H.R. 4110—FHA SINGLE FAMILY LOAN LIMIT ADJUSTMENT ACT OF 2004

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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H.R. 4110—FHA SINGLE FAMILY LOAN LIMIT ADJUSTMENT ACT OF 2004

Wednesday, June 16, 2004

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:11 a.m., in Room 2128, Rayburn House Office Building, Hon. Robert Ney [chairman of the subcommittee] presiding.

Present: Representatives Ney, Miller of California, Tiberi, Waters, Carson, Lee, Clay, Scott, Davis and Frank (ex officio).

Chairman NEY. [Presiding.] The hearing of the subcommittee on H.R. 4110, entitled "The FHA Single Family Loan" will come to order. Let me say for the record, without objection, all members' opening statements will be made part of the record. Hearing no objection, they will be made part of the record.

Today, the Subcommittee on Housing and Community Opportunity will hold a legislative hearing on H.R. 4110, entitled, "The FHA Single Family Loan Limit Adjustment Act of 2004." This bill was introduced on April 1, 2004 by our subcommittee member, Congressman Gary Miller of California. And its primary cosponsor is the ranking member of the full Committee on Financial Services, Congressman Barney Frank.

It is my hope that today's hearing will provide the subcommittee with the variety of perspectives necessary to form an opinion about the necessity of the legislation. I would like to note that the issue of FHA loan limits, particularly on the single family side, have always been a source of heated debate, as we know in previous congresses.

In fact, the files will reveal testimony dating back to May 5 of 1994, when advocates, some of who are represented here today, discussed the distinctive real estate markets of very high-cost areas. Those areas have traditionally been recognized as California, Hawaii, Alaska, New York and Massachusetts, to name a few.

Over the past 10 years, Congress debated and later approved a proposal to index the FHA loan limits and tie them to loan limits established for the Federal Home Loan Mortgage Corporation, also known of course as Freddie Mac. It was clear—then and now—that linking the FHA loan limits to an established index or process would keep FHA current with relevant real estate markets.

Today, we are faced with similar challenges raised 10 years ago. The central question is: how? And what is the proper role of the federal government to encourage homeownership, particularly among low-income families and other market segments that have traditionally been locked out of access to mortgage capital.

Real estate markets vary. In Morgan County, Ohio—that is one of the 16 counties I represent—the average home price is $93,000 for a single family dwelling unit. Yet in Licking County, Ohio—also in the district—the average home price is $173,000.

In Mr. Miller's 42nd congressional district in California, Orange County represents average home values of $357,000. In our ranking member, Ms. Waters' district, the subcommittee ranking member, the average Los Angeles home value in the 35th California district is $309,000.

On the other hand, Richardson County, Nebraska in Mr. Bereuter's congressional district, is only $59,789. I mention the variety of loan limits because, as you can tell, geography most time dictates higher or lower average home values.

Our FHA loan limit for high-cost areas is capped at $290,000 and the lowest FHA loan limit is $160,000. It is clear that some areas are not being served, therefore, by FHA.

Whether the private sector is meeting those needs is something this subcommittee will need to examine as we further look at homeownership goals.

I am pleased to see today's witnesses. And I look forward to hearing their views on this proposal.

It is important, I think, to note that there are a host of policy questions that have to be addressed as we discuss the merits of the legislation. Those questions or issues include the following: what is the proper role of FHA?

Can FHA manage its risks and provide adequate oversight of its underwriting standards? What is the role of the private sector in encouraging low-income homeownership? And does H.R. 4110 complement or hinder that process?

Finally, given the limited resources of the federal government, how can we limit as much as possible the federal government's potential liability? So I am hopeful that today's panelists will provide us with their perspective on these issues.

During my chairmanship, I have attempted to include members as much as possible in the planning and implementation of housing hearings. As a result, I believe that the 22 housing hearings we have held to date have been balanced and have led to good legislation.

And finally, I want to thank my colleague and our ranking member, Congresswoman Maxine Waters of California, for her leadership and partnership, which has, I think, resulted in the creation of very good legislation. I know we have many more obstacles and challenges that we have to face.

I want to thank Chairman Oxley for his leadership; also our ranking member, Barney Frank and the members, frankly, of the Housing Subcommittee, both sides of the aisle. One thing I will note—and then I will conclude my opening statement—but one thing I think that has been good that we have all tried to do, working together both sides of the aisle, is to take pieces of legislation and try to move them forward, instead of maybe one omnibus bill that never sees light of day. And I think that has been one good approach.

And the other is to understand each other's areas in the country, not just congressional districts, but regions, and the wide variety of prices. And some of the housing needs in larger states or larger cities is different and has to be addressed differently.

So that is why I think this bill by Mr. Miller and Congressman Barney Frank is an important piece of legislation.

With that, I will turn to our ranking member.

Ms. WATERS. Thank you very much. Good morning, Mr. Chairman. I would like to thank you for holding this hearing on this bill that was offered by Congressman Gary Miller, with my support and that of Congressman Frank, to increase the FHA single family loan limits in high-cost areas.

I am pleased to be a cosponsor of H.R. 4110, which would increase the single family loan limit to 100 percent of the area median home price in each locality of the country. This legislation will be tremendously helpful to residents of Los Angeles, to residents of many other areas within my state of California and to residents of high-cost areas throughout our country.

Obviously, changing the formula from 95 percent of the median home price also would benefit home buyers in every community in our country. In many areas in states such as California, New York, New Jersey, Maryland, Connecticut, Pennsylvania and Massachusetts, the median home price far extends the existing FHA loan limit of 87 percent of the confirming loan limit, which today computes to $290,319.

The FHA loan limit for Los Angeles County is $290,319, the highest permissible under current law. Twenty-three of California's 58 counties, which have approximately 85 percent of California's total population, are currently at this $290,319 ceiling.

As Mr. Eberhardt, president elect of the California Association of Mortgage Brokers, correctly observes in his prepared testimony today, for many home buyers in counties like Los Angeles, the FHA insured loan programs simply do not work. The Los Angeles Times recently reported the Los Angeles County median home price has jumped 20 percent in the past 12 months.

And the new median home price is now $379,000. Much of this growth is in areas where first-time home buyers choose to purchase.

Mr. Chairman, I believe that residents of high-cost areas should have the same opportunity to access FHA insured mortgages as those who live in other less expensive areas. In my view, the local median home price, not an artificial statutory ceiling on cost, should be the benchmark for determining a person's eligibility for an FHA insured mortgage.

My constituents and all residents of high-cost areas who are credit worthy should have the same right to obtain an FHA insured mortgage as residents in other parts of the country. I know that there are some who contend that the conventional mortgage market and the GSEs are adequately serving high-cost areas.

I simply do not agree with that. Whatever one's view on this issue, I also see this problem as both a consumer protection issue and an equal protection issue.

Why should someone seeking a mortgage in Los Angeles have fewer mortgage products available simply because the person resides in a high-cost area? There is no reason for residents of high-cost areas to have fewer mortgage options.

As we consider this issue, it is important to remember that we are not appropriating public funds to support FHA insured mortgages. The taxpayers do not pay for the FHA program. And they would not incur any costs if this change were enacted.

In fact, the Mutual Mortgage Insurance Fund currently has a healthy surplus, as the premiums paid are more than adequate to cover the costs of defaults under the program, nor would adoption of this change in the law have any impact whatsoever on the judgment of a lender as to the creditworthiness of any proposed borrower.

Those who would be helped by this change in the law would pay the premiums required by law for their mortgage insurance. So the Mutual Mortgage Insurance Fund will be fully protected.

Consumers in high-cost areas would simply have more options when they seek a mortgage. And they would receive the competitive benefits that almost invariably result from an increase in the choices available.

Mr. Chairman, it is also clear that when consumers have more choices available to them, they are far less likely to end up being victimized by a predatory lender.

Finally, Mr. Chairman, I note that Secretary Weicher suggests in his prepared testimony that enactment of legislation to raise FHA's mortgage limits may result in a need for increased commitment authority. If the demand exists for this type of financing, why shouldn't we be meeting it?

Mr. Chairman, FHA insured mortgages should be as available to residents of high-cost areas as they are to persons in less expensive parts of the country. We can and should raise the FHA loan limits to 100 percent of an area's median home price and thereby broaden the housing stock available to FHA borrowers in many high-cost areas, while maintaining the FHA's focus on first-time home buyers and the underserved.

I would urge my colleagues to join me in supporting H.R. 4110. And thanks again for scheduling this important hearing.

I look forward to the testimony of our witnesses. And I yield back, if there is any balance of my time.

Chairman NEY. Thank you.

Ms. WATERS. Thank you for your indulgence.

Chairman NEY. The gentlelady yields back the balance of her time.

Mr. Miller?

Mr. GARY G. MILLER OF CALIFORNIA. Thank you, Chairman Ney. I want to thank you for convening this hearing today.

Mr. Frank and I have been talking about the situation with FHA for over a year. And when we did the zero down payment for FHA, we looked at the disparity amongst different states.

And Mrs. Waters, I want to thank you for cosponsoring this bill. Mrs. Waters and I share a problem that FHA is just not available in California. And some say, "Well, why do we worry about it? They will be setting a precedent."

But I would like to point out that FHA currently adjusts for those high-cost areas of Alaska, Guam, Hawaii and the Virgin Islands. In those areas, the limits are $435,000. And nobody is arguing that that is reasonable.

The problem is Alaska and Hawaii are $35,000 less in price value than California. So if it makes sense in Hawaii and it makes sense in Alaska, certainly it makes sense in California and other high-cost areas.

Barney Frank's district is a great example. FHA is just not available in his district.

And I was talking to Secretary Jackson about 3 weeks ago. And we discussed the disparity we have in some of these states. And at that point, he fully understood the concept that we need to be able to make the programs available in these areas.

And some might say, "Well, are we just supporting through subsidies some program in these areas?" But that is not the case at all because if you look at the FHA program, it is estimated that the federal government makes $1.73 off of every $100 in FHA loan insurance.

So it is a program that pays for itself. In fact, the federal government makes money off of it.

This is a first stage. We also believe—Mr. Frank and I—that conforming loan limits need to be adjusted too. Freddie and Fannie are having difficulty.

Yet we are working with the bankers to come up with a reasonable limit to place conforming at because we understand that the conventional marketplace has grown tremendously. But how do you maintain a fair share of the marketplace for the private sector in consideration for what Freddie and Fannie might come into?

And I believe we can also come to reasonable amounts that those can go to. We do understand that they just are not working today because they are just far too low.

But this program that we have under FHA, people should not be discriminated against just because of the area they live in. And that is the fact we face today.

Just on the Republican side of the aisle—and I did not bother to do the Democrat side because they are in the same situation Mrs. Waters and I are in—but just on our side of the aisle, Mr. Green's district in Door County, the median home price is $198,000. FHA does not go above $160,000. In Vilas County, it is $193,000; FHA stops at $160,000.

In Katherine Harris' DeSoto County, it is $211,000 median income; FHA will go $191,000, which is closer.

But you get down to Walter Jones' district, in Currituck County, it is $337,000 median income; it is $217,000 on FHA. In Dare County, it is $297,000 median income; FHA stops at $160,000. In Hyde County, it is $210,000; FHA stops at $160,000.

In Peter King's district in Nassau, the median income is $357,000 and FHA stops at $290,000, which is much closer. In Doug Ose's district in Alpine County, it is almost $300,000 median income; FHA stops at $160,000.

And we can go on to Mr. Renzi. Chris Shays is really out of line. His is $411,000 median income. FHA goes to $290,000 there.

In Patrick Tiberi's district in Delaware, it is $259,000. FHA stops at $208,000.

So we have a program that both conservatives and liberals alike support FHA because it is a program that has the marketplace available for people who want to own a home. It should be available to everybody, especially when it is a program that does make money. It is not a subsidy to anybody.

Yet this program unintentionally, by the limits we have placed on it, discriminates on individuals based on where they live. And our concept is if it is a program that works and it is a program that is available and it is a program, especially with the new zero down payment law that is coming into effect, that is going to make homeownership available to more and more people throughout this nation, why in the world would we have a program that is proven to work and we are expanding in many areas and yet, we are going to say certain people because of the area they live in are not going to be available to participate in this program?

So I want to once again applaud Chairman Ney for allowing this time to hear this bill. Maxine Waters, I want to thank you for supporting this also. She realizes that California has a tremendous problem with housing. We are about 10 percent under the national average in homeownership.

Instead of 69 percent, we are at 59 percent. That is a problem.

And when we can take a program like FHA that is proven to work over the years, and it is a very solid program and it is a good program, we can take that program and implement it in areas that people are having difficulties getting into homes. I see no reason why we would not do that and create opportunity for everybody, instead of just opportunity for a few.

So I look forward to the testimony today.

And again, chairman, I thank you for holding this hearing. And I yield back the balance of my time.

[The prepared statement of Hon. Gary G. Miller can be found on page 56 in the appendix.]

Chairman NEY. Thank you.

The gentleman from Massachusetts?

Mr. FRANK. Mr. Chairman, I join in thanking you for your initiative here and the other initiatives you have been taking in the housing area. We have not done some of the major things I would like to do in some ways. But whenever we have been able to act, we have made things better. And your leadership has helped us, I think, significantly increase housing policy.

This one seems to be very simple. And sometimes, when you advance something and you hear the arguments against it, you have to reexamine your position.

But I must say that, having read the testimony that is not supportive of this bill, I feel reinforced by it. It is a very simple point.

The United States is not a "one size fits all" nation. The policy of the FHA has been to deal with housing up to the median. The theory is they are not going to help the upper income people.

We have in this country today wide variances in that median. For much of Massachusetts, the FHA might as well be in Ukraine.

Now the question is: should we have a national program, supported by the taxes and administered entirely by all the people in the country, that simply is inapplicable in some parts of the country? All we are saying is that it should operate in California and Massachusetts and New York and elsewhere in exactly the same fashion as it applies in the rest of the country.

And the notion that you set a dollar limit and ignore median income flies in the face of every intellectual principal we know. Now I noticed Mr. Petrou says on page two of his testimony, "In my opinion, it is time that FHA became an income targeted rather than a loan amount targeted housing program."

Frankly, our bill moves in that direction because what we are saying is that one uniform loan limit throughout the country does not make sense when you have these variances. And in fact, what we are saying is that people who are at the income level where they can pay the median price in a particular locality should not be ruled out because of some arbitrary national standard.

Now I should point out, of course, the FHA remains a loan program and not an income targeted one. It is unfair to exclude people from it.

But I will say if you were concerned about the efficacy of that, but we are moving in that direction. The testimony of Mr. Weicher said, "It is unclear that this is the market the FHA should serve."

I must say to Mr. Weicher that I am surprised at his lack of clarity after his many years in the housing business. My guess is that he is determined, in this case, to retire unclear.

But I do not understand what is fogging his vision, to be honest. It is a fairly simple point.

And the market that we are asking the FHA to serve here, as in almost every place else in the country, is the median house price. When did we decide that serving people who are trying to buy the median price in the community, that that is not the market we want to serve?

I do note that he says that this may result in a need for increased commitment authority. As Mr. Weicher knows, we already need more commitment authority. And one of the things I think we should be doing, Mr. Chairman, is asking our friends on the Appropriations Committee and the rest of the appropriations committees to stop putting the FHA on the kind of yoyo where we keep running out of commitment authority.

The FHA is making money for this government. And there is no reason for this kind of commitment authority to be cut back.

And on that point, I would note, by the way, that people have said: might this squeeze out low-income borrowers? Exactly the reverse is the case.

Loans at the upper level of what the FHA does make significant amounts of money. The repayment rate is very high. And they make a profit.

To the extent that the FHA is internally financial, that the FHA surplus helps make a case for continued FHA work, this makes it possible for us to do more for people at the lower end, not less, because no one suggests that this will cost us. And as a matter of fact, last year, when the gentleman from California, Mr. Miller, and I collaborated on legislation, helped strongly by the gentleman from Ohio, the gentlewoman from California, the chairman and ranking members of this committee and the full committee chairman.

And we got the bill enacted. We did this for FHA multifamily. In fact, we were told by CBO that it was not going to raise any money because nobody wanted to build any old multifamily in those areas anyway, really a rather extraordinarily foolish comment from CBO.

And of course, they turned out not to be the case. And now we are told it has been so popular, it is putting a drain on the commitment.

It cannot be that on the one hand, it is not going to be used because nobody cares and on the other, that it is going to cause a commitment drain. That is what they said about multifamily.

So again, this is very simple. And I must say, I think the arguments against it kind of strange.

The last issue is the Fannie-Freddie question. And we have two different views here. One from the mortgage bankers, which says it is okay to raise this—and I appreciate that—but do not go above the conforming loan limit of Fannie and Freddie.

Freddie says, "Yes, do this, but let us go up as well." Let me make a plea to people. We all know we are in the midst of controversy over Fannie Mae and Freddie Mac. What the gentleman from California and I tried to do here was to set that controversy aside.

He and I do agree that there is a case for increasing their loan limits as well. But we think there is a very clear-cut equity case. There is an economic case. There is a homeownership case.

People who are trying to buy a home at the median price in Los Angeles and San Francisco and the rest of the California and in Greater Boston and in New York and in Chicago should not be turned away by the same federal program that would serve people similarly situated everywhere else. That is all we are asking.

The conforming loan limits of Fannie and Freddie, let's cross that bridge when we get to it, probably now next year. There will be issues there. But it should not—that controversy should not—be allowed to stop Americans who pay taxes and follow the law like anybody else and are as interested in homeownership from being denied the same access to FHA in real terms that people get elsewhere in the country.

Mr. Chairman, thank you for giving us a chance to have this hearing.

Chairman NEY. Thank you.

The gentlelady from California?

Ms. LEE. Thank you, Mr. Chairman. And let me also thank you and our ranking member, Maxine Waters, and Mr. Frank and Mr. Miller for this bill and this very important hearing.

As you know, the median housing price in the San Francisco Bay Area region, including my own district, is about $567,000. That is $567,000.

So quite frankly, the American dream of homeownership is quickly turning into a nightmare for many people in California. As we push for more affordable, quality housing for all, the issue of FHA loan accessibility in many of our communities continues to be an issue.

So I just want to thank the sponsors of this bill. I hope to join as a cosponsor of this bill.

I know that in areas that have not benefited from FHA mortgages, this bill would certainly help families, individuals become homeowners, which of course really is the primary vehicle for the accumulation of wealth for sending one's children to college, for establishing a small business; really, for doing whatever an individual or family wants to do with their life. And so I just want to thank you very much for this bill.

And just know that we in the Bay Area look forward to the movement of this bill because it certainly will help turn things around in terms of homeownership for our families in California. Thank you very much.

Chairman NEY. Thank the gentlelady.

Gentleman from Georgia, Mr. Scott?

Mr. SCOTT. Thank you very much, Mr. Chairman. Chairman Ney and Ranking Member Waters, I want to thank you for holding this very, very important hearing today regarding single family loan adjustment act, H.R. 4110. I also want to thank the distinguished panel of witnesses today for their testimony.

From July 2001 to July 2002, Georgia—my state—ranked fourth in the nation in housing growth, both in the number of homes built and the percentage increase in housing. Five of the top housing growth counties in Georgia are located in my suburban Atlanta district.

Part of this explosive growth is due to low interest rates and part is due to the rapid expansion of the south and east and northern suburbs of Atlanta. And while Atlanta is not considered as high cost a city as compared to New York, California and certainly in the State of Massachusetts, I am concerned with our overall homeownership rates.

The good news is that for the first time ever, the majority of low-income and moderate-income families are owning their homes at a rate of 50.8 percent. However, compared to the national average of 68.6 percent, minority families still have some catching up to do. And this is particularly true with African-American families.

Based upon the information recently presented before this committee from both Fannie Mae and Freddie Mac, all of the groups are moving along and increasing their homeownership rates. But there is retrogression only among African-American homeownership.

So we do have some catching up to do. With interest rates at historical lows, I believe that we must push even harder to help increase all homeownership and especially minority homeownership and, of that, especially African-American homeownership. And adjusting the FHA home mortgage rate limits is a very important part of that equation.

And I want to commend Mr. Miller, Representative Frank and Representative Waters for working on this very, very important problem. And I would like very much to join with them as a cosponsor of House Resolution 4110.

Mr. Chairman, given that June is indeed homeownership month, it is most fitting that this committee, during this month, is considering this very important policy to expand affordable homeownership to more individuals.

Thank you very much.

Chairman NEY. Thank the gentleman.

Mr. Davis?

Mr. DAVIS. Thank you, Mr. Chairman. I will not use anywhere near my four or five minutes, Mr. Secretary.

But sometimes when I sit here, every now and then you have a sensation that you are feeling or hearing two ships passing in the night who really do not have any connection with each other. And I got a little bit of that sense after listening to some of the opening statements.

I do not think any of us would take issue with the ranking member's comments or with Ms. Lee's comments from California about the need to obviously give FHA more capacity in high-income areas or high median income areas like California and parts of Massachusetts. I do not think there is a lot of opposition to that proposition from anyone here today.

At the same time, it is certainly clear that nothing in this legislation really speaks to the ultimate issue, which is really finding ways to expand homeownership opportunities for families who are nowhere near being able to afford houses in this range. It is very much two ships passing in the night.

So what I hope you will talk about in your testimony today or possibly in response to our questions is what we can do in the related area. How do we find some way to deal with the nagging homeownership gap that exists in this country between not just African-Americans and Caucasians but between Latinos and Caucasians and various other immigrant ethnic groups in the country?

It strikes me that we are in need for some creativity in this area. It strikes me that we are in need for some fresh thinking in this area because we have these arguments and we have these conversations, but it does not seem that we have identified any significant manner to really allow FHA or the thrust of the housing market in this country to reach out there and sweep a lot of underserved members of the population.

So again, I do not think there is any opposition to this bill or to the thrust of this bill. But I hope that we are able to broaden the discussion a little bit to talk about what some of your goals, the administration's goals might be in the related area of narrowing the gap that Mr. Scott talked about.

And I yield back the balance of my time.

Chairman NEY. I want to thank the gentleman. And with that, we will begin with Mr. Weicher, who is of course the assistant secretary for housing, Federal Housing Commissioner, at the U.S. Department of Housing and Urban Development. And he has been in that post since June of 2001.

Prior to his appointment to HUD, Mr. Weicher was the director of the urban policy studies at the Hudson Institute and a member of the Millennium Housing Commission. Welcome. And we will begin with your testimony.

STATEMENT OF HON. JOHN C. WEICHER, ASSISTANT SECRETARY, HOUSING/FEDERAL HOUSING COMMISSIONER, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. WEICHER. Thank you. And good morning, Chairman Ney, Ranking Member Waters and distinguished members of this subcommittee and full committee. And thank you for inviting the department to testify on the subject of H.R. 4110, the FHA Single Family Loan Limit Adjustment Act of 2004.

We appreciate this opportunity to provide the subcommittee with the department's comments on this proposed legislation. In addition, on behalf of the administration, let me express our thanks for the committee's unanimous approval 2 weeks ago of H. R. 3755, the Zero Down Payment Act of 2004. In particular, let me also thank the authors of the proposal under consideration today, Representative Miller and Ranking Member Frank for their support of our zero down payment initiative.

The Zero Down Payment Act, if enacted, will help at least 150,000 creditworthy American families buy their first home each year. And HUD looks forward to continuing to work with the committee to move the Zero Down Payment Act toward enactment.

The administration and the department are firmly committed to helping more American families achieve the dream of homeownership. Today, overall homeownership rates are at record high levels; 68.6 percent of all American families, almost 72.7 million, own their own homes.

Minority homeownership, as Mr. Scott noted, is also at an all-time record. For the first time ever, over half of all minority families, 50.8 Percent, are now homeowners. That is almost 14.9 million.

This is a good record, but we want to improve on it. There remains a homeownership gap between non-Hispanic whites and minorities.

So in June 2002, President Bush announced an aggressive agenda to clear away the barriers to homeownership and add 5.5 million new minority homeowners by the end of the decade. Since the President announced that goal, more than 1.5 million minority families have moved into homes of their own.

Our private sector partners, including the organizations testifying later this morning, have committed to increasing the number of loans to low-income families. This includes pledges to provide more than $1.1 trillion in mortgage purchases for minority homebuyers this decade.

Congress has passed the American Dream Down Payment Initiative, which the President signed last December, authorizing $200 million a year to help homebuyers with down payment and closing costs.

This administration has doubled the budget request for housing counseling funds from $20 million to $40 million. And Congress appropriated the funds. This year, we are asking for a further increase to $45 million.

The federal government's primary vehicle for increasing homeownership in America is the Federal Housing Administration, now proudly celebrating its 70th anniversary. FHA extends access to homeownership to individuals and families who lack the savings, credit history or income to qualify for a conventional mortgage.

FHA pioneered the 30-year, self-amortizing mortgage and has insured 34 million mortgages during its history. In fiscal year 2003, FHA insured almost $150 billion in mortgages for 1.3 million families.

Over the last 3 years, FHA has taken a number of steps to reduce barriers to homeownership. Our TOTAL Mortgage Scorecard is now in place so we can better assess risk on individual loans.

We have eliminated paper mortgage insurance certificates. We have eliminated planned unit development approval requirements. We have modified our minimum distance requirements between private wells and sources of pollution for existing properties, which is especially important in rural areas.

We have simplified the mortgage calculation for streamlined refinances. And we have provided a low-cost alternative to the inspection requirements for new homes.

The goal of H.R. 4110, as we understand it, is to raise FHA mortgage limits in high-cost areas. Currently, the FHA loan limit is capped at 87 percent of the Freddie Mac limit in the highest costs areas. This is about $290,000.

In other areas, there is a lower limit, either 95 percent of the local median single family house price or 48 percent of the Freddie Mac limit, whichever is greater.

While we recognize the worthy intention behind the proposal, the department does not support H. R. 4110 at this time. Our analysis indicates that the proposed changes to the law would result in the following: the 87 percent limit in high-cost areas would be removed; instead, the limit in these areas would be 100 percent of the local area median. In all other areas of the country, the limit would also be 100 percent of the local area median.

The statutory floor limit of 48 percent of the conforming limit would remain intact at about $160,000. As it is now, nearly 90 percent of all U.S. counties are at the floor and would not benefit from this legislation.

The effect of removing the cap would be to dramatically increase the mortgage limits in some extremely high-cost areas with more modest increases or no increases elsewhere. Specifically, lifting the 87 percent limit would affect only a few metropolitan areas, all either in California or in the Northeast.

For example, the limit would rise to $568,000 in San Francisco, $374,000 in New York and $433,000 in Boston. It is unclear that this is the market that FHA should serve or that is not being served by the conventional market or the GSEs.

Legislation to raise FHA's mortgage limits may result in a need for increased commitment authority. For example, two mortgages in San Francisco at the higher mortgage limit would amount to $1.2 million and would require as much authority as six mortgages in Columbus, Ohio, where I used to teach.

FHA could expend more insurance authority that serve fewer households under this proposal.

This concludes my statement, Mr. Chairman. And I thank the subcommittee for the opportunity to discuss this proposed legislation.

[The prepared statement of Hon. John C. Weicher can be found on page 117 in the appendix.]

Chairman NEY. I want to thank the assistant secretary for your testimony. The question I have is on the written, it says, "It is unclear that this is the market the Federal Housing Administration should serve and that it is unserved by the conventional market or government sponsored enterprises."

So I just want to ask you: who do you think the FHA should serve, number one? And number two, what should be their role?

Mr. WEICHER. Our market, our public purpose, is to serve first-time homebuyers. And that tends to mean young families, young first-time homebuyers.

Eighty percent of the business we do is first-time home buyers. Forty percent of that business is minority households.

We are there to help families that are on the edge of homeownership to buy a home and to buy a home sooner than they otherwise would and get started on the path to building assets and establishing a solid place in our society. And we do serve that purpose and we serve it well.

Chairman NEY. Wouldn't this bill help you? First of all, the first-time homebuyers, that is a rule within the department, right? It is not a statute.

Mr. WEICHER. It is neither. But we appeal to first-time homebuyers. Eighty percent of our business is first-time homebuyers.

But if someone buying another home, already a homeowner buying another home, wanted FHA insurance, needed FHA insurance, was buying a home where the loan was within the FHA limit in that area, then we would in fact insure that loan. Someone buying a home under $160,000 in Morgan County, buying a second home, a home for the second time, would qualify if they would choose to.

They might not need it because they might have a higher down payment. They might have improved their credit history. But the option is there.

Chairman NEY. Taking into account that you do obviously tend to help the first-time homebuyer—and it does not matter whether it is a statute or not or regulation or how it just falls into place—but then how do you help those first-time homebuyers in California or New York or Massachusetts? And wouldn't this bill give the ability to help them more? Or would it?

Mr. WEICHER. Well, I think with the limits that I mentioned that would apply in some of these high-cost areas, in San Francisco at the ceiling of $568,000, you would need an income of about $115,000 to buy that home. There are not very many first-time homebuyers in that income range anywhere. At $115,000, you are well up in the income distribution for the United States.

In Boston, the income that you would need to afford a $433,000 home would be something like $85,000. Again, that is well up in the income distribution. And there are not very many families buying a first home in that situation.

Chairman NEY. The gentleman from Georgia, Mr. Scott?

Mr. SCOTT. Mr. Weicher, would increasing the FHA loan ceiling limit the ability to insure mortgages in other places in the country?

Mr. WEICHER. It would affect it if we ran into our commitment authority limit, which Ms. Waters and Mr. Frank referred to. And as Mr. Frank said, that is a matter that is under the jurisdiction of the appropriations committees.

And last year, we ran into that limit in the multifamily programs and had to suspend operations twice. And we almost ran into the limit on the single family programs.

Given the fact that there is a commitment authority limit, then there is always the possibility that we will reach that limit. And we have reached it a couple of times in the last 5 years.

At this point in this year, we are not close to reaching the single family limit. But there would be no guarantee that we would avoid it, avoid reaching that limit in future years, in boom years.

Mr. SCOTT. So your opposition to this is based on what? What evidence?

Mr. WEICHER. Well, we have had the experience of having to shut down access to FHA programs because we have reached commitment authority limits in the past. And that is a matter of concern.

And, as I was saying in response to the chairman's question, the income levels needed to afford a home with FHA insurance, at the ceilings that this legislation would establish in many areas, are quite high and not really, in our judgment, are we reaching people who need FHA to buy a first home. At $85,000 or $115,000, we are well up in the income distribution.

Mr. SCOTT. How do you address the concerns raised by Mr. Frank and Mr. Miller in terms of the inequities of the playing fields, especially facing states like Massachusetts and California? How do we handle that? How do we address that, if not through this bill?

Mr. WEICHER. Well, I think the problem is that we have some areas which have extremely high home prices. And those areas are not really markets in which first-time homebuyers are active.

They are active in other parts of those metropolitan areas. They are not in San Francisco, particularly, but they are in other areas in the Bay Area, in Oakland and so forth, where prices are lower.

Mr. SCOTT. All right. Thank you, Mr. Chairman.

Chairman NEY. Mr. Miller?

Mr. GARY G. MILLER OF CALIFORNIA. Thank you, Mr. Chairman.

Mr. Weicher, I have great respect for you. And some of my comments I am going to make are not an attack. I see things a little differently, in some fashion.

I have been a developer for well over 30 years and a councilman and a mayor, state assemblyman and now a congressman. And housing is a passion for me.

And we have talked about the regulatory barriers that have really impacted homeownership in this country. And our goal is to expand homeownership.

And government's role, in many cases, is just to provide opportunity, not guarantees or subsidies in my mind, but to provide opportunity. The fact is that things have changed in this nation.

There is staff who are sitting behind me now that were able to buy a home on the Hill here in years past just because FHA was available to them. That no longer exists on the Hill today, as you know, they are not available because the housing has increased in price range so much that FHA does them no good.

And I look at the housing industry as a huge puzzle. And it is made up of many parts—the lenders, bankers, mortgage brokers, mortgage bankers, realtors, title companies. And when we deal with risk and other things, we look and say: how do we make all these things work? How does it come together?

And you made one statement that kind of opened my eyes. You talked about the commitment authority limits.

And you said that this year, we have not reached that for single family, but in a boom year—if it got any boomier, I do not know if you could be able to get realtors and builders down to the ground because they think this is wonderful. These are boom years.

And even during boom years, we are having a problem. Things have just changed entirely. If you look and you say that you do not know that this is necessary in some areas, well, it has been necessary in Alaska, Hawaii, Guam and the Virgin Islands.

And it has worked in those areas. And I do not know why it will not work in the other areas that are being underserved today.

And we have a group out there in this nation I call the "new homeless." And that is a husband and wife, they are working real hard. And they might just be out of school. And the wife is a schoolteacher and the husband is a fireman or a police officer.

And combined income, they are somewhere in the $80,000 range. And they are in their early 20s and they are out wanting to buy a house. And the fact is that in a little place called Diamond Bar, California, where I am from, which most people do not think is a real elite, exclusive area—I think it is a very nice community—but you are paying over $500,000 for a home.

So if you can find a home out there for $400,000 that these people would love to be able to buy, that they can qualify for in the $80,000 price range, FHA is not available to them. Zero down payment is not available to them through the program.

I am not sure what market FHA is trying to serve, based on some of the statements. Because if we are trying to serve first-time homebuyers and that is the goal, a homebuyer should not be discriminated against because they want to own a home in the community they grew up in.

And the fact of life is beyond their control, the housing industry has kept this economy fairly strong in recent years during a recession because it has boomed. And it has put people to work. They pay taxes. And the governments are operating because I believe the backbone of this country in the last few years has been the housing industry and groups associated with it.

So to tell somebody that we think a program should apply to first-time homeowners, yet we are going to discriminate against you because of where you want to live—that you want to live in Maxine Waters' district or you want to live in Oakland in Barbara Lee's district or you want to live in Orange County or L.A. County in my district—we are actually telling those first-time homebuyers that we have a program that obviously we believe works because we continue it, yet we are not going to make it available to you because you happen to have been raised in an area that the costs have gone so high that you do not qualify for a program that is proven to work.

And when we talk about commitment on authority for limits, I always support those type of things. But you know, it might put a larger smile on my face if those limits were raised and it benefited the district I represent too.

And I know Mr. Frank has a similar feeling. He has no problem with raising those limits.

But it would be nice, when we raise those limits, if the people we represent, who are hardworking people and many first-time homebuyers, it is just the home they are trying to buy the first time is more expensive than they would like to pay. Yet they are stuck with a situation that they have no option but to pay it if they want to live in the community that they were raised in, that they understand, that they know the people, that their friends live in, their family lives in.

And so I guess my main question: if truly FHA's goal is to help first-time homebuyers and that is their primary focus and then expanding it past there, how in the world can we say that a program that the government makes money on, is proven to work, if it works in Hawaii and Alaska, why will it not work in New York, in Boston and in California?

Mr. WEICHER. Let me start with your first point, Mr. Miller, about the boom years.

Mr. GARY G. MILLER OF CALIFORNIA. And many want to see these boom years continue, so I think they are that good.

Mr. WEICHER. We certainly want them to continue too. I do not think there is any disagreement there at all.

The commitment authority limit, we will not reach the single family commitment authority limit this year for two reasons. One is last year, Congress did raise that limit very sharply for this year, compared to what it was the year before.

And second of all, the refinancing boom has finally lost some steam, as rates have risen a little bit lately. And that makes a difference.

But last year, we came very close. We came very close to having to close down the single family programs in late summer at a time when it would not have been possible for Congress to increase our commitment authority limit. It does happen.

Chairman NEY. Time is expired.

Mr. GARY G. MILLER OF CALIFORNIA. Thank you, Mr. Chairman. I will come back to this.

Chairman NEY. We will come back to it.

The gentleman from Massachusetts, Mr. Frank?

Mr. FRANK. To begin where you just ended, why does the department not ask for enough commitment authority so you have a margin of error? There is no downside whatsoever, it seems to me, to being somewhat over.

Have you done that? Why not ask for enough so that you will not be in danger of running out?

Mr. WEICHER. It is always a projection, Mr. Frank, of what commitment authority will be needed for a year that starts 8 months after the President's budget.

Mr. FRANK. Once you start, you have not been willing enough to ask for extensions. Is there a downside if you ask for more commitment authority than is needed and get more commitment authority than is needed?

Mr. WEICHER. There is no budgetary downside at all.

Mr. FRANK. Is there any other downside? Does it hurt your feelings? What is the downside?

Mr. WEICHER. No, I——

Mr. FRANK. Then there is no downside.

Mr. WEICHER. Not that I see.

Mr. FRANK. Okay, given that there is—I am sorry, finish.

Mr. WEICHER. I am sorry, if I could respond. It always takes time for an action when we see a problem.

Mr. FRANK. I agree.

Mr. WEICHER. And last year, we did in fact, as you know, have to shut down the GSRI fund.

Mr. FRANK. Let me say two things. First of all, since there is no downside, overshoot. There is no downside, so why not ask for enough so it is very, very unlikely.

Secondly, I agree that the Appropriations Committee was too slow and we should push for it. But if in fact you have enough commitment, the key policy point is that giving you commitment authority that would handle any increase that would result in this bill has no downside, correct?

Mr. WEICHER. That is right.

Mr. FRANK. Okay. So then the question is this: given that—and that is the only possible thing, you say. And the gentleman from Alabama said we want to help low-income people. I agree.

I spend most of my time in this committee trying to help lower-income people get housing. So I have no apology to make about now being for a bill that focuses only on this.

I would like to have an omnibus bill. We do not have one. And is there anything in this bill, if we can resolve the commitment authority issue by you asking for more than enough, with no downside, is there anything in this bill that would impinge on our ability to help lower-income people?

Mr. WEICHER. There is not anything in the bill which would limit that. It would simply depend on the willingness of our lenders who make the loans.

Mr. FRANK. I understand that. But would the willingness of your lenders to make loans to people at the lower end be somehow negatively affected by this?

Mr. WEICHER. I doubt it, Mr. Frank.

Mr. FRANK. So do I. Good.

Mr. WEICHER. But I do hear that question. I do hear that comment being raised from time to time when loan limits——

Mr. FRANK. Well, you do not believe it and I do not believe it. So when we find somebody who does believe it, we will talk to him. Because I think it becomes very clear.

Nothing in this bill has any negative effect on lower-income people. And as a matter of fact, to the extent that it affects them, it can help them.

Because if we go forward with this with enough commitment authority—and there is no good reason not to have a good commitment authority—the FHA surplus will go up and the FHA will be in better shape. This improves the status of the FHA.

So then I want to respond to one point you made. Because all we are asking for is that people who are trying to buy a median house price anywhere in the country get the same.

If somebody came in and said the fair market value for Section 8 should be the same dollar amount everywhere in the country, we would all be outraged because we recognize that housing prices differ. In fact, many of our housing programs take into account this differential.

I mean, realtors tell me: location, location, location—except where the FHA is concerned? The FHA is going to ignore location.

All we are asking for, again, is the median price. Now I thought I heard you tell the gentleman from Georgia or that your response was that there will be certain areas of the country where first-time homebuyers will just have to be shut out. I find that really a very inappropriate response.

You say, "Well, in parts of Massachusetts, parts of California, we just will not be able to accommodate first-time homebuyers." I do not want to tell people—you know, we are talking about Boston.

We are talking about big cities. We are talking about places where minorities live. What is the justification for saying we are just going to have to accept the fact that you will not have first-time homebuyers there when we could aid them with no downside?

Mr. WEICHER. My point in response to Mr. Scott was that the income levels needed to support the ceilings in the highest-cost areas were very high for any family at that income level to really be a first-time homebuyer; $115,000 would be what you would need in San Francisco. And that is way up in the income distribution for the United States and way up in the income distribution in San Francisco.

Mr. FRANK. It is. And these are, to some extent, where the median house prices are, the median income is somewhat higher. It is not always the same. But why do we then walk away from them?

I mean, what is your reason for saying that people at that median should not be allowed to take advantage of FHA if they want to buy a median house price when it has no negative—I guess, that is? What negative effects will this have from a public policy standpoint?

Mr. WEICHER. Our point is that there are——

Mr. FRANK. I did not ask for your point, Dr. Weicher. You had a chance to make your statement. I am asking my question: what negative effects would raising the FHA limit to the median have, from the public policy standpoint?

Mr. WEICHER. The public purpose of FHA is to help——

Mr. FRANK. Okay, let me try one more time. I am not asking you for your lecture on the public purpose of FHA. You have said that. I am asking you what negative effects this would have.

If the answer is none, then I want you to say "none" and I will be through.

Mr. WEICHER. We are here to serve the first-time homebuyer. And the first-time homebuyer is seldom in this income——

Mr. FRANK. Okay, I understand that. Some first-time homebuyers will not be helped by this. We will not reduce the incidence of firefighters. It will probably do very little to cure public health diseases. I understand that.

This is a limited bill that does limited things. If I had more time, I could join with you in a list of things it will not do and does not pretend to do.

Now would you please, I am asking you as a personal favor, answer my question. What negative effects from the public policy standpoint would this bill have?

Now a negative effect is not the fact that it does not do what it does not claim to do. A negative effect is something that it does that would not be useful. Please tell me if there are any negative effects that will result from passing this bill from the public policy standpoint.

Mr. WEICHER. Our——

Mr. FRANK. That is not a hard question. If you want to evade the question——

Mr. WEICHER. Let me try again. FHA is here to do a job that the private sector does not.

Mr. FRANK. Oh, you know better than that. I understand that.

Mr. WEICHER. No, sir. I did not finish my answer.

Mr. FRANK. Excuse me. Your answer is——

Mr. WEICHER. FHA is here to do a job that the private sector does not do. The private sector does serve families with incomes of $85,000——

Mr. FRANK. And what negative effects? I mean, you know better than this. What game are you playing here? If the answer is none, if you are saying it does not do anything negative, but we do not want to do it because that is not the purpose of the FHA, kind of teleological, glad.

But I am asking you a question that I really would like you to answer honestly. I am really getting frustrated here.

What negative effect is there? The fact that the FHA has this purpose or that purpose, you know that is not a negative effect. What negative effects would it have, if any?

Mr. WEICHER. Mr. Frank, I am sorry. I have tried to answer the question.

Mr. FRANK. No, you have not. Do you know what a negative effect is? A negative effect is something that makes something worse. How does this make a situation worse? What would be worse in terms of public policy if we pass this bill, in terms of societal effect?

Mr. WEICHER. We do not think FHA should be serving markets that are served by the private sector.

Mr. FRANK. I understand that.

Mr. WEICHER. Because we have an advantage because we have the full faith and credit of the government of the United States.

Mr. FRANK. So this would be unfair to the private sector, is that what you are saying?

Mr. WEICHER. Yes.

Mr. FRANK. Why didn't you say that first? You think that the reason not to do this is it would be unfair to the private sector for the FHA to cover median prices in this regard?

Chairman NEY. With this point, the time has expired. But we are going to get to Mr. Davis and then back, if you would like to——

Mr. FRANK. He will not answer it in the next five minutes. But I understand that we cannot have the median house price in high-cost areas because you think it would be unfair to the private sector?

Mr. WEICHER. Yes.

Chairman NEY. Mr. Davis?

Mr. DAVIS. Mr. Weicher, let me shift direction a little bit, but not too far from the thrust of what Mr. Frank is asking you. Your assertion, as I understand it in response to Mr. Miller's comments and Mr. Frank's comments, was something to the effect that if we expand the limit from 87 percent to 100 percent, that we frankly will not really be impacting a whole lot of people; that the FHA somehow does not really have the ability, as a general rule, to really serve a San Francisco or a Boston because as a practical matter, the cost in those markets is out of the range of the average FHA customer. That I understand to be your point.

Let me try to introduce a little bit of evidence into the abstract argument that we are having here. The 87 percent level—and I am not a mathematician—but if you look at San Francisco, if 100 percent level would be $500,000 or if the median price is $568,200, 87 percent of that would be somewhere around $540,000 or $530,000.

Right now, does the FHA play in the San Francisco market? Does the FHA play in the New York market where 87 percent would be presumably around $340,000 and Boston where 87 percent would be around $410,000? Does the FHA currently play in those markets?

Mr. WEICHER. We do not do very much business in those markets because the limit, as——

Mr. DAVIS. But do you do any business in those markets?

Mr. WEICHER. A little.

Mr. DAVIS. Okay, so if you do any business in those markets, then wouldn't it be obvious—I mean, it seems that Mr. Frank's point would probably be if you do any business in those markets, you will do a little bit more business in those markets if the cap goes up. So doesn't that serve the ultimate public policy purpose of the FHA?

Mr. WEICHER. I think the point is the current limit in all of those areas is $290,000 because that is the national cap. We do not go over $290,000 anywhere.

And in those markets, we do a little bit of business at $290,000. Going to $568,000 or $374,000 is a big increase. It is not simply moving up to the national conforming loan limit of $333,000. That, I think, is the answer.

It is not 87 percent of the current median——

Mr. DAVIS. I see.

Mr. WEICHER.—when you get above $290,000.

Mr. DAVIS. Well, let me ask this question then. What I expected you to say to Mr. Frank was that the negative impact or the perverse impact of this change is that it would somehow limit the FHA's ability to serve areas that are very much within the intended coverage—low-income areas or areas that are generally underserved by the market that exists—whether it is the GSEs or the regular market.

That is the answer I would have expected you to give to Mr. Frank's question. So I guess I want to spend a little bit of time figuring out why you did not give that answer.

You have 100——

Mr. FRANK. Will the gentleman yield briefly?

Mr. DAVIS. Not until I finish the round of questions. You have $165 billion in last year's fiscal year for FHA commitment. Is that about right? Is that the number in your opening statement, around $165 billion?

All right. Now it seemed that your initial point was because the number is a finite number—let's say it goes up to $190 billion this year; it will be a finite number—if the FHA is having to make more of a commitment in upper income areas, I suppose logically one could ask that that would mean that somewhere you are going to have to lessen the commitment. Does that mean that you are going to have to say, "I am going to take something out of this pot to put it over in this pot?"

That is not the answer that you gave. So I am trying to see what it is that I am missing about the way this program works.

Right now, there are no regional quotas in the way the FHA administers its program, right? There are no State by State quotas?

Mr. WEICHER. That is correct.

Mr. DAVIS. So what I am trying to do is to understand your position and understand the way the program works. If you have a finite number—$190 billion—and the FHA is having to make a larger commitment in high-income areas, why doesn't that somehow pull from the pot of money that is available in more traditional areas?

Mr. WEICHER. We have a national commitment authority. But within that limit, we are a demand program. If a mortgage meets our standards, we approve it. We approve them in the order in which they come in.

The commitment authority limit only bites when we get close to it late in the fiscal year. If the commitment authority level were high enough, as Mr. Frank said and as I said also, this would not be a problem.

Mr. DAVIS. Is there a way that you could—I am going to cut you off for a second—is there a way that you can carve out a portion of the commitment level that will meet underserved areas specifically or low-income areas specifically? So that if there is any additional amount of money that has to be put on the table, it is only coming from what is serving a San Francisco or a Boston already?

The number you give in your opening statement is that two mortgages in California might amount to six mortgages in Ohio. I understand that. Not all parts of Ohio are underserved areas.

If the goal of the FHA is to target a particular class of individuals, those whom you have defined as those outside the reach of the normal market, is there any way that a carve out could be set up or that some kind of ceilings could be set up within the FHA to guarantee that you are not pulling from that pool, but you are only pulling from the pool in relatively high-income areas anyway?

Mr. WEICHER. Not without substantial resources being devoted to trying to estimate demand in each market and manage the program within each market on a day-to-day basis. We do not have those resources. You all have not appropriated those resources to us and we have not asked for those resources.

Mr. DAVIS. Let me ask this question. Going back the last 3 or 4 fiscal years—I guess the whole life of the Bush Administration—how many times has the FHA exceeded its commitment level in the last 4 years?

Mr. WEICHER. Twice on the GSRI fund, which includes condominiums and home equity conversion mortgages. It includes some single family mortgages. And we have come very close once in the Mutual Mortgage Insurance Fund, which is the basic homeownership program.

Mr. DAVIS. And did you respond to that gap by coming back to Congress and asking for a supplemental appropriation?

Mr. WEICHER. Yes.

Mr. DAVIS. Okay.

Mr. WEICHER. And we received it in one case and not in others.

Mr. DAVIS. Okay.

Mr. WEICHER. In the single family case, we managed to avoid it.

Mr. DAVIS. In the 4 years, the 4 fiscal years of the Bush Administration, has the FHA asked for a larger commitment level each year?

Mr. WEICHER. Yes, I believe that is accurate. We have two programs. And I believe that is accurate. We have never asked for a reduction. I might have to answer the specifics for the record.

Mr. DAVIS. Okay. Well, that is not that hard a question, I mean whether or not the FHA has sought a higher number. You just happen to not know that.

Mr. WEICHER. I just do not have the four-year numbers in mind.

Mr. DAVIS. Okay. All right. I think my time is expired.

Mr. FRANK. Mr. Chairman?

Chairman NEY. What I am going to do, if the gentleman could yield, I am going to come back to Mr. Miller and another round over here and then we will move on to panel two.

Mr. Miller?

Mr. GARY G. MILLER OF CALIFORNIA. Okay, thank you, Mr. Chairman.

Let us make a few assumptions: first of all, that we will acknowledge the buyer has to qualify for a loan. So it does not matter what the person wants to buy. If it is $400,000, $435,000, $500,000, you have to qualify. So we will set that aside.

And I think I can speak for Mr. Frank and I and probably every member of this committee, we will do everything in our power to make sure that if this becomes law, that we are going to give you more authority to be able to accomplish that. So let's set that aside too as an issue.

I guess the question is: how will the current FHA program be negatively impacted if this bill becomes law?

Mr. WEICHER. I do not think the program will be negatively impacted.

Mr. GARY G. MILLER OF CALIFORNIA. Thank you. I think that is what Mr. Frank was trying to get to. And we agree with you. We do not think it will be either.

I mean, we understand that if we do not set parameters, there could be things that go wrong. But if we say that the buyer has to qualify, we have to provide authority and if that happens, the FHA program really will not be impacted in a negative fashion.

The problem we face and I guess the reason this bill is here, if you take the average increases in home prices in not high-cost areas throughout this nation, from 1992 to 2002, it was 52.7 percent or 4.3 percent annually. And based on those type of increases, I am sure that FHA works in many of those areas. Not a problem.

The problem we face is in the areas we are talking about, in high-cost areas—Mr. Frank's State and my State, New York and some others and many of the members of this committee, if you look at individual counties within their states—the home prices have increased by 169.7 percent or 10.4 percent annually. That is the problem.

It is not that the program does not work. It is not that Congress is not trying to provide authority. It is not that we would ever assume anybody should be made a loan who does not quality for a loan.

The fact is that if you are willing to buy entry level housing in these high-cost areas, you did not increase 4.3 percent in costs over the 10 year period. You increased 10.4 percent.

That puts those people who want to be first-time homebuyers out of the equation. And that is something that is absolutely beyond their control. I mean, if it could be controlled, they would control it.

If the local housing market could control it, they would control it. The problem is with the regulatory barriers, the demands on these areas, the basic costs associated with the Endangered Species Act in California that we have that really impacts our marketplace and other things, we have created a situation or the situation has been created whereby a good program—FHA—is just not available because of change.

And that is what we are trying to do here. We are saying things have changed. Now we need to change to accommodate that change.

We are not trying to do something that is unreasonable. We are not trying to create an impact on the program where it will not be solvent in the coming years.

We are saying that things have changed. And when you go to Congress and you say we need to increase authority for the amount you can lend, it is based on change. And we can say, based on this bill, how that will change the situation to expand the program to create equality and equity throughout this nation for first-time homebuyers. It is going to take more authority.

I do not think you are going to have a problem at all having Congress come back and say, "We are going to give you more authority." The problem is if we do not change things, if we do not look realistically at this, if we do not look realistically at conforming loan limits—and understand that the private sector, the bankers and stuff, have to be safeguarded on the conventional market—if we do not start looking at some of these things, the situation we have in this country for housing is going to become worse.

The goal is to provide available, ready financing that makes sense to people. The zero down payment that Mr. Tiberi introduced, I think it makes a lot of sense.

I am just envious. I am envious. And even Mr. Tiberi is going to be envious when he looks at the fact that Delaware County, the median income—the median home price is $259,000 and FHA only goes to $208,000, so that will not even work in his district and he is the author of the bill.

So we are trying to say we do not want to do anything that has a negative, detrimental impact on FHA. I do not want to do that. That is not my goal. I am not trying to create a subsidy. I am not trying to create anything other than a program that works.

And I believe when you take the issues off the table that need to be taken off—like that yes, you have to qualify; yes, we need to increase loan authority—what we are trying to do has no negative impact on FHA. In fact, we believe that it enhances FHA and it goes in the direction we want HUD to go.

And I saw the red light come on. So I am going to have to yield back the balance of my time.

But I know Mr. Frank wants to expand on that. But I think we got our answer, Mr. Frank. It has no negative impact, I think, aside the couple of issues that we have set aside that we know are understandable.

And I would love to talk to you about this further privately. We are going to run out of time. And with that, I yield back the balance of my time.

Chairman NEY. The gentleman from Massachusetts?

Mr. FRANK. I just want to return to the argument we got, which is that the negative is that it somehow is unfair to the private sector. But the private sector is a differentiated group.

One very important part of the private sector in the housing areas is the realtor profession, a very important profession when it comes to single family homes. They are very much in favor of this bill. The realtors are pretty private sector.

The mortgage bankers are in favor of some increase. They have a question about the interaction with the conforming loan limit.

The home builders similarly think we should raise the limit, although they do not want it to go without limit, they said. They want it to be above the current ceiling but less than the median house price.

So we are talking about at least three important groups here—the mortgage bankers, the realtors and the home builders—who are supportive of some increase. The realtors are very enthused.

Which—and let me also ask you this because in other parts of the country where the FHA lends to the median, where the median is within range, is the existence of an FHA lending to people who are buying homes within the median income unfair to the private sector in Kansas and Nebraska and Kentucky and places? Do you think it is unfair to the private sector in those places?

Mr. WEICHER. We do not quite go to the median. We go to 95 percent of median.

Mr. FRANK. Okay.

Mr. WEICHER. But——

Mr. FRANK. Do you think it is unfair to the private sector in those places where you go to 95 percent of median?

Mr. WEICHER. No, I do not think it is unfair. I do think that the——

Mr. FRANK. Why not?

Mr. WEICHER.—the institutions, the segments of the industry that I am referring to are the lending side.

Mr. FRANK. Okay, just the lenders.

Mr. WEICHER. Not the builders and realtors. We do not compete with them.

Mr. FRANK. So the question is: why is it unfair to the lenders to have the FHA lend to the median in Boston?

Mr. WEICHER. The median in Boston——

Mr. FRANK. But why is it unfair to them?

Mr. WEICHER.—carries you so far into the high end of the income distribution that you are really not serving the first-time homebuyers that we are there to serve.

Mr. FRANK. No, no. I did not ask you what——

Mr. WEICHER. In other areas, we are serving——

Mr. FRANK. You understand English better than you pretend. Why is that unfair? You just restated the point. Why is that unfair to the private lender?

Mr. WEICHER. Why is it unfair to serve up to $430,000 in Boston?

Mr. FRANK. Why is it unfair? No, you said the harm was that it was unfair to the private sector. And you said you meant the lenders. I am listening to you and I am trying to ask: what is unfair about that to the private lender, having it be FHA eligible?

Mr. WEICHER. Our purpose——

Mr. FRANK. What is unfair about it for the private lender?

Mr. WEICHER. Our purpose is to serve first-time homebuyers. And that is who we try to serve. And in those ranges, we are not reaching first-time homebuyers.

Mr. FRANK. Okay, Dr. Weicher——

Mr. WEICHER. We are reaching people who the——

Mr. FRANK. You are being deliberately evasive.

Mr. WEICHER. I am not trying to be, sir.

Mr. FRANK. You keep restating that. I understand that. I asked you what the harm was in that. And you said it is unfair to the private sector. You said that. Do you remember that?

Mr. WEICHER. Yes, certainly.

Mr. FRANK. And I am asking you now, I want to understand the mechanism by which it is unfair in the Boston area or in parts of California. How is it unfair if the FHA guarantees the loan? How is that unfair to the private lender?

Mr. WEICHER. Private lenders serve that market. And they serve that market——

Mr. FRANK. So if there is a market that is being served by the private lender, it is unfair to the private lender for the FHA to step in?

Mr. WEICHER. It is unfair to use the full faith and credit of the government of the United States——

Mr. FRANK. Which is the FHA.

Mr. WEICHER.—where there are private alternatives that serve the market.

Mr. FRANK. In Kansas and Nebraska and the Dakotas, does the private market serve people who are trying to buy homes at 95 percent of median?

Mr. WEICHER. The private market serves them. But it is also true——

Mr. FRANK. No, no. Just answer my question.

Mr. WEICHER. It is also true that we serve them. And we have no protection from competition.

Mr. FRANK. Okay. You want to evade the question here.

Mr. WEICHER. No.

Mr. FRANK. Does the private market—I am talking now only about the unfairness element—does the private market fail to serve 95 percent of median in those states that I have been talking about?

Mr. WEICHER. Those are the markets we serve.

Mr. FRANK. Excuse me, does the private sector——

Mr. WEICHER. Those people we serve. The private sector, which has no bar to serving, to competing with us in those markets, does not compete with us.

Mr. FRANK. If there was no FHA, do you think there would be a failure to serve people at 95 percent of the market in those areas?

Mr. WEICHER. I think there would be a failure to serve many of the people we now serve or they would be served at substantially higher costs than they are being served.

Mr. FRANK. Okay, so that is the issue.

Mr. WEICHER. Well, either could——

Mr. FRANK. Either way, right. So that you think it is unfair to the private sector if, as a result of the FHA, some people who would be served would be served at lower costs. And I think that is right.

But what you are telling people who happen to live in an area where they are already penalized because the home price—median home price—is so high that, to the extent that they can get some help with the cost, we will not give it to them even though there is no harm. And that is my problem.

I think the fact that, even without the FHA, yes there would be private lenders who would help people in these 95 percent median areas. They would have to pay more.

And what you are saying is that people who live in high-cost areas, they should have to pay more, even though, as we said, no harm is being done.

Mr. WEICHER. Again, we are trying to serve the first-time homebuyer.

Mr. FRANK. I do not care. But you keep saying that. And that is not the answer—do you really not understand the difference between a statement as to what the purpose of the program is and then a question as to what harm is being done?

Let me put it to you this way. It will make you feel better.

Given that this is the purpose as you see it, what harm is done from deviating from the purpose. I guess that would be the way to put it. You really cannot answer that by just restating the purpose, can you?

Mr. WEICHER. FHA is not harmed, to our knowledge, by serving people who are buying homes in this price range.

Mr. FRANK. Who is harmed?

Mr. WEICHER. We are——

Mr. FRANK. Who is harmed?

Mr. WEICHER. We are——

Mr. FRANK. Who is harmed?

Mr. WEICHER. The private lenders who would serve that market are at a disadvantage.

Mr. FRANK. Okay. So your basic point is that we should not give FHA coverage of median prices in our high-cost areas because it would harm the private lenders who would otherwise be able to make more money than they make.

Thank you.

Chairman NEY. Thank you.

Mr. Miller?

Mr. GARY G. MILLER OF CALIFORNIA. Thank you, Mr. Chairman. Expanding on what Mr. Frank is getting to—and I agree—I am very concerned that whenever we do something, we are not cutting into some private sector marketplace. And I have talked to the bankers about this.

When we are talking about conforming loan limits, my first meeting was with bankers saying, okay, the conventional market has grown tremendously because the cost of housing has risen so much that many of the programs are not available that currently were available. And FHA is one of those.

If you look at what marketplace FHA has in some of these areas, like in Orange County, only 9.2 percent of the loans would have been available for FHA. In Santa Clara County, only two percent of the loans made would ever qualify for FHA.

In Ventura County, only 7.7 percent of the loans made would qualify for FHA. And that is just qualifying; not saying they got it, but they have qualified for it.

And that is the problem today. I would never propose a bill to come in and cut into the private marketplace. But the problem is the market has grown to such a degree that we are going out of the marketplace because we are not trying to keep up with it in having a share that we normally have historically had in the past.

I mean, the conventional marketplace has grown tremendously, percentage-wise, from what it used to be. I am not looking at impacting bankers and lenders. That is not my goal.

The goal is: how do you keep up with change? Things are changing. I believe it is our responsibility to try to keep up with change. And this bill, I believe, goes a lot in that way.

And maybe we need to look at something on tying this in some way back into conforming, as the process goes through. But I think conforming has to be addressed too, which we are not doing today.

So Mr. Frank and I are not closed to the concept of: we will look at FHA; let us look at something with conforming so there is some rationality here. But conforming is not where it should be today.

But I am not willing to move that until we come to some agreement with the private sector on where it should go to. And that is a process we are undergoing.

And I am well aware of that. And I do not want to infringe upon their fair share of the market. So we need to go there. It is not ready today. But I think we are ready with this in some fashion. Maybe it is a modified fashion. But we do need, I believe in all fairness, to move this. And at that, I thank you for your time, Mr. Secretary.

Chairman NEY. I want to thank the members of the committee. I want to thank Mr. Weicher for participating in the energetic give and take of public debate in the U.S. Capitol. Thank you.

Mr. WEICHER. Thank you, Mr. Chairman.

Chairman NEY. With that, we will move on to panel two. Give a minute for panel two to come forward.

I want to thank the panel. The first witness on the panel is David Berson. And he is Fannie Mae's vice president and chief economist. He is responsible for managing the economics department at Fannie Mae, including forecasting and analyzing the economy, interest rates and housing and mortgage finance markets.

Mr. Berson also advises Fannie Mae's chairman and operating committee on finance, economic, tax and housing policy issues. Welcome.

The next two witnesses I will defer to Congressman Miller for introductions.

Mr. GARY G. MILLER OF CALIFORNIA. Thank you, Mr. Chairman. There are two individuals I would like to introduce. John Eberhardt, first, it is my pleasure to introduce him today. He is president-elect of the California Association of Mortgage Brokers. Mr. Eberhardt has been a mortgage broker for over 13 years. And after moving from Wisconsin to California, he opened Prime Equity Management, which is located in Torrance, California, with this father-in-law, Fred Barth.

He is very active in this company. He is no stranger to the political arena. He had civil involvement where it began in Wisconsin when he served as legislative aid to then-governor Lee Dreyfus.

More recently, in 2002, Mr. Eberhardt was selected by the National Association of Mortgage Brokers to their task force to formulate recommendations for change to the good faith estimate. So I am really looking forward to your testimony today.

The next one is Glenn Hellyer, who I have known for years. He is from my home district. Mr. Hellyer is a realtor, providing real estate services in Southern California for over 25 years.

For the past 4 years, Mr. Hellyer has operated an independent real estate broker and realtor in Yorba Linda, California, offering residential and commercial real estate services. Owing to his vast accomplishments at promoting homeownership, Mr. Hellyer was appointed honorary director for life of the California Association of Realtors and served as president of the Anaheim Board of Realtors.

And I welcome both of you here today. And the panel, it is good to have you here.

Chairman NEY. I want to thank the gentleman and also thank the witnesses today.

Next is Jonathan Kempner. And he is president and chief executive officer of the Mortgage Bankers Association. Prior to assuming his present role in April of 2001, Mr. Kempner was president of the National Multihousing Council for 14 years.

Welcome.

Next witness is Frank Nothaft. And he is Freddie Mac's chief—did I say it correctly? Thank you. He is Freddie Mac's chief economist, where he is responsible for primary and secondary mortgage market analysis and research, macroeconomic analysis and forecasting. He is also involved in the analysis of affordable lending activities and policy issues affecting the housing industry.

Welcome.

Next is Basil Petrou, who is a principal and managing partner of Federal Financial Analytics, Incorporated. The company provides financial analytical services on legislative and regulatory issues to non-bank financial institutions such as insurance companies and mortgage corporations.

Welcome.

And last, but not least, is Barbara Thompson, who is the executive director of the National Council of State Housing Agencies, a national, non-profit organization committed to advancing the interests of lower-income and underserved people through the financing, development and preservation of affordable housing. Ms. Thompson also serves as vice president of the National Housing Conference.

And we will begin with our first panelist, Mr. Berson.

STATEMENT OF DAVID BERSON, VICE PRESIDENT AND CHIEF ECONOMIST, FANNIE MAE

Mr. BERSON. Thank you, Chairman Ney and members of the committee. My name is David Berson. I am vice president and chief economist for Fannie Mae.

I want to thank you for inviting me to testify about this important issue of homeownership affordability in high cost areas. I commend the members of the subcommittee for your attention to and leadership on this issue.

By most national statistical measures, the past 3 years have been the best in history for American housing, homeowners and mortgage finance. The housing boom has reached most regions in the country, including central cities, suburbs and rural areas.

Low mortgage rates and overall record affordability have combined to create 3.2 million more homeowners since 2000, benefiting families and helping energize the nation's economy. And homeownership has been a sound investment. Since 2000, house prices have appreciated on average by about 26 percent nationally.

However, in a growing number of areas, strong housing demand and limited supply has generated even more dramatic price appreciation. Combined with a relatively slow pace of income growth, this is putting homeownership increasingly out of reach for working American families, especially now that interest rates are rising.

Mr. Chairman, in addition to my testimony, I am submitting data for the record that demonstrates this effect and highlights some of the specific areas that are impacted most.

To summarize briefly, home price gains closely track income growth in the long run. If home prices rise consistently faster than income, homes will become unaffordable and demand will drop. Over the past 3 years, home prices nationwide have appreciated on average by 7.6 percent per year, significantly above the rate of income growth, which has averaged 4.5 percent over the same period.

So far this year, home price gains continue to be strong. In several markets, particularly in the East and West Coasts, double-digit home price appreciation has dramatically outpaced income growth. These areas may be susceptible to sharp declines in housing demand, especially when mortgage rates rise.

Although housing affordability remains high nationally, it has become a serious issue for some states. For example, between February and March of this year, the share of households in California able to afford a median-priced home declined by three percentage points to 21 percent.

The California Association of Realtors has recently reported that affordability in the state has fallen to an all time low. Monterey, Northern Wine Country, Orange County and Santa Barbara regions were the least affordable in the state, with only 14 percent of households being able to afford the median-priced home.

The problem is most acute in California, New York and Northeast states such as Massachusetts, Maine, Delaware, New Hampshire and a few others. House prices in California increased more than 14 percent last year, while incomes rose by just over two percent.

In New York and New Jersey, house prices increased by over 12 percent in 2003, while incomes rose by just under 2.5 percent. And in Massachusetts, where home prices went up by over 10 percent, incomes increased by about two percent.

But the problem is even wider than that. We see similar trends in Florida, Maryland, Virginia, Minnesota and even Nevada.

Currently, the median home price in nine metropolitan Statistical areas is above the conforming loan limit. In 1999, that was true in only three MSAs.

These affordability problems emerged in a period of 45-year low interest rates, which helped to offset some of the negative affordability effects of higher prices. The period ahead is likely to be marked by higher interest rates which will erode affordability further even if incomes rise.

Over the long run, home prices and incomes have moved together, and that is our expectation going forward as well.

Mr. Chairman, I recently participated in writing a paper for the Homeownership Alliance entitled, "America's Home Forecast: The Next Decade for Housing and Mortgage Finance," that discusses this in greater detail. I will also submit this paper for the record.

In the short run, however, recent increases in interest rates in response to stronger economic growth and signals from the Federal Reserve of tighter monetary policy will only make affordability an even greater problem. We are already seeing families shift to adjustable rate mortgages or ARMs, especially interest-only ARMs, in order to be able to afford the purchase of a home.

These loans expose homebuyers to greater risk once the initial period of payment stability is over. With short-term interest rates at 45-year lows and likely to rise over the next several years, these homeowners are most exposed to interest rate risks going forward.

Fannie Mae is a private, shareholder-owned company with a public mission to promote and expand homeownership. Our mission is to tear down barriers, lower costs and increase the opportunities for homeownership and affordable rental housing for all Americans.

We take our mission very seriously. Lenders, especially small community banks, depend on us to develop new mortgage products, processes and technology solutions so they can serve more families, serve them better and make the mortgage process faster, easier and cheaper for all involved.

Our investments in technology have increased underwriting flexibilities, expanded markets for our lender partners and, by reducing the cost of originations, enhanced affordability for the home buyer. This January, Fannie Mae took its mission commitments one step further. We launched our Expanded American Dream Commitment, pledging to help 6 million families—including 1.8 million minority families—become first-time homeowners over the next decade.

With this pledge, we set a goal of raising the minority homeownership rate from the current 49 percent to 55 percent by 2014, with the ultimate goal of closing the gaps between minority homeownership rates and non-minority homeownership rates entirely.

Addressing the needs of borrowers in high-cost areas will be crucial to meeting our corporate objectives.

Mr. Chairman, we are very glad to have this opportunity to discuss the very real problems of families living in high-cost areas who do not have access to the benefits provided by Fannie Mae and Freddie Mac. As you know, the families who find homeownership unaffordable in these areas are not just low-or moderate-income families, but also middle-income families.

Many two-earner households cannot afford homes in some of these high-cost areas in the country today. Congress chartered Fannie Mae to expand access to mortgage credit for all of these households—low-income and middle-income.

In 1992, Congress complemented that mission with explicit requirements——

Mr. GARY G. MILLER OF CALIFORNIA. [Presiding.] You will need to wrap this up. Your time is expired.

Mr. BERSON. All right. I will wrap it up.

Mr. GARY G. MILLER OF CALIFORNIA. So much to say; so little time, right?

Mr. BERSON. Exactly.

Mr. Chairman, thank you for holding this hearing highlighting the critical issues for millions of families around the nation.

Let me conclude, Mr. Chairman, by stating that Fannie Mae is in favor of legislation that helps homeownership opportunities, especially for underserved populations.

Thank you, Mr. Chairman.

[The prepared statement of David Berson can be found on page 59 in the appendix.]

Mr. GARY G. MILLER OF CALIFORNIA. Well, you have done a wonderful job. Thank you, Mr. Berson.

Mr. Eberhardt?

STATEMENT OF JON EBERHARDT, PRESIDENT ELECT, CALIFORNIA ASSOCIATION OF MORTGAGE BANKERS

Mr. EBERHARDT. Mr. Miller, Mr. Frank, thank you for having me here today.

My name is Jon Eberhardt. And I am the president-elect for the California Association of Mortgage Brokers, a state affiliate of the National Association of Mortgage Brokers, NAMB. And NAMB is the largest organization of individual loan originators in the country.

NAMB has a membership of over 24,000 originators and affiliates and supports consumer education and a code of ethical conduct by its members. Like my NAMB colleagues, I originate loans for a living and have done so since 1991.

My company, Prime Equity Management, located in Torrance, California, is a medium-sized shop with 10 originators. We are certified to originate FHA insured loans as an FHA correspondent.

I am here today to speak in support of H.R. 4110.

The Los Angeles Times recently reported that Los Angeles County's median home price jumped 20 percent in the past 12 months to $379,000. Entry level houses in Los Angeles County that traditionally sold for $280,000 are now selling anywhere between $360,000 and $380,000 at the entry level. Yet the FHA loan limit for L.A. County is $290,319.

Twenty-three of California's 58 counties are currently at this $290,319 FHA ceiling, with another six counties approaching the ceiling due to the latest jump in home prices. These 29 counties represent approximately 85 percent of California's population.

California is not alone. High-cost areas exist in states across the country.

Maryland, for instance, has five of 24 counties currently at the $290,319. They have another seven counties that are approaching the limit.

These counties represent a great majority of the population of Maryland. States that currently feature counties at or approaching the maximum FHA loan limit include Pennsylvania, Connecticut, Massachusetts, New York, New Jersey, among others. If you go just south of Washington, D.C. into Virginia, I am sure you would find that they would be in a similar situation.

Recognizing high-cost areas with regard to FHA loan limits is not new to this legislative body. Congress already recognizes high-cost areas in Hawaii, Alaska and various United States territories.

These areas feature an exception that takes their available loan limit to 150 percent of the current FHA ceiling.

The United States now boasts homeownership in excess of 60 percent. Minority homeownership is over 50 percent. Both of these numbers are the highest in history.

Home prices are driven by an increased demand for homes which outpaces sales of existing homes and new development. I would like to make the observation that if we put five million new homebuyers in homes before the end of the decade, that probably home prices will continue to increase.

To facilitate the demand for homes, certain steps should be taken to accommodate buyers, particularly first-time homebuyers. FHA insured loans are more accommodating to first-time homebuyers than other types of loan programs, as they are designed to include flexibility for debt ratios, income and credit history. Such flexibility is not included in conventional lending guidelines.

FHA insured loan programs should serve as a permanent backstop for all first-time homebuyer programs. By creating the ability for FHA loan programs to float up and down, matching 100 percent of the local median home price, the legislation seeks a logical loan limit that will benefit both the housing industry and the consumer.

Why is this particular solution needed? I am going to skip down, because I am going to miss my five minutes.

So currently purchases of new homes are restricted through a legislatively mandated ceiling derived from a complicated formula. H.R. 4110 simplifies the process by instead tying the FHA loan limit to the local area median prices. The working families that live in areas that exceed the FHA ceiling, yet need and qualify for an FHA insured loan, should not be penalized because of where they live.

This committee has already approved beneficial legislation in H.R. 3755, the Zero Down Payment Act of 2004. However, one must ask the question: how many homebuyers are not going to have access to the zero down program due to the current FHA ceiling?

Finally, over the past several years, I have averaged three to four FHA deals a month. The last FHA insured loan that I did was in October of 2003. That is 9 months ago.

In my experience, minority first-time homebuyers are often the hardest hit. The type of loan that has replaced the FHA insured loan has a higher incidence of default.

Mr. GARY G. MILLER OF CALIFORNIA. You need to wrap up.

Mr. EBERHARDT. Before I conclude, I would like to thank Mr. Miller for noting that this bill would not just serve high-cost areas. His remarks contained a list of counties across the country where the FHA loan limit is well below the median home price in those counties. I am thinking of Delaware County in Ohio, Door County in Wisconsin.

This legislation has the support of mortgage brokers throughout the country.

Mr. GARY G. MILLER OF CALIFORNIA. You will need to wrap up, sir.

Mr. EBERHARDT. H.R. 4110 is an essential tool to further increase homeownership. Thank you.

[The prepared statement of Jon Eberhardt can be found on page 84 in the appendix.]

Mr. GARY G. MILLER OF CALIFORNIA. Thank you, Mr. Eberhardt.

Mr. Hellyer? Yes, you may proceed.

STATEMENT OF GLENN HELLYER, REALTOR, YORBA LINDA, CA

Mr. HELLYER. Sir, it is an honor that you invited me to be here today. And I appreciate your invitation.

My thanks to Chairman Bob Ney, Vice Chairman Mark Green, Ranking Member Maxine Waters and all the members of the subcommittee for inviting me here today to testify on H.R. 4110.

This bill will enable more prospective homebuyers to achieve the American dream of homeownership.

My name is Glenn Hellyer. And I have been a realtor in Orange County, California for over 25 years. I have represented homebuyers and homeowners all throughout Orange County and the neighboring counties.

In years past, I have used FHA loans to help first-time homebuyers, low- and moderate-income buyers and buyers who could not qualify for conventional loans because of high loan-to-value ratios or high payment-to-income ratios. FHA loans are no longer a useful product for prospective homebuyers in high-cost areas of the country like my area because its maximum loan limits are restrictive.

As a result, working families such as teachers, police officers, fire fighters, nurses and others have all been left behind just because of their location, their geographic location. H.R. 4110 would correct this inequity.

Housing prices in California, Massachusetts, New Jersey, New York, Connecticut and I am sure other states, have experienced tremendous growth over the past few years. Unfortunately, the FHA loan limits have not grown in a manner to mirror the growing cost of homeownership in these areas.

Another burden that has not been discussed today has been those workers who may only qualify under FHA loan guidelines but are restricted by the current loan limits we find on our already overcrowded roads, having to commute long distances every morning and evening.

FHA has played an enormous role in helping families realize the dream of homeownership at no cost to taxpayers. However, there are many Americans who are not able to realize this dream. Those who happen to live in communities with high housing costs are not afforded the benefits of FHA simply because of the current loan limits.

H.R. 4110 would eliminate the current loan limit ceiling and allow FHA limits to rise to the median home price in each locality. Working families who need and qualify for FHA should not be penalized because of their geographic location. H.R. 4110 would correct this disparity and make FHA loans available to all prospective homeowners nationwide.

I appreciate the opportunity to provide you this testimony. And I will be happy to answer any questions you may have.

[The prepared statement of Glenn Hellyer can be found on page 89 in the appendix.]

Mr. GARY G. MILLER OF CALIFORNIA. Thank you, Mr. Hellyer.

Mr. Kempner?

STATEMENT OF JONATHAN L. KEMPNER, PRESIDENT AND CEO, MORTGAGE BANKERS ASSOCIATION

Mr. KEMPNER. Thank you.

Good morning, Congressman Miller. I am Jonathan Kempner, president and CEO of the Mortgage Bankers Association. Thank you for inviting MBA to share its views on H.R. 4110.

We believe that H.R. 4110 highlights the critical and unique role of FHA in expanding homeownership opportunities for those families that are unserved or underserved, especially first-time, low- and moderate-income and minority homebuyers. To this purpose, FHA has a tremendous track record.

Over the past 70 years, MBA and our members have worked in close partnership with FHA to deliver affordable, long-term financing. Today, MBA members originate and service the vast majority of FHA loans each year.

Nowhere inside or outside the Beltway will you find a stronger advocate for FHA than the Mortgage Bankers Association. In 1998, MBA strongly advocated for the successful increase in FHA's maximum mortgage limits that raised the minimum limit to 48 percent and the maximum limit to 87 percent of the Freddie Mac conforming loan limit.

This incremental change broadened the housing stock that was available to FHA borrowers and allowed FHA to serve a larger number of high-cost areas. H.R. 4110 proposes to adjust the FHA mortgage limit from 95 percent of an area's median home price to 100 percent.

Additionally, H.R. 4110 would remove the 87 percent ceiling on FHA mortgage limits. This latter provision would result in FHA mortgage limits in certain areas of the country exceeding—and in some cases, far exceeding—the conforming limit.

We support raising FHA's mortgage limits to 100 percent of an area's median home price, but believe it best to cap these mortgage limits at the conforming limit. We believe that aligning FHA's loan limits with the conforming limit will appropriately broaden the housing stock available to FHA borrowers in many high-cost areas without shifting FHA from its stated mission of serving first-time homebuyers and the underserved.

MBA bases our position on the following three principals: first, FHA's core mission should stay squarely focused on the modest end of the mortgage market. Fannie Mae and Freddie Mac, as federally charted enterprises, define the conforming market that includes the majority of first-time and low-income homebuyers, which are FHA's primary target. FHA's primary mission should be to operate within this conventional market and not exceed it.

Second, the benefits of FHA mortgage limits in excess of conforming loan limits are unclear. Currently, the jumbo mortgage market is robust, with private lenders providing a wide range of jumbo products throughout the country. Greater analysis is necessary before it is clear whether FHA could develop a product that would bring improvement to the jumbo mortgage market.

Finally, FHA may not be well positioned to step outside its core mission and manage a jumbo loan program. Currently, FHA is focused on providing homeownership opportunities for those with less income, poorer credit or no credit. While FHA has had success with these borrowers, it has not been without management challenges. It is unclear whether or not FHA, in its current structure, has the capacity to appropriately identify and manage the risks of jumbo mortgage products.

In closing, I would like to reiterate MBA's support for an incremental approach in raising FHA's mortgage limits by benchmarking mortgage limits to 100 percent of an area's median home price and capping the maximum FHA mortgage limit at the conforming limit.

Thank you for giving MBA the opportunity to testify on H.R. 4110. We look forward to working with Representative Miller, Representative Frank and the subcommittee on this important legislation.

[The prepared statement of Jonathan L. Kempner can be found on page 91 in the appendix.]

Mr. GARY G. MILLER OF CALIFORNIA. Thank you, Mr. Kempner.

Mr. Nothaft? Is the correct, Nothaft?

STATEMENT OF FRANK E. NOTHAFT, CHIEF ECONOMIST, FREDDIE MAC

Mr. NOTHAFT. Yes, that was pretty good.

Thank you, Chairman. I am Frank Nothaft, vice president and chief economist of Freddie Mac.

Mr. GARY G. MILLER OF CALIFORNIA. Excuse me, you need to turn your microphone on.

Mr. NOTHAFT. Thank you. I welcome the opportunity to be here today to discuss H.R. 4110, the FHA Single Family Loan Limit Adjustment Act of 2004. Freddie Mac supports efforts by Chairman Ney, Congressmen Miller and Frank, Congresswoman Waters and other members of the committee to help meet affordable housing needs in all neighborhoods, and especially in high-cost markets.

We believe that these needs are best served by a higher loan limit for FHA, coupled with a higher loan limit for Freddie Mac and Fannie Mae, in high-cost markets. This will expand the market, provide more access to credit and lower homeownership costs.

H.R. 4110 is an important vehicle to focus congressional attention on meeting the urgent need for affordable housing.

Housing affordability is an issue in all high-cost markets across the nation. As an example, in March, the median sales price of a single family home was $428,000 in California and was $560,000 in San Francisco.

In 2003, the median price of a home in Boston was $413,000. In these and other high-cost markets around the nation, a higher FHA loan limit and a higher loan limit for Freddie Mac and Fannie Mae would be vehicles for bringing low-cost, accessible mortgage credit to more families.

Today, I will first discuss general effects of an FHA loan limit increase upon the overall mortgage market and then provide some specific comments on H.R. 4110.

There are two effects of raising the FHA loan limit on the overall mortgage market. First, a higher limit will draw additional borrowers into the market, expanding the overall size of the home purchase origination market.

Second, by providing an alternative source of mortgage insurance, it will draw some borrowers from the conventional market. We have conducted analysis at Freddie Mac to parse out both effects with market data. Our analysis was focused on the previous jump in FHA loan limits that was enacted in 1998.

What we found was that the higher FHA limits increased overall home purchase for the population of loans that fell within the new, higher FHA loan limits. The number of conventional loans and the number of privately insured loans was reduced.

We estimated that the overlap with the conventional market was between 22 percent and 49 percent of the new volume of FHA loans. The midpoint of this range, or 35 percent, is very close to the estimate of the overlap computed by the General Accounting Office in a 1996 report.

I will now describe some observations I have on H.R. 4110. H.R. 4110 alters the FHA loan limit in two respects. First, it eliminates a maximum loan limit by decoupling the link to the Freddie Mac loan limit. Second, it sets the FHA loan limit at 100 percent of the median house price, up from 95 percent.

Eliminating the maximum loan limit means that the FHA limit will exceed the Freddie Mac and Fannie Mae loan limit of $333,700 in a number of markets. In Manhattan, the median value of owner-occupied single family homes is in the neighborhood of $1.5 million. Likewise, the FHA loan limit in the San Francisco metropolitan area would approach $750,000.

Congress should consider carefully what it wants the FHA program to accomplish and how best to achieve its policy objectives. Currently, there are 82 counties that are at the FHA maximum loan limit, including the New York, San Francisco and Boston metropolitan areas.

Maintaining a maximum loan limit, perhaps linked with the Freddie Mac loan limit, would assure that FHA continues to serve its intended borrower population, while assuring families greater access to a wider alternative of housing finance options.

A second part of H.R. 4110 increases the loan limit for those areas where it is currently set at 95 percent of the median house price. The proposed increase to 100 percent of the median house price will affect 539 counties in the nation.

The families who will benefit from FHA's lower down payment requirements and higher payment-to-income ratios will tend to be lower-income, have less savings and be first-time homebuyers. However, some of these borrowers would also have qualified for a conventional, privately insured loan.

We estimate that several thousand lower-income and minority homebuyers, who otherwise would have qualified for and taken out a conventional mortgage, will opt for the FHA insured loan.

Because the FHA program touches so many aspects of the mortgage market, it is also important to look at how the overall strength of the FHA insurance fund could be impacted by the legislation. Increasing the FHA loan limit would also have an impact on our ability to meet the affordable housing goals proposed by HUD.

HUD's market analysis was completed months ago and did not factor in an FHA loan limit increase. Thus, the FHA loan limit increase will make it more difficult for us to make the proposed goal levels.

Dick Syron, Freddie Mac's new CEO, has defined a mission-centric focus to our activities. Included within this is a new product development to help meet the affordable housing needs in all neighborhoods.

Congressional action to support affordable housing throughout the nation, and especially in high-cost markets, is well justified. And we support your efforts to ensure that America's families have affordable housing in the cities in which they work.

Mr. GARY G. MILLER OF CALIFORNIA. You will have to wrap up.

Mr. NOTHAFT. As I have stated, we believe that these families are best served by a higher loan limit for FHA, coupled with a higher loan limit for Freddie Mac and Fannie Mae. This will expand the market, provide more access to credit and lower homeownership costs and make home possible for more of America's families.

Thank you.

[The prepared statement of Frank E. Nothaft can be found on page 96 in the appendix.]

Mr. GARY G. MILLER OF CALIFORNIA. Thank you, sir.

Mr. Petrou?

STATEMENT OF BASIL N. PETROU, PRINCIPAL AND MANAGING PARTNER, FEDERAL FINANCIAL ANALYTICS, INC.

Mr. PETROU. Thank you. Discussion of the FHA loan limits usually fail to address a key fact. Raising the FHA loan limits only serves those borrowers who already have the high income necessary to otherwise qualify for the loan.

Uncapping the FHA loan limit will not allow a borrower with a $50,000 income to qualify for a $300,000 FHA insured, 30-year, fixed rate mortgage, even at today's low rates. If interest rates rise, the larger FHA loan is placed that much further out of the reach of the moderate income borrower.

Mr. Weicher addressed some of these income classification issues. But no matter how one looks at these income requirements for the new, higher FHA loan limits that would be resulting from this bill, they target the very top of individual income taxpayers.

Only the top 8.5 percent of all individual income tax returns in 2001 had adjusted gross income of over $100,000. And only the top two percent were above $200,000, where some of the high limits would take us. Furthermore, 77 percent of the tax returns between $100,000 and $200,000 reported a deduction for home mortgage interest, indicating the filer already owned a residence.

In short, if FHA starts targeting loan amounts where borrowers are required to have incomes of $135,000 to $200,000 or more, then it can safely be said that these borrowers are at the very top income categories and are almost assuredly not first-time homebuyers. In my view, this is not and was never meant to be the target market for FHA single family mortgage insurance.

Additionally, uncapping FHA limits in high-cost areas may act to push some housing further out of reach of low- and moderate-income borrowers. There is some evidence from previous FHA loan debates that higher FHA limits may serve to raise the cost of new housing that is made available to FHA-eligible borrowers in an area subject to the higher limits.

Moreover, the higher FHA loan limit does nothing for the moderate income borrower who qualifies for a loan amount below the old FHA limit. While that borrower gains nothing, he or she may well suffer as the market focuses on the new availability of FHA insurance at the high end.

Implicit in H.R. 4110 is the assumption that the current way FHA sets area loan limits falls short of matching the area's true median house price. In fact, just the opposite is the case.

The current system ties the calculation of the median house price for an MSA to the median house price in the highest-cost county within the MSA. The result is that the FHA limit for the MSA is clearly not reflective of the true median house price for the entire MSA. It is higher.

Shifting the FHA area limit calculation from 95 to 100 percent of the calculated amount will only aggravate the current distortion. It is commonly assumed that borrowers with higher incomes are for, some reason, safer credits than low- and moderate-income borrowers.

Evidence from private industry shows that this is not the case when considering low down payment borrowers during periods of regional economic stress and falling home prices. Past experience with regional downturns in house prices has shown that houses at the upper end of the house price distribution scale are likely to suffer more serious declines in property values than more moderately priced houses.

During a period of economic stress and falling home prices, the lack of liquidity at the higher end of the house price market will be felt to the detriment of the holder of these mortgages. Since FHA insures 100 percent of the loan amount, the FHA stands to lose a great deal in this situation.

Just as new borrowers paid the higher FHA loan premiums needed to return the single family mortgage fund to economic solvency in the early 1990s, so too will future moderate income borrowers bear the higher cost associated with the losses resulting from defaults on larger FHA loans in the event of a future regional decline in house prices.

Will there be a regional house price decline that will result in higher losses to FHA? We do not know. But we do know that low- and moderate-income borrowers gain nothing and may well lose from retargeting FHA to higher-income borrowers.

Why would Congress want to run that risk when so much more needs to be done to provide affordable housing for minorities and low- and moderate-income borrowers and renters? Unlike the current process of targeting borrowers by setting FHA loan limits, targeting FHA to borrower income would ensure the program promotes homeownership for those borrowers whose needs remain unmet by private markets.

Income targeting would enhance homeownership even in high-cost areas without creating a subsidy for higher-income borrowers or an incentive for higher home prices that may cut lower income borrowers out of homeownership. Income targeting does not mean that every area of the country must have the same top limit—be it 80 percent, 100 percent or even 120 percent of area median household income.

However, it is critical to set the income limits in a way that puts taxpayer-supported programs to work for those potential borrowers in the neighborhood who need them the most. Income targeting the FHA single family program also assures that the insurance subsidy remains with targeted borrowers during periods of rising interest rates. As mortgage interest rates rise, the amount of income needed to qualify for a given FHA loan amount also rises.

In other words, the FHA loan limit approach of targeting borrowers leaves low- and moderate-income families behind during periods of rising interest rates. In my opinion, the FHA program should do just the opposite. During periods of rising rates, it should assure that its subsidy remains targeted to the low- and moderate-income borrower and first-time homebuyer.

Income targeting the FHA single family program will assure that this happens. If we increase the——

Mr. GARY G. MILLER OF CALIFORNIA. You will need to wrap up your testimony, sir.

Mr. PETROU. If we increase the scope of FHA without focusing it on the real needs of underserved borrowers, we run the risk of undercutting the program and its ability to serve those who need it at the time when they need it the most.

[The prepared statement of Basil N. Petrou can be found on page 102 in the appendix.]

Mr. GARY G. MILLER OF CALIFORNIA. Thank you, sir.

Mrs. Thompson?

STATEMENT OF BARBARA J. THOMPSON, EXECUTIVE DIRECTOR, NATIONAL COUNCIL OF STATE HOUSING AGENCIES

Ms. THOMPSON. Thank you, Representative Miller and Ranking Member Frank. I am Barbara Thompson, executive director of the National Council of State Housing Agencies. Thank you for this opportunity to testify on behalf of NCSHA in support of H.R. 4110.

NCSHA represents the housing finance agencies of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico and the U.S. Virgin Islands. State HFAs issue tax-exempt private activity bonds, allocate the Low-Income Housing Tax Credit and administer HOME funds to finance affordable homeownership and rental housing for lower-income and moderate-income families.

I want to thank you, Representative Miller, and Ranking Member Frank for introducing H.R. 4110, which will help many more families in this country achieve homeownership.

FHA Mortgage Insurance is essential to the success of the Mortgage Revenue Bond first-time homebuyer program, which HFAs operate in every state. MRBs have made homeownership possible for more than 2.4 million low- and moderate-income families. Another 100,000 families become homeowners each year with MRB mortgages.

In 2002, nearly 60 percent of all MRB loans financed by state HFAs were insured by FHA. In some states, including Ohio, Utah, and Mississippi, that percentage was 90 percent.

MRB borrower use of FHA insurance is widespread for many reasons. FHA is frequently less expensive for the borrower than private mortgage insurance. FHA down payment requirements are generally lower. And, FHA is often the best option—sometimes the only option—for homebuyers with low credit scores.

Unfortunately, in some high-cost areas of the country, FHA insurance is not as useful as it might be because its maximum mortgage limits lag median home prices. As a result, some working families have limited or even no access to FHA insurance, making it difficult for them to buy homes in the communities where they live and work.

Current FHA limits constrain the availability of MRB first-time homebuyer loans in some metropolitan areas of many states. The maximum mortgage limit is simply too low in some high-cost areas for MRB borrowers to purchase MRB-eligible homes with FHA insurance.

In Boston, for example, a family earning the maximum income allowable under the MRB program could afford a home priced at 78 percent of the median purchase price. However, this family could not buy that home with FHA insurance because the FHA maximum mortgage limit is 71 percent of the median purchase price.

In Oakland, an MRB-qualified family earning the maximum allowable income could afford a home priced at 67 percent of median purchase price but could not buy that home with FHA insurance, which in that area is limited to 59 percent of the median purchase price.

FHA limits also constrain MRB borrowing in places you might not think of, like Madison, Wisconsin, Minneapolis, Minnesota and Ann Arbor, Michigan.

H.R. 4110 would enable families living in these and other high-cost areas to access FHA-insured MRB loans and a larger universe of moderately priced homes.

Before closing, I want to thank you for your continued help and ask for your continued help in removing another serious constraint on the MRB program, the Ten-Year Rule. This rule each year prevents tens of thousands of first-time homebuyers from benefiting from MRB mortgages. It forces states to use payments on MRB mortgages to retire bonds outstanding, rather than fund new mortgages to low- and moderate-income families.

The Ten-Year Rule will cost states $3 billion in MRB mortgage money this year. Massachusetts loses $288,000 a day; Ohio, $450,000; and California, $1 million a day to the Ten-Year Rule.

The Housing Bond and Credit Modernization and Fairness Act, H.R. 284, would repeal this rule. It has 348 House cosponsors. The corporate/jobs tax legislation passed by the Senate last month and reported by the Ways and Means Committee just this week appears to be the only possible vehicle for passage of Ten-Year Rule relief this year.

The House bill does not contain the relief. The Senate bill includes a one-year repeal of the rule and prospective repeal for bonds issued after the bill's date of enactment.

Please help us ensure the survival of the Senate Ten-Year Rule relief provisions in conference. Please communicate your support for it to Ways and Means Chairman Thomas and House leaders.

Thank you for this opportunity to testify.

[The prepared statement of Barbara J. Thompson can be found on page 113 in the appendix.]

Mr. GARY G. MILLER OF CALIFORNIA. Thank you, Mrs. Thompson.

Mr. Nothaft, you made a couple of good points, I think. You talked about the median income home in certain areas. And you talked about in some areas it goes to $1.5 million and whatever and somewhat tying the maximum in with conforming in some way. Not a bad concept, I think. Maybe Mr. Frank and I would look at that as this bill proceeds.

You had a concern with FHA's capacity to manage this new program. I would like you to expand on that and then would you give me an idea on the cost of a conventional versus FHA to a buyer?

Mr. NOTHAFT. I do not have the information on the price.

Mr. GARY G. MILLER OF CALIFORNIA. Is your microphone on?

Mr. NOTHAFT. I think so.

Mr. GARY G. MILLER OF CALIFORNIA. Okay. Yes, that is better.

Mr. NOTHAFT. I do not have the information on the pricing at my fingertips. But as I recall, let's say comparing FHA Mortgage Insurance with private mortgage insurance, they are very competitive for loan-to-values of around 95. FHA becomes a little less expensive relative to private insurance when you get up to about 97 LTV. When you are below a 95 loan-to-value ratio, generally the private mortgage insurance is less expensive than FHA Mortgage Insurance.

I do not recall mentioning any concerns I had about capacity. I think the capital markets are actually very broad. And the FHA loans are financed primarily through the Ginnie Mae mortgage-backed securities program.

Ginnie Mae mortgage-backed securities are issued into the broader capital markets, which are very deep. So I do not think there would be any capacity concerns.

Mr. GARY G. MILLER OF CALIFORNIA. The new zero down payment we are hopefully going to be able to start through FHA, if we somewhat had a cap on this thing so it just did not go through the roof, you know, to conforming or whatever, wouldn't you think this would be a beneficial program to have an increase in, to provide that opportunity for people who are working real hard, but they are renting right now? They do not have discretionary 20 percent down or whatever would be required. Wouldn't you think that would be a tremendous benefit?

Mr. NOTHAFT. There are parts of the bill that are very much aligned with the objectives that Freddie Mac has too, such as the increased homeownership.

Mr. GARY G. MILLER OF CALIFORNIA. The limit is the main concern. Okay, thank you.

Mr. NOTHAFT. Absolutely. Absolutely.

Mr. GARY G. MILLER OF CALIFORNIA. Mr. Petrou, you talked about the concern that you had with difficult situations in the economy or whatever, if FHA was in the marketplace. During the 1990s recession—you do recall that one; I recall it well as a developer—that was as severe as I have seen, for a more protracted time even than most.

I mean, if the 1980s recession was a good hit because prime went up to 24. I mean, that made it really tough so people could not sell their home to buy a home. It was a different type. We recovered from that much quicker.

The 1970s was the same way. We had to move past that when the marketplace finally came back in the 1990s. It has been really, really strong since then.

But even during those difficult times of the 1990s, there was no congressional appropriation to FHA for losses. I mean, they revamped the program somewhat.

Generally, FHA makes money for the federal government. Before that, it was even giving money back to people.

Don't you think the system is strong enough to deal with those?

Mr. PETROU. You are right. There was no congressional appropriation during that time. And in part, it was because of FHA loan limits in California and Massachusetts, when both of those states incurred significant losses as home prices collapsed.

The FHA loan limits were set at such a low level that FHA did not experience the kind of significant losses on high LTV properties in those states as did the private sector did.

Mr. GARY G. MILLER OF CALIFORNIA. Loan rates are relative to market addition. The home value in 1989 is not what the home value in the overall marketplace is today. I mean, it has grown tremendously. The upper end is nowhere near what it was in March of 1990.

So based on the given marketplace is still relative. FHA is still going to be, if we do put some kind of a cap on it, it is still going to be at the bottom end of the market. And the bottom end of the market is safe because it is like in a marketplace where the economy goes bad, you are going to sell a whole lot more Fords than Mercedes.

And we have a bigger market for Fords than Mercedes. And if anybody is going to take a big rebate, it is going to be Mercedes, rather than Ford because most people could not afford it.

The homes we are talking about in the FHA price range are the homes that most people can afford and even people in the upper ranges, if they get in difficult situations, can afford that one. Don't you think there are safeguards built on in just the change in the economy alone, where it does not create a different situation than we faced earlier?

Mr. PETROU. No, I do not. I think actually what happened was that the indexing of the FHA loan limit has moved FHA into the market you are talking about. I think this current bill would move FHA further into the market I was talking about, which suffered serious losses in the late 1980s and early 1990s in New England and in California.

Mr. GARY G. MILLER OF CALIFORNIA. In California, FHA had a larger share of the market in 1990 than it does by far today because we have priced FHA out. So FHA is not even there.

Mr. Eberhardt, I guess the other question would be: what is the implication on working families that are working real hard out there if you do not have that access to an FHA program?

Mr. EBERHARDT. If I am buying a home in Wilmington or Carson or Long Beach and I am a first-time homebuyer and the home price there is probably $380,000 or so, and I want to buy that home, currently I have to take a look at other options opposed to or aside from FHA. I look at conventional.

If I do not have a conventional type credit score, I cannot get a conventional loan. So then I would probably go backwards and take a look at sub-prime. Sub-prime loans——

Mr. GARY G. MILLER OF CALIFORNIA. So you are going the wrong direction?

Mr. EBERHARDT. Yes, you are going the wrong direction.

Mr. GARY G. MILLER OF CALIFORNIA. That is exactly what I thought and what I wanted to hear.

Glenn, what do you think—Mr. Hellyer—would be the typical loan that replaces FHA? Is this back on the same line?

Mr. HELLYER. It is more expensive, Mr. Miller. And that is the problem. You have those folks that may not have the FICO requirements to get a conventional loan, may not have the down payment.

They have to now try to save. They have to work their credit up in order to get in to qualifying.

I will give you an example as to how impossible that is in Orange County. Last month, the Orange County Register ran an article that said that the median price rose over the last year in an amount equal to—wait for it—$323 a day. Nobody can save that much. There is no way.

And there are first-time buyers in the $400,000 range. There are those that can qualify on the payment, I mean with the current interest rates.

But no conventional loan product that I know of enables those folks to buy, at least not buy in their marketplace in Orange County. We see—and I reference this in my earlier remarks—that we see people having to drive away from the employment center, crowd the freeways.

And it is because they want to own. They want that opportunity to gain equity. But they do not have it in their locale.

Mr. GARY G. MILLER OF CALIFORNIA. So we are actually hurting the people that we are trying to help most by driving them to subprimes instead of giving them the option they should have, basically?

Mr. HELLYER. Sure.

Mr. GARY G. MILLER OF CALIFORNIA. Thank you.

Mr. Frank?

Mr. FRANK. Mr. Petrou, you said that there was evidence that higher FHA area loan limits push up area home prices. Could you tell me about that evidence?

Mr. PETROU. During the debates of the early 1990s, what it was—and it was anecdotal evidence. That is all.

Mr. FRANK. Oh, okay. Thank you. Just anecdotal. So there is nothing in writing you can send me?

Mr. PETROU. I have to go check in the testimony.

Mr. FRANK. All right, would you? Because if it is just anecdotal evidence——

Mr. PETROU. Okay.

Mr. FRANK. I was skeptical, to be honest, because it sounded to me like the kind of argument you throw in. If you have, I would be willing—I take it back. Send me your anecdotes. I will even be prepared to look at those.

Mr. PETROU. Okay.

[The following information can be found on page 123 in the appendix.]

Mr. FRANK. I will not even put them at the bottom of the page, like the Reader's Digest. I will read them up on the top.

But I am skeptical that there is any significant evidence of the FHA loan limits pushing up home prices.

You also say that, quite correctly, these higher loan limits will not do anything to help low- and moderate-income families obtain mortgages. As I said, I agree.

It will not combat cancer. And it will not clean up the rivers. And it will not make America more secure against enemies foreign and domestic.

I freely concede, most bills do not do most things. They tend to do one thing.

But I am interested in your interest—I infer from this—in helping low- and moderate-income families obtain mortgages. Could you tell me some of the previous proposals you have put forward that would be helpful here? I mean, since you have raised the subject, what have you recommended or would you recommend that we do to help low- and moderate-income families obtain mortgages?

Mr. PETROU. I actually testified in front of this committee a few months ago on the zero down payment program.

Mr. FRANK. Okay, we have already done that one. As you know, the committee has already voted that. And we are going to do that.

So anything else besides that?

Mr. PETROU. Well, I have worked with my clients on a variety of private sector affordable housing programs.

Mr. FRANK. Well, I understand. But you are here testifying in Congress. Are there other things we could do to help them?

I mean, I welcome your interest in this. I spend a lot of time on it. I appreciate that you were for the zero down payment, which we have done. Are there any other proposals you would make to help low- and moderate-income families obtain mortgages?

Mr. PETROU. I actually do believe that if you income targeted FHA, you would see, when the lenders and the builders and the realtors realize that it is in a particular area income targeted, there will be some creative work on the part of programs.

Mr. FRANK. Well, let's see how that works. When you income target, at what level would you income target?

Mr. PETROU. That would vary to the area. I would let community groups and others determine and come and testify and talk to HUD about what the income target——

Mr. FRANK. That is a fascinating legislative process we have here. Congress would pass a statute with different income limits in different parts of the country?

Mr. PETROU. Yes.

Mr. FRANK. Would they be different income limits—you were talking before—as percents of the median. Obviously, you have different median incomes. But would you have varying percentages of the median in different parts of the country.

Mr. PETROU. I think there are several ways you could do it.

Mr. FRANK. But you would have different percentages of the median?

Mr. PETROU. Yes.

Mr. FRANK. How will the areas be? Will there be standard metropolitan statistical areas or states or counties?

Mr. PETROU. I would do it on median area income. You can do it on census tract if you wanted to get down to that area.

Mr. FRANK. So you would have FHA have different percentages of median incomes by census tract?

Mr. PETROU. Well, right now they have different loan amounts tied to home price. And that is dramatically different.

Mr. FRANK. I understand. But what is the political body by census tract? You said we would have community groups decide. Would Congress sign off on this?

We have not been that busy lately. You have given us a lot of work to do. I am just fascinated.

Mr. PETROU. Congress also did not—you know, they told HUD to go to 95 percent.

Mr. FRANK. No, let's not change the subject. I welcome your interest in helping low- and moderate-income. I have to be honest with you. I mean, a lot of people, when we were talking about this bill, who said, "Well, what about the poor people?"

To be honest with you, much of the time when I am trying to help the poor people, a lot of these people are not around. So now that they have dropped in and now that they have this somewhat fortuitous interest in helping the poor people, I want to make hay while the sun shines. So I would like you to tell me how we do that.

You are not seriously suggesting that by census tract, we have local groups recommend there would be 85 percent of the median in one census tract and 95 percent in the adjoining census tract?

Mr. PETROU. Well, as you know, in some areas of the country, gentrification is an issue, especially in the inner city. And there are community groups that are very concerned that if you raise limits, if you target higher income people, you destroy the nature of the——

Mr. FRANK. So you would allow people in the census tract to tell the federal government to keep the income level for FHA down in that area and not in other areas? See, here is the problem. What about people who want to gentrify? They would be allowed to go up?

Mr. PETROU. I think basically you could have a situation in which you would have a standard—you know, targeted to the MSA median income, but with exceptions for areas where people come in and appeal to HUD. I would think an affordable housing group should be allowed to appeal to HUD.

Mr. FRANK. To lower the percentage of income in a particular area?

Mr. PETROU. Yes.

Mr. FRANK. Okay. And what would the general level be, percent of median?

Mr. PETROU. That would be something for Congress to determine.

Mr. FRANK. Well, excuse me, but you are here recommending to Congress. That does not work.

Mr. PETROU. Okay.

Mr. FRANK. I mean, you cannot come here as a witness to tell Congress what to do—which is a privilege of American citizens—and then say, "Oh, but you do it." It is your idea.

Because we have very radical differences. You have 70 percent of median, 80 percent, 100 percent. I mean, this is not a detail. This is the heart of the issue.

Mr. PETROU. I would start at 100 percent of area median income.

Mr. FRANK. Okay. But now let me just ask you a last question—100 percent of area median income, but would there then be a limit at 100 percent of median income on the price that they could get of the house? Or would you——

Mr. PETROU. No, it is totally determined by the market.

Mr. FRANK. So you would just leave that? So at 100 percent of median income, if they can sort of work it out, they could go as high as they could show someone they could afford.

Mr. PETROU. Exactly.

Mr. FRANK. Okay. Thank you, Mr. Chairman.

Mr. GARY G. MILLER OF CALIFORNIA. Mr. Clay?

Mr. CLAY. Thank you, Mr. Chairman. And I guess this question would be for the entire panel. Earlier today, HUD testified that the passage of this bill would be unfair to private sector lending institutions.

And I just wanted to know: do you share? I mean, do you agree or disagree with this position? And explain for me in detail, if you could.

We will start with you, Mrs. Thompson.

Ms. THOMPSON. We are all for competition. And we think that it will not be harmful to the private sector. In fact, the very lenders you are talking about are the lenders that make the Mortgage Revenue Bond loans that our agencies issue bonds to finance. So we are not concerned about that.

Mr. CLAY. Okay. Thank you.

Mr. Petrou?

Mr. PETROU. Actually, I would probably say it probably would, as currently written, harm some lenders. I am more concerned about the harm it would do to the FHA insurance program in the event of an economic downturn.

Mr. CLAY. Thank you.

Mr. NOTHAFT. No, it is not unfair. It gives more options, more loan products for consumers to choose from. And anything that does that, I think helps to expand the market.

Mr. CLAY. Thank you.

Sir?

Mr. KEMPNER. I would not use the word “unfair.” We are very sympathetic to the bill. But we want to make sure that we know all of the consequences, especially of raising the limit above the conforming line.

As all of you know, especially Congressman Frank, a key issue now in the GSE debate is the affordable housing goals. And there are all kinds of cross currents, ripples. A term that keeps coming up is “unintended consequences.”

So as the mortgage bankers, we are quite comfortable going up to the conforming limit 100 percent. But after that, in our institutional gut, we start getting a little concerned that we do not fully understand, fully appreciate what those ripples are.

Mr. FRANK. Will the gentleman yield to me? I think the chairman would give him an extra minute, if he would.

Let me just follow up with this. This is a legitimate concern. But I really have a serious question here. Is your concern about our going above the conforming loan limits the FHA effect or the bootstrapping effect it might have and then the conforming loan limits might come up after it?

If you knew that we were going to do this and never raise the conforming loan limits for Fannie and Freddie to catch up, would you have the same concern?

Mr. KEMPNER. The honest answer is that we do not know. There is a lot swirling around.

Mr. FRANK. That is not only an honest answer, it is the most honest answer I ever got.

Mr. KEMPNER. Well, the fact is that our notion is that we would like to study it more. And we do not mean that as a way of just pushing this away because we are very sympathetic to the bill and we applaud you for proposing it. But there is so much going on here, especially in that, the interplay between the GSEs, affordable housing and FHA and the consequences on FHA.

We cannot give you an honest answer at this point.

Mr. FRANK. Excuse me? And I think the chairman will accommodate me.

But there is an interplay between theoretically the jumbo—the conforming loan limits at Fannie and Freddie and Fannie and Freddie's housing goals. I do not see an interplay between the FHA loan limit and the affordable housing goals for Fannie and Freddie, unless you implicitly assume that the conforming loan limits are going to follow the FHA limit up.

What is the interconnection between the FHA limit and the affordable housing goals of Fannie and Freddie?

Mr. KEMPNER. My understanding is depending on how aggressive those goals are, it will have definite possible rippling effects on FHA and its health. The jumbo market is quite different.

And as people know, jumbo by definition is above conforming. It has definite characteristics that are not the same as the conventional market.

And again, our honest answer, we have spent hours on this. We wanted to come forward and help the committee.

Mr. FRANK. I understand that. But just to pursue this a little, by definition we are talking about loans that would be above what Fannie and Freddie could do.

And I do not understand how the FHA guaranteeing loans that are above what Fannie and Freddie can do can have an affect on the affordable housing goals of Fannie and Freddie, especially when they are expressed in percentages. I mean, they are just off their charts.

That does not mean there are not issues here. But I do not see how they interact with the affordable housing goals.

Mr. KEMPNER. I appreciate that. And again, I cannot tell you definitively what those are. But I can tell you that there are consequences.

And our feeling is that the more time we would have to study it, in our institutional gut, we felt very comfortable coming up and applaud you coming up to 100 percent. But when you start going into by definition the jumbo market, we start getting queasy and at least want to spend time understanding.

There are all kinds of cross currents. I can give you a couple of bullet points.

Mr. FRANK. No, I am talking only about the affordable housing goals, not general ones. That was my only question.

Mr. KEMPNER. I understand that.

Mr. CLAY. Mr. Chairman, reclaiming my time.

Mr. GARY G. MILLER OF CALIFORNIA. Mr. Clay, you have an additional four minutes, sir.

Mr. CLAY. Thank you, Mr. Chairman.

Mr. Hellyer, I will ask the same question: would this bill be unfair to private sector lending institutions?

Mr. HELLYER. No, I appreciate the opportunity to respond to that. I was wrestling with what I wanted to say while I was listening to the other witnesses here.

And I think if I took that notion back to my realtor friends in Orange County, that we ought not have this bill because it would do harm to the lending community, they would find that amusing. Because the fact of the matter is there is not a product there right now that enables buyers in our area to do that. There is no existing product.

Maybe if FHA provided it, maybe there would be more competition. But absent that, there is not. They are going elsewhere. They are having to commute to own a home.

Mr. CLAY. Thank you.

Mr. Eberhardt?

Mr. EBERHARDT. Two answers. First of all, I fully agree with Glenn. It is important that you note that FHA is a guarantee. It is a guarantee of private mortgage insurance or mortgage insurance, not private, by the government.

So if you are talking private sector versus public sector, the only real people that FHA is competing against is the private mortgage insurance companies. That is the private sector they are talking about because the money is being loaned by the lender irregardless.

To answer Gary Miller's question to Mr. Nothaft, .25 percent is the difference between Fannie, Freddie and FHA. FHA is probably that much more expensive.

Mr. CLAY. Okay, thank you.

Mr. Berson?

Mr. BERSON. I think we would welcome the opportunity to compete head to head, in a fair manner. I do not see unfairness in this at all, as long as the limits are similar between the conforming market and FHA.

Mr. CLAY. Okay, let me start with you.

Mr. GARY G. MILLER OF CALIFORNIA. So we did ask the mortgage private group to come and testify. So they were invited, but they were not able to attend today for some reason.

Mr. CLAY. Thank you, Mr. Chairman.

Housing prices in the past few years have exponentially increased, faster than the increase in the number of low-income households. Would not the passing of this legislation result in relief for homebuyers in high-cost areas? And doesn't the current FHA ceiling preclude potential homebuyers in high-cost areas from participating in the zero down payment legislation that recently passed this committee?

I will start with you, Mr. Berson.

Mr. BERSON. We are in favor of policies that increase homeownership. Because in high-cost areas, prices have gone up so much faster than income, you have excluded—and not just in the FHA market, but in the conforming market as well—a substantial number of households from participating in the market. Proposals that would reinclude them we think would be good policy.

Mr. CLAY. Thank you.

Anybody else on the panel want to take a stab at it?

Mrs. Thompson?

Ms. THOMPSON. Yes. This proposal would only help. And I just want to emphasize, because I think it is so very important, that the greatest single producer of homeowners from a federal program perspective—the greatest two—are the Mortgage Revenue Bond and the FHA insurance program that often goes with it.

So here you have a federal program, the Mortgage Revenue Bond program, that allows a certain income level person to participate and buy a home up to a certain level, but the insurance does not extend to that level. That just does not make sense.

I mean, to say that first-time homebuyers do not benefit from this, as the assistant secretary said, is simply wrong. The MRB program is only available to first-time homebuyers. It won't work everywhere, as you point out, Mr. Frank. There are places where homes are just unaffordable to MRB qualified first-time homebuyers.

But there are many states—we think more than a dozen—where qualified MRB borrowers cannot buy the homes that Congress said they could buy—they are within the MRB limits—because they cannot get the other federal help, the FHA insurance. It is absurd.

Mr. CLAY. Anyone else? Yes, sir?

Mr. PETROU. I would like to address two points. The MRB is targeted to 115 percent of median family income in an area. And this is one of the issues you would get when you start talking about going over 100 percent of median family income.

It is a special program. And whether or not there is a match, this is exactly the kind of thing where people could discuss with HUD whether 100 percent is appropriate or 115, et cetera.

The second thing I would like to point to is the zero down payment program. I testified in favor of that program. But I made it quite clear that I thought it should be targeted only to low- and moderate income borrowers.

I think the concept of the FHA insuring a $600,000 mortgage with no borrower equity is a pretty scary thought.

Mr. CLAY. Thank you.

Mr. FRANK. Would the gentleman yield? The zero down payment program does that, correct?

Mr. PETROU. Correct.

Mr. FRANK. Yes, not this though.

Mr. PETROU. No, not this.

Mr. CLAY. Yes, that is on the zero down payment. Anyone else? If not, thank you very much for your answers.

Mr. GARY G. MILLER OF CALIFORNIA. Are there any more closing questions, Mr. Frank or Mr. Clay? We will wrap this up.

Mr. FRANK. Mr. Clay generously accommodated me and you he, so I am through.

Mr. GARY G. MILLER OF CALIFORNIA. We are even. Okay.

Well, I want to thank the witnesses today. You have provided a lot of good information. And this was a hearing for that purpose, to bring in the information. I have heard some very good points that I think Mr. Frank and I will take into consideration before this bill comes to markup.

I would like to ask for unanimous consent that a statement be introduced in the record from the National Association of Homebuilders. Without objection.

The chair notes that some members may additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

Thank you for attending our hearing. Meeting is adjourned.

[Whereupon, at 12:35 p.m., the subcommittee was adjourned.]

A P P E N D I X

June 16, 2004

Opening Statement

Chairman Michael G. Oxley

Financial Services Committee

Subcommittee on Housing and Community Opportunity
"H.R. 4110—FHA Single Family Loan Limit Adjustment Act of 2004"

Wednesday, June 16, 2004

Thank you Chairman Ney for holding this important hearing on H.R. 4110—the "FHA Single Family Loan Limit Adjustment Act of 2004."

The Committee on Financial Services has been a very strong advocate of homeownership and has been successful in moving a variety of legislation that would increase those homeownership rates, particularly for low-income and minority families that appear to lag behind the overall market and homeownership trends.

During the first session, the Committee was successful in enacting the American Dream Downpayment Act, among others, that resulted in approximately $161 million distributed this month to states and localities assisting low-income homeowners purchasing their homes. Also, earlier this month, the Committee approved the "Zero Downpayment Act of 2004" that, when enacted, will assist approximately 150,000 families, where the otherwise creditworthy homeowner finds it difficult to save for a downpayment—the most significant obstacle to homeownership.

Today, the Subcommittee will hear testimony on another homeownership initiative introduced by Congressman Gary Miller of California and the Ranking Member of our Committee, Congressman Barney Frank. H.R. 4110 would raise FHA loan limits in very high-cost areas. Obviously, Messrs. Miller and Frank come from high-cost areas where housing values have skyrocketed and low- and moderate-income families have found it difficult to purchase homes where they work and where they grew up.

In Hardin County, Ohio, in the Fourth District, the average home value is $98,415. In Hancock County, Ohio, my home county, the average home value is $155,067. While my district is clearly under the threshold of the lowest FHA loan limit of $160,176, I can understand the concern of my colleagues in high-cost areas like California, New York, Massachusetts, Hawaii, and Alaska.

This hearing will provide us the opportunity to examine the proper role of the Federal Housing Administration. As was illustrated during the Committee's hearings earlier this month on HUD's FY 2005 Budget, there are many questions remaining about the Department's ability to improve management, curtail future liabilities, and provide adequate oversight, particularly for those involved with mortgage underwriting.

This committee is dedicated to promoting the goal of homeownership and specifically to furthering the President's goal of increasing minority homeownership rates. Through hearings like this one today, we can examine both private and public sector initiatives and determine the best way for the Federal government to encourage new homeownership.

Once again, I thank you, Chairman Ney as well as Ranking Member Waters, for your leadership on this issue and look forward to the testimony here today.

####

GARY G. MILLER
42ND DISTRICT, CALIFORNIA

ASSISTANT WHIP AT LARGE

COMMITTEE ON FINANCIAL SERVICES

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

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Statement of Representative Gary Miller
Subcommittee on Housing and Community Opportunity
Hearing on H.R. 4110, the FHA Single Family Loan Limit Adjustment Act of 2004
June 16, 2004

I would like to thank Chairman Ney for convening this hearing today to examine the FHA single family mortgage insurance program. I would also like to thank the ranking member of the full committee, Mr. Frank, for working with me to introduce H.R. 4110, the "FHA Single Family Loan Limit Adjustment Act of 2004."

When it comes to high cost markets, where land and construction costs are significantly higher than in other areas of the country, there is no question that the FHA mortgage insurance limits are not keeping pace. And that is the problem we—conservatives and liberals alike – have come together to solve today.

As many of you know, I have been a homebuilder for over 30 years. When I came to Congress, I made it my top priority to highlight federal policies that have hindered the availability of housing in this country and to find ways for government to positively impact homeownership in America.

The American Dream of Homeownership

I firmly believe that Congress must help cultivate an environment where more Americans can turn the dream of homeownership into reality.

Today, we have the opportunity to explore a proposal to ensure that the dream of homeownership can be achieved, regardless of where you happen to live in this great country.

Increasingly America's *working* families are unable to find decent, affordable homes in the communities where they work. In my own state of California, which has the highest home prices in the nation, the homeownership rate, at 56.9 percent in 2000, lags the rate for the rest of the nation by more than 10 percentage points.

Bush Administration's Housing Priorities

I am pleased that the President, in partnership with this subcommittee, has made it a priority to ensure that government does something positive to foster homeownership.

The President has recognized that one of the primary barriers to achieving the "American Dream" of homeownership is the lack of accumulated wealth and disposable income. Last year, he signed legislation providing communities throughout America with grants to help homebuyers with down payment and closing costs.

This year, he has continued this effort by again addressing the fact that downpayments and closing costs are significant obstacles that would-be homebuyers face. He has proposed allowing the Federal Housing Administration (FHA) to offer a zero downpayment mortgage product. Just two weeks ago the full committee favorably reported this proposal to the full House.

Loan Limits Must Be Increased

While I support the efforts of the Administration, we must be clear that the FHA program does not help working families across the country.

Despite its successes as a homeownership tool, FHA is not a useful product in high cost areas of the country because its maximum mortgage limits are restrictive. As a result, working families such as teachers, police officers and firefighters are unable to find and purchase housing in the communities where they work.

FHA products are not an option for homebuyers in high cost areas of the country because the maximum mortgage limit of $290,319 is restrictive in areas where housing is not available at this price. The loan limits in the FHA program are too low for constituents in my district, where the median home price in 2002 was $412,700.

Working families who need and qualify for FHA should not be penalized because of their geographic location.

I would like to point out that FHA currently adjusts for the high cost nature of housing in Alaska, Guam, Hawaii and the Virgin Islands by allowing mortgages to increase up to 150% of the ceiling. In 2004, the limit in those areas was $435,479. The reality is that Alaska, Guam, Hawaii and the Virgin Islands are not the only areas impacted by very high housing costs! The median home price in my state of California exceeds that in Alaska and Hawaii by more than $35,000.

The FHA program should not discriminate against those homebuyers who live in areas outside of those designated as "high-cost" that still exceed the current maximum mortgage limit. If higher limits make sense for Alaska, Hawaii, Guam, and the Virgin Islands, then they certainly make sense for other areas in the country where median home prices exceed current statutory limits.

H.R. 4110—An Issue of Fairness

HR 4110 addresses the disparity caused by FHA loan limits and provides consumers in high cost areas the ability to purchase a home with FHA mortgage insurance.

Instead of linking FHA to the conforming loan limits, H.R. 4110 would match the FHA loan limit to the local area median home price.

Specifically, this legislation raises the area median home price calculation from 95% to 100% of an area median home price. In addition, it eliminates the current loan cap of 87% of the Fannie/Freddie loan limit.

Now, while some may say that this legislation helps only in California and the northeasten United States, I must point out that will also help in counties such as Door, Wisconsin, Sarasota , Florida, Coconino, Arizona, and Delaware, Ohio.

No Cost to the Taxpayers

There is no question that the FHA program has played an enormous role in helping families realize the dream of homeownership at no cost to taxpayers. Indeed, the FHA program actually makes money for the federal government. It is estimated that the federal makes a profit of $1.73 for every $100 in FHA insured loans.

In addition, the program is fiscally sound. In 2003, the FHA Mutual Mortgage Insurance fund collected $22.7 billion more than expended to cover claims and expenses.

Conclusion

There are many qualified Americans who are not able to realize the dream of homeownership, merely because of where they happen to live and work.

This is a simple issue of fairness. It is unacceptable for the federal government to tell my constituents that federal programs exist to increase homeownership in America, but they cannot qualify simply because of where they happen to live and work.

I look forward to the testimony today. I hope the committee will work with me to address the disparity in accessibility of FHA programs caused by the current loan limit, so homebuyers in high cost areas, such as my district, can benefit from the good work Congress is doing to increase accessibility to homeownership in this country.

Statement of David Berson
Vice President and Chief Economist for Fannie Mae
House Financial Services Committee
Housing and Community Opportunity
June 16, 2004

Thank you, Chairman Ney, Ranking Member Waters, and Members of the Committee. My name is David Berson and I am Vice President and Chief Economist for Fannie Mae. I want to thank you for inviting me to testify about this important issue of homeownership affordability in high cost areas and I commend the members of this Subcommittee for your attention to and leadership on this issue.

By most national statistical measures, the past three years have been the best in history for American housing, homeowners, and mortgage finance. The housing boom has reached most regions in the country and included central cities, suburbs, and rural areas. Low mortgage rates and overall record affordability have combined to create 3.2 million more homeowners since 2000, benefiting families and helping energize the nation's economy. And homeownership has been a sound investment. Since 2000, house prices have appreciated on average by about 26 percent nationally.

However, in a growing number of areas, strong housing demand and limited supply has generated even more dramatic price appreciation. Combined with a relatively slow pace of income growth, this is putting homeownership increasingly out of reach for working American families, especially now that interest rates are rising.

Mr. Chairman, in addition to my testimony, I am submitting data for the record that demonstrates this effect and highlights some of the specific areas that are impacted most. To summarize briefly:

- Home price gains closely track income growth in the long run. If home prices rise consistently faster than income, homes will become unaffordable, and demand will drop. Over the past three years, home prices nationwide have appreciated on average by 7.6 percent a year – significantly above the rate of income growth (averaging 4.5 percent over the same period). So far this year, home price gains continue to be strong. In several markets in the east and west coasts, double-digit home price appreciation has dramatically outpaced income growth. These areas may be susceptible to sharp declines in housing demand, especially when mortgage rates continue to rise.
- Although housing affordability remains high nationally, it has become a serious issue for some states. For example, between February and March of this year, the share of households in California able to afford a median-priced home declined by three percentage points, to 21 percent. The California Association of Realtors has recently reported that affordability in the State has fallen to an all time low. The Monterey, Northern Wine Country, Orange County and Santa Barbara County regions were the least affordable in the state (14 percent of households could afford the median-priced home).

- The problem is most acute in California, New York, and Northeast States such as Massachusetts, Maine, Delaware, New Hampshire, and others. House prices in California increased more than 14 percent last year, while incomes rose by just over 2 percent.

- In New York and New Jersey, house prices increased by over 12 percent in 2003 while incomes rose by just under 2.5 percent. And in Massachusetts, where home prices went up by over 10 percent, incomes increased by almost 2 percent.

- But the problem is wider than that. We see similar trends in Florida, Maryland, Virginia, Minnesota, and even Nevada.

- Currently, the median home price in nine Metropolitan Statistical Areas (MSAs) is above the conforming loan limit. In 1999, that was true in only three MSAs.

These affordability problems emerged in a period of 45-year low interest rates, which helped to offset some of the negative affordability effects of higher prices. The period ahead is likely to be marked by higher interest rates which will erode affordability further even if incomes rise. Over the long-run, home prices and incomes have moved together, and that is our expectation going forward as well. Mr. Chairman, I recently participated in writing a paper for the Homeownership Alliance entitled, "America's Home Forecast: The Next Decade for Housing and Mortgage Finance," that discusses this in greater detail. I will also submit this paper for the record.

In the short-run, however, recent increases in interest rates in response to stronger economic growth and signals from the Federal Reserve of tighter monetary policy will only make affordability an even greater problem.

We are already seeing families shift to Adjustable Rate Mortgages (ARMs), especially interest-only ARMs, in order to be able to afford the purchase of a home. These loans expose homebuyers to greater risk once the initial period of payment stability is over. With short-term interest rates at 45-year lows and likely to rise over the next several years, these homeowners are most exposed to interest rate risks going forward.

Fannie Mae is a private, shareholder-owned company with a public mission to promote and expand homeownership. "Our mission is to tear down barriers, lower costs, and increase the opportunities for homeownership and affordable rental housing for all Americans."

We take our public mission very seriously. Lenders, especially small, local community banks, depend on us to develop new mortgage products, processes and technology solutions so they can serve more families, serve them better, and make the mortgage process faster, easier and cheaper for all involved. Our investments in technology have increased underwriting flexibilities, expanded markets for our lender partners, and by reducing the cost of originations, enhanced affordability for the home buyer.

This January, Fannie Mae took its mission commitments one step further. We launched our *Expanded American Dream Commitment*, pledging to help 6 million families -- including 1.8 million minority families -- become first-time homeowners over the next decade. With this pledge, we set a goal of raising the minority homeownership rate from the current 49 percent to 55 percent by 2014, with the ultimate goal of closing the gaps between minority homeownership rates and non-minority homeownership rates entirely. Addressing the needs of borrowers in high-cost areas will be crucial to meeting our corporate objectives.

Mr. Chairman, we are very glad to have this opportunity to discuss the very real problems of families living in high cost areas who do not have access to the benefits provided by Fannie Mae and Freddie Mac. As you know, the families who find homeownership unaffordable in these areas are not just low- or moderate-income families, but also middle-income families. Many two-earner households can't afford homes in some of the high-cost areas in the country today.

Congress chartered Fannie Mae to expand access to mortgage credit for all of these households – low-income and middle-income. In 1992, Congress complemented that mission with explicit requirements that HUD determine a percent of our business that must go to low- and moderate-income families. HUD has recently proposed housing goals for 2005 through 2008, and we welcome their focus on stretching us to lead the market in financing homeownership for low- and moderate-income families and communities.

At the same time, the goals should reflect the likely path of the mortgage market, in order to avoid market distortions and unintended consequences that further limit homebuyers' access to the benefits provided by Fannie Mae and Freddie Mac. Goals set too far above market opportunity could force Fannie Mae and Freddie Mac to restrict access to credit for households and communities that do not meet the goals – in other words, to allocate credit away from the middle class.

This would hit borrowers in areas with higher housing costs relative to prevailing income levels the hardest. In some high cost areas, like California, less than one-third of all mortgages originated last year met our low- and moderate-income goal. In New York that figure was just over one-third. Should HUD's housing goals force us to limit lending to non-goals borrowers, these high cost areas would be the natural place to ration our business presence.

Again, Mr. Chairman, thank you for holding this hearing, and highlighting a critical issue for millions of families around the nation. For millions of families, homeownership is a first step toward financial security and independence. It's an opportunity to save for the future while putting a roof over your children's heads. We appreciate your concern and share your commitment to ensuring that the American Dream remains within reach in all parts of this nation.

Growth in Incomes and Home Prices
By State

	1999	2000	2001	2002	2003
United States					
Income	27,939	29,847	30,527	30,906	31,632
House Price Index	227.61	244.98	263.45	283.60	306.66
Income Growth		6.83%	2.28%	1.24%	2.35%
House Price Appreciation		7.63%	7.54%	7.65%	8.13%
Alaska					
Income	28,100	29,863	31,837	32,799	33,568
House Price Index	165	169	179	188	205
Income Growth		6.27%	6.61%	3.02%	2.34%
House Price Appreciation		2.38%	5.58%	5.33%	8.76%
Alabama					
Income	22,722	23,768	24,845	25,548	26,338
House Price Index	198.72	205.42	216.80	224.87	232.62
Income Growth		4.60%	4.53%	2.83%	3.09%
House Price Appreciation		3.37%	5.54%	3.72%	3.45%
Arkansas					
Income	21,137	21,926	23,072	23,556	24,289
House Price Index	180.49	186.54	196.51	204.60	214.09
Income Growth		3.73%	5.23%	2.10%	3.11%
House Price Appreciation		3.35%	5.34%	4.12%	4.64%
Arizona					
Income	24,057	25,661	26,055	26,360	26,838
House Price Index	194.39	206.73	219.84	232.89	250.06
Income Growth		6.67%	1.54%	1.17%	1.81%
House Price Appreciation		6.35%	6.34%	5.94%	7.37%
California					
Income	29,828	32,466	32,892	32,989	33,749
House Price Index	248.95	284.08	314.64	356.10	406.37
Income Growth		8.84%	1.31%	0.29%	2.30%
House Price Appreciation		14.11%	10.76%	13.18%	14.12%
Colorado					
Income	30,492	33,371	34,003	33,723	34,283
House Price Index	249.37	277.96	300.18	313.84	322.58
Income Growth		9.44%	1.89%	-0.82%	1.66%
House Price Appreciation		11.46%	7.99%	4.55%	2.78%

Growth in Incomes and Home Prices
By State

	1999	2000	2001	2002	2003
Connecticut					
Income..............................	38,332	41,495	42,550	42,468	43,173
House Price Index..................	258.68	280.40	306.25	337.72	369.71
Income Growth......................		8.25%	2.54%	-0.19%	1.66%
House Price Appreciation........		8.40%	9.22%	10.28%	9.47%
District of Columbia					
Income..............................	37,030	40,428	45,284	46,800	48,342
House Price Index..................	227.16	259.74	301.49	344.79	390.37
Income Growth......................		9.18%	12.01%	3.35%	3.29%
House Price Appreciation........		14.34%	16.07%	14.36%	13.22%
Delaware					
Income..............................	28,925	30,871	31,494	32,090	32,810
House Price Index..................	260.06	278.26	299.51	325.78	359.77
Income Growth......................		6.73%	2.02%	1.89%	2.24%
House Price Appreciation........		7.00%	7.64%	8.77%	10.43%
Florida					
Income..............................	26,894	28,511	29,247	29,758	30,446
House Price Index..................	196.43	212.33	234.49	259.40	289.58
Income Growth......................		6.01%	2.58%	1.75%	2.31%
House Price Appreciation........		8.09%	10.44%	10.62%	11.63%
Georgia					
Income..............................	26,359	27,989	28,555	28,821	29,442
House Price Index..................	227.86	242.08	259.08	271.18	281.01
Income Growth......................		6.18%	2.02%	0.93%	2.15%
House Price Appreciation........		6.24%	7.02%	4.67%	3.62%
Hawaii					
Income..............................	26,973	28,417	28,690	29,875	30,913
House Price Index..................	228.48	242.66	262.08	285.05	324.01
Income Growth......................		5.35%	0.96%	4.13%	3.47%
House Price Appreciation........		6.21%	8.00%	8.76%	13.67%

Growth in Incomes and Home Prices
By State

	1999	2000	2001	2002	2003
Iowa					
Income............................	25,118	26,554	27,357	28,089	29,043
House Price Index.................	184.24	192.62	202.67	210.01	220.90
Income Growth.....................		5.72%	3.02%	2.68%	3.40%
House Price Appreciation........		4.55%	5.22%	3.62%	5.19%
Idaho					
Income............................	22,786	24,076	24,947	25,476	25,911
House Price Index.................	198.36	205.49	217.53	225.51	235.43
Income Growth.....................		5.66%	3.62%	2.12%	1.71%
House Price Appreciation........		3.59%	5.86%	3.67%	4.40%
Illinois					
Income............................	30,212	32,187	32,782	33,053	33,690
House Price Index.................	234.06	249.59	264.76	280.74	299.59
Income Growth.....................		6.54%	1.85%	0.83%	1.93%
House Price Appreciation........		6.64%	6.08%	6.04%	6.71%
Indiana					
Income............................	25,615	27,134	27,619	28,032	28,783
House Price Index.................	203.96	212.00	222.33	228.68	236.84
Income Growth.....................		5.93%	1.79%	1.50%	2.68%
House Price Appreciation........		3.94%	4.87%	2.86%	3.57%
Kansas					
Income............................	26,195	27,694	28,490	28,905	29,935
House Price Index.................	177.10	186.12	196.47	205.06	214.15
Income Growth.....................		5.72%	2.87%	1.46%	3.56%
House Price Appreciation........		5.09%	5.56%	4.37%	4.43%
Kentucky					
Income............................	22,763	24,414	24,954	25,494	26,252
House Price Index.................	215.27	225.32	236.12	244.89	256.05
Income Growth.....................		7.25%	2.21%	2.16%	2.97%
House Price Appreciation........		4.67%	4.79%	3.71%	4.56%

Growth in Incomes and Home Prices
By State

	1999	2000	2001	2002	2003
Lousiana					
Income............................	22,014	23,080	24,517	25,296	26,100
House Price Index.................	157.94	164.12	173.39	182.00	191.60
Income Growth.....................		4.84%	6.23%	3.18%	3.18%
House Price Appreciation........		3.91%	5.65%	4.97%	5.27%
Massachusetts					
Income............................	34,227	37,756	38,945	39,085	39,815
House Price Index.................	386.72	441.82	493.29	553.38	609.22
Income Growth.....................		10.31%	3.15%	0.36%	1.87%
House Price Appreciation........		14.25%	11.65%	12.18%	10.09%
Maryland					
Income............................	31,796	34,257	35,355	36,303	37,331
House Price Index.................	232.68	247.96	269.80	300.76	339.66
Income Growth.....................		7.74%	3.21%	2.68%	2.83%
House Price Appreciation........		6.57%	8.81%	11.48%	12.93%
Maine					
Income............................	24,484	25,972	27,157	28,038	28,831
House Price Index.................	271.01	295.80	324.94	358.78	398.29
Income Growth.....................		6.08%	4.56%	3.24%	2.83%
House Price Appreciation........		9.15%	9.85%	10.41%	11.01%
Michigan					
Income............................	28,095	29,553	29,499	29,816	30,439
House Price Index.................	246.64	264.32	278.17	289.49	301.74
Income Growth.....................		5.19%	-0.18%	1.07%	2.09%
House Price Appreciation........		7.17%	5.24%	4.07%	4.23%
Minnesota					
Income............................	30,106	32,018	32,722	33,322	34,443
House Price Index.................	217.96	240.99	265.34	288.89	315.18
Income Growth.....................		6.35%	2.20%	1.83%	3.36%
House Price Appreciation........		10.57%	10.10%	8.88%	9.10%
Missouri					
Income............................	25,697	27,243	27,932	28,512	29,252
House Price Index.................	203.13	215.35	227.96	241.03	255.07
Income Growth.....................		6.02%	2.53%	2.08%	2.60%
House Price Appreciation........		6.02%	5.86%	5.73%	5.83%

Growth in Incomes and Home Prices
By State

	1999	2000	2001	2002	2003
Mississippi					
Income............................	20,053	21,007	21,967	22,550	23,448
House Price Index.................	179.61	187.18	197.01	202.94	209.94
Income Growth......................		4.76%	4.57%	2.65%	3.98%
House Price Appreciation........		4.21%	5.25%	3.01%	3.45%
Montana					
Income............................	21,585	22,932	24,036	24,831	25,920
House Price Index.................	207.96	218.99	229.92	245.12	266.82
Income Growth......................		6.24%	4.81%	3.31%	4.39%
House Price Appreciation........		5.30%	4.99%	6.61%	8.85%
North Carolina					
Income............................	25,560	27,071	27,501	27,785	28,235
House Price Index.................	234.26	244.86	257.61	266.41	275.70
Income Growth......................		5.91%	1.59%	1.03%	1.62%
House Price Appreciation........		4.52%	5.21%	3.42%	3.49%
North Dakota					
Income............................	23,180	25,109	25,830	26,852	29,204
House Price Index.................	160.94	166.13	174.65	184.76	197.12
Income Growth......................		8.32%	2.87%	3.96%	8.76%
House Price Appreciation........		3.22%	5.13%	5.79%	6.69%
Nebraska					
Income............................	26,465	27,627	28,713	29,182	30,758
House Price Index.................	197.04	204.65	213.21	220.01	229.19
Income Growth......................		4.39%	3.93%	1.63%	5.40%
House Price Appreciation........		3.86%	4.18%	3.19%	4.17%
New Hampshire					
Income............................	30,380	33,398	33,771	33,985	34,702
House Price Index.................	257.13	294.73	328.54	367.94	404.99
Income Growth......................		9.93%	1.12%	0.63%	2.11%
House Price Appreciation........		14.62%	11.47%	11.99%	10.07%
New Jersey					
Income............................	35,215	38,372	39,077	39,461	40,427
House Price Index.................	269.49	295.72	326.29	367.94	413.04
Income Growth......................		8.96%	1.84%	0.98%	2.45%
House Price Appreciation........		9.73%	10.34%	12.76%	12.26%

Growth in Incomes and Home Prices
By State

	1999	2000	2001	2002	2003
New Mexico					
Income..............................	21,042	22,134	23,928	24,823	25,541
House Price Index..................	200.09	203.83	213.23	223.14	237.29
Income Growth......................		5.19%	8.11%	3.74%	2.89%
House Price Appreciation........		1.87%	4.61%	4.65%	6.34%
Nevada					
Income..............................	29,184	30,438	30,347	30,559	31,266
House Price Index..................	186.22	195.22	208.56	222.55	250.33
Income Growth......................		4.30%	-0.30%	0.70%	2.31%
House Price Appreciation........		4.83%	6.83%	6.71%	12.48%
New York					
Income..............................	32,816	34,900	35,626	35,805	36,574
House Price Index..................	330.28	361.55	396.11	441.87	495.75
Income Growth......................		6.35%	2.08%	0.50%	2.15%
House Price Appreciation........		9.47%	9.56%	11.55%	12.19%
Ohio					
Income..............................	26,859	28,208	28,627	29,195	29,944
House Price Index..................	213.49	224.07	235.33	243.58	253.73
Income Growth......................		5.02%	1.49%	1.98%	2.57%
House Price Appreciation........		4.96%	5.03%	3.51%	4.17%
Oklahoma					
Income..............................	22,567	24,410	25,447	25,936	26,656
House Price Index..................	143.57	149.71	158.51	165.00	172.10
Income Growth......................		8.17%	4.25%	1.92%	2.78%
House Price Appreciation........		4.28%	5.88%	4.09%	4.30%
Oregon					
Income..............................	26,480	28,100	28,512	28,792	29,340
House Price Index..................	245.82	255.93	269.85	282.97	301.20
Income Growth......................		6.12%	1.47%	0.98%	1.90%
House Price Appreciation........		4.11%	5.44%	4.86%	6.44%

Growth in Incomes and Home Prices
By State

	1999	2000	2001	2002	2003
Pennsylvania					
Income..............................	27,937	29,697	30,318	31,116	31,998
House Price Index..................	233.91	244.91	261.90	281.83	304.85
Income Growth......................		6.30%	2.09%	2.63%	2.83%
House Price Appreciation........		4.70%	6.94%	7.61%	8.17%
Rhode Island					
Income..............................	27,459	29,216	30,103	30,859	31,916
House Price Index..................	267.22	299.10	334.78	390.50	455.63
Income Growth......................		6.40%	3.04%	2.51%	3.43%
House Price Appreciation........		11.93%	11.93%	16.64%	16.68%
South Carolina					
Income..............................	23,075	24,426	25,067	25,502	26,132
House Price Index..................	216.11	226.93	240.93	250.20	259.49
Income Growth......................		5.85%	2.62%	1.74%	2.47%
House Price Appreciation........		5.01%	6.17%	3.85%	3.71%
South Dakota					
Income..............................	24,475	25,722	26,876	26,967	29,234
House Price Index..................	193.18	201.97	212.78	222.93	236.40
Income Growth......................		5.09%	4.49%	0.34%	8.41%
House Price Appreciation........		4.55%	5.35%	4.77%	6.04%
Tennessee					
Income..............................	24,898	26,099	26,916	27,611	28,455
House Price Index..................	214.26	221.86	233.26	240.93	249.98
Income Growth......................		4.82%	3.13%	2.58%	3.06%
House Price Appreciation........		3.55%	5.14%	3.29%	3.76%
Texas					
Income..............................	26,250	28,313	28,943	29,039	29,372
House Price Index..................	156.88	166.06	176.36	183.27	188.21
Income Growth......................		7.86%	2.23%	0.33%	1.15%
House Price Appreciation........		5.85%	6.20%	3.92%	2.70%
Utah					
Income..............................	22,393	23,878	24,388	24,639	24,977
House Price Index..................	235.54	242.82	252.37	256.65	260.57
Income Growth......................		6.63%	2.14%	1.03%	1.37%
House Price Appreciation........		3.09%	3.93%	1.70%	1.53%

Growth in Incomes and Home Prices
By State

	1999	2000	2001	2002	2003
Virginia					
Income..............................	29,226	31,084	32,328	32,793	33,671
House Price Index..................	226.83	243.39	264.89	289.43	318.34
Income Growth......................		6.36%	4.00%	1.44%	2.68%
House Price Appreciation........		7.30%	8.83%	9.26%	9.99%
Vermont					
Income..............................	25,881	27,680	28,988	29,764	30,740
House Price Index..................	244.68	264.55	285.50	305.09	341.04
Income Growth......................		6.95%	4.73%	2.68%	3.28%
House Price Appreciation........		8.12%	7.92%	6.86%	11.78%
Washington					
Income..............................	30,037	31,780	32,271	32,638	33,332
House Price Index..................	263.30	278.35	294.26	308.16	325.43
Income Growth......................		5.80%	1.54%	1.14%	2.13%
House Price Appreciation........		5.72%	5.72%	4.72%	5.60%
Wisconsin					
Income..............................	27,135	28,573	29,361	30,050	30,898
House Price Index..................	216.89	230.83	242.67	254.45	271.68
Income Growth......................		5.30%	2.76%	2.35%	2.82%
House Price Appreciation........		6.43%	5.13%	4.85%	6.77%
West Virginia					
Income..............................	20,729	21,901	23,068	23,794	24,379
House Price Index..................	165.60	171.22	181.29	189.62	198.93
Income Growth......................		5.65%	5.33%	3.15%	2.46%
House Price Appreciation........		3.39%	5.88%	4.59%	4.91%
Wyoming					
Income..............................	26,536	28,463	30,197	31,021	32,808
House Price Index..................	150.79	159.09	168.21	178.68	191.50
Income Growth......................		7.26%	6.09%	2.73%	5.76%
House Price Appreciation........		5.50%	5.73%	6.22%	7.17%

"Income" is Per Capita Personal Income from the Bureau of Economic Analysis.
Home Price data from OFHEO Home Price Index (1980 Q1=100).

Growth in Incomes and Home Prices
By MSA for California, New Jersey, New York, Massachusetts

	1999	2000	2001	2002
Albany-Schenectady-Troy NY				
Family Income	28,603	30,445	31,553	32,297
House Price Index	103.91	108.21	115.17	124.84
Income Growth		6.44%	3.64%	2.36%
House Price Appreciation		4.14%	6.43%	8.40%
Allentown-Bethlehem-Easton PA-NJ				
Family Income	28,106	29,952	30,382	31,073
House Price Index	108.71	112.13	119.59	127.83
Income Growth		6.57%	1.44%	2.27%
House Price Appreciation		3.15%	6.65%	6.89%
Orange County CA PMSA				
Family Income	33,093	35,446	36,647	NA
House Price Index	127.53	142.67	157.32	NA
Income Growth		7.11%	3.39%	NA
House Price Appreciation		11.87%	10.27%	NA
Atlantic-Cape May NJ PMSA				
Family Income	29,404	31,328	31,511	NA
House Price Index	122.46	134.16	147.25	NA
Income Growth		6.54%	0.58%	NA
House Price Appreciation		9.55%	9.76%	NA
Bakersfield CA				
Family Income	19,974	20,931	21,799	22,635
House Price Index	101.85	108.78	116.44	128.22
Income Growth		4.79%	4.15%	3.84%
House Price Appreciation		6.80%	7.04%	10.12%
Bergen-Passaic NJ				
Family Income	38,885	42,799	43,856	NA
House Price Index	121.91	135.04	148.67	NA
Income Growth		10.07%	2.47%	NA
House Price Appreciation		10.77%	10.09%	NA
Binghamton NY				
Family Income	23,657	25,054	25,319	25,809
House Price Index	111.09	114.98	121.56	128.26
Income Growth		5.91%	1.06%	1.94%
House Price Appreciation		3.50%	5.72%	5.51%
Boston-Cambridge-Quincy MA-NH				

Growth in Incomes and Home Prices
By MSA for California, New Jersey, New York, Massachusetts

	1999	2000	2001	2002
Family Income.......................	37,219	41,435	42,501	42,436
House Price Index..................	141.78	162.78	181.11	202.01
Income Growth......................		11.33%	2.57%	-0.15%
House Price Appreciation........		14.81%	11.26%	11.54%
Buffalo-Niagara Falls NY				
Family Income.......................	25,814	27,209	27,618	28,489
House Price Index..................	104.37	107.23	114.07	119.07
Income Growth......................		5.40%	1.50%	3.15%
House Price Appreciation........		2.74%	6.38%	4.38%
Barnstable-Yarmouth MA NECMA				
Family Income.......................	33,557	35,303	36,135	NA
House Price Index..................	141.93	165.44	189.14	NA
Income Growth......................		5.20%	2.36%	NA
House Price Appreciation........		16.56%	14.33%	NA
Chico-Paradise CA				
Family Income.......................	21,240	22,430	23,230	23,944
House Price Index..................	108.25	121.79	135.68	158.34
Income Growth......................		5.60%	3.57%	3.07%
House Price Appreciation........		12.51%	11.40%	16.70%
Dutchess County NY PMSA				
Family Income.......................	28,925	30,987	32,349	NA
House Price Index..................	122.93	136.47	152.95	NA
Income Growth......................		7.13%	4.40%	NA
House Price Appreciation........		11.01%	12.08%	NA
Elmira NY				
Family Income.......................	22,864	24,351	24,252	24,558
House Price Index..................	103.61	111.32	118.72	126.10
Income Growth......................		6.50%	-0.41%	1.26%
House Price Appreciation........		7.44%	6.65%	6.22%
Fresno CA				
Family Income.......................	20,697	21,979	22,592	23,492
House Price Index..................	105.29	110.60	121.81	141.08
Income Growth......................		6.19%	2.79%	3.98%
House Price Appreciation........		5.04%	10.14%	15.82%
Glens Falls NY				
Family Income.......................	22,593	24,197	24,346	25,092
House Price Index..................	106.49	111.92	117.35	129.28

Growth in Incomes and Home Prices
By MSA for California, New Jersey, New York, Massachusetts

	1999	2000	2001	2002
Income Growth......................		7.10%	0.62%	3.06%
House Price Appreciation........		5.10%	4.85%	10.17%
Jamestown NY				
Family Income.......................	20,383	21,419	21,897	NA
House Price Index.................	113.01	118.54	121.87	NA
Income Growth......................		5.08%	2.23%	NA
House Price Appreciation........		4.89%	2.81%	NA
Jersey City NJ				
Family Income.......................	25,950	28,100	28,584	NA
House Price Index.................	123.51	144.56	155.55	NA
Income Growth......................		8.29%	1.72%	NA
House Price Appreciation........		17.04%	7.60%	NA
Los Angeles-Long Beach CA PMSA				
Family Income.......................	28,017	29,605	30,611	NA
House Price Index.................	122.71	133.54	146.61	NA
Income Growth......................		5.67%	3.40%	NA
House Price Appreciation........		8.83%	9.79%	NA
Middlesex-Somerset-Hunterdon NJ				
Family Income.......................	39,400	43,051	43,292	NA
House Price Index.................	116.45	129.00	142.39	NA
Income Growth......................		9.27%	0.56%	NA
House Price Appreciation........		10.78%	10.38%	NA
Modesto CA				
Family Income.......................	22,244	23,506	23,434	23,642
House Price Index.................	111.62	127.47	149.75	168.98
Income Growth......................		5.67%	-0.31%	0.89%
House Price Appreciation........		14.20%	17.48%	12.84%
Monmouth-Ocean NJ				
Family Income.......................	32,730	35,668	36,543	NA
House Price Index.................	122.30	136.77	153.61	NA
Income Growth......................		8.98%	2.45%	NA
House Price Appreciation........		11.83%	12.31%	NA
Merced CA				
Family Income.......................	19,029	19,533	20,302	20,623
House Price Index.................	109.15	128.65	147.49	166.58
Income Growth......................		2.65%	3.94%	1.58%
House Price Appreciation........		17.87%	14.64%	12.94%

Growth in Incomes and Home Prices
By MSA for California, New Jersey, New York, Massachusetts

	1999	2000	2001	2002
Newburgh NY				
Family Income	25,292	26,609	27,343	NA
House Price Index	113.48	124.97	138.59	NA
Income Growth		5.21%	2.76%	NA
House Price Appreciation		10.13%	10.90%	NA
Nassau-Suffolk NY PMSA				
Family Income	38,264	40,978	41,559	NA
House Price Index	132.06	149.54	167.58	NA
Income Growth		7.09%	1.42%	NA
House Price Appreciation		13.24%	12.06%	NA
Newark NJ PMSA				
Family Income	37,314	41,291	42,550	NA
House Price Index	120.76	132.59	145.78	NA
Income Growth		10.66%	3.05%	NA
House Price Appreciation		9.80%	9.95%	NA
New York-Newark NY-NJ-PA PMSA				
Family Income	36,529	39,501	40,450	NA
House Price Index	127.84	142.29	157.92	NA
Income Growth		8.14%	2.40%	NA
House Price Appreciation		11.30%	10.98%	NA
Oakland CA PMSA				
Family Income	35,764	40,086	39,963	NA
House Price Index	135.06	165.79	182.53	NA
Income Growth		12.08%	-0.31%	NA
House Price Appreciation		22.75%	10.10%	NA
Philadelphia PA-NJ PMSA				
Family Income	31,526	33,750	34,750	NA
House Price Index	112.26	118.67	128.86	NA
Income Growth		7.05%	2.96%	NA
House Price Appreciation		5.71%	8.59%	NA
Pittsfield MA				
Family Income	28,209	30,278	31,808	33,263
House Price Index	113.72	131.25	135.85	150.76
Income Growth		7.33%	5.05%	4.57%
House Price Appreciation		15.42%	3.50%	10.98%
Redding CA				

Growth in Incomes and Home Prices
By MSA for California, New Jersey, New York, Massachusetts

	1999	2000	2001	2002
Family Income........................	23,305	24,445	25,788	26,532
House Price Index..................	104.06	111.56	123.38	143.73
Income Growth......................		4.89%	5.49%	2.89%
House Price Appreciation........		7.21%	10.60%	16.49%
Rochester NY				
Family Income........................	28,041	29,329	30,039	30,499
House Price Index..................	107.28	110.61	114.82	119.30
Income Growth......................		4.59%	2.42%	1.53%
House Price Appreciation........		3.10%	3.81%	3.90%
Riverside-San Bernardino CA PMSA				
Family Income........................	21,760	22,810	23,668	24,073
House Price Index..................	117.80	128.41	140.54	161.45
Income Growth......................		4.83%	3.76%	1.71%
House Price Appreciation........		9.01%	9.45%	14.88%
Sacramento CA				
Family Income........................	28,457	30,249	30,906	NA
House Price Index..................	114.89	131.11	150.88	NA
Income Growth......................		6.30%	2.17%	NA
House Price Appreciation........		14.12%	15.08%	NA
Santa Barbara-Santa Maria-Lompoc CA				
Family Income........................	29,957	32,298	33,102	34,103
House Price Index..................	131.37	149.87	172.28	202.38
Income Growth......................		7.81%	2.49%	3.02%
House Price Appreciation........		14.08%	14.95%	17.47%
Santa Cruz-Watsonville CA PMSA				
Family Income........................	33,735	39,153	38,551	38,323
House Price Index..................	146.40	180.43	192.03	232.89
Income Growth......................		16.06%	-1.54%	-0.59%
House Price Appreciation........		23.24%	6.43%	21.28%
San Diego CA				
Family Income........................	30,236	32,797	33,926	34,872
House Price Index..................	129.50	149.53	166.98	195.41
Income Growth......................		8.47%	3.44%	2.79%
House Price Appreciation........		15.47%	11.67%	17.03%
San Francisco CA PMSA				
Family Income........................	49,788	58,702	57,714	NA
House Price Index..................	147.63	180.31	189.10	NA

Growth in Incomes and Home Prices
By MSA for California, New Jersey, New York, Massachusetts

	1999	2000	2001	2002
Income Growth......................		17.90%	-1.68%	NA
House Price Appreciation........		22.14%	4.87%	NA
San Jose CA PMSA				
Family Income.......................	45,733	55,677	51,579	NA
House Price Index.................	157.14	202.94	204.06	NA
Income Growth......................		21.74%	-7.36%	NA
House Price Appreciation........		29.15%	0.55%	NA
San Luis Ob/Atas/Paso Robles CA				
Family Income.......................	25,675	27,459	29,112	30,145
House Price Index.................	127.82	152.07	173.38	200.64
Income Growth......................		6.95%	6.02%	3.55%
House Price Appreciation........		18.97%	14.01%	15.72%
Springfield MA				
Family Income.......................	25,793	27,578	28,543	29,302
House Price Index.................	114.60	121.28	132.05	146.17
Income Growth......................		6.92%	3.50%	2.66%
House Price Appreciation........		5.83%	8.88%	10.69%
Santa Rosa CA PMSA				
Family Income.......................	32,231	36,447	36,960	37,331
House Price Index.................	132.22	165.28	179.46	194.23
Income Growth......................		13.08%	1.41%	1.00%
House Price Appreciation........		25.00%	8.58%	8.23%
Salinas CA				
Family Income.......................	28,186	30,015	31,132	31,842
House Price Index.................	129.03	161.60	179.53	195.06
Income Growth......................		6.49%	3.72%	2.28%
House Price Appreciation........		25.24%	11.10%	8.65%
Stockton-Lodi CA				
Family Income.......................	22,867	24,213	24,056	24,119
House Price Index.................	114.93	135.98	156.76	171.09
Income Growth......................		5.89%	-0.65%	0.26%
House Price Appreciation........		18.32%	15.28%	9.14%
Syracuse NY				
Family Income.......................	25,663	27,007	27,233	28,257
House Price Index.................	106.45	111.19	116.43	124.64
Income Growth......................		5.24%	0.84%	3.76%
House Price Appreciation........		4.45%	4.71%	7.05%

Growth in Incomes and Home Prices
By MSA for California, New Jersey, New York, Massachusetts

	1999	2000	2001	2002
Trenton NJ PMSA				
Family Income	36,168	39,455	40,193	40,711
House Price Index	113.57	123.77	137.92	155.43
Income Growth		9.09%	1.87%	1.29%
House Price Appreciation		8.98%	11.43%	12.70%
Utica-Rome NY				
Family Income	22,538	23,520	23,955	24,668
House Price Index	105.51	107.64	116.10	120.43
Income Growth		4.36%	1.85%	2.98%
House Price Appreciation		2.02%	7.86%	3.73%
Ventura CA PMSA				
Family Income	31,095	33,523	34,028	34,572
House Price Index	127.39	141.83	154.85	178.42
Income Growth		7.81%	1.51%	1.60%
House Price Appreciation		11.34%	9.18%	15.22%
Vallejo-Fairfield-Napa CA PMSA				
Family Income	27,069	29,280	29,289	NA
House Price Index	123.17	146.64	167.49	NA
Income Growth		8.17%	0.03%	NA
House Price Appreciation		19.05%	14.22%	NA
Vineland-Millville-Bridgeton NJ PMSA				
Family Income	22,499	23,371	24,584	25,856
House Price Index	109.42	113.99	122.25	130.79
Income Growth		3.88%	5.19%	5.17%
House Price Appreciation		4.18%	7.25%	6.99%
Visalia-Tulare-Porterville CA				
Family Income	19,134	19,571	20,703	21,193
House Price Index	106.05	106.91	114.32	122.63
Income Growth		2.28%	5.78%	2.37%
House Price Appreciation		0.81%	6.93%	7.27%
Worcester MA				
Family Income	29,429	32,604	33,305	33,229
House Price Index	127.50	144.45	163.06	183.76
Income Growth		10.79%	2.15%	-0.23%
House Price Appreciation		13.29%	12.88%	12.69%
Yolo CA PMSA				

Growth in Incomes and Home Prices
By MSA for California, New Jersey, New York, Massachusetts

	1999	2000	2001	2002
Family Income......................	26,084	27,547	27,332	NA
House Price Index.................	111.54	130.23	149.43	NA
Income Growth.....................		5.61%	-0.78%	NA
House Price Appreciation........		16.76%	14.74%	NA
Yuba City CA				
Family Income......................	21,629	22,177	22,987	23,617
House Price Index.................	111.54	130.23	149.43	175.22
Income Growth.....................		2.53%	3.65%	2.74%
House Price Appreciation........		16.76%	14.74%	17.26%

"Income" is Per Capita Personal Income from the Bureau of Economic Analysis.
Home Price data from OFHEO Home Price Index (1980 Q1=100).

Distribution of Mortgage Originations in 2002 by State

(Share of Dollar Volume of HMDA-Reported Home Purchase & Refinance Mortgage Originations)

State	Government Share[1]	Conventional Conforming Share	Jumbo Share
United States	7.2%	66.2%	26.6%
Alaska	23.7%	75.3%	1.0%
Alabama	10.0%	79.6%	10.5%
Arkansas	12.8%	78.3%	8.9%
Arizona	11.7%	71.9%	16.5%
California	3.3%	53.0%	43.7%
Colorado	11.8%	67.0%	21.1%
Connecticut	4.2%	58.1%	37.7%
District of Columbia	4.0%	44.8%	51.2%
Delaware	8.9%	49.7%	41.4%
Florida	7.3%	73.3%	19.4%
Georgia	10.5%	69.1%	20.3%
Hawaii	4.2%	84.1%	11.7%
Iowa	4.6%	89.3%	6.1%
Idaho	10.9%	77.9%	11.2%
Illinois	6.5%	73.2%	20.4%
Indiana	10.6%	81.4%	8.0%
Kansas	7.9%	82.1%	10.1%
Kentucky	8.6%	83.5%	8.0%
Louisiana	10.0%	81.0%	9.0%
Massachusetts	2.6%	70.0%	27.5%
Maryland	14.2%	61.8%	24.0%
Maine	5.1%	83.1%	11.8%
Michigan	5.1%	82.1%	12.9%
Minnesota	5.5%	82.3%	12.2%
Missouri	7.6%	80.3%	12.1%
Mississippi	12.2%	81.1%	6.7%
Montana	9.0%	81.5%	9.5%
North Carolina	9.6%	74.7%	15.7%
North Dakota	13.1%	84.9%	1.9%
Nebraska	10.8%	82.5%	6.8%
New Hampshire	4.5%	84.5%	11.1%
New Jersey	5.1%	46.2%	48.7%
New Mexico	14.1%	73.8%	12.2%
Nevada	12.6%	71.4%	16.0%
New York	4.6%	63.4%	32.0%
Ohio	7.7%	82.7%	9.5%
Okalahoma	12.8%	80.0%	7.2%
Oregon	7.9%	78.7%	13.4%
Pennsylvania	10.9%	46.2%	42.9%
Rhode Island	5.9%	82.6%	11.5%
South Carolina	5.5%	76.8%	17.7%
South Dakota	10.0%	85.8%	4.2%
Tennessee	13.0%	76.1%	10.8%
Texas	15.0%	70.9%	14.1%
Utah	17.1%	71.9%	11.0%
Virginia	11.2%	64.9%	23.9%
Vermont	2.5%	85.0%	12.5%
Washington	8.4%	72.3%	19.2%
Wisconsin	3.0%	89.5%	7.5%
West Virginia	7.4%	86.9%	5.7%
Wyoming	9.5%	76.4%	14.2%

Source: HMDA

[1]The 'Government' category includes FHA-insured, VA-guaranteed, and FmHA-insured mortgages.

Distribution of Mortgage Originations in 2002 by MSA

(Share of Dollar Volume of HMDA-Reported Home Purchase & Refinance Mortgage Originations)

Metropolitan Area	Government Share[1]	Conventional Conforming Share	Jumbo Share
United States	7.2%	66.2%	26.6%
Atlanta, GA	10.8%	70.3%	18.9%
Austin-San Marcos, TX	13.4%	69.5%	17.2%
Baltimore, MD	15.0%	64.5%	20.5%
Boston, MA-NH	1.5%	64.6%	34.0%
Charlotte-Gastonia-Rock Hill, NC	10.6%	72.5%	16.9%
Chicago, IL	6.2%	70.8%	23.0%
Cincinnati, OH-KY-IN	6.3%	80.7%	13.0%
Cleveland-Lorain-Elyria, OH	6.3%	83.1%	10.7%
Columbus, OH	13.3%	73.9%	12.8%
Dallas, TX	13.9%	68.0%	18.0%
Denver, CO	14.3%	66.6%	19.1%
Detroit, MI	5.4%	78.9%	15.7%
Fort lauderdale, FL	4.7%	76.7%	18.5%
Fort Worth-Arlington, TX	20.5%	67.8%	11.7%
Grand Rapids-Muskegon-Holland, MI	5.3%	87.2%	7.5%
Houston, TX	9.3%	74.3%	16.3%
Indianapolis, IN	15.0%	72.2%	12.8%
Kansas City, MO-KS	8.1%	81.1%	10.8%
Las Vegas, NV-AZ	13.7%	72.5%	13.8%
Los Angeles-Long Beach, CA	4.0%	52.7%	43.3%
Miami, FL	4.7%	70.1%	25.2%
Middlesex-Somerset-Hunterdon, NJ	2.8%	44.4%	52.8%
Milwaukee-Waukesha, WI	2.6%	86.1%	11.3%
Minneapolis-St. Paul, MN	5.2%	81.1%	13.7%
Monmouth-Ocean, NJ	2.9%	34.9%	62.1%
Nashville, TN	15.7%	70.5%	13.8%
Nassau-Suffolk, NY	3.0%	68.0%	29.1%
New York, NY	3.4%	52.8%	43.8%
Newark, NJ	5.6%	60.3%	34.1%
Norfolk-Virginia Beach-Newport News, VA	25.5%	61.1%	13.5%
Oakland, CA	0.8%	47.5%	51.7%
Orange County, CA	2.2%	50.4%	47.4%
Orlando, FL	10.1%	76.3%	13.6%
Philadelphia, PA-NJ	11.3%	34.3%	54.4%
Phoenix-Mesa, AZ	12.2%	69.7%	18.1%
Pittsburgh, PA	5.4%	84.2%	10.5%
Portland-Vancouver, OR-WA	9.1%	76.1%	14.8%
Providence-Fall River-Warwick, RI-MA	6.4%	83.7%	10.0%
Raleigh-Durham-Chapel Hill, NC	11.0%	72.9%	16.2%
Riverside-San Bernardino, CA	11.5%	75.7%	12.8%
Sacramento, CA	6.3%	75.4%	18.4%
Salt Lake City-Ogden, UT	18.9%	72.1%	9.0%
San Diego, CA	2.7%	57.7%	39.6%
San Francisco, CA	0.1%	23.7%	76.2%
San Jose, CA	0.1%	29.7%	70.3%
Seattle-Bellevue-Everett, WA	5.9%	67.7%	26.3%
St. Louis, MO-IL	6.9%	78.3%	14.8%
Tampa-St. Petersburg-Clearwater, FL	9.6%	77.3%	13.1%
Washington, DC-MD-VA-WV	9.9%	58.4%	31.7%
West Palm Beach-Boca Raton, FL	2.8%	70.5%	26.7%

Source: HMDA

[1]The 'Government' category includes FHA-insured, VA-guaranteed, and FmHA-insured mortgages.

Distribution of Mortgage Originations in 2002 by State

(Share of Number of HMDA-Reported Home Purchase & Refinance Mortgage Originations)

State	Government Share[1]	Conventional Conforming Share	Jumbo Share
United States	9.2%	82.9%	7.9%
Alaska	23.1%	76.6%	0.3%
Alabama	11.5%	85.9%	2.6%
Arkansas	14.3%	84.0%	1.7%
Arizona	13.9%	81.3%	4.8%
California	5.2%	73.4%	21.3%
Colorado	13.1%	78.8%	8.1%
Connecticut	6.5%	80.7%	12.8%
District of Columbia	6.9%	68.5%	24.6%
Delaware	9.4%	86.2%	4.4%
Florida	9.4%	85.9%	4.7%
Georgia	13.0%	81.7%	5.3%
Hawaii	5.8%	90.7%	3.5%
Iowa	5.2%	93.5%	1.3%
Idaho	12.7%	84.6%	2.7%
Illinois	8.0%	84.9%	7.1%
Indiana	11.3%	86.8%	1.9%
Kansas	9.6%	87.8%	2.6%
Kentucky	8.9%	89.3%	1.9%
Louisiana	11.0%	86.9%	2.1%
Massachusetts	3.0%	85.5%	11.5%
Maryland	17.2%	73.5%	9.3%
Maine	5.9%	91.3%	2.8%
Michigan	6.4%	89.7%	3.9%
Minnesota	6.0%	89.9%	4.1%
Missouri	9.2%	87.7%	3.1%
Mississippi	12.4%	86.3%	1.4%
Montana	10.9%	86.8%	2.4%
North Carolina	11.1%	84.4%	4.5%
North Dakota	13.6%	86.0%	0.4%
Nebraska	11.7%	86.6%	1.6%
New Hampshire	4.4%	92.0%	3.6%
New Jersey	7.0%	83.2%	9.8%
New Mexico	16.0%	80.6%	3.4%
Nevada	14.9%	80.3%	4.8%
New York	6.5%	82.7%	10.8%
Ohio	8.2%	89.3%	2.5%
Okalahoma	14.0%	84.5%	1.4%
Oregon	8.6%	87.2%	4.2%
Pennsylvania	7.2%	89.5%	3.4%
Rhode Island	6.2%	90.2%	3.5%
South Carolina	6.5%	89.0%	4.5%
South Dakota	9.7%	89.2%	1.0%
Tennessee	13.9%	83.4%	2.7%
Texas	17.5%	78.9%	3.6%
Utah	19.1%	77.6%	3.3%
Virginia	13.9%	77.0%	9.1%
Vermont	2.9%	94.0%	3.0%
Washington	9.8%	83.0%	7.2%
Wisconsin	3.3%	94.6%	2.1%
West Virginia	6.4%	92.4%	1.2%
Wyoming	10.5%	87.0%	2.6%

Source: HMDA

[1] The 'Government' category includes FHA-insured, VA-guaranteed, and FmHA-insured mortgages.

Distribution of Mortgage Originations in 2002 by MSA

(Share of Number of HMDA-Reported Home Purchase & Refinance Mortgage Originations)

Metropolitan Area	Government Share[1]	Conventional Conforming Share	Jumbo Share
United States	9.2%	82.9%	7.9%
Atlanta, GA	13.2%	80.4%	6.4%
Austin-San Marcos, TX	15.3%	79.4%	5.4%
Baltimore, MD	18.3%	74.1%	7.6%
Boston, MA-NH	1.5%	82.1%	16.3%
Charlotte-Gastonia-Rock Hill, NC	12.7%	82.0%	5.4%
Chicago, IL	7.8%	83.2%	9.0%
Cincinnati, OH-KY-IN	7.4%	88.9%	3.7%
Cleveland-Lorain-Elyria, OH	7.0%	90.2%	2.8%
Columbus, OH	14.0%	82.0%	3.9%
Dallas, TX	16.9%	78.0%	5.1%
Denver, CO	15.2%	77.0%	7.8%
Detroit, MI	7.0%	87.8%	5.2%
Fort lauderdale, FL	6.1%	88.8%	5.1%
Fort Worth-Arlington, TX	23.1%	73.9%	3.0%
Grand Rapids-Muskegon-Holland, MI	6.2%	91.8%	2.0%
Houston, TX	11.2%	84.6%	4.3%
Indianapolis, IN	17.1%	79.3%	3.6%
Kansas City, MO-KS	9.5%	87.4%	3.1%
Las Vegas, NV-AZ	15.7%	80.4%	3.9%
Los Angeles-Long Beach, CA	5.7%	74.3%	20.0%
Miami, FL	6.8%	86.7%	6.5%
Middlesex-Somerset-Hunterdon, NJ	4.8%	84.9%	10.3%
Milwaukee-Waukesha, WI	3.1%	93.4%	3.5%
Minneapolis-St. Paul, MN	5.6%	89.4%	5.1%
Monmouth-Ocean, NJ	5.2%	85.6%	9.2%
Nashville, TN	17.5%	78.5%	4.0%
Nassau-Suffolk, NY	3.5%	84.8%	11.7%
New York, NY	3.5%	76.0%	20.5%
Newark, NJ	7.0%	80.3%	12.6%
Norfolk-Virginia Beach-Newport News, VA	27.9%	68.5%	3.6%
Oakland, CA	1.1%	67.5%	31.4%
Orange County, CA	3.0%	70.5%	26.4%
Orlando, FL	11.8%	85.1%	3.2%
Philadelphia, PA-NJ	8.8%	85.6%	5.7%
Phoenix-Mesa, AZ	15.0%	79.6%	5.4%
Pittsburgh, PA	5.6%	91.9%	2.5%
Portland-Vancouver, OR-WA	9.9%	85.1%	5.0%
Providence-Fall River-Warwick, RI-MA	6.5%	90.6%	2.9%
Raleigh-Durham-Chapel Hill, NC	13.4%	80.9%	5.8%
Riverside-San Bernardino, CA	13.6%	81.8%	4.6%
Sacramento, CA	7.0%	85.2%	7.8%
Salt Lake City-Ogden, UT	20.8%	76.3%	2.9%
San Diego, CA	3.4%	76.2%	20.3%
San Francisco, CA	0.1%	45.2%	54.7%
San Jose, CA	0.2%	49.9%	49.9%
Seattle-Bellevue-Everett, WA	7.0%	81.3%	11.7%
St. Louis, MO-IL	8.8%	87.1%	4.1%
Tampa-St. Petersburg-Clearwater, FL	11.3%	85.5%	3.2%
Washington, DC-MD-VA-WV	12.7%	72.9%	14.5%
West Palm Beach-Boca Raton, FL	4.1%	89.1%	6.8%

Source: HMDA

[1]The 'Government' category includes FHA-insured, VA-guaranteed, and FmHA-insured mortgages.

Distribution of Home Purchase Mortgage Originations in 2002 by State

(Share of Number of HMDA-Reported Home Purchase Mortgage Originations)

State	Government Share[1]	Conventional Conforming Share	Jumbo Share
United States	17.1%	75.3%	7.6%
Alaska	41.2%	58.6%	0.3%
Alabama	21.4%	76.4%	2.2%
Arkansas	25.6%	73.1%	1.3%
Arizona	20.7%	75.3%	4.0%
California	10.2%	68.4%	21.4%
Colorado	26.8%	66.0%	7.2%
Connecticut	14.2%	73.0%	12.8%
District of Columbia	10.6%	66.7%	22.7%
Delaware	17.2%	78.4%	4.4%
Florida	13.0%	81.9%	5.1%
Georgia	22.6%	72.8%	4.7%
Hawaii	6.7%	89.6%	3.7%
Iowa	12.6%	86.1%	1.2%
Idaho	23.5%	74.6%	1.9%
Illinois	15.3%	77.7%	7.0%
Indiana	24.3%	73.9%	1.8%
Kansas	18.4%	79.2%	2.4%
Kentucky	20.1%	78.4%	1.5%
Louisiana	22.7%	75.5%	1.8%
Massachusetts	7.7%	76.3%	16.0%
Maryland	25.5%	65.7%	8.8%
Maine	15.2%	81.7%	3.1%
Michigan	16.0%	80.1%	3.9%
Minnesota	15.9%	79.6%	4.5%
Missouri	18.8%	78.8%	2.4%
Mississippi	22.8%	76.2%	1.0%
Montana	23.9%	74.2%	1.9%
North Carolina	18.0%	77.8%	4.2%
North Dakota	28.3%	71.4%	0.3%
Nebraska	28.2%	70.7%	1.2%
New Hampshire	10.4%	84.9%	4.7%
New Jersey	11.3%	76.3%	12.4%
New Mexico	27.0%	70.2%	2.8%
Nevada	18.4%	77.1%	4.6%
New York	11.5%	74.5%	14.0%
Ohio	18.4%	79.1%	2.5%
Okalahoma	26.9%	71.9%	1.1%
Oregon	14.6%	81.9%	3.5%
Pennsylvania	14.5%	82.0%	3.5%
Rhode Island	15.6%	79.6%	4.8%
South Carolina	12.1%	83.8%	4.1%
South Dakota	22.2%	77.0%	0.8%
Tennessee	23.2%	74.4%	2.4%
Texas	24.0%	73.2%	2.8%
Utah	29.4%	67.7%	2.9%
Virginia	21.9%	69.2%	8.9%
Vermont	6.6%	90.0%	3.4%
Washington	18.4%	75.1%	6.6%
Wisconsin	8.5%	88.9%	2.6%
West Virginia	14.0%	84.9%	1.1%
Wyoming	20.1%	78.1%	1.8%

Source: HMDA

[1]The 'Government' category includes FHA-insured, VA-guaranteed, and FmHA-insured mortgages.

Distribution of Home Purchase Mortgage Originations in 2002 by MSA
(Share of Number of HMDA-Reported Home Purchase Mortgage Originations)

Metropolitan Area	Government Share[1]	Conventional Conforming Share	Jumbo Share
United States	17.1%	75.3%	7.6%
Atlanta, GA	22.1%	72.1%	5.8%
Austin-San Marcos, TX	24.8%	71.1%	4.1%
Baltimore, MD	28.5%	63.9%	7.6%
Boston, MA-NH	4.1%	72.1%	23.8%
Charlotte-Gastonia-Rock Hill, NC	20.6%	74.7%	4.7%
Chicago, IL	14.1%	77.0%	8.9%
Cincinnati, OH-KY-IN	18.2%	78.3%	3.5%
Cleveland-Lorain-Elyria, OH	14.2%	82.9%	3.0%
Columbus, OH	29.4%	66.9%	3.7%
Dallas, TX	23.2%	72.7%	4.1%
Denver, CO	31.5%	61.0%	7.5%
Detroit, MI	16.8%	78.0%	5.2%
Fort lauderdale, FL	7.8%	86.4%	5.7%
Fort Worth-Arlington, TX	30.6%	67.1%	2.3%
Houston, TX	15.0%	81.3%	3.7%
Indianapolis, IN	33.5%	63.4%	3.1%
Jacksonville, FL	20.9%	74.5%	4.6%
Kansas City, MO-KS	18.4%	78.5%	3.1%
Las Vegas, NV-AZ	18.1%	77.8%	4.0%
Los Angeles-Long Beach, CA	9.9%	69.6%	20.5%
Miami, FL	9.1%	83.6%	7.3%
Milwaukee-Waukesha, WI	7.1%	88.8%	4.1%
Minneapolis-St. Paul, MN	15.1%	79.2%	5.7%
Monmouth-Ocean, NJ	7.8%	79.4%	12.8%
Nashville, TN	28.9%	67.5%	3.6%
Nassau-Suffolk, NY	7.0%	75.2%	17.8%
New York, NY	5.4%	68.6%	26.0%
Newark, NJ	11.4%	72.6%	16.0%
Norfolk-Virginia Beach-Newport News, VA	39.9%	56.7%	3.4%
Oakland, CA	2.7%	60.0%	37.2%
Orange County, CA	5.6%	62.9%	31.4%
Orlando, FL	15.9%	80.7%	3.4%
Philadelphia, PA-NJ	16.2%	77.8%	5.9%
Phoenix-Mesa, AZ	22.3%	73.3%	4.5%
Pittsburgh, PA	13.4%	83.7%	2.9%
Portland-Vancouver, OR-WA	16.5%	79.4%	4.1%
Raleigh-Durham-Chapel Hill, NC	19.5%	75.2%	5.3%
Richmond-Petersburg, VA	23.5%	73.5%	3.0%
Riverside-San Bernardino, CA	18.7%	76.4%	4.9%
Sacramento, CA	13.4%	77.8%	8.8%
Salt Lake City-Ogden, UT	30.8%	66.7%	2.5%
San Antonio, TX	38.7%	59.7%	1.6%
San Diego, CA	6.6%	67.7%	25.7%
San Francisco, CA	0.3%	34.1%	65.6%
San Jose, CA	0.7%	42.3%	57.0%
Seattle-Bellevue-Everett, WA	14.2%	74.1%	11.7%
St. Louis, MO-IL	19.4%	77.2%	3.3%
Tampa-St. Petersburg-Clearwater, FL	16.5%	80.2%	3.4%
Washington, DC-MD-VA-WV	18.4%	67.4%	14.3%
West Palm Beach-Boca Raton, FL	5.7%	87.8%	6.5%

Source: HMDA

[1]The 'Government' category includes FHA-insured, VA-guaranteed, and FmHA-insured mortgages.

Testimony Delivered to the Committee on Financial Services, Housing and Community Opportunity Subcommittee
By Jon Eberhardt
President-elect, California Association of Mortgage Brokers

Introduction:

My name is Jon Eberhardt and I am the President-elect for the California Association of Mortgage Brokers, a state affiliate of The National Association of Mortgage Brokers (NAMB). NAMB is the largest organization of individual loan originators in the country. NAMB has a membership of over 21,000 originators and affiliates and supports consumer education and a code of ethical conduct by its members. Like the NAMB membership, I originate loans for a living. I became licensed in 1991 and have originated loans since then. My organization, Prime Equity Management, is located in Torrance, California, a suburb located in Southern Los Angeles County. My company is a medium sized loan origination shop with approximately ten originators producing loans in any given month. We are certified to originate FHA insured loans as an FHA correspondent. I am here today to speak in support of HR4110.

The Problem:

As you may know, The Los Angeles Times recently reported that Los Angeles County's median home price has jumped twenty percent in the past twelve months and the new median home price is $379,000. The majority of growth is in areas traditionally considered desirable for first time homebuyers. Entry level houses that traditionally sold for $280,000 are now selling anywhere between $360,000 and $380,000. The FHA loan limit for Los Angeles County is $290,319, the highest permissible under current law. Twenty-three of California's fifty-eight counties are currently at this $290,319 ceiling with another six counties approaching the ceiling when factoring in the latest jump in home prices. These twenty-nine counties represent approximately eighty-five percent of California's population. California is not alone. High cost areas exist in states across the country. Maryland, for instance, has five of twenty-four counties currently at the $290,319 maximum with another seven counties approaching the limit. Again, these counties represent a great majority of the population for Maryland. States that currently feature counties at or approaching the maximum FHA loan limit include Pennsylvania, Connecticut, New York, and New Jersey among others.

Recognizing high cost areas with regard to FHA loan limits is not new to this legislative body. It should be pointed out that Congress already recognizes high cost areas in Hawaii, Alaska and various United States Territories. These areas feature an exception that takes their available loan limit to one hundred and fifty percent of the FHA loan limit.

This congress and this administration have made homeownership a priority in the country. June is Homeownership Month and I was honored to attend the breakfast and press conference held on June 2nd here in the Capital. That press conference featured statements highlighting the record percentage of homeownership in this country. The United States now boasts homeownership in excess of 60%. Minority homeownership is over 50%. Both of these numbers are the highest in history. While homeownership continues to increase in this country, the demand for homes continues to outstrip new development and sales of existing homes continuing an upward push in home prices. To facilitate the demand for homes, certain steps should be taken to accommodate buyers, particularly first time homebuyers.

The Federal Housing Authority (FHA) was created by the National Housing Act of 1934. It was created to increase homeownership and assist the building industry. FHA has a long history of assisting homeownership. Since its inception, FHA has insured over 33 million loans and is the largest insurer of mortgages in the world. FHA insured loans are the staple for first time homebuyers. FHA insured loans are more accommodating to first time homebuyers than other types of loan programs. The program is designed to include flexibility for debt-ratios, income and credit history not included in Fannie Mae and Freddie MAC guidelines.

FHA insured loan programs should serve as a permanent backstop for all first time homebuyer programs. By creating the ability for FHA loan limits to float up and down with 100% of the median home price, the legislation seeks a logical loan limit that will benefit both the housing industry and the consumer.

Why is this particular solution needed?

- By altering the FHA loan limit ceiling through HR4110, the FHA loan limit will float with the market. By tying the loan limit to the median home price for an individual county, the limit can float up and down, following home prices instead of some number evolved from a complicated formula. The limit will follow a true home market economy. Rather than restrict purchases of new homes through a legislatively mandated ceiling, the limit can automatically adjust under current guidelines established for increasing the FHA loan limit on a county-by-county basis.

- The median home price is monitored be many different sources to inform economists and government agencies about housing trends. The median home price is also an industry standard used to define luxury versus entry-level homes in a geographic area. By utilizing the median home price to define an FHA loan limit, consumers also can keep track of loan types by virtue of the median home price for a county. Essentially, the consumer can be better informed as to the type of financing available by keeping track of the median home price. This is much easier to understand than 95% of the median home limit or 85% of the Freddie Mac limit.

- Working families that live in areas that exceed the FHA ceiling yet need and qualify for an FHA loan should not be penalized because of their geographic location. Increasing the loan limits to the median home price of each county ends this unintended discrimination. For homebuyers in counties like Los Angeles the FHA insured loan programs do not work. My office services downtown Los Angeles and traditional entry-level home areas like Long Beach, Carson and Wilmington. The number of FHA insured loans on single-family residence purchases in these areas has dropped to a very few. I, personally, was doing between three and four FHA loans per month for new homebuyers over the past few years. The last FHA insured loan I did was in October of last year. This unintended discrimination is felt hardest by the minority first time homebuyers who predominantly buy in these areas.

- The type of loan that has replaced the FHA insured loan in areas like Los Angeles is a type of loan that has a higher incidence of default than an FHA insured loan. In Los Angeles FHA insured loans are replaced by interest only loans and sub-prime loans. These loans typically have a limited, two to three year, fixed period followed by an adjustable interest rate. Many also have prepayment penalties. The margins on the adjustable interest rate portion of the loan are prohibitive. Ultimately, the homebuyer must refinance the loan to maintain the payment that the home was purchased with. If property values go down, the homebuyer is stuck and becomes a candidate for default.

- Programs have varied significantly in the past ten years, while the FHA programs have remained steady. Those who remember the 1980's and early 90's in lending will recall high interest rates and extended amortization schedules to accommodate first time homebuyers. While the interest rates came down so did home values. During this period few lenders were willing to loan on homes at high loan to value due to an increased chance of default. As home values began to rise again in the mid 90's we saw 125% loans that assumed increased value of property. Now we are at another crossroads. Many economists are predicting a fall in home values should the interest rates go up. Simultaneously we continue to experience a very high demand for homes. In either scenario the FHA program will remain the same, establishing a constant for our industry.

- Some critics have wondered why this legislation is here now, and why it impacts the rest of the country. The answer is simple. Every county in every state will enjoy some benefits of this legislation. While many counties will not increase the way Los Angeles County has, increasing the ceiling to 100% rather than 95% of the median home price will have salutary impact on every county in the country. This increase in FHA insured loan availability will further stimulate homeownership in areas that will not exceed the $290,319 loan limit. The formula for determining the increase is the following: FHA LOAN LIMIT divided by .95 equals NEW FHA LOAN LIMIT.

- FHA is one of the only agencies in the government to exist solely on the fees that it generates from its programs. It is not a taxpayer subsidized entity.

Selective Answers to other questions posed by the Committee:

Question 2:

The National Association of Mortgage Brokers and the California Association of Mortgage Brokers are both on record in support of Zero Down Payment Act of 2004 (HR3755). However, one must ask this question: How many homebuyers are not going to have access to this program due to the ceiling on FHA insured loans?

Question 3:

As outlined in one of my points above, the FHA insured loan is more desirable than some of the high cost loans that have replaced it in high cost areas.

Question 8:

HR4110 would increase access to homeownership by many of the families that currently cannot obtain financing through any means. The FHA insured loan programs offer a means to obtain financing through underwriting flexibility and generous guidelines. Most of the loans that I have done through the FHA insured programs have been for minority homeowners. It is these same people who cannot obtain financing now. For example, it is important to understand that neither Fannie Mae nor Freddie Mac will allow a homebuyer to qualify with a credit score average below 600. Using compensating factors, the FHA insured program allows for this. If the same borrower tried to obtain financing using a subprime product, the approved loan to value would be lower than the FHA loan to value guidelines and the interest rate would be substantially higher. Most likely the subprime loan would include a prepayment penalty.

Question 9:

For the sake of simplicity and consumer awareness, permanently tying the FHA insured loan ceiling to the median home price will resolve many of the issues regarding definition of high cost and not high cost areas.

Question 10:

One only needs to look at the late 1980s to remember the type of support the private sector gave to homebuyers in a declining value market. Programs were eliminated and underwriting standards became unbearable. This was highlighted in some of the oil producing states. In a declining value market lenders will be reluctant to loan at high loan to values due to the increased risk factor. It is for this very purpose that the FHA program was created.

Thank you for allowing me to testify today.

Respectfully submitted:

Jon Eberhardt

TESTIMONY OF GLENN HELLYER
REALTOR®, YORBA LINDA, CA

FOR THE HEARING ON
HR 4110, 'THE FHA SINGLE FAMILY LOAN LIMIT ADJUSTMENT ACT OF 2004'

BEFORE THE HOUSING AND COMMUNITY OPPORTUNITY SUBCOMMITTEE OF THE FINANCIAL SERVICES COMMITTEE

UNITED STATES HOUSE OF REPRESENTATIVES

WASHINGTON D.C.

JUNE 16, 2004

Thank you Chairman Bob Ney, Vice Chairman Mark Green, Ranking Member Maxine Waters, and all the members of the Housing and Community Opportunity Subcommittee for inviting me here today to testify on HR 4110, the FHA Single Family Loan Limit Adjustment Act of 2004. This bill will enable more prospective homebuyers to achieve the American Dream of homeownership.

My name is Glenn Hellyer, and I have been a Realtor® in Orange County California for 25 years. I have represented homebuyers and homeowners throughout Orange County and neighboring counties.

In years past, I have used FHA loans to help first time home buyers, low and moderate income buyers and buyers who could not qualify for conventional loans because high loan to value ratios or high payment to income ratios. FHA loans are no longer a useful product for prospective homebuyers in high cost areas of the country like my area because its maximum loan limits are restrictive. As a result, working families such as teachers, police officers, fire fighters, nurses and others have been left behind just because of their geographic location. HR 4110 would correct this inequity.

Housing prices in California, Massachusetts, New Jersey, New York, Connecticut and I am sure other states, have experienced tremendous growth over the past few years. Unfortunately, the FHA loan limits have not grown in a manner to mirror the growing cost of homeownership in these areas.

Another burden created by the current loan limits is the forcing of prospect buyers to look for housing further away from employment centers. Those workers who may only qualify under FHA guidelines, and are restricted by the current loan limits we find on our already over burdened roads commuting long distances every morning and evening.

FHA has played an enormous role in helping families realize the dream of home ownership at no cost to taxpayers. However, there are many Americans who are not able to realize this dream. Those who happen to live in communities with high housing cost are not afforded the benefits of FHA simply because of the current loan limits.

HR 4110 would eliminate the current loan limit ceiling and allow FHA limits to rise to the median home price in each locality. Working families who need and qualify for FHA should not be penalized because of their geographic location. HR 4110 would correct this disparity, and make FHA loans available to prospective homeowners nationwide.

Thank you for the opportunity to provide this testimony. I would be happy to answer any questions you may have.

MORTGAGE
BANKERS
ASSOCIATION
Investing in communities

STATEMENT

of

Jonathan Kempner

on

H.R. 4110

"FHA Single Family Loan Limit Adjustment Act of 2004"

before the

Subcommittee on Housing and Community Opportunity

Committee on Financial Services

United States House of Representatives

June 16, 2004

Good morning, and thank you Mr. Chairman, for holding this hearing and inviting the Mortgage Bankers Association (MBA)[1] to share its views on H.R. 4110, the "FHA Single Family Loan Limit Adjustment Act of 2004," introduced on April 1, 2004, by Representative Miller (R-CA) and Representative Frank (D-MA). My name is Jonathan Kempner and I am President and CEO of the Mortgage Bankers Association.

MBA is pleased to have an opportunity to share its views on H.R. 4110 because we believe the legislation points to the important role the Federal Housing Administration (FHA) plays in providing families the affordable financing necessary to own their own home. We support raising FHA's mortgage limits to 100% of an area's median home price, but believe that FHA's mortgage limit in any area should not exceed the Freddie Mac conforming loan limit.

FHA is 70 years old this year. Created in 1934 to stabilize the residential mortgage finance industry, FHA played the pivotal role in creating the modern real estate finance system that the U.S. enjoys today. FHA was the first to promote long-term mortgage financing, the amortization of mortgage debt, and the provision for lower downpayment requirements. These initiatives made homeownership accessible to the common American family.

Over the past 70 years, MBA and our members have worked in partnership with FHA to help it meet its goals and deliver affordable, long-term financing. Today, MBA members originate and service the vast majority of FHA loans each year. We comment on FHA regulations and proposals, monitor its presence in the marketplace and meet regularly with FHA staff to discuss improvements to its programs and the health of FHA's insurance funds.

Mr. Chairman, nowhere, inside or outside the beltway, will you find a stronger advocate for FHA than the Mortgage Bankers Association.

Throughout its history, FHA has played that ever so important role that government must sometimes play in market economies: the role of innovator. Much of what is common in today's mortgage industry is a result of the "research and development" that FHA has pioneered over the years.

[1]The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 400,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership prospects through increased affordability; and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters excellence and technical know-how among real estate finance professionals through a wide range of educational programs and technical publications. Its membership of approximately 2,700 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

Today's real estate finance system is stable and sophisticated, with mortgage bankers sitting squarely in the middle, efficiently linking capital from various sources around the world to the American homebuyer. The evidence that this system is working well is the fact that the U.S. currently enjoys the highest rate of homeownership in its history. Nationwide, mortgage bankers provide the funds that help families purchase homes. The low interest rates over the past several years were not just enjoyed in a certain part of the country or by a certain type of borrower-- they were accessible in all parts of the country through a wide variety of mortgage products.

The Role of FHA in Today's Marketplace

Just as the U.S. real estate finance system has changed since 1934, so too has FHA's role. Today, FHA is no longer focused on stabilizing mortgage markets, but rather on expanding homeownership opportunities for those families who are unserved or underserved by the private market.

This shift in mission is exemplified by changes in the profile of who FHA served over the 1990s. In the early 1990s, about two-thirds of FHA loans were made to first-time homebuyers. By the end of the 1990s, and still today, 4 out of 5 FHA borrowers are first-time homebuyers. During the early 1990s, about 25% of FHA loans were made to minorities, but that percentage grew to more than 37% by the end of the 1990s. In 1999, half of all FHA loans went to low-income borrowers-- those making less than 80% of an area's median income-- and over 40% were made in underserved areas.

FHA has become an instrument for the creation of new homeowners, for reaching underserved areas, and for bridging the minority homeownership gap. Several policies adopted during the 1990s have furthered this focus.

FHA Mortgage Limits

One important policy change came in 1998 when the "floor" and "ceiling" of FHA's maximum mortgage limits were raised. The minimum mortgage limit for an area (the "floor") was increased from 38% to 48% of the Freddie Mac conforming loan limit. The maximum mortgage limit for an area (the "ceiling") was raised from 75% to 87% of the Freddie Mac conforming loan limit. Raising these limits broadened the housing stock that was available to FHA's borrowers and allowed FHA to provide affordable financing in a greater number of high-cost areas.

In one sense, H.R. 4110 is an update to this 1998 policy change.

H.R. 4110 proposes to adjust the FHA mortgage limit from 95% of an area's median home price to 100% of an area's median home price. Additionally, H.R. 4110 would remove the ceiling on FHA mortgage limits (87% of the conforming loan limit). This latter provision would result in FHA mortgage limits in certain areas of the country exceeding, and in some cases far exceeding, the Freddie Mac conforming loan limits.

MBA spearheaded the initiative in 1998 to increase FHA's mortgage limits and believes that now is an appropriate time to increase FHA's mortgage limit ceiling further to equal the Freddie Mac conforming loan limit. However, at this time, we do not support FHA loan limits exceeding the Freddie Mac conforming loan limit.

Principles for Reform of FHA's Mortgage Limits

MBA believes that raising FHA's loan limits to 100% of an area's median home price and aligning the FHA mortgage limit ceiling with the Freddie Mac conforming loan limit will broaden the housing stock available to FHA borrowers in many high-cost areas without shifting FHA from its focus on first-time homebuyers and the underserved.

We have developed this position based on the following principles:

FHA's core mission should stay squarely focused on the moderate end of the mortgage market as defined by the Freddie Mac conforming loan limit.

Over the last 15 years, FHA has fine-tuned its focus to helping those families who otherwise may not have an opportunity to become homeowners. Once in the ranks of homeowners, families often purchase their next home without the assistance of FHA. Fannie Mae and Freddie Mac, as federally chartered enterprises, define the conforming market. The conforming mortgage market though, is only one part of the entire mortgage market. Mortgage bankers provide financing options that go beyond Fannie Mae and Freddie Mac. MBA believes that FHA's primary mission should be to operate within the conforming market, not exceed it.

The factors driving the extremely high median home prices in certain areas of the country are varied and financing innovations alone will not change them. MBA believes that FHA's role should not lead it to financing homes at the threshold of these quickly appreciating markets, but rather should stay focused on those homes and those areas that represent affordable housing.

The benefits of FHA mortgage limits in excess of conforming loan limits are unclear.

Currently, mortgage amounts in excess of Freddie Mac's conforming loan limit are called "jumbo" mortgages. These mortgages are originated, serviced and securitized by private lenders, typically in conjunction with private mortgage insurance. The jumbo mortgage market is robust and a wide range of products is available throughout the country.

FHA credit policies that work at lower mortgage amounts may not appropriately manage the risks that are associated with higher mortgage amounts in quickly appreciating markets. Prior to determining whether or not FHA products would add value to the jumbo mortgage market, MBA would suggest analysis be undertaken studying the implications for the mortgage market and for FHA using various credit policies.

FHA may not be well positioned to step outside its core mission and manage a jumbo loan program.

As has been mentioned, FHA is focused on providing homeownership opportunities for those with less income, poorer credit, or no credit. While FHA has had success with these borrowers, the success has not been without challenges, especially in the area of technology and program management. It is unclear that FHA, given its current structure and technology, has the capacity to appropriately identify and manage the risks that accompany jumbo mortgage origination.

MBA has suggested improvements to FHA that we believe will position it to better manage its portfolio and respond to market needs. These improvements include changes to how FHA funds and manages its technology, personnel, and product development. MBA believes that if these changes were implemented, FHA would be in a better position to evaluate new initiatives.

In summary, MBA supports H.R. 4110 in raising FHA mortgage limits to 100% of an area's median income, but, for the reasons cited above, would suggest limiting the ceiling on FHA mortgage limits to 100% of the Freddie Mac conforming loan limit.

Thank you for the opportunity to testify on H.R. 4110. MBA looks forward to working with Representative Miller, Representative Frank, and the subcommittee on this legislation. We would be happy to provide any additional information you may require.

STATEMENT OF FRANK E. NOTHAFT

VICE PRESIDENT AND
CHIEF ECONOMIST

FREDDIE MAC

BEFORE THE SUBCOMMITTEE ON HOUSING AND COMMUNITY
OPPORTUNITY

OF THE

HOUSE OF REPRESENTATIVES

June 16, 2004

By statute, FHA's single-family loan limit is equal to 95 percent of the median house price of the local area, subject to a maximum and a minimum loan limit. Since 1994, FHA's maximum and minimum single-family loan limit has been linked to Freddie Mac's single-family loan limit.[1] Freddie Mac's loan limit generally adjusts once a year, effective January 1, reflecting the rise in national average house prices. This linkage enables the FHA loan limit to change automatically as the conforming limit changes, eliminating the periodic need for Congress to debate the increase in FHA loan limits.[2] FHA's maximum loan limit is set at 87 percent of Freddie Mac's loan limit, and FHA's lowest loan limit is set at 48 percent of Freddie Mac's loan limit.[3] For 2004, Freddie Mac's one-family loan limit is $333,700; thus, FHA's limit varies from $160,176 to $290,319 in the highest-cost markets.[4]

Housing affordability is an issue in all high-cost markets across the nation. As an example, the median price of a single-family home in March in California was $428,000 and $560,000 in San Francisco.[5] In 2003, the median price of a home in Boston was $413,000.[6] In these and other high-cost markets around the nation, a higher FHA loan limit, and a higher loan limit for Freddie Mac and Fannie Mae, would be vehicles for bringing low-cost, accessible mortgage credit to more families.

Today, in my comments to this Subcommittee, I will first discuss general effects of an FHA loan limit increase upon the overall mortgage market, and then provide some specific comments on H.R. 4110.

General Effects of an FHA Loan Limit Increase

There are two effects of raising the FHA loan limit on the overall mortgage market. First, a higher limit will draw some additional borrowers into the market, expanding the overall size of the home-purchase origination market. Second, by providing an alternative source of mortgage insurance, it will draw some borrowers away from the conventional market.

We have conducted analysis at Freddie Mac to parse out both effects with market data.[7] Our analysis was focused on the previous large jump in FHA loan limits that was enacted October 21, 1998, that increased the maximum high-cost limit from 75 percent of Freddie

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[1] Public Law 103-327, signed into law on September 28, 1994. Pub. L. No. 103-327, 108 Stat. 2298 (1994).
[2] 140 Cong. Rec. H 6025 (1994).
[3] Public Law 105-276, approved October 21, 1998, placed the maximum and minimum FHA loan limit at 87 percent and 48 percent, respectively, of Freddie Mac's loan limit.
[4] The first mortgage loan limit is 50 percent higher in Alaska, Hawaii, Guam, and the U.S. Virgin Islands. Higher loan limits apply for 2- to 4-family properties.
[5] California Association of Realtors, *Trends in California Real Estate*, 25:54 (May 2004).
[6] National Association of Realtors®, *Real Estate Outlook*, 11:4 (April 2004).
[7] We used the public loan-level files released by the Federal Financial Institutions Examination Council collected pursuant to Regulation C (Home Mortgage Disclosure) as well as the loan level data submitted by the mortgage insurers who are members of the Mortgage Insurance Companies of America. We looked at what happened to private mortgage insurance volume, and FHA insurance volume, immediately after a hike in the FHA loan limit.

By statute, FHA's single-family loan limit is equal to 95 percent of the median house price of the local area, subject to a maximum and a minimum loan limit. Since 1994, FHA's maximum and minimum single-family loan limit has been linked to Freddie Mac's single-family loan limit.[1] Freddie Mac's loan limit generally adjusts once a year, effective January 1, reflecting the rise in national average house prices. This linkage enables the FHA loan limit to change automatically as the conforming limit changes, eliminating the periodic need for Congress to debate the increase in FHA loan limits.[2] FHA's maximum loan limit is set at 87 percent of Freddie Mac's loan limit, and FHA's lowest loan limit is set at 48 percent of Freddie Mac's loan limit.[3] For 2004, Freddie Mac's one-family loan limit is $333,700; thus, FHA's limit varies from $160,176 to $290,319 in the highest-cost markets.[4]

Housing affordability is an issue in all high-cost markets across the nation. As an example, the median price of a single-family home in March in California was $428,000 and $560,000 in San Francisco.[5] In 2003, the median price of a home in Boston was $413,000.[6] In these and other high-cost markets around the nation, a higher FHA loan limit, and a higher loan limit for Freddie Mac and Fannie Mae, would be vehicles for bringing low-cost, accessible mortgage credit to more families.

Today, in my comments to this Subcommittee, I will first discuss general effects of an FHA loan limit increase upon the overall mortgage market, and then provide some specific comments on H.R. 4110.

General Effects of an FHA Loan Limit Increase

There are two effects of raising the FHA loan limit on the overall mortgage market. First, a higher limit will draw some additional borrowers into the market, expanding the overall size of the home-purchase origination market. Second, by providing an alternative source of mortgage insurance, it will draw some borrowers away from the conventional market.

We have conducted analysis at Freddie Mac to parse out both effects with market data.[7] Our analysis was focused on the previous large jump in FHA loan limits that was enacted October 21, 1998, that increased the maximum high-cost limit from 75 percent of Freddie

[1] Public Law 103-327, signed into law on September 28, 1994. Pub. L. No. 103-327, 108 Stat. 2298 (1994).
[2] 140 Cong. Rec. H 6025 (1994).
[3] Public Law 105-276, approved October 21, 1998, placed the maximum and minimum FHA loan limit at 87 percent and 48 percent, respectively, of Freddie Mac's loan limit.
[4] The first mortgage loan limit is 50 percent higher in Alaska, Hawaii, Guam, and the U.S. Virgin Islands. Higher loan limits apply for 2- to 4-family properties.
[5] California Association of Realtors, *Trends in California Real Estate*, 25:54 (May 2004).
[6] National Association of Realtors®, *Real Estate Outlook*, 11:4 (April 2004).
[7] We used the public loan-level files released by the Federal Financial Institutions Examination Council collected pursuant to Regulation C (Home Mortgage Disclosure) as well as the loan level data submitted by the mortgage insurers who are members of the Mortgage Insurance Companies of America. We looked at what happened to private mortgage insurance volume, and FHA insurance volume, immediately after a hike in the FHA loan limit.

Mac's loan limit to 87 percent of our limit, that is, an increase that placed the maximum FHA limit $28,800 higher than it otherwise would have been in 1999.[8]

What we found was that the higher FHA limits increased overall home-purchase for the population of loans that fell within the new, higher FHA loan limits. In the 41 highest-cost counties, the increase in FHA limits increased the number of home-purchase loans by 5,000 to 8,000, or an average of 130 to 200 loans per high-cost county in the first full year after enactment.

In contrast, the number of conventional home-purchase loans, and the number of privately insured loans, was reduced. The number of conventional loans was 2,000 to 5,000 lower, indicating that the higher limits attracted some borrowers who would otherwise have taken out a conventional loan. We estimated that the "overlap" with the conventional market was between 22 percent and 49 percent of the new volume of FHA loans.

The midpoint of this range, or 35 percent, is very close to the estimate of the "overlap" computed by the General Accounting Office (GAO) in a 1996 report.[9] GAO found that 34 percent of FHA-insured loans qualified within the Freddie Mac, Fannie Mae, and private mortgage insurance underwriting guidelines, with LTV ratios at or below 97 percent, expense-to-income ratios at or below 33 percent and total debt-to-income ratios at or below 38 percent.

Thus, based on our analysis of the market increase we saw in 1998 and the "overlap" with the conventional market, any increase in FHA loan limits will have two effects: It will expand the overall lending market, and it will also draw some borrowers away from the conventional market.

I will now describe some observations I have on H.R. 4110.

Specific Comments on H.R. 4110

H.R. 4110 alters the FHA loan limit in two respects. First, it eliminates a maximum loan limit by decoupling the link to the Freddie Mac loan limit. Second, it sets the FHA loan limit at 100 percent of the median house price, up from 95 percent.

Eliminating the maximum loan limit means that the FHA limit will exceed the Freddie Mac and Fannie Mae loan limit of $333,700 in a number of markets. By statute, HUD evaluates the median house price in the most expensive county within a metropolitan area to establish the FHA loan limit for that area. In Manhattan, the median value of owner-occupied single-family homes – almost entirely condominiums and cooperatives – was over $1 million as of the 2000 decennial census. Factoring in home-value appreciation over the past four years in the New York market would place the median value in the

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[8] Pub. L. No. 105-276, 112 Stat. 2461 (1998).
[9] U.S. General Accounting Office, *Homeownership: FHA's Role in Helping People Obtain Home Mortgages*, GAO/RCED-96-123 (Washington, D.C. August 13, 1996).

neighborhood of $1,500,000, placing the FHA loan limit at that level throughout the New York metropolitan area. Likewise, the FHA loan limit in San Francisco would be set equal to the median price in the most expensive county within the metropolitan area, which is Marin county; using the median home value from the 2000 census and home-value growth over the four years since would place the FHA loan limit for the San Francisco metropolitan area near $750,000. In essence, FHA loans will be competing with the jumbo market and the inevitable news stories of mansions with FHA mortgages will appear.

Further, the "overlap" with the jumbo market will be far more substantive that the estimates I cited earlier for one simple reason: FHA fixed-rate loans will still carry the lower rates enjoyed by borrowers in the conforming market, compared with the higher level of interest rates on fixed-rate jumbo loans, that is, loans that exceed the statutory loan limits of Freddie Mac and Fannie Mae. While that rate differential varies over time, the interest rate savings in the conforming market can be upwards of one-half of a percentage point on 30-year fixed-rate loans. With such a large financial incentive, many borrowers will opt for an FHA loan over a jumbo loan.

Congress should consider very carefully what it wants the FHA program to accomplish and how best to achieve its policy objectives. Currently there are 82 counties that are at the FHA maximum loan limit, including the New York, San Francisco, and Boston metropolitan areas. Setting the FHA loan limit at such levels will assist very few, if any, lower-income borrowers, as low-income borrowers are unlikely to qualify for mortgages for the large amounts required to purchase in these areas. Maintaining the link with the Freddie Mac loan limit, perhaps in concert with an increase in that limit, would assure that FHA continues to serve its intended borrower population, while assuring families greater access to a wider alternative of housing finance options.

A second part of H.R. 4110 increases the loan limit for those areas where it is currently set at 95 percent of the median house price. The proposed increase to 100 percent of the median house price will affect 539 counties in the nation. The families who will benefit from FHA's lower down payment requirements and higher payment-to-income ratios will tend to be lower-income and have less savings. However, many of these borrowers would also have qualified for a conventional, privately insured loan. We estimate that several thousand lower-income and minority home buyers, who otherwise would have qualified for and taken out a conventional mortgage, will opt for an FHA-insured loan.

Because the FHA program touches so many aspects of the mortgage market, it is also important to look at how the overall strength of the FHA fund would be impacted by the legislation and other developments in the mortgage market, such as lower down payments, higher loan limits, and possible affordable housing goal changes for Freddie Mac and Fannie Mae. As you know, HUD has issued a proposed rule that would set new affordable housing goal requirements for Freddie Mac and Fannie Mae, effective in 2005. HUD's market analysis was completed months ago and does not factor in an FHA loan limit increase. Thus, the FHA loan limit increase will make it even more difficult for us to make the proposed goal levels. Due to the market impacts of a FHA loan limit increase, Congress should consider requesting that HUD take into account the effect of higher FHA loan limits on the size of the conventional market that meets the proposed goal levels.

Conclusion

As I mentioned earlier, Dick Syron, Freddie Mac's new CEO, has defined a mission-centric focus to our activities. Included within that is new product development to help meet the affordable housing needs in all neighborhoods. Congressional action to support affordable housing throughout the nation, and especially in high-cost markets, is well justified, and we support efforts by Chairman Ney, Congressmen Miller and Frank, Congresswoman Waters, and other members of the Committee to ensure that America's families have affordable housing in the cities in which they work. As I have stated, we believe that these families are best served by a higher loan limit for FHA, as set forth in the bill, coupled with a higher loan limit for Freddie Mac and Fannie Mae, in high-cost markets. This will expand the market, provide more access to credit and lower homeownership costs and make home possible for more of America's families.

Thank you for the opportunity to appear before the Subcommittee today. I look forward to answering whatever questions you may have.

TESTIMONY

H.R. 4110
The FHA Single Family Loan Limit Adjustment Act of 2004

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Before the

Subcommittee on Housing and Community Opportunity of the
Committee on Financial Services
United States House of Representatives

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mortgage borrowers acquiring very large loans could jeopardize the financial health of the program during a period of regional house price stress.

- In my opinion, it is time that FHA became an income-targeted – rather than a loan amount targeted – housing program. The current system for setting FHA area loan limits is skewed toward raising these limits above the true median house price for an area and never lowering them, even if house prices fall. Income targeting FHA's single-family program will assure that low, moderate and middle-income borrowers become the primary focus of the program, and should also help make housing more affordable for these targeted borrowers.

Higher FHA Loan Limits Do Not Raise Borrower Income.

Discussion of FHA loan limits usually fail to address a key fact: the FHA is an insurance program that allows a borrower to qualify for a federally-insured low downpayment mortgage if, and only if, that borrower has sufficient income otherwise to qualify for the loan. The FHA income ratios and debt ratio requirements are slightly more generous than most conventional mortgage programs, but not by enough to allow a low- or moderate-income borrower to qualify for a large loan amount. Raising the FHA loan limits only serves those borrowers who already have the high income necessary to otherwise qualify for the loan. Uncapping the FHA loan limit will not allow a borrower with a $50,000 income to qualify for a $300,000 FHA-insured 30 year fixed rate mortgage borrowers acquiring very large loans could jeopardize the financial health of the program during a period of regional house price stress.

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Which Borrowers Will Benefit From an Uncapped FHA Loan Limit?

The current FHA single-family loan limit structure is set within a band tied to the Freddie Mac nationwide loan limit that is reset every year according to statute. The basic standard FHA loan limit nationwide is set at 48% of the Freddie Mac national loan limit. Today, this is equivalent to a mortgage of $160,176. Thus, even if the median house price in an area is only $80,000, $100,000 or $150,000 the FHA will insure loans in that area up to $160,176. On the other hand, the ceiling on the maximum FHA loan amount is set at 87% of the Freddie Mac loan limit. Today, this is equivalent to $290,319. This means that, if the FHA process determines that 95% of the median house price in an area is greater than $160,176, then that amount will be the FHA limit for that area up to a maximum ceiling of $290,319.

H.R. 4110 would change the FHA area limits in two ways. First, it would raise the calculation from 95% to 100% of area median house price. Second, it would keep the basic standard limit at 48% of the Freddie Mac limit but uncap the high-end limit. Thus, in areas where today FHA calculates area median house price to be above $290,319, it would insure mortgages up to 100% of that median house price – no matter how far above $290,319 the calculation would take FHA.

Here are two examples of what this would mean. The California Realtors reported in a May 25, 2004 press release that the median house price in Orange county for the month of April was $645,590, up from $605,560 in the previous month. Similarly, the

National Association of Realtors reported the median existing house price in the Boston MSA for 2003 was $412,800.[1] Under H.R. 4110 the FHA loan limits in these areas could jump from $290,319 to $646,000 in Orange county and likely over $412,800 in the Boston MSA. Not only are these sizable increases in two populated areas, but the incomes required to qualify for loans of this size are well beyond the reach of what most people would consider should be the target borrower for a Federal insurance program—a low, moderate or middle income, first-time home buyer. Moreover, borrowers with the high incomes necessary to qualify for these larger loan amounts appear to be well served by the conventional conforming mortgage market as well as the nonconforming market.[2]

If we assume the borrower fully qualifies for the FHA loan on an income basis and has no other debt that would act to limit the loan amount for which they would qualify, then, assuming current FHA mortgage rates and average property taxes and property insurance[3] the minimum borrower income needed to qualify for the current $290,319 FHA loan is $95,000. For a $412,800 FHA loan, the minimum borrower income jumps to $135,000 while, for a $646,000 FHA loan, the minimum income would be at least $211,000. Consumer debt and other factors would further raise these minimum qualifying borrower incomes.

No matter how one looks at these income requirements, they target the very top of individual income taxpayers. IRS data for 2001 shows that only the top 8.5% of all individual income tax returns had adjusted gross income of over $100,000 and only the

[1] *Real Estate Outlook*, publication of the National Association of Realtors, April 2004.
[2] A review of HMDA data for recent years shows that borrowers reporting income above 120% of area median income – the category where borrowers with incomes above $100,000 are likely classified – comprised a significant portion of both the conventional purchase and refinance markets. See generally HMDA data available on FFIEC website.
[3] Interest rate of 6.33% for a 30 year fixed rate FHA loan. Annual property taxes and insurance were assumed at a combined 2% of house price.

top 2% of individual returns were above $200,000[4]. What holds true nationwide is pretty representative of what exists even in so-called "high-cost" areas. The 2000 census data shows that 15% of Orange county households had incomes above $125,000 and only 5% had income above the $200,000 income needed to meet a $646,000 FHA loan limit for that area. [5] Furthermore, looking only at individual income tax returns with adjusted gross income between $100,000 and $200,000 we find that 77% of these returns reported a deduction for home mortgage interest – indicating that the filer already owned a residence. In short, if FHA starts targeting loan amounts where borrowers are required to have incomes from $100,000 to $200,000 or more, then, it can safely be said that these borrowers are at the very top income categories and are almost assuredly not first-time homebuyers. In my view, this is not and was never meant to be the target market for FHA single-family mortgage insurance.

In addition to targeting the upper income segment of the mortgage market, uncapping FHA limits in high cost areas may act to push some housing further out of the reach of low- and moderate-income borrowers seeking a house in that market. There is some evidence from previous FHA loan limit debates that higher FHA limits may serve to raise the cost of new housing that is made available to FHA-eligible borrowers in an area subject to the higher limits. That is, builders of new housing may change their pricing structure on some new units targeted to the higher end of the FHA market to reflect the availability of government insurance on larger loan amounts within an area.

Since the FHA insurance allows the borrower with a certain income but little or no downpayment to qualify for a slightly larger loan amount than would otherwise be the

[4] See Individual Income Tax Returns, 2001, article by David Campbell and Michael Parisi , available on IRS website.

case, it should come as no surprise that new home prices will reflect the availability of the larger loan amount for the borrower at the upper limits. Again, however, the higher FHA loan limit does nothing for the moderate- income borrower you qualifies for a loan amount below the old FHA limit. While that borrower gains nothing, he or she may well suffer as the market focuses on the new availability of FHA insurance at the high end.

Redefining Median House Price

Implicit in H.R. 4110 is the assumption that the current way FHA area loan limits are set falls short of matching the area's true median house price. In fact, just the opposite is the case. The current structure for setting FHA loan limits for high cost areas is skewed toward setting them at a level above the true area median house price. Beginning in 1999, as a result of legislation, the current system ties the calculation of the median house price for an MSA to the median house price in the highest cost county within the MSA.[6] The result is that the FHA loan limit for the MSA is clearly not reflective of the true median house price for the entire MSA – it is higher. Moreover, anyone can request a higher limit for the MSA by presenting data to HUD that house prices within a single county within the MSA have gone up to a level above that reflected in the current FHA area loan limit. Further aggravating the bias toward an artificially high MSA median house price is that, when data are compiled to show recent house price sales, new house sales are over-weighted. That is, if new house sales comprise less than 25% of all house sales in the county and the value of existing home prices is static or declining, then the median price

[5] See State and County Datasets 2000 Census on U.S. census website.

[6] For FHA limit setting process see HUD Mortgagee Letters 2003-23 and 95-27. As evidence of how quickly real estate brokers and others took advantage of the new law to seek higher area FHA limits see "HUD Raises Limits for FHA-Insured Mortgages in 1999, Numerous Appeals Are in the Works." *Inside Mortgage Finance*, January 8, 1999, page 9.

for new houses is calculated separately but given equal weight to the median sales price for existing house sales. Since new home prices are generally higher than existing home sales prices this acts to raise the FHA limit above what would be the true area median house price. Shifting the FHA area limit calculation from 95% to 100% of "median house price" as calculated under the existing formula will simply aggravate the current distortion in the calculation.

Uncapping FHA Loan Limits Will Add to FHA Risk

It is commonly assumed that borrowers with higher incomes are, for some reason, safer credits than low and moderate-income borrowers. Evidence from the private mortgage insurance industry shows that this is not the case when considering low downpayment borrowers during periods of regional economic stress and falling home prices.[7] It is one thing to have a relatively high income and owe a large mortgage on a home with borrower equity of 20% or more. It is quite another issue to have a large mortgage with very little or no equity at all in the house during a period of falling house values. When borrowers start the ownership process with little or no downpayment using an FHA-insured mortgage loan, they are extremely dependent on a continuing advance in home prices to build their equity. Any reversal in personal fortunes will find them underwater on their mortgage – owing more than the house is worth after broker and other fees have been paid. This is especially the case for zero downpayment mortgages recently approved for FHA by this Committee.[8]

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[7] See testimony of Charles Reid, President of the Mortgage Insurance Companies of America, before the Subcommittee in Housing and Community Development, on FHA's Mutual Mortgage Insurance Fund, July 27, 1993, Attachment A, Incremental Risk of Higher Mortgage Amounts, 1981-1989.
[8] See my testimony before this subcommittee on the FHA zero downpayment mortgage of March 24,2004.

The nature of the residential real estate market in the past decade has been very good to most risk takers. Home prices have appreciated across the board – although with wide geographic variations. Unfortunately, there is no assurance that rapid house price appreciation will continue. Furthermore, past experience with regional downturns in house prices has shown that houses at the upper end of the house price distribution scale are likely to suffer more serious declines in property values than more moderately priced houses. This is not surprising. By definition, there are fewer people with the wherewithal to purchase higher priced homes than there are available to purchase more moderately priced homes. During a period of economic stress and falling home prices, the lack of liquidity at the higher end of the house price market will be felt to the detriment of the holder of these mortgages.[9] Since FHA insures 100% of the loan amount, the FHA stands to lose a great deal in this situation.

The potential loss for FHA from uncapping the high-end limits may be significant during a period of falling regional house prices. A 30% loss on a foreclosed $100,000 FHA insured loan costs the single family fund $30,000. A 30% loss on a $400,000 FHA-insured loan would cost the fund $120,000. If, as is the case in the private sector, larger FHA loan amounts that go to foreclosure during periods of severe economic stress suffer larger percentage reductions in value, then the fund may suffer even greater unanticipated losses. In any case, the new low- and moderate- income borrowers who will be seeking to qualify for a moderate FHA loan during this period of economic stress will feel the impact of these losses. Just as new borrowers paid the higher FHA loan premiums needed to return the single family fund to economic solvency in the early 1990s, so too will these

[9] In this regard it is interesting to note that the FHA loan limits that existed in the late 1980s and early 1990s may well have protected the MMI Fund from the severe losses that were incurred in the private

moderate income borrowers bear the higher costs associated with the losses resulting from defaults on larger loans in the event of a future house price decline.

Will there be a regional house price decline that will result in heavy losses to FHA? We don't know. But we do know that low- and moderate-income borrowers gain nothing and may well lose from retargeting FHA to higher income borrowers. Why would Congress want to run that risk when so much more needs to be done to provide affordable housing for minorities and low and moderate-income borrowers and renters?

Finding A New Path

Let me conclude by saying what I think government could do to effectively use the FHA single-family fund to promote home ownership for more low- and moderate-income borrowers. Fundamentally, I think the federal government should act when the private market isn't efficient because of poor information or other impediments to credit availability. That was the genius of the FHA when it was created in 1934 and it's the role it should continue to serve.

Income targeting would ensure that the FHA promotes home ownership for those borrowers whose needs remain unmet by private markets.[10] It would enhance home ownership even in high-cost areas without creating a subsidy for higher-income borrowers or an incentive for higher home prices that may cut lower-income borrowers out of home ownership – the opposite, of course, of what the FHA should do.

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sector by the house price declines in New England and Southern California during these years.

[10] The concept of retargeting FHA subsidies to needy borrowers is not new and was made by the Chicago Fair Housing Alliance in a March, 1998 policy paper entitled *The Two Faces of FHA.* The paper concluded, in part, that FHA lending should be targeted to "those who cannot be served by the conventional markets and to programs designed to experiment with expanding the mortgage markets."(p.12).

Income targeting doesn't mean that every area of the country has the same target—be it 80%, 100% or 120% of area median household income. To support home ownership in changing inner city neighborhoods, for example, the targets could be set at a higher percentage of median household income than would be the case in other neighborhoods. However, it is critical to set them in a way that puts taxpayer-supported programs to work for those potential borrowers in the neighborhood who need them the most.

Income targeting the FHA single-family program also assures that the insurance subsidy remains with targeted borrowers during periods of rising interest rates. I noted earlier that the FHA's current high cost area limit of $290,319 requires a borrower income of at least $95,000. But that calculation assumes current mortgage interest rates. If 30-year FHA mortgage interest rates were to increase to 8% -- where they were only four years ago -- then the minimum borrower income needed to qualify for the same FHA loan would rise by 14% to $108,000. In other words, the FHA loan limit approach of targeting borrowers leaves low- and moderate-income families behind during periods of rising interest rates. In my opinion the FHA program should do just the opposite—during periods of rising rates it should assure that its subsidy remains targeted to the low-and moderate-income borrower. Income targeting the FHA single-family program will assure that this happens.

We in this country support home ownership with an array of government support – tax deductibility for mortgage interest, the manifold benefits afforded to the housing GSEs and so much else. If we increase the scope of FHA without focusing it on the real needs of underserved borrowers, we run the risk of undercutting the program and its ability to serve those who need it and at the time when they may need it the most.

NCSHA

Testimony on the FHA Single Family Loan Limit Adjustment Act
Before the House Committee on Financial Services
Subcommittee on Housing and Community Opportunity
by
Barbara J. Thompson
Executive Director
National Council of State Housing Agencies

June 16, 2004

Chairman Ney, Ranking Member Waters, and members of the Subcommittee, I am Barbara Thompson, executive director of the National Council of State Housing Agencies. Thank you for this opportunity to testify on behalf of NCSHA in support of the FHA Single Family Loan Limit Adjustment Act of 2004, H.R. 4110.

NCSHA represents the Housing Finance Agencies (HFAs) of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands. State HFAs issue tax-exempt private activity bonds (Housing Bonds), allocate the Low Income Housing Tax Credit (Housing Credit), and administer HOME Investment Partnerships (HOME) funds in nearly every state to finance affordable homeownership and rental housing for America's low- and moderate-income families.

I want to thank Committee Ranking Member Frank and Representative Miller for introducing H.R. 4110. By raising the FHA single-family mortgage loan limit to the local median home price, this legislation will help many families across the country achieve the American dream of homeownership.

FHA Mortgage Insurance: An Essential Homeownership Tool

Since 1934, FHA's single-family insurance program has helped more than 30 million families obtain home mortgages. FHA-insured mortgages are used most often by first-time home buyers, low- and moderate-income buyers, minority buyers, and buyers who cannot qualify for conventional mortgages with loan-to-value and payment-to-income ratios more restrictive than FHA's.

FHA's single-family program is self-sustaining, operating at no cost to American taxpayers. Independent audits show FHA's capital ratio—the primary indicator of the program's financial health—exceeds congressionally mandated standards and is likely to continue to into the future. Allowing FHA to serve a larger portion of the affordable housing market will further strengthen its actuarial soundness by enabling it to build an even higher-quality, more diverse loan portfolio.

The Mortgage Revenue Bond Program and FHA Insurance

FHA is essential to the success of the Mortgage Revenue Bond (MRB) first-time home buyer program, which HFAs operate in every state. MRBs have made first-time homeownership possible for more than 2.4 million low- and moderate-income families. Another 100,000 families each year become homeowners with the help of MRB mortgages.

State HFAs issue MRBs to finance low-interest mortgages for low- and moderate-income first-time home buyers. Investors purchase MRBs at low interest rates because the income from them is tax-free. The interest savings made possible by the tax-exemption is passed on to first-time home buyers in the form of below-market interest rate mortgages.

MRB loans are available only to first-time home buyers who earn no more than the greater of area or statewide median income. (Families of three or more can earn up to 115 percent of the greater of area or statewide median income.) The price of homes purchased with MRB-financed mortgages is limited to 90 percent of the average area purchase price.

The MRB program relies heavily on FHA single-family mortgage insurance. In 2002, nearly 60 percent of all MRB loans financed by state HFAs were insured by FHA. In some states, including Ohio, Utah, and Mississippi, more than 90 percent of state HFA-financed MRB loans were FHA-insured.

MRB borrower use of FHA insurance is widespread for several reasons. FHA insurance is frequently less expensive for the borrower than private mortgage insurance, and down payment requirements are generally lower than those in the conventional market. FHA is often the best option, and sometimes the only option, for prospective homebuyers with low credit scores. In addition, bond rating agencies view bonds backed by FHA-insured mortgages as more secure because of FHA's federal guarantee. HFAs utilizing FHA insurance leverage their resources more effectively by receiving higher bond ratings and maintaining a lower loan loss reserve.

The Problem With the Current FHA Maximum Mortgage Limits

Unfortunately, in some high-cost areas of the country, FHA is not as useful as it might be because its maximum mortgage limits lag median home prices. As a result, some families, including teachers, police officers and municipal workers, have limited or no access to FHA insurance, making it difficult for them to buy homes in the communities where they work.

Current FHA limits constrain the availability of MRB loans in some metropolitan areas of several states. The current FHA maximum mortgage limit of $290,319 is simply too low in some high-cost areas for MRB borrowers to purchase some MRB-eligible homes with FHA insurance.

In Boston, for example, a family earning the maximum income allowable under the MRB program could afford a home priced at 78 percent of the area median purchase price. However, this family could not buy that home with FHA insurance, because the FHA maximum mortgage limit is 71 percent of the area median purchase price.

In Oakland, an MRB-qualified family earning the maximum allowable income could afford a home priced at 67 percent of the area median purchase price but could not buy that home with FHA insurance, which in that area is limited to 59 percent of the median purchase price. Without an increase in the FHA mortgage limits, the gap between the price of homes MRB borrowers can afford and the price of homes insurable through FHA will continue to widen as area median incomes rise over time.

FHA maximum mortgage limits also impede MRB borrowing in places such as Ann Arbor, Michigan; Madison, Wisconsin; Minneapolis, Minnesota; San Francisco and San Jose, California; Danbury and Stamford-Norwalk, Connecticut; Washington, D.C.; Bergen-Passaic and Middlesex-Somerset-Hunterdon, New Jersey; and Nassau-Suffolk, New York. H.R. 4110 would enable families living in these and other high-cost areas to use FHA-insured MRB loans to access a larger universe of moderately priced homes. This is particularly important for families for whom FHA is the only mortgage insurance option.

Increasing FHA loan limits will also help families not eligible for the MRB program to purchase homes. In New Jersey, for example, median home prices exceed the FHA maximum mortgage limit in 12 of 21 counties. New Jersey counties included in the New York City metropolitan area have an area median home price of $352,600, well above the $290,319 FHA limit, and the median home price is expected to reach $373,100 by the end of this year.

The Need for MRB Ten-Year Rule Relief

Before closing, I want to ask for your continued help in removing another serious constraint on the MRB program, the Ten-Year Rule.

The MRB Ten-Year Rule each year prevents tens of thousands of qualified low- and moderate-income first-time home buyers from benefiting from MRB mortgages. The rule forces states to use payments on MRB mortgages to retire MRBs outstanding more than ten years, rather than fund new mortgages to low- and moderate-income families.

This year alone, the Ten-Year Rule will cost state HFAs $3 billion in low-cost MRB mortgage money that would otherwise be available to help working families buy their first homes. Massachusetts loses $288,000 in MRB mortgage money each day to the Ten-Year Rule. Ohio loses more than $450,000 a day, and California forfeits more than $1 million every day.

The Housing Bond and Credit Modernization and Fairness Act, H.R. 284 and S. 595, would repeal the Ten-Year Rule. Introduced by Representatives Houghton (R-NY) and Neal (D-MA), H.R. 284 has 348 House cosponsors, including most members of this Subcommittee.

Corporate/jobs tax legislation passed by the Senate last month (S. 1637) and reported by the House Ways and Means Committee June 14 (H.R. 4520) appears to be the only possible tax vehicle for passage of Ten-Year Rule relief this year. Though the House Committee-reported bill does not contain Ten-Year Rule relief, the Senate bill includes a one-year repeal of the rule for MRBs outstanding and prospective repeal for MRBs issued after the bill's enactment.

Though only temporary relief, the Senate provision is an important step toward permanent repeal of the Ten-Year Rule. Please help us ensure the survival of this provision in the House-Senate corporate/jobs bill conference by communicating your support for the Senate Ten-Year Rule relief provision to Ways and Means Chairman Thomas and House leaders.

Thank you for this opportunity to testify. NCSHA stands ready to assist you in advancing H.R. 4110 and making homeownership a reality for more of America's working families.

STATEMENT OF JOHN WEICHER

ASSISTANT SECRETARY FOR HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

BEFORE THE

UNITED STATES HOUSE

COMMITTEE ON FINANCIAL SERVICES,

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

JUNE 16, 2004

Good morning, Chairman Ney, Ranking Member Waters, and distinguished Members of the Subcommittee, thank you for inviting the Department to testify on the subject of H.R. 4110, the FHA Single Family Loan Limit Adjustment Act of 2004. We appreciate this opportunity to provide the Subcommittee with the Department's comments on this proposed legislation. In addition, on behalf of the Administration, let me express our thanks for the Committee's unanimous approval of H. R. 3755, the Zero Downpayment Act of 2004 two weeks ago. In particular, let me also thank the authors of the proposal under consideration today, Rep. Gary Miller and Committee Ranking Member Barney Frank for their support of our zero downpayment initiative. The Zero Downpayment Act, if enacted into legislation, will assist at least 150,000 credit worthy American families buy their first home each year.

The Administration and the Department are firmly committed to helping more American families achieve the dream of homeownership. Today, overall homeownership rates are at record high levels. In the first quarter of FY 2004, that rate remained at the all time record high of 68.6% reached in the third quarter of FY 2003. There are now 72,666,000 American families that own their own homes. For the year 2003, overall, the homeownership rate was 68.3 percent, also a new record.

Minority homeownership also set records. For the first time ever, the majority of minority households are now homeowners, with a record rate of 50.8 percent for the first quarter of 2004. There are now 14,860,000 minority homeowners. This shows the progress HUD and the rest of the housing industry is making in increasing homeownership opportunity in this country.

This is a good record and we want to improve on it. There still remains a homeownership gap between non-Hispanic whites and minorities. While more than half of minority households own their own home, this compares with three-quarters of non-Hispanic whites.

In June 2002, President Bush announced an aggressive homeownership agenda to clear away the barriers to homeownership and add 5.5 million new minority homeowners by the end of the decade. In order to accomplish this goal, the Administration has developed new tools and resources for future homeowners. For example,

- More than two dozen major companies and organizations have committed to increasing the number of loans to low-income families, financing the construction of more affordable housing and providing financial counseling to potential buyers. This includes pledges to provide more than $1.1 trillion in mortgage purchases for minority homebuyers this decade;

- Since announcement of the President's goal in June 2002, more than 1.5 million minority families have moved into homes of their own;

- The American Dream Downpayment Initiative (ADDI) was signed into law on December 16, 2003. ADDI authorized $200 million a year in formula grants to help homebuyers with down payment and closing costs;

- The Administration doubled the budget request for housing counseling funds - from $20 million to $40 million - and Congress has responded by appropriating the funds. The proposed FY 2005 HUD Budget proposes a further increase to $45 million;

- And HUD looks forward to continuing to work with the Committee to move the Zero Down Payment Act toward enactment.

The Federal government's primary vehicle for increasing homeownership in America is the Federal Housing Administration (FHA), now proudly celebrating its 70th anniversary. FHA is the Federal government's single largest program to extend access to homeownership to individuals and families who lack the savings, credit history, or income to qualify for a conventional mortgage. FHA pioneered the 30-year, self-amortizing mortgage, has insured in excess of 30 million mortgages during its history, and has never relied on appropriated funds but has rather existed solely on the mortgage insurance premiums paid by homebuyers using its programs. In FY 2003, FHA insured almost $150 billion in mortgages for over 1.3 million households, most of them first-time homebuyers.

However, in some areas of the country, including areas of Massachusetts and California, the variety of state and local regulatory barriers have added thousands of dollars to the cost of construction, and subsequently the cost of homeownership. I know from personal experience that Representative Frank has recognized these problems for many years. In June 2003, HUD launched a Department-wide effort called the "America's Affordable Communities Initiative" to work with states and local communities to reduce regulatory barriers that impede the production and rehabilitation of affordable housing throughout America. The AACI team is not only developing new approaches and incentives that encourage efforts at the local level, the team is also reviewing and reforming HUD's internal regulations that may be impacting housing affordability. Leading by example, the AACI team is aggressively pursuing the reduction of unnecessary barriers to affordable housing. In addition, over the last three years, the Federal Housing Administration has taken a number of steps to reduce Federal regulatory barriers to homeownership, including:

- **FHA's TOTAL Mortgage Scorecard Deployment**
  FHA created and deployed in 2004 an empirical-derived, statistically proven mortgage scorecard for installation in various automated underwriting systems. By using automated underwriting systems that employ the TOTAL (Technology Open To Approved Lenders) mortgage scorecard, lenders are able to dramatically reduce the paperwork associated with underwriting FHA insured mortgages, and reduce underwriting staff costs as well. In addition, some borrowers, previously thought to represent too great of an insurance risk by subjective underwriting requirements, may now have their mortgages approved by an objective electronic system.

- **Elimination of Paper Mortgage Insurance Certificates**
  FHA announced in 2003 that it will no longer issue, and lenders need no longer keep copies of, paper mortgage insurance certificates. By relying on FHA's system of records with electronic transmission of data, FHA has significantly reduced the paperwork and custodial requirements of issuing and maintaining this document and reduced lender costs.

- **'Elimination of Planned Unit Development (PUD) Approval Requirements**
  In 2003, FHA eliminated policies and procedures for approving planned unit developments (PUDs). Based on FHA's experience with PUDs, and the role that state and local officials play in the development of PUD projects, HUD has abolished its requirement for a detailed examination of the legal and budget documents associated with PUDs. This reduces costs to lenders and developers, and possible delays to the mortgage closing.

- **Minimum Distance Requirements Between Private Wells and Sources of Pollution for Existing Properties**
  FHA announced in 2002 an alternative to existing HUD regulations where state and local statutes differ from FHA guidelines with respect to the distance between domestic wells and septic drain tanks. By allowing state and local requirements to prevail where they are less onerous than HUD's, FHA has eliminated an additional regulatory step that was previously required.

- **Streamline Refinances-Revised Mortgage Amount Calculations**
  In 2001, FHA revised the procedures for calculating the maximum mortgage for these refinances. It both simplified the process as well as eliminated, in most cases, the need for the homeowner to bring cash to settlement when refinancing to lower the mortgage payment.

- **Pre-Approval Requirements for New Construction and an Alternative to the Inspection Requirements - Single Family Loan Production**
  FHA announced in 2001 the expansion of the definition of "Pre-Approval" to include the issuance of a building permit by a local jurisdiction prior to construction and offers an alternative to inspection requirements by accepting a Certificate of Occupancy in lieu of an inspection and its attendant expense. These changes streamline the process for FHA insurance of single family production.

The goal of H.R. 4110, the FHA Single Family Loan Limit Adjustment Act of 2004, as we understand it, is to raise FHA mortgage limits, particularly in high cost areas. Currently, the FHA loan limit for a single family house is capped by either 87 percent of the Freddie Mac limit in high costs areas or with a floor of 48 percent of the Freddie Mac limit in all other areas. The cap is the lesser of the 87 percent limitation or 95 percent of the local median single family house price. Alaska, Guam, Hawaii and the Virgin Islands are permitted to have limits up to 150 percent of the FHA limit if justified by the local median housing price.

While we recognize the worthy intention behind the proposal, the Department does not support H. R. 4110 at this time. Our analysis indicates that the proposed changes to the law would result in the following:

- The statutory limit that caps the FHA loan amount regardless of the local median housing price would be removed.
- In all areas of the country, the 1-family limit would no longer be determined by using 95 percent of the area median, but rather 100 percent of the area median;

- The statutory "floor" limit of 48 percent of the conforming limit would remain intact. As it is now, nearly 90 percent of all US counties are at the "floor" and would not benefit from this legislation.

The effect of removing the cap would be to dramatically increase the mortgage limits in certain extreme high cost areas with more modest increases elsewhere. Specifically, lifting the 87 percent of the Freddie Mac limit would affect only a few metropolitan areas, all either in California or in the northeastern United States. For example, if the legislation were enacted, the limit in San Francisco would rise to $568,200; in New York the limit would rise to $374,400 and in Boston the limit would rise to $432,700.

It is unclear that this is the market the Federal Housing Administration should serve, and that it is unserved by the conventional market or the government sponsored enterprises. In California, for example, in FY 2003, FHA endorsed 102,398 single-family mortgages in the state of California, second only to the state of Texas at 138,143 out of a total of more than 1.3 million single family endorsements.

In addition, legislation to raise FHA's mortgage limits may result in a need for increased commitment authority. For example, two mortgages in California at the higher mortgage limit would amount to $1.2 million and take as much authority as six mortgages in Columbus, Ohio. Consequently, FHA could expend more insurance authority but serve fewer households under this proposal.

This concludes my statement, Mr. Chairman. I thank the Subcommittee for the opportunity to meet with you today to discuss this proposed legislation.

June 16, 2004

Chairman Bob Ney
2129 Rayburn House Office Building
Washington, DC 20515

Re: H.R. 4110

Dear Chairman Ney:

The below signed associations have concerns about H.R. 4110, a bill titled the "FHA Single Family Loan Limit Adjustment Act of 2004."

Although the intent of the bill is laudable, we strongly believe that if the FHA loan limits are increased, it will unnecessarily federalize a larger portion of the mortgage market. In turn, it will create a mortgage market that is much less likely to respond to market changes and discipline. Further, increasing FHA loan limits will increase the direct obligation of the U.S. Government in the current environment of a budget deficit.

Another major concern if this bill is passed is that the two largest GSEs will continue to exert strong pressure on increasing their loan ceilings. This will continue their "mission creep" march and provide them with another precedent for a change that would unfairly increase their business lines.

As most economists can attest, raising the FHA loan limits will not make housing more affordable, nor will it get more low to moderate income people into a median priced home. In fact, since the supply of homes is fixed in most high-cost areas, a government subsidy would likely result in an increase in median prices. Moreover, with the low interest rates we are currently experiencing, the cost of credit is not the key factor in housing affordability, it is the cost of homes. And the cost of homes is determined by both demand and supply: population which sets demand; and available land, building code limitations on affordable projects and density, severely limits and sets supply.

Finally, our members believe there is not a problem with the availability of mortgage credit for anyone that is seeking it for the purchase of a home. There are numerous mortgage products in the private market for homebuyers. Imposing the direct FHA subsidy tends to reduce the viability of private lenders holding loans in portfolio, further reducing the private mortgage lending market.

Thank you for allowing us to share our views and concerns about H.R. 4110. We look forward to working with you and your staff in continuing to grow homeownership in our great nation.

America's Community Bankers
American Bankers Association
Financial Services Roundtable
Independent Community Bankers of America

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Supplemental Material Submitted in Response to Request of Rep. Frank

1. On June 9, 1989 the Housing Subcommittee of the Senate Banking Committee held a Roundtable on Homeownership Affordability (S.241-91) chaired by Senators Cranston and D'Amato. Gail Cincotta, Chair of National Peoples Action, an affordable housing group headquartered in Chicago, submitted for the record advertisements from the Washington Post dated February 13, 1989 and March 26, 1989 for a specific townhouse development (see pages 252 and 253 of record). The February 13th submission showed townhouses being offered "from the low 80's" while the March 26th advertisement reported the same townhouses "from the mid 90s". On March 3, 1989 the maximum FHA loan limit in the area went from $90,000 to $101,250. Ms. Cincotta put this information into the record to verify her statement that "FHA causes price appreciation" as prices for the same townhomes were increased to respond to higher FHA loan limits (p.31). See also discussion during same roundtable meeting by Roger Edelstein, Co-chair, Center for Real Estate and Urban Economics, University of California, Berkley that "...you should also recognize, if you increase the availability of financing, you are effectively increasing demand. It is equivalent to saying everyone at this table has a little more money to pursue housing. Unless you get a supply response, there is going to be solely price response. Even with a supply response, there will be probably some price effects." (p.30)

2. See also, Statement of Lou T. Zellner for the Mortgage Insurance Companies of America before the Subcommittee on Housing and Community Development of the House Banking Committee, May 5, 1994 that raising the FHA maximum loan limits "could mean less affordable housing is available in the areas where the limits are raised. Many builders build homes that are priced at the FHA limits. House prices that were within the old, lower FHA limit, would be raised to the new, higher limit, once the limits are increased..."

Statement by
The National Association of Home Builders

for the

House Financial Services Committee
Subcommittee on Housing and Community Opportunity

On

The FHA Single Family Loan Limit Adjustment Act of 2004 (H.R. 4110)

June 16, 2004

The National Association of Home Builders (NAHB) supports the goal of H.R. 4110 to increase the utility of Federal Housing Administration (FHA) single family mortgage insurance for prospective home buyers in high cost areas. We appreciate the leadership of Representatives Gary Miller (R-CA) and Barney Frank (D-MA) in addressing this important issue. Because of the present structure for setting mortgage limits on FHA-insured loans, the opportunity for homeownership is denied to many residents in these areas because of relatively high house prices. NAHB believes it is important to address this issue; however, we do have some concerns over the methodology used to do so. While NAHB supports meeting the needs of high cost areas, it is also important to establish a clear upper limit for FHA-insured loans.

The purpose of the FHA single family mortgage insurance program is to insure mortgages to home buyers in all parts of the country during all types of economic conditions. The FHA program is not intended to replace private sector programs, but rather to provide mortgage insurance to those with less than stellar credit and/or limited cash to pay downpayment and closing costs. Experience has shown that private mortgage insurers may withdraw from some markets during times of high mortgage defaults. Without FHA, many home buyers in these markets would be denied a chance to achieve home ownership.

The FHA mortgage insurance program was created to serve home buyers who would otherwise not be able to purchase a home. The presence of FHA mortgage insurance removes default risk for lenders and investors and also reduces borrowing costs for home buyers. The program is designed to serve home buyers who purchase homes up to the median sales price. To that end, mortgage limits are set for each metro area so that FHA-insured loans could be used to purchase homes in the lower half of the area price range. However, because the absolute FHA limit is capped at 87 percent of the Fannie Mae / Freddie Mac conforming loan limit, FHA cannot serve some high cost areas fully. The present structure for capping the limits on FHA-insured loans means that homeownership is denied to potential buyers who live in those areas of relatively high house prices.

If median home price is the benchmark for program eligibility, FHA should be able to insure mortgages for about half of the homes in a given market. Unfortunately, this is not the case in high-cost markets. The affordability problem with respect to FHA loan limits can best be seen in the San Francisco area, for example, where less than 19 percent of 2003 home sales fell below the FHA ceiling of $290,000. In Los Angeles-Long Beach-Santa Ana area of California, about 32 percent of home sales fell below the FHA ceiling, while this number was about 43 percent for the Boston area and 45 percent in the New York-Newark area.[1]

High house prices in some areas have put homeownership beyond the reach of many deserving families who would otherwise use FHA's mortgage insurance program. NAHB supports changes to the method of determining limits for FHA-insured single family loans to ensure that the FHA program serves deserving families and individuals throughout the nation who otherwise would be denied an opportunity to achieve home ownership. However, one

[1] Based on data provided to NAHB by First American Real Estate Solutions.

must remember that FHA is intended to serve a segment of the home buying public not generally served by conventional loan programs.

In conclusion, NAHB fully supports raising the FHA ceiling to be more in line with house prices in areas with high cost houses, however, we do not support an unlimited ceiling. NAHB therefore recommends establishing a new ceiling for FHA loans that is above the current ceiling but less than the median house price in very high cost housing markets. We look forward to working with the Committee to establish a new ceiling for FHA-insured loans.