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On Tuesday, November 15, HUD released its Fiscal Year 2011 report to Congress on the financial status of the Federal Housing Administration (FHA)'s Mutual Mortgage Insurance (MMI) Fund. The findings of the annual independent actuarial study indicate that, in the midst of continued weakness and unevenness in the country's housing market recoveries, the MMI Fund capital ratio remains positive at 0.24 percent. While still below the Congressionally-mandated threshold of two percent capital, the independent actuaries predict the Fund will return to that level more quickly than was projected by last year's review.

The economic value of new insurance endorsements in FY 2011 for the Fund was nearly double that of FY 2010 endorsements, being close to $11 billion. But the new actuarial study also shows that FHA is expected to sustain significant losses from loans insured prior to 2009, and thus its capital reserve ratio is at 0.24 percent of total insurance-in-force this year, falling from 0.50 percent in 2010. However, the report concludes that, barring a further significant downturn in home prices, the MMI Fund will start to rebuild capital in 2012, and return to a level of two percent by 2014 – outpacing last year's prediction.
A major contributing factor in that projection is the credit quality of FHA's books of business since the Obama Administration began in early 2009. And it is continually improving. This past year's endorsements had the highest credit quality ever recorded, as the average decision credit score across all borrowers broke the 700 barrier for the first time.

The MMI Fund's capital reserve ratio measures reserves in excess of those needed to cover projected losses over the next 30 years. FHA's total liquid assets (cash plus investments) grew by $400 million since last year, to $33.7 billion. That amount is $7.7 billion higher than was predicted last year by the independent actuaries. But at the same time, the economic net worth of the Fund fell by $2.1 billion this year, from $4.7 billion to $2.6 billion, as FHA continued to build loss reserves to prepare for greater claims in the coming years.
Losses on loans insured through the first quarter of fiscal year 2009 continue to place a significant strain on the Fund and are expected to reach $26 billion within a few more years. Though they were

prohibited in 2009, the ongoing effect of so-called “seller-funded down payment assistance loans” is still significant. The net expected cost of those loans, as projected by the independent actuaries, grew by $1.8 billion over the past year to $14.1 billion.

But the high-quality new business I mentioned will have a significant positive impact on the MMI Fund. The actuaries found that the FY2010 and FY2011 books are expected to be very profitable, providing significant net revenues to offset losses on earlier books.

Also, under the base-case forecast used by the independent actuaries, the FY 2012 book will add an additional $9 billion in economic value to the Fund. It’s also important to note that the projections in the base-case forecast assume no additional policy changes by FHA to future business.

The base-case scenario provided by Moody’s Analytics indicates price declines in 2011 of 5.6% and predicts a small growth in prices in 2012 (1.3%), followed by more steady growth in 2013. There is no current evidence for any widespread, sustained home price declines in FY 2012, but should significant declines happen to occur, it could create a situation in which the MMI Fund would require support from Treasury. However, FHA can implement policy changes, such as premium increases, to provide additional support to the Fund. We continue to keep our options on the table. As you know, in FY 2011 FHA introduced a new premium structure that better aligns with current market conditions, and it set underwriting minimums that combine credit score and down payment requirements. By doing so, we balanced risk management with broad access to housing credit for borrowers who have historically met FHA credit quality standards.

Fiscal Year 2011 Highlights.

There were some very positive developments in FY 2011, regarding the overall impact of FHA in the market. This past year, FHA:

- Insured its highest dollar volume ever, $236 billion - $218 billion in single family mortgages and $18 billion in reverse mortgages (HECM).
- Served more than 1.2 million households, bringing the active single family portfolio to more than $1 trillion.
- Insured 770,000 new purchase loans, and more than 585,000 of them were for families who became homeowners for the first time. This represents 56 percent of all first-time buyers in the nation.
- Provided refinancing for more than 440,000 homeowners who took advantage of historically low interest rates to achieve average savings of over $160 per month.
- Passed the historic marker of having insured 40 million single-family loans since its inception.

So FHA continues to play a critical role in the housing and mortgage markets as it fulfills its mission to serve underserved communities and help facilitate the recovery of the housing market by being a responsible countercyclical source of liquidity.

FHA is on a path towards restoring the capital ratio but we remain cautious and vigilant. I want to emphasize again that the volatility of future housing price forecasts remains the biggest risk to the MMI Fund as we take steps to rebuild its capital reserves. We will continue to monitor economic conditions and may have to make course corrections as necessary as we steer FHA toward a more positive financial position.

Thank you for your continued support of FHA and the mission we serve.

HUD’s report to Congress on the Financial Status of the MMI Fund, and **FHA's Fiscal Year 2011 Financial Status Briefing** are available on HUD’s website, **www.hud.gov**.

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