



Federal Financial Analytics, Inc.

Petrou Calls for Reduced FHA Guarantee, Other Reforms to Save Program

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WASHINGTON, D.C. – In testimony to be delivered today at the first hearing of the House Financial Services Committee in the 113th Congress, Federal Financial Analytics partner Basil N. Petrou argues for balanced reform of the Federal Housing Administration (FHA) that will, he says, save the program for its most vital purpose: supporting the entry into home ownership of borrowers who lack large down payments and who cannot access other sources of mortgage credit insurance. The Committee is, he says, rightly concerned that recent actuarial studies show serious taxpayer risk, risk that will only grow larger absent not only FHA reform, but also parallel changes to Fannie Mae and Freddie Mac to prevent a market shift towards unlimited federal-government support and, thus, risk in the mortgage arena.

Specifically, Petrou argues for dropping the unlimited, 100% guarantee that FHA now provides, detailing how the Veterans Administration has successfully taken a major market role and served vital needs with guarantees ranging between 25-50% of the loan amount. Petrou also argues for income-targeting FHA protection as well as for changing the manner in which it is budgeted for federal-deficit purposes.

Absent a better balance between taxpayer and private capital, FHA is the next “heads-I-win, tails-you-lose” bet because, as his testimony states, “ It is simply impossible for there to be real incentive alignment between mortgage originators and the taxpayer if originators take all the profit and the U. S. taxpayer takes all the risk.”

Petrou also argues that Congress must pursue FHA reform, but not in a “silo” isolated from other critical questions in mortgage finance. The statement details several areas where, if reform is not carefully balanced, policies designed to return private capital to this sector will in fact only increase the role and, thus, the risk inherent in the FHA. Specific initiatives here detailed in the testimony include not only GSE reform, but also new bank capital and liquidity rules, as well as pending risk-retention standards that seek to define “qualified residential mortgages” exempt from costly requirements.

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