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## The Future of Housing and the Role of the FHA

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**What's Happening:** Following last week's death knell for the Senate Banking Committee's housing finance reform bill and Federal Housing Finance Agency (FHFA) Director Mel Watt's first major GSE policy speech, two important events have occurred. First, the Federal Housing Administration (FHA), a part of the Department of Housing and Urban Development (HUD), proposed several new efforts to aid borrowers, reduce the costliness of their insurance, and expand access to credit. Second, the media has reported that San Antonio, Texas Mayor Julián Castro will be tapped to replace current HUD Secretary Shaun Donovan. Donovan is expected to be appointed as the new director of the Office of Management and Budget.

**Why It Matters:** The common thread for both of these events, as well as the Banking Committee vote and Director Watt's speech, is that there is a concerted effort on the part of many Democrats and executive branch agencies to expand access to credit, particularly for low to moderate income buyers and historically disadvantaged communities. As part of an effort to publicize this new push, the Bipartisan Policy Center (BPC) hosted a keynote speech by General Deputy Assistant Secretary for Housing Biniam Gebre, followed by a panel discussion on the future of the FHA, which consisted of participants from industry, pressure groups, and think tanks.

**What's Next:** In the next fiscal year which begins October 1st, the FHA plans to roll out a new pilot program, Homeowners Armed with Knowledge (HAWK), that is expected to save the average homebuyer \$325 a year on FHA mortgage insurance premiums. One large potential problem for the FHA is that the House Appropriations Committee responded to the proposal by promptly removing funding for it from the rest of the HUD budget it has approved. At this point, it is uncertain where the money to fund the FHA proposal will come from, although the Senate has not yet marked up its legislation. We expect further announcements from FHFA Director Watt, FHA Commissioner Carol Galante, and if formally nominated, Julián Castro in the weeks ahead. All of these officials are expected to use administrative pressure to try to expand access to credit, though we believe the fiscal constraints on FHA and the GSEs, as well as the safety and soundness concerns of lenders will limit the short-term success of any of these proposals.

## Background

Today's BPC conference was entitled, "The Future of U.S. Housing and the Role of FHA." The conference featured Biniam Gebre, General Deputy Assistant Secretary for Housing, as the keynote speaker.

The panel discussion on the FHA was moderated by Monte Zaben, Lead Client Services Partner of Freddie Mac for Deloitte and it included:

- Mark A. Calabria, Director of Financial Regulation Studies at The Cato Institute
- Enrique A. Lopezlira, Senior Policy Advisor of Economic Policy for the National Council of La Raza
- Rolf Pendall, Director of The Urban Institute's Metropolitan Housing and Communities Policy Center
- Mark Zandi, Chief Economist at Moody's Analytics

## Keynote: Obama Administration Outlook

General Deputy Assistant Secretary Gebre led off the conference with remarks on the progress the FHA has made in the last decade in addition to outlining the FHA's three primary goals.

The first goal was to improve the machinery of the the FHA, mainly pertaining to its operational needs. Gebre also voiced the need for investing in stronger analytical processes and technology, while at the same time balancing taxpayer risk with the mission of serving those in need. He also expressed frustration with the difficulty the agency has experienced attracting individuals with risk analytics talent to work for the FHA.

The second goal Gebre addressed was for the FHA to invest heavily in expanding access to credit for borrowers. He specifically expressed frustration with the lack of lending for individuals with a credit score below 640.

He said, "Two out of ten people who borrow from FHA are likely to default on their loan. While some are astonished by this ratio, with 20 percent of borrowers defaulting, I choose to focus on the other eight people who do not default." Although this is a remarkably high figure that helps to explain the fiscal problems of the FHA's Mutual Mortgage Insurance Fund (MMIF), it was dismissed by Gebre as far less important than the mission of serving borrowers.

In order to address the needs of the underserved population, Gebre outlined two federal programs designed to expand access to credit.

The first was the Quality Assurance Initiative, designed to establish clear rules of the road for lenders to ensure they can make loans without fear of unanticipated consequences, as well as provide more transparency in an attempt to aid lenders, as well as the FHA.

The second program, Homeowners Armed With Knowledge (HAWK), will permit homebuyers to qualify for savings on FHA-insured mortgages if they complete HUD-approved housing counseling provided through independent nonprofit organizations.

The counseling is aimed at improving buyers' budgeting skills and gives them individualized, objective advice on understanding the rights and responsibilities of homeownership, addressing credit and savings barriers, and meeting their overall housing and financial goals. Gebre stated that the FHA hopes to launch both of these programs next fiscal year.

As discussed above, the pushback from Congress on funding the HAWK program when the MMIF remains a concern means that this may be delayed, or money for the program must be found elsewhere.

The third and final goal Gebre outlined was for FHA to improve public housing. In what he referred to as the "capital investment puzzle," Gebre acknowledged that there is currently more than \$26 billion needed in public housing aid around the country, which Congress is unwilling to provide.

In response, the FHA has developed the Rental Assistance Demonstration (RAD) Program that aims to solve this puzzle by attracting private capital to invest in public housing. Gebre made a point to say that this program is "not a silver bullet and will get us only 40-50 percent of the way. Federal funding will be required to for the other 50-60 percent."

We continue to believe that there is no congressional appetite for any program to expand affordable housing with public funds, absent wholesale housing finance reform legislation which is now stalled and is unlikely to make any substantial progress until a new administration enters the White House in 2017. There is even less appetite for appropriating federal funds for maintaining, let alone creating, new government owned public housing.

## Panel Discussion: Future of the FHA

Following Gebre's address, the first topic of debate the panel addressed was reforms for mortgage lending.

Echoing Gebre, the majority of the panelists identified the lack of access to credit as being the primary cause of concern in housing reform. Enrique Lopezlira, from the National Council of La Raza gave remarks that fell in line with Gebre's Quality Assurance Initiative.

He stated that the FHA needs to work with private lenders to help them understand that the public product they receive is government insured and that they should expand the universe of borrowers they serve.

Mark Zandi of Moody's Analytics concurred and stated that lenders simply want to see proof that the government will keep its word in insuring borrowers. After that happens, he said we should start to see the "credit box" open. He went on to say that credit restraint is throwing a wrench into the public and private partnership that the FHA is trying to drive.

Not all panelists were as supportive of Gebre's remarks. Mark Calabria of The Cato Institute was highly critical of the FHA's plans to expand access to credit. "It's reckless for FHA to criticize institutions for having lending standards that are too high. Having subprime borrowers with high debt burdens is not sustainable."

In regard to the proposed HAWK program as a solution for underserved borrowers, Calabria was once again highly critical. He claimed that variations of incentivized counseling programs have been tried in the past, and have always failed. He then went on to say that constraints that accompany government programs constrain experimentation, which doesn't work for the FHA, but could potentially work in the private sector.

The panel also expressed concern about the housing market's ability to handle the "baby boomers" and "millennial generation." Both generations raised concern across the panel over the issue of affordability. There was a common consensus that the rental sector of the housing market was crucial for both baby boomers and millennials even though they were at different life stages.

Mr. Pendall from The Urban Institute's Metropolitan Housing and Communities Policy Center stressed the importance of small multifamily buildings as well as the rental sector in meeting the "diversity of need" from the millennial generation. He stated the need for the affordable rental sector to be improved upon to enable people to save their money so they can ultimately afford a down payment on a mortgage to break into the housing market.