

Federal Housing Administration (FHA)



In an effort to encourage private credit for home construction and relieve the high unemployment of the Great Depression, Congress passed the National Housing Act of 1934 in (you guessed it) 1934 (can't get anything past you). The Act created the Federal Housing Administration (FHA). FHA became part of the Department of Housing and Urban Development (HUD) in 1965.

The formation of FHA heralded the beginning of the modern mortgage marketplace. Over the decades, FHA has played a huge role in homeownership even though FHA does not lend money. Instead, through approved lenders, FHA provides mortgage insurance, insuring lenders against losses due to default. FHA and HUD have insured over 34 million home mortgages.

FHA insured loans offer many advantages relative to other types of mortgages. Down payment requirements are low, even on 2-4 unit properties. The source of funds used for the down payment and other costs is flexible (gifts and grants are okay). FHA underwriting is tolerant of less-than-perfect credit and is compatible with a wide array of first-time buyer and down payment assistance programs. FHA also offers a renovation home loan called the FHA 203(k).

Until 2013, FHA was the only government agency that operated entirely from self-generated income. After nearly 8 decades of turning a profit for taxpayers, losses from the housing crisis of the 2000s finally overwhelmed FHA's revenues and reserves.

In order to shore up its balance sheet, FHA has steadily increased the mortgage insurance premiums it charges. FHA premiums are now higher than those on most any other loan and, as of 2013, can no longer be canceled on most new FHA loans. Despite these higher MI costs, for many buyers, an FHA loan can still be the best (or only) loan option.



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