



Federal Financial Analytics, Inc.

PETROU URGES CONGRESS TO TARGET FHA TO NEEDIEST BORROWERS

“As a government program, FHA should serve its targeted borrowers if they are not already being adequately served by the private sector. It is not appropriate for FHA, as a government program, to launch initiatives to expand its ‘market share.’”

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WASHINGTON, D.C. – Basil N. Petrou, managing partner of Federal Financial Analytics, today testified on Federal Housing Administration (FHA) reform before the Housing and Transportation Subcommittee of the Senate Banking Committee. Petrou urged caution with regard to pending proposals to expand the FHA’s single-family mortgage insurance program. He noted that, if FHA expands into high-risk markets and products, it could well undermine its ability to serve low- and moderate-income first-time homebuyers – for whom it should be targeted – and put inner-city neighborhoods at risk should defaults increase. Petrou stated that FHA should not seek to “grow its way out of its current financial problems. Doing so is reminiscent of the actions taken by distressed savings-and-loans during the 1980s.”

“It is time,” Petrou said, “that FHA became an income-targeted – rather than a loan amount targeted – housing program. The current system for setting FHA area loan limits is skewed toward raising these limits above the true median house price for an area, never lowering

them, even if house prices fall. Income targeting FHA's single-family program will assure that low- and moderate-income borrowers become the primary focus of the program. It should also make housing more affordable for these targeted borrowers."

Petrou noted that current proposals to change the FHA would put the FHA's Mutual Mortgage Insurance (MMI) Fund at risk. Current data is well over a year old and thus does not reflect changing housing market developments – let alone factor in the risks posed by any further housing-market softening or price reductions. Petrou also noted that various studies – including one from FHA's own Department of Housing and Urban Development – make clear that the FHA does not now have the analytical capability or data with which to start risk-based premiums. Petrou also noted that such risk-based premiums could actually lead to price hikes that would limit home-ownership opportunity for low/moderate-income and minority borrowers.

A copy of Petrou's testimony is attached.

Federal Financial Analytics, Inc. has for the past twenty years counseled large financial institutions and even their regulators on major legislative, regulatory and policy issues that pose strategic risk. It does not lobby on behalf of clients, but advises them on appropriate responses in light of identified challenges, working on an array of GSE, Basel II, and acquisition-value issues. The firm publishes numerous information and analytical services, including Financial Services Management and GSE Activity Report.

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