

Statement of Todd Richardson
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before the

Subcommittee on Housing and Community Opportunity

Proposed Rule by the Department of Housing and Urban Development
24 CFR Part 203

“Standards for Mortgagor’s Investment in Mortgaged Property; Proposed Rule”

June 22, 2007

Good morning, Chairwoman Waters, and distinguished Members of the Subcommittee. Thank you for this opportunity to testify regarding the rule proposed by the Department of Housing and Urban Development. My name is Todd Richardson, and I am the Vice President of Legal Affairs of C.P. Morgan, a homebuilding and residential land development company. Let me begin by providing background information on C.P. Morgan that will give the Subcommittee a better understanding of our role in helping homebuyers achieve the American Dream of homeownership.

C.P. Morgan was started in 1983 by Chuck and Roxy Morgan. C.P. Morgan has served the residential homebuilding community of Indianapolis, Indiana for the past 24 years. In recent years, we have expanded operations to North and South Carolina. In all, we have had the privilege of building over 23,000 homes for predominately first-time homebuyers. The 2006 Builder 100 Survey lists C.P. Morgan as the nation’s 27th largest homebuilder, and one of the top 10 largest private homebuilders in the U.S.

C.P. Morgan's Vision is “To provide more people with more home than they ever dreamed possible.” This is accomplished through the successful execution of our Mission Statement-- “More Square Feet, Less Money with More Choice and Less Hassle.” As our Vision and Mission statements indicate, our focus is on helping individuals achieve the dream of owning a home. In all, C.P. Morgan has built over 23,000 homes in over 170 neighborhoods, and has received national recognition for quality community development. We are currently building in 36 communities in Indiana with homes ranging from 1,000 – 5,000 square feet in size with prices from the \$80’s to the \$200’s. In 2004, C.P. Morgan expanded its homebuilding operation by entering the Charlotte market and is currently selling in 38 Carolina communities with homes ranging from 1,000 – 5,000 square feet and priced from the \$100’s to the mid \$200’s.

By highlighting space and price, C.P. Morgan seeks to speak directly to a specific market segment - first-time homebuyers. In fact, 76% of our homebuyers are first-time homebuyers. We offer unparalleled choice in options and a wide variety of floor plans,

designs, sizes and prices. C.P. Morgan's success in the marketplace is tied directly to the satisfaction of its homeowners. Indeed, nine out of ten C.P. Morgan homebuyers say they would recommend C.P. Morgan to a friend or relative. It is this high level of customer satisfaction that has made C.P. Morgan the largest builder in both Indiana and the greater Charlotte metropolitan area.

C.P. Morgan has most recently received the Innovation in Workforce Housing Award from the National Association of Home Builders (NAHB) for its efforts in providing quality, affordable housing solutions for America's working families. A 2006 recipient of the National Housing Quality Silver Award, C.P. Morgan has been recognized with one of the homebuilding industry's highest honors for quality achievement. In addition, the Company has been awarded the Seven Seals Award by the Employer Support of the Guard and Reserve (ESGR). The Seven Seals Award recognizes individuals and employers who demonstrate a continual commitment to supporting the men and women of the National Guard and Reserve. *Indianapolis Monthly* magazine has voted C.P. Morgan as one of the top twelve outstanding businesses to work for in the Indianapolis metropolitan area. Other past achievements include the Torch Award from the Better Business Bureau of Indianapolis for excellence in business ethics as well as the prestigious Keystone Award from the Residential Warranty Corporation for expert technical competence and overall dedication and commitment to excellence in the building industry.

As a builder serving 76% first-time homebuyers, we must be more than just a high-quality builder, we must also educate our buyers on home ownership, financing and all the aspects of owning a home. If we are to succeed, we need to know our customers and be sensitive to their needs. In our experience working with people who are seeking to purchase their first home, we have learned that many of our customers have the ability to make monthly payments but do not have adequate savings to make down payments. For many homebuyers, even an FHA-insured loan with a 3% down payment is difficult to secure. For years, the down payment was a difficult problem that we did our best to help our buyers solve.

In 1997, with the advent of the HUD-approved down payment assistance program, we began to work with Nehemiah Corporation of America. Through this program, we have been able to help people with low savings purchase a home and avoid a sub-prime mortgage. This program is very popular, as illustrated by the fact that since the inception of down payment assistance, 25% of our homeowners have used this program to purchase a home.

While it is abundantly clear that a large numbers of buyers need down payment assistance to experience home ownership, it is also critical to understand that down payment assistance has been especially important for minority buyers. Approximately 45% of all of C.P. Morgan's homebuyer's are minorities. Of the C.P. Morgan homeowners that utilized down payment assistance, 31% were minority buyers.

We believe that the down payment assistance programs have been important and have helped thousands of people, especially minorities, purchase homes that would not have been able to do so otherwise. The HUD Proposed Rule (Rule) would, in effect, eliminate down payment assistance programs. If put into effect, the Rule will deny thousands of people the chance to own a home and is likely to cause lay-offs and other problems in the homebuilding industry.

We oppose the new Rule and we are joined in that opposition by the many homebuilders who serve the first-time homeowner market. In our markets, down payment programs are important and the Committee should be aware of the impact before allowing HUD to end the programs.

We have three recommendations for the Committee:

1. Do not allow the Rule to be implemented until there is an alternative to assist the first-time homebuyer.

Down payment assistance programs are important to low and moderate income buyers and this segment of the home buying population should not be abandoned. Moreover, if the programs are ended without an alternative program, there will be job losses and negative economic impacts in the communities where these programs are used. Until there is an alternative seller-assisted program or a 100% mortgage option available in the market, the Rule should not be put into effect.

2. Consider new models of down payment assistance.

Builders and other sellers should be allowed to assist buyers with a down payment. A 3% home discount is not nearly as important to a new owner as help with the down payment. HUD and the Committee should determine what factors have led to increased defaults and develop a new program that allows sellers to assist with down payments under conditions set by the Committee and HUD. If the current mechanism is not appropriate, allow for direct, transparent seller assistance.

3. Authorize HUD to offer a 100% mortgage.

The Expanding American Homeownership Act of 2007 should be enacted and HUD should be encouraged to make the resulting product available as soon as possible. Low and moderate income families want to own a home and communities benefit from higher levels of homeownership. The down payment is a difficult obstacle for many families and requiring a down payment is no guarantee that the mortgage will be paid.

Ms. Chairwoman, I hope my comments and suggestions make clear to you and your distinguished colleagues that we praise your efforts in fostering homeownership for

American families. I also hope that under your leadership and direction our suggested actions will be considered as you reflect on what is best for those who have had the greatest challenges in gaining successful homeownership.

Our thoughts will be with the men and women of this sub-committee as you navigate through the opportunities that lie ahead. Thank you for your time and I welcome any questions you may have for me.

The hearing will focus on homeowner down payment assistance grant programs and related issues. Your testimony should address the following specific issues or questions:

What is the down payment assistance grant process?

At C.P. Morgan, the process is simple, transparent and optional. Potential homebuyers choose a home and evaluate financing options. During the review of financing options, the customer is given information about the down payment assistance program and the costs/benefits of the program. If the consumer is interested, they are directed to a down payment assistance provider.

What are the benefits of down payment assistance?

In working to serve the first time homebuyer market, we find that many families have the capacity to support a monthly mortgage payment, but have not been able to save for a down payment. For these families, down payment assistance allows the purchase of a home. On an aggregate basis, about 25% of C.P. Morgan buyers use down payment assistance. For minority buyers, down payment assistance has been more important. About a third of the minority families have used down payment assistance to buy a home. If the program is ended, we believe that about 20% of the 2006 buyers would not have been able to buy a house without down payment assistance.

What role, if any, do down payment assistance grants play in the subprime mortgage lending market?

Down payment assistance allows buyers to avoid sub-prime loans. With down payment assistance, purchasers can qualify for a 30-year, fixed rate FHA loan. An FHA loan offers a fixed, low-cost loan that is far better for most consumers than a sub-prime loan.

What are the advantages and disadvantages of using down payment assistance grants to provide homeownership opportunities?

For the consumer, there are no disadvantages to down payment assistance grants. The homebuyer gets assistance when it is most needed - at the time of purchase when most buyers have little extra cash. For the builder, there are no disadvantages to down payment assistance. As long as a house can be appraised at a level that supports the assistance, then down payment assistance is a valuable tool to offer as an option. For the government, down payment assistance may lead to a higher default rate for FHA. We believe that, with a few minor reforms, down payment assistance could be continued without undue risk to FHA.

What is the issue that HUD has with down payment assistance grants programs?

HUD believes that down payment assistance has led to higher levels of default and higher home costs. We believe that the default issue can be moderated with reform. For HUD, home costs should be an issue only if the higher costs are unsupportable

within the appraised price of the home. For some consumers, down payment assistance is the difference between homeownership and renting. The slightly larger mortgage payment that may result from down payment assistance is not likely to impact the potential for loan default.

What will be the impact on down payment assistance grants programs of the proposed HUD Rule: "Standards for Mortgagor's Investment in Mortgaged Property" issued for comment in the Federal Register?

If the rule goes into effect without a replacement program or a 100% mortgage form FHA, a high percentage of the 100,000 buyers that used down payment assistance in 2006, would not have become owners. In addition, there will be a dramatic drop in FHA loan volume that will threaten the viability of the FHA Reserve Fund under current law.