

FHA and Ginnie Mae Must be Modernized and Strengthened to Serve Consumers Well into the Future

MBA RECOMMENDS

FHA and Ginnie Mae are vital components of the U.S. housing finance system and provide an indispensable service to the underserved, low-to-moderate income, and minority homebuyer and renter. It is imperative that Congress support these agencies so that they remain viable, relevant, and sustainable during this housing crisis, as well as in the future.

BACKGROUND

For many years, the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae) have been the United States government's primary programs for making home ownership and rental housing accessible and affordable to America's middle-income families. In 2009, the FHA recognized its 75th year of existence during which time 37 million Americans have benefitted from its success.

The Mortgage Bankers Association (MBA) has always been a strong advocate of FHA and Ginnie Mae. These two stalwarts of the housing finance industry promote standard-setting lending practices and serve as vital sources of liquidity in both good times and bad. MBA is committed to providing them the support they need to remain viable, relevant components of the housing finance system and continue to provide housing opportunities for millions of Americans.

The past few tumultuous years have demonstrated quite clearly the FHA's role and relevancy. During this time, FHA and Ginnie Mae have experienced a revitalization of unprecedented proportions. Almost overnight, the volume of business at FHA and Ginnie Mae soared. Ginnie Mae's market share of MBS issuance surged from a low of four percent in 2005 and 2006 to 19 percent and 23 percent respectively in FYs 2008 and 2009. FHA originations rose from barely three percent in FY 2006 to about 30 percent of total mortgage market originations in FY2009.

Though FHA has multiple insurance funds, its two most active housing insurance funds are the Mutual Mortgage Insurance ("MMI Fund") fund and the General Risk and Special Risk Insurance ("GI/SRI Fund") fund. Main single family programs are reported under the MMI Fund, and all multifamily programs form the GI/SRI Fund. FHA released an Actuarial Report in the fall of 2009 showing that the capital reserve account of the MMI Fund had fallen well below the statutory target of two percent. In fact, it had fallen dramatically from three percent in 2008 to 0.53 percent in 2009. HUD forecasts an increase in both 2010 and 2011 commitments in the GI/SRI Fund, but projects that any increase in problem assets as a result of the increase in commitments will be manageable, not requiring any increase in credit subsidy for the GI/SRI Fund.

The announced shortfall in the capital reserve account of the MMI Fund, the larger of the two primary FHA housing insurance funds, was a major wake-up call for FHA and the lending community, but not a reason to panic. The two percent target was established by Congress in order to ensure that FHA could stand the stress of a major housing and mortgage market event, an event like the one experienced by the market over the past two years. We commend HUD's and FHA's leadership for taking proactive measures in order to ensure that "a taxpayer bailout" will not be necessary.

MBA supports the recent efforts that FHA has taken to improve its risk management and protect the safety and soundness of the agency. Specifically, we support measures such as, 1) limiting the FHA approval process to mortgagees, as long as FHA provides supervisory guidance on standards for broker approval

by lenders; 2) increasing net worth requirements for single-family FHA approved mortgagees to \$2.5 million over a five-year phase-in period; and 3) establishing a separate net worth requirement for FHA-approved multifamily mortgagees at \$500,000 plus one percent of annual origination volume (based on commitments issued), up to \$1.5 million. MBA commends FHA for reevaluating credit and underwriting standards and reexamining the insurance premium structure.

MBA RECOMMENDATION

MBA believes FHA's dramatic growth and corresponding need to maintain both the MMI Fund and the GI/SRI Fund make it imperative that policymakers act swiftly and appropriately to preserve the agency's strength and viability now, and over the longer term. MBA has developed recommendations that lay the groundwork for robust and modernized agencies that are relevant today and in the future. These recommendations fall into the categories of Capacity and Resources; Program Eligibility; and Operations.

Capacity and Resources

1. **Give FHA and Ginnie Mae the needed resources to hire new staff with current mortgage market skills.**
 - FHA and Ginnie Mae should be given flexibility and financial resources to hire the appropriate number of qualified staff for its current and future needs.
 - FHA and Ginnie Mae should be given the ability to recruit and pay staff at a higher federal pay scale, on par with other "professional-grade" cabinet, regulatory, and independent agencies that require specialized expertise, such as the Federal Deposit Insurance Corporation (FDIC) or the U.S. Securities and Exchange Commission (SEC).
 - MBA recommends both agencies also have the ability to more broadly utilize retention allowances, recruitment bonuses, and superior qualifications appointments.
2. **Ginnie Mae should not be covered under the Credit Reform Act of 1990.**
 - Ginnie Mae should continue to operate under apportionment, meaning it can pay its expenses out of receipts.
3. **Provide FHA with the resources to develop and implement updated information technology systems and processes including the use of anti-fraud tools. Furthermore, FHA should continue implementation of business process re-engineering within select programs, and refine the FHA TOTAL Scorecard.**
 - FHA should employ a fraud monitoring and reporting tool as early in the origination process as possible and before loan consummation.

Program Eligibility

1. **Examine the current FHA loan limits to determine if they are appropriate.**
 - MBA supports the current single family loan limit cap of \$729,750 until the mortgage markets are further stabilized, at which time the limit should decrease.
 - The specific decreased loan limit and whether it should be a nationwide loan limit, or based on county or MSA data, will be determined based on the structure of the conforming loan limit.
 - MBA is asking for a 50 percent increase in the allowable multifamily loan limits over the base loan limits to accommodate elevator buildings in high cost, urban markets where FHA financing has had limited application.
2. **The Home Equity Conversion Mortgage (HECM) program should be strengthened and embraced as a viable and necessary product for many senior citizens.**
 - FHA should convene a working group of industry associations, housing advocates, federal regulators (including the Office of the Comptroller of the Currency (OCC) and the Federal Reserve), and related organizations to help develop solutions to ensure the long-term viability of the HECM program.
 - Specifically, MBA proposes addressing the structural impediments of the HECM product in order to increase its attractiveness to consumers (such as the amount of upfront fees), while also enhancing the FHA insurance fund.

Operations and Delivery of Services

1. TOTAL Scorecard should be completely re-evaluated.

- FHA should completely re-assess FHA's Technology Open to Approved Lenders (TOTAL) Scorecard in order to improve its reliability and functionality. The effort should include a reevaluation of the Scorecard to determine if its automated approval process properly utilizes borrower data and other criteria to help ensure that only borrowers capable of sustainable homeownership are approved.
- If such a review is conducted, MBA recommends that FHA provide lenders who rely on the underwriting decision of TOTAL Scorecard with representations and warranties relief and an exemption from Neighborhood Watch.

2. Give the FHA Commissioner the authority, with concurrence of the HUD Secretary, HUD General Counsel and Ginnie Mae President, to temporarily suspend problem lenders.

- The FHA Commissioner should have the authority to temporarily suspend a lender, pending a more expansive review and on-site visit, if FHA knows a lender's portfolio is experiencing a dangerous level of stress. FHA must establish a fair, clear, and transparent due diligence process for lenders before the suspension, including, but not limited to, quality control audits and loan performance reviews.
- The Commissioner must secure the concurrence of the HUD Secretary, General Counsel, and Ginnie Mae President before taking this action.

3. Provide FHA with the authority to increase the up-front/annual premiums to a new ceiling when warranted, however homebuyer downpayment increases should undergo a formal process.

- MBA supports FHA's efforts to legislatively raise the annual premiums, if it includes a corresponding decrease in the up-front premium.
- Any increase in the current 3.5 percent minimum downpayment must undergo a formal process that includes an opportunity for public comment.

4. Examine the existing homeownership centers for the single-family program and multifamily field office structure to improve efficiency and consistency.

- Both the single family and multifamily field offices should become part of a HUD initiative to better align its resources geographically with the areas where they are most in demand. Moreover there should be an effort to create uniformity in policies, processes, and procedures across these offices.

5. Evaluate the Home Equity Conversion Mortgage MBS (HMBS) Issuer Criteria.

- Ginnie Mae should make an effort to attract more qualified and well-capitalized issuers by establishing HMBS issuer criteria that supports the long-term viability of the HMBS program.

6. Address liquidity Concerns of Non-depository Institutions.

- Participation in the Ginnie Mae program can require significant liquidity as Issuers are required to advance principle and interest payments on delinquent collateral. At the same time, obtaining funding for advances for many non-depository institutions that participate in the Ginnie Mae program can be difficult. We request that Ginnie Mae develop a program that addresses the liquidity concerns of these issuers and that sufficiently protects the Ginnie Mae program from unnecessary risk.

For more information visit www.mortgagebankers.org or call (202) 557-2700.

