

There are also various legal restraints on acceptable risk and permissible interest rates. FHA insurance is the operative factor which makes these higher risks and lower yields acceptable to private lenders, and which likewise permits exception to legal restraints on risk criteria. For the privilege of obtaining insurance, lenders, builders, and home purchasers comply with FHA minimum property standards, underwriting requirements, regulations, limitations on mortgage amounts, etc. The special purpose programs offer more liberal loan-to-value ratios, amortization periods, risk standards, appraisal standards, or construction standards, etc., as incentives toward achieving their special objectives.

3. History

Section 203(b).—The first FHA insurance program for sales home mortgages was the section 203(b) program, authorized by the National Housing Act adopted June 26, 1934. It provided for 80 percent, 20-year loans. Maximum interest rates were to be established by the Federal Housing Administrator at not more than 5 percent with authority to go up to 6 percent if the mortgage market so required in a given locality or for a given class of loan. Insurance premiums were required at not less than one-half percent nor more than 1 percent. By regulation, FHA established the requirement for level-term monthly payments, and later established a requirement for escrow payments for taxes and insurance premiums. These two requirements proved sound innovations and became established practices throughout the mortgage industry, replacing the short-term unamortized mortgages which previously prevailed in the private mortgage market and which caused serious problems during the depression of the thirties.

The needs of the Nation for financing homeownership and for stimulating residential construction since 1934, however, have occasioned repeated liberalization of terms under the section 203(b) program. At present, loans for new homes and existing homes over 1 year old may be as great as 97 percent of the first \$15,000 of value, plus 90 percent of the next \$5,000, plus 80 percent of the remainder. The maximum loan amount for a one-family dwelling is \$30,000. New homes are entitled to a 35-year repayment term while existing homes are entitled to a 30-year term. Many other details of the program have also been gradually altered from time to time, as needs and experience have dictated. More than 2.6 million new homes and more than 3.9 million existing homes had been insured under 203(b) as of mid-1965. Over the 30-year period, these totals average out at about 220,000 mortgages insured per year.

Section 203(b)(2).—This is a new program authorized by the Housing and Urban Development Act of 1965. It provides special terms for veterans who have not previously used VA eligibility for home purchase. Favorable terms over 203(b) cover loan-to-value ratio only; viz, 100 percent on first \$15,000 of value, 90 percent on next \$5,000, and 85 percent of remaining value.

Section 203(h).—This program was authorized by the Housing Act of 1954 to assist owner-occupants whose homes are destroyed or damaged by disaster. It originally provided 100 percent mortgages with a maximum mortgage amount of \$7,000. The mortgage amount has been raised by subsequent amendments to a present limit of