Corker FHA Stabilization and Reform Amendment

"*The recognition that FHA's economic value is now negative is a stark reminder that we have put off fundamental housing finance reform for too long. FHA has strayed a long way from its original mission, and it's time for us to return to fundamentals in housing, recognizing that having the federal government making loans to people who can't pay them back isn't good for homeowners, communities, or the country*." --U.S. Senator Bob Corker

Since the 1990s, Congress has required an annual independent actuarial review of the Mutual Mortgage Insurance Fund (the "fund"). The review measures capital resources, present value of future cash flows, and economic net worth. The fund is required by statute to have economic net worth equal to at least 2% of the dollar volume of mortgages it insures. The fund has been below the 2% capital ratio requirement since 2009.

Furthermore, the recently released FY2012 actuarial review estimated the fund to have a negative economic net worth and a negative capital ratio. In other words, FHA does not currently have enough resources on hand to cover all of its expected future losses. Currently, around 1 in 6 FHA homeowners are behind on their payment. FHA is doing more harm than good by lending money homeowners can't afford to pay back.

FHA has recently implemented several program changes, including increased fees, changes in underwriting criteria, and increased lender oversight. However, additional statutory changes are needed at this time to further protect taxpayers and potential homeowners. There are four critical things that Congress can do right now to help put FHA back on track:

1. **Set the minimum FICO score for all new FHA-insured loans at 620**
   FHA currently allows loans down to 580 FICO, but originators refuse to make these loans because they perform poorly and are difficult to service. This is basically creating a situation where the private lenders are being made out to be bad guys because, even though FHA's minimum is 580, they are not making these loans. FHA should heed the market and set a minimum FICO level of 620.
2. **Reduce the maximum loan limit to $625,000**
   FHA now insures loans up to $729,750 in value. The government-sponsored enterprises, on the other hand, only insure loans up to $625,000 in value. It is inconsistent with the mission of FHA – helping low and moderate income individuals to purchase their first home – for the loan limit to be this high.
3. **Place a 24 month moratorium on the full draw HECM reverse mortgage program**
   Actuarial assumptions of the reverse mortgage program require home price appreciation to work. This program is currently a real problem, and FHA needs to step back and take a look at it before continuing to offer this product. $2.8 billion of the $16 billion economic shortfall are related to the HECM program.
4. **Require 20% downpayment for newly insured FHA-backed loans for borrowers seeking a new mortgage within 7 years of a prior foreclosure**
   FHA currently has a program allowing borrowers who have been foreclosed upon to get a loan with FHA after three years. FHA needs to re-establish that the borrower is being a responsible homeowner once again by implementing a 20% downpayment requirement for new loans within a 7-year span after foreclosure.