Strengthening the Nation's Housing Market to Bolster the Economy and Protect Consumers

The U.S. housing market has begun to stabilize after a tumultuous downturn that began in the first quarter of 2006. A year ago our financial sector was on the brink of collapse and house prices were falling rapidly. Many were predicting a second Great Depression. A year later, with home prices up for two quarters in a row, interest rates near five percent and home sales rebounding – the nation's housing market is returning to stability. While the recovery is still fragile, we have come a long way from where we were when President Obama took office.

First, the coordinated efforts of the Treasury and the Federal Reserve have combined to maintain mortgage interest rates near record lows for nine months. But low interest rates alone don't benefit American families if no one is lending money. That's where the Federal Housing Administration, Ginnie Mae and the GSE's have come in – ensuring essential liquidity and credit available in our housing market. And by playing an essential, though temporary, role until the private market returns, the FHA is insuring almost 30 percent of purchases and 20 percent of refinances in cities and communities across America. The first-time homebuyer tax credit the President signed into law as part of the Recovery Act was so successful, it has been extended into this year. Together the record low interest rates, liquidity and the tax credit have enabled first-time homebuyers to enter the market, have helped over 3.8 million homeowners refinance, and are pumping $13 billion annually into our local economies and businesses every year – generating additional revenues for our nation's cities.

We've also provided billions in temporary financing and credit to state and local housing finance agencies to help them make affordable financing available to hundreds of thousands of new homebuyers and existing homeowners, as well as support the development and rehabilitation of affordable rental properties. Over 90 state and local HFAs representing 49 states participated in this program, at no expected cost to the taxpayer.

With housing still representing the largest asset for most American households, it is essential that home prices continue to stabilize to restore the confidence of American consumers. Americans held roughly $6.2 trillion in home equity in the third quarter of 2009, up from its lowest point of $5.3 trillion in the first quarter of 2009 The central role of housing in the U.S. economy demands that federal agencies involved in housing policymaking rethink and restructure programs and policy to support housing as a stable component of long-term wealth accumulation, not a vehicle for over exuberant risky investing.

To that end, the fiscal year 2011 Budget:

Ensures that FHA remains strong, solvent and capable of meeting the needs of the market

FHA provides mortgage insurance to help lenders reduce their exposure to risk of default. This assistance allows lenders to make financing available to many borrowers who would otherwise have no access to the capital needed to purchase a home. FHA thus plays a vital role in opening up access to homeownership for the underserved in our country. More than three-quarters of the purchase loans insured by FHA last year were for first-time homebuyers. Over half of all African Americans who purchased a home last year and forty-five percent of Hispanics did so with FHA financing.

As access to private capital has contracted in the recent difficult economic times, the number of those who depend on the FHA for access to the financing needed to purchase a home has increased greatly. In helping more Americans to buy a home, FHA has played an important counter-cyclical role in helping to stabilize the housing market generally. The increased presence of FHA in the market has ensured that the housing market has had liquidity to ride through these difficult times until private capital returns to its natural levels.

With this increased role, however, comes increased risk and responsibility. FHA has thus rolled out a series of measures over the last year to strengthen its risk and operational management. It has hired the first chief risk officer in its 75 year history, tightened its credit standards significantly and expanded its capacity to reign in or shut down lenders who commit fraud or abuse. FHA Commissioner David Stevens has announced a set of policy changes to strengthen the FHA's capital reserves, while enabling the agency to continue to fulfill its mission to provide access to homeownership for underserved communities and to support the nation's housing market recovery. The FHA has proposed taking the following steps: increase the mortgage insurance premium (MIP); update the combination of FICO scores and down payments for new borrowers; reduce seller concessions to three percent, from six percent; and implement a series of significant measures aimed at increasing lender enforcement. And to strengthen its operational capacity, it has begun implementing a plan to significantly upgrade its IT and increase its personnel, to ensure that both are in keeping with the increase of its portfolio and responsibility. In short, FHA has taken the kinds of steps necessary to make sure that it will remain strong and healthy enough to continue to fulfill its mission of serving the underserved and playing a vital counter-cyclical role in the housing market.

The Budget reflects the importance of this increased responsibility. It requests a mortgage insurance commitment limitation of $420 billion in fiscal year 2011 for new FHA loan commitments for the MMI and GI/SRI funds. The proposed total includes $400 billion under the MMI Fund, which supports insurance of single family home mortgages and mortgages under the Home Equity Conversion Mortgage (HECM) program; and $20 billion under the General and Special Risk Insurance (GI/SRI) Fund, which supports multifamily rental and an assortment of special purpose insurance programs for hospitals, nursing homes, and Title I lending. The budget requests a direct loan limitation of $50 million for the MMI fund and $20 million for the GI/SRI fund to facilitate the sale of HUD-owned properties acquired through insurance claims to, or for use by low- and moderate-income families.

Protects consumers in difficult times

FHA is playing an important role for current and prospective homeowners during these difficult times in many other ways as well. FHA is helping homeowners get out of unsustainable mortgages by refinancing into FHA-insured loans at today's much lower rates. FHA is helping those already in FHA-insured loans modify those loans where they are unsustainable. FHA is helping prospective homeowners avoiding such unsustainable situations to begin with through homeownership counseling. Finally, FHA is working to end mortgage fraud at any stage of the purchase and homeownership process. Toward these ends, the Budget includes $88 million for the Housing Counseling Assistance program, which is the only dedicated source of Federal funding for the full spectrum of housing counseling services, and continues FHA's Combating Mortgage Fraud initiative ($20 million) launched in fiscal year 2010.

Strengthening the Housing Market, Protecting Consumers

($ in millions)

	2010 Enacted	2011 Request	Difference 2011 vs 2010
FHA MMI Loan Guarantee Limitation Level	[$400,000]	[$400,000]	……
Ginnie Mae Loan Guarantee Limitation Level	[$500,000]	[$500,000]	……
Positive Credit Subsidy, MMI/HECM	……	$250.0	$250.0
Housing Counseling	$87.5	$88.0	$0.5
Mortgage Fraud Initiative	$37.0	$20.0	($17.0)
FHA Mortgage Fraud Initiative	[$20.0]	[$20.0]	……
Fair Housing Programs (FHAP/FHIP)	[$13.0]	……	[$13.0]
Salaries & Expenses (OGC, FHA, FHEO)	[$4.0]	……	[$4.0]
Receipts from Offsetting Collections	($3,343.0)	($6,877.0)	($3,534.0)