NATIONAL PRESS CLUB LUNCHEON WITH BRIAN MONTGOMERY, ASSISTANT SECRETARY OF HOUSING AND URBAN DEVELOPMENT

SUBJECT: THE STATE OF HOUSING IN THE U.S.

MODERATOR: SYLVIA SMITH, PRESIDENT OF THE NATIONAL PRESS CLUB

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MS. SMITH: Good afternoon, and welcome to the National Press Club. My name is Sylvia Smith. I'm the Washington editor of the Fort Wayne Journal-Gazette and president of the National Press Club. I'd like to welcome Club members and their guests, as well as those of you who are watching on C-SPAN. We're looking forward to today's speech, and afterward I'll ask as many questions from the audience as time permits.

Please hold your applause during the speech so we have as much time as possible for questions. For our broadcast audience, I'd like to explain that if you do hear applause, it may be from guests and members of the general public to attend our events, not necessarily the working press.

I'd now like to introduce our head table guests and ask them to stand briefly when their names are called. From your right, Allison

Burkshin (sp) of Bloomberg News; Victoria McGrane of Politico; Cheyenne Hoppian (sp) of American Banker; Ken Harney of The Washington Post Writers Group, a syndicated columnist; John Garvin of HUD, a guest of our speaker; Patrick Rucker of Reuters; Kay Montgomery, the wife of our speaker.

Skipping over the podium, Angela Greiling Keane of Bloomberg News and chairwoman of the Press Club Speakers Committee; skipping over our speaker for just a minute, Ed Lewis (sp) of Toyota Motors North America and member of the Speakers Committee who organized today's lunch -- thanks, Ed; Alan Zibel of Associated Press, guest of our speaker; Amy Morris of Federal News Radio; Diane Thoms (sp) of Thoms (sp) & Associates, former assistant secretary of HUD; Elizabeth Odie (sp), Kiplinger's Personal Finance; and Wright Bryan of National Public Radio. (Applause.)

If there ever was an issue that touches every American, it's the current housing crisis and the ripple effects throughout our economy. You might say the housing explosion of the last 10 years has gone from boom to bust. Nearly a year after the mortgage meltdown became front-page news, the nation's housing woes have only gotten worse.

The government agency at the center of many of the issues touching the federal housing crisis is the Federal Housing Administration. The Department of Housing and Urban Development began operations in 1934 in the midst of the Great Depression. One of its core missions was to help families realize the American dream by increasing home ownership.

To accomplish that lofty goal, President Roosevelt established the Federal Housing Administration. The FHA home mortgage insurance program was designed to restore stability to the nation's housing market, boost home building, provide jobs, and increase home purchase by easing mortgage credit. Today home ownership is taken for granted by most Americans.

But in recent years, not all home ownership news has been good news. It's been widely reported that about one and a half million homeowners fell into foreclosure last year. Analysts predict that as many as 3 million more homeowners could be affected in the next two years.

In April alone, more than 243,000 U.S. homes received at least one foreclosure-related filing. That's up 65 percent from the previous year. Statistics released recently by HOPE NOW, a group backed by the Bush administration to help stem the mortgage crisis, showed that nearly 183 borrowers -- excuse me -- 183,000 borrowers received some form of loan workout in April. Meanwhile, a new report showed housing prices nationwide were off 14 percent from a year ago. And the Commerce Department says sales of new homes remain near their lowest level since 1991, nearly 20 years ago.

As we all know, the housing crisis has also become political fodder this year on the presidential campaign trail. Each candidate has staked out proposed solutions, ranging from more accountability in the subprime mortgage industry to creation of special funds to help homeowners avoid foreclosure.

Lawmakers in Congress called the government's actions and effort inadequate. They are pushing for a new $300 billion program to allow the government to back new loans for struggling homeowners.

Supporters are hopeful the measure could clear Congress by July 4th.

Aside from gas prices that pushed above $4 a gallon, there aren't many newsier domestic issues than housing. We are fortunate to have as our speaker today the government official who can thoroughly address the topic. Brian Montgomery is the Housing and Urban Development's assistant secretary for housing, the FHA commissioner. He oversees the $400 billion Federal Housing Administration insurance portfolio.

He is also responsible for HUD's regulatory responsibilities in the area of real estate settlement procedures, Fannie Mae, Freddie Mac, and the manufactured housing industry. Mr. Montgomery came to HUD from the executive office of the president, where he served as deputy assistant to the president and Cabinet secretary.

Please help me welcome to the podium Assistant Secretary Brian Montgomery. (Applause.)

MR. MONTGOMERY: Thank you very much, Sylvia, for that very kind introduction. I also want to thank Ed Lewis (sp), who's our event sponsor today from Toyota. And I too want to recognize Mrs. Montgomery, Katie Montgomery. She's a deputy assistant secretary for public affairs at the Department of Homeland Security. You can only imagine what our household is like these days.

Let me also start today by recognizing my HUD colleague. I'm sorry he had to pay $28 to come listen to me when he can hear me speak for free at the HUD cafeteria -- (laughter) -- the brand new HUD cafeteria, by the way. Again, I want to thank all of you all for coming here today and joining me. And especially, speaking of HUD employees, I want to congratulate our new HUD secretary. This is his second day on the job.

Steve Preston, if you're watching, welcome. We have a lot to do. And I want to say we all look forward to working with you over the next few months. I also want to say that I appreciate the very strong interest that he has taken in the Federal Housing Administration.

While I'm recognizing people, I also want to recognize our general deputy assistant secretary for public affairs at HUD, D.J. Nordquist; D.J., who's sitting over here. I have to say that over these last few months, you know, it's been a tough time at HUD. Her and her team more than earn their stripes for their hard work.

D.J., on a personal note, you're always the consummate professional. You were handling dozens, if not hundreds, of press queries, a lot of them quite complex, and all of them, of course, on very tight deadlines. Her press secretary, Steve O'Halloran, I can say the same about; an all-star team of career public affairs specialists who also did a fantastic job. Many of them are here today -- Brian Sullivan, Lemar Wooley, John Shosky and Jerry Brown, among others. So, again, thanks all of you.

Well, congratulations to the National Press Club on your 100th anniversary, a centennial of service. And I am honored to be the first commissioner of the Federal Housing Administration invited to address the Club, appropriately during National Home Ownership Month. And I'm pleased to be the latest speaker in a line that goes back to Buffalo Bill Cody, your very first speaker in 1908. Lately the housing market has been as wild and woolly as those days of the western frontier. And sometimes as commissioner, I feel as though it is high noon and order and justice need to be restored.

And I know many of you are probably students of history, and you would know that the Press Club was founded during a housing crisis that started at the turn of the 20th century and continued through the Depression. My agency, the FHA, was created to help end that crisis. As Sylvia mentioned, it was established in 1934 to provide liquidity in the mortgage market, a function that we have ably served for more than 70 years. Our presence has been solid and sound, but silent.

In my tenure as commissioner, no one has ever asked me about where we would be without FHA, but I think of that often. We have insured more than 34 million loans over this time span. Currently we have about 4.8 million loans in our insurance portfolio, loans that are safe and secure, from astronomical rate resets for hidden add-ons or pre-payment penalties. And through our extensive loss mitigation efforts, we have helped about 300,000 FHA-insured families avoid foreclosure over the last four years.

Imagine if just a fraction of those FHA-insured loans were added on to our current difficulties with the subprime meltdown. I can assure you that our current housing crisis would be exponentially worse without the day-to-day availability and foreclosure prevention efforts of the FHA.

Now, that last statement might surprise some people, but that surprise is a relatively recent reaction. In fact, for decades FHA was so well-known that it was part of our common culture, a reference everybody understood. Most people knew about FHA. They knew of its mission. And many of our parents, our grandparents, and maybe our great-grandparents, used it. Quite frankly, it was the gold standard of the housing market.

Let me give you an example. Just a couple of weeks ago, a colleague at HUD, one of their children was watching an old "Merry

Melodies" cartoon from the 1940s. In this cartoon, it showed birds building a nest. They added a twig.

They add another twig, and then another and another and another and faster and faster. Well, soon they had a home. Another bird immediately flew in and planted a sign saying "FHA Approved." And I -- and then particularly liked all the birds singing together "There's No Place Like Home." (Laughter.)

Well, that cartoon speaks volumes about public awareness of FHA 60 years ago. People knew FHA then. But if you had watched that same cartoon just a few short years ago, many people would have been confused about the housing connection to that sign, since many people thought the FHA stood for the Federal Highway Administration -- (laughter) -- if they had any association at all.

Public awareness of FHA became lost, forgotten as housing prices rose beyond the reach of FHA-backed loans. It became difficult for hard-working Americans living in high-cost housing markets to access FHA loans. This was especially true in markets like California, New York, Florida, and Nevada and in cities like Las Vegas, Riverside, Phoenix, and Denver. These are the very markets that are now suffering through a foreclosure crisis, in part fueled by irresponsible subprime mortgages that were nothing but suicide loans for both the lender and, sadly, the borrower.

And the subprime loans cut at our ability to serve minority communities and those with low incomes, people who traditionally rely on FHA financing. Historically, one-third of our borrowers are minorities.

As early as 1981 The New York Times ran a story, "FHA's future under debate," about whether or not FHA should even exist, that maybe it'd become a fossil of the New Deal. The story discussed the proposal floating in Washington to engineer the demise of the FHA, because fixed-rate mortgages, in their words, were, quote, "becoming history." And that FHA may be again, in their words, quote, "a thing of the past."

At that time, almost three decades ago, FHA Commissioner Philip Winn rightfully argued that FHA should be modified to allow products to keep pace with housing inflation, and that monthly mortgage payments should be on a level within the means of first-time home buyers. And that was in 1981. Commissioner Winn worried that, in his words, "there are those in this city who are ready to guillotine the FHA."

Instead of elimination, he argued for changes that would ensure FHA's relevance. I have echoed his request all these years later, because legislation to modernize FHA could have prevented much of the mess we confront today. Hobbled by low loan limits and higher down payment requirements, we were literally priced out of many housing markets.

Well, it has been over two years since we first introduced FHA legislation. It's now passed both chambers twice and, in one case, three times. We're in the middle of a housing crisis and yet a final bill still has not made it to the president's desk.

I feel like one of the characters from the Samuel Beckett play "Waiting for Godot." Despite our best efforts, we continue to wait and wait and wait for Congress to do their work on FHA reform.

Today's housing market is vastly bigger than the 1930s, both in percentages of homeowners and in the number of dwellings. We now have a foreclosure crisis of our own, with 1.5 million foreclosure starts in 2007. We also have about 9 million homeowners who are under water as housing prices have fallen.

The median price of a home has dropped 8.2 percent in the last year. And there are worries about the future, about when the crisis will end and about how many more people will lose their homes.

FHA has been an important part of our national response to that crisis. In late August of last year, President Bush introduced FHASecure to help Americans facing foreclosure refinance into a safer, more secure FHA loan.

Since then, more than 230,000 families have been able to refinance with FHA. In fact, if you look at the number of single-family mortgages endorsed by FHA in the first quarter of '08 alone, which includes FHASecure and our purchase business, total FHA endorsements increased by more than 100 percent over the same period last year. Think about that number.

The administration announced a program last year to help more low- to moderate-income families who could not otherwise quality for prime rate refinancing. Our projections show that we are on pace to reach close to 500,000 families by year's end.

In addition to helping struggling homeowners, the program has added much-needed liquidity to the real estate market. Since September of last year, we have helped pump more than $76 billion of mortgage activity into the housing market, and more than 30 billion (dollars) of that from FHASecure alone.

Two months ago, in early April, I extended the FHASecure product to even more homeowners in response to the shifting market conditions. The program is now serving families in default as a result of the temporary economic hardship, as well as those who are affected by payment shock.

With interest rates remaining fairly low, yet with contraction in some local economies, some families have lost overtime pay and second jobs. Thankfully, the FHASecure program is now helping many of these families refinance into a more affordable FHA loan.

Expanding FHASecure in this way is a good idea. It offers lenders a refinancing alternative that makes voluntary write-downs a viable option. We think appropriately reducing the principal amount owed on subprime mortgages helps both troubled borrowers and, of course, lenders. And, avoiding foreclosure is less costly for lenders than foreclosure. The Joint Economic Committee has estimated that foreclosure avoidance costs $3,000, while an actual foreclosure costs the lender more than $75,000.

Another helpful action was passage of the Economic Stimulus Package. The president's stimulus package has temporarily increased FHA's loan limits. For the rest of the year we can back more high-cost state mortgages and help homeowners hold onto their homes in these states.

The loan limits -- new loan limits were announced in March. They range from 271,000 (dollars) to as high as 729,000 (dollars) in the high-cost counties across America. I have spoken with many people in the housing industry who believe that this action instantly assisted many homeowners. These loan limits make FHA relevant in all markets, but noticeably so in high priced markets like Nevada, California, New York, Washington, D.C., and parts of Florida.

We project that the new temporary loan limits will help approximately 100,000 homeowners obtain safe FHA-backed loans by the end of this year. But these loan limits will expire at the end of this year, so we need to have appropriate and long-term changes to FHA's loan limits through modernization legislation.

There are two key components that must be part of any final FHA bill. First, we must maintain our ability to offer fair and equitable mortgage insurance premium structures that is commensurate with the risk presented by the loan we insure.

Any bill must continue to allow us to price for additional risk; that's how any successful insurance entity operates. More risk equals higher cost. Just like an 18-year-old gets charged higher car insurance than his dad.

To ensure the solvency and continued operation of our single-family mortgage insurance fund, we have already announced implementation of a flexible, risk-based premium structure. It's the first time in our 75-year history we have had different prices for premiums. This change is very well (timed ?), allowing FHA to reach more troubled families without placing excessive risk on the insurance fund or on the American taxpayers.

The modernization bill must preserve this authority consistent with the goal of fiscal solvency. What's interesting about risk-based pricing is that it will actually benefit lower-income American families.

We did an analysis of our borrowers and, contrary to conventional wisdom, the FHA families with the lower incomes had the higher FICO scores. These are hard-working families who live within their means and they pay their bills.

That's why we need legislation to do risk-based pricing beyond what we've done via rule-making. We need the authority to go beyond the current statutory cap.

Second, legislation must address the risks associated with down payment assistance that comes from the seller or any other person or entity that stands to benefit from the transaction financially. The IRS, the GAO, and our own inspector general have previously expressed concerns with these circular financing schemes.

Data clearly demonstrates that FHA loans made to borrowers relying on seller-funded down payment assistance go to foreclosure at three times the rate of loans to borrowers who make their own down payment. No (proper ?) mortgage insurance companies back these types of loans, and they now account for one-third of our portfolio.

We are concerned about this business because the substantial losses affect FHA's bottom line and our ability to serve American citizens who need access to prime rate financing. Give these concerns, we cannot just stand by. We must make our case again. So today, I'm announcing that we're re-opening public comment on our proposed rule. Within ours we will submit this rule to the federal register. It will be online at FHA.gov soon there after and we are eager to review all comments. In our entire 74-year history, we have been self-sustaining. That means that our income has exceeded our cost and we have not needed an appropriation of tax-payer dollars to cover our operations. That's pretty unique for a federal program.

Currently FHA is solvent. In fact, we have a reserve of about $21 billion. However, as a result of our annual re-estimate, we had to book an additional $4.6 billion in unanticipated long-term losses mostly due to the increased number of certain -- (inaudible) -- of seller funded loans in our portfolio. But let me repeat, FHA is solvent. However, no insurance company can sustain that amount of additional cost year after year and still survive. Unless we take action to mitigate these losses, we will soon either have to shut down or rely on appropriations to operate. That, I think, would have a far reaching impact on the economy. It would severely reduce the number of new homeowners we can reach each year. It would also sharply reduce the need for service to build and maintain homes. In other words, the negative impact goes far beyond the individuals who would not be able to purchase homes. It would likely be felt across the entire economy.

Frankly, we need reasonable solutions to the housing crisis and I think there is considerable common ground in confronting it. There's surely a consensus on a number of actions. But some in Congress are advancing legislation that, while well-intentioned, could be problematic for the economy and the country. Some of the proposed congressional actions could actually weaken the FHA and endanger the housing market by turning us into a less-stable, less-solvent, more bureaucratic entity. There are some that want FHA to pick up all of the potentially delinquent 2 million subprime loans. Quite frankly, this is a worrisome idea. We are designed to help stabilize the economy, operating within manageable low-risk loans. We are not designed to become the federal lender of last resort, a mega-agency to subsidize bad loans. We don't want to dramatically enlarge our portfolio with a substantial portion of the portfolio problematic high risk loans that cost homeowners who are careful and bought homes within their means.

Well, so far, I've talked about or efforts to find and secure the right mortgage for the right home. But we also need to make mortgages understandable and more uniform. People need to be able to read and understand the fine print of their loans. A home is easily the largest purchase most people will make in their entire lives. Not many people do it repeatedly so they don't have a lot of experience with the process and it can be pretty scary, especially when you see charges outside the price of your house in your loan that you've never heard of.

A new study by HUD and the Urban Institute found that total loan fees can vary widely from borrower to borrower within a state, and from state to state even for similar loans. The variation could be as much as several thousand dollars. The same study founds that members of minority communities are hit especially hard during the closing process. African-American families pay an average of $415 more in total loan origination fees than non-minority borrowers. And Latino borrowers pay an average of $365 more. The unnecessary complexity of mortgages has contributed to our housing crisis.

We must do something to make mortgages more understandable and the process much more transparent. That's why we're pushing though new regulations to reform the Real Estate Procedures Act known as RESPA to require all mortgage lenders and brokers to clearly display an estimate of all settlement service fees and charges. They must not be hidden in the fine print. This would help to make mortgages more understandable. Borrowers would know the interest rate and monthly payment amount and they would know whether or not the rate or principal balance would increase over time. And they will know if there are any prepayment penalties or any balloon payments. The rule will require a clear statement that would itemize closing costs and lock in certain charges at settlement. This would offer greater transparency and greater certainty of cost allowing Americans to shop for the best loan and to compare. Well frankly, this will help in many ways. We estimate it will save about $700 per person in closing cost. It will help avoid changes in the mortgage that contribute to foreclosure. It'll help the lender too by making sure that the mortgage is affordable and more likely to be paid on time.

The original comment period on this rule has passed but we have extended it to this Thursday, June the 12th. We are committed to finalizing this rule before the end of the administration and I believe further delay helps nobody. The industry should embrace this rule as a best practice that strengthens their business and better serves their customer. We are doing other common sense things at HUD. For example, back in 1958 faced with 28 volumes of outvoted and confusing standards for an FHA loan, Commissioner Norman Mason ordered that a one volume book be written that would update and clarify FHA regulations. That was a good idea then, simplicity can be a good thing now. We have also tried to simplify our internal and external processes. Simple things like going to electronic records which help streamline and remove typical bureaucratic red tape and makes for a more efficient approval process while still weighing for risk.

Well, in the end, I think the housing crisis happened because of a variety of factors all of which I think were solvable and essentially preventable. Lenders need to be subject to prudent regulation and the financial regulators need to beef-up their own rules. Wall Street needs a little less irrational exuberance. Ratings agencies need to look in the mirror, and of course lenders themselves have to be more responsible. Risk must be minimized through common sense actions like checking credit, employment history, and ability to pay. Wow, what a concept. (Laughter.)

Mortgages have to be clear and they need to be affordable. We need to mobilize every segment of the housing industry in an effort to make housing more available, more affordable and sustainable. I have been very impressed with a voluntary industry effort called Hope Now. By reworking mortgages with homeowners facing foreclosure the industry has reached more than one-and-a-half million borrowers in trouble. And that gets right to the problem and doesn't cost the tax payers anything. Borrowers themselves must also be prudent avoiding a credit addiction that is epidemic in this country and quickly places in a position where they can't pay their bills.

Financial responsibility is an important part of life, or our character, or who we are and who we will become. There needs to be a higher standard of responsibility and that is not an unreasonable expectation. I realize that I am the first commissioner to speak here because the housing crisis demands our attention but I hope that I am not the last. When this crisis is over we will need to make sure that the American housing market is on a solid foundation for the future. We will need to make up the lost ground of the last couple of years and forge ahead to higher rates of sustainable homeownership. And we have learned from this crisis. Having the wisdom to avoid the high-risk entirely predictable problems we face right now.

As I said earlier, this month is National Homeownership Month and I can think of no more appropriate time to reflect on our housing market and to determine the correct course of action. Well certainly this is a decisive moment in our economic history. We have the change, the opportunity to set the course for further homeownership, prosperity and wealth creation. We will choose wisely if we emphasize responsibility, common sense, transparency, openness and cooperation. And FHA can be a cornerstone of our housing recovery if we are given the right tools to do the job through FHA modernization. For myself, I thank you for the change to express these views in this historic venue and thank you very much.

(Applause.)

MS. SMITH: Much fodder to ask about.

How enthusiastic is the mortgage industry about the rules to make settlement costs more transparent? And would you expect another extension of the comment period?

MR. MONTGOMERY: Wow, I'm really shocked I got this question! (Laughter.)

Let's see: Someone said, I think they're trying to run the clock out on you, because they know what happens on January 20th, 2009. And there will not be another extension.

You know, this the second and we're referring to RESPA -- the Real Estate Settlement Procedures Act -- this is the second attempt the administration's done to reform that act. And you know, we think we have a good rule. I will say this, a good proposed rule. We're certainly going to be very mindful of the comments. There have been a lot of them. The comment period ends this Thursday, June 12th.

And by the way, we did a fair amount of research even looking at other cabinet agencies. And we found that 90-day comment periods are fairly rare and 120-day comment periods are almost nonexistent. So we thought a 90-comment period was sufficient. Nonetheless, we do encourage everyone to comment accordingly and we look forward to reviewing all those comments here very soon.

MS. SMITH: And are you committed to having a rule before the end of this administration?

MR. MONTGOMERY: That would be a yes. A big yes! (Laughter.)

MS. SMITH: Your past efforts to eliminate seller-funded down payments were not successful. Why do you think you will succeed this time?

MR. MONTGOMERY: Well, we had a proposed rule last year and we were enjoined from implementing that rule. There were two lawsuits -- one in the eastern district of California and one in the federal district court here in Washington. And both decisions, again, did not rule in our favor.

But what both judges did do was give us an excellent road map. They didn't necessarily hit us on our reasons. They actually said we

stubbed our toe on the Administrative Procedures Act. One of our attorneys said it wasn't good enough to be 97 percent right, so we need to be 100 percent.

So again, we think that when loans go to foreclosure at three times the rate of loans that don't have that type of assistance, being a government employee who manages an insurance fund, we just can't sustain those rates of claim. And we don't want to go to the American taxpayers and say that we need money to keep our doors open as a result of that.

MS. SMITH: I have a couple of questions on this theme: Did the government-sponsored goal of increasing homeownership overreach? Which is to say: Did too many people become homeowners who really shouldn't have?

And as a sub-question to that: Do we need savvier buyers or more scrupulous loan makers-lenders?

MR. MONTGOMERY: Well, I love this question, because I have one of the best jobs in America. I get to run this large entity with a lot of funds, but I don't have to worry about making a profit. I do need to have a reserve fund, which I have.

But FHA's never been about making homeowners out of people who are not ready for homeownership, which is one of the reasons why each year we've asked for money for homeownership counseling, which is provided free of charge. And each year we do get more money for homeownership counseling; although, not surprising of late, it's turned more into foreclosure prevention counseling.

But the reason I say that is we want what is best for the borrower. And if it turns out that the borrower can get a conventional loan without FHA mortgage insurance or without mortgage insurance from a private entity, and that's what's best for that family, that's great. There's no -- I've heard some people reference, do you want more market share and more volume? No. It's just in our work, it's what's best for the homeowner; what's best for the borrower.

But to the first part of your question, every president since Franklin Roosevelt -- and we only went back 75 years -- has made some statement about the benefits of homeownership. To think that somehow by having a president talk about that contributed to the mess I think was probably a little bit of a reach. I don't think we have that power of persuasion over folks, but there will be a lot of books written about what happened and who was doing what. And I'm more interested in going forward and how we can fix what we're in now and prevent it in the future.

MS. SMITH: But there quite a few questions sent up who -- that questioners would really like you to talk about how we got into this mess -- as perhaps an anecdote for the future.

One of them is: Do you think the Bush administration's mostly market-driven approach to address the subprime crisis has been effective?

MR. MONTGOMERY: Well, it's interesting. We -- and I've been on the job about three years. And everybody can look at the Home Mortgage Disclosure Act data. It's called the HMDA data. And we could see what was happening.

I mean, I submitted a written statement for a hearing in, I think, July of 2005 referencing that FHA's traditional borrowers were heading toward -- were not headed toward FHA, more than likely headed toward a subprime loan. And our traditional borrowers, again I mentioned, one-third of our borrowers are minority. A higher disproportionate number of Latinos and African-Americans were also getting subprime loans. And I won't say whether they were steered or chose or were talked into. Who knows. We do know a lot, as it turned out, were steered into those -- (inaudible) -- loans so people could make money off of them.

We sounded the alarm that FHA needed to be modernized so that our traditional borrowers, you know, would go back to FHA. And it wasn't again, that we didn't want them buying a Chevy and we were Ford or, excuse me, a Toyota. But I mean, we just know all the benefits of what FHA has.

We have no prepayment penalties. What you see is what you get. Your first payment is the same as your last payment. We're the most transparent loan process out there and we were fearful that what was going to happen happened.

Now, the good news is we went to Republican members of the House in 109th Congress. We went to Democrat members. And I remember sitting down with Maxine Waters and I said, you know, Ms. Waters, in the year 2000, FHA insured 1,200 loans in your congressional district. In the year 2005, we did 34 loans in her district -- 34 loans! She right away could see something was wrong.

So I've got to give credit to both sides of the aisle. And this was the 109th and the same in the 110th. I just wish they'd remedy their differences and pass the bill. But it became very apparent that FHA needed to get back in the game.

And again, it wasn't the case of, you know, market share or profit. It was more that we knew all the benefits of an FHA insured loan. We needed them to take out some of the headache factor. We were very well aware of it that we were the slowest game in town. And for those of you who've done FHA loans, you know what I'm talking about.

We made one decision -- by the way, we used to -- and still do to a lesser degree -- you know the thick case binders that we all get for your loan? It's about yea thick. And in the old FHA, you would have to snail mail or FEDEX that package -- (inaudible) -- from a fulfillment center, Wells Fargo or Bank of America. It's one of our homeownership centers and then somebody that wore those big kind of rubber protectors on their fingers would thumb through it to make sure it was all there. They weren't even necessarily checking what was in it, because that was in a computer program, they were just making sure everything was there.

Well, tell me for a second if you think that took time. Of course it took time! So we decided to forgo one-step, since all the data we had was electronic, that we could mine for risk variables using software algorithms and we did that.

But that just took a huge headache factor out of what FHA -- the way we used to do business and what we're doing now. By the way, it was a process that the VA had introduced in 1999. So quite frankly, we copied them.

Anyway, we just think going forward and having to reinvigorate and modernize FHA is good for lower and moderate-income homebuyers.

MS. SMITH: A questioner wants to know: How should the Foreclosure Prevention Bill pending in the Senate be modified to win your support?

MR. MONTGOMERY: It's a good thing I'm not running for anything this November.

Well, we got tired of waiting. And you know, we're given certain authorities to do and we decided we're going to move out on our own. Expanding FHA Secure, which has been a good success story, because we want to able to reach more delinquent subprime buyers. We've reached a lot of current subprime buyers. Many of which, by the way, told us they were heading toward delinquency till they found out that we were the Federal Housing Administration.

But our concerns about the Dodd-Frank bill is one, on the Frank bill just the cost -- $1.7 billion. You know, that's asking the taxpayers to pitch in for something that was for many of them no fault. There are some provisions on the Dodd bill. You know, there was talk of an affordable housing fund a year, year-and-a-half ago. In the original iteration of that, FHA was going to be a contributor with its receipts, because we traditionally make money for the government.

We were going to be a contributor to that affordable housing fund. Well, here we are 18 months later. Now we're going to become a benefactor of the affordable housing fund. To where now some of the GSEs' pre-tax profits will be -- now go through this Department of Treasury callable bond that doesn't even yet exist -- (technical difficulties) -- (views ?) to help us buy credit subsidy and -- which basically is to help us take on bad loans.

And I just say -- you know, that's just an odd arrangement, to take money from four private corporations, siphon it through the Department of Treasury and put it on FHA. So -- you know, there are some other provisions about it that we like. And look, I -- both Chairman Dodd and Frank -- we've talked to them. We're all trying to do the same thing and I applaud them for what they're trying to do. I would say let's get FHA reform done first, but we just -- the key issue is we just don't want to be a burden on taxpayers who had no role in any of this.

MS. SMITH: Questioner says, "Is your plan to allow FHA to provide assistance for subprime borrowers at risk of foreclosure too little, too late? Does it need congressional approval? And if it does, how likely are its chances of passage in a lame-duck session?"

MR. MONTGOMERY: Well, I don't think it's too little, too late. We held our first foreclosure prevention summit in October of 2006. Our Philadelphia Home Ownership Center organized that event. Since then, we've held hundreds of similar-type town hall meetings around the country. We've partnered with members of Congress, senators, state housing finance agencies, local housing finance agencies (and ?) we've had a lot of those events.

You know, the FHASecure -- again, we've helped about 200,000 people refinance. Again, most of those have been current. But we think that's a substantial number. Matter of fact, we think we will reach close to half a million by the end of the year. So -- you know, sadly, a lot of those subprime loans -- because remember, these are not FHA loans we're talking about. But there's no doubt about it. I mean, the liar loans -- that they've be -- come to be known as -- some of the 228s and 327s -- some people just got too creative in the mortgage process. Most of these loans or a good number of them were never going to last. It's just -- the calculus didn't add up.

So now again -- (technical difficulties) -- the issue is does the government step in and pay for all of the refinancing of that or we do

it with FHA (and to ?) remain self-sustaining and not have to ask for an appropriation? We would say we would do it not having to ask for an appropriation.

MS. SMITH: Question says, "Do you think if Congress had passed FHA reform legislation, we could have avoided the subprime implosion?"

MR. MONTGOMERY: Well, I've responded to this before and there's no doubt in my mind that we could have avoided some of it. Because when you see the FHA go from as recently as the year 2000 with about a 15 percent market share down to a point in (time ?) -- interest rates were low to a three percent market share, you have to ask, "Where did those traditional borrowers go?" And we know now that a lot of them went to some of those 228, 327 subprime loans that have unfortunately proved ruinous for many of them. So I can't quantify nor have I spent time trying to do it -- exactly how many we could have helped had we had a bill. But I'm going to say it's probably a pretty significant number and I just wish (to ?) help Congress do the right thing and finalize that bill -- the FHA modernization bill.

MS. SMITH: Questioner says, "Foreclosures are expected to peak in October. Can the FHA change the trajectory (or ?) in the housing market?"

MR. MONTGOMERY: Well, we're already changing the trajectory in that three percent market share I mentioned before is now between 10 and 12 percent market share-- you think about how much volume that is. Our application rate -- we get a two-week report. The latest two-week report has this -- well, let me say what it was last year. Last year at this time, our application rate was on an annualized rate of about 750,000 applications a year. The latest two-week report has (us ?) on a rate of 2.1 million. Now just two weeks before that, it was 2.3 million.

So needless to say, we're in high-volume area right now, somewhere where we haven't been in a while. So I just think there's a lot of rush to the government product for a number of reasons. There's nothing wrong, as we're (seeing ?) this month, with getting back to basics (and ?) a nice 30-year fixed rate loan and a lot of people are learning that.

MS. SMITH: People are interested in your thoughts on McCain's and Obama's plans. The questioner says, "McCain's home plan would have mortgage services -- servicers write down and retire existing loans, and replace them with an FHA-guaranteed home loan. Will this work?"

MR. MONTGOMERY: Well, I don't want to comment on Senator McCain or Senator Obama. But some of what we do in our plan -- we allow for a voluntary write-down of the current loan. You know, we think (through ?) some of the bills up on the Hill. While they're voluntary programs requiring an automatic extinguishing of some of the loans and particularly some of the subordinate loans, the soft-second loans -- I

just don't think that's unworkable. I know a lot of the piggyback loans, which you're familiar with -- the 80-10-5s or the 80-15-5s -- a lot of folks holding those subordinate loans know that they're not going to get much out of it. But I think they'd like to get five cents -- 10, 15 cents on the dollar, whatever. But through the bills up on Congress, they wouldn't get anything.

And by the way, they have a say in the process. You know, you have to extinguish that subordinate loan, too, if you're going to refinance (into a ?) new loan. So I think that's going to be a little difficult for that. So we're -- again, not commenting on the specifics of their plan -- our latest extension of FHASecure allows borrowers who have a 30-day -- two 30-day delinquencies, a 60-day delinquency to use a standard 97 LTV FHA product. If you are at least three months behind, you can use the new FHASecure product, which has a 90 percent LTV loan. And I think that is similar to one of the senator's proposals. But again, we wanted to move out administratively so we can get this done quickly.

MS. SMITH: (Well ?) we'll allow you to have equal opportunity non-answer here. (Laughter.)

What do you think of -- the questioner asked, "What do you think of Senator Obama's proposal to create a 10 percent universal mortgage credit for homeowners who don't itemize their taxes? He claims this will provide an average of $500 to about 10 million homeowners earning $50,000 or less."

MR. MONTGOMERY: Okay, somebody who works for the Obama campaign -- that's way too much detail.

Yeah -- again, not to -- (laughter) -- again, not talking about either senator's plans, we think our -- well, one thing we wouldn't want to do on that is wave too big of a carrot now to make homeowners out of folks who aren't ready for home ownership. I will say (one semi-part as a comment ?) -- and I would hope both candidates would signal the need for more money for homebuyer counseling. We have found that counseling works. Families who go to counseling who are in trouble -- the number that actually work something out and put off foreclosure -- the rate is over 90 percent. So we think right now, let us do our work, give us the tools, add more flexibility in the premium structure. But more funds, I think, for home ownership and foreclosure prevention, I think, would be a good path to pursue.

MS. SMITH: The Washington Post reported today that no money down mortgages are still available through Fannie Mae and Freddie Mac. Is that smart?

MR. MONTGOMERY: I'm one of Fannie Mae and Freddie Mac's regulators. I'm the little-known regulator. I think some of them are here, by the way. You know, I think right now -- (well ?) there was a point in time where we -- our first FHA bill had a zero down product. I think that was more so we could have a responsible way for borrowers

-- some of (whom ?) -- who are using seller-funded down-payment assistance to get a true 100 percent LTV loan. I want to know that we've abandoned that notion about a year and a half ago, especially when we saw the number of subprime loans that had no money down. We're a firm believer in the term "skin in the game" and that borrowers should have more skin in the game. And you can look at all the studies borrowers release. But something (then ?) in the transaction are less likely to abandon the house and go to foreclosure.

So we would make -- we would say we need some flexibility in the cash investment, but probably nothing that's zero down at this point in time.

MS. SMITH: And as a regulator or one of their regulators, what role do you have in this?

MR. MONTGOMERY: We do a number of things. We look at the compliance issues relative to new programs and to activities by the GSEs. We also establish the housing goals, which were last established in 2004 for a four-year period. We're in the middle of revising the goals for -- or coming up with new goals for 2009. This is to make sure that both Fannie Mae and Freddie Mac have (a portion on their ?) activities toward affordable housing. And obviously -- excuse me -- we do get some GSE reform that would create one large safety and (soundness ?) regulator, which (would ?) essentially take that function out of OFHEO and -- which, you know, has 200 and some-odd employees. Our GSE office, I think, is around 12 and (we ?) consolidate all that into one world-class regulator, which -- that's another housing bill that we're all still eager to get and still waiting for, but hopefully Congress will do their work on GSE reforms soon as well.

Q Question is will loan limits under FHA modernization be the same as those in the stimulus package?

MR. MONTGOMERY: I don't believe they will. That's probably a good thing, I mean when I look now that FHA can insure a $729,000 home, I just think that's an awfully big number. Now there are about 3,300 counties in the country, only about 75 of them are in those high cost, go to that $729,000 figure. About 2,500 counties, the vast majority of the country are at $271,000 and below. Now the House bill, which is basically what you see in the stimulus package still would allow us to go to $729. The latest Senate housing bill takes that number down to $550,000. We wanted to be able to account for California, that was probably, you heard my reference earlier about Maxine Waters. Those are one of the biggest reasons that we made the push referencing (?) reform is that we've become such a non-player in the nation's most populous state. As a Texan, that's hard for me to say but -- (laughter) -- but you know, our activity had almost vanished there. But the medium home price in California right now is somewhere around 520, so we think with the Senate bill at 550, we probably have a good place to settle. Again, recognizing the vast majority of FHA activity right now is below $271,000 which buys you a lot of home in the South by the way, not up here, but it certainly does in Texas.

Q A person says recent news reports say the FHA secure program is reaching far fewer home owners than the number you've identified. Can you please discuss the discrepancy?

MR. MONTGOMERY: Yes, and that is entirely accurate. We way underestimated the number of car borrowers but we were way we overestimated the number of delinquent borrowers who would use FHA. Now that was under the first FHA secure that we announced on August 31st of last year. But at that time, we said that we would help about 280,000 borrowers by the end of the fiscal year. That number's actually going to be closer to 400,000. Now the vast majority of those will be delinquent, but we've had hundreds of them tell us that if not more, that they were headed toward delinquency, remember my reference about FHA being the federal highway administration, a lot of them had never heard of us. I mean, they said I never even heard of you guys, I heard about FHA secure and I was headed toward delinquency, I didn't know where else to go and my lender said, look you ought to look at FHA and so we think, you know, yes those families, they'll tell you look, we were glad just to have a lifeline, whether they were current or delinquent.

But the latest expansion of FHA secure is now more surgically and strategically focused on borrowers who are seriously delinquently, up to 90 days delinquent. We think we'll be able to pick up a lot more delinquent borrowers with that expansion, which should begin about July 14th.

Q Another questioner wants to know what rate of foreclosure is acceptable to the administration?

MR. MONTGOMERY: Well, obviously having any foreclosures is not good, again my point about counseling, we don't want to make home buyers out of people who are not quite ready for it. I think right now in the conventional side, the foreclosure rate is somewhere around one percent. For FHA by the way, it's under two percent for subprime right now it's somewhere between I think seven and eight percent. So that number really skews the overall rate.

Having the foreclosure rates as low as possible is obviously a good thing, which by the way the current home ownership rates are obviously going down a little bit as some of this subprime mess continues to shake out. So we being where we are historically with FHA foreclosure rate we think is, probably shows that we're doing the right thing.

Q Couple people want to have questions to get at pre-homeownership. This one says please discuss the role of affordable rental housing as the necessary first step toward stable homeownership.

And another person asks much of the focus of the FHA reform has been on single family homeownership. Are there any plans to improve the multi-family program?

MR. MONTGOMERY: Yes, we have, my deputy assistant secretary for multi-family housing was sitting up here and unless he's left by now -- (laughter) -- we asked for and got a $1.2 billion increase for FY '09 and project base Section 8, which is more than $6 million more than what was enacted in last fiscal year. We think that's a significant number.

We also in this very tight budget environment continue to advocate for more money for housing for the elderly and for persons with disabilities and as we know the budget environment gets tighter, we have created a pilot program where we can use federal resources, so we're not paying 100 percent of the bill, using federal tax credits, private activity bonds, things of that nature, to make our dollars go further with the goal of creating more housing for the elderly and for persons with disabilities.

I was talking to Angela a little beforehand and I was looking back at the debate on Social Security, which as we all know sadly didn't go anywhere, take partisan politics out of it, but I said the

one thing that we were hoping to do was to interject into that debate is you know, where are seniors going to live? You know, it's great to talk about how much money they're going to have when all these baby boomers begin retiring in masses, but not all of them have a big, expensive home. And we'd like to make sure we interject into that debate, let's be mindful of where all those, those baby boomers, including those who are lower income, where they're going to live.

So a very good and large part of what we do is multi-family housing, but when you're in the midst of a subprime crisis and all that like we haven't seen in many, many years, a lot of that activity just hasn't been getting the amount of publicity it should be getting but, trust me, multi-family housing is as critical a need as for single family housing.

Q Got a couple of questions here about manufactured housing sector. This is one is there's been some controversy about the level of formaldehyde found in the trailers provided to Hurricane Katrina victims, making the situation more challenging, various government agencies have various acceptable standards of formaldehyde. How confident are you that current HUD mobile home construction and safety standards protects the health of occupants, particularly with respect to indoor air?

MR. MONTGOMERY: Good old formaldehyde question. We, first off, a lot of what was referenced in that study were travel trailers, and since my wife works in Homeland Security, I have to be careful how I say this response -- (laughter) -- that darn FEMA. The travel trailers are not regulated by HUD or by any federal entity. I think that was some 85 percent of the trailers, we were somewhere around 10 or 15 percent. We do regulate the amount of formaldehyde in those trailers, but it's done in the manufacturing process that this panel board can have X amount of formaldehyde, this can have that much, and that they would all then be under or be within the levels established by the federal government. We of course are working with all the federal entities involved in this issue including FEMA, NIH and others to find that acceptable solution going forward on those acceptable levels of formaldehyde.

Q I'm told there's a ray of alternatives under review for temporary housing for the disaster, this questioner says, from trailers with ultra low formaldehyde content to special cottages and so forth. In your view, what's the best solution?

MR. MONTGOMERY: Well I would first hope that we don't have another catastrophe on the level that we had with Katrina. But I'll say this, one thing I think that's good, there's a lot of discussion, a lot of high level talks between HUD and Department of Homeland Security about a larger expanded role for HUD in the next large scale disaster and we are the housing experts, nothing against FEMA, but it also takes away from a lot of what they're very good at doing. So we think having an expanded role, whether it's through the disaster voucher program, which HUD currently administers which FEMA, unless my

wife's not nodding yes, FEMA has totally given over to us, and I think we saw some 15,000 or so of those vouchers out.

So going forward as you go from the shelter to the transitional housing, more the temporary housing, especially the long term temporary housing, I think you'll find a larger role for HUD during the next disaster.

Q We're almost out of time, but before asking the last question, I have a couple of important things to take care of.

First let me tell members of upcoming speakers. On June 17th, Duncan Niederauer who's the Chief Executive Officer of the New York Stock Exchange Euronext will discuss Globalization of Financial Markets.

On June 23rd, Congressman Henry Waxman Chairman of the Committee on Oversight and Government Reform will discuss the vital role oversight function of Congress.

And on July 8, Jimmy Johnson, award winning NASCAR driver will be our speaker.

Second, I'd like to present our guest with the centennial mug featuring Eric Severide (ph).

MR. MONTGOMERY: Oh, thank you very much.

Q And for the last question, we're curious about your own mortgage. Would you -- (laughter) -- would you ever take out an adjustable rate mortgage or an interest only mortgage?

MR. MONTGOMERY: Personal question.

You know, there's a good time and place for some of these more exotic mortgages. And if you're a political appointee, and I'll tell this to whoever the next administration's going to be, a four year mortgage, you never know what's going to happen on the real act, or if you're working for the Olympics, you know it's going to be a four year mortgage. I would probably advise against interest only loans but ARMs, given whatever the environment is, I mean, it could be live or (PH) rates low, treasury rates low and you can get a good, you know, or you could get a good fixed rate loan, it all depends on the circumstance. So I don't want to give lots, too much mortgage advice other than people need to be aware of the type of loan that they are choosing going forward. And don't be afraid to ask for help and to do your homework in researching what's the best mortgage for you and your family.

MS. SMITH: Thank you very much. Thank you very much for coming. (Applause.) Thank you, Secretary Montgomery. I'd also like to thank National Press Club staff members Melinda Cooke, Pat Nelson, Jo Ann Booze and Howard Rothman for organizing today's lunch. And thanks to the Press Club Library for its research.

The video archive of today's luncheon is provided by National Press Club broadcast operations center. Many of our events are aired on XM Satellite radio and available for free download on iTunes as well as on our website. Non-members may purchase transcripts and video tapes by calling 188-343-1940. And for information about joining the Press Club, please contact us at www.press.org.

Thank you, and we're adjourned.

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