

**Statement by the National Association of REALTORS®  
Subcommittee on Transportation, Housing and Urban Development and Related Agencies  
Hearing on “The Federal Housing Administration’s Role in Addressing the Housing Crisis”**

The mortgage crisis continues to grow - homeowners continue to face foreclosure, and housing markets are in turmoil. For all these reasons, I and the 1.3 million members of the National Association of REALTORS® thank you for holding this hearing on “The Federal Housing Administration’s Role in Addressing the Housing Crisis”.

In 1934 the Federal Housing Administration was established to provide consumers an alternative during a similar lending crisis. FHA served as the foundation for our housing market, which has served our citizens and our economy well for more than 70 years.

However, as private mortgage markets evolved, FHA remained stagnant. Because FHA was unable to serve its core constituency, other mortgage providers stepped in to fill the gap. Without another alternative, many homebuyers were lured into these more exotic mortgage options, which fueled our current crisis. Even after all of this evidence, the need for a viable FHA remains unmet. Despite the best efforts of you and others, FHA reform has yet to be achieved.

We urge you and your colleagues in the Senate to continue to work towards FHA reform. Permanent, realistic increases in the FHA loan limits; lowered FHA downpayment requirements; and new opportunities for condominium purchases are needed to create safe and affordable mortgage options for homebuyers and those wishing to refinance. These changes will also provide much needed stability to our local housing markets and economies.

We also believe that the FHASecure program has been, and can continue to be a valuable tool for homeowners in crisis. This program, introduced in September 2007, gives credit-worthy homeowners who were making timely mortgage payments but are now in default, a second chance with a FHA insured loan product. We believe enhancements to this program can help an even greater number of borrowers without negatively impacting the sovereignty of the FHA insurance fund.

As you know, through FHASecure, lenders and homeowners may refinance mortgages that, due to the increased mortgage payment following the interest rate reset have become delinquent. However, in many cases, subprime borrowers are becoming delinquent for reasons other than an interest rate reset meaning a rate reduction alone will not help borrowers avoid default or foreclosure.

Specifically, we believe that where prudent, FHA should modify underwriting criteria in return for a lower loan-to-value ratio thereby assuring the lenders share risk. Changes include:

- Permit late payments on fixed-rate and on conventional adjustable-rate mortgages without regard to interest rate reset or higher DTI ratios

- Create a sliding scale whereby the number of late payments allowed for qualification is dependent on the LTV ratio. For example, LTV = 90 percent, with several late payments = 80 percent LTV.
- Permit second mortgage with CLTV treatment like FHASecure

A borrower would only be permitted to utilize one of the program changes mentioned above for their mortgage. Loans that qualify for FHASecure under these changes could be placed into a special risk insurance fund to further protect FHA.

We submitted these recommendations to HUD on February 15<sup>th</sup> for their consideration. Based upon testimony given by the FHA Commissioner on April 9, 2008 before the House Financial Services Committee, we are hopeful that these changes will be implemented. The enhancements proposed will allow a greater number of borrowers to avoid foreclosure and reduce their burden of debt. Risk to FHA will continue to be mitigated by traditional FHA underwriting standards beyond the recommended enhancements to the FHASecure Program.

The National Association of REALTORS® thanks you for your efforts to help stem the housing crisis. Congress must act expeditiously to help our nation's homeowners, communities, and local economies recover. We applaud your efforts and stand ready to work with you on solutions.