

April 26, 2010

The Honorable Barney Frank, Chair  
House Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, DC 20515

The Honorable Spencer Bachus, Ranking Member  
House Committee on Financial Services  
B371-A Rayburn House Office Building  
Washington, DC 20515

Dear Chairman Frank and Ranking Member Bachus:

The Federal Housing Administration's mortgage insurance program has never been more important to our housing markets than it is today. During this period of prolonged stress in our markets, Congress should avoid making any program changes that would further harm consumers and stall our economic recovery. The organizations listed below strongly oppose the amendments to H.R. 5072, the FHA Reform Act, offered by Representative Scott Garrett that would increase FHA's downpayment requirement or limit FHA's insurance of loans.

All of our organizations support strengthening FHA's finances and believe H.R. 5072 takes important steps to help FHA better manage its risk. Raising FHA's downpayment requirement, on the other hand, would do little to strengthen FHA's capital reserve ratio. Rather, it will put homeownership out of reach for many families and for others could deplete their cash reserves for home and other emergencies. Increasing FHA's downpayment could disenfranchise more than 300,000 responsible homeowners.

These changes will disproportionately impact minority and low-income borrowers, two groups that have traditionally benefited from the opportunities that fully-documented, standard FHA loans with low downpayments offer. Hindering their access to safe and affordable fixed-rate loans would delay a housing recovery, with little real benefit for FHA.

Decreasing the insurance coverage of FHA loans would also be detrimental to our housing recovery. In 1997, the GAO conducted a study of this issue and found that a reduction in FHA's insurance coverage would likely lead to restrictive underwriting. This, in turn, would result in fewer FHA loans being made and could also result in higher interest rates.

We thank the Financial Services Committee for moving quickly on this important legislation. FHA is a critical part of our housing economy. Its programs offer borrowers access to prime-rate mortgages, require stringent underwriting, and will not insure a loan with a loan-to-value greater than 96.5 percent. We urge you to oppose these amendments that will only hamper this important program.

Sincerely,

Center for Responsible Lending  
Consumer Federation of America  
Mortgage Bankers of America  
National Association of Home Builders  
National Association of REALTORS®

National Consumer Law Center (on behalf of its low-income clients)  
National Council of La Raza  
National Fair Housing Alliance

cc: Members, House Committee on Financial Services