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## With F.H.A. Help, Easy Loans in Expensive Areas

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SAN FRANCISCO — In January, Mike Rowland was so broke that he had to raid his retirement savings to move here from Boston.



Joe Raedle/Getty Images

*From left to right, Jordan Kurland, Mike Rowland and Michael Bedar, in front of the building they bought in San Francisco for nearly a million dollars, with help from the Federal Housing Administration.*

A week ago, he and a couple of buddies bought a two-unit apartment building for nearly a million dollars. They had only a little cash to bring to the table but, with the federal government insuring the transaction, a large down payment was not necessary.

“It was kind of crazy we could get this big a loan,” said Mr. Rowland, 27. “If a government official came out here, I would slap him a high-five.”

In its efforts to prop up a shattered housing market, the government is greatly extending its traditional support of real estate, including guaranteeing the mortgages of middle-class and even upper-class buyers against default.

In 2007, the government did not insure a single mortgage in this city, one of the most expensive in the country. Buyers here, as well as in Manhattan, Santa Monica and every other wealthy area, were presumed to be able to handle the steep prices and correspondingly hefty down payments on their own.

Now the government is guaranteeing an average of six mortgages a week here. Real estate agents say the insurance is such a good deal that there will soon be many more.

Policy changes like the shift in insurance, while often introduced on a temporary basis, are becoming so popular that they could prove difficult to undo. With government finances already under great strain, the policy expansions are creating new risks for American taxpayers.

The Internal Revenue Service is giving tax rebates to first-time buyers, and soon to move-up buyers, in a program beset by accusations of fraud. And the government agency that issues mortgage insurance, the Federal Housing Administration, is underwriting loans at quadruple the rate of three years ago even as its reserves to cover defaults are dwindling. On Thursday, the Mortgage Bankers Association said more than one in six F.H.A. borrowers was behind on payments.

F.H.A. insurance was created for minority and low-income families who could not come up with the traditional down payment of 20 percent required by private lenders. Buyers receive loans from government-approved lenders and are required to document their income and assets. They must pay a substantial insurance premium of 1.75 percent of the loan. But in return, their down payment can be as low as 3.5 percent.

For decades, most F.H.A. loans were in low-cost states like Texas and Michigan. Under the agency’s loan limits, houses along the coasts were usually too expensive to qualify. In 2007, fewer than 4,400 F.H.A. loans were made in California, according to the research firm MDA DataQuick, and none were in San Francisco.

The Economic Stimulus Act of 2008 helped change that by temporarily doubling the maximum loan the F.H.A. insured, to \$729,750. A two-unit property like the one bought by Mr. Rowland and his friends can be insured for up to \$934,200.

“F.H.A. financing was a lost language in San Francisco, the real estate equivalent of Aramaic,” said **Michael Ackerman**, the agent who represented Mr. Rowland and his friends. “Once the limits were raised, smart buyers started calling.”

The F.H.A. has insured more than 107,000 loans so far this year in the state, according to DataQuick, about 270 of them in San Francisco.

Condominium buildings approved for F.H.A. financing — a relative handful — trumpet the news on their Web sites. The Soma Grand, a new 246-unit building downtown where one-bedrooms cost in excess of \$500,000, received F.H.A. certification early in the summer. A half-dozen buyers since then used F.H.A. insurance.

At Guarantee Mortgage Corporation, which has 150 mortgage brokers in the Bay Area, Seattle and Portland, Ore., F.H.A. loans have grown to about 15 percent of its business, from less than 3 percent a few years ago.

“It sure has helped us put a lot of deals together,” said Guarantee’s chief sales officer, Bob Siefert. He predicts that a quarter of Guarantee’s deals will soon be guaranteed by the F.H.A.

Some F.H.A. borrowers here say they have the cash for a full down payment but would rather invest it in the stock market or use it for remodeling. Others, like Mr. Rowland and his friends, simply do not have the money required by private lenders — which would have been nearly \$200,000, in their case.

“We were resigned to waiting another year,” said a second partner, Michael Bedar, 31. “Then we read about the F.H.A. I had never heard of it before, and couldn’t quite believe it. But it was the answer to our problems.” They put down about \$33,000, split among the three of them.

While the F.H.A. is certainly strengthening the high-end market in the Bay Area by prompting more sales, there are growing concerns that it might become a destabilizing force.

Kenneth Donohue, inspector general for the Department of Housing and Urban Development, the parent agency of the F.H.A., said the higher loan limits were increasing the potential risk to the F.H.A. Last week, the agency said its cash reserves had fallen below their Congressionally mandated minimum because of the large volume of foreclosures.

“If one of these higher-limit loans fail, that’s equivalent to two or three cheaper loans,” Mr. Donohue said. “You have to ask yourself, was the F.H.A. ever intended to address these markets?”

He sees another risk: larger loans will be a greater draw for those who want to commit fraud. That would exacerbate a problem already besetting the agency.

Even some San Francisco agents who are doing F.H.A. deals worry about the long-term consequences. Real estate commissions are 6 percent. If the value of a property were to hold steady, a seller who put down the F.H.A. minimum would suffer a loss after fees. And while the Bay Area has traditionally been an excellent investment, the last few years have proved a big exception.



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“Is this going to be the next wave of the housing downturn?” asked Eileen Bermingham, an agent with Pacific Union. “With such a minimal down payment, how do we make sure people don’t get in over their heads?”

The F.H.A. commissioner, David H. Stevens, said recently that its loans were relatively safe because the buyer was required to live in the property. They “are for shelter. They aren’t speculative-type investments,” Mr. Stevens said.

But the idea of a house as an investment dies hard. Mr. Bedar, Mr. Rowland and the third partner in their property, Jordan Kurland, are all in the technology field, but their dreams of wealth do not feature stock options.

“We’re banking on real estate,” said Mr. Kurland, 24. “Everyone expects prices to keep going up.”

Mr. Kurland and Mr. Bedar, who are employed full time, are the buyers of record. Mr. Rowland, a freelancer, will have his interests protected by a legal agreement.

Their building, for which they paid \$963,000, is on a quiet street in the up-and-coming Hayes Valley neighborhood, close to fashionable restaurants they have already been trying out. The friends plan to live in the bottom unit and rent out the top. Thanks to rock-bottom interest rates, none of them will pay much more than a thousand dollars a month. "Everyone should have the chance to do this," Mr. Kurland said.

Everyone may get a chance.

A few weeks ago, Congress extended the higher lending limits for another year. Representative Barney Frank, the Massachusetts Democrat who is chairman of the House Financial Services Committee, said in an interview that he planned to introduce legislation next year raising the maximum F.H.A. loan by \$100,000, to \$839,750.

His bill would make the new limits permanent.

*Louise Story contributed reporting.*