SUMMARY OF FINANCIAL SERVICES COMMITTEE HOUSING RESCUE PACKAGE

Everyone—homeowners, lenders, neighborhoods, indeed our entire economy is worse off when a foreclosure occurs and when significant quantities of homes are foreclosed in a short amount of time. The Housing package we are considering this week is both rescue-oriented and forward-looking, responding directly to the current crisis facing middle class Americans while providing the tools to prevent a repeat of these problems. Modernizing the FHA and reforming the GSEs will provide crucial liquidity to our mortgage markets now, and strengthen regulation and oversight for the future. These measures, which have bipartisan support, will begin to repair the economy, restore confidence in the markets, limit the damage to families and neighborhoods, and help build new affordable housing.

Title I - The FHA Housing Stabilization and Homeownership Retention Act. Creates a voluntary FHA program to provide mortgage refinancing assistance to allow families to stay in their homes, protect neighborhoods, and help stabilize the housing market.

- **Program**. If the current lender agrees to take a substantial write-down on the existing mortgage, the FHA lender will pay off the current lender and issue to the borrower a new FHA-insured mortgage at that lower amount.
- **Profit Sharing**. To help defray the government's costs and prevent unjust enrichment (e.g., borrower flipping), will require the borrower to share with the government a substantial portion of any profits from selling or refinancing the house.
- **No Speculators**. Only owner-occupied primary residences will qualify for the program, which also contains protections to exclude persons who have committed mortgage fraud.
- **Risk Reduction**. To further protect the government:
    - the FHA will charge higher fees to build up a loss reserve;
    - the new FHA loan will substantially reduce the borrower's monthly payments, thus reducing default and foreclosure risk; and
    - in addition to other underwriting requirements, riskier borrowers must make at least 6 months of payments at the new rate before closing on the new FHA mortgage.
- **Sunset**. Program expires in 2 years (with possible 6-month extensions not to exceed 2 years).
- **Additional Provisions**. Creates an Office of Housing Counseling within HUD and authorizes additional FBI and DOJ funds to combat mortgage fraud.

Title II – FHA Modernization

- **Loan Limits**. Makes permanent the temporary FHA loan limit increases in the economic stimulus bill, setting FHA limits at the lower of (a) 125% of the local area median home price, or (b) 175% of the nationwide GSE conforming limit.
- **Fee Protections for lower income and lower credit borrowers**. Directs HUD to serve borrowers with slightly higher credit risk, raises fees to cover the additional risk, and provides for a refund if borrower makes five years of on-time payments
- **Reverse Mortgages.** Expands FHA reverse mortgage loan program by authorizing a nationwide loan limit equal to 132% of the current GSE conforming loan limit; capping and reducing loan origination fees; and adding consumer protections.
- **FHA Personal Property Manufactured Home Loans.** Modernizes and rejuvenates the FHA manufactured loan program for personal property manufactured homes.
- **FHA Condo and Manufactured Home Loans.** Makes changes to rules to make these loans more flexible, while retaining basic underwriting protections.
- **Maximum FHA Loan Term.** Extends the maximum FHA term from 35 to 40 years
- **Integrity of Appraisals.** Strengthens protections against inflated appraisals, authorizing penalties on parties to FHA loans who improperly try to influence appraisal values
- **Borrowers Lacking Sufficient Credit History.** Creates a pilot program for credit-worthy borrowers that lack a credit history through the normal credit reporting process.
- **Down Payment Simplification.** Simplifies the basic FHA down payment calculation, while generally preserving the current FHA loan to value (LTV) levels.

- **Foreclosed FHA Multifamily Properties.** Preserves the affordability of such properties, by requiring FHA to use accurate appraisals reflecting the cost of rehabilitating the units

Title III - Government Sponsored Enterprise (GSE) Reform. Includes the House-passed bill to reform prudential and mission oversight of Fannie Mae, Freddie Mac, and the 12 Federal Home Loan Banks (the "GSEs").

- **Strong Independent Regulator**. Brings GSEs under a single independent regulator with broad safety and soundness powers, including conservatorship and receivership authority.
- **Enhanced Housing Mission**. Enhances Fannie Mae and Freddie Mac's housing mission through improvements in targeting of their affordable housing goals and duties in underserved markets.
- **New Affordable Housing Fund**. Establishes a new affordable housing fund modeled on the Affordable Housing Programs of the Federal Home Loan Banks.
- **Increased Loan Limits**. Makes permanent the increases in conforming loan limits included in the Economic Stimulus Act of 2008. Limits in high cost areas would be set based on area, rather than national prices, with conforming loan limits for each area set at 125% of the local area median (capped at 175% of the national median).

Title IV – Castle/Kanjorski Facilitation of Loan Modifications. HR 5579, The Emergency Loan Modification Act of 2008, adopted by the Financial Services Committee on April 23, 2008

- **Provides clarity for servicers**, consistent with existing servicing contracts, about their duties when making loan modifications for troubled mortgages.
- **Provides protection from investor lawsuits** to servicers who make specified long-term loan modifications.
- **Intended to encourage the use of loan modifications** to keep families in their homes.
- **Does not limit other loss mitigation efforts** by servicers, and does not prevent borrowers from pursuing claims against lenders, services, or others involved in the mortgage process.

Title V – Miscellaneous Housing Provisions

- **Protecting Disabled Veterans in Bankruptcy from Discrimination**. Ensures that a governmental unit that has a mortgage loan program may not deny a disabled veteran the benefits of such program because the veteran is or was a bankruptcy debtor. The Bankruptcy Code currently prohibits various forms of discrimination against bankruptcy debtors by governmental units and others, including a denial of a student grant, loan, loan guarantee, or loan insurance to someone because he or she is or was a bankruptcy debtor.
- **Public Welfare Investments**. The bill broadens the types of permissible public welfare investments for national and state member banks, restoring the pre-2006 standard for eligible types of affordable housing and community and economic development investments. It also grants thrifts similar authority to make public welfare investments of up to 15 percent of their capital and surplus.
- **Starrett City Housing Development.** The provision would help maintain affordability at Starrett City, a 5,880 unit development in East New York. It would convert the Section 8 and RAP contracts to a project-based section 8 contract, allowing the owners to get higher rents while protecting tenants from paying higher rents or being displaced.
- **Housing Preservation. Rep. Markey -** Makes certain low-income tenants of the Heritage Apartments in Malden, Massachusetts eligible for enhanced housing vouchers after prepayment of a HUD mortgage and subsequent ownership transfer of the property. **Rep. Pryce** - Allows for the transfer of Section 8 Housing Assistance Payment contracts in Columbus, Ohio.

Title VI - The Housing Assistance Authorization Act

- Authorizes funds for the National Urban League, the LaRaza Development Fund, the Housing Partnership Network and the National Community Renaissance Program ($5 million each in 2008 and $10 million in 2009 and 2010) for technical and financial assistance for community and affordable housing development, serving low- and moderate income households.