

109<sup>TH</sup> CONGRESS  
2<sup>D</sup> SESSION

# H. R. 5121

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IN THE SENATE OF THE UNITED STATES

JULY 26, 2006

Received; read twice and referred to the Committee on Banking, Housing, and  
Urban Affairs

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## AN ACT

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,*

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

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

4 (b) TABLE OF CONTENTS.—The table of contents for  
5 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. Temporary reinstatement of downpayment requirement in event of in-  
creased defaults.
- Sec. 7. Mortgage insurance premiums.
- Sec. 8. Rehabilitation loans.
- Sec. 9. Discretionary action.
- Sec. 10. Insurance of condominiums.
- Sec. 11. Mutual Mortgage Insurance Fund.
- Sec. 12. Hawaiian home lands and Indian reservations.
- Sec. 13. Conforming and technical amendments.
- Sec. 14. Home equity conversion mortgages.
- Sec. 15. Conforming loan limit in disaster areas.
- Sec. 16. Participation of mortgage brokers and correspondent lenders.
- Sec. 17. Sense of Congress regarding technology for financial systems.
- Sec. 18. Savings provision.
- Sec. 19. Implementation.

6 **SEC. 2. FINDINGS AND PURPOSES.**

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

8 (1) one of the primary missions of the Federal  
9 Housing Administration (FHA) single family mort-  
10 gage insurance program is to reach borrowers who  
11 are underserved, or not served, by the existing con-  
12 ventional mortgage marketplace;

13 (2) the FHA program has a long history of in-  
14 novation, which includes pioneering the 30-year self-  
15 amortizing mortgage and a safe-to-seniors reverse

1 mortgage product, both of which were once thought  
2 too risky to private lenders;

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

6 (4) the FHA mortgage insurance premium  
7 structure, as well as FHA's product offerings,  
8 should be revised to reflect FHA's enhanced ability  
9 to determine risk at the loan level and to allow FHA  
10 to better respond to changes in the mortgage mar-  
11 ket;

12 (5) during past recessions, including the oil-  
13 patch downturns in the mid-1980s, FHA remained  
14 a viable credit enhancer and was therefore instru-  
15 mental in preventing a more catastrophic collapse in  
16 housing markets and a greater loss of homeowner  
17 equity; and

18 (6) as housing price appreciation slows and in-  
19 terest rates rise, many homeowners and prospective  
20 homebuyers will need the less-expensive, safer fi-  
21 nancing alternative that FHA mortgage insurance  
22 provides.

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

24 (1) to provide flexibility to FHA to allow for  
25 the insurance of housing loans for low- and mod-

1 erate-income homebuyers during all economic cycles  
2 in the mortgage market;

3 (2) to modernize the FHA single family mort-  
4 gage insurance program by making it more reflective  
5 of enhancements to loan-level risk assessments and  
6 changes to the mortgage market; and

7 (3) to adjust the loan limits for the single fam-  
8 ily mortgage insurance program to reflect rising  
9 house prices and the increased costs associated with  
10 new construction.

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

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

14 (1) by striking subparagraphs (A) and (B) and  
15 inserting the following new subparagraphs:

16 “(A) not to exceed the lesser of—

17 “(i) in the case of a 1-family resi-  
18 dence, the median 1-family house price in  
19 the area, as determined by the Secretary;  
20 and in the case of a 2-, 3-, or 4-family res-  
21 idence, the percentage of such median  
22 price that bears the same ratio to such me-  
23 dian price as the dollar amount limitation  
24 in effect under section 305(a)(2) of the  
25 Federal Home Loan Mortgage Corporation

1 Act (12 U.S.C. 1454(a)(2)) for a 2-, 3-, or  
2 4-family residence, respectively, bears to  
3 the dollar amount limitation in effect  
4 under such section for a 1-family resi-  
5 dence; or

6 “(ii) the dollar amount limitation de-  
7 termined under such section 305(a)(2) for  
8 a residence of the applicable size;

9 except that the dollar amount limitation in ef-  
10 fect for any area under this subparagraph may  
11 not be less than the greater of (I) the dollar  
12 amount limitation in effect under this section  
13 for the area on October 21, 1998, or (II) 65  
14 percent of the dollar limitation determined  
15 under such section 305(a)(2) for a residence of  
16 the applicable size; and

17 “(B) not to exceed the appraised value of  
18 the property, plus any initial service charges,  
19 appraisal, inspection and other fees in connec-  
20 tion with the mortgage as approved by the Sec-  
21 retary.”;

22 (2) in the matter after and below subparagraph  
23 (B), by striking the second sentence (relating to a  
24 definition of “average closing cost”) and all that fol-  
25 lows through “title 38, United States Code”; and

1           (3) by striking the last undesignated paragraph  
2           (relating to counseling with respect to the respon-  
3           sibilities and financial management involved in  
4           homeownership).

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

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

8           (1) by striking “thirty-five years” and inserting  
9           “forty years”; and

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

13 **SEC. 5. CASH INVESTMENT REQUIREMENT.**

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

18           “(9) Be executed by a mortgagor who shall  
19           have paid on account of the property, in cash or its  
20           equivalent, an amount, if any, as the Secretary may  
21           determine based on factors determined by the Sec-  
22           retary and commensurate with the likelihood of de-  
23           fault. For”.

1 **SEC. 6. TEMPORARY REINSTATEMENT OF DOWNPAYMENT**  
2 **REQUIREMENT IN EVENT OF INCREASED DE-**  
3 **FAULTS.**

4 Section 203(b) of the National Housing Act (12  
5 U.S.C. 1709(b)) is amended by adding at the end the fol-  
6 lowing new paragraph:

7 “(10) EFFECT OF INCREASED DEFAULTS.—

8 “(A) ANNUAL DETERMINATION.—If, for  
9 any calendar year described in subparagraph  
10 (B)(i), the Secretary determines, pursuant such  
11 subparagraph, that—

12 “(i) the ratio of the number of mort-  
13 gage insurance claims made during such  
14 calendar year on mortgages insured under  
15 this section to the total number of mort-  
16 gages having such insurance in force dur-  
17 ing such calendar year exceeds, by 25 per-  
18 cent or more, such ratio for the 12-month  
19 period ending on the effective date of this  
20 Act, or

21 “(ii) the ratio of the aggregate re-  
22 maining principal obligation under mort-  
23 gages insured under this section for which  
24 an insurance claim is made during such  
25 calendar year to the average, for such cal-  
26 endar year, of the aggregate outstanding

1 principal obligation under mortgages so in-  
2 sured exceeds, by 25 percent or more, such  
3 ratio for the 12-month period ending on  
4 such effective date,

5 during the 90-day period beginning upon the  
6 submission of the report for such calendar year  
7 under subparagraph (B)(ii) containing such de-  
8 termination, the Secretary may insure a mort-  
9 gage under this section only pursuant to the re-  
10 quirement under subparagraph (C), and the  
11 Secretary shall, not later than 60 days after  
12 submission of the report containing such deter-  
13 mination, submit a report to the Congress  
14 under subparagraph (D) regarding mortgage  
15 insurance claims during such calendar year.

16 “(B) 5 YEARS OF ANNUAL DETERMINA-  
17 TIONS.—

18 “(i) IN GENERAL.—The Secretary  
19 shall, for each of the 5 calendar years com-  
20 mencing after the date of the enactment of  
21 this Act, compare the ratios referred to in  
22 subparagraph (A) and make a determina-  
23 tion under such subparagraph.

24 “(ii) ANNUAL REPORT ON DE-  
25 FAULTS.—Not later than 90 days after the

1 conclusion of each of the calendar years  
2 described in clause (i), the Secretary shall  
3 submit a report to the Congress containing  
4 the determination of the Secretary under  
5 such clause with respect to such calendar  
6 year and setting forth the ratios referred  
7 to in such clause for such calendar year.

8 “(C) REINSTATEMENT OF DOWNPAYMENT  
9 REQUIREMENT.—The requirement under this  
10 subparagraph is that paragraph (9) of this sub-  
11 section shall apply as such paragraph was in ef-  
12 fect on the day before the effective date of the  
13 Expanding American Homeownership Act of  
14 2006.

15 “(D) REPORTS REGARDING INCREASED  
16 DEFAULT RATE.—A report under this subpara-  
17 graph, as required under subparagraph (A),  
18 shall contain—

19 “(i) an analysis of mortgage insurance  
20 claims, made during the calendar year for  
21 which the report is submitted, on mort-  
22 gages insured under this section;

23 “(ii) an analysis of the reasons for the  
24 increase during such calendar year in the  
25 applicable ratio or ratios under subpara-

1 graph (A), including an analysis of the ex-  
2 tent to which such increase is attributable  
3 to the amendments made by the Expand-  
4 ing American Homeownership Act of 2006;

5 “(iii) the effect of such increase on  
6 the Mutual Mortgage Insurance Fund;

7 “(iv) recommendations regarding—

8 “(I) whether the Congress  
9 should, to respond to such increase,  
10 take legislative action (aa) to apply  
11 paragraph (9) of this subsection as  
12 such paragraph was in effect on the  
13 day before the effective date of Ex-  
14 panding American Homeownership  
15 Act of 2006, (bb) to apply paragraph  
16 (2)(A)(ii) by substituting ‘87 percent  
17 of the dollar amount limitation’ for  
18 ‘the dollar amount limitation’, or (cc)  
19 both; and

20 “(II) whether such provisions  
21 should be temporary or permanent,  
22 and, if temporary, the period during  
23 which such provisions should apply;  
24 and

1           “(v) recommendations regarding any  
2           other administrative, regulatory, legislative,  
3           or other actions that should be taken to re-  
4           spond to such increase.

5           “(E) DEFAULTS IN DISASTER AREAS NOT  
6           COUNTED FOR 24 MONTHS.—In determining the  
7           number of mortgage insurance claims made and  
8           the aggregate remaining principal obligation  
9           under mortgages for which an insurance claim  
10          is made for purposes of subparagraph (A) for  
11          any calendar year, the Secretary shall not take  
12          into consideration any claim made during such  
13          period on a mortgage on any property that is  
14          located in an area for which a major disaster  
15          was declared pursuant to the Robert T. Staf-  
16          ford Disaster Relief and Emergency Assistance  
17          Act if such claim was made during the 24-  
18          month period beginning upon such declara-  
19          tion.”.

20 **SEC. 7. MORTGAGE INSURANCE PREMIUMS.**

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

23                 (1) in paragraph (2), in the matter preceding  
24          subparagraph (A), by striking “Notwithstanding”

1 and inserting “Except as provided in paragraph (3)  
2 and notwithstanding”; and

3 (2) by adding at the end the following new  
4 paragraph:

5 “(3) FLEXIBLE RISK-BASED PREMIUMS.—

6 “(A) IN GENERAL.—For any mortgage insured  
7 by the Secretary under this title that is secured by  
8 a 1- to 4-family dwelling and for which the loan ap-  
9 plication is received by the mortgagee on or after  
10 October 1, 2006, the Secretary may establish a  
11 mortgage insurance premium structure involving a  
12 single premium payment collected prior to the insur-  
13 ance of the mortgage or annual payments (which  
14 may be collected on a periodic basis), or both, sub-  
15 ject to the limitations in subparagraphs (B) and (C).  
16 The rate of premium for such a mortgage may vary  
17 during the mortgage term as long as the basis for  
18 determining the variable rate is established before  
19 the execution of the mortgage. The Secretary may  
20 change a premium structure established under this  
21 subparagraph but only to the extent that such  
22 change is not applied to any mortgage already exe-  
23 cuted.

24 “(B) MAXIMUM UP-FRONT PREMIUM  
25 AMOUNTS.—For any mortgage insured under a pre-

1        mium structure established pursuant to this para-  
2        graph, the amount of any single premium payment  
3        authorized by subparagraph (A), if established and  
4        collected prior to the insurance of the mortgage,  
5        may not exceed the following amount:

6                “(i) Except as provided in clauses (ii) and  
7                (iii), 3.0 percent of the amount of the original  
8                insured principal obligation of the mortgage.

9                “(ii) If the mortgagor has a credit score  
10                equivalent to a FICO score of 560 or more and  
11                has paid on account of the property, in cash or  
12                its equivalent, at least 3 percent of the Sec-  
13                retary’s estimate of the cost of acquisition (ex-  
14                cluding the mortgage insurance premium paid  
15                at the time the mortgage is insured), 2.25 per-  
16                cent of the original insured principal obligation  
17                of the mortgage.

18                “(iii) If the annual premium payment is  
19                equal to the maximum amount allowable under  
20                clause (i) of subparagraph (C), 1.5 percent of  
21                the amount of the original insured principal ob-  
22                ligation of the mortgage.

23                “(C) MAXIMUM ANNUAL PREMIUM AMOUNTS.—

24        For any mortgage insured under a premium struc-  
25        ture established pursuant to this paragraph, the

1 amount of any annual premium payment collected  
2 may not exceed the following amount:

3 “(i) Except as provided in clauses (ii) and  
4 (iii), 2.0 percent of the remaining insured prin-  
5 cipal obligation of the mortgage.

6 “(ii) If the mortgagor is a mortgagor de-  
7 scribed in clause (ii) of subparagraph (B), 0.55  
8 percent of the remaining insured principal obli-  
9 gation of the mortgage.

10 “(iii) If the single premium payment col-  
11 lected at the time of insurance is equal to max-  
12 imum amount allowable under clause (i) of sub-  
13 paragraph (B), 1.0 percent of the remaining in-  
14 sured principal obligation of the mortgage.

15 “(D) PAYMENT INCENTIVE.—Notwithstanding  
16 subparagraph (C), for any mortgage insured under  
17 a premium structure established pursuant to this  
18 paragraph and for which the annual premium pay-  
19 ment exceeds the amount set forth in subparagraph  
20 (C)(ii), if during the 5-year period beginning upon  
21 the time of insurance all mortgage insurance pre-  
22 miums for such mortgage have been paid on a timely  
23 basis, upon the expiration of such period the Sec-  
24 retary shall reduce the amount of the annual pre-  
25 mium payments due thereafter under such mortgage

1 to an amount equal to the amount set forth in sub-  
2 paragraph (C)(ii).

3 “(E) ESTABLISHMENT AND ALTERATION OF  
4 PREMIUM STRUCTURE.—A premium structure shall  
5 be established or changed under subparagraph (A)  
6 only by providing notice to mortgagees and to the  
7 Congress, at least 30 days before the premium  
8 structure is established or changed.

9 “(F) CONSIDERATIONS FOR PREMIUM STRUC-  
10 TURE.—When establishing a premium structure  
11 under subparagraph (A) or when changing such a  
12 premium structure, the Secretary shall consider the  
13 following:

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

18 “(ii) Underwriting variables.

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

22 “(iv) The administrative capability of the  
23 Secretary to administer the proposed premium  
24 structure.

1           “(v) The effect of the proposed premium  
2           structure on the Secretary’s ability to maintain  
3           the availability of mortgage credit and provide  
4           stability to mortgage markets.”.

5 **SEC. 8. REHABILITATION LOANS.**

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

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

10          (2) in paragraph (5)—

11                 (A) by striking “General Insurance Fund”  
12                 the first place it appears and inserting “Mutual  
13                 Mortgage Insurance Fund”; and

14                 (B) in the second sentence, by striking the  
15                 comma and all that follows through “General  
16                 Insurance Fund”.

17 **SEC. 9. DISCRETIONARY ACTION.**

18           The National Housing Act is amended—

19           (1) in subsection (e) of section 202 (12 U.S.C.  
20           1708(e))—

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

24                 (B) by redesignating such subsection as  
25                 subsection (f);

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

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

5           (3) by transferring subsection (s) of section 203  
6           (as amended by paragraph (2) of this section) to  
7           section 202, inserting such subsection after sub-  
8           section (d) of section 202, and redesignating such  
9           subsection as subsection (e).

10 **SEC. 10. INSURANCE OF CONDOMINIUMS.**

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

13           (1) in subsection (c)—

14           (A) in the first sentence—

15           (i) by striking “and” before “(2)”;  
16           and

17           (ii) by inserting before the period at  
18           the end the following: “, and (3) the  
19           project has a blanket mortgage insured by  
20           the Secretary under subsection (d)”; and

21           (B) in clause (B) of the third sentence, by  
22           striking “thirty-five years” and inserting “forty  
23           years”; and

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

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

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

6 (2) by inserting before the semicolon the fol-  
7 lowing: “, or (c) a first mortgage given to secure the  
8 unpaid purchase price of a fee interest in, or long-  
9 term leasehold interest in, a one-family unit in a  
10 multifamily project, including a project in which the  
11 dwelling units are attached, semi-detached, or de-  
12 tached, and an undivided interest in the common  
13 areas and facilities which serve the project”.

14 **SEC. 11. MUTUAL MORTGAGE INSURANCE FUND.**

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

18 “(a) MUTUAL MORTGAGE INSURANCE FUND.—

19 “(1) ESTABLISHMENT.—Subject to the provi-  
20 sions of the Federal Credit Reform Act of 1990,  
21 there is hereby created a Mutual Mortgage Insur-  
22 ance Fund (in this title referred to as the ‘Fund’),  
23 which shall be used by the Secretary to carry out the  
24 provisions of this title with respect to mortgages in-  
25 sured under section 203. The Secretary may enter

1 into commitments to guarantee, and may guarantee,  
2 such insured mortgages.

3 “(2) LIMIT ON LOAN GUARANTEES.—The au-  
4 thority of the Secretary to enter into commitments  
5 to guarantee such insured mortgages shall be effec-  
6 tive for any fiscal year only to the extent that the  
7 aggregate original principal loan amount under such  
8 mortgages, any part of which is guaranteed, does  
9 not exceed the amount specified in appropriations  
10 Acts for such fiscal year.

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

14 “(4) ANNUAL INDEPENDENT ACTUARIAL  
15 STUDY.—The Secretary shall provide for an inde-  
16 pendent actuarial study of the Fund to be conducted  
17 annually, which shall analyze the financial position  
18 of the Fund. The Secretary shall submit a report  
19 annually to the Congress describing the results of  
20 such study and assessing the financial status of the  
21 Fund. The report shall recommend adjustments to  
22 underwriting standards, program participation, or  
23 premiums, if necessary, to ensure that the Fund re-  
24 mains financially sound.

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

5           “(A) the cumulative volume of loan guar-  
6 antee commitments that have been made during  
7 such fiscal year through the end of the quarter  
8 for which the report is submitted;

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

11           “(C) any significant changes between ac-  
12 tual and projected claim and prepayment activ-  
13 ity;

14           “(D) projected versus actual loss rates;  
15 and

16           “(E) updated projections of the annual  
17 subsidy rates to ensure that increases in risk to  
18 the Fund are identified and mitigated by ad-  
19 justments to underwriting standards, program  
20 participation, or premiums, and the financial  
21 soundness of the Fund is maintained.

22           The first quarterly report under this paragraph shall  
23 be submitted on the last day of the first quarter of  
24 fiscal year 2007, or upon the expiration of the 90-  
25 day period beginning on the date of the enactment

1 of the Expanding American Homeownership Act of  
2 2006, whichever is later.

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

13 “(7) OPERATIONAL GOALS.—The operational  
14 goals for the Fund are—

15 “(A) to charge borrowers under loans that  
16 are obligations of the Fund an appropriate pre-  
17 mium for the risk that such loans pose to the  
18 Fund;

19 “(B) to minimize the default risk to the  
20 Fund and to homeowners;

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

23 “(D) to meet the housing needs of the bor-  
24 rowers that the single family mortgage insur-

1           ance program under this title is designed to  
2           serve.”.

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

5           (1) HOMEOWNERSHIP VOUCHER PROGRAM  
6 MORTGAGES.—In section 203(v) (12 U.S.C.  
7 1709(v))—

8           (A) by striking “Notwithstanding section  
9 202 of this title, the” and inserting “The”; and

10           (B) by striking “General Insurance Fund”  
11 the first place such term appears and all that  
12 follows and inserting “Mutual Mortgage Insur-  
13 ance Fund.”.

14           (2) HOME EQUITY CONVERSION MORTGAGES.—  
15 Section 255(i)(2)(A) of the National Housing Act  
16 (12 U.S.C. 1715z–20(i)(2)(A)) is amended by strik-  
17 ing “General Insurance Fund” and inserting “Mu-  
18 tual Mortgage Insurance Fund”.

19           (c) CONFORMING AMENDMENTS.—The National  
20 Housing Act is amended—

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

23           (2) in section 519(e) (12 U.S.C. 1735c(e)), by  
24 striking “203(b)” and all that follows through

1 “203(i)” and inserting “203, except as determined  
2 by the Secretary”.

3 **SEC. 12. HAWAIIAN HOME LANDS AND INDIAN RESERVA-**  
4 **TIONS.**

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

8 (1) by striking “General Insurance Fund estab-  
9 lished in section 519” and inserting “Mutual Mort-  
10 gage Insurance Fund”; and

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

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

16 (1) by striking “General Insurance Fund” the  
17 first place it appears through “519” and inserting  
18 “Mutual Mortgage Insurance Fund”; and

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

21 **SEC. 13. CONFORMING AND TECHNICAL AMENDMENTS.**

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

24 (1) Subsection (i) of section 203 (12 U.S.C.  
25 1709(i)).

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

3           (3) Subsection (p) of section 203 (12 U.S.C.  
4           1709(p)).

5           (4) Subsection (q) of section 203 (12 U.S.C.  
6           1709(q)).

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

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

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

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

15          (c) DEFINITION OF STATE.—Section 201(d) of the  
16 National Housing Act (12 U.S.C. 1707(d)) is amended by  
17 striking “the Trust Territory of the Pacific Islands” and  
18 inserting “the Commonwealth of the Northern Mariana  
19 Islands”.

20 **SEC. 14. HOME EQUITY CONVERSION MORTGAGES.**

21          (a) IN GENERAL.—Section 255 of the National  
22 Housing Act (12 U.S.C. 1715z-20) is amended—

23           (1) in subsection (g)—

24           (A) by striking the first sentence; and

1 (B) by striking “established under section  
2 203(b)(2)” and all that follows through “lo-  
3 cated” and inserting “limitation established  
4 under section 305(a)(2) of the Federal Home  
5 Loan Mortgage Corporation Act for a 1-family  
6 residence”;

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

9 (3) by adding at the end the following new sub-  
10 section:

11 “(n) AUTHORITY TO INSURE HOME PURCHASE  
12 MORTGAGE.—

13 “(1) IN GENERAL.—Notwithstanding any other  
14 provision in this section, the Secretary may insure,  
15 upon application by a mortgagee, a home equity con-  
16 version mortgage upon such terms and conditions as  
17 the Secretary may prescribe, when the primary pur-  
18 pose of the home equity conversion mortgage is to  
19 enable an elderly mortgagor to purchase a 1-to 4  
20 family dwelling in which the mortgagor will occupy  
21 or occupies one of the units.

22 “(2) LIMITATION ON PRINCIPAL OBLIGATION.—  
23 A home equity conversion mortgage insured pursu-  
24 ant to paragraph (1) shall involve a principal obliga-  
25 tion that does not exceed the dollar amount limita-

1       tion determined under section 305(a)(2) of the Fed-  
2       eral Home Loan Mortgage Corporation Act for a  
3       residence of the applicable size.”.

4       (b) MORTGAGES FOR COOPERATIVES.—Subsection  
5 (b) of section 255 of the National Housing Act (12 U.S.C.  
6 1715z-20(b)) is amended—

7             (1) in paragraph (4)—

8                 (A) by inserting “a first or subordinate  
9                 mortgage or lien” before “on all stock”;

10                (B) by inserting “unit” after “dwelling”;

11             and

12                (C) by inserting “a first mortgage or first  
13                lien” before “on a leasehold”; and

14             (2) in paragraph (5), by inserting “a first or  
15             subordinate lien on” before “all stock”.

16       (c) STUDY REGARDING MORTGAGE INSURANCE PRE-  
17 MIUMS.—The Secretary of Housing and Urban Develop-  
18 ment shall conduct a study regarding mortgage insurance  
19 premiums charged under the program under section 255  
20 of the National Housing Act (12 U.S.C. 1715z-20) for in-  
21 surance of home equity conversion mortgages to analyze  
22 and determine—

23             (1) the effects of reducing the amounts of such  
24             premiums from the amounts charged as of the date  
25             of the enactment of this Act on—

1 (A) costs to mortgagors; and

2 (B) the financial soundness of the pro-  
3 gram; and

4 (2) the feasibility and effectiveness of exempt-  
5 ing, from all the requirements under the program re-  
6 garding payment of mortgage insurance premiums  
7 (including both up-front or annual mortgage insur-  
8 ance premiums under section 203(c)(2) of such Act),  
9 any mortgage insured under the program under  
10 which part or all of the amount of future payments  
11 made to the homeowner are used for costs of a long-  
12 term care insurance contract covering the mortgagor  
13 or members of the household residing in the mort-  
14 gaged property.

15 Not later than the expiration of the 12-month period be-  
16 ginning on the date of the enactment of this Act, the Sec-  
17 retary shall submit a report to the Congress setting forth  
18 the results and conclusions of the study.

19 **SEC. 15. CONFORMING LOAN LIMIT IN DISASTER AREAS.**

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

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

1           (2) by striking the second sentence (as added  
2           by chapter 7 of the Emergency Supplemental Appro-  
3           priations Act of 1994 (Public Law 103–211; 108  
4           Stat. 12)); and

5           (3) by adding at the end the following new sen-  
6           tence: “In any case in which the single family resi-  
7           dence to be insured under this subsection is within  
8           a jurisdiction in which the President has declared a  
9           major disaster to have occurred, the Secretary is au-  
10          thorized, for a temporary period not to exceed 36  
11          months from the date of such Presidential declara-  
12          tion, to enter into agreements to insure a mortgage  
13          which involves a principal obligation of up to 100  
14          percent of the dollar limitation determined under  
15          section 305(a)(2) of the Federal Home Loan Mort-  
16          gage Corporation Act for a single family residence,  
17          and not in excess of 100 percent of the appraised  
18          value of the property plus any initial service charges,  
19          appraisal, inspection and other fees in connection  
20          with the mortgage as approved by the Secretary.”.

21 **SEC. 16. PARTICIPATION OF MORTGAGE BROKERS AND**  
22 **CORRESPONDENT LENDERS.**

23           (a) DEFINITIONS.—

24           (1) IN GENERAL.—Section 201 of the National  
25           Housing Act (12 U.S.C. 1707) is amended—

1           (A) by striking “As used in section 203 of  
2 this title—” and inserting “As used in this title  
3 and for purposes of participation in insurance  
4 programs under this title, except as specifically  
5 provided otherwise, the following definitions  
6 shall apply.”;

7           (B) by striking subsection (b) and insert-  
8 ing the following:

9           “(2) The term ‘mortgagee’ means any of the  
10 following entities, and its successors and assigns, to  
11 the extent such entity is approved by the Secretary:

12           “(A) A lender or correspondent lender,  
13 who—

14           “(i) makes, underwrites, and services  
15 mortgages;

16           “(ii) submits to the Secretary such fi-  
17 nancial audits performed in accordance  
18 with the standards for financial audits of  
19 the Government Auditing Standards issued  
20 by the Comptroller of the United States;

21           “(iii) meet the minimum net worth re-  
22 quirement that the Secretary shall estab-  
23 lish; and

24           “(iv) complies with such other re-  
25 quirements as the Secretary may establish.

1 “(B) A correspondent lender who—

2 “(i) closes a mortgage in its name but  
3 does not underwrite or service the mort-  
4 gage;

5 “(ii) posts a surety bond, in lieu of  
6 any requirement to provide audited finan-  
7 cial statements or meet a minimum net  
8 worth requirement, in—

9 “(I) a form satisfactory to the  
10 Secretary; and

11 “(II) an amount of \$75,000, as  
12 such amount is adjusted annually by  
13 the Secretary (as determined under  
14 regulations of the Secretary) by the  
15 change for such year in the Consumer  
16 Price Index for All Urban Consumers  
17 published monthly by the Bureau of  
18 Labor Statistics of the Department of  
19 Labor; and

20 “(iii) complies with such other re-  
21 quirements as the Secretary may establish.

22 “(C) A mortgage broker who—

23 “(i) closes the mortgage in the name  
24 of the lender and does not make, under-  
25 write, or service the mortgage;

1           “(ii) is licensed, under the laws of the  
2           State in which the property that is subject  
3           to the mortgage is located, to act as a  
4           mortgage broker in such State;

5           “(iii) posts a surety bond in accord-  
6           ance with the requirements of subpara-  
7           graph (B)(ii); and

8           “(iv) complies with such other re-  
9           quirements as the Secretary may establish.

10          “(3) The term ‘mortgagor’ includes the original  
11          borrower under a mortgage and the successors and  
12          assigns of the original borrower.”;

13          (C) in subsection (a), by redesignating  
14          clauses (1) and (2) as clauses (A) and (B) re-  
15          spectively; and

16          (D) by redesignating subsections (a), (c),  
17          (d), (e), and (f) as paragraphs (1), (4), (5), (6),  
18          and (7), respectively, and realigning such para-  
19          graphs two ems from the left margin.

20          (2) MORTGAGEE REVIEW.—Section 202(c)(7) of  
21          the National Housing Act (12 U.S.C. 1708(c)(7)) is  
22          amended—

23                 (A) in subparagraph (A), by inserting “, as  
24                 defined in section 201,” after “mortgagee”;

25                 (B) by striking subparagraph (B); and

1           (C) by redesignating subparagraphs (C)  
2           and (D) as subparagraphs (B) and (C), respec-  
3           tively.

4           (3) MULTIFAMILY RENTAL HOUSING INSUR-  
5           ANCE.—Section 207(a)(2) of the National Housing  
6           Act (12 U.S.C. 1713(a)(2)) is amended by striking  
7           “means the original lender under a mortgage, and  
8           its successors and assigns, and” and inserting “has  
9           the meaning given such term in section 201, except  
10          that such term also”.

11          (4) WAR HOUSING INSURANCE.—Section 601(b)  
12          of the National Housing Act (12 U.S.C. 1736(b)) is  
13          amended by striking “includes the original lender  
14          under a mortgage, and his successors and assigns  
15          approved by the Secretary” and inserting “has the  
16          meaning given such term in section 201”.

17          (5) ARMED SERVICES HOUSING MORTGAGE IN-  
18          SURANCE.—Section 801(b) of the National Housing  
19          Act (12 U.S.C. 1748(b)) is amended by striking “in-  
20          cludes the original lender under a mortgage, and his  
21          successors and assigns approved by the Secretary”  
22          and inserting “has the meaning given such term in  
23          section 201”.

24          (6) GROUP PRACTICE FACILITIES MORTGAGE  
25          INSURANCE.—Section 1106(8) of the National

1 Housing Act (12 U.S.C. 1749aaa-5(8)) is amended  
2 by striking “means the original lender under a mort-  
3 gage, and his or its successors and assigns, and”  
4 and inserting “has the meaning given such term in  
5 section 201, except that such term also”.

6 (b) ELIGIBILITY FOR INSURANCE.—

7 (1) TITLE I.—Paragraph (1) of section 8(b) of  
8 the National Housing Act (12 U.S.C. 1706c(b)(1))  
9 is amended—

10 (A) by striking “, and be held by,”; and

11 (B) by striking “as responsible and able to  
12 service the mortgage properly”.

13 (2) SINGLE FAMILY HOUSING MORTGAGE IN-  
14 SURANCE.—Paragraph (1) of section 203(b) of the  
15 National Housing Act (12 U.S.C. 1709(b)(1)) is  
16 amended—

17 (A) by striking “, and be held by,”; and

18 (B) by striking “as responsible and able to  
19 service the mortgage properly”.

20 (3) SECTION 221 MORTGAGE INSURANCE.—  
21 Paragraph (1) of section 221(d) of the National  
22 Housing Act (12 U.S.C. 1715l(d)(1)) is amended—

23 (A) by striking “ and be held by”; and

24 (B) by striking “as responsible and able to  
25 service the mortgage properly”.

1           (4) HOME EQUITY CONVERSION MORTGAGE IN-  
2           SURANCE.—Paragraph (1) of section 255(d) of the  
3           National Housing Act (12 U.S.C. 1715z-20(d)(1)) is  
4           amended by striking “as responsible and able to  
5           service the mortgage properly”.

6           (5) WAR HOUSING MORTGAGE INSURANCE.—  
7           Paragraph (1) of section 603(b) of the National  
8           Housing Act (12 U.S.C. 1738(b)(1)) is amended—

9                   (A) by striking “, and be held by,”; and

10                   (B) by striking “as responsible and able to  
11           service the mortgage properly”.

12           (6) WAR HOUSING MORTGAGE INSURANCE FOR  
13           LARGE-SCALE HOUSING PROJECTS.—Paragraph (1)  
14           of section 611(b) of the National Housing Act (12  
15           U.S.C. 1746(b)(1)) is amended—

16                   (A) by striking “ and be held by”; and

17                   (B) by striking “as responsible and able to  
18           service the mortgage properly”.

19           (7) GROUP PRACTICE FACILITY MORTGAGE IN-  
20           SURANCE.—Section 1101(b)(2) of the National  
21           Housing Act (12 U.S.C. 1749aaa(b)(2)) is amend-  
22           ed—

23                   (A) by striking “ and held by”; and

24                   (B) by striking “as responsible and able to  
25           service the mortgage properly”.

1           (8) NATIONAL DEFENSE HOUSING INSUR-  
2 ANCE.—Paragraph (1) of section 903(b) of the Na-  
3 tional Housing Act (12 U.S.C. 1750b(b)(1)) is  
4 amended—

5                   (A) by striking “, and be held by,”; and

6                   (B) by striking “as responsible and able to  
7 service the mortgage properly”.

8 **SEC. 17. SENSE OF CONGRESS REGARDING TECHNOLOGY**  
9 **FOR FINANCIAL SYSTEMS.**

10       (a) CONGRESSIONAL FINDINGS.—The Congress finds  
11 the following:

12           (1) The Government Accountability Office has  
13 cited the FHA single family housing mortgage insur-  
14 ance program as a “high-risk” program, with a pri-  
15 mary reason being non-integrated and out-dated fi-  
16 nancial management systems.

17           (2) The “Audit of the Federal Housing Admin-  
18 istration’s Financial Statements for Fiscal Years  
19 2004 and 2003”, conducted by the Inspector Gen-  
20 eral of the Department of Housing and Urban De-  
21 velopment reported as a material weakness that  
22 “HUD/FHA’s automated data processing [ADP]  
23 system environment must be enhanced to more effec-  
24 tively support FHA’s business and budget proc-  
25 esses”.

1           (3) Existing technology systems for the FHA  
2 program have not been updated to meet the latest  
3 standards of the Mortgage Industry Standards  
4 Maintenance Organization and have numerous defi-  
5 ciencies that lenders have outlined.

6           (4) Improvements to technology used in the  
7 FHA program will—

8                   (A) allow the FHA program to improve the  
9 management of the FHA portfolio, garner  
10 greater efficiencies in its operations, and lower  
11 costs across the program;

12                   (B) result in efficiencies and lower costs  
13 for lenders participating in the program, allow-  
14 ing them to better use the FHA products in ex-  
15 tending homeownership opportunities to higher  
16 credit risk or lower-income families, in a sound  
17 manner.

18           (5) The Mutual Mortgage Insurance Fund op-  
19 erates without cost to the taxpayers and generates  
20 revenues for the Federal Government.

21           (b) SENSE OF CONGRESS.—It is the sense of the  
22 Congress that—

23                   (1) the Secretary of Housing and Urban Devel-  
24 opment should use a portion of the funds received  
25 from premiums paid for FHA single family housing

1 mortgage insurance that are in excess of the  
2 amounts paid out in claims to substantially increase  
3 the funding for technology used in such FHA pro-  
4 gram;

5 (2) the goal of this investment should be to  
6 bring the technology used in such FHA program to  
7 the level and sophistication of the technology used in  
8 the conventional mortgage lending market, or to ex-  
9 ceed such level; and

10 (3) the Secretary of Housing and Urban Devel-  
11 opment should report to the Congress not later than  
12 180 days after the date of the enactment of this Act  
13 regarding the progress the Department is making  
14 toward such goal and if progress is not sufficient,  
15 the resources needed to make greater progress.

16 **SEC. 18. SAVINGS PROVISION.**

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

22 **SEC. 19. IMPLEMENTATION.**

23 The Secretary of Housing and Urban Development  
24 shall by notice establish any additional requirements that

1 may be necessary to immediately carry out the provisions  
2 of this title. The notice shall take effect upon issuance.

Passed the House of Representatives July 25, 2006.

Attest:

KAREN L. HAAS,

*Clerk.*