

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 most 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 currently set at \$625,500 in high-cost areas.) Borrowers are charged fees, called mortgage insurance premiums, in exchange for the insurance.

In FY2015, FHA insured over 1 million new mortgages (including both home purchase and refinance mortgages) with a combined principal balance of over \$200 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 2014, FHA's overall share of the mortgage market was about 15%.

FHA-insured mortgages, like all mortgages, experienced increased default rates during the housing downturn, leading to concerns about the stability of the FHA insurance fund for single-family mortgages, the Mutual Mortgage Insurance Fund (MMIF). In response to these concerns, FHA adopted a number of policy changes in an attempt to limit risk to the MMIF. 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. In order 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)*, by (name redacted). For information on recent FHA policy changes, see CRS Report R43531, *FHA Single-Family Mortgage Insurance: Recent Policy Changes and Proposed Legislation*, by (name redacted).

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. 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. At the end of the five-year term, the remaining loan balance had to be repaid or the mortgage had to be renegotiated. Borrowers

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 insures 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*, by (name redacted) and CRS Report RL31837, *An Overview of USDA Rural Development Programs*, by (name redacted).

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

generally had little trouble in obtaining new mortgages. During the Great Depression, however, 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 revolutionary idea: 20-year mortgages on which the loan would be completely repaid at the loan term. If borrowers defaulted, FHA insured that the lender would be fully repaid. Mortgage instruments were standardized, and a new confidence was instilled in the mortgage market. Investment in housing was stimulated, and its ripple effects were felt throughout the 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, such as those with smaller down payments. 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 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.⁶) Because saving for a down payment is often the biggest barrier to homeownership for first-time homebuyers and lower- or moderate-income borrowers, the smaller down payment requirement for FHA-insured loans may allow these types of 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 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 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.⁴ 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.⁵

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.

FHA-insured mortgages play a particularly large role for first-time homebuyers, low- and moderate-income households, and minorities. For example, in FY2015, 82% of FHA-insured mortgages made to purchase a home (rather than to refinance an existing mortgage) were obtained by first-time homebuyers.⁷ One-third of FHA loans were obtained by minority households, and FHA-insured mortgages accounted for 43% of all home purchase mortgages made to African American households and 44% of home purchase mortgages made to Hispanic households.⁸

⁴ 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%).

⁵ 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,” or a second mortgage to cover part (or all) of the purchase price that exceeded 80% of the value of the home. These types of loans became much less common as mortgage credit standards tightened in response to economic and housing market turmoil that began around 2007.

⁶ 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.

⁷ U.S. Department of Housing and Urban Development, *Annual Report to Congress, Fiscal Year 2015 Financial Status FHA Mutual Mortgage Insurance Fund*, November 16, 2015, p. 14, <http://portal.hud.gov/hudportal/documents/huddoc?id=2015fhaannualreport.pdf>.

⁸ *Ibid.*, p. 16.

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.) Such 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.

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 non-traditional features, but not all subprime mortgages contained these features, and a mortgage does not have to have non-traditional 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. However, given the tightening of mortgage credit in response to the recent economic downturn, FHA has recently been insuring a greater share of mortgages to borrowers with higher credit scores. For example, in FY2006 about 25% of FHA-insured loans were made to borrowers with credit scores at 680 or above, and about 25% were made to borrowers with credit scores below 600. In contrast, in FY2011 nearly 60% of FHA-insured mortgages were made to borrowers with credit scores at 680 or above, and less than 1% of loans were made to borrowers with credit scores below 600. Most recently, in FY2015, about 43% of FHA-insured mortgages were made to borrowers with credit scores of 680 or above, and about 2% were made to borrowers with credit scores below 600. See Integrated Financial Engineering, Inc., *Actuarial Review of the Federal Housing Administration Mutual Mortgage Insurance Fund (Excluding HECMs) for Fiscal Year 2015*, prepared for the Department of Housing and Urban Development, p. 42, <http://portal.hud.gov/hudportal/documents/huddoc?id=AR2015MMIFwdRpt.pdf>.

¹¹ With a negative amortization loan, borrowers have the option to pay less than the full amount of the interest due for a 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 the 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*, December 2012, http://www.aei.org/files/2013/01/07/-how-the-fha-hurts-workingclass-families-and-communities_133838366627.pdf.

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

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

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/hsgb.

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.

¹⁶ For example, see HUD Handbook 4000.1, Section II.A.5.d.vii.

¹⁷ U.S. Department of Housing and Urban Development, Mortgage Letter 2010-29, September 3, 2010, <http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/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.

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.

Down Payment

FHA requires a lower down payment than most 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. 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.²²

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 500.²³

¹⁹ 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 <http://www.hud.gov/offices/adm/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.

²² U.S. Department of Housing and Urban Development, Mortgage Letter 2008-23, September 25, 2008, http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_19737.pdf.

²³ U.S. Department of Housing and Urban Development, Mortgage Letter 2010-29, September 3, 2010, <http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/10-29ml.pdf>.

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.²⁴ The maximum mortgage amounts allowed for FHA-insured loans vary by area, based on a percentage of area median home prices.²⁵ 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.²⁶ New permanent maximum mortgage amounts were later established by the Housing and Economic Recovery Act of 2008 (HERA, P.L. 110-289). The maximum mortgage amounts established by HERA were lower than the temporarily increased limits, but higher than the previous permanent limits. However, the higher temporary limits were extended for several years, until they expired at the end of calendar year 2013.²⁷

As of January 1, 2014, the maximum mortgage amounts are 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 of \$271,050 and a ceiling of \$625,500 in high-cost areas.²⁸ (That is, FHA will insure mortgages with principal balances up to \$271,050 in all areas of the country. In higher-cost areas, it will insure mortgages with principal balances up to 115% of the area median

²⁴ 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. To look up the maximum mortgage amount for a specific area, see HUD's website at <https://entp.hud.gov/idapp/html/hicostlook.cfm>.

²⁵ 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 prices.

²⁶ In early 2008, Congress enacted the Economic Stimulus Act of 2008 (ESA, P.L. 110-185), which temporarily increased the maximum mortgage amounts 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, for a one-unit home. See U.S. Department of Housing and Urban Development, Mortgage Letter 2008-02, January 18, 2008, available at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/mortgagee/inactive.

²⁷ 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 ARRA limits were extended several times until they expired at the end of 2013. FHA has been following a policy of not allowing the HERA limits to fall relative to the original HERA limits, so if current HERA limits (based on the most recent median home prices) are lower than earlier HERA limits (based on 2008 or later area median home prices) in a given area, FHA uses the earlier HERA limits for the purposes of calculating the maximum mortgage amount in that area.

²⁸ 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. Congress can change the ceilings and floors either by (1) changing the percentages of the conforming loan limit that constitute the ceiling and the floor, or (2) changing the conforming loan limit itself. Currently, the floor is set at 65% of the conforming loan limit and the ceiling is set at 150% of the conforming loan limit. The conforming loan limit is currently \$417,000, so the floor is \$271,050 (65% of \$417,000), and the ceiling is \$625,500 (150% of \$417,000).

home price, up to a cap of \$625,500 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	\$271,050	115% of area median home prices for a one-unit property	\$625,500
2-unit	\$347,000	115% of area median home prices for a two-unit property	\$800,775
3-unit	\$419,425	115% of area median home prices for a three-unit property	\$967,950
4-unit	\$521,250	115% of area median home prices for a four-unit property	\$1,202,925

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 2015-30.

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.

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

HERA increased the maximum up-front mortgage insurance premium that FHA is permitted to charge. Currently, the maximum up-front premium that FHA may charge is 3% of the mortgage amount for a borrower who has not received homeownership counseling and 2.75% of the mortgage amount for a borrower who has received homeownership counseling. (Prior to HERA, these were set at 2.25% and 2%, respectively.) Currently, FHA is not charging different up-front premiums to borrowers who do and do not receive homeownership counseling.

Since April 9, 2012, HUD has set the up-front premium at 1.75% of the loan amount, whether or not the borrower received homeownership counseling.²⁹ This premium applies to most single-family mortgages.³⁰

²⁹ 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>.

³⁰ 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.

Annual Mortgage Insurance Premiums

In August 2010, Congress enacted P.L. 111-229, which raised the maximum annual mortgage insurance premium that FHA can charge. 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.³¹

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.³² However, in January 2015, FHA announced a decrease in the annual premium for most single-family loans. For 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.³³ This is a decrease from 1.35% of the loan balance for mortgages where the loan-to-value ratio is above 95% and 1.30% of the loan balance for mortgages where the loan-to-value ratio is 95% or below, which is what FHA had been charging from April 1, 2013, until January 26, 2015.³⁴ These premiums apply to most single-family mortgages.³⁵ FHA charges lower annual premiums for mortgages with terms of 15 years or less.

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

Table 2. Annual and Up-Front Mortgage Insurance Premiums

Beginning January 26, 2015

	Annual Premium	Up-Front Premium
LTV ≤ 95%	0.80%	1.75%
LTV > 95%	0.85%	1.75%

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

³¹ These annual mortgage insurance premiums apply for mortgages with loan terms that exceed 15 years. Mortgages with loan terms of 15 years or less are subject to lower annual mortgage insurance premiums.

³² 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. 52 of the *FY2015 Annual Report to Congress on the Financial Status of the MMI Fund*, <http://portal.hud.gov/hudportal/documents/huddoc?id=2015fhaannualreport.pdf>.

³³ 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>. FHA charges a higher annual mortgage insurance premium on loans originated with a principal balance that exceeds \$625,500. (\$625,500 is the current maximum mortgage amount in high cost areas under HERA, but from June 11, 2012 until the expiration of the temporarily higher ESA limits on January 1, 2014 FHA could insure loans up to \$729,750 in high-cost areas.)

³⁴ 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>.

³⁵ 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.

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). Lower annual premiums are charged for mortgages with a loan term of 15 years or less.

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.³⁶

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.³⁷ However, for loans with FHA case numbers assigned on or after June 3, 2013, FHA will continue to charge the annual mortgage insurance premium for the life of the loan for most mortgages.³⁸ This change is in response 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.³⁹

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.⁴⁰

A program of loss mitigation strategies was authorized by Congress in 1996 to minimize the number of FHA loans entering foreclosure,⁴¹ and has since been revised and expanded to include

³⁶ FHA Mortgagee Letter 05-03, “Elimination of Refunds of Upfront Mortgage Insurance Premiums,” available at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/sfhsuperseded/mltrs_full.

³⁷ See FHA Mortgagee Letter 00-38, available at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/mortgagee/2000ml.

³⁸ FHA Mortgagee Letter 13-04, <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.

³⁹ 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.

⁴⁰ 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).

⁴¹ The loss mitigation program replaced an assignment program. Under the assignment program, servicers would assign (continued...)

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. 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**.⁴²

Additional loss mitigation options are available for certain populations of borrowers. For example, 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.⁴³ On resumption of payment, loan payments are adjusted so that the loan will be paid in full according to the original amortization.⁴⁴ In the past, FHA has also temporarily relaxed rules on the use of certain types of loss mitigation options in specific areas in response to certain presidentially-declared major disasters, such as Hurricane Katrina.⁴⁵

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.
Loan modification	Loan modifications make changes to the terms of the mortgage, such as the interest rate, the amount of time over which the mortgage is to be repaid, or re-amortization of the loan.
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 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 and HUD Handbook 4000.1, Section III.A.2.

(...continued)

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.

⁴² FHA loss mitigation procedures are described in HUD Handbook 4000.1, Section III.A.2.

⁴³ 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 or, for more information on the Servicemembers Civil Relief Act in general, see CRS Report RL34575, *The Servicemembers Civil Relief Act (SCRA): An Explanation*, by (name redacted) .

⁴⁴ See HUD Handbook 4000.1, Section III.A.2.k.iii and 24 C.F.R. §203.345 and §203.346.

⁴⁵ See, for example, Mortgagee Letter 2005-46, December 1, 2005, available at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/mortgagee/2005ml.

Program Funding

The FHA single-family mortgage insurance program is funded through FHA's Mutual Mortgage Insurance Fund (MMIF), which has historically been sufficient to fund the program without appropriations from Congress.⁴⁶ Cash flows into the MMIF primarily from insurance premiums and proceeds from the sale of foreclosed homes. Cash flows out of the MMIF primarily to pay claims to lenders for mortgages that have defaulted.

FHA maintains both a Financing Account and a Capital Reserve Account within the MMIF. The Financing Account includes enough funds to cover the expected future costs associated with the MMIF's entire portfolio of outstanding loans, based on current assumptions. The Capital Reserve Account includes additional funds to cover unexpected increases in costs. If there are changes in the expected costs associated with the MMIF's portfolio of outstanding loans, then FHA moves funds between the Financing Account and the Capital Reserve Account as needed to ensure that there are sufficient funds in the Financing Account to cover projected expenses. 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.⁴⁷ 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 MMIF has not needed any additional funds from Treasury since that time.

Section 205 of the National Housing Act⁴⁸ requires HUD to ensure that the MMIF maintains a capital ratio of 2.0% at all times. The capital ratio measures the amount of funds that the MMIF currently has on hand, plus the net present value of the future cash flows 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 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%.⁴⁹ This represented an improvement from an estimated capital ratio of

⁴⁶ FHA does receive congressional appropriations for salaries and administrative contract expenses related to the MMIF.

⁴⁷ FHA can receive funds from Treasury to cover higher-than-expected costs of insured mortgages under permanent and indefinite budget authority granted under the Federal Credit Reform Act of 1990 (FCRA), which governs how FHA and other federal credit programs are accounted for in the budget. 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. The amount of funds that FHA will need to transfer between accounts in the MMI Fund is determined through a re-estimate of the expected costs of insured loans that is performed each year as part of the annual budget process. If FHA anticipates needing assistance from Treasury to make the transfer, the amount that it anticipates needing is included in the President's budget request.

⁴⁸ 12 U.S.C. §1711.

⁴⁹ 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 (continued...)

0.41% at the end of FY2014, and from *negative* estimated capital ratios at the ends of FY2013 and FY2012.⁵⁰

A low or negative capital ratio does not in itself trigger any special assistance from Treasury, but it raises concerns that FHA could need further assistance in order to continue to hold enough funds in the Financing Account to cover expected future losses. In recent years, FHA has taken a number of steps designed to strengthen the insurance fund.⁵¹ These steps include 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.

For more 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)*, by (name redacted) and more information on policy changes that FHA has made, see CRS Report R43531, *FHA Single-Family Mortgage Insurance: Recent Policy Changes and Proposed Legislation*, by (name redacted)

Program Activity

Number of Mortgages Insured

As shown in **Table 4**, FHA insured 1.1 million new single-family purchase and refinance mortgages in FY2015. Together, these mortgages had an initial loan balance of \$213 billion. Of the 1.1 million single-family mortgages that FHA insured in FY2015, over 750,000 (67%) were for home purchases, while over 350,000 (33%) were for refinancing an existing mortgage.⁵² The overall number of mortgages insured by FHA in FY2015 represented an increase of more than 40% over FY2014, when FHA insured just under 800,000 mortgages. However, it was below the 1.3 million mortgages insured by FHA in FY2013. The number of mortgages insured by FHA increased beginning in FY2008, reaching a peak of 1.8 million mortgages in FY2009. FY2014 was the only year since FY2007 that FHA insured fewer than a million mortgages.

Table 4. Number of New Mortgages Insured by FHA in FY2015

	Purchase	Refinance	Total
Number of Mortgages	753,389	362,843	1,116,232

Source: FHA's FY2015 Annual Report to Congress on the Financial Status of the MMI Fund, p. 61.

(...continued)

mortgages, known as Home Equity Conversion Mortgages (HECMs).

⁵⁰ 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.

⁵¹ For example, see the list of policy changes that FHA has made in recent years beginning on page 52 of HUD's *Fiscal Year 2015 Annual Report to Congress on the Financial Status of the FHA Mutual Mortgage Insurance Fund* at <http://portal.hud.gov/hudportal/documents/huddoc?id=2015fhaannualreport.pdf>.

⁵² U.S. Department of Housing and Urban Development, *Fiscal Year 2015 Annual Report to Congress on the Financial Status of the FHA Mutual Mortgage Insurance Fund*, p. 61.

Notes: These data do not include FHA-insured reverse mortgages. Numbers reflect FHA's activity during FY2015. 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 FY2015, about 82% were made to first-time homebuyers.⁵³ Nearly a third of mortgages insured by FHA in FY2015 were made to minority borrowers, and nearly 59% were made to low- or moderate-income borrowers.⁵⁴ Furthermore, in calendar year 2015 FHA-insured loans accounted for about 43% of all home purchase mortgages obtained by African-American homebuyers and 44% of all home purchase mortgages obtained by Hispanic homebuyers.⁵⁵

As shown in **Table 5**, at the end of FY2015 FHA was insuring a total of about 7.7 million single-family loans that together have an outstanding balance of about \$1.1 trillion.⁵⁶ Since it was first established in 1934, FHA has insured a total of over 40 million home loans.⁵⁷

Table 5. Number and Dollar Volume of FHA-Insured Mortgages Outstanding in FY2015

	Total
Number of Mortgages	7,742,143
Dollar Volume of Mortgages	\$1.073 trillion

Source: *FHA Production Report*, September 2015.

Notes: Figures show the number and dollar volume of single-family insurance-in-force as of the end of FY2015, 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 FHA's market share, it is important to recognize which of several different figures is being reported.

⁵³ Ibid., p. 14.

⁵⁴ U.S. Department of Housing and Urban Development, *FHA Annual Management Report Fiscal Year 2015*, November 16, 2015, p. 13. The percentage of FHA-insured loans made to minority borrowers is based on all FHA-insured forward mortgages (both purchases and refinances) for the fiscal year; the percentage of FHA-insured loans made to low- and moderate-income borrowers is based on all FHA loans that were fully underwritten (that is, it excludes certain loans such as streamline refinances).

⁵⁵ U.S. Department of Housing and Urban Development, *Fiscal Year 2015 Annual Report to Congress on the Financial Status of the FHA Mutual Mortgage Insurance Fund*, p. 16. Figures are based on data reported under the Home Mortgage Disclosure Act (HMDA).

⁵⁶ U.S. Department of Housing and Urban Development, *FHA Production Report*, September 2015, available at http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/hsgroom/fhaprod rpt. These totals do not include Home Equity Conversion Mortgages (HECMs), which are reverse mortgages insured by FHA.

⁵⁷ *FHA Annual Management Report Fiscal Year 2015*, p. 3.

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.

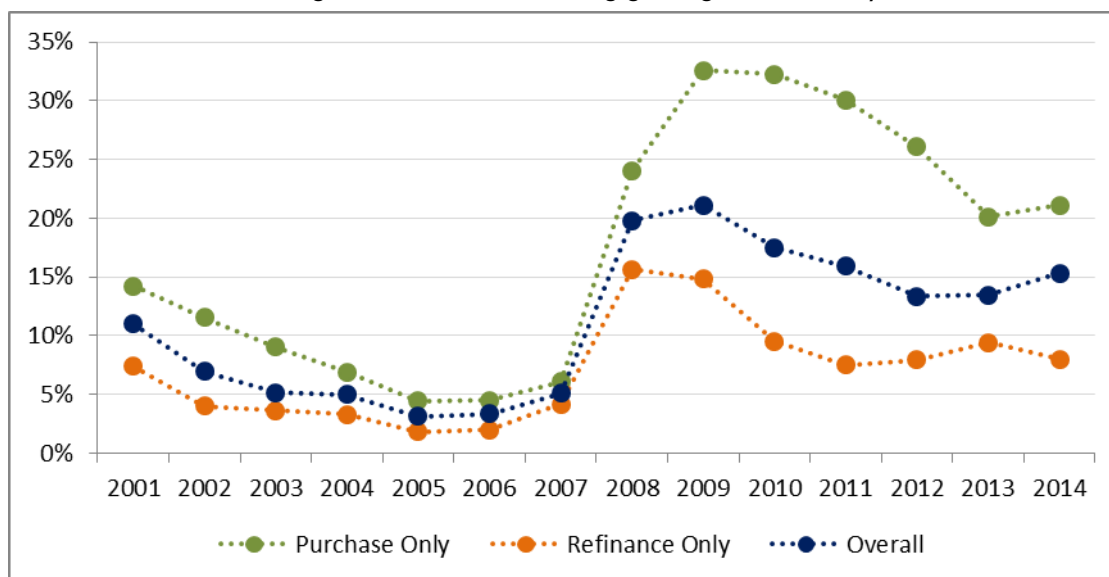
FHA's Share of the Mortgage Market Since 2001

In the early 2000s, FHA-insured mortgages generally made up between 10% and 15% of the home-purchase mortgage market, and between 5% and 10% 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, 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 2014, FHA insured about 21% of new home purchase mortgages and about 15% of new mortgages overall.

Figure 1 shows FHA's market share as a percentage of the total number of new mortgages originated for each calendar year between 2001 and 2014. 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 2001, see the **Appendix**.

Figure 1. FHA's Share of the Mortgage Market, CY2001-CY2014

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, 2015 Q2*, available at http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/oe/rpts/fhamktsh/fhamktqtrly.

The increase in FHA's market share since 2007 is due to a variety of factors related to housing market turmoil and broader economic instability. One factor is that 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.⁵⁸ Another factor is the increase in the maximum mortgage amounts that FHA can insure, enacted by Congress in 2008, which may have made FHA-insured mortgages a more viable option for some borrowers in certain areas.

More recently, FHA's market share has been decreasing somewhat from its peak during the housing market turmoil. A number of factors may be contributing to this decrease, including lower loan limits in some high-cost areas, higher mortgage insurance premiums, 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.

⁵⁸ 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.

Appendix. FHA's Market Share Since 2001

Table A-1 provides data on the number of mortgages insured by FHA in each calendar year since 2001, along with FHA's overall market share in each fiscal year.

Table A-1. FHA-Insured Mortgage Origination Activity
CY2001-CY2014

Calendar Year	FHA-Insured Home Purchase Mortgages	FHA-Insured Refinance Mortgages	Total FHA-Insured Mortgages	Total Mortgage Market	FHA Share of Mortgage Originations
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	6,805,000	15.9%
2012	738,000	527,000	1,265,000	9,460,000	13.4%
2013	665,000	507,000	1,172,000	8,692,000	13.5%
2014	601,000	182,000	782,000	5,109,000	15.3%

Source: U.S. Department of Housing and Urban Development, *FHA Single-Family Market Share 2015 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 activity during fiscal years rather than calendar years.

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