

Nick Timiraos at [The Wall Street Journal is reporting](#) about a bill in congress to raise the minimum down payment on an FHA insured loan from the current 3.5% to 5%. Right now it is just a bill. From the article:

Last year, Congress raised the minimum down payment to 3.5% from 3% amid concerns that an uptick in FHA lending could expose taxpayers to losses. Congress also ended a program that had allowed sellers to fund down payments through non-profits and which had been blamed for an outsize share of bad loans. Concerns have mounted in recent weeks because an annual FHA audit is expected to show that projected reserves will fall below 2% of FHA-backed loans outstanding, a level mandated by Congress. While I agree in principle that loans may be safer the more equity (down payment) a borrower puts down, the FHA program is not a lender program, it is an insurance program, and the best way to manage the risk, I and my colleagues believe, is to focus on the creditworthiness of the mortgage applicants who may be able to buy a home and have the income to support it even with a small down payment. Again from the article:

The boom in business came as the housing market cratered, and Congress, together with the Bush and Obama administrations, have used the agency to help keep a lack of mortgage credit from further choking off a weak housing market. Serious delinquencies on FHA and other government backed loans rose to 7.5% in the second quarter, up from 6.8% in the previous quarter, according to figures released Wednesday by the Office of the Comptroller of the Currency. So the underlying problem as I see it is that congress loosened the credit requirements for the program and are now seeing mounting losses -- the down payment requirement is not the root cause of any recent rise in defaults. So why would that be the focus of the proposed bill? Here's Bernanke testifying to congress last week (same article):

[I]t is true that the FHA de facto has replaced ... the riskier part of the mortgage market," said Federal Reserve Chairman Ben Bernanke at a hearing Thursday. "It's got a very high share now of new mortgages because it's the only source of mortgages where down payments can be less than basically 20%. And so it is providing mortgage access to a large number of people who could not otherwise buy homes. I agree with the first part, but it's not the down payment. It's the creditworthiness. If congress proceeds with this bill without addressing credit requirements of mortgage applicants in the FHA program, then they have in my view entirely missed the boat. The overall impact on the market however, will not be earth shaking.

[I foretold of this controversy](#)

in a post on this blog last week.