

109TH CONGRESS
2^D SESSION

H. R. 5121

To modernize and update the National Housing Act and enable the Federal Housing Administration to use risk-based pricing to more effectively reach underserved borrowers, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

APRIL 6, 2006

Mr. NEY (for himself, Ms. WATERS, Mr. GARY G. MILLER of California, and Mr. TIBERI) introduced the following bill; which was referred to the Committee on Financial Services

A BILL

To modernize and update the National Housing Act and enable the Federal Housing Administration to use risk-based pricing to more effectively reach underserved borrowers, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.**

4 (a) **SHORT TITLE.**—This Act may be cited as the
5 “Expanding American Homeownership Act of 2006”.

6 (b) **TABLE OF CONTENTS.**—The table of contents for
7 this Act is as follows:

Sec. 1. Short title and table of contents.

- Sec. 2. Findings and purposes.
- Sec. 3. Maximum principal loan obligation.
- Sec. 4. Extension of mortgage term.
- Sec. 5. Cash investment requirement.
- Sec. 6. Mortgage insurance premiums.
- Sec. 7. Rehabilitation loans.
- Sec. 8. Discretionary action.
- Sec. 9. Insurance of condominiums.
- Sec. 10. Mutual Mortgage Insurance Fund.
- Sec. 11. Hawaiian home lands and Indian reservations.
- Sec. 12. Conforming and technical amendments.
- Sec. 13. Home equity conversion mortgages.
- Sec. 14. Conforming loan limit in disaster areas.
- Sec. 15. Savings provision.
- Sec. 16. Implementation.

1 **SEC. 2. FINDINGS AND PURPOSES.**

2 (a) FINDINGS.—The Congress finds that—

3 (1) one of the primary missions of the Federal
 4 Housing Administration (FHA) single family mort-
 5 gage insurance program is to reach borrowers who
 6 are underserved, or not served, by the existing con-
 7 ventional mortgage marketplace;

8 (2) the FHA program has a long history of in-
 9 novation, which includes pioneering the 30-year self-
 10 amortizing mortgage and a safe-to-seniors reverse
 11 mortgage product, both of which were once thought
 12 too risky to private lenders;

13 (3) the FHA single family mortgage insurance
 14 program traditionally has been a major provider of
 15 mortgage insurance for home purchases;

16 (4) the FHA mortgage insurance premium
 17 structure, as well as FHA’s product offerings,
 18 should be revised to reflect FHA’s enhanced ability

1 to determine risk at the loan level and to allow FHA
2 to better respond to changes in the mortgage mar-
3 ket;

4 (5) during past recessions, including the oil-
5 patch downturns in the mid-1980s, FHA remained
6 a viable credit enhancer and was therefore instru-
7 mental in preventing a more catastrophic collapse in
8 housing markets and a greater loss of homeowner
9 equity; and

10 (6) as housing price appreciation slows and in-
11 terest rates rise, many homeowners and prospective
12 homebuyers will need the less-expensive, safer fi-
13 nancing alternative that FHA mortgage insurance
14 provides.

15 (b) PURPOSES.—The purposes of this Act are—

16 (1) to provide flexibility to FHA to allow for
17 the insurance of housing loans for low- and mod-
18 erate-income homebuyers during all economic cycles
19 in the mortgage market;

20 (2) to modernize the FHA single family mort-
21 gage insurance program by making it more reflective
22 of enhancements to loan-level risk assessments and
23 changes to the mortgage market; and

24 (3) to adjust the loan limits for the single fam-
25 ily mortgage insurance program to reflect rising

1 house prices and the increased costs associated with
2 new construction.

3 **SEC. 3. MAXIMUM PRINCIPAL LOAN OBLIGATION.**

4 Paragraph (2) of section 203(b) of the National
5 Housing Act (12 U.S.C. 1709(b)(2)) is amended—

6 (1) in subparagraph (A)—

7 (A) by striking the subparagraph designa-
8 tion and all that follows through the end of
9 clause (i) and inserting the following:

10 “(A) not to exceed the lesser of—

11 “(i) the median house price in the
12 area, as determined by the Secretary; or”;

13 and

14 (B) in clause (ii)—

15 (i) by striking “87 percent of”;

16 (ii) by striking “for Fiscal Year” and
17 inserting a comma; and

18 (iii) by striking “48 percent” and in-
19 serting “65 percent”;

20 (2) by striking subparagraph (B) and inserting
21 the following:

22 “(B) not to exceed the appraised value of
23 the property, plus any initial service charges,
24 appraisal, inspection and other fees in connec-

1 tion with the mortgage as approved by the Sec-
2 retary.”;

3 (3) in the matter after and below subparagraph
4 (B), by striking the semi-colon in the first sentence
5 and all that follows through “title 38, United States
6 Code” and inserting a period; and

7 (4) by striking the last undesignated paragraph
8 (relating to counseling with respect to the respon-
9 sibilities and financial management involved in
10 homeownership).

11 **SEC. 4. EXTENSION OF MORTGAGE TERM.**

12 Paragraph (3) of section 203(b) of the National
13 Housing Act (12 U.S.C. 1709(b)(3)) is amended—

14 (1) by striking “thirty-five years” and inserting
15 “forty years”; and

16 (2) by striking “(or thirty years if such mort-
17 gage is not approved for insurance prior to construc-
18 tion)”.

19 **SEC. 5. CASH INVESTMENT REQUIREMENT.**

20 Paragraph (9) of section 203(b) of the National
21 Housing Act (12 U.S.C. 1709(b)(9)) is amended by strik-
22 ing the paragraph designation and all that follows through
23 “*Provided further*, That for” and inserting the following:

24 “(9) Be executed by a mortgagor who shall
25 have paid on account of the property, in cash or its

1 equivalent, an amount, if any, as the Secretary may
2 determine based on factors determined by the Sec-
3 retary and commensurate with the likelihood of de-
4 fault. For”.

5 **SEC. 6. MORTGAGE INSURANCE PREMIUMS.**

6 Section 203(c) of the National Housing Act (12
7 U.S.C. 1709(c)) is amended—

8 (1) in paragraph (2), in the matter preceding
9 subparagraph (A), by striking “Notwithstanding”
10 and inserting “Except as provided in paragraph (3)
11 and notwithstanding”; and

12 (2) by adding at the end the following new
13 paragraph:

14 “(3) FLEXIBLE RISK-BASED PREMIUMS.—

15 “(A) IN GENERAL.—For any mortgage insured
16 by the Secretary under this title that is secured by
17 a 1- to 4-family dwelling and for which the loan ap-
18 plication is received by the mortgagor on or after
19 October 1, 2006, the Secretary may establish a
20 mortgage insurance premium structure involving a
21 single premium payment collected prior to the insur-
22 ance of the mortgage or periodic payments, or both,
23 without regard to any maximum or minimum pre-
24 mium amounts set forth in this subsection. The rate
25 of premium for such a mortgage may vary during

1 the mortgage term as long as the basis for deter-
2 mining the variable rate is established before the
3 execution of the mortgage. The Secretary may
4 change a premium structure established under this
5 subparagraph but only to the extent that such
6 change is not applied to any mortgage already exe-
7 cuted.

8 “(B) ESTABLISHMENT AND ALTERATION OF
9 PREMIUM STRUCTURE.—A premium structure shall
10 be established or changed under subparagraph (A)
11 only by providing notice to mortgagees and to the
12 Congress, at least 30 days before the premium
13 structure is established or changed.

14 “(C) CONSIDERATIONS FOR PREMIUM STRUC-
15 TURE.—When establishing a premium structure
16 under subparagraph (A) or when changing such a
17 premium structure, the Secretary shall consider the
18 following:

19 “(i) The effect of the proposed premium
20 structure on the Secretary’s ability to meet the
21 operational goals of the Mutual Mortgage In-
22 surance Fund as provided in section 202(a).

23 “(ii) Underwriting variables.

1 “(iii) The extent to which new pricing
2 under the proposed premium structure has po-
3 tential for acceptance in the private market.

4 “(iv) The administrative capability of the
5 Secretary to administer the proposed premium
6 structure.

7 “(v) The effect of the proposed premium
8 structure on the Secretary’s ability to maintain
9 the availability of mortgage credit and provide
10 stability to mortgage markets.”.

11 **SEC. 7. REHABILITATION LOANS.**

12 Subsection (k) of section 203 of the National Hous-
13 ing Act (12 U.S.C. 1709(k)) is amended—

14 (1) in paragraph (1), by striking “on” and all
15 that follows through “1978”; and

16 (2) in paragraph (5)—

17 (A) by striking “General Insurance Fund”
18 the first place it appears and inserting “Mutual
19 Mortgage Insurance Fund”; and

20 (B) in the second sentence, by striking the
21 comma and all that follows through “General
22 Insurance Fund”.

23 **SEC. 8. DISCRETIONARY ACTION.**

24 The National Housing Act is amended—

1 (1) in subsection (e) of section 202 (12 U.S.C.
2 1708(e))—

3 (A) in paragraph (3)(B), by striking “sec-
4 tion 202(e) of the National Housing Act” and
5 inserting “this subsection”; and

6 (B) by redesignating such subsection as
7 subsection (f);

8 (2) by striking paragraph (4) of section 203(s)
9 (12 U.S.C. 1709(s)(4)) and inserting the following
10 new paragraph:

11 “(4) the Secretary of Agriculture;”; and

12 (3) by transferring subsection (s) of section 203
13 (as amended by paragraph (2) of this section) to
14 section 202, inserting such subsection after sub-
15 section (d) of section 202, and redesignating such
16 subsection as subsection (e).

17 **SEC. 9. INSURANCE OF CONDOMINIUMS.**

18 (a) IN GENERAL.—Section 234 of the National
19 Housing Act (12 U.S.C. 1715y) is amended—

20 (1) in subsection (c)—

21 (A) in the first sentence—

22 (i) by striking “and” before “(2)”;

23 and

24 (ii) by inserting before the period at
25 the end the following: “, and (3) the

1 project has a blanket mortgage insured by
2 the Secretary under subsection (d)”; and

3 (B) in clause (B) of the third sentence, by
4 striking “thirty-five years” and inserting “forty
5 years”; and

6 (2) in subsection (g), by striking “, except
7 that” and all that follows and inserting a period.

8 (b) DEFINITION OF MORTGAGE.—Section 201(a) of
9 the National Housing Act (12 U.S.C. 1707(a)) is amend-
10 ed—

11 (1) in clause (1), by striking “or” and inserting
12 a comma; and

13 (2) by inserting before the semicolon the fol-
14 lowing: “, or (3) a first mortgage given to secure the
15 unpaid purchase price of a fee interest in, or long-
16 term leasehold interest in, a one-family unit in a
17 multifamily project, including a project in which the
18 dwelling units are attached, semi-detached, or de-
19 tached, and an undivided interest in the common
20 areas and facilities which serve the project”.

21 **SEC. 10. MUTUAL MORTGAGE INSURANCE FUND.**

22 (a) IN GENERAL.—Subsection (a) of section 202 of
23 the National Housing Act (12 U.S.C. 1708(a)) is amended
24 to read as follows:

25 “(a) MUTUAL MORTGAGE INSURANCE FUND.—

1 “(1) ESTABLISHMENT.—Subject to the provi-
2 sions of the Federal Credit Reform Act of 1990,
3 there is hereby created a Mutual Mortgage Insur-
4 ance Fund (in this title referred to as the ‘Fund’),
5 which shall be used by the Secretary to carry out the
6 provisions of this title with respect to mortgages in-
7 sured under section 203. The Secretary may enter
8 into commitments to guarantee, and may guarantee,
9 such insured mortgages.

10 “(2) LIMIT ON LOAN GUARANTEES.—The au-
11 thority of the Secretary to enter into commitments
12 to guarantee such insured mortgages shall be effec-
13 tive for any fiscal year only to the extent that the
14 aggregate original principal loan amount under such
15 mortgages, any part of which is guaranteed, does
16 not exceed the amount specified in appropriations
17 Acts for such fiscal year.

18 “(3) FIDUCIARY RESPONSIBILITY.—The Sec-
19 retary has a responsibility to ensure that the Mutual
20 Mortgage Insurance Fund remains financially sound.

21 “(4) ANNUAL INDEPENDENT ACTUARIAL
22 STUDY.—The Secretary shall provide for an inde-
23 pendent actuarial study of the Fund to be conducted
24 annually, which shall analyze the financial position
25 of the Fund. The Secretary shall submit a report

1 annually to the Congress describing the results of
2 such study and assessing the financial status of the
3 Fund. The report shall recommend adjustments to
4 underwriting standards, program participation, or
5 premiums, if necessary, to ensure that the Fund re-
6 mains financially sound.

7 “(5) QUARTERLY REPORTS.—During each fiscal
8 year, the Secretary shall submit a report to the Con-
9 gress for each quarter, which shall specify for mort-
10 gages that are obligations of the Fund—

11 “(A) the cumulative volume of loan guar-
12 antee commitments that have been made during
13 such fiscal year through the end of the quarter
14 for which the report is submitted;

15 “(B) the types of loans insured, cat-
16 egorized by risk;

17 “(C) any significant changes between ac-
18 tual and projected claim and prepayment activ-
19 ity;

20 “(D) projected versus actual loss rates;
21 and

22 “(E) updated projections of the annual
23 subsidy rates to ensure that increases in risk to
24 the Fund are identified and mitigated by ad-
25 justments to underwriting standards, program

1 participation, or premiums, and the financial
2 soundness of the Fund is maintained.

3 The first quarterly report under this paragraph shall
4 be submitted on the last day of the first quarter of
5 fiscal year 2007, or upon the expiration of the 90-
6 day period beginning on the date of the enactment
7 of the Expanding American Homeownership Act of
8 2006, whichever is later.

9 “(6) ADJUSTMENT OF PREMIUMS.—If, pursu-
10 ant to the independent actuarial study of the Fund
11 required under paragraph (5), the Secretary deter-
12 mines that the Fund is not meeting the operational
13 goals established under paragraph (8) or there is a
14 substantial probability that the Fund will not main-
15 tain its established target subsidy rate, the Secretary
16 may either make programmatic adjustments under
17 section 203 as necessary to reduce the risk to the
18 Fund, or make appropriate premium adjustments.

19 “(7) OPERATIONAL GOALS.—The operational
20 goals for the Fund are—

21 “(A) to charge borrowers under loans that
22 are obligations of the Fund an appropriate pre-
23 mium for the risk that such loans pose to the
24 Fund;

1 “(B) to minimize the default risk to the
2 Fund and to homeowners;

3 “(C) to curtail the impact of adverse selec-
4 tion on the Fund; and

5 “(D) to meet the housing needs of the bor-
6 rowers that the single family mortgage insur-
7 ance program under this title is designed to
8 serve.”.

9 (b) OBLIGATIONS OF FUND.—The National Housing
10 Act is amended as follows:

11 (1) HOMEOWNERSHIP VOUCHER PROGRAM
12 MORTGAGES.—In section 203(v) (12 U.S.C.
13 1709(v))—

14 (A) by striking “Notwithstanding section
15 202 of this title, the” and inserting “The”; and

16 (B) by striking “General Insurance Fund”
17 the first place such term appears and all that
18 follows and inserting “Mutual Mortgage Insur-
19 ance Fund.”.

20 (2) HOME EQUITY CONVERSION MORTGAGES.—
21 Section 255(i)(2)(A) of the National Housing Act
22 (12 U.S.C. 1715z–20(i)(2)(A)) is amended by strik-
23 ing “General Insurance Fund” and inserting “Mu-
24 tual Mortgage Insurance Fund”.

1 (c) CONFORMING AMENDMENTS.—The National
2 Housing Act is amended—

3 (1) in section 205 (12 U.S.C. 1711), by striking
4 subsections (g) and (h); and

5 (2) in section 519(e) (12 U.S.C. 1735c(e)), by
6 striking “203(b)” and all that follows through
7 “203(i)” and inserting “203, except as determined
8 by the Secretary,”.

9 **SEC. 11. HAWAIIAN HOME LANDS AND INDIAN RESERVA-**
10 **TIONS.**

11 (a) HAWAIIAN HOME LANDS.—Section 247(c) of the
12 National Housing Act (12 U.S.C. 1715z–12) is amend-
13 ed—

14 (1) by striking “General Insurance Fund estab-
15 lished in section 519” and inserting “Mutual Mort-
16 gage Insurance Fund”; and

17 (2) in the second sentence, by striking “(1) all
18 references” and all that follows through “and (2)”.

19 (b) INDIAN RESERVATIONS.—Section 248(f) of the
20 National Housing Act (12 U.S.C. 1715z–13) is amend-
21 ed—

22 (1) by striking “General Insurance Fund” the
23 first place it appears through “519” and inserting
24 “Mutual Mortgage Insurance Fund”; and

1 (2) in the second sentence, by striking “(1) all
2 references” and all that follows through “and (2)”.

3 **SEC. 12. CONFORMING AND TECHNICAL AMENDMENTS.**

4 (a) REPEALS.—The following provisions of the Na-
5 tional Housing Act are repealed:

6 (1) Subsection (i) of section 203 (12 U.S.C.
7 1709(i)).

8 (2) Subsection (o) of section 203 (12 U.S.C.
9 1709(o)).

10 (3) Subsection (p) of section 203 (12 U.S.C.
11 1709(p)).

12 (4) Subsection (q) of section 203 (12 U.S.C.
13 1709(q)).

14 (5) Section 222 (12 U.S.C. 1715m).

15 (6) Section 237 (12 U.S.C. 1715z-2).

16 (7) Section 245 (12 U.S.C. 1715z-10).

17 (b) DEFINITION OF AREA.—Section 203(u)(2)(A) of
18 the National Housing Act (12 U.S.C. 1709(u)(2)(A)) is
19 amended by striking “shall” and all that follows and in-
20 serting “means a metropolitan statistical area as estab-
21 lished by the Office of Management and Budget;”.

22 (c) DEFINITION OF STATE.—Section 201(d) of the
23 National Housing Act (12 U.S.C. 1707(d)) is amended by
24 striking “the Trust Territory of the Pacific Islands” and

1 inserting “the Commonwealth of the Northern Mariana
2 Islands”.

3 **SEC. 13. HOME EQUITY CONVERSION MORTGAGES.**

4 Section 255 of the National Housing Act (12 U.S.C.
5 1715z–20) is amended—

6 (1) in subsection (g)—

7 (A) by striking the first sentence; and

8 (B) by striking “established under section
9 203(b)(2)” and all that follows through “lo-
10 cated” and inserting “limitation established
11 under section 305(a)(2) of the Federal Home
12 Loan Mortgage Corporation Act for a 1-family
13 residence”;

14 (2) in subsection (i)(1)(C), by striking “limita-
15 tions” and inserting “limitation”; and

16 (3) by adding at the end the following new sub-
17 section:

18 “(n) **AUTHORITY TO INSURE HOME PURCHASE**
19 **MORTGAGE.**—

20 “(1) **IN GENERAL.**—Notwithstanding any other
21 provision in this section, the Secretary may insure,
22 upon application by a mortgagee, a home equity con-
23 version mortgage upon such terms and conditions as
24 the Secretary may prescribe, when the primary pur-
25 pose of the home equity conversion mortgage is to

1 enable an elderly mortgagor to purchase a 1-to 4
2 family dwelling in which the mortgagor will occupy
3 or occupies one of the units.

4 “(2) LIMITATION ON PRINCIPAL OBLIGATION.—
5 A home equity conversion mortgage insured pursu-
6 ant to paragraph (1) shall involve a principal obliga-
7 tion that does not exceed the dollar amount limita-
8 tion determined under section 305(a)(2) of the Fed-
9 eral Home Loan Mortgage Corporation Act for a
10 residence of the applicable size.”.

11 **SEC. 14. CONFORMING LOAN LIMIT IN DISASTER AREAS.**

12 Section 203(h) of the National Housing Act (12
13 U.S.C. 1709) is amended—

14 (1) by inserting after “property” the following:
15 “plus any initial service charges, appraisal, inspec-
16 tion and other fees in connection with the mortgage
17 as approved by the Secretary,”;

18 (2) by striking the third sentence (as added by
19 chapter 7 of the Emergency Supplemental Appro-
20 priations Act of 1994 (Public Law 103–211; 108
21 Stat. 12)); and

22 (3) by adding at the end the following new sen-
23 tence: “In any case in which the single family resi-
24 dence to be insured under this subsection is within
25 a jurisdiction in which the President has declared a

1 major disaster to have occurred, the Secretary is au-
2 thORIZED, for a temporary period not to exceed 36
3 months from the date of such Presidential declara-
4 tion, to enter into agreements to insure a mortgage
5 which involves a principal obligation of up to 100
6 percent of the dollar limitation determined under
7 section 305(a)(2) of the Federal Home Loan Mort-
8 gage Corporation Act for a single family residence,
9 and not in excess of 100 percent of the appraised
10 value of the property plus any initial service charges,
11 appraisal, inspection and other fees in connection
12 with the mortgage as approved by the Secretary.”.

13 **SEC. 15. SAVINGS PROVISION.**

14 Any mortgage insured under title II of the National
15 Housing Act before the date of enactment of this title shall
16 continue to be governed by the laws, regulations, orders,
17 and terms and conditions to which it was subject on the
18 day before the date of the enactment of this Act.

19 **SEC. 16. IMPLEMENTATION.**

20 The Secretary of Housing and Urban Development
21 shall by notice establish any additional requirements that
22 may be necessary to immediately carry out the provisions
23 of this title. The notice shall take effect upon issuance.

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