THE DAILY CALLER

# Experts: Housing agency will receive bailout in next few months

Betsi Fores January 11, 2013

Experts are warning that a taxpayer bailout of the Federal Housing Administration is imminent.

"FHA is still in denial … but it's a slow-motion train wreck," Edward Pinto, visiting fellow at the American Enterprise Institute and author of studies on the housing industry, told The Daily Caller News Foundation.

A report last November revealed that for the first time since the late 1980s, the federal agency that insures home mortgages had a negative economic value, projecting a $16.3 billion loss. The figures raised the possibility of a taxpayer bailout.

Next month, FHA is expected to request appropriations to close the financial gap the agency is currently running.

"I think the chances are very high that that is going to happen in this cycle," Pinto said.

"FHA has got a negative economic value. They've been under pressure for the last four years. They keep saying, 'Don't worry next year; it will get better.' And for the last four years, it hasn't gotten better. It has gotten worse."

As an insurer, the FHA, which is nested under the Department of Housing and Urban Development, is expected to have enough cash on hand to cover the losses from mortgages gone bad. The slow housing market recovery and continued low interest rates have increased the likelihood of a bailout.

An independent audit stated the situation "does not mean FHA has insufficient cash to pay insurance claims, a current operating deficit or will need to immediately draw funds from the Treasury."

But Pinto worries that continued economic problems could take their toll on the agency.

"As my colleague and I always say, 'They are one recession away from a catastrophic loss to the taxpayers'," Pinto added.

The FHA could amend its insurance program to stave off an expensive taxpayer bailout. Unlike the Veterans Administration or private mortgage insurance, the FHA insures 100 percent of housing mortgages, regardless of down payment or credit score. When the mortgage can't be paid back, the FHA is often on the hook for two-thirds of the home's cost.

Currently, one of six loans is delinquent at the FHA. Pinto suggests the FHA could easily lower its insurance payout in defaulted mortgages.

By design, the FHA has 40 percent of its mortgages in the form of subprime loans, which are inherently more susceptible to delinquency and default. In turn, the FHA could require a higher down payment than the required 3.5 percent.

Mark Calabria, director of financial regulation studies at the Cato Institute, said that's the right move.

"For all borrowers, the FHA should immediately require a 5 percent cash down payment. It should come from the borrower and not in the form of a gift from third parties," Calabria writes in Investors Business Daily.

The FHA was part of a larger federal effort to expand home ownership without regard to creditworthiness.

"Washington fiddled while Fannie Mae and Freddie Mac burned tens of billions, ultimately covered by the taxpayer," Calabria said.

"Congress and the White House have largely repeated that behavior, using the FHA to slow the inevitable correction in the housing market. Before the cost of such policies increase any further, Washington can and should take immediate action to minimize the burden on responsible taxpayers."