CONGRESSMAN GARY G. MILLER
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House Financial Services Committee Vice Chairman Gary Miller Calls for Improvements to the FHA

Washington, DC – Today, the House Financial Services Committee convened a hearing about the role of the Federal Housing Administration (FHA) in the mortgage insurance market.

At the hearing, Committee Vice Chairman Gary Miller (CA-31) called on Congress to closely examine the performance of the FHA during the housing downturn, and make corrections where necessary.

Vice Chairman Miller said after the hearing: "We must ensure the FHA program better manages the risk it is taking on. We have overwhelming evidence that reforms are needed. The FHA has historically served an important countercyclical role and only through reform can we ensure that FHA mortgage insurance will be there in the future to help our economy in times of need.

The Inland Empire was one of the most heavily impacted areas in the country during the housing market downturn. While other lenders exited the market, the FHA was a stable source of mortgage financing. Without the FHA, the housing collapse in the Inland Empire would have been much worse because qualified buyers would have been unable to find financing for a home purchase. Moody's Analytics has estimated that without the FHA, housing prices would have dropped an additional 25 percent, and American families would have lost more than $3 trillion of home wealth."

Below is the opening statement Vice Chairman Gary Miller delivered at today's hearing:

Statement of Congressman Gary G. Miller
Vice-Chairman
House Committee on Financial Services

Hearing on
"Examining the Proper Role of the Federal Housing Administration in our Mortgage Insurance Market"

February 6, 2013

I appreciate the Chairman holding this hearing because we need to act to ensure the FHA insurance fund is adequately capitalized into the future.

Congress Needs to Act to Protect Taxpayers from an Insolvent FHA

Since the housing crisis began, I have had concerns about the financial position of the FHA insurance fund. FHA's most recent Actuarial Report gives us reason to question whether the FHA was prepared for the strain that it faced as it took on its counter-cyclical role during the downturn. So that the FHA can play this critical role into the future, we must ensure the FHA program better manages the risk it is taking on.

Housing Market Needs Liquidity

The role played by the FHA during the economic crisis has been critical. The housing market needed the liquidity that FHA provided during the downturn and that it continues to provide today.

But, it is important to ensure that this role was just counter-cyclical. We need to ensure private capital returns to the marketplace. The question is how best to do this. If we can work in this Committee on ways to facilitate the flow of private mortgage capital, the role of FHA will automatically be reduced.

A Healthy Mortgage Market Protects Taxpayers

We need to shore up the FHA and facilitate the return of the private mortgage market, but we shouldn't unnecessarily limit liquidity, which will only expose the FHA and taxpayers to more risk at the fund. Unnecessary limits to liquidity will hurt home prices, which is the top reason that the fund's capital levels are as low as they are.

Without liquidity in the market, families will be unable to sell and qualified buyers will be unable to purchase homes. This will increase the inventory of homes for sale and home prices will continue to fall. This in turn exposes taxpayers to a bailout of FHA. If home prices continue to fall, FHA will continue to be strained, the economy will continue to falter, and people will continue to lose their homes.

The Path Forward – Preserve FHA's Counter-cyclical Role to Provide Liquidity in Marketplace while Lessening Taxpayer Exposure

We can preserve the counter-cyclical role of FHA while lessening taxpayer exposure.

First, we must take a close look at the business model and management of the FHA program. We need to look inside of the FHA to ensure its policies, management, and technology can handle times of increased pressure.

We also need to ensure appropriate credit quality for those receiving FHA loans. While the current book of business shows that FHA has made progress in this area, we need to consider whether these actions have been enough. Are current FHA underwriting requirements adequate to keep default rates low?

We should also look at the structure of the FHA mortgage insurance product itself. Is there a way for FHA to serve its function, in a way that would require less taxpayer exposure? In the past, I have introduced shared equity legislation to explore innovative changes to the FHA program that would stimulate the flow of private equity capital into the housing sector, reduce the government's risk share and thus mitigate risk to taxpayers. Some have proposed making the FHA program work more like the VA program. We should consider the pros and cons of these, and other, alternative approaches for the FHA product. They could help reduce taxpayer exposure from the FHA program.

Finally, we must demand that FHA remains adequately capitalized.

These are things that must be considered as we respond to the reality that the FHA was not adequately prepared to handle the pressures it faced during the housing crisis. While some have called for shrinking the FHA footprint post-crisis by withdrawing credit from certain areas by reducing the loan limit, it is doubtful that such action would shore up the FHA program. For example, some of the best loans FHA is making are in high-cost areas. If you remove these loans from the portfolio, the insurance fund will be harmed, not helped. While they comprise a small piece of the FHA portfolio, the high cost area loans are helping the bottom line. The high cost loans are certainly not the cause of the FHA's woes, and Congress should focus its attention on the problems at FHA outlined above.

Conclusion

As we move forward on this important effort of FHA reform, we must be mindful of a few important things:

- We must not disrupt this fragile housing recovery by abruptly pulling back liquidity from it.

- We should preserve homeownership opportunities for credit worthy individuals.

- Our actions must not inadvertently facilitate the return of a market that preys on Americans' desire to achieve the American Dream by ratcheting back the safe, 30-year fixed rate mortgage product supported by FHA.

I feel very strongly about this issue, because homeownership is the key to personal wealth in our country. When someone buys a home, they purchase an asset, which will grow over time. And homeownership helps our county – both economically and socially.

It might be expedient in Washington to say that we should turn away from the American dream of homeownership. But, I just want to point out that while this country is home to people of many different origins, there is one thing that Americans have in common - the dream to own a home. This dream means many things -- independence, financial security, geographic stability, the ability to accumulate personal wealth, a place to raise a family, or simply a place to go to after a long day of work and find peace. As a homebuilder, I have enjoyed watching many people achieve this dream.

I want to tell every Member of this committee that I have experienced how the dream of homeownership builds hope in communities and across the nation. And as we move forward on reviewing our nation's mortgage finance policies, it is important to remember the benefits that we, as a nation, collectively enjoy when people achieve the American dream.

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