

# Summary of H.R. 1852, the "Expanding American Homeownership Act of 2007"

## Background

Created in 1934, the Federal Housing Administration, generally known as "FHA", provides mortgage insurance on loans made by FHA-approved lenders throughout the United States and its territories. FHA provides stability and liquidity in the market in order to broaden homeownership and to stimulate the building industry. Since its inception, FHA has insured more than 34 million loans and is the largest insurer of mortgages in the world.

Republican-sponsored legislation to modernize FHA in a manner that decreases premiums for borrowers and increases access to homeownership for low- and middle-income citizens passed the House by a margin of 415-7 on July 26, 2006. While Ranking Member Bachus and Congresswoman Judy Biggert (R-IL) introduced legislation identical to the FHA reform bill passed by the House last year, Committee Democrats introduced their own bill - H. R. 1852, the Expanding American Homeownership Act of 2007 - which passed the Financial Services Committee by a vote of 45 - 19 on May 3, 2007. The legislation would:

- Increase FHA loan limits in high cost areas of the country like California, New York, and Massachusetts.
- Authorize zero down and lower down payment FHA loans.
- Direct FHA to underwrite to borrowers with higher credit risk than FHA currently serves.
- Permanently eliminate the current statutory volume cap on FHA reverse mortgage loans.
- Reinvest increased FHA profits created by the bill in housing counseling.
- Create a funding source for Chairman Frank's proposed "National Housing Trust Fund" using increased FHA receipts.

## Talking Points

While FHA reform should be a priority for Congress, Democrats are trying to achieve it in a fiscally irresponsible way. Rather than devote the increased revenues that FHA reform will bring towards deficit reduction, Democrats are - for the second time this year - using unrelated legislation as a vehicle to create yet another federal housing program.

Republicans gave Committee Democrats a chance to protect the Social Security Trust Fund - and they said "no." During debate on the bill, Republicans offered an amendment to disallow use of excess funds generated by the FHA program for the affordable housing grant program until the federal government ceases tapping the Social Security surplus. It failed on a party-line vote.

Inclusion of a National Housing Trust Fund unnecessarily clouds the legislation's main objective: to modernize the way the 73-year-old Federal Housing Administration does business. Rather than follow the consensus-building approach demonstrated by House Republicans last year, Democrats are interjecting controversy in what should be bipartisan legislation.