

**STATEMENT FOR THE RECORD ON THE  
“FHA SOLVENCY ACT OF 2013”**

Submitted to  
The United States Senate Committee on Banking, Housing, and Urban Affairs

Submitted by  
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Chairman Johnson, Ranking Member Crapo, and Honorable Members of the Committee:

I am pleased to have this opportunity to comment on the “FHA Solvency Act of 2013” (S. 1376). I am a Senior Policy Advisor at the National Council of La Raza (NCLR) with over ten years of experience conducting research, economic analysis, and policy development in both the private and the public sectors, and I have written on policy issues in traditional and social media, as well as in academic and nonacademic publications. At NCLR, I conduct research, policy analysis, and advocacy on issues that are critical to building financial security in Latino communities, including homeownership. NCLR—the largest national Hispanic civil rights and advocacy organization in the United States—works to improve opportunities for Hispanic Americans.

The NCLR Economic and Employment Policy Project promotes fair and accessible markets in which Latino families have the opportunity to obtain assets and build wealth sustainably so that they can be shared with the next generation. Through this project, NCLR (in partnership with the Center for American Progress) recently released *Making the Mortgage Market Work for America’s Families*, a report on the need for a housing finance system that ensures access and affordability in the housing market. The NCLR Homeownership Network provides financial, homebuyer, and foreclosure prevention counseling to more than 65,000 families annually. Our subsidiary, the Raza Development Fund (RDF), is the nation’s largest Hispanic community development financial institution. Since 1999, RDF has leveraged more than \$680 million in financing for local development projects throughout the country. This work has increased NCLR’s institutional knowledge of how Latinos interact with the mortgage market, their credit and capital needs, and the impact of government regulation on financial services markets.

NCLR believes that one of the best opportunities for Latinos to build wealth and financial security is through owning a home. The Federal Housing Administration (FHA) plays an essential role in making homeownership a reality for first-time homebuyers and underserved populations, including Latinos. Therefore, NCLR supports legislation to reform FHA in order to strengthen its financial condition. However, the need for FHA reform must be balanced with the need to ensure access to affordable mortgages for creditworthy low- and moderate-income homebuyers. My statement will outline key priorities that NCLR believes must be part of any effort to strengthen the financial standing of the FHA.

### **Preserve opportunities for access to affordable credit**

No one can deny the vital role FHA has played in helping the housing sector recover from the worst economic downturn since the Great Depression. In 2005, FHA had about a 5% share of the purchase mortgage market. By 2010, FHA’s market share had increased to over 40%. As private capital fled, FHA-insured mortgages became the only credit option for first-time homebuyers, minorities, and those with limited down payment capabilities. In other words, FHA has been fulfilling its mission of providing the federal backstop to ensure that every creditworthy American has access to a stable mortgage product. Therefore, it is essential that any reform of FHA maintain an appropriate level of government support to ensure liquidity and stability in the housing market, especially for Latinos and other minorities.

### **Do not solve the FHA's fiscal troubles only on the backs of low- and middle-income families**

Over the past three years, FHA-insured mortgages have become more and more expensive. Increases in mortgage insurance rates and down payment requirements, along with requirements to carry mortgage insurance throughout the life of a loan, are putting FHA loans out of reach for creditworthy low- and middle-income borrowers. Further increases in insurance premiums and over-tightening of underwriting standards will only continue to hurt creditworthy first-time low- and middle-income homebuyers.

### **Protect the 30-year fixed-rate mortgage**

For nearly eight decades, 30-year fixed-rate mortgages have put homeownership within reach for America's middle class and first-time homebuyers. Without this flexible financing tool, homeownership would become a luxury reserved for the affluent. But this tool is under threat. Recent increases in down payment requirements are already pricing out creditworthy first-time and low-income homebuyers. Research shows that higher down payments are not good predictors of loan performance, yet down payment increases are being used to reduce risk to the Mutual Mortgage Insurance (MMI) Fund. Research also shows that families who lack the cash for a high down payment can be successful in a well-underwritten prime mortgage. Congress must preserve the 30-year fixed-rate mortgage by ensuring that FHA continues to provide low down payment mortgages. The private market by itself will not offer a 30-year fixed-rate mortgage. The credit and interest rate risks for private lenders are too high without a government backstop. Therefore, FHA reform must continue to provide a federal support to ensure that the 30-year fixed-rate mortgage remains an available option for homebuyers.

### **Ensure that FHA continues to play its countercyclical role**

FHA's financial difficulties stem from loans made during the financial crisis. Loans made after the crisis are performing well and contributing positively to the MMI fund. It is therefore important that Congress does not overcorrect, introducing changes that may have unintended negative consequences. For instance, an over-tightening of underwriting standards could reduce both FHA's volume and the overall size of the mortgage market. This reduction in volume could lead to a decrease in home prices, which will limit FHA's ability to play a countercyclical role in the housing market and adversely impact FHA's financial condition in the long run.

### **Avoid imposing severe programmatic restrictions on who FHA can serve**

The FHA was established to promote long-term stability in the housing market by assisting first-time low- and middle-income and other underserved homebuyers. Reform of FHA must not interfere with this mission. The need for financial solvency of FHA must be balanced with the need to keep reaching underserved homebuyers, especially Latinos and other minorities. FHA programs must not be available only to affluent buyers who can afford high down payments. Insurance premiums, home price and income restrictions, and other underwriting standards must be flexible enough to ensure liquidity for all creditworthy buyers, not just the cream of the crop. NCLR believes that FHA plays a significant role in the nation's housing finance system and that its mission of reaching underserved populations, especially Latinos and other minorities, must continue. We support reform of FHA to address its financial challenges, but we urge Congress to balance this need for reform with the need to ensure access to affordable mortgage credit for creditworthy low- and moderate-income homebuyers. As the process continues, we look forward

to working with this committee, other members of Congress, and the Obama administration to achieve this goal.