Housing / FHA Programs (Federal Housing Administration)

NAR Committee:

Federal Financing and Housing Policy Committee

What is the fundamental issue?

FHA's single family mortgage insurance program was created in 1934 to provide access to safe, affordable mortgage financing. Since 1934 FHA has made the dream of homeownership a reality for millions of Americans. FHA also provides countercyclical support to the mortgage market, maintaining consistent lending standards and availability when private mortgage financing tightens during economic downturns. Indeed, 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.

How Do FHA Loans Work?

FHA does not lend money to homebuyers. Instead, FHA insures qualified loans made by private lending institutions. FHA loans are government-backed mortgage that offer borrowers a number of benefits including lower down payments, competitive interest rates, and accessible eligibility criteria with lower credit score requirements compared to most other mortgages. These features are specifically designed to make homeownership more accessible to families, particularly first-time buyers, and underserved communities.

FHA also insures loans for manufactured homes, providing financing options for this important source of affordable housing. These loans can be used to purchase manufactured homes, whether as personal property or real estate, helping expand homeownership opportunities in communities where manufactured housing provides more affordable options.

To secure an FHA loan, borrowers must have a minimum credit score of 500 and a debt-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.

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

FHA loans expand your potential buyer pool by serving clients who might not qualify for conventional financing. With down payments as low as 3.5% and credit score minimums of 580 (or 500 with 10% down), FHA loans help first-time buyers, buyers with limited savings, and those with less-than-perfect credit achieve homeownership. This is particularly valuable in competitive markets where many buyers struggle to save large down payments. Understanding FHA loan requirements and processes can help you better serve these clients and close more transactions. Keep in mind that FHA properties must meet specific

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property standards, and buyers will pay mortgage insurance premiums, which should be factored into affordability calculations.

NAR Policy:

NAR strongly supports FHA's single family mortgage insurance programs, which are critical to the nation's housing and economic health. FHA serves an essential role in providing safe, affordable mortgage financing to American families who choose FHA to meet their homeownership needs and acts as a vital countercyclical stabilizer during economic downturns. NAR opposes any measures that would hamper FHA's ability to fulfill this mission.

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

Opposition Arguments:

Opponents of NAR policy believe that the FHA mortgage insurance programs are 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. As of September 30, 2024, the Mutual Mortgage Insurance Fund (MMIF) capital ratio stood at 11.47%, an increase of 0.96 percentage points from the FY 2023 MMIF capital ratio of 10.51%, which is more than five times the Congressionally mandated level of two percent. The total capital in the MMIF stood at $173 billion, a $27.5 billion increase from fiscal year 2023.

In 2025, FHA implemented several significant policy changes. In March, FHA restricted program eligibility to U.S. citizens and lawful permanent residents, removing eligibility for non-permanent residents from Title I and Title II programs. In June, FHA rescinded multiple requirements including Federal Flood Risk Management Standards for new construction, certain appraisal protocols, mandatory disaster area inspections, and borrower data collection forms as part of efforts to reduce regulatory burden. FHA also shortened exclusive sales periods for foreclosed properties from 30 days to 15 days for owner-occupants and nonprofits. NAR continues to monitor these policy changes and their effects on housing access and affordability.

NAR is also advocating for FHA to suspend the 90-day resale restriction, which limits FHA financing for properties resold within 90 days, to increase housing inventory and provide more opportunities for homebuyers in today's challenging market.

Current Legislation/Regulation (bill number or regulation)

- **ROAD to Housing Act of 2025 (S.2651)** : Comprehensive bipartisan housing legislation that includes provisions to increase FHA manufactured housing loan limits and enhance oversight of the MMIF

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