NATIONAL ASSOCIATION OF REALTORS®

The Voice For Real Estate®

500 New Jersey Avenue, N.W.
Washington, DC 20001-2020
202.383.1194 Fax 202.383.7580
www.realtors.org/governmentaffairs

Charles McMillan
CIPS, GRI
President

Dale A. Stinton
CAE, CPA, CMA, RCE
EVP/CEO

GOVERNMENT AFFAIRS
Jerry Giovaniello, Senior Vice President
Joseph M. Ventrone, Vice President
Gary Weaver, Vice President

STATEMENT
OF THE

NATIONAL ASSSOCIATION OF REALTORS®

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES

HEARING ON
"FHA OVERSIGHT OF LOAN ORIGINATORS"

JANUARY 9, 2009

The National Association of REALTORS® welcomes this opportunity to share our thoughts on FHA's oversight of loan originators, and FHA's current capacity. The members of the National Association of REALTORS® represent 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. NAR has a long tradition of support for innovative and effective federal housing programs and we have worked diligently with the Congress to fashion housing policies that ensure federal housing programs meet their mission responsibly and efficiently.

As mortgage markets have collapsed, the importance of FHA has never been more apparent. FHA insurance is one of the primary sources of mortgage financing available to families today. Its market share has grown from less than 3% to more than 25% in a very short time. While this change was necessary to provide a functioning mortgage market, it also provides concern for the safety and soundness of FHA. With such dramatic growth comes increased responsibility, and the need for increased infrastructure and staff.

Recent articles have expressed concern about FHA's oversight of loan originators. In order for a lender to be a direct endorser for FHA (and not require HUD approval on every loan), they must submit an application to HUD. The number of applications has skyrocketed in recent months, and we agree with the concerns expressed about both time to process applications – and necessary oversight over lenders.

However, we believe FHA is doing its best to step up the challenge. Over the last 15 months, FHA has demonstrated it can handle volume increases at 4 times 2007 levels while its market share increases to over 30 percent. Despite receiving minimal additional resources, there are two reasons why FHA has been capable of handling the volume. First, once lenders have been approved by FHA, they perform all of the loan processing, underwriting, closing and insuring functions without HUD review. This takes the burden off FHA, although we agree additional oversight in approval may be needed. Second, FHA's technology, despite being 25 years old, remains resilient and fundamentally sound.

Despite media concern that FHA has become a "dumping ground" for subprime loans and high-risk borrowers, the FY 2008 independent Actuarial Review demonstrates that the FHA Mutual Mortgage Insurance Fund (MMIF) is fiscally sound, and projected to remain so over the next seven years. While the MMIF has experienced a decline in value – it remains above the congressionally-mandated 2% capitalization ratio. A high percentage of the decline was the result of falling house prices – something everyone has been facing. In addition, the quality of borrowers utilizing FHA has improved. Borrowers now have higher credit scores and lower loan-to-value ratios; these changes are expected to further improve the financial status of the FHA MMIF.

The Actuarial Review suggests that if current conditions continue, FHA will be able to handle the increased claim activity and decreased valuation of the housing market while still meeting its current capital reserves. However, it is important to note that the Actuarial Review is based on July data, and may not take into account the full impact of actual home value declines in the coming year. The review also does not take into account the latest estimates of anticipated employment decline, which could impact borrower incomes and ability to pay. These factors -- higher than expected home price declines and higher than expected unemployment—could present a troubling macroeconomic picture for FHA going forward. While the current borrowers' higher credit quality provides some protection from these trends, it cannot eliminate all risks.

For years FHA has been held back by underinvestment in staff and information technology investment. Single Family FHA current operates with a nation-wide staff of about 900, which is approximately 160 positions less than actually needed. Currently, FHA operates with technology that is an average of 18 years old. FHA Commissioner Brian Montgomery has said the software programs FHA has are older than the staff maintaining it. Quickly upgrading the dozens of incompatible systems, such as the 30 year old COBOL system, to web based customer centric applications is necessary for the agency's continued existence and future success.

FHA cannot continue to serve its constituency without rapidly implementing a quality and systems initiative. Other financial institutions more adequately staffed and with more advanced technology have already gone out of business. It has been estimated that $65 million is required to upgrade the FHA systems and add the appropriate number of staff. These expenditures could save the taxpayer tens of millions of dollars per year and result in a more efficient government mortgage insurance program.

With the mortgage market meltdown and tightening of credit, FHA has begun playing a much larger role in the market. FHA's market share has grown from a low of 2 percent in 2006 to 12 percent in 2007; more than 20 percent in 2008; and many expect it to grow to over 30 percent in 2009. FHA loans are rapidly becoming the only show in town, particularly for first-time homebuyers, borrowers with low downpayments or less than perfect credit. Even if appropriately funded and staffed, FHA will be challenged to keep pace with the increased business and the additional responsibilities under the Housing and Economic Recovery Act.

The National Association of REALTORS® calls on Congress and the new administration to work together to appropriately fund the staffing and infrastructure that will complete the modernization of FHA. This will ensure millions of Americans can maintain the dream of homeownership without requiring another emergency bailout.