

**STATEMENT OF DAVID STEVENS**

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COMMISSIONER**

**COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS**

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I am honored to be here today and humbled by President Obama and Secretary Donovan's decision to nominate me as Assistant Secretary of Housing – FHA commissioner for the department of Housing and Urban Development. This agency plays a critical role as it partners with so many in the nation right now to overcome one of the greatest economic crises that we have faced in decades. I would also like to thank this committee for scheduling this hearing so quickly after the recess as I am sure you all have extremely busy schedules and I appreciate the time you are committing to meet with me and share your thoughts and views regarding housing issues and particularly those facing FHA.

Before I begin, please let me take a moment to introduce my wife of almost 25 years, Mary, My daughters Sara (a recent graduate from Virginia Tech), Alison (a 2<sup>nd</sup> year student at the University of Virginia), and Maggie (a freshman at Oakton HS), and my son Taylor (a senior at Oakton high school and a future freshman at the University of Colorado)

For the past 26 years, I have dedicated my career to the business of helping support and working in the housing finance industry. My career has taken me from working directly with homebuyers for a savings and loan association during the early 1980's, to managing a nationwide loan operation. I have held an executive leadership role in the secondary market, as Senior Vice President at Freddie Mac, working with virtually every financial institution in the mortgage industry; mortgage insurance firms, technology providers, Wall Street and other third party providers, and industry trade organizations. Finally I

have managed the wholesale mortgage banking business for one of the nation's largest banks and am currently the President of the nation's largest privately held real estate company.

In virtually every position, I have gained critical knowledge of this housing industry and through these positions I have gained the most thorough and intimate understanding of the housing finance system from the point of sale through the ultimate distribution in the capital markets. If confirmed by this body, I would look forward to applying this experience and knowledge to help ensure that FHA addresses the critical issues facing it today and help work with you and others to build a long term framework that will protect the future of the housing finance market.

While FHA's role has always been an important one, FHA has now become absolutely critical to the stabilization and recovery of the housing market. Today FHA accounts for almost 1/3 of all mortgages created in this country, up from representing only 3% of the lending market at the end of 2006. This enormous surge in loan activity clearly highlights FHA's importance as a primary vehicle to restore stability to the housing market. At the same time, this pace of growth over such a short period of time has created pressure on FHA's operational environment, which is in need of both system enhancements and process changes to protect the quality of the program for the long term.

FHA has not been immune to the adverse conditions of this market. Default rates and foreclosures exceed prior estimates. Unlike subprime mortgages, however, where these loans were built on unsafe features with high risk credit characteristics, FHA losses are more the result of economic factors such as job loss. And while I would not expect losses like those in the subprime market, the impacts of loans originated in 2007 and 2008 with high loan to value ratios, combined with seller funded down payment assistance

programs and, in some cases questionable lender behaviors, could cause some stress on the program in the months going forward.

If confirmed, I will work tirelessly to make sure that we take this great program and enhance its risk management capabilities and proactively protect its future viability. Immediately, my top three priorities would be as follows:

First, we must ensure the solvency of the fund and ensure that FHA does not require any taxpayer assistance. This can be done by balancing FHA's public purpose with prudent credit risk management. The effort here needs to start with a thorough review of the credit parameters of the FHA program and to identify characteristics of the program that are higher risk and could cause adverse impacts to the fund. Tightening guidelines on higher risk products would be the primary output of this effort. Additionally lender management must be enhanced to insure accountability for performance. Focusing on lenders with poor performance and removing them from the system is job one to protect newly insured business. Finally, system investments must be made to improve both automated underwriting quality as well as data integrity in order to manage incoming loan quality as well as existing insured business.

Second, we will ensure HUD's Housing programs adequately support the implementation of the President's housing priorities – specifically, the Homeowner Affordability and Stability Plan and an updated Hope for Homeowners program. Third, we need to restore FHA to a more respected position of leadership in the marketplace. The overall effort to modernize the core technology systems must be combined with enhancing FHA's best practices, possessing and utilizing fraud detection tools that work, finding more effective solutions to mitigate losses and market disruptions in future periods of adverse economic conditions, and focusing on longer term solutions like energy efficient mortgage products

that will make FHA a proactive positive force in protecting the future strength of the nation's housing system.

FHA is creating a strong leadership team. Carol Galante, as Deputy Assistant Secretary for Multifamily Housing, brings enormous experience and leadership in her field. The ability to have stronger leadership at all levels of FHA, with practical business knowledge, will be of significant value to all as we face the current challenges and look to the future.

As a real estate executive, I have witnessed firsthand, the importance and value of the FHA program. After the private label mortgage market collapsed in 2007, I can assure you that the nation's economic problems would be even worse today if FHA had not been there to fill the void in our nation's housing system. FHA has fulfilled its public purpose by helping hundreds of thousands of families either purchase a home or refinance their existing mortgage with lower interest rates and better terms for the homeowners. The challenge now is to ensure that this value is balanced with actuarial soundness and effective risk management. If confirmed, I will be committed to ensuring FHA'S financial stability going forward. Thank you again for your time and interest today. I appreciate the opportunity to be here and, if I am honored with your confirmation, I look forward to working with you in the future.