

January 30, 2008

The Honorable Barney Frank, Chairman
The Honorable Spencer Bachus, Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

The Honorable Christopher J. Dodd, Chairman
The Honorable Richard C. Shelby, Ranking Member
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Dodd, Chairman Frank, Ranking Member Shelby & Ranking Member Bachus:

We, the undersigned organizations, write to express our strong support for modernizing the Federal Housing Administration (FHA) and urge FHA conferees to quickly reconcile the House and Senate versions of pending FHA legislation. Passage of a strong and workable Federal Housing Administration bill is critical in addressing the current market situation and consumer needs.

FHA modernization will make it easier for first-time homebuyers and lower-income Americans to purchase a home by giving the FHA the ability to offer viable products in today's changing mortgage market. A stronger FHA will be an important tool to help distressed homeowners get out of financial trouble and avoid foreclosure, and enactment of FHA reform would give its management additional flexibility to offer an expanded range of mortgage products to meet the needs of borrowers.

We support FHA reform; however, we would like to express our opposition to a provision in the House bill (H.R. 1852) that would institute a surety bond of \$50,000 in lieu of the current net worth, liquid assets and the audited financial statement requirements for non-supervised mortgagees (including mortgage brokers and loan correspondents) who wish to originate, underwrite, fund and/or service FHA loans. Because these market participants have no federal oversight, it is critical that they continue to submit the annual audited financial statements to the FHA in order to participate in the program, and importantly, protect the integrity of the FHA.

To satisfy the annual reporting requirements, non-supervised mortgagees and loan correspondents must submit audited financial statements that are in accordance with the Government Accountability Office's Government Auditing Standards. HUD program managers, in turn, use these audits to determine that non-supervised mortgagees and loan correspondents use internal controls to: provide reasonable assurance FHA requirements are followed; expend federal funds properly with supporting documentation; and, meet fair housing and non-discrimination requirements.

At a time of rising defaults, it is critical to both FHA and its customers that adequate supervisory processes remain in place.

- HUD's Office of Inspector General "strongly opposes any effort to alleviate FHA's annual financial statement requirement," and notes this requirement is not merely limited to verifying a mortgagee's net worth, but is also a valuable control in evaluating an entities compliance with applicable laws and regulations.
- With the average FHA mortgage in FY 2007 being approximately \$136,000, **a surety bond of \$50,000 would barely cover the cost of repurchasing a single average FHA loan.**
- The financial statements are the primary means by which FHA can ensure that non-supervised mortgagees maintain their net worth requirements. **Eliminating or lessening this requirement could have significant repercussions on the safety and soundness of FHA.**

This yearly audit is the **only** tool the federal government has at its disposal to ensure the 7,500 non-supervised mortgagees and loan correspondents who wish to offer FHA loans do so in accordance with all the applicable laws and regulations. These audits protect not only the safety and soundness of FHA, but homebuyers as well.

Therefore, we urge FHA conferees to omit in the final FHA bill language to remove the audited financial statement requirement.

Mortgage Bankers Association
American Institute of Certified Public Accountants
Lenders One/National Alliance of Independent Mortgage Bankers
Independent Community Bankers of America
American Bankers Association
American Financial Services Association