



## FHA Loans Make A Comeback

By Richard Maxstadt, Senior Vice President/Chief Operating Officer, CUC Mortgage

**T**HE FEDERAL HOUSING ADMINISTRATION, OR FHA, PROVIDES mortgage insurance on loans made by FHA-approved lenders throughout the United States. The agency was created in 1934 and is now the single largest insurer of mortgages in the world, with 4.8 million insured single-family mortgages and 13,000 insured multi-family projects in its portfolio.

Despite its status as the industry leader, FHA lending melted in recent years, falling from a 19 percent market share of originations in 1996 to only 6 percent in 2005, with almost the entire decline occurring after 2001. During that time period, lenders were willing to make loans with loan-to-values (LTVs) of 100 percent or higher in anticipation that the property values would continue to appreciate at record levels. The lenders covered these loans with private mortgage insurance (PMI), and the FHA was no longer an attractive alternative to first-time homebuyers with little or no money to put down on their homes.

Today, FHA-insured financing is experiencing a resurgence driven in part by the implosion of subprime financing last year after disastrous loan performance in that sector. For many borrowers, the FHA is suddenly the only choice.

In August 2007, the FHA modified its refinancing program to help creditworthy homeowners who missed payments after their teaser rates reset. Now, under the new FHASecure expansion plan, the FHA has added flexibility to insure more mortgages, including those for borrowers who were late on a few payments and/or received a voluntary mortgage principal write-down from their lenders.

At a hearing of the House Financial Services Committee, Federal Housing Commissioner-Assistant Secretary for Housing Brian D. Montgomery discussed the FHASecure expansion plan's ability to help hundreds of thousands of families who are desperate to keep their homes.

With new government programs like FHASecure, the HUD agency's insured refinancing activity has already increased 125 percent in the past year and is expected to increase even more as homeowners examine their mortgage options. As publicity increases, ever-growing numbers of subprime

borrowers are realizing they have a choice and are turning to FHA for assistance. Not surprisingly, there has been a noticeable increase among subprime lenders who are looking to get into FHA lending.

Many lenders are exploring FHA lending for the first time, while others, already established in the government lending market, expect to double their volumes in the upcoming year. Some have held back, however, after hearing horror stories of complex calculations and all the associated paperwork. Some banks are adding fees and restrictions that make the loans more expensive and harder to obtain. Now that Congress has approved a temporary increase in the loan ceiling for the FHA to as much as \$729,750 in the nation's highest-costs regions, banks

are adding "price adjustments" to the larger loans. Gradually, though, lenders are beginning to overcome their reluctance and appreciate the advantages of the FHA as a funding source.

Over 300 lenders already have signed up to participate in the new FHASecure program, giving subprime borrowers the

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opportunity to refinance into safe and more affordable FHA mortgages. More than 150,000 homeowners current or past due on their loans have already utilized FHA Secure to avoid foreclosure, and approximately 500,000 total families are expected to benefit by December 2008.

The program is also providing additional liquidity and stability to local real estate markets. Since September 2007, the FHA has helped pump nearly \$68 billion of much-needed mortgage activity into the housing market—\$28.5 billion of which was through FHA Secure.

After 75 years in an industry that has seen extreme challenges, it seems that the FHA is once again the source for lower-priced, sustainable mortgage options. □

To learn more about FHA loans or other services provided by CUC Mortgage, visit [www.cucmortgage.com](http://www.cucmortgage.com), or contact Richard Maxstadt at [richard.maxstadt@cucmortgage.com](mailto:richard.maxstadt@cucmortgage.com) or (800) 342-9835, ext. 8115.

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