NEWS from U.S. Senator
PATTY MURRAY
Washington State

FOR IMMEDIATE RELEASE CONTACT: Alex Glass
Thursday, March 15, 2007 (202) 224-2834

Statement of Chairman Patty Murray (D-Wash)

Subcommittee on Transportation and Housing and Urban Development & Related Agencies
Hearing on the Federal Housing Administration

This morning the Subcommittee will hear testimony on the Federal Housing Administration (FHA). We will discuss the overall solvency of its mortgage lending program as well as the Administrationôs proposals for reforming the FHA. I am pleased that our Federal Housing Commissioner, Brian Montgomery, is here. He is joined by the HUD Inspector General ï Kenneth Donohue and witnesses from the GAO, the Mortgage Bankers Association, and the National Association of Realtors.

Over the last 73 years of its existence, the FHA has served as a powerful engine to expand home-ownership across the country. It has played a critical and essential role in providing access to capital for low- and moderate-income families. Most recently, however, the FHA has come to look more and more like an anachronism. Critics have said that: they are out of touch with the marketplace; their mortgage products are outdated; they are a technological dinosaur; and they are hard to do business with.

Indeed, in recent years, the FHA has captured a smaller and smaller percentage of the overall mortgage market. And its decline has been a rapid one. In my state, we have the Washington State Housing Finance Commission whose mission, like the FHAôs, is to serve low- and moderate-income home buyers. The Commission's Executive Director recently told me that, in my state, the FHAôs role in his efforts has been turned upside down in just the last ten years. A decade ago, FHA covered 80 percent of the loan activity in his agency. Today it only covers 20 percent. When you look at all mortgage lending, FHA now represents roughly three percent of total mortgage volume, nationwide. Now some observers like to argue that whenever the private sector can replace the government in providing essential services, itôs a good thing. In this case, I am not so sure.

The FHAôs loan products have fallen out of favor in part because private lenders have aggressively marketed subprime loans to high-risk borrowers. Some of these lenders have used temporary rate discounts ï or "teaser rates" -- to push low-income borrowers into exotic loans with high fees and penalties that they can barely understand, much less afford. Some of these lenders have been boosting loan volume by taking credit standards to new lows and demanding almost no proof of income or creditworthiness.

And, as a result, we are now seeing rapidly rising foreclosures, and some of the most aggressive subprime lenders are shuttering their operations. Just two days ago, the Mortgage Bankers Association released their updated survey on mortgage delinquencies. It revealed that foreclosures of subprime mortgages had reached a record high. The share of subprime borrowers making late payments rose to more than 13.3 percent. That same day, the second largest subprime mortgage lender ï New Century

Financial -- was delisted from the New York Stock Exchange and announced that it had received criminal inquiries from both the Securities and Exchange Commission and state regulators. The announcements sent the stock market into a tailspin. By the end of the day, the Dow Jones Industrial average had dropped nearly 250 points or almost two percent. Financial stocks dropped even faster, falling almost 3.3 percent for the day.

The collapse of the subprime mortgage market has elicited warnings from the Federal Reserve Board Chairman. Some economists have even predicted that the ripple effects of this collapse could eventually trigger a recession. These dire predictions should worry us all, but should surprise no one. It is estimated that one in every five new mortgages written in recent years fell into the subprime category. This year alone, some $1.2 trillion dollars in mortgages will have their interest rate reset upward. Some borrowers took out these adjustable rate loans banking on the fact that they would have an opportunity to either refinance their loan or, if necessary, sell their home. Now, the prepayment penalties built into many of these loans as well as the overall downturn in home prices means those opportunities have disappeared.

Many economists have said that our mortgage markets are in for a very rough road. There is concern that this market upheaval could trigger a market overreaction, where the availability of mortgage loan capital for working families tightens dramatically or just evaporates. If the mortgage market overreacts and working families need help, they may have to rely on the FHA. That means we need to make sure the FHA is strong and effective.

Today, the FHA's overall financial picture is weak. Absent the enactment of reform legislation this year, we are told that, for the first time in its history, the FHA could require a direct appropriation to subsidize its loan operations. This Subcommittee could be required to appropriate $143 million in 2008 just to keep FHA's loan activities in the black. That is $143 million that we won't be able to put toward Section 8 recipients, homeless programs, and other HUD programs serving needy citizens.

Currently a growing percentage of the FHA's loan volume is not for traditional mortgages for new homeowners. Rather, an increasingly popular FHA product appears to be reverse mortgages for elderly homeowners. This is a worthwhile program that keeps elderly Americans with fixed incomes in their homes. But getting younger American's into their first home has always been central to FHA's historical mission. And, in these tumultuous times, I think we need to work to make sure that the FHA can once again be relevant in that market.

This subcommittee continues to receive reports from the Government Accountability Office (GAO) and the Inspector General indicating continuing problems with the currency of FHA's data, the sufficiency of its underwriting, and the agency's technological obsolescence.

The Bush Administration put forward a reform proposal for the FHA in the last Congress and we expect it to be resubmitted in this Congress. Enactment of this FHA reform, we are told, should eliminate the need for any appropriated subsidy and make the FHA more competitive with the private market. But this Subcommittee and the rest of Congress need to look at these proposals very carefully. We need to make sure that we are not encouraging FHA to engage in some of the same high-risk, high-cost lending practices that are now upsetting the markets and putting relatively new homeowners out of their homes.

The FHA is the taxpayerôs mortgage lender. As such, it has an obligation to protect consumers. The FHA has specific statutory mandates to employ measures to keep families in their homes. These are requirements and obligations that private lenders do not have.

If the recent upheaval in mortgage lending means that private loan capital dries up for our working class families, we must make sure that the FHA is poised to keep the dream of homeownership alive. But the FHA must reestablish itself as Americaôs mortgage lender, not by imitating the marketing and underwriting practices of New Century Financial. Rather, they must work to ensure that working families are getting into homes with loans that they can fully understand and afford.

# # #