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

June 19, 2008
(Senate)

STATEMENT OF ADMINISTRATION POLICY

Senate substitute to the House amendments to H.R. 3221 – American Housing and Economic Recovery Act of 2008
(Sen. Dodd (D) CT)

The Administration has taken and continues to take aggressive actions to help families stay in their homes. Over the past year, the Administration has launched the *FHASecure* initiative and facilitated the creation of the HOPE NOW Alliance to encourage the mortgage industry to assist troubled homeowners. The mortgage industry has helped nearly 1.6 million families stay in their homes, since July 2007. The Administration's *FHASecure* program has helped nearly 250,000 borrowers refinance into safer Federal Housing Administration (FHA)-insured mortgages to help avoid foreclosure. In July FHA will start insuring even more mortgages under the recently announced *FHASecure* expansion which encourages lenders to write-down some of the outstanding principal balances on mortgages for struggling borrowers. This modest additional risk will be fully offset by adjustments in FHA's pricing. In total, *FHASecure* is on track to help approximately 500,000 families refinance by the end of 2008.

The Federal Government must not prolong necessary corrections in the housing market, bail out lenders, or subsidize irresponsible borrowing and lending, at the expense of hard-working people who have played by the rules. Government Sponsored Enterprise (GSE) reform and FHA Modernization represent the appropriate next steps to address the housing downturn. The Administration strongly supports the provisions in the legislation to create a stronger and more effective regulatory regime for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks ("housing GSEs"). The Senate Banking Committee-reported GSE reform language invests the new regulator with appropriate and sufficient authority.

For the Administration to support this bill, the final legislation must include these provisions and must not be amended in ways that would dilute these sections. The FHA expansion provisions should be improved and must in no event be amended to increase risks to taxpayers. Finally, the legislation also must include a good FHA Modernization bill, and must not include other provisions that do more harm than good. Because the Senate amendment includes provisions that fail to address the Administration's significant concerns described below, if it were presented to the President in its current form, his senior advisors would recommend that he veto this bill.

As communicated in previous SAPs, the Administration strongly opposes a program to provide block grants that would allow State governments to purchase foreclosed properties. The Administration believes the principal beneficiaries of this type of plan would be private lenders – who are now the owners of the vacant or foreclosed properties – instead of struggling homeowners who are working hard to stay in their homes. Because the Senate amendment includes this provision, the President's senior advisors would recommend that he veto this bill.

Grants to Purchase Foreclosed Properties

As communicated in previous Statements of Administration Policy (SAPs), the Administration strongly opposes a program to provide block grants that would allow State governments to purchase foreclosed properties. The Administration believes the principal beneficiaries of this type of plan would be private lenders – who are now the owners of the vacant or foreclosed properties – instead of struggling homeowners who are working hard to stay in their homes.

FHA Modernization

A good FHA Modernization bill must: (1) protect FHA's ability to price a product based upon the risk it presents to taxpayers; and (2) include a permanent end to the seller-funded downpayment schemes that needlessly increase the cost of homes and are two to three times more likely to go to foreclosure. These two provisions are essential to ensure FHA's continued solvency and ability to aid in the recovery of the nation's mortgage market. The Administration is strongly opposed to a provision in the Senate amendment that would prevent FHA from implementing a risk-based premium pricing structure for riskier loans. To expand the role of FHA without first giving the agency the tools it needs to manage additional risk would be irresponsible. Finally, if the bill includes a moratorium on FHA implementing a risk-based pricing policy, FHA would not be able to expand its current *FHASecure* program as proposed, and, indeed, would not be able to continue existing programs without raising premiums on all borrowers starting in October.

By addressing these issues, a good FHA Modernization bill will ensure that FHA continues to play a key role in serving low- and moderate-income homebuyers and assist more families during this period of stress in the mortgage market.

FHA Expansion and Affordable Housing Trust Fund

The Administration strongly opposes several provisions of the bill as reported. While an expansion of FHA's reach is appropriate to help more homeowners, it must be done responsibly. The Senate amendment would – for the first time in FHA's history – require non-program participants to subsidize its loan guarantees. This bill would use funds from the GSEs to cover this subsidy, establishing a degree of entanglement between the GSEs and the Federal government not seen since Fannie Mae became independent in 1968. Moreover, for the reasons described in the SAP on H.R. 1427 issued May 16, 2007, the Administration remains opposed to the creation of an affordable housing trust fund as proposed in Section 131.

The financing mechanism that is used to capture GSE receipts is also problematic and needlessly complex. The Administration is strongly opposed to the creation of a new class of Treasury securities. The provision in the Senate amendment authorizing the issuance of "Hope Bonds" would fragment the existing Treasury bond market, create confusion among investors, and potentially increase financing costs.

Finally, the Administration opposes increasing the conforming loan limit beyond a reasonable level based on median area home prices, as calculated by the Office of Federal Housing

Enterprise Oversight.

Other Provisions

The Administration opposes the provision that would permit bonds guaranteed by the Federal Home Loan Banks (FHLBs) to be exempt from Federal income tax even if those bonds are not related to housing. The FHLBs are providing important support to the housing market and their attention should not be diverted towards insuring non-housing obligations in markets where they lack expertise.

As previously communicated in SAPs, the Administration also opposes tax credits for home purchases and new tax preferences for property taxes not available to other allowable deductions. A homebuyer's tax credit would be an inefficient use of resources, given the amount of forgone revenue captured by those who would have otherwise purchased a home. The Administration also strongly opposes the unprecedented recapture provision, which would be complex and burdensome for taxpayers and would create concerns for tax administration.

The Administration opposes the provision to grant explicit legal protection to servicers that follow certain prescribed steps. This provision would create a bias in favor of certain loan modifications and against other work-outs that servicers might have pursued under existing pooling and servicing agreements. The Administration is concerned that taking steps to change contracts, or their interpretation, retroactively in this way could reduce the flow of capital to the mortgage market in the future. The Administration continues to monitor whether servicers have the appropriate flexibility to modify mortgages, and it does not appear that the existing contracts governing servicer loan modifications are unduly restrictive.

The Administration looks forward to working with Congress to take the next responsible steps to address the housing crisis in accordance with the principles the Administration has laid out.

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