



Summary of FY2014 FHA Annual Report to Congress on the Financial Health of the Mutual Mortgage Insurance Fund

November 17, 2014

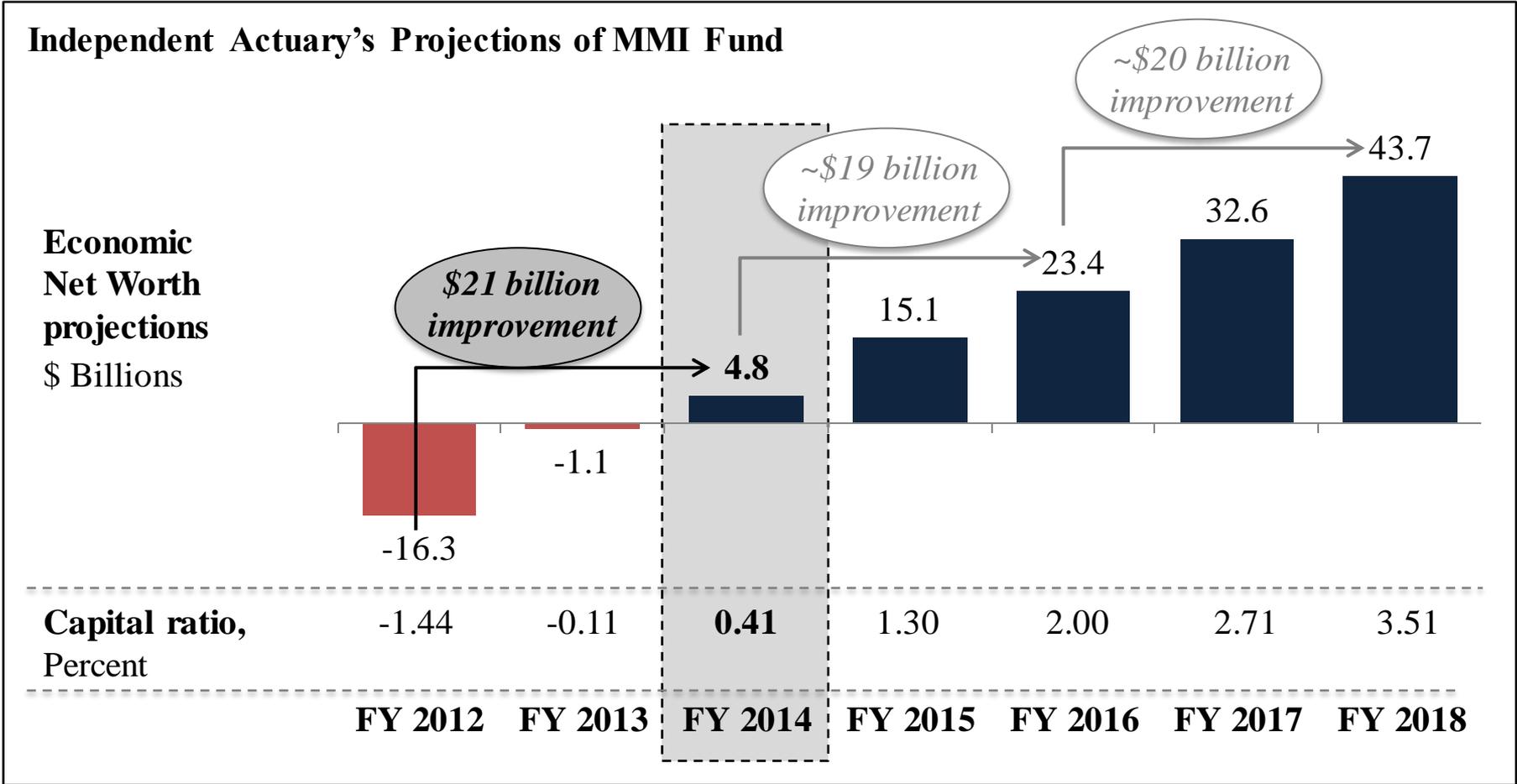
Summary

1. The **MMI Fund is now positive, having improved by ~\$21 billion** over past two years. It now stands at \$4.8 billion in economic value with a capital ratio of 0.41%
2. Improvement in the Fund is a result of aggressive policy actions that have led to better portfolio performance. For example, since last year
 - a. **Delinquency rates have improved by 14%**
 - b. **Recovery rates have improved by 16%**
 - c. ~\$40 billion in cash and reserves available
3. With the MMI Fund on a strong and positive trajectory, FHA is focused on addressing the uneven housing recovery through our Blueprint for Access
4. The legacy reverse mortgage portfolio remains volatile but FHA continues to focus on making long-term improvements to the program

MMI Fund: Back in the Black

- MMI Fund is **positive** and on a **strong trajectory**
- Since last year, the Fund improved by \$6 billion and \$21 billion over the past two years
- Robust policy actions led to this result
- With Fund on the right track, FHA is sharpening its focus on facilitating access for creditworthy families

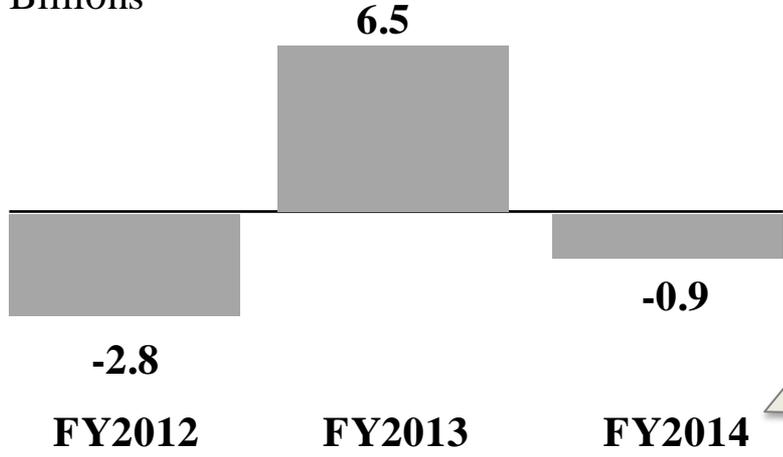
MMI Fund value is now positive and continues on a strong trajectory



HECM's legacy portfolio remains sensitive to long-term economic forecasts

Economic Value of HECM – Independent Actuary's Estimates

\$ Billions



Change in value for FY2013 driven by \$4 billion transfer of capital from Forwards and \$1.7 billion mandatory appropriation

Drop in FY2014 almost entirely driven by expectations for higher long-term interest rates

- ### Key drivers
- Volatility in long-term house prices
 - Volatility in long-term interest rates
 - Historical book
 - Modeling methods

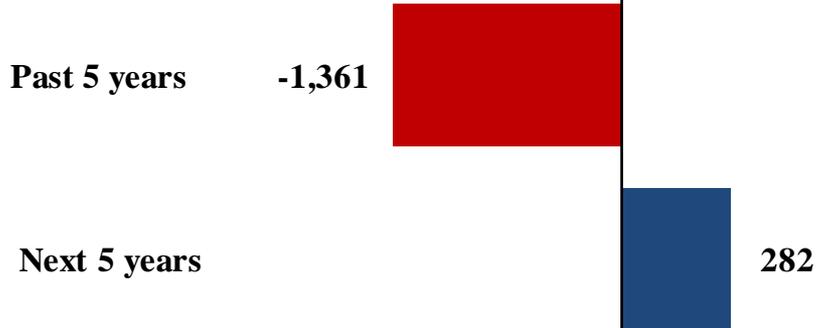
FHA continues to take further action to stabilize the HECM program

Examples of actions taken to improve HECM program

- 1. Adjustment to Principal Limit Factors
- 2. Limited Maximum Draws in the first year
- 3. Established non-borrowing spouse deferral period
- 4. Reiterated prohibition on misleading or deceptive advertising/marketing
- 5. Implement revised HECM financial assessment and property charge set aside guide

Average Annual Economic Value – Independent Actuary’s Estimates

\$ Billions



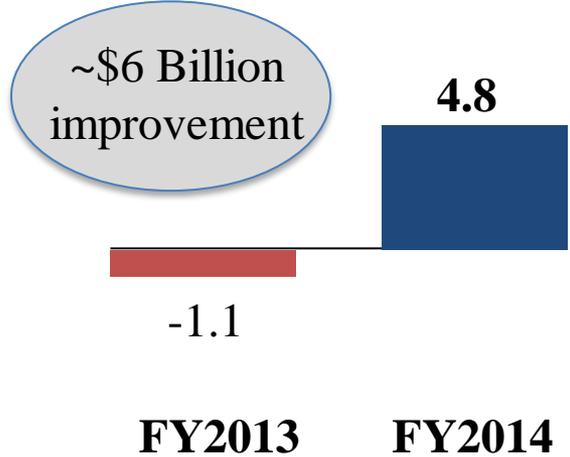
Additional actions in progress

- 1. Address policies regarding treatment of ineligible non-borrowing spouse
- 2. Issue proposed rule formalizing all regulatory changes made under the HECM Stabilization Act authority
- 3. Draft and publish HECM Handbook to clarify rules and simplify communication of guidelines

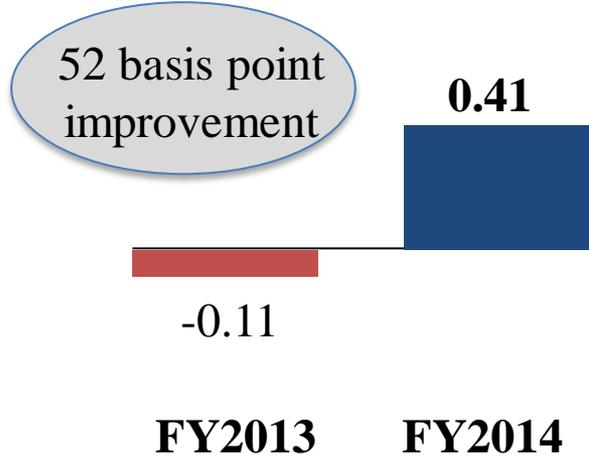
Despite HECM challenges, independent assessment shows significant improvement for overall MMI Fund

Official results of the Independent Actuary FY2013 vs. FY2014 assessment

Economic Net Worth \$ Billions

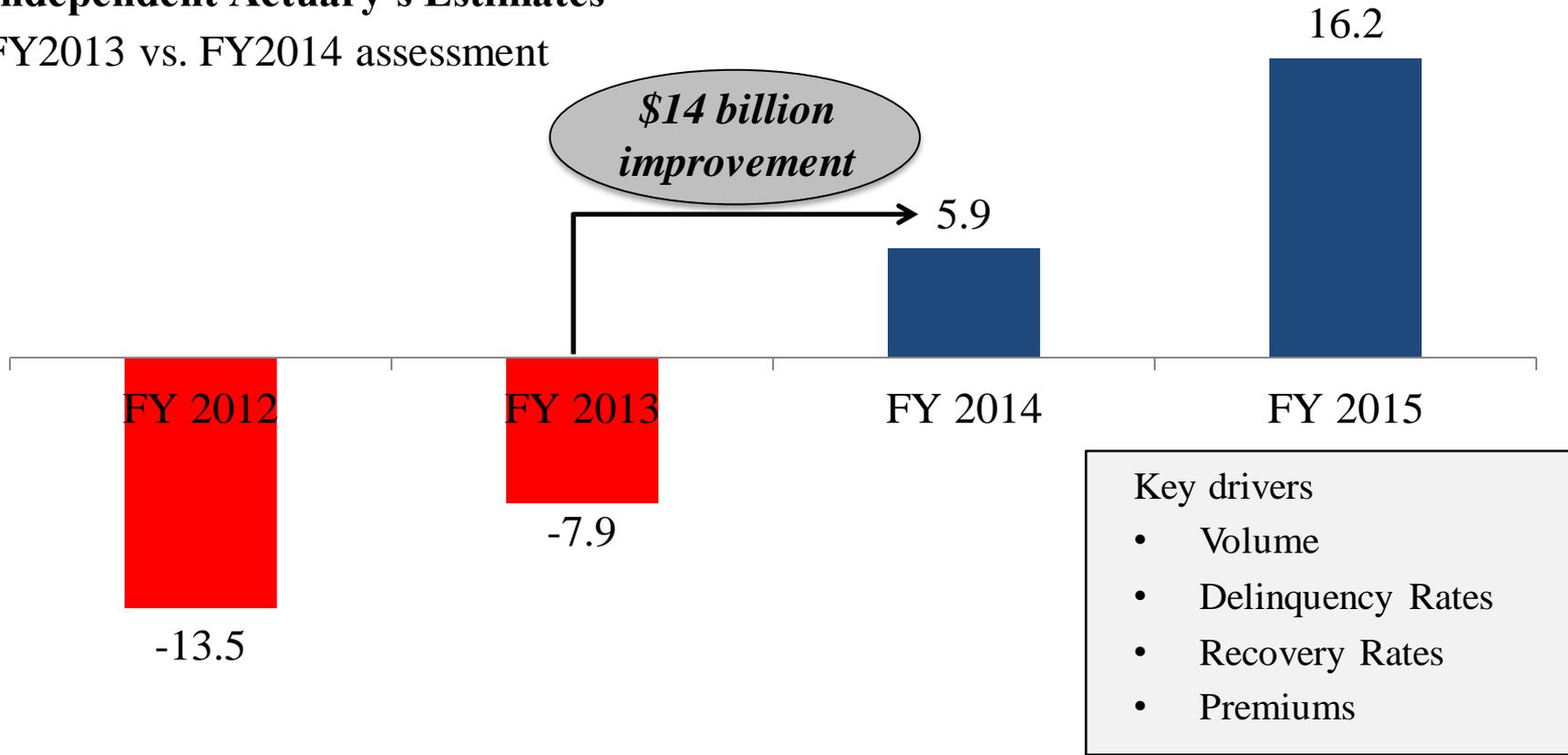


Capital ratio Percent

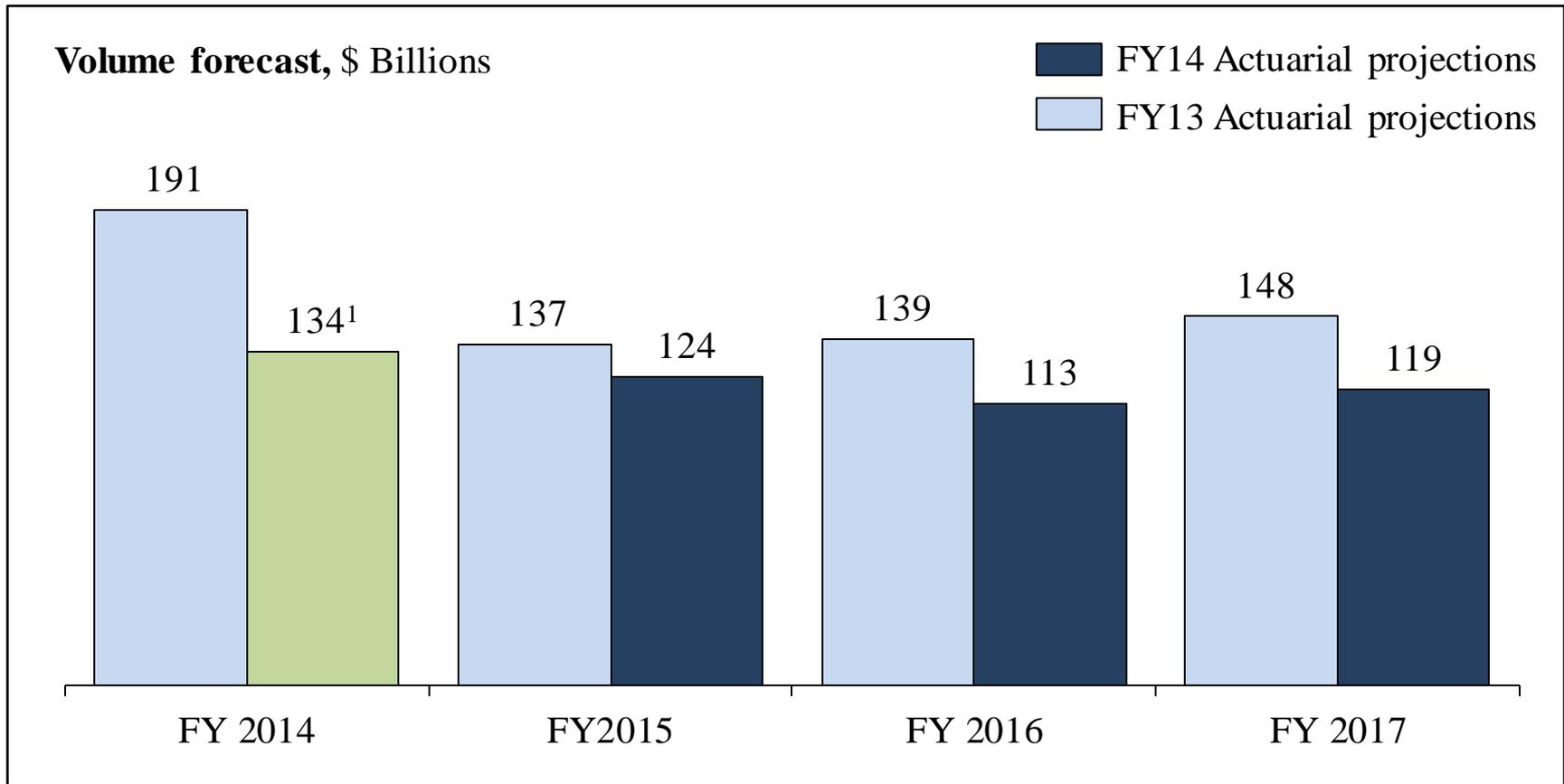


SF Forward portfolio is carrying the improvement, having improved ~\$14 billion vs last year

Economic Value of SF Forward Portfolio
Independent Actuary's Estimates
FY2013 vs. FY2014 assessment



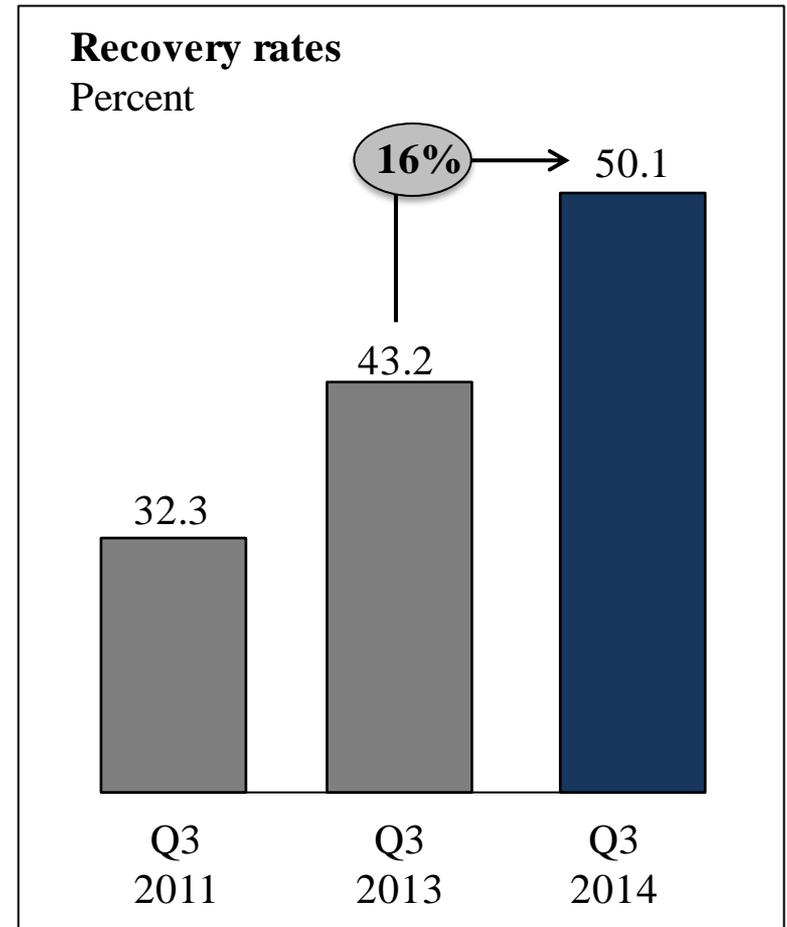
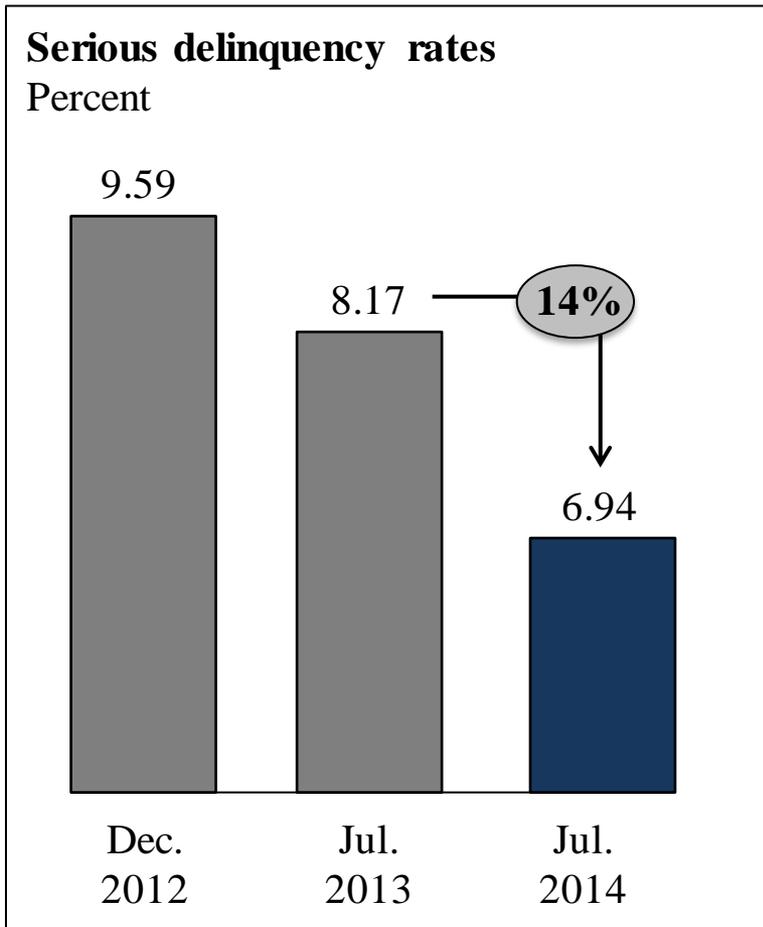
Independent Actuary's volume forecasts are lower than last year's projections



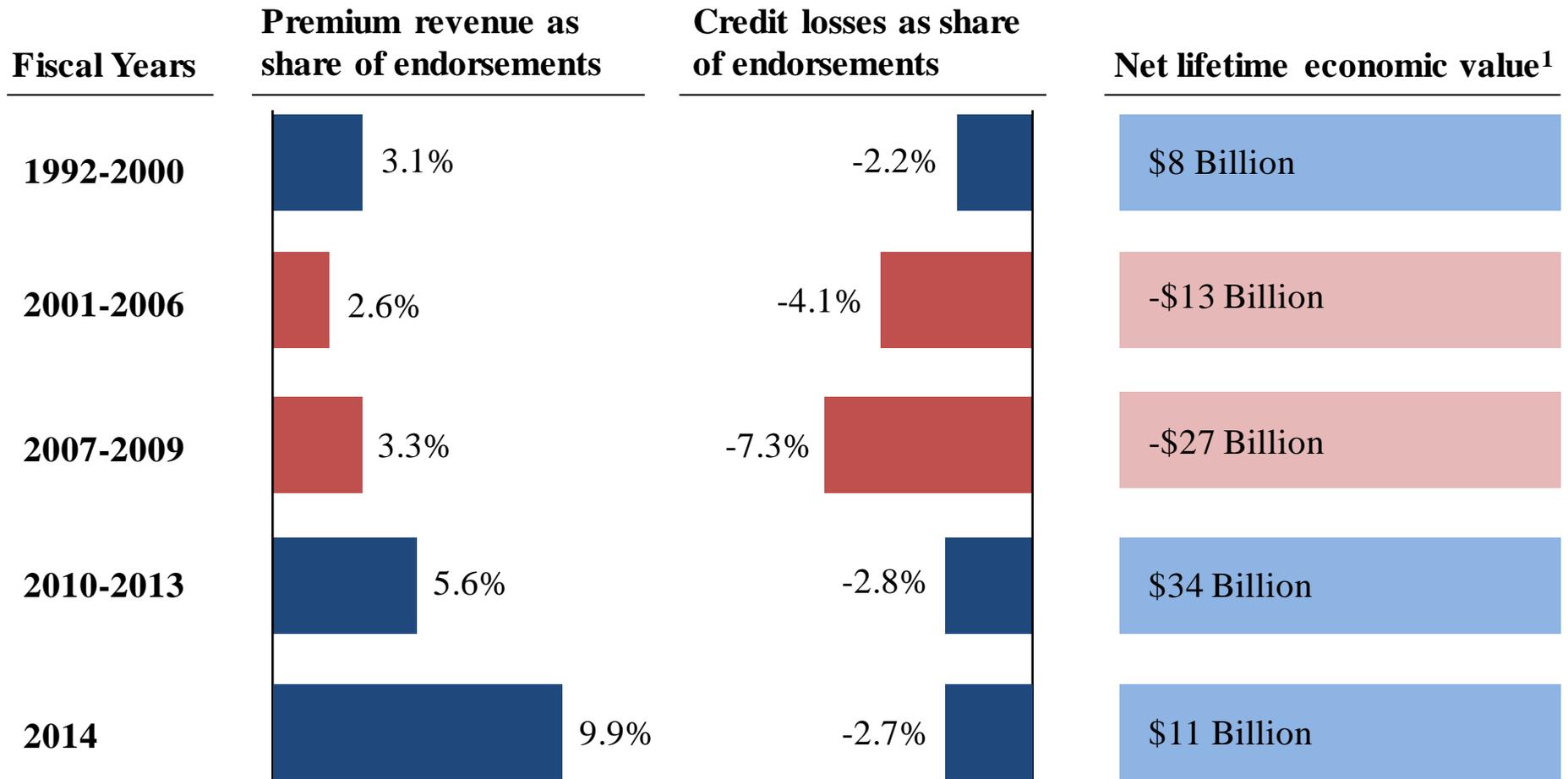
1. FY 2014 actual is \$134 billion vs. Actuary's forecast of \$191 billion

Source: FY2014 Actuarial Report, FY2014 FHA Annual Report

Lower delinquency rates and higher recovery rates leading to lower losses



In addition to lower losses, adjustments to premiums have helped improve trajectory of Fund



1. Based on historical to-date performance and independent actuarial projections of future performance. Net Economic Value is an assessment today of the lifetime value of each cohort to the Fund.

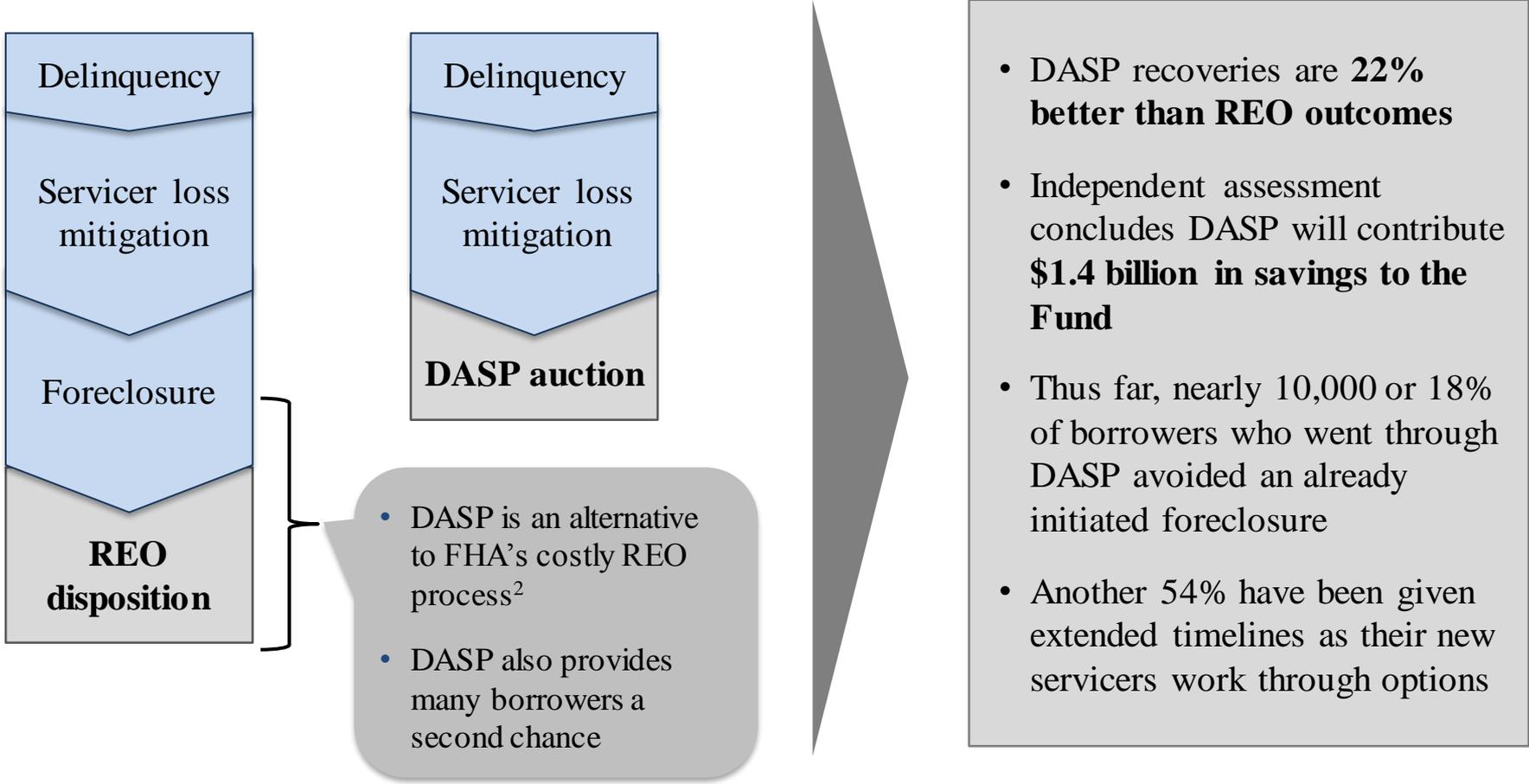
Policy actions have driven improvements

Example actions

- ❑ Continued to avoid ‘toxic’ products (e.g. option arms, interest only, “no-doc” loans)
- ❑ Eliminated seller-assisted down-payment assistance
- ❑ Introduced a credit score floor
- ❑ Required at least 10% down-payment for credit score below 580
- ❑ Imposed higher minimum net-worth requirements for lenders
- ❑ Updated appraisal standards
- ❑ Introduced revised loss mitigation waterfall
- ❑ Expanded pre-foreclosure sale program
- ❑ Revamped note sale program and introduced DASP

For example, DASP has saved the Fund billions and helped keep borrowers in their homes

Comparison of REO vs. DASP¹ process



1. DASP = Distressed Asset Stabilization Program

2. REO sales expense and holding costs average \$10,000 to \$12,000 per vacant property (~\$1 billion to ~\$2 billion per year)

Source: HUD, FHA Monthly Reports

Across a number of measures, the SF Forward portfolio has seen significant improvements¹

~\$40 Billion in available cash reserves

~\$10 Billion of additional economic value added each year

30% Drop in seriously delinquent rates

68% Improvement in recovery rates

63% Reduction in foreclosure starts

85% Drop in early payment defaults

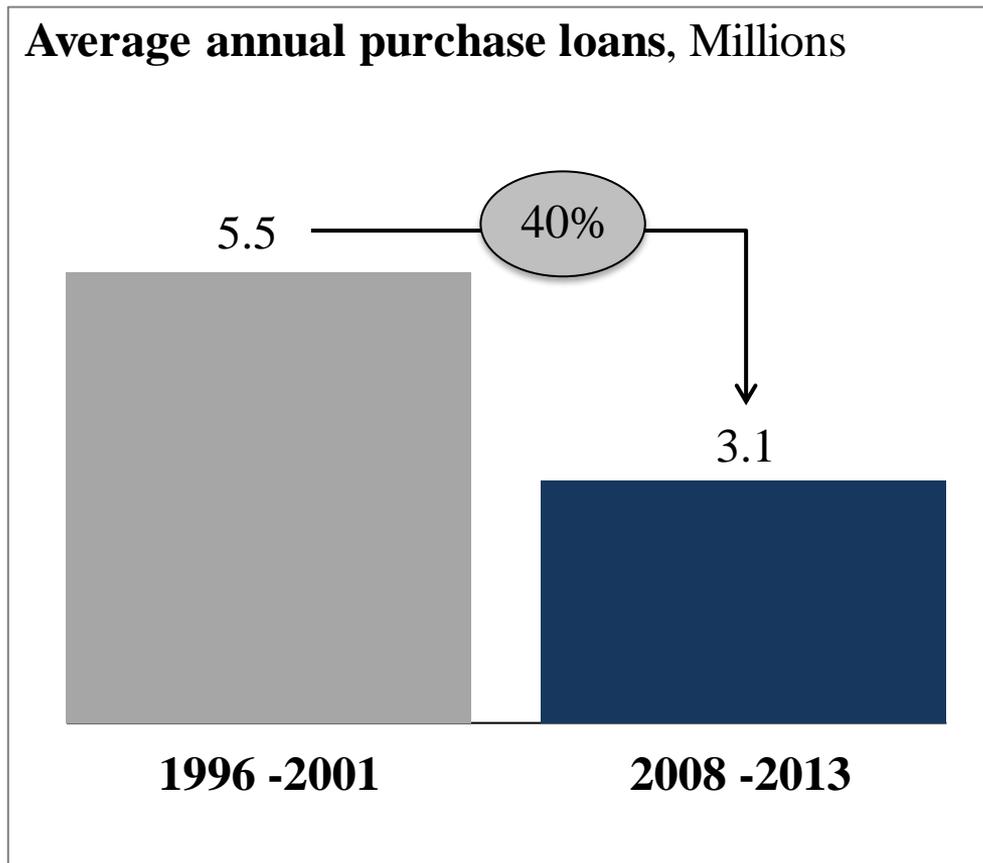


1. Improvement rates are relative to peak or trough
Source: HUD

MMI Fund: Back in the Black

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Clear problem with constrained access for qualified households



- According to Urban Institute up to 1.2 million potential borrowers (annually) are not participating in the market
- Large share of American households either turned down for credit or don't believe they can get credit¹
 - ~29% of respondents turned down for credit
 - ~19% put off applying because they believed they would be turned down
- Many reasons for challenged market:
 - Lender overlays (e.g., FICO 'floors' to minimize re-purchase risk)
 - Industry focus on replenishing reserves and building capital
 - Affordability challenge

1. 1,359 Households respond to question: "Please tell us if each of these happened in the last 12 months..."

Near term priorities

- ❑ **Continued focus on our Blueprint For Access**
 - Formally launch FHA Homeowners Armed with Knowledge (HAWK)
 - Implement changes to Quality Assurance process

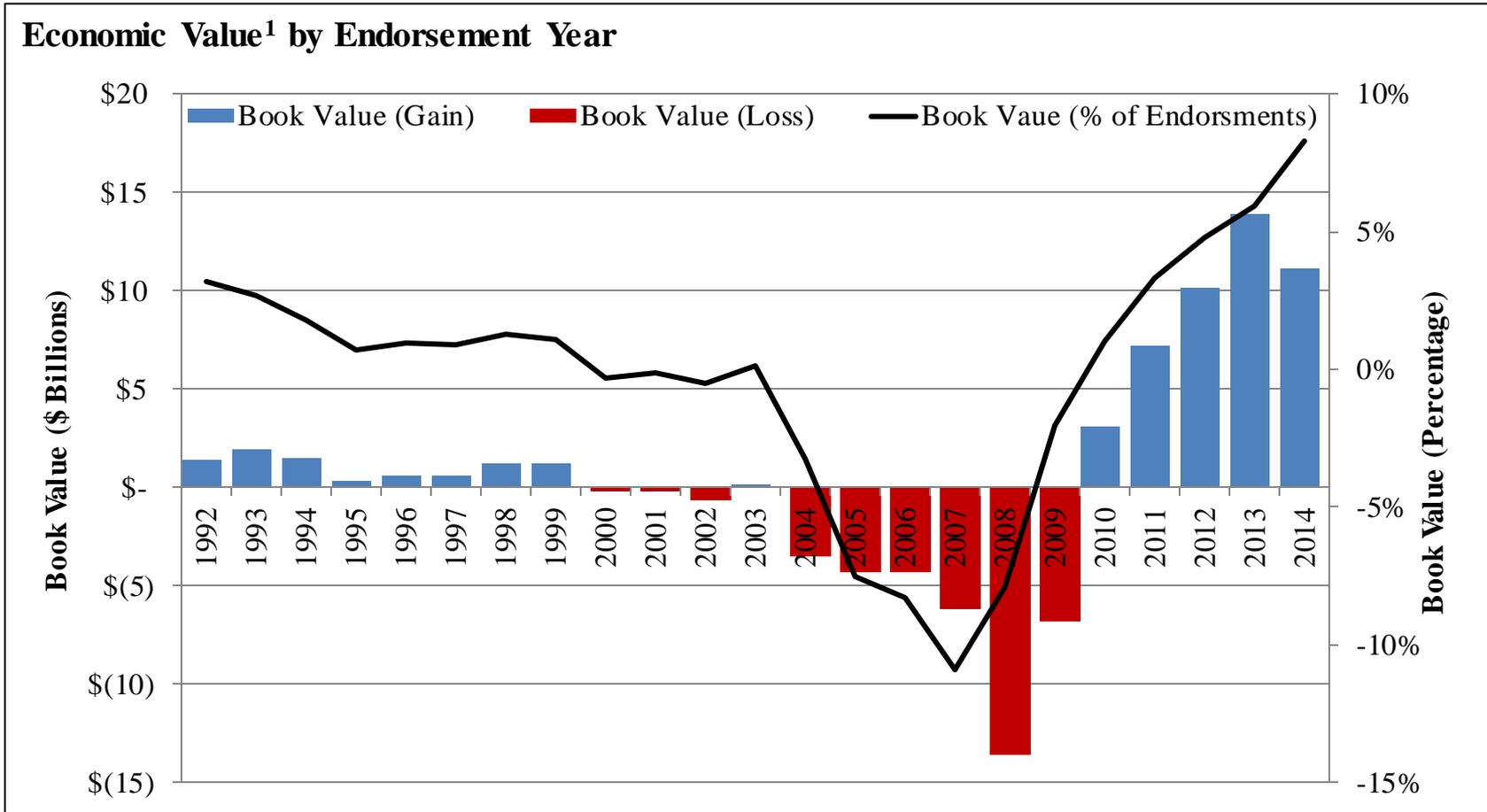
- ❑ **Continued focus on policies that improve the Fund**
 - Contain risk in HECM program
 - Further improve recoveries in Forward portfolio
 - Refine loss mitigation in Forward portfolio

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Appendix

Improvements are evident in FHA's recent books



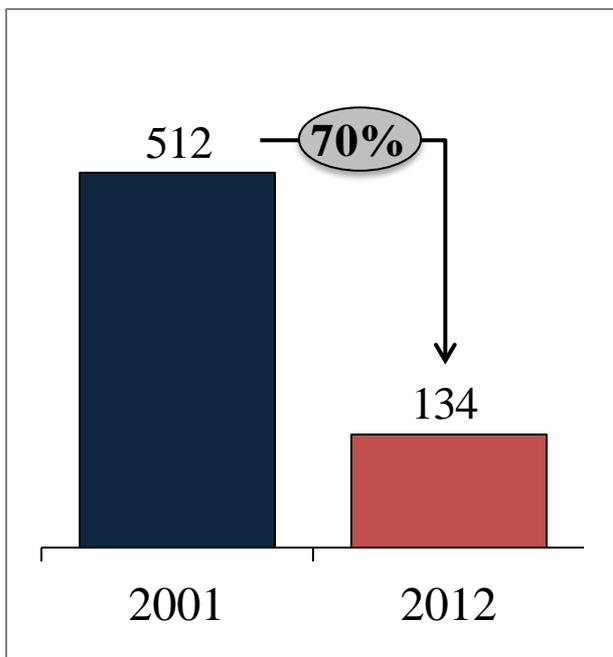
1. Economic Value (or Book Value) is defined as total premiums to be collected minus total expected losses (e.g., in FY2014, FHA collected \$11 billion in excess premiums above what is required to cover expected losses)



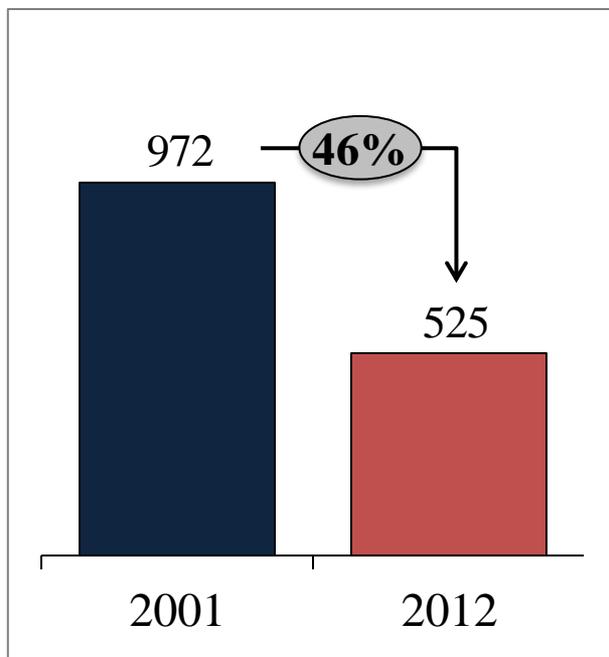
Many borrowers are having a hard time making it back into the market

Change in purchase activity by credit score, in thousands¹

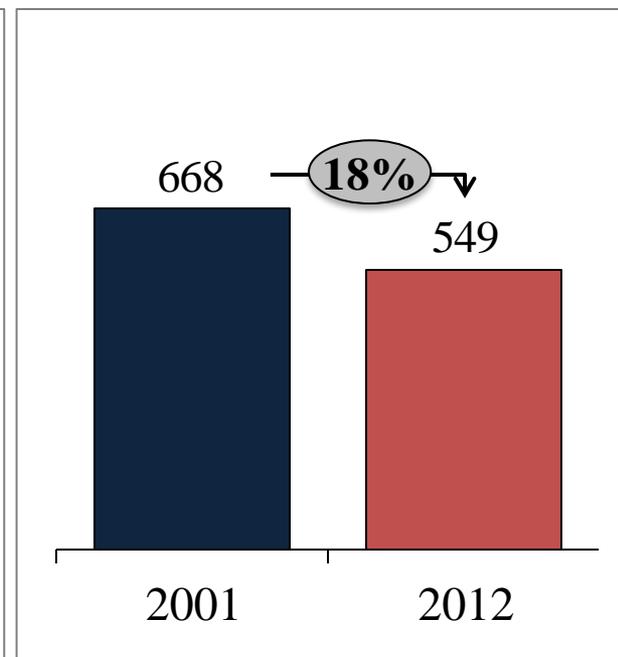
Score of less than 660



Score of 660-750



Score of more than 750

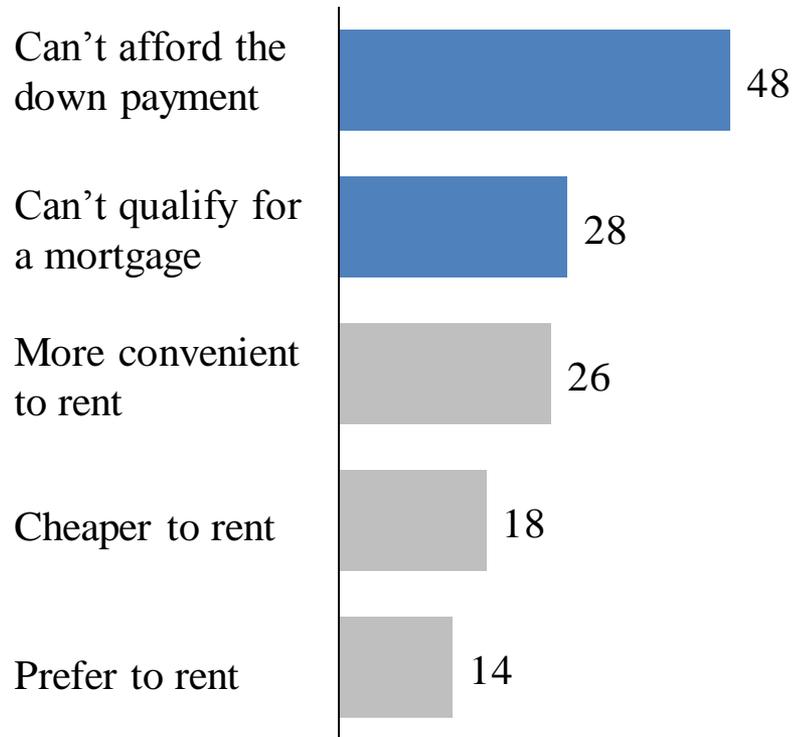


1. Only includes data from HMDA

Affordability and credit are the primary barriers for those interested in buying a home

Reason(s) for renting rather than owning your home? (by age)

30-44 year age group, Percent of respondents



45-59 year age group, Percent of respondents

