The New York Times

May 5, 2010

Demand Grows for F.H.A. Mortgages

By ELIZABETH A. HARRIS

THE government program that allows qualified people to buy homes with very little money down is gaining traction in New York.

The loans, offered through the Federal Housing Administration and available since 1934, provided 1 percent of the home loans in the region in 2007, but the number jumped to around 18 percent in 2009.

As credit tightened, developers also got on board when they realized their new apartments weren't selling.

"When we started the process, nobody was familiar with F.H.A.," said David Behin, an executive vice president of the Developers Group, whose recent projects include the Edge condominiums in Williamsburg, Brooklyn. "And to be frank, I wasn't that familiar with it either. But we had problems with our buyers' being able to get loans. The world was in flux, and new development faced its own special set of problems."

Mortgage brokers, he said, suggested the F.H.A.

The agency does not actually make loans but insures them. The mortgages can then be given to people with scant credit history — like young first-time buyers — or even tarnished credit, and the down payments can be as low as 3.5 percent. The F.H.A. vets buyers to determine whether they'll be able to pay the loan back.

"F.H.A. has stuck to the basics through the years," said Vicki Bott, a deputy assistant secretary at the Department of Housing and Urban Development. "We always documented income, we always evaluated credit. We want to be sure that the underserved market can still obtain a home, as long as they can make the payments."

According to Ms. Bott, the F.H.A's goals are threefold: to serve underserved markets, to give the housing market a boost when loans are hard to come by, and to protect itself to make sure it can keep doing business.

In the national market, “F.H.A. has always played a countercyclical role,” Ms. Bott said. According to HUD data, the percentage of F.H.A. loans in the mortgage market fell to just below 5 percent in 2005 and 2006. “Now it’s grown to 30-plus percent as capital has withdrawn from the market,” Ms. Bott said.

To qualify for an F.H.A. loan, the home as well as the buyer must be approved. If the home is in a condominium building, the entire structure must be submitted as a whole. (The F.H.A. does not insure loans made in co-op buildings.)

During the credit boom, developers did not often see the need to submit to the application process — and even now, condo boards can be tough to convince.

Another quirk that helped minimize F.H.A’s presence in the New York City market was price. Until 2008, the maximum loan amount for F.H.A. financing was $362,790, far lower than the price of most apartments.

But two years ago, as the government tried to prop up the sputtering housing market, the limit in expensive areas like New York shot up to $729,750.

Suddenly, apartments in buildings with lap pools and gyms could qualify. Trendy complexes like the Toren in downtown Brooklyn and the Edge in Williamsburg started publicizing their F.H.A.-approved status. And companies like National Condo Advisors have sprung up to help developers and boards navigate the paperwork.

And as the loans have become more prevalent, the stigma that once trailed the F.H.A. has begun to melt away.

“I think some buyers might have thought it was only for people who couldn’t obtain regular financing when credit was easier,” said Stephen G. Kliegerman, the executive director of development marketing at Halstead Property. “But that’s really not the truth. It’s an alternative for anyone who wants a lower cash-down alternative.”

Meanwhile, as the F.H.A has taken on a bigger role in the mortgage industry, it has seen its default rate rise and its reserve fall below levels mandated by Congress. And its responsibilities are about to increase. Later this year, some homeowners whose houses are worth less than their mortgages can begin the process of refinancing through F.H.A. loans as part of the Obama administration’s effort to deal with the foreclosure crisis.

Some on Capitol Hill have expressed concern. Last year, Representative Scott Garrett, a New Jersey Republican, introduced legislation that would have raised the minimum F.H.A. down payment to 5 percent. H.U.D. itself has decided to raise the down payment to 10 percent for buyers with credit scores below 580.

But according to Ms. Bott, the F.H.A.'s presence in the market is so pronounced that any pullback could hurt housing as a whole.

“F.H.A. is in a tough place,” said Ingrid Gould Ellen, co-director of the New York University Furman Center for Real Estate and Urban Policy. “Its role is to provide credit to the market at times when private lenders withdraw because they see it as too risky. On the one hand, we get upset if it isn't lending enough, but by definition they're coming in at risky times. It's a little bit of a Catch-22.”