

Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on Housing and Community Opportunity
Transforming the Federal Housing Administration for the 21st Century

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Good Morning Assistant Secretary Montgomery. Today marks the first time in many years that the Department of Housing and Urban Development and its affiliated agency, the Federal Housing Administration, has provided substantial recommendations for an agency overhaul in the way it assists and provides homeownership opportunity for millions of Americans. I applaud HUD and FHA for engaging in that debate and for providing these recommendations.

As many of you know, FHA was created over 70 years ago to address, at that time, inequities in the mortgage finance system during the depression era. Because of FHA, 30-year fixed mortgages are a standard product in the mortgage finance process.

Additionally, FHA spearheaded underwriting standardization and was, in part, responsible for the creation of the nation's first secondary markets that would securitize FHA mortgage-insured products. FHA has been influential in targeting inner-city and rural areas, commonly referred in the 1980s and 1990s as underserved areas.

However, in more recent times, FHA has been a mortgage insurer of last resort. Potential homeowners who can participate in the private mortgage insurance market do so. I believe this is because FHA has become costly and the paperwork unmanageable. Thus, only the riskiest borrowers now use FHA for mortgage insurance. Moreover, while the prime market relatively remained constant, the non-prime market between 2003 and 2005 grew from \$118 billion to \$650 billion in mortgages while FHA went from insuring 9.2 percent to 4.1 percent of the nation's mortgages. Some will argue that this is evident that the government is involved where the private sector is not.

I believe that it raises questions about the proper role of FHA and its intended mission.

Additionally, we know that at the end of the fourth quarter of 2005, the number of American families who owned their own homes continued to

approach the 70 percent rate, with non-Hispanic White homeownership at 76 percent, Black homeownership at 48 percent and Hispanic homeownership at 50 percent. These are impressive statistics, but I believe that private and public-sector initiatives could do better to close the opportunity gaps that exist in the country. I am very interested in how this proposal will close that homeownership gap.

In addition to FHA Commissioner and Assistant Secretary, we have a variety of witnesses on the second panel that I am very interested in hearing their perspectives on the FHA program and its future course.

I want to thank Subcommittee Chairman Ney and Vice-Chairman Gary Miller for their leadership on this issue.