

Summary of H.R. 5830, FHA Housing Stabilization and Homeownership Retention Act

Background

The consequences of the ongoing turmoil in the housing market have reverberated across the nation's economy. Nationally, housing foreclosures were up 57 percent in March. At the same time, the vast majority of American homeowners with mortgage debt (approximately 93 percent) continue to make their payments on time. In response to this situation, the Bush Administration has announced several initiatives, including HOPE NOW and FHA Secure, intended to help homeowners.

On May 1st, the House Financial Services Committee reported H.R. 5830, the FHA Housing Stabilization and Homeownership Retention Act, by a vote of 46-21. Sponsored by Chairman Barney Frank, H.R. 5830 would establish a program to provide up to \$300 billion in new guarantees to help at-risk borrowers transition into Federal Housing Administration-backed mortgages. Under the voluntary program, a borrower or existing loan servicer of an eligible loan would contact an FHA-approved lender. If the current lender or mortgage holder agrees to write down the principal of the existing mortgage to 85 percent of the property's appraised value, the FHA-approved lender will pay off the discounted existing mortgage and issue a new, FHA-guaranteed loan at the written down amount. Thus, risks currently being borne by lenders, investors and borrowers on these mortgages would be transferred to the government under Chairman Frank's plan.

Eligibility for the two-year program is limited to borrowers whose mortgages originated before December 31, 2007, and whose payments met a debt to income (DTI) ratio of at least 35 percent on March 1, 2008. Additionally, the program is limited to mortgages for owner-occupied principal residences, which is intended to exclude participation by speculators and owners of vacation properties. The bill also includes controversial language setting aside \$35 million for "legal services."

The Frank bill will be rolled into a larger legislative package expected to come to the House floor on Wednesday, May 7th. Other elements of that package could include GSE and FHA reform proposals similar to those that passed the House last year, the Castle-Kanjorski bill (H.R. 5579), and a tax measure passed by the House Ways and Means Committee.

Republican Criticisms of H.R. 5830

- There is no guarantee that the program will avoid foreclosures:
The Frank bill relies on proposed remedies (e. g., a complex formula for write-downs of a property's appraised value) that are unproven and not guaranteed to yield results that benefit struggling borrowers. Further, there is no indication that a significant number of lenders will even participate in the program.

- By asking taxpayers to underwrite reckless behavior, the bill raises fundamental issues of fairness:
Of the 55 million outstanding mortgages, 51 million are being paid on time. The turmoil in the housing market is largely the result of reckless lenders, investors, and borrowers. Hard-working Americans who made responsible decisions and financial sacrifices all along should not subsidize the bad choices of those who didn't.

- The bill will not bring stability to the housing market:
Supporters of the bill believe that helping struggling borrowers will help decrease future foreclosures, thereby preventing home prices from falling further. However, no single program can overrule the laws of economics. The correction in the housing market is a necessary reaction to a prolonged period of reckless lending and borrowing practices that helped take housing prices to levels that were simply unsustainable. For the market to stabilize, prices will need to return to levels that ordinary Americans can afford.

Republican Alternative to H.R. 5830

Ranking Member Spencer Bachus and senior Financial Services Committee Republicans Reps. Shelley Moore Capito and Judy Biggert have introduced a Republican housing stimulus bill (H.R. 5857). The goals of H.R. 5857 are to complement current public and private efforts to help struggling homeowners, protect homebuyers from predatory lending practices, enact reforms to prevent future problems, and safeguard the interests of taxpayers. The bill has more than 40 cosponsors, including Republican Leader John Boehner, Republican Whip Roy Blunt, GOP Conference Chairman Adam Putnam, and GOP Conference Secretary John Carter. During Committee debate, H.R. 5857 was offered as a substitute to the Frank bill. That amendment failed on a party-line vote.

The Bottom Line

A number of governmental and private efforts to help struggling homebuyers are already underway. Congress should complement these efforts by enacting long-overdue reforms that will prevent such problems from recurring in the future. Any solution that asks taxpayers to foot the bill for the bad decisions of others is no solution at all.