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THE FUTURE OF HOUSING IN AMERICA: EXAMINING THE HEALTH OF THE FEDERAL HOUSING ADMINISTRATION

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND INSURANCE

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

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THE FUTURE OF HOUSING IN AMERICA: EXAMINING THE HEALTH OF THE FEDERAL HOUSING ADMINISTRATION

Thursday, February 11, 2016

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

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2128, Rayburn House Office Building, Hon. Blaine Luetkemeyer [chairman of the subcommittee] presiding.

Members present: Representatives Luetkemeyer, Royce, Garrett, Pearce, Posey, Ross, Barr, Rothfus, Williams; Cleaver, Clay, Green, Ellison, Beatty, and Kildee.

Ex officio present: Representatives Hensarling and Waters.

Chairman LUETKEMEYER. The Subcommittee on Housing and Insurance will come to order. And without objection, the Chair is authorized to declare a recess of the subcommittee at any time.

Today's hearing is entitled, "The Future of Housing in America: Examining the Health of the Federal Housing Administration."

Before we begin, I would like to thank the witness for appearing today. We look forward to your testimony, Mr. Golding.

I now recognize myself for 4 minutes to give an opening statement.

The statutory mission of the Federal Housing Administration (FHA) is admirable. There is a purpose for the agency. Some qualified first-time and low-income individuals and families need assistance securing their first home.

But FHA has suffered a case of mission creep, and the unfortunate truth is that the lack of sound underwriting and risk management puts both homebuyers and U.S. taxpayers at risk.

This committee had a similar conversation last year and the years before that. And while the most recent independent actuarial report showed some signs of a modestly healthier agency, the bottom line is that FHA is still in a precarious state.

FHA's shaky principles were not born out of the 2008 crisis alone. In fact, since 2000 FHA has hit the target economic value for the Mutual Mortgage Insurance Fund (MMIF) only 3 times. Most recently, it was because the agency experienced a dramatic uptick in the value of its reverse mortgage or Home Equity Conversion Mortgage (HECM) portfolio.

We should take little comfort in FHA's assertion that a long-awaited positive actuarial report means that all is well and only getting better. With all due respect, we have heard that story for years and it has never proven to be entirely the case.

In 2009, then-HUD Secretary Shaun Donovan said FHA would reach the capital requirement in the next 2 to 3 years. In 2011 and in 2012, he said FHA would hit the target by 2015.

Today, FHA reports that the target has been hit—just barely—but only because of the upswing in the HECM portfolio. This is a portfolio that was a negative 1.2 percent in Fiscal Year 2014, now up to 6.4 percent. Meanwhile, the single-family ratio improved from 0.56 percent to a modest 1.63 percent.

The underlying problems at FHA—high volatility and questionable underwriting—have existed for years and continue to pose, in our judgment, a threat to all Americans.

To make matters worse, the agency decided last year, despite poor performance, to cut its income stream by lowering premiums by 50 basis points. Anyone who understands the fundamentals of lending and insurance knows you can't cut your income stream when you are in need of capital.

The bottom line is that FHA keeps trying to grow itself out of a problem and has, in terms of the 2015 actuarial report, backed into a win. We need to continue to focus on common-sense reform and creation of a more stable housing market and housing finance system.

I look forward to hearing from our witness today.

With that, I yield 5 minutes to the distinguished gentleman from Missouri, the ranking member of the subcommittee, Mr. Cleaver.

Mr. CLEAVER. Thanks, Mr. Chairman.

Today, I think the news about the FHA is significantly better than it has been in the past, and I think we have convened this hearing, "The Future of Housing in America: Examining the Health of the Federal Housing Administration," at a good time.

It was 1 year ago that we held a hearing in this room on FHA, and we now have the opportunity to again examine and conduct oversight to the current state at FHA. Throughout my political career, first as a city councilman, next as a mayor, and now as a Member of Congress and the ranking member of this subcommittee, I have passionately advocated for increasing home ownership. Home ownership does things that I am not sure most people even realize, because it brings the "somebody-ness" out of folk.

And I speak experientially. Moving out of public housing after my father bought a home, all of a sudden—and I am always pleased to say my father started getting the yard of the summer. He would get a photograph of his yard in the newspaper.

He would walk out and pick up cigarette butts down the street. The neighbors all know that when you walk around Mr. Cleaver's house, you have to be careful. He doesn't even want you to breathe too heavily. He might go out and water the lawn if you do that.

So I know what the pride of home ownership does. I have seen it.

And like many in this room, I purchased my first home with the help of FHA. I continue to support the invaluable role that the

FHA plays in helping first-time and low-income individuals purchase homes.

In Fiscal Year 2015, 82 percent of FHA purchases were from first-time homebuyers. Nearly a third were minority buyers, with Hispanic homebuyers accounting for 17.4 percent of purchases and African-Americans accounting for 10.4 percent.

And it is no secret that there is a wealth gap in our country, a wealth gap that must be fully addressed, and the FHA plays a significant role in promoting home ownership and narrowing this gap.

It is also important to note that overall health of FHA and the Mutual Mortgage Insurance Fund (MMIF)—last year the FHA announced that it would cut annual—it was projected that this move would bring an additional 83,000 new borrowers in a year into the market.

In the first year since that change, the goal was exceeded by 106,000 new borrowers purchasing homes. That ought to be an excitement for the people of this country. The capital ratio is now 2.07 percent, and the net worth of the MMIF is up $19 billion in Fiscal Year 2014.

I would like to thank you, Mr. Chairman, for this hearing.

And I would like to also express thanks to our guest for being here.

Chairman LUETKEMEYER. I thank the gentleman for his statement.

With that, we welcome Mr. Golding. He is the Principal Deputy Assistant Secretary, Office of Housing, U.S. Department of Housing and Urban Development.

Mr. Golding, you are recognized for 5 minutes to give an oral presentation of your testimony. And without objection, your written statement will be made a part of the record.

You are probably aware of the lighting system: green means go; yellow means you have 1 minute left; and red means we are going to stop and try and give Members a chance to ask questions.

So with that, you are recognized for 5 minutes. Welcome.

STATEMENT OF EDWARD L. GOLDING, PRINCIPAL DEPUTY ASSISTANT SECRETARY, OFFICE OF HOUSING, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. GOLDING. Thank you very much.

Thank you, Chairman Luetkemeyer, Ranking Member Cleaver, and members of the subcommittee. I appreciate the opportunity to testify about the status of the Federal Housing Administration.

FHA is just as critical today as it was when it was founded in the midst of the Great Depression. So I am proud to say that as a result of policy changes and prudent risk management, FHA's Mutual Mortgage Insurance Fund is strong and improving.

For Fiscal Year 2015, the independent actuarial report shows FHA rebuilt its capital reserve to the 2 percent standard and is expected to continue to accrue a reserve this year at a somewhat faster rate than initially projected in 2015.

We endorsed more than 1.1 million single-family loans in Fiscal Year 2015—loans for hardworking, everyday Americans who are able to experience the benefits of home ownership for the first time or refinance into a more affordable mortgage.

With an average loan size of $190,000 and an average credit score of 680, we are demonstrating our commitment to expand credit for responsible borrowers and those impacted by the Great Recession. Though strained by the crisis, FHA has been on a strong upward track, gaining $40 billion in value over the last 3 years.

Improved underwriting requirements have significantly increased the credit quality of the portfolio of the last few years, including the fund's value and reducing the impact of the crisis years 2007 and 2008. Early payment defaults and serious delinquencies continue to decline to pre-crisis levels, and improved recoveries have added over $3 billion to the fund since 2013.

Last January, FHA lowered its annual mortgage insurance premium by 50 basis points. Around 1 million families were able to benefit from an average reduction of $900 in annual premiums. It also resulted in more than 160,000 additional responsible American families with credit scores below 680 becoming first-time home owners over the last 12 months.

This adjustment was an important step in continuing to help underserved borrowers, and it did not harm FHA's ability to build the capital reserve. I am proud to oversee FHA at a time when we are making such important strides.

However, I also embrace the need for continuous improvement and risk management across all of our programs. Of particular interest to me is our Home Equity Conversion Mortgage (HECM) program, due to the challenges involved in projecting future values.

The ability to age in place is critical for seniors and their families, especially as that segment of our population continues to grow. And FHA's HECM program makes this possible for many seniors.

FHA has made a number of changes to make the program more sustainable so we can manage the risk to the fund while better meeting the needs of today's seniors. Changes include: requiring financial assessment to ensure sustainability; and reducing the amount of equity seniors can take out up front.

I do want to thank the committee for the help they provided with the Reverse Mortgage Stabilization Act in 2013, which made many of these changes possible. The HECM portfolio's value now stands at $6 billion and it is projected to continue to improve in Fiscal Year 2016.

Looking ahead, FHA is committed to pursuing positive improvements across all our programs, changes that support our role as a partner in opportunity for the American people. FHA is eager to work with Congress and this committee to better understand the benefits and risks of all our programs and to ensure that FHA can continue to support housing, as it has for the past 82 years.

Thank you, and I look forward to your comments and your questions.

[The prepared statement of Principal Deputy Assistant Secretary Golding can be found on page 32 of the appendix.]

Chairman LUETKEMEYER. Thank you, Mr. Golding. I appreciate you being here this morning.

And with that, I recognize myself for 5 minutes and begin the questioning.

In January of 2011, the Administration issued a report to Congress entitled, "Reforming America's Housing Finance Market."

Within that report, there are three statements that were made.

First: "FHA has also implemented important changes and reforms over the last 2 years, including strengthening underwriting standards, improving processes and operations, and raising premiums to improve its financial condition."

Second: "As Fannie Mae and Freddie Mac's presence in the market shrinks, the Administration will coordinate program changes at FHA to ensure that the private market, not FHA, accepts that new market share."

And third: "As we begin to pursue increased pricing for guarantees at Freddie and Fannie, we will also increase the price of FHA mortgage insurance."

If we look at that statement, and we look at the last year's actions to date, it is a dramatic 180-degrees difference. We are lowering premiums instead of raising them. You look at the private market share—FHA's market share is now at 40 percent; private market share is 35 percent, according to figures that I have, and a lot of the growth is basically probably as a result of the lowered premiums.

How does that—the statement made in that report in 2011?

Mr. GOLDING. Thank you for your question.

Times have changed considerably since 2011. The simplest measure of our market share is in 2010, we were about 30 percent of the purchase market by loan count. We have reduced that; that has been reduced to about 17.8 percent last year. So you have seen other players step into the market since the 2010 period, when that statement was made.

We did raise in the crisis—I can't remember the exact number; it may have been upwards of 8 times—the mortgage insurance premium. But as the fund stabilized, times change, and we try to set the mortgage insurance premium looking at the strength of the fund, how it is projected to grow, and the needs of the housing market.

And I would also mention that while we did reduce the insurance premium to meet the market needs in the face of an improving insurance fund, we still are well above the historic level of insurance premiums for the FHA program.

Chairman LUETKEMEYER. Can you answer the question with regards to your basically absorbing more of the market versus the private sector? It looks to me like you are buying your way into the market with lowering your premiums. Is that a fair statement, or how would you refute that?

Mr. GOLDING. As I said, by one measure we are down considerably from the 2010 period. Our market share is much closer to where it historically is. So historically, it is in the mid-teens.

You referenced some numbers relative to, I think, the mortgage insurers in particular. I have read a few of their investor reports. I think their estimates of the effect of the MMIF reduction on their business was less than 5 percent.

Chairman LUETKEMEYER. Okay. I have a couple more questions, quickly.

What is the profitability on your regular portfolio versus your reverse mortgage portfolio? What is the difference?

Mr. GOLDING. I didn't hear the—

Chairman LUETKEMEYER. What is the difference in profitability between your—your loss ratio between your regulator home owners portfolio and your reverse mortgage portfolio?

Mr. GOLDING. The easiest number that I have in my head—

Chairman LUETKEMEYER. And do that prior to 2014. Last year, 2015, you got all these new mortgages on the books, which is going to skew your figure. Do you remember what it was prior to that, like at the end of 2014?

Mr. GOLDING. No, I don't remember the exact number. But there is no doubt that—

Chairman LUETKEMEYER. Can you say just a rough difference? Is it more profitable with the regular homes versus reverse mortgage?

Mr. GOLDING. Yes. The profitability or the negative subsidy rate for the forward market is about 4.5 percent; for the reverse mortgage the subsidy rate is about—negative subsidy rate is about 0.5 percent.

So for every dollar of the forward market that we insure, we are expecting to bring in—or for every $100, $4.50 of extra income. That is for the reverse mortgage, or HECM, that number is a half a dollar.

Chairman LUETKEMEYER. So your profitability, your portfolio has increased significantly with reverse mortgages, which is a less profitable and more risky part of the business for the gains that you had with regards to the lowering of the guarantee fees and absorbing part of the market. Is that a fair statement?

Mr. GOLDING. The HECM portfolio, reverse portfolio, can—is the riskier one. It was the one that grew greater in value last year.

Chairman LUETKEMEYER. So we took on more risk even though—and more volume. The volume you took on is more risky. That is the point we are making, and that is what you just said.

Mr. GOLDING. The volume of HECMs actually, because of many of the risk management improvements, is down significantly to about 60,000.

Chairman LUETKEMEYER. My time is up. Thank you, Mr. Golding.

With that, we will go to the ranking member of the subcommittee, Mr. Cleaver, for 5 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman.

During my opening statement, Mr. Golding, I spoke about my own family situation, and I did so because home ownership is an emotional kind of a thing for me. So I was somewhat disturbed when the Urban Institute reported that tight credit standards had prevented over 5.2 million mortgages between 2009 and 2014.

Do you have any ideas on what we can do now to expand the access of home ownership with those kinds of staggering figures? What can we do?

Mr. GOLDING. Thank you for the question.

Home ownership is important. My father also had his first house financed by an FHA mortgage, having been returning as a World War II veteran, U.S. Army Air Corps. And I do remember that first house when I was age 4.

So it is important. We are striving to fill that. I think the Urban Institute, now there is an estimated almost a million missing borrowers that are not out there.

Some is obviously—I would think of on the demand side. The household formation hasn't been there, although there are good signs that that has improved last year.

What FHA is doing is we are trying to make it a program where it is easier to do business and to offer the FHA product. And that really comes back down to offering greater clarity in our programs.

We, for the first time in the history of the single-family business, put out a handbook that has all the rules in one place so you can look it up, so you can search it. That handbook was a big achievement.

We have also been working on improving our risk management supplemental performance metric. So we are continuing to try to bring in new lenders who will be willing to offer FHA products to the American consumer, make it without—while still holding them to very high standards, making it easier to do business with FHA.

Mr. CLEAVER. I may come back to that later, but I am going to try to get a lot in.

I have heard almost all my life that when people die—to grow, and probably generations keep passing it on. The same thing as parents say, "My kid had a sugar rush." Scientists all agree there is no such thing as a sugar rush, yet people believe it.

And then likewise, people continue to say that FHA is doing subprime loans. That is no different than the hair growing in the grave.

So can you deal with that? Have you heard any of those three?

Mr. GOLDING. Yes, I have heard all of them. I have said a few myself, except I have never said—FHA is definitely not in the subprime business. I have been in the mortgage business a long time. I was the damage done by subprime.

FHA has always been a fully underwritten mortgage. We verify income. We make sure it is a sustainable mortgage for that usually first-time homebuyer.

It is so far away from subprime.

I think there is a tendency for people just to translate credit score into subprime. There are lots of reasons why our fellow citizens have a 660 credit score. It is medical expenses; it is unemployment; it is—there are things that cause you to be late a payment or two and have your credit score at 660. That doesn't mean that you shouldn't have a place to live and an opportunity for home ownership.

Mr. CLEAVER. Yes. I do think it is probably related to the credit score. But, as you said, that shouldn't be the only factor.

Hopefully we will get—I will get a chance to raise the additional questions along those lines.

I yield back, Mr. Chairman.

Chairman LUETKEMEYER. The gentleman yields back.

With that, we go to the gentleman from Florida, Mr. Ross, for 5 minutes.

Mr. ROSS. Thank you, Mr. Chairman.

And thank you, Mr. Golding, for being here. I am going to address some issues with you with regard to proposed administrative fee for administration, support, and IT.

The President's budget in the HUD request has indicated that they are seeking to charge an administrative support fee on FHA

lenders. And I think that has been rejected by Congress several times.

I am glad to see that it at least has a sunset provision so that this proposed fee won't be in perpetuity. But my concern is that I believe your budget document states that the fee will be charged on a prospective basis, and yet the budget request says that the fee would be calculated based on mortgages that were insured under this title during the previous fiscal year.

That seems to be a disparity. It is almost as though it is retroactive. Could you explain that?

Mr. GOLDING. Yes. Thank you for the question, and thank you for the opportunity to clarify.

This is one of the cases I did a lot of math on in my youth when I was a student. It is easier probably to put down the algebra than the English words, which often fail us. But let me tell you what we think that means and how it actually would work.

Basically—and we will go out for public comment and feedback however we would implement it, were it to pass. But it would be after the date. You would basically say for loans endorsed after the date of this public comment—

Mr. ROSS. So it would still be going forward.

Mr. GOLDING. It would still very much be forward—

Mr. ROSS. For example, small lenders who have a small book of business, all of a sudden they can't plan based on this complex formula and suddenly they have received a fee for retroactive. You are telling me that wouldn't happen?

Mr. GOLDING. It would not happen.

Mr. ROSS. At all?

Mr. GOLDING. It would basically be at the end of the year you would then look back—

Mr. ROSS. Okay. But—

Mr. GOLDING. —so it is not as—

Mr. ROSS. But they would have to anticipate that fee in writing that mortgage.

Mr. GOLDING. They would—basically the comment would already say this is the rate, so it would be—

Mr. ROSS. Okay.

Mr. GOLDING. —a simple multiplication of—

Mr. ROSS. Would it not be easier just to do—as we have been, as we put in the chairman's bill for the USDA—a nominal fee right at the time of lending?

Mr. GOLDING. What we were giving some flexibility on the amount of the fee, but that would be another alternative—

Mr. ROSS. Okay. And on the amount of the fee, I understand that there has been a request—I think that you indicate that you may need about $30 million, but the language for the proposed fee says the fee could be as much as four basis points. And in light of $200 billion in business next year, those four basis points could equal $80 million. Why would you need that much when it is—it looks like you don't need that many basis points to assess—

Mr. GOLDING. Yes. If volumes were projected still to be $200 billion you would need closer to the—or the two basis points, not the four basis points, correct.

Mr. ROSS. Right. But I guess my concern is keeping you within your requested amount of $30 million, as opposed to the potential of $80 million that—what would you do with the additional funds raised?

Mr. GOLDING. As I think it was written, it would be any additional funds would not go to FHA, as the proposal was written on that—

Mr. ROSS. Let me talk to you—

Mr. GOLDING. —but volumes do vary, so it depends on the origination and volumes.

Mr. ROSS. Let me talk to you quickly about risk-share transactions. Congratulations on being at 2 percent for your capital requirements. We would love to get you to the minimum industry standard of 25-to-one in capital requirements.

But I think that in order to do this appropriately, to transition to what I believe is sufficient capacity in the private markets you have to be able to do some risk-share transactions. What efforts have been made by the FHA to enter into risk-sharing transactions where each one takes a certain portion, either the front end, back end, or however it is structured?

Mr. GOLDING. Yes. We have been risk-sharing on the multi-family side.

On the single-family side we have had very preliminary discussions. With risk-sharing, it is one where it is very dependent on being able to change your systems, tracking things, and we would—one of the advantages of having additional resources—

Mr. ROSS. But there aren't any programs available yet?

Mr. GOLDING. No. No programs are available.

Mr. ROSS. Do you anticipate any any time soon, meaning within the next year?

Mr. GOLDING. No, I do not.

Mr. ROSS. Do you think it is an idea that ought to be continued to be pursued, or are you suggesting that maybe there should be no risk-sharing?

Mr. GOLDING. There can be lots of value for risk-sharing. There are many ways that the private sector can help the FHA program. As I said, multi-family has highlighted some of it, and I think it has demonstrated that it can be very valuable.

Mr. ROSS. Finally, with regard to FICO scores—and Mr. Cleaver was talking about this—look, I have to suggest that I think everybody should have the opportunity for home ownership—that is as a matter of right, no; as a matter of opportunity, yes, to earn, absolutely.

But the low FICO scores were—a private lender would never lend, and yet FHA is. Is not that indicative of a higher risk?

Mr. GOLDING. Yes, it is a higher risk, but it is an insurable risk.

Mr. ROSS. By us.

Mr. GOLDING. Pardon?

Mr. ROSS. Insurable by us, by taxpayers.

Mr. GOLDING. Even the private sector will do unsecured lending—

Mr. ROSS. But not to the level that—

Mr. GOLDING. —typically this has been FHA's role.

Mr. ROSS. Thank you. I yield back.

Chairman LUETKEMEYER. The gentleman yields back. His time has expired.

With that, we go to the gentleman from Texas, Mr. Green. You are recognized for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman.

I thank the ranking member, as well.

And I thank the witness for appearing today.

A word about FHA: 80 years of service, and I might add outstanding service; 34 million first-time homeowners; low-income Americans have the opportunity to fulfill the American dream, have a place to call home. And FHA was in the business of lending when banks would not lend to each other.

When we hit the crisis in 2008 and moved over into 2009 and other years, banks refused to lend money to each other. That is how frozen the market was. But FHA was still in business.

That countercyclical function has served this country well, and we ought to salute FHA for the outstanding job that it has done. I do so.

Your capital ratio is currently above 2 percent. If it were below 2 percent this hearing would be about that, but it is above 2 percent. Thank God for you and what you do.

Now, you put a lot of emphasis in your statement on first-time homebuyers. I am going to read a little bit here. You indicate that by making sure borrowers, particularly first-time homebuyers, have access to affordable credit to purchase homes.

And further in your statement you indicate that over the course of your 81-year history, FHA has funded approximately 13 percent of total market mortgage originations, but more than 50 percent of all first-time homebuyer market purchase mortgages. That is on page three of your statement.

I am focusing on this because I believe that there are people who pay light bills, gas bills, water bills, phone bills, cable bills; people who have other credit but they have what are called thin files. And they are currently making rent payments for some years that would exceed what a mortgage would be. If given the opportunity, they would have a monthly payment for housing that would be less than what their current payment is for rent.

They have sound credit, but they don't have a fat file. It is my opinion that we should look at light bills, gas bills, water bills, and phone bills. Don't look at it in such a way as to only add to your score, but also cause your score to depreciate if it is negative. But we should look at this and we should do so in an automated fashion.

It is my opinion that if we should do this, we will accord other persons the opportunity to own a home, who can pay the mortgage.

I am interested in talking to you about this very briefly, with my 1 minute and 47 seconds left. Tell me, dear friend, do we find that this circumstance actually exists, first, where there are people who can afford a mortgage—thin files, not fat files—and they are paying rent that exceeds a mortgage payment?

Mr. GOLDING. Thank you for your question. Absolutely, yes.

There are a lot of people for whom rent is, in fact, over half of their income sometimes, and they are still paying. And as we know,

the rent burden is even growing, so where home ownership may very well be the right answer and lower cost on that.

And today, we strive to address those thin files. We use a scorecard but we also use manual underwriting if you do not get an "accept" on the scorecard. And it is those exact type of documents that we encourage lenders to look at.

Mr. GREEN. With my 50 seconds left, let me intercede and say this: What we need is an automated process. We are doing it manually—and by the way, other lenders do it manually, too. They look at these things. But we need an automated process that will allow us to help more people in a much more expeditious fashion.

Do you concur, my dear friend?

Mr. GOLDING. Yes, is my second sentence. There are good things happening out there. People are starting to grab some of that data and we are looking to see how we can incorporate it into how—what we do in terms of underwriting FHA mortgages.

Mr. GREEN. With my final 11 seconds, let me just say to you that I want to work with you to develop the automated process. I am working with my colleagues here in Congress, and there are many on both sides who favor this; we just haven't reached a proper conclusion yet.

But I want to work with you to get this done. It really is a good thing for not only the people who will benefit, but also for the American economy.

I yield back the balance of my time, and I thank you for the extra 17 seconds.

Chairman LUETKEMEYER. The gentleman's time has expired.

We now go to another gentleman from Texas, Mr. Williams, for 5 minutes.

Mr. WILLIAMS. Thank you, Mr. Chairman.

Mr. Golding, thank you for your testimony today. We appreciate it.

I am a small business owner. I am from Texas, as you heard.

I want to echo some of the statements made by my colleagues so far.

In my mind it is simple. In my business, the car business, we do it all the time: If I want to gain a customer and prevent them from buying an automobile from a competitor, I will lower or cut their rates. We give the customer the best deal we can, just like what the FHA is doing.

Now, lowering premiums—for example, rates—gives FHA a greater share of the market, a competitive advantage, we will say, over the rest of the industry. But the only difference is, we talked about earlier, is unlike the private market, which I am in, the taxpayer is providing the backstop. It is taxpayers' dollars, and fairly substantial ones, as we have already discussed.

So a greater share of the market equals a greater liability. We see this with Fannie and Freddie; we see it with the National Flood Insurance Program, and on and on and on. Frankly, discouraging private sector participation is what the Federal Government is good at.

So my first question is simple: Could we consider requiring that borrowers show that private mortgage insurance is unavailable before being able to obtain FHA mortgage insurance?

Mr. GOLDING. Thank you for the question.

I don't think that type of standard would be very easy to implement. As I mentioned earlier, if you look at some of the M.I.s, they said—they told their investors that under 5 percent of their business was affected by the mortgage insurance premium—some overlap and some tension between the two.

Mr. WILLIAMS. It is no. "No" would be the answer.

Mr. GOLDING. No. I think—

Mr. WILLIAMS. So what policy tool do you recommend, then, to ensure that the FHA's future role minimizes market distortion and preserves the financial condition of the FHA?

Mr. GOLDING. I think in terms of getting private capital back in, especially as it relates to the mortgage insurance industry, their traditional market has been serving the conforming market and the GSEs, and the housing finance reform and getting real competition in is probably the most powerful tool for getting private capital back into the mortgage—

Mr. WILLIAMS. "Competition" is the key word. I am glad you said that.

Switching topics, let me go back to my own experience in selling automobiles for a living and use the FICO scores. Now, contrary to what some may believe, my industry heavily relies on one's credit history, as you probably know. In most cases, the borrower becomes riskier based on their credit score.

I think everyone knows that. And in fact, there are some studies which show that loan performance deteriorates rapidly for borrowers with FICO scores below 660.

The FHA currently allows homeowners with exceedingly low FICO scores by industry lending standards—and frankly, as low as 500—to qualify for its mortgage insurance. So should FHA be in the business of insuring loans to borrowers with credit scores so low—and frankly, that I can't even sell a car to—that other private sector companies would deem too risky?

In other words, as we talked about earlier, you really are in the subprime business.

Mr. GOLDING. Thank you for your question.

And the risk management and the use of credit scores and what the odds ratios are things that we study considerably on that. We have taken the important step that if you are below 580 you need to put 10 percent down, so you have to have that compensating.

And we take into account the credit score during the underwriting process, in particular the total scorecard. So if one has a 620, one needs other compensating factors, whether it is debt-to-income ratios or the amount of the downpayment.

And we do look very carefully at the credit score in deciding what FHA mortgages to insure.

Mr. WILLIAMS. Okay. And another question: Do you think that FHA has an obligation to underwrite mortgages for applicants with credit scores that are that low—are the low end of the FICO spectrum?

Mr. GOLDING. Thank you for your question.

It is always where exactly you do—what is the last loan in is always a difficult one. We look at our credit policies; we are comfortable with the credit policies we have today. And in fact, the

credit mix that we are getting is actually quite good, with 680, which is higher than the historical average has been over those 82 years.

Mr. WILLIAMS. All right. Thank you for being here.

Mr. Chairman, I yield back.

Chairman LUETKEMEYER. The gentleman yields back the balance of his time.

I now recognize the gentlelady from Ohio, Mrs. Beatty, for 5 minutes.

Mrs. BEATTY. Thank you, Mr. Chairman.

And thank you, to our ranking member.

And also, I would like to thank our witness, Mr. Golding, today.

Mr. Golding, I would like to start today by asking about the Distressed Asset Stabilization Program.

I have an article from the New York Times, dated September 2015, Mr. Chairman, which I would like to ask unanimous consent to be entered into the record.

Chairman LUETKEMEYER. Without objection, it is so ordered.

Mrs. BEATTY. This article brought to light the affinity which hedge fund and private equity funds have for buying discounted mortgages from HUD at auction under the Distressed Asset Stabilization Program. Many folks have expressed concern that these firms are too quick to push homes into foreclosure once they acquire the mortgage, and seem to be really less helpful than banks in negotiating loan modification.

This article specifically mentions a couple from my district in Gahanna, Ohio. Their mortgage loan was sold at auction last summer by HUD, but prior to the auction JPMorgan Chase was working with this couple on a loan modification. But after the sale of their mortgage to Caliber, a private equity firm, loan modification talks were abruptly ended and the couple were met with a foreclosure notice.

In fact, the Consumer Financial Protection Bureau has recently had over 1,000 complaints from consumers about Caliber alone, which has bought some 20,000 mortgages from HUD. That same company, as I understand it, is currently under investigation for its foreclosure practices by the New York attorney general.

And I could go on and on. You get the gist of this.

My question is, how can we get more nonprofit organizations, whose mission is neighborhood stabilization, to be more competitive in these auctions?

Mr. GOLDING. Thank you for your question. It is one that is very important because I have always been a believer that the way to mitigate loss is to do loss mitigation, and foreclosure, REO, and then trying to sell the property should be a last resort—although, unfortunately, it is one that we too often have seen.

So we do struggle to make sure that there is loss mitigation—we put loans into these pools that have largely exhausted attempts by the original servicer to do the loss mitigation.

And as you point out, we do want—we have both neighborhood stabilization options, where we have minimum outcomes and we do a lot of smaller pools. Half of the last option went to the NSL option. And we have been working with different nonprofits with

small pools, targeted pools, to try to get more nonprofits in. We have done a lot of outreach.

I have to say, it is a difficult one for many nonprofits. They are good in—traditionally in dealing with actual houses and properties; servicing loans is new to many of them and it is very difficult.

But I pledge to work hard to try to continue to do more, and I look forward to working with you on this.

Mrs. BEATTY. Thank you very much.

Mr. Chairman, I yield back my time.

Chairman LUETKEMEYER. The gentlelady yields back.

With that, we go to the gentleman from Pennsylvania, Mr. Rothfus, for 5 minutes.

Mr. ROTHFUS. Thank you, Mr. Chairman.

And thank you, Mr. Golding, for being here today.

You are currently the Principal Deputy Assistant Secretary for the Office of Housing. What was your position at HUD, and during what specific dates did you hold that position?

Mr. GOLDING. I joined HUD in June—Principal Deputy Assistant Secretary in April 2015.

Mr. ROTHFUS. Your biography on the HUD website says that you "worked with the Department of Justice to craft consumer relief as part of mortgage settlements with the large lending institutions." These are the residential mortgage-backed securities, or RMBS settlements with JPMorgan Chase in November 2013 and Citibank and Bank of America in July and August 2014?

Mr. GOLDING. I provided technical expertise and I am—I think those were the ones I was involved in, but I would have to go back and check my records.

Mr. ROTHFUS. You said, "technical expertise." What was your specific role in the negotiations?

Mr. GOLDING. It was how to structure the consumer relief in order to bring sort of the greatest benefit. There were different parts of the settlements that the Justice Department entered into where specific actions in effect expanded servicing on some of the loans, loss mitigation, addressing blight. And it was that technical expertise.

Mr. ROTHFUS. Was your involvement directed by anyone specifically?

Mr. GOLDING. Again, I was sharing my technical expertise, so I—

Mr. ROTHFUS. Who directed you to do it? The Secretary? Anybody at DOJ?

Mr. GOLDING. I don't remember how I came upon that task. I can, again, check my records, but I—

Mr. ROTHFUS. Did you negotiate directly with any of the banks yourself?

Mr. GOLDING. I was in the room during negotiations. But as I said, I did not view my role as a negotiator, but rather to provide technical expertise in the area of consumer relief.

Mr. ROTHFUS. Did you ever do that without anybody from DOJ being present?

Mr. GOLDING. No, I don't remember ever being in a meeting without DOJ there.

Mr. ROTHFUS. Did you ever work directly with any of the heads of the banks when working on your technical expertise?

Mr. GOLDING. On these matters, I would be with the DOJ. Just in my role of FHA and my knowledge of the mortgage industry and at conferences, I have—

Mr. ROTHFUS. This is when you were a senior advisor on housing—

Mr. GOLDING. But not on these issues related to the settlements. It would have been with DOJ.

Mr. ROTHFUS. Did you ever meet with Jamie Dimon at JPMorgan Chase with respect to these settlements?

Mr. GOLDING. I have never met Jamie Dimon, to the best of my recollection.

Mr. ROTHFUS. As part of the settlements the banks are directed to make payments to third-party groups who were not part of the settlements and were not directly harmed by the conduct of the banks, such as HUD-approved housing organizations and attorney state organizations. The settlements require that the banks pay $150 million to these organizations.

Who came up with the idea of directing money to third-party groups? Did you?

Mr. GOLDING. Again, I do not remember particular—it has been a few years here. I do not remember how that was put on the table.

Mr. ROTHFUS. Did you speak to any of the organizations that are named as recipients of the funds in the RMBS settlements during or after the negotiations process?

Mr. GOLDING. Again, I don't have a list in front of me, so I am not sure who they are or whether I have ever talked to them before, during, or after.

Mr. ROTHFUS. So you don't recall ever having any conversations with anybody at La Raza, the National Urban League, NeighborWorks America, about any of these settlements?

Mr. GOLDING. I don't remember having conversations with those parties about the settlements.

Mr. ROTHFUS. Is it possible you had conversations with them?

Mr. GOLDING. I may have had conversations about the mortgage market with them; I would not have had conversations about the settlement with them.

Mr. ROTHFUS. Who, besides you, would have been involved with negotiating in any part of the RMBS settlements—anybody at HUD? Who besides yourself?

Mr. GOLDING. I would have to—the Office of General Counsel was with me, I think, at all of those meetings.

Mr. ROTHFUS. The settlements require that banks pay a certain fixed amount. Under the settlement, a dollar sent to the Treasury, as is the case with most law enforcement penalties, counts as one dollar towards the total. But in these settlements, a dollar sent to a third-party groups counts for more than one dollar towards the total.

Do you know who came up with that plan?

Mr. GOLDING. I don't know who came up with specific elements.

Mr. ROTHFUS. Did you come up with that plan?

Mr. GOLDING. As I said, I was there to provide technical expertise on that, so I would not have been the one who came up with or formulated these.

Mr. ROTHFUS. I yield back.

Chairman LUETKEMEYER. The gentleman's time has expired.

The gentleman from Michigan, Mr. Kildee, is now recognized for 5 minutes.

Mr. KILDEE. Thank you, Mr. Chairman.

And, Mr. Golding, thank you for being here.

There are two areas I would like to pursue. One has to do with the issue of disposition of REO owned by HUD, and then I would like to specifically ask a couple of questions about my hometown of Flint, Michigan.

On the issue of REO, can you in rough form, not—you don't have to have specific numbers, but what is the current inventory held by the Department?

Mr. GOLDING. I am going to have to get you that number. I think we dispose—I know the run rate. I think we dispose of something like 5,000 properties a month.

Mr. KILDEE. And those dispositions, are they through bulk dispositions? How are those executed? I guess I'll maybe just give you a general question: Is there preference given to public land bank authorities or neighborhood-based nonprofit organizations, over the private for-profit speculator market?

Mr. GOLDING. They are. I will have to get back to you on specifics.

We tend to sell them one at a time, manage that process. There are certain preferences, first-look types for certain groups, and I would have to get back to you on the details of that program.

Mr. KILDEE. Okay. I would appreciate that. I have some concerns, not so much about bulk disposition specifically, but bulk disposition that doesn't have the impact considered on external—the externalities considered when it comes to neighborhoods, especially those that are already struggling.

I appreciate that. And if we could pursue some engagement on that subject, I would appreciate it.

If you could help me think through, maybe offer some guidance on what the Department's role might be in providing direct assistance to people in Flint—and I am sure most of you are familiar with what has happened in Flint due to a series of decisions by the State-appointed emergency manager and then the lack of—and an extended period of time with high levels of lead leeching into the water system and having, obviously, a devastating effect on individuals, but particularly on children, which is the real tragedy.

But part of the problem that we are seeing right now is that the City, which is a city of about 100,000 people, is now getting sort of a third hit to its housing market. The chronic abandonment as a result of population loss driven by globalization, racial avoidance, poor land-use planning, et cetera, was the first hit.

The crisis, the housing collapse, was the second hit, which really drove down property values. In the last 7 years, for example, the real estate values in the City of Flint have been cut in half—just in 7 years.

And now the crisis that we are facing with water is a third hit that I am not sure without some serious intervention, we are going to be able to recover from. We are seeing, for example, individuals not being able to close on sales—even sales that they are able to make, which is one question; who is going to buy one of these

houses—but even when they can, not being able to get to closing because they can't provide the kinds of certifications regarding drinking water that would be required to close.

Can you just address first of all whether or not the Department is thinking about this, and if so, what that thinking is? And if the answer is no on either one of those, how we can engage you?

Mr. GOLDING. No, we are very engaged and very focused. The Secretary has made that very clear.

Let me talk about what FHA is doing, because there are other activities at HUD. And it is something that is of grave concern.

FHA tends to be the lender in communities like Flint. As you know, it is part—we talk about a countercyclical role, but sometimes that is not just the national recession; it is cities like Flint that have been hard hit. So we have stayed there and will stay there to be part of the mortgage market, because it is important to have lending.

That said, it is also—we will lend only on houses that have safe potable water. It is part of our longstanding mission and goes back 82 years.

And we have given guidance to the industry on how they can do both—how they can still continue lending. We will continue to monitor that.

I would be glad to work with your office. It is so important to continue lending, because if you cut off lending, you basically will drop house prices even further.

On the other hand, we have to make sure that the water is potable. And we have given clarity. We are looking to see whether certain waivers are necessary.

Again, I would be glad to work closely with your office on this one.

Mr. KILDEE. Thank you very much. I see that my time has expired.

Thank you, Mr. Chairman.

Chairman LUETKEMEYER. I thank the gentleman.

I would be willing to yield you another 2 minutes if you have some more questions, because I think this is an issue of utmost importance, not only to you but for the country. And to have the gentleman here in front of you, and have him be able to be on record for some things, is going to be very helpful. We want to yield you 2 more minutes, sir, if you have some more questions.

Mr. KILDEE. I really appreciate that, Mr. Chairman. Thank you.

I guess the specific question is whether you have been pursuing any direct relief? One of the things we are seeing right now, for example, in Flint, a lot of folks aren't paying their water bill, which often is an attachment to the tax bill, which can lead to delinquent taxes and even a potential tax foreclosure action.

And again, when we see properties that may have a booked value of somewhere, even on the tax rolls, it is going to have a State taxable value assigned to it. But we know how markets work. Property is only worth—or any commodity—is only worth what somebody is willing to pay for it.

And so I am concerned about whether or not this problem will double down in Flint by folks essentially not paying their water bill, not paying their property taxes, walking away from property.

Is there any way or any thought you have about assistance—direct assistance to individuals to prevent the loss of their home, which would obviously affect them, but worse, would contribute to an oversupply of substandard housing in a weak market community already?

Mr. GOLDING. I am going to have to check to see the tax and insurance defaults, which I have not—that has not risen to me of being an issue, but it is one that you have my personal commitment to monitor and make sure that we are responding appropriately. We don't want to foreclose because of a tax, and if someone is not paying their water bill it is sort of understandable on that one.

So again, very much the entire Department is committed to doing what it can, is focused on this, and thank you for bringing this specific issue to my attention.

Mr. KILDEE. Thank you. And we will follow up with you and perhaps get together.

Again, thank you, Mr. Chairman. I really appreciate that indulgence.

Chairman LUETKEMEYER. Absolutely. Hopefully, it can be helpful in many ways to work on your problem. This is of significant and national importance.

With that, the gentleman yields back.

The gentleman from New Mexico, Mr. Pearce, is recognized for 5 minutes.

Mr. PEARCE. Thank you, Mr. Chairman.

And thank you, Mr. Golding, for being here.

As we look at the CFPB, their required QM standards for loans, do the loans that you all insure comply with QM standards?

Mr. GOLDING. Yes, we have. The statute—

Mr. PEARCE. All?

Mr. GOLDING. —provided for a specific HUD–FHA QM standard, but we do.

Mr. PEARCE. All of them do?

Mr. GOLDING. Yes.

Mr. PEARCE. Now, I note that you have the capacity to include mortgages up to $625,000. What percent of your portfolio would be houses above $200,000, say?

Mr. GOLDING. The average is $190,000, so—or the median, so half are above $190,000. Our loan limits in most counties in this country are $271,000. It is only a few very high-cost areas that go up to the $625,000.

Mr. PEARCE. When I read your opening statement, you say that you are providing underserved borrowers, so people buying $270,000 houses are underserved?

Mr. GOLDING. As I said, the highest in most communities—in most counties in this country is $271,000. The average is $190,000.

Mr. PEARCE. So, okay, we will use the $191,000. Are those people underserved?

Mr. GOLDING. Typically, we do serve a market that—

Mr. PEARCE. Okay, but if your average is there, you have a lot above that. And so my question is, the people who are above $191,000, pulling your average up to that, are they underserved?

Mr. GOLDING. They are not being served by the conforming market. The GSEs' average FICO score is, I think, around 750, 760. So we are playing in a very different market than the conventional or private sector is playing in.

Mr. PEARCE. The average income in my district is maybe $31,000; 50 percent of the houses are manufactured housing. It is hard for me to sit here and believe that these people are underserved that you are telling me.

And so I find maybe that all of the portfolio increases is you creating an artificial market in order to improve the balance sheet and improve what you report to us in order to delay and defer questions. And our questions are to keep people who are making $31,000 a year in my district from paying for the people who are making enough to borrow a $600,000 house and the government is insuring it. That is what the rub is about.

Do you think that we are in a recovery market here? The President said in his State of the Union Address that we have recovered, and we recovered a long time ago, and it is now looking really good. Have we recovered?

Mr. GOLDING. The housing market is recovering and has recovered. We now are seeing housing start—

Mr. PEARCE. How long has that recovery been going on?

Mr. GOLDING. I don't remember the exact year where housing started to increase, probably around 2009, 2010.

Mr. PEARCE. 2009, 2010—in your opening statement you say you are a countercyclical force, so in the period that you say that we have been recovering, countercyclical means when the market is not recovering that you get in and when it is recovering you should be diminishing out because the private market is there.

And so you say that the recovery started about 2009, but that is during the period when you are skyrocketing in your portfolio. Do you find that to be not consistent with your statements, not consistent with your stated objectives as an institution?

Mr. GOLDING. Thank you for the question.

The exact numbers of what it means to be countercyclical are sometimes difficult to measure. But as I said, we in—

Mr. PEARCE. Then why do you come and talk to us about it? If it is difficult to measure, why are you saying that in your opening statement, in your opening paragraph? You lead with that. Why don't you put it at the end where nobody is going to read down there if it is difficult to assess?

Mr. Williams said, basically you are in the subprime business, and you made the comment that, "We study the odds." What does that mean, that you study the odds?

Mr. GOLDING. The odds ratio of defaults. As we—

Mr. PEARCE. So you think that the people who rate 500 in the private system of measuring are being unfairly evaluated and that you all have an evaluation system that is better than the 500 and you are going to go ahead and lend that money down there because these are insurable real estate, I think is what you said. Is that correct, that the private market is undervaluing the capability of people with these scores to make their payments back?

Mr. GOLDING. The private market traditionally will not serve that market, correct—for a variety of reasons, but that is not where—

Mr. PEARCE. So what you are telling me is that your agency is willing to put my constituents at risk, who are making their lives work on $31,000 a year. You are willing to put them at risk to help somebody who bought a $600,000 house with a 500 credit score because you have a system of measuring that is—and the private market is inaccurate and yours is accurate.

Sir, I have trouble believing it. I appreciate it.

I yield back.

Chairman LUETKEMEYER. The gentleman's time has expired.

We now go to the gentleman from Minnesota, Mr. Ellison. He is recognized for 5 minutes.

Mr. ELLISON. Thank you, Mr. Chairman.

Thanks to the ranking member, as well.

Mr. Golding, thanks for joining us today. I have a chart I would like to direct your attention to, if we can get that up.

My first question, Mr. Golding, is this—first of all, thanks for the good news you shared. It is clear that FHA is in good financial health.

The FHA Mortgage Insurance Fund continues to grow stronger. That is a good thing.

And we appreciate your team's effort to reduce risk, improve recoveries, and lower premiums. In my community in Minnesota and around the Nation, FHA remains a critical source of sustainable credit for American families.

So here is what I would like to ask you: This chart I have up here shows that nationwide, we have a rental housing crisis. Current estimates are that nearly 12 million low-income people pay more than half of their income for rent.

And according to a Harvard Joint Center for Housing Studies report, one in two households spend more than 30 percent of their gross income on rent and utilities; one in four households pay more than 50 percent of their gross income for rent and utilities. And in my district we have more than 10,000 low-income families on a waiting list for assisted housing.

So could you talk to us about what the FHA is doing to help us address the dire rental housing crisis for low-income families? And what more could the FHA do?

Mr. GOLDING. Thank you for the question.

And if you add in utilities, the number goes to over 11 million paying over half, so we are, as you point out, definitely in a rental crisis.

On the FHA—and HUD in general, but FHA specifically—is on its multi-family program we support construction of new properties. We, in fact, recently reduced—for affordable properties, we reduced the insurance premium in order to attract more capital into that sector so that we would get more construction, more units, and more proceeds for rehab also. So it is not just the construction, but it is a substantial rehab. And our multi-family program is continuing to focus on that area.

As you know, our Rental Assistance Demonstration Program is also putting more capital—we are nearing the $2 billion and about 35,000 units preserved in terms of affordable housing.

But with those numbers up there, we clearly are only chipping away at what is a huge problem.

Mr. ELLISON. Thank you very much.

Let me ask you now about manufactured housing finance. A year ago, the Consumer Financial Protection Bureau published a report noting that manufactured home buyers have more expensive loans. It noted that two of three manufacturing homeowners eligible for a mortgage financed with more expensive personal property loans instead.

On the screen is a CFPB chart on FHA requirements for manufactured home loans. Can you briefly explain the types of financing FHA provides to manufactured home buyers?

Mr. GOLDING. Yes. We have both Title 1 and Title 2 loans for manufactured housing. Title 2 requires that it be real property, and Title 1 will also be for just—for property that is chatteled. We do try to provide financing to—through both of those FHA programs.

Mr. ELLISON. The CFPB report said that the FHA-guaranteed loans constituted about a fifth of the manufactured housing loans for home purchases in 2012. That seems a little low, especially since about half of all African-American and Hispanic households seeking mortgages have relied on FHA for financing since 2008. Contrast 20 percent to 50 percent.

What can the FHA do to improve the financing options for people who buy manufactured homes?

Mr. GOLDING. It is an area where the demand has been declining. I will commit to working with you and your office to see what more we can do in this area. As you point out, it is an important source of affordable first-time home ownership.

Mr. ELLISON. Quickly, in Minnesota we have eight manufactured home communities that are resident-owned, which we are very proud of. Can FHA help those residents buy their property?

Mr. GOLDING. Again, thank you for the question. I will have to work with you on that.

Mr. ELLISON. It would be a good thing if we could.

Thank you.

Chairman LUETKEMEYER. The gentleman's time has expired.

With that, we go to the gentleman from New Jersey, Mr. Garrett, chairman of our Capital Markets Subcommittee. He is recognized for 5 minutes.

Mr. GARRETT. I thank the chairman.

And I thank the Secretary for coming here to testify.

And I thank anyone else who is here from the Department coming to testify.

By the way, who else is here from the Department? Can they raise their hands? Anybody else? That's it?

Thank you. About a third of the audience.

So the past news in these hearings was, as has already been talked about, that the MMI has consistently in the past been below the 2 percent minimum capital requirements, as required by law since 2009. You have indicated it is now above that level.

It should be noted that the 2008 downturn was not foreseen or expected by anyone. The taxpayers are still on the hook for over $1 trillion of FHA-insured mortgages.

Here is the difference, Mr. Secretary: Unlike other financial entities subject to the Dodd-Frank Act and the Federal Reserve requirements, FHA's 2 percent minimum capital ratio has not been increased ever, right? It is still 2 percent and it was 2 percent.

I know in previous hearings on this matter, Mark Zandi recommended an increase of the minimum capital to 4.5 percent. Why did he say that? To withstand the effects of another financial crisis, which all the experts tell us there will be another financial crisis.

So, quick question: Do you believe that FHA is strong enough to withhold and withstand another Great Recession at its level right now? Or do you believe, as other testimony has given us, that we should increase it to something above 4 percent, instead of 2 percent?

Mr. GOLDING. Thank you for your question.

If a Great Recession were to start tomorrow, I don't believe that we would be able to sustain a positive capital reserve ratio.

Mr. GARRETT. What is the level that it should be increased, do you think?

Mr. GOLDING. I actually think that the 2 percent standard is a good standard.

Mr. GARRETT. But you just said that it was not strong enough to meet the next recession, so what would be one that would be able to withstand it?

Mr. GOLDING. We are growing and it is projected to—the fund—there is the question of the standard. I don't expect the Great Recession to start tomorrow. But we are building reserves above—

Mr. GARRETT. That is good.

Mr. GOLDING. —that 2 percent.

Mr. GARRETT. And I appreciate that. So what is the goal, what is the target you are trying to get to?

Mr. GOLDING. We have, again, no specific target. We have a statutory 2 percent standard.

Mr. GARRETT. Right. So what should the—since you have just testified that the 2 percent level is not strong enough for the next recession, wouldn't it be incumbent upon us—either you or Congress—to set a standard that is your target? Maybe you can't get there tomorrow or next week or next month or by the end of the year, but shouldn't either you or us set that target now?

Mr. GOLDING. As I said, if the Great Recession starts tomorrow, we can withstand some recessions on that. And we would be glad to work with your office to try to come up with what the number is that we would be—in order to survive another Great Recession.

Mr. GARRETT. That would be great, and—that would be fantastic, actually, if you could provide us with that number.

Now, private financial institutions have to go through stress tests to deal with that situation, to try to prepare for that. You do not, correct?

Mr. GOLDING. Correct.

Mr. GARRETT. Is that something that we should require or you should do voluntarily—do your own stress tests?

Mr. GOLDING. The independent actuarial does do scenario analysis, which is similar to a stress test—

Mr. GARRETT. But isn't it true that when they do those, they do so based upon your assumptions?

Mr. GOLDING. They do a variety of assumptions. Many of these assumptions are taken from third parties, some from OMB, but they all—

Mr. GARRETT. Isn't it true that some of your assumptions are not accurate or are faulty assumptions, and that they recommend other assumptions?

Mr. GOLDING. I—

Mr. GARRETT. That is my understanding.

Mr. GOLDING. Okay. I will have to go back and look at the exact report on—

Mr. GARRETT. So would you be averse to having—either have the Congress order or you can do this independently—you have the power to do a—your own stress test that is akin to or similar to or the same as what the Fed requires of private institutions? Why wouldn't that be fair and good to do?

Mr. GOLDING. As I said, we do—there are scenario analyses—

Mr. GARRETT. But you agree that these are not the same stress tests that the Fed requires in private institutions? We agree on that, don't we?

Mr. GOLDING. They are not exactly the same. They are similar.

Mr. GARRETT. Right. So wouldn't it be good to do those same—similar stress tests, just like the private sector would, that would give us a best picture?

Mr. GOLDING. It always is good to look at different scenarios.

Mr. GARRETT. Would you commit today, then, to reaching out to them so you could do the exact same stress tests so we could come back and put everything on an even keel?

Mr. GOLDING. It is very difficult to know exactly what the Fed—we are—

Mr. GARRETT. You could do this by yourself, adopt those standards and do your own stress tests. Would you commit to doing that right now so we can know conceivably that these are on the same level as the other private institutions have to deal with? That would be great if you could say that.

Mr. GOLDING. We do and continue to look at different scenarios. Not being regulated by the Fed, it is very difficult for me to make a commitment that we will match exactly what the Fed does.

Chairman LUETKEMEYER. The gentleman's time has expired.

We now go to the gentleman from Missouri, Mr. Clay, for 5 minutes.

Mr. CLAY. Thank you, Mr. Chairman.

And thank you, Mr. Golding, for being here today.

It has been over a year since the FHA made the decision to reduce annual premiums for new borrowers by half of a percent, despite Republican criticisms that the MMIF was not strong enough to handle this change. What can you tell us now about the impact of the premium reduction and the validity of Republican criticisms against the decision?

Mr. GOLDING. Thank you for the question.

The concern when you do—we have clearly reduced the premium in order to lower the cost of housing and for new first-time homebuyers. And as my written testimony points out, we actually exceeded our expectations. We had expected 75,000 new first-time homebuyers. The data suggests it is over 106,000.

So we have had—on the benefit side, we clearly did better than expected. On the cost side, you are cutting your per-loan revenue, but you also are increasing volume.

And there I turn to the independent actuary, which basically estimated how those two balanced out. And the understandable concern was the lost revenue would be greater than the expanded value.

The independent actuary showed those were basically a wash, so the cost was actually lower than expected. So greater benefits than expected, lower costs than expected.

Mr. CLAY. And under what conditions might the FHA consider decreasing premiums further?

Mr. GOLDING. In general, when one looks at what the appropriate premium is what you do is you look at the strength of the fund, you look at what track it is on, what are the projections. And then you also look at the market conditions in the housing market: How healthy is it? Are people getting the credit they need? Is housing affordable?

Mr. CLAY. Is HUD considering changing the requirement that borrowers pay premiums for the life of the loan?

Mr. GOLDING. Again, I am not considering a change in that. I view the life of the loan—a lot of our defaults occur much longer after origination than people expect. This is true of all mortgages. And so, the losses are fairly long-lived.

And I also will point out that the GSEs do not—their guarantee fee is also for the life of the loan. So I am actually not considering changes to the life of the loan policy.

Mr. CLAY. How would you consider the health of the housing market? I met with some homebuilders yesterday, and apparently it is increasing, but they complained about some of the regulatory obstacles. And they think it is a little more difficult, especially with some of the hurdles that they have to jump through in relation to the Clean Water Act and things like that.

What are you seeing?

Mr. GOLDING. Yes. So especially for new construction largely driven by household formation, and that has come—is much stronger than it had been. It is over a million households.

There is no doubt that getting the land and getting it permitted are tough issues, and it is community by community. There is not just one national policy there. As they say, real estate is local no more than when you are building.

Mr. CLAY. Okay. And do you—despite the premium reduction announced in January of last year, the FHA premiums remain high by historical standards. Many have pushed for an even larger reduction.

The most recent independent actuarial report on the Mutual Mortgage Insurance Fund shows it to be in a strong financial condition. And is HUD now considering further premium reductions or other steps?

Mr. GOLDING. We have no plans at this time. Again, it is a very—it is one of these things that we evaluate. It depends, as I have pointed out, on the strength of the fund, its trajectory, and the needs of the housing market.

Mr. CLAY. I see. Thank you very much for your answers.

And I yield back.

Chairman LUETKEMEYER. The gentleman yields back.

With that, we go to the gentleman from California, Mr. Royce, for 5 minutes.

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

And, Mr. Golding, thanks for being with us this morning.

The GSEs, under the direction of the FHA, have engaged in innovative methods of offloading risk to shield the American taxpayers currently holding the back for Fannie and Freddie losses. And I have been encouraged by the progress that the GSEs have made in this regard, although I think a lot more could be done.

Risk-sharing with the private sector is a way to slowly but quite surely remove the Federal Government's grip on the housing market and introduce private capital in a way that lets us better price risk and avoid a calamity. So it is my belief that the FHA has the authority to do risk-share transactions, or at least co-insurance to reduce the risk.

We had a conversation with Secretary Castro here and he told me we can find ways to introduce more private capital into the market. And I was going to ask, what are you doing to work with the private sector to—in mortgage finance with an eye to avoiding the need down the road, should troubled waters be ahead, of avoiding any taxpayer-funded bailout?

Mr. GOLDING. Thank you for the question.

And I am aware of what the GSEs have done, some of their innovative products. As I mentioned before, on the multi-family side, we do risk-sharing. I would also mention that there is a lot of private capital in the FHA market in terms of the origination, the servicing, and actually the funding of the mortgages.

As it relates to credit risk, it is a difficult one on the single-family side for FHA to share credit risk. As I am sure the GSEs will tell you, there is a lot of systems work involved in setting up these programs. I know many of the individuals over there working on that. So it is very difficult.

The other thing I would point out is you are also giving up significant income. So while you are shedding some of the downside, you are also shedding considerable revenue when you do do a risk-sharing transaction.

Mr. ROYCE. The question I will ask you about—and I saw Mr. Garrett had inquired about capital—your target capital ratio. And I remember a conversation I had with Mark Zandi after he finished his book, and in particular we were talking about the GSEs.

For FHA, the issue of a target capital ratio of 2 percent—I know you are looking at this—he felt that 4.5 percent was the proper capital ratio, at least 4.5 percent. And so, since I know you are looking at analyzing where will you go on that target, I would just suggest that I think with an eye toward experience, that would be a wise objective. And I just wanted to get your feedback on that.

Mr. GOLDING. I have been looking at capital ratios for most of my career in the mortgage market. Yes, it's a tough question exactly what the right level is.

I will point out we have had—the 2 percent target has served us well, that while we came through the Great Recession there was a mandatory appropriation. I think FHA came through, as all the mortgage—of all the major participants in the mortgage market that I know of, FHA came through this crisis better than any of them did.

So I do think that we have the wherewithal. And these numbers, the 2 percent works. It is a projection of whether we are going to run out of cash in year 27.

Mr. ROYCE. Right.

Mr. GOLDING. It is not an immediate cash need. We have lots of cash at hand.

But we would be glad to continue the discussion of what a different target might be.

Mr. ROYCE. Thank you, Mr. Golding.

I will yield back, Mr. Chairman.

Chairman LUETKEMEYER. The gentleman yields back.

I now recognize the gentlelady from California, Ms. Waters, who is the ranking member of the full Financial Services Committee. She is recognized for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman and members.

I am very pleased that we are here today and the committee has invited you, Mr. Golding, to speak with us, because it does give us an opportunity to highlight the very positive results that were included in the most recent independent actuarial report on the health of the Mutual Mortgage Insurance Fund.

The report showed that the fund has now reached and exceeded the capital ratio requirement and now stands at 2.07 percent. The economic net worth of the fund is now at $23.8 billion, which is up $19 billion from the previous year. The report also shows that delinquency rates and foreclosures started to decrease substantially.

Exactly 1 year ago, this committee held an oversight hearing on the FHA, for which Secretary Castro came to testify. At that hearing the Republicans criticized the Secretary for his decision to decrease premiums, saying that the decision was irresponsible and that the fund was not strong enough to handle a premium decrease.

But here we are 1 year later and the fund has reached and exceeded the capital ratio earlier than expected, and it is in strong financial shape. Moreover, the premium reduction is helping thousands more borrowers access affordable home ownership.

So thank you very much for your work, and for Mr. Castro's leadership on this issue.

I have a few issues that I would like to bring to your attention.

Let me just ask about the reverse mortgage program. We had some interaction with HUD, particularly about the spouses of deceased individuals who were the mortgage-holders, and an inability for them to stay in their homes, et cetera, et cetera. I understand that a lot of work has been done on this issue and that you are continuing to work on this.

But I am concerned about the reverse mortgage program in general. I see a lot of advertising that continues to go on, a lot of lack of information that seniors don't have, a lot—information that they don't have.

And so what is the future of this reverse mortgage program? What are you doing, and do you think that we need to either talk about how we wind this down, or can it be fixed in a way that seniors understand it, and that they are fairly compensated while they are alive, and that they don't end up basically losing property that is valued much higher than what they have gotten out of it? What do you think about this?

Mr. GOLDING. Thank you for the question.

Reverse mortgage is a really tough question, and I struggle with it too. Thanks to this committee, we have made important changes in this program, and I am—what is being originated now I generally think is good for allowing seniors to age in place.

There is a very important role for counseling so that individuals know what they are getting. And, quite frankly, we encourage families and heirs and non-bearing spouses to be part of that counseling.

So I think the program now is on the steady keel. Its volumes are way down as a result, but it is one that needs to be monitored closely, as we learn more about the program.

Ms. WATERS. We are going to be paying very close attention to it and trying to address some of the concerns that we have identified.

Let me just move on. Since HUD announced its multi-family transformation initiative, I have been active in opposing this dramatic consolidation of HUD's multi-family field offices throughout the country. This plan seems to ignore the importance of local offices, and I am concerned that it will adversely affect the delivery of services by reducing staff's ability to effectively respond to local concerns.

That is why I successfully introduced an amendment to the 2015 HUD funding bill to ensure that HUD is not requiring the consolidation of asset management staff. However, I am very disappointed that HUD is circumventing the intent of this legislation and to keep asset management in every field office by failing to backfill these positions. Some offices are already completely vacant because HUD has not replaced asset management staff in those locations.

And I have also heard from affected HUD staff that HUD is penalizing asset management staff who are not choosing to relocate by sending the message that there will be no opportunities for career advancement rules—they voluntarily relocate to a hub office. Is this true?

Mr. GOLDING. Our current plans have been to, when vacancies were to occur—now, it is a fairly new program so I will have to get to you on the number of vacancies—but our current plan has been to fill those at one of either the hub or the satellite offices.

Ms. WATERS. Is there any intimidation going on with employees because you would like to or you are trying to circumvent what I successfully had passed?

Mr. GOLDING. Let me look into that. We don't tolerate intimidation, so please, I will work with your office on that one.

Ms. WATERS. Thank you very much.

I yield back.

Chairman LUETKEMEYER. The gentlelady's time has expired.

With that, we go to the gentleman from Kentucky, Mr. Barr, for 5 minutes.

Mr. BARR. Thank you, Mr. Chairman. Thanks for holding this hearing.

Mr. Golding, thanks for your testimony and your service.

I want to follow up on the line of questioning from Mr. Garrett and Mr. Royce on what is the appropriate capital reserve ratio. I think we are all happy to see the positive development of exceeding the 2 percent target, but we continue to be concerned that target may be inadequate.

The Government Accountability Office found that the statutory target of 2 percent is insufficient to ensure the stability of the FHA in the event of another crisis. I think Mr. Royce mentioned economists like Mr. Zandi, who said that we need a capital ratio of at least 4.5 percent.

And then, of course, just the history of a $1.7 billion mandatory appropriation suggests that a 2 percent capital ratio requirement may not be adequate in a stress scenario.

So, given those realities, and given the decision by the FHA to reduce the mortgage insurance premiums, what was the decision-making process in making that decision to reduce premiums? And are you in any way concerned that may deteriorate a more realistic target where we need to go?

Mr. GOLDING. I appreciate the question, and it is an important one because the strength of the fund is very important, and one that I, too, have always been concerned about.

The track is strong. We raised—I don't remember the exact number, but I think we raised the mortgage insurance premium about 8 times. The last one was a step back as market conditions had changed and the like, where we thought it was important to get it at a level that promoted affordability.

And as I said, the actuary has showed that it didn't really have an effect on the trajectory of how fast we are growing. In fact, they are now projecting that we are going to grow faster than they did last year before the cut.

Mr. BARR. I appreciate the goal and the mission of affordability. But according to the National Association of Insurance Commissioners, their model act on mortgage insurance, any mortgage insurance company that has outstanding total liability greater than 25 times its capital is required to cease operations until it rebuilds capital.

Obviously, the FHA is competing and supplanting PMI. Its capital requirements arguably should be at least similar to private markets, but the FHA baseline is 50-to-one, meaning that it is operating with only 2 cents on hand for every dollar of risk, which is half the minimum amount required by State regulators.

So, given that, what should be the proper balance in market share between FHA and private mortgage insurance, and where is it now?

Mr. GOLDING. In terms of, as I said, in terms of insurance—and these are rough numbers, but for a very high LTV above—basically

above 80 LTV, where the M.I.s play, where we play, the rough breakdown is basically 40 percent M.I., 40 percent FHA, and about 20 percent VA is where it is.

Mr. BARR. So 40–40–20?

Mr. GOLDING. Roughly.

Mr. BARR. Okay.

Mr. GOLDING. It bounces around, but that is my rule of thumb.

Mr. BARR. Do you all look at the substitution effect that you all are having when you lower premiums, when you have lower capital requirements versus the private sector? Do you all actually look at the displacement that your policies create?

And don't we want to invite more private mortgage insurance? Forty percent seems like a low number.

Mr. GOLDING. Now look, we look at it, I read what the M.I. said. One of them told their investors that the net reduction had less than a 5 percent effect on their business.

So I am definitely aware of the fact that there is overlap. But if you step back, we really do operate in largely different markets. Our core market and their core market—

Mr. BARR. But in the high-income areas you are talking about loans of $625,000, and I know that that is a high-income place or standard, but where I come from, a $625,000 mortgage is a very significant amount of debt.

But in any event, my time has expired. I would just encourage FHA to—we want to make sure risk is on the private sector, not on the taxpayer.

I yield back.

Chairman LUETKEMEYER. The gentleman yields back.

With that, we are finished with our witnesses.

And I will thank Mr. Golding for being here today.

I just have a few closing comments. I still have concerns and, to your testimony today, sir, I appreciate some of your remarks, and I am glad to see your capital has improved. I think that is fantastic.

But if you take the report, as I initially started my discussion with, in 2011, you are diametrically opposed with the way you are operating today compared to what that report was trying to give you the guidelines in the future. And so you were talking about raising premiums; now you are lowering premiums. You were talking about trying to shift stuff to the private market; through many of our Members' questions and what have you today, that is not happening.

So your comment a while ago was with regards to all the underwriting you did. The chart on the screen right now shows that for 10 years, underwriting went downhill, or your profits went downhill, or negative, in fact, as a result of the underwriting practice that you were using.

In 2009, you switched and got back on a sound basis, and now you have actually made money, which is fantastic.

The problem and the concern that I have, though, is that you testified a minute ago, whenever I was discussing it with you, with regards to the reverse mortgages, that you are taking on higher loan levels with more risk, and doing it with less income associated with that risk. That is a recipe for disaster.

And so hopefully, there isn't a downturn. Hopefully, we can work our way out of this. But I think it is incumbent on us as a committee to continue to watch what goes on here very carefully because I think you are treading on some very thin ice with the way that you are running the Department, especially with getting into the reverse mortgage market with less income to protect it.

So with that, we certainly want to, again, thank you for your participation today.

The Chair notes that some Members may have additional questions for this witness, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to this witness and to place his responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

And with that, this hearing is adjourned.

[Whereupon, at 11:07 a.m., the hearing was adjourned.]

A P P E N D I X

February 11, 2016

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410

Written Testimony of Edward L. Golding
Principal Deputy Assistant Secretary for the Office of Housing
U.S. Department of Housing and Urban Development (HUD)

Hearing before the House of Representatives
Committee on Financial Services, Subcommittee on Housing and Insurance

February 11, 2016

I. Introduction

Thank you, Chairman Luetkemeyer and Ranking Member Cleaver, for the opportunity to testify about the ongoing work of the Federal Housing Administration (FHA).

Since 1934, the FHA has played a critical role in the U.S. housing market. Born out of the Great Depression, the FHA has a dual mission: 1) to ensure access to affordable credit for housing to underserved borrowers and markets; and 2) to act as a countercyclical force that sustains the housing market in difficult or uncertain times, reducing negative economic impacts on the economy. In recent years, FHA has been called upon to play both roles – in response to the crisis and as the economy and housing market continue to recover.

By making sure borrowers, particularly first-time homebuyers, have access to affordable credit to purchase homes, FHA supports and expands the middle class, helps families put down roots in communities, and gives them the opportunity to accumulate wealth and build long-term financial stability. With the tendency of the private marketplace to restrict credit, especially in the face of uncertainty or risk, FHA's presence helps to create a balance that allows for stability in the housing market and extends opportunity for homeownership to a much broader segment of the population.

FHA's Mutual Mortgage Insurance Fund (MMIF or "the Fund") bore the strain of the Great Recession, falling below its required capital reserve and eventually taking a mandatory appropriation in 2013. However, FHA's focus on risk management, increasing revenue, and program improvements resulted in the ratio returning to 2 percent in 2015. This achievement was the result of FHA's prudent policy changes, and an ability to work with Congress to pass stabilizing legislation and quickly implement program changes over the course of several years.

This significant increase in value has coincided with the slow, but steady improvement in the state of the U.S. housing market. U.S. Census Bureau data show that recent building permits are up more than 14 percent over the previous year and total housing starts for 2015 were nearly 11 percent higher than

2014.[1] National unemployment has fallen to 5 percent, while consumer confidence and home prices continue to rise.[2]

Today, FHA's position is strong and continues to improve. FHA remains committed to its mission to address underserved borrowers and mortgage markets and this testimony discusses FHA's most recent Annual Report and offers a closer examination of the impact of FHA's Home Equity Conversion Mortgage (HECM) program.

II. 2015 Annual Report – Status of the Fund

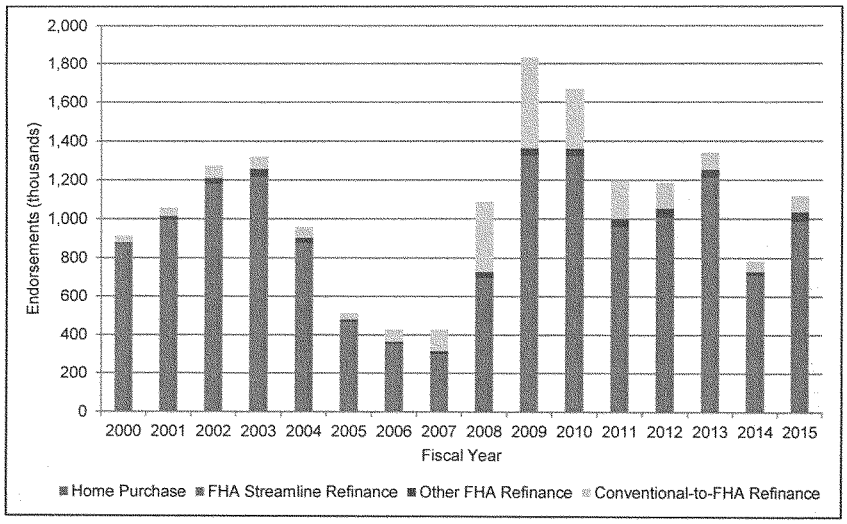
Volume and Market Share

FHA endorsements accounted for 19 percent of the total purchase mortgage market and 14 percent of the total refinance mortgage market through FY 2015. FHA's market share is a reflection of efforts to serve the agency's mission of promoting responsible, affordable lending to borrowers at all income levels and to ensure the availability of mortgage credit during national and regional downturns. Its general downward trajectory reflects the continued recovery in the market and FHA's ongoing role[3]. In Fiscal Year (FY) 2015, FHA endorsed 1,116,232 mortgages through the Single Family program. By dollar volume, 66 percent of FHA mortgages were for purchase and 34 percent were for home refinances. These mortgages went to borrowers with an average credit score of 680 and represent an average loan size of $190,928 for all mortgages, and an average loan size of $186,176 for purchase mortgages.

Exhibit 1

Distribution of FHA Single Family Forward Endorsements by Loan Type

[1] http://www.census.gov/construction/nrc/index.html
[2] http://www.reuters.com/article/us-usa-economy-homes-index-idUSKCN0V41PQ
[3] Historically, the share of total mortgages originated by FHA has averaged about 13 percent of total mortgage originations, but market share has fluctuated with economic disruptions. Since World War II, there were four instances in which FHA's market share ballooned by more than 5 percent in a year: 1948, 1958, 1970, and 2008—years that coincided with periods of economic recession, according to the National Bureau of Economic Research. (http://www.huduser.org/portal/Publications/pdf/HUD-FHAAT80.pdf)



SOURCE: U.S. Department of HUD/FHA, October 2015.

Borrower Characteristics

With its low down-payment requirement, FHA has served as a pathway to homeownership for first-time homebuyers. This has been especially true in recent years, as credit restrictions and higher financing costs have impeded many potential borrowers, including those that would previously have been served by the conventional market. In FY 2015, 82 percent of all FHA purchase originations were to first time homebuyers – a total of 614,148 loans. This is consistent with FHA's endorsement trends over the past 15 fiscal years, during which approximately 80 percent of annual purchase endorsements were for first-time homebuyers. ***Over the course of its 81-year history, FHA has funded approximately 13 percent of total market mortgage originations but more than 50 percent of all first-time homebuyer market purchase mortgages.***[4]

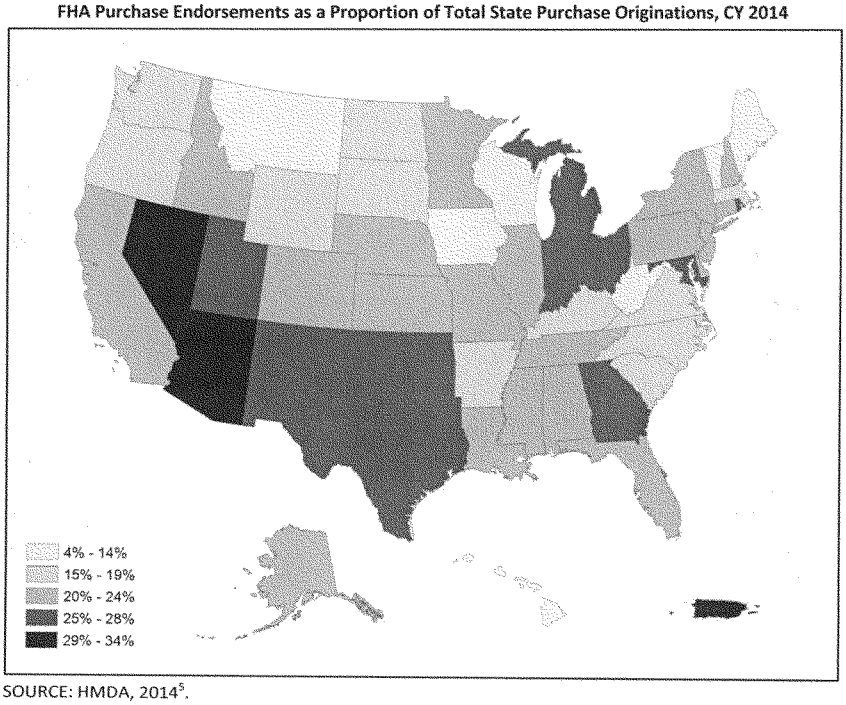
In FY 2015, a third of FHA mortgages went to minority buyers, consistent with long-term trends. The proportion of FHA purchase endorsements to Hispanic and African-American borrowers remained steady at around 17 percent and 11 percent respectively. Given that minorities are projected to drive new household formation and home sales over the next decade, FHA continues to closely monitor demographic trends to ensure its ability to serve all qualified borrowers.

Geographically, FHA served borrowers in every state in the country, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. Because credit policies and premiums do not vary by geography, FHA

[4] http://www.huduser.org/portal/Publications/pdf/HUD-FHAAT80.pdf.

provides a stabilizing force across jurisdictions, ensuring broad credit access during localized downturns. State-level data on FHA purchase endorsements, as measured by loan counts, are mapped below for 2014, the most recent year for which data is available.

Exhibit 2
FHA Purchase Endorsements as a Proportion of Total State Purchase Originations, CY 2014



SOURCE: HMDA, 2014[5].

Many of the states with the highest proportion of FHA purchase activity are in the Southwest. In 32 states, FHA-insured loans represented at least 20 percent of all purchase activity. In 12 states and Puerto Rico, FHA-insured lending made up a quarter of all 2014 purchase lending. Nevada, Puerto Rico, and Arizona were the states that relied most heavily on FHA purchase activity in 2014, with FHA-insured loans endorsing 34 percent, 33 percent, and 31 percent of all purchase loans in those places, respectively. In contrast, only two states, Vermont and Hawaii, had FHA-insured lending account for less

[5] Home Mortgage Disclosure Act data publication lags a year behind the calendar year. Presently, the most recent available data is from CY 2014.

than 10 percent of annual purchase originations. In Hawaii, FHA-insured loans were just 4 percent of total purchase originations, likely reflecting the state's high housing costs.

Economic Net Worth

The independent actuary reports that the MMI Fund's economic net worth (ENW) has improved by $19 billion since last year, increasing from $4.8 billion in FY 2014 to $23.8 billion in FY 2015. This continues a strong positive trend; the Fund has improved a total of $40 billion since FY 2012. The MMI Fund required capital ratio similarly improved by 3.5 percentage points over that time, from *negative* 1.44 percent to *positive* 2.07 percent. Improved policies and risk management, discussed below, have contributed to these positive trends.

The Independent Actuary's FY 2015 predictions show that the MMIF's ENW is expected to continue to grow in 2016 – finishing the year at 2.77 percent.

Portfolio Metrics Demonstrate Improvement

The underlying fundamentals of the portfolio are strong and show positive performance—improvements in the credit quality of new production, reduced delinquencies, and higher recoveries on distressed assets all speak to the better credit quality of recent loan vintages and improved asset management.

The better credit quality of new business is reflected by improved early payment delinquencies (EPD) rates. The EPD rate is the rate at which loans experience 90-day delinquencies within the first six months of origination. EPD rates provide the first indication of potential credit performance of newly insured loans and are a leading indicator of the long-term claim risk of a particular book of business. Consistently low EPD rates throughout FY 2015 illustrate the sustainability of the recovery in the portfolio. Newer books of business have vastly outperformed those insured in crisis years. EPD rates for the FY 2010 through February 2015 vintages are less than 20 percent of the EPD rates for the FY 2007 and 2008 vintages.

Seriously delinquent loans—those that are 90 or more days past due—also offer an important window into the performance of the portfolio, and demonstrate continued improvements in FY 2015. Over the last four years the serious delinquency rate has fallen by 35 percent, a nearly $35 billion reduction in the size of the seriously delinquent portfolio. Because of this significant reduction, for the first time since the beginning of the crisis, the number of existing FHA borrowers who cure their seriously delinquent loans is equal to the number of new borrowers who become seriously delinquent – a net zero for new serious delinquencies in [FY 2015].

Recoveries on defaults are a third metric that offers valuable insight into the health of the portfolio. In FY 2015, FHA continued its focus on further reducing loss severities associated with the legacy book—developing and executing against an overall asset management strategy targeted at keeping borrowers in their homes when possible, and maximizing recoveries when that was not the case. Since 2013 claim

recoveries have improved 43 percent which contributed more than $3 billion to the MMI Fund during that time.

As the performance of the portfolio continued to improve, FHA was able to examine its premium pricing structure and weigh it against the need for expanded, affordable access to credit in the market.

III. Impacts of Forward Mortgage Insurance Premium Reduction

Last January, FHA announced a reduction in the annual mortgage insurance premiums (MIP) on Single Family forward loans to support access to affordable mortgage credit. This expanded the work begun under FHA's *Blueprint for Access* initiative. FHA's decision to reduce its premiums was influenced by conditions in the broader housing finance market which was still experiencing long-term constrained credit, particularly for first-time homebuyers, low- and moderate-income households, and those recovering from the effects of the Great Recession. The reduction was, and is, intended to ease the path to responsible homeownership for hardworking Americans.

When the MIP reduction was announced, FHA communicated to stakeholders that the action was expected to introduce 250,000 new borrowers into the market over a three-year period, an average of roughly 83,000 per year. This new activity would come from previously underserved potential borrowers – best represented as those with credit scores at or below 680.

From FY 2014 to FY 2015, the number of purchase endorsements increased by 27 percent—growing from 594,997 purchase loans in FY 2014 to 753,389 in FY 2015. Refinance activity, which had declined sharply in FY 2014, rebounded by 90 percent between FY 2014 and FY 2015. Much of this growth was driven by the MIP reduction and continued low interest rates. In the first twelve months since the MIP reduction 106,000 additional borrowers with credit scores at 680 or below received an FHA loan, exceeding initial projections. These everyday Americans are now experiencing the many benefits of affordable homeownership.

To responsibly manage the Fund, the MIP pricing structure for forward loans must appropriately cover FHA's credit risk exposure and contribute to a capital reserve. Concerns were raised as to whether the premium reduction was appropriate, given the state of the MMIF's capital reserve at the time of the announcement. The work of the independent actuary indicates the MIP reduction had limited impact on the capital ratio and did not alter the strong positive trajectory of the fund's capital. In fact, since the introduction of the MIP decrease the independent actuary slightly *increased* the rate it projects the forward loan portfolio to accrue its capital cushion. The MIP decrease did not compromise the capital cushion or affect FHA's ability to pay expected future claims, and the Fund surpassed the 2 percent capital reserve benchmark in FY 2015.

While achieving the 2 percent capital ratio target represents a crucial milestone for FHA, managing the Fund goes beyond achieving a minimum capital ratio at a particular point in time. FHA's decision to reduce premiums created the opportunity for more than 100,000 families to become homeowners and further bolster our nation's housing market.

IV. Improve and Strengthen FHA

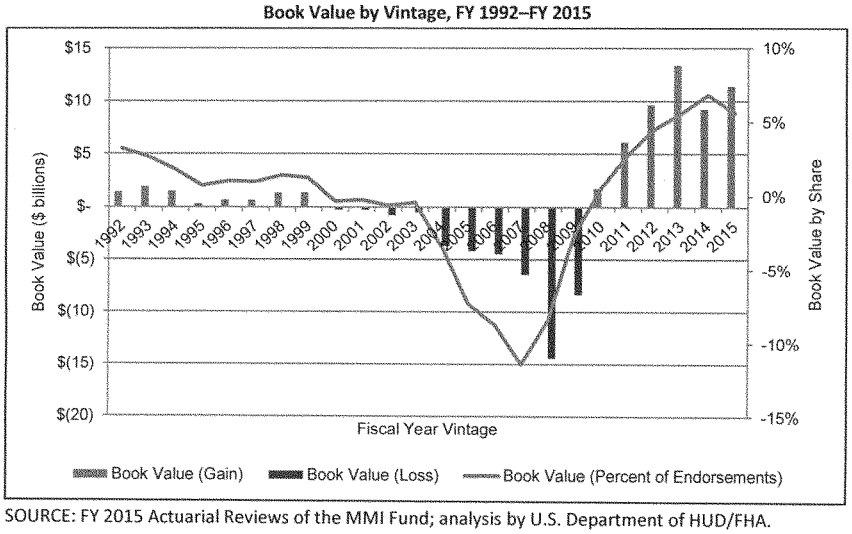
In the years since the crisis began, FHA has made substantial changes to its credit guidelines in improve and strengthen the position of the Fund. FHA relies on risk-based underwriting policies that discourage extreme risk layering, but also recognizes that otherwise underserved borrowers can be creditworthy borrowers when compensating factors are considered. Many steps taken by FHA to improve underwriting standards are already having positive impacts while preserving critical access to credit for those borrowers.

FHA uses its Technology Open to All Lenders (TOTAL) Scorecard to rank borrowers by credit risk, based on many indicators, including credit scores, reserves, and income ratios. In 2013 FHA broadened the group referred for manual underwriting by TOTAL to ensure better risk management. To further align credit standards with acceptable risk levels, FHA also implemented changes such as:

- Instituting a 10 percent down payment requirement on loans with credit scores less than 580.
- Strengthening manual underwriting guidelines to discourage extreme risk layering.
- Working with Congress to end risky seller-funded down-payment assistance practices.

These changes significantly improved the quality of FHA's incoming business, and slowly but steadily increased the value of the Forward portfolio. While the overall effect of any individual vintage year on a $1 trillion portfolio is limited, a steady accumulation of high-quality loans over several years improves the Fund. The 2005–2008 loan vintages that account for the bulk of FHA's more recent losses now represent only 10 percent of the Forward portfolio with more recent loans performing at or above expectations.

Exhibit 3
Book Value by Vintage, FY 1992–FY 2015



SOURCE: FY 2015 Actuarial Reviews of the MMI Fund; analysis by U.S. Department of HUD/FHA.

In FY 2015 FHA continued its efforts to strengthen the health of the Fund, especially through better risk management and loss mitigation practices. FHA's work on the *Blueprint for Access* has the three pronged benefits of improving clarity, compliance, and access to credit. FY 2015 saw the advancement of several major components of the *Blueprint.*

FHA published its Loan Quality Assurance framework, colloquially referred to as the "defect taxonomy," significantly ahead of actual implementation, giving industry substantial time to consider updates or modification to its own internal quality control practices. This allows both FHA and lenders to identify systemic problems sooner and correct them. FHA has begun to make necessary systems changes to implement the taxonomy into a new Loan Review System (LRS).

The Supplemental Performance Metric (SPM) is another effort to clarify policy and provide additional information with which to judge lender performance. As a complement to FHA's Compare Ratio, the SPM compares a lender's performance to an acceptable performance level for an FHA portfolio of loans with the same credit score mix in three distinct credit score bands. This increases clarity and transparency and helps those using the Compare Ratio as a proxy for acceptable performance understand the impact that performance by credit score band has on FHA's overall assessment.

FHA also made considerable progress on its Single Family Housing Policy Handbook, which brings together hundreds of pieces of separate, but related policy guidance documents in a user-friendly format. By releasing completed sections incrementally, FHA is allowing the industry to familiarize itself with the organizational changes in the handbook and understand additional requirements before they become effective. The majority of the updated Handbook is now publically available and several sections are already effective.

Looking ahead to FY 2016, FHA plans to finish work on the LRS and the Handbook – making expectations clear, compliance more accessible, and access to credit more broadly available.

V. HECM

Since Forward loans comprises the vast majority of the MMIF, much of FHA's efforts focus on the policies and performance of that portfolio. However, it has become clear in recent years that the HECM portfolio, as part of the MMIF, has a significant impact on value relative to size. As such, a discussion of the role and performance of the program is warranted.

Role and Importance

FHA pioneered the development of the HECM program in 1989, and continues to facilitate the reverse product by providing insurance that protects lenders and investors from losses. Since its inception, more than 1 million seniors have been able to age in place while gaining access to the equity they had built in their homes over time. While the program represents only a small fraction of the total endorsements in the MMIF each year, it is an important option for homeowners aged 62 and older, many of whom lack a stable source of income for living expenses and other financial needs. FHA's role helps ensure that there are appropriate housing finance options are available at every stage of life.

FHA's HECM program is unique in the market – FHA is the only widely-available source of reverse mortgage insurance at a time when the U.S population is aging. In the wake of an economic crisis that altered the long-term financial plans of many Americans, maintaining the availability and viability of this program has never been more important.

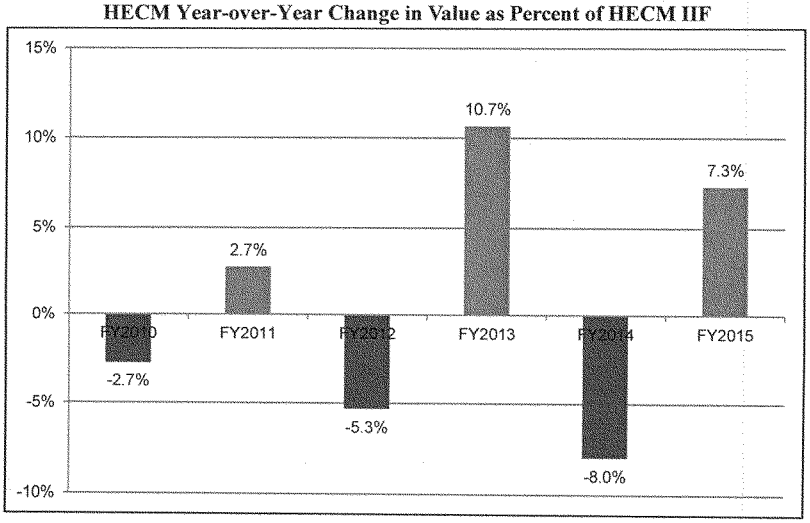
In FY 2015, FHA's HECM program helped 57,990 senior households to age in place, an increase of 6,374 borrowers from FY 2014. In FY 2015, 39 percent of HECM borrowers were single females and 22 percent were single males, and multiple borrowers comprised 39 percent of HECM borrowers, the same level as FY 2014. Additionally, the borrower's average age has declined, from approximately 77 in FY 1990 to around 72 in FY 2015. However, roughly 46 percent of HECM borrowers were between the ages of 62 and 69 in FY 2015, a decrease from 50 percent in FY 2013 and 48 percent in FY 2014.

HECM Modeling and Variability

While the overall performance of the MMIF is strong and continuing to improve – it is important to acknowledge areas where results are more variable. In contrast to the Forward portfolio, which has steadily improved in value over the last three years, HECM valuations, while strong this year, have exhibited more variability. Since the program is dependent on the market value of the property used as security, the HECM portfolio can experience significant swings in value year over year as the market factors that influence the present value of future home price change. The changes in these market factors, in turn, alter the projected losses on and values of loans in the portfolio.

Exhibit 4

HECM Year-over-Year Change in Value as Percent of HECM IIF



SOURCE: FY 2010–FY 2015 Actuarial Reviews of the MMI Fund; analysis by U.S. Department of HUD/FHA.

Two unique HECM characteristics are primarily responsible for the sensitivity of HECMs to changes in economic assumptions.

1. HECMs are characterized by a significantly longer Weighted Average Life than standard mortgages (over 15 years for HECMs versus about 6 years for Forwards). Longer maturities mean greater discounting and greater sensitivity to changes in interest rates over time.

2. While FHA serves solely as guarantor for the Forward portfolio, in the HECM market FHA is more likely to own the proceeds of selling the house, making house price appreciation a major consideration in the value of the portfolio. Additionally, since HECM lenders can assign loans to FHA when the unpaid principal balance reaches 98 percent of the maximum claim amount, ownership transfers to FHA, leaving FHA holding the asset.

Programmatic Changes

Despite these challenges, the HECM program itself is fundamentally sound – in part due to the assistance that FHA received from Congress. In 2013, FHA obtained authority to make critical changes to make the program more sustainable for the MMIF and to better serve consumers. As a result, FHA has issued considerable guidance to ensure the sustainability of HECM for borrowers and initiated new requirements to better manage FHA's risk.

Policy changes supporting that goal included limiting the amount that borrowers can draw at closing, changing MIP structure to support lower draws at closing and limiting Fixed Rate loans to one lump sum draw at closing. In addition, FHA introduced new Principal Limit Factors, including factors for eligible non-borrowing spouses under 62 who became eligible for a due and payable deferral period allowing them to remain in the home after the death of the mortgagor.

Now, with the benefit of two years of data, FHA can see that these changes appear to behaving positive results. These policies have successfully shifted the mix of Fixed Rate to Adjustable Rate HECM products. The mix of originations has shifted from 70 percent Fixed Rate and 30 percent Adjustable Rate between FY 2010 and 2012 to 16 percent Fixed Rate and 84 percent Adjustable Rate. Unlike in the Forward loan market, HECM ARMs pose less risk to the MMIF, as a drawdown of funds will take place at the current market rate rather than a rate locked in at the time of origination. This accounts for changes in market conditions and has little effect on the borrower, since they are receiving funds rather than paying them.

The initial equity draw patterns have also changed significantly: in 2013, 46 percent of borrowers drew 60 percent or less of the available HECM proceeds at close compared to 65 percent of borrowers in 2015. Preliminary data on draw patterns indicates that limiting draws during the first 12 months of the loan (a policy implemented in FY 2014) does not lead to larger draws after the first 12 months. This data suggests that reducing the amount borrowers can take on early could improve their capacity to use home equity when they might need it most.

During FY 2015, FHA continued its work on critical HECM policy changes and rulemaking. For the changes to the Financial Assessment and Property Charge requirements, extensive industry outreach and training have been, and continue to be, critical to effective execution. The goal of this outreach and training is to help lenders determine the capacity of borrowers to meet their documented financial

obligations and comply with the HECM provisions – understanding whether the HECM is a sustainable solution. FHA has also worked to address important issues surrounding non-borrowing spouses who live in insured HECM properties. These changes ultimately addressed the narrow issue of helping spouses not on the loan to stay in their homes and were well received by industry and the public. However, challenges in ensuring seniors will be successful with HECMs remain and HUD continues to further examine how to reduce the negative effects of tax and insurance defaults which can lead to foreclosure for seniors. Updates to its required housing counseling program and the creation of additional opportunities for lenders to offer loss mitigation to eligible HECM borrowers are two options currently being pursued.

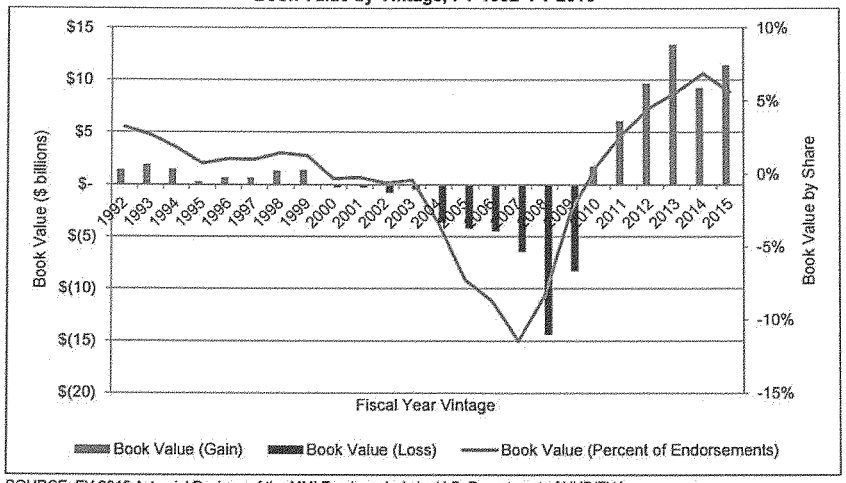
FHA feels that it has effectively responded to the programmatic issues affecting the loan level performance of HECM. Improvements like the provision of greater lender flexibility to use loss mitigation for eligible borrowers, limiting the amount of money that can be taken from the property, and removing riskier HECM product options, appear to have proven useful in reducing losses to the Fund.

VII. Conclusion

FHA remains committed to ensuring that the housing market is strong and sustainable – one with the right kind of housing opportunities for all Americans. By taking proactive steps and focusing on smart risk management FHA has been able to restore the health and stability of the Fund, making sure that it will be there for the next generation of homeowners. As FHA emerged from the economic crisis, discussions of the health of the MMI Fund rightfully focused on the prospects of the Forward portfolio and its performance. In recent years, it has become clear that the future health of the Fund also depends on the progress of the HECM portfolio. FHA is looking forward to working with Congress and its industry partners to make progress on better understanding the benefits and risks of the HECM program.

Improving the quality of incoming business increases the value of the Forward portfolio slowly but steadily. First, each individual vintage (cohort) adds relatively small but measurable incremental value to the portfolio. Second, as the relative share of successive post-2009 vintages increases, the overall impact of the detrimental older vintages (see Exhibit II-6) diminishes. For example, the 2005–2008 vintages now represent only 10 percent of the Forward portfolio.

Exhibit II-6
Book Value by Vintage, FY 1992–FY 2015



SOURCE: FY 2015 Actuarial Reviews of the MMI Fund; analysis by U.S. Department of HUD/FHA.

February 11, 2016

The Honorable Blaine Luetkemeyer
Chairman
Subcommittee on Housing and Insurance
Committee on Financial Services
2440 Rayburn House Office Building
Washington, DC 20515

The Honorable Emanuel Cleaver
Ranking Member
Subcommittee on Housing and Insurance
Committee on Financial Services
2335 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Luetkemeyer and Ranking Member Cleaver:

The National Multifamily Housing Council (NMHC) and National Apartment Association (NAA) applaud your leadership in holding a hearing entitled, "The Future of Housing in America: Examining the Health of the Federal Housing Administration (FHA)." Since its inception in 1934, FHA has been a cornerstone for the construction and permanent financing and refinancing of apartments through the U.S. Department of Housing and Urban Development (HUD).

For more than 20 years, NMHC and NAA have partnered in a joint legislative program to provide a single voice for America's apartment industry. Our combined memberships 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. As a federation of nearly 170 state and local affiliates, NAA encompasses over 69,000 members representing more than 8.1 million apartment homes throughout the United States and Canada.

FHA multifamily programs traditionally account for approximately 10 percent of the total outstanding multifamily debt. It is best known for offering an alternative source of construction debt to developers that supplements bank and other private construction capital sources. It also serves borrowers with long-term investment goals as the only capital provider to offer 35-40-year loan terms. FHA lending is essential to borrowers in secondary markets, borrowers with smaller balance sheets, new development entities, affordable housing developers and non-profit firms, all of which are often overlooked or underserved by private capital providers.

In normal capital markets, FHA plays a limited, but important, role in the rental housing sector. During the economic crisis, however, FHA became virtually the only source of apartment construction capital. Applications have increased substantially in the years since the crisis, and HUD anticipates that demand for FHA multifamily mortgage insurance will remain high for the next several years.

FHA's multifamily programs have continually generated a net profit, and have met all losses associated with the financial crisis with reserves generated by premiums paid through the loan insurance program structure. Because premiums have consistently reflected the risk associated with the underlying loans, and because underwriting requirements have remained strong within the program, FHA's multifamily programs are able to operate as self-funded, fully covered lines of business at HUD. Some programs have struggled during the real estate down turn; however, any losses have been covered by the capital cushion the multifamily programs collectively generate. According to HUD, the FHA Multifamily portfolio stands at a historically low default/delinquency rate of 0.15 percent, making it one of the soundest lenders available for multifamily borrowers.

It is important to the apartment industry that FHA continues to be a credible and reliable source of construction and mortgage debt. FHA not only insures mortgages, but it also builds capacity in the market, providing developers with an effective source of construction and long-term mortgage capital. NMHC/NAA encourage Congress to continue funding FHA's multifamily programs, including:

- HUD 221 (d)(4) Multifamily Loans – New Construction and Substantial Rehabilitation of Multifamily Properties
- HUD FHA 223 (f) Multifamily Loans for the Refinance or Acquisition of Multifamily Properties
- HUD FHA 241(a) Supplemental Loans
- HUD FHA 223(a)(7) Refinance of an Existing FHA Insured Multifamily Mortgages and Healthcare Mortgages

In addition, NMHC/NAA support and encourage HUD to complete the Multifamily Transformation Initiative. HUD's Office of Multifamily Programs provides mortgage insurance to HUD-approved lenders to facilitate the construction, substantial rehabilitation, purchase and refinancing of multifamily housing projects. Completing the Transformation Initiative will restructure the organization and improve transactional and operational efficiency, enhance risk management tools and implement procedures that will result in significant savings across the organization.

Affordable housing is a significant and growing challenge for American families. FHA multifamily financing plays a vital role in providing housing affordability for our nation's citizens. NMHC/NAA encourage Congress to retain and strengthen FHA as a reliable source of capital for the apartment sector. Finally, NMHC/NAA wants to be in the forefront, helping to develop creative ways for policymakers to engage the private sector to advance the shared goal of delivering safe, affordable housing.

Sincerely,

Douglas M. Bibby
President
National Multifamily Housing Council

Douglas S. Culkin, CAE
President & CEO
National Apartment Association

cc: The Honorable Jeb Hensarling, Chairman, House Financial Services Committee
The Honorable Maxine Waters, Ranking Member, House Financial Services Committee

The New York Times | http://nyti.ms/1MVdwQf

DealB%k WITH FOUNDER ANDREW ROSS SORKIN

As Banks Retreat, Private Equity Rushes to Buy Troubled Home Mortgages

By MATTHEW GOLDSTEIN SEPT. 28, 2015

Private equity and hedge fund firms have bought more than 100,000 troubled mortgages at a discount from banks and federal housing agencies, emerging as aggressive liquidators for the remains of the mortgage crisis that erupted nearly a decade ago.

As the housing market nationwide recovers, this is a dark corner from which banks, stung by hefty penalties for bungling mortgage modifications and foreclosures, have retreated. Federal housing officials, for the most part, have welcomed the new financial players as being more nimble and creative than banks with terms for delinquent borrowers.

But the firms are now drawing fire. Housing advocates and lawyers for borrowers contend that the private equity firms and hedge funds are too quick to push homes into foreclosure and are even less helpful than the banks had been in negotiating loan modifications with borrowers. Federal and state lawmakers are taking up the issue, questioning why federal agencies are selling loans at a discount of as much as 30 percent to such firms.

One company has emerged as a lightning rod, criticized by housing advocates and lawyers for borrowers, but admired by investors: Lone Star Funds, a $60 billion private equity firm founded in 1995 by John Grayken. In just a few years, Lone Star's

mortgage servicing firm, Caliber Home Loans, has grown from a bit player to a major force in the market for distressed mortgages.

An examination by The New York Times of housing data and court filings, as well as interviews with borrowers, lawyers and housing advocates, revealed a pattern of complaints that Lone Star was quick to begin foreclosure proceedings, whether the firm had bought a delinquent mortgage at a federal auction or directly from a bank.

Take Charles and Pamela Hubbard of Sacramento. They briefly lost their home when Lone Star's Caliber subsidiary dealt harshly with their request for a loan modification. The couple said they had submitted the application to reduce their monthly mortgage payments four days before a planned foreclosure sale, but the Lone Star subsidiary said the Hubbards had been late in completing the application and pushed ahead with the sale.

Within a month, the three-bedroom house that the Hubbards had lived in for two decades was auctioned off to another affiliate of Lone Star with the right to resell it later. The foreclosure was rescinded only after the couple went to court.

Caliber declined to comment on individual borrowers, but it said that in general, it was "committed to providing the best possible service to all borrowers, and identifying solutions that allow troubled borrowers to continue to pay their mortgages and stay in their homes is our top priority." It said it had one of the highest loan modification rates in the industry.

Another window into how Caliber and Lone Star operate can be seen in a rare look into one of Lone Star's biggest deals — a bundle of 17,000 distressed mortgages that had an unpaid balance of $2.96 billion.

With money from public pension funds, Lone Star bought those mortgages in the summer of 2014 at an auction held by the Department of Housing and Urban Development. The loans were originally underwritten before the financial crisis by banks like JPMorgan Chase and Bank of America, with insurance guarantees from the Federal Housing Administration.

The list of those mortgages was provided to The Times by the Legal Aid Society of Southwest Ohio, which obtained them through a Freedom of Information Act request.

HUD rules barred Lone Star from foreclosing on most of the mortgages it had acquired until early March. But since then, the firm has picked up the pace of foreclosures, an analysis showed.

As of the end of August, Lone Star and Caliber had foreclosed on at least 1,500 of those formerly F.H.A.-guaranteed mortgages — or 9 percent of the pool, according to an analysis of the home addresses performed by RealtyTrac, a foreclosure tracking service. Many of the foreclosed homes are clustered in Florida, Ohio, New Jersey, California and Texas.

A majority of the homes foreclosed on by Caliber have been bought back by another Lone Star affiliate at either a trustee or sheriff's auction. The private equity firm is looking to resell the homes, and many can be found on Zillow, an online real estate listing service.

Moving Fast in Ohio

This foreclosure push was felt by John P. Glynn and his wife, Tammy, of Gahanna, Ohio. They were working with JPMorgan Chase on a loan modification when their mortgage was sold to Lone Star in last summer's HUD auction.

After Caliber took over the handling of the Glynns' mortgage, the talks that had been going on with JPMorgan over a modification ended. Caliber filed a lawsuit in February seeking to foreclose on the loan.

"I got the impression they didn't want to work anything out," said Mr. Glynn, an industrial engineer.

Caliber is now working toward reaching a settlement with the Glynns.

The firm said it had modified or restructured loans for 2,300 delinquent borrowers in the HUD pool. It noted that modifications were outpacing foreclosures

and that it expected "the number of successful modifications to continue to increase over time."

The number of foreclosures can be expected to rise as well.

In February, a HUD report analyzing the status of some of the 79,000 soured mortgages it sold over the last five years — including those bought by Lone Star — reported that 20 percent of the mortgages had been foreclosed, 9 percent had been restructured and 6.4 percent had been resold to other firms or investors. Borrowers remained delinquent on about half the loans.

In addition to Lone Star, other private equity firms have emerged as big buyers of troubled mortgages from federal agencies and banks. They include Bayview Asset Management, an affiliate of Blackstone Group, and Selene Investment Partners.

These firms have swarmed into troubled mortgages because they can squeeze profits from these loans by either restructuring them or by foreclosing on them and then repackaging the distressed loans into bonds that are sold to mutual funds and hedge funds.

Private equity's push into the distressed mortgage market has produced some benefits. Thousands of homes that were abandoned by borrowers are now back on the market. In the HUD sales, about 10 percent of homes were vacant, according to the February report.

Still, housing advocates argue that federal housing agencies should make it easier for nonprofit organizations to have a better chance to compete for troubled mortgages, believing that these groups would work harder to avoid foreclosures.

Representative Michael E. Capuano, a Massachusetts Democrat, wrote this year to Julian Castro, the HUD secretary, expressing concern that nonprofit housing groups were too often losing out to private equity firms in the bidding for distressed mortgages.

In his letter, Mr. Capuano, who singled out Lone Star, said the HUD sales "may turn out to be an efficient new mechanism for increasing evictions."

The tendency to act quickly on foreclosures is, in part, by design.

The acquisition of distressed mortgages by Lone Star is the engine in a well-oiled securitization machine that assumes that foreclosure and resale of the homes are inevitable components of the process. In these securitizations, many of the soured loans are bundled into bonds that yield up to 4 percent. They are then sold to hedge funds and mutual funds.

The short-term securities generate income for investors from the proceeds derived from foreclosing on the mortgages and then selling the homes on the open market. Last year, Lone Star sold 17 such securitizations, with a combined unpaid loan balance of $10 billion, and the firm is on pace to complete a similar number of deals this year, according to Intex Solutions, a securitization deal tracking service.

A confidential offering document for one of these Lone Star deals — named VOLT 2015 NPL, a transaction backed by 4,895 delinquent mortgages — indicates that the firm considers foreclosure and sale of the homes the most likely outcome for a majority of the loans.

The offering statement, reviewed by The Times, says "payments on the notes are expected to largely come from liquidation and sale proceeds, although there are expected to be collections each month from monthly payments by mortgagors."

The document notes that about 9 percent of the mortgages were part of the pool of loans purchased from HUD.

Lone Star and other private equity buyers contend that many of the foreclosures involve homes that have been abandoned by borrowers, or loans beyond hope. The private equity firms also maintain that foreclosures are less profitable than modifications because the process is costly and time-consuming, and the homeowners are not making any payments for years at a time.

Federal housing officials reject much of the criticism of their sales of loans to firms like Lone Star, noting that many of the borrowers have not made a mortgage payment in three years. The private buyers, officials say, often represent borrowers' last, best hope of striking a deal that can keep them in their homes. HUD officials

also point out that the loan sales have reduced the obligation of the F.H.A. insurance program to guarantee mortgages against default, saving billions in the process.

In a letter in May responding to the criticism from Mr. Capuano, the Massachusetts congressman, Erika L. Moritsugu, a HUD assistant secretary, said the program was "putting the loans in the hands of purchasers motivated to help a borrower reperform."

She said the private buyers were expected to reduce the principal owed by a borrower because "that is often the best way to help someone who is multiple years in arrears" and "headed for foreclosure."

Nonetheless, in response to the criticism, HUD recently increased the period during which a private buyer cannot foreclose on homes to 12 months from six months, and it sought to create smaller pools of loans to give nonprofits a better chance at submitting winning bids.

While HUD has hoped that buyers of its loans will seek to reduce permanently the principal or debt owed by a borrower, Caliber tends not to do so.

In the first half of 2015, Fitch Ratings said of the loans it had reviewed, Caliber had not completed any modifications that included permanent principal reductions.

Instead, Caliber generally offers to modify loans for five years, during which a borrower makes either reduced monthly payments or simply pays interest on the loan. But those modifications revert to their original payment terms in the sixth year, sometimes with any deferred unpaid principal or unpaid interest added to the back end of the loan.

Short-Term Relief

Such deals provide short-term relief to borrowers but do not provide a permanent remedy for homeowners short of cash.

George Velazquez, 51, an auto appraiser who lives on Staten Island with his wife, Evelyn, said there was no room to negotiate with Caliber when it presented him with

a five-year interest-only mortgage modification after Lone Star bought their loan from HSBC.

Diane Cipollone, a lawyer and a consultant to the National Fair Housing Alliance, said these kinds of modifications simply delay the inevitable and do not present "good odds for any of these borrowers to keep their homes when the temporary modifications expire."

Phillip Harris, 62, who has black lung disease, has lived for more than 40 years in a three-story building in San Francisco that doubles as his home and a boardinghouse. Caliber threatened to foreclose on the mortgage a few months after Lone Star bought the loan from Bank of America and scheduled a sale of the property for March 19.

Mr. Harris sent in an application for a loan modification — a move that under California law would stop the foreclosure process. But because the documents were not yet in Caliber's computer system, the firm said it intended to go ahead with the foreclosure and sale of the house.

About a week before the trustee sale, Mr. Harris and his lawyer, Tiffany Norman, said they called Caliber and spoke with an employee who identified herself only as Katrina. On the recorded call, Mr. Harris and his lawyer repeatedly told the Caliber employee that the application had been submitted.

"We definitely don't doubt you guys sent that in," the Caliber employee said during the phone call, a recording of which was produced in litigation. But the employee said there was nothing she could do to stop the sale because it took five to seven days for an application to be "uploaded into" Caliber's system.

Ms. Norman went to court and got a temporary restraining order against Caliber. A few weeks ago, a Caliber lawyer approached Ms. Norman about a potential settlement.

Formerly known as Vericrest Financial, Caliber has grown rapidly. Today it manages more than 327,465 mortgages with a combined value of just over $71 billion. Some of Caliber's growth has come from Lone Star's steering of standard

mortgage origination business to the firm by requiring prospective buyers of the foreclosed homes it puts up for sale to be prequalified for a mortgage from Caliber.

As Caliber has grown, so have the customer complaints. More than 1,000 complaints have been lodged with the federal Consumer Financial Protection Bureau, with complaints running 54 percent higher than a year ago, the agency reports. Caliber said in an email that the modifications it had made had reduced the average borrower's monthly payments more than 20 percent.

"A collaborative solution that turns a nonperforming loan into a performing loan is not only the best outcome for homeowners, but it is the most attractive economic outcome for the long-term oriented investors who own the mortgages," Caliber said.

Help From the Court

In the case of the Hubbards, it took court action to get Lone Star and Caliber to work with them.

Lone Star bought the loan on their three-bedroom home in Sacramento from Beneficial Financial, a division of HSBC, in the summer of 2014 for an undisclosed sum.

Soon after buying the mortgage, which had an unpaid balance of $300,000, Caliber and Lone Star moved to foreclose. The sale of the home on Jan. 20 sent the couple running to court. They argued that the sale took place even as Caliber employees said they were trying to "find a way to escalate the submission."

After the Hubbards sued, Caliber and the couple began negotiating. In May, they agreed to a short-term modification that would reduce the Hubbards' monthly payments on the mortgage by several hundred dollars, to $1,953 for the next five years.

Caliber filed a formal notice with county officials on May 29 that rescinded the sale of the home to Lone Star.While the matter was resolved, it could have turned out differently if a buyer not affiliated with Lone Star had stepped in to buy the home.

"I don't know why they went through with it because it just didn't make any sense," said Mr. Hubbard, 64, a civilian employee with the Army. "Maybe people who get into these situations are categorized as no good, and they simply don't want to deal with them."

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ABLE 7: MANUFACTURED HOME ELIGIBILITY REQUIREMENTS FOR FHA TITLE I AND II PROGRAMS[7]

FHA Title I	FHA Title II
Personal property	Real estate, permanent foundation
Land only, land/home, or home only; site can be leased	Unit and land only; site must be owned and titled as real estate
Loan limits: MH only: $69,678 Lot only: $23,226 Combination: $92,904	FHA site-built limits apply: $271,050-$625,500 by area
5% down if credit score is 500+ 10% down if credit score is <500	Like FHA site-built requirements: 3.5% down Or 10% if credit score is <580
FHA insures maximum 90% of loan	Insures all of loan loss

Answers to **Questions for the Record**

Committee on Financial Services – Subcommittee on Housing and Insurance Hearing
"The Future of Housing in America: Examining the Health of the Federal Housing Administration"

February 11, 2016

Chairman Luetkemeyer Question 1. The Department of Housing and Urban Development was directed to revisit the Final Rule on disparate impact in response to the decision in Property Casualty Insurance Assn. v. Donovan, 66 F.Supp.3d 1018 (N.D. Ill. 2014). Will the Department's work include a re-examination of the Final Rule in light of the Supreme Court's decision in Texas Dept. of House and Community Affairs v. The Inclusive Communities Project? Has the Agency analyzed the Inclusive Communities case for inconsistencies or adjustments to the Final Rule?

HUD Response: The district court in *Property Casualty Insurance Assn. v. Donovan* concluded that HUD's 2013 discriminatory effects rule was not facially inconsistent with the McCarran Ferguson Act, but directed HUD to provide further analysis in response to insurance industry comments requesting an exemption from the rule's coverage for homeowners insurance. *See* 78 Fed. Reg. 11,460 (Feb. 15, 2013) ("Final Rule"). In doing so, the district court affirmed the validity of the burden-shifting standard set forth in the Final Rule. The Supreme Court's holding in *Texas Dept. of Community Affairs v. Inclusive Communities* is entirely consistently with the Final Rule, which reaffirmed HUD's longstanding interpretation of the Fair Housing Act as authorizing disparate-impact claims. The remainder of the Supreme Court's opinion – which consists of a discussion regarding limitations on the application of disparate-impact liability that have long been part of the legal standard – does not conflict with the Final Rule. As the Court noted, "disparate-impact has always been properly limited in key respects." Nothing in the Court's opinion casts any doubt on the validity of the Final Rule; in fact, the Court cited the Final Rule twice in support of its analysis.

Chairman Luetkemeyer Question 2: Mortgage lenders, including FHA, commonly use borrower information such as FICO scores when making credit decisions, possibly exposing them to disparate impact liability. With this in mind, will FHA or HUD be issuing guidance to lenders and property owners and managers on disparate impact compliance?

HUD Response: The 1994 Policy Statement on Discrimination in Lending ("1994 Policy Statement") – issued jointly by ten federal agencies, including HUD, the Department of Justice, the Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve System – remains effective and continues to provide guidance to lenders on assessing their practices for compliance with fair lending requirements. As provided in both the 1994 Policy Statement and in HUD's 2013 Discriminatory Effects Rule, application of the disparate impact standard must be evaluated on a case-by-case basis. Mortgage lenders and other housing providers should continue to carefully monitor their policies and practices to determine whether they produce any unjustified discriminatory effects. Where a policy or practice is necessary to achieve a substantial, legitimate, nondiscriminatory interest and there is no less discriminatory alternative, a violation of the Fair Housing Act will not exist.

Chairman Luetkemeyer Question 3. Last year, the U.S. Supreme Court issued a long-awaited decision on disparate impact theory. While the opinion upheld the use of disparate impact theory, the Court ruling offered new analysis and limitations on the use of the theory. Do you anticipate issuing additional clarification or guidance in light of the Supreme Court's ruling?

HUD Response: The Supreme Court's holding in the Inclusive Communities Project case reaffirmed HUD's longstanding interpretation that the Fair Housing Act authorizes disparate-impact claims and is entirely consistent with HUD'S 2013 discriminatory effects rule. The remainder of the Court's opinion – which consists of a discussion regarding limitations on the

application of disparate-impact liability that have long been part of the legal standard – does not conflict with HUD's Final Rule. As the Court noted, "disparate-impact has always been properly limited in key respects." Nothing in the Court's opinion casts any doubt on the validity of the Final Rule; in fact, the Court cited the Final Rule twice in support of its analysis. In light of these points, HUD does not see any additional guidance as necessary.

Chairman Luetkemeyer Question 4. As you know, new construction and renovation of FHA multifamily properties requires the use of Davis Bacon wage rates. The Committee has been informed of a lapse in time between initial endorsements and closings of FHA multifamily loans, resulting in situations where Davis Bacon rates change and increase total labor costs. What, if anything, is FHA doing to reduce or eliminate the impact of changes in Davis Bacon wages during the time frame described?

HUD Response. The Department of Labor regulations at 29 CFR Section 1.6(c)(3)(ii) require Davis-Bacon wage determinations for projects insured under the National Housing Act to be effective at initial endorsement, which occurs at the loan's closing. Significant changes to the wage rates after an application for mortgage insurance but prior to the initial endorsement for insurance (or start of construction), although infrequent, can be problematic for the lending community, developers and General Contractors on the rare occasions when they do occur because their pricing is influenced by the Davis Bacon Wage Determinations. Currently, the commonly accepted business practice to review an application for insurance is around 45-60 days, however – delays are not uncommon and can add up to another 45-60 days to the transactions. HUD is continually working to improve its standard processing times through implementation and refinement of its single underwriting model and through deployment of the Multifamily For Tomorrow (MFT) transformation to move its average processing time closer to the 45-day industry benchmark. However, while HUD is narrowing the time it needs to review applications for insurance – delays will continue to be a part of the process for reasons beyond HUD's control at times. HUD and the Department of Labor have discussed and will continue to discuss other steps that may be taken to promote better communication between HUD, the project owners, and developers, while maintaining fair and equitable pay for the labor force. Such communication would include making a timely decision about which wage determination(s) will apply to anticipated projects.

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Rep. Ellison Question 1. FHA efforts to address rental housing crisis: What is the FHA doing to help us address the dire rental housing crisis for low-income families, especially extremely low-income families? Please provide metrics on your rental housing finance activity. What more could FHA do on its own? What more could FHA do with additional legislative authority?

HUD Response. HUD is acutely aware of the crushing cost that housing is having on so many American households. In response to that crisis, we are leveraging our full arsenal of insured and assisted programs, as well as private-public partnerships to improve the availability and quality of affordable housing.

The Department is proud of the successful launch of a key element of this work – the Rental Assistance Demonstration (RAD) that helps convert public housing and older project-based units into more inclusive and modernized homes that preserve and strengthen existing communities. With 185,000 units already in the pipeline, RAD is poised to catalyze more than $2 billion in capital improvements through FY 2016 – well on its way toward the estimated $6 billion in improvements to existing, often distressed, public and assisted housing anticipated under the program overall.

HUD has also recently reduced the insurance premiums charged to affordable multifamily project owners. HUD estimates that this will facilitate the rehabilitation of an additional 12,000 units of affordable housing per year nationally, meaning over the next three years nearly 40,000 families could benefit from upgraded housing.

Furthermore, HUD's Low Income Housing Tax Credit (LIHTC) pilot has streamlined the insurance processing timeline for high-performing lenders, increasing FHA's compatibility with LIHTC requirements and deadlines. . Under that same program, HUD raised the repair cap for insurance from $15,000 to $40,000 per unit, meaning owners can invest more in enhancing the quality of life of residents without having to fully fund repairs upfront. Additionally, under existing authority, HUD has paired the 542 (b) and (c) Risk Share program with the Federal Financing Bank to enhance liquidity for the production and rehabilitation of more affordable units nationwide through qualified Housing Finance Agencies and other organizations like Freddie Mac and Fannie Mae.

While development funding for the Elderly and Disabled housing programs has not materialized in recent spending bills, HUD has still worked tirelessly to advance a supportive services demonstration for the Section 202 program that will help seniors age in place and avoid higher cost health-care facilities through use of skilled service coordinators.

HUD is also seeking in the President's FY 2017 Budget for Congress to remove the current prohibition on the securitization of 542 Risk Share loans. This request will allow Ginnie Mae to provide secondary market liquidity to support a broader range of housing financed through FHA'S risk-sharing programs, including small (5-49 units) affordable multifamily developments. Legislative authority to remove the RAD unit cap of 185,000 will also further unleash the power of public-private collaboration, helping to provide deeper penetration into economically depressed areas, and enhance successful place-based community revitalization programs like Choice Neighborhoods and Promise Zones.

While HUD pursues these efforts at the federal level, it is important to note the challenges local governments and communities are facing within the context of the affordable housing crisis. The reasons for a constrained housing market vary widely between those local policies designed to create protections for residents to those designed to insidiously exclude them - no matter the reason. The results are supply failing to meet demand housing costs that have increased much faster than wages in many cities, rents on existing housing that are bid up by new entrants to the community, and working families pushed out of the job markets where the best opportunities for high-paying jobs and affordable housing reside. This locally imposed cycle drives up income inequality, and when workers are unable to move to the jobs where they would be most productive, the United States sees an increasing drag on our national productivity.

There are many clear actions that regional coalitions – including both cities and suburbs – can take to allay these growing challenges. HUD's FY 2017 budget includes $300 million to help local leaders update outdated zoning codes, remove unnecessary regulations and requirements, and eliminate onerous, slow approval processes for new development. But every city and region can take action without federal help to meet the affordable housing needs of their citizens and potential citizens, and fuel their economic growth, by ensuring their housing rules allow the market to respond to demand with new development.

We have included metrics on rental housing in an attachment to this document.

Rep. Ellison Question 2-a. Question: FHA efforts to address finance needs of manufactured homebuyers. What types of financing does FHA provide to manufactured home buyers? Please provide metrics on your manufactured home loans. Please differentiate between residential and chattel loans.

HUD Response. The Department has authority to insure loans for the purchase or refinance of manufactured homes under Titles I and II of the National Housing Act. For both insurance programs, the property must have been constructed in compliance with the National Manufactured Housing Construction and Safety Standards Act ("the Act"). To evidence compliance with the Act, a certification label - a red metal label – must be attached to the home's exterior. That label reflects a commitment to quality manufacturing, many thousands of collective hours of expert inspection by federal and state partners, and soundness of mind for consumers - that when purchased, the manufactured unit will meet the same level of satisfaction and safety anywhere in the U.S.

Overall, Title I and Title II mortgage insurance programs are intended to protect lenders against certain losses in the event of a default by the borrower. Title I programs permit Manufactured homes to be titled at sale as personal property (chattel loans) or real property. In contrast, Title II programs require manufactured homes to be titled as real estate and installed on a permanent foundation.

Under these two authorities, the Department is fully committed to increasing access to credit for low and moderate-income borrowers, those who are very much in need of affordable housing.

We have included the metrics on Manufactured Home Loans in an attachment to this document.

Rep. Ellison Question 2-b. According to the Consumer Financial Protection Bureau, two of three manufactured home owners eligible for mortgages finance with more expensive personal property loans instead. The CFPB report also said that FHA-guaranteed loans constituted about a fifth of manufactured-housing loans for home purchase in 2012. It seems that even though FHA loans are more affordable than private sector loans, more manufactured home buyers choose – or are being steered to -- higher cost options. What can FHA do to improve the financing options for people who buy manufactured homes? Is there something Congress can do to enable FHA to better serve manufactured home buyers?

HUD Response. As housing markets and the economy have recovered from the recent recession, lenders and their investors have become more willing to hold chattel loans without FHA's Title I insurance, in exchange for higher interest rates that may achieve higher investment returns. Often times private retailers of manufactured housing do not work with FHA or VA guaranteed lending purposefully - instead raising the interest rate charged to the borrowers. In fact, FHA has received comments from two large manufactured home lenders that they now choose to self-insure against default, which avoids costs associated with administration of FHA insurance programs and retains a higher profit for the lender, but often comes at a cost to borrowers who have limited consumer choice. Other private sector financing for the purchase of Manufactured Homes is offered by land-leased community owners, direct-to-consumer. In many cases, buyers working directly with these private dealers may be unaware of other financing options. For decades, neutral third-party education about affordable home buying has been the hallmark of HUD's approved housing counseling network. Manufactured homeowners may be able to benefit from HUD's approved housing counseling network, but HUD does not have authority to mandate that process for non-FHA insured financing. Raising awareness of this critical knowledge base of counseling networks is something HUD feels would better serve manufactured homebuyers at large.

Additionally, while the majority of Manufactured Homes titled as real property are financed through FHA's Title II programs where loan limits are set based upon median home sales prices in the area, FHA has received comments that its lot-loan amounts under Title I may not be sufficient to finance lots in higher cost areas. The loan limits for Title I, including lot-loan limits, are dictated by the National Housing Act and subject to indexing by manufactured housing price data collected by the United States Census Bureau. (12 U.S.C 1703(b) (9)). Since the requirement to index the loan limits was instituted, loan lot prices have remained low relative to overall price inflation. Therefore, HUD has delayed indexing the limits, as it would have lowered the amount available to borrowers. However, as prices start to appreciate, we will look at indexing to ensure that borrowers can get the financing they need in higher-cost areas.

Rep. Ellison Question 2-c. It is my understanding that many homeowners wish to upgrade their homes, replace roofs, etc. but have a difficult time getting refinance loans. Does the FHA provide financing for refinancing of manufactured homes?

HUD Response. FHA provides insurance for mortgages taken out for the refinancing of manufactured homes. Where the manufactured home is considered real property, FHA's Title II 203(k) program permits borrowers to refinance a manufactured home to make improvements up to a maximum 110% loan to value (LTV). Additionally, where the manufactured home is considered real property, FHA's standard Title II purchase loan program permits borrowers to refinance a manufactured home up to maximum of 85% LTV.

FHA's Title I Property Improvement Loan program is available for the financing of improvements for both real estate and chattel properties. As part of FHA's commitment to establishing a consolidated, consistent, and comprehensive source of FHA Single Family Housing policy, FHA is currently developing its Title I Property Improvement Loan program sections of Handbook 4000.1, which will incorporate numerous outstanding policy documents into a single source. As part of this effort, the handbook will more clearly inform Title I lenders that improvements to manufactured homes can be financed under this insurance program.

Some of the existing features that the Title I Handbook will amplify for lenders are:

- borrowers are not required to have home equity,
- for a manufactured home classified as chattel or personal property, owners can borrow up to $7,500 over a maximum 12 year term, and
- for a home classified as real estate, owners can borrow up to $25,090 over a 15-year term.

Rep. Ellison Question 2-d. We have also heard concerns about insurance for manufactured home owners. Could you please provide us with some information regarding insurance companies that provide insurance at affordable rates?

HUD Response. FHA does not have information on hazard insurance for manufactured homes. It may be that availability and price are relative to a homes' location risk for tornados, hurricane, flood, etc.

Rep. Ellison Question 2-e. In Minnesota, we have eight manufactured home communities that are resident owned. What can FHA do to help residents of manufactured home communities buy the land and establish a resident-owned cooperative? In addition, can the FHA provide financing to allow non-profit affordable housing providers, community land trusts, and Housing Authorities to play a role in the preservation of manufactured housing communities? If so, please let us know what resources FHA can provide to preserve manufactured home communities.

HUD Response. While HUD cannot comment on the specifics of the example in Minnesota, it does have programs that can help finance resident cooperatives under certain circumstances. For example, the Section 207 Insurance for Manufactured Park Homes program can help stimulate lending for five or more manufactured homes in areas HUD determines such housing is needed to provide affordable solutions to the market. Generally, this insurance program can help eligible borrowers finance the purchase of the home, lot or a combination of the lot/home.

In addition, in certain cases where the manufactured home will be treated as real property, borrowers may be eligible for manufactured home lot-loans under Title I of the National Housing Act to purchase land suitable for a HUD approved manufactured home.

HUD currently allows approved non-profits to play a role in the preservation of the afore-mentioned programs, as well as several others not listed. However, while HUD recognizes their growing role in helping distressed communities, community land trusts (CLTs) generally run into regulatory roadblocks such as the long-standing FHA requirement that insured mortgages be free of restrictions affecting the transferability of title. However, as part of our ongoing efforts to extend access to credit to borrowers, HUD is actively working to examine what regulatory flexibilities it may already have to work though these barriers and where necessary, identify needed changes in statute.

HUD's staff at the various Homeownership Centers and Multifamily Regional and Satellite offices nationwide, can better address affordability for manufactured housing communities and/or resident cooperative boards that present project plans that leverage HUD's programs to enhance and increase the stock of affordable manufactured housing in affected communities.

FHA's Multifamily &Manufactured Home Data
February 17, 2016

I. FHA'S MULTIFAMILY AND RESIDENTIAL CARE FACILITY LOAN VOLUME

Since 2009, HUD has insured nearly 1.2 million units of multifamily housing through its various programs. While the level of production went down between 2013 and 2014 for FHA insured loans that is related to an upward trend in the private market as the economy continues to strengthen. While we are glad to see a return of private market growth, there is still a sizable need for affordable rental and HUD will continue to serve that market.

Fiscal Year	Number of Units MF (000)	Number of Units RCFL (000)
2009	70	33
2010	180	40
2011	205	53
2012	240	90
2013	290	93
2014	170	53

II. FHA'S MANUFACTURED LOAN VOLUME

A. FHA Title I Volume

Manufactured Home volume has trended down 73 percent since 2010. FHA asked lenders about this trend during its attendance at the recent Manufactured Home Congress and Expo. The two largest national lenders informed HUD that FHA insurance was not needed due to an improved economy and performance of loans. Both lenders said they self-insure their loans, and hold them as part of their portfolio. Their business model maximizes income from retaining the loans in their portfolio.

Fiscal Year	Number of Loans Originated
2009	371
2010	1,756
2011	882

FHA's Multifamily &Manufactured Home Data
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2012	649
2013	645
2014	475

B. Title II Volume for Manufactured Home Property Type

The volume of all Title II FHA mortgages including those on manufactured housing has trended downward 57 percent since 2009. This declining trend, however, is not consistent with the *New Manufactured Homes Purchased* (see chart below), which increased 29 percent during the same period. The increase in home purchases reflects the improved national economy, and corresponds with lower need for FHA insurance to protect lenders against risk of loan default.

FHA continues its mission of providing access to mortgage credit for families with low and moderate wealth, and to play an important counter-cyclical role in the continued stabilization and recovery of the nation's housing market.re of the mortgage market. FHA insurance peaks during times of economic stress, supporting market reactions to elevated risk. As housing markets and the economy have recovered from the recent recession, lenders and their investors have become more willing to hold loans without FHA insurance, in exchange for lower cost options that may achieve higher investment returns. Under a self-insuring option, lenders may retain premiums that would have been paid to third-party insurer. FHA has received comments from two large manufactured home lenders that they now choose to self-insure, which allows higher profit retention.

Manufactured Home Loans – Title II			**All Property Types – Title II**	
Fiscal Year	**Loan Count**	**% Change**	**Loan Count**	**% Change**
2009	40,204		1,946,638	
2010	26,919		1,746,367	
2011	19,069		1,270,904	
2012	18,058		1,239,417	
2013	21,173		1,404,766	
2014	17,073		837,970	
Sum Change %		-57		-57

*http://www.huduser.org/portal/ushmc/fi_FHAShareVol.html

FHA's Multifamily &Manufactured Home Data
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III. NEW MANUFACTURED HOMES PURCHASED

The number of new manufactured homes has increased each year since the post-recession low point in 2008. In 2014, there were 64,300 new manufactured homes placed. Following are the yearly counts in thousands.

Year Manufactured Homes Placed	New Manufactured Homes (thousands)
2008	81.9
2009	49.8
2010	50.0
2011	51.6
2012	54.9
2013	60.2
2014	64.3

Source: http://www.census.gov/construction/mhs/pdf/shipment.pdf

IV. LOAN PERFORMANCE BY PROPERTY TYPE

The chart below compares claim rates on manufactured homes with other types of housing (non-manufactured homes) for cohort years. The data represents only claims paid, and does not reflect loan default for which lenders absorb the loss without claim payment.

Generally, claim rates for manufactured homes are higher than other housing types.

Claim rates 2000-2015 as of 4/30/2015						
	Title I MH	Title I Prop Impr	Title II MH	Title II All	FHA Title I and Title II All	Title II - No MH
2000	21%	5%	14%	8%	8%	8%
2001	15%	4%	15%	7%	7%	7%
2002	19%	4%	15%	7%	7%	7%
2003	23%	4%	21%	9%	9%	8%
2004	23%	6%	22%	12%	12%	12%
2005	26%	10%	24%	17%	17%	17%
2006	26%	12%	25%	20%	20%	20%
2007	25%	12%	24%	21%	21%	21%

FHA's Multifamily &Manufactured Home Data
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2008	20%	11%	19%	15%	15%	15%
2009	13%	7%	10%	7%	7%	7%
2010	8%	5%	5%	3%	3%	3%
2011	6%	4%	2%	1%	1%	1%
2012	2%	3%	1%	1%	1%	0%
2013	1%	1%	0%	0%	0%	0%
2014	0%	0%	0%	0%	0%	0%
2015	0%	0%	0%	0%	0%	0%

FHA typically sees claim rates rise and level off after loans are "seasoned" for at least 3 years. This is attributed to the claim process, which requires lenders to repossess, refurbish, and sell the property before submitting a claim. Certain legal delays, such as borrower bankruptcy, and state foreclosure timelines may add to timing of claim filing.