

**Statement of Representative Gary G. Miller**  
**Subcommittee on Housing and Community Opportunity**  
**Hearing on “FHA Modernization”**

**April 19, 2007**

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This morning the Subcommittee on Housing and Community Opportunity meets to consider reforming the Federal Housing Administration’s (FHA) single-family mortgage insurance activities.

Commissioner Montgomery, I welcome you today and would like to commend you for your work to ensure the FHA program once again becomes a viable option for low and moderate income homebuyers.

Your leadership and vision has already resulted in many regulatory improvements to the program, and I look forward to working with you to make the statutory changes necessary to restore the relevance of FHA in today’s marketplace.

I wholeheartedly agree with you that we must reform FHA, so its programs can reach the working families it was created to serve.

When I talk to brokers and lenders in my district, it is clear that the FHA program, as currently structured, has not kept pace.

In the past, first-time, moderate-income homebuyers who could not qualify for conventional loans because of high loan-to-value ratios or high payment-to-income ratios could still achieve the dream of homeownership through the FHA program.

Today, FHA is no longer a useful product for prospective homebuyers. Instead, working families are faced with a situation where they are either unable to own homes or they are forced to resort to risky loan products that might make their ability to keep their home difficult.

While FHA was created more than 70 years ago to meet the needs of those underserved by the private sector, today it is not living up to this mission and working families are left without an affordable alternative to financing a home.

The problem is that statutory limitations preclude the FHA from adapting to a rapidly changing marketplace.

As the private sector mortgage market has become more efficient, the FHA program’s inflexible rules and requirements have left it virtually irrelevant as a financing option.

**High Cost Areas**

This is especially true in high cost areas of the country, where statutory loan limits eliminate the program as an option for the purchase of an entry-level home.

Under the current limits, FHA products are not available for homebuyers in high cost areas of the country because the maximum mortgage limit is lower than housing prices.

Working families who need and qualify for FHA are effectively kept out of the program because of where they live and work.

California's drop in FHA volume has been nothing short of stunning.

In 2000, FHA insured 109,074 mortgages in California. But last year, FHA insured only 5,137 loans.

In my district alone, FHA insured over 7,000 mortgages in 2000 and only 80 in 2005.

These figures represent a decrease of 99 percent in just five years – by far the largest in the country.

Arguably, working families in high cost areas of the country are just the kind of underserved population the FHA program was intended to serve.

If we want to ensure FHA is relevant for all those who need it, we must reform the program so that it is available to low and moderate income families across the country, even those in high cost areas.

### **How to Make FHA a Relevant Option for Homebuyers**

The bottom line is, to make the FHA program a viable mortgage option, we must ensure that the program allows for the purchase of entry level homes.

This includes not only eliminating the geographic barriers to utilization of the program in high cost areas, but also facilitating the purchase of entry level homes, including condos and manufactured housing.

These forms of housing are an affordable option for entry-level homeownership and they should be included under this program if we truly want to make it help families climb the 'first rung on the ladder of homeownership.'

In addition to reforming *what* can be purchased under the program, we must also consider the competitiveness of FHA products, as currently structured, among the mortgage options available.

In other words, we must explore the reasons that the program is not being utilized when it is an available mortgage product for a potential homebuyer.

The answer is that the program's inflexibility and burdensome processes have left many in the industry hesitant, or actually unable, to offer FHA products to clients.

## **Conclusion**

By reforming the FHA program, and making it relevant in today's marketplace, we have the opportunity to ensure that the dream of homeownership can be achieved by more Americans in a way that is most affordable and less risky.

Commissioner Montgomery, I look forward to hearing from you about how we can remove the impediments to the utilization of FHA so that it can once again help working families across the country have the opportunity to achieve and maintain homeownership.