

EXPANDING AMERICAN HOMEOWNERSHIP ACT OF 2006

—————  
JULY 20, 2006.—Committed to the Committee of the Whole House on the State of  
the Union and ordered to be printed  
—————

Mr. OXLEY, from the Committee on Financial Services,  
submitted the following

R E P O R T

together with

ADDITIONAL VIEWS

[To accompany H.R. 5121]

[Including cost estimate of the Congressional Budget Office]

The Committee on Financial Services, to whom was referred the bill (H.R. 5121) to modernize and update the National Housing Act and enable the Federal Housing Administration to use risk-based pricing to more effectively reach underserved borrowers, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

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## AMENDMENT

The amendment is as follows:

Strike all after the enacting clause and insert the following:

**SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.**

(a) **SHORT TITLE.**—This Act may be cited as the “Expanding American Homeownership Act of 2006”.

(b) **TABLE OF CONTENTS.**—The table of contents for this Act is as follows:

- Sec. 1. Short title and table of contents.
- Sec. 2. Findings and purposes.
- Sec. 3. Maximum principal loan obligation.
- Sec. 4. Extension of mortgage term.
- Sec. 5. Cash investment requirement.
- Sec. 6. Mortgage insurance premiums.
- Sec. 7. Rehabilitation loans.
- Sec. 8. Discretionary action.
- Sec. 9. Insurance of condominiums.
- Sec. 10. Mutual Mortgage Insurance Fund.
- Sec. 11. Hawaiian home lands and Indian reservations.
- Sec. 12. Conforming and technical amendments.
- Sec. 13. Home equity conversion mortgages.
- Sec. 14. Conforming loan limit in disaster areas.
- Sec. 15. Participation of mortgage brokers and correspondent lenders.
- Sec. 16. Sense of Congress regarding technology for financial systems.
- Sec. 17. Savings provision.
- Sec. 18. Implementation.

**SEC. 2. FINDINGS AND PURPOSES.**

(a) **FINDINGS.**—The Congress finds that—

(1) one of the primary missions of the Federal Housing Administration (FHA) single family mortgage insurance program is to reach borrowers who are underserved, or not served, by the existing conventional mortgage marketplace;

(2) the FHA program has a long history of innovation, which includes pioneering the 30-year self-amortizing mortgage and a safe-to-seniors reverse mortgage product, both of which were once thought too risky to private lenders;

(3) the FHA single family mortgage insurance program traditionally has been a major provider of mortgage insurance for home purchases;

(4) the FHA mortgage insurance premium structure, as well as FHA’s product offerings, should be revised to reflect FHA’s enhanced ability to determine risk at the loan level and to allow FHA to better respond to changes in the mortgage market;

(5) during past recessions, including the oil-patch downturns in the mid-1980s, FHA remained a viable credit enhancer and was therefore instrumental in preventing a more catastrophic collapse in housing markets and a greater loss of homeowner equity; and

(6) as housing price appreciation slows and interest rates rise, many homeowners and prospective homebuyers will need the less-expensive, safer financing alternative that FHA mortgage insurance provides.

(b) **PURPOSES.**—The purposes of this Act are—

(1) to provide flexibility to FHA to allow for the insurance of housing loans for low- and moderate-income homebuyers during all economic cycles in the mortgage market;

(2) to modernize the FHA single family mortgage insurance program by making it more reflective of enhancements to loan-level risk assessments and changes to the mortgage market; and

(3) to adjust the loan limits for the single family mortgage insurance program to reflect rising house prices and the increased costs associated with new construction.

**SEC. 3. MAXIMUM PRINCIPAL LOAN OBLIGATION.**

Paragraph (2) of section 203(b) of the National Housing Act (12 U.S.C. 1709(b)(2)) is amended—

(1) by striking subparagraphs (A) and (B) and inserting the following new subparagraphs:

“(A) not to exceed the lesser of—

“(i) in the case of a 1-family residence, the median 1-family house price in the area, as determined by the Secretary; and in the case of a 2-, 3-, or 4-family residence, the percentage of such median price that bears the same ratio to such median price as the dollar amount limitation in effect under section 305(a)(2) of the Federal Home Loan Mort-

gage Corporation Act (12 U.S.C. 1454(a)(2)) for a 2-, 3-, or 4-family residence, respectively, bears to the dollar amount limitation in effect under such section for a 1-family residence; or

“(ii) the dollar amount limitation determined under such section 305(a)(2) for a residence of the applicable size; except that the dollar amount limitation in effect for any area under this subparagraph may not be less than the greater of (I) the dollar amount limitation in effect under this section for the area on October 21, 1998, or (II) 65 percent of the dollar limitation determined under such section 305(a)(2) for a residence of the applicable size; and

“(B) not to exceed the appraised value of the property, plus any initial service charges, appraisal, inspection and other fees in connection with the mortgage as approved by the Secretary.”;

(2) in the matter after and below subparagraph (B), by striking the second sentence (relating to a definition of “average closing cost”) and all that follows through “title 38, United States Code”; and

(3) by striking the last undesignated paragraph (relating to counseling with respect to the responsibilities and financial management involved in homeownership).

#### SEC. 4. EXTENSION OF MORTGAGE TERM.

Paragraph (3) of section 203(b) of the National Housing Act (12 U.S.C. 1709(b)(3)) is amended—

(1) by striking “thirty-five years” and inserting “forty years”; and

(2) by striking “(or thirty years if such mortgage is not approved for insurance prior to construction)”.

#### SEC. 5. CASH INVESTMENT REQUIREMENT.

Paragraph (9) of section 203(b) of the National Housing Act (12 U.S.C. 1709(b)(9)) is amended by striking the paragraph designation and all that follows through “*Provided further, That for*” and inserting the following:

“(9) Be executed by a mortgagor who shall have paid on account of the property, in cash or its equivalent, an amount, if any, as the Secretary may determine based on factors determined by the Secretary and commensurate with the likelihood of default. For”.

#### SEC. 6. MORTGAGE INSURANCE PREMIUMS.

Section 203(c) of the National Housing Act (12 U.S.C. 1709(c)) is amended—

(1) in paragraph (2), in the matter preceding subparagraph (A), by striking “Notwithstanding” and inserting “Except as provided in paragraph (3) and notwithstanding”; and

(2) by adding at the end the following new paragraph:

##### “(3) FLEXIBLE RISK-BASED PREMIUMS.—

“(A) IN GENERAL.—For any mortgage insured by the Secretary under this title that is secured by a 1- to 4-family dwelling and for which the loan application is received by the mortgagee on or after October 1, 2006, the Secretary may establish a mortgage insurance premium structure involving a single premium payment collected prior to the insurance of the mortgage or periodic payments, or both, without regard to any maximum or minimum premium amounts set forth in this subsection. The rate of premium for such a mortgage may vary during the mortgage term as long as the basis for determining the variable rate is established before the execution of the mortgage. The Secretary may change a premium structure established under this subparagraph but only to the extent that such change is not applied to any mortgage already executed.

“(B) ESTABLISHMENT AND ALTERATION OF PREMIUM STRUCTURE.—A premium structure shall be established or changed under subparagraph (A) only by providing notice to mortgagees and to the Congress, at least 30 days before the premium structure is established or changed.

“(C) CONSIDERATIONS FOR PREMIUM STRUCTURE.—When establishing a premium structure under subparagraph (A) or when changing such a premium structure, the Secretary shall consider the following:

“(i) The effect of the proposed premium structure on the Secretary’s ability to meet the operational goals of the Mutual Mortgage Insurance Fund as provided in section 202(a).

“(ii) Underwriting variables.

“(iii) The extent to which new pricing under the proposed premium structure has potential for acceptance in the private market.

“(iv) The administrative capability of the Secretary to administer the proposed premium structure.

“(v) The effect of the proposed premium structure on the Secretary’s ability to maintain the availability of mortgage credit and provide stability to mortgage markets.”.

**SEC. 7. REHABILITATION LOANS.**

Subsection (k) of section 203 of the National Housing Act (12 U.S.C. 1709(k)) is amended—

- (1) in paragraph (1), by striking “on” and all that follows through “1978”; and
- (2) in paragraph (5)—
  - (A) by striking “General Insurance Fund” the first place it appears and inserting “Mutual Mortgage Insurance Fund”; and
  - (B) in the second sentence, by striking the comma and all that follows through “General Insurance Fund”.

**SEC. 8. DISCRETIONARY ACTION.**

The National Housing Act is amended—

- (1) in subsection (e) of section 202 (12 U.S.C. 1708(e))—
  - (A) in paragraph (3)(B), by striking “section 202(e) of the National Housing Act” and inserting “this subsection”; and
  - (B) by redesignating such subsection as subsection (f);
- (2) by striking paragraph (4) of section 203(s) (12 U.S.C. 1709(s)(4)) and inserting the following new paragraph:
  - “(4) the Secretary of Agriculture;”;
- (3) by transferring subsection (s) of section 203 (as amended by paragraph (2) of this section) to section 202, inserting such subsection after subsection (d) of section 202, and redesignating such subsection as subsection (e).

**SEC. 9. INSURANCE OF CONDOMINIUMS.**

(a) **IN GENERAL.**—Section 234 of the National Housing Act (12 U.S.C. 1715y) is amended—

- (1) in subsection (c)—
  - (A) in the first sentence—
    - (i) by striking “and” before “(2)”; and
    - (ii) by inserting before the period at the end the following: “, and (3) the project has a blanket mortgage insured by the Secretary under subsection (d)”; and
  - (B) in clause (B) of the third sentence, by striking “thirty-five years” and inserting “forty years”; and
- (2) in subsection (g), by striking “, except that” and all that follows and inserting a period.

(b) **DEFINITION OF MORTGAGE.**—Section 201(a) of the National Housing Act (12 U.S.C. 1707(a)) is amended—

- (1) in clause (1), by striking “or” and inserting a comma; and
- (2) by inserting before the semicolon the following: “, or (c) a first mortgage given to secure the unpaid purchase price of a fee interest in, or long-term leasehold interest in, a one-family unit in a multifamily project, including a project in which the dwelling units are attached, semi-detached, or detached, and an undivided interest in the common areas and facilities which serve the project”.

**SEC. 10. MUTUAL MORTGAGE INSURANCE FUND.**

(a) **IN GENERAL.**—Subsection (a) of section 202 of the National Housing Act (12 U.S.C. 1708(a)) is amended to read as follows:

“(a) **MUTUAL MORTGAGE INSURANCE FUND.**—

“(1) **ESTABLISHMENT.**—Subject to the provisions of the Federal Credit Reform Act of 1990, there is hereby created a Mutual Mortgage Insurance Fund (in this title referred to as the ‘Fund’), which shall be used by the Secretary to carry out the provisions of this title with respect to mortgages insured under section 203. The Secretary may enter into commitments to guarantee, and may guarantee, such insured mortgages.

“(2) **LIMIT ON LOAN GUARANTEES.**—The authority of the Secretary to enter into commitments to guarantee such insured mortgages shall be effective for any fiscal year only to the extent that the aggregate original principal loan amount under such mortgages, any part of which is guaranteed, does not exceed the amount specified in appropriations Acts for such fiscal year.

“(3) **FIDUCIARY RESPONSIBILITY.**—The Secretary has a responsibility to ensure that the Mutual Mortgage Insurance Fund remains financially sound.

“(4) **ANNUAL INDEPENDENT ACTUARIAL STUDY.**—The Secretary shall provide for an independent actuarial study of the Fund to be conducted annually, which shall analyze the financial position of the Fund. The Secretary shall submit a report annually to the Congress describing the results of such study and assess-

ing the financial status of the Fund. The report shall recommend adjustments to underwriting standards, program participation, or premiums, if necessary, to ensure that the Fund remains financially sound.

“(5) QUARTERLY REPORTS.—During each fiscal year, the Secretary shall submit a report to the Congress for each quarter, which shall specify for mortgages that are obligations of the Fund—

“(A) the cumulative volume of loan guarantee commitments that have been made during such fiscal year through the end of the quarter for which the report is submitted;

“(B) the types of loans insured, categorized by risk;

“(C) any significant changes between actual and projected claim and prepayment activity;

“(D) projected versus actual loss rates; and

“(E) updated projections of the annual subsidy rates to ensure that increases in risk to the Fund are identified and mitigated by adjustments to underwriting standards, program participation, or premiums, and the financial soundness of the Fund is maintained.

The first quarterly report under this paragraph shall be submitted on the last day of the first quarter of fiscal year 2007, or upon the expiration of the 90-day period beginning on the date of the enactment of the Expanding American Homeownership Act of 2006, whichever is later.

“(6) ADJUSTMENT OF PREMIUMS.—If, pursuant to the independent actuarial study of the Fund required under paragraph (5), the Secretary determines that the Fund is not meeting the operational goals established under paragraph (8) or there is a substantial probability that the Fund will not maintain its established target subsidy rate, the Secretary may either make programmatic adjustments under section 203 as necessary to reduce the risk to the Fund, or make appropriate premium adjustments.

“(7) OPERATIONAL GOALS.—The operational goals for the Fund are—

“(A) to charge borrowers under loans that are obligations of the Fund an appropriate premium for the risk that such loans pose to the Fund;

“(B) to minimize the default risk to the Fund and to homeowners;

“(C) to curtail the impact of adverse selection on the Fund; and

“(D) to meet the housing needs of the borrowers that the single family mortgage insurance program under this title is designed to serve.”.

(b) OBLIGATIONS OF FUND.—The National Housing Act is amended as follows:

(1) HOMEOWNERSHIP VOUCHER PROGRAM MORTGAGES.—In section 203(v) (12 U.S.C. 1709(v))—

(A) by striking “Notwithstanding section 202 of this title, the” and inserting “The”; and

(B) by striking “General Insurance Fund” the first place such term appears and all that follows and inserting “Mutual Mortgage Insurance Fund.”.

(2) HOME EQUITY CONVERSION MORTGAGES.—Section 255(i)(2)(A) of the National Housing Act (12 U.S.C. 1715z–20(i)(2)(A)) is amended by striking “General Insurance Fund” and inserting “Mutual Mortgage Insurance Fund”.

(c) CONFORMING AMENDMENTS.—The National Housing Act is amended—

(1) in section 205 (12 U.S.C. 1711), by striking subsections (g) and (h); and

(2) in section 519(e) (12 U.S.C. 1735c(e)), by striking “203(b)” and all that follows through “203(i)” and inserting “203, except as determined by the Secretary”.

#### SEC. 11. HAWAIIAN HOME LANDS AND INDIAN RESERVATIONS.

(a) HAWAIIAN HOME LANDS.—Section 247(c) of the National Housing Act (12 U.S.C. 1715z–12) is amended—

(1) by striking “General Insurance Fund established in section 519” and inserting “Mutual Mortgage Insurance Fund”; and

(2) in the second sentence, by striking “(1) all references” and all that follows through “and (2)”.

(b) INDIAN RESERVATIONS.—Section 248(f) of the National Housing Act (12 U.S.C. 1715z–13) is amended—

(1) by striking “General Insurance Fund” the first place it appears through “519” and inserting “Mutual Mortgage Insurance Fund”; and

(2) in the second sentence, by striking “(1) all references” and all that follows through “and (2)”.

#### SEC. 12. CONFORMING AND TECHNICAL AMENDMENTS.

(a) REPEALS.—The following provisions of the National Housing Act are repealed:

(1) Subsection (i) of section 203 (12 U.S.C. 1709(i)).

(2) Subsection (o) of section 203 (12 U.S.C. 1709(o)).

- (3) Subsection (p) of section 203 (12 U.S.C. 1709(p)).
- (4) Subsection (q) of section 203 (12 U.S.C. 1709(q)).
- (5) Section 222 (12 U.S.C. 1715m).
- (6) Section 237 (12 U.S.C. 1715z-2).
- (7) Section 245 (12 U.S.C. 1715z-10).

(b) DEFINITION OF AREA.—Section 203(u)(2)(A) of the National Housing Act (12 U.S.C. 1709(u)(2)(A)) is amended by striking “shall” and all that follows and inserting “means a metropolitan statistical area as established by the Office of Management and Budget;”.

(c) DEFINITION OF STATE.—Section 201(d) of the National Housing Act (12 U.S.C. 1707(d)) is amended by striking “the Trust Territory of the Pacific Islands” and inserting “the Commonwealth of the Northern Mariana Islands”.

#### SEC. 13. HOME EQUITY CONVERSION MORTGAGES.

(a) IN GENERAL.—Section 255 of the National Housing Act (12 U.S.C. 1715z-20) is amended—

(1) in subsection (g)—

- (A) by striking the first sentence; and
- (B) by striking “established under section 203(b)(2)” and all that follows through “located” and inserting “limitation established under section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act for a 1-family residence”;

(2) in subsection (i)(1)(C), by striking “limitations” and inserting “limitation”; and

(3) by adding at the end the following new subsection:

“(n) AUTHORITY TO INSURE HOME PURCHASE MORTGAGE.—

“(1) IN GENERAL.—Notwithstanding any other provision in this section, the Secretary may insure, upon application by a mortgagee, a home equity conversion mortgage upon such terms and conditions as the Secretary may prescribe, when the primary purpose of the home equity conversion mortgage is to enable an elderly mortgagor to purchase a 1-to 4 family dwelling in which the mortgagor will occupy or occupies one of the units.

“(2) LIMITATION ON PRINCIPAL OBLIGATION.—A home equity conversion mortgage insured pursuant to paragraph (1) shall involve a principal obligation that does not exceed the dollar amount limitation determined under section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act for a residence of the applicable size.”.

(b) STUDY REGARDING MORTGAGE INSURANCE PREMIUMS.—The Secretary of Housing and Urban Development shall conduct a study regarding mortgage insurance premiums charged under the program under section 255 of the National Housing Act (12 U.S.C. 1715z-20) for insurance of home equity conversion mortgages to analyze and determine—

(1) the effects of reducing the amounts of such premiums from the amounts charged as of the date of the enactment of this Act on—

- (A) costs to mortgagors; and
- (B) the financial soundness of the program; and
- (2) the feasibility and effectiveness of exempting, from all the requirements under the program regarding payment of mortgage insurance premiums (including both up-front or annual mortgage insurance premiums under section 203(c)(2) of such Act), any mortgage insured under the program under which part or all of the amount of future payments made to the homeowner are used for costs of a long-term care insurance contract covering the mortgagor or members of the household residing in the mortgaged property.

Not later than the expiration of the 12-month period beginning on the date of the enactment of this Act, the Secretary shall submit a report to the Congress setting forth the results and conclusions of the study.

#### SEC. 14. CONFORMING LOAN LIMIT IN DISASTER AREAS.

Section 203(h) of the National Housing Act (12 U.S.C. 1709) is amended—

(1) by inserting after “property” the following: “plus any initial service charges, appraisal, inspection and other fees in connection with the mortgage as approved by the Secretary;”;

(2) by striking the second sentence (as added by chapter 7 of the Emergency Supplemental Appropriations Act of 1994 (Public Law 103-211; 108 Stat. 12)); and

(3) by adding at the end the following new sentence: “In any case in which the single family residence to be insured under this subsection is within a jurisdiction in which the President has declared a major disaster to have occurred, the Secretary is authorized, for a temporary period not to exceed 36 months from the date of such Presidential declaration, to enter into agreements to in-

sure a mortgage which involves a principal obligation of up to 100 percent of the dollar limitation determined under section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act for a single family residence, and not in excess of 100 percent of the appraised value of the property plus any initial service charges, appraisal, inspection and other fees in connection with the mortgage as approved by the Secretary.”.

**SEC. 15. PARTICIPATION OF MORTGAGE BROKERS AND CORRESPONDENT LENDERS.**

(a) DEFINITIONS.—

(1) IN GENERAL.—Section 201 of the National Housing Act (12 U.S.C. 1707) is amended—

(A) by striking “As used in section 203 of this title—” and inserting “As used in this title and for purposes of participation in insurance programs under this title, except as specifically provided otherwise, the following definitions shall apply.”;

(B) by striking subsection (b) and inserting the following:

“(2) The term ‘mortgagee’ means any of the following entities, and its successors and assigns, to the extent such entity is approved by the Secretary:

“(A) A lender or correspondent lender, who—

“(i) makes, underwrites, and services mortgages;

“(ii) submits to the Secretary such financial audits performed in accordance with the standards for financial audits of the Government Auditing Standards issued by the Comptroller of the United States;

“(iii) meet the minimum net worth requirement that the Secretary shall establish; and

“(iv) complies with such other requirements as the Secretary may establish.

“(B) A correspondent lender who—

“(i) closes a mortgage in its name but does not underwrite or service the mortgage;

“(ii) posts a surety bond, in lieu of any requirement to provide audited financial statements or meet a minimum net worth requirement, in—

“(I) a form satisfactory to the Secretary; and

“(II) an amount of \$75,000, as such amount is adjusted annually by the Secretary (as determined under regulations of the Secretary) by the change for such year in the Consumer Price Index for All Urban Consumers published monthly by the Bureau of Labor Statistics of the Department of Labor; and

“(iii) complies with such other requirements as the Secretary may establish.

“(C) A mortgage broker who—

“(i) closes the mortgage in the name of the lender and does not make, underwrite, or service the mortgage;

“(ii) is licensed, under the laws of the State in which the property that is subject to the mortgage is located, to act as a mortgage broker in such State;

“(iii) posts a surety bond in accordance with the requirements of subparagraph (B)(ii); and

“(iv) complies with such other requirements as the Secretary may establish.

“(3) The term ‘mortgagor’ includes the original borrower under a mortgage and the successors and assigns of the original borrower.”;

(C) in subsection (a), by redesignating clauses (1) and (2) as clauses (A) and (B) respectively; and

(D) by redesignating subsections (a), (c), (d), (e), and (f) as paragraphs (1), (4), (5), (6), and (7), respectively, and realigning such paragraphs two ems from the left margin.

(2) MORTGAGEE REVIEW.—Section 202(c)(7) of the National Housing Act (12 U.S.C. 1708(c)(7)) is amended—

(A) in subparagraph (A), by inserting “, as defined in section 201,” after “mortgagee”;

(B) by striking subparagraph (B); and

(C) by redesignating subparagraphs (C) and (D) as subparagraphs (B) and (C), respectively.

(3) MULTIFAMILY RENTAL HOUSING INSURANCE.—Section 207(a)(2) of the National Housing Act (12 U.S.C. 1713(a)(2)) is amended by striking “means the original lender under a mortgage, and its successors and assigns, and” and in-

serting “has the meaning given such term in section 201, except that such term also”.

(4) WAR HOUSING INSURANCE.—Section 601(b) of the National Housing Act (12 U.S.C. 1736(b)) is amended by striking “includes the original lender under a mortgage, and his successors and assigns approved by the Secretary” and inserting “has the meaning given such term in section 201”.

(5) ARMED SERVICES HOUSING MORTGAGE INSURANCE.—Section 801(b) of the National Housing Act (12 U.S.C. 1748(b)) is amended by striking “includes the original lender under a mortgage, and his successors and assigns approved by the Secretary” and inserting “has the meaning given such term in section 201”.

(6) GROUP PRACTICE FACILITIES MORTGAGE INSURANCE.—Section 1106(8) of the National Housing Act (12 U.S.C. 1749aaa–5(8)) is amended by striking “means the original lender under a mortgage, and his or its successors and assigns, and” and inserting “has the meaning given such term in section 201, except that such term also”.

(b) ELIGIBILITY FOR INSURANCE.—

(1) TITLE 1.—Paragraph (1) of section 8(b) of the National Housing Act (12 U.S.C. 1706c(b)(1)) is amended—

(A) by striking “, and be held by,”; and

(B) by striking “as responsible and able to service the mortgage properly”.

(2) SINGLE FAMILY HOUSING MORTGAGE INSURANCE.—Paragraph (1) of section 203(b) of the National Housing Act (12 U.S.C. 1709(b)(1)) is amended

(A) by striking “, and be held by,”; and

(B) by striking “as responsible and able to service the mortgage properly”.

(3) SECTION 221 MORTGAGE INSURANCE.— Paragraph (1) of section 221(d) of the National Housing Act (12 U.S.C. 1715l(d)(1)) is amended—

(A) by striking “ and be held by”; and

(B) by striking “as responsible and able to service the mortgage properly”.

(4) HOME EQUITY CONVERSION MORTGAGE INSURANCE.—Paragraph (1) of section 255(d) of the National Housing Act (12 U.S.C. 1715z–20(d)(1)) is amended by striking “as responsible and able to service the mortgage properly”.

(5) WAR HOUSING MORTGAGE INSURANCE.—Paragraph (1) of section 603(b) of the National Housing Act (12 U.S.C. 1738(b)(1)) is amended—

(A) by striking “, and be held by,”; and

(B) by striking “as responsible and able to service the mortgage properly”.

(6) WAR HOUSING MORTGAGE INSURANCE FOR LARGE-SCALE HOUSING PROJECTS.—Paragraph (1) of section 611(b) of the National Housing Act (12 U.S.C. 1746(b)(1)) is amended—

(A) by striking “ and be held by”; and

(B) by striking “as responsible and able to service the mortgage properly”.

(7) GROUP PRACTICE FACILITY MORTGAGE INSURANCE.—Section 1101(b)(2) of the National Housing Act (12 U.S.C. 1749aaa(b)(2)) is amended—

(A) by striking “ and held by”; and

(B) by striking “as responsible and able to service the mortgage properly”.

(8) NATIONAL DEFENSE HOUSING INSURANCE.—Paragraph (1) of section 903(b) of the National Housing Act (12 U.S.C. 1750b(b)(1)) is amended—

(A) by striking “, and be held by,”; and

(B) by striking “as responsible and able to service the mortgage properly”.

**SEC. 16. SENSE OF CONGRESS REGARDING TECHNOLOGY FOR FINANCIAL SYSTEMS.**

(a) CONGRESSIONAL FINDINGS.—The Congress finds the following:

(1) The Government Accountability Office has cited the FHA single family housing mortgage insurance program as a “high-risk” program, with a primary reason being non-integrated and out-dated financial management systems.

(2) The “Audit of the Federal Housing Administration’s Financial Statements for Fiscal Years 2004 and 2003”, conducted by the Inspector General of the Department of Housing and Urban Development reported as a material weakness that “HUD/FHA’s automated data processing [ADP] system environment must be enhanced to more effectively support FHA’s business and budget processes”.

(3) Existing technology systems for the FHA program have not been updated to meet the latest standards of the Mortgage Industry Standards Maintenance Organization and have numerous deficiencies that lenders have outlined.

(4) Improvements to technology used in the FHA program will—

(A) allow the FHA program to improve the management of the FHA portfolio, garner greater efficiencies in its operations, and lower costs across the program;

(B) result in efficiencies and lower costs for lenders participating in the program, allowing them to better use the FHA products in extending home-

ownership opportunities to higher credit risk or lower-income families, in a sound manner

(5) The Mutual Mortgage Insurance Fund operates without cost to the taxpayers and generates revenues for the Federal Government.

(b) SENSE OF CONGRESS.—It is the sense of the Congress that—

(1) the Secretary of Housing and Urban Development should use a portion of the funds received from premiums paid for FHA single family housing mortgage insurance that are in excess of the amounts paid out in claims to substantially increase the funding for technology used in such FHA program;

(2) the goal of this investment should be to bring the technology used in such FHA program to the level and sophistication of the technology used in the conventional mortgage lending market, or to exceed such level; and

(3) the Secretary of Housing and Urban Development should report to the Congress not later than 180 days after the date of the enactment of this Act regarding the progress the Department is making toward such goal and if progress is not sufficient, the resources needed to make greater progress.

**SEC. 17. SAVINGS PROVISION.**

Any mortgage insured under title II of the National Housing Act before the date of enactment of this title shall continue to be governed by the laws, regulations, orders, and terms and conditions to which it was subject on the day before the date of the enactment of this Act.

**SEC. 18. IMPLEMENTATION.**

The Secretary of Housing and Urban Development shall by notice establish any additional requirements that may be necessary to immediately carry out the provisions of this title. The notice shall take effect upon issuance.

**PURPOSE AND SUMMARY**

H.R. 5121, the Expanding American Homeownership Act of 2006, proposes comprehensive reform for the Federal Housing Administration's (FHA) single-family mortgage insurance activities. The legislation introduces an array of products to more fairly price FHA's guarantee to individual borrowers and will allow FHA to base each borrower's mortgage insurance premiums upon the risk that the borrower poses to the FHA Mortgage Insurance Fund.

**BACKGROUND AND NEED FOR LEGISLATION**

Since its inception in 1934, FHA has played an innovative role in financing homeownership and affordable housing opportunities for all Americans. Over the past eight years alone, FHA has financed nearly eight million homes and over 754,000 units of affordable rental housing. The U.S. mortgage market has changed dramatically in recent years, creating what is today the world's most sophisticated real estate finance system. This system has led to the highest rate of homeownership in U.S. history and to the efficient production of thousands of units of affordable rental housing each year.

Despite record levels of homeownership, FHA continues to face challenges in effectively managing its resources and programs in this quickly changing mortgage market. These challenges have already diminished FHA's ability to serve families not adequately addressed by the conventional mortgage market. For example, while the prime market remained relatively constant, the non-prime market between 2003 and 2005 grew from \$118 billion to \$650 billion in mortgages, while FHA went from insuring 9.2 to 4.1 percent of the nation's mortgages.

Unanswered, these issues will leave the families served by FHA programs with fewer alternatives for homeownership or affordable rental housing opportunities. Without a viable FHA alternative,

many homebuyers turn to high-cost financing and nontraditional loan products to afford their first homes. While low initial monthly payments seem prudent in the short-run, the reset rates on some interest-only loans are substantial and many families could be unable to keep pace when their payments increase.

#### FHA RELEVANCE IN 21ST CENTURY MARKETS

FHA is still relevant in today's mortgage markets. FHA is designed to give a choice to homebuyers who can't qualify for prime financing or are otherwise underserved by the private sector. By operating through a private distribution network, FHA efficiently reaches families in need of safe and affordable home financing. Further, FHA insurance protects lenders against loss, enabling these private sector partners to offer market-rate mortgages to creditworthy homebuyers who would otherwise remain underserved and be forced into higher-priced and often predatory products. FHA provides a substantial benefit to families, communities, and the entire national economy.

The Committee recognizes some concerns that Federal or otherwise public agencies should not compete or provide duplicative services already served by the private sector. Since FHA's inception in 1934, the agency has been at the forefront of standardizing the mortgage financial markets, particularly for low- and moderate-income borrowers. While the conventional markets make historical progress in meeting affordable homeownership needs of population sectors traditionally underserved, the Committee believes that the public and private sectors could do more and do it better.

Just as FHA re-energized the conventional markets during the 1930's depression or as recently as the oil-patch crisis in the Southwestern states in the 1980s, the 21st century need evolves around the explosion of mortgage loans characterized as predatory lending. H.R. 5121 would begin the process of creating standards and expanded capitol access to underserved populations paying significantly higher interest rates, fees and settlement costs.

The Committee is clear to distinguish a difference between subprime lending, which is necessary and critical for non-traditional loans/borrowers and predatory lending, which is designed to take advantage of vulnerable Americans pursuing the American dream. Among other things, H.R. 5121 would allow FHA to provide alternative access as well as standardization of a market niche destined to follow the agency's example.

Moreover, the Committee notes that the Federal government will always have a need for an agency providing the type of services symbolized by FHA. While the agency only has a market share of approximately three to four percent, elimination of FHA would be disastrous when capitol and mortgage financial crisis emerge, such as in the 1980s. It would be impossible to recreate an agency to respond rapidly to housing and homeownership crisis that could emerge in the future.

H.R. 5121 will allow FHA to fulfill its original mission when similar circumstances existed. In 1934, interest-only and balloon payments were prevalent; thus FHA was established to give the private sector avenues to provide long-term, fixed-rate financing.

Today, FHA continues to serve its original purpose by giving low-to moderate-income homebuyers a safer, more affordable financing option for homeownership.

#### ZERO DOWNPAYMENT MORTGAGE PRODUCTS

H.R. 5121, among other innovations, will provide FHA the flexibility to insure mortgages where the borrower has no downpayment. The Committee held hearings on affordable housing and found that in some circumstances, there were creditworthy borrowers who posed little to no risk in defaulting on their monthly mortgage obligation, despite not having a downpayment at the time of the real estate settlement. Examples include police officers, teachers, and other working families with stable employment but because of the high living costs, were unable to save cash for a downpayment. However, homeownership, in a majority of cases would be less costly than paying rent and also serve a two-fold public policy purpose of stabilizing communities and neighborhoods, and providing another tool to allow working, creditworthy families an opportunity to pursue the American dream. The Committee recognized that zero downpayments should be part of the flexibility FHA would need to be relevant in the 21st century.

#### REFORM ASPECTS OF H.R. 5121

Under H.R. 5121, the Expanding American Homeownership Act of 2006, FHA would determine the borrower's mortgage insurance premium based on their credit history, loan-to-value ratio, debt-to-income ratio, as well as FHA's historical experience with similar borrowers. This change will decrease premiums for many of FHA's traditional borrowers, thereby increasing their access to homeownership. It would also allow FHA to reach potential homebuyers who—for various reasons—do not currently qualify for an FHA loan product.

In addition, the bill would eliminate the complicated downpayment calculation and the traditional upfront cash requirement that have been the hallmark of FHA for years. The downpayment remains the major barrier to homeownership in this country. This bill would permit borrowers to choose how much they want to invest in the purchase of their home, thereby allowing consumer choice and flexibility on the type of downpayment and the level of upfront and annual mortgage insurance premiums.

H.R. 5121 would also increase FHA's loan limits. In many areas of the country, the existing FHA loan limits are lower than the cost of new construction. In other areas, FHA has simply been priced out of the market. For example, in 1999, FHA insured 127,000 loans in California; in 2005, only 5,000 loans were FHA-insured.

H.R. 5121 would give FHA the needed flexibility to support sound lending in the 21st Century. Modernizing FHA will improve competition in the prime home loan mortgage industry and effectively assist the industry in combating abusive and/or discriminatory lending practices. Because of today's "one size fits all" FHA premium, lower risk borrowers subsidize those at higher risk. Under H.R. 5121, FHA will balance the borrower's needs, financial profile, and mortgage terms with an appropriate premium. For example, borrowers will be able to choose a down payment amount, mortgage period, or premium options to fit their long-term goals.

Each borrower will pay his/her own way with a reasonably priced premium.

Charging premiums commensurate with risk allows sound pricing and portfolio diversity to sustain the financial strength of the FHA fund. With these changes, FHA can continue to serve hard-working, creditworthy Americans.

The legislation would also allow 40-year mortgage insurance products that could help address affordability problems, particularly in high-cost areas. Just as FHA pioneered the 30-year fixed-rate mortgage, the agency could jumpstart efforts by the private sector to address affordability issues.

Finally, H.R. 5121 would lift the statutory maximum number of FHA reverse mortgage. Under the 2005 Emergency Supplemental legislation, Congress approved lifting these caps from 150,000 to 250,000. Similarly, the House of Representatives approved on June 23, 2005, H.R. 2892, the "Reverse Mortgages to Help America's Seniors Act" by unanimous voice vote. This provision would prevent the possibility of future program disruptions that could be detrimental to seniors pursuing loan products that capitalize on the equity in their homes at a time when they have few cash resources.

#### OUTSTANDING ISSUES

During the markup of H.R. 5121, the Committee's Ranking Member brought up concerns regarding FHA's ability to raise its upfront mortgage insurance premium and its annual premium. Cong. Barney Frank expressed reservations that a great majority of low-income persons would be unduly penalized with high upfront and annual premiums under H.R. 5121. The Chair pledged to work with Cong. Frank toward finding an accommodation prior to floor consideration.

Cong. Scott Garrett offered an amendment that would place performance triggers on the FHA program in the event of a significant increase in default rates. Cong. Garrett expressed concern that in the event of higher defaults, higher fees and upfront premiums could be assessed thereby creating a scenario that fewer people use the FHA program. The amendment was withdrawn with a pledge from the Chair to work on this issue prior to floor consideration.

#### HEARINGS

The Subcommittee on Housing and Community Opportunity held a hearing entitled, "Transforming the Federal Housing Administration for the 21st Century" on April 5, 2006. Witnesses included the Honorable Brian Montgomery, HUD's FHA Commissioner, Stella Adams of the National Community Reinvestment Coalition, Gerald Howard of the National Association of Home Builders, Regina Lowrie of the Mortgage Bankers Association of America, and A.W. Pickel of the National Association of Mortgage Brokers.

#### COMMITTEE CONSIDERATION

The Committee on Financial Services met in open session on May 24, 2006, and ordered reported H.R. 5121, the "Expanding American Homeownership Act" as amended, to the House by a voice vote.

## COMMITTEE VOTES

Clause 3(b) of rule XIII of the Rules of the House of Representatives requires the Committee to list the record votes on the motion to report legislation and amendments thereto. No record votes were taken with in conjunction with the consideration of this legislation. A motion by Mr. Oxley to report the bill to the House with a favorable recommendation was agreed to by a voice vote. During the consideration of the bill, the following amendments were considered:

An amendment by Mr. Ney, No. 1, making various technical and substantive changes, was agreed to by a voice vote.

An amendment by Mr. Garrett, No. 2, rolling back program expansion in event of increased defaults, was withdrawn.

## PERFORMANCE GOALS AND OBJECTIVES

Pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee establishes the following performance related goals and objectives for this legislation:

The objective of this legislation is to modernize FHA. The goal of H.R. 5121 is to give FHA the ability to serve more families and create more homeowners, thereby narrowing the minority homeownership gap.

## NEW BUDGET AUTHORITY, ENTITLEMENT AUTHORITY, AND TAX EXPENDITURES

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee adopts as its own the estimate of new budget authority, entitlement authority, or tax expenditures or revenues contained in the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act.

## COMMITTEE COST ESTIMATE

The Committee adopts as its own the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974.

## CONGRESSIONAL BUDGET OFFICE ESTIMATE

Pursuant to clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the following is the cost estimate provided by the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974:

U.S. CONGRESS,  
CONGRESSIONAL BUDGET OFFICE,  
*Washington, DC, June 14, 2006.*

Hon. MICHAEL G. OXLEY,  
*Chairman, Committee on Financial Services,  
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 5121, the Expanding American Homeownership Act of 2006.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Susanne S. Mehlman.

Sincerely,

DONALD B. MARRON,  
*Acting Director.*

Enclosure.

*H.R. 5121—Expanding American Homeownership Act of 2006*

Summary: H.R. 5121 would amend the National Housing Act to provide the Federal Housing Administration (FHA) with new authority to offer guarantees for various types of loans within a new pricing structure. The bill is aimed at updating FHA's business operations so that it could more effectively manage its credit risks and expand homeownership opportunities.

CBO estimates that implementing H.R. 5121 would increase offsetting collections (as a credit against discretionary spending) by \$247 million in 2007 and \$2.3 billion over the 2007–2011 period, assuming enactment of appropriation laws necessary to implement the FHA programs. Such savings would stem from increasing the number of homeowners who could obtain loan insurance under FHA's Home Equity Conversion Mortgage (HECM) program and under FHA's single-family loan insurance program. Offsetting collections are generated by those programs because the fees paid by borrowers generally exceed the cost of expected defaults. Enacting the bill would not affect direct spending or revenues.

H.R. 5121 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

Estimated cost to the Federal Government: The estimated budgetary impact of H.R. 5121 is shown in the following table. The cost of this legislation falls within budget function 370 (mortgage and housing credit). For this estimate, we assume the bill will be enacted near the end of fiscal year 2006.

	By fiscal year, in millions of dollars—					
	2006	2007	2008	2009	2010	2011
SPENDING SUBJECT TO APPROPRIATION						
FHA and GNMA spending under current law <sup>1</sup> :						
Estimated authorization level .....	–1,296	–472	–327	–331	–344	–353
Estimated outlays .....	–1,296	–472	–327	–331	–344	–353
Proposed changes:						
Change to HECM loan program:						
Estimated authorization level .....	0	–230	–430	–470	–510	–550
Estimated outlays .....	0	–230	–430	–470	–510	–550
Increasing loan limits for single-family guarantees:						
Estimated authorization level .....	0	–11	–13	–14	–16	–16
Estimated outlays .....	0	–11	–13	–14	–16	–16
GNMA offsetting collections:						
Estimated authorization level .....	0	–6	–6	–7	–8	–8
Estimated outlays .....	0	–6	–6	–7	–8	–8
Total changes:						
Estimated authorization level .....	0	–247	–449	–491	–534	–574
Estimated outlays .....	0	–247	–449	–491	–534	–574
Total FHA and GNMA spending under H.R. 5121:						
Estimated authorization level .....	–1,296	–719	–776	–822	–878	–927
Estimated outlays .....	–1,296	–719	–776	–822	–878	–927

<sup>1</sup>The figures for 2006 are CBO's current estimates of budget authority and outlays for the FHA's Single-Family and HECM programs and for GNMA's MBS program under the enacted appropriation levels for this year. The 2007–2011 levels are CBO's baseline estimates of the amount of offsetting collections generated by these programs.

NOTE: GNMA = Government National Mortgage Association; HECM = Home Equity Mortgage Insurance; MBS = Mortgage-Backed Securities.

### *Basis of estimate*

The budgetary impact of this legislation would stem from additional offsetting collections generated by expanding the HECM loan program, raising the loan limits for FHA's single-family program, and increasing activity for the Government National Mortgage Association (GNMA). CBO expects other provisions of the bill would have no significant budgetary impact over the next five years. The major provision of the bill are discussed below.

### *Expanding the HECM Loan Insurance Program*

HECM loans are considered to be "reverse mortgages" because they enable homeowners who are at least 62 years of age to withdraw some of the equity in their home in the form of monthly payments, in a lump sum, or through a line of credit. Under current law, FHA is permitted to guarantee up to a cumulative total of 250,000 such loans, and CBO expects that FHA will reach that cap in 2007. Loan size is tied to loan limits that vary by geographic region, and such loans cannot be used to purchase another home. Enacting this legislation would remove the statutory limitation on the number of loans that could be guaranteed, set a single nationwide loan limit for the HECM program tied to the conforming loan amount, and allow borrowers to use HECM loans to purchase a new home. Conforming loans have terms and conditions that follow the guidelines set forth by the Government Sponsored Enterprises (GSEs). Implementation of the HECM program, like all of FHA's insurance programs, is contingent on the enactment of appropriation laws that provide annual loan commitment authority. The estimated budgetary impact of this proposal is tied to the demand for HECM loans and their subsidy cost.

**Demand for HECM Loans.** According to the National Reverse Mortgage Lenders Association (NRMLA) and other industry experts, the HECM program has risen in popularity in recent years. As more consumers are becoming aware of the product, more households are becoming eligible for the program (e.g., currently there are over 17 million households with owners aged 65 or older, according to census data), and more seniors view the product as an alternative approach to financing home-improvement projects, medical costs, and other needs. In addition, sources in the mortgage industry have observed an increasing demand among seniors for new housing within senior communities. The number of HECM loans insured by FHA more than doubled from 2003 to 2005 (18,000 loans were insured in 2003, compared with 43,000 loans in 2005, and as of April 2006 a cumulative total of about 200,000 loans have been insured). Moreover, there is relatively little private competition for these loans, enabling FHA to dominate the marketplace. The NRMLA estimates that FHA's current market share of reverse mortgages is about 90 percent.

Based on information from FHA, NRMLA, and other industry experts, CBO estimates that these legislative changes would result in a HECM loan product that would be more attractive to borrowers and more easily marketed by lenders, resulting in increased demand for HECM loans. The market for HECM loans appears to be very robust and with limited competition, the potential for FHA to

insure more than 100,000 loans annually appears likely. Whether the number of guarantees could exceed this level would depend on FHA's ability to administer and manage the program in an efficient manner on a continued basis. CBO assumes that about 20,000 loans (with a face value of \$5 billion) could be insured during the first quarter of fiscal year 2007 under the current statutory cap on the number of such loans that FHA can insure. We estimate that FHA could guarantee an additional 80,000 loans (with a face value of about \$20 billion) in 2007 as a result of the changes proposed in this legislation. In subsequent years, assuming demand for this product continues to grow and FHA maintains its market share, CBO estimates that 140,000 to 160,000 such loans (with a face value of \$35 billion to \$45 billion) could be insured annually.

**Subsidy Cost.** Under current law, FHA guarantees of HECM loans result in net offsetting collections to the federal government because guarantee fees for those mortgages more than offset the costs of expected defaults, resulting in net collections from the loan guarantee program. For 2007, the Administration's subsidy estimate is  $-2.8$  percent. Under the expanded program authorized by H.R. 5121, CBO estimates that the subsidy rate for the HECM loans would be  $-1.2$  percent. That reduction from the estimated rate for 2007 is due to the increased risk FHA would experience under the proposed nationwide loan limitation. With larger loan sizes, the "equity cushion" (i.e., the difference between the home's value and the potential cost of a claim payment) would decrease, leading to potentially more costly claims for FHA.

This estimated subsidy rate of  $-1.2$  percent assumes that the HECM loan program would not be subject to the risk-based pricing structure authorized by the bill and described below. CBO assumes that FHA would continue to charge fixed, up-front and annual fees for all HECM borrowers, regardless of any specific evaluation of their individual risk of default. CBO estimates that enacting this legislation would result in additional offsetting collections of \$230 million in 2007 and \$2.2 billion over the 2007–2010 period. Such offsetting collections are contingent on enactment of appropriation bills, which establish the authority to make such loan guarantees by specifying annual loan commitment levels.

#### *Raising Loan Limits for the Single-Family Program*

**Proposed Changes.** Section 3 would raise FHA loan limits (i.e., the dollar amount of mortgages that FHA can insure) for its single-family program from 87 percent of the conforming loan amount—up to 100 percent of the conforming loan limit in certain geographic regions where the cost of housing is very high. Effectively, this would be a change from loans of \$362,790 today to loans of \$417,000. In less expensive markets, the limit would be raised from 48 percent of the conforming loan limit for a change from loans of \$200,160 today to loans of \$271,050.

**Estimated Savings.** CBO estimates that increasing the loan limits would increase offsetting collections (as a credit against discretionary spending) by about \$11 million in 2007 and \$70 million over the 2007–2011 period, assuming enactment of appropriations laws necessary to implement FHA's single-family insurance program. We expect that the subsidy rate for these loans obtaining insurance under the new limitations would be close to the estimated

rate of  $-0.37$  percent for 2007, and that demand for FHA's loan guarantees would increase by about 10 percent annually after the marketplace has fully adapted to the changes in limits.

**Increase in Demand.** The last significant change in FHA's loan limitation occurred in October 1998 when the limit for high cost areas was raised from 75 percent to 87 percent of the conforming loan amount; subsequently, the total volume of loans guaranteed by FHA over the next year increased by about 25 percent. While a portion of this increase could be attributed to a surge in refinancing of existing mortgages and increases in house prices, FHA estimates that about 6 percent to 8 percent of the increase resulted from borrowers obtaining FHA-insured loans that were higher in value. Based on information from FHA and several industry associations, CBO expects that the increase in the volume of loans guaranteed by FHA under the proposed limits would be slightly higher.

An estimated 7 percent to 9 percent increase would amount to about \$4 billion in loan guarantees and assumes that the estimated change in volume would stem mostly from increasing the limit in the less expensive housing markets. In lower-cost areas, FHA has a stronger presence; increasing the limits in those areas would build upon FHA's existing market penetration in those areas. Moreover, according to the Mortgage Brokers Association, FHA's loan limits are not sufficient to cover the cost of new construction in many areas of the country, limiting options for the type of loans homebuyers can obtain in those areas. The National Association of Homebuilders reports that the median house price for a new home in 2005 was about \$240,000, an amount that would fall within the proposed limits of \$271,050 for the lower-cost areas.

The proposed increase in loan limit for the higher-cost areas would, in contrast, not have a significant impact in such high-cost areas because the median-house price in many of those areas already exceeds the proposed ceiling of \$417,000. For example, according to information published by the National Association of Realtors, the median-house price in most parts of California exceeds \$530,000. In addition, FHA's market share in high-cost areas is very low. According to the Realtors group, in 2004, FHA's market share in California was 0.37 percent. Thus, CBO expects that in certain high-cost markets where FHA's presence is minimal, there would probably be no significant impact on FHA over the next five years.

**GNMA Savings.** Changes in FHA loan limits also would generate savings for GNMA. GNMA is responsible for guaranteeing securities backed by pools of mortgages insured by the federal government. In exchange for a fee charged to lenders or issuers of the securities, GNMA guarantees the timely payments of scheduled principal and interest due on the pooled mortgages that back these securities. Because the value of the fees collected are estimated to exceed the cost of loan defaults in each year, the GNMA Mortgage-Backed Securities (MBS) program is estimated to have a subsidy rate of  $-0.21$  percent in 2007, resulting in the net collection of receipts to the federal government.

Because most FHA single-family loan guarantees are included in GNMA's MBS program, CBO estimates that raising the loan limit would result in additional collections to GNMA of about \$35 million

over the 2007–2011 period. Like FHA, GNMA requires appropriation action to establish its dollar limitation for the securities program. (HECM loans are not included in GNMA’s MBS program.)

*Other Amendments to FHA’s Programs*

H.R. 5121 would make other changes to FHA’s business operations; however, CBO does not expect these changes would have a significant budgetary impact over the next five years. These provisions are discussed below.

**Risk-based Pricing and Flexible Downpayment Requirements.** Once considered an innovator and dominant player in housing finance, especially for those borrowers who were not adequately served by the private market, FHA is no longer a major participant in the mortgage insurance industry. According to FHA, its market share has fallen from about 8 percent in 1999 to about 2 percent in 2005. Since 2002, FHA has experienced a sharp decline in the volume of single-family loans it guarantees, with total guarantees falling 60 percent from \$147 billion in 2003 to \$58 billion in 2005.

Moreover, the amount of offsetting collections generated by single-family loan guarantees has decreased significantly (\$3.7 billion recorded in 2003 and \$169 million estimated by the Administration for 2007) because the subsidy rate for the guarantees dropped from  $-2.53$  in 2003 to an estimated  $-0.37$  for 2007. The primary reasons for the waning popularity of FHA’s guarantees and its decreasing offsetting collections are the perception among lenders and other industry participants of FHA’s services as inefficient and overly cumbersome, its flat pricing structure, and the fact that FHA guarantees a limited range of loan products compared to private insurers, who are increasingly insuring low or no-downpayment loans and other types of alternative loan products.

Currently, FHA has a flat premium structure where all borrowers pay the same 1.5 percent up-front fee and 0.5 percent annual fee, regardless of the borrower’s individual risk of default. This premium structure favors the riskiest borrowers because they are usually charged premiums that are too low to cover their expected defaults. In comparison, less risky borrowers are usually charged fees that are too high; consequently, many such borrowers seek competitively priced products from the private market, which charges borrowers fees that are commensurate with their credit profiles, otherwise known as risk-based pricing. This tradeoff between high- and low-risk borrowers results in an FHA portfolio that has a high concentration of the highest risk borrowers, limiting the amount of offsetting collection generated.

**Proposed Changes.** Under this legislation, FHA would have the authority to match the fees it charges with the borrowers’ risk of default, and to offer guarantees for loans with little or no downpayment. Based on information from FHA, CBO assumes the FHA would initially charge up-front fees ranging from 0.5 percent (for the lowest-risk borrowers) to almost 3 percent (for the highest-risk borrowers). Annual fees are expected to range from .5 percent to .75 percent. FHA estimates that the blended subsidy rate for all of the guarantees would be about  $-0.9$  percent beginning in 2007 (compared to  $-0.37$  percent estimated for 2007 under current law). In addition, FHA estimates that by offering guarantees for low down-payment loans and other types of alternative loan products,

and by charging lower fees for less risky borrowers, the overall volume of loans guaranteed would increase from about \$45 billion to \$65 billion.

**Budgetary Effect.** While CBO recognizes that FHA could increase the amount of offsetting collections it earns from its guarantees by converting from a flat fee structure to risk-based pricing, we do not expect that its overall collections and business volume would change significantly in the next five years. Risk-based pricing is complicated, requiring much precision in the underwriting process.

A recent review of FHA's automated underwriting system by the Government Accountability Office raises concerns over the effectiveness of the system and recommends that additional improvements be made. CBO expects that developing and maintaining the appropriate systems for managing a risk-based pricing structure would take FHA several years to implement. In addition, CBO estimates that any changes in volume stemming from the changes in pricing and the availability of FHA guarantees for a wider range of loan types would, in the short term, most likely result in no significant net change to the total number of loans guaranteed. That is, while some borrowers may turn to FHA because of better pricing and the ability to obtain insurance for more attractive loan products, other borrowers may turn away from FHA because of higher pricing. Moreover, CBO expects that it would take time for FHA to overcome its negative perception in the marketplace and to regain its place as a viable competitor in the mortgage insurance industry. Thus, CBO estimates that enacting these provisions would result in no significant effect on the budget in the near term.

**Participation of Mortgage Brokers and Correspondent Lenders.** Under current law, mortgage brokers and correspondent lenders (i.e., entities who do not underwrite or service loans) must meet certain financial audit and net-worth requirements to originate FHA loans. According to the National Association of Mortgage Brokers, these requirements are a barrier to mortgage-broker participation in the FHA program because the requirements can be very cost prohibitive and time consuming, especially for certain small businesses. Section 15 of H.R. 5121 would permit these mortgage brokers and correspondent lenders to participate in FHA loan programs if they post a bond in the amount of \$75,000.

Based on information from FHA, CBO estimates that while this section would expand the number of distribution channels for bringing FHA loans to the marketplace, we do not estimate that the total number of loans guaranteed would change significantly over the next five years, resulting in no significant budgetary effect. Currently, there exists a vast network of lenders who participate in or who have access to FHA loan programs.

**Consolidating Single-Family Programs.** Enacting this legislation would enable FHA to move several loan guarantee programs, including loan guarantees for condominiums and HECM loans, from the General Insurance/Special Risk Insurance Fund to the Mutual Mortgage Insurance Fund. CBO estimates that this administrative change would have no net budgetary effect.

**Intergovernmental and private-sector impact:** H.R. 5121 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

Estimate prepared by: Federal costs: Susanne S. Mehlman; Impact on State, local, and tribal governments: Sarah Puro; Impact on the private sector: Paige Piper/Bach.

Estimate approved by: Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

#### FEDERAL MANDATES STATEMENT

The Committee adopts as its own the estimate of Federal mandates prepared by the Director of the Congressional Budget Office pursuant to section 423 of the Unfunded Mandates Reform Act.

#### ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

#### CONSTITUTIONAL AUTHORITY STATEMENT

Pursuant to clause 3(d)(1) of rule XIII of the Rules of the House of Representatives, the Committee finds that the Constitutional Authority of Congress to enact this legislation is provided by Article 1, section 8, clause 1 (relating to the general welfare of the United States) and clause 3 (relating to the power to regulate interstate commerce).

#### APPLICABILITY TO LEGISLATIVE BRANCH

The Committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or accommodations within the meaning of section 102(b)(3) of the Congressional Accountability Act.

#### SECTION-BY-SECTION ANALYSIS OF THE LEGISLATION

##### *Section 1. Short title and table of contents*

The section provides the table of contents and the short title this title, which is the “Expanding American Homeownership Act of 2006.”

##### *Section 2. Findings and purposes*

This section provides the findings and purposes of this title.

##### *Section 3. Maximum principal loan obligation*

Section 3 amends section 203(b)(2) of the National Housing Act to change the factors for determining the maximum single family mortgage amounts insurable by FHA. Generally, under current law, the maximum insurable mortgage is the lesser of a maximum allowable dollar amount and an amount based on a maximum percentage of appraised value plus the mortgage insurance premium.

Currently, FHA maximum mortgage dollar amounts are established with reference to the median home price for the area in which the property is located. For a 1-family residence, the maximum dollar amount that can be insured is 95 percent of the median home price for the area. For 2-, 3- and 4-family residences the maximum dollar amounts that can be insured are 107, 130 and 150 percent of such median price, respectively. These amounts are capped and cannot exceed 87 percent of the Federal Home Loan

Mortgage Corporation Association conforming loan limit, now \$362,790 for a 1-unit property. There also is a statutory “floor” amount. The maximum mortgage dollar amount cannot be set lower than the “floor” amount. The current “floor” is set at 48 percent of the FHLMC conforming loan limit, now \$200,160 for a 1-unit property.

This Section allows FHA to insure up to the full median house price in the area, as opposed to 95 percent of the median house price. This section would remove the 87 percent cap, and would allow FHA to insure up to 100 percent of the FHLMC loan limit, and increases the “floor” to 65 percent of the FHLMC conforming loan limit. In place of the existing 107, 130 and 150 percent loan limit escalators for 2-, 3-, and 4-family units, the ratio of loan limits for 2-, 3-, and 4-family residences to 1-family residences is conformed to the ratios that the national FHLMC conforming loan limits for 2-, 3-, and 4-unit residences bears to the FHLMC 1-family conforming loan limit.

In addition, Section 3 eliminates the existing loan to value percentage limitations embedded in the statute and substitutes a single limitation of 100 percent of the appraised value of the property, plus any initial service charges, appraisal, inspection and other fees in connection with the mortgage that are approved by the Secretary.

Finally, the Section removes existing statutory language relating to mandatory counseling requirements for FHA mortgagors with loans with high (in excess of 97 percent) loan to value ratios.

#### *Section 4. Extension of mortgage term*

Section 4 amends section 203(b)(3) of the National Housing act to increase the permissible FHA loan term from 35 to 40 years.

#### *Section 5. Cash investment requirement*

Section 5 amends section 203(b)(9) of the National Housing Act to provide more flexibility to cash downpayment requirements. This Section eliminates the 3 percent requirement and substitute language and allows the Secretary to determine the appropriate cash requirement, if any, based upon the likelihood of default.

#### *Section 6. Mortgage insurance premiums*

This section establishes the authority for flexible risk-based premium pricing for FHA single family mortgages. Section 6 of the proposed legislation adds a new subsection to the existing language. The new section 203(c)(3) establishes premium pricing flexibility for single family mortgages to be insured on or after October 1, 2006. Section 6 contemplates that all active FHA single family programs would be consolidated within the Mutual Mortgage Insurance Fund (MMIF) and that premiums to be charged for prospective business would be governed only by the new provisions of new section 203(c)(3).

Section 6 also eliminates the current statutory caps on premiums that FHA may charge for single family loans. Currently, such premiums are capped by statute at 2.25 percent upfront and .55 percent annually.

Section 6 also provides that a change in the premium structure shall be accomplished by providing notice to mortgagees and to Congress at least 30 days before the premium structure is changed.

This Section also provides statutory guidance for the Secretary to consider when establishing or changing premiums. The Secretary is to consider the following:

- The effect on the Secretary’s ability to meet the operational goals for the MMIF, as contained in section 205(h)(2) of the National Housing Act.
- Underwriting variables affecting the loan;
- The extent to which new pricing has potential for acceptance on the private market;
- The administrative capability of the Secretary to administer the proposed premium structure; and
- The effect on the Secretary’s ability to maintain the availability of mortgage credit and provide stability to mortgage markets.

#### *Section 7. Rehabilitation loans*

Section 7 deletes obsolete language in existing section 203(k)(1). Secondly, the section makes the section 203(k) program an obligation of the MMIF, as opposed to the General Insurance Fund.

#### *Section 8. Discretionary action*

Section 8 takes existing language contained in section 203(s) of the National Housing Act, dealing with notification requirements about actions taken by the Secretary to suspend or revoke the approval of a mortgagee to participate in FHA programs, and moves it to section 202 of the National Housing Act, which contains the basic authority of the Mortgage Review Board.

#### *Section 9. Insurance of condominiums*

Section 9 establishes a new limitation on the existing section 234(c) condominium program. The insurance program will be limited in the future to take out financing for multifamily blanket mortgages on FHA insured section 234(d) condominium projects. This Section also contains a conforming amendment which amends section 234(c) of the National Housing Act to permit 40 year mortgages.

In addition, Section 9 amends section 201(a) of the National Housing Act to add a definition of condominium mortgage to the definition section, consistent with the intent to insure condominium mortgages under section 203 of the National Housing Act.

#### *Section 10. Mutual Mortgage Insurance Fund*

Section 10 clarifies that the Mutual Mortgage Insurance Fund (MMIF) is subject to the provisions of the Credit Reform Act of 1990, and the use of “guarantee” and “commitment to guarantee” reflects that purpose. Section 10 directs the Secretary to ensure that the Mutual Mortgage Insurance Fund remains financially sound.

This Section also requires the Secretary to provide an independent actuarial report to Congress annually on the financial status of the Fund. It also requires the Secretary to submit a quarterly report on the financial status and soundness of the Fund. In

addition, this Section grants the Secretary the authority to change premiums or underwriting standards if the Fund is at risk in accordance with other sections of this bill.

Section 10 also established operational goals for the Fund, which include charging appropriate premiums commensurate with the borrower's risk, minimizing the default risk to the Fund and to homeowners, curtailing the impact of adverse selection on the Fund, and meeting the housing needs of the borrowers that this bill is designed to serve.

This Section also makes insured mortgages that are used in conjunction with the Homeownership Voucher program obligations of the MMIF and makes reverse mortgages insured under section 255 of the National Housing Act obligations of the MMIF.

#### *Section 11. Hawaiian Home Land and Indian Reservations*

Section 11 makes single family mortgages insured on Hawaiian Home Lands under section 247 of the National Housing Act and single family mortgages insured on Indian Reservations under section 248 of the National Housing Act obligations of the MMIF.

#### *Section 12. Conforming and technical amendments*

Section 12 repeals certain obsolete or little used programs and makes two other technical and conforming amendments. The programs repealed include:

- Section 203(i) mortgage insurance for outlying areas.
- Sections 203(o), (p) and (q) relating to certain mortgage insurance on Indian lands.
- Section 222 mortgage insurance for servicemen. The program is not operational and the benefits of mortgage insurance are otherwise available under section 203.
- Section 237 special mortgage insurance for low income families.
- Section 245 graduated payment mortgage program.

#### *Section 13. Home Equity Conversion Mortgages*

Section 13 eliminates the current mortgage volume cap of mortgages and amends the maximum insurable amount/maximum claim amount available to the HECM program. This Section establishes the maximum mortgage amount/maximum claim amount as the conforming loan limit for the Federal Home Loan Mortgage Corporation.

This Section would add a new subsection to section 255 of the National Housing Act to make the HECM available to a purchaser of a home.

Finally, this Section would require the Secretary to conduct a study regarding mortgage insurance premiums charged under the HECM program.

#### *Section 14. Conforming loan limit in disaster areas*

Section 14 gives the Secretary the authority to enter into agreements to insure a mortgage in a Presidential declared disaster area that involves a principal obligation of up to 100 percent of the conforming loan limit for a single family residence. The Secretary may do this for a temporary period not to exceed 36 months.

*Section 15. Participation of mortgage brokers and correspondent lenders*

Section 15 allows correspondent lenders who make, underwrite and service mortgages to participate in the FHA program. State licensed mortgage brokers will be eligible to participate in FHA and the HUD Secretary will have the authority to determine which licensed brokers may participate. Correspondent lenders and mortgage brokers who do not underwrite or service loans will be permitted to post a surety bond in the amount of \$75,000 in lieu of annual audit and net worth requirements.

*Section 16. Sense of Congress regarding technology for financial systems*

Section 16 is a Sense of Congress and states that HUD should use a portion of the funds FHA receives from premiums in excess of what it pays out in claims to upgrade FHA's current technology. FHA is also encouraged to submit a report to Congress detailing the progress it is making towards this goal and any resources it may need to make greater progress.

*Section 17. Savings provision*

Section 17 is a savings provision. Single family mortgages insured prior to October 1, 2006, would continue to be governed by the statutory, regulatory and other provisions applicable to the programs prior to that date.

*Section 18. Implementation*

This section provides that this title is effective upon enactment. The Secretary will by notice establish any additional requirements that may be necessary to immediately carry out the provisions of this title. The notice will take effect upon issuance.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

**NATIONAL HOUSING ACT**

\* \* \* \* \*

**TITLE I—HOUSING RENOVATION AND MODERNIZATION**

\* \* \* \* \*

**INSURANCE OF MORTGAGES**

SEC. 8. (a) \* \* \*

(b) To be eligible for insurance under this section, a mortgage shall—

- (1) have been made to【, and be held by,】 a mortgagee approved by the Secretary 【as responsible and able to service the mortgage properly】;

\* \* \* \* \*

## TITLE II—MORTGAGE INSURANCE

## DEFINITIONS

SEC. 201. [As used in section 203 of this title—] *As used in this title and for purposes of participation in insurance programs under this title, except as specifically provided otherwise, the following definitions shall apply:*

[(a)] (1) The term “mortgage” means a first mortgage on real estate, in fee simple, or on a leasehold [(1)] (A) under a lease for not less than ninety-nine years which is renewable [or], [(2)] (B) under a lease having a period of not less than ten years to run beyond the maturity date of the mortgage, or (C) a first mortgage given to secure the unpaid purchase price of a fee interest in, or long-term leasehold interest in, a one-family unit in a multifamily project, including a project in which the dwelling units are attached, semi-detached, or detached, and an undivided interest in the common areas and facilities which serve the project; and the term “first mortgage” means such classes of first liens as are commonly given to secure advances on, or the unpaid purchase price of, real estate, under the laws of the State in which the real estate is located, together with the credit instrument, if any, secured thereby.

[(b)] The term “mortgagee” includes the original lender under a mortgage, and his successors and assigns approved by the Secretary; and the term “mortgagor” includes the original borrower under a mortgage and his successors and assigns.]

(2) *The term “mortgagee” means any of the following entities, and its successors and assigns, to the extent such entity is approved by the Secretary:*

(A) *A lender or correspondent lender, who—*

- (i) *makes, underwrites, and services mortgages;*
- (ii) *submits to the Secretary such financial audits performed in accordance with the standards for financial audits of the Government Auditing Standards issued by the Comptroller of the United States;*
- (iii) *meet the minimum net worth requirement that the Secretary shall establish; and*
- (iv) *complies with such other requirements as the Secretary may establish.*

(B) *A correspondent lender who—*

- (i) *closes a mortgage in its name but does not underwrite or service the mortgage;*
- (ii) *posts a surety bond, in lieu of any requirement to provide audited financial statements or meet a minimum net worth requirement, in—*
  - (I) *a form satisfactory to the Secretary; and*
  - (II) *an amount of \$75,000, as such amount is adjusted annually by the Secretary (as determined under regulations of the Secretary) by the change for such year in the Consumer Price Index for All Urban Consumers published monthly by the Bureau of Labor Statistics of the Department of Labor; and*
- (iii) *complies with such other requirements as the Secretary may establish.*

(C) A mortgage broker who—

(i) closes the mortgage in the name of the lender and does not make, underwrite, or service the mortgage;

(ii) is licensed, under the laws of the State in which the property that is subject to the mortgage is located, to act as a mortgage broker in such State;

(iii) posts a surety bond in accordance with the requirements of subparagraph (B)(ii); and

(iv) complies with such other requirements as the Secretary may establish.

(3) The term “mortgagor” includes the original borrower under a mortgage and the successors and assigns of the original borrower.

[(c)] (4) The term “maturity date” means the date on which the mortgage indebtedness would be extinguished if paid in accordance with periodic payments provided for in the mortgage.

[(d)] (5) The term “State” includes the several States and Puerto Rico, the District of Columbia, Guam, [the Trust Territory of the Pacific Islands] *the Commonwealth of the Northern Mariana Islands*, American Samoa, and the Virgin Islands.

[(e)] (6) The term “family member” means, with respect to a mortgagor under such section, a child, parent, or grandparent of the mortgagor (or the mortgagor’s spouse). In determining whether any of the relationships referred to in the preceding sentence exist, a legally adopted son or daughter of an individual (and a child who is a member of an individual’s household, if placed with such individual by an authorized placement agency for legal adoption by such individual), and a foster child of an individual, shall be treated as a child of such individual by blood.

[(f)] (7) The term “child” means, with respect to a mortgagor under such section, a son, stepson, daughter, or stepdaughter of such mortgagor.

#### FEDERAL HOUSING ADMINISTRATION OPERATIONS

SEC. 202. [(a) MUTUAL MORTGAGE INSURANCE FUND.—There is hereby created a Mutual Mortgage Insurance Fund (hereinafter referred to as the “Fund”), which shall be used by the Secretary as a revolving fund for carrying out the provisions of this title with respect to mortgages insured under section 203 as hereinafter provided, and there shall be allocated immediately to such Fund the sum of \$10,000,000 out of funds made available to the Secretary for the purposes of this title.]

(a) *MUTUAL MORTGAGE INSURANCE FUND.*—

(1) *ESTABLISHMENT.*—*Subject to the provisions of the Federal Credit Reform Act of 1990, there is hereby created a Mutual Mortgage Insurance Fund (in this title referred to as the “Fund”), which shall be used by the Secretary to carry out the provisions of this title with respect to mortgages insured under section 203. The Secretary may enter into commitments to guarantee, and may guarantee, such insured mortgages.*

(2) *LIMIT ON LOAN GUARANTEES.*—*The authority of the Secretary to enter into commitments to guarantee such insured mortgages shall be effective for any fiscal year only to the extent that the aggregate original principal loan amount under such*

mortgages, any part of which is guaranteed, does not exceed the amount specified in appropriations Acts for such fiscal year.

(3) *FIDUCIARY RESPONSIBILITY.*—The Secretary has a responsibility to ensure that the Mutual Mortgage Insurance Fund remains financially sound.

(4) *ANNUAL INDEPENDENT ACTUARIAL STUDY.*—The Secretary shall provide for an independent actuarial study of the Fund to be conducted annually, which shall analyze the financial position of the Fund. The Secretary shall submit a report annually to the Congress describing the results of such study and assessing the financial status of the Fund. The report shall recommend adjustments to underwriting standards, program participation, or premiums, if necessary, to ensure that the Fund remains financially sound.

(5) *QUARTERLY REPORTS.*—During each fiscal year, the Secretary shall submit a report to the Congress for each quarter, which shall specify for mortgages that are obligations of the Fund—

(A) the cumulative volume of loan guarantee commitments that have been made during such fiscal year through the end of the quarter for which the report is submitted;

(B) the types of loans insured, categorized by risk;

(C) any significant changes between actual and projected claim and prepayment activity;

(D) projected versus actual loss rates; and

(E) updated projections of the annual subsidy rates to ensure that increases in risk to the Fund are identified and mitigated by adjustments to underwriting standards, program participation, or premiums, and the financial soundness of the Fund is maintained.

The first quarterly report under this paragraph shall be submitted on the last day of the first quarter of fiscal year 2007, or upon the expiration of the 90-day period beginning on the date of the enactment of the Expanding American Homeownership Act of 2006, whichever is later.

(6) *ADJUSTMENT OF PREMIUMS.*—If, pursuant to the independent actuarial study of the Fund required under paragraph (5), the Secretary determines that the Fund is not meeting the operational goals established under paragraph (8) or there is a substantial probability that the Fund will not maintain its established target subsidy rate, the Secretary may either make programmatic adjustments under section 203 as necessary to reduce the risk to the Fund, or make appropriate premium adjustments.

(7) *OPERATIONAL GOALS.*—The operational goals for the Fund are—

(A) to charge borrowers under loans that are obligations of the Fund an appropriate premium for the risk that such loans pose to the Fund;

(B) to minimize the default risk to the Fund and to homeowners;

(C) to curtail the impact of adverse selection on the Fund; and

*(D) to meet the housing needs of the borrowers that the single family mortgage insurance program under this title is designed to serve.*

\* \* \* \* \*  
 (c) MORTGAGEE REVIEW BOARD.—  
 (1) \* \* \*

\* \* \* \* \*  
 (7) DEFINITION OF “MORTGAGEE”.—For purposes of this subsection, the term “mortgagee” means—

(A) a mortgagee, *as defined in section 201*, approved under this Act;

[(B) a lender or a loan correspondent approved under title I of this Act;]

[(C)] (B) a branch office or subsidiary of the mortgagee, lender, or loan correspondent; or

[(D)] (C) a director, officer, employee, agent, or other person participating in the conduct of the affairs of the mortgagee, lender, or loan correspondent.

\* \* \* \* \*  
 [(s)] (e) Whenever the Secretary has taken any discretionary action to suspend or revoke the approval of any mortgagee to participate in any mortgage insurance program under this title, the Secretary shall provide prompt notice of the action and a statement of the reasons for the action to—

(1) \* \* \*  
 \* \* \* \* \*

[(4) the Administrator of the Farmers Home Administration;]

(4) *the Secretary of Agriculture;*

\* \* \* \* \*  
 [(e)] (f) APPRAISAL STANDARDS.—(1) \* \* \*

\* \* \* \* \*  
 (3) DIRECT ENDORSEMENT PROGRAM.—  
 (A) \* \* \*  
 (B) Any appraisal conducted pursuant to subparagraph (A) shall be conducted by an individual who complies with the qualifications or standards for appraisers established by the Secretary pursuant to [section 202(e) of the National Housing Act] *this subsection.*

INSURANCE OF MORTGAGES

SEC. 203. (a) \* \* \*  
 (b) To be eligible for insurance under this section a mortgage shall comply with the following:  
 (1) Have been made to[, and be held by,] a mortgagee approved by the Secretary [as responsible and able to service the mortgage properly].  
 (2) Involve a principal obligation (including such initial service charges, appraisal, inspection, and other fees as the Secretary shall approve) in an amount—

[(A) not to exceed the lesser of—

[(i) in the case of a 1-family residence, 95 percent of the median 1-family house price in the area, as determined by the Secretary; in the case of a 2-family residence, 107 percent of such median price; in the case of a 3-family residence, 130 percent of such median price; or in the case of a 4-family residence, 150 percent of such median price; or

[(ii) 87 percent of the dollar amount limitation determined under section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act for a residence of the applicable size; except that the dollar amount limitation in effect for any area under this subparagraph may not be less than the greater of the dollar amount limitation in effect under this section for the area on the date of the enactment of the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act for Fiscal Year 1999 or 48 percent of the dollar limitation determined under section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act for a residence of the applicable size; and

[(B) not to exceed an amount equal to the sum of—

[(i) the amount of the mortgage insurance premium paid at the time the mortgage is insured; and

[(ii) in the case of—

[(I) a mortgage for a property with an appraised value equal to or less than \$50,000, 98.75 percent of the appraised value of the property;

[(II) a mortgage for a property with an appraised value in excess of \$50,000 but not in excess of \$125,000, 97.65 percent of the appraised value of the property;

[(III) a mortgage for a property with an appraised value in excess of \$125,000, 97.15 percent of the appraised value of the property; or

[(IV) notwithstanding subclauses (II) and (III), a mortgage for a property with an appraised value in excess of \$50,000 that is located in an area of the State for which the average closing cost exceeds 2.10 percent of the average, for the State, of the sale price of properties located in the State for which mortgages have been executed, 97.75 percent of the appraised value of the property.]

(A) not to exceed the lesser of—

*(i) in the case of a 1-family residence, the median 1-family house price in the area, as determined by the Secretary; and in the case of a 2-, 3-, or 4-family residence, the percentage of such median price that bears the same ratio to such median price as the dollar amount limitation in effect under section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act (12 U.S.C. 1454(a)(2)) for a 2-, 3-, or 4-family residence, respectively, bears to the dollar amount limitation in effect under such section for a 1-family residence; or*

*(ii) the dollar amount limitation determined under such section 305(a)(2) for a residence of the applicable size;*

*except that the dollar amount limitation in effect for any area under this subparagraph may not be less than the greater of (I) the dollar amount limitation in effect under this section for the area on October 21, 1998, or (II) 65 percent of the dollar limitation determined under such section 305(a)(2) for a residence of the applicable size; and*

*(B) not to exceed the appraised value of the property, plus any initial service charges, appraisal, inspection and other fees in connection with the mortgage as approved by the Secretary.*

For purposes of the preceding sentence, the term “area” means a metropolitan statistical area as established by the Office of Management and Budget; and the median 1-family house price for an area shall be equal to the median 1-family house price of the county within the area that has the highest such median price. [For purposes of this paragraph, the term “average closing cost” means, with respect to a State, the average, for mortgages executed for properties that are located within the State, of the total amounts (as determined by the Secretary) of initial service charges, appraisal, inspection, and other fees (as the Secretary shall approve) that are paid in connection with such mortgages. Notwithstanding any other provision of this section, in any case where the dwelling is not approved for mortgage insurance prior to the beginning of construction, such mortgage shall not exceed 90 per centum of the entire appraised value of the property as of the date the mortgage is accepted for insurance, unless (i) the dwelling was completed more than one year prior to the application for mortgage insurance, or (ii) the dwelling was approved for guaranty, insurance, or a direct loan under chapter 37 of title 38, United States Code, prior to the beginning of construction, or (iii) the dwelling is covered by a consumer protection or warranty plan acceptable to the Secretary and satisfies all requirements which would have been applicable if such dwelling had been approved for mortgage insurance prior to the beginning of construction. As used herein, the term “veteran” means any person who served on active duty in the armed forces of the United States for a period of not less than 90 days (or as certified by the Secretary of Defense as having performed extra-hazardous service), and who was discharged or released therefrom under conditions other than dishonorable, except that persons enlisting in the armed forces after September 7, 1980, or entering active duty after October 16, 1981, shall have their eligibility determined in accordance with section 3103A(d) of title 38, United States Code.

\* \* \* \* \*

[Notwithstanding any other provision of this paragraph, the Secretary may not insure, or enter into a commitment to insure, a mortgage under this section that is executed by a first-time homebuyer and that involves a principal obligation (including such initial service charges, appraisal, inspection, and other fees as the Secretary shall approve) in excess of 97 percent of the appraised value of the property unless the mort-

gator has completed a program of counseling with respect to the responsibilities and financial management involved in homeownership that is approved by the Secretary; except that the Secretary may, in the discretion of the Secretary, waive the applicability of this requirement.】

(3) Have a maturity satisfactory to the Secretary, but not to exceed, in any event, 【thirty-five years (or thirty years if such mortgage is not approved for insurance prior to construction)】 *forty years* from the date of the beginning of amortization of the mortgage.

\* \* \* \* \*

(c)(1) \* \* \*

(2) 【Notwithstanding】 *Except as provided in paragraph (3) and notwithstanding any other provision of this section, each mortgage secured by a 1- to 4-family dwelling that is an obligation of the Mutual Mortgage Insurance Fund or of the General Insurance Fund pursuant to subsection (v) and each mortgage that is insured under subsection (k) or section 234(c), shall be subject to the following requirements:*

(A) \* \* \*

\* \* \* \* \*

(3) *FLEXIBLE RISK-BASED PREMIUMS.—*

(A) *IN GENERAL.—For any mortgage insured by the Secretary under this title that is secured by a 1- to 4-family dwelling and for which the loan application is received by the mortgagee on or after October 1, 2006, the Secretary may establish a mortgage insurance premium structure involving a single premium payment collected prior to the insurance of the mortgage or periodic payments, or both, without regard to any maximum or minimum premium amounts set forth in this subsection. The rate of premium for such a mortgage may vary during the mortgage term as long as the basis for determining the variable rate is established before the execution of the mortgage. The Secretary may change a premium structure established under this subparagraph but only to the extent that such change is not applied to any mortgage already executed.*

(B) *ESTABLISHMENT AND ALTERATION OF PREMIUM STRUCTURE.—A premium structure shall be established or changed under subparagraph (A) only by providing notice to mortgagees and to the Congress, at least 30 days before the premium structure is established or changed.*

(C) *CONSIDERATIONS FOR PREMIUM STRUCTURE.—When establishing a premium structure under subparagraph (A) or when changing such a premium structure, the Secretary shall consider the following:*

(i) *The effect of the proposed premium structure on the Secretary's ability to meet the operational goals of the Mutual Mortgage Insurance Fund as provided in section 202(a).*

(ii) *Underwriting variables.*

(iii) *The extent to which new pricing under the proposed premium structure has potential for acceptance in the private market.*

(iv) *The administrative capability of the Secretary to administer the proposed premium structure.*

(v) *The effect of the proposed premium structure on the Secretary's ability to maintain the availability of mortgage credit and provide stability to mortgage markets.*

\* \* \* \* \*

(h) Notwithstanding any other provision of this section, the Secretary is authorized to insure any mortgage which involves a principal obligation not in excess of the applicable maximum dollar limit under subsection (b) and not in excess of 100 per centum of the appraised value of a property *plus any initial service charges, appraisal, inspection and other fees in connection with the mortgage as approved by the Secretary*, upon which there is located a dwelling designed principally for a single-family residence, where the mortgagor establishes (to the satisfaction of the Secretary) that his home which he occupied as an owner or as a tenant was destroyed or damaged to such an extent that reconstruction is required as a result of a flood, fire, hurricane, earthquake, storm, or other catastrophe, which the President, pursuant to Robert T. Stafford Disaster Relief and Emergency Assistance Act, has determined to be a major disaster. **【**In any case in which the single family residence to be insured under this subsection is within a jurisdiction in which the President has declared a major disaster to have occurred, the Secretary is authorized, for a temporary period not to exceed 18 months from the date of such Presidential declaration, to enter into agreements to insure a mortgage which involves a principal obligation of up to 100 percent of the dollar limitation determined under section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act for single family residence, and not in excess of 100 percent of the appraised value.**】** *In any case in which the single family residence to be insured under this subsection is within a jurisdiction in which the President has declared a major disaster to have occurred, the Secretary is authorized, for a temporary period not to exceed 36 months from the date of such Presidential declaration, to enter into agreements to insure a mortgage which involves a principal obligation of up to 100 percent of the dollar limitation determined under section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act for a single family residence, and not in excess of 100 percent of the appraised value of the property plus any initial service charges, appraisal, inspection and other fees in connection with the mortgage as approved by the Secretary.*

**【**(i) The Secretary is authorized to insure under this section, any mortgage meeting the requirements of subsection (b) of this section, except as modified by this subsection, which involves a principal obligation not in excess of 75 per centum of the limit on the principal obligation applicable to a one-family residence under subsection (b) of this section and not in excess of 97 per centum (or, in any case where the dwelling is not approved for mortgage insurance prior to the beginning of construction, unless the construction of the dwelling was completed more than one year prior to the application for mortgage insurance or the dwelling was approved for guaranty, insurance, or direct loan under chapter 37 of title 38, United States Code, prior to the beginning of construction, 90 per centum) of the appraised value of a property located in an area where the Secretary finds it is not practicable to obtain con-

formity with many of the requirements essential to the insurance of mortgages on housing in built-up urban areas, upon which there is located a dwelling designed principally for a single-family residence: *Provided*, That the Secretary finds that the property with respect to which the mortgage is executed is an acceptable risk, giving consideration to the need for providing adequate housing for families of low and moderate income particularly in suburban and outlying areas or small communities: *Provided further*, That under the foregoing provisions of this subsection the Secretary is authorized to insure any mortgage issued with respect to a farm home on a plot of land two and one-half or more acres in size adjacent to an all-weather public road.】

\* \* \* \* \*

(k)(1) The Secretary may, in order to assist in the rehabilitation of one- to four-family structures used primarily for residential purposes, insure and make commitments to insure rehabilitation loans (including advances made during rehabilitation) made by financial institutions [on and after 180 days following the date of enactment of the Housing and Community Development Amendments of 1978]. Such commitments to insure and such insurance shall be made upon such terms and conditions which the Secretary may prescribe and which are consistent with the provisions of subsections (b), (c), (e), (i) and (j) of this section, except as modified by the provisions of this subsection.

\* \* \* \* \*

(5) All funds received and all disbursements made pursuant to the authority established by this subsection shall be credited or charged as appropriate, to the [General Insurance Fund] *Mutual Mortgage Insurance Fund*, and insurance benefits shall be paid in cash out of such Fund or in debentures executed in the name of such Fund. Insurance benefits paid with respect to loans secured by a first mortgage and insured under this subsection shall be paid in accordance with section 204[, except that all references in section 204 to the Mutual Mortgage Insurance Fund shall be construed as referring to the General Insurance Fund]. Insurance benefits paid with respect to loans secured by a mortgage other than a first mortgage and insured under this subsection shall be paid in accordance with paragraphs (6) and (7) of section 220(h), except that reference to “this subsection” in such paragraphs shall be construed as referring to this subsection.

\* \* \* \* \*

[(o)(1) Notwithstanding any other provision of this section or any other section of this title, the Secretary is authorized to insure, and to commit to insure, under subsection (b) of this section as modified by this subsection a mortgage which meets both the requirements of this subsection and such criteria as the Secretary by regulation may prescribe to further the purpose of this subsection, in any community where the Secretary determines that—

【(A) temporary adverse economic conditions exist throughout the community as a direct and primary result of outstanding claims to ownership of land in the community by an American Indian tribe, band, or Nation;

[(B) such ownership claims are reasonably likely to be settled, by court action or otherwise;

[(C) as a direct result of the community's temporarily impaired economic condition, owner occupants of homes in the community have been involuntarily unemployed or underemployed and have thus incurred substantial reductions in income which significantly impair their ability to continue timely payment of their mortgages;

[(D) as a result, widespread mortgage foreclosures and distress sales of homes are likely in the community; and

[(E) fifty or more individual homeowners were joined as parties defendant or were members of a defendant class prior to December 31, 1976, in litigation involving claims to ownership of land in the community by an American Indian tribe, band, or Nation.

[(2) A mortgage shall be eligible for insurance under subsection (b) of this section as modified by this subsection without regard to limitations in this title relating to a mortgagor's reasonable ability to pay, economic soundness, marketability of title, or any other statutory restriction which the Secretary determines is contrary to the purpose of this subsection, but only if the mortgagor is an owner of a home in a community specified in paragraph (1) who, as a direct result of the community's temporarily impaired economic condition, has been involuntarily unemployed or underemployed and has thus incurred a substantial reduction in income which significantly impairs the owner's ability to continue timely payment of the mortgage. The Secretary is authorized to encourage or afford directly to or on behalf of mortgagors whose mortgages are insured under subsection (b) as modified by this subsection forbearance, assignment of mortgages to the Secretary, or such other relief as the Secretary deems appropriate and consistent with the purpose of this subsection. The Secretary, in connection with any mortgage insured under subsection (b) as modified by this subsection, shall have all statutory powers, authority, and responsibilities which the Secretary has with respect to other mortgages insured under subsection (b), except that the Secretary may modify such powers, authority, or responsibilities where the Secretary deems such action to be necessary because of the special nature of the mortgage involved. Notwithstanding section 202 of this title, the insurance of a mortgage under subsection (b) of this section as modified by this subsection shall be the obligation of the Special Risk Insurance Fund created pursuant to section 238 of this title.

[(p)(1) Notwithstanding any other provision of this section or any other section of this title, the Secretary is authorized to insure, and to commit to insure, under subsection (b) of this section as modified by this subsection a mortgage which meets both the requirements of this subsection and such criteria as the Secretary by regulation shall prescribe to further the purpose of this subsection, in any community where the Secretary determines that—

[(A) temporary adverse economic conditions exist throughout the community as a direct and primary result of outstanding claims to ownership of land in the community by an American Indian tribe, band, or nation;

[(B) such ownership claims are reasonably likely to be settled, by court action or otherwise; and

[(C) fifty or more individual homeowners were joined as parties defendant or were members of a defendant class prior to April 1, 1980, in litigation involving claims to ownership of land in the community by an American Indian tribe, band, group, or nation pursuant to a dispute involving the Articles of Confederation, Trade and Intercourse Act of 1790, or any similar State or Federal law.

[(2) A mortgage shall be eligible for insurance under subsection (b) of this section as modified by this subsection without regard to limitations in this title relating to marketability of title, or any other statutory restriction which the Secretary determines is contrary to the purpose of this subsection, but only if the mortgagor is an owner of a home in a community specified in paragraph (1). The Secretary, in connection with any mortgage insured under subsection (b) as modified by this subsection, shall have all statutory powers, authority, and responsibilities which the Secretary has with respect to other mortgages insured under subsection (b), except that the Secretary may modify such powers, authority, or responsibilities where the Secretary deems such action to be necessary because of the special nature of the mortgage involved. Notwithstanding section 202 of this title, the insurance of a mortgage under subsection (b) of this section as modified by this subsection shall be the obligation of the Special Risk Insurance Fund created pursuant to section 238 of this title.

[(q)(1) Notwithstanding any other provision of this section or any other section of this title, the Secretary shall insure and commit to insure, under subsection (b) as modified by this subsection, any mortgage secured by property located on land that—

[(A) is within the Allegany Reservation of the Seneca Nation of New York Indians; and

[(B) is subject to a lease entered into for a term of 99 years pursuant to the Act of February 19, 1875 (Chapter 90; 18 Stat. 330) and the Act of September 30, 1890 (Chapter 1132; 26 Stat. 558).

[(2) A mortgage shall be eligible for insurance under subsection (b) as modified by this subsection without regard to limitations in this title relating to marketability of title or any other statutory restriction that the Secretary determines is contrary to the purpose of this subsection.

[(3) The Secretary, in connection with any mortgage insured under subsection (b) as modified by this subsection, shall have all statutory powers, authority, and responsibilities that the Secretary has with respect to other mortgages insured under subsection (b), except that the Secretary may modify such powers, authority, or responsibilities if the Secretary determines such action to be necessary because of the special nature of the mortgage involved.

[(4) Notwithstanding section 202, the insurance of a mortgage under subsection (b) as modified by this subsection shall be the obligation of the Special Risk Insurance Fund created in section 238.]

\* \* \* \* \*

(u)(1) \* \* \*

(2) For purposes of this subsection—

(A) the term “area” [shall have the meaning given the term under subsection (b)(2);] *means a metropolitan statistical area as established by the Office of Management and Budget;*

\* \* \* \* \*

(v) [Notwithstanding section 202 of this title, the] *The* insurance of a mortgage under this section in connection with the assistance provided under section 8(y) of the United States Housing Act of 1937 shall be the obligation of the [General Insurance Fund created pursuant to section 519 of this title. The provisions of subsections (a) through (h), (j), and (k) of section 204 shall apply to such mortgages, except that (1) all references in section 204 to the Mutual Mortgage Insurance Fund or the Fund shall be construed to refer to the General Insurance Fund, and (2) any excess amounts described in section 204(f)(1) shall be retained by the Secretary and credited to the General Insurance Fund. The report required under this subsection shall include the report required under section 540(c) and the report required under section 205(g).] *Mutual Mortgage Insurance Fund.*

\* \* \* \* \*

CLASSIFICATION OF MORTGAGES AND INSURANCE FUND

SEC. 205. (a) \* \* \*

\* \* \* \* \*

[(g) The Secretary shall provide for an independent actuarial study of the Mutual Mortgage Insurance Fund to be conducted annually and shall report annually to the Congress regarding the financial status of the Fund.

[(h)(1) If, pursuant to the independent annual actuarial study of the Mutual Mortgage Insurance Fund required under subsection (g), the Secretary determines that the Mutual Mortgage Insurance Fund is not meeting the operational goals under paragraph (2), the Secretary may not issue distributions, and may, by regulation, propose and implement any adjustments to the insurance premiums under section 203(c) or section 2103(b) of the Omnibus Budget Reconciliation Act of 1990. Upon determining that a premium change is appropriate under the preceding sentence, the Secretary shall immediately notify Congress of the proposed change and the reasons for the change. Any such premium change shall not take effect before the expiration of the 90-day period beginning upon such notification.

[(2) The operational goals referred to in paragraph (1) shall be—

- [(A) maintaining an adequate capital ratio;
- [(B) meeting the needs of homebuyers with low downpayments and first-time homebuyers by providing access to mortgage credit;
- [(C) minimizing the risk to the Fund and to homeowners from homeowner default; and
- [(D) avoiding adverse selection.]

\* \* \* \* \*

RENTAL HOUSING INSURANCE

SEC. 207. (a) As used in this section—

(1) \* \* \*

(2) The term “mortgagee” [means the original lender under a mortgage, and its successors and assigns, and] *has the meaning given such term in section 201, except that such term also includes the holders of credit instruments issued under a trust mortgage or deed of trust pursuant to which such holders act by and through a trustee therein named.*

\* \* \* \* \*

HOUSING FOR MODERATE INCOME AND DISPLACED FAMILIES

SEC. 221. (a) \* \* \*

\* \* \* \* \*

(d) To be eligible for insurance under this section, a mortgage shall—

(1) have been made to [and be held by] a mortgagee approved by the Secretary [as responsible and able to service the mortgage properly];

\* \* \* \* \*

[MORTGAGOR INSURANCE FOR SERVICEMEN

[SEC. 222. (a) The purpose of this section is to aid in the provision of housing accommodations for servicemen in the Armed Forces of the United States, servicemen in the United States Coast Guard and their families, and servicemen in the United States National Oceanic and Atmospheric Administration and their families by supplementing the insurance of mortgages under section 203 of this title with a system of mortgage insurance specially designed to assist the financing required for the construction or purchase of dwellings by those persons. As used in this section, a “servicemen” means a person to whom the Secretary of Defense (or any officer or employee designated by him), the Secretary of Transportation (or any officer or employee designated by him), or the Secretary of Commerce (or any officer or employee designated by him), as the case may be, has issued a certificate hereunder indicating that such person requires housing, is serving on active duty in the Armed Forces of the United States, in the United States Coast Guard, or in the United States National Oceanic and Atmospheric Administration and has served on active duty for more than two years, but a certificate shall not be issued hereunder to any person ordered to active duty for training purposes only. The Secretary of Defense, the Secretary of Transportation, and the Secretary of Commerce, respectively, are authorized to prescribe rules and regulations governing the issuance of such certificates and may withhold issuance of more than one such certificate to a serviceman whenever in his discretion issuance is not justified due to circumstances resulting from military assignment, or, in the case of the United States Coast Guard or the United States National Oceanic and Atmospheric Administration, other assignment.

[(b) To be eligible for insurance under this section a mortgage shall—

[(1) meet the requirements of section 203(b) or 203(i), or 221(d)(2), or 234(c), except as such requirements are modified by this section;

[(2) involve a dwelling designed principally for a one-family residence or a one-family unit in a condominium project;

[(3) have a principal obligation not in excess of the sum of (i) 97 per centum of \$25,000 of the appraised value of the property as of the date the mortgage is accepted for insurance, and (ii) 95 per centum of such value in excess of \$25,000; and

[(4) be executed by a mortgagor who at the time of application for insurance is certified as a "serviceman" and who at the time of insurance is the owner of the property and either occupies the property as a principal residence or certifies that his failure to do so is the result of his military assignment, or in the case of the United States Coast Guard or the United States National Oceanic and Atmospheric Administration, other assignment.

[(c) The Secretary may prescribe the manner in which a mortgage may be accepted for insurance under this section. Premiums fixed by the Secretary under section 203 with respect to, or payable during, the period of ownership by a serviceman of the property involved shall not be payable by the mortgagee but shall be paid not less frequently than once each year, upon request of the Secretary to the Secretary of Defense, the Secretary of Transportation, or the Secretary of Commerce, as the case may be, from the respective appropriations available for pay and allowances of persons eligible for mortgage insurance under this section. As used herein, "the period of ownership by a serviceman" means the period, for which premiums are fixed, prior to the date that the Secretary of Defense (or any officer or employee or other persons designated by him), the Secretary of Transportation (or any officer or employee or other person designated by him), or the Secretary of Commerce (or any officer or employee or other person designated by him), as the case may be, furnishes the Secretary with a certification that such ownership (as defined by the Secretary), has terminated.

[(d) Any mortgagee under a mortgage insured under this section is entitled to the benefits of the insurance as provided in section 204(a) with respect to mortgages insured under section 203.

[(e) The provisions of subsections (b), (c), (d), (e), (f), (g), (h), (j), and (k) of section 204 shall apply to mortgages insured under this section, except that as applied to those mortgages (1) all references to the "Fund," or "Mutual Mortgage Insurance Fund," shall refer to the General Insurance Fund, and (2) all references to "section 203" shall refer to this section.

[(f) The Secretary is authorized to transfer to this section the insurance on any mortgage covering a single-family dwelling or a one-family unit in a condominium project insured under this Act, if the mortgage indebtedness thereof has been assumed by a serviceman who at the time of assumption is the owner of the property and either occupies the property as a principal residence or certifies that his failure to do so is the result of his military assignment, or, in the case of the United States Coast Guard or the United States National Oceanic and Atmospheric Administration, other assignment.

[(g) Where a serviceman dies while on active duty in the Armed Forces of the United States or in the United States Coast Guard or in the United States National Oceanic and Atmospheric Administration, leaving a surviving widow as owner of the property, the period of ownership by the serviceman (within the meaning of subsection (c) of this section) shall extend for two years beyond the date of the serviceman's death or until the date the widow disposes of the property, whichever date occurs first. The Secretary of Defense or the Secretary of Transportation, or the Secretary of Commerce, as the case may be, shall notify such widow promptly following the serviceman's death of the additional costs to be borne by the mortgagor following termination of the two year period.]

\* \* \* \* \*

MORTGAGE INSURANCE FOR CONDOMINIUMS

SEC. 234. (a) \* \* \*

\* \* \* \* \*

(c) The Secretary is authorized, in his discretion and under such terms and conditions as he may prescribe (including the minimum number of family units in the project which shall be offered for sale and provisions for the protection of the consumer and the public interest), to insure any mortgage covering a one-family unit in a multifamily project and an undivided interest in the common areas and facilities which serve the project if (1) the mortgage meets the requirements of this subsection and of section 203(b), except as that section is modified by this subsection, [and] (2) at least 80 percent of the units in the project covered by mortgages insured under this title are occupied by the mortgagors or comortgagors, and (3) *the project has a blanket mortgage insured by the Secretary under subsection (d)*. Any project proposed to be constructed or rehabilitated after the date of enactment of the Housing Act of 1961 with the assistance of mortgage insurance under this Act, where the sale of family units is to be assisted with mortgage insurance under this subsection, shall be subject to such requirements as the Secretary may prescribe. To be eligible for insurance pursuant to this subsection, a mortgage shall (A) involve a principal obligation in an amount not to exceed the maximum principal obligation of a mortgage which may be insured in the area pursuant to section 203(b)(2) or pursuant to section 203(h) under the conditions described in section 203(h) or pursuant to section 203(h) under the conditions described in section 203(h), and (B) have a maturity satisfactory to the Secretary, but not to exceed, in any event, [thirty-five years] *forty years* from the date of the beginning of amortization of the mortgages. The mortgage shall contain such provisions as the Secretary determines to be necessary for the maintenance of common areas and facilities and the multifamily project. The mortgagor shall have exclusive right to the use of the one-family unit covered by the mortgage and, together with the owners of other units in the multifamily project, shall have the right to the use of the common areas and facilities serving the project and the obligation of maintaining all such common areas and facilities. The Secretary may require that the rights and obligations of the mortgagor and the owners of other dwelling units in the project shall be subject to such controls as he determines to be necessary and

feasible to promote and protect individual owners, the multifamily project and its occupants. For the purposes of this subsection, the Secretary is authorized in his discretion and under such terms and conditions as he may prescribe to permit one-family units and interests in common areas and facilities in multifamily projects covered by mortgages insured under any section of this Act other than section 213(a) (1) and (2) to be released from the liens of those mortgages.

\* \* \* \* \*

(g) Any mortgagee under a mortgage insured under subsection (c) of this section is entitled to receive the benefits of the insurance as provided in section 204(a) of this Act with respect to mortgages insured under section 203, and the provisions of subsections (b), (c), (d), (e), (f), (g), (h), (j), and (k) of section 204 shall be applicable to the mortgages insured under subsection (c) of this section, except that (1) all references in section 204 of the Mutual Mortgage Insurance Fund or the Fund shall be construed to refer to the General Insurance Fund, (2) all references therein to section 203 shall be construed to refer to subsection (c) of this section, and (3) the excess remaining, referred to in section 204(f)(1), shall be retained by the Secretary and credited to the General Insurance Fund.

\* \* \* \* \*

**[SPECIAL MORTGAGE INSURANCE ASSISTANCE**

**[SEC. 237. (a)** The purpose of this section is to help provide adequate housing for families of low and moderate income, including those who, for reasons of credit history, irregular income patterns caused by seasonal employment, or other factors, are unable to meet the credit requirements of the Secretary for the purchase of a single-family home financed by a mortgage insured under section 203, 220, 221, 234, or 235(j)(4), but who, through the incentive of homeownership and counseling assistance, appear to be able to achieve homeownership.

**[(b)** The Secretary is authorized upon application by the mortgagee to insure under this section not more than 26 percent of the total principal obligation (including such initial service charges, and such appraisal, inspection, and other fees as the Secretary shall approve) of any mortgage meeting the requirements of this section.

**[(c)** To be eligible for insurance under this section, a mortgage shall—

**[(1)** meet the requirements of section 203 (except subsection (m)), 220(d)(3)(A), 221(d)(2), 221(h)(5), 221(i), 234(c), or 235(j)(4), except as such requirements are modified by this section;

**[(2)** involve a principal obligation (including such initial service charges, and such appraisal, inspection, and other fees, as the Secretary shall approve) in an amount not to exceed \$70,000;

**[(3)** be executed by a mortgagor who the Secretary has determined, after a full and complete study of the case, would not be an acceptable credit risk for mortgage insurance purposes under sections 203, 220, 221, 234, or 235(j)(4), because of his credit standing, debt obligations, total annual income, or in-

come characteristics but who the Secretary is satisfied would be a reasonably satisfactory credit risk, consistent with the objectives stated in subsection (a), if he were to receive budget, debt management, and related counseling, prior to and during the 12 months immediately following the purchase of the property, from a community development financial institution under section 103(5) of the Community Development Banking and Financial Institutions Act of 1994: *Provided*, That, in determining whether the mortgagor is a reasonably satisfactory credit risk, the Secretary shall review the credit history of the applicant giving special consideration to those delinquent accounts which were ultimately paid by the applicant and to extenuating factors which may have caused credit accounts of the applicant to become delinquent; and the Secretary shall also give special consideration to income characteristics of applicants whose total income over the two years prior to their applications has remained at levels of eligibility (as required under paragraph (4) of this subsection), but who, because of the character of their seasonal employment or for other reasons, have not maintained continuous employment under one employer during that time;

[(4) require monthly payments which, in combination with local real estate taxes on the property involved, do not exceed 36 per centum of the applicant's income, based on his average monthly income during the year prior to his application or the average monthly income during the three years prior to his application, whichever is higher; and

[(5) require the mortgagor to be subject, if necessary, to a default mitigation effort undertaken by an intermediary community development financial institution under section 103(5) of the Community Development Banking and Financial Institutions Act of 1994, that is acting as a sponsor and pass-through of insurance under section 203 and is approved by the Secretary;

[(6) involve a total principal obligation (including such initial service charges, and such appraisal, inspection, and other fees as the Secretary shall approve) that is not more than 90 percent of the value of the property for which the mortgage is provided; and

[(7) involve a total principal obligation (including such initial service charges, and such appraisal, inspection, and other fees as the Secretary shall approve) in which the mortgagor has equity (as defined by the Secretary) of not less than 10 percent and such equity shall be subordinate to the interest of the Secretary in the mortgaged property.

[(d) The Secretary shall give preference in approving mortgage insurance applications and in providing counseling services under this section (1) to families which are eligible for assistance payments under section 235, (2) to families living in empowerment zones and enterprise communities (as those terms are defined in section 1393(b) of the Internal Revenue Code of 1986 (26 U.S.C. 1393(b)) who are eligible for homeownership assistance, and (3) to families living in public housing units, especially those families required to leave public housing because their incomes have risen beyond the maximum prescribed income limits, and families eligible

for residence in public housing who have been displaced from federally assisted urban renewal areas.

[(e) The Secretary is authorized to provide, or contract with community development financial institutions under section 103(5) of the Community Development Banking and Financial Institutions Act of 1994 to provide, such budget, debt management, and related counseling services to mortgagors whose mortgages are insured under this section as he determines to be necessary to meet the objectives of this section. The Secretary may also provide such counseling to otherwise eligible families who lack sufficient funds to supply a down payment to help them to save an amount necessary for that purpose.

[(f) The aggregate principal balance of the portions of mortgages insured under this section and outstanding at one time shall not exceed \$200,000,000.

[(g) Mortgages insured under this section shall be subject to an insurance premium fee of not more than 1.25 percent of the total mortgage principal obligation (including such initial service charges, and such appraisal, inspection, and other fees as the Secretary shall approve).

[(h) Before insuring a mortgage under this section, the Secretary shall enter into such contracts or other agreements as may be necessary to ensure that the mortgagee or other holder of the mortgage shall assume not less than 10 percent and not more than 50 percent of any loss on the insured mortgage, subject to any reasonable limit on the liability of the mortgagee or holder of the mortgage that may be specified in the event of unusual or catastrophic losses that may be incurred by any one mortgagee or mortgage holder.

[(i) No guarantees may be issued under section 306(g) for the timely payment of interest or principal on securities backed, in whole or in part, by mortgages insured under this section.

[(j) There are authorized to be appropriated such sums as may be necessary to carry out the provisions of subsection (e) of this section.]

\* \* \* \* \*

#### [GRADUATED PAYMENT AND INDEXED MORTGAGES

[SEC. 245. (a) The Secretary may insure under any provision of this title mortgages and loans with provisions of varying rates of amortization corresponding to anticipated variations in family income or with monthly payments and outstanding balances adjusted by a percentage change in a selected price index to the extent he determines such mortgages or loans (1) have promise for expanding housing opportunities or meet special needs, (2) can be developed to include any safeguards for mortgagors or purchasers that may be necessary to offset special risks of such mortgages, and (3) have a potential for acceptance in the private market. Notwithstanding any other provision of this title, except as provided in subsections (b) and (c) of this section, the principal obligation (including all interest to be deferred and added to principal) of a mortgage insured pursuant to this section may not exceed 97 per centum of the appraised value of the property covered by the mortgage as of the date the mortgage is accepted for insurance.

[(b) Notwithstanding the provisions of subsection (a), the Secretary may insure under any provision of this title a mortgage or loan which meets the requirements of the first sentence of subsection (a) and which has provisions for varying rates of amortization if the Secretary determines—

[(1) the mortgagor could not reasonably afford to purchase the dwelling unit by means of a mortgage insured under subsection (a) or any other mortgage insurance program under this title;

[(2) the principal obligation of the mortgage or loan initially does not exceed the percentage of the initial appraised value of the property specified in section 203(b) of this title as of the date the mortgage or loan is accepted for insurance;

[(3) the principal obligation of the mortgage or loan thereafter (including all interest to be deferred and added to principal) will not at any time be scheduled to exceed 97 per centum of the projected value of the property; and

[(4) the principal obligation of the mortgage thereafter will not exceed 113 per centum of the initial appraised value of the property.

Mortgage insurance under this subsection shall be limited to mortgages executed by mortgagors who, as determined by the Secretary, have not owned dwelling units within the preceding three years. For the purpose of this subsection, the projected value of the property shall be calculated by the Secretary by increasing the initial appraised value of the property at a rate not in excess of 2½ per centum per annum. The number of mortgages which are insured in accordance with this subsection in any fiscal year may not exceed (A) that number of mortgages the aggregate initial principal obligation of which equals 10 per centum of the aggregate amount of the initial principal obligation of all mortgages secured by properties improved by one- to four-family residences which are insured under this title during the preceding fiscal year, or (B) 50,000 mortgages, whichever is greater. No loan or mortgage may be insured under this subsection after the date of the enactment of the Housing and Community Development Act of 1987, except pursuant to a commitment to insure entered into on or before such date.

[(c) Notwithstanding the provisions of subsection (a), the Secretary may insure under any provision of this title a mortgage or loan that meets the requirements of the first sentence of subsection (a) and that has provisions permitting adjustment of monthly payments and outstanding principal according to changes or percentages of changes in a selected price index if the Secretary determines—

[(1) the principal obligation of the mortgage or loan initially does not exceed the percentage of the initial appraised value of the property specified in section 203(b) as of the date the mortgage or loan is accepted for insurance; and

[(2) the monthly payments and principal obligation of the mortgage or loan thereafter will not at any time be increased at a rate greater than the percentage change in the price index stipulated in the initial mortgage or loan contract.

In carrying out this subsection, the Secretary shall give a priority to mortgages executed by mortgagors who, as determined by the Secretary, have not owned dwelling units within the preceding 3

years. The Secretary shall, not later than March 31, 1984, prescribe regulations establishing guidelines governing mortgages and loans described in this subsection and shall, to the extent practicable, conduct a demonstration program to insure mortgages and loans in accordance with this subsection during fiscal years 1984 and 1985. The aggregate number of mortgages and loans insured under this subsection and section 252 in any fiscal year may not exceed 10 percent of the aggregate number of mortgages and loans insured by the Secretary under this title during the preceding fiscal year.

[(d)(1) The Secretary may insure, under any provision of this title relating to multifamily housing projects, mortgages and loans with provisions of varying rates of amortization corresponding to anticipated variations in project income, to the extent the Secretary determines such mortgages or loans (A) have promise for expanding housing opportunities or meet special needs; (B) can be developed to include any safeguards for mortgagors, tenants, or purchasers that may be necessary to offset special risks of such mortgages; and (C) have a potential for acceptances in the private market.

[(2) Notwithstanding any other provision of this title, the principal obligation of a mortgage or loan insured pursuant to this subsection—

[(A) may not exceed initially the percentage of the initial appraised value or replacement cost of the property involved that is required by the provision of this title under which such property is insured; and

[(B) thereafter (including all interest to be deferred and added to principal) may not at any time be scheduled to exceed 100 percent of the projected value of such property.

[(3) For purposes of this subsection, the projected value of a property shall be calculated by the Secretary by increasing the initial appraised value of such property at a rate not in excess of 2.5 percent per annum.

[(e) Any mortgage or loan insured pursuant to this section which contains or sets forth any graduated mortgage provisions (including but not limited to provisions for adding deferred interest to principal) which are authorized under this section and applicable regulations, or which have been insured on the basis of their being so authorized, shall not be subject to any State constitution, statute, court decree, common law, or rule of public policy (1) limiting the amount of interest which may be charged, taken, received, or reserved, or the manner of calculating such interest (including but not limited to prohibitions against the charging of interest on interest), if such constitution, statute, court decree, common law, or rule would not apply to the mortgage or loan in the absence of such graduated payment mortgage provisions, or (2) requiring a minimum amortization of principal under the mortgage or loan.]

\* \* \* \* \*

SINGLE-FAMILY MORTGAGE INSURANCE ON HAWAIIAN HOME LANDS

SEC. 247. (a) \* \* \*

\* \* \* \* \*

(c) Notwithstanding any other provision of this Act, the insurance of a mortgage using the authority contained in this section shall be the obligation of the **General Insurance Fund** established in section 519 *Mutual Mortgage Insurance Fund*. The mortgagee shall be eligible to receive the benefits of insurance as provided in section 204 with respect to mortgages insured pursuant to this section, except that **(1)** all references in section 204 to the Mutual Mortgage Insurance Fund or the Fund shall be construed to refer to the General Insurance Fund; and **(2)** all references in section 204 to section 203 shall be construed to refer to the section under which the mortgage is insured.

\* \* \* \* \*

SINGLE FAMILY MORTGAGE INSURANCE ON INDIAN RESERVATIONS

SEC. 248. (a) \* \* \*

\* \* \* \* \*

(f) Notwithstanding any other provision of this Act, the insurance of a mortgage using the authority contained in this section shall be the obligation of the **General Insurance Fund** established in section 519 *Mutual Mortgage Insurance Fund*. The mortgagee shall be eligible to receive the benefits of insurance as provided in section 204 with respect to mortgages insured pursuant to this section, except that **(1)** all references in section 204 to the Mutual Mortgage Insurance Fund or the Fund shall be construed to refer to the General Insurance Fund; and **(2)** all references in section 204 to section 203 shall be construed to refer to the section under which the mortgage is insured.

\* \* \* \* \*

INSURANCE OF HOME EQUITY CONVERSION MORTGAGES FOR ELDERLY HOMEOWNERS

SEC. 255. (a) \* \* \*

\* \* \* \* \*

(d) **ELIGIBILITY REQUIREMENTS.**—To be eligible for insurance under this section, a mortgage shall—

- (1) have been made to a mortgagee approved by the Secretary **[as responsible and able to service the mortgage properly]**;

\* \* \* \* \*

(g) **LIMITATION ON INSURANCE AUTHORITY.**—**[The aggregate number of mortgages insured under this section may not exceed 250,000.]** In no case may the benefits of insurance under this section exceed the maximum dollar amount **[established under section 203(b)(2) for 1-family residences in the area in which the dwelling subject to the mortgage under this section is located]** *limitation established under section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act for a 1-family residence.*

\* \* \* \* \*

(i) **PROTECTION OF HOMEOWNER AND LENDER.**—

(1) Notwithstanding any other provision of law, and in order to further the purposes of the program authorized in this section, the Secretary shall take any action necessary—

(A) \* \* \*

\* \* \* \* \*

(C) to provide any mortgagee under this section with funds not to exceed the [limitations] limitation in subsection (g) to which the mortgagee is entitled under the terms of the insured mortgage or ancillary contracts authorized in this section.

(2) Actions under paragraph (1) may include—

(A) disbursing funds to the mortgagor or mortgagee from the [General Insurance Fund] *Mutual Mortgage Insurance Fund*;

\* \* \* \* \*

(n) *AUTHORITY TO INSURE HOME PURCHASE MORTGAGE.—*

(1) *IN GENERAL.—Notwithstanding any other provision in this section, the Secretary may insure, upon application by a mortgagee, a home equity conversion mortgage upon such terms and conditions as the Secretary may prescribe, when the primary purpose of the home equity conversion mortgage is to enable an elderly mortgagor to purchase a 1- to 4-family dwelling in which the mortgagor will occupy or occupies one of the units.*

(2) *LIMITATION ON PRINCIPAL OBLIGATION.—A home equity conversion mortgage insured pursuant to paragraph (1) shall involve a principal obligation that does not exceed the dollar amount limitation determined under section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act for a residence of the applicable size.*

\* \* \* \* \*

TITLE V—MISCELLANEOUS

\* \* \* \* \*

ESTABLISHMENT OF GENERAL INSURANCE FUND

SEC. 519. (a) \* \* \*

\* \* \* \* \*

(e) The General Insurance Fund shall not be used for carrying out the provisions of sections [203(b) (except as provided in section 203(v)), 203(h) and 203(i)] 203, except as determined by the Secretary, or the provisions of section 213 to the extent that they involve mortgages the insurance for which is the obligation of the Cooperative Management Housing Insurance Fund created by section 213(k), or the provisions of sections 223(e), 233(a)(2), 235, 236 and 237; and nothing in this section shall apply to or affect mortgages, loans, commitments, or insurance under such provisions.

\* \* \* \* \*

TITLE VI—WAR HOUSING INSURANCE

SEC. 601. As used in this subchapter—

(a) \* \* \*

(b) The term "mortgagee" [includes the original lender under a mortgage, and his successors and assigns approved by the Secretary] *has the meaning given such term in section 201*; and the term "mortgagor" includes the original borrower under a mortgage and his successors and assigns.

\* \* \* \* \*

SEC. 603. (a) \* \* \*

(b) To be eligible for insurance under this section a mortgage shall—

(1) have been made to[, and be held by,] a mortgagee approved by the Secretary [as responsible and able to service the mortgage properly];

\* \* \* \* \*

SEC. 611. (a) \* \* \*

(b) To be eligible for insurance under this section, a mortgage shall—

(1) have been made to [and be held by] a mortgagee approved by the Secretary [as responsible and able to service the mortgage properly];

\* \* \* \* \*

TITLE VIII—ARMED SERVICES HOUSING MORTGAGE INSURANCE

SEC. 801. As used in this title—

(a) \* \* \*

(b) The term "mortgagee" [includes the original lender under a mortgage, and his successors and assigns approved by the Secretary] *has the meaning given such term in section 201*; and the term "mortgagor" includes the original borrower under a mortgage, his successors and assigns.

\* \* \* \* \*

TITLE IX—NATIONAL DEFENSE HOUSING INSURANCE

\* \* \* \* \*

SEC. 903. (a) \* \* \*

(b) To be eligible for insurance under this section a mortgage shall—

(1) have been made to[, and be held by,] a mortgagee approved by the Secretary [as responsible and able to service the mortgage properly];

\* \* \* \* \*

TITLE XI—MORTGAGE INSURANCE FOR GROUP PRACTICE FACILITIES

INSURANCE OF MORTGAGES

SEC. 1101. (a) \* \* \*

(b) To be eligible for insurance under this title, the mortgage shall (1) be executed by a mortgagor that is a group practice unit or organization or other mortgagor, approved by the Secretary, (2) be made to [and held by] a mortgagee approved by the Secretary

【as responsible and able to service the mortgage properly】, and (3) cover a property or project which is approved for mortgage insurance prior to the beginning of construction or rehabilitation and is designed for use as a group practice facility or medical practice facility which the Secretary finds will be constructed in an economical manner, will not be of elaborate or extravagant design or materials, and will be adequate and suitable for carrying out the purposes of this title. No mortgage shall be insured under this title unless it is shown to the satisfaction of the Secretary that the applicant would be unable to obtain the mortgage loan without such insurance on terms comparable to those specified in subsection (c).

\* \* \* \* \*

DEFINITIONS

SEC. 1106. For the purposes of this title—

(1) \* \* \*

\* \* \* \* \*

(8) The term “mortgagee” 【means the original lender under a mortgage, and his or its successors and assigns, and】 *has the meaning given such term in section 201, except that such term also includes the holders of credit instruments issued under a trust mortgage or deed of trust pursuant to which such holders act by and through a trustee named therein.*

\* \* \* \* \*

## ADDITIONAL VIEWS

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### ADDITIONAL VIEWS OF REPRESENTATIVE FRANK

H.R. 5121 includes a number of important reforms designed to reform and rejuvenate the FHA single family loan program, in order to restore FHA's role in promoting homeownership. These reforms include authorizing zero down payment mortgage loans, raising FHA loan limits in high cost areas, and providing more flexibility for FHA to offer mortgage loans for subprime borrowers. As the committee report notes, these reforms hold the promise of offering more attractive loan opportunities for many borrowers who are unfortunately now turning to predatory loans, for lack of any real alternative.

There is also a recognition that if FHA is to take greater credit risk by offering zero down loans or underwriting loans for borrowers with higher credit risk, FHA may have to raise FHA premiums in a manner commensurate with such additional risk. It is also argued that FHA should be given the authority to engage in "risk-based pricing"—in order to accurately price such riskier loans while continuing to offer loans to FHA's existing profile of borrowers at competitive fees. As a result, H.R. 5121 authorizes higher loan premiums and risk-based pricing.

While I recognize that such provisions may be necessary to achieve the goals of the bill, I have raised concerns throughout the hearing and markup process that FHA premiums should not be increased beyond what is needed to address the additional risk involved. In particular, with the utilization of risk-based pricing, I believe it is important that lower income borrowers not be disproportionately impacted by higher fees.

I also believe there should be a mechanism so that borrowers whose repayment performance demonstrates they were not a higher risk should not pay higher fees indefinitely. In particular, in keeping with the Administration's Payment Incentives budget proposal, borrowers paying higher premiums that make five years of timely mortgage payments should at the least have their annual premiums dropped down to the premiums charged to more credit-worthy borrowers after such a five-year on-time payment period.

I appreciate the cooperation of the Chair in working to address these concerns as this legislation moves forward, and I look forward to the legislation being implemented in a manner that fully addresses the concerns I have raised.

BARNEY FRANK.

## ADDITIONAL VIEWS OF HONORABLE MAXINE WATERS

The Expanding American Homeownership Act of 2006, H.R. 5121, represents a major achievement by the Committee on Financial Services and the Subcommittee on Housing and Community Opportunity. Mr. Oxley, Chairman of the Committee on Financial Services and Mr. Ney, Chairman, of the Subcommittee and its Members both deserve considerable credit for the passage of the bill. In addition, the more than 100 cosponsors who signed onto H.R. 5121 have played a crucial role in advancing this bipartisan legislation. Further, the broad-based coalition of support among interest groups makes this a unique legislative measure, since there are divergent points of view on most substantive legislative initiatives in Congress.

H.R. 5121 is appropriately named because it will expand homeownership opportunities for Americans. There is unequivocal evidence that without FHA, many first time home buyers and low and moderate income persons would not be able to afford a home. Americans had grown accustomed to FHA for mortgage insurance, guaranteeing their entry into the coveted arena of homeowners. FHA had come to rely on first-time home buyers and low and moderate income persons to justify its existence. In the last few years, however, FHA watched as its share of the mortgage insurance market dwindled and the groups it traditionally served disappeared.

FHA was forced to become the mortgage insurer of last resort, rather than the preferred insurer. Without viable FHA alternatives, many homebuyers—first-time buyers, minority buyers and home buyers with less-than-perfect credit fled FHA for the subprime market, leaving many with few safe and affordable options. Some have been forced to turn to high-cost financing and non-traditional loan products. While these options are acceptable for certain borrowers, they can have devastating consequences for others. In fact, when we began consideration of this bill, the foreclosure rate for non-prime loans was approximately twice that of prime loans.

By providing consumers with choice, H.R. 5121 will provide FHA the flexibility to set mortgage insurance premiums consistent with the risk of the loan. FHA will now use the borrower's total credit score or profile when setting the insurance premium. Borrowers who are a low credit risk would pay a lower insurance premium, while borrowers who pose a higher credit risk would be charged a slightly higher premium. As such, FHA will be able to reach deeper into the pool of prospective borrowers, while guaranteeing the soundness of the FHA fund. In the 35th Congressional District in California that I serve, 2,064 loans were insured by FHA in 2001, but only 74 loans were made in 2005. Similarly, FHA programs have been seriously curtailed in just about every region of the

country, resulting in fewer and fewer home purchases supported by FHA programs.

H.R. 5121 will increase FHA loan limits. In many areas of the country, the existing FHA loan limits are lower than the cost of new construction or the median home price. In other areas, FHA had been priced out of the market. As indicated in this Committee report, in 1999, FHA insured 127,000 loans in California while a mere 5,000 loans were insured by FHA in 2005, representing less than 5 percent of the 1999 level. Because FHA business diminished dramatically during this period, in my view American homeownership did not expand as much as possible; the FHA loan limit of \$362,790 in Los Angeles, California meant that FHA was essentially no longer relevant in that housing market.

Under H.R. 5121, we will expand homeownership opportunities for Americans because of several new provisions. Through the use of risk-based premiums, FHA will have a considerable amount of new flexibility, making it more competitive in today's market. Flexibility on downpayments is also key to allowing many persons to consider owning a home. Because cash is hard to raise for many Americans for the downpayment, many borrowers never achieve homeowner status. That is simply wrong. I believe that when borrowers meet all of the other criteria related to homeownership, the individual or family should be rewarded with an FHA insured mortgage. Longer mortgage terms—40 years— is one of the reform measures in this bill that will provide borrowers with flexibility that they might not otherwise have with other products. In addition, the Expanding American Homeownership Act of 2006 will increase the number of FHA reverse mortgages and condominiums that can be insured. I concur with the views contained in the Committee report that characterize FHA's relevance to markets in the 21st Century because of the aforementioned reforms.

As Ranking Member of the Subcommittee on Housing and Community Opportunity, I strongly believe that H.R. 5121, the Expanding American Homeownership Act of 2006 is monumental legislation of historic proportion that will lead to the modernization of FHA and to expanded homeownership opportunities for a new wave of American homeowners. Thank you.

MAXINE WATERS

