ISSUE: Continue to Improve the FHA Quality Assurance Framework to Ensure Greater Lender Participation and Better Access to Homeownership

With its low down payment requirement, the Federal Housing Administration (FHA) mortgage insurance has served as an important pathway to homeownership for first-time homebuyers, as well as many low-income, rural and minority homebuyers. In Fiscal Year 2015, 82 percent of all FHA purchase originations were to first-time homebuyers and a third of FHA mortgages went to minority buyers.[16]

Nonetheless, several large banks around the country have been decreasing their participation in the FHA program and raising their borrower credit score requirements and pricing above the requirements to obtain FHA insurance. In January 2017, the average FHA purchase FICO score was 686,[17] well above the 580 FICO score generally considered the minimum credit score allowed to qualify for FHA insurance (see Figure 7). Nonbanks now dominate the market for home purchase loans insured by FHA. In September 2012, banks originated 65 percent of the purchase-mortgage loans insured by FHA; today, however, that number has more than flipped: nonbanks originate 73 percent of the loans, with banks' share dropping to 18 percent. The figures are more spectacular for refinanced mortgages, where nonbanks now make up 93 percent of loans.[18]

Lenders have cited three reasons for pulling back from the FHA lending: the risk that they will be required to indemnify or pay back FHA if a loan defaults; the high costs of servicing delinquent loans; and the risk of lawsuits due to recent enforcement actions by both the U.S. Department of Housing and Urban Development (HUD) and the U.S. Department of Justice (DOJ) under the False Claims Act and the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) that have resulted in large settlements and damages awards.[19]

Who Can Act:

The U.S. Department of Housing and Urban Development (HUD)

NCRC's Position:

FHA should clarify the types of loan defects that will trigger the agency taking enforcement actions against lenders by improving the loan-level certifications and annual certifications that they require lenders to sign. Currently, they contain very broad language, which doesn't inform those lenders of the type of defects that will trigger liability and enforcement action. FHA has the ability to expand credit

16 Written Testimony of Edward L. Golding, Principal Deputy Assistant Secretary for the Office of Housing U.S. Department of Housing and Urban Development (HUD), U.S. House Committee on Financial Services (February 11, 2016).

17 Ellie Mae: January 2017 Origination Insight Report. (January 2017). Retrieved from https://cdn.elliemae.com/origination-insight-reports/Ellie_Mae_OIR_JANUARY2017.pdf

18 Creswell, J. (January 21, 2017). Quicken Loans, the New Mortgage Machine. Retrieved February, from https://www.nytimes.com/2017/01/21/business/dealbook/quicken-loans-dan-gilbert-mortgage-lender.html

19 Goodman, L. (May 2015). *Wielding a Heavy Enforcement Hammer Has Unintended Consequences for the FHA Mortgage Market*. Retrieved from http://www.urban.org/sites/default/files/publication/52171/2000220-Wielding-a-Heavy-Enforcement-Hammer-Has-Unintended-Consequences-for-the-FHA-Mortgage-Market.pdf. Urban Institute

access to traditionally underserved borrowers by providing greater certainty for lenders as to which defects will lead to lender buybacks and enforcement action by HUD and/or DOJ.

Improved transparency in loan-level certifications could facilitate strong lender participation in the FHA insurance program and greater access to mortgage credit for borrowers.

January 2017 Average FICO Score Distribution

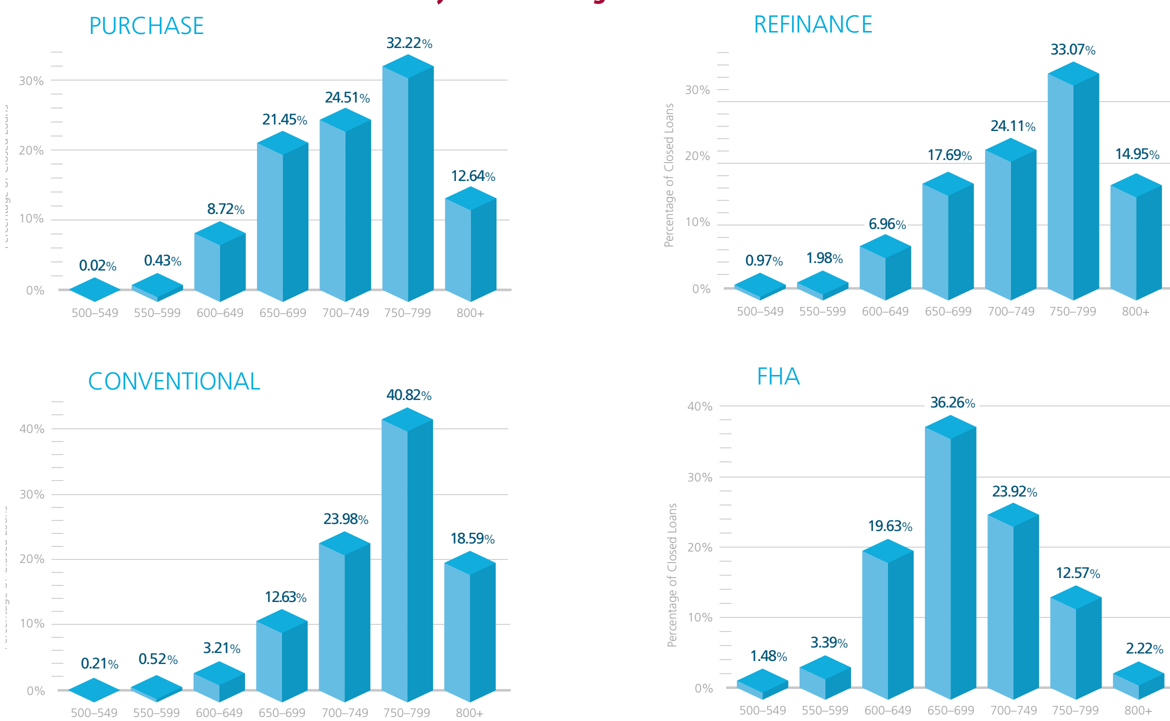

FIGURE 7: 69 percent of all closed loans had FICO scores over 700. 68 percent of all closed refis had FICO scores over 700.
Source: Ellie Mae