Federal Housing Administration

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The Federal Housing Administration (FHA) insures mortgages made by lenders, and in doing so helps provide single-family housing and multifamily housing for low and moderate income families. The FHA was established in 1934 under the National Housing Act to expand homeownership, broaden the availability of mortgages, protect lending institutions, and stimulate home construction. In 1965, the FHA was consolidated into HUD's Office of Housing. FHA is now the largest part of HUD. The FHA Commissioner reports directly to the HUD Secretary.

PROGRAM SUMMARY

The FHA provides mortgage insurance to lenders on both single-family dwellings (one- to four-unit) and multifamily dwellings (five units or more). FHA programs do not lend money directly, but instead insure private loans made by FHA-approved lenders. When a loan defaults, lenders make a claim to FHA, triggering an FHA payment to the lender for the claim amount. FHA then takes possession of the property that secured the mortgage loan. The FHA consists of several insurance funds supported by: premium, fee, and interest income; Congressional appropriations if necessary; and, other miscellaneous sources. According to reports to Congress, FHA has insured more than 40 million home mortgages and 53,000 multifamily project mortgages since 1934. In FY13 FHA insured more than 1.3 million single-family forward mortgage loans.

Mutual Mortgage Insurance. FHA's primary single-family programs are within the Mutual Mortgage Insurance (MMI) fund, which is managed by the Office of Single Family Housing. The fund receives upfront and annual premiums collected from borrowers, as well as net proceeds from the sale of foreclosed homes. Each year, the MMI pays out claims to lenders and is able to cover administrative costs without federal subsidies.

FHA insurance allows borrowers to purchase a home with a lower down payment than is often available in the nongovernmental market. Borrowers pay a fee for FHA insurance. For single-family loans, this fee consists of an upfront amount collected at the time the mortgage is closed, and an annual fee that varies with the loan-to-value ratio (LTV) and length of the mortgage. The annual fee is collected with the monthly mortgage payments. FHA borrowers are required to make a minimum down payment of 3.5%. FHA insures loans only in amounts under set loan limits. Generally, the loan limits are set at 115% of area median home prices, with a floor of 65% of the Federal Home Loan Mortgage Corporation (Freddie Mac) loan limit and a ceiling of 150% of the Freddie Mac limit. The limit for high-cost areas is 625,500, down from the previous temporary high-cost area limit of $729,750 which expired at the end of 2013. The mortgage amount also cannot exceed 100% of the property's appraised value.

The fiscal health of the MMI Fund has been a subject of significant concern in 113th Congress. The MMI Fund capital reserve ratio is required to be at or above 2%. In FY13, however, the MMI Fund had a capital reserve ratio of -0.11 %. FHA attributes this to loans insured prior to 2010. FHA has implemented a number of internal changes to strengthen the fund, and FHA expects that the MMI Fund will reach a 2% capital reserve ratio by FY15, earlier than previously anticipated. FHA reports that in the past fiscal year, the value of the fund increased by $15 billion, from negative $16.3 billion at the end of FY12 to negative $1.3 billion in FY13. FHA was required to take a mandatory appropriation of $1.68 billion in FY13 to assure the stability of the fund.

Special Risk Insurance and General Insurance Funds. In addition to the MMI fund, FHA also operates Special Risk Insurance and General Insurance Funds, which insure loans used for the development, construction, rehabilitation, purchase and refinancing of multifamily housing and health care facilities. Unlike the MMI Fund, this insurance requires subsidies from the federal budget.

Manufactured housing. FHA provides insurance for the purchase or refinancing of a manufactured home, a loan on a developed lot on which a manufactured home will be placed, or a manufactured home and lot in combination. The home must be used as the principal residence of the borrower. The insured loan may not exceed $69,678 for a manufactured home, $23,226 for a manufactured home lot, or $92,904 for a combined manufactured home and lot. These limits can be increased by 85% in high cost areas.

Ginnie Mae. The Government National Mortgage Association (Ginnie Mae), also part of HUD, is an important sister agency to FHA. Ginnie Mae guarantees the principal and interest on privately issued securities backed by FHA, the U.S. Department of Veterans Affairs (VA), and the I.S. Department of Agriculture's Rural Housing Service mortgages, thereby enabling a constant flow of capital for mortgage loans. In FY13, Ginnie Mae guaranteed $460 billion in mortgage-backed securities (MBS), representing 1.6 million families.

FORECAST FOR 2014

The downturn in the housing market affected FHA by increasing its default rates and its insurance expenses. These increased losses reduced FHA reserves below statutory minimum requirements and forced FHA to tighten its underwriting requirements and take other steps to reduce losses. Advocates should expect additional Congressional oversight on the health of the MMI fund, and potential Congressional action, such as a mortgage premium increase or an additional infusion of funding from the Treasury, if capital ratio projections change.

A 2012 Center for American Progress analysis showed that in addition, the FHA, along with Freddie Mac and the Federal National Mortgage Association (Fannie Mae), provided the financing for about 95% of the mortgage loans in this country. While private capital is returning to the market, the government has a disproportionately large share, and this level of federal government support for the mortgage market is unsustainable and undesirable over the long run. The 113th Congress is working to reduce the government's role in the housing finance system and return the bulk of mortgage lending to the private sector.

Revenue generated by FHA is used to underpin HUD's annual budget request. In FY14, HUD counted FHA receipts to undergird its budget, keeping HUD from making deep cuts in rental assistance programs. The amount of FHA revenue HUD will count on in FY15 may decrease. FHA's market share has been decreasing as the housing market starts to recover, resulting in a lower level of receipts that can be applied to the HUD budget. The Congressional Budget Office will ultimately determine if HUD's revenue projections for FHA are accurate. Congress ultimately decides whether FHA revenue can be dedicated to HUD's bottom line, or whether these revenues should flow into the general treasury of the United States.

There is a sense of urgency in both the House and Senate to enact FHA reform to assure the stability of the agency and avoid future instances where congressional appropriations are needed to bolster the MMI fund. House and Senate panels have considered draft legislation that would include tools requested by FHA to manage the MMI Fund. While hearings have been held on the proposals, it is unclear if reform legislation will be enacted by the end of the 113th Congress.

FOR MORE INFORMATION

- 2013 FHA Management Report to Congress, http://bit.ly/1qWVVY1
- Ginnie Mae 2013 Annual Report to Congress, http://1.usa.gov/1kYec5z
- *The $5 Trillion Question: What Should We Do with Fannie Mae and Freddie Mac?* from the Center for American Progress, http://bit.ly/WIbPsw.