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Statement of Kenneth M. Donohue, Inspector General
Department of Housing and Urban Development
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Chairman Murray, Ranking Member Bond, and members of the Subcommittee; thank you for inviting me to testify today.

Background

The U.S. Department of Housing and Urban Development (HUD) Inspector General is one of the original 12 Inspectors General authorized under the Inspector General Act of 1978. The Office of Inspector General (OIG) has forged a strong alliance with HUD personnel in recommending ways to improve departmental operations and in prosecuting program abuses. OIG strives to make a difference in HUD's performance and accountability. OIG is committed to its statutory mission of detecting and preventing fraud, waste, and abuse and promoting the effectiveness and efficiency of government operations. While organizationally located within the Department, OIG operates independently with separate budget authority. This independence allows for clear and objective reporting to the Secretary and the Congress.

The Department's primary challenge is to find ways to improve housing and to expand opportunities for families seeking to improve their quality of life. HUD does this through a variety of housing and community development programs aimed at helping Americans nationwide obtain affordable housing. These programs, which include Federal Housing Administration (FHA) mortgage insurance for Single Family and Multifamily properties, are funded through a $30+ billion annual budget and, in the case of FHA, through mortgage insurance premiums. At the end of FY 2006, FHA's outstanding mortgage insurance portfolio was about $396 billion.

Each year in accordance with the Reports Consolidated Act of 2000, HUD OIG is required to submit a statement to the Secretary with a summary assessment of the most serious challenges facing the Department. OIG submitted its latest assessment on October 19, 2006. The Department has notably and laudably made progress in its efforts to correct its serious challenges. However, continued progression in the integration of FHA's financial management systems, and strengthening of lender accountability and enforcement against program abusers is still needed.

FHA is the largest mortgage insurer in the world, providing coverage to over 34 million home mortgages and 47,205 Multifamily projects since 1934. FHA insurance protects HUD-approved lenders against losses should a homeowner or project owner default on their mortgage loans. FHA insures a wide spectrum of loans. Its Single Family programs

include insuring mortgage loans to purchase new or existing homes, condominiums, manufactured housing, houses needing rehabilitation, as well as reverse equity mortgages to elderly homeowners. Its Multifamily programs provide mortgage insurance to facilitate the construction, substantial rehabilitation, purchase and refinancing of Multifamily housing projects and healthcare facilities.

On January 31, 2007, the Government Accountability Office (GAO) announced the results of its biennial "high-risk" series review. We commend the Department for the removal of its rental housing assistance and the Single Family mortgage insurance programs, which have been on GAO's risk list since 1994.

The Challenge

Chairman, Ranking Member, and members of the Subcommittee, you have probably read or seen a number of articles of late comparing the fall of the subprime lending market to that of the failed savings and loan institutions of the 1980's. I spent seven years at the Resolution Trust Corporation as Assistant Director for Investigations, uncovering the fraud and abuse among directors of the failed savings and loan institutions. I have seen first hand the damaging results of a solely profit-driven industry, which ultimately cost the American taxpayer billions of dollars.

Whether we are just starting to see the "tip of the iceberg" today or are actually seeing the iceberg in the subprime lending market remains to be seen, but like the savings and loan crisis, it will not only have a financial impact but a social impact as many honest, hard working individuals may lose their homes. The mortgage industry has said they have increased homeownership; however, at what cost to the American people?

The Senate Committee on Banking, Housing and Urban Affairs recently held a hearing on subprime lending. The testimony included estimates that as many as 2.2 million families may lose their homes to foreclosure—foreclosures that were often predictable or avoidable through responsible lending. We see this today in the State of Colorado, where it is estimated that two out of every five home loans is a subprime loan. Colorado has not only ranked among the top states for mortgage fraud during the last two years, but has held the highest foreclosure rate in the nation for most of 2006.

Relaxed underwriting practices instituted by unscrupulous subprime lenders, the usage of "riskier" products (e.g., adjustable-rate and interest-only loans)—coupled with appraisal fraud— and lack of understandable disclosure of loan terms have made it easier for those who do not qualify for prime loans to purchase homes but not retain them. With the current trend of rising interest rates and the resulting payment shock, and low home appreciation—due in part to overbuilding that we have seen in states, such as Colorado— we will probably continue to see increasing delinquency and foreclosure rates. Further, a number of these borrowers may fall subject to additional hardship as their subprime loans are refinanced by predatory lenders who apply aggressive sales tactics and outright fraud.

I am concerned as to whether FHA is headed in the same direction as the subprime market with its seemingly continued de-regulation and introduction of "riskier" products as part of its proposed reform. A chart produced by the Mortgage Bankers Association National Delinquency Survey shows how closely the FHA delinquency rate—as a loan type—follows that of the subprime market. To further illustrate in the third quarter of 2006, delinquencies for subprime past due loans were at 12.56 percent (up 7 percent from the second quarter of 2006 and up 17 percent from the third quarter in 2005), while total delinquencies for all past due loans were at 4.67 percent. Ninety-day delinquencies for subprime loans stood at 2.96 percent, while all other loans were at 0.94 percent. Foreclosure starts for subprime loans was at 1.82 percent, while for all other loans only 0.46 percent began foreclosure in the third quarter of 2006.

We have an industry that is generally profit-driven, and primarily concerned with the bottom line; however, with that should come responsibility. Unlike the mortgage industry that is primarily profit driven, the FHA is mission driven.

FHA Risk

FHA single family lending has experienced a marked drop in insurance volume, as subprime lending spiked and mortgage interest rates increased. The numbers are disconcerting: in FY 2006 insurance in force (active mortgages) was down 8 percent, new endorsements were off 17 percent, and delinquency and default rates inched upward. Does this scenario mean FHA faces a financial crisis? Not based on the recent actuarial findings that estimate a capital ratio of 6.82 percent for the Mutual Mortgage Insurance (MMI) fund that well exceeds the 2 percent capital ratio mandated by the 1990 Cranston-Gonzalez National Affordable Housing Act. FHA actuaries found the MMI fund to be adequately capitalized to defray expected claims cost over the next decade including losses from the hard hit Gulf coast region, which is estimated at $613 million. Revenue shortfalls from insurance premiums were predicted, but they were offset by expected interest income from Treasury investments.

FHA's FY 2008 budget submission casts a somewhat different light as it concerns the risk of the MMI fund. It states: "*Because of adverse loan performance and improved estimation techniques, the base line credit subsidy rate for FHA's single family program—assuming no programmatic changes—is positive, <u>meaning that total costs exceed receipts on a present value basis, and therefore would require appropriations of credit subsidy budget authority to continue operation</u>. The 2008 baseline includes no budget authority to cover these costs and assumes FHA would use its existing authorities to increase premiums to avoid the need for credit subsidy appropriations. Under the Budget's proposals, FHA will be able to <u>set premiums that are based on risk and are sufficient to avoid the need for credit subsidy appropriations</u>."(emphasis added)*

Simply, FHA may be really left with only two choices, to request a credit subsidy by means of appropriations or increase its premiums to avoid an estimated shortfall of $143

million in FY 2008. One FHA response to this impending predicament is through the passage of “The Expanding American Homeownership Act.” In his June 20, 2006 testimony, the FHA Commissioner stated, “…the FHA bill proposes changes that will strengthen FHA’s financial position, improving FHA’s ability to mitigate and compensate risk. The proposed changes would permit FHA to operate like every other insurance company in the nation, pricing its products commensurate with the risk, as opposed to having some clients pay too much and some too little.” Regardless of whether the FHA reforms are enacted, as FHA takes on more risk—as has been the trend in recent years—we believe premiums will also need to increase or Congress may have to subsidize the program.

Moreover, I remain somewhat concerned over the proposed modernization of FHA and whether the reforms will provide a panacea to its “loss of market” woes and ensure the future solvency of the MMI fund. The reform package—which includes risk-based premiums, zero-downpayment loans, and higher mortgage limits—seems to be partially directed at expanding FHA’s reach to the higher income housing market to the possible impact on its traditional first-time homebuyer and minority customers. These reform package proposals merit further discussions, including the following:

Risk-Based Premiums

Moving to a mixed price premium structure (1) could by its very complexity require increased budget authority to make FHA system modifications and impose new administrative/cost burdens on originating and servicing lenders; and (2) potentially expose the FHA Single Family insurance program to fair housing questions and accusations of “red-lining” unless the decision matrix for pricing is unquestionable.

FHA customers traditionally have been first-time homebuyers and minorities, some with incomplete or flawed credit histories and marginal reserves to avoid default when facing financial stress. FHA reform will require these higher risk borrowers to pay higher premiums. Risk-based pricing, therefore, may increase the mortgage carrying costs of FHA borrowers that are the least able to afford them.

Zero Down Payment

As the actuaries have pointed out, FHA is currently experiencing higher default and claim rates on seller-funded nonprofit down payment assisted loans, which are effectively zero down payment loans (100 percent loan-to-value). GAO reported in 2005 the probability of such loans resulting in an insurance claim was 76 percent higher than comparable loans without such assistance. It is reasonable to conclude that zero down payment loans would represent a comparable insurance risk. Additionally, in light of current Congressional and GSE (Freddie Mac and Fannie Mae) concerns over the growth of subprime lending and growing default rates, FHA should be wary of inviting future claim risks by insuring 100 percent and greater (after financing closing costs and insurance premiums) loan-to-value loans.

Higher Mortgage Limits

FHA should determine mortgage loan limits consistent with its mission to serve underserved borrowers and communities, particularly first-time homebuyers and minorities. Raising the loan limits to GSE conforming maximums may serve to attract borrowers who have access to conventional financing, and do not need a government program to acquire homeownership.

Raising FHA area loan limits, especially the high-cost area ones, will not necessarily help low- and moderate-income families become homeowners. In some markets, raising the base limit would mean that FHA would insure homes well above the median house price statewide, further distancing FHA from its mission, and potentially exposing the MMI fund to increased risk from regional economic downturns. If the limits for 2-4 unit properties are also included, FHA will be assuming even greater financial risk on what are essentially investment properties.

Unless there is evidence to show otherwise—the reforms may actually increase the mortgage burden of the qualified, but less creditworthy borrowers and reward those with greater financial stability. And one could argue that FHA appears to be strategizing to capture some share of the prime market and borrowers already served by conventional lending.

Moreover, the proposed reform is silent on strengthening controls and enforcement actions and preventing future fraud. As we have seen over the last two years, FHA has made changes to its operations, which in some instances has included de-regulation—without seemingly proper risk analysis—out of concern over retaining market share. However, there has been some change; most notably the Deputy Secretary recently supported our recommendation that Housing (FHA) rescind the issuance of Mortgagee Letter 2005-23, which removed the "…six-month payment history requirement for loans submitted late for endorsement." Our audit found that loans with an unacceptable payment history—within the prior six months to submission—were at least three and one-half times higher risk of claims to the MMI fund.

The OIG recognizes that there is an important call for action to avoid the need for the Congress to subsidize the program; however, the introduction of "riskier" products through reform must be balanced with more effective program fraud controls to mitigate future insurance losses and ensure oversight of lenders that violate established requirements. For example, our recent audit of the Single Family mortgage insurance claim process determined that, prior to paying billions of dollars in Single Family insurance claims, FHA did not independently ascertain whether loans insured under the MMI fund met program requirements. Housing disagreed with our recommendations which included FHA establishing a risk-based post claim review process and seeking recovery or adequate support for final HUD costs for 44 unsupported claims identified in our sample totaling over $1.3 million in losses.

The private sector has pointed to one remedy to reduce fraud in mortgage loan programs. Mortgage bankers are beginning to use predictive models that screen loan applications for

fraud at pre-funding. FHA needs to move beyond post endorsement monitoring and embrace this new technology through policy and programmatic changes, as part of FHA reform.

Lastly, the actuaries did not evaluate MMI fund solvency, assuming the proposed FHA reform became law. It would seem prudent for FHA to have its actuaries prepare another study to reflect likely performance scenarios before introducing the reforms to the mortgage market.

In spite of these differences, we are encouraged to work collectively with FHA. In 2006, the Mortgage Bankers hosted a fraud symposium, which we attended and were an active participant. We hope such collaboration can serve as a model for all our future cooperative efforts including those with the FHA.

Continuing OIG Areas of Concern

Even though the Department has notably made progress in its efforts to correct its serious challenges—supported by recent removal from GAO's high-risk list—as GAO cautions, HUD needs to manage new risks and accurately estimate the costs of program changes. The following are continuing areas of concern that we have identified through our audit and investigative efforts over the FHA Single Family and Multifamily insurance programs.

Down Payment Assistance

Until recently, HUD has not been responsive to the universal concern that seller-funded nonprofit down payment assistance providers inflate real estate prices and increase the risk of default. OIG's concerns with down payment assistance from seller-funded nonprofits have been long-standing and are consistent with concerns raised by others. The FHA was not responsive to our concerns and that of the GAO until the Internal Revenue Service issued a revenue ruling making it clear that seller funded down payment assistance providers are not charities as they do not meet the requirements of 26 U.S.C. § 501(c)(3). This ruling enabled us to convince the Department to compel FHA to issue a rule that will establish specific standards regarding borrower investments in a mortgage property when a gift is provided by a nonprofit organization.

The Department has committed to a schedule that will result in a final rule being issued next summer. However, it is important to note that until this rule is issued, the status quo remains the same and nonprofit down payment assisted loans will continue to have a negative impact on the economic value of the MMI fund.

Loan Case Binder Access

FHA has adopted an ill-advised policy that permits those with the potential to perpetrate fraud upon the insurance fund to maintain the original records/certifications associated with their fraud. Through the issuance of Mortgage Letter 2005-36, the Lender Insurance (LI) Program enables certain FHA-approved Direct Endorsement lenders to endorse FHA loans without a pre-endorsement review

and generally relieves LI lenders from the responsibility of submitting loan originations case binders to FHA.

We expressed our concerns over the various LI Program provisions that may adversely impact the ability to investigate and prosecute fraud perpetrated upon FHA. Also, we obtained a letter of opposition from the FBI, alerted OMB to the issuance of the mortgagee letter, apprised Senate and House oversight staff, and gained support of the Office of General Counsel (OGC). In spite of the best efforts of many, FHA implemented the program; with assurances to the OGC and us that it would collaborate with interested parties to make technical corrections once the program was implemented. More than one year later, FHA has yet to schedule the first meeting to discuss needed technical corrections.

Single Family Fraud

In my experience, over 99 percent of people are honest, while less than 1 percent is intent on defrauding others. Their impact can be, however, quite detrimental. Organized groups or individuals driven by the bottom line are defrauding consumers and FHA, at the same time that FHA is seemingly pursuing a policy of de-regulation. We continue to compile evidence through our audit and investigative activities of organized groups and individuals who conspire to take advantage of first-time homebuyers and minority customers. These groups and individuals conspire, with or without the borrowers' knowledge, to provide materially false applications, documents and statements to obscure information that would otherwise demonstrate that borrowers do not qualify for the loans they seek or that the property in question does not meet FHA insurance guidelines.

OIG is also seeing a trend with organized groups in some parts of the country recruiting illegal aliens to purchase FHA-insured homes. Illegal aliens are not qualified to purchase FHA-insured homes due to their immigration status. As a result, this group is often preyed upon by unscrupulous mortgage professionals who assist illegal aliens in obtaining fraudulent and stolen social security numbers, tax documents, and employment documents. All too frequently these borrowers soon realize that they are unable to bear the periodic costs associated with homeownership and default on their loan. In turn, these ever increasing defaults degrade entire communities where the organized groups target their efforts. As a result of FHA's continued pattern of de-regulation or inconsistent enforcement of established regulations, Single Family loans remain vulnerable to fraud.

Multifamily Fraud

FHA does not have adequate controls to prohibit equity skimming in nursing homes. In consideration for endorsement for insurance by FHA, prospective nursing home mortgagor/owners are required to execute a regulatory agreement. The regulatory agreement is FHA's chief vehicle to protect its financial and programmatic interests in the mortgaged property. Typically, the mortgagor/owner does not "operate" the nursing home and leases the property to a lessee/operator that executes a separate and less comprehensive regulatory agreement. Numerous OIG audits have determined

that FHA does not have adequate controls in place to ensure program objectives are accomplished.

Among the significant control weaknesses identified by the OIG is that the regulatory agreement used for the lessee/operator-managed nursing homes lacks certain requirements contained in the regulatory agreement applicable to mortgagor/owner-managed nursing homes. The regulatory agreement used for lessee/operator-managed nursing homes does not preclude the lessee/operator from diverting all or any portion of the income generated by the property to non-property purposes to the detriment of the elderly tenants, and HUD who is subject to the payment of an insurance claim to the lender due to the mortgagor/owner's default on the FHA-insured loan.

Gulf Coast

Congress estimates that damage to residential structures will range from $17 to $33 billion. In the Presidentially Declared Disaster Areas, HUD's FHA Single Family insurance fund insured more than 328,000 mortgages having an unpaid principal balance of $23 billion. FHA's Multifamily program in the Presidentially Declared Disaster Areas insured 528 projects with an amortized principal balance of $3 billion. Of these, 112 or 21 percent sustained more than minor damage, resulting in significant potential losses. Further, the actuaries have estimated the expected claim losses caused by the hurricanes to be $613 million.

The devastation caused by Hurricanes Katrina and Rita, and more importantly the unprecedented volume of Federal assistance provided in reaction to the hurricanes, has created an environment ripe for fraud. OIG will continue to focus, to the greatest extent possible, on the ultimate disposition and accountability of these funds.

The Record

Pursuant to goal number 1 of HUD-OIG's Strategic Plan, to help HUD resolve its major management challenges by being a relevant and problem-solving advisor to the Department, we continue to focus our audit and investigative efforts on FHA to include both Single Family and Multifamily insurance programs. Over the past 3 years, HUD OIG has issued 190 audit reports in the area of FHA. These FHA-related audit reports identified over $1.1 billion in questioned costs and funds that could be put to better use. During the same time period, the HUD OIG had 1,078 cases opened. The following are examples of our audit and investigative activities.

Office of Audit

Single Family

We audited a San Antonio, Texas financial firm because of an unusually high ratio of defaults. We found that 47 percent of its defaults involved one seller, who owned 50 percent of the lender. OIG reviewed 51 of the defaulted loans that involved the seller.

The lender approved mortgages on overvalued properties because the lender allowed an identity-of-interest seller to add ineligible and unsupported construction costs and inadequately reviewed the appraisals. Also, the lender did not adequately document analyses of borrowers' credit. Further, the lender's processing had technical difficulties. Consequently, HUD and the borrowers unnecessarily incurred increased risks through higher insurance exposure and higher mortgage payments as evidenced by the borrowers defaulting on their mortgages.

HUD OIG audited a Miamisburg, Ohio lender approved to originate, underwrite, and submit insurance endorsement requests under HUD's Single Family direct endorsement program. We selected it for audit because of its high late endorsement rate. This lender submitted 2,071 late requests for endorsement out of 68,730 loans tested. The loans were either delinquent or otherwise did not meet HUD's requirement of six consecutive timely payments after delinquency but before submission to HUD. It also incorrectly certified that both the mortgage and escrow accounts for 133 loans and the escrow account for taxes, hazard insurance premiums, and mortgage insurance premiums for 497 loans were current.

HUD OIG audited a Phoenix, Arizona mortgage company's insured loan originations due to high default and claim rates. It did not originate the 19 loans reviewed in compliance with HUD requirements or prudent lending practices. All 19 loans involved origination deficiencies that should have precluded their approval, including false employment data, overstated income, understated liabilities, unacceptable credit histories, improper treatment of downpayment gifts and/or interest rate buydowns resulting in over insured mortgages, inaccurate or excessive qualifying ratios without compensating factors, and borrower overcharges for unsupported or unallowed fees. As a result, it placed HUD's Single Family insurance fund at risk for 19 unacceptable loans with original mortgages totaling more than $2.5 million, and borrowers were overcharged $9,400. HUD remains at risk and/or has incurred losses totaling more than $1.2 million related to 15 of the 19 loans.

Multifamily

HUD OIG audited six housing projects in Los Angeles, California, to assess HUD's concerns over inappropriate disbursements and determine whether the projects were administered in compliance with HUD requirements. The owner and identity-of-interest management agent used project funds to pay more than $2.6 million in ineligible and unsupported costs, including excessive and unreasonable charges by an identity-of-interest maintenance contractor, excessive charges for the management agent's president, unsupported rent charges and capital improvement expenses for the management agent's office, and ineligible ownership expenses. OIG anticipates similar additional questionable costs continued after the end of the audit period that could cost the projects another $457,000. OIG's building inspections identified more than 240 health or safety violations, which resulted in more than $561,000 in housing assistance payments for units and buildings that were not decent, safe, and sanitary. In addition, the owner and identity-of-interest management agent did not effectively manage the projects, to include

not accurately calculating, reporting, and resolving more than $655,000 in project liabilities.

In Bethany, Oklahoma we audited a HUD-insured nursing home to determine whether it complied with the regulatory agreement and HUD requirements when disbursing project funds. We found its officials used $2.3 million for ineligible costs, such as loan repayments and late fees, and could not support $4.5 million in expenditures. Further, these officials did not provide documentation to support the use of revenue amounting to nearly $12 million. This ultimately resulted in mortgage default and closure of the nursing home.

We completed an audit of a rehabilitation center in Carmichael, California. We found that the owner incorporated the project in its petition for bankruptcy and then defaulted on the project's mortgage. In addition, the owner disbursed $3.7 million in project funds through ineligible cash distributions and expenses. These activities resulted in increased risk to HUD, the assignment of the mortgage note to HUD, and HUD's resulting loss of $323,000 on the sale of the note.

Office of Investigation

Single Family

Seven Charlotte, NC residents were indicted by a federal grand jury on 66 counts alleging conspiracy, wire fraud, bank fraud, making false statements and entries, and money laundering. The Defendants owned and operated a mortgage brokerage corporation. The scheme entailed defrauding HUD and the **Government National Mortgage Association** (GNMA) whose mission is to support affordable home ownership in America by providing an efficient government secondary market vehicle to link the capital and federal housing markets. A bundle of loans, usually totaling $1 million, is packaged by a lender and sold to investors as a pool for which it is required that an actual existing dwelling is constructed and that a homeowner is submitting monthly mortgage payments. GNMA is the final guarantor of the loan pools and mortgage-backed securities and will fully reimburse the investors should the need arise.

The Defendants are alleged to have devised and executed an elaborate mortgage fraud scheme to generate over 100 loans that were purported to be FHA-insured loans on nonexistent properties that were ultimately resold to investors in mortgage pools backed by GNMA, as well as the Federal National Mortgage Association (FNMA). GNMA was required to make the investors whole when the fraud was discovered. The defendants would recruit strawbuyers to secure fraudulent FHA-insured home loans through a builder and these loans, in most cases, were secured by properties that were vacant lots or for homes belonging to legitimate homeowners. The Defendants allegedly received the loan proceeds and used the money for their personal benefit and to advance the fraud scheme.

As a result of the fraud, the Defendants obtained more than $5 million from FNMA and more than $26 million from GNMA. The investigation was initiated based on GNMA

having discovered irregularities during an audit of the builder. The GNMA losses are based on the cost to repurchase each fraudulent loan from GNMA investors. The defendants also fraudulently obtained a $5 million line of credit with a banking and trust company by submitting straw mortgages and false documents. This investigation has resulted in the seizure of assets worth $8 million.

OIG investigated a large mortgage company in Detroit, Michigan and confirmed that it submitted to FHA as many as 28,000 loans with underwriter's certifications purportedly signed by one of two FHA-approved underwriters. In actuality, however, these loans had been underwritten by other staff, who had not received FHA-approval and who merely signed the FHA-approved underwriters' names on the certifications. OIG referred the matter to the United States Attorney's Office for the Eastern District of Michigan, which entered into a civil settlement valued at in excess of $40 million. This figure covered FHA's experienced and forecast losses on the loans, and included a penalty.

Four defendants were charged in a scheme in Colorado for assisting unqualified and undocumented immigrants in obtaining more than 300 FHA-insured loans valued in excess of $61 million. As a result of foreclosures, HUD realized losses of $2.3 million.

Multifamily

The owner of a mortgage company and four HUD-insured nursing homes located in Rhode Island and the administrator of the nursing homes, and others, illegally diverted income or funds from the nursing homes to themselves or identity-of-interest companies authorizing payments for unwarranted services while the properties were in a non-surplus-cash position, a violation of their HUD regulatory agreement. As a result of their actions, HUD realized a loss of $14 million when the owner defaulted on the HUD-insured mortgages for two of the nursing homes. For the remaining two nursing homes, HUD continues litigation over the $13 million insurance payment of one nursing home and continues operations of the other—which is listed for sale—with a $9.7 million FHA-insured mortgage. In addition, the portfolio contains approximately 57 FHA-insured loans estimated at $314.3 million, all of which are considered at risk.

Continued Support

We continue to support the Department and FHA's mission and will also continue to increase our efforts to ensure the administrative health and vitality of HUD's programs and activities. I know that with the hard work of staff, we will persist in a pattern of improved oversight and enforcement and I look forward to working with the Department to come up with common and workable solutions. I would like to mention the notable remarks made by the Secretary in recent testimony on March 1, 2007, that borrowers should be paying a portion of the downpayment when obtaining an FHA-insured loan. As we know, without a financial stake in a home, borrowers have less incentive to be responsible homeowners making it easier to default and walk away.

That is where HUD comes in, to ensure Americans are given the opportunity to obtain and retain affordable housing. However, this cannot be driven solely by the Federal government, but must also be done through a collective effort that combines the expertise of the housing industry of both the public and private sector.

I cannot say that the reform legislation is the answer and I recognize that some change is necessary. There are great challenges confronting FHA programs. Nevertheless, aggressive oversight and enforcement is crucial to prevent a recurrence of what we are witnessing in the subprime market today and the savings and loan industry in years past. Clearly, there are lessons learned from repeats of history.

Conclusion

That concludes my testimony and I thank the Subcommittee for holding this hearing and I look forward to answering questions that members may have.