Statement Of The
National Association Of Realtors
Before The
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Committee On Financial Services
Subcommittee On Housing And Community Opportunity
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INTRODUCTION

Madam Chairwoman and members of the Subcommittee, my name is Martin Edwards, Jr.. I am President of the NATIONAL ASSOCIATION OF REALTORS® and a REALTOR® from Memphis, Tennessee. On behalf of the more than 800,000 members of the NATIONAL ASSOCIATION OF REALTORS® I am pleased to appear before you today to testify regarding H.R.3995, The Housing Affordability for America Act of 2002.

The NATIONAL ASSOCIATION OF REALTORS® represents a wide variety of housing industry professionals committed to the development and preservation of the nation's housing stock and making it available to the widest range of potential homebuyers. The Association has a long tradition of support for innovative and effective Federal housing programs and we work diligently with the Subcommittee and the Congress to fashion housing policies that ensure Federal housing programs meet their mission responsibly and efficiently.

Madam Chairwoman, the NATIONAL ASSOCIATION OF REALTORS® commends you for your leadership in fashioning comprehensive legislation reducing barriers to affordable housing and stimulating needed housing opportunities for American families. The NATIONAL ASSOCIATION OF REALTORS® believes the time is appropriate to comprehensively address our nation's affordable housing crisis as a national priority.

Real estate has long been one of the pillars of American prosperity, providing the capital that makes it possible for families to build, own or rent their homes; providing the strong tax base that allows communities to thrive; and providing a large portion of wealth offering financial resources and security. Today, a record-breaking 68 percent of Americans now own their own homes. Further, home sales account for 14 percent of gross domestic product. Add in commercial sales and collateral expenses, and the contribution of real estate jumps to nearly 20 percent of gross domestic product.

Prior to the events of September 11, our nation's economy had begun to lag as demonstrated by reductions in employment, a dwindling budget surplus, and declining activities in the manufacturing, retail and technology sectors. Housing was the only major sector of the economy that stood tall, and the strength of the housing market was a key reason the economy did not succumb to recession. Yet, housing did not go unscathed in the aftermath of September 11 as home sales came to a virtual standstill in the days following the terrorist attacks.

In spite of the softening of our nation's economy and the shakeout in the real estate sector that occurred, a combination of low interest rates, positive demographic trends, job growth and growing consumer confidence collectively have managed to ensure real estate is fundamentally sound and positioned to produce another record year for existing home sales.

THE NEED FOR AFFORDABLE AND INCREASED HOUSING OPPORTUNITIES

Madam Chairwoman, this is also why we believe the timing is appropriate and uniquely important for the Subcommittee to address initiatives and policies that stimulate housing opportunities for American families unserved and underserved by existing Federal programs. As a cornerstone of the U.S. economy, no other industry touches so many people in so many ways. Very simply, housing is essential to our national economy. Not only does it account for 14 percent of our Gross Domestic Product, but between 15- to 24-cents of every dollar in realized capital gains from home sales go into goods and services and/or savings. Further, 40 percent of disposable income is spent on housing-related goods and services.

It is no coincidence that once people obtain the American dream of homeownership, they are in a position to reap favorable financial rewards. This is because homeownership is the primary source of a household’s net worth and the fundamental first step toward accumulating personal wealth. Last year, at the urging of Federal Reserve Chairman Alan Greenspan, NAR examined the wealth effect of housing and determined that home equity is the largest source of wealth for 3 out 4 homeowners. Additionally, our research determined that gains realized by homeowners from the sale of their homes average $30,000 - $35,000, and between 76 and 85 percent of those gains are reinvested for the next home purchase.

Clearly, homeownership is a cornerstone of our democratic system and continues to be a strong personal and social priority in the United States. As we look forward, change is on the horizon that challenges Congress, the Administration and the real estate industry to step forward and collectively produce favorable and responsible public policies that continue to promote homeownership, provide real estate investment opportunities and protect the free market system to further America’s growth and prosperity.

For example, our U.S. population will continue to expand, reaching 310 million by 2010 and 340 million by 2020, supporting strong housing demand. In each year of this new decade, we anticipate between 1.1 million and 2.1 million new households will form. Baby Boomers, born between 1946 and 1964, will be the prime market for trade-up, upscale and vacation homes. Their children will be the main source of future homeownership growth, particularly as they begin looking for starter homes after 2010. In fact, we expect 7.6 million people between the age of 25-34, and 6.7 million aged 35-44, will represent the greatest growth in homeownership through 2010. Because of the expected increases in population, we believe homeownership will surpass 70 percent by 2010.

But, the biggest source of household growth in this decade will come from minorities and immigrants. Very simply, minorities will account for 64 percent of all new households. Between 1993 and 2000, minorities accounted for 44 percent of homeownership growth while accounting for 25 percent of all households.

By 2010, African-Americans will account for 19 percent of household growth; Hispanics will account for 38 percent; and other non-white minorities will account for 37 percent. The creation of these additional households will require more home construction as well as favorable economic conditions to lure potential homebuyers. The real estate industry and our federal policymakers have a responsibility and obligation to ensure these groups are not ignored in their quests for housing opportunities.

Madam Chairwoman and Subcommittee members, this is why I am committed to leading REALTORS® across America by ensuring that our industry is positioned to expand and deliver broader housing opportunities benefiting all Americans. And, Madam Chairwoman, this is why the NATIONAL ASSOCIATION OF REALTORS® applauds your leadership and hard work in crafting an important and comprehensive bill that will help so many Americans obtain needed housing.

As you well know, our nation continues to experience a growing crisis in housing affordability and ownership. Moreover, the number of working families with worst-case housing needs has increased sharply. The stock of rental units that are affordable and available is declining rapidly. And home sales prices in some cities are rising far faster than household incomes, shutting more and more potential homebuyers in those areas out of the market. Yet, this doesn't truly tell the full and complete story. Consider the following:

One out of every seven American families – 13 million families – has critical housing needs;

- More than 7.5 million renters nationwide face critical housing needs, either living in substandard properties or paying more than 50 percent of their income towards housing;

- Six million families – nearly half of those with critical housing needs – earn at least some, if not all, of their income from working;

- Most of these people earn less than half of the median income for their area. They don't receive government assistance, and they pay more than half of their income for housing or live in bad conditions;

- In 24 states, a household with two full-time minimum wage earners cannot afford a 2-bedroom apartment without spending more than 30 percent of their income;

- Many who lack decent affordable housing are not what most of us would consider poor. Among those hardest hit are schoolteachers, police officers and municipal workers;

- Our nation's housing shortage is a major contributor of sprawl, forcing people to move farther and farther away from the urban core to find homes they can afford; and,

- Nationwide, the inventory of affordable homes has shrunk to the lowest level in a decade;

- Statistics show that the waiting list for public housing has grown to approximately 1 million households with wait times as long as 10 years in some cities, while the average wait for a rental voucher in some cities is five years;

- Finally, there are approximately 270,000 disabled households on waiting lists for federal housing assistance.

Clearly, those of us involved in the process of helping people achieve the American dream of homeownership can and must find more ways to encourage innovation and inspire investment in housing. REALTORS®, particularly, are in a unique position to parlay the need for affordable housing, both in the rental and homeownership sectors of the market, into something tangible, concrete and livable. In late 2001 the NATIONAL ASSOCIATION OF REALTORS® began work on a comprehensive housing opportunities initiative to identify and pursue ways to stimulate affordable housing, improve access to housing and close the homeownership gap.

Last Fall I appointed a special Presidential Advisory Group charged with developing a new, long-term initiative to raise awareness of today's housing needs crisis. NAR's Housing Opportunities PAG was comprised of REALTORS® from across the nation, from large cities to rural areas, and from various market segments who are experienced in all facets of affordable housing and housing opportunity issues.

Madam Chairwoman and Subcommittee members, our findings underscore that our nation's housing crisis is one that is well established and fed by an area's economic, demographic and regulatory characteristics. Most disheartening is that this crisis is an issue that will not go away on its own. Without reasonable housing opportunities families are stressed to the breaking point, neighborhoods decline, jobs go unfilled and the quality of life suffers for all of us.

NAR's blueprint to help address the critical housing needs confronting communities throughout the nation will encompass research; training and business development; legislative, regulatory and programmatic advocacy at all levels of government; coalition building; communication; and the development of a living Web page to serve as a clearinghouse of information related to affordable housing opportunities.

The NATIONAL ASSOCIATION OF REALTORS® is unwavering in its commitment to assure that every American has the opportunity to attain a decent, safe and affordable home, and we commend you and the Subcommittee for your leadership in developing a creative approach that improves housing opportunities.

I now welcome the opportunity to address the specific provisions under Title II of H.R.3995 The Housing Affordability for America Act of 2002.

Subtitle A - Multifamily Housing

Section 201 - Indexing of Multifamily Mortgage Limits
The health of our housing and mortgage finance markets can be traced to the past, embodied in federal interventions and large-scale programs that have met the housing needs of a wide range of income groups from low-income to middle-income families. The federal government and particularly the FHA multifamily programs have served as the principal source of subsidy for both renters and housing providers.

It is important to note that, between 1965 and 1975, over 600,000 units of affordable housing were built under HUD's Section 221(d)(3) and Section 236 programs. In conjunction with the Section 202 elderly program, this was the first time the private sector was invited to participate in the production of low- and moderate-income housing, previously the sole domain of public housing authorities. In exchange for participating in these programs, the profit motivated investors were required to make the units available to low- and moderate-income households at HUD-approved rents throughout the term of the mortgage -- principally 40-year terms.

Until the energy crisis of the 70's followed by national tax policy changes and program policy modifications that produced unintended consequences in the supply and availability of housing, FHA multifamily programs were largely successful and quite instrumental in carrying out an important societal responsibility of our national government. Unfortunately, the policy changes of the 70's and 80's not only threatened the viability of the FHA multifamily programs but contributed to the flight of owners and developers, slowing new production of affordable rental housing to a trickle. Exacerbating the dwindling stock of housing was, and continues to be, critical demand for affordable units fueled today by millions of working families unable to find decent, affordable homes in the communities where they work.

Madam Chairwoman and members of the Subcommittee, the NATIONAL ASSOCIATION OF REALTORS® applauds you for your immediate and decisive leadership last year in approving a 25 percent increase in the FHA multifamily loan limits. You responded to the call of the Coalition for Affordable Rental Housing, of which NAR is a founding member, to increase the multifamily limits as an important first step in solving the affordable rental housing problem. The mortgage insurance limits had not been raised since 1992 which was a principal reason why the FHA multifamily programs were not keeping pace with the increased costs of building new rental housing affordable to low- and moderate-income working families.

While we believe it is too early to assess the immediate impact of the policy change, NAR is confident that the increases will help offset the rise in land, construction and other costs that have occurred since 1992. The new limits are a timely and appropriate response by Congress aimed at solving our nation's affordable housing crisis given that it is extremely expensive and difficult to build multifamily projects in today's economy.

But, increasing the multifamily loan limits is just the first step toward increasing the production of affordable FHA multifamily housing. Section 201 of your bill -- indexing the FHA multifamily loan limits -- is a necessary second step if we are to make sure the FHA insurance program keeps pace with the costs associated with financing our nation's rental housing needs. The NATIONAL ASSOCIATION OF REALTORS® strongly supports this provision of H.R.3995 to ensure the FHA multifamily loan limits are not outpaced by inflation and growing construction costs. We believe that indexing the limits to the annual construction cost index of the Bureau of the Census will enable the FHA multifamily loan limits to increase automatically on an annual basis, as costs increase.

Section 202 - High Cost Areas
For reasons similar to the aforementioned, the NATIONAL ASSOCIATION OF REALTORS® strongly supports this provision of H.R.3995. Despite the enactment last year of a 25 percent increase in the FHA multifamily loan limit, many of our nation's cities' urgent need for affordable rental housing will go unmet because they face very high construction costs. The increase granted last year is quite frankly insufficient to assist cities such as Chicago and Los Angeles where the estimated cost of a multifamily unit is a staggering 221 percent of the FHA Section 221(d)(4) basic loan amount. Allowing the maximum high-cost percentage to be increased in high-cost housing markets of our country will make the FHA multifamily program beneficial in many of our nation's worst-case housing markets. Additionally, granting the Secretary the discretion to increase the limits further on a case-by-case basis extends program flexibility, lessening statutory delays or burdens and enhancing administrative efficiency.

Subtitle B - Single Family Housing

Section 221 – Downpayment Simplification
The proposed legislation provides for the permanent extension of the downpayment simplification calculation for FHA mortgages. The NATIONAL ASSOCIATION OF REALTORS® strongly supports this provision. The FHA downpayment simplification calculation is a three-step process utilized to determine an FHA borrower's downpayment amount. The simplified calculation was begun as a pilot program in 1996 in Hawaii and Alaska and proved so easy and successful that it was extended nationwide in 1998, albeit temporarily to September 30, 2000. In 2000 the calculation was re-extended 27 months, to December 31, 2002.

The simplified calculation has become an invaluable tool in helping many Americans achieve the dream of homeownership. Not only has it eliminated cumbersome and unnecessary formulas for determining the proper downpayment for FHA loans, it has also helped to lower the size of the downpayment making homebuying more affordable. If the simplified calculation is not made permanent or further extended, the calculation reverts to its "old formula", a complex and cumbersome five-step process. Your provision is a sound, common-sense policy that is consistent with the objectives of the Subcommittee to improve the effective and efficient operation of federal mortgage programs benefiting American families.

Section 222 – Reduced Downpayment Requirement for FHA Loans for Teachers and Public Safety Officers
The NATIONAL ASSOCIATION OF REALTORS® is a strong supporter of this provision because it will make homeownership easier and more affordable for many deserving American families when enacted by Congress. The provision is a good, sound approach that will stimulate housing opportunities and help to sustain the momentum in our nation's housing boom. Very simply, the bill will open the prospect of homeownership to large numbers of public safety employees and educators who now can find little or nothing affordable in the communities where they work.

Madam Chairwoman, the ability to afford a home remains the most challenging hurdle for many homebuyers. Under existing FHA rules, a home buyer generally must be able to contribute at least 3 percent of the cost of the property with his or her own funds. As an example, on a $150,000 house a buyer would need a down payment of $4,500 in cash and would need an additional two percent for closing costs, prepaid expenses, and title insurance totaling approximately $7,500 needed for settlement.

Under Section 222 of H.R.3995 the one percent down payment requirement would sharply reduce what beneficiaries of the program would need to bring to the settlement table. On a

$150,000 property, the down payment for a participant in the program would be $1,500. The legislation also defers and reduces the current up-front mortgage insurance premium of 1.50 percent, or $2,250, of the loan amount by 20 percent per year during the period of homeownership, completely disappearing after the fifth anniversary of the closing. The resulting savings is approximately $5,250!

We believe the change in down payment requirements under H.R.3995 would allow almost 6,000 teachers and public safety officers to become homeowners who were previously precluded by cost from the homebuying market thereby stimulating affordable homeownership opportunities and strengthening the social fabric of neighborhoods and communities.

Section 223 – Community Partners Next Door Program
The NATIONAL ASSOCIATION OF REALTORS® wholeheartedly supports this provision permitting teachers and public safety officers to purchase HUD foreclosed homes located in the neighborhoods where they work. We applaud you and the Subcommittee for your innovation in furthering the goals of affordable homeownership and community revitalization. HUD homes serve as a viable source of affordable housing opportunities for many families, creating communities of opportunity. Making these homes available at a discount will add an important tool to HUD's property disposition program, enabling the Department to reduce further its inventory of acquired housing stock. The end result is that the availability and supply of affordable housing within communities is responsibly balanced by the demand of households made up of deserving professionals, contributing to the growth and revitalization of needy communities.

Section 224 – Public Safety Officer Home Ownership in High-Crime Areas
The NATIONAL ASSOCIATION OF REALTORS® strongly supports this provision establishing a three-year pilot program for no downpayment FHA loans to qualified public safety officers who purchase homes in designated high-crime areas. The NATIONAL ASSOCIATION OF REALTORS® has consistently maintained that a safe, healthy environment is essential to maintaining vigorous real estate markets.

Additionally, this provision will improve the efficient and prompt delivery of HUD properties to the sales market reducing burdensome administrative responsibilities for HUD. The longer HUD properties remain in its inventory, the more the Department's holding costs increase and the longer they remain unavailable as homeownership opportunities. We believe this provision will help restore distressed neighborhoods to vibrancy and further strengthen the Mutual Mortgage Insurance Fund (MMIF).

Section 226 – Risk-Based Capital Levels for MMIF
The NATIONAL ASSOCIATION OF REALTORS® is deeply concerned with this section of H.R.3995. The provision requires HUD and the Office of Management and Budget (OMB) to specify criteria for determining when the MMIF is actuarially sound to account for different types of economic conditions under which the MMIF would be expected to meet its commitments without borrowing from the U.S. Treasury. Additionally, the provision establishes a new risk based formula of determining the capital ratio of the MMIF.

The NATIONAL ASSOCIATION OF REALTORS® believes the provision is unnecessary and would be costly and burdensome for HUD/OMB to properly administer. An actuarial study conducted by the accounting firm of Deloitte & Touche determined the MMIF to be in its strongest financial condition since at least 1989, when the first annual independent actuarial study of the MMIF was conducted. The MMIF's capital adequacy ratio for fiscal year 2001 is 3.75 percent, well in excess of the congressionally-mandated minimum of 2.00 percent. This is the seventh consecutive year that the capital ratio has exceeded the two percent mandate. Further, the Deloitte & Touche study also reported that the economic value of the MMIF rose to $18.5 billion, an increase of $1.5 billion from fiscal year 2000.

The vision and leadership of this Subcommittee were the guiding forces in authorizing legislation in 1990 mandating that FHA's MMIF achieve a 1.25 percent capital ratio by FY1992 and 2.0 percent by FY2000. The result has been demonstrated financial improvements to the

MMIF allowing FHA to better serve its customers and meet the homeownership needs of underserved families and communities under the watchful eye of Congress.

We are concerned that a transfer of authority to the HUD Secretary, the OMB, the Congressional Budget Office and the Comptroller of the Currency would not only “overly-engineer” development of a risk-based capital formula but would also pave the way for selfish or misguided opportunities by FHA’s detractors, resulting in policies detrimental to the mission of the FHA single-family insurance program. Specifically, we are concerned that opponents of the FHA program would encourage development of a risk-based capital model that could force increases in FHA premiums, alterations to FHA’s insurance coverage, and modifications to its loan-to-value ratios in order to meet a specified risk-based capital level.

Section 227 - Hybrid Adjustable Rate Mortgages

The NATIONAL ASSOCIATION OF REALTORS strongly supports this provision providing a technical change to hybrid FHA adjustable rate mortgages (ARMs). Last year Congress enacted legislation authorizing creation of a hybrid FHA ARM product. However, the legislation capped the first interest rate adjustment for 3/1 and 5/1 hybrid ARMs at one percent.

The housing industry maintained that a maximum one percent increase in the interest rate at the time of the first rate adjustment for a 5/1 hybrid ARM does not offer sufficient interest rate flexibility for a lender to offer this type of ARM product at a lower interest rate than a traditional 30-year fixed rate mortgage. As a result, FHA borrowers are not afforded the benefit of a hybrid ARM loan that features a starting interest rate lower than a 30-year fixed rate mortgage. Section 227 of the bill addresses this technicality, enabling lenders to offer 3/1 hybrid ARMs at lower interest rates and allows more families to qualify for FHA hybrid ARM loans.

Section 229 – Prohibition of Investor and NonProfit Owners under Rehabilitation Loan Program

The NATIONAL ASSOCIATION OF REALTORS is concerned with this provision of H.R.3995 which would ban investors and nonprofits as borrowers under the Section 203(k) Rehabilitation Mortgage Insurance Program. The Section 203(k) program is HUD’s primary program for the rehabilitation and repair of single-family properties. As such, it has served as an important tool for community and neighborhood revitalization and for expanding homeownership opportunities.

Prior to 1996 investors played a critical role in the development of homeownership opportunities because their involvement and activities contributed significantly to neighborhood revitalization and affordable homeownership opportunities. As the Subcommittee knows, program abuses resulted in the placement of an administrative moratorium by HUD on investor participation in the 203(k) program in 1996. Following the institution of the moratorium, the housing industry unsuccessfully sought to encourage the application of industry-recommended safeguards and quality assurance plans for self-policing program participants.

We believe it is important to note that, by and large, investor participation contributed to the success of the 203(k) program. HUD’s Inspector General’s recommendation to terminate investor participation stemmed from a report examining 449 loans, 81 percent of which were handled by three problematic lenders out of a population of 1800 lenders in the market. It should also be noted that HUD took immediate punitive action upon the IG’s identification against the abusive lenders. We would encourage the Subcommittee to consider the recommendations of the 203(k) industry working group before authorizing the termination of investors from the 203(k) program.

ADDITIONAL PROGRAM IMPROVEMENTS

Madam Chairwoman, the NATIONAL ASSOCIATION OF REALTORS is an active participant in the FHA single-family mortgage insurance program and we are totally committed to preserving its market viability and financial solvency. The American dream of homeownership promotes family security, community involvement, and creates a solid foundation from which people can build a life. Through its single-family mortgage insurance program, FHA is a proven contributor to these ideals and objectives.

As the Subcommittee knows, the mission of the FHA program is to meet the homeownership needs of all qualified homebuyers who seek to own a home. As a government entity, the FHA program has a public purpose obligation to provide mortgage insurance to American families who choose FHA to meet their homeownership needs. Very simply, FHA has played an enormous role in helping families realize the dream of homeownership at no cost to taxpayers.

Today, the FHA and its Mutual Mortgage Insurance Fund are the healthiest they have been in years. As I have noted previously, the economic value of the Fund is at an all-time high of almost $18.5 billion and the Fund's capital adequacy ratio stands at approximately 3.75 percent, far exceeding the congressional mandate of 2.00 percent. Clearly, this is a record of achievement that is noteworthy and one that is reflected in the increased numbers of FHA purchase money loans to many deserving families. We commend the Subcommittee for its leadership in forging policies that have contributed significantly to FHA's financial safety and soundness and increased homeownership rate.

Given this record of success, it is critical that our national housing policy leaders understand the role and public policy mission of FHA and the need to regularly review FHA's legislative and regulatory policies and standards to ensure the program meets the need of participants in an ever-changing mortgage marketplace.

I mentioned earlier that record numbers of Americans now own homes which is reflected in a national homeownership rate for all Americans at 68 percent. Despite these gains, though, too many potential homeowners in underserved populations continue to be left out from the American dream of owning a home. The NATIONAL ASSOCIATION OF REALTORS® is committed to addressing this disparity, working with minority real estate organizations and the housing industry to promote homeownership opportunities for minorities.

Last year we honored several outstanding ideas and initiatives promoting minority homeownership through the HOPE Awards, a national awards program honoring non-REALTORS® and partnered with five other real estate organizations representing a broad spectrum of industry professionals. The HOPE Awards – "Home Ownership Participation for Everyone" – was launched to recognize the unsung heroes who are helping minorities overcome barriers to homeownership and is just one way we can demonstrate that we are united in our concern that not all Americans participate equally in homeownership. Following President Bush's State of the Union address in which he called for "broadening homeownership opportunities, especially for minority families", we are working closely with the President to fashion bold and innovative approaches addressing minority homeownership.

To complement these activities, the NATIONAL ASSOCIATION OF REALTORS® advocates improvements to the FHA program to make this financing tool available to more first-time homebuyers, minorities and immigrant families. These improvements include the following:

Lengthen the amortization period for FHA mortgage loans beyond the existing 30-year term -- Currently, the term of the mortgage insured under the FHA single-family mortgage insurance program cannot exceed thirty years. Extending the life of the loan above thirty years would reduce the monthly mortgage payment, allowing more households to qualify for a mortgage and, hence, increase homeownership opportunities. Research conducted by the NATIONAL ASSOCIATION OF REALTORS® has determined that approximately 52 percent of American households currently can qualify to purchase the U.S. median priced home of $139,000 with a 30-year mortgage. This amounts to approximately 54.7 million households. Extending the life of the loan to 35 years would enable almost 54 percent of American households to qualify for a $139,000 home, representing an increase of 1.4 million households. And, extending the life of the loan to 40 years would permit almost 55 percent of households to qualify for homeownership, an increase of 2.6 million households above current levels.

Encourage the use of rental payment history as credit information to improve access to credit in the homebuying process -- With the movement of major lenders to automated processing to streamline the availability of mortgage credit, credit scoring is an emerging issue that will significantly influence mortgage credit availability and definitions of creditworthiness. Consequently, the types of supporting information to be collected and used for developing appropriate scoring models and predicting borrower creditworthiness are key factors.

If properly utilized and framed with appropriate consumer safeguards, automated underwriting has the potential of making mortgage credit more widely available at lower costs. However, the challenges are to ensure that automated underwriting does not perpetuate racial disparities in the loan process and to identify loan repayment predictor mechanisms that do not disadvantage special populations. Tracking rental payment history may serve as a useful predictor in determining the creditworthiness of a borrower and, hence, their acceptance for mortgage credit. With the FHA single-family mortgage program stronger than ever, we believe the timing is appropriate for FHA to return to its mission as mortgage finance innovator and take the lead in implementing this recommendation as part of its underwriting criteria.

Resume Payment of Distributive Shares to FHA Borrowers – HUD should be directed to resume payment of “distributive” shares to FHA borrowers to provide a source of financial revenue to borrowers. Prior to 1990 FHA borrowers were eligible to receive distributive shares, i.e. portions of an FHA borrower’s mortgage insurance premium payment paid into the FHA Fund. Payment of distributive shares was suspended in 1990 to help place the Fund on a financially sound basis. With the Fund healthier than ever, we believe the timing is appropriate to resume these payments to FHA borrowers.

Amend Section 214 of the National Housing Act to add the State of California permitting FHA mortgage limits be adjusted up to 150 percent of the statutory ceiling – The median price of an existing, single-family detached home in California during January 2002 was $285,860, representing a 17.1 percent increase over the $244,110 median for January 2001. The current FHA maximum high-cost mortgage insurance limit is $261,609, meaning that for many working families – teachers, police officers, firefighters – FHA is not a useful homeownership tool.

When Congress authorized Section 214 of the National Housing Act, it did so upon finding that higher costs prevailed in Alaska, Guam, Hawaii and the Virgin Islands because it was not feasible to construct dwellings without sacrificing sound standards of construction, design or livability. As a result, the Secretary of HUD was given authority to prescribe a higher maximum for the principal obligation of mortgages insured covering property in these areas. Because of similar circumstances in the State of California, we believe it is highly appropriate for Congress to add California to the list of areas where the maximum mortgage amount may be adjusted upward.

CONCLUSION

Madam Chairwoman and Members of the Subcommittee, let me once again thank you for providing me this opportunity to testify today on behalf of the NATIONAL ASSOCIATION OF REALTORS.® The NATIONAL ASSOCIATION OF REALTORS® believes the Subcommittee has before it a unique opportunity to both bolster consumer confidence and rejuvenate our sagging economy by stimulating housing opportunities and helping deserving American families achieve the dream of owning their own home. I would be pleased to answer any questions or to provide further information for the hearing record.