



Support Down Payment Assistance, Support H.R. 6694

Downpayment Assistance Programs Effect Everyone From Entry-Level Homebuyers to Well-Established Luxury Homeowners; From State and Local Budgets to Real Estate Professional's Incomes to Wall Street

Congress should regulate charitable downpayment assistance programs, funded in part by home sellers (DPA). These programs, operated by non-profits, have helped more than one million working families buy their own homes over the past decade. The GAO has reported that 94 percent of these homeowners have met their mortgage responsibilities without undue difficulty. The charitable DPA programs that compose over a third of FHA's target population of low- to moderate-income families, of whom 80% are first-time homebuyers, will lose the critical home-buying assistance they need to purchase a home beginning October 1, 2008. Currently, 25,000 homebuyers every month will be eliminated from the housing market. These predominately first-time homebuyers are essential to the housing and economic recovery. With the elimination of these first-time homebuyers the surplus housing inventory will not be reduced, homes being sold by sellers will remain unsold even longer causing foreclosures to increase and home values to continue to decline. Congress should strengthen the rules for charitable DPA providers and preserve the charitable DPA option for those who would otherwise be unable to achieve homeownership. H.R. 6694 accomplishes that exactly.

DPA was eliminated effective October 1, 2008, in the comprehensive housing bill (H.R. 3221) due to political negotiations. Yet DPA continues to be recognized as a valuable and needed program as stated by the tens of thousands of supporters, including the Chairman of the House Financial Services committee. Just one day after (H.R. 3221) was signed by the President, members of the House introduced new bi-partisan legislation (H.R. 6694) to reauthorize, reform and bring back DPA. The reforms eliminate all of HUD's stated concerns regarding the program and has favorable scoring from CBO.

H.R. 6694 will reinstate FHA seller downpayment assistance for persons with certain credit scores by establishing three classes of eligible borrowers:

- Those with FICO scores above 679 will be allowed FHA seller downpayments under current HUD guidelines
- Those with FICO scores of 620 through 679 will pay a risk-based mortgage insurance premium to cover their possible defaults in the amount of 3.0% of the original principal for a single premium AND 1.25% of the principal balance as an annual premium
- Those with FICO scores of less than 620 who may be deemed as eligible by HUD for FHA seller downpayments will be subject to HUD-established risk-based pricing.

H.R. 6694 will also create an on-time payment incentive based upon a refund of premiums paid in excess of normal premiums if the borrower makes on-time payments for a specific number of years and pays the mortgage obligation in full. If these requirements are met, the borrower will receive a refund in the amount of the difference between the amount normally paid and the amount actually paid.

DPA IS A PROVEN SUCCESSFUL PROGRAM – IT WORKS

More than ONE MILLION Families Have Benefited From Charitable DPA – Since 1998, over 1 million low and moderate income families have utilized over \$3.8 billion in downpayment assistance from charitable organizations to take out \$130 billion in mortgage volume. This has generated nearly \$10 billion in home equity for these families and added \$24 billion to the economy between 2000 and 2005. (*George Mason University Study, 2007*)

Average Charitable DPA Gift and Home Purchase Price is Modest – Almost 80% of charitable DPA borrowers were first-time homebuyers whose average gift was \$3,600 toward the purchase of modestly priced homes that averaged \$108,000 in value compared to an average \$116,000 for other FHA-insured loans. The median income of such households was \$49,700, which is 74% of the HUD national median income. This meets both HUD and IRS definitions of low income. (*George Mason University Study, 2007*)

HUD Fully Supported Downpayment Assistance – In past years, HUD has strongly supported efforts to help families whose only obstacle to homeownership is accumulating enough cash for a downpayment. For example, Assistant Secretary for Housing/Federal Housing Commissioner Brian D. Montgomery in testimony before the Senate Banking Committee in June 2006 said: *“Many renters find it difficult to save for a downpayment, but have adequate incomes to make monthly mortgage payments and do not pose a significant credit risk. They simply need an affordable financing vehicle to get them in the door. FHA can and should be there for these families.”* Starting in 1998, Howard Glaser, HUD’s Acting General Counsel, reviewed DPA and analyzed closely the participation of the home seller and determined that the program operated within HUD’s guidelines. This is the same program and process that is adhered to today. Further, before a homebuyer can receive gift funds from a charitable organization providing DPA, the homebuyer must work with an FHA-approved lender, must meet all HUD/FHA’s rigorous loan underwriting qualifications (except for having the downpayment requirement), must have a HUD certified appraiser conduct an appraisal on the home using HUD appraisal criteria.

IMPACT OF THE CHARITABLE DPA PROGRAM ON FHA

The Mutual Mortgage Insurance Fund (MMIF) WILL NOT Require an Appropriation – The MMIF is the fund that supports FHA’s home mortgage program. A 2007 Congressionally mandated independent actuarial review of the fund shows that from 2007 to 2014 the MMIF will realize over \$1 billion per year and be at three times the statutorily required 2% capital ratio even *with* a significant number of charitable DPA gift assisted loans. H.R.6694 will further enhance the fund by requiring higher FICO scores and increased premiums based on homebuyer qualification.

FHA Loans Using Charitable DPA Gifts Enjoy 94% Success Rate; Comparable To Other FHA Loans – 94% of charitable DPA-assisted homebuyers pay their mortgage without undue difficulty, according to a 2005 study by the General Accounting Office. Specifically, FHA homeowners using gifts from seller-based and other DPA assistance with 3-year old loans have a 6% and 5% default rate respectively while FHA owners using no DPA assistance have a 3-4% default rate. H.R.6694 will further enhance the success rate requiring higher FICO scores for homebuyers who need DPA assistance.

Loans Using Charitable DPA Gifts are 50% of FHA’s Current Annual Volume – The advent of the private sector’s sub-prime, zero downpayment mortgage market caused FHA’s overall mortgage market share (in dollar volume) to decline from 7.87% in 2001 to just 1.99% in 2007 (*HUD Actuarial Review*). Even though the number of DPA gift-assisted loans stayed about the same, the drastic decline in the overall number of FHA’s non-DPA loans means that DPA gift-assisted loans (from any source) now account for almost 50% of FHA’s total loan volume. Seller-assisted DPA’s portion of FHA’s current loan volume is 30%. The private sector sub-prime, zero downpayment market also siphoned off the less risky pool of FHA borrowers – leaving FHA with a larger than usual proportion of higher risk loans -- contributing to an increase in all of FHA’s claim rates. H.R.6694 will continue advancing FHA’s mission to serve low-to moderate-income homebuyers by reauthorizing and reforming DPA.

HOW THE CHARITABLE DPA PROGRAM WORKS WITH FHA

DPA Program Is Specifically Designed to Meet FHA Borrower Needs – Charitable DPA programs aid borrowers who meet all the rigorous underwriting requirements with verified documentation to qualify for a FHA-insured loan but have insufficient capital to meet the three percent downpayment requirement for an FHA loan. Charitable DPAs bridge the gap by providing this downpayment as a gift to the buyer, helping those who otherwise could not become homeowners. The DPA program was developed and designed to work with FHA’s specific mortgage requirements to expand homeownership opportunities to those who can qualify and sustain homeownership while also serving the population of homebuyers that is FHA’s mission to serve - minority, low-income, and working families with limited access to capital of whom 80% are first-time homebuyers.

Lenders, Not DPA Organizations, Choose Home Appraisers for FHA Loans – Downpayment gifts made by charitable DPA organizations are based on the market value of the purchased homes as affirmed by HUD certified appraisers. Those appraisers are chosen by lenders, not DPA organizations. HUD regulations require lenders to use many different certified appraisers to ensure the appraisals are as accurate as possible.

Charitable DPA Serves FHA’s Core Mission – The Federal Housing Administration (FHA) was established to help low- and moderate-income individuals purchase homes since they would find it difficult to qualify for loans in the traditional private mortgage market. Without charitable DPA programs, a large portion of borrowers would be forced out of FHA into high-priced, in some cases predatory, loans or be completely locked out of homeownership altogether. As recently as a few years ago the current FHA commissioner (who now opposes DPA) recognized the service of DPA programs in helping FHA’s target population. These multiple supportive statements from the Commissioner are in the public record.

CONGRESS SHOULD REGULATE – NOT ELIMINATE – THE CHARITABLE DPA PROGRAM

Downpayment Assistance As Gifts from Charities vs. Taxpayer Funded Assistance – The charitable DPA program that HUD lobbied Congress to eliminate enabled buyers to obtain the 3 percent downpayment required for FHA loans from the private sector (charities) as a gift. The gifts under this charitable DPA program use *no tax dollars and do not have to be repaid* and have a 94% success rate. At the same time, HUD is also proposing that the federal government provide DPA assistance directly to households at taxpayer expense.

Two Federal Courts Find HUD's Efforts to Eliminate Charitable DPA Were Not Supported by the Record – Federal district courts in the District of Columbia and California ruled that HUD's attempts to eliminate charitable DPA were without support in the record or by HUD's own data. To quote the D.C. District Court:

*“plaintiff’s have set forth plausible reasons for **doubting the accuracy of HUD’s loan data ... no records were kept identifying the funding source for any downpayment assistance for several years of the period HUD purportedly analyzed** ... The problem with HUD’s explanation is not that it lacks a sufficient number of citations; the problem with HUD’s explanation is that it explicitly (and inexplicably) relies on sources that do not support its conclusions. As a result, **this Court is unable to conclude that HUD engaged in ‘a course of reasoned decision making.’** ... The Court concludes that HUD’s explanation of the Final Rule reflects a lack of reasoned decision making and therefore violates the APA. ... **Those infirmities inspire a good deal of doubt as to ‘whether the agency chose correctly.’**” [Case 1:07-cv-01752-PLF, pg. 18-19]*

U.S. Conference of Mayors, National Association of Home Builders, National Association of Counties, National Association of Mortgage Brokers, US Hispanic Chamber of Commerce Are Among the Many Who Support Charitable DPA – These organizations along with **over 50,000 concerned citizens** across the nation asked HUD to regulate and not eliminate charitable DPA assistance. In August 2007, The Mortgage Bankers Association (MBA) submitted comments stating that DPA played an important role in assisting FHA in meeting its mission and while it recognizes the need for improvement, HUD should focus on reforms and risk mitigation techniques -- not elimination.

H.R.6694 reauthorizes DPA with risk mitigation reforms to further protect homebuyers and FHA’s insurance fund.

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Join the growing list of DPA supporters – for additional information go to www.supporthomeownership.com

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or visit our website <http://ameridream.org>**