

**For Immediate Release: May 1, 2008**

**Financial Services Committee Approves  
FHA Housing and Homeowner Retention Act**  
*Legislation Now Moves for Consideration by the Full House*

Washington, DC – The House Financial Services Committee today approved H.R. 5830, the FHA Housing and Homeowner Retention Act, by a bipartisan vote of 46 to 21. The legislation, authored by Committee Chairman Barney Frank, will expand the FHA program to help refinance at-risk borrowers into viable mortgages. The bill also requires the Federal Reserve Board to conduct a study on the need for an auction or bulk refinancing mechanism. The legislation now moves to the full House for consideration.

“It is important that we reduce the number of foreclosures both as a matter of alleviating the pain for some individuals and stabilizing some neighborhoods. It is my hope that this legislation will restore some stability to the housing market, put liquidity back in the market, and not interfere with the market, but help restore it,” said Chairman Frank.

“Servicers should put a pause in some foreclosures until they can wait to see exact details of this as it moves forward. If after this we continue to get very little participation by servicers, I can guarantee you that the servicer industry will look very different a year from now than they do today. If after everything we do in this cooperative way falls short, then you are going to see legislation that puts some very real restrictions on the role of servicers and give many more rights to the borrowers,” Frank continued.

The following is a revised summary of H.R. 5830, as amended:

**FHA Housing Stabilization and Homeownership Retention Act**  
**Summary of H.R. 5830 (May 1, 2008)**

**Summary of the Expanded FHA Refinance Program.** This voluntary program would permit FHA to provide up to \$300 billion in new guarantees to help refinance at-risk borrowers into viable mortgages. This \$300 billion is the total amount of outstanding loans that may be insured under the program. The government would only have liability if a borrower defaults and the amount recovered in foreclosure is below the outstanding principal.

In exchange for the acceptance of a substantial write-down of principal, the existing lender or mortgage holder who chooses to participate would receive a “short payment” (i.e. a payment for less than the outstanding balance as payment in full) from the proceeds of a new FHA-guaranteed loan if the new loan would have terms that the borrower can reasonably be expected to pay and the borrower agrees to share future home appreciation with the government. In short, the program would provide refinancing assistance to allow families to stay in their homes, protect neighborhoods and help stabilize the housing market.

Under the program, a borrower or existing loan servicer of an eligible loan would contact an FHA-approved lender, who would determine the size of a loan that would be consistent with the requirements of the program and that the borrower could reasonably repay. If the current lender or mortgage holder agrees to a write-down that is sufficient to meet the requirements of the program and make the new loan affordable, the FHA-lender will pay off the discounted existing mortgage.

In addition to a first lien, the government will retain a share of future home-price appreciation to help defray the government's costs and prevent unjust enrichment (e.g., borrower flipping). When the borrower sells the home or refinances the loan, the borrower will pay from any profits the higher of (1) an ongoing exit fee equal to 3 percent of the original FHA loan balance; or (2) a declining percentage of any net proceeds attributable to home appreciation (i.e., from 100 percent in year one to 50 percent in year four and thereafter minus the fees the borrower has paid into FHA).

**Eligibility Requirements for Existing Loans (Requires All of the Following):**

- Owner-occupied principal residences only (no investors, speculators or second homes), and borrowers must certify that they do not own any other homes;
- Existing senior loan being refinanced must have been originated on or before December 31, 2007;
- To remove any incentive for borrowers to “purposely default,” the borrower must have had a mortgage debt-to-income ratio of no less than 35 percent as of March 1, 2008, and must certify that he/she has not intentionally defaulted on existing mortgage(s) and did not obtain the existing loan fraudulently;
- Participating mortgage holders/investors must waive any penalties or fees on the existing mortgage and must accept proceeds of the new loan as payment in full; and
- Existing mortgage holders/investors must accept their losses – taking substantial write-downs sufficient to: (1) establish a 3 percent loan loss reserve for the FHA; (2) pay the origination and closing costs for the new loan up to 2 percent; and (3) bring the loan-to-value ratio on the new FHA-guaranteed loan down to no greater than 90 percent of property's current appraised value, resulting in a substantial reduction in debt service to the borrower. Accordingly, to qualify mortgage holders would need to accept a substantial write-down, accepting as payment in full no more than 85 percent of the property's current appraised value.

### **Requirements for New FHA-Insured Loans:**

- New FHA loans must be properly underwritten and must be based on current appraised value of the house and borrower's documented income (borrowers with higher – but not disqualifying – debt levels would need to make six months of timely payments at the new payment level to qualify for the guarantee);
- New FHA loan must extinguish all existing liens and substantially reduce the borrower's mortgage debt service;
- New FHA loans under this program must be within the FHA loan limits now in effect under the stimulus for the duration of this program;
- Oversight Board will set reasonable limits on loan fees and interest rates; and
- To reduce costs to the government – and avoid inappropriate enrichment to the borrower – the government will retain a share of the borrower's future profits. When the borrower sells the home or refinances the loan, the borrower will pay from any profits the higher of (1) an ongoing exit fee equal to 3 percent of the original FHA loan balance; or (2) a declining percentage of any net proceeds attributable to home appreciation (i.e., from 100 percent in year one to 50 percent in year four and thereafter minus the fees the borrower has paid into FHA).

**Oversight Board.** The program will be overseen by a “Refinance Program Oversight Board” consisting of the Secretary of Treasury, the Secretary of HUD, and Chairman of the Federal Reserve.

**Coordination of Existing Lien-Holders.** The Oversight Board will be authorized to take action to facilitate coordination among different existing lien-holders; and shall be empowered to establish a formula for compensating and a mechanism for obtaining the voluntary waiver of all lien holders.

**Separate FHA Fund.** To protect the FHA Mutual Mortgage Insurance Fund, these new loans will exist in a separate fund in FHA – and will be permitted to be resold through GNMA.

**Improving FHA Capacity.** The Oversight Board will take actions as necessary to increase FHA's capacity, including:

- Treasury, Federal Reserve and HUD may sharing employees to improve FHA capacity;
- Contracting for the establishment of underwriting criteria, pricing standards, and other factors relating to eligibility;
- Contracting for independent quality reviews of the underwriting of these mortgages; and
- Increasing HUD personnel.

**Auction or Bulk Refinance Study.** The Federal Reserve Board will be required to conduct a study of the need for, and efficacy of, an auction or bulk refinancing mechanism and submit a report to Congress within 60 days of enactment.

**Increased Fraud Prevention/Oversight.**

- Independent quality reviews will be established to determine underwriter compliance, and rates of delinquency, claims and losses;
- Monthly reports will be submitted to Congress; and
- Annual audit of the program will be conducted.

**Sunset.** The program will run for 2 years (with flexibility for additional 6 month extensions not to exceed 2 more years).

**Authorization for Foreclosure Counseling & Legal Aid.** The bill would authorize \$210 million dollars for foreclosure counseling, including to veterans recently returning from active duty in the armed forces, with at least \$30 million targeted to low-income and minority homeowners and \$35 million to assist with legal aid.

**Office of Housing Counseling.** Establishes within HUD an Office of Housing Counseling that will conduct activities relating to homeownership and rental housing counseling.

- Requires HUD to provide for the certification of various computer software programs for consumers to use in evaluating different residential mortgage loan proposals.
- Authorizes appropriation not to exceed \$3 million for national public service multimedia campaigns for homeownership counseling services for fiscal years 2008, 2009, and 2010.

- Requires HUD to provide financial and technical assistance to States, local governments, and nonprofit organization regarding the establishment and operation of related educational programs, and authorizes appropriation of \$45 million for each of fiscal years 2008 through 2011.
- Directs HUD to study and report to Congress on the root causes of the default and foreclosure of home loans.

**Mortgage Fraud.** Authorizes appropriations of \$31,250,000 to hire additional FBI agents and Department of Justice prosecutors to combat mortgage fraud, and \$750,000 to support FBI interagency task forces in the areas with the 15 highest concentrations of mortgage fraud.

**VA Loans.** Increases conforming loan limits for VA loans.

**Appraisals.** Requires enhanced appraisal standards and appraiser independence.

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