



GSE Activity Report

Thursday, November 30, 2023

FHA's Mission and Mishaps

A new FRB-NY [study](#) confirms that 83% of loans from 2000-2022 went to first-time homebuyers, compared to 56% for the GSEs and 57% for private lenders. FHA loans of course have very high LTVs and low scores, with scores improving after 2008 when the PLS market stopped adversely selected FHA even though over half of FHA loans still have scores under 680. FHA sustainability has varied based on these and other factors, but 21.8% of borrowers from 2011-2016 still lost their homes.

The merits of putting borrowers in homes they quickly lose is at best uncertain given the damage this does to short-term household financial security, high-risk communities, and long-term wealth accumulation. However, political pressure has made it difficult for FHA to improve its underwriting, moves FHA has also resisted because – if it considered first-time buyers with the austere approach taken by the GSEs and private lenders/MIs – then it's not at all certain that there would be a need for the FHA. Sometimes, renting a little longer may well be better, but public policy still pushes ASAP homeownership. Given current pricing and rates, future FHA data may prove particularly problematic.