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**BEFORE THE**  
**UNITED STATES HOUSE OF REPRESENTATIVES**  
**HOUSING AND COMMUNITY OPPORTUNITY SUBCOMMITTEE**

**March 24, 2004**

Good morning, Chairman Ney, Vice Chairman Green, Ranking Member Waters, and distinguished Members of the Subcommittee. Thank you for the opportunity to testify today regarding the Administration's Zero Down Payment Initiative. This major new mortgage insurance product was included in the FY2005 Budget, and is specifically designed to help first-time homebuyers purchase a home. I would like to take this opportunity to thank Congressman Patrick Tiberi for introducing H.R. 3755, the Zero Downpayment Act of 2004. I would also like to thank the 30 Members of Congress --- both Democrats and Republicans --- who have agreed to co-sponsor this important bipartisan legislation.

Under this new program, the Federal Housing Administration (FHA) will insure 100 percent of the cost to acquire the home for first-time homebuyers, allowing them to finance the full purchase price as well as all of the closing costs. Potential homebuyers would not have to make the minimum downpayment of three percent that is required in our chief single-family insurance program, Section 203(b).

Studies have consistently shown that the single biggest obstacle to homeownership for most families is the inability to come up with enough cash to meet down payment and closing costs. Many potential homebuyers pay the equivalent of a monthly mortgage in rent, but are unable to save toward a down payment on a home purchase. Minority families in particular are burdened by high down payment requirements.

This Administration is committed to helping all Americans address this barrier to homeownership, including minority families who have been shut out of homeownership opportunities in the past. We are proud of this effort and the results. In the fourth quarter of last year, the homeownership rate stood at an all-time record of 68.6 percent. There are now 72,650,000 American families who own their own homes. For the year 2003 overall, the homeownership rate stood at 68.3 percent, also a new record.

Minority homeownership also set records. For the first time ever, the majority of minority households are now homeowners, with a record rate of 50.6 percent in the fourth quarter of 2003. There are now 14,852,000 minority homeowners. We also set a new record of 49.5 percent for the year overall. All of this is good news and shows the progress HUD and the rest of the housing industry is making in increasing homeownership opportunity in this country.

This is a good record and we want to improve on it. There remains a significant "homeownership gap" between non-Hispanic whites and minorities. While more than half of minority households own their own home, this compares with three-quarters of non-Hispanic whites.

In June 2002, President Bush announced an aggressive homeownership agenda to remove the barriers that block American families from achieving homeownership with the goal of creating 5.5 million new minority homeowners by the end of this decade. The Zero Down Payment Program would move the nation significantly closer toward this goal.

Preliminary projections indicate that the new FHA mortgage product would generate approximately 150,000 new homebuyers in the first year alone. It would be structured to assist those creditworthy but cash poor working individuals and families who have been excluded from purchasing their first home. These families can afford monthly mortgage payments, but due to their limited income have not been able to save for a downpayment.

HUD has designed this program to minimize defaults and to protect the Mutual Mortgage Insurance Fund. FHA has made conservative financial assumptions regarding the program. In order to cover the costs of the program, families who qualify for the Zero Down Payment Plan would be charged a modestly higher insurance premium on their home loan.

The upfront premium would be set at 2.25% as compared to 1.50%, and the annual premium would be 0.75% as compared to 0.50%. After five years, the annual premium would be reduced to 0.50%, the same as the 203(b) program. For example, for a \$100,000 mortgage, a Zero Down Payment borrower would pay approximately a \$50 a month more than a regular FHA borrower.

There would be no net cost to the FHA Mutual Mortgage Insurance (MMI) Fund. The President's Budget projects that the additional \$19 billion in mortgage commitments will generate revenue of about \$184 million in the first year.

Borrowers would be held to the same underwriting guidelines as those who apply for FHA's standard three percent downpayment mortgage. They must meet the same payment-to-income and debt-to-income ratios and the same credit standards. We propose to add two additional requirements, to help families become and remain homeowners and to minimize risk to the MMI Fund. Our new FHA TOTAL (Technology Open To Approved Lenders) Mortgage Scorecard must also be used to evaluate the overall credit worthiness of borrowers. Lenders in conjunction with an automated underwriting system to underwrite an FHA-insured loan electronically utilize this mortgage scorecard.

The TOTAL Scorecard allows FHA lenders to better predict which borrowers are good risks and also identify those that are bad risks. In developing FHA's electronic scorecard, HUD took into account studies that have shown that creditworthiness is a better predictor of the homeowner's ability to pay mortgage payments than the amount of the downpayment. By requiring that the Zero Down Payment Program loans be risk-assessed by the TOTAL Scorecard, FHA will immediately be able to determine the perceived risk of each loan.

To further minimize risk, the proposal for the Zero Down Payment Program includes a housing counseling requirement. Specifically, participants would be required to satisfactorily receive one-on-one housing counseling from a HUD-approved housing counseling agency before they enter into a sales contract.

Housing counseling has proven to be an extremely important element in the purchase of a home. Reliable quantitative research demonstrates that housing counseling can be very effective in reducing mortgage delinquency. Homebuyers who undergo this

pre-purchase counseling are less likely to default than those that haven't. A recent study by Freddie Mac concluded that housing counseling could reduce delinquency by as much as 34%. By limiting delinquency and foreclosure, housing counseling is a cost-effective way to reduce the FHA's exposure to risk while contributing to the growth of communities and the stability of new homeowners across the country.

HUD's Housing Counseling Program supports the delivery of a wide variety of housing counseling services to homebuyers, homeowners, low- to moderate-income renters, and the homeless. The primary objectives of the program are to expand homeownership opportunities and improve access to affordable housing. Counselors provide guidance and advice to help families and individuals improve their housing conditions and meet the responsibilities of tenancy and homeownership. Counselors also help borrowers avoid predatory lending practices, such as inflated appraisals, unreasonably high interest rates, unaffordable repayment terms, and other conditions that can result in a loss of equity, increased debt, default, and foreclosure.

Over the last three years, the Administration has doubled the budget request for housing counseling funds – from \$20 million to \$40 million - and Congress has responded by appropriating the funds. The proposed FY 2005 HUD Budget proposes a further increase to \$45 million. The increase reflects both the large unmet need for this program as well as its significant contribution to the President's goals of expanding national homeownership and adding 5.5 million new minority homeowners by the end of the decade. HUD estimates that approximately half of the \$5 million increase, or approximately \$2.5 million in grant funds, will be spent on counseling in conjunction with the Zero Down Payment Mortgage.

Finally, the Zero Down Payment Program is a natural complement to other down payment assistance efforts. In December 2003, President Bush signed into law the American Dream Down Payment Act that authorizes \$200 million in formula grants to help homebuyers with down payment and closing costs. FHA's proposed Zero Down Payment Program will complement this program by providing help to families who can afford to buy a home without assistance based on their incomes but lack the resources for the downpayment and closing costs.

In summary, the Administration and the Department are firmly committed to helping more American families achieve the dream of homeownership. We believe the Zero Down Payment Program will be a financially sound and effective means to do so and will compliment other efforts that are currently underway.

This concludes my statement, Mr. Chairman. I thank the Committee for the opportunity to meet with you today to discuss this exciting new initiative.