche reports an excess of $14 billion in 2003 beyond the required reserve. Under any circumstances, despite increases in FHA foreclosures, the fund remains extraordinarily healthy for the foreseeable future. The Executive Summary of the Actuarial Review for 2003 is attached.

The underlying premise of H.R. 3755 is that the affordable housing problem in the United States is such that it will not be solved by the market and economic growth alone. If we believe as a nation that housing is a basic human need that society has both an interest in and a responsibility to assure for all its members, then public intervention is required. H.R. 3755 is not enough.

I. Executive Summary

The Cranston-Gonzalez National Affordable Housing Act (NAHA) requires an independent actuarial analysis of the economic net worth and soundness of the Federal Housing Administration's (FHA's) Mutual Mortgage Insurance (MMI) Fund. This report presents our findings with respect to this required analysis for fiscal year (FY) 2003 using data as of March 31, 2003.

The primary purpose of this review is to estimate:

- The economic value of the MMI Fund, defined as the sum of existing capital plus the net present value of current books of business, and
- The current and projected capital ratio, defined as the economic value divided by the total insurance in-force (IIF).

Status of the Fund

NAHA mandated that the MMI Fund achieve a capital ratio of at least 1.25 percent by FY 1992 and a capital ratio of at least 2.00 percent by FY 2000. Last year's Actuarial Review estimated that the MMI Fund's capital ratio at the end of FY 2002 was 4.52 percent, the eighth consecutive year it exceeded the 2.00 percent FY 2000 requirement. This year, we estimate that the FY 2003 capital ratio is 5.21 percent. We also estimate that the FY 2005 capital ratio will be 5.70 percent and that the FY 2010 capital ratio will be 5.50 percent. Table I-1 provides our estimates of the Fund's current and future economic values and capital ratios.

In defining the capital ratio, NAHA stipulates the use of unamortized insurance in-force. However, "unamortized insurance in-force" is defined in the legislation as "the remaining obligation on outstanding mortgages" – a definition generally understood to apply to amortized IIF. Deloitte & Touche (D&T) uses the unamortized IIF measure (as generally defined) in calculating the capital ratio. However, it is also instructive to consider the capital ratio based on amortized IIF, which is the basis the General Accounting Office has used in its previous reports on the status of the Fund. Our estimate of the FY 2003 capital ratio using amortized IIF is 5.59 percent, our estimate of the FY 2005 capital ratio is 6.06 percent, and our estimate of the FY 2010 capital ratio is 5.91 percent. Unless stated otherwise, all references to the Fund's capital ratios in this report refer to the ratio computed using unamortized IIF.

Economic Value

D&T estimated the economic value of the Fund as of fiscal year-end 2002 to be $22.6 billion. In the 2003 study, we estimate that the economic value of the Fund has increased by $0.1 billion to $22.7 billion as of fiscal year-end 2003. Two large offsetting impacts contribute to this increase. The loans endorsed during fiscal year 2003 are expected to increase the economic value of the Fund by $2.8 billion. Countering this effect is the extraordinarily high prepayment activity that has adversely impacted the Fund's economic value during fiscal year 2003, as well as claim activity that has exceeded the levels

predicted in our 2002 study. It is important to note that despite these effects, our study indicates that both the economic value of the Fund and the capital ratio has increased during fiscal year 2003; the fiscal year-end 2003 estimated capital ratio is in fact higher than we had predicted in the 2002 study (5.21% as compared to 4.52% as of fiscal year-end 2002 and 4.91% predicted for fiscal year-end 2003), while the economic value is lower than we had predicted. This is primarily the result of the significant 21.5% decrease in IIF that occurred during fiscal year 2003 due to high pre-payments associated with very low interest rates.

Sources of Change in the Status of the Fund

Change in Economic Value from FY 2002 to FY 2003
We estimate the economic value of the MMI Fund (the Fund) to be $22.736 billion at the end of FY 2003; this is an increase of $0.100 billion over our estimate of our FY 2002-end estimate in last year's study and a $4.534 billion (or 16.63 percent) decrease from our FY 2003-end estimate of $27.270 billion in last year's analysis.

Our $22.736 billion estimate of the Fund's economic value is comprised of total capital resources as of fiscal year-end 2002 of $20.544 billion and the present value of future cash flows for in-force business of negative $1.984 billion. The sum of these two components ($20.544 – $1.984 = $18.560 billion) is shown as the economic value of the Fund at the beginning of FY 2003.

The difference between the economic value of the Fund at the end of FY 2003 and at the beginning of the fiscal year is the result of the activity in the Fund during the fiscal year. That is, the $18.560 billion economic value at the beginning of the year should increase by the present value of any new loans endorsed during the year and increase by the amount of investment income accrued during the year.

The development of the $22.736 billion FY 2003 estimate of economic value is as follows:

Economic value at beginning of FY 2003:	$18.560 billion
Present value of FY 2003 endorsements:	$2.773 billion
FY 2003 investment income:	$1.403 billion
Less FY 2003 administrative expenses:	(discontinued*)
Economic value at end of FY 2003:	$22.736 billion

The same calculation holds for future fiscal years, and is shown in Exhibit II.1, Page 1 for FY 2003 through FY 2010 (under the baseline economic assumptions).

The 16.63 percent decrease in the estimated economic value of the MMI Fund since fiscal year-end 2002 is accompanied by a 21.46 percent decrease in the unamortized IIF relative to our expectations in last year's Review. These changes result in the capital ratio increasing by 0.69 percent from 4.52 percent to 5.21 percent for FY 2003.

*Note: The deduction of administrative expenses in the economic value calculation was discontinued in the Actuarial Review for FY 2002 and subsequent. This change was made to reflect a federal credit reform requirement.

Table I-1

Projected MMI Fund Performance for FY's 2003 through 2010
($ Millions)

Fiscal Year	Economic Value of the Fund (FY end)	Capital Ratio (FY end)	Volume of New Endorsements	Unamortized Insurance In-force (FY end)	Economic Value of New Business	Interest on Fund Balances	Admin Expense (discontinued)
2003	$22,736	5.21%	$146,377	$436,401	$2,773	$1,403	$0
2004	27,699	5.70%	143,521	486,332	3,392	1,572	0
2005	32,456	5.70%	145,163	569,588	2,974	1,783	0
2006	36,841	5.63%	140,864	654,740	2,365	2,020	0
2007	41,612	5.64%	145,289	738,071	2,497	2,274	0
2008	46,679	5.65%	151,967	826,875	2,521	2,546	0
2009	51,717	5.61%	156,990	921,709	2,202	2,836	0
2010	56,189	5.50%	162,740	1,022,397	1,328	3,144	0

Current Estimate of FY 2003 Economic Value Compared with the Estimate Presented in the FY 2002 Actuarial Review

This year's estimate of the FY 2003 economic value is $4.534 billion lower than the economic value projected for FY 2003 in the FY 2002 Actuarial Review. This decrease in our estimate is comprised primarily of the following factors:

1. Change in selected loss rates
2. Change in economic forecast
3. Change in the estimate of the present value of the 2003 book of business
4. Econometric model revisions
5. Difference in net FY 2003 cash flows predicted in the 2002 and 2003 studies

Our selected loss rates this year reflect the continual improvement seen since the implementation of the loss mitigation program. The change in selected loss rates caused a $698 million increase in our estimated economic value of the Fund. Countering this effect was the change in economic forecast, which had an estimated negative impact of $1.128 billion. The estimated present value of the FY 2003 endorsements decreased by $343 million relative to the FY 2002 Actuarial Review, as a result of a forecast for higher claim and prepayment levels in the early policy years relative to last year's estimates. Two revisions were made to the conditional claim rate model as a response to the observed underprediction of claims for recent books of business. These changes, which are discussed in detail in Section IV, resulted in an estimated decrease of $2.369 billion. Lastly, the estimated net cash flows to the Fund during FY 2003 are estimated to be $967 million lower than what had been predicted in the FY 2002 Review, as a result of significantly higher than predicted claim and prepayment activity during the first six months of FY 2003.

The impact of each factor is illustrated in Table I-2 below.

Table I-2

Summary of Changes in MMI Fund Estimated Economic Value Between FY 2002 and FY 2003 ($ Millions)					
		Change in FY 2003 Economic Value	**FY 2003 Economic Value**	**Change in FY 2003 Capital Ratio**	**Corresponding FY 2003 Capital Ratio**
FY 2003 Economic Value Presented in the FY 2002 Review, Excluding the FY 2003 Book of Business			**$22,636**		
Plus:	Forecasted Value of 2003 Book of Business and Interest Income as Presented in the FY 2002 Review	+$4,634			
Equals:	FY 2003 Economic Value Presented in the FY 2002 Actuarial Review		**$27,270**		**6.25%***
Plus:	Change in Estimated Present Value of Endorsements Originating in FY 2003	-$343	$26,927	-0.08%	6.17%
Plus:	Change due to economic forecast	-$1,128	$25,799	-0.26%	5.91%
Plus:	Change in replacing SR with OY1995 in CCR regression	-$2,175	$23,624	-0.50%	5.41%
Plus:	Change due to OY2000 Adjustment	-$194	$23,429	-0.04%	5.37%
Plus:	Change in Loss Rates	+$698	$24,128	+0.16%	5.53%
Plus:	Change in Discount Rate	-$141	$23,987	-0.03%	5.50%
Plus:	Change due to difference in FY 2003 predicted cash flows	-$967	$23,020	-0.22%	5.28%
Plus:	Changes not attributable to methods, factors, etc.	-$284	$22,736	-0.07%	5.21%
Equals:	**Estimate of FY 2003 Economic Value**	**-$4,534**	**$22,736**	**-1.04%**	**5.21%**

* The predicted FY 2003-end capital ratio in the 2002 study was 4.91%. This has been restated to 6.25% here due to the significant difference between predicted FY 2003-end insurance-in-force in the 2002 study ($555.6B) and actual FY 2003-end insurance-in-force ($436.4B).

Estimated Claim Severities

In the FY 2003 review, as in previous studies, we adopted a method that examines fiscal quarter loss rates and selects a claim severity rate by loan type – see *Appendix C, Claim Severity Model.* Since 1995 average claim severities have gradually decreased. As explained in the *Claim Severity Model* appendix, we base the selected claim severity on the experience over the past 10 quarters. Using claim severities based on the more recent observed experience has a positive impact on the estimated economic value of the fund.

Effects of Loss Mitigation

It is our understanding that during FY 1996, Congress passed legislation that authorized the FHA to recompense mortgagees for actions taken to mitigate potential losses by providing mortgage foreclosure alternatives, such as special forbearance, pre-foreclosure sales, deed-in-lieu-of-foreclosure transactions, partial claim payments, and loan modifications. It is also our understanding that in the private conventional mortgage industry, Fannie Mae and Freddie Mac have successfully employed many of these loss mitigation techniques.

The loss mitigation program is expected to reduce the number of foreclosures and to significantly reduce the costs associated with many foreclosures. Evidence is emerging that indicates this program is having economic benefits and perhaps social benefits. The loss mitigation program has been employed for the past four years and has experienced rapid growth. The relatively short history of the program makes it difficult to incorporate in the conditional claim rate models. Because of this, the effects of the loss mitigation program have not been explicitly factored into the claim rate model. We are implicitly reflecting the impact of the loss mitigation program in the selection of the claim severities by basing the selection on actual severities over the last 10 quarters.

Additional Comments

The estimates presented here reflect projections of events more than 30 years into the future. These projections are dependent upon a number of assumptions, including economic forecasts by Global Insight (formerly DRI*) and the assumption that FHA does not change its refund, premium, or underwriting policies from those assumed for this review. To the extent that these or other assumptions are not sufficiently accurate, the actual results will vary, perhaps significantly, from our current projections.

Estimation of the equations used for predicting prepayments and claims require large amounts of loan level data. These data take many weeks of intensive processing before they can be used to estimate the model parameters. Additionally, complete data for a fiscal year are generally not available until a few months after the end of the fiscal year because of reporting and processing lags. We obtained a data extract from FHA that represents activity as of March 31, 2003. This data extract contains loan level information, providing information on both the aggregate level of activity and the distribution of that activity. We have used these data to estimate our econometric claim and prepayment rate models.

Finally, while we have reviewed the integrity and consistency of the data supplied by FHA and believe it to be reliable, we have not audited it for accuracy. Additionally, the information contained in this report may not correspond exactly with other published analyses that rely on FHA data compiled at a different time or obtained from other systems.

*Note. Global Insight was created with the purpose of combining the two economic and financial forecasting companies - DRI (formerly Data Resources Inc.) and WEFA (formerly Wharton Econometric Forecasting Associates) operating as DRI•WEFA. The company changed its name to Global Insight on October 28, 2002.

Impact of Economic Forecasts

The economic value of the Fund and its pattern of capital accumulation depend on several factors. One of the most important factors is the future economic environment that will exist during the remaining life of the FHA's current books of business. We capture the most significant factors in the U.S. economy affecting the performance of the Fund's books of business through the use of the following economic variables:

- FHA mortgage contract rates – 30- and 15-year
- One-year Treasury Bill rates
- Appreciation in house prices
- Growth of mean household income levels
- Number of mortgage originations

The performance of the FHA's books of business, measured by the economic value of the MMI Fund, is affected by changes in these economic variables. Higher mortgage interest rates raise initial and ongoing payment burdens on household cash flows, and hence claim risks of new originations while decreasing the risk of claims on older loans with below-market interest rates. Lower mortgage interest rates have the reverse effect and tend to accelerate refinancing of earlier originations while increasing insurance claims. Faster average house price growth facilitates the accumulation of home equity, which tends to reduce the likelihood of a claim. It also contributes to greater mobility and household asset portfolio rebalancing, leading to greater turnover of housing and refinancing, thereby increasing prepayment rates. Faster income growth reduces the relative burden of mortgage payments on household cash flows over time, reducing the risk of claims as mortgages mature.

The base case results in this report are based on DRI's U.S. Economy forecast as of July 2003 for interest rates, average house prices, and inflation rates. We also considered three additional scenarios which were based GAO's judgmental scenarios in *FHA's Fund Has Grown, but Options for Drawing on the Fund Have Uncertain Outcomes* (February, 2001). Please note that the scenarios we selected are not strictly derived from GAO's analysis, due in part to the fact that the modeling process we employ is not the same as GAO. The characteristics of these three forecasts are described in *Appendix F, Economic Forecast* of this report. We considered one additional scenario where future losses were modeled using the loss rates selected in the 2001 Actuarial Review. We present our estimates of the Fund's performance under each of economic scenarios in Table I-3.

Our projections indicate that under all five scenarios, the Fund will exceed the NAHA FY 2000 capital ratio target of 2.00 percent.

Table I-3

Projected MMI Fund Performance by Macroeconomic Scenario
($ Millions)

	Base Case	Low House Price Appreciation	High Interest Rates	High Unemployment	Low House Price Appreciation, High Unemployment	Using 2002 Selected Loss Rates
Current Economic Value (FY 2003)	$22,736	$20,588	$23,713	$22,076	$19,516	$22,037
Current Capital Ratio (FY 2003)	5.21%	4.72%	5.43%	5.06%	4.47%	5.05%
Projected Capital Ratio (FY 2005)	5.70%	4.95%	4.29%	5.21%	4.45%	5.46%
Projected Capital Ratio (FY 2010)	5.50%	5.09%	5.00%	5.26%	4.80%	5.12%

TESTIMONY OF
DEANE DOLBEN,
PRESIDENT, THE DOLBEN COMPANY
DIRECTOR, NATIONAL MULTI HOUSING COUNCIL
2004 PRESIDENT, NATIONAL APARTMENT ASSOCIATION

ON BEHALF OF THE

NATIONAL MULTI HOUSING COUNCIL/
NATIONAL APARTMENT ASSOCIATION

JOINT LEGISLATIVE PROGRAM

BEFORE THE

HOUSE COMMITTEE ON FINANCIAL SERVICES

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

WEDNESDAY, MARCH 24, 2004

Chairman Ney, Ranking Member Waters, and distinguished Members of this Subcommittee, my name is Deane Dolben. I am president of the Dolben Company, which operates approximately 8,000 apartments in Massachusetts, Maryland, Michigan, New Hampshire, Rhode Island and Virginia. I am also the 2004 president of the National Apartment Association and a director of the National Multi Housing Council. It is my pleasure to testify today on behalf of the National Multi Housing Council (NMHC) and the National Apartment Association (NAA).

Together, NMHC and NAA represent the nation's leading apartment firms. Our members are engaged in all aspects of the apartment industry, including ownership, development, management, and finance. NMHC represents the principal officers of the apartment industry's largest and most prominent firms. NAA is the largest national federation of 164 state and local apartment associations representing more than 30,000 professionals who own and manage more than 4.9 million apartments. Our two independent organizations operate a joint legislative program in order to provide a unified voice for America's rental housing industry.

NMHC and NAA commend you, Chairman Ney, for your leadership, and we thank the Members of the Subcommittee for your valuable work addressing the important issue of housing in America. You may wonder why two rental housing organizations are testifying on a bill to create zero-downpayment mortgages for homeownership. We are here not to argue against homeownership. But we are here to point out that it is shortsighted—indeed dangerously misguided—to attempt to solve all of our nation's housing problems on the back of homeownership alone.

This year we have seen a tremendous proliferation of private and public sector initiatives to push low- and moderate-income families into homeownership. We are not here to suggest that the U.S. should stop supporting or subsidizing homeownership. In fact, a great number of our firms offer their residents "rent to own" assistance to help them buy their first house. But we do believe that time has come to ask whether a "homeownership above all else and at any cost" policy is wise.

We believe that three key facts have been overlooked as the homeownership bandwagon has gained steam.

1. Not everyone has the means to own a house.
2. Trying to create a nation of homeowners will ultimately harm not only many of those owners, but also our local communities.
3. Not everyone wants to own a house.

Before I explain our concerns with this and other recent homeownership proposals, I want to first dispel the notion that our objections are based solely on the apartment sector's fears that they will lose apartment residents and rental revenue if more households are given the opportunity to become owners. The truth is that more homeowners do not necessarily mean fewer apartment renters. Thanks to projected population growth, continuing strong immigration, and a dramatic increase in the number of single-person households, even if all of the proposed homeownership initiatives are implemented, there will still be enough new renters to fill the expected inventory of rental apartments. According to Harvard University, even if the homeownership rate rose by three percentage points over the current decade—a possible, but unlikely, scenario—the number of apartment renters would still rise by between one million and six million.

In other words, when it comes to market share and profitability, housing is not a zero-sum game. However, the federal budget **is** a zero-sum game. Every dollar allocated to homeownership incentives is a dollar taken away from other housing programs. And homeownership, while worthy, is not the best tool to solve our most pressing housing needs. After nearly two years of study, the Congressionally chartered Millennial Housing Commission reported to Congress in May 2002 that expanding the supply of affordable rental housing should be our nation's top priority. The Commission concluded

that homeownership alone cannot solve suburban sprawl, urban decline, the affordable housing shortage or the need to house our aging citizens.

There is a growing and dangerous disconnect between our housing policy and our housing needs. The U.S. will "spend" $393 billion on the mortgage interest deduction over the next five years, but just $37 billion on the one federal program, the low-income housing tax credit, that supports the production of more affordable rental housing.

NOT EVERYONE HAS THE MEANS TO OWN A HOUSE

The pursuit of homeownership is a worthy goal, but we must be careful not to oversell homeownership. Many families never question whether buying a house is a path to financial security. They just assume it is, especially when the federal government is the one telling them they should buy a house. But for too many households, the joys of homeownership have turned into an agony of onerous and unsustainable debt that harms their financial future.

We do hard working families a grave disservice when we encourage them to buy homes they are not likely to be able to maintain or keep. Evidence suggests that we may already be pushing the homeownership envelope too far. Foreclosures of conventional loans are near record-level, and FHA foreclosures are at their highest level ever and are still climbing. The National Housing Conference reports that 51 percent of working families with critical housing needs are owners, not renters. And, HUD reports that the only group whose housing conditions worsened between 1999 and 2001 were low- and moderate-income owners. While the number of renters with critical housing needs remained essentially unchanged during that period, we added one million new homeowners with incomes below 80 percent of the area median income who are paying more than 50 percent of their income on housing. This nine percent jump brings the total of such households to 14.5 million.

Low- and zero-downpayment loans, in particular, are putting households at higher risk for default. Zero-downpayment mortgages failed miserably in the 1980's when tens of thousands of financially troubled mortgage holders had no recourse but to abandon their house and mail the keys back to their lender. Yet here we are, once again debating the merits of zero-downpayment loans.

A growing number of households have put up only a few hundred dollars to buy an older house that is more expensive to maintain and is located in a neighborhood where wealth accumulation is not likely. With no cash reserves, many are one paycheck away from financial disaster if their incomes decline, their house values fall or expensive repairs are required. A recent University of North Carolina study found that almost half of low-income home buyers experienced major unexpected costs associated with their homes—largely as a result of the age and condition of the housing affordable to them.

Highly leveraged buyers are at risk for owing more on their house than their houses are worth. If prices in their neighborhood fall three to five percent in the first five years they own their house, and they have to move for personal or financial reasons, these cash-poor families will have to come up with 10 percent of their home's value in order to pay off their mortgage.

Since lower-income households are more likely to suffer job losses **and** are more likely to live in neighborhoods with declining house prices, homeownership can actually trap them in distressed neighborhoods, especially if they do not have enough equity in their homes to simply return the keys to the lender when homeownership becomes unsustainable.

Beyond the emotional damage caused by foreclosure, rising foreclosures create economic costs too. A 1995 study estimated that the average family loses $7,200 through foreclosure. They also damage their credit rating, which makes it more difficult for them to buy, or even rent, another dwelling. Rising foreclosures also create economic costs. Foreclosure affects more than just the family who loses

their house. It creates losses for lenders, loan servicers, mortgage insurers, the GSEs, and the city, county or township. One research report says total losses to all stakeholders conservatively average $73,300 per foreclosed FHA-insured loans and $26,600 for foreclosed conventional loans.

These facts make it clear that it is essential that proposed homeownership initiatives include strong and substantial counseling and education provisions to educate consumers about the considerable responsibilities that accompany successful homeownership. No one is born a successful homeowner. To be a successful first-time homeowner, an individual should understand all the factors that go into purchasing and owning a home—especially all the financial considerations. We urge the Committee not to pursue this legislation until sufficient research has been done to verify that adequate counseling resources are included.

TOO MUCH HOMEOWNERSHIP IS NOT GOOD FOR LOCAL COMMUNITIES

Rental housing may not be as strong a political message as homeownership, but the plain fact is that this nation needs apartments in order to meet our housing needs. We need them for the 73 million Echo Boomers who are already graduating from college and looking for housing. We need them for the estimated 13 million immigrants who will come to this country in the next 10 years, looking for a place to start their new lives. We need them for the millions of hard working families who are paying more than half their income for shelter or living in substandard housing. We need them to help house the nation's nearly 74 million Baby Boomers as they age and can no longer take care of themselves.

Pushing the homeownership envelope too far can actually backfire and seriously damage the economic health of our communities. While homeownership can play a role in stabilizing neighborhoods, it can only do so if new homeowners are successful. If new owners cannot afford to maintain their homes, as is the case with many low-income households, nearby property values will fall. One study estimates that that average sales prices fall $788 for each 1 percent increase in tax delinquencies in a one- to two-block area of residence. If families default and abandon their houses, then cities, counties, towns and school districts also lose tax revenue and incur higher costs associated with vandalism and other social problems. One researcher estimated that cities spend, on average, $27,000 per FHA foreclosure. Instead of improving conditions for residents, ownership can actually trap families in bad neighborhoods, particularly highly leveraged buyers.

In Philadelphia, a group of city officials, advocacy groups and the sheriff asked a judge to suspend the city's foreclosure auctions because they believe too many families are having their mortgages foreclosed. The director of the Philadelphia Unemployment Project said "This is the worst time for foreclosures basically since the Great Depression."

America's communities have learned the hard way that they need more apartments. Towns without sufficient rental housing forego valuable consumer spending and discourage businesses from expanding or relocating there because they cannot house prospective workers. To give one example, one study found that the Minneapolis-Saint Paul region forgoes an estimated $265 million per year in consumer spending and business income because it lacks sufficient housing for essential employees.

Towns need apartments to help revitalize distressed neighborhoods. The biggest housing success story of the last decade is the downtown revivals taking place from Philadelphia to San Jose. Decaying and abandoned city centers are being transformed into dynamic neighborhoods with new restaurants, shops and cultural attractions. These stories owe their success not to new homeownership initiatives, but to apartment developers who took a chance and created new housing downtown.

Towns also need apartments to accommodate population growth without adding to the nation's pollution and traffic congestion. Apartments concentrate development and conserve resources. By contrast, our homeownership initiatives only push development farther and farther out, creating costs for

towns when they have to extend roads, water and sewer to new developments and find ways to offer police, fire and social services over a wider geographic area.

NOT EVERYONE WANTS TO OWN A HOUSE

Not only does America need apartment homes, but a growing number of Americans **want** them. America's tagline may be "a nation of homeowners," but actually one-third of our citizens are renters, and 40 percent surveyed report that they prefer to rent, even though they could afford to buy.

Apartments are no longer the housing of last resort. As American lifestyles have gotten busier, young professionals and empty nesters who could afford to buy are choosing to rent instead. They want the conveniences, amenities, shorter commutes and financial freedom that renting provides. Yet, for some reason, policy makers keep trying to push them into homeownership. This seems irresponsible; especially when research shows that half of all owners could have saved money by renting comparable housing.

The popularity of rental housing will intensify in the coming years as the groups most likely to prefer renting come to dominate our population. By 2020, singles and unrelated individuals living together will comprise one out of every three households. And 73 million Echo Boomers are getting ready to enter the housing market, typically first as renters.

Why do so many policy makers want Americans to own houses even when the households themselves have indicated that they prefer to rent? Often it is because they believe that apartment residents are second-class citizens who cause property values to decline and crime rates to increase. But this is a throwback to the housing projects and tenements of an era gone by, especially now that the fastest growing segment of the apartment sector is households making $50,000 or more. A Harvard University study found that average house values were the highest in working communities—which it defined as neighborhoods in which residents earn between 60 and 100 percent of the area-wide median income—with the **most** multifamily units. They also report that between 1970 and 2000, home values increased in high multifamily working communities in each of the largest 42 metro areas.

CONCLUSION

NMHC/NAA applaud that you recognize the need for safe, decent and affordable housing, but it is time to realize homeownership is not for everyone and it isn't a cure-all. We have real housing problems we need to solve, and we cannot solve them exclusively on the back of homeownership. We need more quality housing and a more balanced housing policy. The zero-downpayment initiative proposed in H.R. 3755 threatens to harm the very citizens it aims to help and to damage the economic viability of some of our communities. The idea that too much homeownership is a bad thing may not be conventional wisdom. But the facts make it clear that it is true.

NMHC/NAA urge Congress to consider all the impacts that a zero-downpayment program would have on society. Homeownership can be fantastic, but our nation's housing policy should not be so lopsided that people who are otherwise ill-equipped for homeownership are lured there only to regret it when the mortgage payments and repairs bills come due. In addition, we urge Congress to include strong and substantial counseling and education provisions to educate consumers about the considerable responsibilities that accompany successful homeownership.

The time has come to create a new housing paradigm and to begin to focus our limited resources on those programs that can serve the most families dealing with critical housing needs.

Thank you for the opportunity to testify today.

Statement of

Conrad Egan
President and CEO
National Housing Conference

Before the

U.S. House of Representatives
Committee on Financial Services
Subcommittee on Housing and Community Opportunity

March 24, 2004

Mr. Chairman, thank you for the opportunity to appear before you and other members of the Subcommittee about HR 3755 the Zero Downpayment Act of 2004 on behalf of the National Housing Conference (NHC).

NHC supports HR 3755, but with a strong sense of caution.

We support HR 3755 for the following reasons:

1. By reducing the FHA single family downpayment to zero under certain circumstances, more families would be able to purchase homes. These families would otherwise be unable to begin to accumulate assets and grow wealth through homeownership;

2. To the extent that homeownership stabilizes and improves communities, HR 3755 would support those positive outcomes;

3. When administered in a safe and sound manner, HR 3755 would add value to FHA's book of business and its volume, thus increasing its viability; and

4. An FHA zero downpayment product would bring FHA's national standardization in underwriting, pricing, and practices to a newly emerging segment of the market.

However, NHC's support of HR 3755 comes with a strong cautionary note. Although we applaud HUD's intentions to require prepurchase counseling, to raise the upfront MIP to 2.25%, and to maintain high credit quality standards, we would further suggest that HUD incorporate additional safe guards in its administration of the program, including:

1. Additional post purchase counseling and crisis intervention assistance, paid for by HUD funding and provided by bona fide HUD approved agencies, with mandatory referrals of loans more than 30 days delinquent;

2. Without diminishing availability to credit worthy borrowers, higher than usual credit standards for both payment ratios and FICO scores accompanied by higher than normal sampling ratios of lending practices;

3. Tight appraisal standards;

4. Careful and quick attention to any concentrations of defaults and foreclosures that may occur; and

5. Effective collaboration with local officials, agencies and organizations to ensure positive community outcomes.

In summary, Mr. Chairman, we would suggest that, following enactment, this product be treated as a trial program with careful attention to ensuring the ongoing actuarial viability of the product and very close monitoring, possibly by third parties, to ensure positive outcomes on borrowers and communities.

Assuming that these safe guards and procedures are implemented, NHC would suggest that this product be expanded to include condominiums and possibly co-ops.

In conclusion, Mr. Chairman, let me make a separate but related point. NHC strongly supports expanding homeownership opportunities for more Americans. We are, therefore, compelled to note that a continuing lack of good, affordable rental housing is diminishing that potential for a growing number of this nation's families. Many remain mired in unstable, costly, inadequate rental housing, without the ability to develop good credit histories and to accumulate those resources necessary to achieve homeownership.

Therefore, Mr. Chairman, NHC strongly urges you and your colleagues to also pay priority attention to preserving and increasing the supply of good, affordable rental housing in this nation.

Banking. Investments. Insurance.

Prepared Testimony of Thomas J. Finnegan III
President, Huntington Mortgage Group

on

The Zero Down Payment Act of 2004, H.R. 3755

before the

Subcommittee on Housing and Community Opportunity
of the
U.S. House Committee on Financial Services

The Honorable Bob Ney, Chairman
The Honorable Maxine Waters, Ranking Member

March 24, 2004

Chairman Ney, Ranking Member Waters, and Members of the Subcommittee, thank you for the opportunity to testify this morning in strong support of H.R. 3755, the "Zero Down Payment Act of 2004."

I am Tom Finnegan, President of the Huntington Bank's Mortgage Group. Huntington is a subsidiary of Huntington Bancshares Incorporated, a $30 billion regional bank holding company headquartered in Columbus, Ohio. Through its affiliated companies, Huntington has more than 138 years' experience serving the financial needs of its customers. Huntington provides innovative retail and commercial financial products and services through more than 300 regional banking offices in Indiana, Kentucky, Michigan, Ohio and West Virginia.

I have been with Huntington for nearly 8 years and have over 25 years experience in the mortgage industry and in working with Federal Housing Administration insured loans. In 2003, Huntington Mortgage Group funded $6.1 billion in mortgage loans including $425 million in FHA insured loans and we currently service approximately $600 million in FHA loans. While the mortgage industry has experienced an exceptional upturn in the last two years, there are still many Americans who do not have the resources to own their own home.

H.R. 3755, the Zero Down Payment Act, will significantly enhance the housing market by allowing lenders to extend mortgages to hard working Americans with good credit who simply can not afford the lump sum down payment traditionally required with FHA loans.

At Huntington, our mortgage specialists, those associates responsible for counseling homebuyers about their financing options, report that saving for a down payment is the single most common roadblock for first-time homebuyers. We find that many of these potential customers easily qualify for a mortgage payment that equals what they are currently paying in rent. These first-time buyers have long rental histories, have made their payments on time, have solid income sources and want to purchase now, but do not have additional money saved for a down payment.

For example, if a potential buyer were purchasing a $190,000 home in Columbus, Ohio, the buyer's down payment for an FHA loan would be 3% of the purchase price, or $5,700. In the event this family was able to put aside $100 a month, it would take over five and a half years to save the down payment and achieve their goal.

The Zero Down Payment Act would allow this family to move into a new home today. Lenders would embrace the program because the FHA would back the zero-down program and borrowers would pay a slightly higher insurance premium to cover the exposure.

For conventional, 3 percent-down products backed by FHA, Huntington would charge an initial premium of 1.5% of the loan amount, or $2,850 on the $190,000 home used in our example. The zero-down loans would bring a premium of 2.25% or $4,275 on the same $190,000 home--a difference of just $1425. This premium would be added to the principal of the loan and included in the mortgage financing.

Zero-down borrowers would also see an increase from .5% to .75% in their annual insurance premiums for the first five years of the loan. For our family purchasing the $190,000 home, the increase in monthly payment is under $100.

The option to pay higher insurance premiums over paying large lump sum down payments will allow families to avoid losing the time value of money, and begin immediately building wealth and equity in their home. In addition, when families are not forced to spend their savings balances down to zero, they have the resources to cover unexpected emergencies and other expenses associated with home ownership.

H.R. 3755 contains several safeguards to protect both borrowers and the housing market. As a lender, managing our credit portfolios and mitigating risk determines the success of our business. Our support and confidence in the Zero Down Payment Act is based on two important factors.

First, the families that will be served by this program will still have to qualify for the financing and meet at least the same credit standards as all Huntington FHA program borrowers. In addition to meeting Huntington and FHA underwriting requirements, the borrower must be able to easily afford the monthly mortgage payment. Certainly, underwriting of the zero down loans, either manually or through FHA's Total Scorecard, should focus on the borrower's capacity for the monthly payments as well as their credit history and cash reserve position. As I mentioned previously, by substantially lowering the up front cash needed by the borrower, the program enhances the individual's ability to conserve cash for future needs.

Second, the Zero Down Payment Act will build upon the track record and success of current FHA programs to expand the dream of home ownership to low and moderate-income families. As a lender that partners actively with the Federal Housing Administration, Huntington has confidence in FHA's ability to create a program that will protect and educate consumers, maintain a healthy lending environment, and grow the housing market.

The built in safeguards afforded by H.R. 3755 are preferable to the current market solution to the down payment roadblock. Like many mortgage loans, the current FHA program allows for "gift funds" to cover the required 3% down payment. Many non-profits have recognized the need for down payment assistance and provide these "gifts" in partnership with homebuilders and home sellers.

We believe the more direct approach offered by H.R. 3755 is preferable. It eliminates the need for additional involvement of third parties, extra paperwork and allows for the direct negotiation of a sales price with a home seller without regard to the financing method being chosen.

In closing, I reiterate Huntington's strong support for H.R. 3755, the Zero Down Payment Act of 2004. We thank Chairman Ney and Congressman Tiberi for their leadership on this important legislation . By acting quickly, Congress can provide stimulus to the housing market, and help working families, particularly those in the low to moderate-income areas, to achieve the American dream of home ownership.

Thank you Chairman Ney for providing Huntington the opportunity to testify today. I welcome any questions.

Statement of Pastor Warren L. Henry
Vice-Chairman, Housing Authority of Fulton County
Atlanta, GA

On

H.R. 3755

"The Zero Downpayment Act of 2004"

before the

Subcommittee on Housing and Community Opportunity

Committee on Financial Services

United States House of Representatives

March 24, 2004

Good morning, and thank you Mr. Chairman, and Ranking Member, for holding this hearing and inviting me to speak on behalf of our Housing Authority of Fulton, based in Atlanta, GA, on H.R. 3755, the "Zero Dowpayment Act of 2004, introduced by Rep. Patrick Tiberi (R-OH) and Co-sponsored by our esteemed Georgia Congressman David Scott (D-GA).

I feel our Housing Authority is uniquely qualified to speak on this piece of legislation. Our Housing Authority was one of the first Public Housing Authorities in the state of Georgia to utilize the Section 8 Homeownership Voucher Program to give our residents the opportunity to move from dependence to self-sufficiency through homeownership. However, the hurdle of bringing together the downpayment required to access this opportunity has often been challenging.

Fulton County has been at the forefront of trying to find creative ways to address this issue. FHA programs have been used by our Housing Authority residents to gain access to homeownership opportunities. In fact, we believe the FHA programs are one of the best and cost-effective approaches to expanding lending opportunities to low and moderate-income families, first-time homebuyers and minorities. In 2002, more than one-third of the FHA origination loans in recent years were made to minority households compared with just 18 percent of conventional loans. Additionally, more than half of FHA loans approved in 2002 went to households earning less than $50,000, compared with 27 percent of conventional loans in that same span of time.

H.R. 3755 provisions, which would allow for FHA to approve zero downpayment mortgages for first-time homebuyers, would allow FHA to maximize its fullest potential in accessing historically underserved minority and economically challenged communities. This would be achieved by using this new financing tool to help create and promote sustainable communities. Additionally, the obvious financial and social benefits associated with homeownership are self-evident. Homeowners can build the equity and potential capital liquidity that is the essence of full inclusion within our economic and social system.

Obviously, the acquisition of a home is an important responsibility that must be engaged with reverence and commitment. As such, we believe it is extremely important that anyone seeking to access FHA funding through this initiative should have the opportunity to seek housing counseling where appropriate. Additionally, potential beneficiaries of this program should have the ability to access FHA, HUD or other counseling program services before, during and through the loan approval process.

H.R. 3755 is also important because it allows FHA to operate with the same efficiencies, objectives and resources that will allow it to maximize its fundamental mission – providing housing resources to all Americans. Additionally, programs such as the Zero Downpayment Act of 2004 have the ability to be revenue generating - this is achieved through the eventual federal mortgage insurance premium revenues that will be charged to the homebuyers and/or property owners that go directly to the federal Treasury.

As a member of the faith-based community and as a member of the Housing Authority of Fulton County Board of Commissioners', I know first-hand the transforming impact homeownership can bring to both individuals and communities. Fulton County is blessed to have a number of areas where homeownership opportunities are expanding. However, in order for our County to truly fulfill its promise as indicated in its HUD Comprehensive Planning document, which makes affordable housing the number 2 priority of the County government, we will need to have the tools available to maximize the opportunity to expand housing options and choice for our residents. We believe the provisions contained with H.R. 3755 have the potential to take us a long way in achieving this goal by allowing FHA to broaden its lending powers to more individuals desirous of homeownership.

Consequently, we believe H.R. 3755 is a bill that takes FHA in the right direction. FHA has done a great deal of good work, but its principal mission to expand more homeownership opportunities for all Americans are yet to be fulfilled. We believe the goals and objectives contained in H.R. 3755 is an important step in this process and would like for the committee to give due consideration to this important legislation.

On behalf of the Board of Commissioners of the Housing Authority of Fulton County and its Executive Director, Ms. Bettye A. Davis, thank you for the opportunity to testify today and we look forward to working with you to expand the opportunity for homeownership to as many deserving Americans as possible.

Thank you for this opportunity to speak with you this morning.

STATEMENT

of

Michael F. Petrie

on

H.R. 3755

"Zero Downpayment Act of 2004"

before the

Subcommittee on Housing and Community Opportunity

Committee on Financial Services

United States House of Representatives

March 24, 2003

Good morning, and thank you Mr. Chairman, for holding this hearing and inviting the Mortgage Bankers Association (MBA)[1] to share its views on H.R. 3755, the "Zero Downpayment Act of 2004," introduced on February 3, 2004. My name is Michael Petrie and I am President of P/R Mortgage & Investment Corp. (P/RMIC), Indianapolis, Indiana, chairman of Greensfork Township State Bank, Spartanburg, Indiana, and Chairman-Elect of the Mortgage Bankers Association (MBA).

The U.S. currently enjoys the highest rate of homeownership it has ever seen with 68.6% of households owning their own home. This is a tremendous accomplishment. More importantly though, behind this percentage rate are the more than 71 million families who are enjoying the fruits of homeownership. While this success means that more American families than ever before are enjoying the financial and social benefits of homeownership, there is still more to be done.

MBA would like to draw the attention of this subcommittee to the 31.4% of households that do not own their own home. Many of these families have made the decision to rent for very good reasons. MBA's multifamily members finance the properties that house these families and we have long advocated policies that assure a safe, decent and affordable supply of rental housing.

However, a large number of the 33 million renter families want to own their own home, but face significant challenges. These challenges include insufficient income, poor credit, lack of information, and the lack of funds for the downpayment.

Thus, while we may celebrate the U.S.'s record homeownership rate, that very same rate masks a glaring disparity: minorities have a much lower rate of homeownership than non-minorities, and low- and moderate-income families have a much lower rate of homeownership than those at or above median-income levels. In the 4th quarter of 2003, while 75.5% of Non-Hispanic White households owned their own homes, only 49.4% of Black households and 47.7% of Hispanic or Latino households owned their own homes. Additionally, while 83.2% of families earning more than the median income owned their own home, only 52.1% of families below the median income did. MBA believes these homeownership gaps are a problem.

Simply put: not all populations equally participate in the benefits of homeownership.

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[1]The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 400,000 people in virtually every community in the country. 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 homeownership 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 2,700 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.mortgagebankers.org.

The gaps in homeownership rates are a result of several issues, and closing the homeownership gap will require several initiatives. H.R. 3755 deals directly with one prominent obstacle: the downpayment.

A March 2003 study conducted by the Mortgage Insurance Companies of America (MICA) found that the downpayment was identified by renters as the biggest hurdle to homeownership. Fifty-one percent of renters stated that coming up with enough money for the downpayment would be the biggest hurdle for them. This was more than double the next hurdle: making a long-term commitment to owning a home, which 19% of respondents identified.

The downpayment hurdle appears to be a significant issue for minorities. Several studies have identified the "wealth constraint" – that is the ability to save for a downpayment – as a major homeownership barrier for minority families. Practically by definition, the downpayment hurdle disproportionately affects low- and moderate-income families who may be able to make monthly housing payments without difficulty, but find it problematic to save for the downpayment.

MBA believes that in order to truly expand homeownership opportunities, we must overcome the downpayment challenge. We believe the FHA zero downpayment loan program is the appropriate tool for addressing this challenge.

In the past, the amount of downpayment was considered an indicator of credit risk, that is, the willingness and ability of a borrower to make monthly payments on a mortgage. The benchmark was (and still is) that a 20% downpayment on a home provides lenders sufficient comfort that a borrower has the ability to handle the mortgage. In addition to being an indicator of risk, a 20% downpayment also provided a buffer for lenders in case of default.

The Federal Housing Administration (FHA), in its 70-year history of mortgage innovation, began the trend to insure mortgages with less than a 20% downpayment, or conversely, to insure loans with a greater than 80% Loan-to-Value (LTV). Over the years, FHA has gradually and successfully lowered the amount of required downpayment. Today, FHA will insure a loan up to 97% of the value of a home, requiring the borrower to provide only a 3% downpayment.

Simultaneously, as downpayment requirements were lowered, advances were made in credit underwriting over the past 15 years, such as the emergence of Automated Underwriting Systems (AUS) and a national credit reporting system. These advances have allowed lenders to more accurately gauge credit risk with less reliance on benchmarks like downpayments.

Lenders have discovered (and studies have supported) that a borrower's credit profile is a much better indicator of the performance of a loan than is the amount of the downpayment. The national credit information system preserved under the Fair and

Accurate Credit Transactions Act of 2003 allows lenders to efficiently access a borrower's credit information and effectively evaluate risk.

Current theory indicates that the driver of default is not equity. That is, a borrower does not look at how much equity they have in their home each month and decide whether or not they're going to make their mortgage payment or how hard they will work to avoid default. Rather, the default option is driven primarily by whether or not they have the willingness and ability to satisfy the debt. The ability to pay is affected by income, and the willingness to pay is determined by credit history.

This confirms an intuitive truth: a borrower's willingness and ability to pay a mortgage depends much more on their character and resourcefulness, and less on how much wealth they bring to the closing table. Given this fact, it is time to address the downpayment challenge as an obstacle that prevents good borrowers from becoming good homeowners.

In looking to remove the downpayment as an obstacle to homeownership, MBA is not suggesting a "homeownership at all costs" strategy. Rather, we are advocating a targeted attempt to remove the downpayment obstacle and close the homeownership gap among races and economic classes.

While the FHA program authorized under H.R. 3755 will not be the first no-downpayment mortgage product on the market, MBA believes it will be the most broadly applied and will reach minority and low- and moderate-income populations at the highest rates, without strict geographic or credit scoring criteria.

As mentioned previously, FHA has a history of implementing innovative mortgage products, tested with the backing of the Federal government, and eventually adopted by the private sector. It is important to emphasize that this history of innovation is undertaken at no cost to the taxpayer. FHA funds the operation of its mortgage insurance programs from the revenues it charges for use of its insurance.

FHA insurance is the appropriate means to close the homeownership gap among minorities and low- and moderate-income families.

FHA's single-family programs serve minorities at higher rates than the market at large. In 2002, more than one third of all FHA borrowers were minorities. FHA served African-American and Hispanic families at approximately three times the rate of the general market. During that year, 13.3% of FHA's borrowers were African-American compared with 4.6% in the general market. Likewise, 19.1% of FHA's borrowers were Hispanic, compared with 6.7% in the conventional market.

A significant number of FHA borrowers are low- and moderate-income borrowers. In 2002, over 57% of FHA's borrowers had an annual income under $50,000, while 26.6% of conventional borrowers earned less than $50,000.

FHA's programs are active in "underserved" areas of the country at much higher rates. A 1999 study by HUD's Office of Policy Development and Research showed that 40.5% of FHA's loans were made in "Underserved Areas."

Plainly put: FHA reaches the people and places necessary to bridge the homeownership gaps.

MBA supports H.R. 3755 as an important innovation for FHA. We specifically support H.R. 3755 for three reasons: it will serve those families who, but for a wealth constraint, would otherwise make good borrowers; it will serve these families without cost to the taxpayers; and it will help improve FHA's financial health.

It is MBA's understanding that H.R. 3755 authorizes FHA to insure mortgages up to 100% of the appraised value or purchase price of a home, whichever is less. We further understand that it is FHA's intention to allow borrowers to finance the Mortgage Insurance Premium (MIP) and closing costs into the loan amount. Additionally, we understand that FHA will limit the program to first-time homebuyers, require homeownership counseling, and charge a slightly increased MIP to ensure the program operates without a negative impact on FHA's funds. We further understand that there will be no reduction in FHA credit standards.

Given the above understanding, MBA is confident that the FHA zero downpayment product will allow good borrowers to become good homeowners. In many communities, housing prices are rising faster than incomes. If a borrower can afford the monthly payment and is a good credit risk, why should they be penalized by housing prices that keep rising faster than their income? Furthermore, the funds borrowers are able to save by not making a downpayment might be better held by that borrower as a contingency reserve after they close. The 3-5% equity position in a new home does little good for new homeowners if emergencies arise.

The benefits of FHA's Zero Downpayment program will be realized without cost to the taxpayers. The higher MIP has been calibrated to cover expected losses under the program. FHA has a solid record of accurately adjusting its insurance premiums to ensure it can deliver its programs in a fiscally sound manner. Since 1992, FHA's Mutual Mortgage Insurance Fund (MMIF), which will finance the Zero Downpayment program, has exceeded the Congressionally-mandated capital ratio. MIPs that were high in the early 1990s have been gradually reduced, with FHA maintaining a positive revenue position. Currently, FHA has over $22 billion "on account" at the U.S. Treasury to cover losses it may incur on its current portfolio.

Even with the higher foreclosure and claim rates FHA is currently experiencing due to the recent recession, MBA believes that FHA currently has ample resources to cover these expenses.

MBA believes, in fact, that FHA's financial position will be improved under this program.

Over the past several years, certain nonprofit corporations have, while loosely following FHA regulations, effectively offered zero downpayment loans to FHA borrowers. HUD's Office of Inspector General and an independent study have expressed concerns loans closed under these programs have a significantly higher default rate and can tend to have inflated property values. At the same time, FHA is unable to compensate for the additional risk with these loans by charging a higher MIP.

H.R. 3755 would empower FHA to reach the same borrowers served by these programs, but at less cost to the borrower and to FHA. Borrowers would not find themselves buying homes where the seller has adjusted the price of the home due to a particular financing mechanism employed to fund the downpayment. FHA can charge a higher MIP and compensate for the additional risk. MBA believes that loans closed under the Zero Downpayment program would perform better than some of the downpayment assisted loans FHA is currently insuring.

The fact is, with H.R. 3755, FHA could reach additional minority and low- and moderate-income families than it does today, and do so in a financially responsible manner.

President Bush launched the administration's "Blueprint for the American Dream" Initiative in 2002, with its stated goal of creating 5.5 million new homeowners by the end of the decade. MBA has been a strategic partner with HUD in working toward the fulfillment of this goal. We believe that the Zero Downpayment program proposed in H.R. 3755 will be an important tool for FHA to address the needs of even more minority homebuyers.

MBA applauds Congressman Tiberi for introducing this bill and demonstrating his commitment to closing the homeownership gap. Once again, thank you for allowing MBA to testify today.

We would be happy to furnish any additional needed information to the committee as it considers this bill.

Thank you.

TESTIMONY

H.R. 3755
The Zero Downpayment Act of 2004

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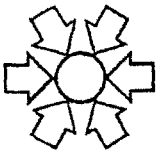
Before the

Subcommittee on Housing and Community Opportunity of the
Committee on Financial Services
United States House of Representatives

March 24, 2004



It is an honor to appear today before this Subcommittee to discuss H.R. 3755, the Zero Downpayment Act of 2004. I am managing partner of Federal Financial Analytics, a consulting firm that advises on U.S. legislative, regulatory and policy issues affecting financial institution strategic planning. In this capacity, we advise a variety of companies on the implications of legislation and regulation in the mortgage and housing markets. Clients in this practice include trade associations, mortgage insurers, and mortgage lenders.

There are a few key points I would like to make regarding the real benefits and risks associated with a new FHA zero downpayment mortgage program:

- I strongly support the Administration's goal of increased homeownership, with a focus especially on low-income and minority individuals. Because of the vital role of homeownership in personal and community well-being, it is critical that new programs focus not only on giving borrowers a mortgage in the short term but also on helping them keep their homes for the long term, especially during periods of economic stress.
- Zero downpayment loans are viewed by the private sector as higher risk, resulting in reliance on careful underwriting. Thus, FHA entry into zero downpayment loans must be carefully structured to prevent risk to borrowers, communities, and the rest of the FHA Mutual Mortgage Insurance (MMI) Fund. The MMI Fund has proven itself as a vital spur to homeownership in key underserved markets, and it is thus critical that a new program not endanger it.

- To protect borrowers, communities and the MMI Fund, HUD should consider limits beyond those currently proposed for zero downpayment loans. These could include targeting the program to low- and moderate-income borrowers, reliance only on proven FHA lenders, and increased sampling.

Key Factors in the Zero Downpayment Loan Program

First, the borrower's initial downpayment is a major factor in limiting first-time homeownership for low- and moderate- income buyers. Thus, the Administration's proposal strikes at the heart of a key issue that limits homeownership and, of course, community development. However, initial downpayment is also a proven major risk factor for mortgage insurers, lenders and investors, especially during periods of economic stress. For the past five to six years, lenders working with private mortgage insurance companies, community groups and government-sponsored enterprises have tailored zero downpayment programs to balance the risks and the rewards to homeowners. To the extent the FHA successfully insures zero downpayment mortgages while minimizing the potential risk to the borrower, the FHA MMI Fund and inner city neighborhoods, it will clearly help more low- and moderate- income borrowers first to become and then to remain homeowners.

Second, as private mortgage participants have learned, careful underwriting by all the parties at risk -- lenders, insurers, investors and community groups -- is necessary to ensure that only the right borrower takes on a zero downpayment mortgage. Failure to

tailor underwriting criteria to the unique nature of the zero downpayment mortgage could well harm borrowers, communities and the FHA Fund.

Borrowers using zero downpayment mortgages have the most to lose if home prices stop increasing in their neighborhood. Once closing costs, fees and the FHA's own up-front financable insurance premium are added to the loan amount, the borrower starts homeownership owing 103%, 105% or even more of the property's initial value. In a geographic area with very low – or no –home price appreciation, a borrower owing significantly more than the property's initial value has to wait a long time before assurance that, if the home is sold, they will be able fully to pay off the remaining mortgage using only the proceeds of the sale of the house after paying real estate fees. If home prices fall in the neighborhood, then the borrower will be underwater in the mortgage for at least several years. In my opinion, the FHA must make every effort to avoid placing first-time homebuyers – especially low- and moderate-income ones -- in a position where their hopes of moving to accept a new job or live close to family are dashed solely because of a zero downpayment mortgage taken out years before. Careful underwriting is critical along with providing the borrower with an explanation of the risks inherent in the zero downpayment mortgage.

Third, the FHA MMI Fund is a vital part of the nation's housing system. The FHA zero downpayment program is projected to generate revenues of $184 million in its first year. However, I do not believe this budgetary calculation robustly reflects the true risks of a zero downpayment program during periods of stagnant or falling regional home prices. Any new FHA program should be tested to ensure that poor loan performance resulting from the program will not put the MMI Fund in jeopardy, assuming reasonable

economic scenarios. This is particularly true for a zero downpayment program, where not only the cumulative claim rate,[1] but also the loss severity rate on foreclosed properties[2] likely will be higher during periods of stress than rates experienced to date in other FHA programs. Certainly, higher claim rates and loss rates are the experience of the private mortgage insurance and mortgage investing community when dealing with very low downpayment mortgages.[3] The same appears to be true for FHA.

The latest Deloitte Touche Actuarial Review of the FHA MMI Fund shows that FHA 30-year fixed rate loans with initial loan to value ratios (LTVs) above 96% experience significantly higher cumulative claim rates than similar loans with lower initial LTVs.[4] I believe that FHA loans with initial LTVs of 103% or more will follow the higher claim path found by Deloitte Touche for high LTV loans. Because of the negative borrower equity in a zero downpayment mortgage, the loss severity associated with any of these loans that go to foreclosure will be higher than that for other FHA loans, holding other factors constant.

In my view, it is critical to the health of the FHA Fund that the zero downpayment program be designed to bring new borrowers into the FHA rather than serve as a means

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[1] Cumulative claim rate is the percentage of a book of loans originated in a given year that go to claim over the life of that book.

[2] The Deloitte Touche report defines claim severity or loss severity as "the ratio of the profit/(loss) on a property to the amount of principal unpaid on the loan. The profit/(loss) on a claim is defined as the acquisition cost plus selling expense less selling price... The acquisition cost is composed of the unpaid loan balance, interest lost by the lender as a result of default and legal/administrative costs associated with foreclosure. Holding costs are the net costs to FHA for repairing, maintaining, paying taxes, and collecting rents (if possible) on the property while it is held in inventory." Actuarial Review of MMI Fund as of FY 2003, page C-1.

[3] See Fannie Mae 2003 10-K, March 15, 2004, p.98: "The likelihood of default and the gross severity of a loss in the event of default are typically lower as the LTV decreases, all other factors held equal."
See also Calem and Follain, Federal Reserve Board Staff Paper, *The Asset Correlation Parameter in Basel II for Mortgages on Single Family Residences*, p.23 for results of joint FRB and MICA study of default and loss rates on 90% and 95% LTV mortgages.

for those borrowers who have the wherewithal to make a 3% downpayment simply to avoid doing so. Some lenders and real estate brokers may look to the zero downpayment program as a way to move an FHA borrower into a larger mortgage rather than bringing low- and moderate-income potential borrowers who otherwise would not qualify for an FHA-insured loan into a starter home. The Deloitte Touche report shows that, for 30-year fixed rate single-family mortgages insured by FHA in 2003, loans with initial LTVs of 97% or higher comprised 43% of these loans on a loan count basis and 78% of these loans on a dollar amount basis.[5] Clearly, FHA is already exposed to the risk associated with very high LTV loans. The addition of a zero downpayment program will increase this exposure. Thus, an FHA fund with a relatively large share of zero downpayment borrowers would significantly increase the MMI Fund's risk exposure during periods of regional house price declines or economic contraction.

Finally, neighborhoods are also at risk from a poorly planned zero downpayment program. One of the major concerns with FHA for community groups has been the concentration of foreclosed FHA properties in inner city areas resulting from fraud, predatory lending or other problems associated with giving low-and moderate-income borrowers mortgages they could not afford for homes with over-appraised values. The zero downpayment program augments the risks associated with a bad appraisal. Correct property appraisals are critical in accurate mortgage underwriting. Since the zero downpayment borrower starts homeownership owing more on a mortgage than the house is worth, an inflated appraisal puts that borrower further behind the goal of building

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[4] Actuarial Review of MMI Fund as of FY 2003, page IV-4. Table IV-3 shows cumulative claim rate for "high LTV" loans—loans with initial LTVs greater than 96% -- originated in 2000 are projected to be 7.94% versus 5.34% for loans with "medium" LTVs and 2.55% for those with "low" initial LTVs.
[5] Actuarial Review of MMI Fund as of FY 2003 Table III-2B, page III-4 and Table III-7, page III-9.

equity. The combination of a bad appraisal, economic problems for the zero-downpayment borrower and stagnant home values can result in a high level of foreclosures in those inner city and moderate income areas where these FHA mortgages will be concentrated. The result of concentrated foreclosures is further downward pressure on home prices that escalate the downward spiral for that neighborhood.

Recommended Improvements

The above noted points are what I see to be the risks associated with a poorly planned FHA zero downpayment program. However, a properly structured program will, in my opinion, advance the administration's goal of increased homeownership in vulnerable communities, helping low- and moderate-income borrowers – especially minorities and immigrants – to invest in their neighborhoods and help them flourish.

So far, the details of the zero downpayment program proposed by HUD in my opinion do not offer all of the necessary protection to the borrower, the neighborhoods the new program will affect or the FHA MMI Fund. To assure the success of a zero downpayment program, I urge that HUD consider applying the following criteria:

1. To better target the beneficiaries of the zero downpayment program to low- and moderate- income borrowers, HUD should consider targeting the program to borrowers with incomes below area median income, focusing on borrowers seeking properties in low and moderate-income census tracts and/or setting the area maximum loan amounts for this program below the current applicable FHA limits.

2. It will not serve the goal of expanded homeownership if borrowers using the new program are those who have the wherewithal to make a 3% downpayment but choose the zero downpayment program either to buy a larger home or go still more deeply into debt. To prevent inappropriate use of this new program, the FHA lender should be required to attest that the borrower did not have sufficient cash to qualify for another FHA loan.
3. During the early years of the program, HUD should limit it to those lenders proven to be careful underwriters of FHA loans. These lenders are most likely to carefully review the quality of the appraisal being given for the property. They can also objectively assess the impact of seller contributions, which sometimes result in particularly over-inflated appraisals. Without such lender care, vulnerable borrowers are at particular risk.
4. Finally, it is critical that the program be carefully managed. As part of its quality control process, FHA currently reviews 10% of the post endorsement loans in its single-family program. Given the significantly higher risk associated with zero downpayment loans, the sampling of FHA loans within this program should be higher. This higher rate of sampling would be appropriate for at least the first several years.

Testimony Of

James R. Rayburn

On Behalf Of the

National Association of Home Builders

Before the

United States House Committee on Financial Services, Subcommittee on Housing and Community Opportunity

On

H.R. 3755

"The Zero Downpayment Act of 2004"

March 24, 2004

Introduction

Mr. Chairman, Ranking Member Waters, members of the Housing and Community Opportunity Committee, on behalf of the more than 215,000 members of the National Association of Home Builders (NAHB), thank you for the opportunity to testify before you today on H.R. 3755, the "Zero Downpayment Act of 2004," introduced by Representative Patrick Tiberi (R-OH). My name is Bobby Rayburn and I am the President of NAHB and a homebuilder and developer of both single-family and multifamily housing from Jackson, Mississippi. I have served as a senior officer of NAHB since 2001 and am a past-president of the Home Builders Association of Greater Hattiesburg, Mississippi, the Home Builders Association of Mississippi and continue to serve on the Board of Directors of the Jackson, Mississippi Home Builders Association.

Let me begin by saying that NAHB supports H.R. 3755. Since its creation in 1934, the Federal Housing Administration has been an innovator in creating mortgage products that serve families that are either not served or underserved by the private market. This legislation will allow FHA to continue in this important tradition of innovation to address a primary obstacle that prevents many minority and low- and moderate-income families from becoming homeowners: the funds necessary for a down payment. Furthermore, this legislation will enable FHA to remove this impediment to homeownership in a prudent manner and without negatively impacting FHA's Mutual Mortgage Insurance Fund (MMI Fund).

H.R. 3755 would authorize the Secretary of Housing and Urban Development to insure zero-down payment mortgages for one-unit residences. Currently, FHA requires a 3 percent minimum down payment under its 203(b)

program. H.R. 3755 would eliminate this requirement. To assist in mitigating risk to FHA, the program would carry higher upfront and annual mortgage insurance premiums (MIPs) than HUD's other FHA single family programs. The upfront MIP would be 2.25 percent compared with 1.50 percent for the FHA's standard mortgage insurance programs, while the annual MIP would start at 75 basis points and would decrease to 50 basis points after five years of satisfactory payment performance. Because the upfront MIP is normally included in the amount borrowed, the higher upfront and annual MIP would be reflected in slightly higher monthly payments. Homebuyer counseling would be required for all borrowers in the program, which NAHB believes is important. Loans in this program would be insured through HUD's MMI Fund. HUD estimates that 140,000 families would be able to achieve homeownership if this proposal is enacted.

Obstacles to Homeownership

Research suggests that the greatest obstacle faced by potential first-time homebuyers, especially low-income, minority individuals and families, is not the ability to make monthly mortgage payments, but rather the ability to assemble enough funds for a down payment. H.R. 3755 directly addresses this problem. According to a 1999 study by the US Census Bureau entitled "Who Can Afford to Buy A Home?" one of the top three reasons why families and individuals could not afford to purchase a house was a lack of cash or other financial assets for the down payment and closing costs.

Recent data on accumulated wealth among homeowners and renters from the Survey of Consumer Finance supports this point. This data highlights the lack of wealth available to renter households for making a down payment. Eighty-seven

percent of all renters have less than $50,000 in wealth (these are the likely funds to be used for a down payment to buy a home) while for minority renters that figure rises to ninety-four percent. With so little wealth and absent some down payment assistance, it is inordinately difficult to convert large numbers of renters, especially minority renters, into homeowners. Many of these same renters also lack sufficient credit history or have less-than-perfect credit and, thus, cannot be served by existing zero down payment products in the marketplace.

There are zero down payment products available in the conventional market and supported by the secondary market. Both Fannie Mae and Freddie Mac, for example, will purchase forms of no-down payment-loans. Since zero down payment options were introduced in the late 1990s, both of these secondary market organizations have expanded their suites of community development loan products aimed at reaching cash-strapped borrowers who wish to purchase homes in underserved markets. The products created to reach borrowers in underserved markets offer alternatives to down payments, such as soft second, or forgivable, mortgages from government agencies, employers or nonprofit organizations.

For most if not all of these products, however, accessibility is still limited to borrowers having the most sterling credit records. There is a significant segment of the population that is not served by these conventional-market options and would benefit from an FHA program. NAHB believes it fits well within the mission of FHA to provide a zero down payment product to help facilitate more homeownership for this underserved population.

Safe and Sound FHA Operation

NAHB further believes that this zero down payment program can be carried out in a safe and sound manner without harm to FHA's MMI Fund.

First, the role of the down payment in determining the credit worthiness of a potential homebuyer has diminished as underwriting technology has improved. Before the advent of automated underwriting, the amount of down payment a prospective borrower could afford was a dominant factor in the underwriting decision. However, as the level of sophistication of automated underwriting tools has advanced, the ability of these tools to differentiate between high and low credit risk borrowers has improved. This will allow FHA to better evaluate borrowers, before bringing them into the program.

Second, the risk to FHA from a zero down payment product can be mitigated through appropriate underwriting and financing criteria. Again, I would point to HUD's own zero down payment proposal where to compensate for the higher risk of default, the MIPs will be higher than FHA's regular 3 percent down payment program. As stated earlier, the upfront MIP would be set at 2.25% as compared to 1.50%, and the annual MIP would be 0.75% as compared to 0.50%. After five years, once borrowers have established a solid mortgage payment track record, the annual MIP would be reduced to 0.50%, the same as the regular program. HUD estimates that this approach results in no net cost to the FHA MMI Fund and only increases the monthly payment on a $100,000 mortgage by $50.

Finally, housing counseling can further lower risk to FHA by ensuring that first-time homebuyers understand the process and the ongoing responsibilities of

being a homeowner. HUD's own zero down payment proposal included in its Fiscal-Year 2005 budget request requires such counseling and we applaud that. The value of these programs is well documented and there are many local and state organizations around the country that provide housing counseling services. HUD itself funds many of these services through several grant programs of its own; however, these programs could be better organized and even enhanced to be more effective.

We support the approach taken in HR 3938, the **"Expanding Housing Opportunities Through Education and Counseling Act,"** introduced by Housing and Community Opportunity Subcommittee Chairman Bob Ney (R-OH) and cosponsored by Representative Nydia Valazquez (D-NY) and Representative David Scott (D-GA). This legislation will centralize, streamline and enhance housing counseling services at HUD. This proposal is right in line with NAHB's philosophy of expanding home ownership opportunities while putting forth the resources to help keep homebuyers in their homes. This legislation creates a much-needed focus within HUD on homeowner and rental housing counseling services beyond that of merely providing grants to education providers.

Enhancing the Soundness of the MMIF

Currently, the only way to address down payment barriers for FHA borrowers is through down payment assistance programs facilitated by nonprofit third parties. While these programs have contributed positively to homeownership expansion efforts, more options are needed. The FHA zero down payment program addresses the down payment hurdle while allowing FHA to establish

mortgage insurance premiums, underwriting and homebuyer counseling requirements targeted to that type of transaction.

Inclusion of Condominium/Cooperative Loans

Currently, H.R. 3755 would not apply to condominiums or cooperatives and NAHB would suggest that the legislation be amended to add them as an eligible option. In many communities around the country, single-family detached homes are far out of the price range for low- and moderate-income families. Condos and coops, on the other hand, are within their reach and can provide the same wealth-building benefits for families as well as community-development benefits for neighborhoods.

NAHB Support for Homeownership Initiatives

A zero-down payment program would be a valuable addition to FHA's homeownership expansion tools that make homeownership possible for families otherwise unserved in markets throughout the nation and under all economic conditions. It is also an excellent opportunity to address the needs of prospective minority homeowners - an area in which NAHB has been working closely with the administration and other housing industry groups.

As one of the original partners in the "Blueprint for the American Dream," NAHB and its state and local affiliates are engaged in a number of efforts in support of the administration's initiative. NAHB has joined with HUD and other Blueprint partners in promoting events around the country designed to increase public awareness of minority homeownership opportunities. NAHB is dedicated to

increasing public education regarding the many existing programs -- public and private -- that can help families achieve the dream of owning their own home. In addition, NAHB has been working with its network of state and local affiliates to find markets that could most benefit from education and outreach initiatives. Finally, NAHB is working with other Blueprint partners to identify opportunities for cooperative outreach efforts.

Housing America's Working Families

As NAHB's 2004 President, I have made housing America's working families a priority. Of particular concern to the building industry and myself are those men and women who work in their local communities, often as public employees, but cannot afford to live there. We need more funding for special programs that can help families buy or rent a home that meets their needs. These include a homeownership tax credit, down payment assistance programs, and tax credits that make rents more affordable. These programs make a difference for millions of families on the edge of affordability.

H.R. 3755 can help address our nation's "workforce" housing problem. The bottom line is that we need to move housing up on the list of priorities at all levels of government. NAHB will be sponsoring a major symposium this fall to focus attention on problems and solutions on workforce housing and we will be working at all levels to build momentum for that and other efforts to address housing affordability.

Conclusion

NAHB is pleased to note that this legislation is one of many proposed homeownership promotion initiatives under consideration by the Congress. Another important proposal is H.R. 839, the **"Renewing the Dream Tax Credit Act."** This legislation would provide an income tax incentive for the development of affordable homes, similar to that of the Low Income Housing Tax Credit, one of the most successful housing production programs in history. Several members of this committee are cosponsors of the legislation and we thank them for their support.

Mr. Chairman, thank you again for the opportunity to share our views on the "Zero Downpayment Act of 2004". The members of NAHB work daily with families who want to partake in the American dream and own their first home. Time and again, our members witness the wealth-building effects of homeownership for families and the community-building effects of homeownership for neighborhoods. H.R. 3755 will expand the number of those who can share in the American dream of homeownership.

We look forward to working with this committee, the Congress and the administration on expanding homeownership opportunities.

Thank you.

TESTIMONY OF SCOTT C. SYPHAX, CEO OF THE NEHEMIAH CORPORATION OF AMERICA BEFORE THE COMMITTEE ON FINANCIAL SERVICES, SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

March 24, 2004

My name is Scott Syphax and I'm President and CEO of the Nehemiah Corporation of America. It is an honor to be here today to submit testimony to the Housing and Community Opportunity Subcommittee regarding H.R. 3755, The Zero Downpayment Act of 2004. I particularly appreciate the opportunity to provide my thoughts on where we can add to the effectiveness of this bill.

Before I address the legislation, I would like to provide a bit of background on my company and the industry we founded. Nehemiah is a nationwide, self-supporting faith-based non-profit. We receive no money or funding from local, state or federal government sources. We started in 1997 with the goal of helping deserving families seeking to become homeowners achieve this American Dream. Starting with a $5,000 loan from a small Baptist church in Sacramento, we piloted the country's first down payment assistance program. Buyers receive funds for the down payment from a revolving loan fund. Sellers replenish the loan fund once their property is sold, thus ensuring an ever ready source of capital to provide assistance to credit worthy, FHA-approved homebuyers.

In our seven years, we have been able to help more than 170,000 families become homeowners across all fifty states. We have given away more than $675 million in down payment gifts, resulting in well over $23 billion in home sales. On a monthly basis, Nehemiah helps more than 3,000 families achieve the American Dream of homeownership by giving them a down payment gift. This week alone, we have helped more than 600 families achieve their dream. This is all at no additional cost or burden to the US taxpayer. In fact, according to a soon to be published independent study by a well known Washington, DC economic think tank, our default rates are in line with traditional FHA rates. In short, ladies and gentlemen, down payment assistance works for buyers, sellers and America.

In addition, a recent study completed by a California-based think-tank demonstrated that down payment assistance has had an enormously positive impact not only on individuals and families, but also on entire communities and local governments. In towns and cities all across this nation, a rebirth is happening thanks to down payment assistance.

In Columbus, Ohio, for example, we have been able to help over 7,300 families become homeowners since 1998. In the process, we gave away nearly $35 million in down payment assistance that resulted in the purchase of more than $1 billion worth of homes. During this period, on average, these families have seen their equity increase more than $3,100 that cumulatively amounts to over $23 million. This in turn has resulted in over $100 million in property taxes in the Columbus metropolitan area. In Franklin County alone, Nehemiah recipients have contributed $72 million in property taxes. With down

payment assistance, the benefit is not confined to individuals; rather it is spread throughout the community.

While Nehemiah is the oldest and largest non-profit source of down payment assistance in the country, our brother and sister non-profits have played a big role as well. Collectively, the industry has helped nearly half-a-million families become homeowners. In just a few short years, our industry has grown very quickly, working with the nation's homebuilders, realtors and mortgage lenders. In fact, we are now responsible for approximately 10-15 percent of all FHA insured sales each month and between 3-4 percent of all homes sales across the nation. Down payment assistance is no longer just a good theory; it is a working, thriving, active movement that is sweeping across this country.

Our industry has grown so quickly because it plays a vital role in helping people overcome what I believe to be an artificial barrier to homeownership -- the down payment. I have long felt and stated publicly that the removal of the down payment obstacle to homeownership for creditworthy applicants should be a national priority. Indeed, I applaud the Bush Administration and Rep. Tiberi for taking bold leadership in this area. Having said that, I have concerns about this proposed legislation and the potential unintended negative consequences that would impact working class families whose interests must be considered if the program is to be successful in increasing homeownership nationally.

In January of this year, FHA Commissioner Weicher announced that as part of HUD's Fiscal Year 2005 budget request, the FHA would eliminate the statutory requirement of a minimum three percent down payment for an FHA-insured single-family mortgage for first-time homebuyers. We celebrated this announcement in that it represented a major victory for working class American families. When Commissioner Weicher and Secretary Appointee Jackson announced the program, Nehemiah was elated by the Administration's position. I personally reached out to offer our support publicly and privately, believing that Nehemiah's experience as the pioneer of zero down payment loans -- seven years and 170,000 families later – was the clearest validation of the approach that the Administration was taking on this subject.

Down payments originally emerged in the marketplace because they give the homeowner an ownership interest in the form of equity, which in turn gives the homeowner an incentive to make monthly payments and maintain and improve their property. The importance of a buyer having equity is known to all, and that is one reason we think private down payment assistance works so well. The average Nehemiah homebuyer has 3% equity the day they move into their home. That's enough to help provide home owners with an incentive to continue paying their mortgage even when they go through a period of economic hardship, like divorce, illness or job loss.

Mr. Chairman, our primary concern with the current draft of H.R. 3755 is that the burden of coming up with a down payment is shifted back onto the consumer through increased costs. As I understand it, the program will be funded through increased surcharges, potentially higher mortgage rates and mortgage insurance premiums – all paid for by the homebuyer. Nehemiah is very concerned that these increased costs will expand the risk that families utilizing the program will not be able to meet their mortgage obligations.

While we are heartened that this product adds another tool in the toolbox for moving families into homeownership, Nehemiah is committed to ensuring that families targeted by this program are able to meet the financial realities that this program will demand. Otherwise, those who may qualify could face more challenging economic pressures than those under the existing FHA program. This needs to be addressed and corrected. We would like to work with the Administration and Congressman Tiberi to ensure this unintended result does not become a reality.

Unlike families who today use privately funded down payment assistance, under the proposed new system, homebuyers could move into a home in which they have negative equity of up to eight percent. Under this scenario, when a homebuyer goes through economic hardship the homeowner may be more willing to simply walk away from the home and let the lender foreclose. Whereas, a family that receives a down payment assistance gift has equity from day one and, consequently, a real incentive to stay and fight to keep their home.

The importance of an upfront equity interest may seem less critical today than in previous years because recent rising real estate prices have added equity value for new homebuyers almost from the date of purchase. However, in regions in this country like the Rocky Mountains states, the economy has still not recovered and rising home prices are not a given. Ultimately, it is Nehemiah's view that homeownership is important not only to the stability it brings to communities, but also in the potential long-term prosperity and asset accumulation it creates for low and moderate income families. This issue is not only well understood by lenders, but by community and civil leaders who work on a daily basis to improve the nation's towns and cities.

Mr. Chairman and members, Nehemiah believes that the following issues need to be addressed if we are to enact historic legislation that truly helps lower income homebuyers realize the American dream of homeownership:

- No additional monthly surcharges on the homebuyer

- A limitation on premium pricing mortgage rates associated with these homes and homebuyers
- A hard cap on mortgage insurance premiums increases

I believe with these changes H.R. 3755 will fulfill its goal of increasing homeownership for low and moderate income Americans, while protecting the government's understandable interest in limiting occurrences of default.

Without these changes, H.R. 3755, while a positive public policy step forward in eradicating the notion that a down payment is a prerequisite of becoming a homeowner, will fall short of the promise that this legislation inspires. Nehemiah has long stood for the principle that access to homeownership should not be dictated by the accident of birth, being born into a family with the means to assist a struggling young family with a down payment. Rather, it should be open to all who demonstrate the basic financial capability and credit worthiness to meet their mortgage obligation. H.R. 3755 has the potential to advance that principle upon which Nehemiah was founded. However, if changes are not forth coming, we might as well simply continue to offer the zero down payment option primarily through the down payment assistance industry. We already put working class Americans in homes, give them equity from day one, have strong working relationships with homebuilders and the financial markets and – perhaps most importantly – our assistance costs the government and the home buyer nothing.

It is my hope that my remarks have conveyed some insight from the non-profit that pioneered the concept of down payment assistance in this country. We believe that H.R. 3755 is the opening statement in an extremely important dialogue on expanding homeownership in this country. At this point, this legislation is still a promise, but not a final solution. Nonetheless, I believe it can be improved to accomplish the goals set out by President Bush, Secretary Appointee Jackson and Commissioner Weicher. I want to again commend Congressman Tiberi for taking up such important legislation and for his commitment to delivering vital homeownership legislation. Nehemiah stands ready to assist in bringing this promise of opportunity for millions of hardworking families to fruition.

I thank you for the opportunity to address this committee.

STATEMENT OF JOHN C. WEICHER

Assistant Secretary for Housing – Federal Housing Commissioner
U.S. Department of Housing and Urban Development

BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
HOUSING AND COMMUNITY OPPORTUNITY SUBCOMMITTEE

March 24, 2004

Good morning, Chairman Ney, Vice Chairman Green, Ranking Member Waters, and distinguished Members of the Subcommittee. Thank you for the opportunity to testify today regarding the Administration's Zero Down Payment Initiative. This major new mortgage insurance product was included in the FY2005 Budget, and is specifically designed to help first-time homebuyers purchase a home. I would like to take this opportunity to thank Congressman Patrick Tiberi for introducing H.R. 3755, the Zero Downpayment Act of 2004. I would also like to thank the 30 Members of Congress --- both Democrats and Republicans --- who have agreed to co-sponsor this important bipartisan legislation.

Under this new program, the Federal Housing Administration (FHA) will insure 100 percent of the cost to acquire the home for first-time homebuyers, allowing them to finance the full purchase price as well as all of the closing costs. Potential homebuyers would not have to make the minimum downpayment of three percent that is required in our chief single-family insurance program, Section 203(b).

Studies have consistently shown that the single biggest obstacle to homeownership for most families is the inability to come up with enough cash to meet down payment and closing costs. Many potential homebuyers pay the equivalent of a monthly mortgage in rent, but are unable to save toward a down payment on a home purchase. Minority families in particular are burdened by high down payment requirements.

This Administration is committed to helping all Americans address this barrier to homeownership, including minority families who have been shut out of homeownership opportunities in the past. We are proud of this effort and the results. In the fourth quarter of last year, the homeownership rate stood at an all-time record of 68.6 percent. There are now 72,650,000 American families who own their own homes. For the year 2003 overall, the homeownership rate stood at 68.3 percent, also a new record.

Minority homeownership also set records. For the first time ever, the majority of minority households are now homeowners, with a record rate of 50.6 percent in the fourth quarter of 2003. There are now 14,852,000 minority homeowners. We also set a new record of 49.5 percent for the year overall. All of this is good news and shows the progress HUD and the rest of the housing industry is making in increasing homeownership opportunity in this country.

This is a good record and we want to improve on it. There remains a significant "homeownership gap" between non-Hispanic whites and minorities. While more than half of minority households own their own home, this compares with three-quarters of non-Hispanic whites.

In June 2002, President Bush announced an aggressive homeownership agenda to remove the barriers that block American families from achieving homeownership with the goal of creating 5.5 million new minority homeowners by the end of this decade. The Zero Down Payment Program would move the nation significantly closer toward this goal.

Preliminary projections indicate that the new FHA mortgage product would generate approximately 150,000 new homebuyers in the first year alone. It would be structured to assist those creditworthy but cash poor working individuals and families who have been excluded from purchasing their first home. These families can afford monthly mortgage payments, but due to their limited income have not been able to save for a downpayment.

HUD has designed this program to minimize defaults and to protect the Mutual Mortgage Insurance Fund. FHA has made conservative financial assumptions regarding the program. In order to cover the costs of the program, families who qualify for the Zero Down Payment Plan would be charged a modestly higher insurance premium on their home loan.

The upfront premium would be set at 2.25% as compared to 1.50%, and the annual premium would be 0.75% as compared to 0.50%. After five years, the annual premium would be reduced to 0.50%, the same as the 203(b) program. For example, for a $100,000 mortgage, a Zero Down Payment borrower would pay approximately a $50 a month more than a regular FHA borrower.

There would be no net cost to the FHA Mutual Mortgage Insurance (MMI) Fund. The President's Budget projects that the additional $19 billion in mortgage commitments will generate revenue of about $184 million in the first year.

Borrowers would be held to the same underwriting guidelines as those who apply for FHA's standard three percent downpayment mortgage. They must meet the same payment-to-income and debt-to-income ratios and the same credit standards. We propose to add two additional requirements, to help families become and remain homeowners and to minimize risk to the MMI Fund. Our new FHA TOTAL (Technology Open To Approved Lenders) Mortgage Scorecard must also be used to evaluate the overall credit worthiness of borrowers. Lenders in conjunction with an automated underwriting system to underwrite an FHA-insured loan electronically utilize this mortgage scorecard.

The TOTAL Scorecard allows FHA lenders to better predict which borrowers are good risks and also identify those that are bad risks. In developing FHA's electronic scorecard, HUD took into account studies that have shown that creditworthiness is a better predictor of the homeowner's ability to pay mortgage payments than the amount of the downpayment. By requiring that the Zero Down Payment Program loans be risk-assessed by the TOTAL Scorecard, FHA will immediately be able to determine the perceived risk of each loan.

To further minimize risk, the proposal for the Zero Down Payment Program includes a housing counseling requirement. Specifically, participants would be required to satisfactorily receive one-on-one housing counseling from a HUD-approved housing counseling agency before they enter into a sales contract.

Housing counseling has proven to be an extremely important element in the purchase of a home. Reliable quantitative research demonstrates that housing counseling can be very effective in reducing mortgage delinquency. Homebuyers who undergo this

pre-purchase counseling are less likely to default than those that haven't. A recent study by Freddie Mac concluded that housing counseling could reduce delinquency by as much as 34%. By limiting delinquency and foreclosure, housing counseling is a cost-effective way to reduce the FHA's exposure to risk while contributing to the growth of communities and the stability of new homeowners across the country.

HUD's Housing Counseling Program supports the delivery of a wide variety of housing counseling services to homebuyers, homeowners, low- to moderate-income renters, and the homeless. The primary objectives of the program are to expand homeownership opportunities and improve access to affordable housing. Counselors provide guidance and advice to help families and individuals improve their housing conditions and meet the responsibilities of tenancy and homeownership. Counselors also help borrowers avoid predatory lending practices, such as inflated appraisals, unreasonably high interest rates, unaffordable repayment terms, and other conditions that can result in a loss of equity, increased debt, default, and foreclosure.

Over the last three years, the Administration has doubled the budget request for housing counseling funds – from $20 million to $40 million - and Congress has responded by appropriating the funds. The proposed FY 2005 HUD Budget proposes a further increase to $45 million. The increase reflects both the large unmet need for this program as well as its significant contribution to the President's goals of expanding national homeownership and adding 5.5 million new minority homeowners by the end of the decade. HUD estimates that approximately half of the $5 million increase, or approximately $2.5 million in grant funds, will be spent on counseling in conjunction with the Zero Down Payment Mortgage.

Finally, the Zero Down Payment Program is a natural complement to other down payment assistance efforts. In December 2003, President Bush signed into law the American Dream Down Payment Act that authorizes $200 million in formula grants to help homebuyers with down payment and closing costs. FHA's proposed Zero Down Payment Program will complement this program by providing help to families who can afford to buy a home without assistance based on their incomes but lack the resources for the downpayment and closing costs.

In summary, the Administration and the Department are firmly committed to helping more American families achieve the dream of homeownership. We believe the Zero Down Payment Program will be a financially sound and effective means to do so and will compliment other efforts that are currently underway.

This concludes my statement, Mr. Chairman. I thank the Committee for the opportunity to meet with you today to discuss this exciting new initiative.

U.S.House of Representatives Committee on Financial Services

Subcommittee on Housing and Community Opportunity

Hearing on H.R. 3755 The Zero Down payment Act of 2004
Room 2128 Rayburn House Office Building
10 a.m.,Wednesday March 24,2004
Written Testimony of Jerome Witcher,Realtor

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Mr.Chairman and Members of the Committee:

I think that it is a very good idea to offer Zero Down Payment to qualified persons that have a desire to own a home;but do not have a down payment of their own.The passage of this bill would allow more potential buyers to acquire their own home.I know that with the proper guidelines,this could be a blessing to those that wish to purchase a home of their own.The down payment is one of the biggest hurdle most people have.

The purchase of homes for families not only improve the neighborhoods;but also increase the tax base for the local communities and can have a ripple effect on the whole area and therefore ;we should see a decrease in crime and a rise in property values.

1) The value of requiring downpayments for a potential FHA insured borrower is for the reason;if you have something invested in a project;you are less likely not to let that property go;however one can never know what will happen to a person when a certain situation arises such as; job loss,illness or divorce.

2) There are several programs that are currently out on the market,most require some type of counseling to the potential buyer. The lenders do credit reports background checks,work history etc. Some may charge slightly higher fees to off set the cost of providing this service, but most home buyers are happy to get in without coming up with a down payment.The purchases are still within the buyers range of financing.

The under writing of loans for Conventional and Jumbo markets is a difficult one with no payment because of the loan size.I think it could be possible;but to me it requires a very strong individual with a lot of reserves.The market today finds a good number of high price homes in the foreclosure market,whether due to down payment or other unknowns.

3) The differences between minority applicants and other groups are: most minorities have very few liquid assets available to use for down payment; however just because funds for down payment are not available does not mean;that they are not able to repay their mortgage loans.Note: This group is one of the fastest growing segments because it includes: Latinos,African Americans and Women a lot of whom are single.

4) I would only recommend that FHA not insure a mortgage without Down payment only in cases where the job time is short and other negative items may appear.

Everyone has had some type of bad experiences in their life and to focus just on them is wrong.We should focus on what people have done since having these negative experiences,there is so much interest in things that may have happened 5-10 years ago that still effect some people today.

The approval of loans today looks primary at credit scores from computers to see if someone qualifies and if the computer score said;you did not meet their score requirements you are rejected without any person even checking the report.They flat out reject it;that keeps a lot of possible buyers out of the market.We need to not just rely on the reports;but to have someone review the application and talk to the buyer what they found and the necessary things that need to be done in order to purchase a home and again to look at the current situation.

5) No! I don't think so;because some people will always rent regardless of their incomes,because they do not want the responsibility of taking care of something this should not effect the rental market.

6) I think it may have some effect;but nothing major relating to the FHA Insurance Fund.I think that if the people are screened and counseled properly in the beginning the losses that occur will be minor.

7) 1st of all the lenders all should come under state rules and licencing and have inspections done by the state authorities to constant monitor their business practices.The FHA foreclosures in low income neighborhoods could be lessened if;the buyers are properly educated about the pitfalls about borrowing and repaying of funds.

The biggest problem that has been happening is that the appraisal of properties have been overpriced and the lenders giving more than 100% loan to value;example 103% loan programs and higher ones.There has also been higher loan rates for areas of inner city purchases,then there are in other areas.

8) The types of counseling;budgeting,home repair,record keeping and understanding of credit and the consequences of not following the above.

9) Yes! I think you would find some actual buyers willing to purchase some of these units as owners with the other units being income properties.The owner actually living in one of the units and renting the rest;if this was made available.

Summary: I feel that the zero downpayment program would be a great shot in the arm to increase the home ownership,improve neighborhoods and to help move the economy toward a more productive one.

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TESTIMONY OF

RANDALL G. PENCE, ESQ.
PRESIDENT
CAPITOL HILL ADVOCATES, INC.

ON BEHALF OF

The American Society of Home Inspectors, Inc.

BEFORE

THE SUBCOMMITTEE ON HOUSING
UNITES STATES HOUSE OF REPRESENTATIVES

REGARDING

HR3755
The Zero Downpayment Act of 2004

MARCH 24, 2004

Mr. Chairman, on behalf of the more than 6,000 members of the American Society of Home Inspectors (ASHI) across the country, I would like to take this opportunity to thank you and congratulate you for your leadership in holding this hearing on HR3755, The Zero Downpayment Act of 2004.

ASHI is pleased to support HR3755 and we urge its passage. This legislation will help individuals of the greatest financial help in purchasing homes. We congratulate President Bush for endorsing the policy, Congressman Tiberi for introducing the legislation, and all the Members of the Subcommittee on Housing for today's hearing.

ASHI would like to offer comment on two points:

1. Clearly, we can assume that individuals who will avail themselves of the "zero-down" policy will not have significant financial reserves to make expensive repairs after settlement or deal with other issues of surprise in connection with their home purchases. It is always sound advice for homebuyers to obtain home inspections to avoid such expensive mistakes, but in the case of the "zero-down" applicants, the need for counseling and advice is perhaps the greatest of anyone in the market to buy a home.

This concept dovetails precisely with suggestions ASHI made with regard to HR3938, The Expanding Housing Opportunities Through Education and Counseling Act. ASHI strongly urges that HUD be required to provide counseling to applicants for the "zero-down" policy, and that counseling specifically include advice to obtain voluntary home inspections, and education that appraisals and home inspections are different. This message precisely reflects the HUD-adopted advice it currently offers in its homebuyer document titled "For Your Protection – Get a Home Inspection." In the interest of brevity, I would refer you to ASHI's March 18, 2004 testimony regarding HR3938, in toto.

2. ASHI suggests a clarification on the meaning of the following provision in HR3755:

> *...(2) is not in excess of 100 percent of the appraised value of the property plus any initial service charges, appraisal, inspection, and other fees in connection with the mortgage as approved by the Secretary.*

This second matter is a potential technical/drafting issue. Ambiguity might arise as to the scope of "inspection" costs that may be included in the critical calculation, now or in the future.

ASHI assumes that the committee intends that "inspection" fees includes "voluntary home inspection" fees and would seek to make this unambiguous.

The HUD policy for existing three percent downpayment mortgages treats home inspection fees as eligible for inclusion in the calculation of the downpayment requirement, as follows (quote from HUD staff):

> *"FHA does not finance closing costs of any sort into the mortgage amount and has no statutory authority to include any such costs into the loan. However, borrower-paid closing costs, and that would include the home inspection if paid by the homebuyer, may be used to meet the three percent minimum cash investment required on all purchase transactions. This will not result in a reduction of the total amount to close the transaction, but will allow for some or all of the closing costs to be considered part of the downpayment and meet the statutory requirements."*

While the HUD three percent downpayment policy recognizes and grants credit for home inspection fees, it is a policy that exists in the context of a downpayment, and a required downpayment calculation that will not be necessary under HR3755.

With the passage of HR3755, HUD might be inclined to modify the policy and make it more restrictive as the percentage total loan exposure increases.

Indeed, there is recent precedent for HUD modifying its policy linked to a change in the downpayment scheme.

The policy stated above was adopted in 1998 and is different from what existed previous to development of HUD's Homebuyer Protection Plan; it was altered in response to the change in downpayment requirements.

If HR3755 becomes law and the downpayment requirement is reduced further, perhaps eliminated altogether, it is conceivable HUD might revise the list of eligible fees for a new calculation again.

ASHI suggests that the best approach would be to eliminate this possibility now. The most certain and elegant drafting solution would be to specify that voluntary home inspection fees are included in this provision, and that a more restrictive interpretation of "inspection" (*e.g.* pest inspections) does not reflect congressional intent.

Mr. Chairman, thank you for this opportunity for ASHI to share its views on HR3755.

Before the
U.S. House of Representatives
Subcommittee on Housing and Community Opportunity
Hearing on
HR 3755
The Zero Downpayment Act of 2004

March 23, 2004

WrittenTestimony of

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National Association of Housing Cooperatives
HR 3755

On behalf of the National Association of Housing Cooperatives, I thank the Chairman and members of the committee for the opportunity to testify about the need to include cooperative housing in HR 3755. I am Douglas M. Kleine, Executive Director of the National Association of Housing Cooperatives, or NAHC. NAHC represents housing cooperatives and housing cooperative professionals.

NAHC
The National Association of Housing Cooperatives was founded in 1960 to provide information on the successful creation and operation of housing cooperatives. NAHC helps low and moderate income families govern, manage, and preserve affordable homeownership communities for themselves and future residents. Over 1.2 million families now live in townhouse and apartment housing co-ops in 30 states, the District of Columbia, and Puerto Rico. About half of all housing co-ops are in the greater New York City area, but other concentrations can be found in Boston, Atlanta, Miami, Philadelphia, Pittsburgh, Detroit, Chicago, Indianapolis, Minneapolis-St. Paul, San Francisco, Seattle, and Los Angeles. Here in DC, where Washington's Mayor Williams lives in a co-op, there are over 200 co-ops, and just outside the city, the planned community of Greenbelt, Maryland, is a co-op.

What is Cooperative Homeownership?
While everyone is familiar with homeownership through fee simple ownership of a single-family home or a condominium unit, the option of owning one's home through a cooperative is much less understood, even though co-ops date back to the 1920s in the US. In a cooperative, residents own shares of the cooperative corporation that holds title to the entire multi-family property. Ownership of a share in the cooperative entitles the residents to sole occupancy of their units. Instead of rent, the resident-owners of the cooperative pay monthly carrying charges to cover the cooperative's debt and other expenses. As in other types of cooperatives, the resident-owners elect a board of directors from among themselves to make policies for the cooperative.

Congress should continue to treat co-op share loans like single family mortgages.
Purchasers of cooperative shares obtain financing from lenders on much the same terms as a mortgage. The loan is secured by the shares, and has been classified as a residential mortgage by the Federal Home Loan Bank Board for over 20 years. Fannie Mae has provided a secondary mortgage market for share loans for over 20 years, and for over 60 years, Congress has recognized the similarity of cooperative homeownership to single family and condominium ownership by giving co-op shareholders the right to take a personal income tax deduction for interest on a share loan and a pro rata portion of the mortgage interest and real estate taxes paid by the cooperative corporation.

In 2000, Congress made co-op homeowners eligible for FHA-insured Home Equity Conversion Mortgages, and just a few months ago, Congress included co-ops in the American Dream Downpayment Assistance Act. We ask that insurance of loans to purchase shares in a housing cooperative under Section 203(n) be added to HR 3755.

The 203(n) share loan program was enacted by Congress in 1978. The legislation authorizes the Secretary of Housing and Urban Development to insure a mortgage secured by a co-op member's shares if

1) the building was covered with a blanket mortgage insured under the National Housing Act, or
2) the construction of the building was completed more than one year before application.

The intent was to parallel the treatment of co-op share loans with the treatment of condominium loans under Section 234(c). While the program guide implementing Section 203(n) has not fully achieved that legislative goal, we are hopeful that renewed attention to 203(n) will result in removing some impediments that stand in the way of 203(n) being a powerful tool to advance homeownership, especially for first time homebuyers under using this legislation and the American Dream Downpayment Assistance Act.

Thank you again, Mr. Chairman and members of this Committee, for this opportunity to state why cooperatives should be included in this legislation.

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February 2, 2004

The Honorable Patrick J. Tiberi
U.S. House of Representatives
113 Cannon House Office Building
Washington, DC 20515

Dear Representative Tiberi:

The National Association of REALTORS® is writing to express our appreciation for introducing a zero-downpayment product for FHA borrowers. It is critical that our nation's housing policy leaders understand the role and public policy mission of FHA and the need to regularly review FHA's legislative and regulatory policies and standards to ensure the program meets the ever-changing universe of the mortgage marketplace.

The National Association of REALTORS® has long recognized that the ability to afford a home remains the most challenging hurdle for many homebuyers. We support new programs that reduce homebuying costs and help people achieve the American dream of homeownership. Although housing remains strong in our nation's economy and has helped to increase our nation's homeownership rate to a record 68 percent, many deserving American families continue to face obstacles in their quest for the American dream of owning a home. The ability to come up with the downpayment and closing costs remains a challenging hurdle.

The mission of the FHA program is to meet the homeownership needs of all qualified homebuyers who seek to own a home. Again, we support the concept of a zero-downpayment product for FHA borrowers, and look forward to working with you to enact legislation in this regard.

Sincerely,

Jerry Giovaniello

Jerry Giovaniello
Senior Vice President

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