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FHA visiting familiar errors

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Alarm bells are ringing following news that the Federal Housing Administration (FHA) is helping more Americans get into the housing market, even though they experienced foreclosure, bankruptcy or short sale in just the last few years.

Mark Calabria, former deputy assistant for the U.S. Department of Housing and Urban Development, now serves as director of financial regulation studies for the Cato Institute. He says this program is a repeat of the same errors that got the country in the housing crisis in the first place.

"I think in all likelihood we as the taxpayer will probably have to put somewhere between $10 and $50 billion into FHA before all is said and done," Calabria estimates. "And it's a way in which Congress can hide the costs. These are not going to come until later, when the program blows up."

The economics expert points out that FHA's market share during the peak of the housing bubble was in the low-single digits. Now, almost a third of underwater borrowers are those who got an FHA loan over the last few years.

"It's this combination, so it's not simply that somebody has a ding on their credit record; it's also that we get them [into a house] with no equity, or very little equity," the Calabria details. "You can get an FHA mortgage with as little as three percent down today, and in certainly some parts of the housing market, prices are still declining. Of course, it was ridiculous a couple of years ago when prices were continuing to fall to get people into situations where they were essentially underwater when they left the table."

Meanwhile, the Cato Institute financial regulation director adds that the FHA also allows a very high debt-to-income ratio, offering a mortgage payment as much as 42 percent of a person's monthly income.