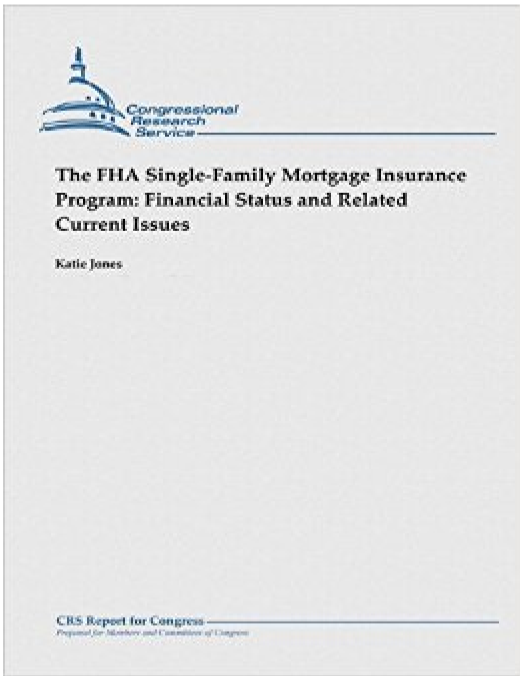
The FHA Single-Family Mortgage Insurance Program: Financial Status And Related Current Issues



Synopsis

The Federal Housing Administration (FHA) insures home mortgages made by private lenders against the possibility of borrower default. If the borrower does not repay the mortgage, FHA pays the lender the remaining principal amount owed. By insuring lenders against the possibility of borrower default, FHA is intended to expand access to mortgage credit to households, such as those with smaller down payments or below-average credit histories, who might not otherwise be able to obtain a mortgage at an affordable interest rate or at all. FHA also traditionally plays a countercyclical role in the mortgage market. In other words, it generally insures more mortgages during periods when lenders and private mortgage insurers tighten their lending standards and reduce activity in response to market conditions, and it generally insures fewer mortgages at times when lenders and private mortgage insurers make mortgage credit more easily available. When an FHA-insured mortgage goes to foreclosure, the lender files a claim with FHA for the remaining amount owed on the mortgage. Claims on FHA-insured loans have traditionally been paid out of an account, known as the Mutual Mortgage Insurance Fund (MMI Fund), that is funded through fees paid by borrowers, rather than through appropriations. However, if FHA were ever unable to pay claims that it owed, it can draw on permanent and indefinite budget authority with the U.S. Treasury to pay those claims without additional congressional action. In recent years, increased default and foreclosure rates, as well as economic factors such as falling house prices, have contributed to an increase in expected losses on FHA-insured loans. This increase in expected losses has put pressure on the MMI Fund and reduced the amount of resources that FHA has on hand to pay for additional, unexpected future losses. This has led to concern that FHA may need to draw on its permanent and indefinite budget authority for funds from Treasury to hold in reserve to pay for these higher expected future losses, or, eventually, to pay insurance claims. An annual actuarial review of the MMI Fund released in November 2012 showed that, according to current estimates, FHA does not currently have enough funds on hand to cover all of its expected future losses on the loans that it currently insures. The results of this actuarial review heightened concerns that FHA could need funds from Treasury. However, whether FHA actually needs to draw funds from Treasury would be determined as part of the annual budget process, not by the actuarial review. FHA faces an inherent tension between protecting its financial health and fulfilling its mission of expanding access to mortgage credit. In addition, the share of mortgages insured by FHA has increased in the past several years as the availability of mortgage credit has tightened, further contributing to this tension. FHA has recently proposed or implemented a number of changes to its single-family mortgage insurance program that are intended to minimize risk to the MMI Fund while still allowing FHA to support the mortgage market and expand access to affordable mortgages. These changes have included increasing the fees that it charges to borrowers for insurance, modifying its underwriting criteria, and taking steps to increase oversight of lenders who make FHA-insured loans. While many of these changes were made administratively by FHA, some involved congressional action. Congress has also weighed additional changes to FHAâ ™s programs, and has considered additional legislation aimed at protecting the financial health of the MMI Fund. An example of such a bill is the FHA Emergency Fiscal Solvency Act of 2012 (H.R. 4264), which passed the House of Representatives during the 112th Congress. An identical bill (S. 3678) has been introduced in the Senate.

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