116TH CONGRESS
1st Session

HOUSE OF REPRESENTATIVES

REPORT
116–282

FHA LOAN AFFORDABILITY ACT OF 2019

NOVEMBER 12, 2019.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Ms. WATERS, from the Committee on Financial Services, submitted the following

R E P O R T

together with

MINORITY VIEWS

[To accompany H.R. 3141]

[Including cost estimate of the Congressional Budget Office]

The Committee on Financial Services, to whom was referred the bill (H.R. 3141) to limit the collection of annual premiums under the FHA program for mortgage insurance for single family housing, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

CONTENTS

99–006

The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "FHA Loan Affordability Act of 2019".

SEC. 2. ANNUAL PREMIUMS.

(a) IN GENERAL.—Paragraph (2) of section 203(c) of the National Housing Act (12 U.S.C. 1709(c)(2)) is amended—

(1) in subparagraph (B)—

(A) in clause (i), by striking "For any" and inserting "Subject to subparagraph (D), for any"; and

(B) in clause (ii), by striking "For any" and inserting "Subject to subparagraph (D), for any";

(2) in subparagraph (C)(i), by striking "In addition" and inserting "Subject to subparagraph (D), in addition"; and

(3) by adding at the end the following new subparagraph:

"(D) The Secretary may not collect any annual premiums under this paragraph with respect to a mortgage at any time that the remaining insured principal balance (excluding the portion of the remaining balance attributable to the premium collected under subparagraph (A)) is 78 percent or less than the lower of (i) the sales price of the dwelling at the sale in connection with which the mortgage was made, or (ii) the appraised value of the dwelling at the time of the origination of the mortgage.".

(b) APPLICABILITY.—The amendments made by subsection (a) of this section shall apply with respect only to mortgages insured by the Secretary of Housing and Urban Development after the date of the enactment of this Act.

PURPOSE AND SUMMARY

On June 5, 2019, Representative Dean Phillips introduced H.R. 3141, the "FHA Loan Affordability Act," a bill that repeals the requirement that Federal Housing Administration (FHA) borrowers pay mortgage insurance premiums for the life of the loan and reinstates the FHA's previous policy of requiring borrowers to pay premiums until the outstanding principal balance reaches 78 percent of the original home value.

BACKGROUND AND NEED FOR LEGISLATION

Under current law, private mortgage insurers are required to cancel premiums once the outstanding principal balance reaches 78 percent of the original home value.[1] Prior to 2013, FHA was aligned with the private mortgage insurance industry in charging premiums only until the outstanding principal balance reached 78 percent of the original home value. On June 3, 2013, the FHA began requiring its borrowers to pay mortgage insurance premiums for the life of the loan.[2] As a result, FHA borrowers, who are disproportionately low income, minority, and first-time homebuyers, may pay more in premiums over time than non-FHA borrowers.

FHA contends that the change in its policy was consistent with its efforts to strengthen the Mutual Mortgage Insurance Fund (MMIF), which had dipped below the statutorily mandated capital ratio of 2 percent during Fiscal Year (FY) 2009 in the wake of the financial crisis. However, FHA has reached and exceeded the capital ratio requirement for four consecutive years, beginning in FY 2015, and is in strong financial health.[3]

[1] Section 3, Homeowners Protection Act of 1998, Pub. Law 105–216, 12 USC 4902(b)

[2] U.S. Department of Housing and Urban Development, Mortgagee Letter 2013–04, January 31, 2013.

[3] FHA, "Annual Report to Congress Regarding the Financial Status of the Mutual Mortgage Insurance Fund," FY 2018.

While refinancing an FHA loan once it reaches the 78 percent threshold is an option that enables borrowers to avoid paying annual premiums, refinancing may not make sense if interest rates are significantly higher than the loan's current rate. Refinancing also involves substantial transaction costs that not all families can afford. To the extent that FHA borrowers with the financial means may opt to refinance out of FHA loans, this trend could negatively affect the financial strength of the MMIF because borrowers with lower credit risks would leave the portfolio. In fact, after FHA instituted its life of loan policy in 2013, its loan retention rate fell from about 50 percent to a current rate of 15 percent.[4]

The following organizations support this bill: The National Association of Realtors (NAR), the National Association of Real Estate Brokers (NAREB), the National Association of Hispanic Real Estate Professionals (NAHREP), the Community Home Lenders Association (CHLA), the National Consumer Law Center (NCLC) (on behalf of its low-income clients), the National Housing Conference (NHC), the National Community Reinvestment Coalition (NCRC), and the California Reinvestment Coalition (CRC).

SECTION-BY-SECTION ANALYSIS

Section 1. Short title

This section states that the title of the bill is the "FHA Loan Affordability Act of 2019."

Section 2. Annual premiums

This section prohibits the Secretary of HUD from collecting annual mortgage insurance premiums from borrowers whose remaining insured principal balance is at or below 78 percent of either the sale price of the home when the mortgage was made, or the appraised home value at the time of mortgage origination, whichever is lower.

HEARINGS

For the purposes of section 103(i) of H. Res. 6 for the 116th Congress, the Committee on Financial Services held a hearing to consider a draft version of H.R. 3141 entitled, "A Review of the State of and Barriers to Minority Homeownership" on May 8, 2019. Testifying before the Committee were Alanna McCargo, Vice President, Housing Finance Policy, the Urban Institute; Nikitra Bailey, Executive Vice President, Center for Responsible Lending; Joseph Nery, Partner, Nery & Richardson LLC and Past President of the National Association of Hispanic Real Estate Professionals (NAHREP), current National Board Member; Jeffrey Hicks, President, National Association of Real Estate Brokers; Carmen Castro-Conroy, Managing Counselor, Montgomery County, Housing Initiative Partnership, Inc.; JoAnne Poole, 2019 Vice Chair, Multicultural Real Estate Leadership Advisory Group, National Association of Realtors; and Joel Griffith, Research Fellow, Financial Regulations, the Heritage Foundation

[4] National Mortgage News, "Opinion: Holistic approach needed to fix vital federal mortgage programs," May 17, 2019.

COMMITTEE CONSIDERATION

The Committee on Financial Services met in open session on June 11, 2019 and ordered H.R. 3141 to be reported favorably to the House with an amendment in the nature of a substitute by a vote of 34 yeas and 25 nays, a quorum being present.

COMMITTEE VOTES AND ROLL CALL VOTES

In compliance with clause 3(b) of rule XIII of the Rules of the House of Representatives, the Committee advises that the following roll call votes occurred during the Committee's consideration of H.R. 3141.

Present	Representatives	Ayes	Nays
	Ms. Waters, *Chairwoman*	X	
	Mrs. Maloney	X	
	Ms. Velázquez	X	
	Mr. Sherman	X	
	Mr. Meeks	X	
	Mr. Clay	X	
	Mr. Scott	X	
	Mr. Green	X	
	Mr. Cleaver	X	
	Mr. Perlmutter	X	
	Mr. Himes	X	
	Mr. Foster	X	
	Mrs. Beatty	X	
	Mr. Heck	X	
	Mr. Vargas	X	
	Mr. Gottheimer	X	
	Mr. Gonzalez (TX)	X	
	Mr. Lawson	X	
	Mr. San Nicolas		
	Ms. Tlaib	X	
	Ms. Porter	X	
	Ms. Axne	X	
	Mr. Casten	X	
	Ms. Pressley	X	
	Mr. McAdams	X	
	Ms. Ocasio-Cortez	X	
	Ms. Wexton	X	
	Mr. Lynch	X	
	Ms. Gabbard	X	
	Ms. Adams	X	
	Ms. Dean	X	
	Mr. Garcia (IL)	X	
	Ms. Garcia (TX)	X	
	Mr. Phillips	X	
33			
	Mr. McHenry, *Ranking Member*		X
	Ms. Wagner		X
	Mr. King		X
	Mr. Lucas		X
	Mr. Posey	X	
	Mr. Luetkemeyer		X
	Mr. Huizenga		X
	Mr. Duffy		X
	Mr. Stivers		X
	Mr. Barr		X
	Mr. Tipton		X
	Mr. Williams		X
	Mr. Hill		X
	Mr. Emmer		X
	Mr. Zeldin		X
	Mr. Loudermilk		X
	Mr. Mooney		X
	Mr. Davidson		X
	Mr. Budd		X
	Mr. Kustoff		X
	Mr. Hollingsworth		X
	Mr. Gonzalez (OH)		X
	Mr. Rose		X
	Mr. Steil		X
	Mr. Gooden		X
	Mr. Riggleman		X
26			

Committee on Financial Services
Full Committee
116th Congress (1st Session)

Date:____ 6/11/2019

Measure _ HR 3141 as amended

Vote on Final passage

Offered by: Phillips

Agreed To	Yes	No	Prsnt	Wdrn
Voice Vote	Ayes		Nays	

Record Vote	FC
	34-25

STATEMENT OF OVERSIGHT FINDINGS AND RECOMMENDATIONS OF THE COMMITTEE

In compliance with clause 3(c)(1) of rule XIII and clause 2(b)(1) of rule X of the Rules of the House of Representatives, the Committee's oversight findings and recommendations are reflected in the descriptive portions of this report.

STATEMENT OF PERFORMANCE GOALS AND OBJECTIVES

Pursuant to clause (3)(c) of rule XIII of the Rules of the House of Representatives, the goals of H.R. 3141 are to make FHA loans for affordable by repealing the requirement that FHA borrowers pay mortgage insurance premiums for the life of the loan and reinstating the FHA's previous policy of requiring borrowers to pay premiums until the outstanding principal balance reaches 78 percent of the original home value.

NEW BUDGET AUTHORITY AND CBO COST ESTIMATE

Pursuant to clause 3(c)(2) of rule XIII of the Rules of the House of Representatives and section 308(a) of the Congressional Budget Act of 1974, and pursuant to clause 3(c)(3) of rule XIII of the Rules of the House of Representatives and section 402 of the Congressional Budget Act of 1974, the Committee has received the following estimate for H.R. 3141 from the Director of the Congressional Budget Office:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, June 28, 2019.

Hon. MAXINE WATERS,
Chairwoman, Committee on Financial Services,
House of Representatives, Washington, DC.

DEAR MADAM CHAIRWOMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 3141, the FHA Loan Affordability Act of 2019.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Robert Reese.

Sincerely,

MARK P. HADLEY
(For Phillip L. Swagel, Director).

Enclosure.

At a Glance

H.R. 3141, FHA Loan Affordability Act of 2019

As ordered reported by the House Committee on Financial Services on June 11, 2019

By Fiscal Year, Millions of Dollars	2019	2019-2024	2019-2029
Direct Spending (Outlays)	0	0	0
Revenues	0	0	0
Deficit Effect	0	0	0
Spending Subject to Appropriation (Outlays)	0	13,910	n.e.

Statutory pay-as-you-go procedures apply?	No	**Mandate Effects**	
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2030?	No	Contains intergovernmental mandate?	No
		Contains private-sector mandate?	No

n.e. = not estimated.

The bill would

- Require the Federal Housing Administration to end a borrower's annual mortgage insurance premiums when the outstanding mortgage principal balance falls below 78 percent of the property value that was determined when the mortgage was issued
- Apply that requirement to mortgages insured after enactment of H.R. 3141

Estimated budgetary effects would primarily stem from

- Reducing the insurance premiums collected by the Federal Housing Administration and the Government National Mortgage Association

Areas of significant uncertainty include

- Accurately projecting how demand for Federal Housing Administration mortgage insurance would change under the bill

Detailed estimate begins on the next page.

Bill summary: H.R. 3141 would require the Federal Housing Administration (FHA) to stop charging annual mortgage insurance premiums to borrowers whose outstanding principal balance falls below 78 percent of what the property's value was at the time of the mortgage origination (such a ratio is commonly referred to as a loan to value ratio or LTV). The changes made by the bill would affect mortgages insured by FHA after enactment of H.R. 3141.

Estimated federal cost: The estimated budgetary effect of H.R. 3141 is shown in Table 1. The costs of the legislation fall within budget function 370 (commerce and housing credit).

TABLE 1.—ESTIMATED INCREASES IN SPENDING SUBJECT TO APPROPRIATION UNDER H.R. 3141

	By fiscal year, millions of dollars—						
	2019	2020	2021	2022	2023	2024	2019–2024
FHA Insurance:							
Estimated Authorization	0	2,260	2,590	2,950	3,160	3,410	14,370
Estimated Outlays	0	2,260	2,590	2,950	3,160	3,410	14,370
Ginnie Mae:							
Estimated Authorization	0	−95	−80	−90	−95	−100	−460
Estimated Outlays	0	−95	−80	−90	−95	−100	−460
Total Changes: [a]							
Estimated Authorization	0	2,165	2,510	2,860	3,065	3,310	13,910

TABLE 1.—ESTIMATED INCREASES IN SPENDING SUBJECT TO APPROPRIATION UNDER H.R. 3141—Continued

	By fiscal year, millions of dollars—						
	2019	2020	2021	2022	2023	2024	2019–2024
Estimated Outlays	0	2,165	2,510	2,860	3,065	3,310	13,910

FHA = Federal Housing Administration; Ginnie Mae = Government National Mortgage Association
[a] Using the fair-value approach, CBO estimates that implementing H.R. 3141 would increase costs to FHA and Ginnie Mae by $20.7 billion over the 2020–2024 period. As shown in the table, using a FCRA approach, CBO estimates that implementing H.R. 3141 would decrease offsetting collections generated by FHA and Ginnie Mae by about $ 13.9 billion over the 2020–2024 period

Basis of estimate: For this estimate, CBO assumes that H.R. 3141 will be enacted near the end of fiscal year 2019 before fiscal year 2020 appropriations for FHA have been enacted but late enough in the year that it will not apply to mortgage guarantees made in 2019. If H.R. 3141 were enacted after 2020 appropriations were completed it would increase direct spending. For this estimate, CBO also assumes that future appropriation acts will authorize FHA to increase the amount of mortgage guarantees it provides by an amount sufficient to meet the increased demand for mortgage guarantees under the bill.

Background: FHA provides mortgage insurance for the purchase, refinance, and rehabilitation of single-family homes and charges up-front and annual premiums to mortgagors. Those premiums are classified in the budget as offsetting collections, and reduce spending subject to appropriation. Under current law, FHA requires borrowers to pay annual mortgage insurance premiums for the life of the loan for mortgages that have initial LTVs greater than 90 percent. For mortgages with initial LTVs less than 90 percent, borrowers must pay annual premiums for the first 11 years of the mortgage term.

To estimate the budgetary effects of loan guarantees, CBO uses the methodology specified in the Federal Credit Reform Act (FCRA). On that basis, CBO estimates that the net present value of the premiums collected by FHA for all mortgage guarantees under current law will exceed the cost of any default losses on the insured loans in each year.[1] Currently, CBO estimates that FHA's insurance program will have a subsidy rate of −2.69 percent in 2020. A negative subsidy occurs when the net present value of all premiums charged for a loan guarantee is greater than the estimated default costs associated with that guarantee.

The Government National Mortgage Association (Ginnie Mae) guarantees securities backed by pools of mortgages that are insured by federal agencies such as FHA. Typically, 93 percent of FHA mortgages are pooled into mortgage-backed securities (MBSs) and guaranteed by Ginnie Mae in the first few months after they are originated. In exchange for the Ginnie Mae guarantee, issuers pay a fee on the pooled mortgages that back those securities. CBO estimates that the net present value of the fees collected by Ginnie Mae will exceed the cost of any default losses on those securities in each year. Using the methodology specified in FCRA, CBO esti-

[1] A present value expresses a flow of past and future income or payments as a single amount received or paid at a specific time. The value depends on the rate of interest, known as the discount rate, used to translate past and future cash flows into current dollars at that time. The budgetary effects for FHA's guarantees are calculated under procedures specified in FCRA. Under FCRA, projected future cash flows are discounted to the present using interest rates on Treasury Securities.

mates that Ginnie Mae's MBS program will have a subsidy rate of −0.29 percent in 2020.

Spending subject to appropriation: CBO estimates that implementing H.R. 3141 would increase discretionary spending by reducing the offsetting collections attributed to FHA mortgage insurance by about $14.4 billion over the 2020–2024 period. The bill also would increase Ginnie Mae's offsetting collections by $460 million over that same period—leading to a net increase in discretionary spending of $13.9 billion over the 2020–2024 period.

FHA Insurance. CBO estimates that enacting H.R. 3141 would have two effects on the FHA program. First by limiting the time period that annual premiums can be charged, H.R. 3141 would lower the lifetime collections of premiums that FHA would receive from many borrowers. Under current law the majority of FHA mortgages for newly purchased properties will reach an LTV of 78 percent after about 11 years and FHA guarantees of refinanced mortgages will reach that level more quickly. Accounting for the shorter period of time that such annual premiums would be charged, CBO estimates that implementing H.R. 3141 would increase FHA's mortgage insurance program's subsidy rate to −1.38 percent in 2020. Over the 2021–2024 period CBO estimates that the FHA subsidy rate would increase by a commensurate amount relative to our current law projections in each year.

Second, CBO estimates that limiting the period that FHA could charge annual premiums would increase demand for FHA mortgage insurance relative to mortgages backed by private mortgage insurance and result in a surge in refinancing of existing FHA mortgages. Using information about the change in demand for FHA guaranteed mortgages that stemmed from previous changes to annual premiums, CBO estimates that implementing H.R. 3141 would shift about $160 billion worth of mortgage volume from the private market to FHA over the 2020–2024 period. For comparison, in 2018 FHA guaranteed mortgages worth $209 billion and CBO estimates that the private market guaranteed about $280 billion worth of mortgages. Furthermore, CBO estimates there also would be a one-time increase in refinancings of FHA mortgages issued prior to enactment of H.R. 3141 so that those borrowers could receive the more favorable insurance premium treatment. Using information on refinancing practices associated with prior FHA rate changes, CBO estimates that implementing H.R. 3141 would lead to an increase in such refinancing totaling $10 billion in 2020.

Taking into account the estimated increase in both subsidy rate and volume of FHA insured mortgages, CBO estimates that implementing H.R. 3141 would decrease discretionary offsetting collections (and thus increase discretionary costs) from the FHA mortgage insurance program by about $14.4 billion over the 2020–2024 period.

Ginnie Mae. The estimated increase in FHA loan volume would increase the amount of mortgages that could be securitized by Ginnie Mae. Under H.R. 3141, CBO estimates that 93 percent of the additional FHA mortgages would be included in Ginnie Mae's MBS program. Because H.R. 3141 would not change the fees charged by Ginnie Mae, CBO's estimated subsidy rate for Ginnie Mae (−0.29 percent over the 2020–2024 period) would not change. CBO expects that Ginnie Mae would guarantee 93 percent of the

$170 billion worth of additional FHA loan volume that CBO estimates would occur over the 2020–2024 period under the bill. On that basis, CBO estimates that implementing the bill would increase offsetting collections (and thus reduce discretionary costs) from Ginnie Mae's MBS program by $460 million over the 2020–2024 period.

Uncertainty: This estimate is uncertain because it is hard to predict how responsive the demand for FHA insurance would be to the changes made by H.R. 3141. If the lower premiums under the bill would increase demand for FHA mortgages by more than CBO estimates, there would be a larger increase in volume and the cost of H.R. 3141 would be lower. Conversely, if the lower premiums affected demand to a lesser extent than CBO estimates, there would be a smaller increase in volume and a higher cost to H.R. 3141.

Alternative budgetary treatment: The estimated cost of H.R. 3141 depends on the method used to calculate the subsidy rate for mortgages insured by FHA. Under current law, the budgetary effects of FHA's mortgage insurance program are measured in the budget according to the procedures established in FCRA. However, as required by S. Con. Res 71, the Concurrent Resolution on the Budget for Fiscal Year 2018, CBO also has prepared a cost estimate for H.R. 3141 using a fair-value approach to estimating the budgetary effect on FHA.

The fair-value approach is an alternative to the approach specified in FCRA. Both approaches rely on the same projections of future cash flows for guarantee programs, and both account for the lifetime cost of the new guarantees made in a given year (including the expected cost of losses net of fees collected). The fair-value estimates differ from FCRA estimates by recognizing that the government's assumption of financial risk has a cost that exceeds the average amount of losses that would be expected from defaults. The higher financial risk is reflected in higher fees private entities charge for similar guarantees on the basis of market prices. In practice, the main difference between FCRA estimates and fair-value estimates is the discount rate used to calculate the present value of estimated future guarantee costs and receipts. Fair-value estimates use higher discount rates that incorporate a premium for market risk.

Using the fair-value approach, CBO estimates that implementing H.R. 3141 would increase costs to FHA and Ginnie Mae by about $20.7 billion over the 2020–2024 period.

Pay-As-You-Go considerations: None.

Increase in long-term deficits: None.

Mandates: None.

Estimate prepared by: Federal costs: Robert Reese; Mandates: Rachel Austin.

Estimate reviewed by: Kim P. Cawley, Chief, Natural and Physical Resources Cost Estimates Unit; H. Samuel Papenfuss, Deputy Assistant Director for Budget Analysis; Theresa Gullo, Assistant Director for Budget Analysis.

COMMITTEE COST ESTIMATE

Clause 3(d)(1) of rule XIII of the Rules of the House of Representatives requires an estimate and a comparison of the costs that would be incurred in carrying out H.R. 3141. However, clause

3(d)(2)(B) of that rule provides that this requirement does not apply when the committee has included in its report a timely submitted cost estimate of the bill prepared by the Director of the Congressional Budget Office under section 402 of the *Congressional Budget Act*.

UNFUNDED MANDATE STATEMENT

Pursuant to Section 423 of the *Congressional Budget and Impoundment Control Act* (as amended by Section 101(a)(2) of the *Unfunded Mandates Reform Act*, Pub. L. 104–4), the Committee adopts as its own the estimate of federal mandates regarding H.R. 3141, as amended, prepared by the Director of the Congressional Budget Office.

ADVISORY COMMITTEE

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

APPLICATION OF LAW TO THE LEGISLATIVE BRANCH

Pursuant to section 102(b)(3) of the *Congressional Accountability Act*, Pub. L. No. 104–1, H.R. 3141, as amended, does not apply to terms and conditions of employment or to access to public services or accommodations within the legislative branch.

EARMARK STATEMENT

In accordance with clause 9 of rule XXI of the Rules of the House of Representatives H.R. 3141 does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits as described in clauses 9(e), 9(f), and 9(g) of rule XXI.

DUPLICATION OF FEDERAL PROGRAMS

Pursuant to clause 3(c)(5) of rule XIII of the Rules of the House of Representatives, the Committee states that no provision of H.R. 3141 establishes or reauthorizes a program of the Federal Government known to be duplicative of another federal program, a program that was included in any report from the Government Accountability Office to Congress pursuant to section 21 of Public Law 111–139, or a program related to a program identified in the most recent Catalog of Federal Domestic Assistance.

CHANGES TO EXISTING LAW

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, H.R. 3141, as reported, are shown as follows:

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, and existing law in which no change is proposed is shown in roman):

NATIONAL HOUSING ACT

* * * * * * *

TITLE II—MORTGAGE INSURANCE

* * * * * * *

INSURANCE OF MORTGAGES

SEC. 203. (a) The Secretary is authorized, upon application by the mortgagee, to insure as hereinafter provided any mortgage offered to him which is eligible for insurance as hereinafter provided, and, upon such terms as the Secretary may prescribe, to make commitments for the insuring of such mortgages prior to the date of their execution or disbursement thereon.

(b) To be eligible for insurance under this section a mortgage shall comply with the following:

(1) Have been made to, and be held by, a mortgagee approved by the Secretary as responsible and able to service the mortgage properly.

(2) Involve a principal obligation (including such initial service charges, appraisal, inspection, and other fees as the Secretary shall approve) in an amount—

(A) not to exceed the lesser of—

(i) in the case of a 1-family residence, 115 percent of the median 1-family house price in the area, as determined by the Secretary; and in the case of a 2-, 3-, or 4-family residence, the percentage of such median price that bears the same ratio to such median price as the dollar amount limitation determined under the sixth sentence of section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act (12 U.S.C. 1454(a)(2)) for a 2-, 3-, or 4-family residence, respectively, bears to the dollar amount limitation determined under such section for a 1-family residence; or

(ii) 150 percent of the dollar amount limitation determined under the sixth sentence of such section 305(a)(2) for a residence of applicable size;

except that the dollar amount limitation in effect under this subparagraph for any size residence for any area may not be less than the greater of: (I) the dollar amount limitation in effect under this section for the area on October 21, 1998; or (II) 65 percent of the dollar amount limitation determined under the sixth sentence of such section 305(a)(2) for a residence of the applicable size; and

(B) not to exceed 100 percent of the appraised value of the property.

For purposes of the preceding sentence, the term "area" means a metropolitan statistical area as established by the Office of Management and Budget; and the median 1-family house price for an area shall be equal to the median 1-family house price of the county within the area that has the highest such median price.

Notwithstanding any other provision of this paragraph, the amount which may be insured under this section may be increased by up to 20 percent if such increase is necessary to account for the increased cost of the residence due to the installation of a solar energy system (as defined in subparagraph (3) of the last paragraph of section 2(a) of this Act) therein.

Notwithstanding any other provision of this paragraph, the Secretary may not insure, or enter into a commitment to insure, a mortgage under this section that is executed by a first-time homebuyer and that involves a principal obligation (including such initial service charges, appraisal, inspection, and other fees as the Secretary shall approve) in excess of 97 percent of the appraised value of the property unless the mortgagor has completed a program of counseling with respect to the responsibilities and financial management involved in homeownership that is approved by the Secretary; except that the Secretary may, in the discretion of the Secretary, waive the applicability of this requirement.

(3) Have a maturity satisfactory to the Secretary, but not to exceed, in any event, thirty-five years (or thirty years if such mortgage is not approved for insurance prior to construction) from the date of the beginning of amortization of the mortgage.

(4) Contain complete amortization provisions satisfactory to the Secretary requiring periodic payments by the mortgagor not in excess of his reasonable ability to pay as determined by the Secretary.

(5) Bear interest at such rate as may be agreed upon by the mortgagor and the mortgagee.

(6) Provide, in a manner satisfactory to the Secretary, for the application of the mortgagor's periodic payments (exclusive of the amount allocated to interest and to the premium charge which is required for mortgage insurance as hereinafter provided) to amortization of the principal of the mortgage.

(7) Contain such terms and provisions with respect to insurance, repairs, alterations, payment of taxes, default reserves, delinquency charges, foreclosure proceedings, anticipation of maturity, additional and secondary liens, and other matters as the Secretary may in his discretion prescribe.

(9) CASH INVESTMENT REQUIREMENT.—

(A) IN GENERAL.—A mortgage insured under this section shall be executed by a mortgagor who shall have paid, in cash or its equivalent, on account of the property an amount equal to not less than 3.5 percent of the appraised value of the property or such larger amount as the Secretary may determine.

(B) FAMILY MEMBERS.—For purposes of this paragraph, the Secretary shall consider as cash or its equivalent any amounts borrowed from a family member (as such term is defined in section 201), subject only to the requirements that, in any case in which the repayment of such borrowed amounts is secured by a lien against the property, that—

(i) such lien shall be subordinate to the mortgage; and

(ii) the sum of the principal obligation of the mortgage and the obligation secured by such lien may not exceed 100 percent of the appraised value of the property plus any initial service charges, appraisal, inspection, and other fees in connection with the mortgage.

(C) PROHIBITED SOURCES.—In no case shall the funds required by subparagraph (A) consist, in whole or in part, of funds provided by any of the following parties before, during, or after closing of the property sale:

(i) The seller or any other person or entity that financially benefits from the transaction.

(ii) Any third party or entity that is reimbursed, directly or indirectly, by any of the parties described in clause (i).

This subparagraph shall apply only to mortgages for which the mortgagee has issued credit approval for the borrower on or after October 1, 2008.

(c)(1) The Secretary is authorized to fix premium charge for the insurance of mortgages under the separate sections of this title but in the case of any mortgage such charge shall be not less than an amount equivalent to one-fourth of 1 per centum per annum nor more than an amount equivalent to 1 per centum per annum of the amount of the principal obligation of the mortgage outstanding at any time, without taking into account delinquent payments or prepayments: *Provided,* That premium charges fixed for insurance (1) under section 245, 247, 251, 252, or 253, or any other financing mechanism providing alternative methods for repayment of a mortgage that is determined by the Secretary to involve additional risk, or (2) under subsection (n) are not required to be the same as the premium charges for mortgages insured under the other provisions of this section, but in no case shall premium charges under subsection (n) exceed 1 per centum per annum: *Provided,* That any reduced premium charge so fixed and computed may, in the discretion of the Secretary, also be made applicable in such manner as the Secretary shall prescribe to each insured mortgage outstanding under the section or sections involved at the time the reduced premium charge is fixed. Such premium charges shall be payable by the mortgagee, either in cash, or in debentures issued by the Secretary under this title at par plus accrued interest, in such manner as may be prescribed by the Secretary: *Provided,* That debentures presented in payment of premium charges shall represent obligations of the particular insurance fund or account to which such premium charges are to be credited: *Provided further,* That the Secretary may require the payment of one or more such premium charges at the time the mortgage is insured, at such discount rate as he may prescribe not in excess of the interest rate specified in the mortgage. If the Secretary finds upon the presentation of a mortgage for insurance and the tender of the initial premium charge or charges so required that the mortgage complies with the provisions of this section, such mortgage may be accepted for insurance by endorsement or otherwise as the Secretary may prescribe; but no mortgage shall be accepted for insurance under this section unless the Secretary finds that the project with respect to which the mortgage is executed is economically sound. In the event that the principal obligation of any mortgage accepted for insurance under this title is paid in full prior to the maturity date, the Secretary is further authorized in his discretion to require the payment by the mortgagee of an adjusted premium charge in such amount as the Secretary determines to be equitable, but not in excess of the aggregate amount of the premium charges that the mortgagee would otherwise have been required to pay if the mortgage had continued to be insured until such maturity date; and in the event that the principal obligation is paid in full as herein set forth, the Secretary is authorized to refund to the mortgagee for the account of the mortgagor all, or such portion as he shall determine to be equitable, of the current unearned premium charges theretofore paid: *Provided,* That with respect to mortgages (1) for which the Secretary requires, at the time the mortgage is insured, the payment of a single premium charge to cover the total premium obligation for the insurance of the mortgage, and (2) on which the principal obligation is paid before the number of years on which the premium with respect to a particular mortgage was based, or the property is sold subject to the mortgage or is sold and the mortgage is assumed prior to such time, the Secretary shall provide for refunds, where appropriate, of a portion of the premium paid and shall provide for appropriate allocation of the premium cost among the mortgagors over the term of the mortgage, in accordance with procedures established by the Secretary which take into account sound financial and actuarial considerations.

(2) Notwithstanding any other provision of this section, each mortgage secured by a 1- to 4-family dwelling that is an obligation of the Mutual Mortgage Insurance Fund shall be subject to the following requirements:

(A) The Secretary shall establish and collect, at the time of insurance, a single premium payment in an amount not exceeding 3 percent of the amount of the original insured principal obligation of the mortgage. In the case of a mortgage for which the mortgagor is a first-time homebuyer who completes a program of counseling with respect to the responsibilities and financial management involved in homeownership that is approved by the Secretary, the premium payment under this subparagraph shall not exceed 2.75 percent of the amount of the original insured principal obligation of the mortgage. Upon payment in full of the principal obligation of a mortgage prior to the maturity date of the mortgage, the Secretary shall refund all of the unearned premium charges paid on the mortgage pursuant to this subparagraph, provided that the mortgagor refinances the unpaid principal obligation under title II of this Act.

(B) In addition to the premium under subparagraph (A), the Secretary may establish and collect annual premium payments in an amount not exceeding 1.5 percent of the remaining insured principal balance (excluding the portion of the remaining balance attributable to the premium collected under subparagraph (A) and without taking into account delinquent payments or prepayments) for the following periods:

(i) ⟦For any⟧ *Subject to subparagraph (D), for any* mortgage involving an original principal obligation (excluding any premium collected under subparagraph (A)) that is less than 90 percent of the appraised value of the property (as of the date the mortgage is accepted for insurance), for the first 11 years of the mortgage term.

(ii) ⟦For any⟧ *Subject to subparagraph (D), for any* mortgage involving an original principal obligation (excluding any premium collected under subparagraph (A)) that is greater than or equal to 90 percent of such value, for the first 30 years of the mortgage term; except that notwithstanding the matter preceding clause (i), for any mortgage involving an original principal obligation (excluding any premium collected under subparagraph (A)) that is greater than 95 percent of such value, the annual premium collected during the 30-year period under this clause may be in an amount not exceeding 1.55 percent of the remaining insured principal balance (excluding the portion of the remaining balance attributable to the premium collected under subparagraph (A) and without taking into account delinquent payments or prepayments).

(C)(i) ⟦In addition⟧ *Subject to subparagraph (D), in addition* to the premiums under subparagraphs (A) and (B), the Secretary shall establish and collect annual premium payments for any mortgage for which the Secretary collects an annual premium payment under subparagraph (B), in an amount described in clause (ii).

(ii)(I) Subject to subclause (II), with respect to a mortgage, the amount described in this clause is 10 basis points of the remaining insured principal balance (excluding the portion of the remaining balance attributable to the premium collected under subparagraph (A) and without taking into account delinquent payments or prepayments).

(II) During the 2-year period beginning on the date of enactment of this subparagraph, the Secretary shall increase the number of basis points of the annual premium payment collected under this subparagraph incrementally, as determined appropriate by the Secretary, until the number of basis points of the annual premium payment collected under this subparagraph is equal to the number described in subclause (I).

(D) The Secretary may not collect any annual premiums under this paragraph with respect to a mortgage at any time that the remaining insured principal balance (excluding the portion of the remaining balance attributable to the premium collected under subparagraph (A)) is 78 percent or less than the lower of (i) the sales price of the dwelling at the sale in connection with which the mortgage was made, or (ii) the appraised value of the dwelling at the time of the origination of the mortgage.

(d)(1) Except as provided in paragraph (2) of this subsection, notwithstanding provision of this title governing maximum mortgage amounts for insuring a mortgage secured by a one- to four-family dwelling, the maximum amount of the mortgage determined under any such provision may be increased by the amount of the mortgage insurance premium paid at the time the mortgage is insured.

(2) The maximum amount of a mortgage determined under subsection (b)(2)(B) of this section may not be increased as provided in paragraph (1).

(e) Any contract of insurance heretofore or hereafter executed by the Secretary under this title shall be conclusive evidence of the eligibility of the loan or mortgage for insurance, and the validity of any contract of insurance so executed shall be incontestable in the hands of an approved financial institution or approved mortgagee from the date of the execution of such contract, except for fraud or misrepresentation on the part of such approved financial institution or approved mortgagee.

(f) DISCLOSURE OF OTHER MORTGAGE PRODUCTS.—

(1) IN GENERAL.—In conjunction with any loan insured under this section, an original lender shall provide to each prospective borrower a disclosure notice that provides a 1-page analysis of mortgage products offered by that lender and for which the borrower would qualify.

(2) NOTICE.—The notice required under paragraph (1) shall include—

(A) a generic analysis comparing the note rate (and associated interest payments), insurance premiums, and other costs and fees that would be due over the life of the loan for a loan insured by the Secretary under subsection (b) with the note rates, insurance premiums (if applicable), and other costs and fees that would be expected to be due if the mortgagor obtained instead other mortgage products offered by the lender and for which the borrower would qualify with a similar loan-to-value ratio in connection with a conventional mortgage (as that term is used in section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act (12 U.S.C. 1454(a)(2)) or section 302(b)(2) of the Federal National Mortgage Association Charter Act (12 U.S.C. 1717(b)(2)), as applicable), assuming prevailing interest rates; and

(B) a statement regarding when the requirement of the mortgagor to pay the mortgage insurance premiums for a mortgage insured under this section would terminate, or a statement that the requirement shall terminate only if the mortgage is refinanced, paid off, or otherwise terminated.

(g)(1) The Secretary may insure a mortgage under this title that is secured by a 1- to 4-family dwelling, or approve a substitute mortgagor with respect to any such mortgage, only if the mortgagor is to occupy the dwelling as his or her principal residence or as a secondary residence, as determined by the Secretary. In making this determination with respect to the occupancy of secondary residences, the Secretary may not insure mortgages with respect to such residences unless the Secretary determines that it is necessary to avoid undue hardship to the mortgagor. In no event may a secondary residence under this subsection include a vacation home, as determined by the Secretary.

(2) The occupancy requirement established in paragraph (1) shall not apply to any mortgagor (or co-mortgagor, as appropriate) that is—

(A) a public entity, as provided in section 214 or 247, or any other State or local government or an agency thereof;

(B) a private nonprofit or public entity, as provided in section 221(h) or 235(j), or other private nonprofit organization that is exempt from taxation under section 501(c)(3) of the Internal Revenue Code of 1986 and intends to sell or lease the mortgage property to low or moderate-income persons, as determined by the Secretary;

(C) an Indian tribe, as provided in section 248;

(D) a serviceperson who is unable to meet such requirement because of his or her duty assignment, as provided in section 216 or subsection (b)(4) or (f) of section 222;

(E) a mortgagor or co-mortgagor under subsection (k); or

(F) a mortgagor that, pursuant to section 223(a)(7), is refinancing an existing mortgage insured under this Act for not more than the outstanding balance of the existing mortgage, if the amount of the monthly payment due under the refinancing mortgage is less than the amount due under the existing mortgage for the month in which the refinancing mortgage is executed.

(3) For purposes of this subsection, the term "substitute mortgagor" means a person who, upon the release by a mortgagee of a previous mortgagor from personal liability on the mortgage note, assumes such liability and agrees to pay the mortgage debt.

(h) Notwithstanding any other provision of this section, the Secretary is authorized to insure any mortgage which involves a principal obligation not in excess of the applicable maximum dollar limit under subsection (b) and not in excess of 100 per centum of the appraised value of a property upon which there is located a dwelling designed principally for a single-family residence, where the mortgagor establishes (to the satisfaction of the Secretary) that his home which he occupied as an owner or as a tenant was destroyed or damaged to such an extent that reconstruction is required as a result of a flood, fire, hurricane, earthquake, storm, or other catastrophe, which the President, pursuant to Robert T. Stafford Disaster Relief and Emergency Assistance Act, has determined to be a major disaster. In any case in which the single family residence to be insured under this subsection is within a jurisdiction in which the President has declared a major disaster to have occurred, the Secretary is authorized, for a temporary period not to exceed 18 months from the date of such Presidential declaration, to enter into agreements to insure a mortgage which involves a principal obligation of up to 100 percent of the dollar limitation determined under section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act for single family residence, and not in excess of 100 percent of the appraised value.

(j) Loans secured by mortgages insured under this section shall not be taken into account in determining the amount of real estate loans which a national bank may make in relation to its capital and surplus or its time and savings deposits.

(k)(1) The Secretary may, in order to assist in the rehabilitation of one- to four-family structures used primarily for residential purposes, insure and make commitments to insure rehabilitation loans (including advances made during rehabilitation) made by financial institutions. Such commitments to insure and such insurance shall be made upon such terms and conditions which the Secretary may prescribe and which are consistent with the provisions of subsections (b), (c), (e), (i) and (j) of this section, except as modified by the provisions of this subsection.

(2) For the purpose of this subsection—

(A) the term "rehabilitation loan" means a loan, advance of credit, or purchase of an obligation representing a loan or advance of credit, made for the purpose of financing—

(i) the rehabilitation of an existing one- to four-unit structure which will be used primarily for residential purposes;

(ii) the rehabilitation of such a structure and the refinancing of the outstanding indebtedness on such structure and the real property on which the structure is located; or

(iii) the rehabilitation of such a structure and the purchase of the structure and the real property on which it is located; and

(B) the term "rehabilitation" means the improvement (including improvements designed to meet cost-effective energy conservation standards prescribed by the Secretary) or repair of a structure, or facilities in connection with a structure, and may include the provision of such sanitary or other facilities as are required by applicable codes, a community development plan, or a statewide property insurance plan to be provided by the owner or tenant of the project. The term "rehabilitation" may also include measures to evaluate and reduce lead-based paint hazards, as such terms are defined in section 1004 of the Residential Lead-Based Paint Hazard Reduction Act of 1992.

(3) To be eligible for insurance under this subsection, a rehabilitation loan shall—

(A) involve a principal obligation (including such initial service charges, appraisal, inspection, and other fees as the Secretary shall approve) in an amount which does not exceed, when added to any outstanding indebtedness of the borrower which is secured by the structure and the property on which it is located, the amount specified in subsection (b)(2); except that, in determining the amount of the principal obligation for purposes of this subsection, the Secretary shall establish as the appraised value of the property an amount not to exceed the sum of the estimated cost of rehabilitation and the Secretary's estimate of the value of the property before rehabilitation;

(B) bear interest at such rate as may be agreed upon by the borrower and the financial institution;

(C) be an acceptable risk, as determined by the Secretary; and

(D) comply with such other terms, conditions, and restrictions as the Secretary may prescribe.

(4) Any rehabilitation loan insured under this subsection may be refinanced and extended in accordance with such terms and conditions as the Secretary may prescribe, but in no event for an additional amount or term which exceeds the maximum provided for in this subsection.

(5) All funds received and all disbursements made pursuant to the authority established by this subsection shall be credited or charged as appropriate, to the Mutual Mortgage Insurance Fund, and insurance benefits shall be paid in cash out of such Fund or in debentures executed in the name of such Fund. Insurance benefits paid with respect to loans secured by a first mortgage and insured under this subsection shall be paid in accordance with section 204. Insurance benefits paid with respect to loans secured by a mortgage other than a first mortgage and insured under this subsection shall be paid in accordance with paragraphs (6) and (7) of

section 220(h), except that reference to “this subsection” in such paragraphs shall be construed as referring to this subsection.

(6) The Secretary is authorized, for a temporary period not to exceed 18 months from the date on which the President has declared a major disaster to have occurred, to enter into agreements to insure a rehabilitation loan under this subsection which involves a principal obligation of up to 100 percent of the dollar limitation determined under section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act for a residence of the applicable size, if such loan is secured by a structure and property that are within a jurisdiction in which the President has declared such disaster, pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act, and if such loan otherwise conforms to the loan-to-value ratio and other requirements of this subsection.

(n)(1) The Secretary is authorized to insure under this section any mortgage meeting the requirements of subsection (b) of this section, except as modified by this subsection. To be eligible, the mortgage shall involve a dwelling unit in a cooperative housing project which is covered by a blanket mortgage insured under this Act or the construction of which was completed more than a year prior to the application for the mortgage insurance. The mortgage amount as determined under the other provisions of subsection (b) of this section shall be reduced by an amount equal to the portion of the unpaid balance of the blanket mortgage covering the project which is attributable (as of the date the mortgage is accepted for insurance) to such unit.

(2) For the purpose of this subsection—

(A) The terms “home mortgage” and “mortgage” include a first or subordinate mortgage or lien given (in accordance with the laws of the State where the property is located and accompanied by such security and other undertakings as may be required under regulations of the Secretary) to secure a loan made to finance the purchase of stock or membership in a cooperative ownership housing corporation the permanent occupancy of the dwelling units of which is restricted to members of such corporation, where the purchase of such stock or membership will entitle the purchaser to the permanent occupancy of one of such units.

(B) The terms “appraised value of the property”, “value of the property”, and “value” include the appraised value of a dwelling unit in a cooperative housing project of the type described in subparagraph (A) where the purchase of the stock or membership involved will entitle the purchaser to the permanent occupancy of that unit; and the term “property” includes a dwelling unit in such a cooperative project.

(C) The terms “mortgagor” includes a person or persons giving a first or subordinate mortgage or lien (of the type described in subparagraph (A)) to secure a loan to finance the purchase of stock or membership in a cooperative housing corporation.

(r) The Secretary shall take appropriate actions to reduce losses under the single-family mortgage insurance programs carried out under this title. Such actions shall include—

(1) an annual review by the Secretary of the rate of early serious defaults and claims, in accordance with section 533;

(2) requiring that at least one person acquiring ownership of a one- to four-family residential property encumbered by a mortgage insured under this title be determined to be creditworthy under standards prescribed by the Secretary, whether or not such person assumes personal liability under the mortgage (except that acquisitions by devise or descent shall not be subject to this requirement);

(3) in any case where personal liability under a mortgage is assumed, requiring that the original mortgagor be advised of the procedures by which he or she may be released from liability; and

(4) providing counseling, either directly or through third parties, to delinquent mortgagors whose mortgages are insured under this section 203 (12 U.S.C. 1709), using the Fund to pay for such counseling.

In any case where the homeowner does not request a release from liability, the purchaser and the homeowner shall have joint and several liability for any default for a period of 5 years following the date of the assumption. After the close of such 5-year period, only the purchaser shall be liable for any default on the mortgage unless the mortgage is in default at the time of the expiration of the 5-year period.

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(t)(1) Each mortgagee (or servicer) with respect to a mortgage under this section shall provide each mortgagor of such mortgagee (or servicer) written notice, not less than annually, containing a statement of the amount outstanding for prepayment of the principal amount of the mortgage and describing any requirements the mortgagor must fulfill to prevent the accrual of any interest on such principal amount after the date of any prepayment. This paragraph shall apply to any insured mortgage outstanding on or after the expiration of the 90-day period beginning on the date of effectiveness of final regulations implementing this paragraph.

(2) Each mortgagee (or servicer) with respect to a mortgage under this section shall, at or before closing with respect to any such mortgage, provide the mortgagor with written notice (in such form as the Secretary shall prescribe, by regulation, before the expiration of the 90-day period beginning upon the date of the enactment of the Cranston-Gonzalez National Affordable Housing Act) describing any requirements the mortgagor must fulfill upon prepayment of the principal amount of the mortgage to prevent the accrual of any interest on the principal amount after the date of such prepayment. This paragraph shall apply to any mortgage executed after the expiration of the period under paragraph (1).

(u)(1) No mortgagee may make or hold mortgages insured under this section if the customary lending practices of the mortgagee, as determined by the Secretary pursuant to section 539, provide for a variation in mortgage charge rates that exceeds 2 percent for insured mortgages made by the mortgagee on dwellings located within an area. The Secretary shall ensure that any permissible variations in the mortgage charge rates of any mortgagee are based only on actual variations in fees or costs to the mortgagee to make the loan.

(2) For purposes of this subsection—

(A) the term "area" means a metropolitan statistical area as established by the Office of Management and Budget;

(B) the term "mortgage charges"' includes the interest rate, discount points, loan origination fee, and any other amount charged to a mortgagor with respect to an insured mortgage; and

(C) the term "mortgage charge rate" means the amount of mortgage charges for an insured mortgage expressed as a percentage of the initial principal amount of the mortgage.

(v) The insurance of a mortgage under this section in connection with the assistance provided under section 8(y) of the United States Housing Act of 1937 shall be the obligation of the Mutual Mortgage Insurance Fund.

(w) ANNUAL REPORT.—The Secretary of Housing and Urban Development shall submit to the Congress an annual report on the single family mortgage insurance program under this section. Each report shall set forth—

(1) an analysis of the income groups served by the single family insurance program, including—

(A) the percentage of borrowers whose incomes do not exceed 100 percent of the median income for the area;

(B) the percentage of borrowers whose incomes do not exceed 80 percent of the median income for the area; and

(C) the percentage of borrowers whose incomes do not exceed 60 percent of the median income for the area;

(2) an analysis of the percentage of minority borrowers annually assisted by the program; the percentage of central city borrowers assisted and the percentage of rural borrowers assisted by the program;

(3) the extent to which the Secretary in carrying out the program has employed methods to ensure that needs of low and moderate income families, underserved areas, and historically disadvantaged groups are served by the program; and

(4) the current impediments to having the program serve low and moderate income borrowers; borrowers from central city areas; borrowers from rural areas; and minority borrowers.

(x) MANAGEMENT DEFICIENCIES REPORT.—

(1) IN GENERAL.—Not later than 60 days after the date of the enactment of this subsection, and annually thereafter, the Secretary shall submit to Congress a report on the plan of the Secretary to address each material weakness, reportable condition, and noncompliance with an applicable law or regulation (as defined by the Director of the Office of Management and Budget) identified in the most recent audited financial statement of the Federal Housing Administration submitted under section 3515 of title 31, United States Code.

(2) CONTENTS OF ANNUAL REPORT.—Each report submitted under paragraph (1) shall include—

(A) an estimate of the resources, including staff, information systems, and contract assistance, required to address each material weakness, reportable condition, and noncompliance with an applicable law or regulation described in paragraph (1), and the costs associated with those resources;

(B) an estimated timetable for addressing each material weakness, reportable condition, and noncompliance with an applicable law or regulation described in paragraph (1); and

(C) the progress of the Secretary in implementing the plan of the Secretary included in the report submitted under paragraph (1) for the preceding year, except that this subparagraph does not apply to the initial report submitted under paragraph (1).

(y) REQUIREMENTS FOR MORTGAGES FOR CONDOMINIUMS.—

(1) PROJECT RECERTIFICATION REQUIREMENTS.—Notwithstanding any other law, regulation, or guideline of the Secretary, including chapter 2.4 of the Condominium Project Approval and Processing Guide of the FHA, the Secretary shall streamline the project certification requirements that are applicable to the insurance under this section for mortgages for condominium projects so that recertifications are substantially less burdensome than certifications. The Secretary shall consider lengthening the time between certifications for approved properties, and allowing updating of information rather than resubmission.

(2) COMMERCIAL SPACE REQUIREMENTS.—Notwithstanding any other law, regulation, or guideline of the Secretary, including chapter 2.1.3 of the Condominium Project Approval and Processing Guide of the FHA, in providing for exceptions to the requirement for the insurance of a mortgage on a condominium property under this section regarding the percentage of the floor space of a condominium property that may be used for nonresidential or commercial purposes, the Secretary shall provide that—

(A) any request for such an exception and the determination of the disposition of such request may be made, at the option of the requester, under the direct endorsement lender review and approval process or under the HUD review and approval process through the applicable field office of the Department; and

(B) in determining whether to allow such an exception for a condominium property, factors relating to the economy for the locality in which such project is located or specific to project, including the total number of family units in the project, shall be considered.

Not later than the expiration of the 90-day period beginning on the date of the enactment of this paragraph, the Secretary shall issue regulations to implement this paragraph, which shall include any standards, training requirements, and remedies and penalties that the Secretary considers appropriate.

(3) TRANSFER FEES.—Notwithstanding any other law, regulation, or guideline of the Secretary, including chapter 1.8.8 of the Condominium Project Approval and Processing Guide of the FHA and section 203.41 of the Secretary's regulations (24 CFR 203.41), existing standards of the Federal Housing Finance Agency relating to encumbrances under private transfer fee covenants shall apply to the insurance of mortgages by the Secretary under this section to the same extent and in the same manner that such standards apply to the purchasing, in-

vesting in, and otherwise dealing in mortgages by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. If the provisions of part 1228 of the Director of the Federal Housing Finance Agency's regulations (12 CFR part 1228) are amended or otherwise changed after the date of the enactment of this paragraph, the Secretary of Housing and Urban Development shall adopt any such amendments or changes for purposes of this paragraph, unless the Secretary causes to be published in the Federal Register a notice explaining why the Secretary will disregard such amendments or changes within 90 days after the effective date of such amendments or changes.

(4) OWNER-OCCUPANCY REQUIREMENT.—

(A) ESTABLISHMENT OF PERCENTAGE REQUIREMENT.—Not later than the expiration of the 90-day period beginning on the date of the enactment of this paragraph, the Secretary shall, by rule, notice, or mortgagee letter, issue guidance regarding the percentage of units that must be occupied by the owners as a principal residence or a secondary residence (as such terms are defined by the Secretary), or must have been sold to owners who intend to meet such occupancy requirements, including justifications for the percentage requirements, in order for a condominium project to be acceptable to the Secretary for insurance under this section of a mortgage within such condominium property.

(B) FAILURE TO ACT.—If the Secretary fails to issue the guidance required under subparagraph (A) before the expiration of the 90-day period specified in such clause, the following provisions shall apply:

(i) 35 PERCENT REQUIREMENT.—In order for a condominium project to be acceptable to the Secretary for insurance under this section, at least 35 percent of all family units (including units not covered by FHA-insured mortgages) must be occupied by the owners as a principal residence or a secondary residence (as such terms are defined by the Secretary), or must have been sold to owners who intend to meet such occupancy requirement.

(ii) OTHER CONSIDERATIONS.—The Secretary may increase the percentage applicable pursuant to clause (i) to a condominium project on a project-by-project or regional basis, and in determining such percentage for a project shall consider factors relating to the economy for the locality in which such project is located or specific to project, including the total number of family units in the project.

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MINORITY VIEWS

H.R. 3141, the *FHA Loan Affordability Act*, would prevent the Federal Housing Administration (FHA) from charging its annual Mortgage Insurance Premium (MIP) when a borrower's loan-to-value ratio (LTV) reaches 78 percent. While Committee Republicans appreciate the effort of this bill to move FHA's processes closer to that of private mortgage insurance (PMI), the bill as currently drafted fails to consider the inherent differences between PMI and FHA's programs.

When a loan insured with PMI reaches a LTV of 78, both the MIP and the mortgage insurance coverage are terminated. However, in the case of FHA, mortgage insurance continues for the entirety of the loan, even if the MIP payments are stopped. This "life-of-loan" coverage means that the FHA has a continuing financial obligation to the loan that differs from PMI's coverage on a mortgage. Stopping MIP payments to FHA would negatively impact FHA's Mortgage Insurance Fund (MMIF) and would likely cause the MIP payments to increase before the borrower had reached an LTV of 78 in order to account for the cost of covering the default risk for the entirety of the loan.

In fact, this experiment has been tried before and ended in failure. In 2013, the Obama Administration terminated the experiment out of concern for the harmful effect it was having on the MMIF. Current estimates from FHA reveal that the legislation as proposed would reduce contributions to the MMIF by approximately $1.7 billion each year. Proponents of this legislation assert that loans that have amortized to 78 percent present little risk to FHA and the MMIF. However, FHA's own statistics show this not to be the case, with typical FHA loans reaching a LTV of 78 at around 9 years and roughly one-fifth of all defaults occurring after a nine year period. Committee Republicans respect the effort to make owning a home more affordable, but this bill is not the solution, and will likely have the opposite effect.

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JOHN ROSE.
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TOM EMMER.
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