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February 10, 2015

The Honorable Jeb Hensarling  
Chairman  
House Financial Services Committee  
United States House of Representatives  
Washington, D.C. 20515

The Honorable Maxine Waters  
Ranking Member  
House Financial Services Committee  
United States House of Representatives  
Washington, D.C. 20515

**Re: Oversight of the Federal Housing Administration**

Dear Chairman Hensarling and Ranking Member Waters:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions, I write in conjunction with tomorrow's oversight hearing of the Federal Housing Administration (FHA). NAFCU would like to reiterate our concerns regarding FHA's policy concerning strategic defaults. The increasing trend of homeowners who have the capacity to make their mortgage payments but instead choose to default is troubling to community based financial institutions like credit unions.

As you may know, under FHA's current policy, persons who strategically default on their mortgage will not be able to obtain another FHA loan for a minimum of three years. Comparatively, Fannie Mae has instituted a policy that prohibits a borrower that has strategically defaulted from obtaining a Fannie-backed mortgage for seven years. The consequence of FHA's shorter three-year lockout period, among other things, is that a borrower with a GSE-backed loan can strategically default on their loan and then after three years can obtain a FHA loan. Clearly this policy fails to provide adequate disincentive against strategic default in the housing market. In addition, it advertises the FHA as the place to obtain another loan even after a borrower fails to meet previous obligations, which in the case of mortgages backed by the GSEs, become obligations to the taxpayer. Considering the committee's concerns about the solvency of the FHA, ensuring the FHA is not propped up as a safe haven for those who strategically defaulted on previous mortgages is a critical part of the safety and soundness conversation.

NAFCU has long supported the important role that FHA plays in our nation's housing market. The FHA's viability is crucial going forward, especially in providing an option for those who otherwise are unable to obtain a mortgage in the conventional mortgage market. The central mission of the FHA must continue to be one that focuses on this demographic, which includes first time homebuyers who may not have the down payment necessary to obtain a conventional mortgage.

Despite not engaging in the unscrupulous activities that often led many borrowers into mortgages they could not afford, credit unions and their members have been greatly affected by the housing

market decline. Like a vast majority of homeowners, many credit union members saw the value of their homes decline. For members confronted with financial difficulties, credit unions have been second to none in finding creative yet responsible solutions, including refinancing and loan modifications, to help them keep their home. As you know, the effects of foreclosures are devastating to families who lose their home because they are unable to meet their mortgage obligations. Foreclosures, however, also affect the neighborhood and the community at large as foreclosure sales almost always drive home values down. Thus, it is very important that those with the ability to pay are not encouraged to walk away from their homes.

For the reasons listed above, NAFCU believes that the House Financial Services Committee plays an important role in ensuring that HUD and the FHA are reviewing their policies with respect to strategic defaults. We hope that you will use tomorrow's hearing as an opportunity to further examine this issue.

On behalf of our nation's credit unions and their nearly 100 million members, we thank you for holding this important hearing. If my staff or I can be of assistance to you, or if you have any questions regarding this issue, please feel free to contact myself, NAFCU's Director of Legislative Affairs Jillian Pevo at (703) 842-2836.

Sincerely,

A handwritten signature in black ink, appearing to read 'Brad Thaler', with a long horizontal flourish extending to the right.

Brad Thaler  
Vice President of Legislative Affairs

cc: Members of the House Committee on Financial Services