Testimony of Mia Vermillion on

The Role of the Federal Housing Administration (FHA) in Addressing the Housing Crisis

Before the

Transportation, Housing and Urban Development Subcommittee of the

Senate Appropriations Committee

April 3, 2009

I am honored to be here today and glad to assist this committee in any way possible. Please note that I am here as a lender with over 25 years of experience and not as a representative of my current employer. I started originating home loans in Texas and have been in Washington State for the last 9 years. My experience includes a number of HUD products, such as the Tribal 184 loans. For today, I am discussing the basic FHA 30 year fixed rate loan, known as a 203B.

In Texas we experienced a very challenging real estate market in the early 1980s. Fixed interest rates went from 11.5% to 18%. The market responded with financial innovation and produced many adjustable rate products for conventional loans. Compared to these products, FHA loans often took longer to close and thus fell out of favor in the market. When the overheated real estate market cooled off these conventional loans became very difficult to obtain. At that time, FHA then became the only loan option for buyers who were not VA eligible and did not have the 10-20% down payment required for conventional loans.

Moving forward to Washington State, FHA loan endorsements for the most common loan type – the 203B – grew from 15,372 loans in 2000, to 30,766 loans in 2003. After that the number of FHA closed loans dropped to 15,556 in 2004, 8,290 in 2005, 7,707 in 2006 and 8,704 in 2007. Please refer to the attached chart from the HUD site.

Many loan originators during 2004-2007 had no knowledge of FHA and had never done anything besides a conventional loan. The market provided varieties of 0 down loans, and loans with no proof of income or assets required. These loans not only made it easy for borrowers to qualify, but made it easy for the loan originators. There was just not much work involved when documentation was not necessary. So FHA, requirements for strict borrower income documentation, asset verifications combined with Realtor perceptions that the FHA product was unwieldy, resulted in lower volumes. In retrospect the lower volumes in the “bubble years” has actually benefited the FHA insurance fund by avoiding the losses resulting from the re- valuation of real estate.

And now we have come full cycle again. In 2008 Washington State had 30,500 FHA loans closed. FHA loans are again the best product for both buyers and people trying to refinance – as long as they still have some equity. Conventional loans have additional fees, and mortgage insurance companies are experiencing heavy losses and tightening their guidelines. Loan officers who have before never collected W2s, bank statements, and paystubs are learning we are "back to the basics" in mortgage lending. FHA loans are playing a critical role in reviving this real estate market. In this environment of uncertainty, FHA provides a stable source of liquidity. Thanks in great part to Senator Murray, we now have increased loan limits so buyers of more expensive homes can also benefit from FHA financing.

This is especially true for the first time homebuyers who are benefiting from a combination of lower prices, great interest rates, and the $8,000 tax credit. I usually teach 3-4 home buyer classes each month, following the 5 hour format of the Washington State Housing Finance Commission. Our class attendance is sharply up, a good indicator that buyers want to be better informed before committing to a mortgage loan.

Mindful of loan quality, most lenders have now implemented minimum FICO scores for their FHA product. These actions will benefit the insurance fund going forward.

As you have heard from our trade organization, the Mortgage Bankers Association, the largest challenge for FHA lenders relates to warehouse capacity. With rates nearing record levels, there is a huge demand for funds. The credit crisis has removed much of the warehouse capacity from the industry and many lenders are struggling to accommodate the volume. This will have a negative effect on consumers as it impacts our ability to continue to make good loans to qualified borrowers, a key element to revive our housing industry.

The FHA loan program is a cornerstone of our prudent lending as we move forward. One of my personal concerns is the attempted revival of the "seller funded down payment." The current down payment for FHA is only 3.5%, and there are a number of sound down payment assistance programs such as the Washington State Housing Finance Commission offers. The down payment can also come from relatives, 401k accounts, or a buyer's own funds. When a seller funnels the down payment to a borrower, we are actually not only doing a 0 down loan, but in most cases the buyer is paying a higher price for that home than they otherwise could.

In conclusion, I hope we all learn from this current housing crisis and do not repeat some of the practices that have led us here.

Thank you for your time and attention.