

Role of FHA

(February 2013)

FHA has played a critical role in our nation's economy in the last 5 years, a role it was exactly designed to fill. FHA has provided safe, affordable access to mortgage credit in a time when the private market abandoned housing finance. Instead, FHA stepped in during our housing crisis, and provided access to mortgage credit to millions of Americans who wanted to purchase homes.

- FHA did not offer risky mortgage products
- FHA did not engage in exotic underwriting
- FHA did not cause the housing collapse

It is likely that FHA will need to borrow money from the Treasury this year, but it is important to look at why. Many of the mortgages FHA insured during the crisis were in markets that subsequently declined. Lending in a declining market increases risk. However, had FHA not stepped in to fill that market void, our economy would still be far from recovered. Moody's has estimated that without FHA, housing prices would have dropped an additional 25%, and American families would have lost more than \$3 trillion of home wealth. Additional declines of this magnitude would have further exacerbated the nation's economic woes.

To cover the additional risk, FHA has made a number of dramatic changes:

- Increased premiums 5 times since 2009
- Increased down payments for borrowers with lower credit scores
- Created an office of Chief Risk Officer to better manage risk
- Instituted significant lender enforcement and oversight measure to increase the return to the fund

NAR welcomes a time when FHA's market share declines to its more traditional market share between 10-15%, and private lending is again robust. But we are not there yet. Investors continue to shy away from the housing market due to uncertainty. Much of that uncertainty is the result of:

- Concerns about QM and QRM regulations
- Concerns about Dodd/Frank and regulatory oversight
- Concerns about the undefined future of the secondary mortgage market

With all of these factors at play, it is easy to see why investors are staying away.

Making arbitrary changes to FHA, such as increasing costs to consumers or limiting use of the program by qualified buyers, will not lure private markets back. As the rules for mortgage finance are settled and housing prices stabilize nationwide, private investors will return, and FHA's market share will return to traditional levels. In the meantime, FHA is providing the counter-cyclical role it was intended to fulfill and has helped our housing markets and economy recover.