GAO Highlights

Highlights of GAO-07-645, a report to congressional requesters

Why GAO Did This Study

The Federal Housing Administration (FHA) historically has been an important participant in the mortgage market, which includes loans that carry government insurance or guarantees (such as FHA-insured mortgages) and those that do not (conventional mortgages). The conventional market comprises prime loans for the most creditworthy borrowers and subprime loans for borrowers with impaired credit. Reduced demand for FHA-insured mortgages—which are used primarily by borrowers who would have difficulty obtaining conventional prime loans—has raised questions about the agency's role in and ability to adapt to the mortgage market.

This report discusses (1) trends in FHA's share of the market for home purchase mortgages from 1996 through 2005, and how they compared with the trends for other market segments; and (2) factors associated with the trends in FHA's market share and the implications of these trends for homebuyers and FHA. To address these objectives, GAO analyzed FHA and Home Mortgage Disclosure Act (HMDA) data and interviewed officials from FHA and other mortgage institutions.

www.gao.gov/cgi-bin/getrpt?GAO-07-645.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

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FEDERAL HOUSING ADMINISTRATION

Decline in the Agency's Market Share Was Associated with Product and Process Developments of Other Mortgage Market Participants

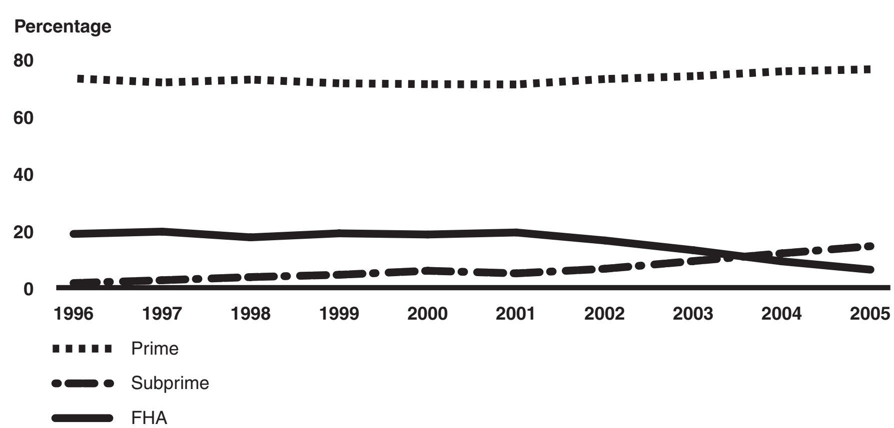
What GAO Found

From 1996 through 2005, FHA's share of the market for home purchase mortgages in terms of numbers of loans declined 13 percentage points (from 19 to 6 percent), while the prime and subprime shares grew 3 and 13 percentage points, respectively (see figure). The agency experienced a sharp decrease among populations where it traditionally has had a strong presence. For example, FHA's market share dropped 25 percentage points (from 32 to 7 percent) among minority borrowers and 16 percentage points (from 26 to 10 percent) among low- and moderate-income borrowers. At the same time, subprime market share among these groups rose dramatically.

The decline in FHA's market share was associated with a number of factors and has been accompanied by higher ultimate costs for certain conventional borrowers and a worsening in indicators of credit risk among FHA borrowers. More specifically, (1) FHA's product restrictions and lack of process improvements relative to the conventional market and (2) product innovations and expanded loan origination and funding channels in the conventional market—coupled with interest rate and house price changes—provided conditions that favored conventional over FHA-insured mortgages. In contrast to FHA-insured loans, the majority of conventional subprime loans had higher ultimate costs to borrowers, partly because their initial low interest rates could increase substantially in a short period of time.

Relatively high default and foreclosure rates for subprime mortgages and a contraction of this market segment could shift market share to FHA. The extent to which this occurs will depend partly on the ability of FHA and other market participants to offer mortgage alternatives to borrowers considering or struggling to maintain higher-priced subprime loans.

Market Shares for Home Purchase Loans, 1996-2005



Source: GAO analysis of HMDA data.