

# PRESERVE THE MISSION AND PURPOSE OF THE FHA PROGRAM

## Congressional Action Needed:

Ensure that the Federal Housing Administration (FHA) single-family program has the tools and policies in place to meet its mission of providing access to safe, affordable mortgage financing to qualified borrowers nationwide, without imposing burdensome limitations.

## Congressional Actions to Date:

- The House Financial Services Committee has passed H.R. 2767, the Protecting American Taxpayers and Homeowners (PATH) Act, sponsored by Representatives Garrett (R-NJ) and Hensarling (R-TX). This legislation makes significant and troubling changes to the FHA program, including increasing down payment requirements, lowering FHA's loan limits, and significantly restricting who can use the program. NAR strongly opposes the bill.
- The Senate Banking Committee has passed S. 1376, the FHA Solvency Act, introduced by Senators Johnson (D-SD) and Crapo (R-ID). This bill contains common sense reforms that give FHA greater authority for risk management. NAR strongly supports this bill.

## What to Tell House Staff and Senators:

- Oppose H.R. 2767, the PATH Act. This bill alters and reduces the role of FHA curtailing opportunities for homeownership for millions of qualified American families.
- Support S. 1376, the FHA Solvency Act. This bill provides additional tools to FHA to better manage risk to taxpayers.

## Issue Background:

FHA, like every other holder of mortgage risk, has incurred financial losses as a result of high foreclosure rates. FHA has taken a number of steps to recoup its financial stability. These include increasing premiums five times in the last two years, increasing down payments on some borrowers, and increasing its risk management practices.

NAR has argued that FHA's current policies, such as the very high premiums, already hurt consumers. In 2014, the mortgage insurance premium of 1.35 percent is 80 basis points higher than the rate of 0.55 percent in 2010. For 2013, NAR estimates that between 125,000 and 375,000 potential homebuyers were priced out of the market due to the high FHA fees.

## Provide FHA With Tools but Don't Disqualify Potential Homeowners

Congress should NOT impose additional cost or qualification burdens on consumers. Further mandated increases to premiums or down payments will disenfranchise American families and hurt our nation's housing and economic recovery.

For these reasons, NAR supports S. 1376, the FHA Solvency Act. This legislation provides FHA with flexibility to make necessary changes to the program, adds new taxpayer protections against lenders who make errors of material fact, and improves program oversight.

## FHA Was a Critical Factor That Helped Move the Nation Out of the Great Recession

During the crisis, FHA was one of the primary sources of mortgage financing available to American families. FHA helped stabilize housing prices in thousands of communities by providing access to home financing when few others would. FHA has been a leader in providing low down payment, safe, affordable mortgages for qualified buyers. Changing this role would have a very negative impact in nearly every real estate market nationwide.

## Raising Down Payments Doesn't Add to FHA's Bottom Line, and Hurts Consumers

Loans with higher down payments performed marginally better during the housing boom, but that effect has diminished in the wake of stronger underwriting, stable employment and changes implemented by FHA. FHA estimates that increasing the down payment to 5 percent would disenfranchise 345,000 borrowers a year — more than 43 percent of all FHA buyers.

## Opposing Viewpoints

Critics argue that FHA's prominence in the market has pushed private investors out of the market, leaving the federal government as the sole source for mortgage financing. These critics maintain that the mission and role of FHA should be strictly limited to lower income and first-time homebuyer households. Lastly, critics argue that FHA's down payment requirements are too low, and should be risk-based to protect taxpayers.