

Why H.R. 6694 is Good for Homebuyers and Our Economy

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 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.

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.

Loans Using Charitable DPA Gifts are 50% of FHA's Current Annual Volume - The advent of the private sector's subprime, 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.

Downpayment Assistance Is Permitted Under Law In Order to Meet FHA's 3% Downpayment Requirement - Charitable DPA allows FHA to reach the very populations it is meant to assist -- low and moderate income families and individuals. Current law permits potential FHA homebuyers to accept cash gifts from relatives, close friends, employers, labor unions, government entities, and charities to help make the required downpayment. HUD does not permit for-profit entities or sellers to provide downpayment assistance to HUD borrowers. However, since 1998, HUD has permitted 501(c)(3) charitable organizations to accept contributions from sellers and others involved in the real estate industry to provide what is referred to as "seller-based downpayment assistance." DPA is a charitable gift, not a loan.

DPA Program Is Specifically Designed to Meet FHA Borrower Needs - Charitable DPAs programs aid borrowers who have sufficient credit to qualify for government-backed loans 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 homebuyers. The DPA program was developed and designed to work with FHA's specific mortgage requirements to expand homeownership opportunities and serve the population of homebuyers that it is FHA's mission to serve - minority, low-income, and working families with limited access to capital.

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.