



FHA Leader **Carol Galante** on Housing Finance and Today's Mortgage Market

MReport talks to Carol Galante, the nation's acting Federal Housing Administration (FHA) commissioner and assistant secretary for housing, to find out what she's anticipating in the housing and real estate industries this year. She is the president's nominee to head up the FHA, but before that, she served for many years in nonprofit management, with a stint as CEO of BRIDGE Housing Corp. Galante takes a few minutes with *MReport* to discuss her career and the controversy surrounding the FHA's role today.

M // You're currently undergoing the confirmation process. Can you describe what it has been like for you to enter such a high-profile process and government in general, given your career in nonprofit management?

GALANTE // In my prior lives, I certainly had a lot of public speaking engagements and presentations before city councils and state agencies, so I am fairly comfortable with the spotlight, so to speak. There is more of that in my position now and with the confirmation process and government in general. And there is more consciousness around the fact that what we do here moves markets. We know that we need to be thoughtful, careful, and understanding about the background. That is one thing that I had to pay more attention to than I might otherwise—I can't just fly off the cuff. [laughs]

M // How do you build the right team to manage an organization like the FHA?

GALANTE // Two things that I am very impressed with is the number of people already part of the FHA organization and part of HUD. Some people ask me what is the biggest surprise about coming into government, and I would say that there is sometimes a reputation that government employees are not as talented as those in the private sector. I have to say that I have the top echelon of folks here, and that's comforting. The biggest accomplishment I've had here is the ability to bring in top leadership with the FHA . . . and frankly, I think we need that combination of people with external experience and practice with people who understand government and FHA programs.

modest and something we think will help the [Mutual Mortgage Insurance Fund (MMIF)] in the short term without damaging the markets.

M // The FHA insures more mortgages today than at any other time in its history, leaving the MMIF exposed to falling home prices and mortgage delinquencies. How does the agency plan to reduce its share of the market and still re-capitalize the MMIF over time?

GALANTE // Increasing premiums certainly helps, and it's one thing we can do to keep the MMIF healthy. FHA was also part of the servicing settlement with servicers on limited origination practices. The bottom line is that we are continuing to hold lenders accountable for fraudulent or poorly under-

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M // The FHA has received criticism for falling short of homeownership goals for low-income and minority homeowners. What is the FHA doing today to make sure that it continues to serve nontraditional homebuyers and owners?

GALANTE // An incredible number of minority borrowers use FHA—some 60 percent of African-American and Hispanic borrowers use FHA to buy their first homes. So we are there to serve underserved communities, and I think we've been doing that effectively. At the same time, we see a lot of credit overlays on the part of lender, because they are concerned about put-back risk or ongoing servicing risk for riskier borrowers. So we are doing a lot with lenders to make sure we keep the rules of the road clear and ensure they don't see the need for additional credit overlays. At the end of the day, we want to make sure we use an effective homeownership option when we insure the loan.

M // Originators say that recent insurance premium increases could negatively impact homeowners. How is the FHA justifying these increases to lenders and the home-owning public?

GALANTE // We raised annual premiums by 10 basis points, as mandated by Congress under the [short-term] payroll tax extension bill. We increased the upfront premium by 75 basis points—and there's a tension there. We chose 75 basis points and chose to do it upfront because it has the least impact on borrowers; for example, doing an equivalent on an annual basis would be significantly more costly. The average FHA loan really only adds \$5 per month to borrowers' payments. We think that is extremely

written loans where they didn't follow our standards. That won't have a negative impact on the MMIF, and we will continue to look closely at lenders' practices to make sure they're not putting us at risk . . . At the same time, we want to make sure our rules are very clear to ensure lenders comply.

We've been a little guilty of perhaps not being as clear as we could be. So, for example, we just published a lender rule on indemnification to be clearer. On your question about market share and volume, we reached the peak of our volume in 2009 and have been coming down since then. Currently, we are at about 15.6 percent of all mortgages. We are well over 20 percent higher in purchases than we are in refinances—about 24 percent to 25 percent in the purchase market. So we have come down overall, and I think that is partly a reflection of the increase in premiums. We think this is appropriate, but we have to do it carefully and gradually. We're still in a fragile recovery here, and we don't want to drive people away from buying or refinancing at this point in time.

M // You spent much of your career in nonprofit management and affordable housing issues. What advice would you give to someone who wants to make a difference?

GALANTE // I would say that there are multiple ways to make a difference; you don't have to be in nonprofit management or government. We see a lot of lenders, brokers, and housing counselors who work closely with our borrowers, who really care about their success. If sustainable homeownership is their goal, and they keep that in mind in their everyday work, then there are many ways to go about achieving it and making a difference.