Good afternoon. My name is Ira Goldstein and I am the Director of Policy and Information Services for The Reinvestment Fund (TRF). I am honored to be asked to comment on changes proposed for the FHA program and I hope that my remarks help you establish the framework for an FHA program that provides added individual and social benefit.

The organization of which I am part - TRF - is a national leader in the financing of neighborhood revitalization. Founded in 1985, TRF has invested $500 million in the creation and preservation of affordable housing, community facilities, commercial real estate, and renewable energy. Since inception we have financed the creation of more than 12,000 affordable housing units, 15,000 charter school slots, 4.3 million square feet of commercial space, and 250 businesses. We also have been actively involved in research related to various aspects of the housing market.

Our work in the areas of mortgage lending, foreclosure and predatory lending has been supported through grants from foundations, as well as contracts from local and state governmental entities. The research we do has both a strong data-based component, as well as a qualitative component that brings us personally in touch with people from all sectors of the mortgage lending process - from the borrower to the broker to the lender to the servicer and securitizer to the attorneys who represent borrowers and those who represent lenders to the Sheriffs who auction off properties on which homeowners are no longer paying their mortgage.

Homeownership is undeniably the critical component in the accumulation of wealth for most American families. Over the last 40 years, homeownership has risen from 63% in 1965 to 69% in 2005; the number of homeowners has risen from 36 million to 75 million - a 108% increase - over that same time. Much of that rise is among minority households and households of lower and moderate income. At the same time, typical home prices in the United States between 1968 and 2005 (or virtually any other period in between) rose substantially faster than inflation. So as a nation we have more people owning an asset that is yielding true appreciation.

Going forward, the demographic groups available to become homeowners are younger, lower income, and minority households. These are the groups currently with the lowest ownership rates. These are also households that statistically have least net worth.

So many who have recently and will in the future become owners are least able to weather the financial impact of a significant financial event such as often occurs with new homeowners.

I think that it is important to think of the proposed changes to the FHA in the larger social context of whether we're approaching (or have passed) the peak societal benefit of homeownership. As former Federal Reserve Governor Gramlich stated "There is a valid debate as to whether continuing to increase overall homeownership rates much further is feasible or even desirable."[1]

Legislation under consideration would seek to raise the home ownership rate through a variety of products and processes, essentially leveling the playing field so that FHA can effectively compete with the subprime mortgage market. One such change is zero-downpayment mortgages. That's important because so few Americans are saving and household debt service ratios are currently at such high levels. The evidence seems to be fairly clear that those zero-down loans have a much higher probability of failure. Our review of the foreclosures in the cities of Philadelphia and Baltimore and State of Delaware suggests that people who purchased homes with two mortgages - one covering the downpayment - were prominently represented among those in foreclosures. According to reports from Fitch Ratings, those products we now call "exotic" mortgages work well for higher net worth individuals seeking to manage their finances more advantageously; they are very risky for the person who is trying to afford a home for which they are only marginally qualified.

With respect to the proposal that FHA adopts a risk-based pricing approach, that is an idea that I think is certainly supportable - assuming that the models are properly conceived, developed and monitored. The problematic part of the risk-based pricing model is that the price only compensates the lender for the risk the borrower presents. In the end, assuming the model is correct, the lender and FHA can make money even if some borrowers default. But that assumes that no one other than the borrower and the lender matter. Research conducted by TRF and EConsult Corporation - commissioned by the Federal Reserve Bank of Philadelphia - shows that there is a statistically demonstrable

[1] Remarks by Governor Edward Gramlich at the Home Ownership Summit of the Local Initiatives Support Corporation (11.8.01).

adverse effect of mortgage foreclosures on local property markets. In fact, after applying an appropriate set of statistical controls, we found that each foreclosure within 1/8th of a mile of a sale and 1-2 years prior to that sale reduces the value of the home by one percent. In Philadelphia, the typical home sale has 4-5 foreclosures within the specified time and distance and so it is reduced by more than 5%. The implication of this is that everyone within the area has lost some of the wealth. This is not an argument against risk-based pricing; it is an argument to consider the social costs beyond those of the transaction.

My final point has to do with servicing. It is a well-settled fact that certain servicing and loss-mitigation techniques increase the likelihood that a delinquent loan returns to paying status (e.g., early intervention or reasonable access of borrowers to their servicers) - or that loss to the investor is minimized. The servicing and loss-mitigation efforts on FHA loans are not the best, and TRF's work with practitioners suggests that HUD has not enforced compliance with its current procedures. Even assuming they were complied with, the rules themselves are flawed. Pennsylvania's Homeowners' Emergency Mortgage Assistance Program (not currently available to people with FHA loans) is a remarkably successful example of a loss mitigation strategy that in the case of FHA could reduce claims against the FHA insurance pool. Servicing and loss mitigation takes on added importance if FHA expands its current customer base, as it is proposed. This legislative body can and should require accountability on the servicing and loss mitigation efforts on FHA loans to ensure that with the enhanced risk these new loans create that all efforts are made to keep the loans in a paying status. There will be a cost to an added servicing burden undoubtedly passed on to the consumer, but that cost would likely be justified by increasing the likelihood that a homeowner can keep their home through a financial hardship.

In closing, success is not just changing the rules so that FHA can originate more loans or compete with subprime lending. Success would be that FHA replaces those products within the subprime mortgage market that disadvantage borrowers, with products and processes that enhance the likelihood of sustainable homeownership.

Thank you.

TRF Capital at the point of impact.

Contact information for Ira Goldstein

Ira Goldstein, Ph.D.

Director, Policy and Information Services

The Reinvestment Fund

718 Arch Street

Suite 300 North

Philadelphia, PA 19106

215-574-5827 (Telephone)

215-574-5927 (Fax)

ira.goldstein@trfund.com