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Before the

Committee on Appropriations,

Subcommittee on Transportation, Housing and Urban Development, and Related Agencies

United States Senate

Hearing on

Federal Housing Administration's Role in Addressing the Housing Crisis

April 10, 2008

Chairwoman Murray, Ranking Member Bond and members of the Subcommittee, thank you for holding this hearing and inviting the Mortgage Bankers Association (MBA)[1] to share its views on the Federal Housing Administration's (FHA) role in the housing crisis. My name is David Kittle and I am the President of Principle Wholesale Lending, Inc. in Louisville, Ky. and Vice-Chairman of the Mortgage Bankers Association (MBA). MBA believes FHA has an integral role to play during the current mortgage market turmoil, and we urge Congress to complete its work on important legislative changes to the National Housing Act so FHA will continue to be a financially sound tool for lenders to use in serving the housing needs of American families.

MBA particularly appreciates the Senate's recent rapid and bipartisan response to the difficult conditions in the national economy. MBA believes the housing legislation taken up in the Senate last week which includes provisions to provide for a modern and effective FHA, mortgage revenue bonds for state housing finance agencies to provide refinance, and additional money for counseling – all things that will be of great help to struggling homeowners. This legislation is a priority for MBA and the mortgage industry, and MBA will do all it can to assist Congress' work.

I. INTRODUCTION AND SUMMARY

MBA has an extensive history representing its members before Congress and a long record supporting FHA. This is MBA's first testimony on FHA in 2008 and it is astonishing to consider the scope and magnitude of events that have transpired within the housing finance system over the last 15 months. One sector after another became debilitated by a market-shaking crisis, until the entire system ground to a near standstill as creditors began losing confidence in the portfolios of their lending partners. It can be described as a "near standstill" because at one point, there were only four entities engaging in meaningful secondary market transactions – Fannie Mae and Freddie Mac (the "GSEs"), the Federal Home Loan Bank System, and Ginnie Mae. It is no exaggeration to say that as bleak as things have become, just imagine how much worse conditions in the housing finance system would be without the mortgage insurance provided by FHA and the guarantee of Ginnie Mae.

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[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 370,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,400 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

It is just this type of calamity Congress sought to avoid when FHA was created as an independent entity by the National Housing Act on June 27, 1934, to encourage improvement in housing standards and conditions, to provide an adequate home financing system by insurance of housing mortgages and credit and to exert a stabilizing influence on the mortgage market. FHA was incorporated into the newly formed U.S. Department of Housing and Urban Development (HUD) in 1965. Over the years, FHA has facilitated the availability of capital for the nation's multifamily and single-family housing markets by providing government-insured financing on a loan-by-loan basis.

FHA reform legislation has been on the congressional agenda for several years, and MBA has staunchly advocated its passage. This reform is urgently needed. While most lenders have been able to adapt quickly to changes in the mortgage markets, FHA has been limited in its ability to react. The needs of low- and moderate-income homebuyers, of first-time homebuyers, of minority homebuyers, and of senior homeowners have changed. FHA's programs, though, have not followed their historic path of adapting to meet these borrowers' changing needs. Even though current conditions seem bleak, there will come a day when the primary market will become vibrant and once again blossom with innovations in housing finance products and services. MBA continues to advocate for a vibrant FHA, one that will meet the challenges of today and evolve to serve its mission in the future.

In reviewing the status of FHA over the past decade, and during the current market turmoil, MBA has come to the conclusion that FHA faces severe challenges in managing its resources and programs in a quickly changing mortgage market. These challenges diminished FHA's ability to serve its public purposes, particularly in the years leading up to the collapse of the subprime market, and also made it susceptible to fraud, waste and abuse. Unaddressed, these issues will hamstring FHA's ability to address the current market situation. This would mean a return to a diminished relevance when the private market improves, leaving families served by its programs with no alternative for homeownership or affordable rental housing.

MBA proposes the following three steps to unleash FHA from overly burdensome statutory processes and restrictions, and to empower FHA with additional flexibilities to deal with the current market difficulties:

1. FHA needs greater autonomy to make changes to its programs and to develop new products to better serve those who are not being adequately served by others in the mortgage market, including those homeowners who may find themselves without any other financing alternative during the current credit market crisis.

2. FHA needs the ability to use a portion of the revenues generated by its operations to invest in the upgrade and maintenance of

technology to adequately manage its portfolios and interface with lenders.

3. FHA needs greater flexibility to recruit, manage and compensate employees if it is to keep pace with a changing financial landscape and ensure appropriate staffing up to the task of managing approximately $400 billion in insurance funds.

II. FHA'S RECORD

Single-family FHA-insured mortgages are made by private lenders, such as mortgage companies, banks and thrifts. FHA insures single-family mortgages with more flexible underwriting requirements than might otherwise be available. Approved FHA mortgage lenders process, underwrite and close FHA-insured mortgages without prior FHA approval. As an incentive to reach into harder-to-serve populations, FHA insures 100 percent of the loan balance as long as the loan is properly underwritten.

FHA's primary single-family program is funded through the Mutual Mortgage Insurance Fund (MMIF), which operates similar to a trust fund and has been completely self-sufficient. This allows FHA to accomplish its mission at little or no cost to the government. In fact, FHA's operations have transferred surplus funds to the U.S. Treasury each year, thereby reducing the federal deficit. FHA has always accomplished its mission without cost to the taxpayer. At no time in FHA's history has the U.S. Treasury ever had to "bail out" the MMIF or the FHA.

More than any other nationally available program, FHA has traditionally focused on the needs of first-time, minority, and/or low- and moderate-income borrowers. In 1990, 64 percent of FHA borrowers using FHA to purchase a home were first-time homebuyers. Today, that rate has climbed to 80 percent. In 1992, about one-in-five FHA-insured purchase loans went to minority homebuyers. That number in recent years has grown to more than one-in-three. Minorities make up a greater percentage of FHA borrowers than they do conventional market borrowers.

FHA is particularly important to those minority populations experiencing the largest homeownership gaps. According to recent data provided by HUD, both first-time homebuyers and minorities continue to make up a significant portion of FHA's customer base**.** To date in FY 2008, FHA has insured 159,533 purchase mortgages and 126,735, or 79.4 percent, went to first time homebuyers. Minorities have received 103,462 FHA-insured mortgages in 2008, or 28.8 percent.[2]

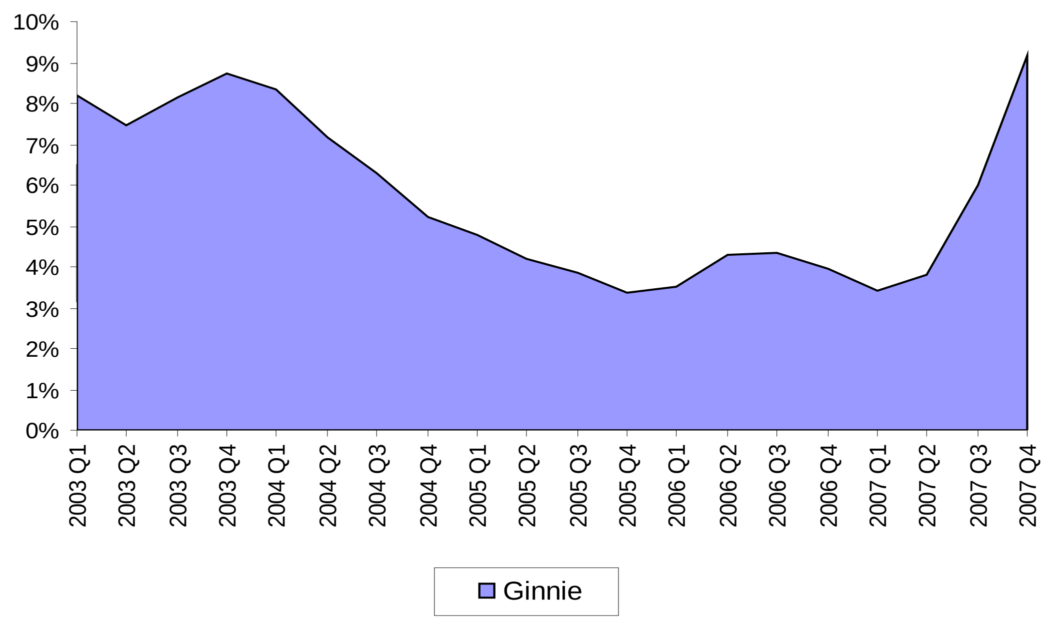
[2] Source: *FHA Outlook*, March 1-15, 2008

III. THE NEED FOR FHA TODAY AND TOMORROW

Only a little more than a year ago, FHA's market share was about 3 percent of total originations (see Table 1 below). MBA cites this number not because MBA believes there is a certain market share FHA should retain, but rather because this decline is consistent with many lenders' views that FHA had not kept up with changes in the market. FHA's decline gave rise to the subprime market, which quickly evolved and brought homeownership levels to historic highs.

Since July, 2007 there has been unprecedented volatility in the secondary market for mortgage loans. The market for anything but long-term fixed rate mortgages has tightened up, and investors are wary of anything outside the conforming or government arena. Both the GSEs and FHA have taken steps to protect themselves against declining market values, and tighter underwriting guidelines will remain in place for some time to come. Due to these factors, MBA believes FHA's market share is closer to 9 percent, and climbing fast.

Table 1: Ginnie Mae Share of Single-Family Securitization Market



Calculations based on data from Inside MBS&ABS

It is crucial FHA keep pace with changes in the U.S. mortgage markets. While FHA programs can be the best and most cost-effective way of expanding lending to underserved communities, we have yet to unleash the full potential of these programs to help this country achieve important societal goals.

To be effective in the 21st century, FHA should be empowered to allow it to develop products and programs to meet the needs of today's homebuyers and anticipate the needs of tomorrow's mortgage markets, while at the same time being fully accountable for the results it achieves and the impact of its programs.

Under the strong leadership of its current Commissioner, Brian Montgomery, FHA has undertaken significant changes to its regulations and operations. In just a little more than two years, FHA streamlined the insurance endorsement process, improved appraisal requirements and removed some unnecessary regulations. By doing so, Commissioner Montgomery has also instilled a spirit of change and a bias for action within FHA.

MBA compliments the Commissioner on his significant accomplishments to date, though we recognize that more work lies ahead. MBA is confident in the Commissioner's ability to address these and other issues that are within his control. There is much, though, that is beyond FHA's control and needs Congressional action.

The FHA single-family programs are vital to many homebuyers who desire to own a home but cannot find affordable financing to realize this dream. With the collapse of much of the private secondary market, FHA has become the first stop for many Americans looking to refinance their adjustable rate mortgages (ARMs). While FHA has had a number of roles throughout its history, its most important role has been to give first-time homebuyers the ability to climb onto the first rung of the homeownership ladder and to act as a vehicle for closing the homeownership gap for minorities and low- and moderate-income families.

IV. UNLEASHING FHA'S POTENTAL

As homeownership remains the most effective wealth-building tool available to the average American family, MBA proposes empowering FHA to manage its programs and policies more effectively.

A. Flexibility to Create Products and Make Program Changes

FHA programs are slow to adapt to changing needs within the mortgage markets. Whether it is small technical issues or larger program needs, it often takes many years and the expenditure of great resources to implement changes. This process overly burdens FHA from efficiently making changes to serve homebuyers and renters better and protect FHA's insurance funds. Today's mortgage markets require agencies that are empowered to implement changes quickly and to introduce or test new programs to address underserved segments of the market.

A prime example of this problem can be found in the experience of FHA in offering hybrid ARM products. A hybrid ARM is a mortgage product which offers borrowers a fixed interest rate for a specified period of time, after which the rate adjusts periodically at a certain margin over an agreed upon index. Lenders are typically able to offer a lower initial interest rate on a 30-year hybrid ARM than on a 30-year fixed rate mortgage. During the late 1990s, hybrid ARMs grew in popularity in the conventional market due to the fact they offer borrowers a compromise between the lower rates associated with ARM products and the benefits of a fixed rate period.

In order for FHA to offer this product to the homebuyers it serves, legislative approval was required. After several years of advocacy efforts, such approval was granted with the passage of Public Law 107-73 in November 2001. Unfortunately, this authority was not fully implemented until the spring of 2005.

The problem began when PL 107-73 included an interest rate cap structure for the 5/1 hybrid ARMs that was not viable in the marketplace. The 5/1 hybrid ARM has been the most popular hybrid ARM in the conventional market. As FHA began the rulemaking process for implementing the new program, they had no choice but to issue a proposed rule for comment with a 5/1 cap structure as dictated in legislation. By the time MBA submitted its comment letter on the proposed rule to FHA, we had already supported efforts within Congress to have legislation introduced that would amend the statute to change the cap structure. MBA's comments urged that, if passed prior to final rulemaking, the 5/1 cap fix be included in the final rule.

On December 16, 2003, Public Law 108-186 was signed into law amending the hybrid ARM statute to make the required technical fix to the interest rate cap structure affecting the 5/1 hybrid ARM product. At this point, FHA was ready to publish a final rule. Regardless of the passage of PL 108-186, FHA was forced to go through additional rulemaking in order to incorporate the fix into regulation. Thus, on March 10, 2004, FHA issued a Final Rule authorizing the hybrid ARM program, with a cap structure that made FHA's 5/1 hybrid ARM unworkable in the marketplace. It was not until March 29, 2005 that FHA was able to complete rulemaking on the amendment and implement the new cap structure for the 5/1 hybrid ARM product.

The hybrid ARM story demonstrates well the statutory straitjacket under which the FHA operates. A four-to-six-year lag in introducing program changes is simply unacceptable in today's market. Every month a new program is delayed or a rule is held-up means that families who could otherwise be served by the program are prevented from realizing the dream of homeownership or securing affordable rental housing.

B. Ability to Invest Revenues in Technology

Technology's impact on mortgage markets over the past 15 years cannot be overstated. Technology has allowed the mortgage industry to lower the cost of homeownership and streamline the origination process. The creation of automated underwriting systems, sophisticated credit score modeling, and business-to-business electronic commerce are but a few examples of technology’s impact.

FHA has been detrimentally slow to move from a paper-based process, and it cannot electronically interface with its business customers in the same manner as the private sector. During 2004 and 2005, over 1.5 million paper loan files were mailed back and forth between FHA and its approved lenders and manually reviewed during the endorsement process. Despite the fact FHA published regulations in 1997 authorizing electronic endorsement of loans, FHA was not able to implement this regulation until January of 2006. This delay occurred despite the fact that over the same eight years, FHA’s operations generated billions of dollars in excess of program costs which was transferred to the U.S. Treasury.

MBA believes FHA cannot create and implement technological improvements because it lacks sufficient authority to use the revenues it generates to invest in technology. Improvements to FHA’s technology will allow it to improve management of its portfolio, garner efficiencies and lower operational costs, which will allow it to reach farther down the risk spectrum to borrowers currently unable to achieve homeownership. MBA believes such an investment would yield cost savings to FHA operations far in excess of the investment amount.

In fact, some members of the Senate have taken action to address this issue by introducing and co-sponsoring S. 947, the “21st Century Housing Act,” which would authorize funding to pay for much needed technology improvements. We were also pleased to support the compromise legislation introduced by Senators Dodd and Shelby last week, which included a provision to allow FHA to spend up to $25 million per year from its surpluses to pay for these improvements.

C. Greater Control in Managing Human Resources

FHA is restricted in its ability to effectively manage its human resources at a time when the sophistication of the mortgage markets demands market participants to be experienced, knowledgeable, flexible and innovative. To fulfill its mission, FHA needs to be able to attract the best and brightest. Other Federal agencies, such as the Federal Deposit Insurance Corporation (FDIC), that interface with and oversee the financial services sector are given greater authority to manage and incentivize their human resources. MBA believes FHA should have similar authority if it is to remain relevant in providing homeownership opportunities to those families underserved by the private markets. FHA should have more flexibility in its personnel structure than is provided under the regular federal civil service rules. With greater freedom, FHA could operate more efficiently and effectively at a lower cost. Further, improvements to FHA’s ability to manage its human capital will allow FHA to attract and manage the talent necessary to develop and implement the strategies that will provide opportunities for homeownership to underserved segments of the market.

In addition to increasing funding for technological improvements to FHA, S. 947 would call on the HUD Secretary to consult with, and maintain comparability with, the compensation of officers and employees of the Federal Deposit Insurance Corporation, thereby giving FHA tools to retain qualified and capable staff.

MBA believes the above three changes will allow FHA to effectively manage risk and self-adapt to shifting mortgage market conditions while meeting the housing needs of American families.

V. MBA SUPPORTED FHA MODERNIZATION PRINCIPALS

MBA has offered strong support for many pieces of FHA legislation pending before the Senate.

A. Raising Maximum Mortgage Limits for High Cost Areas

There is a strong need for FHA financing to be relevant in areas with high home prices. Although loan limits for 2008 were temporarily raised under the Economic Stimulus Act of 2008 ("Economic Stimulus Act"),[3] MBA supports raising the FHA's maximum mortgage limits to 100 percent of an area's median home price (except for 2008, pegged at 95 percent) and raising the ceiling to 100 percent of the GSEs' conforming loan limits (except for 2008, limited to 87 percent) and the floor to 65 percent (except for 2008, set at 48 percent). Raising the limits to the GSEs' conforming limits in these areas strikes a good balance between serving a greater number of borrowers and taking on additional risk.

Additionally, in many low-cost areas, FHA's loan limits are not sufficient to cover the costs of new construction. New construction targeted to first-time homebuyers has historically been a part of the market in which FHA has had a large presence. MBA believes raising the floor will improve the ability of first-time homebuyers to purchase modest, newly constructed homes in low-cost areas since they will be able to use FHA-insured financing.

B. Downpayment Requirements

MBA supports the elimination of the complicated formula currently detailed in statute for determining the downpayment. The calculation is outdated and unnecessarily complex. The calculation of the downpayment alone is often cited by loan officers as a reason for not offering the FHA product.

MBA also supports improving FHA's products with downpayment flexibility. Independent studies have demonstrated two important facts: first, the downpayment is one of the primary obstacles for first-time homebuyers, minorities, and low- and moderate-income homebuyers. Second, the

[3] Public Law No: 110-185

downpayment itself, in many cases, is not as important a factor in determining risk as are other factors. Many borrowers will be in a better financial position if they keep the funds they would have expended for a large downpayment as a cash reserve for unexpected homeownership costs or life events.

MBA believes FHA should be empowered to establish policies to allow borrowers to qualify for FHA insurance with flexible downpayment requirements and decide the amount of the cash investment they would like to make in purchasing a home. To this end, the Secretary of HUD should be authorized to determine the appropriate level of downpayment requirements. Further, we have concerns that statutory increases in the FHA's minimum downpayment may inhibit it from performing its mission of assisting low- and moderate-income homebuyers. MBA is ready to work with Congress to ensure that such flexibility maximizes homeownership opportunities for underserved communities without compromising the safety and soundness of FHA.

C. Adjusting Mortgage Insurance Premiums for Loan Level Risk

MBA believes FHA would be able to serve more borrowers, and do so with lower risk to the MMIF, if it is able to adjust premiums based on the risk of each mortgage insured. A flexible premium structure could also give borrowers greater choice in how they utilize the FHA program.

Some borrowers and loans will pose a greater risk to FHA than others. At a certain level, FHA should have the authority to adjust premiums based on borrower or loan factors that add risk. Such adjustment for risk need not be a complicated formula. MBA believes FHA could significantly mitigate risk to the MMIF by selecting a small number of risk factors to adjust from a base mortgage insurance premium (MIP).

Creating a risk-based premium structure will only be beneficial to consumers, though, if FHA considers lowering current premiums for less risky loans. We would not support simply raising current premiums for higher risk borrowers.

D. Lengthening Mortgage Term

MBA supports FHA's ability to develop products with mortgage terms up to 40 years. Currently, FHA is generally limited to products with terms of no more than 30 years. Stretching out the term will lower the monthly mortgage payment and allow more borrowers to qualify for a loan while remaining in a product that continues to amortize. MBA supports lengthening the mortgage terms and believes FHA should have the ability to test products with these features and, based on performance and homebuyer needs, to improve or remove such products.

E. Improvements to the Reverse Mortgage Program

Senate FHA modernization legislation should include changes to the FHA's Home Equity Conversion Mortgage (HECM) program, such as: the permanent removal of the current 250,000 loan cap and the creation of a single, national loan limit for the HECM program. The HECM program has proven to be an important financing product for this country's senior homeowners, allowing them to access the equity in their homes without having to worry about making mortgage payments. The program has given tens of thousands of senior homeowners greater freedom, allowing them to pay for such items as improvements to their homes that have allowed them to age in place, or to meet monthly living expenses without having to move out of the family home.

MBA believes it is time to remove the program's cap because the cap threatens to limit the HECM program at a time when more and more seniors are turning to reverse mortgages as a means to provide necessary funds for their daily lives. MBA further believes the HECM program has earned the right to be on par with other FHA programs subject only to FHA's overall insurance fund caps. Additionally, removing the program cap will serve to lower costs as more lenders will be encouraged to enter the reverse mortgage market.

Additionally, authorizing the HECM program for home purchase will improve housing options for seniors. In a HECM for purchase transaction, a senior homeowner might sell a property they own to move to be near family. The proceeds of the sale could be combined with a reverse mortgage, originated at closing and paid in a lump sum, to allow a senior to purchase the home without the future responsibility of monthly mortgage payments. Alternatively, a senior homeowner may wish to take out a reverse mortgage on a property that is less than one year old, defined as "new construction" by FHA.

Finally, the HECM program should have a single, national loan limit equal to the limit of FHA's forward programs. Currently, the HECM program is subject to county-by-county loan limits that are exempt from the higher loan limits implemented under the Economic Stimulus Act.[4] HECM borrowers are disadvantaged under this system because they are not able to access the full value of the equity they have built up over the years by making their mortgage payments. Currently, a senior homeowner living in a high-cost area is able to access more equity than a senior living in a lower cost area, despite the fact that their homes may be worth the same and they have the same amount of equity built up. Reverse mortgages are different than forward mortgages and the reasons for loan limits are different, too. FHA needs the flexibility to implement different policies, especially concerning loan limits.

VI. ADDITIONAL ISSUES

A. Treatment of FHA Non-Conveyable Properties

[4] Public Law No: 110-185

FHA provides credit insurance against the risk of foreclosure losses associated with loans originated according to FHA standards. FHA generally pays an insurance claim when it takes title (conveyance) to a property as a result of foreclosure. To convey a property and receive insurance benefits, however, FHA requires the property be in "conveyance condition" (i.e., saleable condition). Properties that have sustained damage attributable to fire, flood, earthquake, tornado, hurricane, boiler explosion (for condominiums), or the lender's failure to preserve and protect are not eligible for insurance benefits unless they are repaired prior to conveyance of the property to the FHA. While HUD has in the past accepted properties in "as is" (damaged) condition on a case-by-case basis, this is rarely done. Moreover, HUD will deduct from the "as is" claim the estimated cost of repair. HUD should accept conveyance of damaged properties and not adjust the claim for the cost of repair when there was no failure on the part of the servicer to obtain hazard or flood insurance pursuant to federal law or if a borrower is eligible to apply for CDBG grant funds, but fails to do so. In addition, to the extent that a property is not conveyable (i.e., condemned, demolished by local, state, or federal government or deemed to be a Superfund site, etc.), HUD should be permitted to pay the full claim without taking conveyance of the property. We do not believe HUD currently has the statutory authority to manage claims in this manner.

Last year, the House passed H.R. 1227, the "Gulf Coast Hurricane Housing Recovery Act of 2007," which includes a provision dealing with this issue. Following that action, Chairman Dodd introduced S.1668, the Gulf Coast Housing Recovery Act of 2007, which also includes a fix to this serious problem. MBA applauds Congress' attention to this issue, especially in light of HUD's and Louisiana's actions to revamp the Road Home grant program in a manner that no longer promotes rebuilding. This decision exacerbates servicers' losses. These are losses FHA lenders never thought they could incur, and that represent a significant cost for FHA financing.

B. Mortgage Broker Supervision

FHA must approve all mortgage lenders and loan correspondents who wish to originate or underwrite FHA-insured loans. Non-supervised mortgagees (e.g. mortgage brokers) and loan correspondents outside of the federal regulatory regime must establish an ability to meet both FHA's financial and legal standards in order to be approved. This is currently satisfied through a minimum net worth requirement and the submission of a yearly financial audit demonstrating the mortgagee or loan correspondent not only has a certain level of financial solvency, but also employs necessary controls to provide reasonable assurance FHA products are offered in compliance with all applicable regulations, such as laws governing fair housing and nondiscrimination.

Although MBA supported passage of comprehensive FHA reform (H.R. 1852) which passed in the House of Representatives last year, we oppose a provision contained in the bill which would alter this approval process by allowing mortgage brokers to substitute a surety bond in lieu of the existing annual net worth auditing requirements. It is important to note the annual financial statement (AFS) is the federal government's only opportunity to ensure that the 7,500 non-supervised mortgagees, loan correspondents, and brokers who offer FHA-insured loans are doing so in accordance with all applicable laws and regulations. Kenneth Donohue, HUD's Inspector General, stated "[t]he AFS is an integral part of FHA's monitoring of its approved mortgagees, and [the Inspector General] does not believe that its minimal cost…is sufficient cause to increase the risk of loss to the taxpayer that may result from its elimination." MBA believes in the current climate of rising FHA defaults, this is not the appropriate time to loosen the supervision of entities offering products backed by FHA and the American taxpayer.

C. FHA Multifamily Programs

While the thrust of recent modernization efforts focus on FHA's single-family programs, it is very important to underscore the critical role of FHA's multifamily programs in providing decent, affordable rental housing for many Americans. Approximately 30 percent of families and elderly citizens either prefer to rent or cannot afford to own their own homes. FHA's insurance of multifamily mortgages provides a cost-effective means of generating new construction or rehabilitation of rental housing across the nation. FHA is also one of the primary generators of capital for healthcare facilities, particularly nursing homes.

Congress has moved decisively over the past year on a number of issues affecting the FHA multifamily programs. Last fall, Congress passed legislation to raise the mortgage limits in high-cost areas in response to rapidly rising building costs in many of the nation's cities. And HUD responded quickly with regulations implementing those higher limits, allowing lenders and developers to continue to provide affordable housing in those areas that need it the most.

Congress also was instrumental in convincing the Administration to abandon their planned increase in the Mortgage Insurance Premium (MIP) for FHA multifamily mortgages. The proposal, if implemented, would have increased prices on multifamily development precisely at the time when the production and preservation of affordable rental housing is under stress from the same capital market crisis that is affecting the single family housing markets. To assure future Administrations do not try to use the FHA multifamily programs to raise money for other priorities, we urge Congress to pass legislative language, included in both House and Senate FHA reform bills. The provisions would prohibit HUD from increasing multifamily mortgage insurance premiums unless the increase is necessary to cover the costs of the program, though we prefer the House version which extends for a longer period of time.

It should also be noted the FHA multifamily programs need funds for technology improvements similar to the single family programs. HUD currently has a number of systems to automate important processes (e.g. the previous participation process and multifamily property inspections) that simply do not work effectively because funds are needed to update and streamline the processes. Without technology funds, processes that should be automated—to save HUD staffing costs and improve oversight of the programs—will remain overburdened with paper and less effective than needed. Additional technology funds should thus be allocated to the multifamily programs, as well as the single family programs.

VII. CONCLUSION

Finally, as Senators on this subcommittee are well aware, recent unrest in the mortgage industry has led to a number of lenders either significantly tightening underwriting standards or leaving the business altogether. MBA believes the individuals who will be most directly impacted by these events are the consumers FHA was created to serve: first-time homebuyers, low-income families, and those with less than perfect credit histories. It is in light of these realities that MBA urges Congress to move quickly and empower FHA with the authority it needs to provide these consumers with affordable, viable lending options needed to help them achieve homeownership.

MBA would like to thank this subcommittee for the opportunity to present its views on FHA. MBA looks forward to continuing to work with Congress and HUD to improve FHA's long-standing mission and ability to serve aspiring homeowners and those seeking affordable rental housing.