

WASHINGTON – The following are remarks delivered by Congressman Spencer Bachus (AL-6), Ranking Member on the House Financial Services Committee, at today’s hearing entitled “FHA Oversight of Loan Originators,” along with a prepared statement submitted for the record.

Thank you, Chairman Frank, for holding today’s hearing on the status of the Federal Housing Administration (FHA) insurance program and the procedures for monitoring lender and mortgage broker participation in the program and combating fraud.

With the credit and foreclosure crisis, FHA has played an increased role in assisting homeowners and is attempting to fill the void left by the contraction of the conventional market. Over the past year, FHA has seen its business as a share of home sales increase from 4 percent in 2006 to 21 percent in 2008 (the last peak was 18 percent in 1990). FHA’s share of total mortgage volumes has gone from 2 percent in 2006 to 26 percent in 2008 -- this new level has not been seen since prior to 1970. According to the Department of Housing and Urban Development, a steady flow of homeowners continue to use FHA to refinance out of subprime mortgages, and FHA anticipates that it will likely insure over 1.6 million mortgages in FY2009, representing close to \$300 billion.

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Recent media reports indicate that HUD's Federal Housing Administration (FHA) significantly increased market share in 2008, raising concerns that the agency is ill-equipped to adequately oversee FHA-approved lenders/licensees, employ appropriate technology, and manage human capital to protect the taxpayer from exposure to significant financial losses.

A December 1, 2008, article in *BusinessWeek* stated that Inside Mortgage Finance, a research and newsletter firm, estimates that over the next five years, new loans backed by FHA insurance will fail and perhaps cost taxpayers \$100 billion or more. According to the article, former federal housing officials say FHA is ill-equipped to deal with the onslaught of new lenders seeking to participate in the program. The HUD IG, Ken Donohue, mentioned in the article that FHA "faces a tsunami" in the form of ex-subprime lenders that favor aggressive sales tactics and sometimes engage in fraud. In that same article, Mr. Donohue noted that he is very concerned that fraudulent sub-prime lenders are reconstituting themselves and could potentially bring bad loans to the FHA portfolio. The *BusinessWeek* article further states:

“FHA staffing has remained roughly level over the past five years, at just under 1,000 employees, even as the tsunami has been building Donohue points out. The FHA unit that approves new lenders, recertifies existing ones, and oversees quality assurance has only five slots; two of those were vacant this fall, according to HUD's Web site. Former housing officials say lender evaluations sometimes amount to little more than a brief phone call, which helps explain why questionable ex-subprime operations can reinvent themselves and gain approval. "They are absolutely understaffed," says Donohue, "and they need a much better IT system in place. That is one of their great vulnerabilities."”

This hearing will give FHA an opportunity

to address the concerns raised in the *Business Week* article and explain what steps the agency is taking to ensure that the program is being run in a safe and sound manner.

I hope today's hearing will help provide the Committee with some answers on how we can ensure that FHA continues to operate in a safe and sound manner and help worthy borrowers achieve homeownership.

**The following prepared statement was submitted for the record**

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Thank you, Chairman Frank, for holding today's hearing on the status of the Federal Housing Administration (FHA) insurance program and the procedures for monitoring lender and

mortgage broker participation in the program and combating fraud.

This is a very timely hearing, as the downturn in housing continues to exert a powerful drag on our economy. Housing inventories remain at elevated levels and mortgage credit remains tight even for borrowers with sound credit records. In an environment where many mortgage originators have either gone out of business or significantly scaled

back their lending activities, FHA's loan insurance program has become an attractive option for risk-averse lenders, leading to a substantial increase in the agency's share of the mortgage market.

While FHA is thus playing a crucial role in ensuring the continued flow of mortgage credit, the rapid expansion of its portfolio raises concerns that the agency lacks the technological and human capacity to perform proper

oversight of its new and current lender participants. While FHA's strong presence in the marketplace has allowed credit worthy borrowers who might otherwise be shut off from home loans to realize the dream of homeownership during this difficult period, any inability of FHA to properly monitor for fraud and prevent bad actors from participating in the program could expose taxpayers to significant losses.

According to HUD, FHA origination volumes will remain at record levels for some time, as it will be several years before the conventional market recovers. Indeed, FHA's share of mortgage volumes has gone from 2 percent in 2006 to over 26 percent today, and it expects to insure over 1.6 million mortgages in 2009, representing close to \$300 billion.

At present, FHA is generating positive cash flow with revenues greater than

its claim expenses. However, if HUD fails to take measures to protect the FHA insurance fund and defaults increase due to fraudulent lenders or inadequate oversight, HUD could be forced to obtain an appropriation from Congress to operate FHA, saddling the American taxpayer with yet another obligation at a time when Federal deficits are already unacceptably high and heading much higher.

I look forward to hearing from today's witnesses about FHA's current procedures for safeguarding against fraud and excessive defaults for both existing and new lenders. FHA's ability to function in today's marketplace will depend on its ability to hire qualified staff and deploy updated technologies to meet the current demand. I hope today's hearing will help provide the Committee with some answers on how we can ensure that FHA continues to operate in a safe and sound manner and help worthy borrowers achieve homeownership.

