

Testimony of Robert Newman
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H.R. 3043
The Zero Downpayment Pilot Program Act of 2005

Testimony before the Subcommittee on Housing and Community Opportunity
United States House of Representatives
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Good morning, Chairman Ney, Ranking Member Waters, and distinguished Members of the Subcommittee, thank you for this opportunity to testify regarding "H.R. 3043, The Zero Downpayment Pilot Program Act of 2005"

My name is Robert Newman, and I am the Executive Vice President and Chief Operating Officer of AmeriDream, Inc., the nation's leader in providing affordable housing opportunities. Let me begin by providing some important background information about AmeriDream that will give the Subcommittee a better understanding of our role in helping homebuyers achieve the American Dream of homeownership.

AmeriDream's mission is to expand affordable housing opportunities for underserved groups and promote the value of homeownership as the foundation for building strong communities and individual prosperity. The work of AmeriDream began in February 1999 to help reduce the government's burden of increasing homeownership to everyone, especially low- to moderate-income homebuyers. Since our inception, we have helped more than 160,000 low- to moderate-income individuals and families become homeowners and have given more than \$500 million in down payment gifts to homebuyers nationwide, which has translated into more than \$15 billion in home sales. We have provided homebuyer education to over 6,000 people; counseled over 500 homeowners seeking help with loss mitigation; invested over \$12 million in community redevelopment projects; given over \$2 million in funding to other nonprofits to support their missions; and, have led the way for non-profit organizations by doing things right for America's homebuyers. All our services are provided in both English and Spanish. *It is important to note that all of these services have been provided free of charge to homebuyers and have not used government funding or taxpayer dollars.*

Our most successful program is our Downpayment Gift Program, which is designed to assist individuals and families overcome the greatest hurdle to homeownership: the down payment. We do this by providing gift funds averaging 3-6% of a home's purchase price for a down payment or closing costs. Potential low- to moderate-income homebuyers must meet all lender qualifications for a mortgage and need to purchase their home from a builder or seller who has enrolled a home in the AmeriDream program. It is through this program that we gained significant expertise in serving the low- to moderate-income homebuyers -- the same population that is served through FHA.

Last year, AmeriDream lent its expertise to help shape the Zero Downpayment Act. Ann Ashburn, AmeriDream's President & CEO, provided testimony to this Subcommittee and noted several observations and suggested refinements to the bill. We worked with the Subcommittee to provide input to help perfect the bill. We drew upon our experience and knowledge and set forth that which would be in the best interest of today's homebuyers. We commend the Subcommittee for listening to our input, drawing upon our expertise and incorporating our comments into the bill we have before us today, H.R. 3043.

It is only appropriate that I acknowledge some of these improvements. First, we are pleased that homebuyer education is now a requirement for homebuyers participating in the Zero Down

program. We are well aware of the significant impact homebuyer education has on loan performance. In addition, we also appreciate the required disclosures regarding the homebuyers' alternatives to the Zero Down program as well as disclosing the increased costs associated with the use of this program.

H.R. 3043 is also greatly improved by use of HUD's TOTAL scoring systems in the processing and approving of borrower applications for participation in the Zero Down program. Automated underwriting models and similar technological advances hold tremendous promise in controlling the credit quality of loans by ensuring that all relevant risk factors are considered.

Finally, we are appreciative of your recognition that much is not known about how this program will work and the real impacts it can have on the homebuying and homeownership experience. Implementing the Zero Down program as a demonstration or pilot program advances this important policy objective in a way that both reduces potential risks and enhances the program's likelihood of success.

In that same spirit of providing ongoing input to the Subcommittee, we would respectfully propose three additional refinements to the bill. It is our hope that through these refinements the Subcommittee will enact a bill that is good for the people, good for the community, good for the country, and good for the government. With all of us working hand-in-hand, we can create and secure a viable program for which people typically locked out of homeownership can now have a place called home.

First, we encourage the Subcommittee to seek appropriate ways to leverage the substantial experience and resources of charitable down payment gift providers. We believe this can be accomplished by recognizing in H.R. 3043, that nonprofit down payment assistance providers are structured to reduce the burdens of government's limited resources and are a viable option to the Zero Down for homebuyers who need down payment assistance but do not choose the Zero Down program.

AmeriDream has created a place called home for more than 160,000 individuals and families. In our testimony last year we acknowledged that while there are considerable, though limited, resources of the federal government to bear on the challenge of high down payment costs, we respectfully suggest that Members not overlook the integral role that non-profit organizations such as AmeriDream can continue to play in helping low- to moderate-income homebuyers achieve the dream of homeownership. In our view, the goal of increasing homeownership is too important an objective to ignore the long experience and deep expertise of reputable charitable providers: the best solution is for us to work together.

While the federal government has recently begun to propose important initiatives to help low- to moderate-income homebuyers overcome the barrier of high down payments, non-profit organizations have been meeting this challenge successfully for years. Mr. Chairman, as an example, from the time we sat before you last year to now, AmeriDream alone has helped an additional 30,000 homebuyers become homeowners. And we continue to help hard-working

families achieve and keep the American dream today through our full range of homeownership-related services, all without government funding, taxpayer dollars, or additional potential risks to homebuyers or the FHA insurance fund. As we have since 1999, AmeriDream stands ready to work with this Subcommittee, HUD and the Administration, and all others committed to homeownership in exploring how the charitable sector can most productively assist the government's efforts.

Second, we suggest that H.R. 3043 ensure homebuyers the option to use non-profit down payment assistance programs to off set the fees associated with participating in the Zero Down program.

AmeriDream strongly supports the concept of removing the down payment barrier that prevents many credit-worthy families from owning their own homes. FHA has a clear public purpose to reach segments of the population currently overlooked or underserved by the conventional mortgage market. This must be done in a manner that does not put unfair burdens on the low to moderate income homebuyer.

Through the current proposal, families will enter homeownership with a 100-105% loan-to-value. This would place families in the position of owing more than the house is actually worth, thus providing them with zero to negative equity in the house. In addition, the family will also have a higher interest rate and pay additional costs, all adding up to a higher monthly mortgage payment, in turn, reducing low- to moderate-income wage earners' disposable income to meet other family needs.

It is also important to recognize that the additional money paid monthly by these homeowners has increased from the amount they would have paid under last year's bill. According to the Congressional Budget Office, the current bill would cost around \$38 million over 5 years. You may recall that last year's score was over \$560 million. CBO has reported that the difference is made by charging participants higher interest: 0.75% for the first five years (which is up from 0.50%) and 0.50% for the remainder of the loan (which is up from 0.25%) until it reaches a 78% LTV. While we recognize the current bill requires housing counselors to disclose the higher fees, it is important that home buyers know that downpayment assistance providers are a resource for assistance in paying these fees.

Third, we recommend that the Zero Down program homebuyers have a 700 credit score.

The amount of equity that a family has in its home has been shown to be one of the principle drivers of mortgage default. The vast majority of borrowers do not default. Borrowers are much more likely to continue with their mortgage payments if they have equity in their homes even if the borrowers encounter financial hardship due to a job loss, a divorce, or a serious illness. Borrowers with positive equity can sell or refinance their homes and generate cash. In comparison, cash-strapped borrowers who owe more than their homes are worth are much more likely to simply turn in the keys and let the loan foreclose.

Given this reality, most 100% no down payment programs in the conventional market require that the borrower have a relatively strong credit score. This is because they know that there is risk for families with no equity and even greater risk with negative equity in a home. To be consistent and to coincide with FHA's goals of fostering successful homeownership, we propose that the FHA zero down proposal should require borrowers to have a 700 credit score. Research has shown that mortgages that are weak on one dimension may be relatively good credit risks, but mortgages that are weak on a number of different dimensions are far less likely to perform. As a result, credit offsets limit the risk of the loans and increase the opportunity for successful homeownership.

The refinements we propose are intended to enhance H.R. 3043's ability to increase successful homeownership. They are offered in the spirit of partnership and are supported by the experience and accomplishment of having successfully enabled more than 160,000 families in this country to attain the American Dream of homeownership.

Mr. Chairman, I hope my comments and suggestions make clear to you and your distinguished colleagues that we praise your efforts in fostering homeownership for the low to moderate income families of America. I also hope that under your leadership and direction, our suggested refinements will be included in H.R. 3043 as you consider what is best for those among us who heretofore have had the greatest challenges in gaining successful homeownership.

Thank you for your time and I welcome any questions you may have for me.
