



Credit Union National Association

CUNA Issue Summary

FEDERAL HOUSING ADMINISTRATION (FHA) REFORM

ISSUE: The Federal Housing Administration (FHA) is a government-run entity within the U.S. Department of Housing and Urban Development and provides mortgage insurance on loans made by FHA-approved lenders. Such insured loans include mortgages on single family, multifamily, manufactured homes and hospitals. Created by Congress during the Great Depression, FHA was tasked to help American home owners struggling to make their monthly mortgage payments. Today, FHA is the largest insurer of mortgages in the world, insuring 4.8 million single family mortgages and 13,000 multifamily projects. In addition, the FHA is self-funded by home mortgage insurance payments.

FHA mortgage insurance protects banks, credit unions, and other lenders against loss if a FHA-insured mortgage holder defaults. FHA-backed loans require smaller down payments from borrowers. The cost of FHA mortgage insurance is usually included in the home owner's monthly mortgage payment. In most instances, the mortgage insurance payment portion of the monthly payment will end after five years or when 22 percent of the loan principal has been paid off, whichever period is longer.

CUNA POSITION: CUNA favors legislative and regulatory efforts to modernize the FHA and administer innovative programs, like "FHA Secure", to empower lenders, such as credit unions, to provide homebuyers alternatives to predatory mortgage products. Most credit unions are not FHA-approved lenders because the regulatory burden outweighs the benefit to its members. However, legislation recently enacted into law, the *Housing and Economic Recovery Act of 2008* (H.R. 3221), encourages credit unions to apply for FHA-approved lender status. CUNA also supported the *Economic Stimulus Act of 2008* (H.R. 5140), a law that temporarily increases the loan limits for FHA-backed mortgages.

IMPACT ON CREDIT UNIONS: Credit unions, like other lenders, have been unable to make FHA-insured mortgage loans to its members in states that have high housing costs. The *Housing and Economic Recovery Act of 2008* raises the FHA loan ceiling and thus permits credit unions to better fulfill their core mission of "People Serving People" and by providing affordable mortgage products to their members. FHA modernization and new programs like "FHA Secure" will encourage credit unions to seek the status of FHA-approved lending institutions. Currently, most credit unions don't seek this approval because the paperwork and compliance hurdles outweigh any benefits their members might receive from the program.

STATUS/OUTLOOK: On February 7, 2008, the House and Senate passed H.R. 5140, the *Economic Stimulus Act of 2008*. Among other provisions, the new law temporarily raises the FHA's loan limits (the dollar amount of a mortgage that FHA can insure) to the lesser of:

- 125% of the median area house price of one-family, 2-family, 3-family, and 4-family houses, OR ...
- 175% of the GSE limits for one-family, 2-family, 3-family, and 4-family houses (without regard to any authority to increase such limitation with respect to properties located in Alaska, Guam, Hawaii, or the Virgin Islands)

The FHA was also given temporary authority to raise those loan limits by up to an additional \$100,000 if market conditions warrant such increases. In less expensive housing markets, the stimulus bill temporary increased the loan limit to 65 percent (effectively \$271,050) of the conforming loan limit. This authority and loan limits will expire on December 31, 2008.

On July 30, 2008, President Bush signed into law the *Housing and Economic Recovery Act of 2008* (H.R. 3221). The loan limits in this law will take effect January 1, 2009. The limits for one-family, 2-family, 3-family, and 4-family houses are not to exceed the lesser of:

- 115% of the median area house price of one-family, 2-family, 3-family, and 4-family houses, OR ...
- 150% of the GSE limits for one-family, 2-family, 3-family, and 4-family houses

H.R. 1424, the *Emergency Economic Stabilization Act of 2008* (EESA), legislation designed to rescue portions of the ailing financial services sector, included provisions that altered FHA legislation enacted into law earlier in the year. We are currently monitoring bills dealing with FHA, but none provide sweeping reform at this time. Updates will be available should new legislation be introduced on FHA loan modifications and program availability.

Credit unions seeking compliance information can visit CUNA's compliance experts by clicking [here](#).

CONTACT: [Chris Gaginis](#), (202) 508-6796, cgaginis@cuna.coop

RELATED DOCUMENTS:

[March 21, 2008: Letter from CUNA President and CEO Dan Mica to House Financial Services Committee Chairman Barney Frank \(D-MA\) regarding the FHA Housing Stabilization proposal and risk based capital for credit unions](#)

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