

# Federal Housing Administration

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## Program Summary

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 for working-class Americans (however, as described below, only white Americans benefited in the first decades of the program), 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.

The FHA provides mortgage insurance to lenders on both single-family dwellings (one to four units) and multifamily dwellings (five units or more). HUD’s single-family programs include mortgage insurance on loans to purchase new or existing homes, condominiums, manufactured housing, houses needing rehabilitation, and reverse equity mortgages for elderly homeowners. HUD’s multifamily programs provide mortgage insurance to HUD-approved lenders to facilitate the construction, substantial rehabilitation, purchase, and refinancing of multifamily housing projects.

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 the FHA, triggering an FHA payment to the lender for the claim amount. The FHA consists of two insurance funds supported by premium, fee, and interest income,

congressional appropriations if necessary, and other miscellaneous sources.

## History

The FHA was created as an essential component of New Deal legislation in order to rescue the home building and finance industries that crashed during the Great Depression. Upon its founding, FHA played a critical role in alleviating the homeownership crisis in the United

States. It also played a major role in institutionalizing and perpetuating segregation in the housing market through its practice of denying mortgages based on race and ethnicity.

From its inception in 1934, FHA explicitly practiced a policy of redlining by refusing to insure mortgages in or near African American neighborhoods. FHA relied upon color-coded metropolitan maps to indicate where it was considered safe to insure mortgages. These maps denoted risky areas in red; areas that typically included African Americans or where African Americans lived nearby. In FHA’s 1936 Underwriting Manual, numerous provisions indicated that “inharmoonious” racial groups should not live in the same communities. Moreover, FHA subsidized the mass-production of subdivisions where builders included a requirement that no homes be sold to African Americans. In the first 35 years of the FHA program, only 2% of FHA-insured mortgage loans went to borrowers of color. Housing discrimination became unlawful in 1968 with passage of the “Fair Housing Act,” but much of the damage had been done. The FHA subsidized the cost of homeownership for whites and enabled whites to build wealth through home equity while denying African Americans the same opportunity. FHA’s investment in homeownership opportunity for white families is the foundation of today’s racial wealth gap where white families have ten times the wealth of African Americans and eight times the wealth of Latinos.

## Role of FHA

The FHA plays a key countercyclical role in the mortgage market and FHA's market share varies with economic conditions and other factors. For instance, in the aftermath of the financial crisis and the contraction in available mortgage credit, FHA insured a much higher share of single-family mortgages by loan count, increasing from approximately 3% in 2005 to a peak of 21% in 2009. FHA's market share has decreased since that time, but it remains higher than it was in the early 2000s, at 12.28 % of single-family mortgages by loan count, when averaging 2022's first three quarters' results. FHA also has 13.91% market share of single-family purchase mortgages by loan count, when averaging 2022's first three quarters' results.

FHA insurance allows borrowers to purchase a home with a lower down payment than is often available in the conventional market. FHA borrowers are required to make a minimum down payment of 3.5%.

FHA-insured mortgages also play an important role in providing access to homeownership for first-time homebuyers, low- to moderate-income homebuyers, and homebuyers of modest wealth. Furthermore, FHA is a key source of affordable home loans for families of color, providing nearly half of all home purchase loans for these borrowers, including upper income families of color. Borrowers of color, including upper income families, are disproportionately served by government-insured housing programs, including FHA and the U.S. Department of Veterans Affairs (VA). Recent HMDA data indicates low levels of conventional loans to borrowers of color, which is a key policy issue. It is critical to support FHA, while also advocating for the conventional mortgage market, particularly government sponsored enterprises (GSEs), to do more to serve communities of color and lower-wealth borrowers.

## Mutual Mortgage Insurance Fund

The Mutual Mortgage Insurance (MMI) Fund is a federal insurance fund that pays claims on losses from FHA-insured home mortgages. This includes forward as well as reverse mortgages, also known as Home Equity Conversion Mortgages (HECM). The MMI Fund has a statutory capital ratio requirement of 2%. 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 Fund pays out claims to lenders and covers administrative costs without federal subsidies. Under FHA's authorizing statute, all of FHA's revenue must go to the MMI Fund and cannot be used to support operations.

According to HUD's FY 2024 annual report to Congress on the financial status of the MMI Fund, the capital ratio for FY 2024 was 11.47%, increasing by 0.96 percentage points over the FY 2023 ratio of 10.51%.

Borrowers pay a premium for FHA insurance. For single-family loans, this premium consists of an upfront amount collected at the time the mortgage is closed and an annual premium that varies with the loan-to-value ratio and length of the mortgage. The annual premium is collected with the monthly mortgage payments. Currently, a borrower must pay the annual premium for the life of the loan. The premium does not end once the outstanding principal balance reaches 78% of the original principal balance. This contrasts with private mortgage insurance coverage in the conventional market.

Furthermore, FHA insures loans in amounts under set loan limits. The "National Housing Act," as amended by the "Housing and Economic Recovery Act of 2008," sets single-family forward loan limits at 115% of median house prices, subject to a floor and a ceiling on the limits. FHA calculates the limits by metropolitan statistical area (MSA) and county. These limits are updated each year and are influenced by

the conventional loan limits set by Fannie Mae and Freddie Mac. FHA loan limits in 2024 range from \$498,257 to \$1,149,825, depending on geographic location. The mortgage amount also cannot exceed 100% of the property's appraised value.

Additionally, a unique characteristic of FHA loans is that they are assumable. In other words, the outstanding mortgage and its terms can be transferred to a new buyer. This feature may become more important if interest rates rise in the future. For FHA loans after December 14, 1989, the original lender must review and approve the creditworthiness of the buyer.

## Special Risk Insurance and General Insurance Funds

In addition to the MMI Fund, FHA operates a Special Risk Insurance and General Insurance Fund, which insure loans used for the development, construction, rehabilitation, purchase, and refinancing of multifamily rental housing, nursing home facilities, and hospitals. Unlike the MMI Fund, this insurance requires subsidies from the federal budget.

## Mortgagee Review Board

The Mortgagee Review Board is authorized to take administrative action against FHA-approved lenders that are not in compliance with FHA lending requirements. The Board can impose civil penalties, probation, suspension, and issue letters of reprimand. For serious violations, the Board can withdraw a lender's FHA approval so the lender cannot participate in FHA programs. The Board can also enter into settlement agreements with lenders to bring them into compliance.

## 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.

## Ginnie Mae

The Government National Mortgage Association (Ginnie Mae) is a self-financing, wholly owned government corporation within HUD. Ginnie Mae guarantees the timely payment of principal and interest on privately issued securities backed by FHA, the HUD Office of Public and Indian Housing, VA, and the U.S. Department of Agriculture's Rural Housing Service mortgages, thereby enabling a constant flow of capital for mortgage loans. Ginnie Mae securities carry the full faith and credit guaranty of the United States government. Ginnie Mae does not insure lenders against borrower credit risk; it also does not buy or sell loans or issue mortgage-backed securities (MBS). Rather, lending institutions originate eligible loans, pool them into securities, and issue Ginnie Mae MBS.

## Forecast For 2025

The executive orders issued by the second Trump Administration have created a very uncertain regulatory environment. Further, inflation, and the increased frequency and severity of natural disasters in certain areas has resulted in a number of homeowners experiencing significant increases in homeowners' insurance costs. In some marketplaces, insurance companies are either deciding not to renew homeowners' insurance or completely leaving the marketplace. Because homeowners' insurance is a requirement for the life of an FHA loan, the current volatility in the home insurance market will be a critical issue moving forward.

## Additional Issues to Monitor

Along with rising insurance costs, advocates should continue to monitor other critical issues in 2025, including:

- The decline in first-time homebuyers due to rising interest rates and higher home prices;
- Maintaining level pricing for single family borrowers;
- Changes to underwriting standards and the FHA TOTAL Scorecard, including recent efforts to restrict higher debt-to-income loans;
- Continuing efforts to commit federal appropriations to help FHA upgrade its antiquated technology (FHA is in the last year of its five-year massive overhaul of its systems);
- Changes to upfront or annual premiums to ensure greater affordability for FHA borrowers;
- Ensuring down payment assistance programs remain available and fairly priced for potential homebuyers. A large percentage of FHA loans utilize down payment assistance programs, some of which operate as grants and others require or offer an increase in the interest rate. It is key for borrowers to shop around to ensure they do not overpay for down payment assistance;
- Changes to the Distressed Asset Stabilization Program (DASP), which sells severely delinquent FHA loans to investors;
- Monitoring Second Chance Claims Without Conveyance of Title (CWCOT) sales, where servicers can sell their FHA-insured foreclosed properties to third parties, without conveying them to HUD, and still have their claim paid by FHA. The concern with this program, and more broadly with FHA loans, is that taxpayer funds may benefit large investors flipping or renting out properties for profit, instead of providing affordable housing to owner-occupants directly or via non-profits;
- Implementing and finalizing changes to the FHA Handbook 4000.1: Servicing and Loss Mitigation; Claims and Disposition;
- Monitoring the impact of FHA's underwriting modification that allows a borrower's positive rental payment history to be considered as part of the evaluation of their creditworthiness.

## “False Claims Act” Reform

In 2019, FHA reformed its lender and loan-level certifications and created a Defect Taxonomy, which categorizes loan defects of various severities with remedies. These changes were intended to clarify lender liability for loan defects in the origination process and assuage lender concerns about “False Claims Act” liability for minor errors. In addition, on October 28, 2019, HUD and the Department of Justice entered into a memorandum of understanding regarding the use of the “False Claims Act” against participants in FHA single-family mortgage insurance programs. Advocates should monitor potential changes to FHA's quality control processes (including to the Defect Taxonomy), Mortgagee Review Board administrative actions, and any potential “False Claims Act” cases. Moreover, advocates should monitor if banks that previously exited the FHA program begin to offer FHA loans again.

In October 2021, FHA posted a proposed new section to the Defect Taxonomy on servicing loan reviews. The amendments aim to provide loan servicers with more certainty about penalties related to servicing missteps and help servicers understand how FHA intends to hold them accountable for loan-level compliance. The proposal garnered extensive feedback. On January 7, 2025, FHA released mortgagee letter 2025-01 announcing changes to Defect Taxonomy which became effective on January 15, 2025.