

NAR Regulatory Issue Brief

Strength of the Federal Housing Administration

Mortgage Insurance Programs



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The National Association of REALTORS congratulates President Obama on the release of the full account-level budget for Fiscal Year 2010. The robust budget for the Department of Housing and Urban Development (HUD) will help millions of American families obtain affordable housing. The President's budget provides necessary funding that will allow HUD to fulfill its mission of increasing homeownership, supporting innovative and sustainable community development, and increasing access to affordable housing.

The Federal Housing Administration (FHA), an agency of HUD, is the workhorse of the administration's housing and economic recovery efforts. FHA's Single Family Insurance Program, known as the 203(b) Program, is the agency's primary insurance program. Since its inception, FHA has been funded by mortgage insurance premiums paid on more than 35 million mortgages.

FHA is one of the few options available for borrowers and likely the only option for those with a small down payment. The result is a drastic increase in demand for FHA mortgage insurance products. HUD Inspector General Kenneth Donohue recently noted that the FHA insurance volume increased from \$59 billion in Fiscal Year 2007 to over \$180 billion in Fiscal Year 2008. The first quarter of Fiscal Year 2009 shows that FHA's total endorsements have increased to 70%, includes both home sales and refinances. FHA's market share for home sales (excluding refinances) increased to more than 30 percent.

Despite increasing demand and a difficult national economy, FHA continues to operate a strong, financially sound Single-Family Program. As of September 30, 2008, the fund's economic value was an estimated \$12.9 billion, which represents 3 percent of the mortgages insured by the FHA. This is above the congressionally mandated 2 percent capital ratio. FHA recently stated that early payment default rates have actually decreased and while overall defaults are up from 6 percent to 7 percent this is well within the norm for the Single Family Program. The FHA claims rate continues to be within the normal rate of 1-2 percent.

FHA has not been immune to the adverse conditions of this market. However, unlike subprime mortgages whose loans were built on unsafe underwriting practices and high risk credit, FHA losses are a result of the current economic downturn. The elimination of seller-funded downpayment assistance programs will help ensure FHA losses are not beyond prior estimates. Secretary Donovan's intent to utilize Hope for Homeowners' anti-fraud technology for the Single Family Program will provide additional safeguards to the Mutual Mortgage Insurance Fund. The borrower profile continues to improve as FHA is reporting increases in credit scores and incomes. Finally, effective April 1, 2009, the loan-to-value ratio of any FHA-insured cash-out refinance may not exceed 85 percent of the appraised value.

There is concern that the Home Equity Conversion Mortgage (HECM) Program is causing FHA's financial challenges. Fortunately, the HECM program is significantly smaller than the Single Family Program. FHA has 4.8 million mortgages in force as of February 2009. HECMs make up only 8 percent, or 408,270, of the agency's mortgages in force. Because the FHA's issues are concentrated in a relatively small program it's clear the agency does not need a financial overhaul. In fact, despite challenges in the HECM program, the President's fiscal year 2010 budget shows that FHA continues to operate without requiring a credit subsidy. **At a time when many financial institutions are requiring assistance from the federal government, FHA continues to play a significant role in the recovery of the US economy at no actuarial expense to the American taxpayer.**

