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FHA mortgage loans 'only game in town'

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In the post-boom world of real estate, FHA loans are hot again.

The Federal Housing Administration's loan program, eclipsed during the years of soaring real estate prices and various no-money-down mortgages, is fueling new lending throughout the Sacramento region.

Mortgage brokers said Monday the FHA program, in which the federal government's guarantees make loans more affordable, accounts for the vast majority of their business. That's become increasingly true as credit markets tighten and conventional mortgage guidelines become more restrictive.

Some experts said the FHA's guarantees are playing a major role in the fledgling recovery in Sacramento's real estate market.

"This is the best game in town," said Michael McGee of Winchester McGee Real Estate & Loans in Rancho Cordova. "It's the only game in town, really."

Jon Kaempfer, a loan consultant with Vitek Mortgage Group in Sacramento, said he does 60 percent to 70 percent of his loans through the FHA program, "like I did in the old days."

With conventional lenders demanding down payments of 5 percent or 10 percent, the 3 percent down payment required by FHA has become a bargain. That could make the FHA "the new lender that's going to deal with risky loans," said Steven Krohn, an economist and analyst with the Real Estate Group Inc., a consulting firm in Sacramento.

"They've moved in to kind of remove the financing risk from the banks and the investors."

At the same time, Krohn said, the FHA program is putting confidence back in the market.

"It's important that the housing market revive itself," he said.

The FHA program never went away. But during the boom, market dynamics made the program far less relevant. Borrowers could get mortgages without any down payments. And rising home prices put most deals off limits to FHA guarantees, which were capped at \$362,790.

"Everybody was buying \$400,000 or \$500,000 homes – you couldn't do an FHA loan," said Kaempfer, a board member of the California Association of Mortgage Brokers.

Two things have changed.

- Prices have plunged, down to a median of \$220,000 in Sacramento County and \$335,000 in Placer, the area's two largest markets.
- And Congress has raised the limits. Under the federal housing law that received the support of President Bush last week, the cap on FHA loans will settle at about \$580,000 in greater Sacramento. The ceiling varies according to prevailing home prices in each region.

The bill also allows the FHA to provide up to \$300 billion in new guarantees to help "at-risk" homeowners move into more affordable loans.

The measure could help up to 400,000 borrowers, but it applies only to primary residences. Second homes and investment loans don't qualify. The existing lender would have to agree to a "substantial write-down" of the amount of the mortgage. Borrowers who believe they could qualify should contact an FHA-approved lender.

Under long-standing rules, FHA homebuyers can use a cash gift from a family member to make the required 3 percent down payment.

That could help fill the void left by the down payment-assistance programs pioneered by Sacramento nonprofit Nehemiah Corp. of America. Nehemiah's program, and others like it, will be eliminated Oct. 1 under the new housing law.

Federal officials had long complained that the program, under which the down payment is supplied by the seller, leads to more defaults because it effectively inflates the total price of the property.

There are other down payment assistance programs available, but mortgage brokers say Nehemiah and its imitators are more flexible and buyer-friendly.

Nehemiah Chief Executive Scott Syphax urged President Bush on Monday to veto the bill.

"Our leaders are ignoring a basic fact: Seller-funded down payment assistance is the only remaining safety net available to millions of families today seeking home ownership," Syphax said in a press release. "Killing these programs will not only negatively impact generations of low- to moderate-income Americans who would have been able to use homeownership as a tool to create wealth, stature and self esteem, but to our economy as a whole."

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