EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

September 17, 2007
(House Rules)

STATEMENT OF ADMINISTRATION POLICY

H.R. 1852 – Expanding American Homeownership Act of 2007
(Rep. Waters (D) CA and 13 cosponsors)

The Administration supports legislation to modernize and reform the National Housing Act (NHA) and to ensure that the Federal Housing Administration (FHA) continues to play a key role in serving low- and moderate-income homebuyers. The President has called on Congress to expeditiously pass the Administration's FHA Modernization bill to assist more homeowners during this period of stress in the mortgage markets. H.R. 1852, as reported by the House Financial Services Committee, includes provisions that are essential to maintaining FHA's core mission of expanding homeownership opportunities for borrowers who are underserved, or not served, by the existing conventional mortgage marketplace. The legislation makes critical improvements to the statutory scheme of the NHA, and these improvements have also been proposed by the Administration. Nonetheless, the Administration has a number of significant concerns with H.R. 1852, which the Administration looks forward to addressing with Congress as the bill moves through the legislative process.

As proposed by the Administration, the legislation authorizes an increase in FHA loan limits from $362,000 to $417,000 or 100 percent of the Federal Home Loan Mortgage Corporation (Freddie Mac) conforming loan limit in high-cost areas, and from $200,000 to $271,000 in lower-cost areas. These changes are needed to adapt the program to increasing home prices. The Administration strongly opposes amendments that would authorize FHA guarantees of loans greater than the conforming loan limit as the program should remain targeted to traditionally underserved homebuyers, such as low- and moderate-income families.

Additionally, the legislation authorizes FHA to utilize risk-based premium pricing to more appropriately match premiums to borrower risk, based on measures such as the size and source of their downpayment and their credit scores. Consistent with current mortgage lending practices, the legislation includes the option to extend the maximum mortgage term from 35 to 40 years. Finally, with respect to FHA's Home Equity Conversion Mortgage (HECM) Program, the legislation removes the statutory volume cap on the number of reverse mortgages that may be insured by FHA, while permitting HECMs for use in condominium units and purchase transactions. Each of these improvements enables FHA to serve a larger number of targeted homebuyers, in more areas of the nation, than are being served under the present program.

While the Administration strongly supports Federal assistance to individuals and families that lack the means to afford adequate housing, the Administration strongly opposes the establishment of a new Affordable Housing Grant Fund linked to increased FHA receipts. FHA receipts are already credited toward HUD appropriations and a new program that attempts to divert this revenue would reduce resources available for other HUD programs that assist low income families and individuals. Furthermore, tying financing for the fund to FHA receipts would be counter-productive since FHA receipts annually fluctuate based on housing market conditions and bear little relation to any potential program funding needs. Many of the proposal's details are also undefined and unclear; therefore, the specifics may raise additional policy concerns.

The Administration strongly supports flexible downpayment options, but opposes a provision in H.R. 1852 that limits their benefits to first-time homebuyers. Such a limitation would hinder the ability of some current homeowners to refinance into an FHA-insured loan. By removing this limitation, FHA could help provide existing homeowners with additional flexibility in managing the mortgage debt.

The Administration also has concerns that H.R. 1852 does not provide FHA with the necessary flexibility to implement risk-based pricing, thereby limiting consumer choice as well as FHA's ability to help additional borrowers. H.R. 1852 fails to raise the statutory cap on annual premiums from 55 to 200 basis points, nor does it permit caps on upfront and annual premium combinations that would allow FHA to offer borrowers a variety of premium structures. In addition, the provision for mandatory refund of "excess" premium to borrowers with FICO credit scores below 560 whose loans survive more than five years undercuts the insurance principle on which FHA is based. This provision also hampers FHA's ability to serve a greater number of the borrowers this provision is purported to benefit. Because of these provisions, H.R. 1852 would lower receipts by approximately $75 million relative to the President's budget.

Generally, the Administration supports the provision in H.R. 1852 that permits an increase in mortgage insurance premiums if HUD determines that, absent such an increase, the insurance of additional mortgages would require the appropriation of new budget authority to cover the costs of such insurance. However, the requirement to do so by rulemaking is process-laden and onerous and would significantly delay and hamper HUD's ability to respond to a changing market. The Administration will work with Congress to establish a process that efficiently and effectively allows HUD to increase mortgage insurance premiums as needed.

The Administration also has concerns with the two percent limitation on HECM loan origination fees proposed in the legislation. Although the Administration applauds the attempt to protect senior citizens from potentially abusive and predatory lending practices, any such limitations should be flexible enough to respond to a changing market. Accordingly the Administration believes that such limitations should be set by the FHA through Federal Register notice or other appropriate vehicle.

In addition, the Administration is concerned that the Act revises certain recently enacted asset disposition reforms for FHA multifamily programs. This would reduce receipts by nearly $40 million. The Administration is also concerned about a provision that would make it possible for correspondent lenders to use FHA without meeting audit and net worth requirements, which could allow participation by brokers who are inadequately capitalized or have internal control difficulties.

The Administration remains committed to modernizing and reforming FHA, and looks forward to continuing to work with Congress to ensure that concerns are addressed and that the necessary reforms are part of any final legislation.

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