



Press Release

Understanding the Federal Housing Administration

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While Fannie Mae and Freddie Mac receive most of the attention in housing policy discussions, the Federal Housing Administration (FHA) plays an under-scrutinized yet highly significant role in the housing market. Its size alone indicates its importance: The FHA's portfolio of mortgage insurance is valued at almost \$1.3 trillion. In a new primer, AAF's Director of Financial Services Policy Thomas Wade explains the origins and current operations of the FHA as well as the risks it poses to the U.S. economy.

An excerpt:

Post-crisis, the FHA has morphed from an emergency source of housing finance to the bedrock of the housing finance system itself. This shift in role poses three major problems. First, government agencies rarely price risk accurately, leading to a housing market increasingly divorced from market realities. Second, the sheer size of the FHA renders it systemically important, but without systemic oversight or regulation. Third, the more the industry relies on the FHA in the ordinary course of events, the less able the FHA will presumably be to provide any countercyclical or emergency capital relief function in the next financial crisis, which is the very point of the FHA.

[Read the primer.](#)