July 17, 2006

The Honorable Christopher S. Bond
Chairman
Subcommittee on Transportation, Treasury, the Judiciary,
Housing and Urban Development, and Related Agencies
Appropriations Committee
U.S. Senate
SD-133 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Patty Murray
Ranking Minority Member
Subcommittee on Transportation, Treasury, the Judiciary,
Housing and Urban Development, and Related Agencies
Appropriations Committee
U.S. Senate
SD-128 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Bond and Ranking Member Murray:

We understand that the Subcommittee may consider major changes to the operation of FHA at tomorrow's scheduled markup of the HUD Appropriations bill. The undersigned organizations are mindful that actions clearly are needed to ensure that FHA single family insurance programs continue to remain relevant to serving the housing needs of families who are unserved or underserved by conventional markets. At the same time, we are concerned that certain of the proposed changes warrant deeper analysis before being approved.

For over 70 years FHA has contributed to the expansion of homeownership opportunities. FHA has accomplished this by focusing on the needs of first time homebuyers and through product innovations, such as the 30 year amortizing mortgage and low downpayment requirements. The rise of subprime lending and other changes in mortgage market recently seem to have cut into and reduced FHA market share. The House passed changes to the FHA program including several major changes intended to boost FHA activity. However, the relative impact of each of these on FHA market share is unclear. We believe, therefore, that each of the changes should be considered on its own merits. The interests of FHA are best served through the offering of more consumer-friendly alternatives rather than merely seeking to outsell subprime market competitors.

Two of the proposed changes are of particular concern to us. First, we oppose provisions that seek to enlarge third-party mortgage broker participation in FHA at the expense of diluting financial accountability requirements. It has been our experience that the largely unregulated mortgage broker industry is all too closely associated with the proliferation of predatory lending practices occurring in the subprime market. Research also indicates that on average minority borrowers pay higher fees for broker assisted mortgages compared with non-broker originated loans. Thus increasing mortgage broker participation may not be a good thing for FHA borrowers. Further, the Congressional Budget Office (CBO) estimated that increasing broker participation would not change mortgage volumes. Thus there would seem to be no great urgency to act on this proposal at least until more study of its likely impact is undertaken.

Second, we are concerned about the implications for consumers of the proposed change that would enable

FHA to switch its single family programs from the traditional flat premium to a risk-based pricing structure. While this change could benefit some, inevitably it means that those with weaker credit scores would be required to pay more and that origination incentives would promote the making of higher cost loans. In fact, the CBO concluded that the shift to score-based fees could indeed make FHA loans too expensive for some families. We are concerned that customers priced out of the FHA market may have no other choice but to turn to subprime loans, and fear that some may fall victim of predatory lenders that operate in this market.

We also believe that changes to the operation of FHA and especially to its pricing structure increase the need to revamp the agency's loss mitigation program. Stronger servicing and loss mitigation can help to decrease claims against the FHA insurance pool. As part of any reform, we favor emphasizing home-saving options and expanding program availability to borrowers.

Senator Allard, who chairs the Banking Committee's Housing and Transportation Subcommittee, has asked the U.S. General Accounting Office to study what changes in the pricing structure are likely to mean for FHA and its borrowers. Here too, CBO estimates that credit score-based pricing for the FHA programs will not generate any new revenue for years to come. In view of the fundamental nature of this change we urge that authorization of risk based pricing not be acted upon before this GAO study is completed and the Banking Committee has completed its work on this important matter.

Should you have any question or concerns, please do not hesitate to contact our organizations.

Sincerely,

ACORN
Center for Responsible Lending
Consumer Action
Consumer Federation of America
National Association for Consumer Advocates
National Community Reinvestment Coalition
National Consumer Law Center
National Council of La Raza