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FHA-Insured Home Loans: An Overview

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Summary

The Federal Housing Administration (FHA), an agency of the Department of Housing and Urban Development (HUD), was created by the National Housing Act of 1934. FHA insures private lenders against the possibility of borrowers defaulting on mortgages that meet certain criteria, thereby expanding the availability of mortgage credit beyond what may be available otherwise. If the borrower defaults on the mortgage, FHA is to repay the lender the remaining amount owed.

A household that obtains an FHA-insured mortgage must meet FHA's eligibility and underwriting standards, including showing that it has sufficient income to repay a mortgage. FHA requires a minimum down payment of 3.5% from most borrowers, which is lower than the down payment required for many other types of mortgages. FHA-insured mortgages cannot exceed a statutory maximum mortgage amount, which varies by area and is based on area median house prices but cannot exceed a specified ceiling in high-cost areas. (The ceiling is set at $726,525 in high-cost areas in calendar year 2019.) Borrowers are charged fees, called mortgage insurance premiums, in exchange for the insurance.

In FY2018, FHA insured over 1 million new mortgages (including both home purchase and refinance mortgages) with a combined principal balance of $209 billion.

FHA's share of the mortgage market tends to vary with economic conditions and other factors. In the aftermath of the housing market turmoil that began around 2007 and a related contraction of mortgage lending, FHA insured a larger share of mortgages than it had in the preceding years. Its overall share of the mortgage market increased from about 3% in calendar year 2005 to a peak of 21% in 2009. Since that time, FHA's share of the mortgage market has decreased somewhat, though it remains higher than it was in the early 2000s. In calendar year 2017, FHA's overall share of the mortgage market was about 17%.

FHA-insured mortgages, like all mortgages, experienced increased default rates during the housing downturn that began around 2007, leading to concerns about the stability of the FHA insurance fund for single-family mortgages, the Mutual Mortgage Insurance Fund (MMI Fund). In response to these concerns, FHA adopted a number of policy changes in an attempt to limit risk to the MMI Fund. These changes have included raising the fees that it charges and making changes to certain eligibility criteria for FHA-insured loans.

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Introduction

The Federal Housing Administration (FHA) is an agency of the Department of Housing and Urban Development (HUD) that insures private mortgage lenders against the possibility of borrowers defaulting on certain mortgage loans.[1] If a mortgage borrower defaults on a mortgage—that is, does not repay the mortgage as promised—and the home goes to foreclosure, FHA is to pay the lender the remaining amount that the borrower owes. FHA insurance protects the lender, rather than the borrower, in the event of borrower default; a borrower who defaults on an FHA-insured mortgage will still experience the consequences of foreclosure. To be eligible for FHA insurance, the mortgage must be originated by a lender that has been approved by FHA, and the mortgage and the borrower must meet certain criteria.

FHA is one of three government agencies that provide insurance or guarantees on certain home mortgages made by private lenders, along with the Department of Veterans Affairs (VA) and the United States Department of Agriculture (USDA).[2] Of these federal mortgage insurance programs, FHA is the most broadly targeted. Unlike VA- and USDA-insured mortgages, the availability of FHA-insured mortgages is not limited by factors such as veteran status, income, or whether the property is located in a rural area. However, the availability or attractiveness of FHA-insured mortgages may be limited by other factors, such as the maximum mortgage amount that FHA will insure, the fees that it charges for insurance, and its eligibility standards.

This report provides background on FHA's history and market role and an overview of the basic eligibility and underwriting criteria for FHA-insured home loans. It also provides data on the number and dollar volume of mortgages that FHA insures, along with data on FHA's market share in recent years. It does not go into detail on the financial status of the FHA mortgage insurance fund. For information on FHA's financial position, see CRS Report R42875, *FHA Single-Family Mortgage Insurance: Financial Status of the Mutual Mortgage Insurance Fund (MMI Fund)*.

Background

History

The Federal Housing Administration was created by the National Housing Act of 1934,[3] during the Great Depression, to encourage lending for housing and to stimulate the construction industry.[4] Prior to the creation of FHA, few mortgages exceeded 50% of the property's value and most mortgages were written for terms of five years or less. Furthermore, mortgages were

[1] This report addresses FHA's program for insuring mortgages on single-family homes, which is by far the largest FHA program. However, FHA is also authorized to insure mortgages on a variety of other types of properties, including multifamily buildings and hospitals and other health care facilities. These FHA programs are not discussed in this report.

[2] VA provides guarantees on certain home mortgages made to veterans, and USDA guarantees certain home mortgages made to lower-income households in rural areas. For more information on VA- and USDA-guaranteed mortgages, see CRS Report R42504, *VA Housing: Guaranteed Loans, Direct Loans, and Specially Adapted Housing Grants* and CRS Report RL31837, *An Overview of USDA Rural Development Programs*.

[3] The National Housing Act of 1934 is P.L. 73-479, and is codified at 12 U.S.C. 1701 et seq.

[4] For more information on the historical role of FHA, see the U.S. Department of Housing and Urban Development's Office of Policy Development and Research Housing Finance Working Paper Series, *The FHA Single-Family Insurance Program: Performing a Needed Role in the Housing Finance Market*, Working Paper No. HF-019, December 2012, https://www.huduser.gov/portal//publications/pdf/FHA_SingleFamilyIns.pdf.

typically not structured to be fully repaid by the end of the loan term; rather, at the end of the five-year term, the remaining loan balance had to be paid in a lump sum or the mortgage had to be renegotiated. During the Great Depression, lenders were unable or unwilling to refinance many of the loans that became due. Thus, many borrowers lost their homes through foreclosure, and lenders lost money because property values were falling. Lenders became wary of the mortgage market.

FHA institutionalized a new idea: 20-year mortgages on which the loan would be completely repaid at the end of the loan term. If borrowers defaulted, FHA insured that the lender would be fully repaid. By standardizing mortgage instruments and setting certain standards for mortgages, the creation of FHA was meant to instill confidence in the mortgage market and, in turn, help to stimulate investment in housing and the overall economy. Eventually, lenders began to make long-term mortgages without FHA insurance if borrowers made significant down payments. Over time, 15- and 30-year mortgages have become standard mortgage products.

When the Department of Housing and Urban Development (HUD) was created in 1965, FHA became part of HUD. Today, FHA is intended to facilitate access to affordable mortgages for some households who otherwise might not be well-served by the private market. Furthermore, it facilitates access to mortgages during economic or mortgage market downturns by continuing to insure mortgages when the availability of mortgage credit has otherwise tightened. For this reason, it is said to play a "countercyclical" role in the mortgage market—that is, it tends to insure more mortgages when the mortgage market or overall economy is weak, and fewer mortgages when the economy is strong and other types of mortgages are more readily available.

Current Role

Facilitating Access to Mortgage Credit

Some prospective homebuyers may have the income to sustain monthly mortgage payments but lack the funds to make a large down payment or otherwise have difficulty obtaining a mortgage. Borrowers with small down payments, weaker credit histories, or other characteristics that increase their credit risk might find it difficult to obtain a mortgage at an affordable interest rate or to qualify for a mortgage at all. This has raised a policy concern that some borrowers with the income to repay a mortgage might be unable to obtain affordable mortgages. FHA mortgage insurance is intended to make lenders more willing to offer affordable mortgages to these borrowers by insuring the lender against the possibility of borrower default.

FHA-insured loans have lower down payment requirements than most conventional mortgages. (Conventional mortgages are mortgages that are not insured by FHA or guaranteed by another government agency, such as VA or USDA.[5]) Because saving for a down payment is often the biggest barrier to homeownership for first-time homebuyers and lower- or moderate-income homebuyers, the smaller down payment requirement for FHA-insured loans may allow some households to obtain a mortgage earlier than they otherwise could. (Borrowers with down payments of less than 20% could also obtain non-FHA mortgages with private mortgage insurance. See the nearby text box on "FHA and Private Mortgage Insurance.") FHA-insured mortgages also have less stringent requirements related to credit history than many conventional loans. This might make FHA-insured mortgages attractive to borrowers without traditional credit

[5] Conventional mortgages include mortgages that are purchased by the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac. Although technically not government agencies, Fannie Mae and Freddie Mac are currently under government conservatorship and have received government financial assistance. Mortgages that meet Fannie Mae's and Freddie Mac's criteria are referred to as "conforming" mortgages.

histories or with weaker credit histories, who would either find it difficult to take out a mortgage absent FHA insurance or may find it more expensive to do so.

FHA-insured mortgages play a particularly large role for first-time homebuyers, low- and moderate-income households, and minorities. For example, 83% of FHA-insured mortgages made to purchase a home (rather than to refinance an existing mortgage) in FY2018 were obtained by first-time homebuyers. Over one-third of all FHA loans (both purchase and refinance loans) were obtained by minority households, and FHA-insured mortgages accounted for about 57% of all forward mortgages made to low- or moderate-income borrowers during the year.[8]

Since FHA-insured mortgages are often obtained by borrowers who cannot make large down payments or those with weaker credit histories, some have questioned whether FHA-insured mortgages are similar to subprime mortgages.[9] Like subprime mortgages, FHA-insured mortgages are often obtained by borrowers with lower credit scores, though some borrowers with higher credit scores also obtain FHA-insured mortgages.[10] However, FHA-insured mortgages are prohibited from carrying the full range of features that many subprime mortgages could carry. For example, FHA-insured loans must be fully documented, and they cannot include features such as negative amortization.[11] (FHA mortgages can include adjustable interest rates.) Some of these types of

FHA and Private Mortgage Insurance

Another option for borrowers with small down payments might be to obtain mortgage insurance from a private company, rather than from a government agency like FHA. This is known as private mortgage insurance (PMI). Conventional mortgages with down payments of less than 20% are generally required to carry PMI.[6] Therefore, borrowers with a down payment of less than 20% may find themselves choosing between a conventional mortgage with PMI or an FHA-insured mortgage.[7]

Whether PMI or FHA insurance is a more attractive option for a specific borrower will depend on a number of factors, including the borrower's circumstances, the respective underwriting standards, and the fees charged by FHA and PMI companies at a given point in time, which can be affected by economic conditions and the features of the mortgage itself.

[6] This is largely due to the requirements of Fannie Mae and Freddie Mac, which influence a large part of the mortgage market. By statute, Fannie Mae and Freddie Mac cannot purchase mortgages where the mortgage amount exceeds 80% of the value of the home unless the mortgage includes some kind of credit enhancement, such as private mortgage insurance. In December 2014, Fannie Mae and Freddie Mac announced that they would begin to accept certain mortgages with down payments as low as 3% with private mortgage insurance (previously, they had typically required a down payment of at least 5%).

[7] Borrowers with less than a 20% down payment may have options other than mortgage insurance. For example, during the mid-2000s it became more common for borrowers to take out a "piggyback loan," a second mortgage to cover part (or all) of the purchase price that exceeded 80% of the value of the home. These became much less common as mortgage credit standards tightened in response to economic and housing market turmoil that began around 2007.

[8] U.S. Department of Housing and Urban Development, *FHA Annual Management Report Fiscal Year 2018*, p. 16, https://www.hud.gov/sites/dfiles/Housing/documents/FHAFY2018ANNUALMGMNTRPT.PDF.

[9] There is not a consensus definition of subprime mortgages, but they generally refer to mortgages made to borrowers with credit scores below certain thresholds. Many subprime mortgages contained nontraditional features, but not all subprime mortgages contained these features, and a mortgage does not have to have nontraditional features to be considered subprime.

[10] Historically, many FHA-insured mortgages were made to borrowers with credit scores on the lower end of the spectrum. In the years since the housing market turmoil that began around 2007, FHA has been insuring a greater share of mortgages to borrowers with higher credit scores, though this share has decreased from its peak during the housing market turmoil. For more information on how credit scores for FHA-insured mortgage borrowers have changed in recent years, see U.S. Department of Housing and Urban Development, *Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund, Fiscal Year 2018*, pp. 28-29, https://www.hud.gov/sites/dfiles/Housing/documents/2018fhaannualreportMMIFund.pdf.

[11] With a negative amortization loan, borrowers have the option to pay less than the full amount of the interest due for a

features appear to have contributed to high default and foreclosure rates on subprime mortgages. Nevertheless, some have suggested that FHA-insured mortgages are too risky, and that they can harm borrowers by providing mortgages that often have a higher likelihood of default than other mortgages due to combinations of risk factors such as low down payments and lower credit scores.[12]

Countercyclical Role

Traditionally, FHA plays a countercyclical role in the mortgage market, meaning that it tends to insure more mortgages when mortgage credit markets are tight and fewer mortgages when mortgage credit is more widely available. A major reason for this is that FHA continues to insure mortgages that meet its standards even during market downturns or in regions experiencing economic turmoil. When the economy is weak and lenders and private mortgage insurers tighten credit standards and reduce lending activity, FHA-insured mortgages may be the only mortgages available to some borrowers, or may have more favorable terms than mortgages that lenders are willing to make without FHA insurance. When the economy is strong and mortgage credit is more widely available, many borrowers may find it easier to qualify for affordable conventional mortgages.

Features of FHA-Insured Mortgages

This section briefly describes some of the major features of FHA-insured mortgages for purchasing or refinancing a single-family home.[13] Single-family homes are defined as properties with one to four separate dwelling units.[14]

Eligibility and Underwriting Guidelines

FHA-insured loans are available to borrowers who intend to be owner-occupants and who can demonstrate the ability to repay the loan according to the terms of the contract. FHA-insured loans must be underwritten in accordance with accepted practices of prudent lending institutions and FHA requirements. Lenders must examine factors such as the applicant's credit, financial status, monthly shelter expenses, funds required for closing expenses, effective monthly income, and debts and obligations. In general, individuals who have previously been subject to a mortgage foreclosure are not eligible for FHA-insured loans for at least three years after the foreclosure.[15]

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set period of time. The loan "negatively amortizes" as the remaining interest is added to the outstanding loan balance, so that the loan balance increases over time rather than decreasing as it would with positive amortization.

[12] For example, see Edward J. Pinto, *How the FHA Hurts Working-Class Families and Communities*, American Enterprise Institute, December 2012, http://www.aei.org/publication/how-the-fha-hurts-working-class-families-and-communities-2/.

[13] Detailed information on FHA's underwriting and eligibility requirements can be found in HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook*, available at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsgh.

[14] For example, a duplex would be considered a single-family property under this definition. A borrower could obtain an FHA-insured mortgage to purchase a duplex, live in one unit, and rent out the second unit. The borrower must intend to occupy one of the units as his or her primary residence.

[15] See HUD Handbook 4000.1, Sections II.A.4.b.iii(H) and II.A.5.a.iii(I). Exceptions can be made if the foreclosure was due to certain extenuating circumstances, such as a serious medical condition, if the borrower has re-established a good credit record.

As a general rule, the applicant's prospective mortgage payment should not exceed 31% of gross effective monthly income. The applicant's total obligations, including the proposed housing expenses, should not exceed 43% of gross effective monthly income. If these ratios are not met, the borrower may be able to present the presence of certain compensating factors, such as cash reserves, in order to qualify for an FHA-insured loan.[16]

Since October 4, 2010, FHA has required a minimum credit score of 500, and has required higher down payments from borrowers with credit scores below 580 than from borrowers with credit scores above that threshold.[17] See the "Down Payment" section for more information on down payment requirements for FHA-insured loans.

Owner Occupancy

In general, borrowers must intend to occupy the property as a principal residence.[18]

Eligible Loan Purposes

FHA-insured loans may be used to purchase one-family detached homes, townhomes, rowhouses, two- to four-unit buildings, manufactured homes and lots, and condominiums in developments approved by FHA.[19] FHA-insured loans may also be obtained to build a home; to repair, alter, or improve a home; to refinance an existing home loan; to simultaneously purchase and improve a home; or to make certain energy efficiency or weatherization improvements in conjunction with a home purchase or mortgage refinance.[20]

Loan Term

FHA-insured mortgages may be obtained with loan terms of up to 30 years.[21]

Interest Rates

The interest rate on an FHA-insured loan is negotiated between the borrower and lender. The borrower has the option of selecting a loan with an interest rate that is fixed for the life of the loan or one on which the rate may be adjusted annually.

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[16] See HUD Handbook 4000.1, Section II.A.5.d.viii for compensating factors acceptable to FHA.

[17] U.S. Department of Housing and Urban Development, Mortgagee Letter 2010-29, "Minimum Credit Scores and Loan-to-Value Ratios," September 3, 2010, https://www.hud.gov/sites/documents/10-29ML.PDF.

[18] In certain limited circumstances, FHA will insure mortgages used to purchase secondary residences. A secondary residence cannot be a vacation home. Furthermore, in some cases owner-occupants or investors may be able to obtain FHA-insured loans in order to purchase property that has been acquired by FHA as a result of foreclosure. See HUD Handbook 4000.1, Section II.A.1.b.iii and Section II.A.8.o.v.

[19] See HUD Handbook 4000.1, Section II.A.1.b.iv(B). Particular requirements that apply to certain types of FHA loans, such as loans for manufactured housing or condominiums, are described in HUD Handbooks, regulations, and FHA Mortgagee Letters. Mortgagee Letters are available at https://www.hud.gov/program_offices/administration/hudclips/letters/mortgagee.

[20] See HUD Handbook 4000.1, Section II.A.1.b.i and Section II.A.8.

[21] See HUD Handbook 4000.1, Section II.A.2.d.

Down Payment

FHA requires a lower down payment than many other types of mortgages. Under changes made by the Housing and Economic Recovery Act of 2008 (HERA, P.L. 110-289), borrowers are required to contribute at least 3.5% in cash or its equivalent to the cost of acquiring a property with an FHA-insured mortgage. (Prior law had required borrowers to contribute at least 3% in cash or its equivalent.) Prohibited sources of the required funds include the home seller, any entity that financially benefits from the transaction, and any third party that is directly or indirectly reimbursed by the seller or by anyone that would financially benefit from the transaction.[22] HUD has interpreted the 3.5% cash contribution as a down payment requirement and has specified that contributions toward closing costs cannot be counted toward it.[23]

Since October 4, 2010, FHA has required a 10% down payment from borrowers with credit scores between 500 and 579, while borrowers with credit scores of 580 or above are still required to make a down payment of at least 3.5%. FHA no longer insures loans made to borrowers with credit scores below 500.[24]

Maximum Mortgage Amount

There is no income limit for borrowers seeking FHA-insured loans. However, FHA-insured mortgages cannot exceed a maximum mortgage amount set by law.[25] The maximum mortgage amounts allowed for FHA-insured loans vary by area, based on a percentage of area median home prices.[26] Different limits are in effect for one-unit, two-unit, three-unit, and four-unit properties. The limits are subject to a statutory floor and ceiling; that is, the maximum mortgage amount that FHA will insure in a given area cannot be lower than the floor, nor can it be higher than the ceiling.

In 2008, Congress temporarily increased the maximum mortgage amounts in response to turmoil in the housing and mortgage markets, with the intention of allowing more households to qualify for FHA-insured mortgages during a period of tighter credit availability.[27] New permanent maximum mortgage amounts were later established by the Housing and Economic Recovery Act of 2008. The maximum mortgage amounts established by HERA were higher than the previous permanent limits, but in many cases lower than the temporarily increased limits. However, the

[22] 12 U.S.C. 1709(b)(9)

[23] U.S. Department of Housing and Urban Development, Mortgagee Letter 2008-23, "Revised Downpayment and Maximum Mortgage Requirements," September 5, 2008, https://www.hud.gov/sites/documents/DOC_19737.PDF.

[24] U.S. Department of Housing and Urban Development, Mortgagee Letter 2010-29, "Minimum Credit Scores and Loan-to-Value Ratios," September 3, 2010, https://www.hud.gov/sites/documents/10-29ML.PDF.

[25] The FHA maximum mortgage amounts are codified at 12 U.S.C. §1709(b)(2). The statute allows for special higher limits for Alaska, Hawaii, Guam, and the Virgin Islands (see 12 U.S.C. §1715d). To look up the maximum mortgage amount for a specific area, see HUD's website at https://entp.hud.gov/idapp/html/hicostlook.cfm.

[26] FHA calculates area-by-area limits each year based on the prior year's area median home price data, so the actual dollar amount of the limit in a given area can change from year to year. The maximum mortgage amounts are set on a county basis, except that in metropolitan statistical areas (MSAs) the maximum mortgage amount for the entire MSA is based on the county within the MSA that has the highest median home price.

[27] In early 2008, Congress enacted the Economic Stimulus Act of 2008 (ESA, P.L. 110-185), which temporarily increased the maximum mortgage amounts for a one-unit home to 125% of area median home prices, with a floor of $271,050 and a high-cost area ceiling of $729,750. Immediately prior to the enactment of ESA, the limits had been set at 95% of area median house prices, with a floor of $200,160 and a ceiling of $362,790. See U.S. Department of Housing and Urban Development, Mortgagee Letter 2008-02, "2008 FHA Maximum Mortgage Limits," January 18, 2008, http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/mortgagee/inactive.

higher temporary limits were extended for several years, until they expired at the end of calendar year 2013.[28]

Since January 1, 2014, the maximum mortgage amounts have been set at the permanent HERA levels. For a one-unit home, HERA established the maximum mortgage amounts at 115% of area median home prices, with a floor set at 65% of the Freddie Mac conforming loan limit and a ceiling set at 150% of the Freddie Mac conforming loan limit. For calendar year 2019, the floor is $314,827 and the ceiling is $726,525.[29] (That is, FHA will insure mortgages with principal balances up to $314,827 in all areas of the country. In higher-cost areas, it will insure mortgages with principal balances up to 115% of the area median home price, up to a cap of $726,525 in the highest-cost areas.) These maximum mortgage amounts, and the maximum mortgage amounts for 2-4 unit homes, are shown in **Table 1**.

Table 1. FHA Maximum Mortgage Amounts

Property Size	Maximum Mortgage Amount Floor[a]	Maximum Mortgage Amount in Areas Between the Floor and the Ceiling	Maximum Mortgage Amount Ceiling[b]
1-unit	$314,827	115% of area median home prices for a one-unit property	$726,525
2-unit	$403,125	115% of area median home prices for a two-unit property	$930,300
3-unit	$487,250	115% of area median home prices for a three-unit property	$1,124,475
4-unit	$605,525	115% of area median home prices for a four-unit property	$1,397,400

Source: 12 U.S.C. 1709(b)(2), Section II.A.2.a of HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook*, and FHA Mortgagee Letter 2018-11.

Notes: Actual mortgage limits in specific areas can be found at https://entp.hud.gov/idapp/html/hicostlook.cfm.

a. This is the maximum mortgage amount in areas where 115% of area median home prices is lower than 65% of the Freddie Mac limit.

b. This is the maximum mortgage amount in areas where 115% of area median home prices is equal to or higher than 150% of the Freddie Mac limit. The National Housing Act provides that FHA may adjust the mortgage limits for loans in Alaska, Hawaii, Guam, and the Virgin Islands to up to 150% of the ceiling.

[28] The American Recovery and Reinvestment Act of 2009 (ARRA, P.L. 111-5) amended the maximum mortgage amounts for calendar year 2009, setting them at the higher of (1) the 2008 limits set by ESA, or (2) the original 2009 limits set by HERA. Under ARRA, the floor was $271,050, the high-cost area limit was $729,750, and the limit in all other areas was the higher of 125% of 2007 area median home prices (the ESA limit) or 115% of more current area median home prices (the HERA limit). (The percentage of the Freddie Mac conforming loan limit used to calculate the loan limit floor was the same under both ESA and HERA.) The ARRA limits were extended several times until they expired at the end of 2013.

[29] The statutory ceilings and floors are set as a percentage of the conforming loan limit, which is the dollar limit on the size of mortgages that can be purchased by Fannie Mae and Freddie Mac. The floor and ceiling can change if Congress changes the percentages of the conforming loan limit that constitute the ceiling and the floor, or if the conforming loan limit itself changes. HERA established the conforming loan limit at $417,000, but directed the Federal Housing Finance Agency, the regulator and conservator for Fannie Mae and Freddie Mac, to adjust the conforming loan limit each year to account for home price increases, subject to certain restrictions. (See 12 U.S.C. 1717(b)(2) and 12 U.S.C. 1454(a)(2).) The conforming loan limit for 2019 is set at $484,350, so the FHA loan limit floor is $314,827 (65% of $484,350), and the ceiling is $726,525 (150% of $484,350).

Mortgage Insurance Fees (Premiums)

Borrowers of FHA-insured loans pay an up-front mortgage insurance premium (MIP) and annual mortgage insurance premiums in exchange for FHA insurance. These premiums are set as a percentage of the loan amount. The maximum amounts that FHA is allowed to charge for the annual and the upfront premiums are set in statute. However, since these are maximum amounts, HUD has the discretion to set the premiums at lower levels.

Up-Front Mortgage Insurance Premiums

The maximum up-front premium that FHA may charge is 3% of the mortgage amount, or 2.75% of the mortgage amount for a first-time homebuyer who has received homeownership counseling.[30] Currently, FHA is charging the same up-front premiums to first-time homebuyers who receive homeownership counseling and all other borrowers.

Since April 9, 2012, HUD has set the up-front premium at 1.75% of the loan amount, whether or not the borrower is a first-time homebuyer who received homeownership counseling.[31] This premium applies to most single-family mortgages.[32]

Annual Mortgage Insurance Premiums

The amount of the maximum annual premium varies based on the loan's initial loan-to-value ratio. For most loans, (1) if the loan-to-value ratio is above 95%, the maximum annual premium is 1.55% of the loan balance, and (2) if the loan-to-value ratio is 95% or below, the maximum annual premium is 1.5% of the loan balance.[33]

FHA increased the actual annual premiums that it charges several times in recent years in order to bring more money into the FHA insurance fund and ensure that it has sufficient funds to pay for defaulted loans.[34] However, in January 2015, FHA announced a decrease in the annual premium for most single-family loans. For most FHA case numbers assigned on or after January 26, 2015, the annual premiums are 0.85% of the outstanding loan balance if the initial loan-to-value ratio is above 95% and 0.80% of the outstanding loan balance if the initial loan-to-value ratio is 95% or below.[35] This is a decrease from 1.35% and 1.30%, respectively, which is what FHA had been

[30] 12 U.S.C. 1709(c)(2)(A). In 2008, HERA increased the maximum up-front mortgage insurance premiums that FHA is permitted to charge to the current levels.

[31] U.S. Department of Housing and Urban Development, Mortgagee Letter 12-4, "Single Family Mortgage Insurance: Annual and Up-Front Mortgage Insurance Premiums–Changes," March 6, 2012, http://portal.hud.gov/hudportal/documents/huddoc?id=12-04ml.pdf.

[32] Different premiums apply to certain FHA programs, including Title I loans and Home Equity Conversion Mortgages (HECMs). Furthermore, as of June 11, 2012, FHA decreased the up-front mortgage insurance premium to 0.01% of the loan amount for streamline refinance transactions where the original loan was endorsed on or before May 31, 2009.

[33] 12 U.S.C. 1709(c)(2)(B). In August 2010, Congress enacted P.L. 111-229, which raised the maximum annual mortgage insurance premium that FHA is permitted to charge to the current levels.

[34] Most of the changes to the mortgage insurance premiums in recent years have been made administratively by FHA, although the Temporary Payroll Tax Cut Continuation Act of 2011 (P.L. 112-78), enacted on December 23, 2011, required FHA to increase the annual mortgage insurance premium it charges by 10 basis points (one-tenth of one percentage point). A list of changes to the mortgage insurance premiums since 2010, and references to the FHA Mortgagee Letters that implemented the changes, is available on p. 37 of the *FY2016 Annual Report to Congress on the Financial Status of the MMI Fund*, https://portal.hud.gov/hudportal/documents/huddoc?id=2016fhaannualreport1.pdf.

[35] U.S. Department of Housing and Urban Development, Mortgagee Letter 2015-01, "Reduction of Federal Housing Administration (FHA) Annual Mortgage Insurance Premium (MIP) Rates and Temporary Case Cancellation Authority," January 9, 2015, http://portal.hud.gov/hudportal/documents/huddoc?id=15-01ml.pdf.

charging from April 1, 2013, until January 26, 2015.[36] These premiums apply to most single-family mortgages; FHA charges different annual premiums in certain circumstances, including for loans with shorter loan terms or higher principal balances.[37]

Table 2 shows the up-front and annual mortgage insurance premiums that have been in effect for most loans since January 26, 2015.

Table 2. Annual and Up-Front Mortgage Insurance Premiums

Since January 26, 2015

	Annual Premium	Up-Front Premium
Initial LTV <= 95%	0.80%	1.75%
Initial LTV > 95%	0.85%	1.75%

Source: FHA Mortgagee Letters 12-04 and 15-01.

Notes: These premiums apply to most FHA-insured single-family loans, with certain exceptions (such as certain streamline refinance transactions and FHA-insured reverse mortgages). Different annual premiums apply for mortgages with loan terms of 15 years or less or mortgages with initial principal balances above $625,500.

Premium Refunds and Cancellations

In the past, if borrowers prepaid their loans, they may have been due refunds of part of the up-front insurance premium that was not "earned" by FHA. The refund amount depended on when the mortgage closed and declined as the loan matured. The Consolidated Appropriations Act 2005 (P.L. 108-447) amended the National Housing Act to provide that, for mortgages insured on or after December 8, 2004, borrowers are not eligible for refunds of up-front mortgage insurance premiums except when borrowers are refinancing existing FHA-insured loans with new FHA-insured loans. After three years, the entire up-front insurance premium paid by borrowers who refinance existing FHA-insured loans with new FHA-insured loans is considered "earned" by FHA, and these borrowers are not eligible for any refunds.[38]

The annual mortgage insurance premiums are not refundable. However, beginning with loans closed on or after January 1, 2001, FHA had followed a policy of automatically cancelling the annual mortgage insurance premium when, based on the initial amortization schedule, the loan balance reached 78% of the initial property value.[39] However, for loans with FHA case numbers assigned on or after June 3, 2013, FHA will continue to charge the annual mortgage insurance

[36] U.S. Department of Housing and Urban Development, Mortgagee Letter 13-04, "Revision of Federal Housing Administration (FHA) Policies Concerning Cancellation of the Annual Mortgage Insurance Premium (MIP) and Increase to the Annual MIP," January 31, 2013, http://portal.hud.gov/hudportal/documents/huddoc?id=13-04ml.pdf.

[37] These premium changes do not apply to certain FHA programs, including Title I loans and Home Equity Conversion Mortgages (HECMs). Furthermore, as of June 11, 2012, FHA decreased the annual mortgage insurance premium to 0.55% of the loan amount for streamline refinance transactions where the original loan was endorsed on or before May 31, 2009. Different premiums apply for mortgages with loan terms of 15 years or less or mortgages with initial principal balances above $625,500. For the premiums charged for these mortgages, see Appendix 1.0 of HUD Handbook 4000.1.

[38] FHA Mortgagee Letter 05-03, "Elimination of Refunds of Upfront Mortgage Insurance Premiums," January 6, 2005, http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/sfhsuperseded/mltrs_full.

[39] See FHA Mortgagee Letter 00-38, "Single-Family Loan Production – Further Reduction in Upfront Mortgage Insurance Premiums and Other Mortgage Insurance Premium Changes," October 27, 2000, http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/mortgagee/2000ml.

premium for the life of the loan for most mortgages.[40] This change responded to concerns about the financial status of the FHA insurance fund. FHA has stated that, since it continues to insure the entire remaining mortgage amount for the life of the loan, and since premiums were cancelled on the basis of the loan amortizing to a percentage of the initial property value rather than the current value of the home, FHA has at times had to pay insurance claims on defaulted mortgages where the borrowers were no longer paying annual mortgage insurance premiums.[41]

Options for FHA-Insured Loans in Default

An FHA-insured mortgage is considered delinquent any time a payment is due and not paid. Once the borrower is 30 days late in making a payment, the mortgage is considered to be in default. In general, mortgage servicers may initiate foreclosure on an FHA-insured loan when three monthly installments are due and unpaid, and they must initiate foreclosure when six monthly installments are due and unpaid, except when prohibited by law.[42]

A program of loss mitigation strategies was authorized by Congress in 1996 to minimize the number of FHA loans entering foreclosure,[43] and has since been revised and expanded to include additional loss mitigation options. Prior to initiating foreclosure, mortgage servicers must attempt to make contact with borrowers and evaluate whether they qualify for any of these loss mitigation options. The options must be considered in a specific order, and specific eligibility criteria apply to each option. Some loss mitigation options, referred to as home retention options, are intended to help borrowers remain in their homes. Other loss mitigation options, referred to as home disposition options, will result in the borrower losing his or her home, but avoiding some of the costs of foreclosure. The loss mitigation options that servicers are instructed to pursue on FHA-insured loans are summarized in **Table 3**.[44]

Additional loss mitigation options are available for certain populations of borrowers. For example, defaulted borrowers in military service may be eligible to suspend the principal portion of monthly payments and pay only interest for the period of military service, plus three months.[45] On resumption of payment, loan payments are adjusted so that the loan will be paid in full

[40] FHA Mortgagee Letter 13-04, "Revision of Federal Housing Administration (FHA) Policies Concerning Cancellation of the Annual Mortgage Insurance Premium (MIP) and Increase to the Annual MIP," January 31, 2013, http://portal.hud.gov/hudportal/documents/huddoc?id=13-04ml.pdf. Borrowers whose FHA-insured mortgages have loan-to-value ratios of 90% or lower at origination will be able to stop paying the annual mortgage insurance premiums after 11 years.

[41] U.S. Department of Housing and Urban Development, *Fiscal Year 2012 Annual Report to Congress on the Financial Status of the Mutual Mortgage Insurance Fund*, p. 54, http://portal.hud.gov/hudportal/documents/huddoc?id=FHAMMIF2012.pdf. At the time, FHA estimated that about 10% of the losses that FHA incurred on defaulted mortgages occurred after the annual mortgage insurance premiums had been cancelled.

[42] 24 C.F.R. §203.355. State law may prohibit the start of foreclosure proceedings within the time frame specified by HUD. Also, military service of the borrower may delay foreclosure proceedings (24 C.F.R. §203.346).

[43] The loss mitigation program replaced an assignment program. Under the assignment program, servicers would assign a defaulted loan to FHA, which would pay the insurance claim to the lender and then attempt to help the borrower avoid foreclosure directly. Under the loss mitigation program, servicers are given the responsibility of pursuing loss mitigation options before completing a foreclosure. P.L. 104-99, the Balanced Budget Downpayment Act, I, terminated the mortgage assignment program and authorized additional loss mitigation activities.

[44] FHA loss mitigation procedures are described in HUD Handbook 4000.1, Section III.A.2.

[45] See HUD Handbook 4000.1, Section III.A.2.k.iii and 24 C.F.R. §203.345 and §203.346.

according to the original amortization.[46] Certain loss mitigation options are also available in areas affected by presidentially declared major disasters.[47]

Table 3. Loss Mitigation Options

	Possible Remedies for FHA Loans in Default
Forbearance	Forbearance agreements allow a borrower to make partial mortgage payments, or to suspend mortgage payments, for a specified period of time. FHA forbearance options include informal forbearance plans, formal forbearance plans, and a special forbearance option for unemployed borrowers.
FHA-Home Affordable Modification Program (FHA-HAMP)	FHA-HAMP uses a loan modification, a partial claim, or a combination of the two to bring a borrower's mortgage current and provide for affordable mortgage payments. • A *loan modification* changes the terms of the mortgage, such as a change in the interest rate or the length of time over which the mortgage is to be repaid. • A *partial claim* is when the lender advances funds to bring the borrower's loan current. FHA pays the lender a partial insurance claim in the amount of the advance, and the borrower agrees to repay the partial claim amount to FHA when the loan is retired or when the property is sold. The partial claim can be used to provide a limited amount of principal forbearance, as well as to repay the arrearage.
Pre-foreclosure sale	Pre-foreclosure sales allow a borrower to sell the property and use the proceeds to satisfy the mortgage debt, even if the sale amount is less than the remaining amount owed on the mortgage.
Deed-in-lieu of foreclosure	Deeds-in-lieu of foreclosure allow a borrower to deed the property to FHA in exchange for being released from the mortgage obligation.

Sources: 24 C.F.R. 203, HUD Handbook 4000.1, Section III.A.2, and FHA Mortgagee Letter 2016-14.

Program Funding

FHA's single-family mortgage insurance program is funded through FHA's Mutual Mortgage Insurance Fund (MMI Fund). Cash flows into the MMI Fund primarily from insurance premiums and proceeds from the sale of foreclosed homes. Cash flows out of the MMI Fund primarily to pay claims to lenders for mortgages that have defaulted.

This section provides a brief overview of (1) how the FHA-insured mortgages insured under the MMI Fund are accounted for in the federal budget and (2) the MMI Fund's compliance with a statutory capital ratio requirement. For more detailed information on the financial status of the MMI Fund, see CRS Report R42875, *FHA Single-Family Mortgage Insurance: Financial Status of the Mutual Mortgage Insurance Fund (MMI Fund)*.

FHA Home Loans in the Federal Budget

The Federal Credit Reform Act of 1990 (FCRA) specifies the way in which the costs of federal loan guarantees, including FHA-insured loans, are recorded in the federal budget.[48] The FCRA requires that the *estimated* lifetime cost of guaranteed loans (in net present value terms) be

[46] In addition, as amended by HERA, the Servicemembers Civil Relief Act (P.L. 108-189) provides certain foreclosure protections for active duty servicemembers. See HUD Handbook 4000.1, Section III.A.3.j.

[47] See HUD Handbook 4000.1, Section III.A.3.c.

[48] For more information on how the costs of federal credit programs are treated in the federal budget, see archived CRS Report R42632, *Budgetary Treatment of Federal Credit (Direct Loans and Loan Guarantees): Concepts, History, and Issues for Congress*.

recorded in the federal budget in the year that the loans are insured. When the present value of the lifetime cash flows associated with the guaranteed loans is expected to result in more money coming into the account than flowing out of it, the program is said to generate *negative* credit subsidy. When the present value of the lifetime cash flows associated with the guaranteed loans is expected to result in less money coming into the account than flowing out of it, the program is said to generate *positive* credit subsidy. Programs that generate negative credit subsidy result in offsetting receipts for the federal government, while programs that generate positive credit subsidy require an appropriation to cover the cost of new loan guarantees.[49]

The MMI Fund has historically been estimated to generate negative credit subsidy in the year that the loans are insured and therefore has not required appropriations to cover the expected costs of loans to be insured. The MMI Fund does receive appropriations to cover salaries and administrative contract expenses.

The amount of money that loans insured in a given year actually earn for or cost the government over the course of their lifetime is likely to be different from the original credit subsidy estimates. Therefore, each year as part of the annual budget process, each prior year's credit subsidy rates are re-estimated based on the actual performance of the loans and other factors, such as updated economic projections. These re-estimates affect the way in which funds are held in the MMI Fund's two primary accounts: the Financing Account and the Capital Reserve Account. The Financing Account holds funds to cover *expected* future costs of FHA-insured loans. The Capital Reserve Account holds additional funds to cover any additional *unexpected* future costs. Funds are transferred between the two accounts each year on the basis of the re-estimated credit subsidy rates to ensure that enough is held in the Financing Account to cover updated projections of expected costs of insured loans.

If FHA ever needs to transfer more funds to the Financing Account than it has in the Capital Reserve Account, it can receive funds from Treasury to make this transfer under existing authority and without any additional congressional action.[50] This occurred for the first time at the end of FY2013, when FHA received $1.7 billion from Treasury to make a required transfer of funds between the accounts. The funds that FHA received from Treasury did not need to be spent immediately, but were to be held in the Financing Account and used to pay insurance claims, if necessary, only after the remaining funds in the Financing Account were spent. The MMI Fund has not needed any additional funds from Treasury to make required transfers of funds between the two accounts since that time.

The Capital Ratio

The MMI Fund is also required by statute to maintain a capital ratio of at least 2%, which is intended to ensure that the fund is able to withstand some increases in the costs of loans guaranteed under the insurance fund.[51] The capital ratio measures the amount of funds that the MMI Fund currently has on hand, plus the net present value of the expected future cash flows

[49] In the case of the MMI Fund, offsetting receipts are available to offset the cost of HUD funding for the purposes of the appropriations process. For more information, see CRS Report R42542, *Department of Housing and Urban Development (HUD): Funding Trends Since FY2002*.

[50] FHA can receive funds from Treasury to cover higher-than-expected costs of insured mortgages under permanent and indefinite budget authority granted under the FCRA. The permanent and indefinite budget authority to cover increased costs of loans and loan guarantees is common to all federal credit programs governed by the FCRA and is not unique to FHA.

[51] The capital ratio is established by Section 205 of the National Housing Act, codified at 12 U.S.C. §1711.

associated with the mortgages that FHA currently insures (e.g., the amounts it expects to earn through premiums and lose through claims paid). It then expresses this amount as a percentage of the total dollar volume of mortgages that FHA currently insures. In other words, the capital ratio is a measure of the amount of funds that would remain in the MMI Fund after all expected future cash flows on the loans that it currently insures have been realized, assuming that FHA did not insure any more loans going forward.

Beginning in FY2009, and for several years thereafter, the capital ratio was estimated to be below this mandated 2% level. The capital ratio again exceeded the 2% threshold in FY2015, when it was estimated to be 2.07%.[52] This represented an improvement from an estimated capital ratio of 0.41% at the end of FY2014,[53] and from *negative* estimated capital ratios at the ends of FY2013 and FY2012.[54] The capital ratio has remained above 2% since that time, and was estimated to be 2.76% in FY2018.

A low or negative capital ratio does not in itself trigger any special assistance from Treasury, but it raises concerns that FHA could need assistance in order to continue to hold enough funds in the Financing Account to cover expected future losses. In the years since the housing market turmoil that began around 2007, FHA has taken a number of steps designed to strengthen the insurance fund.[55] These steps have included increasing the mortgage insurance premiums charged to borrowers; strengthening underwriting requirements, such as by instituting higher down payment requirements for borrowers with the lowest credit scores; and increasing oversight of FHA-approved lenders.

Program Activity

Number of Mortgages Insured

The number of new mortgages insured by FHA in a given year depends on a variety of factors. In general, the number of new mortgages insured by FHA increased during the housing market turmoil (and resulting contraction of mortgage credit) that began around 2007, reaching a peak of 1.8 million mortgages in FY2009 before beginning to decrease somewhat. FY2014 was the only year since FY2007 that FHA insured fewer than 1 million new mortgages.

As shown in **Table 4**, FHA insured just over 1 million new single-family purchase and refinance mortgages in FY2018. Together, these mortgages had an initial loan balance of $209 billion.

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[52] U.S. Department of Housing and Urban Development, *Fiscal Year 2015 Annual Report to Congress on the Financial Status of the Mutual Mortgage Insurance Fund*, November 16, 2015, p. 22, http://portal.hud.gov/hudportal/documents/huddoc?id=2015fhaannualreport.pdf. The capital ratio calculation for the MMI Fund includes FHA-insured reverse mortgages, known as Home Equity Conversion Mortgages (HECMs).

[53] Beginning in FY2017, FHA's annual reports to Congress have presented slightly revised capital ratios for FY2012 through FY2016 as a result of an effort to align certain components of the capital ratio with other FHA financial reporting. The capital ratios cited in the text are the ones that were originally reported, rather than the revised figures.

[54] U.S. Department of Housing and Urban Development, *Fiscal Year 2014 Annual Report to Congress on the Financial Status of the Mutual Mortgage Insurance Fund*, p. 34. While a negative capital ratio does not mean that FHA is currently out of money, it does suggest that the funds that FHA currently has on hand, combined with the amount it expects to earn on mortgages that it currently insures, would not be enough to pay for the losses it expects to incur in the future on the loans that it currently insures. The calculation of the capital ratio does not take into account any mortgages that FHA may insure in the future.

[55] For example, see the list of policy changes that FHA has made since 2010 beginning on p. 37 of HUD's *Fiscal Year 2016 Annual Report to Congress on the Financial Status of the FHA Mutual Mortgage Insurance Fund* at https://portal.hud.gov/hudportal/documents/huddoc?id=2016fhaannualreport1.pdf.

About 77% (776,284) of the mortgages were for home purchases, while about 23% (238,325) were for refinancing an existing mortgage.[56] The overall number of mortgages insured by FHA in FY2018 represented a decrease from FY2017, when it insured 1.25 million mortgages.

Table 4. Number of New Mortgages Insured by FHA in FY2018

	Purchase	Refinance	Total
Number of Mortgages	776,284	238,325	1,014,609

Source: FHA's *FY2018 Annual Report to Congress on the Financial Status of the MMI Fund*, p. 96.

Notes: These data do not include FHA-insured reverse mortgages. Numbers reflect FHA's activity during FY2018. FHA activity can also be reported for a calendar year rather than a fiscal year; the market share data included in the **Appendix** reflect FHA activity during calendar years rather than fiscal years.

Many FHA-insured mortgages are obtained by first-time homebuyers, lower-and moderate-income homebuyers, and minority homebuyers. Of the home purchase mortgages insured by FHA in FY2018, about 83% were made to first-time homebuyers. Over a third of all mortgages (both for home purchases and refinances) insured by FHA in FY2018 were made to minority borrowers.[57]

As shown in **Table 5**, at the end of FY2018 FHA was insuring a total of over 8 million single-family loans that together had an outstanding balance of nearly $1.2 trillion.[58] Since it was first established in 1934, FHA has insured a total of over 47.5 million home loans.[59]

Table 5. Number and Dollar Volume of FHA-Insured Mortgages Outstanding in FY2018

	Total
Number of Mortgages	8,048,639
Dollar Volume of Mortgages	$1.196 trillion

Source: *FHA Production Report*, September 2018, https://www.hud.gov/program_offices/housing/hsgrroom/fhaprodrpt.

Note: Figures show the number and dollar volume of single-family insurance-in-force as of the end of FY2018, excluding FHA-insured reverse mortgages.

Market Share

Measuring Market Share

FHA's share of the mortgage market is the amount of mortgages that are insured by FHA compared to the total amount of mortgages originated or outstanding in a given time period. FHA's market share can be measured in a number of different ways. Therefore, when evaluating

[56] U.S. Department of Housing and Urban Development, *Fiscal Year 2018 Annual Report to Congress on the Financial Status of the FHA Mutual Mortgage Insurance Fund*, p. 96.

[57] U.S. Department of Housing and Urban Development, *FHA Annual Management Report Fiscal Year 2018*, p. 16.

[58] U.S. Department of Housing and Urban Development, *Fiscal Year 2018 Annual Report to Congress on the Financial Status of the FHA Mutual Mortgage Insurance Fund*, p. 94. These totals do not include Home Equity Conversion Mortgages (HECMs), which are reverse mortgages insured by FHA.

[59] *FHA Annual Management Report Fiscal Year 2018*, p. 5.

FHA's market share, it is important to recognize which of several different figures is being reported.

First, FHA's share of the mortgage market can be computed as the *number* of FHA-insured mortgages divided by the total number of mortgages, or as the *dollar volume* of FHA-insured mortgages divided by the total dollar volume of mortgages.

Furthermore, FHA's market share is sometimes reported as a share of *all mortgages*, and sometimes only as a share of *home purchase mortgages* (as opposed to both mortgages made to purchase a home and mortgages made to refinance an existing mortgage).

A market share figure can be reported as a share of all mortgages *originated within a specific time period*, such as a given year, or as a share of all mortgages *outstanding at a point in time*, regardless of when they were originated.

Finally, FHA's market share is sometimes also reported as a share of the total number of *mortgages that have some kind of mortgage insurance* (including mortgages with private mortgage insurance and mortgages insured by another government agency) rather than as a share of *all mortgages* regardless of whether or not they have mortgage insurance.

FHA's Share of the Mortgage Market

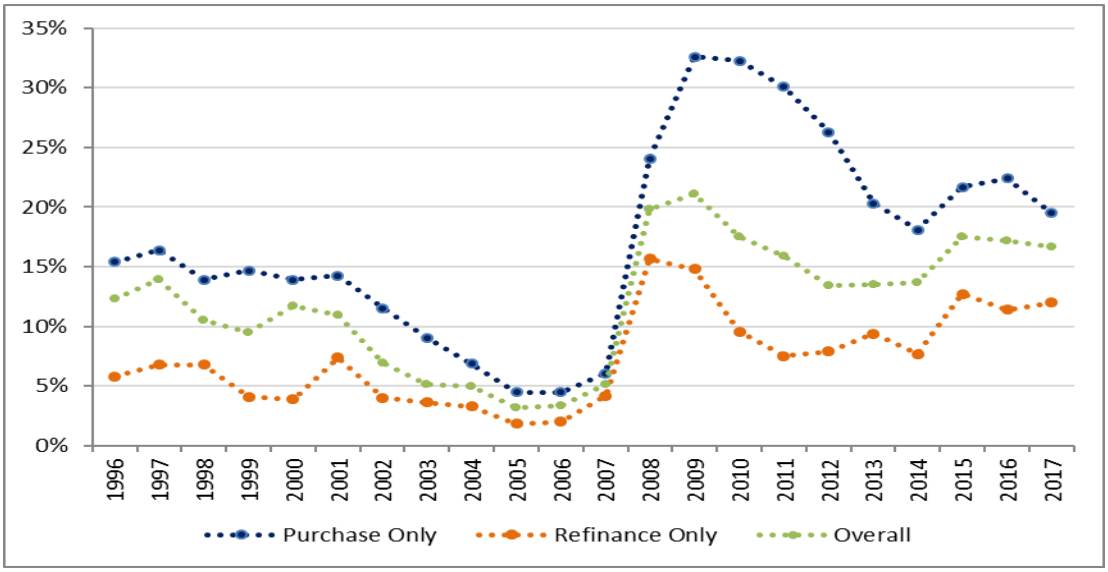
FHA's market share tends to fluctuate in response to economic conditions and other factors. Between calendar years 1996 and 2002, FHA's market share averaged about 14% of the home purchase mortgage market and about 11% of the overall mortgage market (both home purchase mortgages and refinance mortgages), as measured by number of mortgages. However, by 2005 FHA's market share had fallen to less than 5% of home-purchase mortgages and about 3% of the overall mortgage market. Subsequently, as economic conditions worsened and mortgage credit tightened in response to housing market turmoil that began around 2007, FHA's market share rose sharply, peaking at over 30% of home-purchase mortgages in 2009 and 2010, and over 20% of all mortgages (including both home purchases and refinances) in 2009. In 2017, FHA insured 19.5% of new home purchase mortgages and about 16.7% of new mortgages overall, a small decrease compared to its market share in 2016.[60]

Figure 1 shows FHA's market share as a percentage of the total number of new mortgages originated for each calendar year between 1996 and 2017. As described, FHA's market share can be measured in a number of different ways. The figure shows FHA's share of (1) all newly originated mortgages, (2) just newly originated purchase mortgages, and (3) just newly originated refinance mortgages. FHA's share of home purchase mortgages tends to be the highest, largely because borrowers who refinance are more likely to have built up a greater amount of equity in their homes and, therefore, might be more likely to obtain conventional mortgages. For the number of mortgages insured by FHA in each year calendar since 1996, see the **Appendix**.

[60] See HUD's *FHA Single-Family Mortgage Market Share Report, 2018 Q2,* p. 4, http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/oe/rpts/fhamktsh/fhamktqtrly.

Figure 1. FHA's Share of the Mortgage Market, CY1996-CY2017

Percentage of total number of mortgages originated in each year



Source: Figure created by CRS using data in HUD's *FHA Single-Family Mortgage Market Share Report, 2018 Q2,* http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/oe/rpts/fhamktsh/fhamktqtrly.

The increase in FHA's market share after 2007 was due to a variety of factors related to the housing market turmoil and broader economic instability that was taking place at the time. Housing and economic conditions led many banks to limit their lending activities, including lending for mortgages. Similarly, private mortgage insurance companies, facing steep losses from past mortgages, began tightening the underwriting criteria for mortgages that they would insure.[61] Furthermore, in 2008 Congress increased the maximum mortgage amounts that FHA can insure, which may have made FHA-insured mortgages a more viable option for some borrowers in certain areas.

More recently, FHA's market share has decreased somewhat from its peak during the housing market turmoil, although it generally remains somewhat higher than it was in the late 1990s and early 2000s. A number of factors may have contributed to this decrease, including lower loan limits in some high-cost areas, higher mortgage insurance premiums,[62] and greater availability of non-FHA-insured mortgages. While not the focus of this report, the appropriate market share for FHA has been a subject of ongoing debate among policymakers. It is likely to continue to be a topic of debate, both in the context of policies specifically related to FHA as well as part of broader debate about the future of the U.S. housing finance system.

[61] For example, see Robert B. Avery, Neil Bhutta, Kenneth P. Brevoort, and Glenn B. Canner, *The 2009 HMDA Data: The Mortgage Market in a Time of Low Interest Rates and Economic Distress*, http://www.federalreserve.gov/pubs/bulletin/2010/articles/2009HMDA/default.htm. See also Radian's 2010 annual report, at http://www.radian.biz/sfc/servlet.shepherd/version/download/068C0000000SKI1IAO. Page 79 includes a discussion of Radian, a private mortgage insurer, tightening its underwriting standards.

[62] FHA increased the mortgage insurance premiums it charges a number of times in recent years before decreasing the annual premium somewhat at the beginning of 2015. The 2015 premium decrease may have contributed to the increase in FHA's market share in 2015 and 2016 compared to 2014. See, for example, Neil Bhutta and Daniel Ringo, "Changing FHA Mortgage Insurance Premiums and the Effects on Lending," FEDS Note, September 29, 2016, https://www.federalreserve.gov/econresdata/notes/feds-notes/2016/changing-fha-mortgage-insurance-premiums-and-the-effects-on-lending-20160929.html, showing that changes in FHA mortgage insurance premiums tend to be associated with changes in FHA's market share for home purchase mortgages in particular.

Appendix. FHA's Market Share Since 1996

Table A-1 provides data on the number of mortgages insured by FHA in each calendar year since 1996, along with FHA's overall market share in each calendar year.

Table A-1. FHA-Insured Mortgage Origination Activity

CY1996-CY2017

Calendar Year	FHA-Insured Home Purchase Mortgages	FHA-Insured Refinance Mortgages	Total FHA-Insured Mortgages	Total Mortgage Market	FHA Share of Mortgage Originations
1996	697,000	123,000	820,000	6,672,000	12.3%
1997	759,000	110,000	869,000	6,233,000	13.9%
1998	788,000	348,000	1,136,000	10,795,000	10.5%
1999	913,000	245,000	1,158,000	12,182,000	9.5%
2000	845,000	66,000	911,000	7,767,000	11.7%
2001	870,000	407,000	1,277,000	11,627,000	11.0%
2002	764,000	412,000	1,176,000	16,922,000	7.0%
2003	630,000	653,000	1,283,000	24,887,000	5.2%
2004	467,000	248,000	716,000	14,319,000	5.0%
2005	323,000	133,000	456,000	14,485,000	3.1%
2006	295,000	116,000	411,000	12,330,000	3.3%
2007	317,000	211,000	528,000	10,294,000	5.1%
2008	845,000	561,000	1,406,000	7,092,000	19.8%
2009	1,088,000	897,000	1,985,000	9,391,000	21.1%
2010	944,000	519,000	1,463,000	8,359,000	17.5%
2011	760,000	322,000	1,082,000	6,825,000	15.9%
2012	738,000	527,000	1,265,000	9,471,000	13.4%
2013	665,000	507,000	1,172,000	8,690,000	13.5%
2014	601,000	182,000	783,000	5,703,000	13.7%
2015	811,000	410,000	1,221,000	6,959,000	17.5%
2016	891,000	413,000	1,304,000	7,584,000	17.2%
2017	851,000	309,000	1,160,224	6,927,000	16.7%

Source: U.S. Department of Housing and Urban Development, *FHA Single-Family Market Share 2018 Q2*, http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/oe/rpts/fhamktsh/fhamktqtrly.

Notes: This table reflects FHA activity during calendar years. Data can also be reported for fiscal years; the FHA program activity data reported in **Table 4** in this report reflect fiscal year rather than calendar year activity.

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