

October 12, 2009

Hello CFG clients . . . Brian here. For several weeks I've been writing about the FDIC fund and its impending depletion. The depletion of this fund has now been confirmed by several news releases [here](#) and [here](#). This means that the FDIC will need to borrow from the Treasury (meaning borrow from taxpayers) to replenish the fund to cover upcoming bank failures.

Now, for a little perspective . . . most everyone will agree our current economic unraveling began with sub-prime residential mortgage loans (i.e. un-credit worthy borrowers getting loans to buy homes they couldn't afford). The largest facilitators of these (and really all) residential mortgage loans, Freddie Mac and Fannie Mae, were caught up in this sub-prime meltdown and were taken over by the US government in September of 2008. Mind you, we (taxpayers) have been and are still dumping billions of dollars into these institutions (\$100 billion thus far) ever since the government takeover to prop them up. The bailout of these two institutions has been dubbed "The Most Expensive Bailout" in a CNN Money article [here](#).

To help fill the void of these two bogged-down mortgage facilitators, another government agency the Federal Housing Administration (FHA) stepped to the plate of facilitating residential mortgage loans . . . and guess what? The FHA is now in serious trouble . . . and talk of a FHA bailout is simmering (article below).

Folks, where does it end? We taxpayers cannot even begin to foot the bill for all this . . . and the proposed healthcare bill, and the wars in Iraq and Afghanistan, and the dwindling Social Security and Medicare funds. I urge you to call, write or email your representatives and let them know this madness needs to stop . . .

If you don't have time to read the whole article, skip ahead to the highlighted areas, especially the one in **RED** toward the end of the article.

## F.H.A. Problems Raising Concern of Policy Makers

By [DAVID STREITFELD](#) and [LOUISE STORY](#)

Published: October 8, 2009



Bernadine Shimon and her son Cooper Jonas, at their new home in Northglenn, Colo., obtained after the F.H.A. insured her mortgage.

A year after [Fannie Mae](#) and [Freddie Mac](#) teetered, industry executives and Washington policy makers are worrying that another government mortgage giant could be the next housing domino.

Problems at the [Federal Housing Administration](#), which guarantees mortgages with low down payments, are becoming so acute that some experts warn the agency might need a federal bailout.

Running questions about the F.H.A.'s future — underscored by interviews with policy makers, analysts and home buyers — came to the fore on Thursday on Capitol Hill. In testimony before a House subcommittee, the F.H.A. commissioner, David H. Stevens, assured lawmakers that his agency would not need a bailout and that it was managing its risks.

But he acknowledged that some 20 percent of F.H.A. loans insured last year — and as many as 24 percent of those from 2007 — faced serious problems including foreclosure, offering a preview of a forthcoming audit of the agency's finances.

“Let me simply state at the outset that based on current projections, absent any catastrophic home price decline, F.H.A. will not need to ask Congress and the American taxpayer for extraordinary assistance — we will not need a bailout,” Mr. Stevens said in his testimony.

But to its critics, the F.H.A. looks like another Fannie Mae. The hearings on Thursday came on the same day that the federal agency charged with overseeing Fannie Mae and Freddie Mac provided a somber assessment of those giants' health. In the year since the government stepped in to rescue them, the companies have taken \$96 billion from the [Treasury](#), and may need more.

Since the bottom fell out of the mortgage market, the F.H.A. has assumed a crucial role in the nation's housing market. Created in 1934 to help lower-income and first-time buyers purchase homes, the agency now insures roughly 5.4 million single-family home mortgages, with a combined value of \$675 billion.

In addition, these loans are bundled into mortgage-backed securities and guaranteed through the Government National Mortgage Association, known as Ginnie Mae. That means the taxpayer is responsible for paying investors who own Ginnie Mae bonds when F.H.A.-backed mortgages hit trouble.

**“It appears destined for a taxpayer bailout in the next 24 to 36 months,” Edward Pinto, a former Fannie Mae executive, said in testimony prepared for the hearing. Mr. Pinto, who was the chief credit officer from 1987 to 1989 for Fannie Mae, went further than most housing analysts and predicted that F.H.A. losses would more than wipe out the agency's \$30 billion of cash reserves.**

The issue has polarized Congress. Republicans, who led efforts to rein in Fannie Mae and Freddie Mac before those companies ran into trouble, are now seeking to bridle the F.H.A. Many Democrats insist the F.H.A. is playing a vital role in the housing market, which is only just starting to stabilize.

“F.H.A. has stepped into the void left by the private market,” Representative [Maxine Waters](#), Democrat from California, said at the hearing. “Let’s be clear; without F.H.A., there would be no mortgage market right now.”

That was the case for Bernadine Shimon. Like many Americans, Ms. Shimon has recently been through some rough times. She lost a house to foreclosure, declared bankruptcy, got divorced and is now a single mother, teaching high school English in a Denver suburb.

**She wanted a house but no lender would touch her.** The Federal Housing Administration was more obliging. With the F.H.A. insuring her mortgage, Ms. Shimon was able to buy a \$134,000 fixer-upper in August.

“The government gave me another chance,” she said.

**The government is giving as many people as it possibly can the chance to buy a house or, if they are in financial difficulty, refinance it. The F.H.A. is insuring about 6,000 loans a day, four times the amount in 2006. Its portfolio is growing so fast that even F.H.A. backers express amazement.**

For decades it was an article of faith that helping people of limited means like Ms. Shimon get a house was good for the new owner, good for the neighborhood and good for American capitalism. **Then came the housing bust, which demonstrated that when lenders allowed people to buy houses they ultimately could not afford, it hurt the parties — while putting the economy itself in a tailspin.**

In the aftermath of the crash, there is wide divergence on how easy, or how hard, it should be to become a homeowner. Skittish lenders are asking for 20 percent down, which few prospective borrowers have to spare. As a result, private lending has dwindled.

**The government has stepped into the breach, facilitating loans with down payments as low as 3.5 percent** and offering other incentives to stabilize the market. Real estate agents in some hard-hit areas say every single one of their clients is using the F.H.A.

[Skip to next paragraph](#) “They’re counting their pennies, scraping up that 3.5 percent,” Bonni Malone of Prudential Americana in Las Vegas said. “Mostly they’re buying foreclosed homes from banks, although I had one client who bought from a guy that was dying. It’s turning around the market.”

While the government’s actions have helped avert full-scale economic disaster, there is growing concern that it might have doled out its favors with too generous a hand.

Many of the loans the F.H.A. insured in 2007 and last year are now turning delinquent, agency officials acknowledge. The loans made in those two years are performing “far worse” than newer loans, dragging down the whole portfolio, Mr. Stevens of the F.H.A. said in an interview.

The number of F.H.A. mortgage holders in default is 410,916, up 76 percent from a year ago, when 232,864 were in default, according to agency data.

Despite the agency’s attempt to outrun its fate by insuring ever-larger amounts of new loans to such borrowers as Ms. Shimon — the current rate is over a billion dollars a day — 7.77 percent of the portfolio is in default, up from 5.6 percent a year ago.

[Barney Frank](#), the Massachusetts Democrat who is chairman of the House Financial Services Committee, said in an interview that the defaults were, in essence, worth it.

“I don’t think it’s a bad thing that the bad loans occurred,” he said. “It was an effort to keep prices from falling too fast. That’s a policy.”

The troubled loans are nevertheless weighing on the agency’s capital reserve fund, which has fallen to below its Congressionally mandated minimum of 2 percent, from over 6 percent two years ago.

The optimism expressed by Mr. Stevens, the F.H.A. commissioner, places him at odds not only with some outside experts but with Kenneth Donohue, the inspector general of the [Housing and Urban Development Department](#), who is also F.H.A.’s watchdog. Mr. Donohue said the drop in reserves was “a flashing red light” that the agency was not taking seriously enough.

“It might be we’ll get ourselves out of this and that everything will be fine, but I don’t paint that rosy a picture,” Mr. Donohue said. “They’re banking on the fact that the economy will continue to improve, that the housing market will begin to sustain itself.”

He noted that if private lenders had raised their down payment requirements in the last two years, it raised the question, “what does the F.H.A. think it is doing by asking only 3.5 percent?”

Any more than that and Ms. Shimon, 45, would still be a renter. As it was, she cashed in her retirement savings account to come up with the necessary funds. She did not have enough to spare for closing costs, so her mortgage broker arranged a deal where the charges were wrapped into the loan at the cost of a higher interest rate. She cried when the deal was done.

The house was empty and trashed. Slowly, she is trying to bring it back to life. She spent the first few weeks picking up garbage in the backyard.

Is Ms. Shimon a good bet? Even she has no easy answer. Her mortgage payment, \$1,100, is half of what she takes home every month. It is not easy to make ends meet. Teachers can get laid off like everyone else.

“The government,” she said, “is doing what it needed to do — taking a risk on people.”

Chaz Fullenkamp, an automotive technician in Columbus, Ohio, got an F.H.A. loan even though he was living on the financial edge. “If I got unemployed, I’d be wiped out in a month or two,” he says. Thanks to the F.H.A., however, he is better off than he used to be.

Mr. Fullenkamp used F.H.A. insurance to buy a house this spring for \$179,000. The eager seller paid the closing costs and also gave Mr. Fullenkamp \$2,500 in cash. He immediately applied for the \$8,000 tax rebate. Even taking his down payment into account, he came out ahead.

**“I knew in my heart I could not really afford the house, but they gave it to me anyway,” said Mr. Fullenkamp, 22. “I thought, ‘Wow, I’m surprised I pulled that off.’ ”**

As the number of loans has soared, random quality control checks have decreased sharply, F.H.A. staff members say. Mr. Donohue, the inspector general, cited numerous examples of organized fraud in testimony to Congress earlier this year.

“They need to stop taking bad loans in the door,” he said in an interview. “They’re taking on all this volume they have to have very active underwriting standards.”

Valerie Holcomb, Shari Hooper & Brian Harris  
Cascade Financial Group



607 Cascade West Parkway  
Grand Rapids, MI 49546  
(616) 575-2020  
(616) 957-4142 Fax:  
[www.CFG2020.com](http://www.CFG2020.com)

*This communication, including attachments, is for the exclusive use of addressee and may contain proprietary, confidential and/or privileged information. If you are not the intended recipient, any use, copying, disclosure, dissemination or distribution is strictly prohibited. If you are not the intended recipient, please notify the sender immediately by return e-mail, delete this communication and destroy all copies.*

*If you wish to be taken off this mailing list and not receive future "Weekly Updates", please reply back with "Unsubscribe" in the subject line. If you wish to have this "Weekly Update" sent to an alternate email address, please reply back providing the new email address*