



Testimony Of
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On Behalf Of the
National Association of Home Builders
Before the
United States House Committee on Financial Services, Subcommittee on
Housing and Community Opportunity
On
H.R. 3755
“The Zero Downpayment Act of 2004”
March 24, 2004

Introduction

Mr. Chairman, Ranking Member Waters, members of the Housing and Community Opportunity Committee, on behalf of the more than 215,000 members of the National Association of Home Builders (NAHB), thank you for the opportunity to testify before you today on H.R. 3755, the “Zero Downpayment Act of 2004,” introduced by Representative Patrick Tiberi (R-OH). My name is Bobby Rayburn and I am the President of NAHB and a homebuilder and developer of both single-family and multifamily housing from Jackson, Mississippi. I have served as a senior officer of NAHB since 2001 and am a past-president of the Home Builders Association of Greater Hattiesburg, Mississippi, the Home Builders Association of Mississippi and continue to serve on the Board of Directors of the Jackson, Mississippi Home Builders Association.

Let me begin by saying that NAHB supports H.R. 3755. Since its creation in 1934, the Federal Housing Administration has been an innovator in creating mortgage products that serve families that are either not served or underserved by the private market. This legislation will allow FHA to continue in this important tradition of innovation to address a primary obstacle that prevents many minority and low- and moderate-income families from becoming homeowners: the funds necessary for a down payment. Furthermore, this legislation will enable FHA to remove this impediment to homeownership in a prudent manner and without negatively impacting FHA’s Mutual Mortgage Insurance Fund (MMI Fund).

H.R. 3755 would authorize the Secretary of Housing and Urban Development to insure zero-down payment mortgages for one-unit residences. Currently, FHA requires a 3 percent minimum down payment under its 203(b)

program. H.R. 3755 would eliminate this requirement. To assist in mitigating risk to FHA, the program would carry higher upfront and annual mortgage insurance premiums (MIPs) than HUD's other FHA single family programs. The upfront MIP would be 2.25 percent compared with 1.50 percent for the FHA's standard mortgage insurance programs, while the annual MIP would start at 75 basis points and would decrease to 50 basis points after five years of satisfactory payment performance. Because the upfront MIP is normally included in the amount borrowed, the higher upfront and annual MIP would be reflected in slightly higher monthly payments. Homebuyer counseling would be required for all borrowers in the program, which NAHB believes is important. Loans in this program would be insured through HUD's MMI Fund. HUD estimates that 140,000 families would be able to achieve homeownership if this proposal is enacted.

Obstacles to Homeownership

Research suggests that the greatest obstacle faced by potential first-time homebuyers, especially low-income, minority individuals and families, is not the ability to make monthly mortgage payments, but rather the ability to assemble enough funds for a down payment. H.R. 3755 directly addresses this problem. According to a 1999 study by the US Census Bureau entitled "Who Can Afford to Buy A Home?" one of the top three reasons why families and individuals could not afford to purchase a house was a lack of cash or other financial assets for the down payment and closing costs.

Recent data on accumulated wealth among homeowners and renters from the Survey of Consumer Finance supports this point. This data highlights the lack of wealth available to renter households for making a down payment. Eighty-seven

percent of all renters have less than \$50,000 in wealth (these are the likely funds to be used for a down payment to buy a home) while for minority renters that figure rises to ninety-four percent. With so little wealth and absent some down payment assistance, it is inordinately difficult to convert large numbers of renters, especially minority renters, into homeowners. Many of these same renters also lack sufficient credit history or have less-than-perfect credit and, thus, cannot be served by existing zero down payment products in the marketplace.

There are zero down payment products available in the conventional market and supported by the secondary market. Both Fannie Mae and Freddie Mac, for example, will purchase forms of no-down payment-loans. Since zero down payment options were introduced in the late 1990s, both of these secondary market organizations have expanded their suites of community development loan products aimed at reaching cash-strapped borrowers who wish to purchase homes in underserved markets. The products created to reach borrowers in underserved markets offer alternatives to down payments, such as soft second, or forgivable, mortgages from government agencies, employers or nonprofit organizations.

For most if not all of these products, however, accessibility is still limited to borrowers having the most sterling credit records. There is a significant segment of the population that is not served by these conventional-market options and would benefit from an FHA program. NAHB believes it fits well within the mission of FHA to provide a zero down payment product to help facilitate more homeownership for this underserved population.

Safe and Sound FHA Operation

NAHB further believes that this zero down payment program can be carried out in a safe and sound manner without harm to FHA's MMI Fund.

First, the role of the down payment in determining the credit worthiness of a potential homebuyer has diminished as underwriting technology has improved. Before the advent of automated underwriting, the amount of down payment a prospective borrower could afford was a dominant factor in the underwriting decision. However, as the level of sophistication of automated underwriting tools has advanced, the ability of these tools to differentiate between high and low credit risk borrowers has improved. This will allow FHA to better evaluate borrowers, before bringing them into the program.

Second, the risk to FHA from a zero down payment product can be mitigated through appropriate underwriting and financing criteria. Again, I would point to HUD's own zero down payment proposal where to compensate for the higher risk of default, the MIPs will be higher than FHA's regular 3 percent down payment program. As stated earlier, the upfront MIP would be set at 2.25% as compared to 1.50%, and the annual MIP would be 0.75% as compared to 0.50%. After five years, once borrowers have established a solid mortgage payment track record, the annual MIP would be reduced to 0.50%, the same as the regular program. HUD estimates that this approach results in no net cost to the FHA MMI Fund and only increases the monthly payment on a \$100,000 mortgage by \$50.

Finally, housing counseling can further lower risk to FHA by ensuring that first-time homebuyers understand the process and the ongoing responsibilities of

being a homeowner. HUD's own zero down payment proposal included in its Fiscal-Year 2005 budget request requires such counseling and we applaud that. The value of these programs is well documented and there are many local and state organizations around the country that provide housing counseling services. HUD itself funds many of these services through several grant programs of its own; however, these programs could be better organized and even enhanced to be more effective.

We support the approach taken in HR 3938, the “**Expanding Housing Opportunities Through Education and Counseling Act,**” introduced by Housing and Community Opportunity Subcommittee Chairman Bob Ney (R-OH) and cosponsored by Representative Nydia Valazquez (D-NY) and Representative David Scott (D-GA). This legislation will centralize, streamline and enhance housing counseling services at HUD. This proposal is right in line with NAHB's philosophy of expanding home ownership opportunities while putting forth the resources to help keep homebuyers in their homes. This legislation creates a much-needed focus within HUD on homeowner and rental housing counseling services beyond that of merely providing grants to education providers.

Enhancing the Soundness of the MMIF

Currently, the only way to address down payment barriers for FHA borrowers is through down payment assistance programs facilitated by nonprofit third parties. While these programs have contributed positively to homeownership expansion efforts, more options are needed. The FHA zero down payment program addresses the down payment hurdle while allowing FHA to establish

mortgage insurance premiums, underwriting and homebuyer counseling requirements targeted to that type of transaction.

Inclusion of Condominium/Cooperative Loans

Currently, H.R. 3755 would not apply to condominiums or cooperatives and NAHB would suggest that the legislation be amended to add them as an eligible option. In many communities around the country, single-family detached homes are far out of the price range for low- and moderate-income families. Condos and coops, on the other hand, are within their reach and can provide the same wealth-building benefits for families as well as community-development benefits for neighborhoods.

NAHB Support for Homeownership Initiatives

A zero-down payment program would be a valuable addition to FHA's homeownership expansion tools that make homeownership possible for families otherwise unserved in markets throughout the nation and under all economic conditions. It is also an excellent opportunity to address the needs of prospective minority homeowners - an area in which NAHB has been working closely with the administration and other housing industry groups.

As one of the original partners in the "Blueprint for the American Dream," NAHB and its state and local affiliates are engaged in a number of efforts in support of the administration's initiative. NAHB has joined with HUD and other Blueprint partners in promoting events around the country designed to increase public awareness of minority homeownership opportunities. NAHB is dedicated to

increasing public education regarding the many existing programs -- public and private -- that can help families achieve the dream of owning their own home. In addition, NAHB has been working with its network of state and local affiliates to find markets that could most benefit from education and outreach initiatives. Finally, NAHB is working with other Blueprint partners to identify opportunities for cooperative outreach efforts.

Housing America's Working Families

As NAHB's 2004 President, I have made housing America's working families a priority. Of particular concern to the building industry and myself are those men and women who work in their local communities, often as public employees, but cannot afford to live there. We need more funding for special programs that can help families buy or rent a home that meets their needs. These include a homeownership tax credit, down payment assistance programs, and tax credits that make rents more affordable. These programs make a difference for millions of families on the edge of affordability.

H.R. 3755 can help address our nation's "workforce" housing problem. The bottom line is that we need to move housing up on the list of priorities at all levels of government. NAHB will be sponsoring a major symposium this fall to focus attention on problems and solutions on workforce housing and we will be working at all levels to build momentum for that and other efforts to address housing affordability.

Conclusion

NAHB is pleased to note that this legislation is one of many proposed homeownership promotion initiatives under consideration by the Congress. Another important proposal is H.R. 839, the “**Renewing the Dream Tax Credit Act.**” This legislation would provide an income tax incentive for the development of affordable homes, similar to that of the Low Income Housing Tax Credit, one of the most successful housing production programs in history. Several members of this committee are cosponsors of the legislation and we thank them for their support.

Mr. Chairman, thank you again for the opportunity to share our views on the “Zero Downpayment Act of 2004”. The members of NAHB work daily with families who want to partake in the American dream and own their first home. Time and again, our members witness the wealth-building effects of homeownership for families and the community-building effects of homeownership for neighborhoods. H.R. 3755 will expand the number of those who can share in the American dream of homeownership.

We look forward to working with this committee, the Congress and the administration on expanding homeownership opportunities.

Thank you.