

**FHA Lending:
Recent Trends and their Implications for
the Future**

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Overview

- Research question: Were the changes in FHA's market share and volume over the past decade accompanied by changes in the characteristics of FHA borrowers? And if so, what factors led to the changes?
- Such analysis may assist policy-makers in assessing how the borrower pool may change in the future under different scenarios for the housing finance system. It may also shed light on other key questions, such as:
 - Will FHA continue to serve its traditional base, first-time, low- and moderate-income, and/or minority borrowers?
 - How may the FHA loan pool perform going forward?
 - What share of the market will FHA loans comprise?
- Analysis presented here focuses on FHA purchase borrowers
- Key data source: Files provided by FHA containing information on borrower and loan characteristics for 2000 to 2009 calendar year endorsements



Outline of Presentation

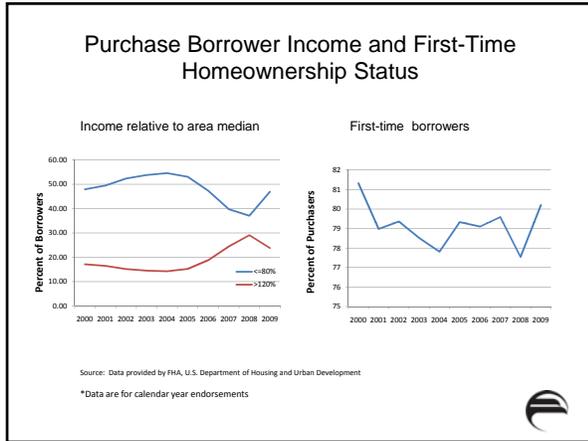
- Scale of FHA purchase lending between 2000 and 2009
- Trends in borrower characteristics and their relationship to broader trends in the housing market
- Changes in FHA program structure that may have affected the characteristics of borrower cohorts
- Regional variations in FHA lending
 - Patterns of decline and rebound over the decade
 - Variation in borrower and loan characteristics
- Characteristics of borrowers with high and low FICO scores
- Policy implications

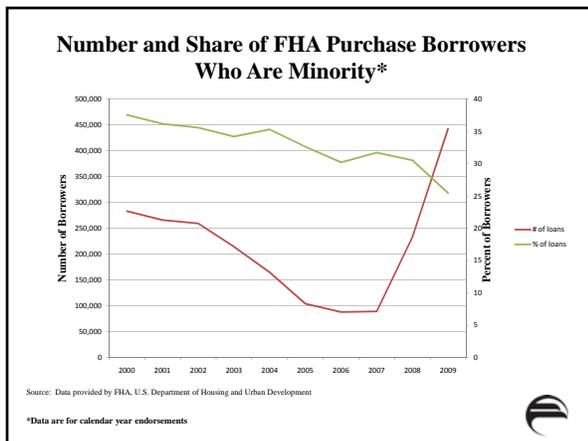


FHA-Insured Loans by Purpose and Source, 2000-2009*

Year	Total number of loans	Number of purchase loans	Percent of FHA loans that are:		
			Purchase	FHA-to-FHA Refinance	Conv-to-FHA Refinance
2000	869,627	806,753	92.8%	3.8%	3.4%
2001	1,148,201	801,433	69.8	25.5	4.7
2002	1,199,511	789,723	65.8	29.2	5.0
2003	1,352,385	668,293	49.4	45.5	5.1
2004	769,109	496,895	64.6	29.4	6.0
2005	469,675	329,719	70.2	22.6	7.2
2006	415,472	302,181	72.7	9.9	17.3
2007	472,695	293,410	62.1	8.6	29.3
2008	1,352,250	810,566	59.9	8.2	31.7
2009	1,896,378	1,033,172	54.5	23.0	22.5

Source: Data provided by FHA.
*Calendar year endorsements.





High LTVs and Debt-to-Income Ratios among FHA Purchase Borrowers with High FICO Scores, 2009

	FICO between 660 and 719			FICO of 720 or above		
	All purchase buyers	First time home buyers	Non-First time home buyers	All purchase buyers	First time home buyers	Non-First time home buyers
% with LTV >95%	86.1%	87.1%	82.2%	84.8%	85.3%	83.2%
% with DTI >45	39.4%	37.7%	46.3%	33.8%	31.3%	41%
% with DTI < 45 and LTV <95	8.3%	8%	9.6%	9.6%	9.7%	9.2%
% with DTI > 45 or LTV >95	58.3%	59.6%	52.8%	62.8%	64.4%	58%
% with DTI > 45 and LTV >95	33.4%	32.4%	37.5%	27.6%	25.9%	32.8%

Source: Data provided by FHA (calendar year endorsements)



Policy Considerations

- Need to keep in mind the importance of external influences in determining FHA's borrower pool
- Need to consider whether regions will be affected differently by specific FHA policies. Differential impacts may have:
 - Implications for the national scale of FHA lending
 - Implications for the characteristics of the FHA borrower pool
- In the case of households who will find it much harder to get FHA loans going forward:
 - What alternatives might be developed for wealth accumulation? For accessing better housing?
 - Will effects be concentrated in particular types of neighborhoods?
- To what extent is FHA market share likely to fall going forward?