

## Statement of Ranking Member Spencer Bachus Full Committee Hearing Entitled "FHA Oversight of Loan Originators"

January 9, 2009

Congressman Spencer Bachus, Ranking Member of the House Financial Services Committee, submitted the following prepared statement for the hearing record.

Thank you, Chairman Frank, for holding today's hearing on the status of the Federal Housing Administration (FHA) insurance program and the procedures for monitoring lender and mortgage broker participation in the program and combating fraud.

This is a very timely hearing, as the downturn in housing continues to exert a powerful drag on our economy. Housing inventories remain at elevated levels and mortgage credit remains tight even for borrowers with sound credit records. In an environment where many mortgage originators have either gone out of business or significantly scaled back their lending activities, FHA's loan insurance program has become an attractive option for risk-averse lenders, leading to a substantial increase in the agency's share of the mortgage market.

While FHA is thus playing a crucial role in ensuring the continued flow of mortgage credit, the rapid expansion of its portfolio raises concerns that the agency lacks the technological and human capacity to perform proper oversight of its new and current lender participants. While FHA's strong presence in the marketplace has allowed credit worthy borrowers who might otherwise be shut off from home loans to realize the dream of homeownership during this difficult period, any inability of FHA to properly monitor for fraud and prevent bad actors from participating in the program could expose taxpayers to significant losses.

According to HUD, FHA origination volumes will remain at record levels for some time, as it will be several years before the conventional market recovers. Indeed, FHA's share of mortgage volumes has gone from 2 percent in 2006 to over 26 percent today, and it expects to insure over 1.6 million mortgages in 2009, representing close to \$300 billion.

At present, FHA is generating positive cash flow with revenues greater than its claim expenses. However, if HUD fails to take measures to protect the FHA insurance fund and defaults increase due to fraudulent lenders or inadequate oversight, HUD could be forced to obtain an appropriation from Congress to operate FHA, saddling the American taxpayer with yet another obligation at a time when Federal deficits are already unacceptably high and header much higher.

I look forward to hearing from today's witnesses about FHA's current procedures for safeguarding against fraud and excessive defaults for both existing and new lenders. FHA's ability to function in today's marketplace will depend on its ability to hire qualified staff and deploy updated technologies to meet the current demand. I hope today's hearing will help provide the Committee with some answers on how we can ensure that FHA continues to operate in a safe and sound manner and help worthy borrowers achieve homeownership.

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