Senator Mark Kirk Opening Statement for *FHA Solvency Act of 2013* Hearing July 24, 2013

I want to first thank Chairman Johnson and Ranking Member Crapo for holding such an important hearing on the *Solvency of the Federal Housing Administration (FHA).*

Since the *National Housing Act* was signed into law in 1934, the Federal Housing Administration (FHA) has helped millions of Americans achieve home ownership. Like most creations of the government, the FHA's mission and statutory obligations have been muddled with increased demands over the decades, often by Congress, which have led to loosened lender underwriting demands and other negligent policies all in the pursuit to achieve higher and higher rates of homeownership.

While the goal of homeownership is laudable and does help promote financial stability, we have all seen the adverse effects of an over-stimulated housing market. We've also felt the pain caused when loans are not underwritten properly and when consumers who are not financially ready to have a mortgage are incented through government programs to buy rather than rent.

We also know all too well that when private market participants know the federal government stands behind the risk, moral hazard is created and private market participants take more risk than they otherwise would if the government didn't insure their loans. We have seen the disasters that occur from private shareholder gains that too often spell disaster for homeowners and the American taxpayer. We saw this with Fannie Mae, with Freddie Mac, and we are now on the brink of seeing this with FHA.

HUD promotes that "FHA is the only government agency that operates entirely from its self-generated income and costs the taxpayers nothing". However, with a more than $16 billion negative economic value[i], the Federal government is now faced with trying to make reforms to FHA to ensure that the taxpayer is not in fact on the hook to bailout the FHA.

Over the years and decades, new programs have been created and more mandates have been made for FHA to relax underwriting standards. One such program creation was the Home Equity Conversion Mortgage, or HECM program. The HECM program is the government-insured reverse mortgage program. Again, while a laudable program that was designed to be a valuable financial tool for seniors, the HECM program is dangerously underwater, with nearly one in ten HECMs defaulting last year.

During the latest financial crisis, seniors around the country watched the equity in their homes plummet and saw their retirement plans—including their 401(k)'s devalued. Many retired seniors were forced out of retirement and back into the workforce. With limited options, many seniors turned to the largest asset they had, their home, and took out a reverse mortgage.

While I think that the FHA has done a poor job to date of managing the HECM program, it is *not* my intention to get rid of the FHA reverse mortgage program. My rationale for examining the FHA program is simply this: if the FHA HECM program were designed to best meet the needs of and protect seniors, the rate of defaults and losses under the HECM program would be far less. Put simply; make a program that works for seniors—that is safe and fiscally sound—and the program will thrive and the risk to the American taxpayer will be far less.

American seniors have worked their entire lives to improve this country and pave a more promising path for future generations. We owe it to them to provide safe, reliable tools so they too can meet their financial needs.

I look forward to continuing to work with my Banking Committee colleagues to legislatively enhance the safeguards and protections for seniors under the HECM program and to holding FHA's feet to the fire to ensure the program returns to solvency.

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[i] Based on the last independent actuarial showed a negative economic