

**PREPARED REMARKS FOR
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FHA COMMISSIONER
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INTRODUCTION

Thank you, Charles (McMillan) and good morning. It is a pleasure to be here. And because of my background in realty, I feel right at home. It is Saturday. I'm with a thousand realtors in San Diego. We've had our coffee and we're talking shop. This is a realtor's paradise. The only thing missing is a lock box on my room door...and maybe some lawn signs. And I know some of you are thinking about sales and a closing or two...I understand. It gets in the blood. So thank you for inviting me.

When I was sworn in as commissioner of the Federal Housing Administration (FHA), I asked for unprecedented partnership from every sector of the housing industry. I've come here to discuss the challenges in the housing market, to outline some of the steps that have been taken, and to look to the future. We are at a decisive moment in our economic history. We need statesmanship, cooperation, and vision in the housing sector.

There were some who resisted any cooperation, thinking that turbulence could become opportunity. But Charles, you and the National Association of Realtors (NAR) stepped forward immediately with constructive insights, prudent advice, and wise counsel. There was a no nonsense approach. You knew that the housing market was volatile and that stability was vital. There was no time to waste. You had a clear understanding of the problems we face, and responded with sound guidance. True, we didn't agree on every issue. But we discussed our differences and there was a spirit of cooperation that makes for a lively, expansive, and productive dialogue. And you have appreciated that national solutions require give-and-take on some issues, sometimes compromise for the greater good. Working together often demands patience and pragmatism.

Yes, NAR stepped forward. The National Association of Realtors has been at the forefront of efforts to address the housing crisis. Few organizations have a grasp of the complexities matched by the willingness to effect bold change. I can honestly say that the partnership between the realtors and FHA has been of enormous assistance to the economy and to the American people.

For instance, Charles mentioned the toolkit we jointly developed. That is an excellent example, an enormously helpful resource. And I congratulate NAR on the VA Toolkit announced today. This information will benefit American homeowners and help FHA do its job more effectively.

Many of us have experienced vast changes in the housing market. You know, those with a long memory will remember that on this day in 1972 the stock market broke one thousand points for the first time. People could still buy homes for a few thousand dollars. Communities were smaller. The world seemed bigger. And FHA was a big part of the housing market four decades ago. FHA fulfilled its Congressionally-mandated role of economic stabilization as a source for government-backed mortgages.

THE ROLE OF FHA

Now time moves faster, globalization has made the planet smaller and our problems bigger. The stock market moves a thousand points in weeks, even days, and the problems in the housing market would have been unforeseen thirty-eight years ago. And during those years FHA almost disappeared.

- As recently as 2006 FHA was less than three percent of the housing market.
- FHA was created in 1934 as a way to stabilize and stimulate a depressed housing market. For decades it was a major part of the mortgage market.
- The introduction of new, exotic mortgages diminished FHA's attraction. And there has been a price to pay in ignoring the sound stability of FHA for less stable alternatives.
- Now FHA has come roaring back, called into action to counter the foreclosure crisis and offer a viable alternative for those looking to buy a home for the first time or to refinance an existing mortgage.
- We provide a safe, secure 30-year fixed rate mortgage at low rates with as little as 3.5 percent down payment.
- 80% of FHA purchase mortgages are to first time home buyers.
- FHA is the leader in helping minority families purchase a home.
- Last year, 45 percent of Hispanic homebuyers purchased a home with FHA financing.
- 51 percent of African American homebuyers used FHA.
- FHA has also been at the forefront of loss mitigation efforts. We have protected approximately 400,000 Americans from foreclosure.

I sometimes wonder where the economy would be without FHA.

FHA SECURITY

Of course, some worry about the volume of FHA loans. They fear that FHA itself may be in trouble.

- You may have read stories about FHA's financial security.

- I have been warning the American public about the possibility of the FHA emergency reserve fund falling below the Congressionally-mandated 2 percent threshold.
- This week Secretary Donovan and I released the annual actuarial report on FHA. Indeed, our reserve funds are low.
- But the study concludes FHA reserves remain above zero in most economic scenarios.
- In combination, the reserve account and MMI Fund hold \$31 billion in cash reserves. -- 4.5 percent combined.
- More than enough to meet expected future losses under multiple stress tests.
- And FHA has helped provide counter-cyclical force to help slow drop in lending and homeownership.
- Portfolio looks good
 - FICO scores have risen: 693 vs. 633 two years ago.
 - 30-day delinquencies down
 - 60 day rate down
- Another value of FHA – refinance. In 2009, 49 percent of FHA loans were refinances – approximately 835,000 borrowers refinanced into lower interest rate loans, saving borrowers an estimated \$1.3 billion.

CREDIT POLICY CHANGES

Last September, I announced credit policy changes that will enhance the agency’s risk management functions.

- Hired a Chief Risk Officer -- Bob Ryan.
- Bob will oversee a single division devoted solely to managing and mitigating risk to the FHA’s insurance fund – across all FHA programs.
- FHA is proposing specific policy changes that are largely focused on ensuring responsible lending and risk management for FHA-approved lenders.
- These changes build on lessons learned in the credit crisis and seek to align the FHA with the Administration’s goal of regulatory reform.
- As the FHA’s stable of lenders grows, lenders must have “skin in the game.”
- Changes by Mortgagee Letter:
 - Require submission of audited financial statements by supervised mortgagees...allows for adequate capitalization
 - Modify procedures for streamlined refinance transactions...brings documentation standards in line with other FHA guidelines...prohibits loan churning.
 - Require appraiser independence in loan origination
 - Modify appraisal validity period...reduced to 4 months
 - Appraisal portability...second appraisal under certain circumstances
- Changes being pursued by rule making process (normal process/rule and comment)
 - Modify mortgagee approval and participation in FHA loan origination
 - Increase net-worth requirements for mortgagees.

APPRAISAL ANNOUNCEMENT

As I said earlier, your team in DC has held several meetings with FHA. On September 18 Charles met with me to discuss FHA's requirements for second appraisals on high balance loans in declining markets and asked that we consider changing our policy.

- **Today I am pleased to announce the elimination of that requirement effective Monday.**
- FHA will no longer require second appraisals for high-balance loans on properties located in declining markets.
- We did not find our previous policy to be particularly helpful and were very concerned about the additional burden on lenders and consumers
- The policy change brings industry alignment, streamlines loan processing and reduces costs to consumers.

CONDOMINIUM APPROVAL PROCESS

There has been much discussion about FHA's rules for condominium mortgages. I believe the process has benefited greatly from dialogue with NAR. We agreed on many fronts, but not all. But we certainly benefited from your comments.

- Last June we published updated guidance for FHA's condominium approval process.
- At that time, we said we'd issue additional guidance to address the volatility in the condo market.
- Your comments were instrumental in helping us develop this new guidance
- So, I want to thank all of you, Charles, Joe, Jerry – for your insights
- Both the temporary and final condo guidance reflect our commitment to balancing FHA's mission and our risk management philosophy.
- The new standards will take effect on December 7 – and spot loan approvals will extend until February 1 to provide time for transition.
- The temporary measures in response to market challenges include:
 - 50% owner occupancy modified to exclude vacant and tenant REOs from the calculation
 - Pre-sale requirements reduced to 30% (from 50%)
 - Increased concentration limit to 50% (from 30%); and may go to 100% under certain conditions
- Some highlights in the permanent condo policy guidance are:
 - Site condo approvals are not required
 - A right of first refusal is permitted unless it violates the Fair Housing Act
 - Condominium manufactured homes are eligible for financing
 - Commercial space use is limited to no more than 25%

- We learned that many of you are unaware that you can access over 40,000 FHA approved condo projects on our website. In many cases, the project you want a spot approval on is already FHA approved. Check it out.
- In addition, the policy gives FHA direct endorsement lenders the authority to approve condominium projects for the first time ever.

TAX CREDIT

As you know, the tax credit extension was signed by the President last week. It will help thousands of potential borrowers.

- The \$8,000 tax credit is extended until April 30th 2010.
- Sales contract must be signed by April 30th. (60 days to close)
- The tax credit can be used as part or all of a down payment
- Sales price increased to \$800,000.
- Higher income limits - \$125,000/\$225,000.
- "Repeat borrowers" eligible immediately.
- Have lived in previous home 5 of last 8 years.
- Must purchase new home as principal residence.
- A repeat borrower who meets the criteria is eligible for a \$6,500 tax credit.

RESPA REFORM

One of the most important changes to help potential borrowers is RESPA reform. **NAR has worked with the previous Administration and with me to make it happen. Thank you for standing by my decision to stand firm on the January 1 implementation. It is an important we do this for consumers and for the industry. We understand the implementation concerns of the industry.**

- Yesterday we announced HUD would show enforcement restraint to any mortgage professional making a good faith effort to comply with the new RESPA requirements for the first four months of the year
- We are asking other federal and relevant state enforcement agencies to exercise the same 120-day restraint.
- For the first time in 30 years we have changed the regulatory requirements of the Real Estate Settlement Procedures Act (RESPA).
- These changes will increase the clarity and transparency of the mortgage process.
- Borrowers need all necessary information in order to make an informed and responsible decision.
- For example, with changes to the Good Faith Estimate, consumers will be able to easily compare their estimated loan offer with the one they actually agree to.
- This way, borrowers can shop for the best loan – the one that is right for them.
- This will save money too.

- RESPA will help lower interest rates, lower origination and settlement costs for borrowers, and eliminate junk fees that surprise so many borrowers at closing.
- In the end, RESPA will save consumers hundred, possibly thousands, of dollars in total loan costs.

MAKING HOME AFFORDABLE INITIATIVE

As we focus on the market and consumer impacts, you should know the Administration continues to work hard to stimulate the economy. The Making Home Affordable (MHA) initiative is proving to be a powerful stimulant to the housing market.

- Provides affordable refinance and modification opportunities for at-risk borrowers.
- Home Affordable Modification Program (HAMP). This program is providing up to \$75 billion, including \$50 billion of funds from the Troubled Assets Relief Program (TARP), to encourage loan modifications.
- Home Affordable Refinance Program (HARP). This program expands access to refinancing for families underwater, those whose homes have lost value and whose mortgage payments can be reduced at today's low interest rates.
- And last month, the Administration announced that services had exceeded the goal of beginning 500,000 trial modifications by November 1st. By the way, this places us a month ahead of our schedule to reach this milestone.
- The monthly pace of trial modifications are now exceeding the monthly pace of complete foreclosures which indicates that we've reached a turning point in our modification efforts.
- In addition, since February, there have been more than 3 million home loans refinanced, both as part of HARP and more broadly as a result of historically low interest rates.
- By extending the HARP program to individuals with up to 125 percent loan-to-value ratio, we can assist underwater borrowers who were previously unable to take advantage of the refinancing program, particularly in areas of the country that have seen larger than average drops in home prices.

THE FUTURE

We must look beyond the needs of the moment. We must prepare FHA for the future. It must continue to play its vital role in the housing market.

- Three priorities:
 - Clear direction for FHA to address mortgage crisis;
 - Improve risk-management capacity; and
 - Modernize technology systems.
- Congress Authorized \$400 billion
 - Allows for 2.25 million loans in next fiscal year
- Improve risk-management capacity
- Stabilize housing market
- Return to healthier mortgage market

- Working with President's Making Home Affordable Initiative
- But we have saved the system
- Now we can build a stronger and more predictable system
- Goal: Sustainable Home Ownership

CONCLUSION

A revitalized FHA will help each of you in your work. The changes we have made to assist homebuyers will help to stimulate the housing market.

And, I want you to be successful in your work. The country and our economy need your success. FHA cannot be effective without you.

You are the face of the housing market. You are the face with a name, both of which are on your business cards and advertisements in local papers. The community knows you...and you know the community. Your business card is in the folder of every buyer, along with the mortgage papers and inspection results. There are many people involved in the housing process, a process that extends from the realtor to the regulator. But you are the intersection between seller and buyer, borrower and lender, builder and investor. The realtor is the person with a name and a reputation in the community. The realtor is the focal point of information, involvement, and inventory. For you, the housing market is personal and professional, a place where potential buyers share their dreams and aspirations, introduce you to their children and pets and possessions, and where someone you just met, or known a lifetime, depends upon you to help them find an affordable and well-built home.

Our goal must be nothing less than to craft a solid, sustainable housing market, a market with a secure foundation for the future. Let's continue to work together. We are off to a good start.

Thank you again for inviting me here today.

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