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 units) 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.

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 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.

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 U.S. Department of Agriculture's Rural Housing Service mortgages, thereby enabling a constant flow of capital for mortgage loans. In FY15, Ginnie Mae guaranteed $436 billion in new mortgage-backed securities. These transactions supported nearly two million families, representing one-third of all home loans issued during the year.

FORECAST FOR 2018

In recent years, the House and Senate have not sought to reform the FHA to assure the stability of the agency and avoid future instances where congressional appropriations are needed to bolster the MMI Fund. Although there have been several hearings that focused on the financial health and oversight of FHA, neither chamber has introduced legislation that would include tools requested by FHA to manage the MMI Fund.

Even though the FHA announced in November of 2015 that the MMI Fund had surpassed the legally required threshold of 2%, House Financial Services Committee Chair Jeb Hensarling (R-TX) still questioned the health of the fund. Mr. Hensarling voiced concern for the size of the fund's capital reserve, and said that, without a spike in the value of FHA's "volatile" reverse mortgage program, the fund would not have met the 2% threshold. He further stated his belief that FHA continues to crowd out private mortgage lenders from entering the market.

A 2015 Urban Institute analysis showed that in the FHA, along with Freddie Mac, the Federal National Mortgage Association (Fannie Mae), and the VA provided the financing for about 71% of the mortgage loans in this country. Although 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. However, Congress has largely failed in 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. HUD uses FHA receipts to undergird its budget, keeping HUD from making deep cuts in rental assistance programs. However, when FHA receipts are down, appropriators must fill the hole before HUD's other programs can be funded. 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. Ideally, the pace of declining receipts will decrease and Congress can use its limited funds for HUD programs rather than to fill a revenue gap. Congress 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.