Prepared Remarks for Secretary of Housing and Urban Development Shaun Donovan at the National Association of Realtors Real Estate Summit - Advancing the U.S. Economy

Washington, D.C.
Tuesday, May 12th, 2009

Thank you so much. It's great to be here for the National Association of Realtors Real Estate Summit. Thanks so much to Charles McMillan for the introduction. Let me also recognize: Dale Stinton, NAR Executive Director; Jerry Giovaniello, Senior Vice President of NAR; and Joseph Ventrone, NAR Vice President and former HUD staffer.

The theme of your summit is advancing the U.S. economy. That's been President Obama's mission every day since taking office, and I know we are all looking forward to brighter days ahead.

Let me give you an update on the President's housing plan, Making Home Affordable, which will help 7 to 9 million homeowners stay in their homes, targeting those who have made every possible effort to stay current on their mortgage payments. First, we have taken action Administration-wide to reduce interest rates, which are now at historic lows. Second, we will assist 4 to 5 million homeowners who can't otherwise take advantage of today's historically low mortgage interest rates. Lastly, we have committed up to $75 billion to help an additional 3 to 4 million homeowners who are at risk of foreclosure modify their unaffordable mortgages into affordable ones.

I know that all of your livelihoods depend on the stability of the housing market so let me step back for a moment and share with you just how far we've come with the plan in such a short span of time. Since the President announced his modification plan on February 18th, rates on 30-year mortgages dropped to record lows, below 5%, and refinancing applications have surged. A typical homeowner can now refinance and save around $2,000 a year, the equivalent of a major tax cut. And the plan's website has received almost 16 million page views. Servicers have received hundreds of thousands of applications, and tens of thousands of American families have modified their loans or refinanced.

14 of the largest servicers, representing over 75% of the market, have also formalized their commitments to implement the Obama modification plan and have already begun modifying loans. They have all committed not to foreclose on any one unless the household has been given a real opportunity to qualify for a modification. We are confident that banks and servicers will move as quickly as possible to modify these loans to avert additional foreclosures in the coming months.

Over the next month or so, we also expect to see substantial increase in loan modifications, which we anticipate will happen quickly and will help decrease the foreclosure sales numbers over the next few months. I do think that we have some early signs that the market overall is stabilizing. Since January, what we've seen is both home sales moving up and down around a relatively stable number and we are seeing the first signs that the rapid decline in home prices is starting to abate. Although I think it's too early to say we are out of the woods until we get a couple more months of data, I am optimistic that housing markets will recover by the end of this year, if not earlier.

And we are taking action to further help the housing market recover. I'm excited to announce here at NAR that FHA's policy on the "monetization" of the first-time homebuyer tax credit will soon be published. I know that you've been waiting anxiously to hear FHA's position on the matter. We, like you, believe that this new tax credit is not only a tremendous opportunity for first-time homebuyers, but also an enormous benefit for communities struggling to deal with an oversupply of housing. According to estimates by the National Association of Home Builders, this new tax credit will stimulate 160,000 home sales across the nation - 101,000 of which will be first time buyers who will receive the credit. Another 59,000 existing homeowners will be able to buy another home because a first time buyer purchased their home.

We all want to enable FHA consumers to access the tax credit funds when they close on their home loans so that the cash can be used as a downpayment. So FHA will permit trusted FHA-approved lenders and HUD-approved nonprofits, as well as state and local governmental entities to "monetize" the tax credit through short-term bridge loans. We think the policy is a real win for everyone, ensuring that borrowers can tap into the numerous organizations that are already part of the FHA network to receive this additional benefit. FHA will be publishing the details shortly.

I know that as an organization you are all very concerned about the viability of FHA, and I want to thank the National Association of Realtors for your support and ongoing partnership with FHA. As we announced in our budget last week, I'm proud to say that we will not be asking the American taxpayer to support FHA's single family program in the FY 2010 budget. HUD will be requesting expanded loan commitment authority for both FHA and Ginnie Mae with the expectation that FHA loan volumes will continue to be high while broader credit markets and the private sector recover from the credit crisis.

FHA volume has grown consistently. As recently as 2007, FHA volume for its flagship mortgage insurance program was $60 billion. By 2008, the volume had grown to $181 billion. For FY 2009, we are expecting $290 billion in forwards. For our FY 2010 budget, we are asking Congress for the authority to endorse an even higher volume – up to $400 billion in authorization for FHA insurance. That increased authority will allow HUD to endorse approximately two and a quarter million mortgages.

In addition to increased volume, the tightened underwriting standards in the conventional mortgage market are resulting in a substantial increase in borrower credit quality in the FHA portfolio. Over the period from February 2008 through March 2009, the average credit score for FHA-insured borrowers increased from 626 to 678. That change alone creates a more stable base of borrowers that will help to contain any increase in foreclosure activity on FHA-insured loans in the future.

Despite sufficient revenue for the single family program, FHA needs to change. We view FHA reform as key to changing the way that HUD does business. In this budget year and into the future, we will work with Congress to make sure that FHA has the right program mix and pricing structure, is actuarially sound, and has the organizational infrastructure to continue to expand homeownership opportunities to those families traditionally not well served by the private market place.

FHA's market share - which was at just 1.9% in the fourth quarter of 2006 and reached 23.7% in the fourth quarter of 2008 - means that we must continue to ensure that FHA can play its critically important countercyclical role, serving as a backstop to the private mortgage market. FHA is working to realize its full potential to respond to the current mortgage crisis and cope with growing demand by investing in new technology and devoting additional resources to personnel. FHA was awarded additional funding of $4 million in the FY 2009 omnibus to enhance information technology and we are developing a modernization plan.

Our FY 2010 budget requests funding for IT investments to replace obsolete systems, and invests in infrastructure that can support our core systems in the future. New technology is needed to help improve fraud detection, underwriting, and risk management. This year, HUD will also be able to substantially increase hiring and address some of its personnel shortages. Thanks again to the NAR for being vocal on the Hill about FHA's technology, infrastructure, and personnel needs.

The HUD budget also requests $100 million for the Housing Counseling Assistance program, an increase of $35 million over the level provided in the FY 2009. The housing crisis has illustrated that many families need help with the complex home buying process and need a trusted place to turn when they face foreclosure.

Many families have also proven to be vulnerable to aggressive and misleading marketing of risky loan products and foreclosure rescue scams that are not in their best interest. In this environment, the need and demand for mortgage and foreclosure counseling efforts could not be greater. Along these lines, we are also requesting $37 million for an agency wide initiative to Combat Mortgage Fraud and Predatory Practices, which will enhance our ability to detect fraud and monitor lender originations in FHA.

This investment is part of President Obama's commitment to helping consumers shop effectively and safely for homes and mortgages. That's why we are committed to implementing the mortgage reforms under RESPA that are scheduled to take full effect on January 1st, 2010. We will implement the new RESPA rules as part broader reforms to the mortgage process that includes ensuring that RESPA and TILA are coordinated. This administration believes in providing consumers with clear and transparent information when they make the biggest purchase of their lives. I also know that YOU need clarity on RESPA and how it will be implemented and enforced. HUD is committed to working with you to answer your questions and make the implementation of the new RESPA rules as clear as possible. The updated RESPA rules will help consumers shop for the lowest cost mortgage, avoid costly and potentially harmful loan offers, and save an average of $700.

As many of you know there has been discussion and even litigation around the "required use" provision of the RESPA rules. The previous administration drafted this "required use" provision in a way that was confusing and flawed and neither protected consumers nor provided needed guidance to industry participants. Therefore, after an evaluation of more than 1,200 public comments, HUD is withdrawing the new "required use" definition and announcing our intent to propose revised language relating to this narrow provision of the final RESPA rule. I want to be clear that the Obama administration stands by the consumer protection intentions of the "required use" provision. Needed consumer protections are too important to allow confusion over one specific provision to hold up needed RESPA reforms. And while we work to propose a clearer, stronger provision, the existing "required use" provision will remain in place.

Obviously, as we look forward into the future, we must examine all of the factors in the housing industry that led us into this crisis in the first place- RESPA included. We will have serious, and at times difficult, conversations about putting into place common sense structures so that we don't repeat the mistakes of the past and we may not agree on everything. But I do fundamentally believe that there are ways to make our current system simpler and more transparent that can benefit consumers, financial institutions, and the real estate industry.

Lastly, I'm happy to say that one of your own leaders will now be one of ours: Dave Stevens. Dave is our nominee for Assistant Secretary for Housing/Federal Housing Commissioner and I believe that Dave is one of the best in the mortgage business with experience ranging from mortgage originations, to secondary markets, to managing a national real estate firm. Dave brings a hands-on systems approach to mortgage origination, and is anxious to see first- hand the status of FHA's systems and programs and to quickly put in place process and technology improvements in all facets of FHA's operations. He will also help FHA become an important partner with you in driving energy efficiency and achieving savings that will make it possible for average American families to weatherize their homes. I look forward to having Dave aboard.

We have made much progress since President Obama came into office, but there is a long road ahead and our budget and our reform of FHA is just the beginning of our transformation process as an agency and as a country.

As HUD and the Obama Administration continue to aggressively respond to the housing and economic crisis, I hope that we can count on the realty community to help boost consumer confidence. As realtors, you play a unique role in your communities as counselors to American families looking to buy or sell their homes. You have your fingers on the pulse of the national real estate market, and you have the ability to spread important information to your clients about Making Home Affordable, mortgage and foreclosure counseling, and the positive trends in the market that we're starting to see. Your leadership and counseling has the power to influence your local real estate market and local consumer behavior, I look forward to being partners with the realty community in your efforts to stabilize the housing market.

While we are without a doubt in a crisis, I know that together we can find and implement solutions that will help American families struggling to stay in their homes. We rise and fall together and together I know that we can meet our nation's challenges and put our country’s economy back on solid ground.

I'm now happy to take any questions you may have.