

Vitter Says FHA is Going Broke, Demands Results of Secret “Stress Test”

Report reveals Federal Housing Administration projected losses significantly higher than previously estimated

Wednesday, July 17, 2013

(Washington, D.C.) – U.S. Sen. David Vitter (R-La.) today sent a letter to Federal Housing Commissioner Carol Galante asking about a hidden report conducted by the Federal Housing Administration (FHA). The report revealed that their projected losses would be close to twice as much as what the FHA previously estimated. In November of last year, FHA was estimated to have losses of \$65.4 billion. A new report conducted using annual Federal Reserve Board tests shows losses could be as much as \$115 billion. The FHA has refused to release the “stress test” report.

“The FHA backs 26 percent of all new mortgage purchases in America and the news of a secret “stress test” – hidden from both Congress and the American people – is extremely disconcerting,” Vitter said. “American tax-payers deserve to know their real risk in backing this massive, risky government program. I’m asking FHA to come clean about the results, since it’s clear that they’ve been misleading us.”

Vitter has warned of a potential FHA bailout since 2009, and he has previously introduced legislation to prevent it. Last Congress, Vitter introduced legislation to reform the FHA and ensure it can remain solvent without a federal bailout.

The text of Vitter’s letter is below.

July 17, 2013

Ms. Carol Galante
Federal Housing Commissioner
U.S. Department of Housing and Urban Development
451 7th Street S.W.
Washington, DC 20410

Dear Commissioner Galante

It has come to my attention that a recent secretive Federal Housing Administration (FHA) “stress test” was conducted and not disclosed to Congress or the American people. The Wall Street Journal reported that the “hidden report”, based off of annual tests done by the Federal Reserve Board, had projected losses over 30 years could reach as high as \$115 billion. This figure is significantly higher than any estimate your agency included in its actuarial review released last November. In fact the most severe estimate of losses included in that report was only \$65.4 billion, a little more than half of the projected losses estimated in the “hidden report”.

As you are aware, FHA recently reported that its losses, under current conditions, would exceed its reserves by \$13.5 billion over thirty years. The news of a hidden “stress test,” not included in these calculations, is extremely disconcerting. The FHA backs mortgages with down payments of as little as 3.5%. These are loans that most private lenders, working off of market principles, will not make without a government guarantee. One-third of all loans used to purchase homes were backed by the FHA. In January, 2013 an astounding 9.49 percent of these FHA backed mortgages defaulted. American tax-payers deserve to know their real risk in backing this massive, risky government program.

In light of these concerns, please provide the “hidden report” to my office. Moreover, I request that you respond answers to the following questions no later than July 29, 2013.

1. According to a report in the Wall Street Journal, a senior FHA official said in an email that “while the agency still wanted to present the results of the Fed stress test to other government agencies, ‘we just do not want that analysis to be in the actuarial review report....In Congressional hearings, it is quite possible that we will be required to present this information on-the-record, but that will be well after the actuarial review is released and the initial media coverage takes place.’” Why was this report hidden from Congress and the public?
2. Has FHA conducted an internal investigation to determine who was responsible for making the decision to hide this report from Congress and the public? If so, please provide the names of individuals responsible for the cover up. Was this person or persons disciplined?
3. When did you first become aware of the existence of the “hidden report”? What actions did you take upon learning about the report and the fact that it had not been made public? In your view, did the agency have the responsibility to share, what seems like an extremely important report, with the American taxpayers, as they would be the ones on the hook for \$115 billion?

Thank you for your attention to this important matter, and I look forward to your prompt and forthright responses.

Sincerely,

David Vitter
United States Senate

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