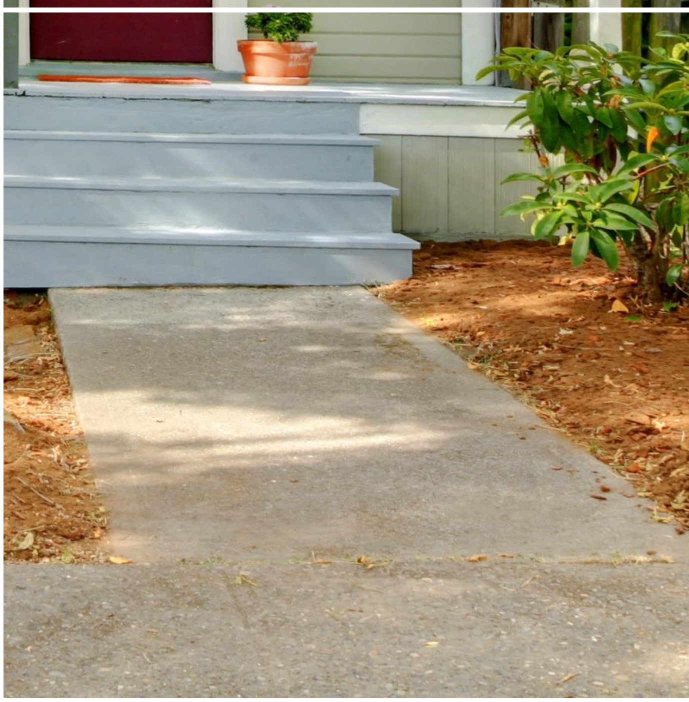
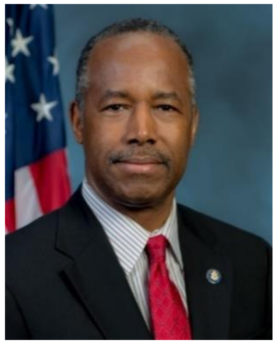
ANNUAL REPORT

To Congress Regarding the Financial Status of the
FHA Mutual Mortgage Insurance Fund



FISCAL YEAR 2020



Secretary's Foreword

I am pleased to present the U.S Department of Housing and Urban Development's Annual Report to Congress covering the status of the Federal Housing Administration's (FHA) Mutual Mortgage Insurance (MMI) Fund for Fiscal Year (FY) 2020.

This past fiscal year has been unprecedented in both the challenges the nation faced as a result of the COVID-19 global pandemic, and the extraordinary response led by President Trump to provide relief to Americans facing financial difficulty through no fault of their own. Through the Coronavirus Aid, Relief, and Economic Security (CARES) Act signed by the President, FHA has played a leading role in supporting the nation's housing market while ensuring the 8.3 million homeowners with FHA-insured mortgages have access to many options to keep their homes if they are struggling financially as a result of the pandemic.

In addition to assisting homeowners struggling financially, during this past fiscal year FHA continued to play a leading role in supporting homeownership for first-time, minority, and low- and moderate-income homebuyers. In FY 2020, FHA insurance on purchase transaction forward mortgages served 817,847 homebuyers, 83.1 percent of whom were first-time homebuyers. FHA also continues to have an extensive presence in supporting minority homeownership. Almost 33 percent of FHA's forward mortgage purchase transaction insurance endorsements were for minority borrowers who chose an FHA-insured mortgage to achieve the stability and financial independence that can be achieved through sustainable homeownership.

It is thanks to the Administration's careful stewardship of the FHA program over the last three years that today FHA is adequately capitalized to absorb the immediate effects of the pandemic. As of September 30, 2020, the MMI Fund's combined capital ratio was 6.10 percent, increasing by 1.26 percentage points over FY 2019. The forward mortgage portfolio achieved a 6.31 percent capital ratio, once again showcasing solid performance. But the forward mortgage portfolio continues to offset the financial challenges of our Home Equity Conversion Mortgage portfolio that, while improving compared to last year, had a negative capital ratio of 0.78 percent. As Chapter Two of this report illustrates, and as statutorily mandated, prudent capital management to protect the MMI Fund and the American taxpayer from future economic shocks requires us to look beyond modest gains in our capital reserves to establish a realistic capital benchmark that is well above the two percent mandated by Congress.

With the help of a strong housing market and prudent management, in FY 2020 we have successfully balanced our responsibilities to the taxpayer with fulfilling our core mission of serving qualified first-time, low- and moderate-income and minority homebuyers.

Benjamin S. Carson, Sr., M.D.

Secretary
U.S. Department of Housing and Urban Development

A Message from the Assistant Secretary for Housing and Federal Housing Commissioner

As Secretary Carson mentioned in his Foreword to this report, fiscal year 2020 has been a year of extraordinary events for the nation, including for the Federal Housing Administration (FHA) and those we serve. It is thanks to the Secretary's wise and compassionate leadership that today FHA has in place the necessary tools to help homeowners who are struggling financially because of the COVID-19 global pandemic.

I have been privileged to lead FHA with the support of the Secretary and many other talented and dedicated colleagues. FHA staff has continued to go above and beyond each day to ensure that our programs are the absolute best they can be. Our progress this year could not have happened without this extraordinary team who have risen to the unprecedented challenges of the past year to achieve meaningful results for homeowners who rely on FHA.

Together with the lenders and servicers who participate in the FHA program, and those throughout the housing industry who have supported so many of our initiatives – including our *FHA Catalyst* technology modernization work – FHA has been able to help millions of our nation's first-time, low- and moderate-income, and minority homebuyers to climb the economic ladder and build wealth for generations to come.

Dana T. Wade

Assistant Secretary for Housing
and Federal Housing Commissioner
U.S. Department of Housing and Urban Development

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Annual Report Overview

Introduction

This overview highlights the key data presented in the *Federal Housing Administration Annual Report to Congress Regarding the Financial Status of the Mutual Mortgage Insurance Fund for Fiscal Year 2020* (Annual Report).

The challenges faced by the nation as a result of the COVID-19 pandemic for the majority of Fiscal Year (FY) 2020 included financial challenges for many homeowners with Federal Housing Administration (FHA)-insured mortgages. FHA has assisted homeowners during these unprecedented times, implementing a foreclosure and eviction moratorium and offering forbearance and other support for those impacted by COVID-19-related financial hardships, while sustaining a capital cushion to protect the American taxpayer. Similarly, FHA supported the housing market throughout the pandemic by providing liquidity and stability.

Mutual Mortgage Insurance Fund Capital Ratio Increased to 6.10 Percent

As of September 30, 2020, the combined Capital Ratio in the Mutual Mortgage Insurance (MMI) Fund for FY 2020 is 6.10 percent, an increase of 1.26 percentage points from the 4.84 percent Capital Ratio for FY 2019.

Exhibit O-1: Mutual Mortgage Insurance Fund Capital Ratio Components

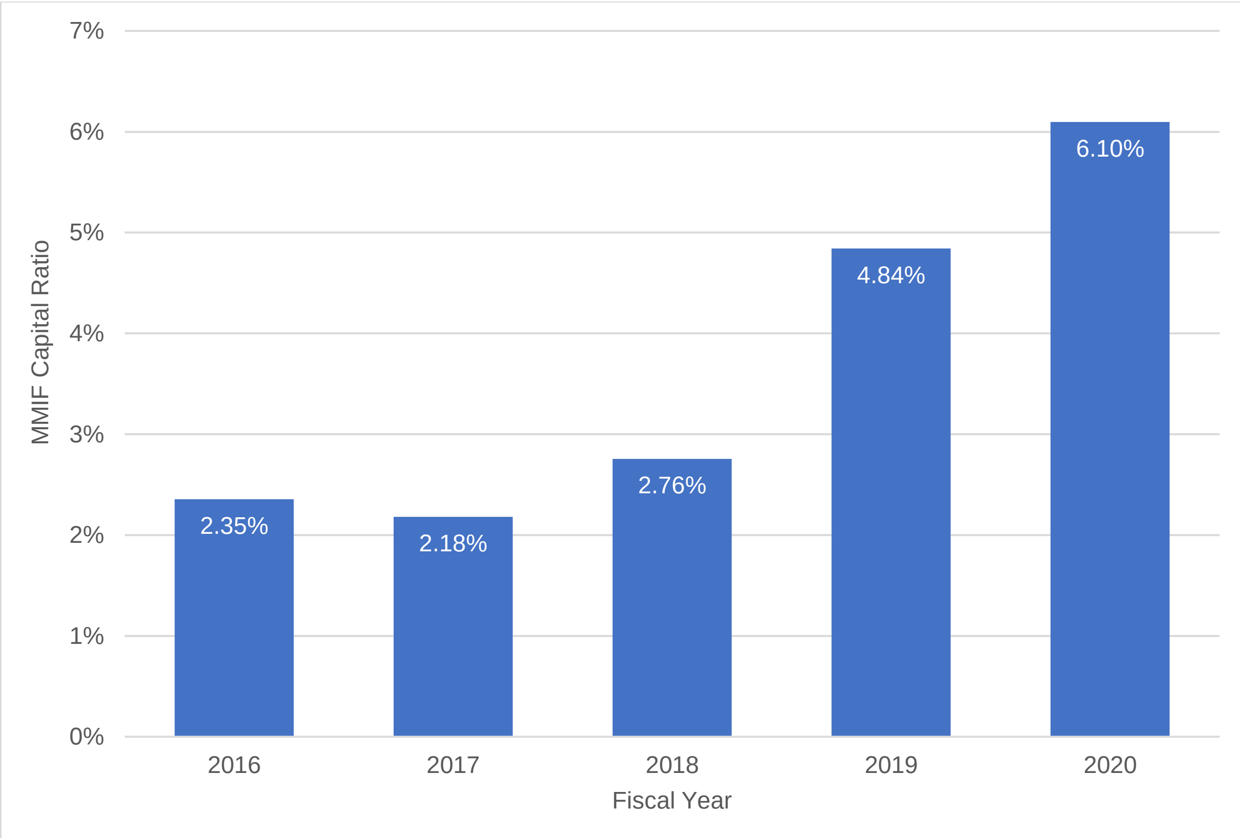
Description	FY 2019	FY 2020
Balances ($ Millions) as of September 30		
Total Capital Resources	$57,980	$70,652
Plus: NPV MIP	$51,436	$48,807
Less: NPV Losses	$(47,034)	$(40,509)
Equals: MMI Fund Capital[1]	**$62,382**	**$78,950**
Insurance-In-Force	$1,288,436	$1,294,731
Total Capital Resources	4.50%	5.46%
Plus: NPV MIP	3.99%	3.77%
Less: NPV Losses	-3.65%	-3.13%
Equals: MMI Fund Capital Ratio	**4.84%**	**6.10%**

SOURCE: U.S. Department of HUD/FHA, October 2020.

Exhibit O-1 shows that projected MMI Fund Capital increased by $16.57 billion, benefitting from a continuation of strong House Price Appreciation (HPA) that eclipsed other negative economic developments resulting from the COVID-19 pandemic.

[1] The term "MMI Fund Capital" means Economic Net Worth of the Mutual Mortgage Insurance Fund, as determined by the Secretary under the annual audit required under section 1735f-16 of this title.

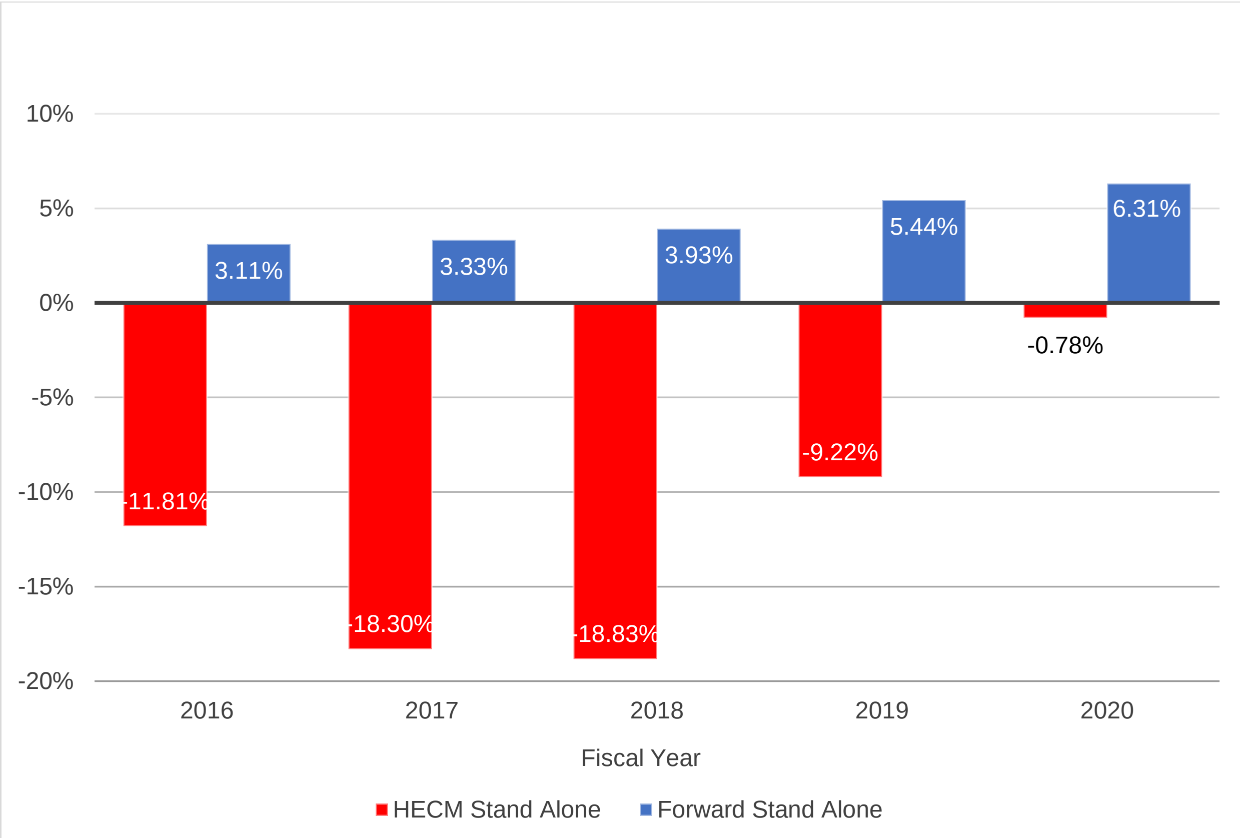
Exhibit O-2: MMI Fund Capital Ratio Increased for the Third Consecutive Year



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table C-1 in Appendix C.

The MMI Fund Capital Ratio, which represents MMI Fund Capital as a share of insurance-in-force, exceeds the 2.00 percent statutory minimum for the sixth consecutive year. Exhibit O-2 illustrates the history of the MMI Fund Capital Ratio since FY 2016. The MMI Fund Capital Ratio is at its highest level since FY 2007 when it reached 6.98 percent.

Exhibit O-3: Comparison of Stand-Alone Capital Ratios for the Forward and HECM Portfolios



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table C-2 in Appendix C.

Exhibit O-3 provides a comparison of stand-alone capital ratios for the forward and HECM portfolios since 2016. The financial performance of the HECM portfolio continues to be a financial drag on the forward portfolio, whose positive performance in effect "subsidizes" the reverse book of loans. Further, Exhibit O-3 illustrates that the HECM portfolio historically is a more volatile program compared to the forward loan portfolio as well. Over the last 3 years, FHA has taken several actions to improve the HECM portfolio's outlook and will continue to take whatever steps are necessary to stabilize the HECM program for borrowers and taxpayers.

Stand-Alone Highlights Include:

- MMI Fund Capital for the forward mortgage portfolio now stands at $77.8 billion, an increase of $12.2 billion over FY 2019. This translates to a stand-alone MMI Fund Capital Ratio for the forward portfolio of 6.31 percent for FY 2020, an increase from 5.44 percent in FY 2019.
- MMI Fund Capital for the HECM portfolio is negative $0.5 billion, an increase of $5.4 billion over negative $5.9 billion in FY 2019. The stand-alone MMI Fund Capital Ratio for HECMs increased by 8.44 percentage points, from negative 9.22 percent in FY 2019 to negative 0.78 percent in FY 2020.

FHA Continues to Serve its Core Mission

FHA-insured mortgages play a major role for first-time and other borrowers traditionally underserved by the conventional mortgage market. The COVID-19 pandemic has impacted many homeowners and those looking to buy a home. During these times, FHA has remained a critical countercyclical force by providing liquidity and stability**.**

Since the onset of the COVID-19 pandemic in early FY 2020, many homeowners with FHA-insured mortgages have experienced financial difficulty. FHA has assisted homeowners during these unprecedented times, offering forbearance and other support for those experiencing COVID-19-related financial hardships, while sustaining a capital cushion to protect the American taxpayer.

Exhibit O-4: FHA Purchase Loans to Core Borrower Segments FY 2018 – FY 2020 (count in thousands)

Core Borrower Segment	FY 2018	FY 2019	FY 2020
First-time homebuyer[2]	641.91	615.71	679.63
Minority	283.43	271.51	300.79

SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table A-2 and B-2 in Appendix A, B.

Above, Exhibit O-4 shows that FHA supported a greater number of its core borrower demographics in FY 2020 than in the previous two years. The share of first-time homebuyers reached a new high of 83.10 percent of total FHA forward mortgage purchase endorsements in FY 2020.

Exhibit O-5: FHA Purchase Loans to Select Borrower Segments in FY 2020 (count in thousands)

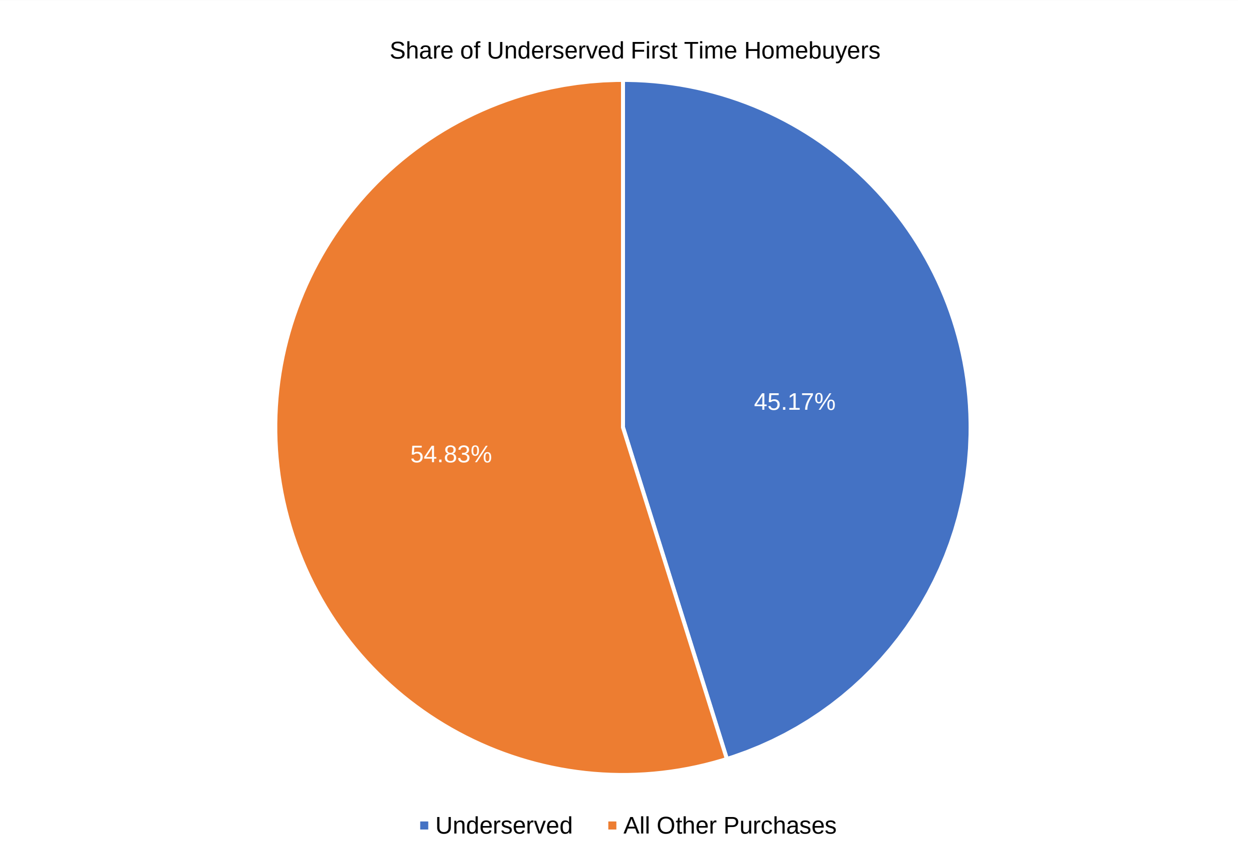
Core Borrower Segment	Oct – Mar FY 2020	Apr – Sep FY 2020
First-time homebuyer	320.40	359.23
Minority	145.30	155.49

SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table A-2 and B-2 in Appendix A, B.

Further, as shown by Exhibit O-5 above, FHA endorsed more loans for these core borrower segments during the second half of FY 2020, at a time credit was being restricted throughout much of the marketplace.

[2] A first-time homebuyer is an individual who has had no ownership in a principal residence during the three-year period ending on the date of purchase of the property. This includes a spouse (if either meet the above test, they are considered first-time homebuyers).

Exhibit O-6: FHA's Core Business Attracts First-Time Homebuyers

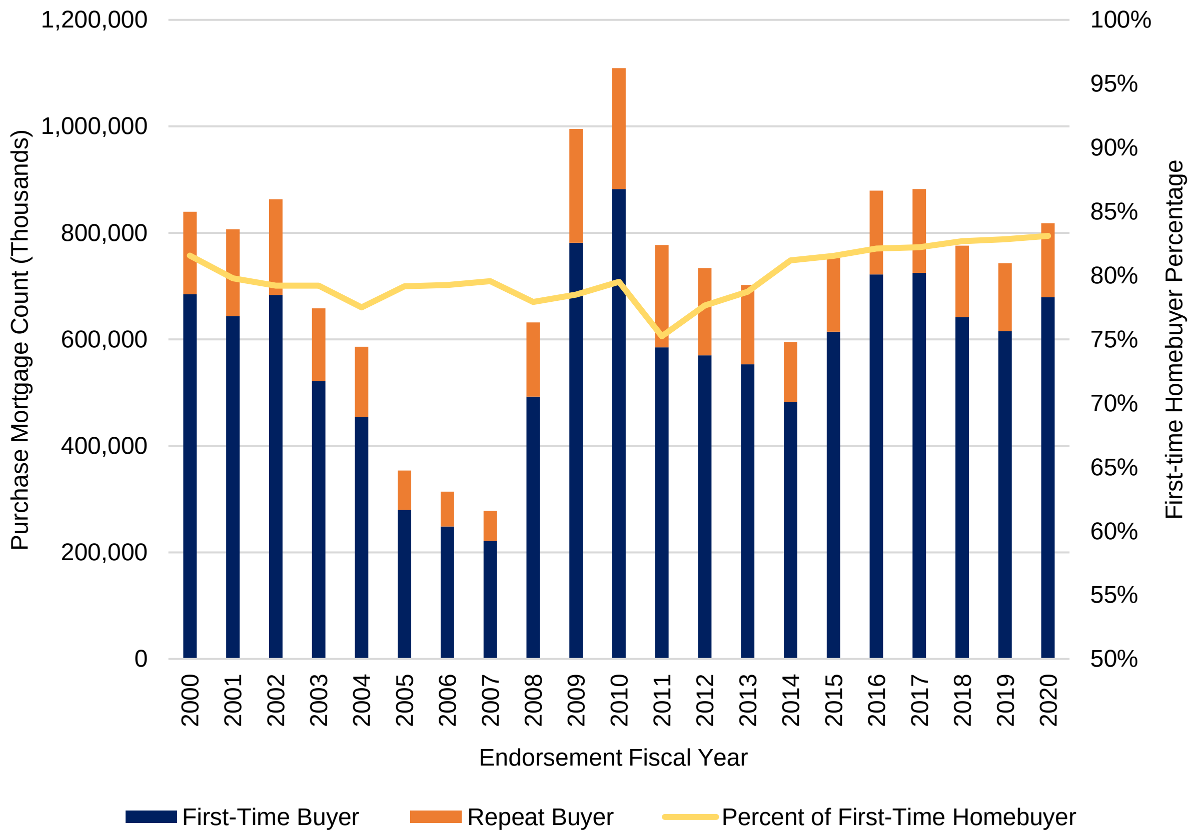


[3]SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table A-3 in Appendix A.

As shown on Exhibit O-6, 45.17 percent of FHA's FY 2020 purchase transaction volume included mortgages made to first time homebuyers with greater than 95 percent loan-to-value (LTV) and credit scores of less than 680. FHA estimates it serves over 70 percent of the mortgage purchase market for this group of borrowers.

[3] Underserved first-time homebuyers is defined as those with less than a 5 percent downpayment and credit score less than 680.

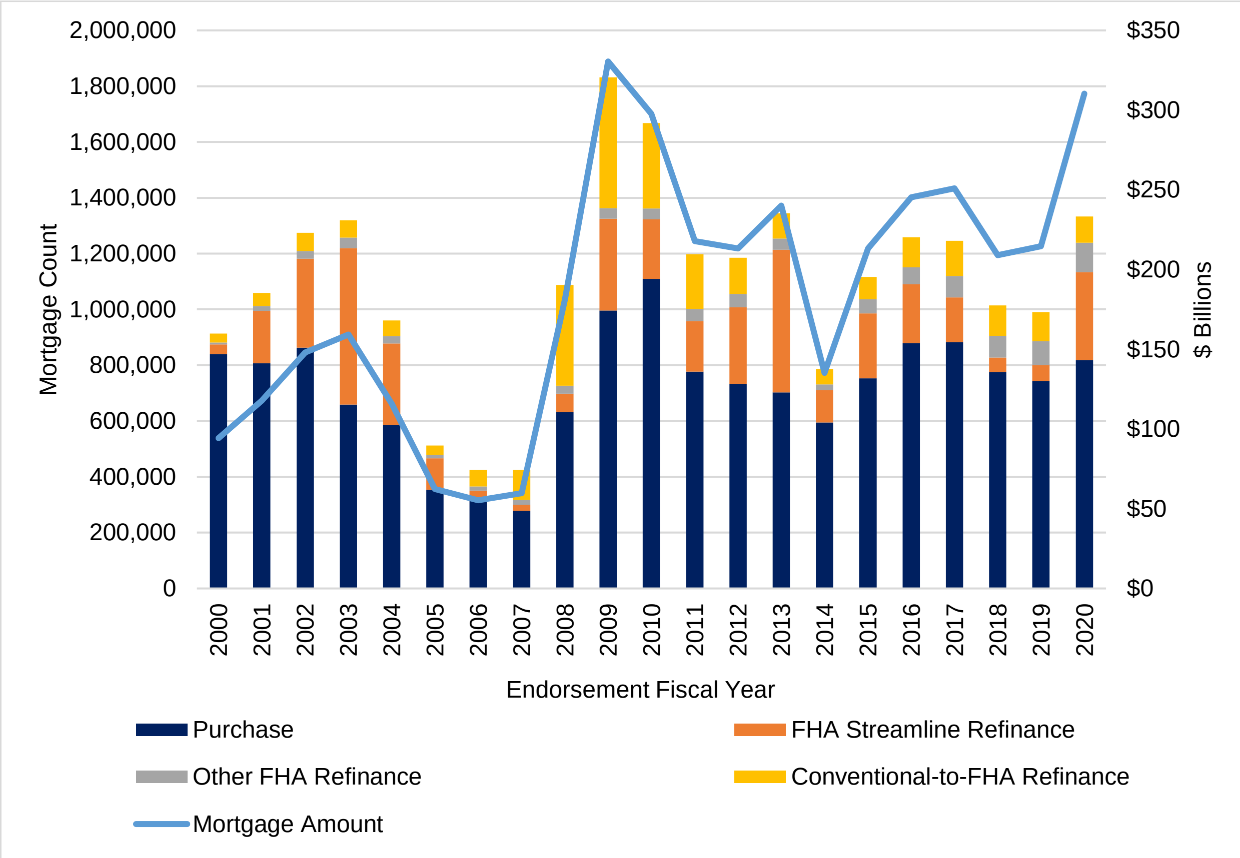
Exhibit O-7: Share of First-time Homebuyers Reached a New High in FY 2020



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-2 in Appendix B.

First-time homebuyers historically have dominated FHA's purchase transaction insurance program, representing four out of every five loans endorsed. The percent of forward mortgages insured for first-time homebuyers in FY 2020 reached a new high of 83.10 percent, as shown by Exhibit O-7, above.

Exhibit O-8: FHA Volume Exceeds $310 Billion in FY 2020, Most in 10 Years

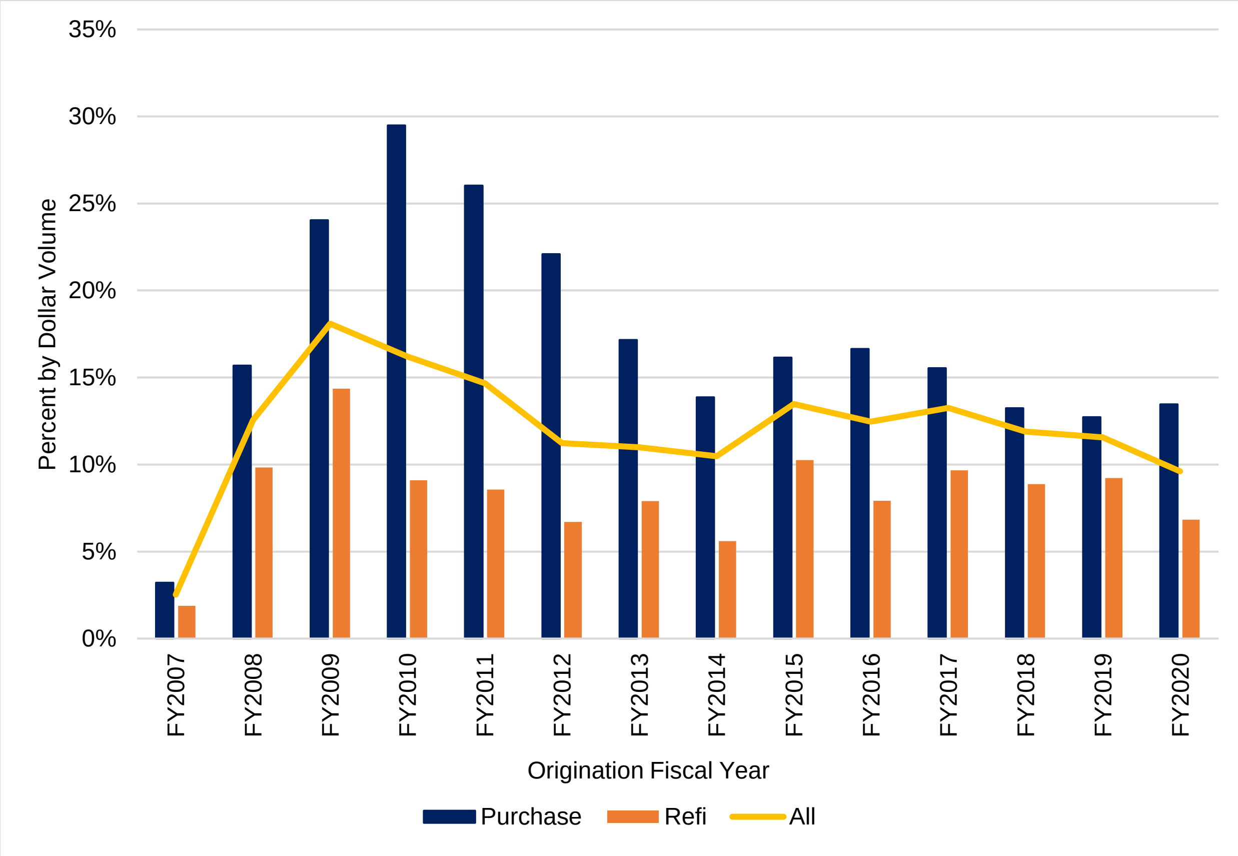


SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-1 in Appendix B.

As the uncertainty caused by the COVID-19 pandemic drove many participants in the mortgage market to tighten their credit terms, FHA-insured mortgages continued to play a critical role for borrowers traditionally underserved by the conventional mortgage market. As illustrated above by Exhibit O-8, FHA mortgage endorsement volume reached a near-record high[4] of $310.33 billion in FY 2020.

[4] A high of $330.49 billion in loans were endorsed in FY 2009.

Exhibit O-9: FHA Continues to Reduce Its Footprint as it Maintains Focus on First-time Homebuyers



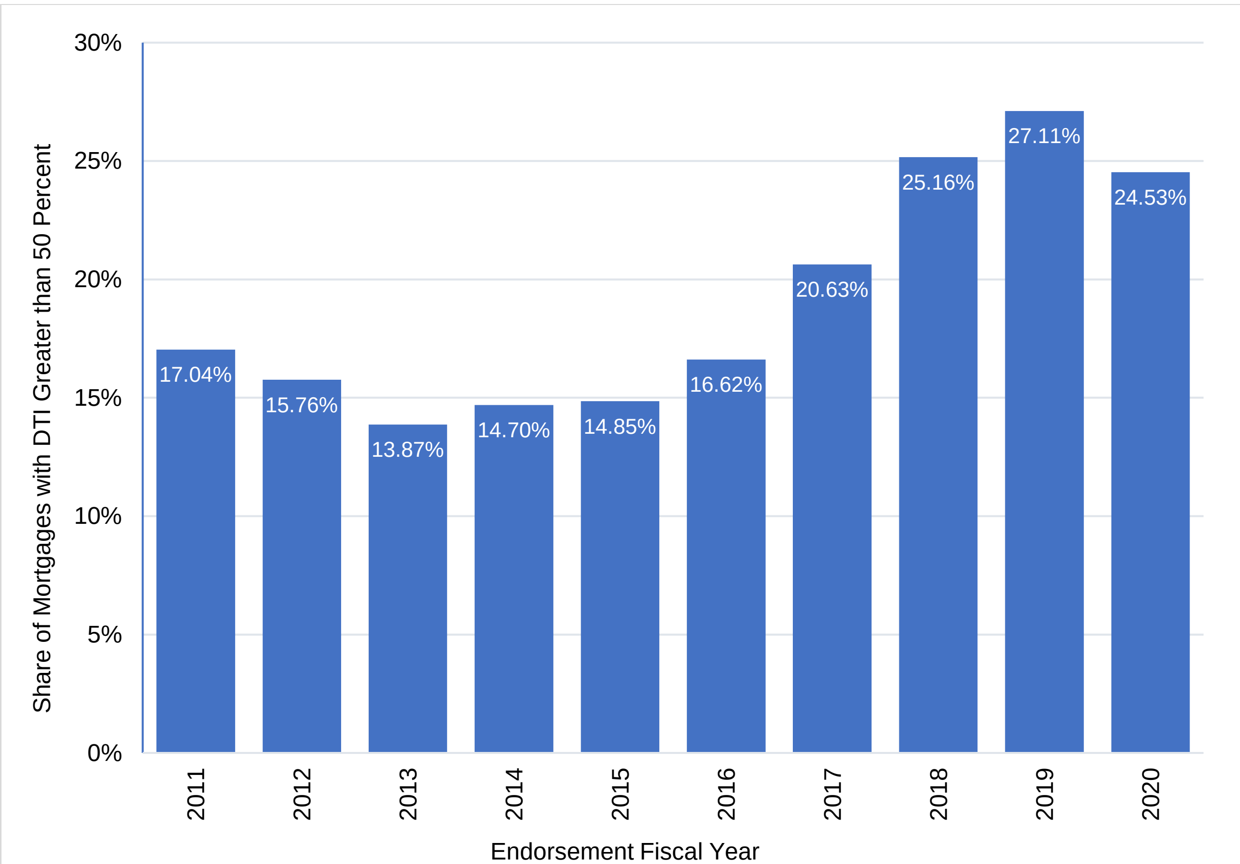
NOTE: Ratios of dollar volume may not reconcile exactly to market shares due to rounding.
SOURCE: U.S. Department of HUD as of March 30, 2020. Originations based on beginning amortization dates. Includes all conventional and government Single Family forward originations. Mortgage Bankers Association of America, “MBA Mortgage Finance Forecast,” July 15, 2020, and CoreLogic TrueStandings ® as of August 11, 2020.
Refer to data table A-1 in Appendix A.

Despite near-record endorsement volume, FHA market share decreased from 11.56 percent in FY 2019 to 9.61 percent in FY 2020, as shown in Exhibit-O-9. Origination activity in FY 2020 was dominated by strong refinance activity, of which FHA historically has held a smaller share. Consistent with FHA’s mission, purchase activity to first-time homebuyers continued to encompass the bulk of FHA endorsement volume in FY 2020, while refinance activity dominated production in the remainder of the mortgage market.

Early Performance in FY 2020 Showed Improvement Until the Onset of the COVID-19 Pandemic

In the FY 2019 Annual Report, FHA identified a few emerging risks and characterized the heightened risk of loans with multiple higher risk attributes coming into FHA's loan endorsement portfolio. The sections below suggest that the share of loans with these higher risk attributes decreased or moderated in FY 2020. However, while early performance reflected overall improvement in the credit quality of FY 2020 endorsements during the first two quarters, portfolio performance deteriorated during the second half of the year, largely driven by COVID-19 related factors.

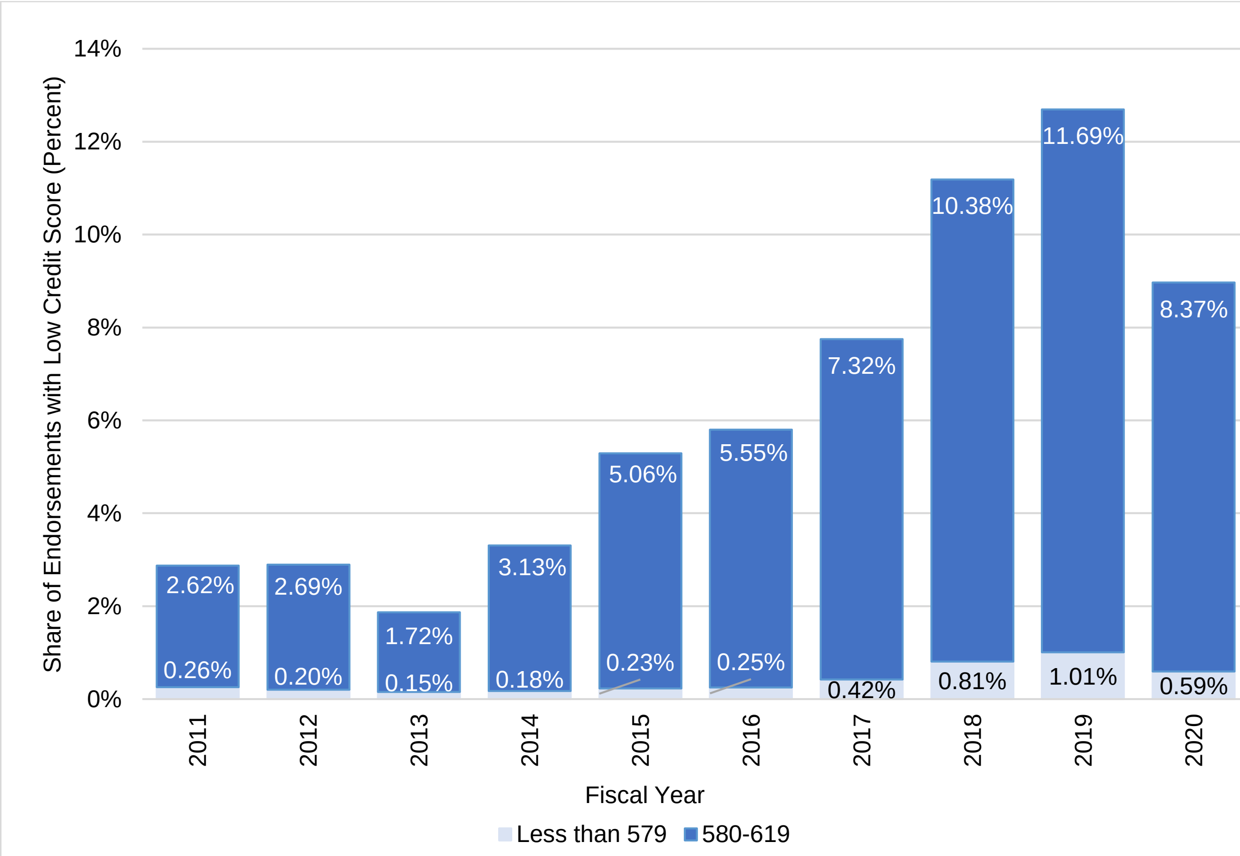
Exhibit O-10: The Share of Purchase Endorsements with Debt-to-Income Ratios Over 50 Percent Decreased for the First Time in 7 Years



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-9 in Appendix B.

The average borrower Debt to Income (DTI) ratio decreased in FY 2020, as the uncertainty caused by the COVID-19 pandemic drove many participants in the mortgage market to tighten their credit terms. Exhibit O-10, above, shows that the share of FHA-insured mortgages with DTI ratio equal to or exceeding 50 percent decreased from 27.11 percent of total purchase mortgage endorsements in FY 2019 to 24.53 percent for loans endorsed in FY 2020. While the trend is encouraging, the share of FHA-insured mortgages with DTI ratio equal to or exceeding 50 percent remains at historically elevated levels.

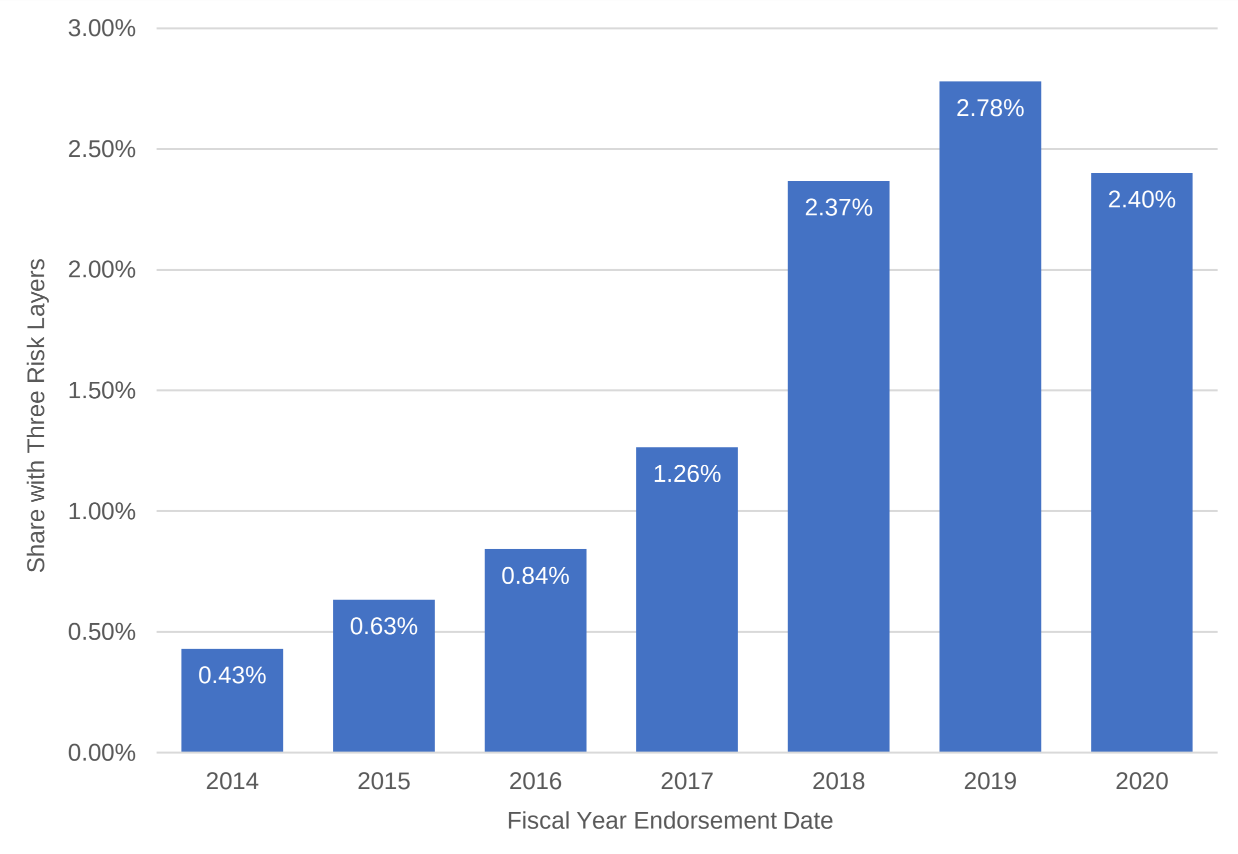
Exhibit O-11: The Volume of Mortgages with Credit Scores Less Than 620 Decreased in FY 2020



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-8 in Appendix B.

As shown in Exhibit O-11, the share of borrowers with credit scores below 620 doubled between FY 2016 and FY 2019. However, during the last year, credit scores improved as the share of loans with borrower credit scores below 620 decreased from 12.70 percent to 8.96 percent from FY 2019 to FY 2020. The average borrower credit score for an FHA-insured mortgage increased modestly from 666 in FY 2019 to 672 in FY 2020, as uncertainty caused by the COVID-19 pandemic drove many participants in the mortgage market to tighten their credit terms. Borrower credit score data is not collected for Streamline Refinance mortgages.

Exhibit O-12: Share of Purchase Mortgages with Three Risk Layers is Moderating



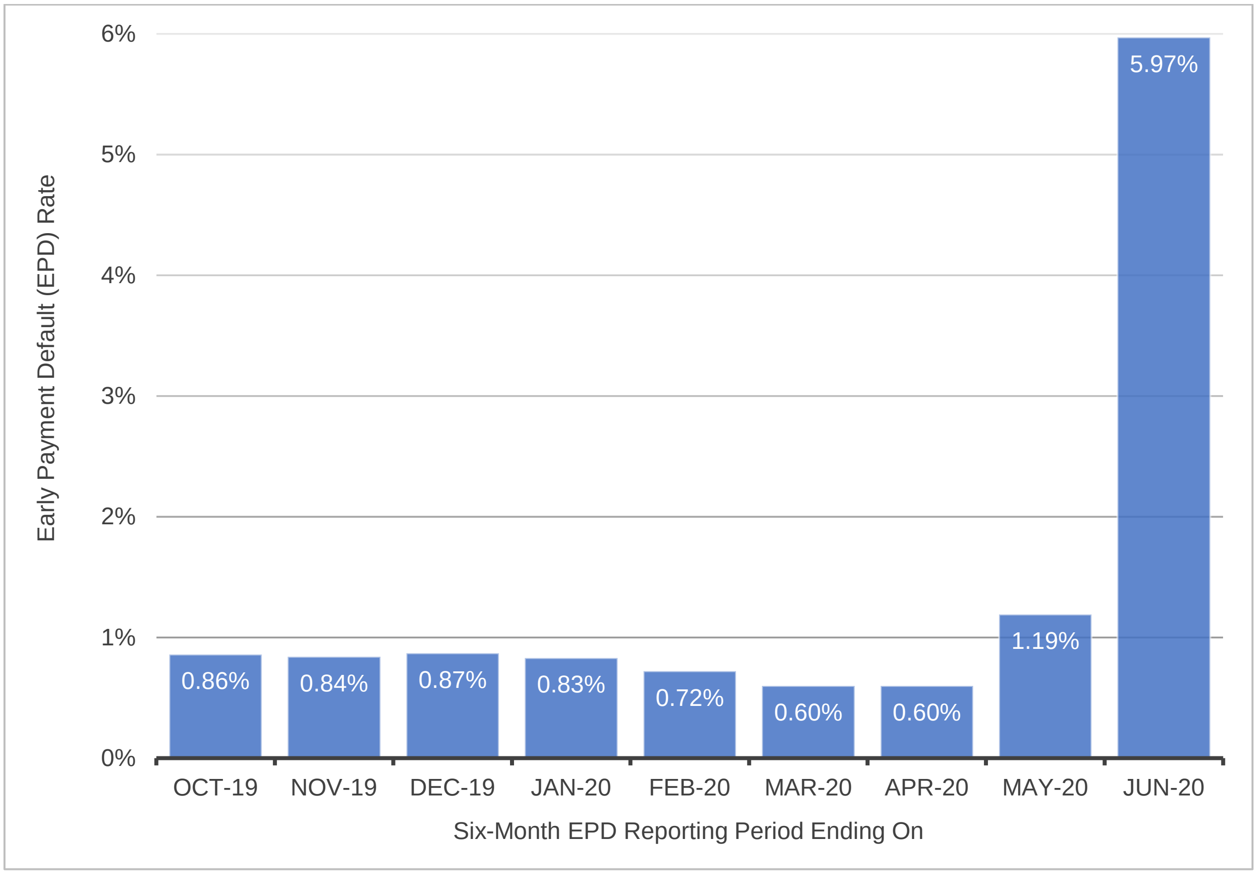
SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data tables B-8 and B-12 in Appendix B.

While an individual risk attribute taken by itself can be managed through other compensating factors, mortgages with more than one of the risk factors noted below (risk layering) typically default at higher rates. Exhibit O-12 above, shows the share of purchase mortgages with the following three risk layers:

- DTI ratio greater than 50 percent
- Less than two months cash reserves
- Less than 640 credit score

Consistent with the other improvements in certain characteristics discussed in preceding sections, the incidence of extreme risk layering decreased in FY 2020.

Exhibit O-13: Early Payment Default[5] Rates Have Spiked Due to the COVID-19 Pandemic



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table A-4 in Appendix A.

In March FY 2019, FHA adjusted its Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard so that higher risk loans would require manual underwriting, which could include compensating factors to offset risk. FHA began to see positive results of this change in new mortgage originations endorsed beginning in July FY 2019 until adverse impacts of the COVID-19 pandemic began to dominate the second half of FY 2020.

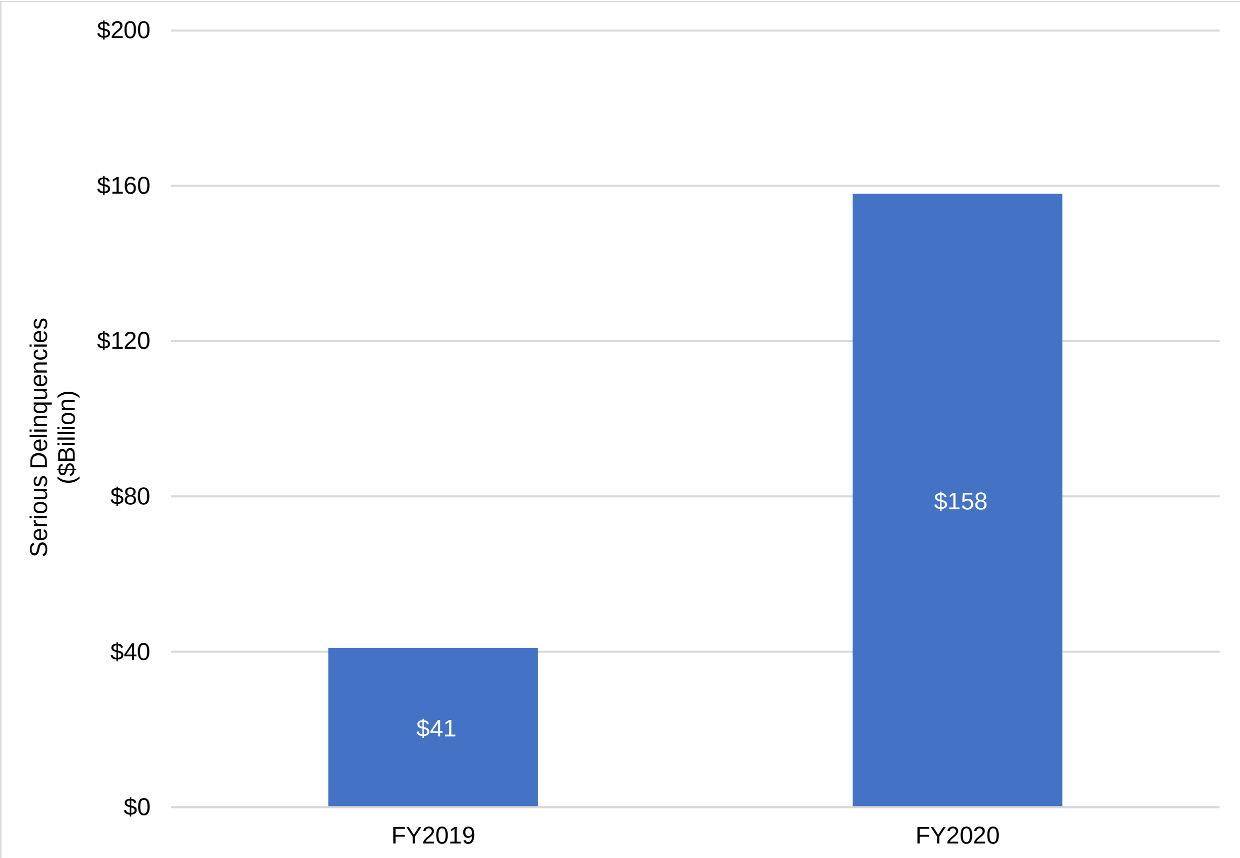
Early Payment Default (EPD) rates for the last six months of FY 2019 were not available when the FY 2019 Annual Report was published. The lower EPD rates over that six-month period as shown in Exhibit O-13 indicate that product risk moderated. For loans originated after November of FY 2019[6], however, adverse impacts of the COVID-19 pandemic dominated the recent improvements made to the product risk. EPD levels remain at historical highs, driven by the up to one year of forbearance authorized by the Coronavirus Aid, Relief and Economic Security (CARES) Act for federally backed loans.

[5] Early Payment Defaults are FHA-insured mortgages in which the borrower becomes 90 days or more delinquent within the first six payments.

[6] December 2019 – May 2020 comprises the initial 6-month period for November 2019 endorsements. The economic impacts of the pandemic became more severe during the last two months (i.e., April and May) of this period.

FHA's Serious Delinquent Portfolio Makes the Fund Vulnerable to Adverse Macroeconomic Shocks

Exhibit O-14: Serious Delinquent Portfolio Grew by $117 Billion as a Result of COVID-19 Forbearance



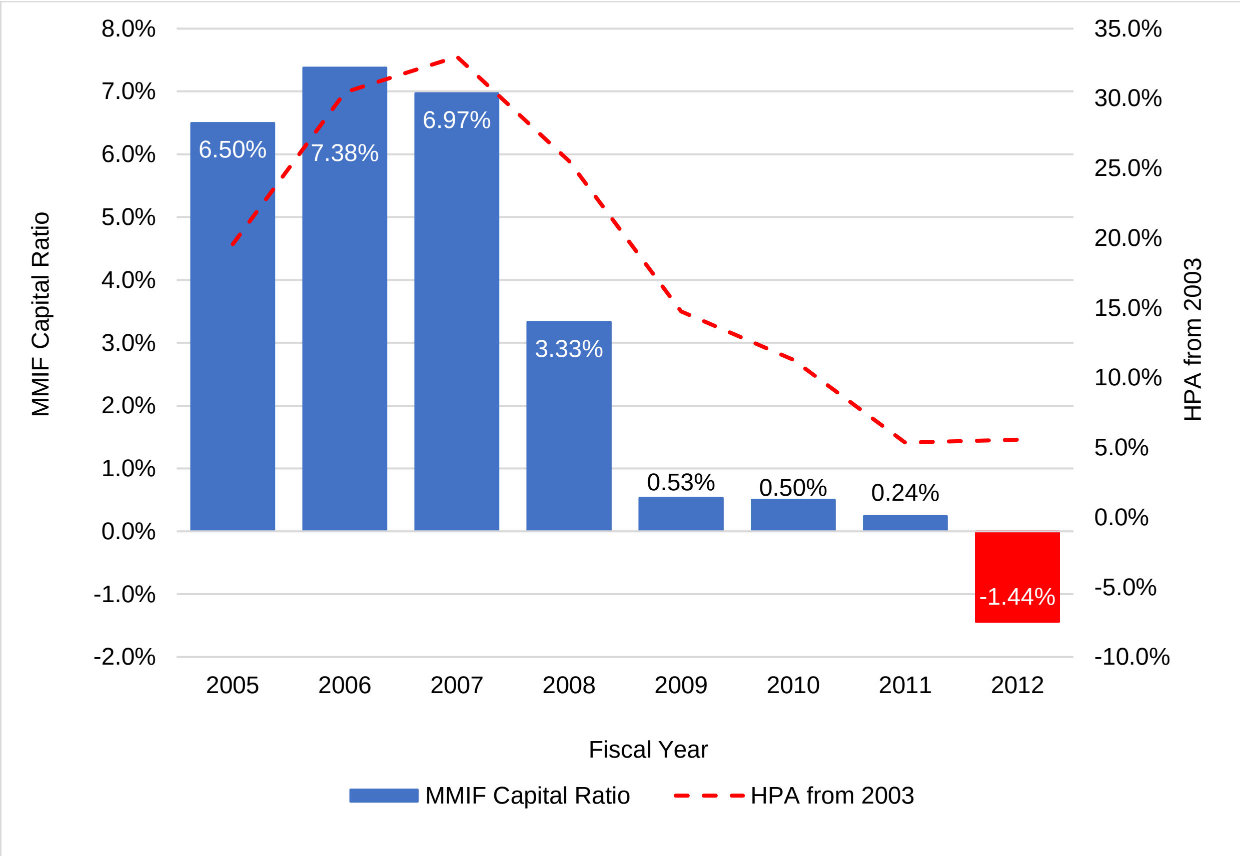
SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table A-5 in Appendix A.

The serious delinquent[7] (SDQ) portfolio ramped up in FY 2020 as a result of mortgage borrowers who received approval to delay or defer their monthly loan payments under the forbearance provisions of the CARES Act.

FHA programs attract borrowers not typically served by conventional and private markets. As such, these borrowers tend to have lower credit scores, higher DTI ratio and higher loan-to-value ratios. Given these and other characteristics, the COVID-19 pandemic has hit FHA borrowers disproportionately harder than those served by conventional and private markets. Exhibit O-14 above shows that since the end of FY 2019, the serious delinquent portfolio grew by $117 billion, from $41 billion to $158 billion. By comparison, the previous high for the serious delinquent portfolio was $105 billion in FY 2012.

[7] Mortgages that are 90 or more days delinquent.

Exhibit O-15: Years of Accumulated HPA in FHA's FY 2007 Portfolio Were Insufficient to Shield the MMI Fund from a Sudden and Severe Reversal in HPA



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table C-4 in Appendix C.

It is important to note that MMI Fund valuations for FY 2020 benefit from a continuation of strong HPA that eclipses negative economic developments as a result of the COVID-19 pandemic. Despite such growth in HPA, the unprecedented size of the serious delinquent portfolio increases the risk that these projections could change in the future based on macroeconomic conditions.

Exhibit O-15 illustrates how the years leading up to the last financial crisis, FY 2005-FY 2007, resulted in very positive capital valuations for FHA. In FY 2007, the MMI Fund Capital Ratio was 6.97 percent, largely because of the 85 percent HPA during the previous 8 years. (By comparison, the HPA growth for the FY 2020 portfolio during the same period is 59 percent.) Following the financial crisis, the MMI Fund Capital Ratio fell below 1.00 percent in just two years and eventually required a mandatory appropriation of $1.7 billion from Treasury. This demonstrates that even several years of built-up HPA growth can prove insufficient to shield the MMI Fund from a sudden and severe reversal in HPA.

Capital Management Approach to Protect the MMI Fund from Losses Similar to Those Experienced During the Great Recession

Managing the capital position of the MMI Fund goes beyond achieving a minimum ratio at a point in time. Prudent management practice should overlay the statutory capital requirement with a risk management approach that considers the health of the economy and the sensitivity of the Fund to unexpected changes in HPA. In response to economic uncertainties, private financial institutions significantly increased their provisions for loan losses in 2020. FHA's capital management strategy is consistent with observed behavior in the private markets.

FHA has assumed a critical role as a countercyclical force to help stabilize the mortgage market as COVID-19 continues to impact the economy. FHA continues to provide steady access to credit to those it was designed to serve, maintaining its current underwriting requirements. With that in mind, prudent capital management is the most effective tool at hand to balance FHA's responsibility to borrowers and taxpayers in this time of crisis.

Report Structure

The remainder of this report is structured as follows:

- Chapter I presents a summary of the credit portfolio for both the forward mortgage program and the HECM program. The chapter includes notable trends affecting the risk characteristics for new endorsements to the MMI Fund from both programs during FY 2020.

- Chapter II contains an analysis of the performance of the MMI Fund, which includes a detailed breakdown of the MMI Fund Capital Ratio and the stand-alone capital ratios for the forward and HECM portfolios. This chapter discusses best practice methods to manage the capital position of the Fund.

- Chapter III provides an overview of the progress that FHA's Office of Single Family Housing has made in 2020 to improve FHA's Single Family programs.

- Chapter IV provides Recommendations in its Report to Congress that FHA believes to be necessary to ensure the safety and soundness of the MMI Fund.

Chapter I:
FHA Single Family Mortgage and Borrower Characteristics

FHA Forward Mortgage Program: New Endorsement Trends and Composition

FHA-insured mortgages play a major role for first-time and other borrowers traditionally underserved by the conventional mortgage market. The COVID-19 pandemic has impacted many homeowners and those looking to buy a home. During these times, FHA has remained a critical countercyclical force by providing liquidity and stability**.**

The challenges faced by the nation as a result of the COVID-19 pandemic for the majority of FY 2020 included financial challenges for many homeowners with FHA-insured mortgages. FHA has assisted homeowners during these unprecedented times, offering forbearance and other support for those experiencing COVID-19-related financial hardships, while sustaining a capital cushion to protect the American taxpayer.

Exhibit I-1A: FHA Purchase Loans to Core Borrower Segments FY 2018 – FY 2020 (count in thousands)

Core Borrower Segment	FY 2018	FY 2019	FY 2020
First-time homebuyer[8]	641.91	615.71	679.63
Minority	288.43	271.51	300.79

SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table A-2 and B-2 in Appendix A, B.

Above, Exhibit I-1A shows that FHA supported a greater number of its core borrower demographics in FY 2020 than in the previous two years. The share of first-time homebuyers reached a new high of 83.10 percent of total FHA forward mortgage purchase endorsements in FY 2020.

Exhibit I-1B: FHA Purchase Loans to Select Borrower Segments in FY 2020 (count in thousands)

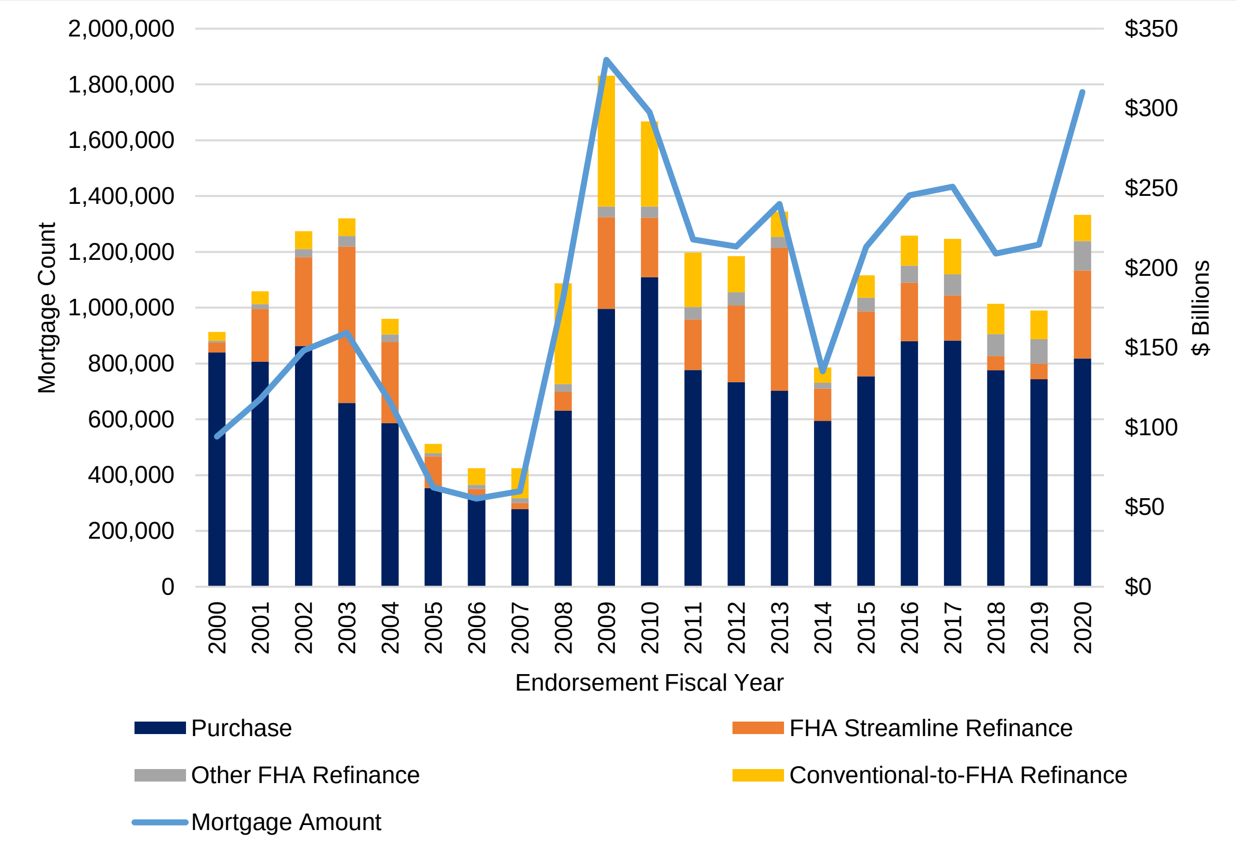
Core Borrower Segment	Oct – Mar FY 2020	Apr – Sep FY 2020
First-time homebuyer	320.40	359.23
Minority	145.30	155.49

SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table A-2 and B-2 in Appendix A, B.

[8] A first-time homebuyer is an individual who has had no ownership in a principal residence during the three-year period ending on the purchase date of the property. This includes a spouse (if either meet the above test, they are considered first-time homebuyers).

Further, as shown by Exhibit I-1B above, FHA endorsed more loans for these core borrower segments during the second half of FY 2020, at a time credit was being restricted throughout much of the marketplace.

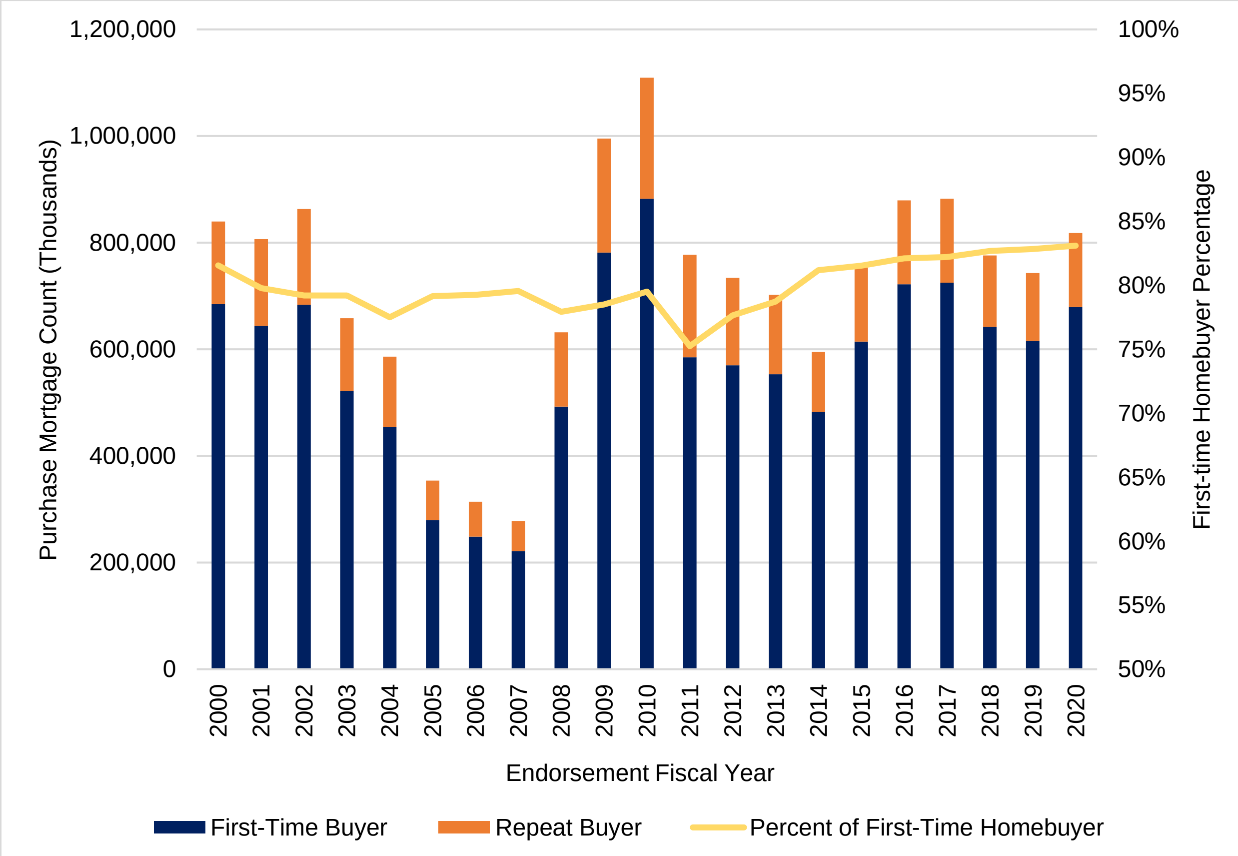
Exhibit I-1C: Historical FHA Forward Mortgage Endorsement Activity



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-1 in Appendix B.

Exhibit I-1C provides an historical overview of FHA forward mortgage endorsements by purpose and the aggregate original mortgage amount of endorsed mortgages, for each of the last 20 fiscal years. In FY 2020, FHA endorsed 1,333,176 home mortgages through its forward mortgage program, including 817,847 purchase transaction mortgages. Of these purchase mortgages, 679,633 served first-time homebuyers. The original mortgage amount of all endorsed forward mortgages, including both purchase and refinance volume, in FY 2020 totaled $310.33 billion, up from $214.62 billion in FY 2019. The average forward mortgage amount of FHA endorsements in FY 2020 was $232,773, an increase from the FY 2019 average of $216,695.

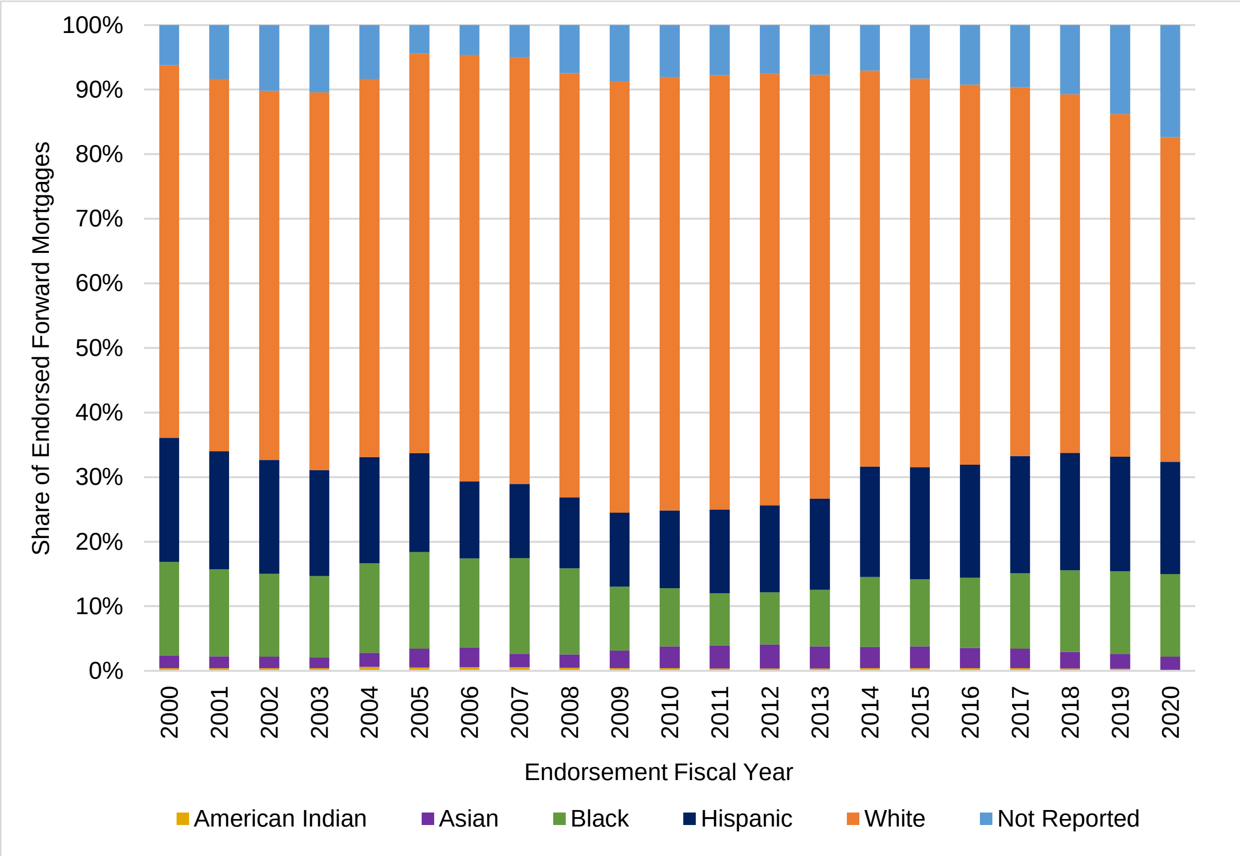
Exhibit I-2: Historical Purchase Mortgage Activity and FHA First-Time Homebuyer Share



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-2 in Appendix B.

As illustrated by Exhibit I-2, despite the historical variability in the total number of home purchase endorsements, first-time homebuyers consistently represent about four out of every five FHA forward mortgage purchase transactions. The percent of forward mortgages insured for first-time homebuyers in FY 2020 reached a new high of 83.10 percent.

Exhibit I-3: Racial Composition of FHA Forward Endorsed Mortgages



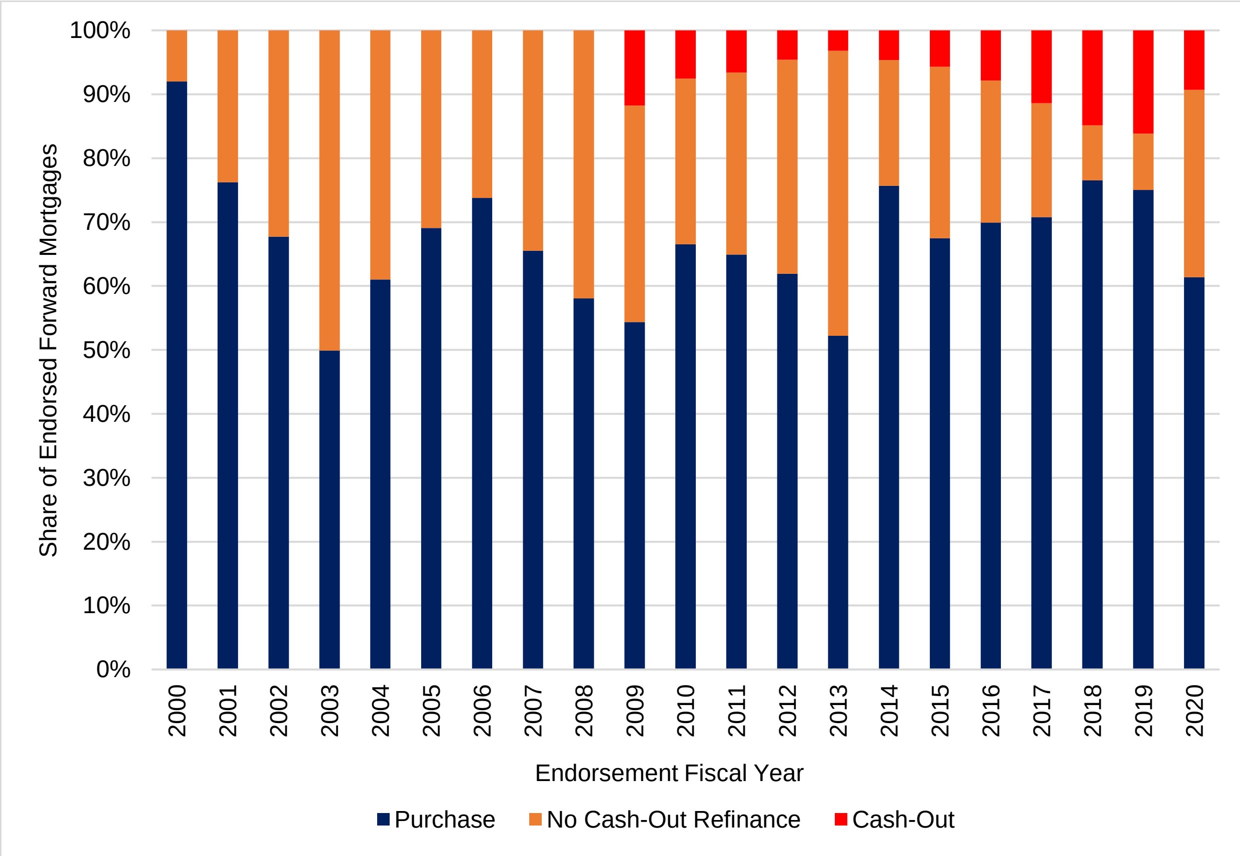
SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-3 in Appendix B.

FHA-insured mortgages continue to serve as an important source of financing for minority homebuyers. Exhibit I-3 shows that for FY 2020, 32.59 percent of FHA endorsements, including both purchase and refinance transactions, served minority borrowers, down slightly from 33.18 percent in FY 2019. For FY 2020, the composition of minority borrowers was 17.29 percent Hispanic; 12.74 percent Black; 2.20 percent Asian; and 0.36 percent American Indian.

Based on Calendar Year (CY) 2019[9] Home Mortgage Disclosure Act (HMDA) data, 37.16 percent of all minority borrowers used FHA to obtain a purchase transaction mortgage.

[9] Most recent data available.

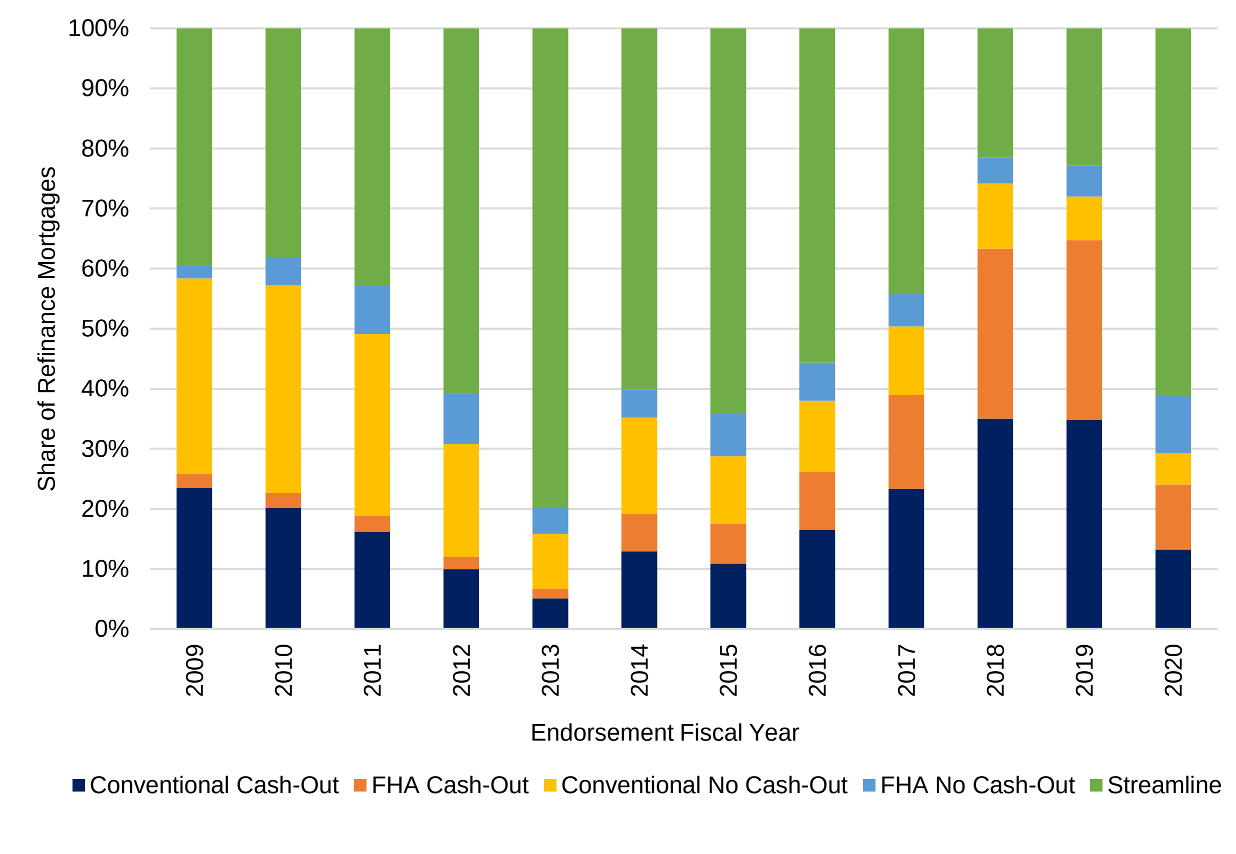
Exhibit I-4: Historical FHA Forward Endorsement Activity



NOTE: Cash-Out Refinance data is not available prior to FY 2009.
SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-4 in Appendix B.

Exhibit I-4 provides a detailed breakdown of historical forward endorsement activity. In FY 2020, FHA-insured purchase transaction mortgages represented 61.35 percent of all FHA-insured endorsements, as the share of refinance transactions increased. While this represents a decrease of 13.70 percentage points from FY 2019, purchase transactions still comprised a majority of FHA volume in a year dominated by refinance transactions.

Exhibit I-5: FHA Endorsement Activity by Refinance Type Including Cash-Out Refinances

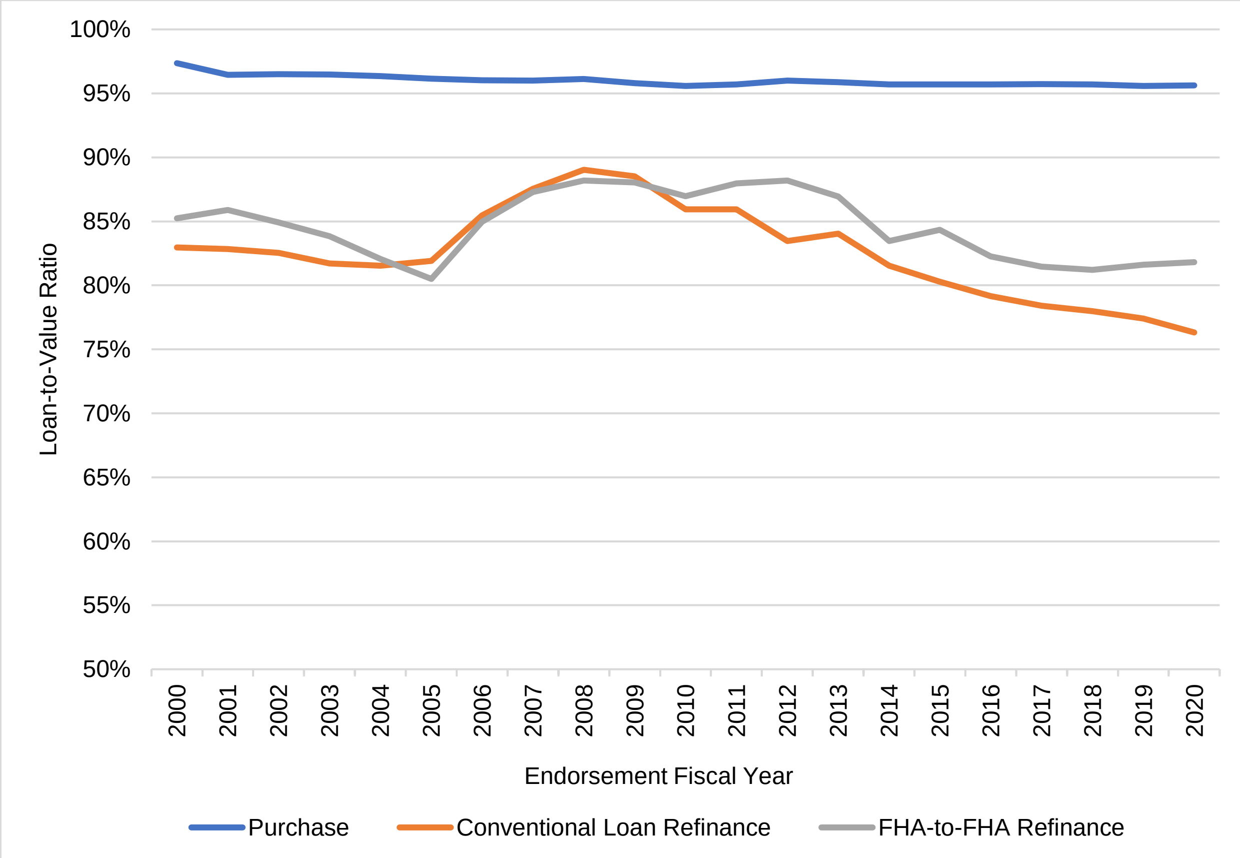


SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-5 in Appendix B.

Exhibit I-5 provides a detailed breakdown of FHA refinance mortgage endorsements by type of refinance transaction. In FY 2020, cash-out refinance transactions (Conventional Cash-out plus FHA Cash-out) represented 24.08 percent of all of FHA refinance transactions, a significant decrease from the FY 2019 level of 64.68 percent. Effective September 1, 2019, FHA reduced the maximum loan-to-value (LTV) and combined loan-to-value (CLTV) percentages for Cash-out refinance mortgages from 85 percent to 80 percent to align with industry standards.

The share of Streamline Refinance transactions, which offer current FHA borrowers a low-cost and less burdensome refinance option, nearly tripled from 22.83 percent in FY 2019 to 61.24 percent in FY 2020.

Exhibit I-6: Average FHA Forward Loan-to-Value Ratio by Mortgage Purpose

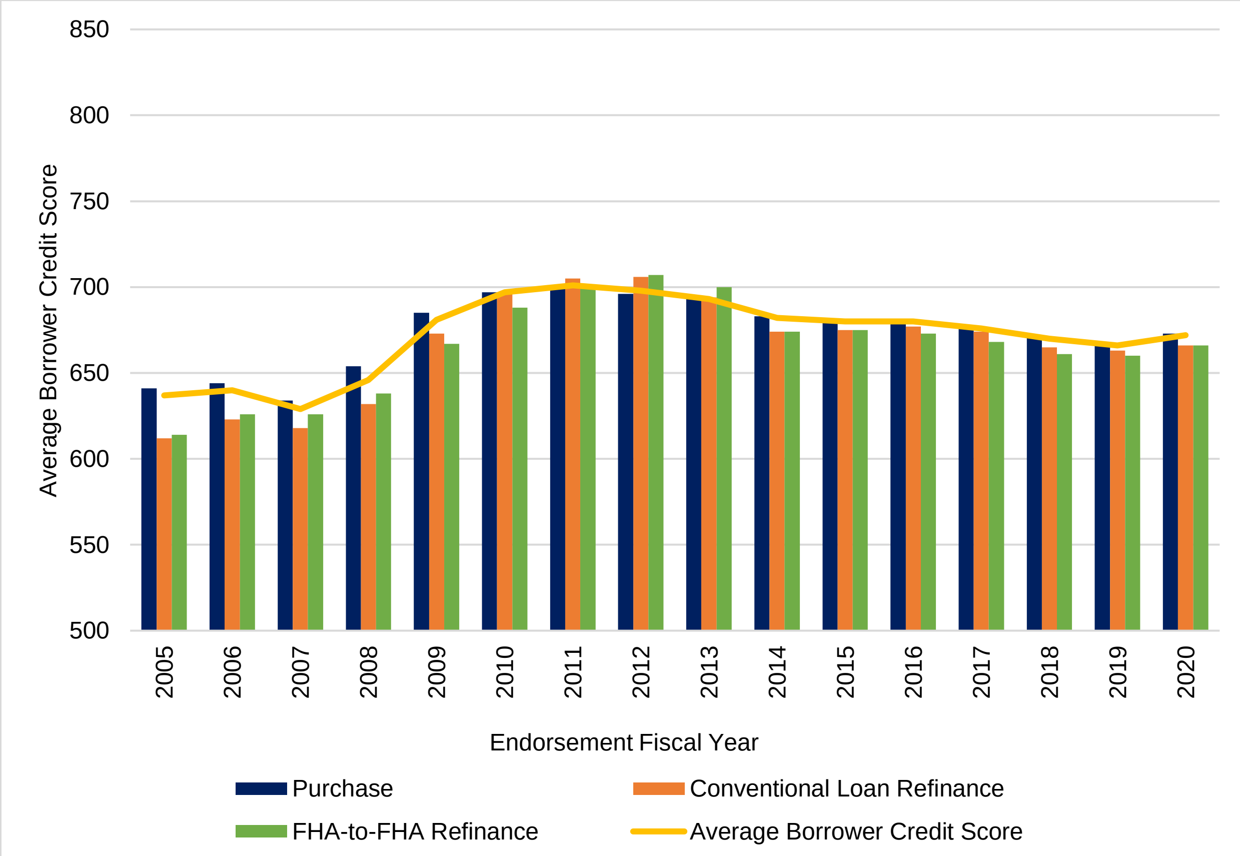


NOTE: Exhibit I-7 includes only fully underwritten mortgages and excludes Streamline Refinances.
SOURCE: US Department of HUD/FHA, October 2020.
Refer to data table B-6 in Appendix B.

The average LTV ratio for purchase transactions in FY 2020 was virtually unchanged from FY 2019 at 95.63 percent. As Exhibit I-6 illustrates, the average LTV ratio for purchase transaction mortgages has remained relatively stable since 2001. The average LTV ratio for both Conventional-to-FHA and FHA-to-FHA refinance transactions continues to decrease from the highs of FY 2007 through FY 2013, with Conventional-to-FHA refinances at 76.32 percent, and FHA-to-FHA refinances at 81.81 percent in FY 2020. House Price Appreciation (HPA) and a decrease in the maximum LTV of cash-out refinance mortgages are contributing factors to the declining average LTV ratio of new refinance endorsements.

FHA generally reports LTV ratios differently than the conventional mortgage market. In accordance with statutory requirements for determining eligibility of loans for FHA insurance, HUD excludes the financed upfront mortgage insurance premium from the LTV ratio. This methodological difference results in higher LTV ratios than would be reported by the conventional market. Both the FHA's and the conventional market's LTV calculations exclude downpayment assistance (DPA) loans. DPA loans comprised 39.80 percent of FHA's purchase transactions in FY 2020.

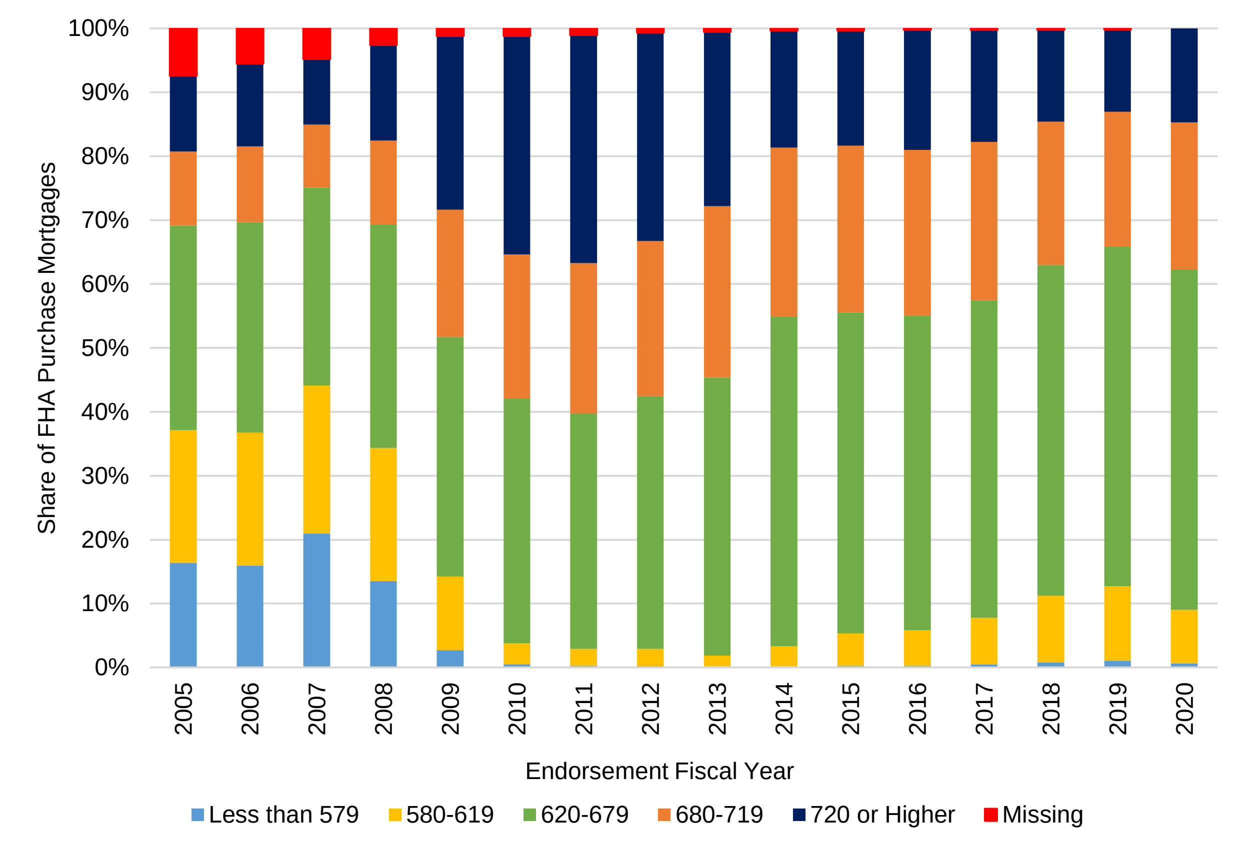
Exhibit I-7: Average Borrower Credit Score for FHA-Endorsed Mortgages



NOTE: Borrower credit score data was not collected prior to 2005.
SOURCE: U.S. Department of HUD/FHA, October 2020
Refer to data table B-7 in Appendix B.

Credit score is an important indicator of mortgage credit risk. As reflected in Exhibit I-7, FHA's average credit score decreased steadily from FY 2011, when FHA was serving a significant counter-cyclical role in the market until FY 2019. As the uncertainty caused by the COVID-19 pandemic drove many participants in the mortgage market to tighten their credit terms, the average borrower credit score for an FHA-insured mortgage increased modestly from 666 in FY 2019 to 672 in FY 2020. Borrower credit score data is not collected for Streamline Refinance mortgages.

Exhibit I-8: Distribution of FHA Borrower Credit Score by Fiscal Year

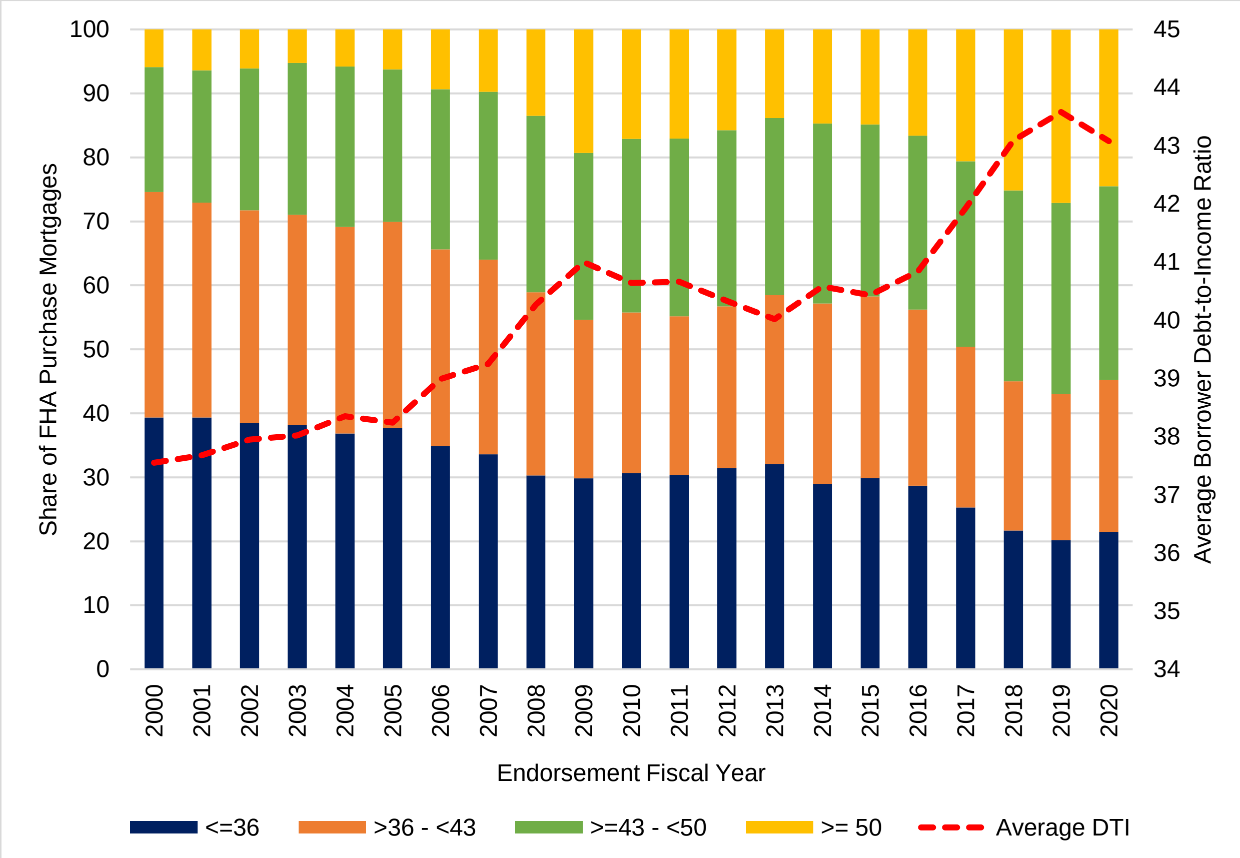


NOTE: Borrower credit score data was not collected prior to 2005.
SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-8 in Appendix B.

Exhibit I-8 illustrates the distribution of credit scores for borrowers obtaining FHA endorsements. Between FY 2013 and FY 2019, the share of endorsements with credit scores of 619 and below increased steadily to a high of 12.70 percent of endorsements in FY 2019 before falling to 8.96 percent in FY 2020. The share of endorsements with credit scores between 620 and 679 remained constant in FY 2020. Credit scores are not provided for Streamline Refinance mortgages.

The share of endorsements on mortgages with credit scores of 720 or higher increased from 12.89 percent in FY 2019 to 14.69 percent in FY 2020 but remains well below the levels reached in the aftermath of the Great Recession. FHA continues to actively monitor changes in credit score distributions, including the risk larger distributions of lower credit scores could pose to the MMI Fund. Changes to FHA's Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard may mitigate some of the risks inherent in endorsements of mortgages for borrowers with very low credit scores.

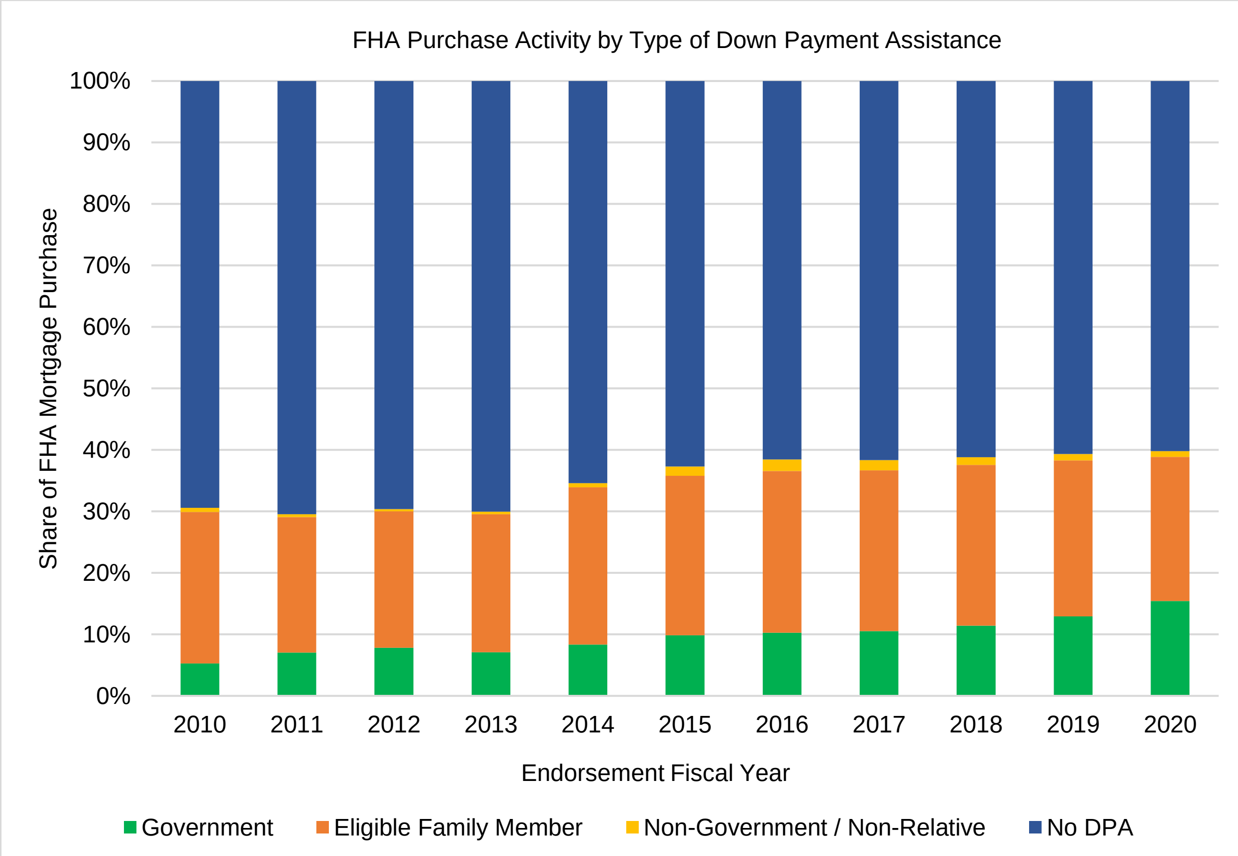
Exhibit I-9: Borrower Debt-to-Income (DTI) Ratio for FHA Purchase Mortgages



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-9 in Appendix B.

The average Debt-to-Income **(**DTI) ratio for borrowers with FHA-insured purchase mortgages declined slightly this year, from 43.58 in FY 2019 to 43.08 percent in FY 2020, as illustrated in Exhibit I-9. The proportion of borrowers with DTI ratios of 50 percent or greater in FY 2020 was at 24.53 percent, a decline from 27.11 percent in FY 2019, but well above the 13.87 percent in 2013. The percentage of borrowers with DTI ratios of 43 percent or greater declined to 54.81 percent in FY 2020 from 56.96 percent in FY 2019, a decrease of 2.15 percentage points.

Exhibit I-10: FHA Purchase Activity by Type of Downpayment Assistance



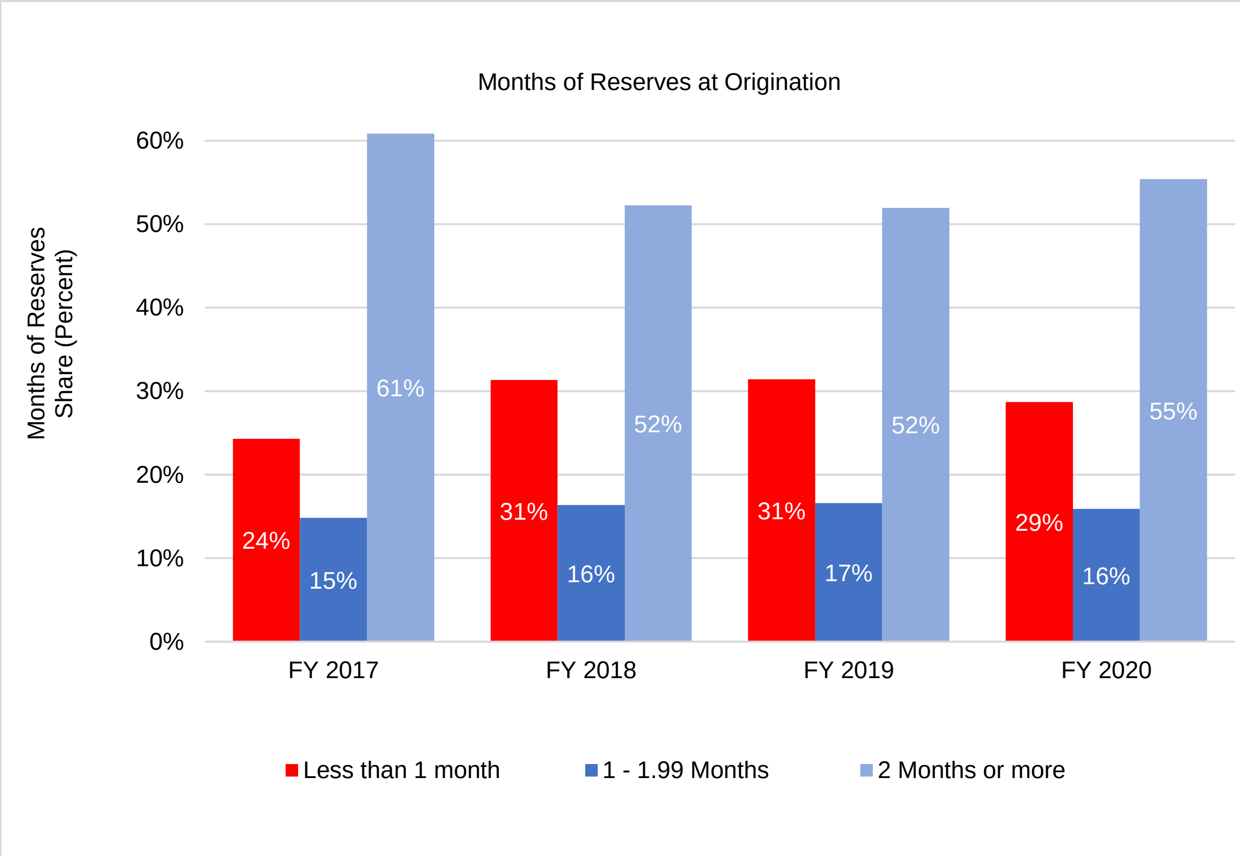
NOTE: Data does not account for instances where downpayment assistance data was missing from origination data submitted to FHA.
SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-10 in Appendix B.

FHA insures mortgages where the borrower obtains DPA funds from eligible sources, including governmental entities or eligible family members. As Exhibit I-10 shows, eligible family member gift funds were the largest source of DPA used by borrowers with FHA-insured mortgages, representing 23.44 percent of FHA's total forward mortgage purchase volume in FY 2020. The second largest source of DPA funds came from governmental entities,[10] representing 15.43 percent of FY 2020 forward mortgage endorsements.

Serious delinquency (SDQ) rates on DPA loans historically have exceeded non-DPA loans by over 25 percent. Seasoned loans with DPA from government entities are associated with the highest SDQ rates, although the differential between DPA sources appears to have evened out in recent years. More detail on DPA performance can be found in Exhibits I-18 and I-19.

[10] Borrowers accepting downpayment assistance from a governmental entity may execute a note and security instrument agreeing to repay the assistance under specified conditions, unlike a gift from a relative.

Exhibit I-11: In Recent Years About 30 Percent of FHA Borrowers Had Less than 1 Month of Reserves at Origination

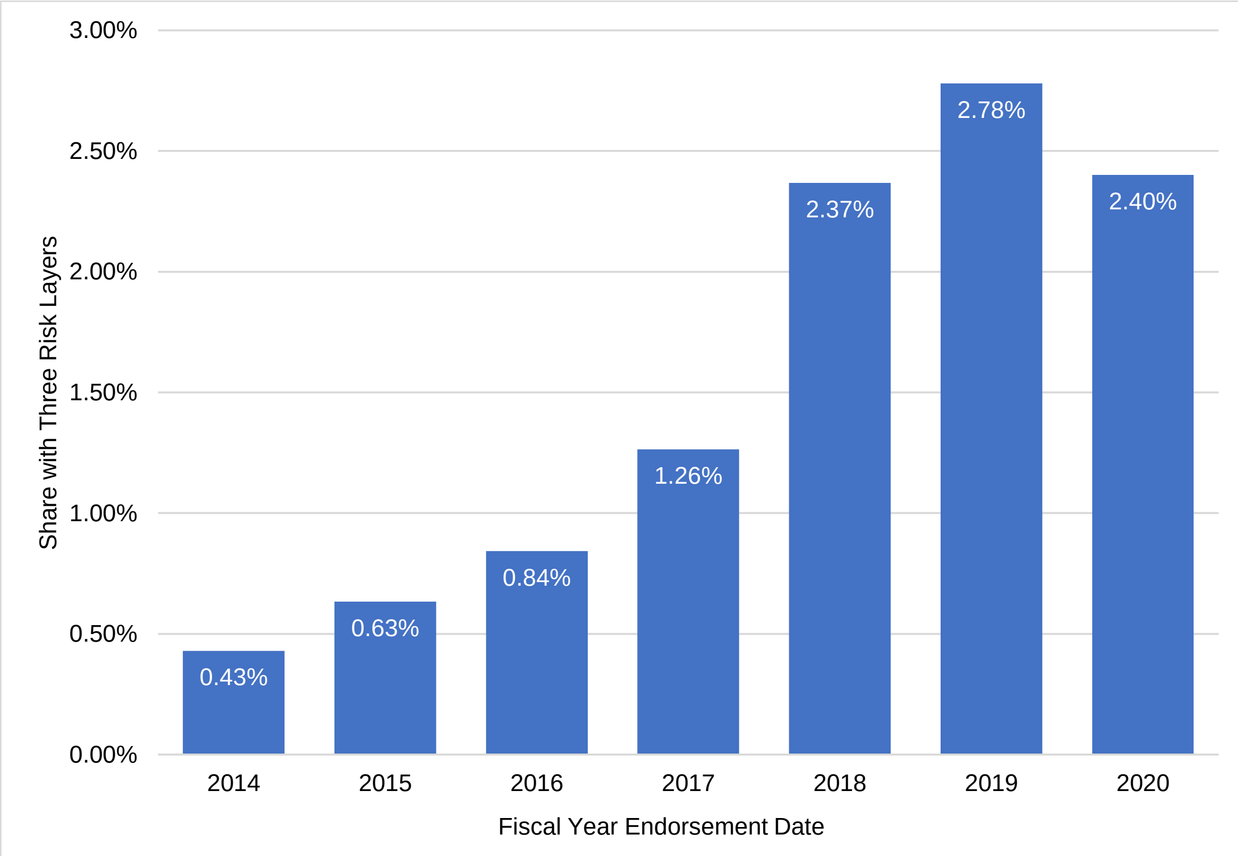


SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-11 in Appendix B.

Exhibit I-11 shows that the share of purchase transaction endorsements with less than one month of reserves[11] decreased modestly in FY 2020 from 31 percent to 29 percent. Having reserves remaining after closing can act as a mitigant towards unexpected expenses faced by borrowers.

[11] Reserves are an amount of cash that a borrower is required to keep on hand after paying for the downpayment and closing costs, measured by the number of months of mortgage payments a borrower could pay using his or her financial assets.

Exhibit I-12A: Share of Mortgages with Three Risk Layers

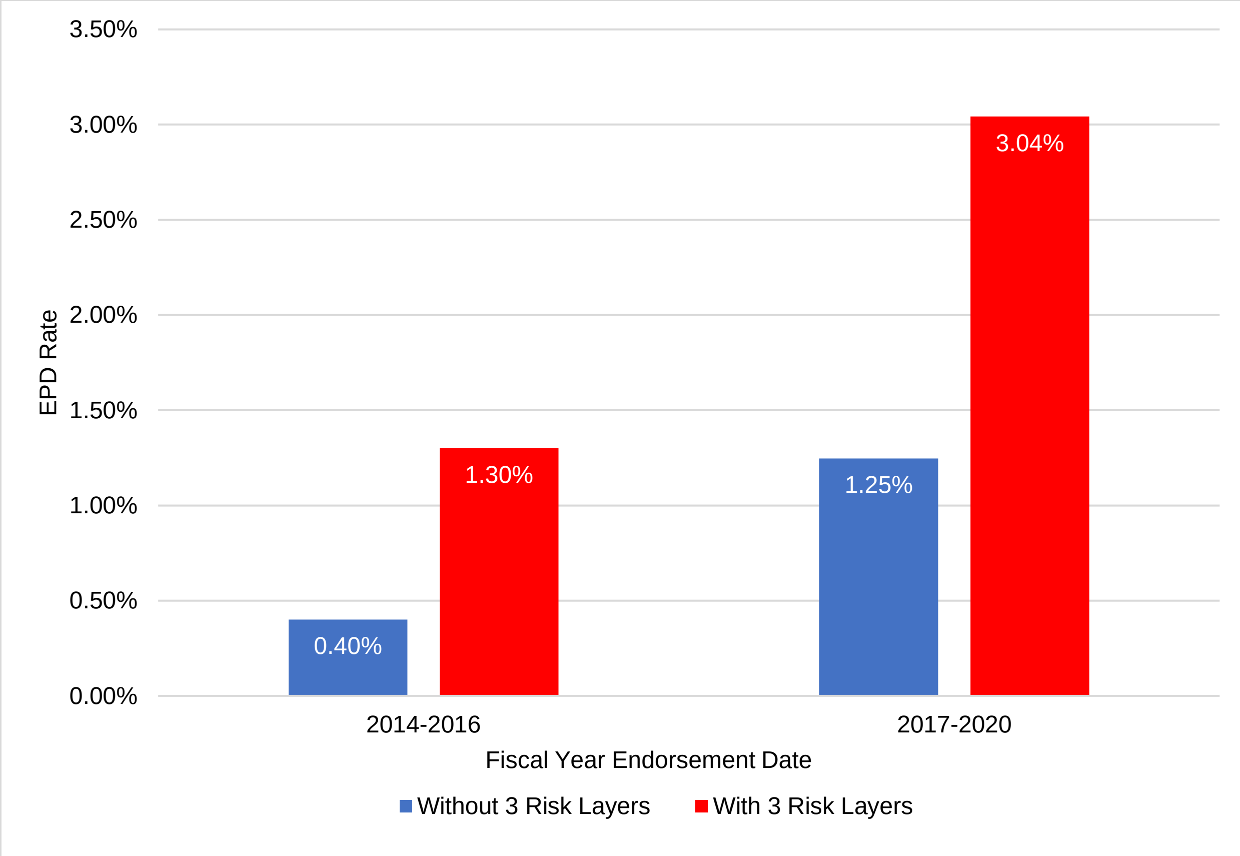


SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-12 in Appendix B.

The preceding sections identified several risks that FHA continues to monitor. While the risk of a loan with only one risk attribute may be offset by other factors, loans subject to a combination of risk factors (risk layering) are significantly more likely to fail. As illustrated in Exhibit I-12A, the incidence of extreme risk layering is lower in FY 2020 than in FY 2019 but still historically high based on the share of purchase transaction mortgages with the following three risk layers:

- DTI ratio greater than 50 percent
- Less than two months reserves
- Less than 640 credit score

Exhibit I-12B: Early Payment Default Rate for Mortgages with and without Three Risk Overlays



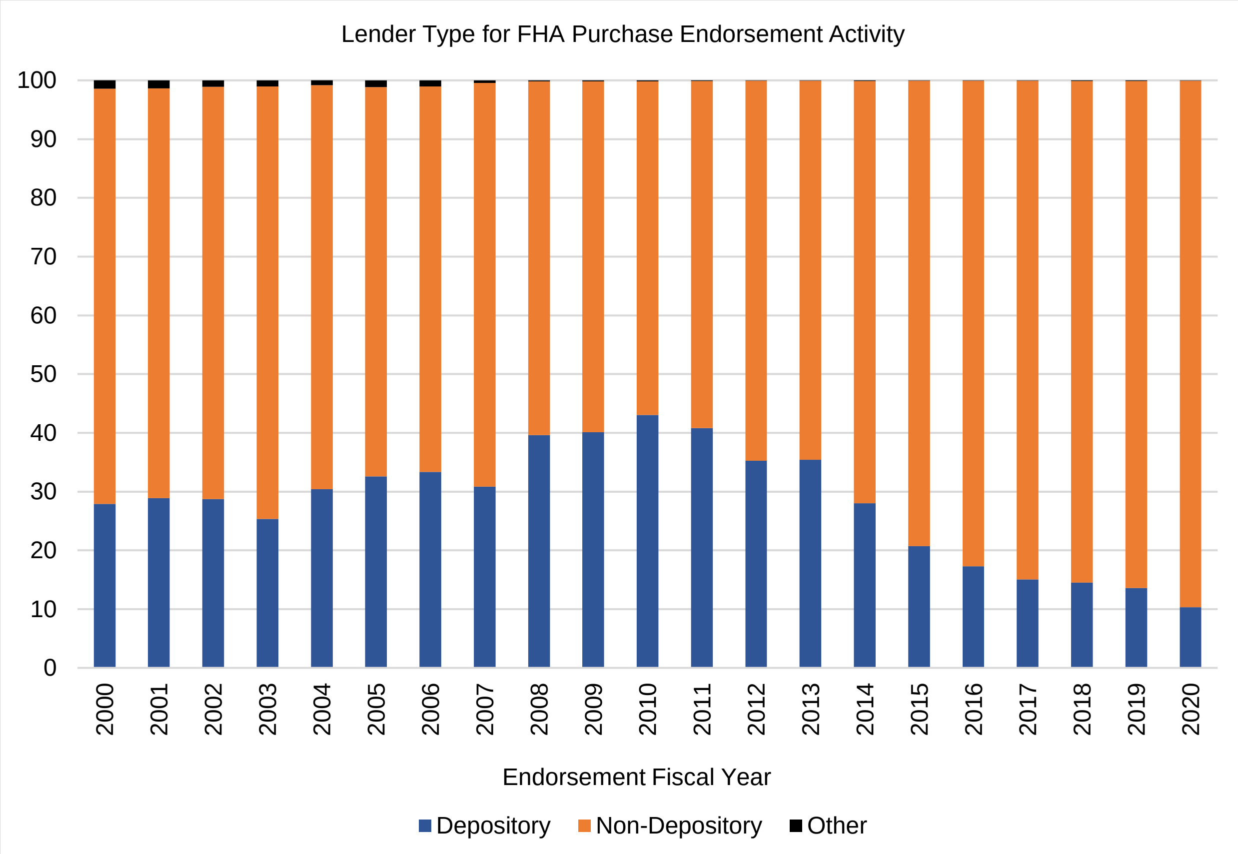
NOTE: The three risk layers are defined as: (1) DTI ratio Greater than 50% (2) Less than two months reserves (3) Less than 640 credit score.
SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-13 in Appendix B.

Early performance of loans with extreme risk layering has ranged between approximately 2.5 and 3 times worse than the population of loans without all three risk layers, as shown by Exhibit I-12B, above. Further, early performance is significantly worse for loans with extreme layering that are of more recent vintage.

In August 2016, Review Rule 14, which triggered manual underwriting requirements for mortgages with less than 620 credit scores and greater than 43 percent DTI ratios, was removed from the TOTAL Mortgage Scorecard. The removal of this rule contributed to an increase in higher-risk loans to FHA and elevated early payment default (EPD) rates starting in FY 2017.

In March 2019, FHA adjusted its TOTAL Mortgage Scorecard so that higher risk loans would require manual underwriting, which could include compensating factors to offset risk. FHA began to see positive results of this change in new mortgage originations endorsed beginning in July 2019 until adverse impacts of the COVID-19 pandemic began to dominate the second half of FY 2020.

Exhibit I-13: Lender Type for FHA Endorsement Activity

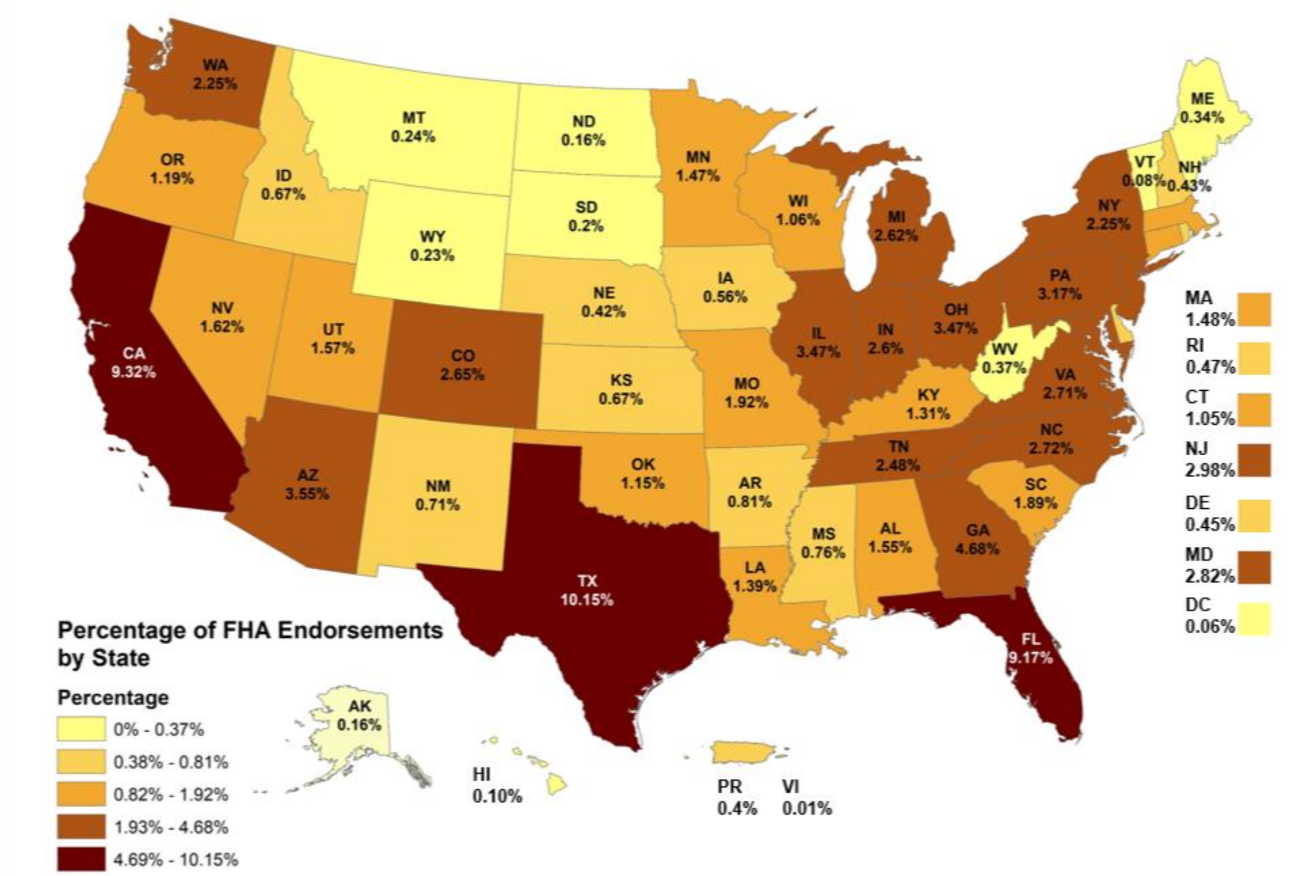


NOTE: This table does not include Streamline refinance mortgages.
SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-14 in Appendix B.

Over the past eight years, an increasing share of new FHA endorsements were originated by non-depository institutions, as illustrated in Exhibit I-13. In FY 2020, non-depository lenders originated mortgages representing 89.57 percent of all FHA forward endorsements, up from 56.80 percent in FY 2010. Depository institutions have decreased their FHA participation for a number of reasons, including perceived enforcement risk. During FY 2020, FHA made significant strides to improve the clarity of regulatory expectations within its programs. Most notably, on October 28, 2019, HUD and the U.S. Department of Justice signed a landmark Memorandum of Understanding (MOU), which provides guidance on the appropriate use of the False Claims Act (FCA) for violations of FHA requirements by FHA-approved lenders. Please refer to Chapter III for more detail.

Reduced participation by depository institutions may limit opportunities for borrowers to access FHA-insured mortgages and the lack of diversity and strength of FHA counterparties may add risk to the MMI Fund.

Exhibit I-14: FY 2020 FHA Forward Endorsement Concentration by State



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-15 in Appendix B.

Exhibit I-14 shows the percentage of FY 2020 endorsements by state. The three most populous states. California, Texas, and Florida, are also the states that had the greatest counts of FHA-insured mortgage endorsements in FY 2020, totaling 28.64 percent of forward endorsements. Additionally, just over half of all forward endorsements were concentrated in just ten states. However, the correlation between population and FHA mortgage concentration does not hold for every state. Factors such as property values in relation to FHA mortgage limits may influence the concentration of FHA business.

Forward Mortgage Program: Portfolio Overview and Performance Trends

Exhibit I-15: Insurance-in-Force, Unpaid Principal Balance, and Seriously Delinquent by Vintage as of September 30, FY 2020

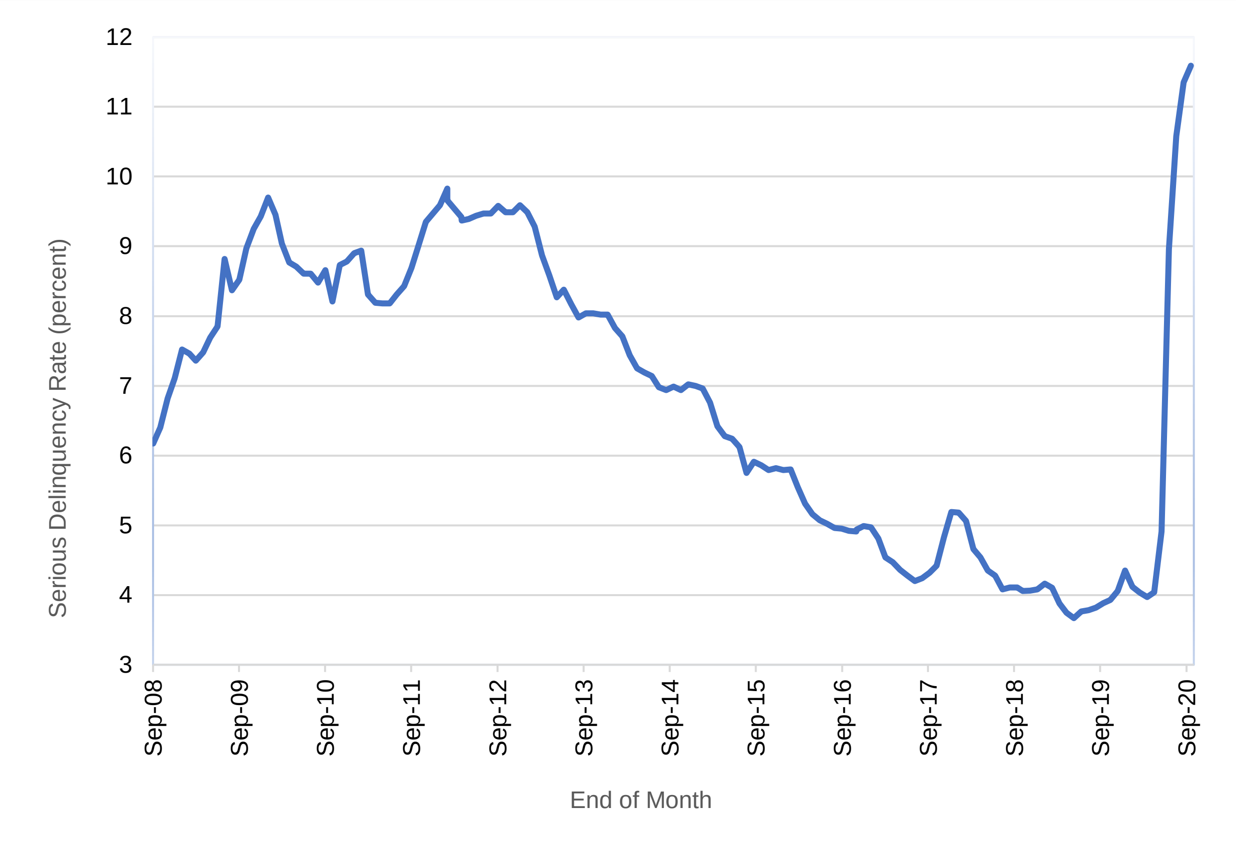
Endorsement Fiscal Year	Insurance-in-Force				Seriously Delinquent	
	Counts	IIF Share (Percent)	UPB ($ millions)	UPB Share (Percent)	Counts	Rate (Counts)
Pre-2004	453,493	5.68	19,077	1.54	47,209	10.41
2004	121,661	1.52	8,144	0.66	15,092	12.40
2005	88,573	1.11	6,422	0.52	12,388	13.99
2006	71,601	0.90	5,801	0.47	10,949	15.29
2007	68,218	0.85	6,280	0.51	11,543	16.92
2008	158,745	1.99	17,085	1.38	27,860	17.55
2009	331,559	4.15	38,768	3.14	44,553	13.44
2010	414,557	5.19	47,761	3.87	47,700	11.51
2011	334,270	4.18	39,871	3.23	36,050	10.78
2012	417,762	5.23	51,807	4.19	41,815	10.01
2013	586,382	7.34	77,676	6.29	53,647	9.15
2014	269,885	3.38	32,200	2.61	35,336	13.09
2015	488,122	6.11	71,675	5.80	63,029	12.91
2016	707,384	8.86	114,484	9.27	90,326	12.77
2017	800,809	10.02	139,795	11.32	107,646	13.44
2018	680,536	8.52	123,781	10.02	104,012	15.28
2019	714,105	8.94	141,219	11.43	104,887	14.69
2020	1,280,692	16.03	293,569	23.76	71,659	5.60
Total	7,988,354	100.00	1,235,412	100.00	925,701	11.59

NOTE: These mortgage counts and balances are active as of September 30, 2020. Portfolio UPB differs slightly from IIF amounts reported in Chapter 2.
SOURCE: U.S. Department of HUD/FHA, October 2020.

Exhibit I-15 provides a breakdown of FHA Insurance-in-Force (IIF) by vintage, including the SDQ rate for each cohort. The SDQ rate, a key indicator of portfolio performance, tracks the percentage of FHA-insured mortgages where the borrower is 90 or more days delinquent, including mortgages in foreclosure and bankruptcy.

As of the end of FY 2020, the FHA forward portfolio consisted of approximately $1.24 trillion in IIF and an overall SDQ rate of 11.59 percent. Although recent cohorts appear to have performed more favorably than older cohorts, readers should be cautioned that SDQ rates tend to rise as mortgages season. The currently low SDQ rates for the FY 2020 vintage reflect the short seasoning period of these mortgages.

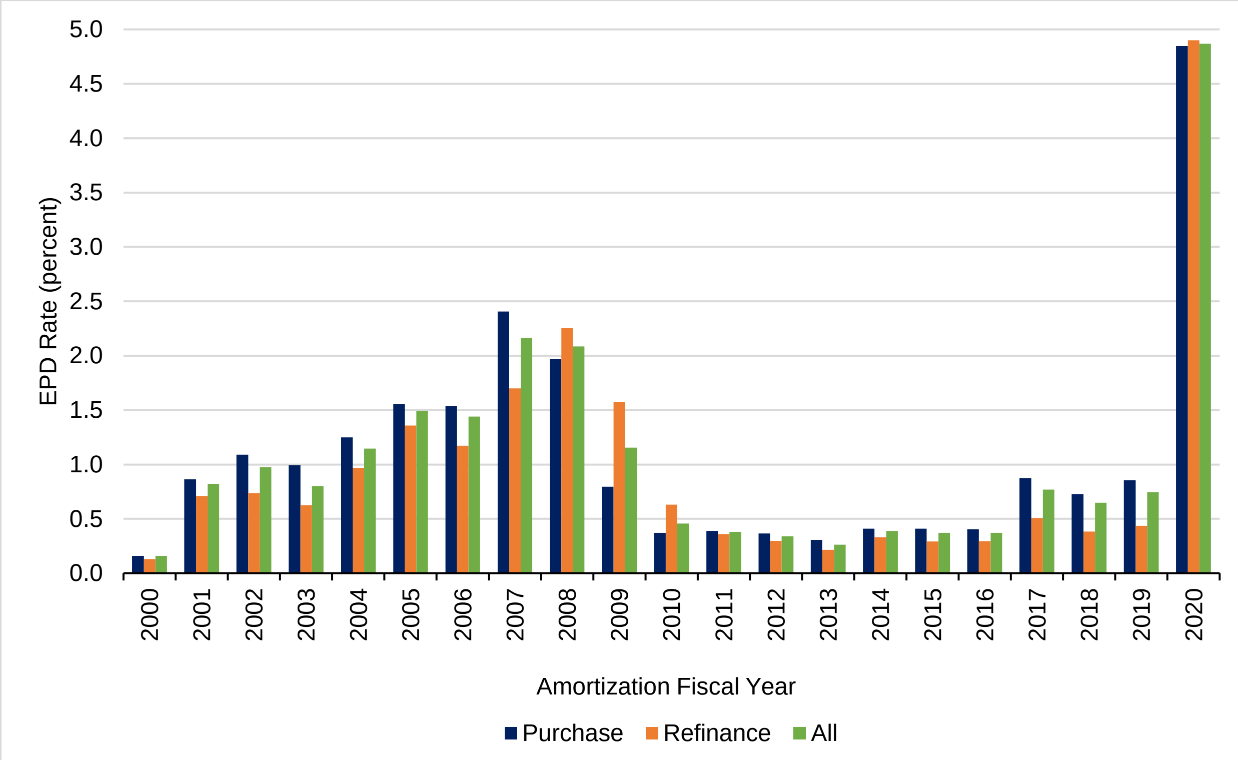
Exhibit I-16: Historical SDQ Rates for FHA Mortgages



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-16 in Appendix B.

The SDQ rate tracks the percentage of FHA-insured mortgages where the borrower is 90 or more days delinquent, including mortgages in foreclosure and bankruptcy. Exhibit I-16 shows substantial improvement in the SDQ rate from FY 2013 through March 2020. Starting in April 2020, a significant number of FHA borrowers began to request approval to defer their monthly loan payments under the forbearance provisions of the CARES Act. The SDQ rate quickly rose from 4.04 percent in April 2020 to 11.59 percent by the end of FY 2020, as forbearance requests transitioned into serious delinquencies a few months later.

Exhibit I-17: FHA Early Payment Default Rates by Mortgage Purpose



NOTE: FY 2020 data is through February 2020.
SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-17 in Appendix B.

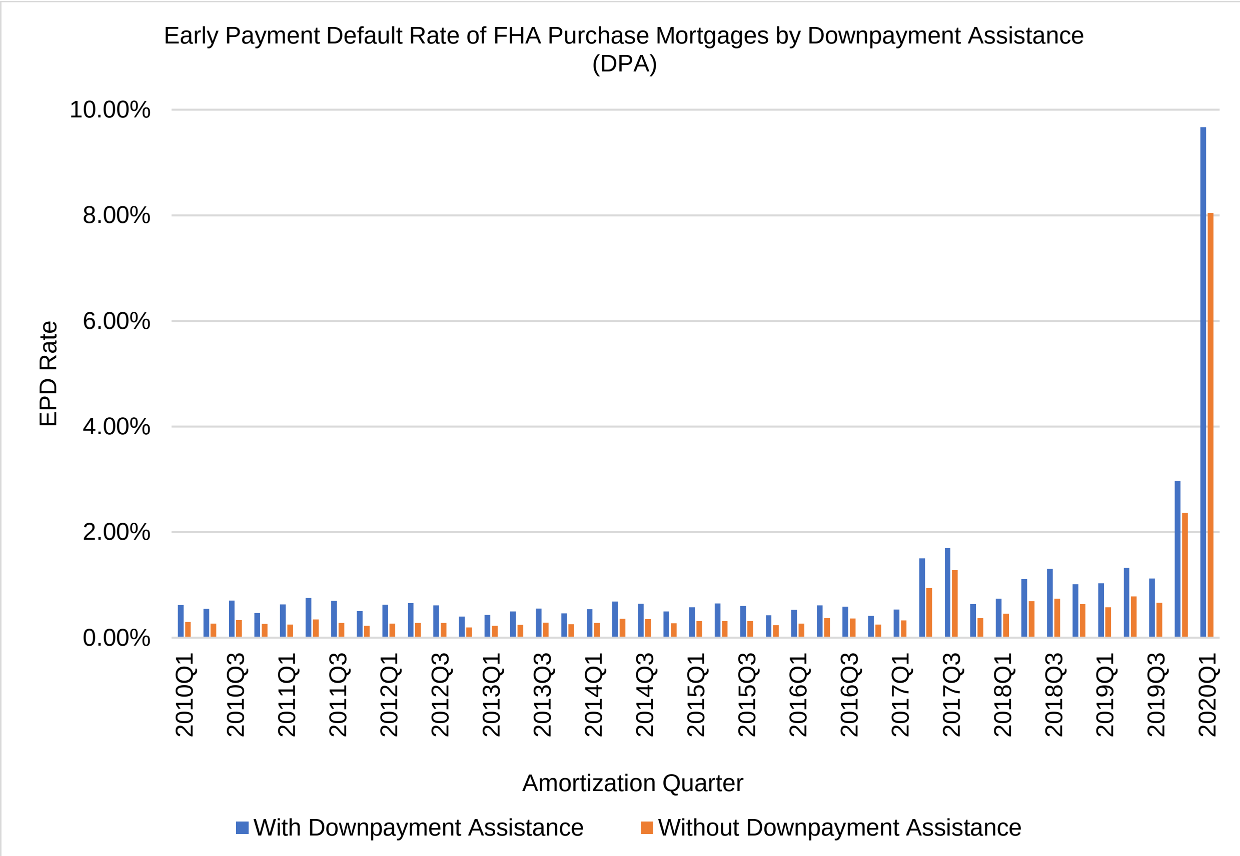
EPDs are FHA-insured mortgages in which the borrower becomes 90 days or more delinquent within the first six payments. EPD rates typically reflect the credit quality of new endorsements and serve as an early indicator of mortgage performance. As illustrated in Exhibit I-17, EPD rates remained relatively low from FY 2010 through FY 2016.

In August 2016, Review Rule 14, which triggered manual underwriting requirements for mortgages with less than 620 credit scores and greater than 43 percent DTI ratios, was removed from the TOTAL Mortgage Scorecard. The removal of this rule contributed to an increase in higher-risk loans to FHA and elevated EPD rates starting in FY 2017.

In March 2019, FHA adjusted its TOTAL Mortgage Scorecard so that higher risk loans would require manual underwriting, which could include compensating factors to offset risk. As a result of this change, FHA saw improvements to the credit quality of new mortgage endorsements beginning in July 2019.

Adverse impacts of the COVID-19 pandemic began to dominate the second half of FY 2020. Starting in April 2020, a significant number of FHA borrowers began to request approval to defer their monthly loan payments under the forbearance provisions of the CARES Act. The average EPD rate rose from 0.60 percent in April 2020 to 9.27 percent by the end of FY 2020.

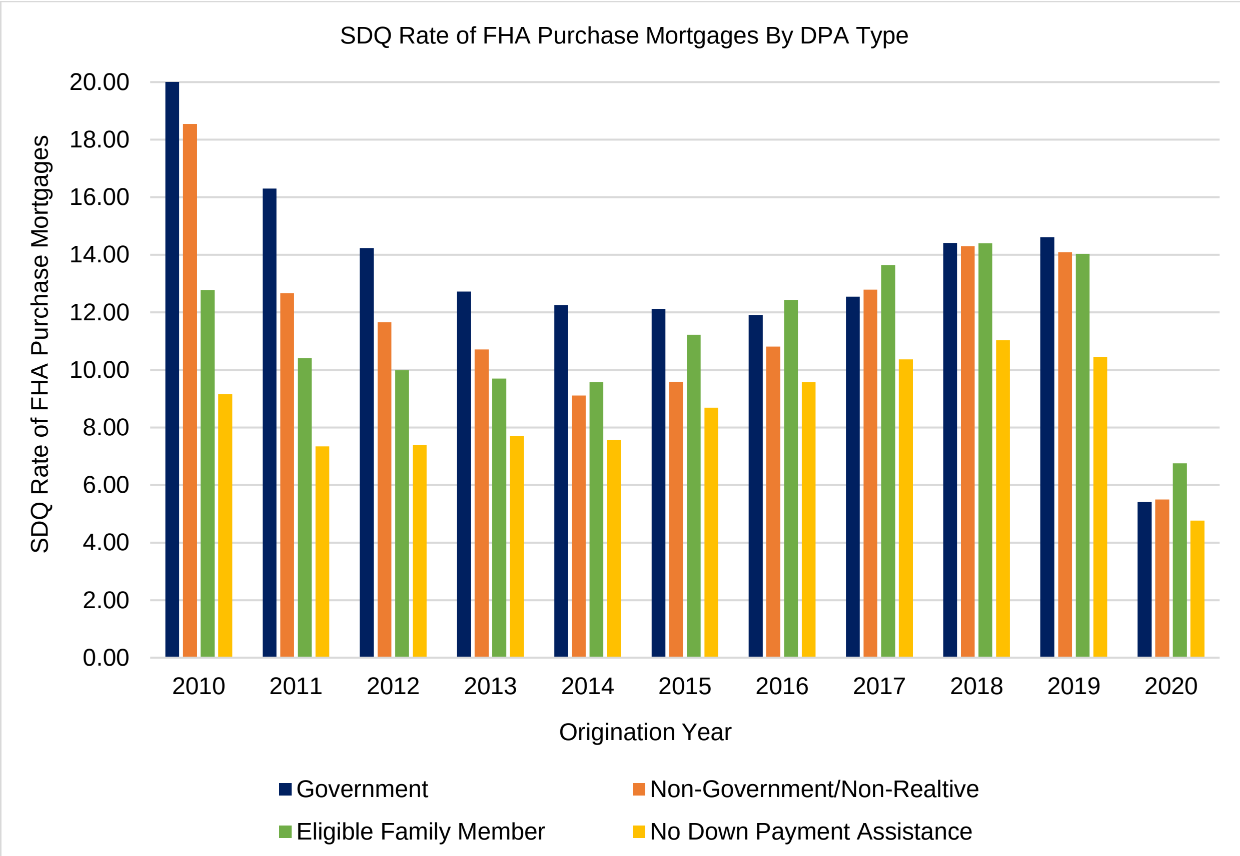
Exhibit I-18: Early Payment Default Rate of FHA Purchase Mortgages by Downpayment Assistance Type



NOTE: Secondary Financing is not included.
SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-18 in Appendix B.

Exhibit I-18 illustrates that the EPD rates of mortgages with DPA exceeded those of mortgages without DPA in every quarter of the past decade. EPD rates for DPA loans exceeded non-DPA loans by about 60 percent prior to FY 2020.

Exhibit I-19: Serious Delinquency Rate of FHA Purchase Mortgages by Downpayment Assistance Type as of September 30, FY 2020

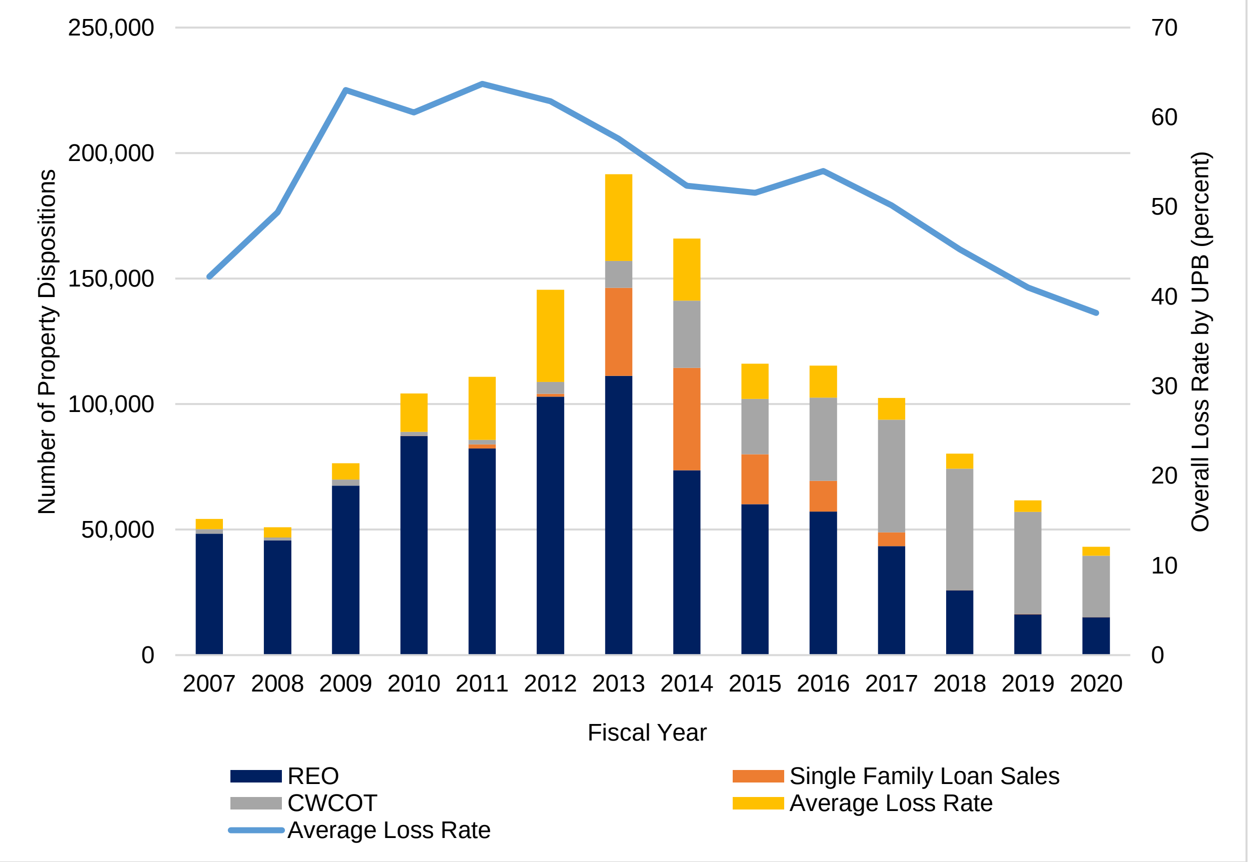


NOTE: Secondary financing is not included.
SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-19 in Appendix B.

Exhibit I-19 shows the current SDQ rate of FHA-insured purchase transaction mortgages endorsed for FY 2011 through FY 2020 by DPA type. SDQ rates tend to rise as mortgages season. The FY 2020 vintage's relatively low SDQ rates reflect the short seasoning period of these mortgages. More seasoned vintages show higher SDQ rates, and there is a significant difference in SDQ rates between mortgages with DPA and those without. Seasoned mortgages with DPA from governmental entities exhibited the highest SDQ rates until FY 2015 but appear to have evened out in more recent vintages.

Loss and Claims Activity

Exhibit I-20: FHA Loss Severity and Claim Count by Disposition Strategy

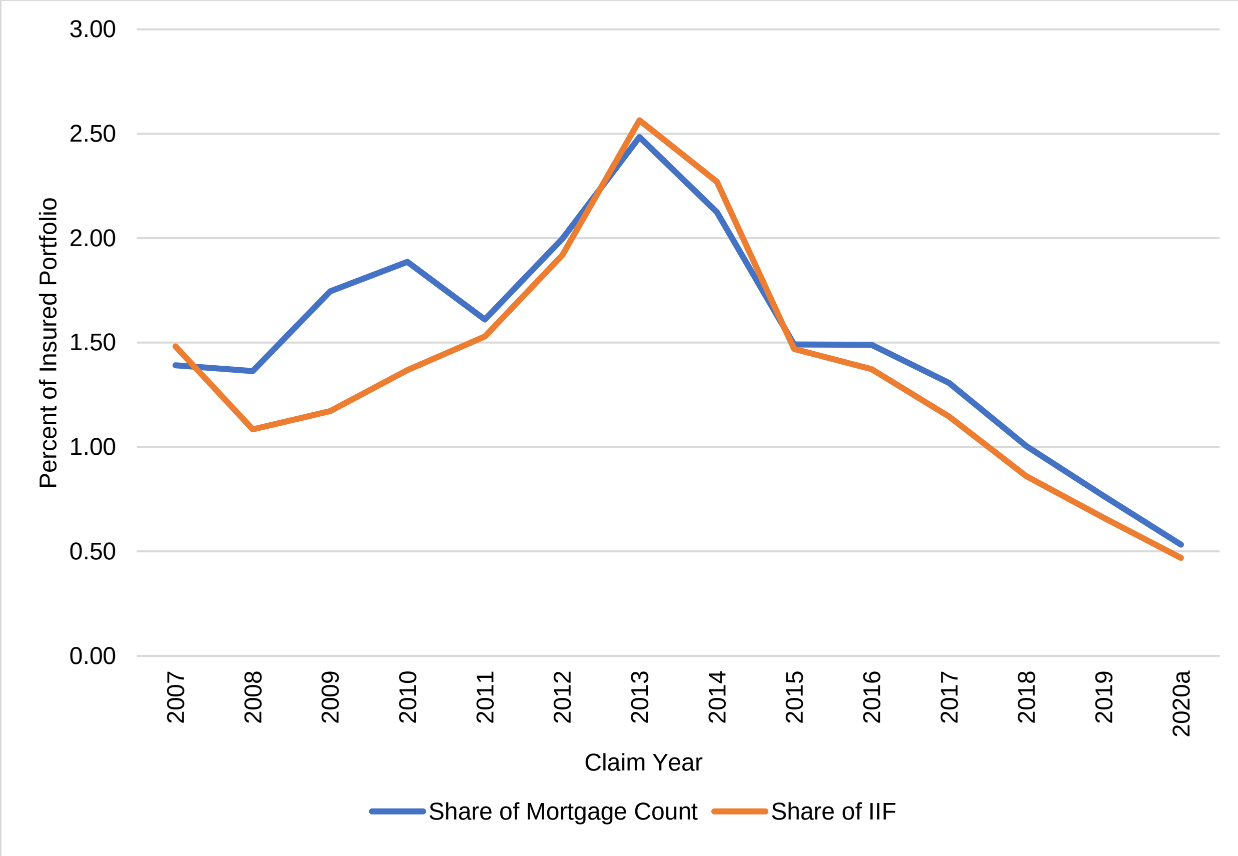


NOTE: De minimis note sales may be reflected in the table above in which final resolution may result in an alternative disposition type. It includes funds outside of MMI Fund and outbids. Due to time lag in reporting of dispositions, data is of August 31, 2020 and therefore is missing one month of comparable data to prior fiscal year reports.
SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-20 in Appendix B.

Exhibit I-20 shows the average loss rate declined to 38.77 percent in FY 2020, down from a peak of over 60 percent during the financial crisis. FHA utilizes four asset disposition strategies: sale of HUD real-estate owned (REO) properties; Single Family Loan Sales, Claim without Conveyance of Title (CWCOT) and Pre-foreclosure Sales.

While rising HPA has contributed to the recent decline in average loss rates, Exhibit I-20 shows that since FY 2017, FHA's strategy of replacing REO transactions with less costly CWCOT transactions has also played a significant role. FHA doubled the share of CWCOT dispositions from 29 percent in FY 2016 to 58 percent in 2020, with an average cost savings of about 35 percent. This resulted in a cost savings of over $1.2 billion between FY 2017 and FY 2020. Even with the success of CWCOT, FHA has identified several areas to maximize future utilization and recoveries of assets sold through CWCOT. See Chapter 3 for more details.

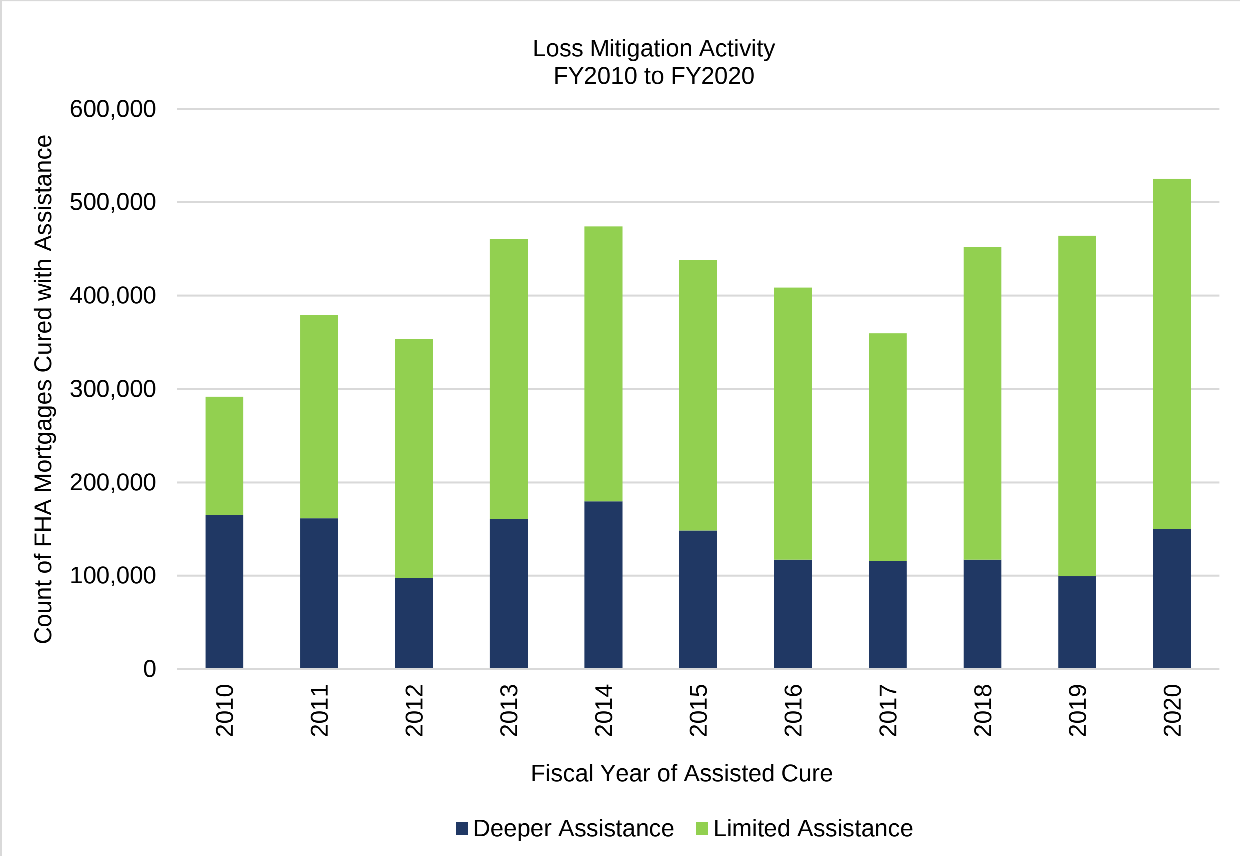
Exhibit I-21: Annual FHA Claims as a Share of Initial Insurance-in-Force



NOTE: Data through August 31, 2020, includes funds outside of MMI Fund. Includes outbids.
SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-21 in Appendix B.

Exhibit I-21 reflects claims paid as a percentage of IIF for both the number of claims and the dollar balance of claims. The continued improvement in claims paid as a percentage of IIF since FY 2013 reflects a favorable housing and economic environment.

Exhibit I-22: Recent FHA Loss Mitigation Activity



NOTE: Deeper Loss Mitigation Assistance includes FHA-HAMP, Partial Claims, and Loan Modifications. Limited Loss Mitigation Assistance includes Promise to Pay and Repayment Plans. Starting in May 2013, Promise to Pay is no longer classified as a Repayment Plan and is considered its own category.
SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-22 in Appendix B.

FHA's loss mitigation activities include home retention options that provide a range of tools to enable eligible owner-occupants facing hardship to stay in their homes. FHA differentiates between deeper assistance and limited assistance.

Deeper assistance cures may include an FHA-Home Affordable Modification Program (FHA-HAMP), disaster loan modifications, and disaster standalone partial claims. FHA-HAMP may include a partial claim or loan modification, or both, targeting a 20 percent reduction in a monthly mortgage payment. Borrowers who were current on their payments when the COVID-19 pandemic began qualifying for the COVID-19 National Emergency Stand-Alone Partial Claim, another form of deeper assistance. Limited assistance includes formal and informal forbearance and repayment plans.

In FY 2020, FHA-insured mortgages with assisted cures totaled 525,197, and deeper assistance cures represented 28.50 percent of all cures, an increase of 7.11 percentage points from the FY 2019 level of 21.39 percent, as illustrated in Exhibit I-22. The improvement is attributable to over 50,000 incremental COVID-19 Stand-Alone Partial Claims.

Home Equity Conversion Mortgage Program

Overview

Through the Home Equity Conversion Mortgage (HECM) program, FHA insures the vast majority of the nation's reverse mortgages. When initially authorized by the Housing and Community Development Act of 1987, the HECM program was made available on a limited basis and all HECMs became obligations of the General Insurance (GI) Fund. Over time, the program expanded from $93.2 billion of HECM Maximum Claim Amount (MCA) insured by FHA in the 19 years before FY 2009 to $202.5 billion insured in the 12 years since all new HECM endorsements became obligations of the MMI Fund in FY 2009.

The HECM program enables senior homeowners, aged 62 or older, who meet various borrower, property ownership, and financial requirements to withdraw a portion of the value of their home without any corresponding periodic requirement to repay amounts borrowed. Instead, the principal borrowed, along with interest, Mortgage Insurance Premiums, and servicing fees are added to the mortgage balance over time. As a result, HECM balances may eventually equal or exceed the value of the home, which results in losses for the MMI Fund. HECM borrowers also remain responsible for the payment of taxes, insurance, and property charges as long as they remain in their home.

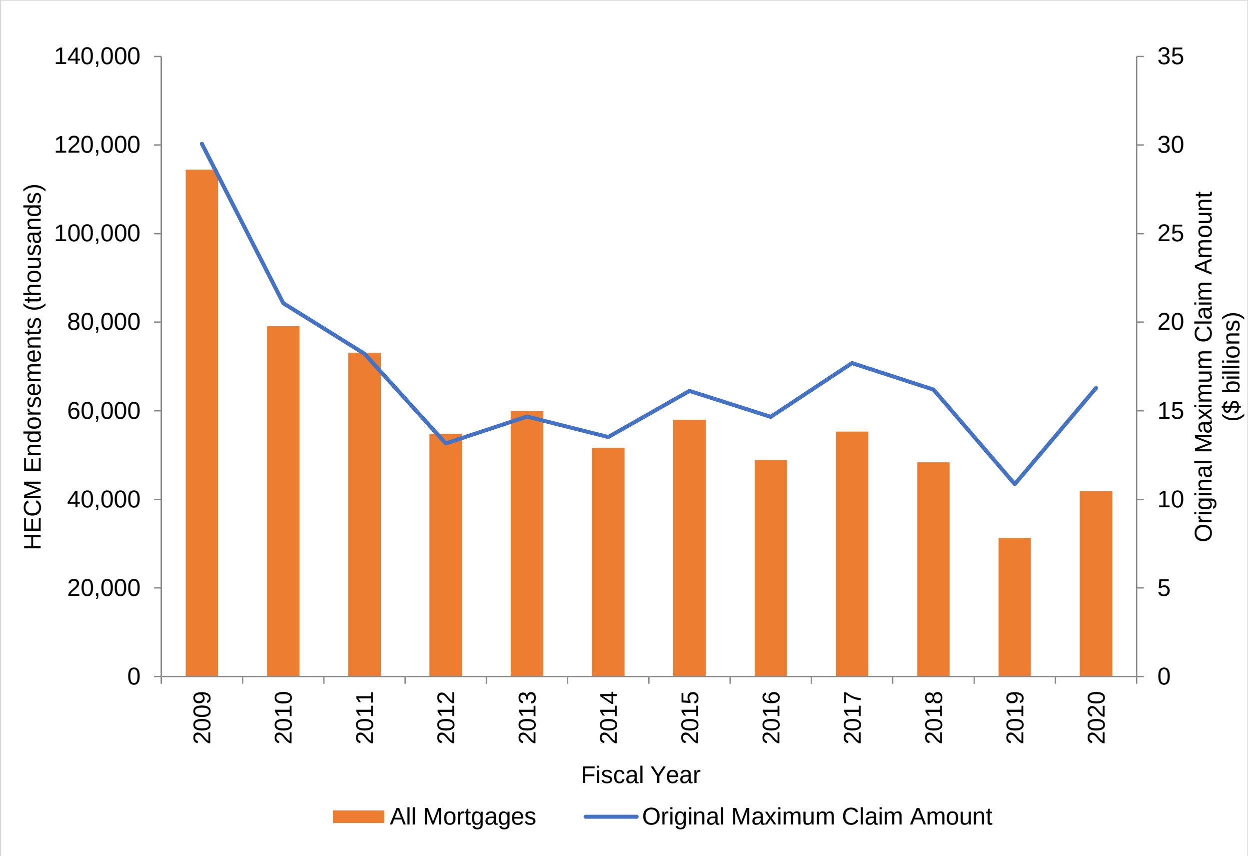
Subject to the nationwide limits on claim amounts, the amount of funds that any borrower can access through a HECM depends on a variety of factors, including the value of the property, the age of the youngest borrower or eligible non-borrowing spouse,[12] and the interest rate charged to the borrower.[13]

Due to the changes in home prices and interest rates, as well as appraisal bias and other factors that impact the property value and mortgage balance, the HECM portfolio's financial performance has in recent years resulted in large projected losses to the MMI Fund. The negative cash flow is attributable to a variety of economic and other factors, and is covered, or subsidized, by the positive cash flow into the MMI Fund from favorable forward mortgage portfolio performance. Chapter II of this Annual Report discusses the impacts of the HECM portfolio on the MMI Fund in more detail.

[12] The inclusion of a non-borrowing spouse was made for all HECMs after August 4, 2014; HECMs originated prior to that date allow for the deferral of due and payable status at the discretion of the lender when certain eligibility criteria are met.

[13] The age of the youngest non-borrowing spouse was first introduced as a factor on August 4, 2014.

Exhibit I-23: FHA HECM Endorsement Activity

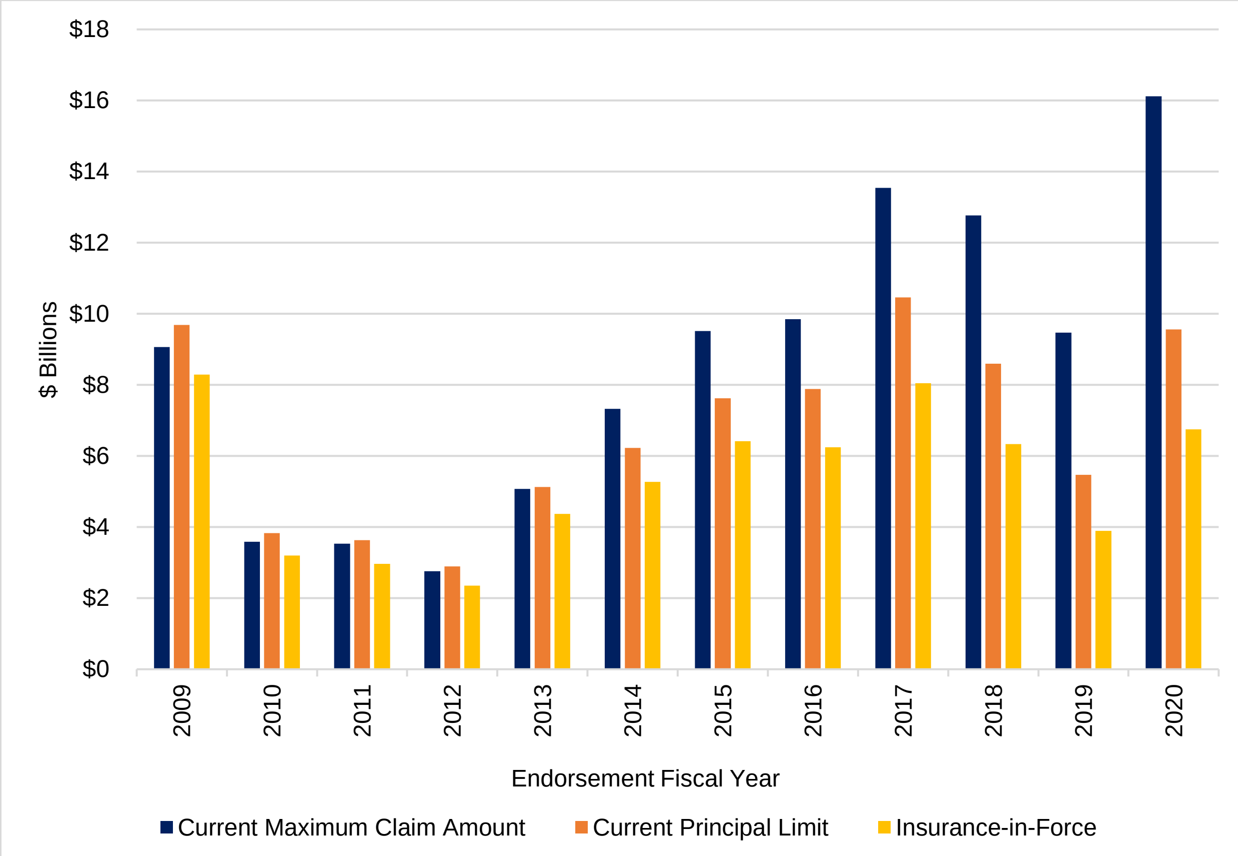


SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-23 in Appendix B.

As shown in Exhibit I-23, FHA endorsed 41,819 HECMs in FY 2020, representing a Maximum Claim Amount[14] (MCA) of $16.28 billion. HECM endorsement volume is 63.45 percent lower than the peak of FY 2009 but has increased by 33.73 percent over the last fiscal year.

[14] Maximum Claim Amount is used to calculate proceeds and is equal either to the appraised value of the home or the FHA lending limit, whichever is less.

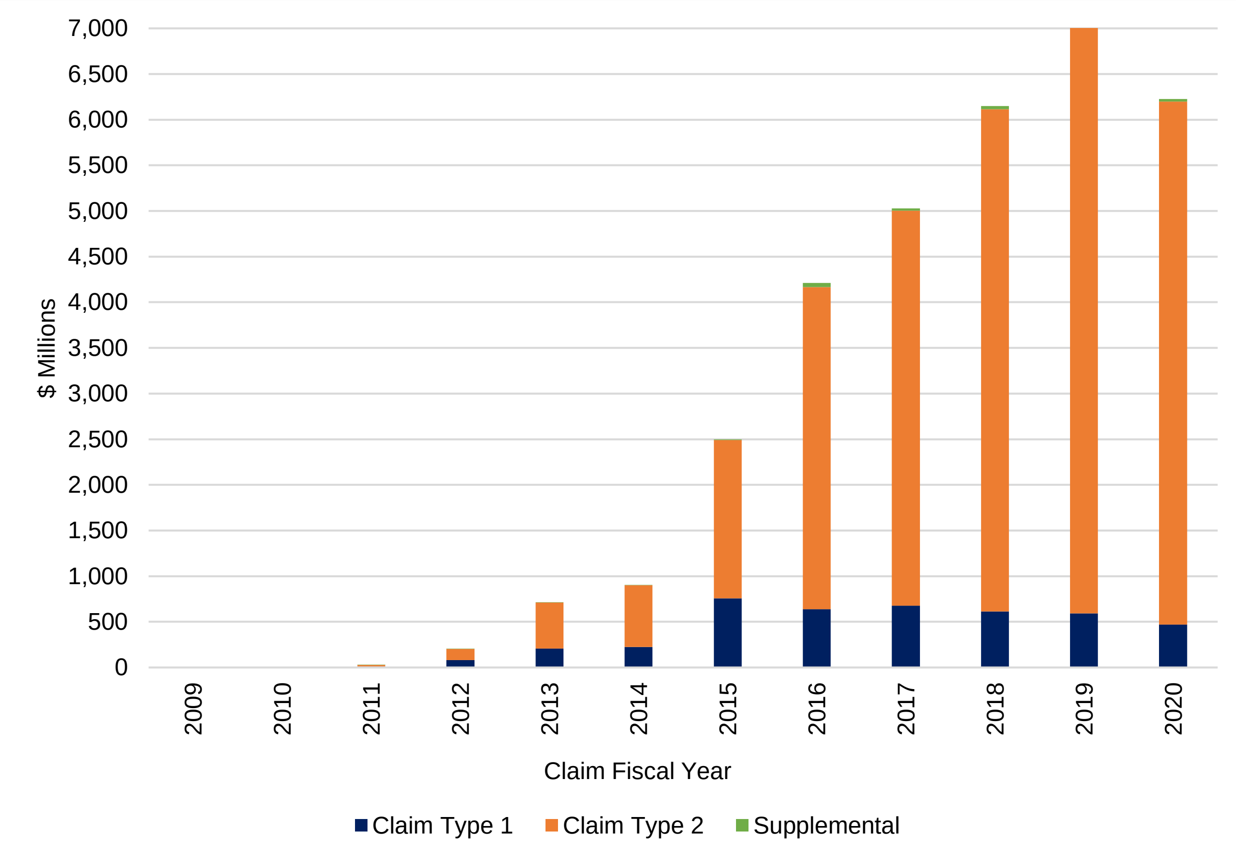
Exhibit I-24: Current HECM Portfolio by Year of Endorsement



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-24 in Appendix B.

Exhibit I-24 provides a breakdown of the current HECM portfolio by vintage year. For each vintage year, the current outstanding MCA, current total principal limit and current IIF are shown. As of September 30, 2020, the HECM portfolio in the MMI Fund represented a total MCA of $101.12 billion, a current principal limit of $80.99 billion and a current IIF of $64.14 billion. The growth in MCA has largely tracked overall equity appreciation in housing markets.

Exhibit I-25: FHA HECM Claims by Claim Type

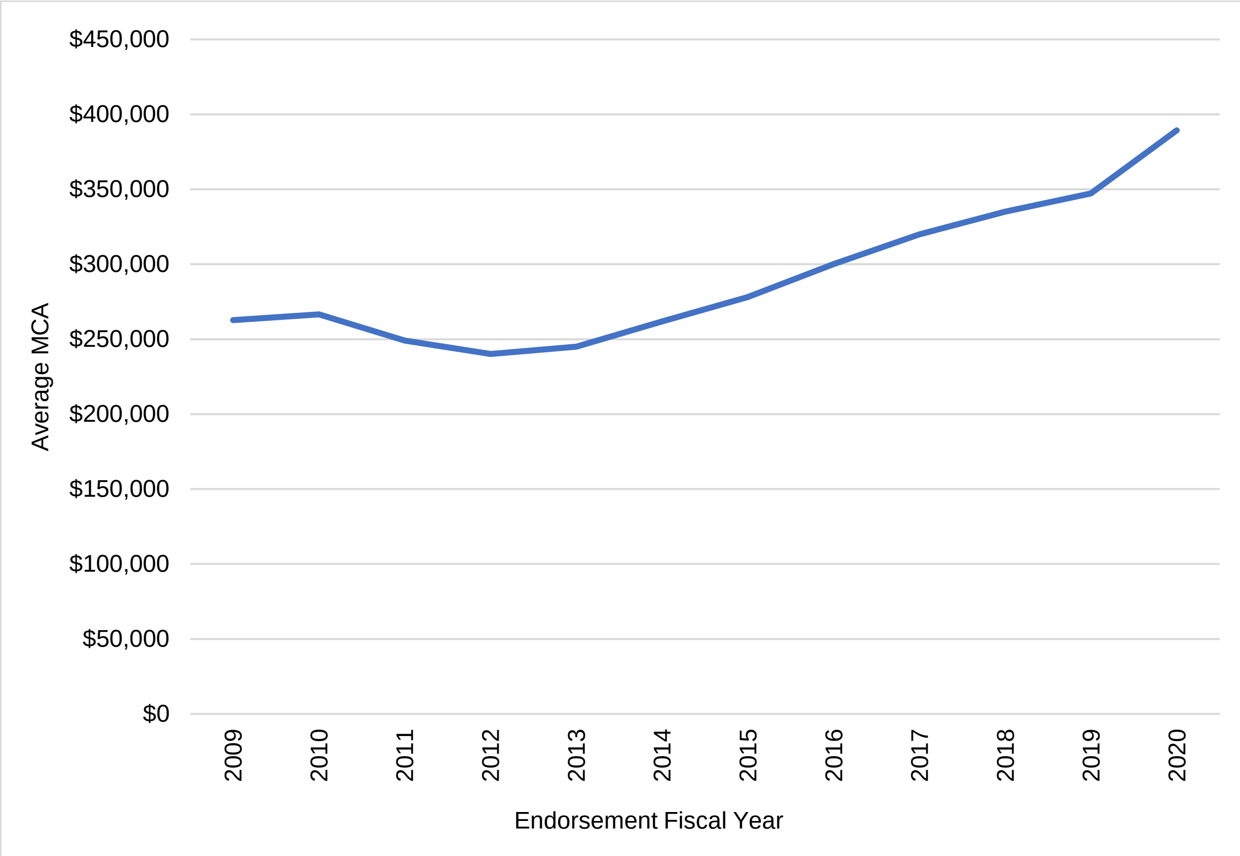


SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-25 in Appendix B.

Exhibit I-25 shows the total amount and distribution of HECM claims by claim type. The Claim Type 1 category represents the dollar volume of claims generated when the borrower no longer occupies the home, and the property is sold at a loss, with the mortgage never being assigned to the Secretary of HUD. The Claim Type 2 category represents the dollar volume of claims resulting from the assignment of the mortgage to the Secretary of HUD when the mortgage reaches 98 percent of the MCA. Supplemental claims are those claims submitted by lenders for other eligible expenses not included in original claims, such as property preservation expenses.

In FY 2020, claims totaled $6.22 billion (annualized), down from $9.55 billion in FY 2019. Claim Type 2 accounts for a majority of the decrease in total claim amount under the HECM program. Claim Type 2 increased between FY 2009 and in FY 2019, primarily due to the seasoning of the HECM portfolio with mortgage balances reaching 98 percent of the MCA, and the introduction of the Mortgagee Optional Election (MOE) Assignment, where there is an eligible non-borrowing spouse. The MOE, which may be offered at the election of an FHA-approved servicer, refers to an alternative claim payment option in which HUD pays the insurance claim, and qualified non-borrowing spouses are allowed to remain in the home. The MOE is available for all HECMs with case numbers assigned prior to August 4, 2014.

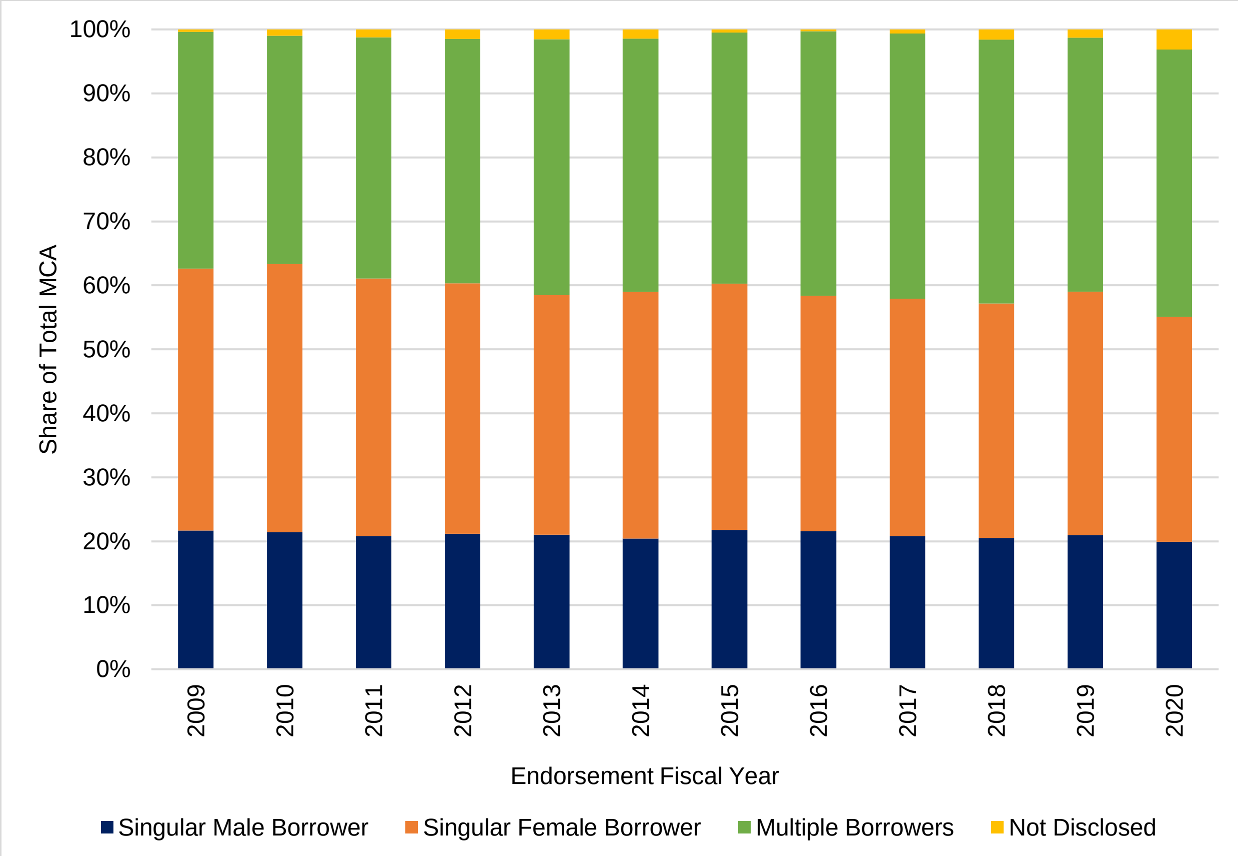
Exhibit I-26: Average Maximum Claim Amount for FHA-Endorsed HECMs



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-26 in Appendix B.

As shown in Exhibit I-26, the average MCA per HECM endorsement has continued to rise since FY 2013, increasing to $389,345 in FY 2020. Rising average MCAs coincide with the increasing health of the housing market, and higher appraised values on homes occupied by HECM borrowers. The current FHA mortgage limit for HECMs in FY 2020 was $765,600. This limit is currently applied uniformly across the country, unlike the FHA forward mortgage limits which vary based on geographic locations and are subject to minimum and maximum limits. This data reflects a trend towards non-needs-based borrowers who have greater home equity and wealth.

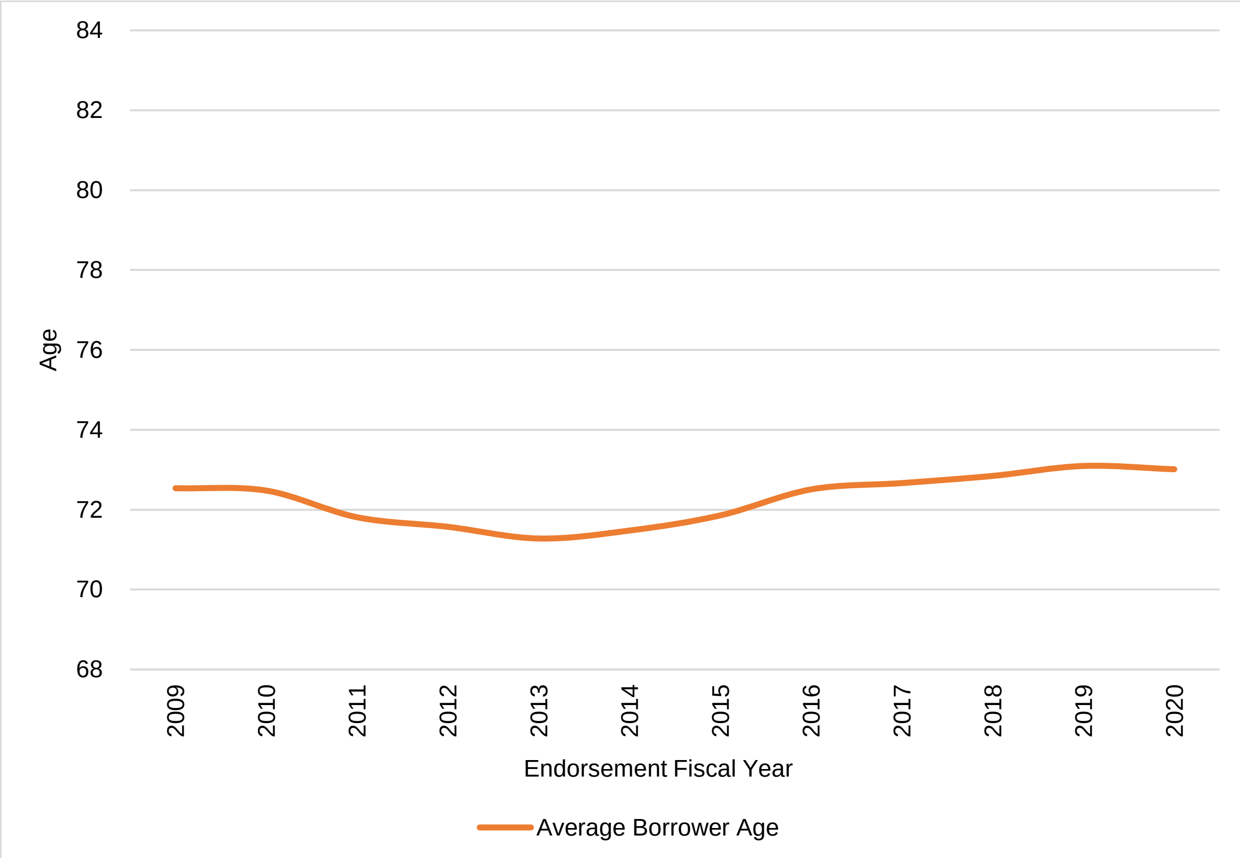
Exhibit I-27: Composition of FHA HECM Borrowers



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-27 in Appendix B.

Exhibit I-27 illustrates the HECM endorsement counts by share of borrower type. In FY 2020, 35.18 percent of HECM endorsements served singular female borrowers, 19.90 percent served singular male borrowers, and 41.78 percent served multiple borrowers. The composition of HECM borrowers has remained relatively consistent since FY 2009.

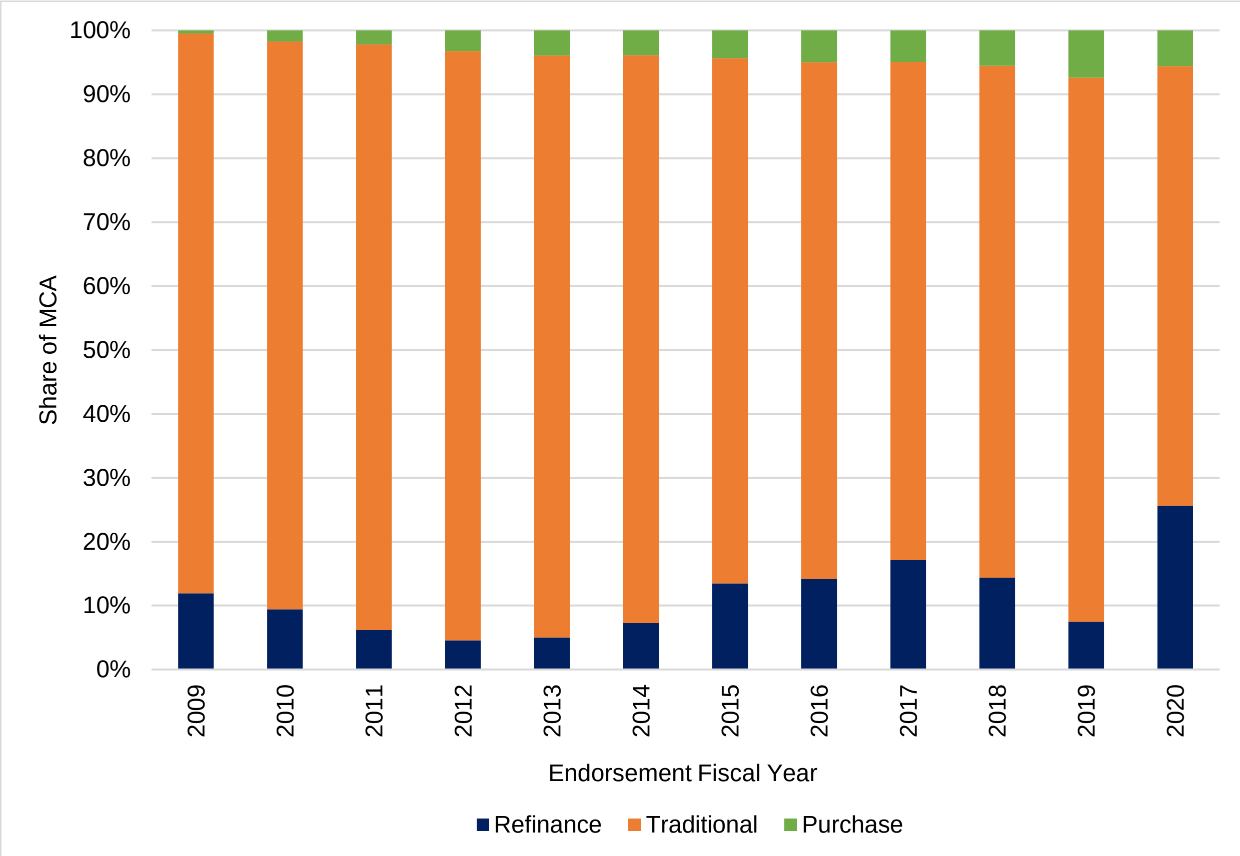
Exhibit I-28: Average Borrower Age at Endorsement of FHA HECMs



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-28 in Appendix B.

Exhibit I-28 above shows the trend in the average age of HECM borrowers, which has been relatively stable. In FY 2020, the average borrower age decreased slightly to 73.01 years from 73.10 years in FY 2019.

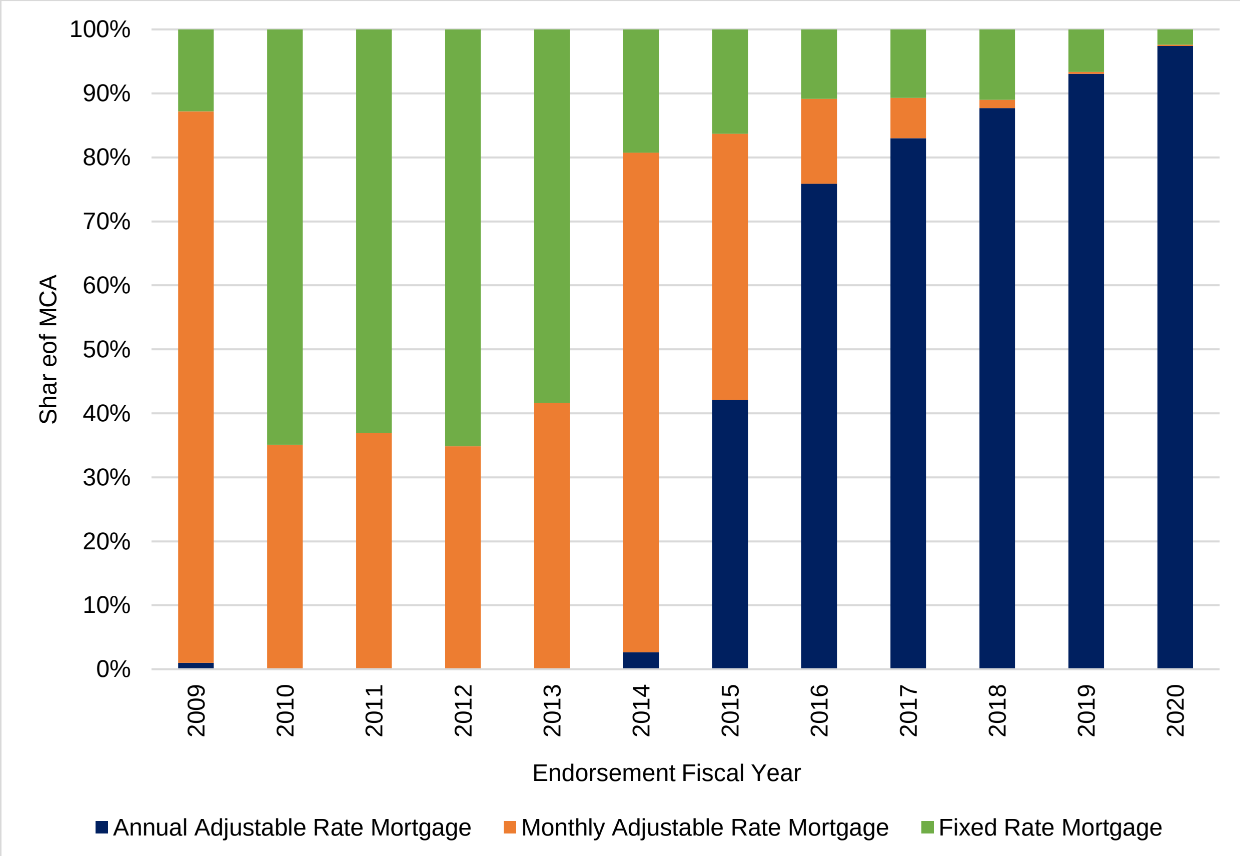
Exhibit I-29: FHA HECM Endorsement Activity by Mortgage Purpose



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-29 in Appendix B.

As shown in Exhibit I-29, the MCA share for HECM purchase mortgages grew significantly from 0.47 percent in FY 2009 to 5.58 percent in FY 2020. Moreover, the share of HECM MCA for refinance transactions more than tripled from FY 2012, rising from 4.57 percent to 17.11 percent in FY 2017, as homeowners took advantage of favorable house prices and extracted more equity. While the share of HECM MCA for refinance transactions decreased in FY 2018 and 2019, with HECM refinance transactions at 7.44 percent of all transactions in FY 2019, it nearly tripled between FY 2019 and FY 2020, rising to 25.65 percent.

Exhibit I-30: FHA HECM Endorsement Activity by Mortgage Type Option

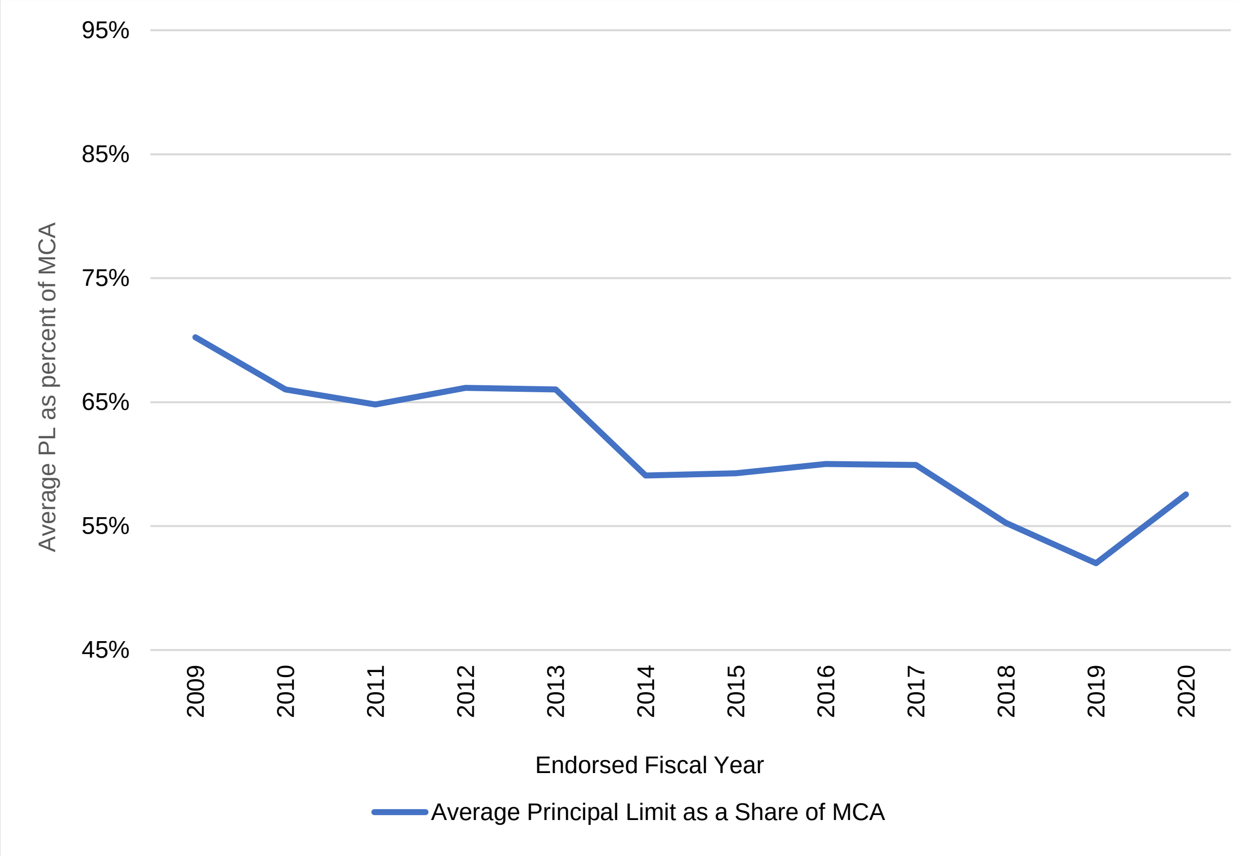


SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-30 in Appendix B.

Exhibit I-30 illustrates the shift from fixed-rate HECMs to adjustable-rate HECMs since FY 2013. In FY 2020, 97.40 percent of FHA's HECM endorsements were for adjustable-rate mortgages. This change in composition is, in part, a result of policies implemented in FY 2014 related to the insurability of fixed-rate HECMs, including eliminating the option of future draws and a reduction in the amount of principal made available to the borrower. If interest rates increase in the future, adjustable rate HECM balances will compound more quickly, resulting in faster depletion of borrower equity in the home and increased potential losses to FHA.

Historically, lenders were allowed to choose one of two indexes for HECM adjustable-rate mortgages: The Constant Maturity Treasury Index (CMT) or London Interbank Offered Rate (LIBOR), with LIBOR as the index of choice in virtually all cases. Ginnie Mae ended LIBOR as an eligible MBS ARM index in September 2020. Going forward, Ginnie Mae will facilitate the creation of Single-Class MBS collateralized by pools containing Secured Overnight Financing Rate (SOFR) ARM and HECM loans when those loans become authorized by the insuring agencies.

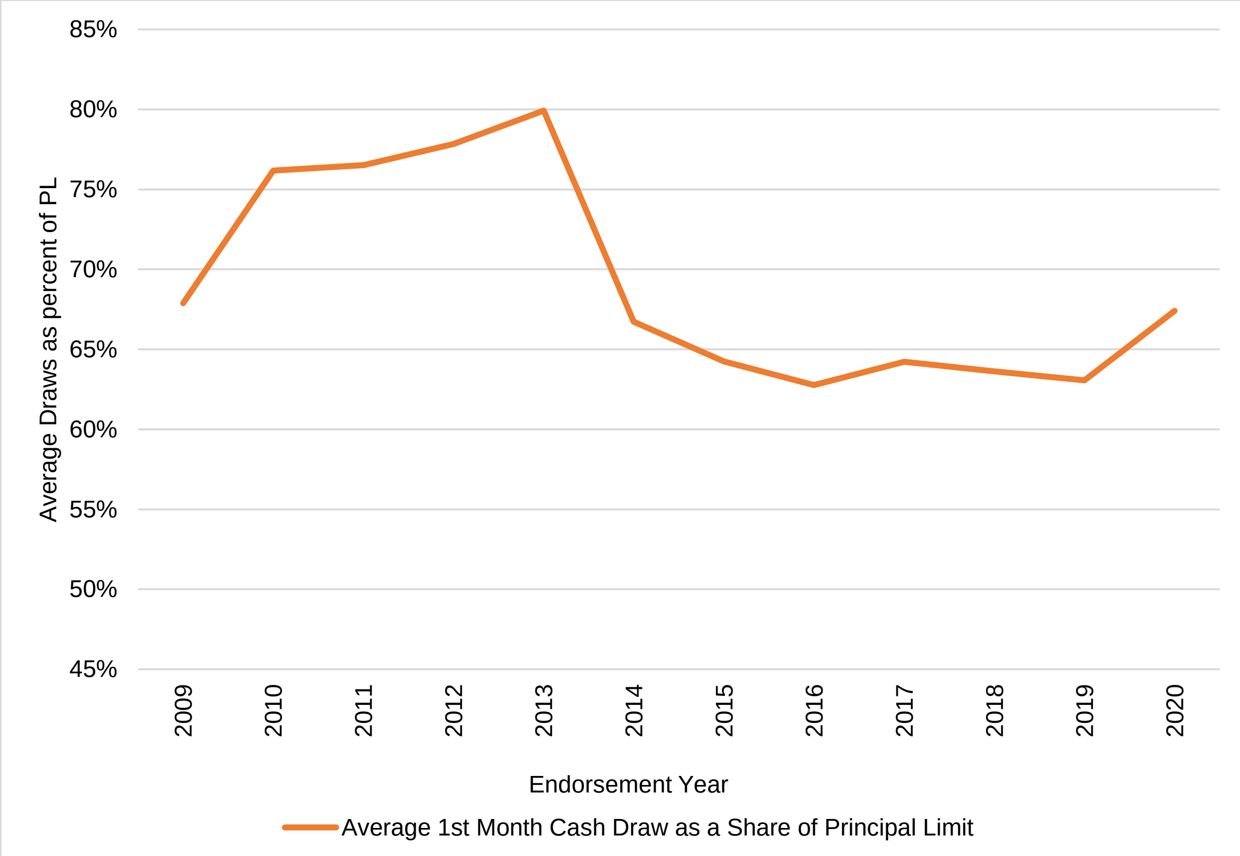
Exhibit I-31: Average Principal Limit of FHA HECMs



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-31 in Appendix B.

The average principal limit, or amount that borrowers have access to withdraw, on a HECM in FY 2020 was 57.57 percent of the MCA, up from 52.00 percent in FY 2019. Exhibit I-31 shows a consistent average principal limit beginning with endorsements in FY 2014 through FY 2017, decreasing in FY 2018 and FY 2019, and increasing in FY 2020. The decrease in FY 2018 and FY 2019 was due to a new FHA policy updating principal limit factors effective with HECM case numbers issued on or after October 2, 2017.

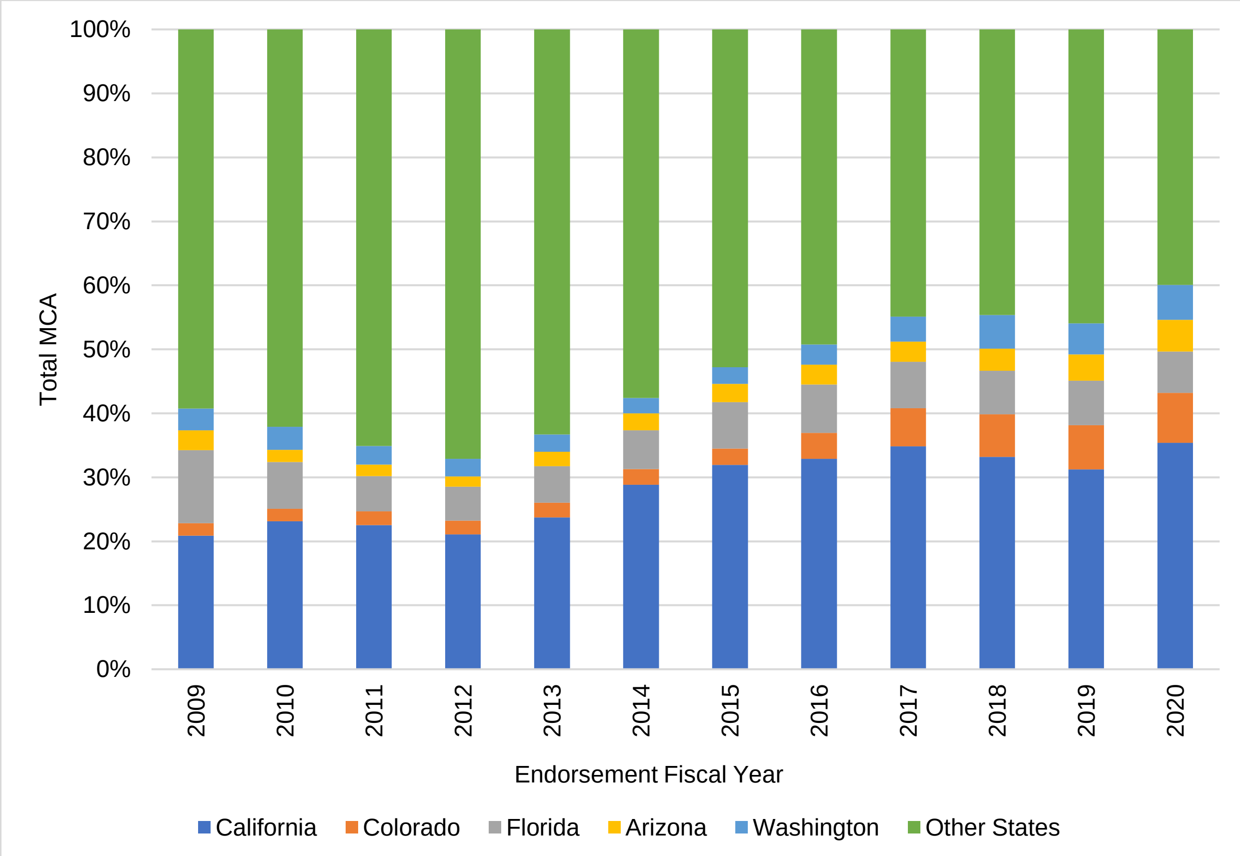
Exhibit I-32: Average Initial Cash Draws of FHA-Endorsed HECMs



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-31 in Appendix B.

HECM borrowers withdrew an average of 67.41 percent of their available principal limit on their initial draw in FY 2020, as reflected in Exhibit I-32 above. Initial draw amounts on both fixed- and adjustable-rate HECMs had remained relatively stable over the previous four fiscal years after significantly decreasing FY 2013. Large upfront draws increase the risk to borrowers and to FHA, as they decrease the financial resources available to pay future obligations such as taxes and insurance. In addition, large upfront draws cause HECM balances to compound more quickly, resulting in faster depletion of borrower equity in the home and increased potential losses for FHA.

Exhibit I-33: States with the Highest Share of FHA HECMs by MCA

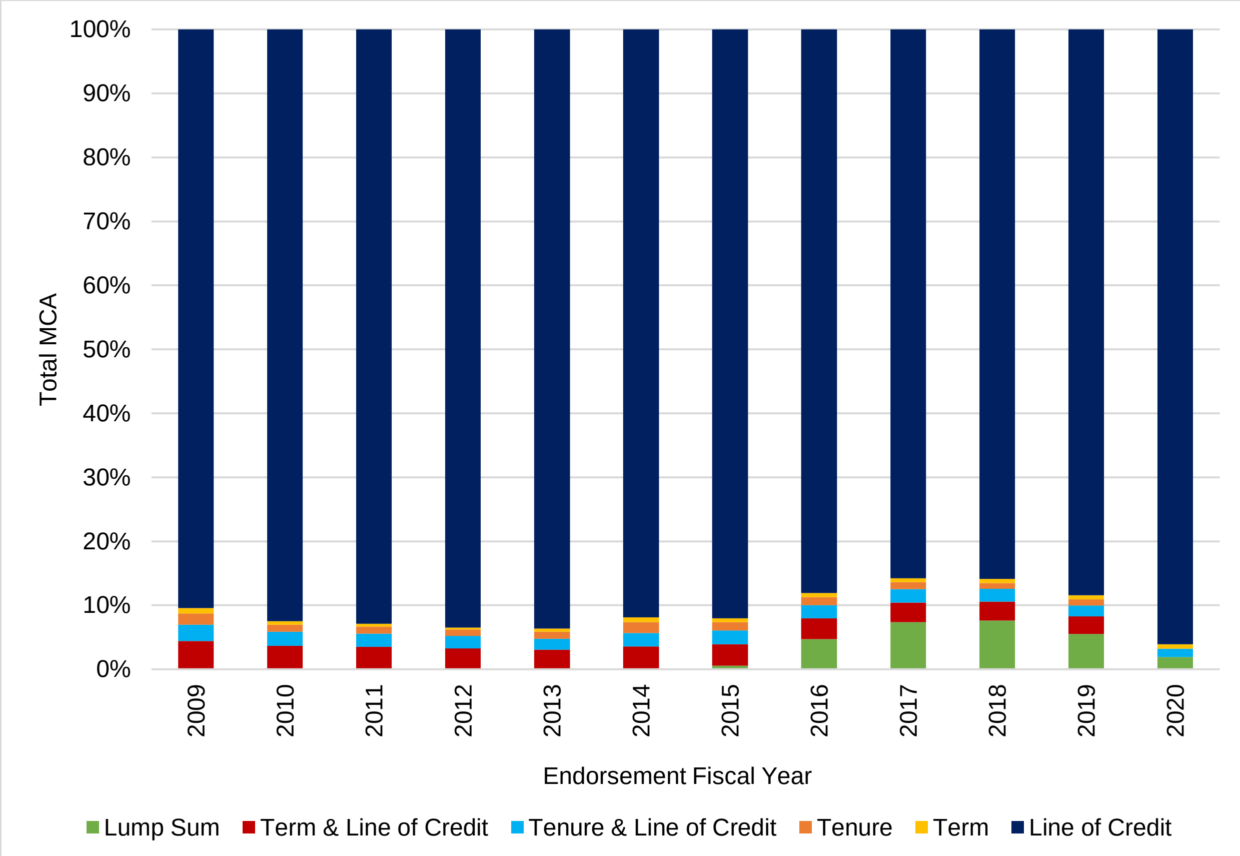


SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-32 in Appendix B.

HECMs are more geographically concentrated than forward mortgages. California remains by far the state with the largest share of HECM endorsements, at 35.38 percent of FHA's HECM book based on total MCA. The top five states represented 60.08 percent of new HECM endorsements in FY 2020, The geographical risk profile for the HECM program has become more concentrated in recent years.

As a result, future HECM performance will most likely be more reliant on economic factors such as house price appreciation in these concentrated states, particularly in California where the share of HECM MCA is almost five times greater than Colorado, the state with the second highest share at 7.38 percent.

Exhibit I-34: FHA HECMs by Payment Plan Option



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table B-33 in Appendix B.

Exhibit I-34 summarizes the share of aggregate HECM MCA by payment plan option type by fiscal year. HECM borrowers can choose from the following payment options to receive mortgage proceeds:

(a) Lump Sum: Under the Lump Sum payment option, the borrower receives a single lump sum disbursement at closing. This payment option is only available for fixed-rate HECMs.
(b) Term: Under the term payment option, equal monthly payments are made to the borrower for a fixed term of months chosen by the borrower.
(c) Tenure: Under the tenure payment option, equal monthly payments are made to the borrower.
(d) Line of Credit (LOC): Under the LOC payment option, payments are made to the borrower at times and in amounts determined by the borrower until the LOC is exhausted.
(e) Term or Tenure with LOC: Under the term or tenure payment options with a LOC, equal monthly payments are made to the borrower for a fixed period. These payment plans segregate a portion of the available principal for a LOC and then calculate monthly draws based on the borrower's selection of Term or Tenure.

As in previous years, the HECM LOC draw option was the most popular payment plan type with HECM borrowers due to its flexibility. Borrowers with fixed-rate HECMs may not request a change in payment option. Borrowers with adjustable-rate HECMs originated after FY 2014 may request a change in payment option after the first 12-month disbursement period if the outstanding mortgage balance is less than the principal limit.

Chapter II:
Condition of the Mutual Mortgage Insurance Fund Overview

The Mutual Mortgage Insurance Fund (MMI Fund) Capital Ratio as of September 30, 2020, is 6.10 percent of insurance-in-force (IIF), representing an increase of 1.26 percentage points from the FY 2019 Capital Ratio of 4.84 percent.

Exhibit II-1: Mutual Mortgage Insurance Fund ($ million)

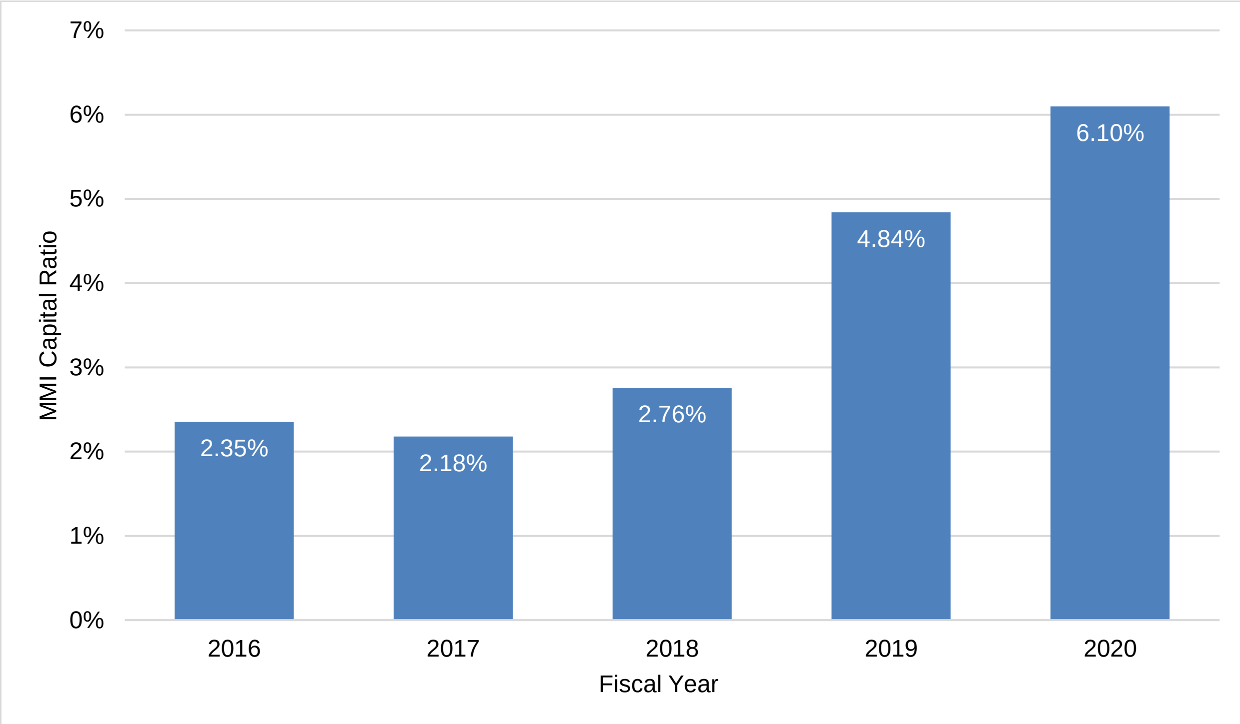
Description	FY 2018	FY 2019	FY 2020
Total Capital Resources	$49,237	$57,980	$70,652
Cash Flow NPV	($14,375)	4,402	8,298
MMI Fund Capital[15]	**$34,862**	**$62,382**	**$78,950**
Insurance-In-Force	$1,264,672	$1,288,436	$1,294,731
Total Capital Resources	3.89%	4.50%	5.46%
Cash Flow NPV	-1.14%	0.34%	0.64%
MMI Fund Capital Ratio	**2.76%**	**4.84%**	**6.10%**

SOURCE: U.S. Department of HUD/FHA, October 2020.

As shown above by Exhibit II-1, MMI Fund Capital increased by $16.6 billion, benefitting from eight years of steady House Price Appreciation (HPA).

[15] The term "MMI Fund Capital" means Economic Net Worth of the Mutual Mortgage Insurance Fund, as determined by the Secretary under the annual audit required under section 1735f-16 of this title. This terminology was introduced in FHA's FY 2019 Annual Report, and is more consistent with industry standards, as the MMI Fund Capital Ratio can now be expressed as MMI Fund Capital/IIF.

Exhibit II-2: MMI Fund Capital Ratio FY 2016 – FY 2020



SOURCE: U.S. Department HUD/FHA, October 2020.
Refer to data table C-1 in Appendix C.

The FY 2020 MMI Fund Capital Ratio has improved over the last three fiscal years, as illustrated by Exhibit II-2 above.

MMI Fund Capital Ratio

Consistent with the Federal Credit Reform Act of 1990 (FCRA), the Net Present Value of future MMI Fund cash flows (NPV Cash Flows) was estimated using the underlying economic assumptions from the FY 2019 President's Economic Assumptions. Last year's report introduced the concept of **Claims Paying Capacity** and disaggregated NPV Cash Flows into its two components:

- Net Present Value of Projected Mortgage Insurance Premium (MIP) Revenue **(NPV Projected Revenue) –** Includes monthly insurance premiums.
- Net Present Value of Projected Claims Losses **(NPV Projected Losses) –** Includes claim payments to cover default costs minus collections from recoveries on defaulted loans.

The formula for calculating MMI Fund Capital and the MMI Fund Capital Ratio using these factors is shown below:

MMI Fund Capital = (Total Capital Resources + NPV Projected Revenue – NPV Projected Losses)

MMI Fund Capital Ratio = MMI Fund Capital/Insurance in Force (IIF)

Exhibit II-3: MMI Fund Capital Ratio Components

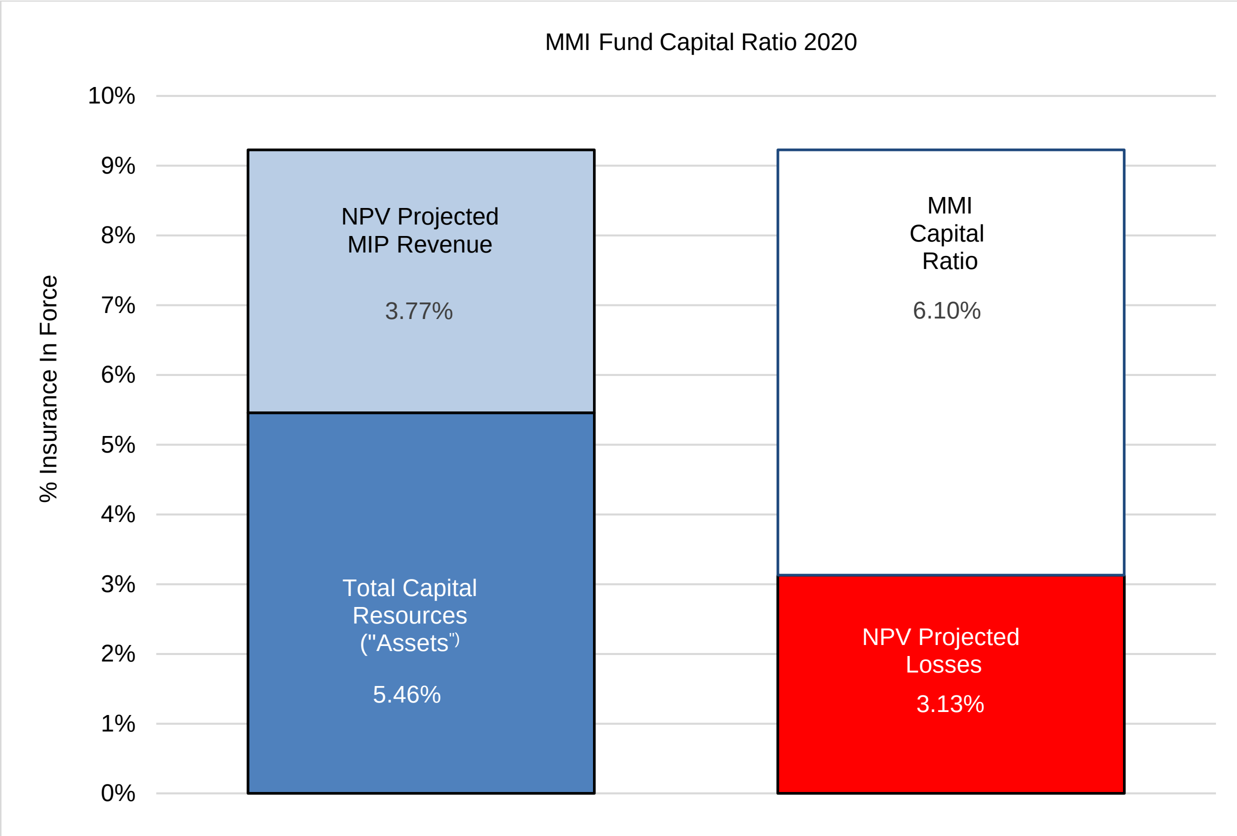
Description	FY 2018	FY 2019	FY 2020
Total Capital Resources[16]	$49,237	$57,980	$70,652
Plus: NPV Projected Revenue	$51,248	$51,436	48,807
Equals: Claims Paying Capacity	$100,485	$109,416	$119,459
Less: NPV Projected Losses	($65,623)	($47,034)	(40,509)
Equals: MMI Fund Capital	**$34,862**	**$62,382**	**$78,950**
Insurance-In-Force	$1,264,672	$1,288,436	$1,294,731
Total Capital Resources	3.89%	4.50%	5.46%
Plus: NPV Projected Revenue	4.05%	3.99%	3.77%
Equals: Claims Paying Capacity	7.95%	8.49%	9.23%
Less: NPV Projected Losses	-5.19%	-3.65%	-3.13%
Equals: MMI Fund Capital Ratio	**2.76%**	**4.84%**	**6.10%**

SOURCE: U.S. Department of HUD/FHA, October 2020.

Exhibit II-3, above, presents an itemization of the components that make up the MMI Fund Capital Ratio calculation. MMI Capital has increased by over $51 billion since the current Administration took office: from $27.6 billion in FY 2016 to $79.0 billion in FY 2020.

[16] Includes $1.7 billion mandatory appropriation in FY 2013.

Exhibit II-4: Claims Paying Capacity (Total Capital Resources Plus NPV Projected Revenue) Represents a Capital Buffer to Use Against Adverse Events During Uncertain Times



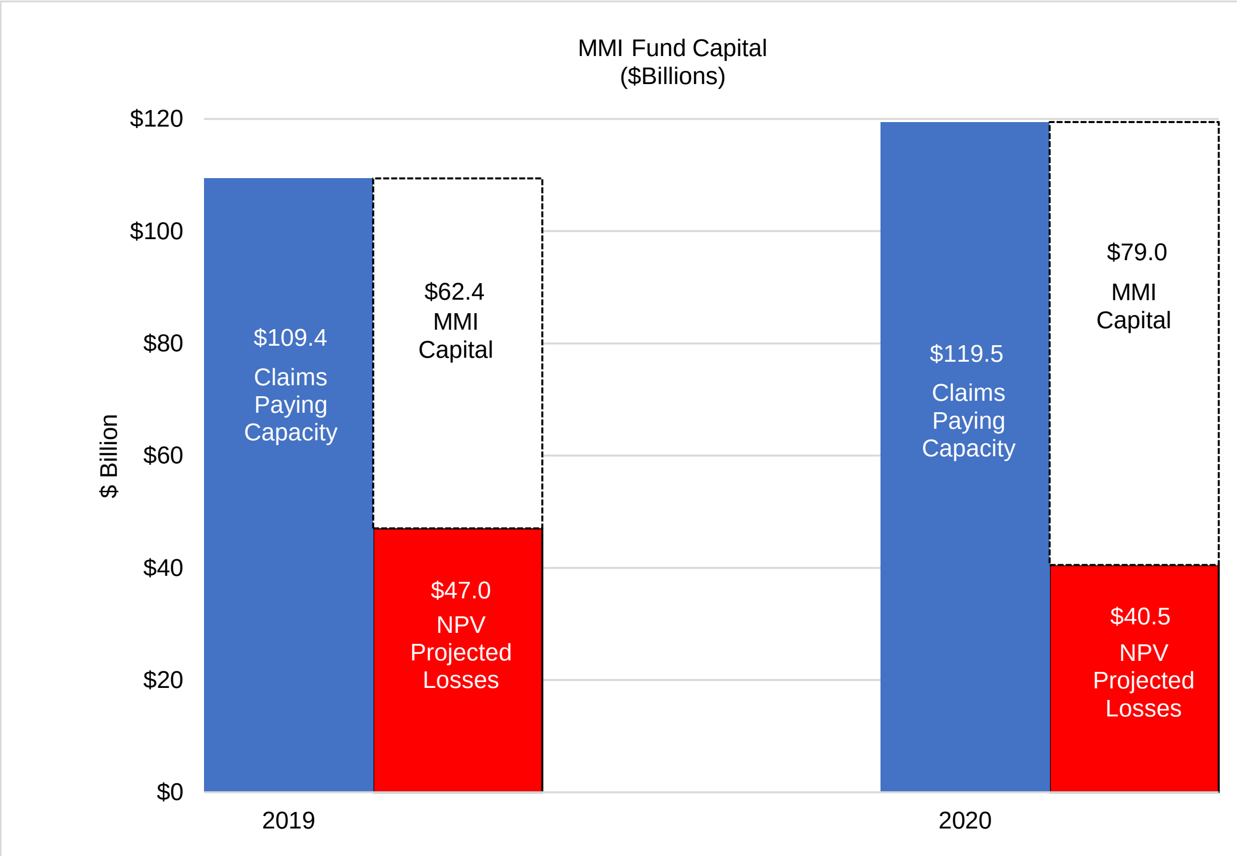
SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table C-6 in Appendix C.

Exhibit II-4, above, illustrates the components that make up the FY 2020 MMI Fund Capital Ratio. It highlights an important observation regarding the makeup of MMI Fund Capital: not all elements comprising MMI Fund Capital can be used as a capital buffer[17] against adverse shocks and financial events during uncertain times. The sum of the two components on the left side of the Exhibit II-4, Total Capital Resources, (essentially cash and other similar assets), plus NPV Projected Revenue, provides a metric that aligns with the concept of a capital buffer. Together, the sum of the two components measures the Fund's ability to pay for claims losses and will be referred to as **Claims Paying Capacity** throughout this report.

The third component of the MMI Fund Capital Ratio, NPV of Projected Losses, is a model-driven estimate that is highly dependent on forecasted HPA, shown in the Capital Adequacy section to be a volatile and lagging indicator of the health of the economy and health of the MMI Fund.

[17] Basel III formalized the concept of "capital buffer", which is capital that financial institutions are required to hold in addition to other minimum capital requirements, designed to reduce adverse impacts due to the procyclical nature of lending. https://research.stlouisfed.org/publications/economic-synopses/2019/06/21/can-countercyclical-capital-buffers-help-prevent-a-financial-crisis.

Exhibit II-5: Decrease in NPV Projected Losses Generated $6.5 Billion of the Total $16.6 Billion Increase in MMI Fund Capital



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table C-6 in Appendix C.

Exhibit II-5, above, shows MMI Fund Capital grew by $16.6 billion over the last year. A decrease in NPV Projected Losses generated $6.5 billion of the total increase in MMI Fund capital.

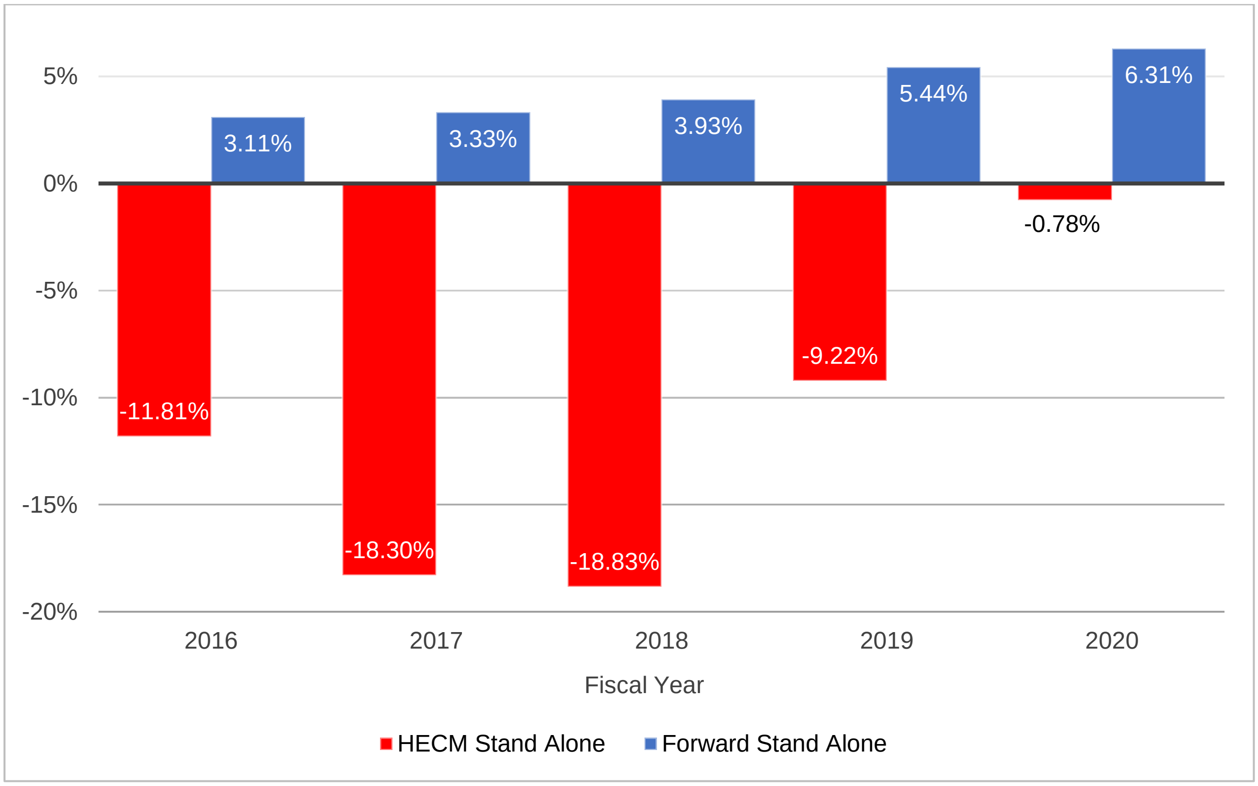
A decrease in year-over-year loss expectations may appear contrary to many indicators of macroeconomic stress resulting from the COVID-19 pandemic[18]. Thus far, however, the housing market has been an area of strength in the economy. The MMI Fund portfolio has benefitted from 8 years of accumulated HPA at the national level. HPA has increased by 59 percent over the last eight years, according to the FHFA House Price Index,[19] and has remained strong through FY 2020.

[18] Closures resulted in a sudden nationwide increase in unemployment and a corresponding increase in borrower financial hardships.
[19] Federal Housing Finance Agency (FHFA) House Price Index, September 2020.

Stand-Alone Capital Ratios for Forward Mortgages and HECMs

The MMI Fund includes capital for both the Single Family forward and reverse, or Home Equity Conversion Mortgage (HECM)[20], programs. The following sections describe the individual (stand-alone) status of each portfolio.

Exhibit II-6: Forward and HECM Stand-Alone Capital Ratios



SOURCE: U.S. Department HUD/FHA, October 2020.
Refer to data table C-2 in Appendix C.

Exhibit II-6 provides a comparison of stand-alone capital ratios for the forward and HECM portfolios since 2016. While the financial performance of the HECM portfolio shows improvement, it remains negative, meaning that the claims paying capacity for the program is insufficient to cover projected losses. It should also be noted that the HECM program is historically more volatile than the forward loan portfolio, and projections of HECM's financial performance are more sensitive to changes in HPA and interest rates. Over the last 3 years, FHA has taken several actions to improve the HECM portfolio's outlook; however, it continues to be a financial drag on the forward portfolio. The forward portfolio's positive performance in effect "subsidizes" the HECM book of loans. FHA will continue to take steps to stabilize the HECM program for borrowers and taxpayers.

[20] The Housing and Economic Recovery Act of 2008 placed new HECMs in FHA's MMI Fund starting in 2009.

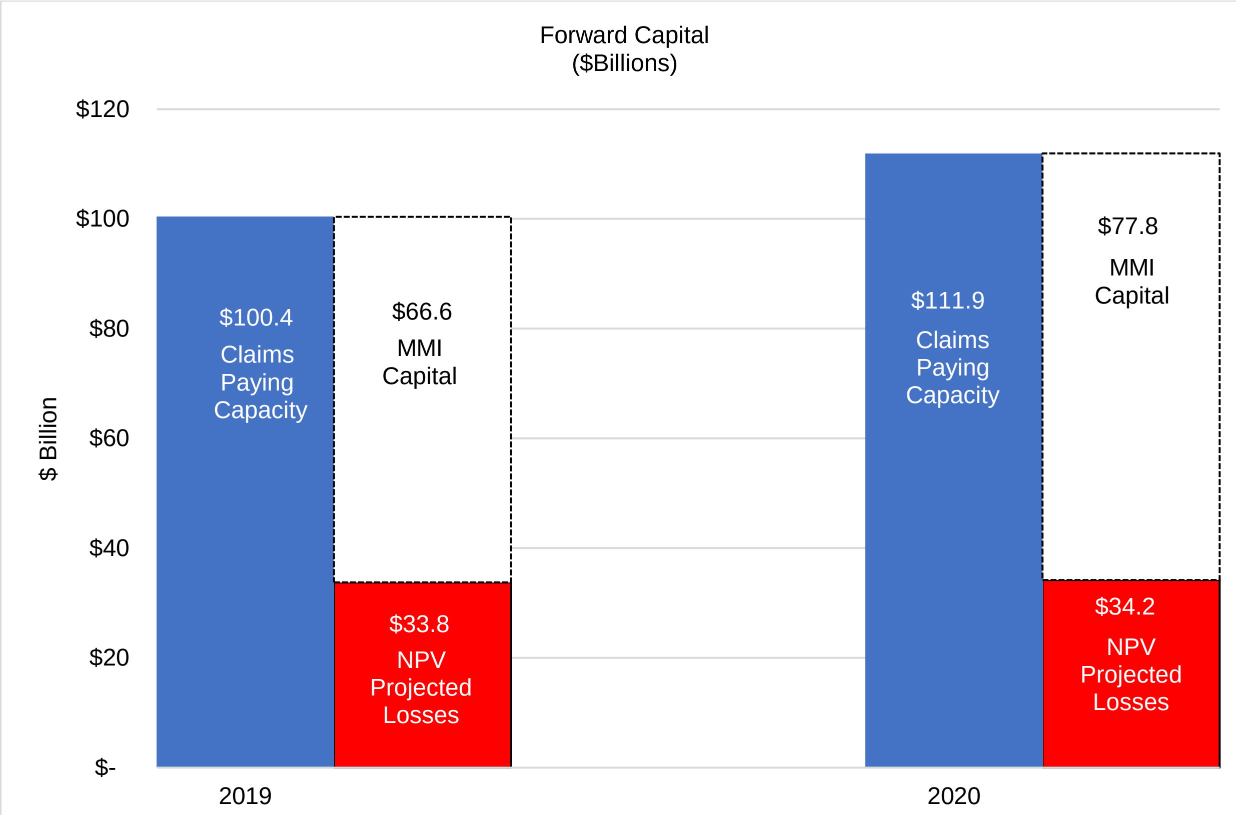
Exhibit II-7: Forward Mortgage Stand-Alone Capital Ratio Components ($ millions)

Description	FY 2018	FY 2019	FY 2020
Total Capital Resources	$45,438	$54,600	$67,368
Plus: NPV Revenue	$45,307	$45,783	$44,574
Equals: Claims Paying Capacity	$90,745	$100,383	$111,942
Less: NPV Losses	($43,935)	($33,769)	($34,187)
Equals: MMI Fund Capital	**$46,810**	**$66,614**	**$77,755**
Insurance-In-Force	$1,192,283	$1,224,225	$1,232,093
Total Capital Resources	3.81%	4.46%	5.47%
Plus: NPV Revenue	3.80%	3.74%	3.62%
Equals: Claims Paying Capacity	7.61%	8.20%	9.09%
Less: NPV Losses	-3.68%	-2.76%	-2.77%
Equals: MMI Fund Capital Ratio	**3.93%**	5.44%	6.31%
Insurance-In-Force	100.00%	100.00%	100.00%

SOURCE: U.S. Department of HUD/FHA, October 2020.

Exhibit II-7, above, shows that the stand-alone MMI Fund Capital Ratio for the forward portfolio increased from 5.44 percent in FY2019 to 6.31 percent in FY 2020. MMI Fund Capital for the forward portfolio grew by $11.1 billion over the last fiscal year and by $31.0 billion over the last two fiscal years.

Exhibit II-8: NPV of Projected Losses for the Forward Portfolio Remained Virtually the Same in FY 2020



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table C-7 in Appendix C.

Exhibit II-8, above, shows that NPV Projected Losses for the forward portfolio were relatively unchanged in FY 2020. MMI Fund Capital grew by $11.2 billion, largely through growth in Claims Paying Capacity.

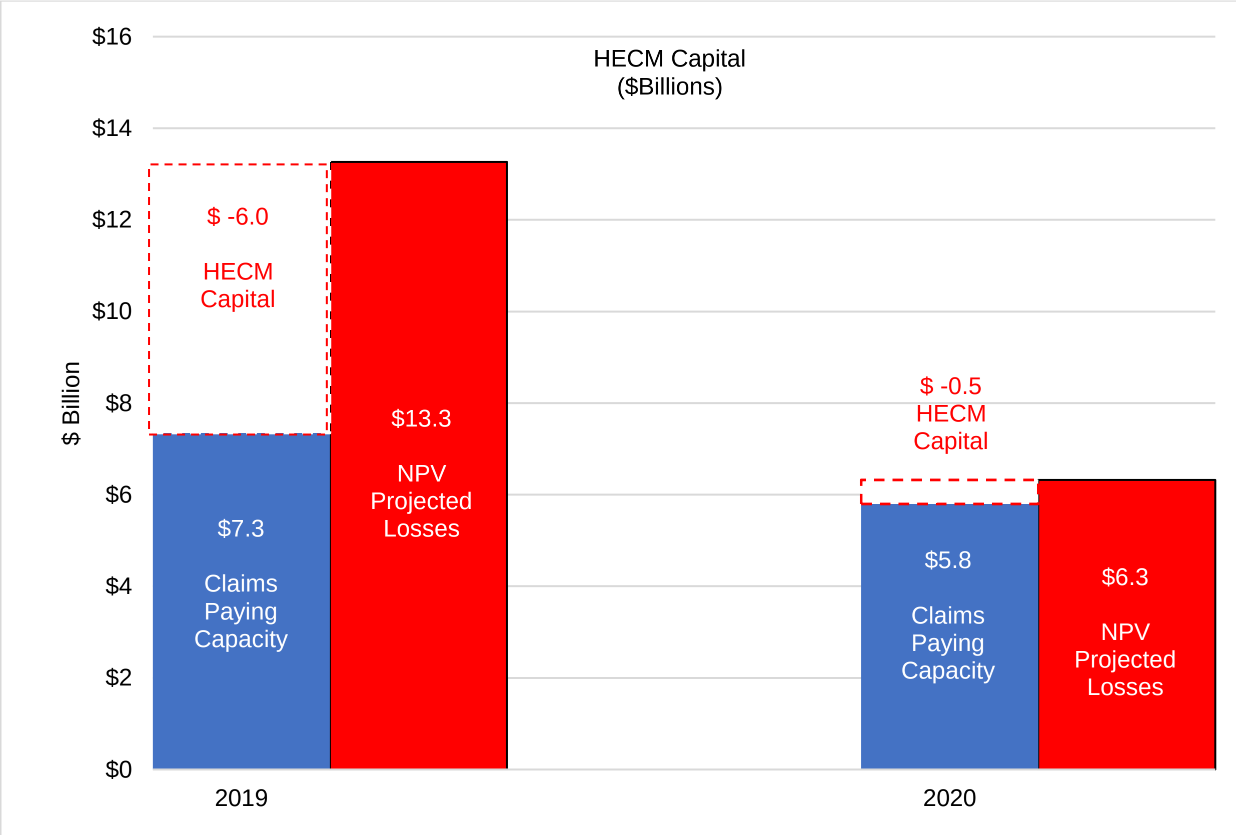
Exhibit II-9: HECM Stand-Alone Capital Ratio Components ($ millions)

Description	FY 2018	FY 2019	FY 2020
Total Capital Resources	$2,113	$1,694	$1,597
Plus: NPV Revenue	$5,941	$5,653	$4,233
Equals: Claims Paying Capacity	$8,054	$7,347	$5,830
Less: NPV Losses	(21,688)	(13,265)	(6,322)
Equals: MMI Fund Capital	**($13,634)**	**($5,918)**	**($492)**
Insurance-In-Force	$72,389	$64,211	$62,638
Equals: Total Capital Resources	2.92%	2.64%	2.55%
Plus: NPV Revenue	8.21%	8.80%	6.76%
Equals: Claims Paying Capacity	11.13%	11.44%	9.31%
Less: NPV Losses	-29.96%	-20.66%	-10.09%
Equals: MMI Fund Capital Ratio	**-18.83%**	**-9.22%**	**-0.78%**
Insurance-In-Force	100.00%	100.00%	100.00%

SOURCE: U.S. Department of HUD/FHA, October 2020.

As shown in Exhibit II-9, above, the stand-alone capital ratio of the HECM portfolio increased by 8.44 percent, from negative 9.22 percent in FY 2019 to negative 0.78 percent in FY 2020. Traditional forward mortgages are underwritten with both borrower income and property value considered. HECM mortgages do not require a borrower to have current income. Instead, HECM loans are asset-based loans that are underwritten based on property value. Because long term HPA projections drive HECM valuations rather than income, the HECM portfolio is therefore less affected by shorter-term employment and income disruptions caused by the COVID-19 pandemic.

Exhibit II-10: MMI Fund Capital for HECM Increased $5.5 Billion Despite a $1.5 Billion Decrease in Claims Paying Capacity



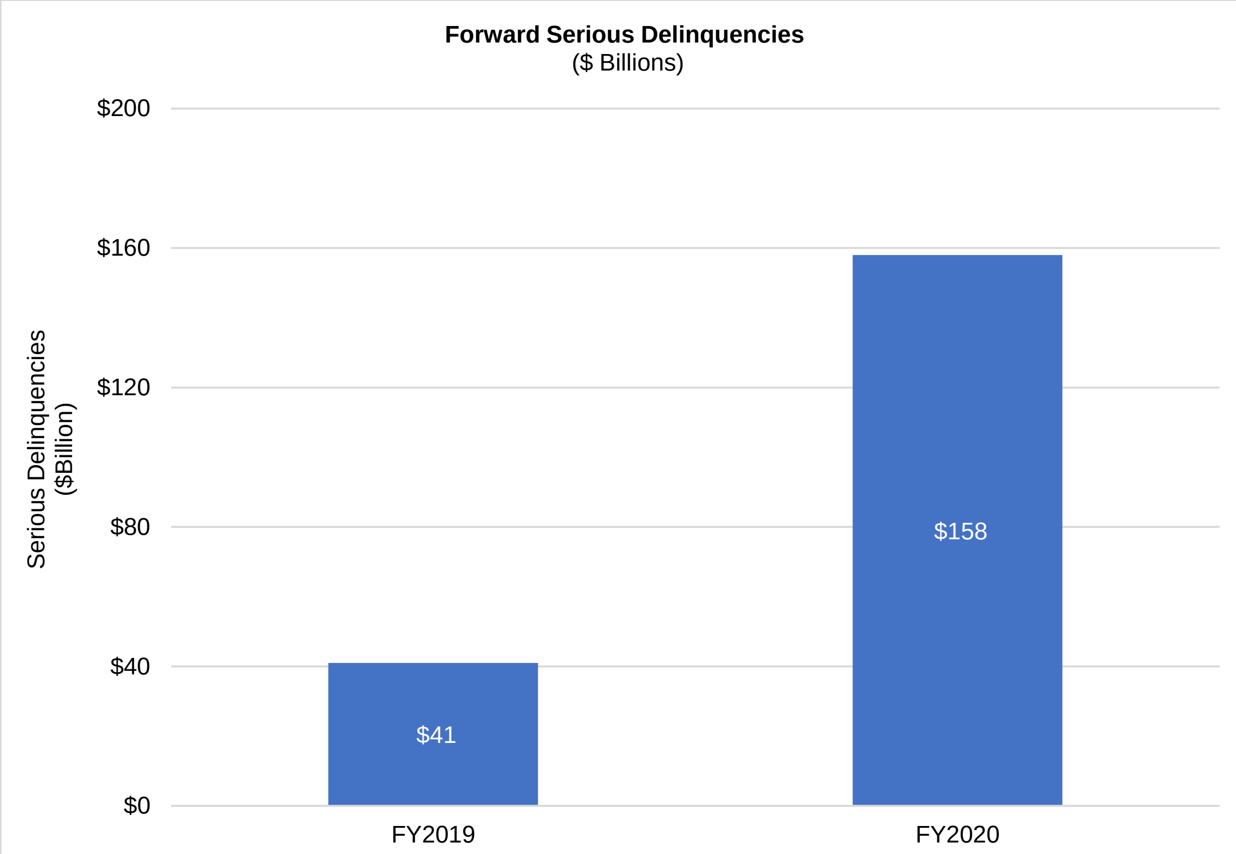
SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table C-8 in Appendix C.

MMI Fund Capital for the HECM portfolio increased by $5.5 billion over the last year, despite a reduced capacity to pay for losses. In other words, any improvement in the outlook for HECM is based on a decrease in the NPV of Projected Losses that generated $7.0 billion of new MMI Fund Capital, as shown in Exhibit II-10.

MMI Fund Capital Ratio Sensitivity to Modeling Assumptions

The preceding sections indicate that MMI Fund Capital grew by $16.6 billion in FY 2020. A reduction in NPV Projected Losses that generated $6.8 billion in MMI Fund Capital might seem counter to expectations given the economic stress resulting from the COVID-19 pandemic.

Exhibit II-11: Serious Delinquent Portfolio Grew by $117 Billion as a Result of COVID-19 Forbearance

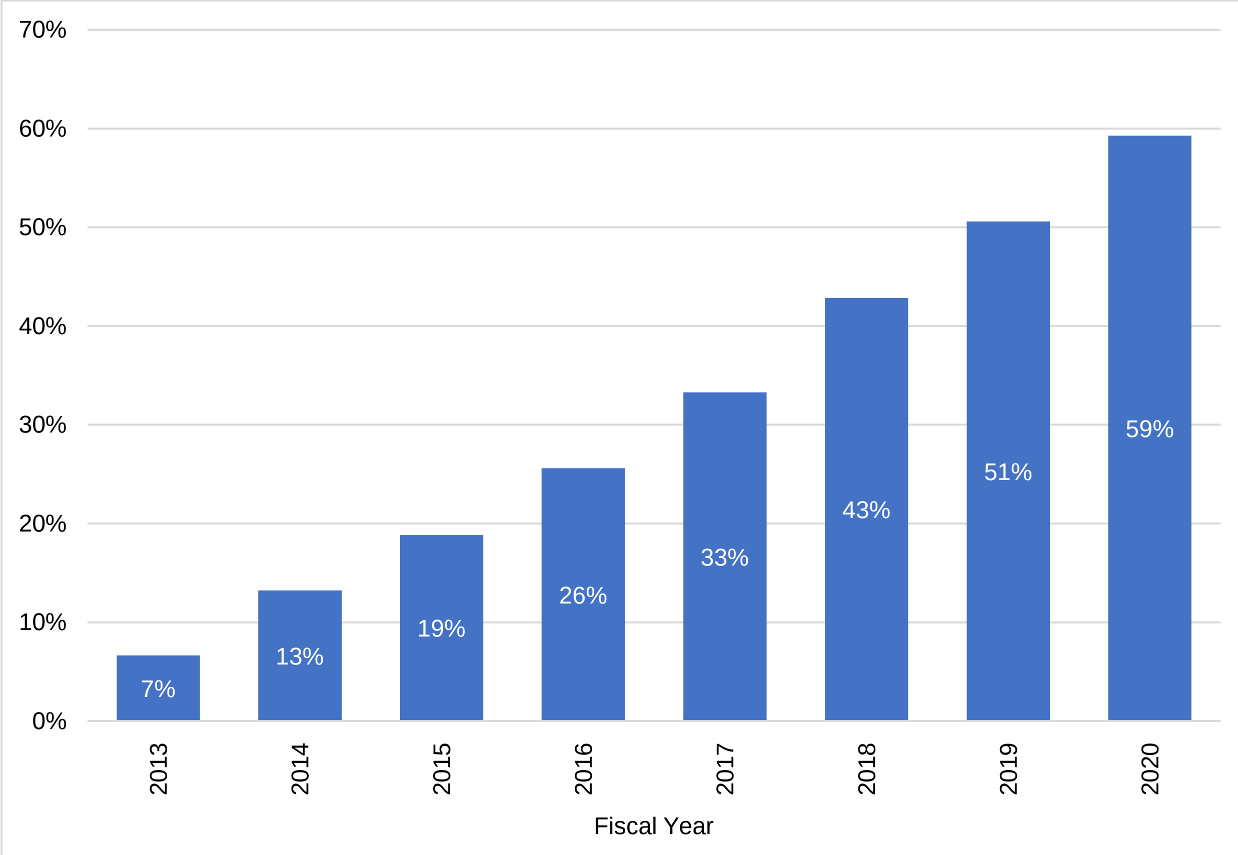


SOURCE: U.S. Department HUD/FHA, October 2020.
Refer to data table A-5 in Appendix A.

Exhibit II-11 shows that serious delinquencies in the forward portfolio ramped up by $117 billion in FY 2020. This was a result of borrowers who received approval to defer their monthly loan payments under the forbearance provisions of the CARES Act. By comparison, the previous high for serious delinquencies was $105 billion in FY 2012.

Virtually the entire increase occurred beginning May 2020, soon after borrowers began requesting forbearance subject to the provisions of the CARES Act. For example, the serious delinquency (SDQ) rate at the end of April 2020 was 4.04 percent, modestly higher than 3.88 percent SDQ rate at the end of FY 2019. The SDQ rate quickly rose to 11.59 percent by the end of FY 2020, as the number of seriously delinquent borrowers grew from about 328,000 at the end of April 2020 to approximately 926,000 by the end of FY 2020.

Exhibit II-12: Cumulative Increase in Average House Price Appreciation (2013 Base Year)



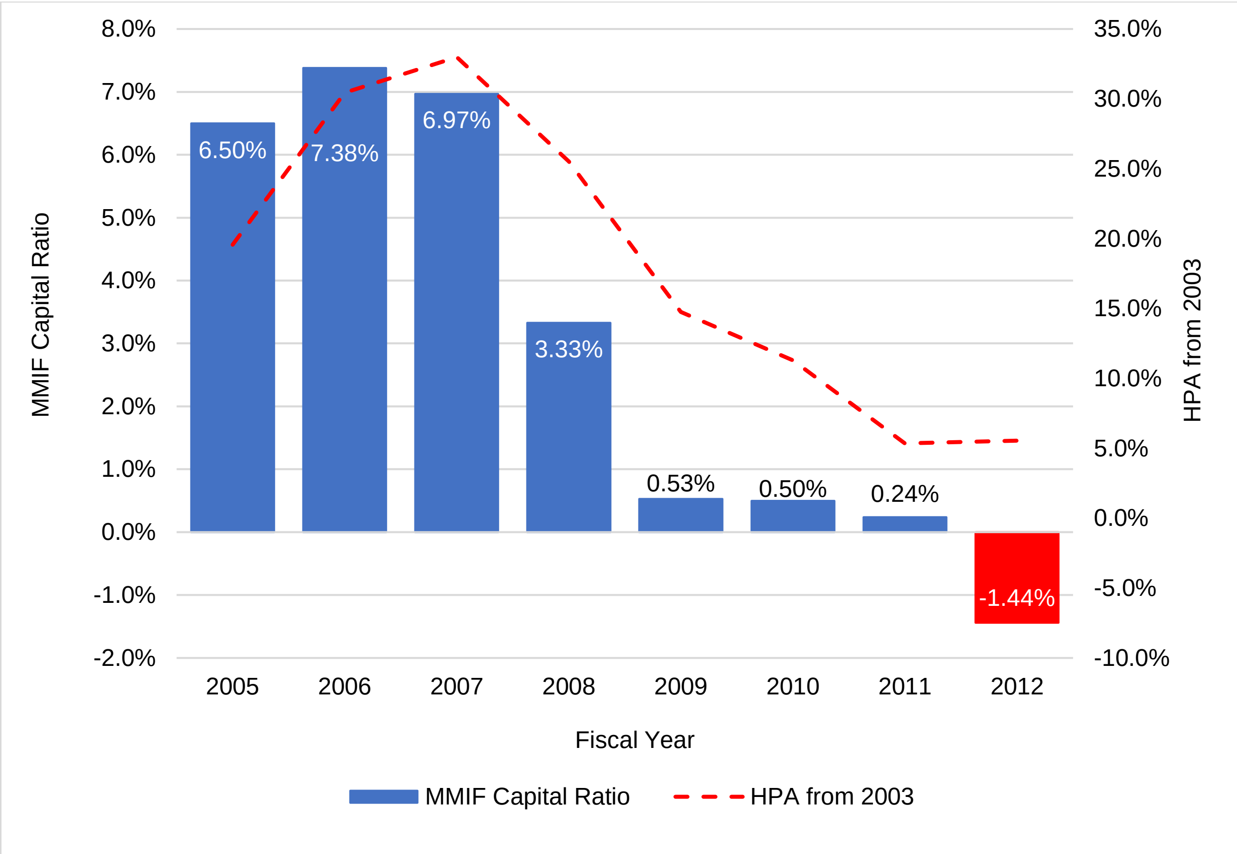
SOURCE: Federal Housing Finance Agency (FHFA) House Price Index, September 2020.

However, the housing market was a bright spot in the economy in FY 2020. MMI Fund Capital valuations for FY 2020 benefit from a continuation of strong house price appreciation that eclipsed other negative economic developments, as indicated above by Exhibit II-12. Entering this period, credit standards remained tight through FY 2020, unlike the mortgage market leading up to the Great Recession of 2008. Other mitigating factors affected the Fund:

- About 40 percent of the seriously delinquent borrowers qualify for FHA's COVID-19 National Emergency Stand-Alone Partial Claim (COVID Partial Claim). Borrowers who were current on their payments when the crisis began qualified for the COVID Partial Claim, which is designed to bring them current immediately if they are able to resume their mortgage payments when they move out of forbearance. Their arrearages would be capitalized into a non-interest bearing second lien that would be recouped when the mortgage terminates. Although the COVID Partial Claim has a net cost to FHA, in many cases it will allow the borrower to resume making mortgage payments and therefore avoid a more costly default.
- Low mortgage rates are expected to improve the success rate of loan modifications for employed delinquent borrowers who do not qualify for the COVID Partial Claim. In addition, many borrowers will be able to refinance into lower monthly payments.

However, the unprecedented size of the serious delinquent portfolio increases sensitivity of the MMI Fund to macroeconomic outcomes that diverge from modeled projections. FHA's experience with the FY 2007 MMI Fund Portfolio provides a case in point.

Exhibit II-13: Years of Accumulated HPA in FHA's FY 2007 Portfolio Were Insufficient to Shield the MMI Fund from a Sudden and Severe Reversal in HPA



SOURCE: U.S. Department of HUD/FHA, October 2020.
Refer to data table C-4 in Appendix C.

As shown by Exhibit II-13, above, the MMI Fund Capital Ratio for FY 2007 was 6.97 percent prior to the crisis. The valuation was largely based on the strength of 74 percent cumulative HPA built up over the previous 8 years, as well as an assumption that HPA growth would continue. Among the lessons learned, many years of built up HPA growth can prove insufficient in the face of an unexpected, sudden and severe reversal in HPA. For example, in just two years (2007 – 2009), the MMI Fund Capital Ratio collapsed from 6.97 percent to just 0.53 percent, well below the statutory minimum of 2.00 percent.

HPA is a lagging indicator that tends to overstate both the health of the economy during good times and the weakness of the economy during bad times. Observations from Exhibit II-13 underscore the procyclical nature of HPA, and therefore the MMI Fund Capital Ratio measure.

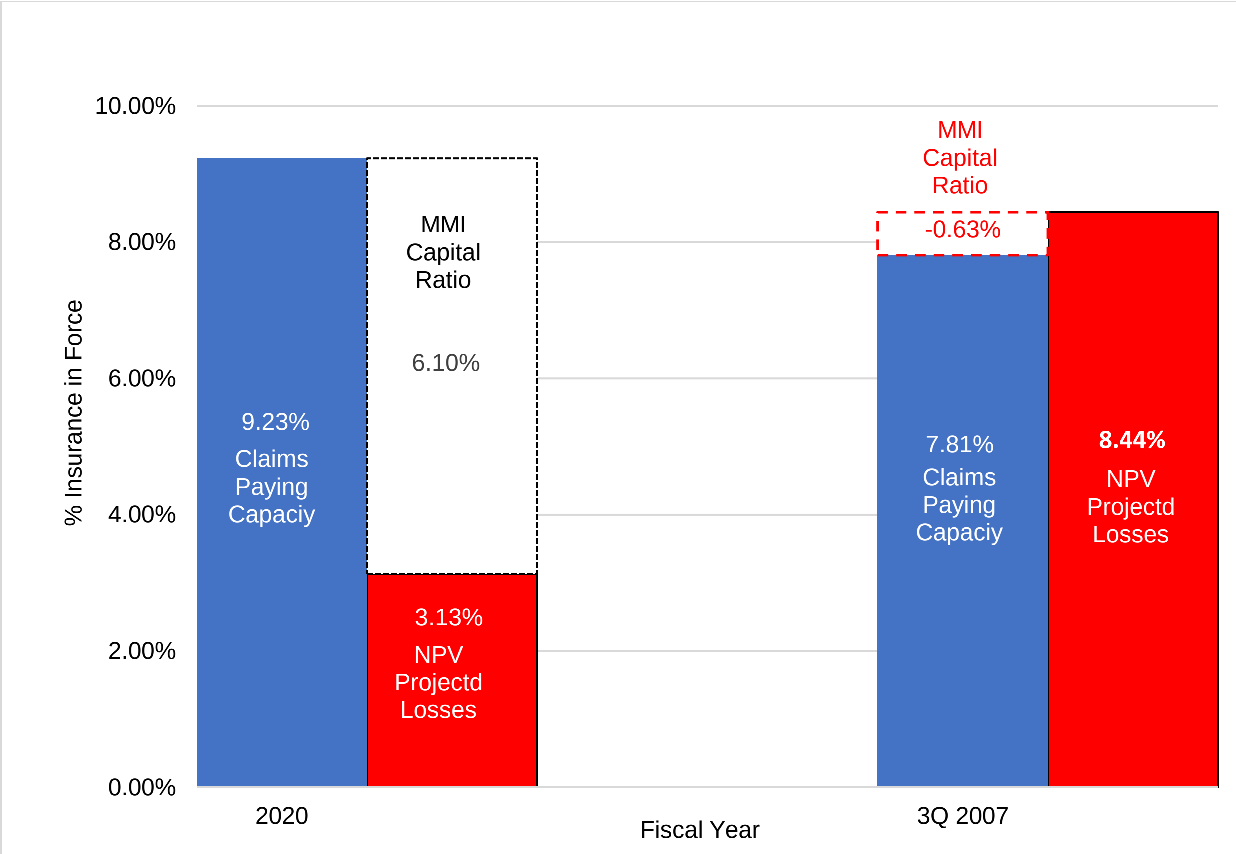
- Rising HPA from 2005 – 2007 signaled a continuation of prosperity over a period that, in hindsight, contributed the highest loss rates for the MMI Fund in subsequent years.
- Falling HPA signaled continued economic stress during 2010 – 2012, a period that retrospectively marked the start of a turnaround for the MMI Fund.
- Because the MMI Fund Capital Ratio is so closely tied to HPA, it shares the same tendency to overstate, then understate swings in the health of the economy.

Mitigating factors affecting the MMI Fund were described in a previous section, with rising HPA identified as the primary driver of improved MMI Fund Capital Ratios. However, the economy is grappling with a pandemic that exposes the MMI Fund to economic uncertainty. Increases in the inventory of delinquencies has magnified this uncertainty further, making the MMI Fund especially sensitive to potential future HPA declines. Potential scenarios that might result in negative outcomes that diverge from modeled projections and cause significantly higher-than-expected losses to the MMI Fund.

- **Trend in positive HPA reversed by a flood of distressed properties coming to market** – Lack of housing supply is one of the primary drivers of recent growth in HPA. Currently, FHA has over 900,000 seriously delinquent loans. The Government Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, have a similar number between them. While it is not clear how many of these properties would ultimately enter the marketplace through a short sale or foreclosure process, the potential market disruption could be serious enough to cause property values to fall.
- **More unemployed borrowers than projected** – The number of distressed properties that eventually come on the market is highly dependent on the unemployment rate. The COVID Partial Claim or some other form of loss mitigation is contingent upon earnings that will allow the borrower to resume monthly mortgage payments. These options would not be available to the unemployed; short sale or foreclosure would be the remedies left for these borrowers.
- **Mass forbearance extension to the maximum allowable period** – A gradual unwinding of forbearance would be a preferred outcome, as it would be less likely to cause the market disruptions described above. Moreover, it would allow for price discovery and be less likely to result in capacity constraints on the industry. On the other hand, the risk of severe market disruptions greatly increases if the vast majority of borrowers elect to extend forbearance to the full 12 months.

The value of MMI Fund Capital is dependent most directly on HPA and to a lesser degree on interest rates. To better understand the interrelated impacts of these two factors, FHA ran over 100 historical scenarios to predict the outcomes of potential stress events. Historical 30-year economic scenarios were constructed from actual coincident quarterly changes in interest rates and house prices going back to 1954. The economic conditions associated at the start of CY 2007 Q3 produced the highest loss of the 100 scenarios.

Exhibit II-14A: Simulating the Q3 FY 2007 Economy on the FY 2020 Portfolio Would Entirely Erase Current MMI Fund Capital



SOURCE: U.S. Department HUD/FHA, October 2020.
Refer to data table C-9 in Appendix C.

As shown above by Exhibit II-14A, subjecting the FY 2020 portfolio to the same macroeconomic conditions faced by the 2007 portfolio would generate losses in excess of MMI Fund Capital, resulting in a MMI Fund Capital Ratio of -0.63 percent, well below the statutory 2 percent minimum established by the Cranston-Gonzalez National Affordable Housing Act of 1990.

A second method used to test the sensitivity of MMI Fund Capital to changing economic conditions is to shift the future path of home prices and interest rates upward and downward by equal amounts.

Exhibit II-14B: MMI Fund Capital Ratio Five Times More Sensitive to a Decrease in HPA than to a Decrease in Interest Rates

Scenario	Forward Capital ($ billion)	HECM Capital ($ billion)	MMI Capital ($ billion)	MMI Capital Ratio
Interest -1	(3.1)	(0.3)	(3.4)	-0.26%
Interest +1	1.8	(1.1)	0.7	0.06%
HPA -1	(8.5)	(8.4)	(16.9)	-1.30%
HPA +1	6.2	6.9	13.1	1.01%

SOURCE: U.S. Department of HUD/FHA, October 2020.

Exhibit II-14B, above, shows that the MMI Fund Capital Ratio is five times more sensitive to a 1 percent decrease in HPA than to the same percent change in interest rates. For example:

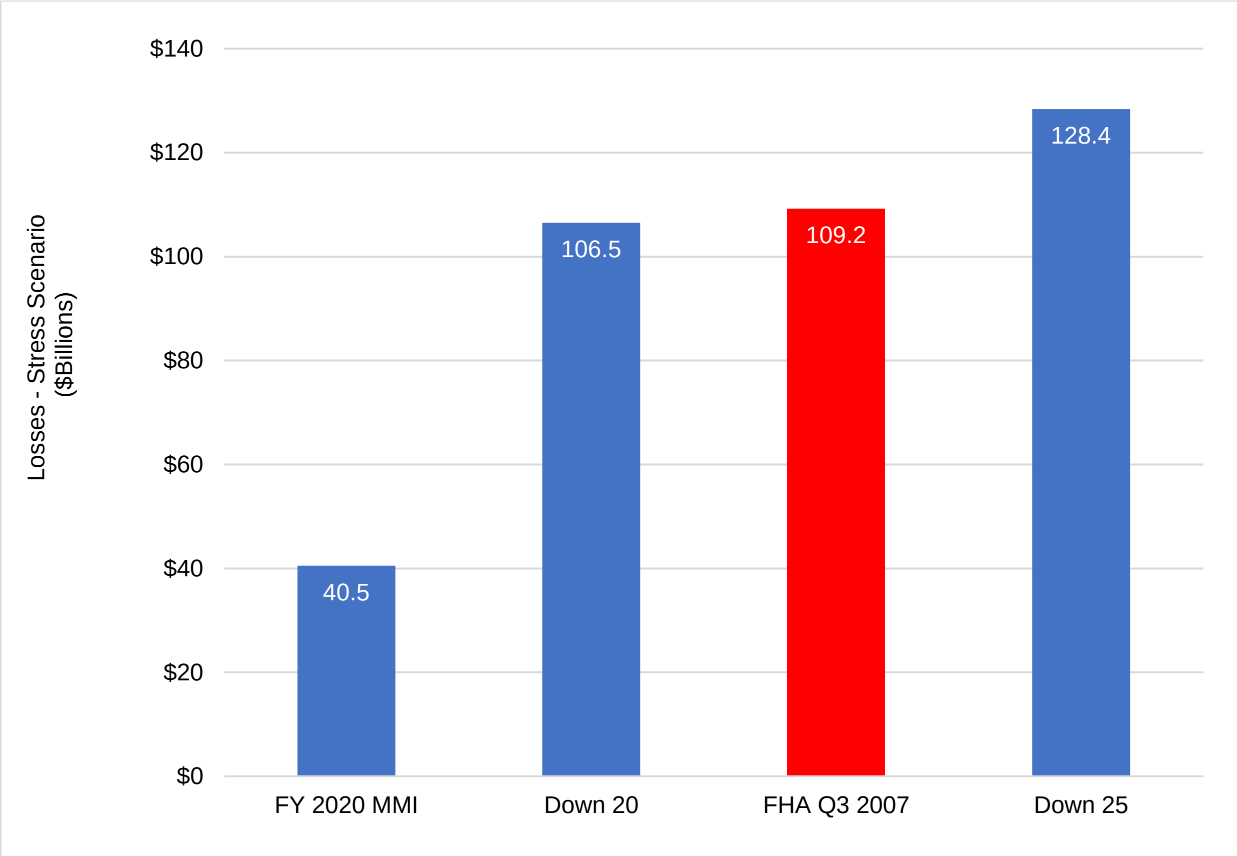
- 1 percent decrease in HPA would reduce the MMI Fund Capital Ratio by 1.30 percent
- 1 percent decrease in interest rates would reduce the MMI Fund Capital Ratio by 0.26 percent

Note that a 1 percent shift in HPA has a similar dollar impact on the HECM and forward portfolios despite HECMs comprising only 5 percent of the MMI Fund portfolio.

To further evaluate the sensitivity of the MMI Fund to future home prices, two additional economic scenarios were run through FHA's models:

- **Down 20** - 20 percent decline in HPA in which home prices decline by 20 percent over the next 2.5 years then appreciate by 3 to 4 percent annually
- **Down 25** - 25 percent decline in HPA in which home prices decline by 25 percent over the next 3.0 years then appreciate by 3 to 4 percent annually

Exhibit II-15: Projected Losses from the Q3 FY 2007 Stress Scenario Fall Between the Down 20 and Down 25 Stress Scenarios ($ billions)



SOURCE: U.S. Department HUD/FHA, October 2020.
Refer to data table C-11 in Appendix C.

As shown by Exhibit II-15, above, projected portfolio losses from the Q3 2007 scenario fall between the Down 20 and Down 25 scenarios, although the results are more similar to the less severe Down 20 scenario.

The next section describes a capital management approach based on stress testing results.

Capital Management

By statute, the MMI Fund Capital Ratio is the metric by which performance of the MMI Fund is evaluated. However, managing the capital position of the Fund goes beyond achieving a minimum ratio at a point in time and HUD has a concurrent statutory responsibility to ensure that the MMI Fund remains financially sound. Prudent management practice should overlay the statutory capital requirement with a risk management approach that considers the health of the economy and the sensitivity of the Fund to unexpected changes to HPA. Internal capital should be set to a target level commensurate with the risk level of the underlying mortgage loans in the portfolio.

As mentioned earlier in this chapter, MMI Fund Capital is defined as follows:

MMI Fund Capital = (Total Capital Resources + NPV Projected Revenue – NPV Projected Losses)

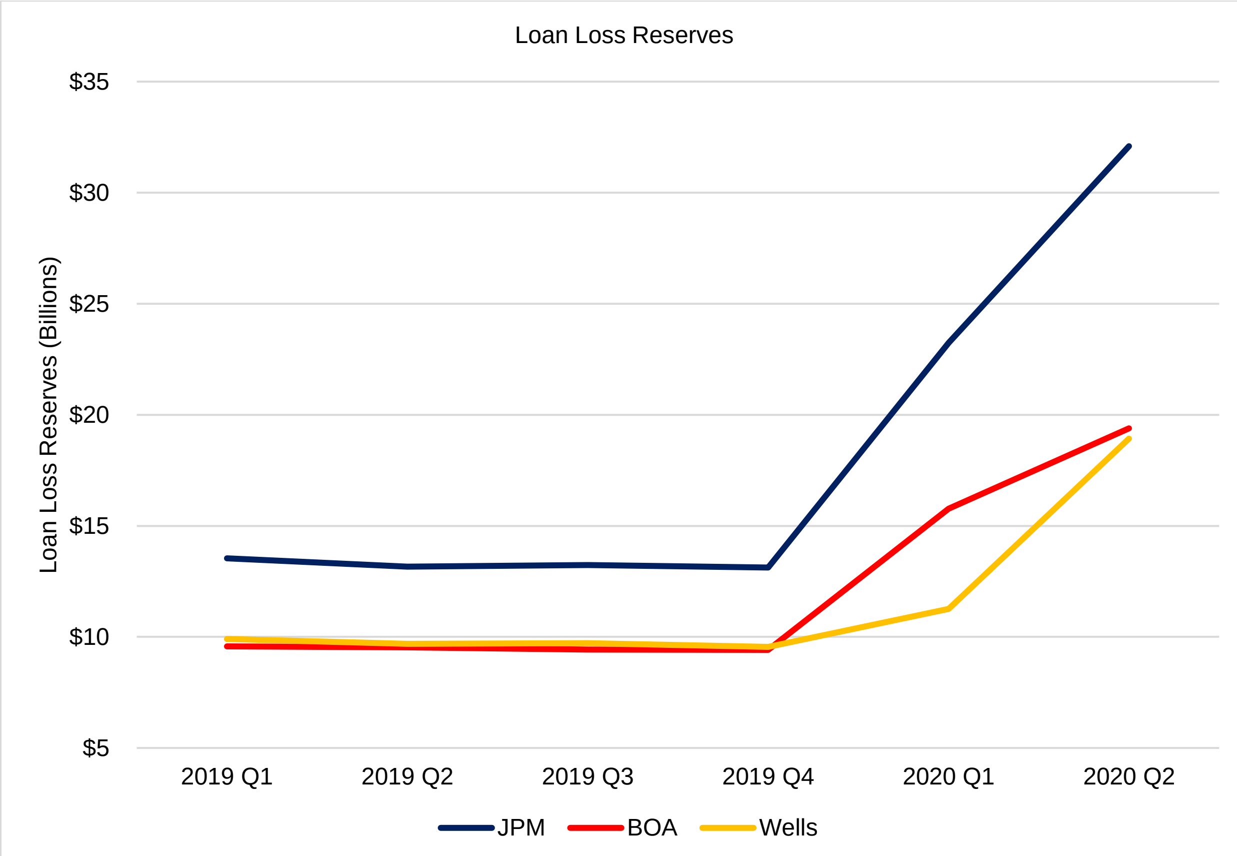
Claims Paying Capacity, representing resources available to pay for claims losses, is composed of two of the three components in the MMI Fund Capital calculation:

Claims Paying Capacity = (Total Capital Resources + NPV Projected Revenue)

A best-practice approach for managing the credit risk of a large mortgage portfolio is to establish a capital buffer to protect against a chosen stress-level loss event. To this we would add the statutory 2 percent minimum established by the Cranston-Gonzalez National Affordable Housing Act of 1990. Claims Paying Capacity provides an internal metric that aligns with the concept of an internal capital buffer.

This risk management objective would be to achieve a capital buffer sufficient to withstand a severely adverse economic event and thereby prevent the MMI Capital Ratio from going below 2 percent in the event of a serious economic downturn by reducing the reliance on lagging, pro-cyclical indicators of economic strength, such as HPA. Ultimately, the adoption of this standard would enhance FHA's ability to fulfill its counter-cyclical role in an economic downturn.

Exhibit II-16: Private Financial Institutions Have Increased Loan Loss Reserves in Response to Economic Uncertainties Resulting from the COVID-19 Pandemic



SOURCE: 2019-2020 10-Ks and 10-Qs from JP Morgan, Bank of America, and Wells Fargo.

FHA's capital management strategy is consistent with the observed behavior of private financial institutions, which have significantly increased loan loss provisions in response to economic uncertainties created by the COVID-19 pandemic, illustrated above by Exhibit II-16.

The results of the Q3 2007 Stress Test on the 2020 MMI Fund portfolio, shown in Exhibit II-14A, are used to develop estimates of the Claims Paying Capacity necessary to protect the MMI Fund from losses similar to those experienced during the Great Recession.

Exhibit II-17: Claims Paying Capacity of 10.4 percent Would Protect the MMI Fund Portfolio from Stress Losses Incurred During the Great Recession

Portfolio	Insurance-in-Force	Claims Paying Capacity (Capital Buffer)					
		Stress Loss[21] (Q3 2007)		In Hand		Needed to Reach Target	
		(%)	($ billion)	(%)	($ billion)	(%)	($ billion)
Forward	$ 1,232.1	9.7%	$ 119.2	9.1%	$ 112.0	0.6%	$ 7.2
HECM	$ 62.6	25.4%	$ 15.9	9.3%	$ 5.8	16.0%	$ 10.1
MMI[22]	$ 1,294.7	10.4%	$ 135.1	9.2%	$ 119.5	1.2%	$ 15.6

SOURCE: U.S. Department of HUD/FHA, October 2020.

As shown by Exhibit II-17, above, the targeted level of Claims Paying Capacity for the MMI Fund portfolio would be $135.1 billion or 10.4 percent of MMI Fund IIF, the sum of:

- $119.2 Billion or 9.7 percent of Forward IIF
- $15.9 Billion or 25.4 percent of HECM IIF

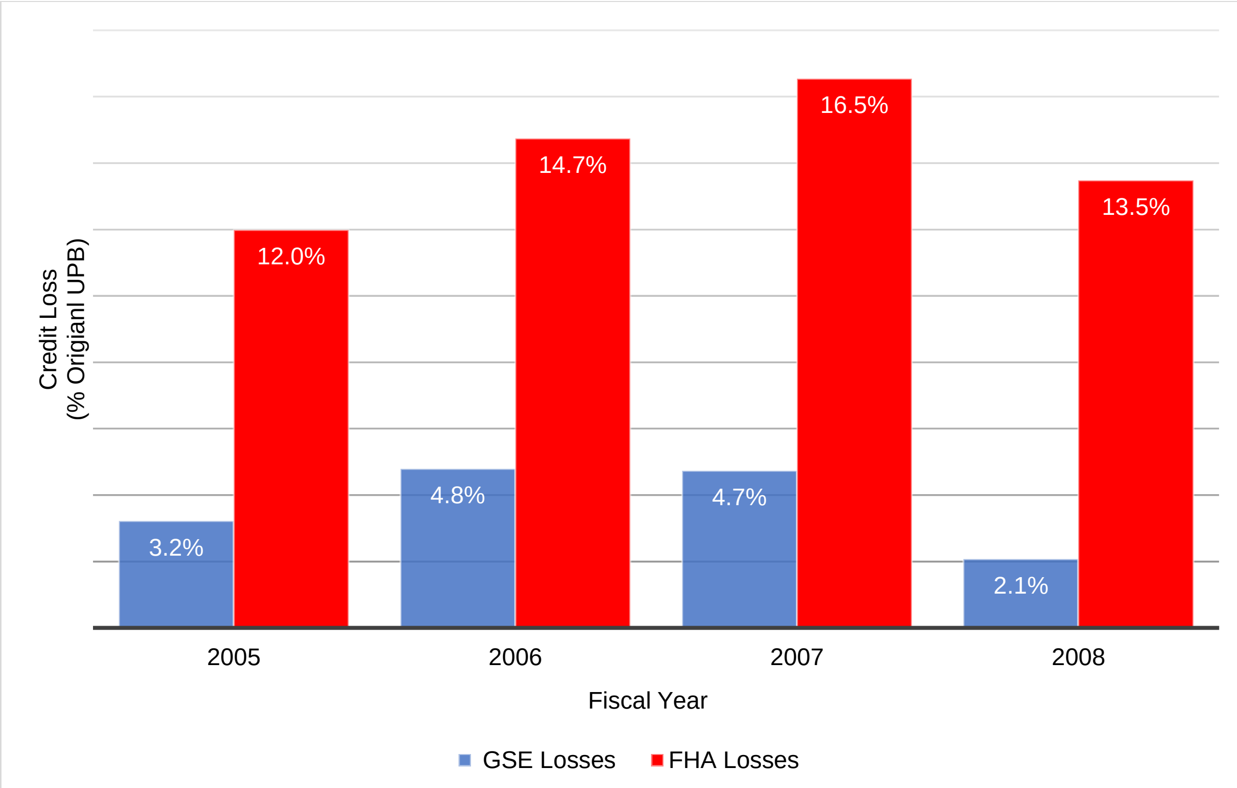
Under this scenario, the fund would require an additional $15.6 billion to absorb safely forecasted future losses during a severely adverse scenario. Separate estimates are developed for the forward and HECM portfolios because they each show different sensitivity to a given decrease in HPA projections.

The proposed Enterprise Regulatory Capital Framework recently submitted by the Federal Housing Finance Agency (FHFA) for public comment provides a benchmark for comparing the proposed capital standard for FHA's forward portfolio. FHFA contrasts the capital ratios under the original Capital Framework proposed in 2019 (2.25 percent)[23] to the more recent proposal (3.85 percent)[24].

The 10.4 percent internal Claims Paying Capacity target for the forward portfolio, referenced above, is about 4.6 times higher than the originally proposed 2.25 percent credit capital level for GSEs and about 2.7 times higher than the 3.85 percent capital ratio in the most recent proposal.

[21] Includes 2 percent statutory minimum reserve requirement.
[22] MMI Fund "In Hand" includes $1.7 billion mandatory appropriation from FY2013.
[23]From Table 5 of Conservator Capital Framework, https://www.govinfo.gov/content/pkg/FR-2018-07-17/pdf/2018-14255.pdf.
[24]From Table 2 of Enterprise Regulatory Capital Framework, https://www.fhfa.gov/SupervisionRegulation/Rules/RuleDocuments/Ent-Reg-Capital-Frmwk-NPR-Updated-Vsn.pdf.

Exhibit II-18: FHA Losses Were Four Times Higher Than GSEs During the Great Recession



SOURCE: U.S. Department of HUD/FHA, October 2020. Fannie Mae, 2019.[25] Freddie Mac, 2019.[26]

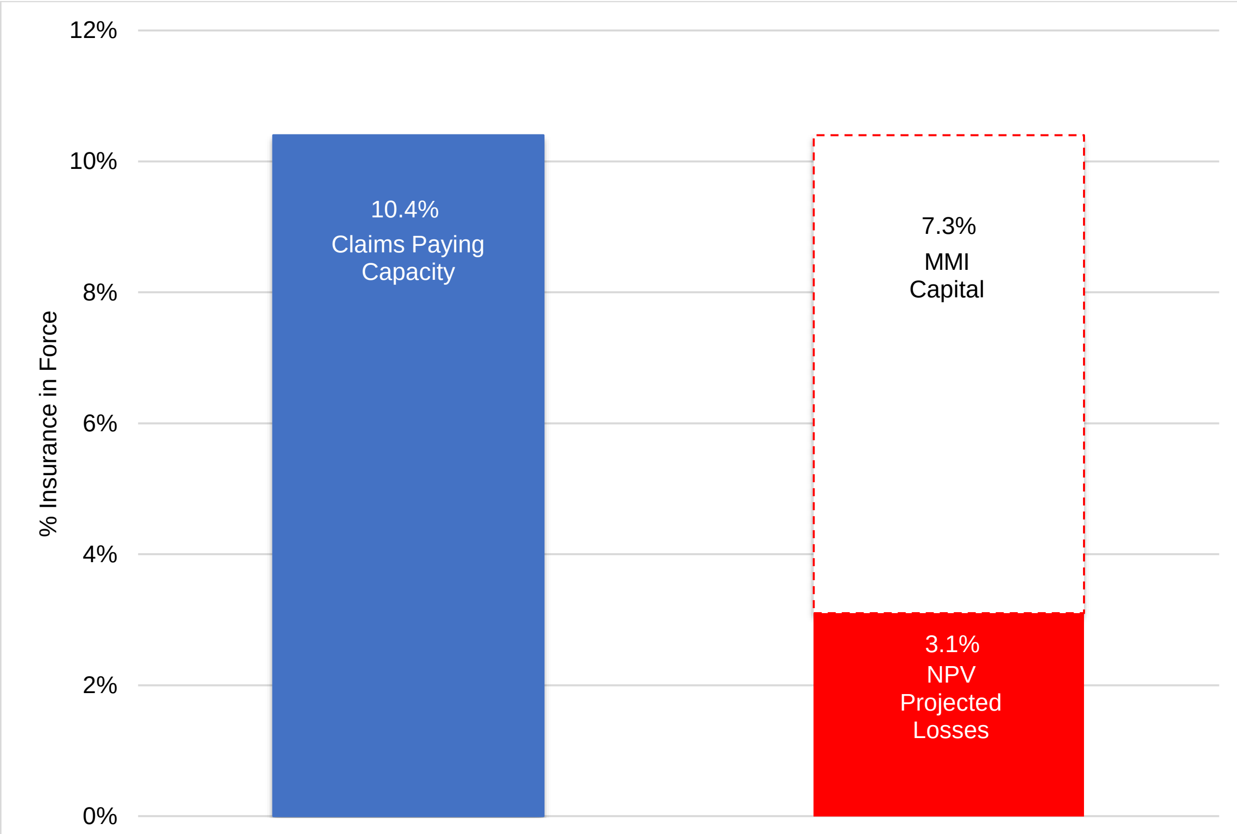
These ratios are commensurate with the level of risk assumed by FHA relative to that assumed by the GSEs; FHA's losses were about four times higher during the peak of the Great Recession (2005 – 2008), as illustrated in Exhibit II-18 above, and 10 times higher during the non-recession years between FY 2001 and FY 2012.

FHA's capital focus is to manage Claims Paying Capacity to a risk weighted percentage, which currently would result in about $135 billion of Claims Paying Capacity. This would provide the best protection against the MMI Fund Capital Ratio from going below 2 percent in the event of a serious economic downturn and reduce reliance on lagging, pro- cyclical indicators of the state of the economy, such as HPA. Ultimately, this would place FHA in a stronger position to facilitate its counter-cyclical role in an economic downturn.

[25] https://www.fanniemae.com/resources/file/credit-risk/pdf/cas-program-investor-presentation.pdf

[26] https://crt.freddiemac.com/_assets/docs/offerings/stacr/stacr-sflld-performance-deck.pdf

Exhibit II-19: A 7.3 Percent MMI Fund Capital Ratio Would Result if a 10.4 Percent Capital Buffer Is Achieved



SOURCE: U.S. Department HUD/FHA, October 2020.
Refer to Data Table C-10 in Appendix.

The MMI Fund Capital Ratio would be 7.3 percent if the 10.4 percent ($135 billion) capital buffer is achieved, as illustrated by Exhibit II-19, above.

Independent Actuary for FY 2020 Confirms Baseline Projections Are Reasonable

12 USC § 1708(a)(4) requires FHA to annually provide for an independent actuarial study of the MMI Fund and to submit a report to Congress describing the results of such study. For this Annual Report, FHA engaged Pinnacle Actuarial Resources (Pinnacle) to test the reasonableness of its FY 2020 estimates of forward and Home Equity Conversion Mortgage (HECM) Cash Flow Net Present Values (NPVs). The actuary serves as an independent check of FHA's methodology. FHA's and Pinnacle's estimates were prepared in accordance with the Federal Credit Reform Act and Actuarial Standards of Practice.

Forecast scenarios of Cash Flow NPV were estimated by FHA, and tested for reasonableness by the independent actuary, Pinnacle. For FY 2020, Pinnacle concluded that FHA's Cash Flow NPV is reasonable and within Pinnacle's reasonable range of Actuarial Estimates. Details are provided below:

- **Forward portfolio** - Pinnacle concluded that FHA's $10.39 billion estimate of forward Cash Flow NPV is reasonable. Pinnacle estimated forward Cash Flow NPV at $23.86 billion. Pinnacle estimated the range of reasonable estimates for forward Cash Flow NPV as negative $21.47 billion to $27.07 billion.
- **HECM portfolio** - Pinnacle also concluded that FHA's negative $2.09 billion estimate of HECM Cash Flow NPV is reasonable. Pinnacle independently estimated HECM's Cash Flow NPV at negative $0.33 billion. Pinnacle independently estimated the range of reasonable estimates for HECM Cash Flow NPV as negative $16.50 billion to $1.81 billion.
- **MMI Fund portfolio** - Pinnacle's Cash Flow NPV estimates for forward and HECM combined total $23.07 billion versus $8.30 billion for FHA's baseline estimate. The difference between the two estimates of $14.77 billion is 1.14 percent of IIF.

Pinnacle's Actuarial Reviews for the forward and HECM portfolios are available on FHA's website at: https://www.hud.gov/program_offices/housing/rmra/oe/rpts/actr/actrmenu.

Chapter III:
New Policy and IT Modernization

In response to the COVID-19 pandemic, FHA acted swiftly to implement critical changes to policies, procedures, and technology to assist borrowers, enable remote operations, and mitigate risk to the MMI Fund. While working to assist borrowers financially impacted by COVID-19 and ensuring that the FHA marketplace continued to function effectively, FHA also implemented other important policy priorities, including several recommendations outlined in HUD's 2019 Housing Finance Reform Plan. The following information summarizes FHA's key actions initiated during the past fiscal year.

COVID-19 Foreclosure Moratorium

On March 18, 2020, FHA implemented a foreclosure and eviction moratorium on all FHA-insured Single Family mortgages to assist borrowers and mitigate the economic impact of COVID-19. This moratorium halted foreclosure and eviction actions for FHA-insured Single Family properties and has subsequently been extended with an exclusion for legally vacant or abandoned properties through December 31, 2020.

COVID-19 Underwriting Flexibilities

On March 27, 2020, FHA announced temporary underwriting flexibilities during the COVID-19 National Emergency, providing alternative methods for re-verifying a borrower's employment prior to settlement and permitting FHA roster appraisers to use exterior-only or desktop-only appraisal inspections as a substitute for interior home inspections. At the end of fiscal year 2020, these flexibilities were in place through October 31, 2020.

In July 2020, FHA announced temporary guidance for verifying the stability of income from self-employed borrowers and borrowers with rental income during the COVID-19 National Emergency. This guidance also provided additional flexibilities in the administration of 203(k) Rehabilitation Escrow Accounts to support the continuation of projects for borrowers in forbearance. At the end of fiscal year 2020, this guidance was in effect for case numbers assigned on August 12, 2020 through November 30, 2020.

On September 10, 2020, FHA published underwriting guidelines for mortgages involving borrowers of FHA-endorsed mortgages in forbearance seeking new FHA-insured financing, after successfully completing their mortgage payment forbearance period.

COVID- 19 Loss Mitigation

On April 1, 2020, FHA implemented the mortgage forbearance provisions to comply with the Coronavirus Aid, Relief, and Economic Security (CARES) Act that President Trump signed into law on March 27, 2020. The loss mitigation options for borrowers experiencing a financial hardship negatively impacting their ability to make on-time mortgage payments due to the COVID-19 national emergency included: the availability of up to six-months of mortgage payment forbearance for affected borrowers and an additional six-month period, if the borrower requested it; a new COVID-19 national emergency stand-alone partial claim for eligible borrowers; and extensions for certain due and payable, foreclosure, and claim timeframes for Home Equity Conversion Mortgages (HECM) affected by the COVID-19 national emergency.

On July 8, 2020, FHA expanded and streamlined the loss mitigation options available to borrowers who obtained the Coronavirus Aid, Relief, and Economic Security (CARES) Act forbearance but may not qualify for the COVID-19 Standalone Partial Claim to resolve the outstanding missed payments.

FHA's COVID-19 home retention waterfall for homeowners who occupy their FHA-insured Single Family residences now includes requiring servicers to assess homeowners for the following at or before the end of their forbearance period:

1. The COVID-19 National Emergency Standalone Partial Claim takes all past due mortgage amounts and puts them in a separate, junior lien of up to 30 percent of the mortgage's unpaid principal balance. This junior lien is only repayable when the mortgage terminates, which, for most borrowers, is when they refinance or sell their home.
2. The COVID-19 Owner-Occupant Loan Modification is for homeowners who do not qualify for the COVID-19 Standalone Partial Claim. It modifies the rate and term of the existing mortgage.
3. The COVID-19 Combination Partial Claim and Loan Modification is for homeowners who are not eligible for either of the first two solutions. It allows for the use of a partial claim up to 30 percent of the unpaid principal balance; any other amounts owed are handled through a mortgage modification.
4. The COVID-19 FHA HAMP Combination Loan Modification and Partial Claim is for homeowners who are not eligible for any other home retention solution. It reduces the amount of documentation needed to obtain a COVID-19 FHA HAMP Combination Loan Modification and Partial Claim.

Additional COVID-19 Actions

Due to the need for social distancing during the COVID-19 National Emergency, FHA issued temporary waivers on March 13, 2020, suspending the requirement for servicers to conduct in-person early default intervention.

On April 14, 2020, FHA provided servicers with alternative documentation flexibilities for specific claim requirements, and extended delivery deadlines for assignment claims for HECM mortgagees impacted by the COVID-19 National Emergency. FHA also allowed lenders to offer recalculated repayment plans for unpaid property charges for HECM borrowers.

Information Technology (IT) Modernization

During FY 2020, FHA continued its multi-year effort to modernize its IT infrastructure and streamline the process for doing business with FHA. Called *FHA Catalyst*, the initiative and platform will eventually provide an end-to-end integrated system for lenders and other FHA program participants to use when conducting business with FHA, while strengthening data and analytics used by FHA to measure and monitor risks to its insurance portfolio. FHA's legacy IT infrastructure utilized 15 antiquated systems, some more than 40 years old. FHA's paper-based processes and frequent system failures resulted in delays and risk exposure for the agency and its program participants. FHA broadly implemented the first two modules of the new *FHA Catalyst* system on April 6, 2020.

The *FHA Catalyst*: Case Binder Module allows FHA lenders to submit case binders electronically for review and endorsement, replacing the legacy paper-based submission process. Following the declaration of the COVID-19 National Emergency, FHA expedited the implementation of the case binder submission module to quickly adapt to remote work situations. This facilitated the continuity of FHA insurance endorsements throughout the pandemic. On August 31, 2020, FHA expanded the *FHA Catalyst*: Case Binder Module to allow for the delivery of electronic case binders selected for post-endorsement review in the Loan Review System (LRS).

The *FHA Catalyst*: Claims Module allows for the electronic submission of supplemental claims. HUD expanded the *FHA Catalyst:* Claims Module to allow for the electronic submission of loss mitigation home retention claims on June 12, 2020.

On August 18, 2020, HUD implemented the *FHA Catalyst:* Electronic Appraisal Delivery (EAD) Module, the third module of the *FHA Catalyst* system, which allows for the electronic submission of appraisal documentation.

Increased 203(k) Loan Limits in Opportunity Zones

On November 22, 2019, FHA issued Mortgagee Letter 2019-18, *Maximum Rehabilitation Costs in Qualified Opportunity Zones (QOZs) for Limited 203(k) Mortgages*, which announced an increased cap for Limited 203(k) mortgages from $35,000 to $50,000 in QOZs only. This policy change fosters investment in home purchase and/or rehabilitation in QOZs by expanding the allowable limit for rehabilitation costs, enabling homeowners and homebuyers to do more rehabilitation work. It is effective for case numbers assigned from December 16, 2019, through December 31, 2028.

Enhancements to Claims without Conveyance of Title (CWCOT) Procedures

On July 7, 2020, FHA published Mortgagee Letter (ML) 2020-21, *Enhancements to FHA's Claims Without Conveyance of Title (CWCOT) Procedures*.

The CWCOT claim option enables FHA to pay insurance benefits after the sale of a property to a third party at the foreclosure of the FHA-insured mortgage or through a post-foreclosure sale. With CWCOT, there is no conveyance of the property to HUD in exchange for payment of mortgage insurance benefits. CWCOT expedites the disposition of foreclosed properties and reduces the amount of time a property sits vacant.

Since 2016, FHA has focused on increasing the utilization rate of CWCOT, which has doubled from 29 percent to 58 percent of distressed asset dispositions between 2016 and 2020, with an average cost savings of over 15 percentage points. Overall, this increased CWCOT usage has resulted in over $1.2 billion in cost savings over the past four years.

The changes communicated through this ML were designed to increase FHA's recoveries on assets sold, and to reduce administrative, holding, and servicing costs associated with the lengthy conveyance and REO disposition process through the following enhancements:

- Providing for a second appraisal upon vacancy for a property that had an exterior-only appraisal, where an interior appraisal could not be obtained.
- Allowing mortgagees to submit eviction costs and certain eligible property preservation expenses incurred during Post-Foreclosure sales opportunities.
- Updating the policy and allowable fee structure regarding independent third-party providers that conduct foreclosure sales or Post-Foreclosure Sales Efforts under CWCOT procedures; and
- Regularly updating the discounts in FHA Connection and changing to tier-based pricing factors. After the property's appraised value has been established, employees of a mortgagee authorized to access the Commissioner's Adjusted Fair Market Value (CAFMV) link in FHA Connection should visit https://entp.hud.gov/clas/index.cfm to determine a property's CAFMV.

Given the current size of the seriously delinquent portfolio, FHA projects a future benefit of over $6 billion as a result of expected increases in CWCOT utilization.

Improvements to Provide Clarity on Regulatory Expectations within the Single Family Program

Over the past decade, the share of FHA Single Family mortgages underwritten by depository institutions decreased from approximately 43.00 percent in FY 2010 to 10.35 percent in FY 2020. This shift has limited the sources of FHA-insured financing available to consumers and has increased risk to the MMI Fund. Depositories have cited potential legal liability related to enforcement actions under the False Claims Act as a leading reason for their limited participation in the FHA program.

During FY 2020, FHA made significant strides to improve the clarity of regulatory expectations within its programs. Most notably, on October 28, 2019, HUD and the U.S. Department of Justice signed a landmark Memorandum of Understanding (MOU), which provides guidance on the appropriate use of the False Claims Act (FCA) for violations of FHA requirements by FHA-approved lenders.

To further provide certainty and clarity about FHA program requirements, FHA's Office of Single Family Housing implemented changes to the Defect Taxonomy, annual lender certifications, and loan-level certifications.

Defect Taxonomy

The Defect Taxonomy is FHA's method of identifying underwriting defects at the loan level. FHA originally created the Defect Taxonomy in 2015 and implemented it through the Loan Review System in 2017. It provides useful data for FHA and lenders by identifying loan-level defects and their sources, causes, and severities through a structured categorization.

On January 1, 2020, FHA implemented Version 2 of the Defect Taxonomy, which included significant updates to add clarity and consistency to the severity tiers, and to better distinguish those defects that might warrant referral to the Department of Justice for False Claims Act litigation.

On September 22, 2020, FHA announced the incorporation of Version 2 of the FHA Defect Taxonomy as an appendix to the Single Family Housing Policy Handbook 4000.1.

Annual Lender Certifications

FHA-approved lenders are required to complete an annual certification of compliance with HUD approval and eligibility requirements. On October 25, 2019, FHA published in the *Federal Register* a new and revised annual lender certification to better align the certification statements with HUD's statutes and regulations, while continuing to hold lenders accountable for compliance with FHA's eligibility requirements.

FHA Single Family Housing Policy Handbook 4000.1 Updates

On July 14, 2020, FHA published proposed revisions of the servicing section of Single Family Housing Policy Handbook 4000.1 for a 60-day public comment period. Consistent with HUD's Housing Finance Reform plan, the proposed revisions contain updates and policy clarifications that would incorporate changes to FHA's Loss Mitigation waterfall, align requirements with industry standards, and streamline documentation requirements and processes.

Chapter IV: Recommendations

In accordance with Section 202(a)(3) and (7), FHA has a responsibility to ensure the MMI Fund remains "financially sound" and is meeting its statutory operational goals, which are:

(A) to minimize the default risk to the Fund and to homeowners by among other actions instituting fraud prevention quality control screening not later than 18 months after July 30, 2008; and

(B) to meet the housing needs of the borrowers that the Single Family mortgage insurance program under this subchapter is designed to serve.

See Section 202(a)(3) and (7) of the National Housing Act, 12 U.S.C. 1708(a)(3) and (7). Where information obtained by FHA through its independent actuarial study of the MMI Fund reveals this is not occurring, FHA must act and make necessary adjustments to fulfill the statutory duties and goals. *See* Section 202(a)(6) of the National Housing Act, 12 U.S.C. 1708(a)(6). FHA has determined that certain statutory provisions, which are discussed below, may no longer be serving the statutory goals for or be in the best interest of the MMI Fund. Due to the statutory nature of these provisions, FHA cannot fully address these concerns without Congressional action.

Mortgagee Review Board Realignment

The Mortgagee Review Board (MRB) is a statutorily created body responsible for oversight of FHA-approved lenders, including taking administrative actions against FHA-approved lenders that are not compliant with FHA lending standards. The MRB is chaired by the Federal Housing Commissioner and is comprised of several of HUD's Assistant Secretaries and the General Counsel. The staff which support the MRB is currently located as a subsidiary office within the Office of Single Family Housing. Because the MRB exercises oversight and sanctioning authority over lenders who do business with the Office of Multifamily Housing Programs, Single Family Housing, and the Office of Healthcare Programs, the MRB staff would be more appropriately located within the Office of the Assistant Secretary for Housing – Federal Housing Commissioner and Chair of the MRB.

Mortgagee Review Board Actions Authorized – Sanctions

One of the possible sanctions the MRB is authorized to impose is the suspension of FHA approval. At present, the National Housing Act provides that the MRB may suspend a lender for a minimum of six months, not to exceed 12 months, and permits a one-time six-month extension. FHA has found that the imposition of a mandatory minimum suspension effectively acts as a "death penalty" and causes lenders to wind down FHA-insured lending because it cannot sustain itself for a six-month period. The removal of the six-month minimum would permit the MRB to use this sanction more effectively to effectuate a change at the lender level and permit the lender to remain in business once they have addressed the underlying issues which led to MRB action. This statutory change is being sought as part of the goal to provide more appropriate enforcement tools to the MRB and better align with the enforcement goals of the Office of Housing. There is no immediate budgetary impact, but this provision would be beneficial to the health of the MMI Fund if approved. FHA would prefer to work with Congress in making this important organizational change.

Changes to Forward Mortgage Loan Limits

FHA's forward mortgage loan limits are established annually using a formula codified in Section 203(b)(2) of the National Housing Act. The current formula was put in place by the Housing and Economic Recovery Act of 2008 (HERA), and involves a calculation of high cost area loan limits that are 150 percent of the conforming loan limit. This may lead FHA, whose mission is to serve first-time, and minority homebuyers who would otherwise be underserved in the conventional market, to offer insurance on loans in amounts in excess of those available through Fannie Mae or Freddie Mac. As loan limits increase, this may lead to a reduction in capital made available to FHA's true mission borrowers as capital is concentrated in these high cost areas. In addition, higher loan limits for FHA than conventional limits potentially shift insured loans to FHA that would otherwise be backed by private capital. FHA is exploring whether excess growth of loan limits in high cost areas serves the mission of FHA or distracts from it and whether it continues to be appropriate for FHA to continue to expand its maximum insured mortgage amounts strictly based on mathematical calculations without regard to the impact on its mission and purpose.

Changes to Home Equity Conversion Mortgage Loan Limits

Similar to the forward mortgage program, the statutory loan limit for the Home Equity Conversion Mortgage (HECM) program continues to grow based on the calculation of loan limits for the highest cost areas of the country. This calculation fails to reflect variation in local housing markets and regional economies across the United States. Currently, the HECM program utilizes one nationwide loan limit of $726,525 (for calendar year 2019), which significantly exceeds the forward mortgage loan limits for much of the country. Given the HECM program's historic volatility and contributions to outsized losses to the MMI Fund, the HECM program poses a greater risk based on loan limits than the forward program and has the potential to negatively impact FHA's ability to meet its statutory goals for its Single Family programs. FHA questions whether the mission of FHA is being served by the current HECM loan limits.

Home Equity Conversion Mortgages Capital Reserve

As outlined elsewhere in this report, the HECM program has had a historically significant negative impact on the performance of the MMI Fund. FHA has begun to separately report on the severity of the impact in this report. However, the MMI Fund's specific statutory Capital requirements are based on the combination of all mortgages that are an obligation of the MMI Fund, with no differentiation between forward and HECM loans. In order to give the most accurate information and provide for more targeted management of the financial health of the Fund based on program type, FHA recommends that a separate HECM capital ratio be established and action be taken to reduce the potential for negative impact on FHA's forward mortgage mission-driven lending as a result of losses sustained in the HECM portfolio.

PACE Subordination

FHA has taken steps to prevent the insurance of mortgages on properties subject to residential Property Assessed Clean Energy (PACE) liens, which are capable of priming, or moving ahead of, mortgages insured, guaranteed or held by HUD. The need to secure, and remain secured by, a first lien mortgage is key to the ability of FHA to maintain the health of the MMI Fund. A PACE assessment on a property generally has a lien on par with tax liens, placing it above the FHA-insured mortgage lien and thereby increasing the risk of losses to the MMI Fund. Despite steps taken by FHA in December 2017 to prohibit new FHA-insured financing on properties encumbered with outstanding PACE assessments, FHA remains at risk where PACE financing is later obtained by the homeowner. To mitigate this risk to the MMI Fund, legislation could be passed to protect FHA's lien position notwithstanding any PACE assessments obtained by a homeowner with a mortgage insured by FHA.

Limits on Cash Out Refinances

FHA continues to review the impact on the MMI Fund and its ability to meet its statutory goals in connection with cash-out refinances. FHA's statutory goals require FHA to explore ways to minimize the risk of default and ensure capital is available for mission-targeted lending. Increased lending in cash-out refinances may reduce available capital for mission-targeted lending and poses the potential for increased risk due to adverse borrower selection resulting if the maximum mortgage limits for cash-out refinances are in excess of those available in the conventional market.

Changes to HUD's Partial Claim Authority

As FHA has confronted various housing crises and as it presently responds to the COVID-19 National Emergency, FHA has relied heavily on its statutory Partial Claim authority. FHA has very specific statutory requirements for the payment, and repayment, of Partial Claims, which appear to undercut at times the potential effectiveness of FHA in both helping delinquent borrowers avoid foreclosure and reducing financial risk to FHA. At present, the statutory requirements are burdensome and costly for borrowers and lenders.

By statute, HUD's process for issuing a Partial Claim requires the Secretary to take steps to ensure the repayment by the borrower of the amount of the Partial Claim. Historically, FHA has required the execution of a subordinate mortgage in favor of the Secretary to secure the repayment of the Partial Claim by the borrower, under which repayment is generally triggered when the original mortgage is paid in full, the property is sold, or the original mortgage is no longer FHA-insured.

With an amendment to the National Housing Act's requirements for Partial Claims, FHA could establish an alternative Partial Claim process structured to allow the repayment of the Partial Claim to remain secured under the borrower's original insured mortgage. This would streamline the process and eliminate the costs and financial risks associated with the creation of a second, subordinate mortgage, including the costs to HUD of servicing the subordinate mortgage. To enable this structure, the servicing of the insured mortgage, including amounts representing the Partial Claim paid would remain with the lender, thereby improving the effectiveness and efficiency of this process. This would help borrowers retain their homes and reduce documentation requirements for the servicer and servicing contracts for HUD.

Establish FHA as an Autonomous Corporation within HUD

FHA was established as an independent agency in 1934 but was integrated into HUD when the Department was created in 1965. Unlike other offices within HUD, which generally support very low- and extremely low-income individuals and families, FHA offers mortgage insurance products to enhance access to homeownership, rental housing, and healthcare facilities. The MMI Fund has been adversely impacted in the past due to HUD's inability to operate effectively in a complex, market-driven environment by addressing in a timely manner, changing market dynamics and other pressing business needs at FHA. Autonomy within HUD, similar to the structure utilized by the Government National Mortgage Association (GNMA) so successfully, would provide FHA greater control over staffing and procurement, including technology and increased authority to address risk management functions that can suffer from being part of a larger organization.

Appendix A:
Data Tables for Overview

Table A-1: Data Table for Exhibit O-9: FHA Continues to Reduce Its Footprint as it Maintains Focus on First-time Homebuyers

FHA Mortgage Market Shares by Dollar Volume			
Origination Fiscal Year	FHA Share		
	Purchase	Refinance	All
2010	29.49	9.09	16.20
2011	26.02	8.57	14.67
2012	22.08	6.70	11.23
2013	17.16	7.91	10.99
2014	13.86	5.61	10.48
2015	16.14	10.26	13.48
2016	16.64	7.91	12.46
2017	15.54	9.66	13.25
2018	13.24	8.87	11.89
2019	12.71	9.23	11.56
2020	13.45	6.83	9.61

NOTE: Ratios of dollar volume may not reconcile exactly to market shares due to rounding.
SOURCE: U.S. Department of HUD/FHA, as of March 30,2020. Originations based on beginning amortization dates. Includes all conventional and government Single Family forward originations. Mortgage Bankers Association of America, "MBA Mortgage Finance Forecast," July 15, 2020, and CoreLogic TrueStandings ® as of August 11, 2020.

Table A-2: Data Table for Exhibits O-4 and I-1A: FHA Purchase Loans to Core Borrower Segments FY 2018 – FY 2020 (count in thousands) and Exhibits O-5 and I-1B: FHA Purchase Loans to Select Borrower Segments in FY 2020 (count in thousands)

Core Borrower Segment	FY 2018	FY 2019	FY 2020
First-time homebuyer [1]	641.91	615.71	679.63
Minority	283.43	271.51	300.79

SOURCE: U.S. Department of HUD/FHA, October 2020.

Core Borrower Segment	Oct – Mar	Apr – Sep
	FY 2020	FY 2020
First-time homebuyer	320.40	359.23
Minority	145.30	155.49

SOURCE: U.S. Department of HUD/FHA, October 2020.

Table A-3: Data Table for Exhibit O-6: FHA's Core Business Attracts First-Time Homebuyers

Endorsement Fiscal Year	FHA Forward Purchase Mortgages			Higher Risk FTHB	All Other Purchases
	Three Risk Layers	Less than Three Risk Layers	Total		
2009	354,806.00	640,744.00	995,550.00	35.64%	64.36%
2010	354,162.00	755,420.00	1,109,582.00	31.92%	68.08%
2011	229,766.00	547,661.00	777,427.00	29.55%	70.45%
2012	239,492.00	494,372.00	733,864.00	32.63%	67.37%
2013	236,744.00	465,671.00	702,415.00	33.70%	66.30%
2014	235,568.00	359,430.00	594,998.00	39.59%	60.41%
2015	306,364.00	447,023.00	753,387.00	40.66%	59.34%
2016	355,952.00	523,560.00	879,512.00	40.47%	59.53%
2017	370,814.00	511,264.00	882,078.00	42.04%	57.96%
2018	357,386.00	418,889.00	776,275.00	46.04%	53.96%
2019	356,329.00	386,950.00	743,279.00	47.94%	52.06%
2020	369,419.00	448,428.00	817,847.00	45.17%	54.83%

SOURCE: U.S. Department of HUD/FHA, October 2020.

Table A-4: Data Table for Exhibit O-13: Early Payment Default Rates Have Spiked Due to the COVID-19 Pandemic

Month	6-month EPD Lag Ending
Oct-19	0.86%
Nov-19	0.84%
Dec-19	0.87%
Jan-20	0.83%
Feb-20	0.72%
Mar-20	0.60%
Apr-20	0.60%
May-20	1.19%
Jun-20	5.97%

SOURCE: U.S. Department of HUD/FHA, October 2020.

Table A-5: Data Table for Exhibits O-14 and Exhibit II-11: Serious Delinquent Portfolio Grew by $117 Billion as a Result of COVID-19 Forbearance

Seriously Delinquent Category	Unpaid Principal Balance (in dollars)
90+	148,931,513,373
In FC (30,60,90+)	2,654,607,098
In BK (30,60,90+)	6,715,198,195
Total	158,301,318,666

SOURCE: U.S. Department of HUD/FHA, HUD National Servicing Center,
Branch 1 Reporting & Analytics, October 2020.

Appendix B:
Data Tables for Chapter I

Table B-1: Data Table for O-8: FHA Volume Exceeds $310 Billion in FY 2020, Most in 10 Years and Exhibit I-1C: Historical FHA Forward Mortgage Endorsement Activity

Endorsement Fiscal Year	Mortgage Amount ($ billions)	FHA Forward Endorsed Mortgage Counts				
		Purchase	FHA Streamline Refinance	Other FHA Refinance	Conventional-to-FHA Refinance	Total
2000	94.22	839,870	34,443	6,780	32,007	913,100
2001	117.69	806,818	188,422	17,230	46,207	1,058,677
2002	148.10	862,899	318,245	28,525	64,475	1,274,144
2003	159.24	658,640	560,891	37,504	62,694	1,319,729
2004	115.98	586,110	291,483	26,147	56,695	960,435
2005	62.36	353,845	113,062	11,840	33,580	512,327
2006	55.30	313,998	36,374	14,722	60,397	425,491
2007	59.84	278,395	22,087	16,504	107,738	424,724
2008	181.17	631,656	66,773	28,510	360,455	1,087,394
2009	330.49	995,550	329,436	38,071	468,941	1,831,998
2010	297.60	1,109,582	212,896	39,602	305,530	1,667,610
2011	217.81	777,427	180,265	44,559	195,559	1,197,810
2012	213.30	733,864	274,059	47,596	129,221	1,184,740
2013	240.12	702,415	511,843	39,088	91,500	1,344,846
2014	135.22	594,998	115,038	20,962	55,354	786,352
2015	213.12	753,387	232,811	50,018	80,014	1,116,230
2016	245.41	879,512	210,629	60,444	107,463	1,258,048
2017	250.96	882,079	161,308	76,171	126,879	1,246,437
2018	209.05	776,275	51,255	77,615	109,455	1,014,600
2019	214.62	743,279	56,432	86,767	103,947	990,425
2020	310.33	817,847	315,563	105,199	94,567	1,333,176

SOURCE: U.S. Department of HUD/FHA, October 2020.

Table B-2: Data Table for Exhibits O-4 and I-1A: FHA Purchase Loans to Core Borrower Segments FY 2018 – FY 2020 (count in thousands), Exhibits O-5 and I-1B: FHA Purchase Loans to Select Borrower Segments in FY 2020 (count in thousands), Exhibit O-7: Share of First-time Homebuyers Reached a New High in FY 2020 and Exhibit I-2: Historical Purchase Mortgage Activity and FHA First-Time Homebuyer Share

Endorsement Fiscal Year	FHA Forward Mortgages			Percent of First-Time Homebuyer	Average Age for First-Time Homebuyer
	First-Time Buyer	Repeat Buyer	Purchase Total		
2000	684,999	154,871	839,870	81.56	33.63
2001	643,640	163,178	806,818	79.78	33.49
2002	683,582	179,317	862,899	79.22	33.32
2003	521,724	136,916	658,640	79.21	33.17
2004	454,241	131,868	586,110	77.50	33.28
2005	280,082	73,763	353,845	79.15	33.24
2006	248,884	65,114	313,998	79.26	33.15
2007	221,473	56,922	278,395	79.55	33.75
2008	492,288	139,368	631,656	77.94	34.15
2009	781,681	213,869	995,550	78.52	34.23
2010	882,100	227,482	1,109,582	79.50	34.39
2011	585,006	192,421	777,427	75.25	35.15
2012	569,826	164,038	733,864	77.65	35.20
2013	553,078	149,337	702,415	78.74	35.52
2014	483,051	111,947	594,998	81.19	36.42
2015	614,313	139,074	753,387	81.54	36.77
2016	722,069	157,443	879,512	82.10	37.05
2017	725,219	156,859	882,078	82.22	37.41
2018	641,910	134,365	776,275	82.69	37.60
2019	615,709	127,570	743,279	82.84	37.72
2020	679,633	138,214	817,847	83.10	37.27

SOURCE: U.S. Department of HUD/FHA, October 2020.

Table B-3: Data Table for Exhibit I-3: Racial Composition of FHA Forward Endorsed Mortgages

Endorsement Fiscal Year	Share of FHA Forward Endorsed Mortgages					
	American Indian	Asian	Black	Hispanic	White	Not Reported
2000	0.43	1.97	14.48	19.18	57.71	6.23
2001	0.40	1.86	13.48	18.25	57.67	8.35
2002	0.40	1.78	12.86	17.63	57.15	10.19
2003	0.41	1.66	12.59	16.41	58.51	10.42
2004	0.61	2.18	13.88	16.42	58.57	8.34
2005	0.53	2.90	14.95	15.31	61.88	4.44
2006	0.54	3.09	13.76	11.96	66.01	4.64
2007	0.56	2.08	14.83	11.48	65.96	5.08
2008	0.46	2.10	13.31	10.99	65.69	7.43
2009	0.42	2.74	9.86	11.48	66.77	8.73
2010	0.39	3.40	9.01	12.02	67.14	8.05
2011	0.36	3.58	8.07	12.98	67.25	7.76
2012	0.37	3.70	8.07	13.50	66.82	7.54
2013	0.38	3.41	8.75	14.12	65.64	7.69
2014	0.42	3.26	10.86	17.09	61.33	7.04
2015	0.44	3.34	10.40	17.36	60.16	8.30
2016	0.39	3.13	10.91	17.49	58.83	9.25
2017	0.41	3.01	11.69	18.14	57.10	9.65
2018	0.37	2.60	12.62	18.17	55.50	10.75
2019	0.34	2.27	12.83	17.75	53.03	13.79
2020	0.36	2.20	12.74	17.29	50.11	17.29

SOURCE: U.S. Department of HUD/FHA, October 2020.

Table B-4: Data Table for Exhibit I-4: Historical FHA Forward Endorsement Activity

Endorsement Fiscal Year	FHA Forward Endorsed Mortgages			
	Purchase	No Cash-Out Refinance	Cash-Out	Total
2000	839,870	73,230	na	913,100
2001	806,818	251,859	na	1,058,677
2002	862,899	411,245	na	1,274,144
2003	658,640	661,089	na	1,319,729
2004	586,110	374,325	na	960,435
2005	353,845	158,482	na	512,327
2006	313,998	111,493	na	425,491
2007	278,395	146,329	na	424,724
2008	631,656	455,738	na	1,087,394
2009	995,550	620,858	215,590	1,831,998
2010	1,109,582	431,773	126,255	1,667,610
2011	777,427	341,233	79,150	1,197,810
2012	733,864	396,563	54,313	1,184,740
2013	702,415	599,379	43,052	1,344,846
2014	594,998	154,708	36,646	786,352
2015	753,387	299,063	63,780	1,116,230
2016	879,512	279,588	98,948	1,258,048
2017	882,078	222,473	141,885	1,246,436
2018	776,275	87,441	150,884	1,014,600
2019	743,279	87,297	159,849	990,425
2020	817,847	391,254	124,075	1,333,176

NOTE: Cash-Out Refinance data is not available prior to FY 2009.
SOURCE: U.S. Department of HUD/FHA, October 2020.

Table B-5: Data Table for Exhibit I-5: FHA Endorsement Activity by Refinance Type Including Cash-Out Refinances

Endorsement Fiscal Year	Share of FHA Forward Refinance Mortgage Count				
	Conventional Cash-Out	FHA Cash-Out	Conventional No Cash-Out	FHA No Cash-Out	Streamline
2009	23.47	2.31	32.60	2.24	39.39
2010	20.17	2.46	34.58	4.64	38.15
2011	16.18	2.65	30.34	7.95	42.88
2012	9.93	2.11	18.73	8.45	60.78
2013	5.10	1.60	9.14	4.48	79.67
2014	12.90	6.25	16.02	4.71	60.12
2015	10.88	6.70	11.17	7.09	64.16
2016	16.49	9.65	11.90	6.32	55.64
2017	23.38	15.56	11.44	5.34	44.27
2018	35.05	28.26	10.87	4.31	21.51
2019	34.75	29.93	7.31	5.18	22.83
2020	13.18	10.90	5.17	9.51	61.24

SOURCE: U.S. Department of HUD/FHA, October 2020.

Table B-6: Data Table for Exhibit I-6: Average FHA Forward Loan-To-Value Ratio by Mortgage Purpose

Endorsement Fiscal Year	Purchase	Conventional Loan Refinance	FHA-to-FHA Refinance
2000	97.36	82.96	85.23
2001	96.45	82.84	85.89
2002	96.49	82.54	84.92
2003	96.47	81.71	83.83
2004	96.35	81.53	82.05
2005	96.14	81.91	80.50
2006	96.02	85.47	84.97
2007	95.99	87.54	87.30
2008	96.12	89.03	88.18
2009	95.80	88.51	88.03
2010	95.58	85.95	86.96
2011	95.70	85.94	87.97
2012	95.99	83.46	88.19
2013	95.88	84.04	86.93
2014	95.71	81.54	83.46
2015	95.69	80.28	84.35
2016	95.71	79.17	82.26
2017	95.72	78.40	81.46
2018	95.70	77.98	81.22
2019	95.58	77.41	81.62
2020	95.63	76.32	81.81

NOTE: In accordance with statutory requirements for determining eligibility of mortgages for FHA insurance, FHA measures loan-to-value (LTV) without including any Mortgage Insurance Premium financed into the mortgage balance. Exhibit I-6 includes only fully underwritten mortgages and excludes Streamline Refinances.
SOURCE: US Department of HUD/FHA, October 2020.

Table B-7: Data Table for Exhibit I-7: Average Borrower Credit Score for FHA-Endorsed Mortgages

Fiscal Year	Purchase	Conventional Loan Refinance	FHA-to-FHA Refinance	Average Borrower Credit Score
2005	641	612	614	637
2006	644	623	626	640
2007	634	618	626	629
2008	654	632	638	646
2009	685	673	667	681
2010	697	696	688	697
2011	700	705	701	701
2012	696	706	707	698
2013	693	694	700	693
2014	683	674	674	682
2015	680	675	675	680
2016	681	677	673	680
2017	678	674	668	676
2018	671	665	661	670
2019	667	663	660	666
2020	673	666	666	672

NOTE: Borrower credit score data was not collected prior to 2005 and does not include Streamline Refinance mortgages.
SOURCE: US Department of HUD/FHA, October 2020.

Table B-8: Data Table for Exhibit O-11: The Volume of Mortgages with Credit Scores Less Than 620 Decreased in FY 2020, Exhibit O-12: Share of Purchase Mortgages with Three Risk Layers is Moderating and Exhibit I-8: Distribution of FHA Borrower Credit Score by Fiscal Year

Endorsement Fiscal Year	Share of FHA Forward Refinance Mortgage Counts					
	720 or Higher	680-719	620-679	580-619	Less than 579	Missing
2005	11.87	11.61	32.01	20.75	15.96	7.80
2006	12.97	11.86	32.94	20.81	15.53	5.88
2007	10.25	9.89	30.96	23.11	20.54	5.25
2008	14.95	13.14	34.95	20.85	13.19	2.92
2009	27.18	19.90	37.52	11.49	2.63	1.28
2010	34.18	22.55	38.28	3.30	0.47	1.22
2011	35.69	23.61	36.79	2.62	0.26	1.03
2012	32.64	24.25	39.56	2.69	0.20	0.65
2013	27.27	26.87	43.45	1.72	0.15	0.54
2014	18.30	26.49	51.54	3.13	0.18	0.36
2015	18.04	26.13	50.22	5.06	0.23	0.32
2016	18.75	25.98	49.20	5.55	0.25	0.28
2017	17.49	24.81	49.68	7.32	0.42	0.26
2018	14.39	22.43	51.76	10.38	0.81	0.24
2019	12.89	21.04	53.17	11.69	1.01	0.21
2020	14.69	23.08	53.13	8.37	0.59	0.13

NOTE: Borrower credit score data was not collected prior to 2005 and does not include Streamline Refinance mortgages.
SOURCE: US Department of HUD/FHA, October 2020.

Table B-9: Data Table for Exhibit O-10: The Share of Purchase Endorsements with Debt-to-Income Ratios Over 50 Percent Decreased for the First Time in 7 Years and Exhibit I-9: Borrower Debt-to-Income (DTI) Ratio for FHA Purchase Mortgages

Endorsement Fiscal Year	Share of FHA-Endorsed Purchase Mortgages				
	<=36	>36 - <43	>=43 - <50	>= 50	Average DTI ratios
2000	39.33	35.24	19.52	5.90	37.55
2001	39.35	33.57	20.66	6.41	37.68
2002	38.48	33.27	22.15	6.11	37.95
2003	38.15	32.87	23.72	5.26	38.02
2004	36.83	32.31	25.08	5.78	38.35
2005	37.70	32.21	23.82	6.27	38.24
2006	34.89	30.71	25.07	9.33	38.99
2007	33.58	30.42	26.25	9.75	39.25
2008	30.28	28.62	27.57	13.52	40.27
2009	29.84	24.79	26.08	19.29	41.00
2010	30.62	25.13	27.16	17.09	40.64
2011	30.40	24.76	27.79	17.04	40.66
2012	31.44	25.29	27.50	15.76	40.33
2013	32.08	26.38	27.67	13.87	40.02
2014	29.00	28.14	28.16	14.70	40.58
2015	29.89	28.38	26.88	14.85	40.43
2016	28.70	27.49	27.19	16.62	40.84
2017	25.27	25.16	28.94	20.63	41.93
2018	21.69	23.30	29.85	25.16	43.09
2019	20.19	22.82	29.85	27.11	43.58
2020	21.47	23.72	30.28	24.53	43.08

SOURCE: US Department of HUD/FHA, October 2020.

Table B-10: Exhibit I-10: FHA Purchase Activity by Type of Downpayment Assistance

Endorsement Fiscal Year	Share of FHA-Endorsed Forward Mortgages			
	Government	Eligible Family Member	Non-Government/Non-Relative	No DPA
2011	7.06	22.01	0.46	70.47
2012	7.80	22.19	0.40	69.61
2013	7.08	22.47	0.40	70.04
2014	8.37	25.57	0.66	65.41
2015	9.88	25.91	1.54	62.67
2016	10.27	26.33	1.86	61.55
2017	10.56	26.10	1.70	61.64
2018	11.39	26.16	1.24	61.21
2019	12.91	25.41	1.02	60.66
2020	15.43	23.44	0.93	60.20

NOTE: Data does not account for instances where downpayment assistance data was missing from origination data submitted to FHA.
SOURCE: US Department of HUD/FHA, October 2020.

Table B-11: Data Table for Exhibit I-11: In Recent Years About 30 Percent of FHA Borrowers Had Less than 1 Month of Reserves at Origination

Endorsement Fiscal Year	Borrower Reserves for Purchase Endorsement Count		
	Less Than 1 Month in Reserves	1-1.99 Months in Reserves	Greater Than or Equal to 2 Months in Reserves
2009	287,188	139,206	569,156
2010	321,906	151,353	636,323
2011	214,632	101,976	460,819
2012	208,750	99,249	425,865
2013	198,726	96,529	407,160
2014	173,148	87,304	334,546
2015	215,686	114,740	422,961
2016	249,955	136,352	493,205
2017	214,437	130,698	536,943
2018	243,446	126,921	405,908
2019	233,541	123,470	386,268
2020	234,652	129,991	453,204

SOURCE: US Department of HUD/FHA, October 2020.

Table B-12: Data Table for Exhibit O-12: Share of Purchase Mortgages with Three Risk Layers is Moderating and Exhibit I-12A: Share of Mortgages with Three Risk Layers

Fiscal Year	Percentage of Mortgage with 3 Risk Layers
2014	0.43
2015	0.63
2016	0.84
2017	1.26
2018	2.37
2019	2.78
2020	2.40

SOURCE: US Department of HUD/FHA, October 2020. *FY2020YTD contains endorsements through September 30,2020 with beginning amortization dates of February 1,2020 and earlier

Table B-13: Data Table for Exhibit I-12B: Early Payment Default Rate for Mortgages with and without Three Risk Layers

	Percentage of Mortgages	
	FY 2014 - 2016	FY 2017 - 2020
Without 3 Layers	0.40	1.25
3 Layers	1.30	3.04

SOURCE: US Department of HUD/FHA, October 2020.

Table B-14: Data Table for Exhibit I-13: Lender Type for FHA Endorsement Activity

Endorsement Fiscal Year	Share of FHA Forward Endorsed Mortgages		
	Other	Non-Depository	Depository
2000	1.45	70.66	27.90
2001	1.38	69.70	28.92
2002	1.08	70.19	28.73
2003	1.01	73.63	25.36
2004	0.85	68.75	30.41
2005	1.13	66.28	32.59
2006	1.04	65.62	33.34
2007	0.43	68.71	30.86
2008	0.15	60.23	39.62
2009	0.15	59.73	40.12
2010	0.15	56.80	43.05
2011	0.09	59.09	40.82
2012	0.05	64.68	35.27
2013	0.07	64.53	35.40
2014	0.09	71.87	28.03
2015	0.07	79.20	20.73
2016	0.08	82.65	17.27
2017	0.08	84.88	15.04
2018	0.10	85.39	14.51
2019	0.09	86.34	13.57
2020	0.08	89.57	10.35

NOTE: This table does not include Streamline Refinance mortgages.
SOURCE: US Department of HUD/FHA, October 2020.

Table B-15: Data Table for Exhibit I-14: FY 2020 FHA Forward Endorsement Concentration by State

State	Share of FHA-Endorsed Forward Mortgages Endorsement Fiscal Year	
	FY 2019	FY 2020
Alabama	1.63	1.55
Alaska	0.14	0.16
Arizona	3.28	3.55
Arkansas	0.87	0.81
California	8.90	9.32
Colorado	2.69	2.65
Connecticut	1.05	1.05
Delaware	0.43	0.45
District of Columbia	0.06	0.06
Florida	9.11	9.17
Georgia	4.60	4.68
Guam	0.00	0.00
Hawaii	0.10	0.10
Idaho	0.72	0.67
Illinois	3.47	3.47
Indiana	2.70	2.60
Iowa	0.59	0.56
Kansas	0.75	0.67
Kentucky	1.37	1.31
Louisiana	1.38	1.39
Maine	0.34	0.34
Maryland	2.55	2.82
Massachusetts	1.47	1.48
Michigan	2.97	2.62
Minnesota	1.51	1.47
Mississippi	0.87	0.76
Missouri	2.10	1.92
Montana	0.25	0.24
Nebraska	0.47	0.42
Nevada	1.43	1.62
New Hampshire	0.42	0.43
New Jersey	2.81	2.98
New Mexico	0.70	0.71
New York	2.72	2.25
North Carolina	2.68	2.72
North Dakota	0.18	0.16
Ohio	3.82	3.47
Oklahoma	1.23	1.15
Oregon	1.17	1.19
Pennsylvania	3.53	3.17
Puerto Rico	0.59	0.40

Rhode Island	0.47	0.47
South Carolina	1.89	1.89
South Dakota	0.23	0.20
Tennessee	2.77	2.48
Texas	8.87	10.15
Utah	1.52	1.57
Vermont	0.10	0.08
Virgin Islands	0.01	0.00
Virginia	2.58	2.71
Washington	2.24	2.25
West Virginia	0.39	0.37
Wisconsin	1.06	1.06
Wyoming	0.24	0.23

SOURCE: US Department of HUD/FHA, October 2020.

Table B-16: Data Table for Exhibit I-16: Historical SDQ Rates for FHA Mortgages

End of Month	Rate
Sep-08	6.17
Oct-08	6.40
Nov-08	6.82
Dec-08	7.11
Jan-09	7.52
Feb-09	7.46
Mar-09	7.36
Apr-09	7.48
May-09	7.69
Jun-09	7.85
Jul-09	8.82
Aug-09	8.37
Sep-09	8.52
Oct-09	8.97
Nov-09	9.25
Dec-09	9.43
Jan-10	9.70
Feb-10	9.45
Mar-10	9.04
Apr-10	8.77
May-10	8.71
Jun-10	8.61
Jul-10	8.61
Aug-10	8.48
Sep-10	8.66
Oct-10	8.21
Nov-10	8.73
Dec-10	8.78
Jan-11	8.90
Feb-11	8.94
Mar-11	8.31
Apr-11	8.19
May-11	8.18
Jun-11	8.18
Jul-11	8.31
Aug-11	8.43
Sep-11	8.69
Oct-11	9.01
Nov-11	9.35
Dec-11	9.59
Jan-12	9.83
Feb-12	9.66
Mar-12	9.42
Apr-12	9.37
May-12	9.39
Jun-12	9.44
Jul-12	9.47
Aug-12	9.47
Sep-12	9.58
Oct-12	9.49
Nov-12	9.49
Dec-12	9.59
Jan-13	9.49
Feb-13	9.28
Mar-13	8.87
Apr-13	8.58
May-13	8.27
Jun-13	8.38
Jul-13	8.17
Aug-13	7.98
Sep-13	8.04
Oct-13	8.04
Nov-13	8.02
Dec-13	8.02
Jan-14	7.83
Feb-14	7.71
Mar-14	7.44
Apr-14	7.25
May-14	7.19
Jun-14	7.14
Jul-14	6.98
Aug-14	6.94
Sep-14	6.99
Oct-14	6.94
Nov-14	7.02
Dec-14	7.00
Jan-15	6.96
Feb-15	6.76
Mar-15	6.42
Apr-15	6.28
May-15	6.24
Jun-15	6.12
Jul-15	5.75
Aug-15	5.91
Sep-15	5.86
Oct-15	5.79
Nov-15	5.82
Dec-15	5.79
Jan-16	5.80
Feb-16	5.55
Mar-16	5.31

Apr-16	5.16
May-16	5.07
Jun-16	5.02
Jul-16	4.96
Aug-16	4.95
Sep-16	4.92
Oct-16	4.91
Nov-16	4.94
Dec-16	4.99
Jan-17	4.97
Feb-17	4.81
Mar-17	4.54
Apr-17	4.47
May-17	4.36
Jun-17	4.28
Jul-17	4.20
Aug-17	4.24
Sep-17	4.32
Oct-17	4.42
Nov-17	4.83
Dec-17	5.19
Jan-18	5.18
Feb-18	5.06
Mar-18	4.66
Apr-18	4.54
May-18	4.35
Jun-18	4.28
Jul-18	4.08
Aug-18	4.11
Sep-18	4.11
Oct-18	4.06
Nov-18	4.06
Dec-18	4.08
Jan-19	4.16
Feb-19	4.10
Mar-19	3.88
Apr-19	3.74
May-19	3.67
Jun-19	3.76
Jul-19	3.78
Aug-19	3.82
Sep-19	3.88
Oct-19	3.93
Nov-19	4.06
Dec-19	4.35
Jan-20	4.12
Feb-20	4.04
Mar-20	3.97
Apr-20	4.04
May-20	4.91
Jun-20	8.96
Jul-20	10.58
Aug-20	11.35
Sep-20	11.59

SOURCE: US Department of HUD/FHA, October 2020

Table B-17: Data Table for Exhibit I-17: FHA Early Payment Default Rates by Mortgage Purpose

Endorsement Fiscal Year	FHA-Endorsed Forward Mortgages		
	Purchase	Refinance	All
2000	0.16	0.13	0.16
2001	0.86	0.71	0.82
2002	1.09	0.74	0.97
2003	0.99	0.62	0.80
2004	1.25	0.97	1.14
2005	1.55	1.36	1.49
2006	1.54	1.17	1.44
2007	2.41	1.70	2.16
2008	1.97	2.25	2.09
2009	0.80	1.57	1.15
2010	0.37	0.63	0.46
2011	0.39	0.36	0.38
2012	0.36	0.30	0.34
2013	0.31	0.21	0.26
2014	0.41	0.33	0.39
2015	0.41	0.29	0.37
2016	0.40	0.29	0.37
2017	0.87	0.51	0.77
2018	0.73	0.38	0.65
2019	0.85	0.43	0.69
2020	4.85	4.90	4.87

NOTE: FY 2020 data is through February 2020.
SOURCE: US Department of HUD/FHA, October 2020.

Table B-18: Data Table for Exhibit I-18: Early Payment Default Rate of FHA Purchase Mortgages by Downpayment Assistance Type

Early Payment Default Rate of FHA-Endorsed Purchase Mortgages		
Beginning Amortization Quarter	EPD Rates	
	With Downpayment Assistance	Without Downpayment Assistance
2010Q1	0.62	0.30
2010Q2	0.55	0.26
2010Q3	0.70	0.33
2010Q4	0.47	0.26
2011Q1	0.63	0.25
2011Q2	0.75	0.34
2011Q3	0.70	0.28
2011Q4	0.50	0.23
2012Q1	0.62	0.26
2012Q2	0.66	0.28
2012Q3	0.61	0.28
2012Q4	0.40	0.19
2013Q1	0.43	0.22
2013Q2	0.49	0.24
2013Q3	0.55	0.29
2013Q4	0.46	0.25
2014Q1	0.54	0.28
2014Q2	0.68	0.36
2014Q3	0.64	0.35
2014Q4	0.49	0.27
2015Q1	0.58	0.31
2015Q2	0.65	0.31
2015Q3	0.60	0.32
2015Q4	0.43	0.24
2016Q1	0.52	0.26
2016Q2	0.61	0.37
2016Q3	0.59	0.36
2016Q4	0.41	0.25
2017Q1	0.53	0.33
2017Q2	1.50	0.94
2017Q3	1.69	1.28
2017Q4	0.63	0.37
2018Q1	0.74	0.45
2018Q2	1.11	0.69
2018Q3	1.30	0.74
2018Q4	1.01	0.63
2019Q1	1.03	0.57
2019Q2	1.32	0.78
2019Q3	1.12	0.66
2019Q4	2.97	2.36
2020Q1	9.67	8.05

SOURCE: US Department of HUD/FHA, October 2020.

Table B-19: Data Table for Exhibit I-19: Serious Delinquency Rate of FHA Purchase Mortgages by Downpayment Assistance Type as of September 30, FY 2020

Endorsement Fiscal Year	Seriously Delinquent Rate of FHA-Endorsed Purchase Mortgages			
	Source of Downpayment Assistance			No Downpayment Assistance
	Government	Non-Government/ Non-Relative	Eligible Family Member	
2011	16.30	12.67	10.41	7.35
2012	14.23	11.65	9.99	7.38
2013	12.72	10.72	9.70	7.70
2014	12.26	9.10	9.58	7.57
2015	12.12	9.59	11.22	8.69
2016	11.91	10.81	12.44	9.58
2017	12.54	12.79	13.65	10.37
2018	14,41	14.30	14.40	11.03
2019	14.62	14.09	14.03	10.45
2020	5.41	5.50	6.75	4.76

SOURCE: US Department of HUD/FHA, October 2020.

Table B-20: Data Table for Exhibit I-20: FHA Loss Severity and Claim Count by Disposition Strategy

Claim Fiscal Year	Insurance-in-Force	FHA Claim Disposition Type				Loss Severity Rate
		REO	Note Sales/Distressed Asset Sales Program	Third Party Sales	Pre-Foreclosure Sales	
2007	3,737,757	48,362	na	1,802	4,026	42.21
2008	4,375,866	45,761	na	1,123	4,071	49.41
2009	5,527,609	67,488	na	2,437	6,473	63.02
2010	6,883,859	87,297	125	1,568	15,287	60.53
2011	7,288,440	82,310	1,606	1,861	25,064	63.72
2012	7,711,684	102,946	1,154	4,718	36,728	61.80
2013	7,810,422	111,282	35,020	10,739	34,548	57.59
2014	7,787,092	73,649	40,746	26,830	24,696	52.34
2015	7,742,143	60,090	19,976	22,052	13,968	51.57
2016	7,838,495	57,197	12,244	33,173	12,668	53.98
2017	7,982,070	43,379	5,550	44,869	8,703	50.19
2018	8,048,639	25,766	68	48,384	6,000	45.24
2019	8,107,806	16,272	131	40,668	4,528	40.99
2020	7,988,354	15,080	47	24,525	3,540	38.17

NOTE: De minimis note sales may be reflected in the table above in which final resolution may result in an alternative disposition type. Includes funds outside of MMI Fund and includes outbids. Due to time lag in reporting of dispositions, data as of August 31, 2020 and are therefore missing one month of comparable data to prior fiscal years.
SOURCE: U.S. Department of HUD/FHA, October 2020.

Table B-21: Data Table for Exhibit I-21: Annual FHA Claims as a Share of Initial Insurance-in-Force

Claim Fiscal Year	FHA Forward Mortgage Count		Share of Mortgage Count	Insurance-in-Force Unpaid Principal Balance ($ billions)		Share of IIF
	Mortgage Claims	Active Mortgages (Beginning-of-FY)		Mortgage Claims	Active Mortgages (End-of-FY)	
2007	54,190	3,892,440	1.39	5.08	342.60	1.48
2008	50,955	3,737,757	1.36	5.15	474.40	1.08
2009	76,398	4,375,866	1.75	8.18	697.30	1.17
2010	104,277	5,527,609	1.89	12.98	947.80	1.37
2011	110,841	6,883,859	1.61	15.53	1,015.20	1.53
2012	145,546	7,288,440	2.00	20.79	1,083.30	1.92
2013	191,589	7,711,684	2.48	28.15	1,097.40	2.56
2014	165,921	7,810,422	2.12	24.60	1,083.50	2.27
2015	116,086	7,787,092	1.49	15.77	1,072.80	1.47
2016	115,282	7,742,143	1.49	15.19	1,106.30	1.37
2017	102,501	7,838,495	1.31	13.28	1,158.80	1.15
2018	80,218	7,982,070	1.00	10.30	1,196.30	0.86
2019	61,599	8,048,639	0.77	8.12	1,228.00	0.66
2020	43,192	8,107,806	0.53	5.80	1,235.40	0.47

NOTE: Data through August 31, 2020. Includes funds outside of MMI Fund. Mortgage Claims includes outbids.
SOURCE: U.S. Department of HUD/FHA, October 2020.

Table B-22: Data Table for Exhibit I-22: Recent FHA Loss Mitigation Activity

Assisted Cure Fiscal Year	Type of FHA Loss Mitigation Assistance		
	Deeper Assistance	Limited Assistance	Total Assisted Cures
2010	165,222	126,457	291,679
2011	161,418	217,798	379,216
2012	97,570	256,058	353,628
2013	160,771	299,822	460,594
2014	179,547	294,398	473,945
2015	148,509	289,515	438,024
2016	117,334	291,363	408,732
2017	116,018	243,508	359,526
2018	117,334	334,671	452,005
2019	99,320	364,920	464,240
2020	149,695	375,502	525,197

NOTE: Deeper Loss Mitigation Assistance includes FHA-HAMP, Partial Claims, and Loan Modifications. Limited Loss Mitigation Assistance includes Promise to Pay and Repayment Plans. Starting in May 2013, Promise to Pay is no longer classified as a Repayment Plan and is considered its own category.
SOURCE: U.S. Department of HUD/FHA, October 2020.

Table B-23: Data Table for Exhibit I-23: FHA HECM Endorsement Activity

Endorsement Fiscal Year	Home Equity Conversion Mortgages (HECM)						
	Mortgage Purpose Type		Mortgage Product Type			All Mortgages	Original Maximum Claim Amount ($ billions)
	Fixed Rate	Adjustable Rate	Purchase	Refinance	Traditional		
2009	13,312	101,112	559	8,972	104,893	114,424	30.07
2010	54,483	24,576	1,389	4,836	72,834	79,059	21.07
2011	49,742	23,370	1,538	2,737	68,837	73,112	18.21
2012	38,051	16,762	1,627	1,445	51,741	54,813	13.16
2013	36,326	23,598	2,091	1,834	55,999	59,924	14.68
2014	9,635	41,981	1,825	2,406	47,385	51,616	13.52
2015	9,131	48,859	2,411	5,571	50,008	57,990	16.13
2016	5,198	43,670	2,367	5,398	41,103	48,868	14.66
2017	5,710	49,581	2,634	8,016	44,641	55,291	17.69
2018	4,898	43,430	2,615	5,860	39,853	48,328	16.19
2019	1,890	29,382	2,295	1,679	27,298	31,272	10.86
2020	793	41,026	2,471	8,606	30,742	41,819	16.28

SOURCE: US Department of HUD/FHA, October 2020.

Table B-24: Data Table for Exhibit I-24: Current HECM Portfolio by Year of Endorsement

Endorsement Fiscal Year	Active HECM	Current Maximum Claim Amount ($ billions)	Current Principal Limit ($ billions)	Insurance-in-Force ($ billions)
2009	35,226	8.66	9.69	8.29
2010	12,968	3.49	3.83	3.20
2011	13,366	3.43	3.63	2.97
2012	10,799	2.64	2.89	2.35
2013	20,237	4.42	5.13	4.37
2014	28,956	7.29	6.23	5.28
2015	35,569	9.49	7.62	6.42
2016	33,722	9.83	7.89	6.25
2017	43,280	13.55	10.46	8.04
2018	39,227	12.77	8.60	6.33
2019	27,740	9.47	5.47	3.89
2020	41,395	16.06	9.56	6.75
Total	342,485	101.12	81.00	64.14

SOURCE: US Department of HUD/FHA, October 2020.

Table B-25: Data Table for Exhibit I-25: FHA HECM Claims by Claim Type

Claim Fiscal Year	Claim Amount Paid in Fiscal Year ($)			
	Claim Type 1	Claim Type 2	Supplemental	Total
2009	5,818	280,946	0	286,764
2010	2,429,944	511,603	6,088	2,947,636
2011	10,978,684	17,521,667	47,061	28,547,412
2012	81,388,383	123,067,358	5,479	204,461,219
2013	207,874,582	504,097,996	1,265,207	713,237,784
2014	224,538,487	676,797,426	644,761	901,980,675
2015	755,477,982	1,734,780,373	8,884,319	2,499,142,673
2016	636,636,110	3,529,360,512	47,313,221	4,213,309,843
2017	676,564,968	4,325,602,086	27,628,384	5,029,795,438
2018	612,273,102	5,502,089,113	34,182,468	6,148,544,683
2019	591,073,714	8,930,409,213	35,470,645	9,556,953,572
2020	468,935,669	5,728,949,124	28,786,198	6,226,670,991

NOTE: The Claim Type 1 category represents the dollar volume of claims generated when the borrower no longer occupies the home, and the property is sold at a loss, with the mortgage never being assigned to the Secretary of HUD. The Claim Type 2 category represents the dollar volume of claims resulting from the assignment of the mortgage to the Secretary of HUD when the mortgage reaches 98 percent of the MCA. Supplemental claims are those claims submitted by lenders for other eligible expenses not included on original claims, such as property preservation expenses.
SOURCE: US Department of HUD/FHA, October 2020.

Table B-26: Data Table for Exhibit I-26: Average Maximum Claim Amount for FHA-Endorsed HECMs

Endorsement Fiscal Year	HECMs Endorsed (count)	Average MCA ($)	Total MCA Endorsed ($)
2009	114,424	262,832	30,074,283,579
2010	79,059	266,561	21,074,054,164
2011	73,112	249,132	18,214,513,353
2012	54,813	240,141	13,162,812,359
2013	59,924	245,000	14,681,384,041
2014	51,616	261,948	13,520,722,585
2015	57,990	278,145	16,129,647,170
2016	48,868	300,000	14,660,406,133
2017	55,291	319,964	17,691,115,529
2018	48,328	334,990	16,189,549,432
2019	31,272	347,239	10,858,868,058
2020	41,819	389,345	16,282,012,058

SOURCE: US Department of HUD/FHA, October 2020.

Table B-27: Data Table for Exhibit I-27: Composition of FHA HECM Borrowers

Endorsement Fiscal Year	Total Endorsements			
	Sole Male Borrower	Sole Female Borrower	Multiple Borrowers	Not Disclosed
2009	24,807	46,824	42,336	457
2010	16,950	33,101	28,215	793
2011	15,235	29,413	27,573	891
2012	11,611	21,446	20,934	822
2013	12,588	22,432	23,973	931
2014	10,545	19,898	20,416	757
2015	12,633	22,318	22,741	298
2016	10,552	17,976	20,205	135
2017	11,529	20,505	22,901	356
2018	9,929	17,691	19,938	770
2019	6,565	11,887	12,414	406
2020	8,323	14,712	17,473	1,311

SOURCE: US Department of HUD/FHA, October 2020.

Table B-28: Data Table for Exhibit I-28: Average Borrower Age at Endorsement of FHA HECMs

Endorsement Fiscal Year	HECMs Endorsed (count)	Average Borrower Age
2009	114,424	72.54
2010	79,059	72.48
2011	73,112	71.81
2012	54,813	71.57
2013	59,924	71.28
2014	51,616	71.48
2015	57,990	71.86
2016	48,868	72.51
2017	55,291	72.67
2018	48,328	72.85
2019	31,272	73.10
2020	41,819	73.01

SOURCE: US Department of HUD/FHA, October 2020.

Table B-29: Data Table for Exhibit I-29: FHA HECM Endorsement Activity by Mortgage Purpose

Endorsement Fiscal Year	Share of Total Maximum Claim Amount (MCA)		
	Purchase	Refinance	Traditional
2009	0.47	11.90	87.64
2010	1.73	9.41	88.86
2011	2.21	6.16	91.64
2012	3.26	4.57	92.17
2013	3.95	5.03	91.03
2014	3.91	7.24	88.84
2015	4.33	13.48	82.19
2016	4.98	14.19	80.83
2017	4.93	17.11	77.97
2018	5.52	14.39	80.09
2019	7.40	7.44	85.16
2020	5.58	25.65	68.77

SOURCE: US Department of HUD/FHA, October 2020.

Table B-30: Data Table for Exhibit I-30: FHA HECM Endorsement Activity by Mortgage Type Option

Endorsement Fiscal Year	Share of Total Maximum Claim Amount (MCA)		
	Annual Adjustable Rate Mortgage	Monthly Adjustable Rate Mortgage	Fixed Rate Mortgage
2009	1.01	86.19	12.80
2010	0.08	35.02	64.90
2011	0.13	36.83	63.04
2012	0.05	34.81	65.15
2013	0.11	41.56	58.33
2014	2.63	78.11	19.26
2015	42.10	41.61	16.29
2016	75.89	13.27	10.84
2017	83.00	6.29	10.72
2018	87.72	1.29	10.99
2019	93.07	0.29	6.64
2020	97.40	0.19	2.41

SOURCE: US Department of HUD/FHA, October 2020.

Table B-31: Data Table for Exhibits I-31: Average Principal Limit of FHA HECMs and I-32: Average Initial Cash Draws of FHA-Endorsed HECMs

Endorsement Fiscal Year	HECMs Endorsed (count)	Average Principal Limit as a Share of Maximum Claim Amount	Average 1st Month Cash Draw as a Share of Principal Limit
2009	114,424	70.23	67.88
2010	79,059	66.03	76.18
2011	73,112	64.81	76.52
2012	54,813	66.14	77.83
2013	59,924	66.02	79.92
2014	51,616	59.09	66.72
2015	57,990	59.27	64.24
2016	48,868	60.02	62.77
2017	55,291	59.94	64.23
2018	48,328	55.26	63.63
2019	31,272	52.00	63.07
2020	41,819	57.57	67.41

SOURCE: US Department of HUD/FHA, October 2020.

Table B-32: Data Table for Exhibit I-33: States with the Highest Share of FHA HECMs by MCA

Endorsement Fiscal Year	Share of Total Maximum Claim Amount (MCA) by Endorsement Fiscal Year					
	California	Colorado	Florida	Washington	Arizona	Other States
2009	20.89	1.94	11.41	3.40	3.09	59.27
2010	23.11	1.95	7.31	3.60	1.94	62.09
2011	22.52	2.18	5.51	2.89	1.78	65.12
2012	21.09	2.16	5.27	2.75	1.60	67.13
2013	23.73	2.32	5.69	2.68	2.25	63.33
2014	28.83	2.48	6.03	2.37	2.67	57.62
2015	31.92	2.59	7.24	2.61	2.83	52.81
2016	32.87	4.09	7.54	3.13	3.12	49.25
2017	34.86	5.94	7.25	3.88	3.17	44.90
2018	33.17	6.67	6.79	5.24	3.47	44.66
2019	31.26	6.90	6.92	4.87	4.11	45.94
2020	35.38	7.83	6.46	5.46	4.95	39.92

SOURCE: U.S. Department of HUD/FHA, October 2020.

Table B-33: Data Table for Exhibit I-34: FHA HECMs by Payment Plan Option

Endorsement Fiscal Year	Share of Maximum Claim Amount (MCA)					
	HECM Payment Options					
	Term	Line of Credit	Tenure	Term & Line of Credit	Tenure & Line of Credit	Lump Sum
2009	0.85	90.45	1.72	4.39	2.58	0.00
2010	0.55	92.51	1.07	3.64	2.23	0.00
2011	0.46	92.87	1.11	3.51	2.05	0.00
2012	0.32	93.47	1.02	3.27	1.92	0.00
2013	0.47	93.66	1.09	3.04	1.74	0.00
2014	0.74	91.90	1.72	3.53	2.09	0.02
2015	0.61	92.03	1.30	3.37	2.17	0.53
2016	0.65	88.08	1.26	3.27	2.06	4.69
2017	0.61	85.77	1.10	3.06	2.11	7.35
2018	0.65	85.90	0.90	2.93	2.00	7.61
2019	0.65	88.43	0.96	2.74	1.72	5.51
2020	0.67	93.38	0.55	2.26	1.27	1.86

SOURCE: U.S. Department of HUD/FHA, October 2020.

Appendix C:
Data Tables for Chapter II

Table C-1: Data Table for Exhibit O-2: MMI Fund Capital Ratio Increased for the Third Consecutive Year and Exhibit II-2: MMI Fund Capital Ratio FY 2016 – FY 2020

Fiscal Year	MMI Fund Capital Ratio
2014	0.42
2015	2.10
2016	2.35
2017	2.18
2018	2.76
2019	4.84
2020	6.10

SOURCE: US Department of HUD/FHA, October 2020.

Table C-2: Data Table for Exhibit O-3: Comparison of Stand-Alone Capital Ratios for the Forward and HECM Portfolios and Exhibit II-6: Forward and HECM Stand-Alone Capital Ratios

Fiscal Year	Forward Stand-Alone Capital Ratio	HECM Stand-Alone Capital Ratio
2016	3.11	-11.81
2017	3.33	-18.30
2018	3.93	-18.83
2019	5.44	-9.22
2020	6.31	-0.78

SOURCE: US Department of HUD/FHA, October 2020

Table C-4: Data Table for Exhibit II-13 and Exhibit O-15: Years of Accumulated HPA in FHA's 2007 Portfolio Were Insufficient to Shield the MMI Fund from a Sudden and Severe Reversal in HPA.

Fiscal Year	HPA from 2003	MMI Fund Capital Ratio
2005	19.56	6.50
2006	30.45	7.38
2007	32.99	6.97
2008	25.52	3.33
2009	14.75	0.53
2010	11.29	0.50
2011	5.35	0.24
2012	5.56	-1.44

SOURCE: US Department of HUD/FHA, October 2020.

Table C-6: Data Table for MMI Fund for Exhibit II-4: Claims Paying Capacity (Total Capital Resources Plus NPV Projected Revenue) Represents a Capital Buffer to Use Against Adverse Events During Uncertain Times and Exhibit II-5: Decrease in NPV Projected Losses Generated $6.5 Billion of the Total $16.6 Billion Increase in MMI Fund Capital

MMI Fund Description	FY 2017	FY 2018	FY 2019	FY 2020
Ending Balances ($ Millions)				
Total Capital Resources	$40,857	$49,237	$57,980	$70,652
Plus: NPV Revenue	$59,115	$51,248	$51,436	$48,807
Less: NPV Losses	($73,227)	($65,623)	($47,034)	($40,509)
Equals: Cash Flow NPV	($14,112)	($14,375)	$4,402	$8,298
Equals: Economic Net Worth	$26,745	$34,862	$62,382	$78,950
Insurance-In-Force	$1,226,843	$1,264,672	$1,288,436	$1,294,731
Balances as a Percent of Ending Insurance-In-Force				
Total Capital Resources	3.33%	3.89%	4.50%	5.46%
Plus: NPV Revenue	4.82%	4.05%	3.99%	3.77%
Less: NPV Losses	-5.97%	-5.19%	-3.65%	-3.13%
Equals: Cash Flow NPV	-1.15%	-1.14%	0.34%	0.64%
Equals: Economic Net Worth - Capital Ratio	2.18%	2.76%	4.84%	6.10%
Insurance-In-Force	100.00%	100.00%	100.00%	100.00%

SOURCE: US Department of HUD/FHA, October 2020.

Table C-7: Data Table for Forward Portfolio for Exhibit II-8: NPV of Projected Losses for the Forward Portfolio Remained Virtually the Same in FY 2020

Forward Description	FY 2017	FY 2018	FY 2019	FY 2020
Ending Balances ($ millions)				
Total Capital Resources	$37,056	$45,438	$54,600	$67,368
Plus: NPV Revenue	$54,001	$45,307	$45,783	$44,574
Less: NPV Losses	($52,643)	($43,935)	($33,769)	($34,187)
Equals: Cash Flow NPV	$1,357	$1,372	$12,014	$10,387
Equals: Economic Net Worth	$38,413	$46,810	$66,614	$77,755
Insurance-In-Force	$1,153,875	$1,192,283	$1,224,225	$1,232,093
Balances as a Percent of Ending Insurance-In-Force				
Total Capital Resources	3.21%	3.81%	4.46%	5.47%
Plus: NPV Revenue	4.68%	3.80%	3.74%	3.62%
Less: NPV Losses	-4.56%	-3.68%	-2.76%	-2.77%
Equals: Cash Flow NPV	0.12%	0.12%	0.98%	0.84%
Equals: Economic Net Worth - Capital Ratio	3.33%	3.93%	5.44%	6.31%
Insurance-In-Force	100.00%	100.00%	100.00%	100.00%

SOURCE: US Department of HUD/FHA, October 2020.

Table C-8: Data Table for Exhibit II-10: MMI Fund Capital for HECM Increased $5.5 Billion Despite a $1.5 Billion Decrease in Claims Paying Capacity

HECM Description	FY 2017	FY 2018	FY 2019	FY 2020
Ending Balances ($ millions)				
Total Capital Resources	$2,115	$2,113	$1,694	$1,597
Plus: NPV Revenue	$5,115	$5,941	$5,653	$4,233
Less: NPV Losses	($20,584)	($21,688)	($13,265)	($6,322)
Equals: Cash Flow NPV	($15,469)	($15,747)	($7,612)	($2.089)
Equals: Economic Net Worth	($13,354)	($13,634)	($5,918)	($492)
Insurance-In-Force	$72,968	$72,389	$64,211	$62,638
Balances as a Percent of Ending Insurance-In-Force				
Total Capital Resources	2.90%	2.92%	2.64%	2.55%
Plus: NPV Revenue	7.01%	8.21%	8.80%	6.76%
Less: NPV Losses	-28.21%	-29.96%	-20.66%	-10.09%
Equals: Cash Flow NPV	-21.20%	-21.75%	-11.85%	-3.34%
Equals: Economic Net Worth - Capital Ratio	-18.30%	-18.83%	-9.22%	-0.78%
Insurance-In-Force	100.00%	100.00%	100.00%	100.00%

SOURCE: US Department of HUD/FHA, October 2020.

Table C-9: Data Table for Exhibit II-14A: Simulating the Q3 FY 2007 Economy on the FY 2020 Portfolio Would Entirely Erase Current MMI Fund Capital

Category	FY 2020	3Q FY 2017
Claims Paying Capacity	9.23%	7.81%
NPV Projected Losses	-3.13%	-8.44%
CPC/MMI Fund	$119,461,618,325.86	$101,056,638,281.64
CPC/NPV Losses	($40,508,664,496.92)	($109,210,956,989.77)
IIF	$1,294,731,331,715.67	$1,294,731,331,715.67

SOURCE: US Department of HUD/FHA, October 2020.

Table C-10: Data Table for Exhibit II-19: A 7.3 Percent MMI Fund Capital Ratio Would Result if a 10.4 Percent Capital Buffer Is Achieved

Category	FY 2020
Capital Buffer	10.4%
NPV Projected Loss	-3.1%
Resulting Capital Ratio	7.3%

SOURCE: US Department of HUD/FHA, October 2020.

Table C-11: Data Table for Exhibit II-15: Projected Losses from the Q3 FY 2007 Stress Scenario Fall Between the Down 20 and Down 25 Stress Scenarios ($ billions)

	PEA	Down 20	Down 25	2007Q3
Active Loans	8,234,059	8,233,858	8,233,858	8,233,858
NPV	$8,298,135,167	($57,252,047,724)	($78,783,925,649)	($64,758,966,976)
Adj Capital Resources	$70,651,754,946	$62,253,948,831	$60,400,467,071	$62,578,505,781
NPV Revenue	$48,806,799,664	$49,283,052,263	$49,619,671,134	$44,451,990,014
CPC	$119,458,554,611	$11,537,001,094	$110,020,138,205	$107,030,495,795
NPV Losses	($40,508,664,497)	($106,535,099,988)	($128,403,596,782)	($109,210,956,990)
MMI Fund Capital	$78,949,890,114	$5,001,901,107	($18,383,458,577)	($2,180,461,195)
IIF	$1,294,731,331,716	$1,294,731,331,716	$1,294,731,331,716	$1,294,731,331,716
Capital Resources Ratio	5.46%	4.81%	4.67%	4.83%
NPV Revenue Ratio	3.77%	3.81%	3.83%	3.43%

SOURCE: US Department of HUD/FHA, October 2020.

Appendix D:
FHA Single Family Housing Mortgagee Letters Published FY 2020

The Federal Housing Administration's (FHA) Office of Single Family Housing issues policy guidance by publishing Mortgagee Letters and/or publishing updates to its *Single Family Housing Policy Handbook* 4000.1 (SF Handbook).

In FY 2020, FHA published the Mortgagee Letters listed in the table below.

ML#	Publication Date	Title
2020-32	09/28/2020	FHA Catalyst Reacquisition and Resubmission of Claims (Claims Module)
2020-31	09/22/2020	Federal Housing Administration (FHA) Defect Taxonomy Appendix to Handbook 4000.1
2020-30	09/10/2020	FHA Underwriting Guidelines for Borrowers with previous Mortgage Payment Forbearance
2020-29	8/31/2020	FHA Catalyst: Case Binder Module - Expanded Functionality and Updated Case Binder Submission Requirements for Federal Housing Administration (FHA) Post Endorsement Loan Reviews
2020-28	8/28/2020	Re-Extension of the Effective Date of Mortgagee Letter (ML) 2020-05, Reverification of Employment and Exterior-Only and Desktop-Only Appraisal Scope of Work Options for the Federal Housing Administration (FHA) Single Family programs impacted by the Coronavirus Disease of 2019 (COVID-19)
2020-27	8/27/2020	Extension of Foreclosure and Eviction Moratorium in Connection with the Presidentially Declared COVID-19 National Emergency
2020-26	8/18/2020	FHA Catalyst: Electronic Appraisal Delivery (EAD) Module

2020-24	7/29/2020	Revision of Effective Date for COVID-19 Multisubject: Updated Temporary Guidance for Verification of Self-Employment; Rental Income; 203(k) Rehabilitation Escrow Account
2020-23	7/28/2020	COVID-19 Multisubject: Updated Temporary Guidance for Verification of Self-Employment; Rental Income; 203(k) Rehabilitation Escrow Account
2020-22	7/8/2020	FHA's COVID-19 Loss Mitigation Options
2020-21	7/7/2020	Enhancements to FHA's Claims Without Conveyance of Title (CWCOT) Procedures
2020-20	6/29/2020	Re-Extension of the Effective Date of Mortgagee Letter 2020-05, Reverification of Employment and Exterior-Only and Desktop-Only Appraisal Scope of Work Options for FHA Single Family Programs Impacted By COVID-19
2020-19	6/17/2020	Extension of Foreclosure and Eviction Moratorium in Connection with the Presidentially Declared COVID-19 National Emergency
2020-18	6/12/2020	FHA Catalyst: Claims Module - Single Family forward Loss Mitigation Home Retention Claims
2020-16	6/4/2020	Endorsement of Mortgages under Forbearance for Borrowers Affected by the Presidentially Declared COVID-19 National Emergency consistent with the Coronavirus Aid, Relief, and Economic Security (CARES) Act
2020-14	5/14/2020	Extension of the Effective Date of Mortgagee Letter 2020-05, Reverification of Employment and Exterior-Only and Desktop-Only Appraisal Scope of Work Options for FHA Single Family Programs Impacted By COVID-19
2020-13	5/14/2020	Extension of Foreclosure and Eviction Moratorium in connection with the Presidentially Declared COVID-19 National Emergency and New Reporting Requirements Related to FHA Single Family's CARES Act Loss Mitigation Options

2020-12	4/14/2020	Updated Guidance for Home Equity Conversion Mortgage (HECM) Claim Type 22 (CT-22) Assignment Claims during the COVID-19 National Emergency
2020-08	4/6/2020	*FHA Catalyst*: Claims Module - Single Family forward Supplemental Claims Digital Submission
2020-07	4/6/2020	*FHA Catalyst:* Case Binder Module - Single Family forward and Home Equity Conversion Mortgage (HECM) Electronic Endorsement Submission
2020-06	4/1/2020	FHA's Loss Mitigation Options for Single Family Borrowers Affected by the Presidentially Declared COVID-19 National Emergency in Accordance with the CARES Act
2020-05	3/27/2020	Re-verification of Employment and Exterior-Only and Desktop-Only Appraisal Scope of Work Options for FHA Single Family Programs Impacted by COVID-19
2020-04	3/18/2020	Foreclosure and Eviction Moratorium in connection with the Presidentially Declared COVID-19 National Emergency
2020-02	1/29/2020	Mortgagee Electronic Funds Transfer Accounts
2019-20	12/3/2019	2020 Nationwide Home Equity Conversion Mortgage (HECM) Limits
2019-19	12/3/2019	2020 Nationwide forward Mortgage Limits
2019-18	11/22/2019	Maximum Rehabilitation Costs in Qualified Opportunity Zones (QOZs) for Limited 203(k) Mortgages

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