"USING FHA FOR HOUSING STABILIZATION AND HOMEOWNERSHIP RETENTION"

UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES

THE HONORABLE BARNEY FRANK, CHAIRMAN
THE HONORABLE SPENCER BACHUS, RANKING MEMBER

TESTIMONY OF ADRIAN M. FENTY
MAYOR
DISTRICT OF COLUMBIA

THURSDAY, APRIL 10, 2008

Chairman Frank, Ranking Member Bachus, Members of the Committee on Financial Services, my name is Adrian M. Fenty, and I am the Mayor of the District of Columbia. Thank you for inviting me to testify today on your proposal to reduce the foreclosures affecting people, and communities, throughout the nation.

You've no doubt heard from countless housing and economic experts as you crafted the legislation we're discussing today. But my fellow mayors and I are here today because at its core, this issue is not about numbers. It's not even about mortgages or interest rates. It's about people. Shelter is a basic human need, and my Administration hears every day from residents who need our help in keeping their homes.

So I would like to express my full support for your FHA Housing Stabilization and Homeownership Retention Act of 2008 and discuss some of the ways the bill would positively impact the people District of Columbia -- as well as the nation as a whole.

We must move quickly to shore up our national economy. We know that the effects of the subprime lending crisis have gone beyond housing to affect the economy as a whole. Here in the District, we are somewhat fortunate because the recent increase in foreclosures has been relatively modest. But the potential impact on our economic well-being is significant. The ripple effect of those foreclosures has been a tighter credit environment and declines in real property values. This is of great concern to me, and to other local elected leaders.

An October 2007 Joint Economic Committee (JEC) Report projected that "there will be approximately 1.3 million foreclosures and a loss of housing wealth of more than $103 billion through the end of 2009 (including approximately $71 billion in direct costs to homeowners and $32 billion in indirect costs), caused by the spillover affects of foreclosures."

As of last fall, residents of the District had more than 11,000 outstanding subprime loans and had experienced almost 2,000 subprime foreclosures. While this is a fairly low rate in comparison to many other states, the subprime lending crisis has still affected us quite severely -- through loss in home values, neighboring property values, and property tax revenues totaling over $257 million -- as predicted by the JEC. In addition, we cannot know how many of the 9,000 remaining subprime loans in the District will end up in foreclosure.

Our local government offers dedicated mortgage default and potential foreclosure counseling to clients who have fallen behind in their mortgage payments. As demand for this type of individual counseling has increased over

the past year, some counselors have increased their services in response by providing specific foreclosure prevention "clinics" that are advertised in the community.

The FHA Housing Stabilization and Homeownership Retention Act of 2008 would help District residents by offering direct assistance to homeowners in foreclosure and providing us with additional resources to support our existing affordable housing programs, especially those that use vacant or foreclosed properties. The legislation would also slow the rate of foreclosures regionally and nationally, along with their potentially devastating ripple effects.

Expanded FHA Refinance for Individual Borrowers

In the District, we have two homebuyer assistance programs -- the Housing Purchase Assistance Program (HPAP) and the Employer Assisted Housing Program (EAHP). We have found that first-time homebuyers who took part in these programs have not fallen victim to the current mortgage foreclosure crisis at the same levels as other jurisdictions. We believe this is because all participants go through a comprehensive homebuyer training program. Also, the loan processors for these programs evaluate the borrower's *entire* home financing package—not just the District's second trust loan—and restrict borrowers from entering into home mortgage assistance that would be detrimental in the long term.

Still, for other residents of the District who are not first-time homebuyers or have purchased their homes without government assistance, the expanded HFA-Refinance options provided in your bill would be a very helpful addition. We still have many people living under the weight of subprime mortgages and in danger of mortgage foreclosure.

Loans and Grants to States for Foreclosure Relief/Mitigation

The bill's proposed Loans and Grants program also would be of tremendous assistance to the District. The scarcity of affordable housing has been a crisis for quite some time in our city. So we have already recognized the need for funding tools such as this one, to address current market conditions and create the potential for new affordable housing development. In the District's Fiscal Year 2009 budget, I have proposed purchasing vacant land and buildings, including foreclosed properties, for affordable housing. The local funding I have proposed would allow the District Government to purchase up to 75 such single family properties. The federal funding proposed in your legislation would allow us to significantly expand our efforts to restore foreclosed properties to productive use, having an even greater impact on our critical shortage of affordable housing.

The Loans and Grants program would also greatly benefit the District's "Home Again" Program. This program was established in 2002 to acquire and convert vacant and abandoned residential properties into homeownership opportunities for residents, while eliminating urban blight. This program uses a write-down of land value to subsidize affordable housing development in high cost areas. Using local funds, we plan to create approximately 100 new homeownership opportunities in Fiscal Year 2009 through this program. With the additional federal support provided in this bill, we would be able to increase the number of affordable housing units we make available.

The proposed Loans and Grants program would also support existing programs at the DC Housing Finance Agency. These include workforce housing assistance, simplified financing for developers of affordable housing, and below-market-rate mortgages for families.

Chairman Frank, committee members, I have often said that the future of this country is in its cities. It is in the nation's cities that you will find models of diversity, sustainability and productivity. For our cities to thrive, we must protect the residents who live in them. I want to thank you for your efforts toward that end with the FHA Housing Stabilization and Homeownership Retention Act of 2008.

This concludes my prepared remarks. I'd like to thank you again for the opportunity to testify today, and I am more than happy to answer any questions.