Statement before the Committee on Oversight and Government Reform
U.S. House of Representatives
On "Failure to Recover: the State of Housing Markets, Mortgage Servicing Practices, and Foreclosures"

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The views expressed in this testimony are those of the author alone and do not necessarily represent those of the American Enterprise Institute.

Submitted testimony by Edward Pinto, resident fellow of the American Enterprise Institute.

Chairman Issa and Ranking Member Cummings, thank you for the opportunity to testify today.

Allow me to cut through the alphabet soup of the dozens of government programs created to address perceived problems in the housing market.

The failure of the housing market to recover is the direct result of two errant policy initiatives.

First, broad affordable housing mandates that started in the early 1990s along with other government policies drove an unsustainable home price boom. This was due to an unprecedented loosening of loan underwriting standards—a core goal established under HUD's 1995 National Homeownership Strategy.

Once the housing market collapsed, many of these same supporters of loose lending effortlessly switched gears and undertook a multi-year effort to delay and prolong the market clearing process. Much of this effort has focused on rewarding millions of borrowers who overleveraged their homes. Neither massive amounts of government spending nor innumerable government interventions have led to robust economic growth or hastened a housing market recovery. In fact evidence is mounting that a recovery has been impeded.

While the failure of these twin initiatives should be a cautionary tale, beware. Their supporters are now moving on to promote the view that housing finance is a civil right requiring equal outcomes and therefore loan underwriting standards are inappropriate. Many inside HUD and the Justice Department share this view. This will turn housing finance into yet another entitlement, this time controlled by the Government Mortgage Complex.[1] While purporting to help low- and moderate-income borrowers and minorities build wealth through home ownership, it will instead place them in harm's way. The FHA wants to expand its lending practices that are so destructive to borrowers and neighborhoods alike. Later in my testimony I will outline the principles necessary to achieve sustainable homeownership consistent with the FHA's mission.

Politicized Lending Phase 1: Affordable Housing Mandates and the National Homeownership Strategy

The first policy—the decades' long effort to loosen underwriting standards—fomented the crisis and immeasurably deepened it. The following testimony from 1991 before the Senate Banking Committee is revealing:

> Lenders will respond to the most conservative standards unless [Fannie Mae and Freddie Mac] are aggressive and convincing in their efforts to expand historically narrow underwriting.

[1] The Government Mortgage Complex has five divisions (Fannie Mae, Freddie Mac, the FHA/Ginnie Mae, the USDA/Ginnie Mae, and the VA/Ginnie Mae) and today accounts for guaranteeing 90% of all new mortgage originations.

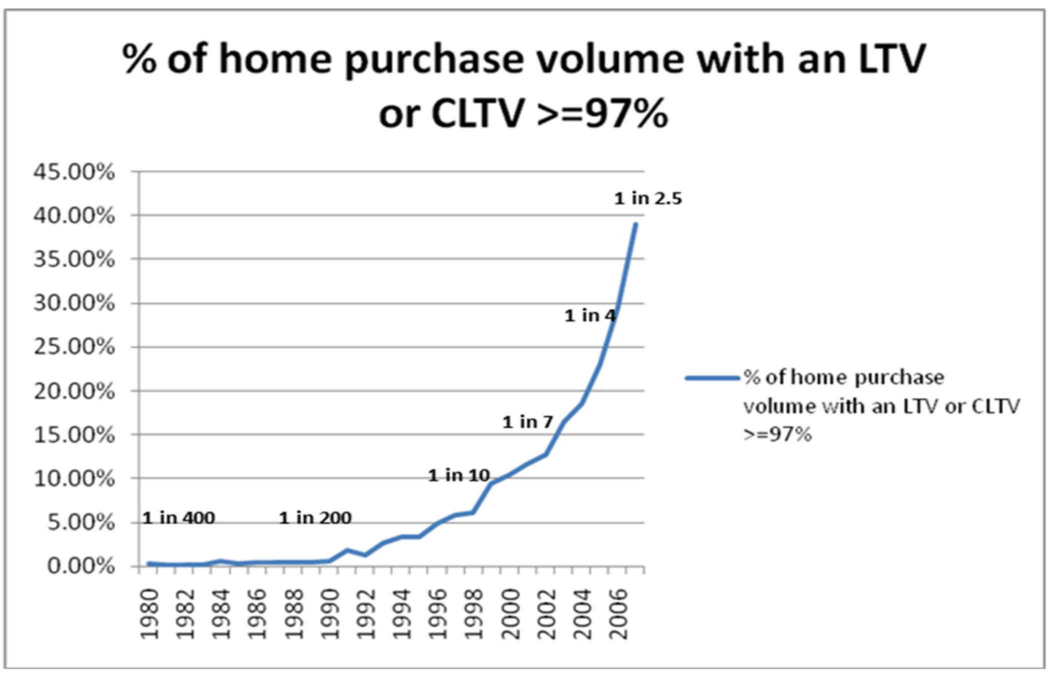
Testimony of Ms. Gale Cincotta representing National People's Action before the U.S. Senate Committee on Banking, Housing, and Urban Affairs on February 28, 1991.

About five years before this testimony, I was an executive at Fannie and met with Ms. Cincotta. I advised against asking Fannie to undertake a broad national program of expanded underwriting standards and warned that it would be no more successful than the failed efforts by the FHA that Ms. Cincotta was complaining about.

Think for a moment about the full import of this testimony. First, that Fannie, Freddie and lenders generally had conservative standards in 1991. Second, Fannie and Freddie would need to be aggressive and convincing in loosening their standards. The very next year, Congress passed the misleadingly named "Federal Housing Enterprises Financial Safety and Soundness Act of 1992". The race to aggressively loosen lending standards was on. In the years following, numerous others policies promoting so called "flexible and innovative" underwriting standards were adopted, led principally by HUD. These include the National Homeownership Strategy, expansion of CRA, and HUD's Best Practices Initiative.

The result was first created a boom in and then the collapse of the housing market. Excessive leverage as evidenced by reduced down payments as shown in Chart 1 was a leading factor in the boom.

Chart 1: Estimated Percentage of Home Purchase Volume with an LTV or CLTV >=97% (Includes FHA and Conventional Loans*)



Sources: FHA 2009 Actuarial Study, and HUD"s Office of Policy Development and Research - Profiles of GSE Mortgage Purchases in 1999 and 2000, in 2001-2004, and in 2005-2007, and Fannie's 2007 10-K. Compiled by Edward Pinto
*Fannie's percentage of home purchase loans with an LTV or CLTV >=97% used as the proxy for conventional loans.

Politicized Lending Phase 2: Keep Markets from Clearing

The second policy failure has been the concerted effort to prevent the real estate market from clearing. You are familiar with the acronyms—H4H, HBTC 1 & 2, HARP 1 & 2, HAMP 1 & 2, HAFA, QE1 & QE2, PRA, MFA, HAUP, EHLP, FHA HARP and now the NMS.[2]

This policy failure is typified by the following observation made by Eric Belsky, Managing Director of Harvard's Joint Center for Housing Studies before the FDIC's Committee on Economic Inclusion in March 2011:

> And I compare [a down payment of $3000] to any other use that [a low-income individual] could've put that $3000 in terms of a risk reward framework and if they end up losing that $3000, they lose their job [and as a renter] they might lose first and last month's rent, they lose their security deposit…. In the case of owning, it's just more complicated. The likelihood of them being booted out quickly in many states is very low so they are going to have a period of free payments that they wouldn't benefit from as renters--there are a lot of reasons why homeownership actually still makes sense…. [t]here is an asymmetric risk. You can lose your $3000 or have a huge upside on a $100k asset, for every percent it's a $1000 that it goes up, and if you're there for any period of time that it goes up you are in good shape and if it goes down you've lose your $3000.[3]

Again, please stop and think about the full import of this statement. First, the leverage gained from small down payments provides huge upside potential in a rising market and free rent courtesy of a lengthy foreclosure process protects on the downside. Second, amazingly no one on the advisory committee objected to this statement, which is certainly counter to the best interests of the FDIC and bank deposits. Mr. Belsky's "head's I win, tails you lose" approach will only guarantee that the housing finance market remains tightly in grip of the Government Mortgage Complex.

For proof we need look no further than the Fed's approval of the recent acquisition of ING Direct by Capital One Financial Corporation. It is well known that mega-bank deals require "concessions to win the support of consumer groups and community activists and the Cap One-ING deal was no exception."[4] Capital One committed to a $180 billion CRA commitment. This included an agreement

[2] Help for Homeowners, Home Buyer Tax Credit 1 and 2, Home Affordable Refinance Program, Home Affordable Modification Program, Home Affordable Foreclosure Alternatives, Quantitative Easing 1 and 2, Principal Reduction Alternative, Making Homes Affordable, Homes Affordable Unemployment Program, Emergency Homeowners Loan Program, FHA Home Affordable Refinance Program, and National Mortgage Settlement.

[3] FDIC Advisory Committee on Economic Inclusion, March 2, 2011 http://events.vcall.com/VCall/EventReplayLaunch.aspx?IID=e4e00e7c-5825-43db-a37b22b7957a1832&BID=1&VID=fb044647-d2c1-4f88-845ca7640095e9e2&SID=2933&ln=3%2f12%2f2012+3%3a44%3a06+PM&fn=AnonViewer&OID=2643&Email=N%2fA&Title=FDIC+Advisory+Committee+for+Economic+Inclusion%3a+March+2%2c+2011%3a+Part+3&bgcolor=CCCCCC&st=149&et=7330&dur=7181

[4] Kate Berry, "Capital One Still Not Accepting FHA Loans with Low Credit Scores," American Banker, February 16, 2012, http://www.americanbanker.com/issues/177_33/Capital-One-FHA-loans-Fico-credit-scores-1046769-1.html?zkPrintable=true (accessed March 13, 2012)

to originate FHA loans to borrowers with FICO scores as low 580.[5] My estimates are that the FHA's recent loans with a FICO score of 580–599 have an estimated claim rate of nearly 30 percent.

Rather than avoiding such destructive lending, the FHA is planning a major expansion. It is projecting that by FY 2015 about 44 percent of its 30-year term purchase loans will have a FICO below 660, nearly double the rate in FY2011. This policy has the potential to be dangerous for both borrowers and neighborhoods. Most of these loans, in addition to their low FICOs and slowly amortizing 30-year terms, will also have one or more additional layers of risk such as low down payment, high total debt ratio, and high seller concessions.[6] Expected claim rates for FHA loans with various FICO scores is set forth in Table 1 below. Loans with FICOs below 660 have a projected claim rate ranging from 15 to 29. HUD is already taking steps to implement this policy initiative.[7]

Table 1. Serious Delinquency for FHA's FY 2009 Lending and Projected Claim Rates for the FHA's 2009-2011 Lending

FICO	Serious Delinquency*	Expected Claim Rate
580–599	21.18%	29
600–619	17.15%	23
620–659	11.18%	15
660–679	6.58%	9
680–720	4.20%	6
>720	1.92%	3

Source: Derived from the FHA's claim rate projection for 2009 contained in the FHA's 2011 Actuarial Study and data tabulations on FHA's seriously delinquent loans provided upon request by Genworth Financial.
Note: *Includes loans that have gone to claim.

This initiative will be needlessly destructive to Brooklyn, the rest of New York State and the entire country. As of this January 31, the FHA was experiencing a thirty-day plus delinquency rate of 22 percent, 18 percent, and 17.5 percent in the New York metropolitan area, New York State, and the entire country respectively. Unfortunately there are many metro areas that are facing even higher default rates than New York City—Detroit (29 percent current 30-day plus delinquency rate), Atlanta (26%), and Chicago (25%) to name but a few.

Government lending should not require a warning: **Government lending may dangerous to your financial health.** HUD must follow its own admonition:

> "Given FHA's mission, allowing the continuation of practices that result in . . . a high proportion of families losing their homes represents a disservice to American families and communities."[8]

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[5] Ibid.
[6] US Department of Housing and Urban Development, *Actuarial Review of the Federal Housing Administration,* Appendix C-4.
[7] Brian Collins, "FHA Wants Lenders to Relax Credit Scores," National Mortgage News, January 12, 2012, www.nationalmortgagenews.com/nmn_features/fha-relax-credit-scores-1028259-1.html (accessed January 23, 2012)
[8] US Housing and Urban Development Department, "Federal Housing Administration Risk Management Initiatives: Reduction of Seller Concessions and New Loan-to-Value and Credit Score Requirements" (notice of proposed rulemaking),

The FHA must be held to the same standard HUD Secretary Shaun Donovan applies to the private sector. At the recent announcement of the "robo" signing settlement, Donovan said banks had wronged families and neighborhoods with "the origination and securitization of these horrendous products."[9]

I call upon Secretary Donovan to add to HUD's proposed FHA Homeowner Bill of Rights a pledge not to insure loans where a borrower is exposed to claim rates of 10, 20, or even 30 percent.

See Appendix 1 for detailed suggestions on ending the FHA's reliance on destructive lending and moving forward with meaningful FHA reform.

The road ahead:

We are 6 years into the housing bust. What should we do now?

First, do no harm.

After the National Mortgage Settlement (NMS) was announced, HUD Secretary Donovan sat down with the editorial board of the Wall Street Journal and was asked:

> But how many borrowers current on their mortgage were booted out of their homes? Mr. Donovan couldn't provide a number but estimated it would be a "tiny fraction" of robo-signed foreclosures.
>
> That's a remarkable admission given that HUD, the Department of Justice, state attorneys general and others spent 18 months pressuring banks to strike a deal. What the HUD secretary revealed is that the government did all that work -- which delayed foreclosures and prevented the market from clearing -- largely to protect homeowners who weren't even paying their bills.[10]

HUD Secretary Donovan was unable to articulate the harms the NMS is meant to redress. This raises fundamental doubts as to its legal basis.

The NMS represents the next step along a treadmill from politicized lending to politicized settlements, back to politicized lending. This is combined with the politicized regulatory regime under Dodd-Frank, which set onerous rules applicable to the private sector while giving a pass to the Government Mortgage Complex.
Worst of all, the NMS and other similar misguided policies have harmed those who have done the right thing—those who:

1. Didn't overleverage their homes.

July 15, 2010, www.federalregister.gov/articles/2010/07/15/2010-17326/federal-housing-administration-risk-management-initiatives-reduction-of-seller-concessions-and-new#p-31 (accessed January 18, 2012).

[9] Hugh Son and Dawn Kopecki, "Banks Not off Hook with $25B Mortgage Deal," Bloomberg, February 9, 2012, www.bloomberg.com/news/2012-02-09/u-s-banks-face-more-costs-after-25-billion-mortgage-foreclosure-accord.html (accessed February 17, 2012).

[10] Mary Kissel, Wall Street Journal, Political Diary – The HUD Pitch, February 17, 2012, http://online.wsj.com/article/SB10001424052970204792404577229161362235978.html, accessed March 13, 2012

2. Paid their mortgages on time.
3. Didn't borrow more than they could afford.
4. Saved all their lives, but are now punished with near zero interest rates.
5. Weren't Friends of Angelo.
6. Weren't Fannie-crony capitalists.

These are the individuals who are required to bailout the crony capitalists and borrowers who have lived payment free for one, two, or even five years.

Promoting a sound market recovery:

The recovery has been stymied for three reasons:

1. Policies preventing the market from clearing.
2. Inadequate demand relative to supply
3. Too much leverage

Preventing the market from clearing:

Numerous policy initiatives have contributed to this result. Just last week the Wall Street Journal had a front page article entitled: "Rise in Phoenix Housing Shows Path for Other Cities."[11]

> U.S. home prices fell another 2% in the fourth quarter on a seasonally adjusted basis, according to the Standard & Poor's/Case-Shiller index tracking 20 cities. But prices rose by 2% in Phoenix, the biggest increase of any metro area in the country. Over the past year, prices in Phoenix are down by 1.2%, the smallest drop since its prices started falling in 2006.

The article goes on to add:[12]

> Arizona makes it easier for banks to take back properties through foreclosure without going to court. The state saw the largest decline in the share of loans that were seriously delinquent or in foreclosure during 2011, according to Lender Processing Services. So-called judicial states such as Florida, where banks must process foreclosures by going through court, have seen growing backlogs, which some fear could eventually drag down Florida markets again in the future.

Two weeks ago the Washington Post had a front page article about Maryland borrowers who for five years have never made a payment on their million-dollar home.[13] A companion article highlighted the vastly different results in two similar counties, one in Maryland (a judicial foreclosure state with a

[11] Nick Timiraos, "Rise in Phoenix Housing Shows Path for Other Cities", Wall Street Journal, March 13, 2012, http://online.wsj.com/article/SB10001424052970204653604577251232717986316.html, accessed 3.14.12
12 Ibid.
13 Annys Shin, "A million-dollar mortgage goes unpaid for years while couple fights foreclosure", Washington Post, March 3, 2012, http://www.washingtonpost.com/local/million-dollar-house-in-foreclosure-for-years/2012/03/03/gIQAU2zBpR_gallery.html, accessed March 14, 2012

13.4% non-current loan rate) and one in Virginia (a non-judicial foreclosure state with an 8.3% non-current loan rate). Similar to the Phoenix case, the market recoveries have been vastly different.[14]

The differing impact of non-judicial vs. judicial foreclosures on non-current (delinquency) rates is displayed in Table 2. It lists the twelve judicial and twelve non-judicial states with the highest non-current loan rates. The non-judicial ones have an in foreclosure rate that is half that for the judicial, a lower average non-current percentage, and a non-current percentage that has declined nearly 10% over the past year compared to no drop in judicial states.[15] At the same time, the average non-judicial foreclosure goes to sale after being 20 months delinquent compared to 30 months for a judicial one.[16]

14 Annys Shin, "Maryland vs. Virginia: Two different approaches to foreclosure," Washington Post, March 3, 2012, http://www.washingtonpost.com/local/maryland-vs-virginia-two-different-approaches-to-foreclosure/2012/03/02/gIQAD5hBpR_story.html, accessed March 14, 2012

15 LPS Applied Analytics, "Mortgage Monitor," n.d., www.lpsvcs.com/LPSCorporateInformation/CommunicationCenter/PressResources/Pages/MortgageMonitor.aspx (accessed March 14, 2012).

16 Ibid.

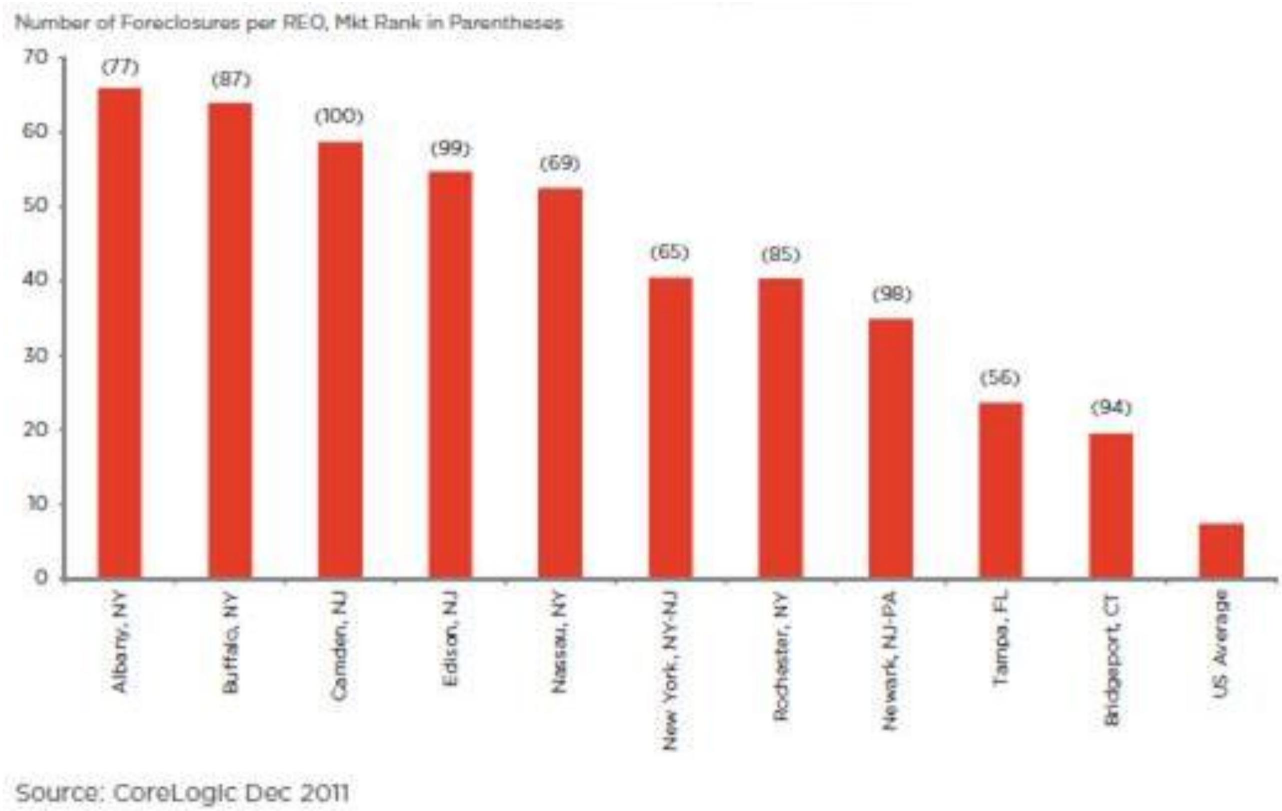
Table 2: In foreclosure percentage, non-current percentage, and year over year change for judicial and non-judicial foreclosure states

		Judicial/ Non-Judicial	In foreclosure %	Non-current %	Year/Year change in non-current %
National			4.2	12.1	-7.2
FL		Judicial	14.1	22.4	-4.2
NJ		Judicial	5.7	15.9	5.8
IL		Judicial	7.1	14.8	1.8
Ohio		Judicial	5.1	14.4	-1.8
IN		Judicial	4.9	14.4	-1.7
LA		Judicial	3.3	13.8	-5.0
NY		Judicial	5.8	13.4	1.9
MD		Judicial	3.6	13.4	-0.3
SC		Judicial	4.7	13.2	-2.1
ME		Judicial	5.5	12.8	2.6
CT		Judicial	5.4	12.7	2.1
KY		Judicial	3.9	21.1	2.0
Judicial average			5.8	15.2	0.1
MS		Non-judicial	4.0	18.7	-4.2
NV		Non-judicial	5.7	16.2	-20.4
GA		Non-judicial	2.8	14.2	-8.7
RI		Non-judicial	3.8	12.9	-9.7
TN		Non-judicial	2.4	12.9	-6.1
AL		Non-judicial	1.7	12.6	-5.2
WV		Non-judicial	2.5	12.1	-7.2
NC		Non-judicial	3.4	12.1	-1.4
AR		Non-judicial	1.9	11.9	4.5
MI		Non-judicial	2.5	11.5	-16.3
TX		Non-judicial	1.7	10.2	-5.1
AZ		Non-judicial	3.0	10.1	-25.8
Non-judicial average			3.0	13.0	-8.8
Difference Non-judicial minus judicial			-2.8	-2.2	-8.9

The recovery killing impact of these misguided policies is having a severe negative impact on New York and New Jersey. Recent research by CoreLogic found that they had the dubious distinction of accounting for all eight of the most clogged markets in the US (out of 100 markets).[17]

[17] The Market Pulse, CoreLogic, Volume 1, Issue 3, March 8, 2012, http://www.corelogic.com/about-us/researchtrends/the-marketpulse.aspx#, assessed March 16. 2012

Chart 2: Top Clogged Foreclosure Pipeline Markets:



CoreLogic added that it was no coincidence that these same eight markets were also laggards when it came to recovering from the housing downturn. Camden ranked last out of 100 areas, Edison 99th, Newark 98th, Buffalo 87th, Rochester 85th, Albany 77th, Nassau 69th, and New York City 65th. The top three recovering markets were Detroit, Denver, and Miami.[18]

These needless delays are not only slowing a recovery, they directly impact taxpayers who are responsible for paying for the GSEs' bailouts.

Inadequate demand relative to supply

1. This policy failure can be described in three words: jobs, jobs, and jobs.

    - Start by repealing the two biggest job killers – ObamaCare and Dodd-Frank.
    - Seriously consider dozens of other sound ideas have be suggested, but ignored.

2. Next, promote the conversion to rental of properties resulting from short sales, REOs and foreclosures by expanding the GSEs' individual investor loan limit.[19]

    - Fannie currently limits a single investor to ten loans (from any source) with a maximum LTV of 70% and Freddie limits to four loans (from any source).

[18] Ibid.
[19] This idea originally proposed by Lewis Ranieri.

Solution: Increase the loan limit per investor to 30 (from any source) with a maximum LTV of 65%.

- Hundreds of thousands of investors will be mobilized to action the day this change is announced.

Why this route would be more effective than bulk sales?

- By definition selling in bulk requires pricing at a discount and usually requires providing financing. The discount might be as much as 25-30%.
    - Managing a national bulk rental program leaves the GSEs open to downside and counter-party risk.
- Individual investors buying at retail will result in a much higher price for the GSEs.
- There is a huge pool of potential buyers most of whom currently pay cash. For example, in Las Vegas, over half of homes were purchased with cash.
- This pool may be sized as follows:
    - As of 2009 single-family rentals (comprised of both 1-unit and 2-4 unit dwellings) accounted for 22 million out of 39 million rental units in the U.S.
    - These 22 million units were in an estimated 17 million properties with a conservatively estimated 3 million unique owners.
    - If 15% or 450,000 of these owners were able to purchase an average of 4 more properties each, 1.8 million properties would be absorbed.
        - This approach requires no pilots, no centralized bureaucracy, or no phase-in period.
        - It adds significant competition to the retail REO sales process.
        - Risk is dispersed with minimal downside risk.
    - These investors could use these GSE financed loans to buy REO, short sales, and foreclosure sales.
        - Loans would not need to be from GSE REOs or short sales.
        - These investors are local and likely have superior knowledge about local market conditions, property conditions and the renter market.
            - Local buyers are boots on the ground with local intelligence. The Wall Street Journal noted a "local [Phoenix] real-estate agent who has bought nearly a dozen foreclosures as rentals, [who] knocked on the door of a homeowner whose home was slated for a bank foreclosure auction. After introducing himself and informing the occupant about the imminent foreclosure sale, he popped the question: 'If you're not able to keep your house, would you be interested in renting it?'"[20]

Too much leverage

HARP, FHA, and GSE-assisted refinances have done almost nothing to reduce leverage. They are all focused on cutting a stagnant economic pie into smaller slices.

[20] Supra, Timiraos, "Rise in Phoenix Housing"

The Fed has kept rates abnormally low and promises to continue through 2014. While addressing the advisability of this policy is beyond the scope of this hearing, I must point out that borrowing short to finance our national debt and lending long by having the Government Mortgage Complex guarantee 30-year mortgages appears to be a recipe for disaster. Further, it is inappropriate for the Fed to become a policy advocate for more expansive refinance efforts just because its own moves have not led to a robust recovery.

It is within the scope of this hearing to examine how these low rates are being utilized by the administration. Rather than directly addressing the problem of overleverage through faster loan amortization, these policies have promoted the use of lower payments as so called stimulus. This presents four problems:

- It is an extremely weak form of stimulus. The administration estimated annualized savings of $27 billion from all refinances done since 2009.[21] This is less than two-tenths of one percent of our annual GDP.
    - To paraphrase Winston Churchill, this is like standing in a bucket and trying to lift oneself up by the handle.
- Compare this to any number of sound private sector job growth ideas rejected by the administration. To offset the stimulus of 14 million refinances, one would need to implement policies that generate just 270,000 new jobs. At $100,000 additional GDP per job, the nominal impact is the same, but which would you rather have?
    - Multiply by four and we would be talking about a real recovery.
- Even better, these new jobs would grow the economic pie while refinances merely redistribute it. Every dollar of interest savings given to a borrower is a dollar taken from a saver. Thus the effective stimulus is really much less than the $27 billion claimed by the administration.
- Underwater HARP borrowers are generally left even more under water after refinancing. Most have fees and closing costs added to the loan balance and usually extend the term 30-years.

The alternative is to help underwater borrowers who have done the right thing and made loan payments for the last 5 plus years get the benefit of a lower rate but keeping the same monthly payment. This way the loan would amortize much faster, helping the homeowner get himself out from under water.

Example:

- Existing 6.0% 30-year loan from Jan. 2007 with a $839 monthly principal and interest payment, an original balance of $140,000, a current balance of $130,000 and a current home value of $100,000 for a 130% current LTV. Do nothing and after 5 additional years, the LTV would be **117%** (assumes no nominal house price change).
    - **Typical HARP**: refinance into a **4.0% 30 year loan** with a $132,000 balance and a $630 monthly principal and interest payment. After 5 additional years, the LTV would be **119%** (assumes zero nominal house price change).
    - **Constant payment alternative**: modify[22] into a **3.375% 17 year loan**: with a $130,000 balance and an $838 monthly principal and interest payment. After 5 years, the LTV loan would be **99%** (assumes zero nominal house price change).

[21] "The Obama Administration's Efforts to Stabilize the Housing Market and Help American Homeowners", p. 4, February 2012, http://portal.hud.gov/hudportal/HUD?src=/initiatives/Housing_Scorecard

Winding down the Government Mortgage Complex

I have already addressed steps that need to be taken with respect to the FHA and the Dodd-Frank Act.

With regard to winding down Fannie Mae and Freddie Mac ("the GSEs"), the solution is straightforward:

- Adopt legislation to dramatically reduce their conforming loan limits over a period of 5-7 years.
- Continue recent steps to increase the guarantee fees charged by the GSEs.

Further details may be found in the AEI White Paper entitled: Taking the government out of housing finance: principles for reforming the housing finance market.

[22] For borrowers substantially under water the fees would be near zero since this could be done as a modification.

Appendix 1:

Principles to Guide FHA Reform to Achieve Sustainable Homeownership Consistent with FHA's Low- and Moderate-Income Mission

1. Step back from markets that can be served by the private sector by taking steps to return to a traditional 10 percent home purchase market share.
2. Stop knowingly lending to people who cannot afford to repay their loans.
3. Help homeowners establish meaningful equity in their homes.
4. Concentrate on homebuyers who truly need help purchasing their first home.

Table 2: FHA Program Reform

Suggested Reforms to Implement Program Reform Principles 1-4
Set loan limits equal to the county's current median house price.
Serve first-time homebuyers with incomes below the area median.
Serve repeat homebuyers below < 80 percent of area median.
Set maximum FICO at 675.
Limit rate reduction refinances to term reduction only, payment remains the same.
Eliminate cash-out refinances.
Eliminate specific risks that are difficult to offset with lower risk features: 1. FICO scores below 580 2. Adjustable rate mortgages (ARMs) 3. Seller concessions greater than 3%
Limit/adjust risk layering to meet target projected average claim rates of 5 per 100 insured loans under normal circumstances and 10 per 100 insured loans under stress circumstances. See Table 3 below.
1. Until the above are implemented, levy a 0.25 percent, 0.50 percent, and 0.75 percent per year government subsidy reduction fee on any Ginnie/FHA or Ginnie/USDA insured loan with an initial LTV of > 90 percent and <= 95 percent, with an initial LTV of > 80 percent and <= 90 percent and with an initial LTV of <= 80 percent, respectively. Revenue would be paid directly to the Treasury and not benefit Ginnie, the FHA, or the USDA. 2. Until the above are implemented, require FHA to cause to be disclosed in both the Good Faith Estimate and HUD 1 Settlement Statement an

Table 3: Underwriting standards that help homeowners establish meaningful equity in their homes

FICO	Maximum LTV limit**	Maximum loan term	Maximum total DTI	Equity after 4 years*	Estimated claim rate
660-675	95.75%***	30 years	<50%	11%	5
620-659	95.75%/ 89.75%***	20/30 years	<50%/40%	17%	5
580-619	91.75%/ 83.75%***	15/20 years	<45%/40%	27%	5

* Earned equity is the sum of initial equity plus scheduled amortization based upon an interest rate of 4.5%
** FHA annual premium payable until (i) the amortized loan balance is equal to 70% of the lesser of original sales price or original appraised value or (ii) the sum of upfront premium plus annual premium of 0.50% exceeds a cumulative 4.5%.
*** Maximum LTV inclusive of financing up to a 1.75% upfront mortgage insurance premium

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Current position

Resident Fellow, American Enterprise Institute

Areas of research:

- Housing finance
- Sustainable affordable lending
- Private mortgage insurance
- Federal Housing Administration (FHA) and other government mortgage lending agencies
- Fannie Mae and Freddie Mac
- Causes of the financial crisis
- Appraisal principles and methodologies

Summary of Experience

An executive vice president and chief credit officer for Fannie Mae until the late 1980s, Edward Pinto has done groundbreaking research on the role of government housing policies in the lead-up to the financial crisis. In particular, his data have revealed striking facts about the contributions of housing policy to the mortgage crisis. Two of his major research papers have been submitted to the Financial Crisis Inquiry Commission: "Government Housing Policies in the Lead-up to the Financial Crisis: A Forensic Study" and "Triggers of the Financial Crisis."

Detailed experience

- President and CEO, Courtesy Settlement Services LLC, 1994-present
- Consultant to the Housing-Finance Industry, 1989-present
- President and CEO, ICBA (Independent Community Bankers of America) SmartLender LLC, 2004-2010
- Executive Vice President and Chief Credit Officer, 1987-89; Senior Vice President, Marketing and Product Management, 1985-87; Vice President, Negotiated Transactions, 1984-85, Fannie Mae
- Capital-Markets Program Manager, 1984; Senior Legal Counsel, 1982-83, Mortgage Guaranty Insurance Corporation
- General Counsel, 1977-82; Staff Attorney, 1974-77, Michigan State Housing Development Authority

Education

J.D., Indiana University School of Law
B.A., University of Illinois

Committee on Oversight and Government Reform
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)(5)

Name: Edward J. Pinto

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2008. Include the source and amount of each grant or contract.

None

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

American Enterprise Institute
Resident Fellow

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2008, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

None.

I certify that the above information is true and correct.
Signature: Edward J Pinto

Date: 3/14/12