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[Back to previous page](#)

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## GOP proposes increase in FHA down payments

By Dina ElBoghdady, Published: May 23

A Republican-led proposal circulated Monday would boost the down payment requirement for mortgages backed by the Federal Housing Administration, a move some industry experts said would shut potential home buyers out of the market.

Borrowers who take out FHA-insured mortgages are permitted to put down [as little as 3.5 percent](#), making those loans an especially attractive choice for first-time home buyers. But as defaults rose during the housing market's worst days, [FHA's cash reserves dwindled](#), creating concerns that taxpayers may have to come to the agency's rescue.

The Republican proposal would require most FHA borrowers to put down at least 5 percent. Those who support the idea say that forcing borrowers to have more equity in their homes would better protect homeowners against default and thus improve the agency's finances. The issue will be discussed Wednesday at a House Financial Services subcommittee hearing led by Rep. Judy Biggert (R-Ill.).

The proposal has not been formally introduced in legislative form. And it's unlikely to gain traction without bipartisan support, said Jaret Seiberg, an analyst at MF Global Inc. But if enacted, its immediate impact on the housing market would be negative, he said. Gathering the upfront cash is often the biggest hurdle for those buying their first homes.

Demanding more money down "would make it even harder for first-time buyers to enter the housing market regardless of their incomes or earning potential," Seiberg wrote in a note to clients Monday.

Mark A. Calabria, director of Financial Regulation Studies at the Cato Institute, said larger down payments would no doubt have some drag on the housing market. "But it's a modest drag because it's a fairly small change," said Calabria, who is scheduled to testify at Wednesday's hearing. "It's a smart and reasonable thing to do."

A similar Republican proposal stalled in the House last year after the Obama administration vehemently opposed it, warning that such an increase would undermine the already fragile housing market by shrinking the agency's loan volume.

At a hearing last year, FHA Commissioner David H. Stevens told House lawmakers that raising the minimum down payment to 5 percent would lower the agency's loan volume by 40 percent in the next fiscal year and shut out 300,000 first-time home buyers.

Since then, the FHA has raised its down payment to 10 percent for borrowers with the poorest credit. In a report to Congress, the administration said it would consider raising FHA's down payment requirement as part of a broader effort to [curb the government's role in housing finance](#). Separately, the administration teamed up with banking regulators to propose a rule that would enable only [those who put down 20 percent to get the lowest interest rates](#), though that rule does not apply to FHA borrowers.

The administration declined to comment Monday on the most recent Republican proposal. But at least one banking industry consultant, Brian Chappelle, plans to tell lawmakers Wednesday that the proposal is unnecessary, especially now that FHA has raised the fees it charges borrowers by 60 percent since 2008 and dramatically improved the credit quality of its borrowers in recent years.

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