

Testimony of John F. Osta

To: The Committee on Financial Services Subcommittee
On Housing and Community Opportunity

HOMEOWNER DOWNPAYMENT ASSISTANCE PROGRAMS AND RELATED ISSUES

Congresswoman, Waters, Congressman Frank, distinguished Representatives of the House, thank you for the opportunity to testify on the Department of Housing and Urban Development's Proposed Rule Change eliminating privately funded downpayment assistance.

My name is John F. Osta. I am Vice President of Gallinger RealtyUSA in Syracuse, NY. RealtyUSA is the #1 independent real estate brokerage firm in New York State and ranked 7th amongst all independent real estate companies in the United States. RealtyUSA has offices in all major Upstate markets, including Rochester, Buffalo, Albany, Binghamton, Ithaca and Elmira, NY.

I have owned a real estate brokerage company for last 10 years, and preceding that was involved in the real estate Association Management business. I have enclosed a copy of my resume, which I think you see shows my commitment to homeownership in America today.

Our company has been involved in many transactions utilizing downpayment assistance and we can truly testify that there are many, many Americans who would not be in a home of their own if it wasn't for the program of no downpayment assistance.

HUD's proposed Rule Change will eliminate the American Dream of homeownership for thousands of individuals and families who have gainful employment, have demonstrated creditworthiness, and are prepared in nearly every way for the responsibilities of homeownership. The only obstacle that lies between them and owning a home is the downpayment requirement. These families pay their rent on time, support their utilities expenses, manage their debt load, and meet their housing responsibilities. Lenders pre-qualify these families and let them know that they are qualified to borrow money because they have demonstrated the ability to repay the loan based on acceptable employment history, adequate income, and appropriate management of debt and credit. They are fully qualified to assume the responsibility of the loan.

The payment of 2.25% toward a downpayment on a home does not qualify a buyer for a loan. The low downpayment requirement simply expedites the timeframe for a family to reach homeownership. However, in the absence of acceptable income, employment history, and demonstrated credit management, no one would lend a borrower any money

with just 2.25% down. That is unless you were a sub-prime lender getting an outrageous interest rate that would somehow justify the risk with a bountiful reward.

My point is that the more important criterion for mortgage lending is the demonstrated ability to repay the funds, not the demonstrated ability to save money.

As stated by FHA in the summary of the RuleChange Proposal, "FHA's primary concern with these transactions is that the sale price is often increased to ensure that the seller's net proceeds are not diminished, and such increase in sales price is often to the detriment of the borrower and FHA.."

This concern seems to make absolutely no sense. Please allow me to make the following points regarding this statement. I have broken it down into what I believe are FHA's primary issues.

The sales price is often increased

- A negotiation between a buyer and seller can have many terms that influence the final acceptable offer
 - Agreeable closing date
 - Repair Issues
 - Rapport
- Most buyers that need help from the seller whether it's for allowable closing costs or for assistance with their downpayment will tend to negotiate less on the sales price.
- FHA allows the seller to provide up to 6% in "seller's concessions toward the buyers' closing costs." The FHA fully allows the seller to give help to the buyer, why would they ever not approve downpayment assistance.

The sellers' net proceeds are not diminished

- Most sellers will only enter into an agreement when they have obtained a satisfactory offer that reasonably achieves their desired net.
- In most transactions with downpayment assistance the seller has agreed to give up a portion of their POTENTIAL net in order to get a faster sale.
- Most sellers would like to sell their home in the least time, with the least inconvenience, and at the greatest potential value.

The Buyer pays too much for the property (to their detriment)

- Buyers who are unable to purchase a home because they don't have the required cash are delighted and appreciative to learn that there is an option that will allow them to become a homeowner...TODAY.
- The buyer is the one making the offer with the guidance of a REALTOR®, confidant, Lender, Attorney, or whomever they trust for sound advice.
- The documents signed by the parties to the transaction fully disclose the sources of funds.
- The buyer is given a Good Faith Estimate and has the ability to determine if the purchase and payments are "to their detriment".
- The alternative is to keep paying rent and delay the obvious benefits of homeownership. **That would be detrimental.**

FHA loans too much on the property (to their detriment)

- The only time loaning too much on a property is detrimental is if the property goes to foreclosure. The 2.25% downpayment is not enough to protect the investor in a foreclosure anyway.
- FHA and the Lender are responsible for evaluating the property appraisal.
- Appraisers authorized to do FHA appraisals are pre-approved by FHA and regulated by FHA.
- As stated above, it is OK to have "sellers concessions" built into the sale price, why not downpayment assistance?

Our company has recently been involved in the sale of tax delinquent and foreclosure properties in the Greater Syracuse area. It is very clear after a review of this housing stock that a tremendous need is there for qualified homeowners. Examples that we see in these foreclosed properties, which in many cases may have to be torn down, certainly create for us the challenge to help more buyers become qualified for homeownership and to help rejuvenate the housing stock in all aspects of the housing market.

In conclusion, I would humbly suggest and encourage that we all do everything within our power to preserve this program. I'm sure it would send a resounding message across this country that we all care deeply about the American dream of homeownership.

I encourage you to meet with all parties involved with this to bring fair and equitable conclusion to this very important issue. I would be more than happy to answer any questions that you may have.