

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

January 9, 2009

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.

With the credit and foreclosure crisis, FHA has played an increased role in assisting homeowners and is attempting to fill the void left by the contraction of the conventional market. Over the past year, FHA has seen its business as a share of home sales increase from 4 percent in 2006 to 21 percent in 2008 (the last peak was 18 percent in 1990). FHA's share of total mortgage volumes has gone from 2 percent in 2006 to 26 percent in 2008 -- this new level has not been seen since prior to 1970. According to the Department of Housing and Urban Development, a steady flow of homeowners continue to use FHA to refinance out of subprime mortgages, and FHA anticipates that it will likely insure over 1.6 million mortgages in FY2009, representing close to \$300 billion.

Recent media reports indicate that HUD's Federal Housing Administration (FHA) significantly increased market share in 2008, raising concerns that the agency is ill-equipped to adequately oversee FHA-approved lenders/licensees, employ appropriate technology, and manage human capital to protect the taxpayer from exposure to significant financial losses.

A December 1, 2008, article in BusinessWeek stated that Inside Mortgage Finance, a research and newsletter firm, estimates that over the next five years, new loans backed by FHA insurance will fail and perhaps cost taxpayers \$100 billion or more. According to the article, former federal housing officials say FHA is ill-equipped to deal with the onslaught of new lenders seeking to participate in the program. The HUD IG, Ken Donohue, mentioned in the article that FHA "faces a tsunami" in the form of ex-subprime lenders that favor aggressive sales tactics and sometimes engage in fraud. In that same article, Mr. Donohue noted that he is very concerned that fraudulent sub-prime lenders are reconstituting themselves and could potentially bring bad loans to the FHA portfolio. The BusinessWeek article further states:

"FHA staffing has remained roughly level over the past five years, at just under 1,000 employees, even as the tsunami has been building Donohue points out. The FHA unit that approves new lenders, recertifies existing ones, and oversees quality assurance has only five slots; two of those were vacant this fall, according to HUD's Web site. Former housing officials say lender evaluations sometimes amount to little more than a brief phone call, which helps explain why questionable ex-subprime operations can reinvent themselves and gain approval. "They are absolutely understaffed," says Donohue, "and they need a much better IT system in place. That is one of their great vulnerabilities."

This hearing will give FHA an opportunity to address the concerns raised in the BusinessWeek article and explain what steps the agency is taking to ensure that the program is being run in a safe and sound manner.

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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