

STATEMENT OF ALPHONSO JACKSON
Secretary of Housing and Urban Development

Hearing before the Committee on Financial Services
United States House of Representatives



“Legislative and Regulatory Options for Minimizing and Mitigating
Mortgage Foreclosures”

September 20, 2007

Chairman Frank, Ranking Member Bachus, distinguished members of the Committee, thank you for inviting me to testify this morning. I also want to recognize my colleagues Secretary Henry Paulson and Chairman Ben Bernanke for their valuable actions and partnership over the past few months. I am pleased to join them today.

Mr. Chairman, the significant effects of foreclosure on our national economy and on world markets brings us here today. Your hearing's title, that you are examining both legislative and regulatory options for minimizing foreclosures, hits the nail on the head. At HUD, I can report that we are working on both in our efforts to mitigate the adverse effects of this market correction on borrowers.

One of the strongest tools we have to protect both borrowers and markets is the Federal Housing Administration (FHA). As you know, FHA helps individuals secure credit by providing mortgage insurance through a private sector distribution network that makes owning a home more affordable and safe and, therefore, a reality for many borrowers that might otherwise go unserved.

I have firmly believed for some time that many of those who ultimately entered the subprime market would have been better off with an FHA-insured loan. Many may still be eligible to refinance today. Although we cannot go back in time to ensure each borrower made the best decision when obtaining a mortgage, we can provide refinancing options to many subprime borrowers and we can do more to help people make better decisions going forward through both innovative products and counseling support.

Mr. Chairman, as Federal Reserve Chairman Alan Greenspan once said, the subprime market "democratized credit." And this resulted in homeownership for millions of Americans. At the same time, Mr. Chairman, some borrowers used mortgage products that put them at risk due to interest rate resets. Foreclosures followed for tens of thousands of people. Our ongoing concern is that more Americans may face foreclosure with the new rounds of resets anticipated from now through the end of 2008.

Not all subprime loans will result in foreclosure. It is important that we know this. The lesson here is not to throw out or do away with subprime loans. Most people with subprime loans will be fine and their homeownership gives them equity, a financial stake in the community, and adds wealth to our economy. Estimates are that an overwhelming majority of the subprime loans made in 2005 and 2006 will not be problematic. But, if you are a family that's in one of these troubled situations, facing foreclosure, the problem is real and it certainly doesn't seem modest.

I've met with families in this situation and I understand their concerns. That's why I've made it a top priority to help as many families as possible stay in their homes. The Department of Housing and Urban Development has a role to play to help homeowners – but we must also remember that it's a limited one.

For example, the Administration does not support a federal bailout of lenders because that would only encourage these problems to happen again in the future. We also don't

think it's the government's job to bail out speculators, those with second homes, or those who made the decision to buy a home they knew they could never afford.

Nevertheless, there are many American homeowners who we can help get through this tough time. What we need is a little more flexibility from lenders, and a little more flexibility from the FHA.

Already, FHA has stepped forward within the full extent of its statutory and regulatory abilities. By the end of Fiscal Year 2007 we will have helped more than 100,000 borrowers refinance with an FHA loan this year. But in order to assist more Americans, the President has proposed a series of important initiatives to keep people in their homes. Some of them do not require Congressional action, while others do.

Late last month, the President announced a new FHA product called "FHA*Secure*." Under this proposal, borrowers who are otherwise creditworthy, but have recently become delinquent on their mortgages as their teaser rates reset, may now apply for an FHA-insured loan. Traditionally, FHA has not allowed delinquent borrowers to refinance through FHA. Under this new temporary program, eligible homeowners will be required to meet FHA's strict underwriting guidelines and pay the corresponding mortgage insurance premium. This offsets the risk to FHA and costs the taxpayers nothing. I want to repeat that: there is no cost to the taxpayers. We estimate that with FHA*Secure* we can help an additional 80,000 delinquent, yet otherwise creditworthy, borrowers refinance and save their homes.

This is in addition to the 160,000 other borrowers we already expect to help in Fiscal Year 2008. This will bring the total number of new borrowers assisted through FHA's existing refinance efforts to 240,000 next fiscal year.

Borrowers also need to be as informed as possible, which is one reason why we strongly urge them to use the nation's 2,300 HUD-approved housing counseling organizations. Information leads to wise borrowing, manageable loans, and more economic security.

It is also why, on August 31, the President asked Secretary Paulson and I to reach out to a wide variety of groups that offer foreclosure counseling and refinancing for American homeowners. Since then, FHA Commissioner Brian Montgomery and I have met with a number of people and organizations, including mortgage lenders and community organizations.

I have also directed FHA to prepare a new notice for risk-based pricing. This makes sense. Safer borrowers should pay less; riskier borrowers should pay a little more. I am hopeful that we will be able to implement this change in January so that we can reach an additional 20,000 borrowers.

This is what may be done through administrative action. But this country needs FHA Modernization, which the President has asked from the Congress once again this year. I'm grateful that the House again, earlier this week, passed legislation modeled on the

President's proposal. And just yesterday, a day after the House vote, the Senate Banking Committee approved its version of the legislation by a strong 20-1 vote.

We need FHA Modernization now. I know you appreciate the sense of urgency. We need a bill that raises loan limits so we can help low to moderate income and first-time homebuyers in more expensive housing markets. We need a bill that gives families more flexibility in down payment options, something we cannot do today. These legislative changes would help some 200,000 additional families, if not more, purchase or refinance into safe FHA-insured mortgages. It would allow the FHA to be more responsive to the housing market.

Mr. Chairman, I must add that we are working on ways to improve mortgage disclosure for homebuyers so that they do read and understand the fine print. The President and I want the process to be more transparent and understandable. We want to help homebuyers shop for the best mortgage loan and prevent them from getting into trouble before they sign on the dotted line. So, we are preparing new mortgage regulations under the Real Estate Settlement Procedures Act (RESPA) to provide borrowers with the tools they need. These changes would apply to all home purchase and refinance transactions. While it's still too early to detail the substance of a new RESPA rule, I can tell you our focus will be to improve the Good Faith Estimate (GFE) in ways that provide a clear summary of loan terms and total estimated settlement charges so that buyers do not experience sticker shock at the closing table. HUD will also work to modify the HUD-1 form to facilitate comparison of the estimated charges on the GFE and the final charges on the HUD-1, and provide a clearer disclosure of fees and charges. We expect to propose a new RESPA rule soon.

And we have worked with other federal and state authorities to prosecute predatory lenders. We will use the full force of the law to end predatory lending practices once and for all.

Mr. Chairman, every day places thousands of homeowners face the risk of foreclosure. Working together, the President and Congress can continue to make changes that will address the subprime crisis. Foreclosure isn't good for anyone: the homeowners, the community, the local tax base, the lender. Today we have the chance to make powerful and positive changes that will reflect statesmanship and good sense.

Again, I thank the Committee for the opportunity to appear today. We look forward to working with you as our various proposals move through the legislative and regulatory processes.