NAR Issue Summaries

Housing / FHA Programs (Federal Housing Administration)

NAR Committee:

Federal Financing and Housing Policy Committee

What is the fundamental issue?

FHA loans are a type of government-backed mortgage insured by the Federal Housing Administration. These loans offer borrowers a number of benefits including lower down payments, low closing costs, and accessible eligibility criteria. These mortgages are designed to make homeownership more accessible to Americans. The mortgages have lower credit score requirements compared to most other mortgages.

FHA's single family mortgage insurance program was created in 1934 to provide access to safe, affordable mortgage financing for American families. FHA does not lend money to homeowners. Instead, FHA insures qualified loans made by private lending institutions. Since 1934 FHA has made the dream of homeownership a reality for millions of American families.

How Do FHA Loans Work?

FHA loans allow homebuyers to borrow a percentage of their home's value based on their credit score. With minimum credit score of 580, prospective buyers can borrow up to 96.5% of their home's value. This means they can make a down payment of as little as 3.5%. Buyers with a score between 500 and 579 can get an FHA loan with a 10% down payment. Remind your client that while FHA mortgages allow for lower down payments, they will need to purchase mortgage insurance.

FHA Loan Eligibility

To secure an FHA loan, borrowers must have a minimum credit score of 500 and adebt-to-income ratio of less than 43%. In addition to the borrower's credit score, lenders also evaluate payment history. Buyers should have about a year's worth of on-time payments on their credit report before applying for an FHA loan. While past bankruptcies do not disqualify buyers from obtaining FHA loans, it's a good idea to wait a couple of years after bankruptcy to apply for an FHA loan.

What to Know About the FHA

The financial health of the FHA Mutual Mortgage Insurance (MMI) remains strong as of September 30, 2024. The MMI Fund capital ratio stands at 11.47%, a 0.96 percentage point increase from the FY 2023 MMI Fund capital ratio of 10.51 percent, which more than five times the Congressionally mandated level of two percent.

According to the HUD FY 2024 Actuarial Review of the MMI Fund, the total capital resources available to the Home Equity Conversion Mortgage (HECM) portion of the MMI are estimated to be $9.022 billion at the end of FY24.

I am a real estate professional. What does this mean for my

500 New Jersey Avenue, NW
Washington, DC 20001
(800) 874-6500
nar.realtor

business?

The importance of FHA has never been more apparent after the collapse of the private mortgage market in 2008. FHA needs to serve its role to fill the gap and make mortgage insurance available to qualified home buyers in all economic times.

NAR Policy:

NAR continues to support the single- and multi-family programs administered by the Federal Housing Administration (FHA). FHA is critical to our nation's housing and economic health, and care must be taken to not hamper FHA's ability to facilitate safe, affordable mortgage financing to American families.

During the Great Recession, FHA-insured financing was often the only product available. Moody's analytics has reported that without FHA, housing prices would have dropped an additional 25%, and American families would have lost more than $3 trillion in home wealth.

For more information, visit www.realtor.org/fha.

Opposition Arguments:

Opponents of NAR policy believe that the FHA mortgage insurance program is crowding out the return of the private market. They believe government involvement in the mortgage market should be limited and targeted to only certain individuals.

Legislative/Regulatory Status/Outlook

FHA remains financially viable and a critical part of our nation's economic health. Efforts must be taken to ensure FHA's ability to facilitate safe, affordable mortgage financing to American families.

NAR continues to call for an elimination in the lifetime mortgage insurance premium and a reduction of the mortgage premiums. FHA's current policy to maintain lifetime annual mortgage insurance premiums for loans with over 90% loan-to-value (LTV) at origination penalizes any home buyer without the means to put down a larger down payment. This goes against the core of FHA's mission—to provide fair homeownership opportunities to worthy borrowers who are overlooked by conventional lenders. FHA should eliminate this requirement. We believe the health of the FHA fund is such that a further reduction is warranted.

Current Legislation/Regulation (bill number or regulation)

NAR is not tracking any specific legislation or regulation at this time.

Legislative Contact(s):

Caitlin Vannoy, cvannoy@nar.realtor, 202-383-1127

Elayne Weiss, eweiss@nar.realtor, 202-383-1084

Regulatory Contact(s):

Caitlin Vannoy, cvannoy@nar.realtor, 202-383-1127
Elayne Weiss, eweiss@nar.realtor, 202-383-1084