FEDERAL HOUSING ADMINISTRATION
ANNUAL REPORT TO CONGRESS

The Financial Status of the
FHA Mutual Mortgage Insurance Fund
Fiscal Year 2016

November 15, 2016

Annual Report to Congress Regarding the Financial Status of the Mutual Mortgage Insurance Fund Fiscal Year 2016

U.S. Department of Housing and Urban Development

November 15, 2016

Secretary's Foreword

Message from the Secretary

November 15, 2016

I am pleased to present the U.S. Department of Housing and Urban Development's Annual Report to Congress on the status of the Federal Housing Administration's Mutual Mortgage Insurance (MMI) Fund for Fiscal Year (FY) 2016. As you will see, HUD has continued to invest in the health of the MMI Fund, which has shown strong performance in the last year and remains above its statutorily mandated capital reserve ratio.

The MMI Fund capital ratio is 2.32 percent. The 2.32 percent capital ratio means the Fund accumulated another $3.8 billion in economic value during the current fiscal year — marking four straight years of steady gains totaling $43.9 billion. This is the second year the Fund is meeting its statutory requirement to maintain at least a 2 percent capital ratio. Effective risk management, strong recoveries, and the continued improvement in our nation's economy have propelled the Fund's growth.

Today, the FHA plays a critical role in providing access to affordable credit for many underserved communities. To that end, the FHA has balanced its responsibilities of encouraging access to credit and soundly managing the MMI Fund. During FY 2016, the performance of the FHA's portfolio continued to improve. In fact, the MMI Fund rate of seriously delinquent loans is among the lowest recorded in the past 10 years. Early payment defaults are historically low as well, and the credit quality of the portfolio remains strong.

Critical to the FHA's strong performance has been the renewed focus on loss mitigation. FHA has worked diligently over the past year to prevent foreclosures and update loss mitigation policies, positively affecting borrowers, communities and the MMI Fund. These changes also streamlined the loss mitigation process, ensuring borrowers got the help they needed sooner.

We continued that important work of strengthening the Fund while providing a critical resource for first-time homebuyers, low and moderate income families, communities of color and the housing market as a whole. Now, FHA is well positioned to continue supporting the housing industry for many years to come.

While maintaining the 2 percent target represents an important metric for FHA, managing the Fund well is about more than the minimum capital reserve ratio. It's also about creating a pathway to the American Dream for families today while anticipating the needs of tomorrow. This report details FHA's ongoing efforts to safeguard that balance and how that work is having a positive effect on the Fund.

For 82 years, the FHA has been a mainstay of our housing market and communities across this great nation. We look forward to continuing to work with Congress to build on this history and ensure that FHA will always be a source of opportunity for Americans from all walks of life.

Julián Castro
Secretary

U.S. Department of Housing and Urban Development

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Executive Summary

The independent actuary reports that the Mutual Mortgage Insurance Fund (MMIF, MMI Fund, or Fund) economic net worth is $27.6 billion. The Fund grew $3.8 billion during FY 2016. The increased net worth brings the Fund's capital ratio to 2.32 percent an increase from last year's capital ratio of 2.07 percent. The Fund has fully recovered and remains above its 2 percent capital ratio. The MMI Fund economic net worth has improved by $43.9 billion since FY 2012 and the capital ratio improved by 3.8 percent.

Mission: Whom Do We Serve

FHA continues to ensure financing availability across the country for creditworthy borrowers. In FY 2016, FHA endorsed 1,258,063 mortgages of which 879,521 were home purchase mortgages with an average loan size of $195,145. FHA's average credit score was 680, and the average loan size was $195,068. FHA endorsed FHA endorsed approximately $245 billion in single family loans, and refinance activity comprised 30 percent of FHA endorsements. FHA endorsed 48,868 HECM loans during the fiscal year.

Key characteristics of Borrower Composition:

- 82.1 percent of FHA purchase loans were for first-time homebuyers, accounting for 722,075 purchase loans.
- 10.9 percent of FHA borrowers were African-American and 17.5 percent were Hispanic.
- In CY 2015, FHA insurance was used for 25 percent of all purchase loans in America, but was used for 47 percent of home purchases by African-American households and 49 percent of purchases by Hispanic households.
- FHA assisted more than 48,868 senior homeowners to age in place through the HECM program.
- The average age of a HECM borrower was 73 years old.

During CY 2015 the Southwest United States had the highest proportion of FHA loans to overall loan volume, and Puerto Rico had the highest percentage of any state or territory, with 52%.

Financial Status of the MMI Fund

This year's Economic Net Worth (ENW) marks the fourth consecutive year that the MMI Fund has shown growth. All of the gains were due to improvements in the Single Family Forward portfolio. The economic net worth of the Forward portfolio increased by $18.3 billion leading to an overall MMI Fund net worth of $27.6 billion. In contrast, the value of the HECM portfolio deteriorated this year, decreasing $14.5 billion. The decline in the HECM portfolio is primarily the result of changes in HECM modeling assumptions. The HECM model was updated to include better estimates of the expenses and sales prices of defaulted HECM loans. Despite the decline in the HECM portfolio, the MMI Fund is strong. The four year- positive trend is the

result of long-term credit strategies put into action since the start of this Administration. A few of the performance metrics that are consistent with the actuary's findings are:
– Early Payment Delinquencies (EPD) are at historic lows.
– Serious delinquencies are at a10-year low.

Risk Analysis and Policy Implications

This year, the strength of the MMI Fund rests on the performance of the Single Family Forward Portfolio. Each year, that portfolio value grows, allowing the Fund to accumulate capital. In contrast, the HECM portfolio continues to be volatile. HECM's capital ratio has fluctuated widely over the past five years with no apparent trend toward improvement. Recent changes aimed at stabilizing the HECM program appear to be having a positive impact. However, the results are preliminary so it is too early to determine the long-term effect. To the extent that the MMI capital ratio serves as a proxy for the health of the Forward portfolio, including HECMs in the MMI Fund will impact the perceived performance of Forwards. A key challenge facing FHA is to stabilize HECM's financial performance.

FHA Single Family Accomplishments

FHA's finalized policy in FY 2016 was the culmination of several years of work that focused on improving its programs to better serve borrowers and mitigating risk. To that end, FHA published large updates to its Single Family Handbook including issuing revised sections on purchasing HUD REO, closing and endorsing loans, and servicing and loss mitigation. Regarding asset management, FHA refined its policy in three key areas. A final Single Family Property Disposition Rule was published, along with an updating of the loss mitigation retention option waterfall and issuance of pre-conveyance inspection pilot agreements. FHA also issued proposed rules to codify many improvements to the HECM program, and to establish a range of new policies aimed at making more condominiums eligible for FHA insurance.

I. Mission: Whom Do We Serve

Since 1934, FHA has made financing for homeownership broadly available to Americans of all income levels and across all geographic regions. At the time of FHA's creation by Congress in the midst of the Great Depression, mortgage loans typically required at least a 50 percent down payment, with five-year schedules that ended in a balloon payment. America was a nation of renters, with only 40 percent of the country owning homes. During this time period, up to 1,000 homes were foreclosed on every day, with the U.S. population nearly a third the size it is today.

Since that time, FHA has made 30-year fixed-rate, fully amortizing loans the standard in the United States and the homeownership rate is now 63 percent. FHA has helped over 41 million Americans realize the dream of homeownership, while stabilizing communities and helping to build wealth across the country.

FHA was critical in serving borrowers during the Great Recession. FHA continued to insure mortgages during the economic downturn even as house prices fell and unemployment rose—FHA served its countercyclical role. According to estimates by Moody's Analytics, if FHA had stopped insuring new mortgages in October 2010, by the end of 2011 house prices would have fallen another 25 percent, home purchases would have decreased an additional 40 percent, and new home construction would have decreased by 60 percent. The U.S. economy would have contracted an additional 2 percent and lost 3 million more jobs. Without FHA, U.S. unemployment would have risen to nearly 12 percent during the Great Recession.[1]

In FY 2016, FHA endorsed 1,258,063 forward mortgages. These mortgages went to borrowers with an average credit score of 680 and an average loan size of $195,068. FHA endorsed 879,521 home purchase mortgages with an average loan size of $195,145. FHA also endorsed 48,868 HECM loans.

This chapter provides a summary of FY 2016 activity for the portfolio and then highlights information about the composition of FHA borrowers. Additional data, along with policy accomplishments, are presented in the Appendices.

A. NEW ENDORSEMENTS AND PORTFOLIO CHARACTERISTICS

FHA provides mortgage insurance on loans made by approved lenders. It is the largest insurer of mortgages in the world, facilitating home loans across the country by providing lenders the confidence to make loans to creditworthy borrowers. In FY 2016, FHA endorsed approximately $245 billion in single family forward loans (Exhibit I-1). Of the number of FHA endorsements in FY 2016, 30 percent were refinances that helped borrowers reduce their housing costs.

[1] Quercia, Roberto G., and Park, Kevin A. "The Public Purpose of FHA." *Cityscape* 15, no. 3 (2013): 282.

Exhibit I-1
FHA Single Family Mortgage Insurance Forward Endorsements

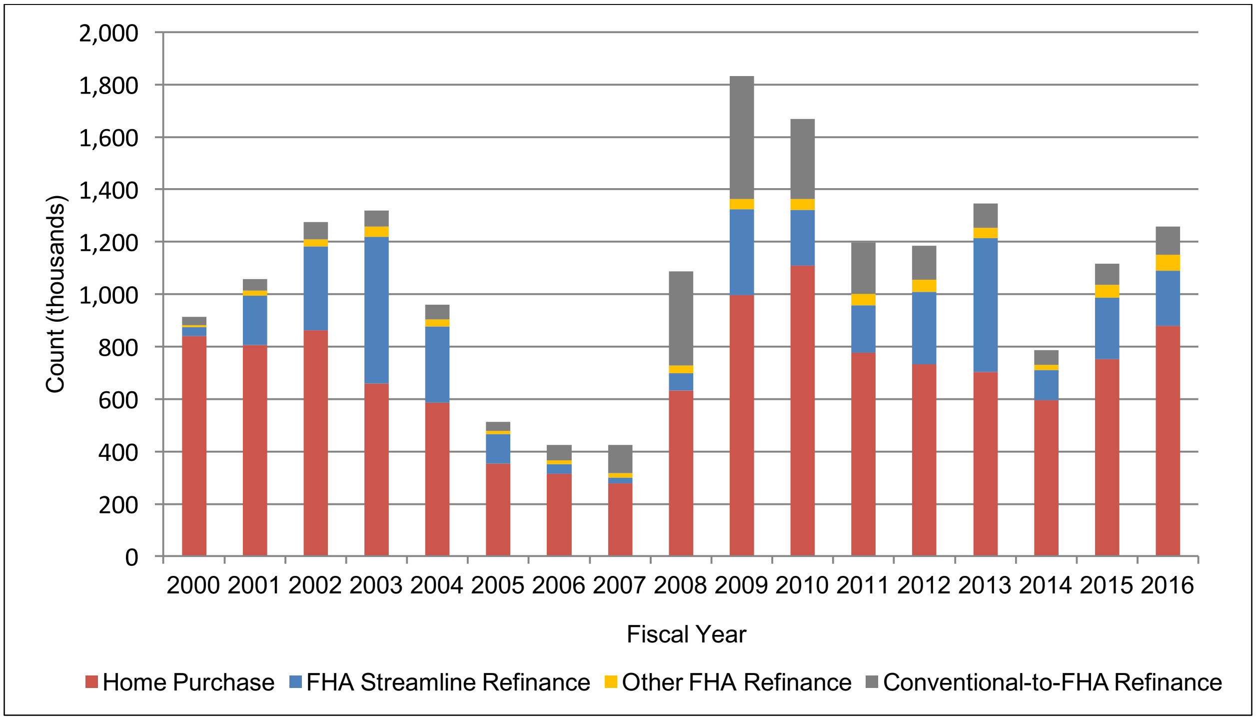
	Counts by Loan Purpose					
Fiscal Year	Home Purchase	FHA Streamline Refinance	Other FHA Refinance	Conventional-to-FHA Refinance	All Forward Loans	Volume ($ billions)
2000	839,870	34,443	6,780	32,007	913,100	94.2
2001	806,818	188,422	17,230	46,207	1,058,677	117.7
2002	862,899	318,245	28,525	64,475	1,274,144	148.1
2003	658,640	560,891	37,504	62,694	1,319,729	159.2
2004	586,110	291,483	26,147	56,695	960,435	116.0
2005	353,844	113,062	11,840	33,581	512,327	62.4
2006	313,998	36,374	14,722	60,397	425,491	55.3
2007	278,395	22,087	16,504	107,739	424,725	59.8
2008	631,655	66,772	28,510	360,455	1,087,392	181.2
2009	995,550	329,437	38,071	468,941	1,831,999	330.5
2010	1,109,580	212,896	39,599	305,533	1,667,608	297.6
2011	777,427	180,265	44,559	195,559	1,197,810	217.8
2012	733,864	274,060	47,595	129,221	1,184,740	213.3
2013	702,415	511,843	39,087	91,501	1,344,846	240.1
2014	594,998	115,039	20,963	55,353	786,353	135.2
2015	753,387	232,811	50,013	80,018	1,116,229	213.1
2016	879,521	210,632	60,446	107,464	1,258,063	245.4

NOTES: This table includes all single family forward mortgage endorsements. Prior to FY 2009, the 203(k) program (Mortgage Insurance for Home Rehabilitation) and 234(c) program (Mortgage Insurance for Condominium Units) were not obligations of the MMI Fund. They are included for all years in this table to provide a more accurate measure of FHA activity. See Appendix B for an expanded table with quarterly data.
SOURCE: U.S. Department of HUD/FHA, October 2016.

1. Change in Endorsement Activity

Over the past fiscal year, the number of purchase endorsements grew by nearly 17 percent—increasing from 753,387 purchase loans in FY 2015 to 879,521 in FY 2016 (Exhibit I-1). Refinance activity marginally increased in FY 2016. The growth in endorsement activity since the last fiscal year is partially a result of the mortgage insurance premium (MIP) reduction of 50 basis points in the second quarter of FY 2015.

Exhibit I-2
Distribution of FHA Single Family Forward Endorsements by Loan Type



SOURCE: U.S. Department of HUD/FHA, October 2016.

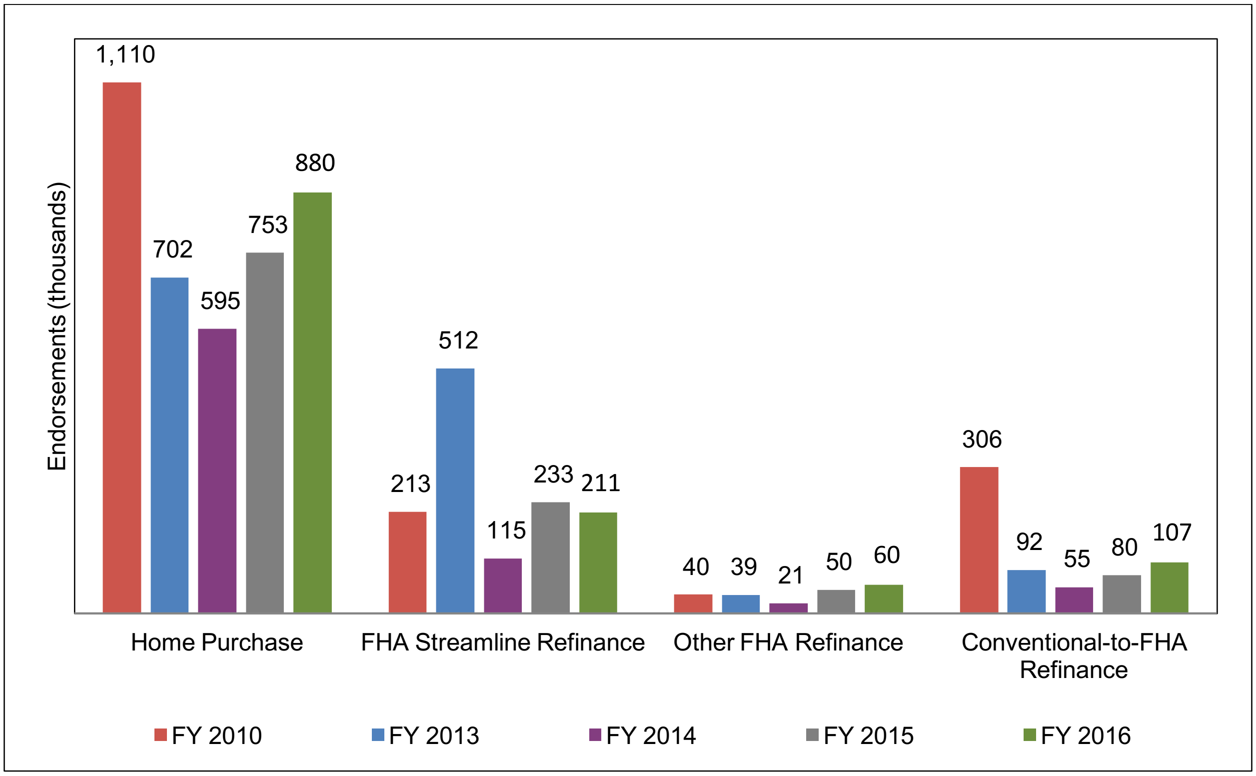
2. FHA's Market Presence

FHA continues to have a strong Mutual Mortgage Insurance Fund (MMI Fund or Fund) while ensuring access to credit for qualified borrowers who are not well-served by the conventional market, without targeting a specific market share. During the past few years, FHA has improved its capital position and ability to ensure ongoing access to credit for qualified borrowers, while returning to volumes that are more consistent with historical levels. Endorsement activity has risen slightly over the last fiscal year, but remains well below its peak in FY 2009 and FY 2010 and more in line with the period from FY 2000–2003 (Exhibit I-2).

In FY 2016, home purchase endorsements increased by 127,000 over the previous year, while refinances had a smaller increase, moving up by 15,000 (Exhibit I-3).

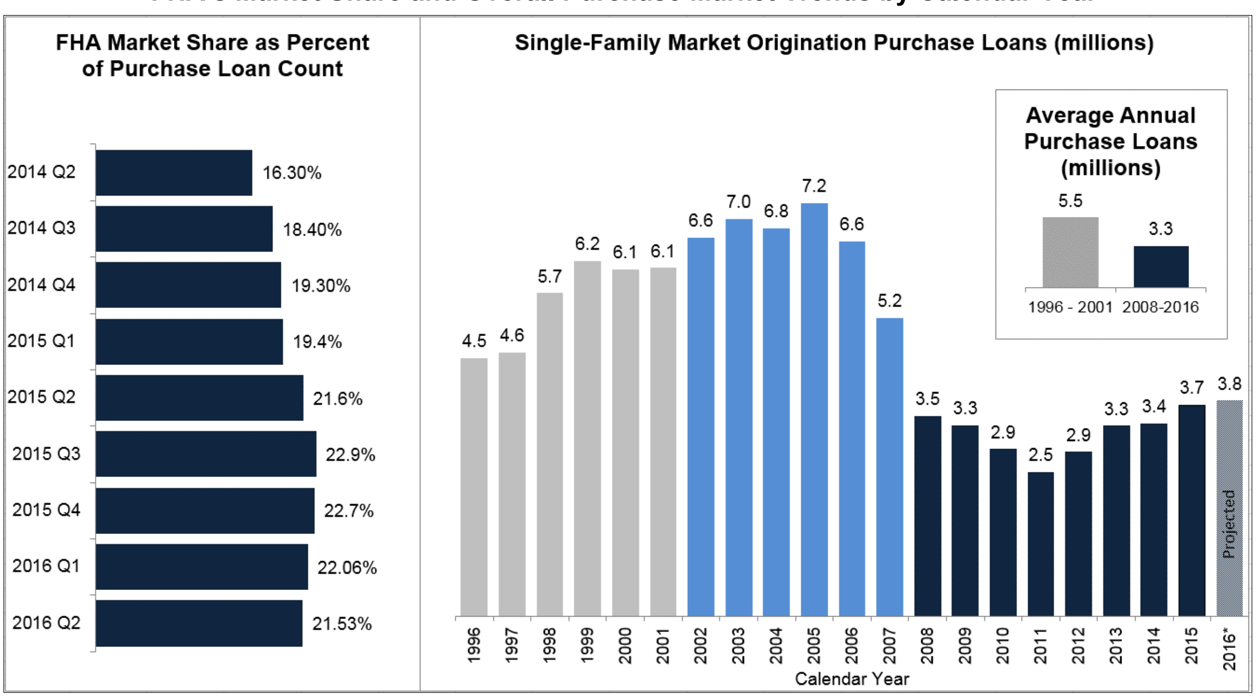
The U.S. purchase mortgage market is similar to its size in FY 2008, with approximately 3.8 million originations, but FHA's market share has diminished since it served its countercyclical role during the Great Recession and has stabilized over the past few years at around 20 percent (Exhibit I-4).

Exhibit I-3
Change in FHA Single Family Endorsement Activity by Product



SOURCE: U.S. Department of HUD/FHA, October 2016.

Exhibit I-4
FHA's Market Share and Overall Purchase Market Trends by Calendar Year



* = preliminary number subject to future revisions.
SOURCE: U.S. Department of HUD/FHA, October 2016; Mortgage Bankers Association of America, "MBA Mortgage Finance Forecast," June 2016; Corelogic TrueStandings ® as of October 12, 2016.

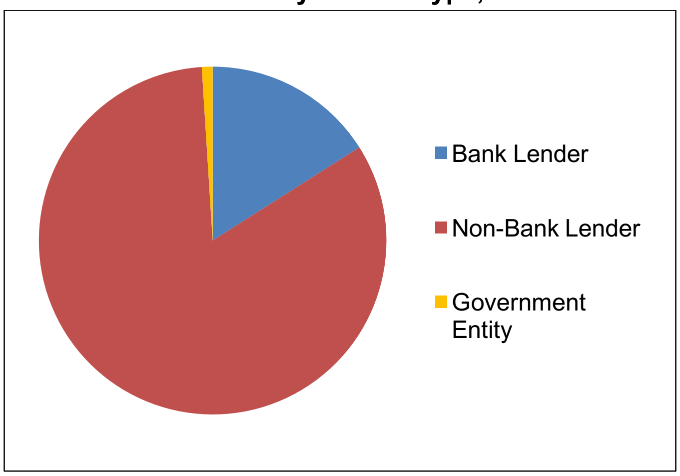
3. FHA-Approved Lenders

FHA originations are made by a variety of approved lenders. For both forward loans and Home Equity Conversion Mortgages (HECMs) during FY 2016, non-bank lenders accounted for just over 83 percent of FHA endorsements and bank lenders accounted for 16 percent (Exhibit I-5).

There were 1,447 lenders that underwrote 10 or more loans during the fiscal year. At the end of FY 2016, there were 2,430 FHA-approved lenders that originated Single Family forward mortgages. This included 1,124 bank lenders, 1,154 non-bank lenders, 121 government lenders, and 31 other lenders.

During the fiscal year, FHA received 185 applications from lenders for approval. Of these, 85 were approved. This total included 44 bank lenders, 39 non-bank lenders, 2 other lenders, and no government lenders.

Exhibit I-5
Endorsements by Lender Type, FY 2016



SOURCE: U.S. Department of HUD/FHA, October 2016.

4. Foreclosure Prevention

FHA has worked diligently over the past year to prevent foreclosures and update loss mitigation policies, benefitting the Fund, borrowers, and communities.

FHA has made significant changes to its servicing requirements, streamlining loss mitigation processes by reducing the number of steps that servicers need to take to evaluate delinquent borrowers for alternatives to foreclosure. Additionally, FHA removed other obstacles to allow servicers greater flexibility, aiming to accelerate the loss mitigation process.

The number of loss mitigation actions taken by FHA during FY 2016 has continued to decline since its peak in FY 2014, decreasing by 30,234 year-over-year. As in the past fiscal year, FHA-HAMP (Home Affordable Modification Program) modifications have decreased by almost half from the prior year—to 48,727 in FY 2016 (Appendix B, Exhibit B-18).

B. BORROWER CHARACTERISTICS

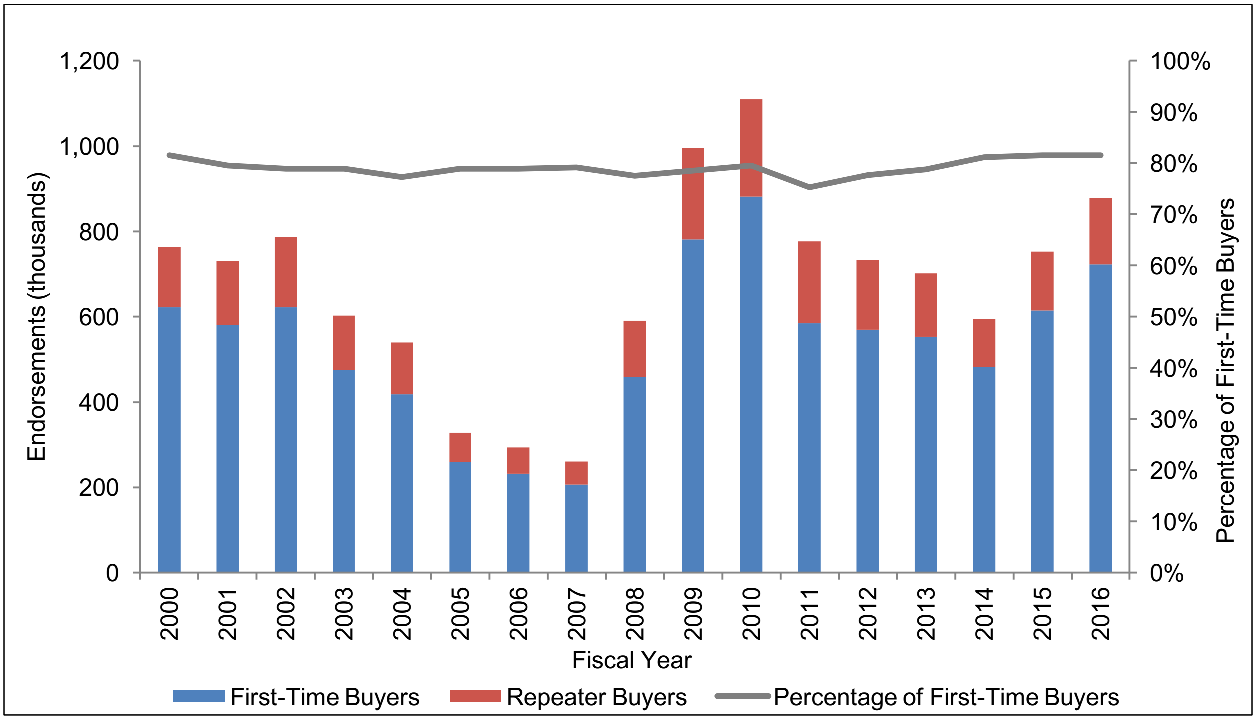
FHA insurance enables credit availability for borrowers who are not well-served by the conventional market. Conventional lenders typically limit mortgages for borrowers who are perceived to be riskier or are in areas experiencing economic downturns by tightening underwriting standards. Where these lenders price for the risk, it is often on such unfavorable terms that the mortgages are not affordable. FHA, on the other hand, maintains its presence in all markets, providing stability and liquidity in markets across the country. In FY 2016:

- 82.1 percent of FHA purchase loans were for first-time homebuyers.
- 10.9 percent of FHA borrowers were African-American and 17.5 percent were Hispanic.
- FHA helped 48,868 additional senior homeowners age in place through the HECM program.

1. First-time Homebuyers

FHA performs a vital role in ensuring access to credit for first-time homebuyers. FHA is the product of choice for many young families; over the past 20 years between 60 and 70 percent of first-time FHA homebuyers were 35 years old or younger. In FY 2016, first-time homebuyers represented 722,075 borrowers, or 82 percent of all FHA purchase originations. Since 2000, this number has consistently stayed near 80 percent, reflecting FHA's importance in helping homebuyers build credit and wealth. In the past two fiscal years, more than 1.3 million borrowers have used FHA loans to purchase their first homes.

Exhibit I-6
FHA Purchase Endorsements by Borrower Type



SOURCE: U.S. Department of HUD/FHA, October 2016.

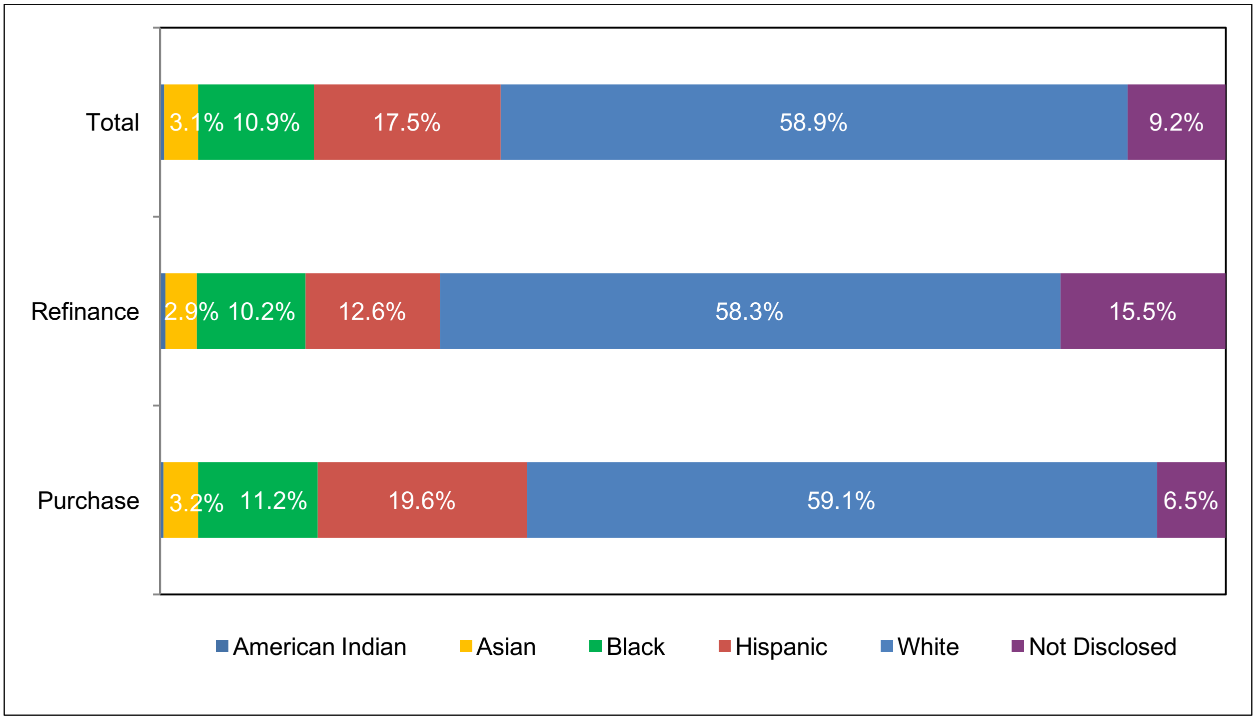
2. Minority Share

FHA also plays a critical role in supporting minority homeownership, particularly as minority borrowers typically have less generational wealth, making FHA loans an important program to lessen long-term wealth inequality. The mortgage crisis hit minority households especially hard, as they were disproportionately affected first by subprime lending and then by the tightening of credit in the conventional market.

In CY 2015, FHA insurance was used for approximately 25 percent of all home purchase loans, but it was used for 47 percent of home purchases by African-American households and 49 percent of purchases by Hispanic households (Appendix B, Exhibit B-11). FHA loans are only used by 14 percent of the Asian and Hawaiian/Pacific Islander population, partly due to the unique housing market in Hawaii, where FHA insurance plays a smaller role than in other states (see Section 4, "Geographic Distribution"). FHA is chosen by 35 percent of the American Indian or Alaska Native population, slightly lower than what might be anticipated given income levels and housing prices in these communities. This is mainly due to the existence of HUD's Section 184 Indian Home Loan Guarantee Program, which is available to enrolled members of Federally Recognized Tribes and requires a lower down payment than FHA.

In FY 2016, over 33 percent of FHA endorsements went to minority buyers.

Exhibit I-7
Racial Composition of FHA Single Family Endorsements, FY 2016



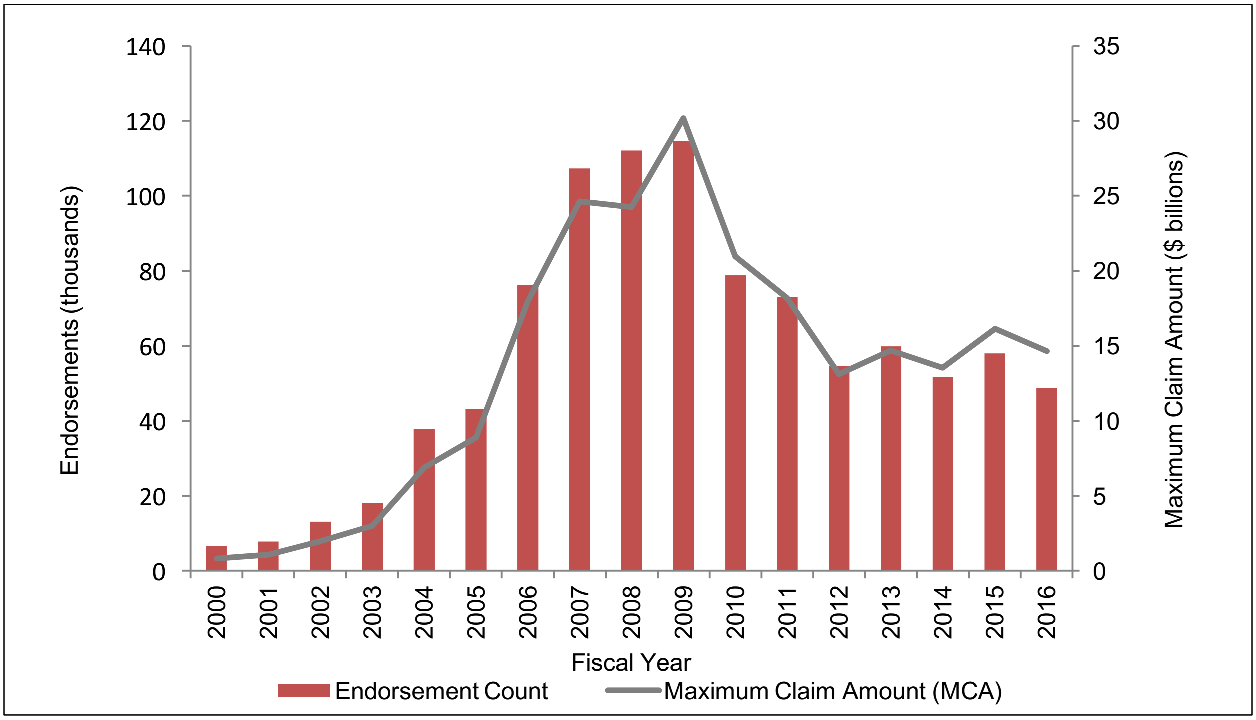
SOURCE: U.S. Department of HUD/FHA, October 2016.

3. Seniors and Home Equity Conversion Mortgages

FHA started the Home Equity Conversion Mortgage (HECM) program in 1989, providing insurance for loans that enable borrowers aged 62 and older to withdraw equity in their homes. FHA assisted more than 48,868 senior homeowners to age in place during FY 2016 through the HECM program. HECM loans accrue interest on outstanding balances, but there are no monthly payment requirements, and loans are not due-and-payable until the borrower exits the home. Many senior citizens use HECM loans to pay off outstanding home mortgages, substantially reducing their monthly housing expense and creating the financial margin needed to stay in their home on a reduced income. This program has been an important resource for senior homeowners who lack a stable source of funds. Many seniors use these HECM loans to pay off other debts and expenses, allowing them to manage their finances on fixed incomes while stabilizing the communities in which they reside.

In FY 2016, the number of senior borrowers using the HECM program decreased by 9,122 from FY 2015 (Appendix B, Exhibit B-2). During the past fiscal year, FHA issued a proposed rule that would codify the changes that have been made to the program over the past several years. The proposed rule incorporates several significant changes, including limiting initial disbursements to ensure the financial stability of the program, and establishing criteria that allow certain non-borrowing spouses to remain in the home following the death of the borrowing spouse.

Exhibit I-8
HECM Endorsement Counts and Maximum Claim Amount

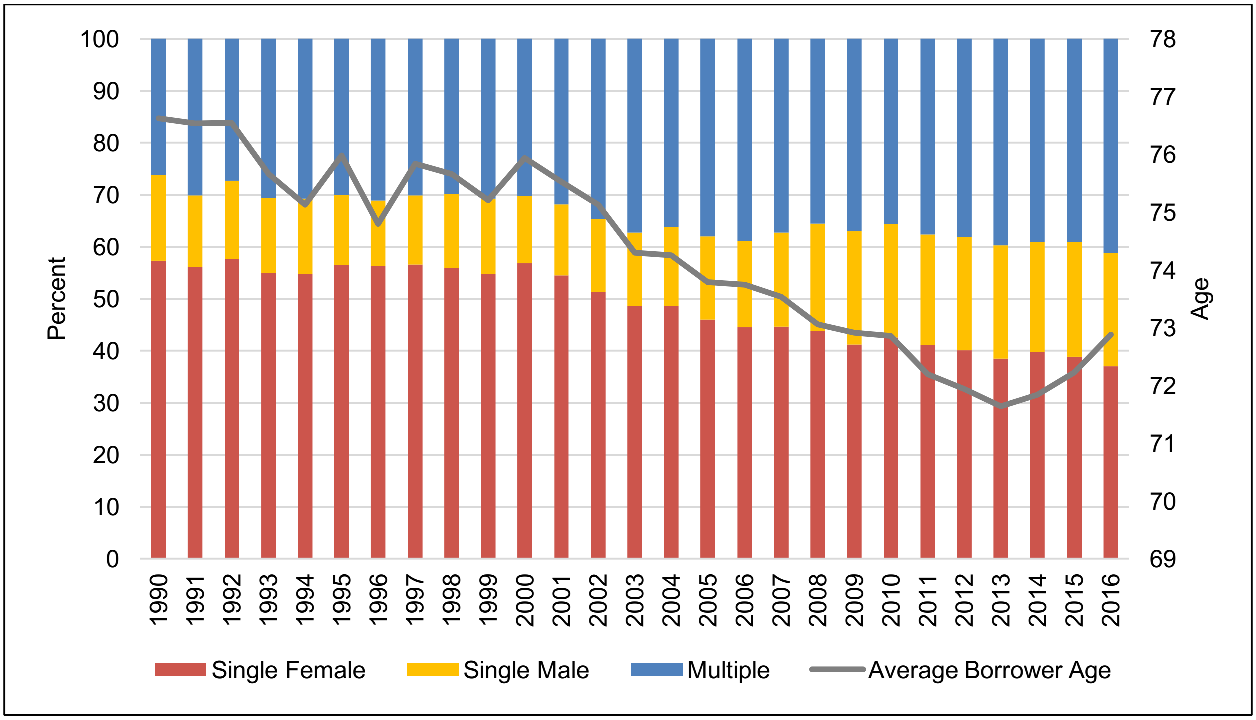


SOURCE: U.S. Department of HUD/FHA, October 2016.

Data on HECM borrowers since the beginning of the HECM program are shown in Exhibit I-9. The average age of a HECM borrower is nearly 73 years old. While the average age of HECM borrowers steadily decreased over the first 23 years of the program, it has increased slightly in the past few years and was at 2010 levels during the past fiscal year. Younger HECM borrowers add risk to the Fund, as it is more likely the value of the home will not support the cost of the loan over the long term. The percentage of single female borrowers has continued to decrease since the beginning of the program, from nearly 60 percent in FY 1990 to 37 percent in FY 2016.

The composition of HECM borrowers in FY 2016 remained largely consistent with the previous year. Single males were almost 22 percent of HECM borrowers, the same as FY 2015. Multiple borrowers were 41 percent of HECM borrowers, a two percentage point increase from FY 2015.

Exhibit I-9
Composition of HECM Borrowers, FY 1990–FY 2016



SOURCE: U.S. Department of HUD/FHA, October 2016.

4. Geographic Distribution

FHA loans are available in all 50 states and most U.S. territories. State-level data on FHA endorsements, as measured by loan counts, are mapped below for CY 2015 (Exhibit I-10).

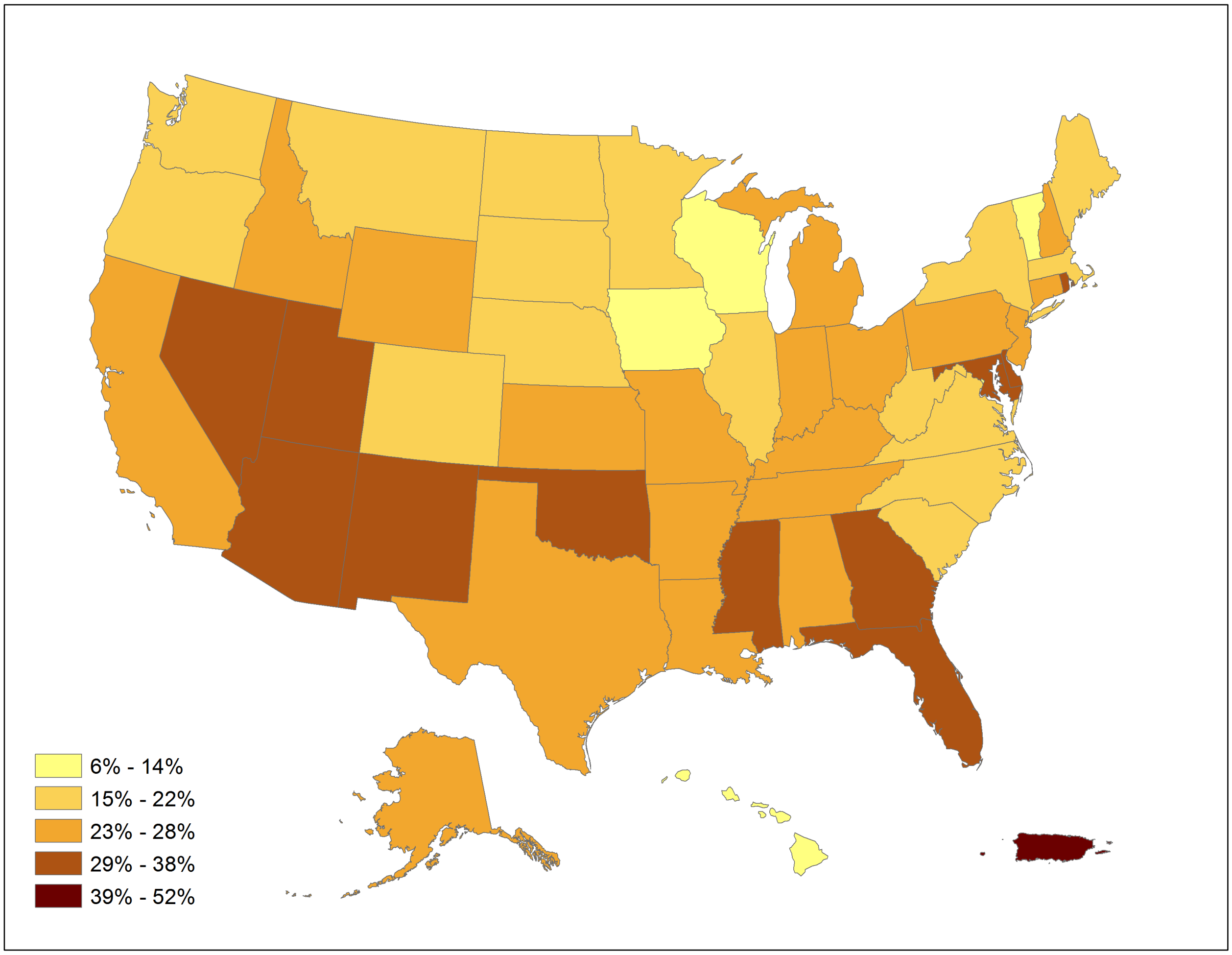
Puerto Rico accounted for the highest percentage of FHA purchase endorsements as a proportion of overall originations—nearly 52 percent. This was by far the highest ratio of any state or territory and is a significant jump from last year's share of 34 percent. Consistent with the results from the previous year, the Southwest has a higher proportion of FHA lending than the rest of the country, with Nevada and Arizona the second and third highest states or territories representing 38 percent and 35 percent respectively, and with New Mexico at nearly 30 percent.

The South had the most change between CY 2014 and CY 2015, with every state increasing its FHA share of lending:

- Mississippi increased nine percentage points to 29 percent
- Florida increased six percentage points to 29 percent
- Alabama increased six percentage points to 27 percent
- Tennessee increased four percentage points to 25 percent
- South Carolina increased four percentage points to 22 percent
- Georgia increased two percentage points to 31 percent
- North Carolina increased two percentage points to 17 percent

FHA has a much smaller share of the market in Washington, D.C. and Hawaii—regions with high housing costs. FHA loans accounted for only 10 percent of endorsements in the District and only 6 percent in Hawaii.

Exhibit I-10
FHA Purchase Endorsements as a Proportion of Total State Purchase Originations, CY 2015

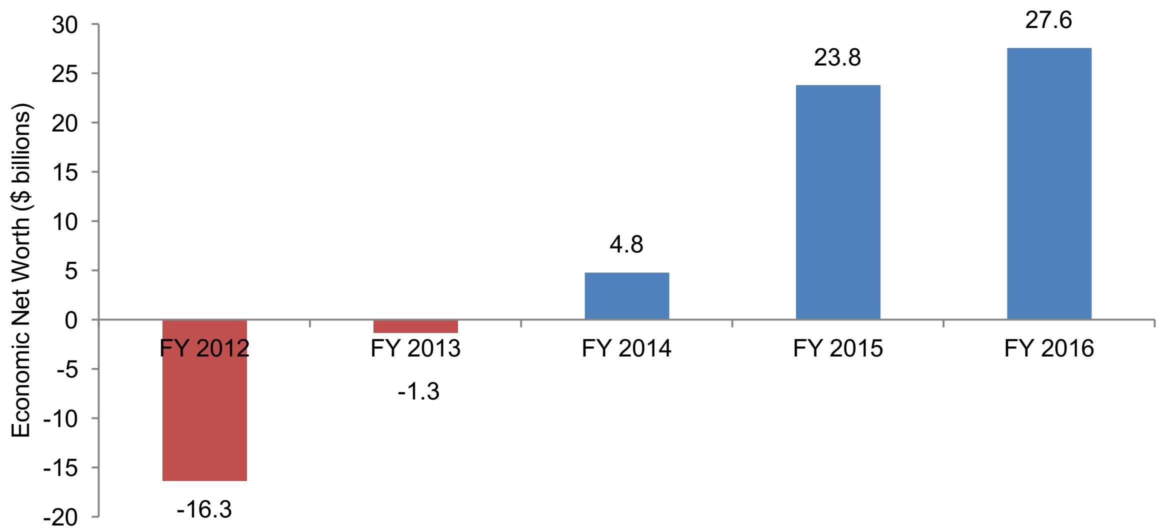


NOTE: See Exhibit B-6 for values by state.
SOURCE: HMDA, 2015.

II. Status of the Mutual Mortgage Insurance Fund

The independent actuary reports that the MMI Fund's economic net worth improved by $3.8 billion from last year's actuarial result—increasing from $23.8 billion for FY 2015 to $27.6 billion for FY 2016. Similarly, the capital ratio increased from 2.07 percent to 2.32 percent between FY 2015 and FY 2016. The MMI Fund has improved by $43.9 billion since FY 2012. The MMI Fund capital ratio similarly improved by 3.8 percentage points over that time, from negative 1.44 percent to positive 2.32 percent (Exhibit II-1).

Exhibit II-1
Overall Results of the Independent Actuarial Study



Capital Ratio (%)	-1.44	-0.11	0.41	2.07	2.32

SOURCE: FY 2012–FY 2016 Actuarial Reviews of the MMI Fund; analysis by U.S. Department of HUD/FHA.

The remainder of this chapter summarizes findings in the Independent Actuarial Reports for both the forward and HECM portfolios, FHA forward portfolio performance metrics, and a discussion of uncertainty facing the HECM portfolio. The final written reports from the independent actuary are available online in the FHA Office of Housing Reading Room.[2]

A. FINANCIAL STATUS OF THE MMI FUND

As outlined in the National Housing Act, economic net worth (ENW) is defined as the sum of:

1. Net capital resources.
2. The present value of projected mortgage insurance premiums (MIP) expected to be

[2] http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/hsgrroom.

generated by the current portfolio less the present value of projected credit losses for the current portfolio over the life of the loans.

The capital ratio is then calculated by dividing the ENW by the value of the outstanding insured portfolio (insurance in force or IIF) at the end of the relevant fiscal year. Exhibit II-2 shows these calculations and changes from last year.

Exhibit II-2
Changes to the Capital Resources and Capital Ratio of the MMI Fund ($ millions)

	FY 2015	FY 2016	Improvement
Capital resources at end of fiscal year	30,862	35,346	4,484
Actuary's present value of future cash flows on outstanding insurance	-7,040	-7,795	-755
Economic Net Worth (ENW) (row 1 + row 2)	23,822	27,551	3,729
Amortized insurance in force (IIF) at end of fiscal year	1,151,458	1,188,569	37,111
Capital Ratio (ENW / IIF)	2.07%	2.32%	0.25%

SOURCE: FY 2015 and FY 2016 Actuarial Reviews of the MMI Fund; analysis by U.S. Department of HUD/FHA.

The capital ratio for the MMI Fund continued to improve and remained above 2 percent. The forward portfolio is now above 3 percent. The HECM portfolio continues to experience volatility and its capital ratio is now negative 6.90 percent.

Exhibit II-3 separates the MMI Fund into its two sub-portfolios—forward loans and HECMs.

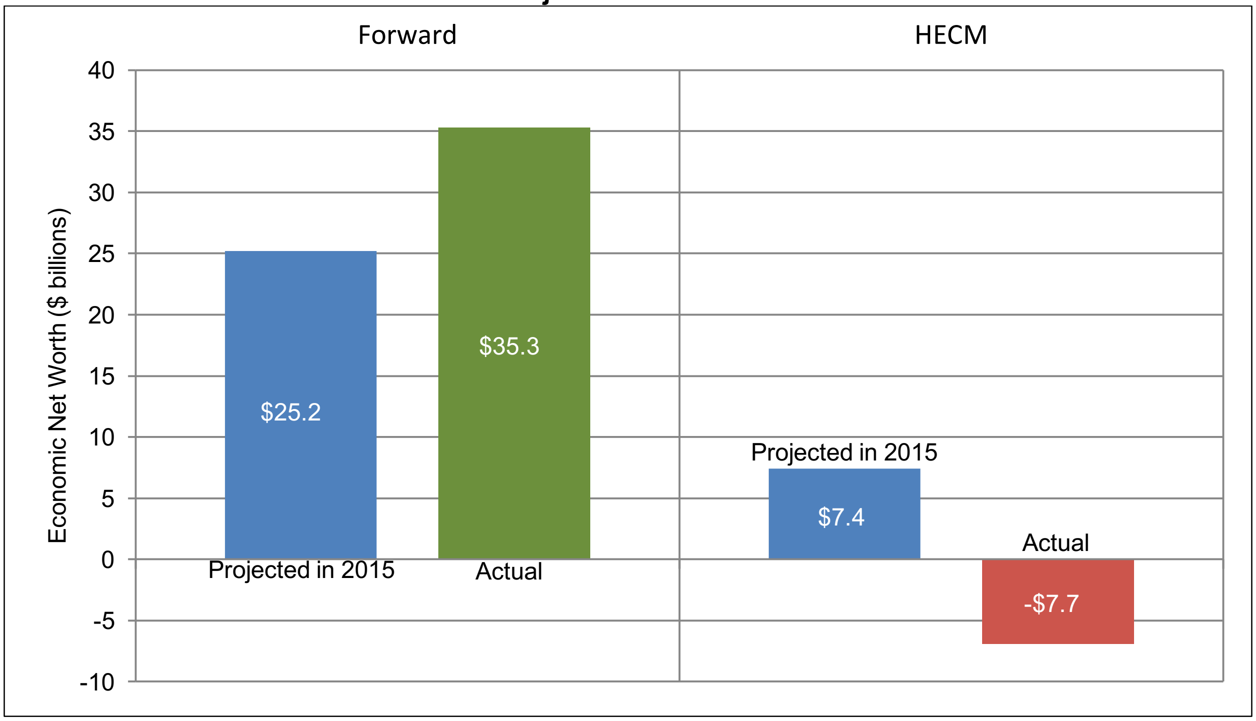
Exhibit II-3
Economic Net Worth of the MMI Fund ($ millions)

	Economic Net Worth	Insurance in Force	Capital Ratio (%)
Forward	35,272	1,076,650	3.28
HECM	-7,721	111,919	-6.90
MMI Fund	27,551	1,188,569	2.32

SOURCE: FY 2015 and FY 2016 Actuarial Reviews of the MMI Fund; analysis by U.S. Department of HUD/FHA.

This year's ENW is less than what was projected in last year's study by approximately $4.2 billion. The forward portfolio was $10.1 billion above projection, while the HECM portfolio was $14.3 billion below projection. This raised the forward loan capital ratio from 1.63 percent in FY 2015 to 3.28 percent in FY 2016. The HECM capital ratio deteriorated from 6.4 percent in FY 2015 to negative 6.9 percent in FY 2016.

Exhibit II-4
Economic Net Worth of the MMI Fund, FY 2016
2015 Projection vs 2016 Actual



SOURCE: FY 2015 and FY 2016 Actuarial Reviews of the MMI Fund; analysis by U.S. Department of HUD/FHA.

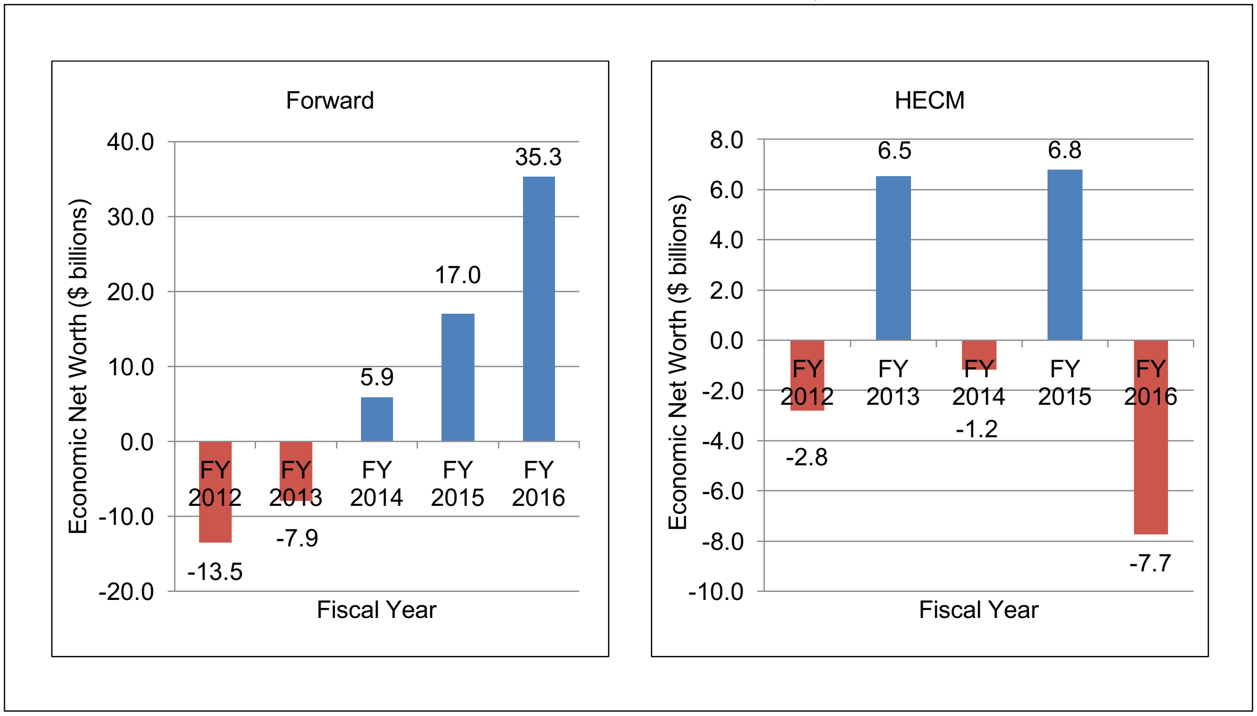
The Forward portfolio's ENW increased more than projected due to a stronger FY 2016 book than was forecast a year ago and better than expected performance of past books. Additionally, the forward portfolio's ENW benefitted from an increase in capital resources. These changes account for the majority of the improvement.

Updated assumptions regarding expenses and recoveries for the HECM portfolio more accurately reflect recent experience on the existing book and caused the FY 2016 ENW of the HECM portfolio to become negative. Further analysis is provided under the HECM section of this chapter.

Projecting results is subject to forecast error. Exhibit II-5 compares the ENW of forwards and HECMs. The value of the forward portfolio has improved by nearly $50 billion since FY 2012. The last three years show a positive and consistent upward trend.

In contrast, past valuations of the HECM portfolio are far more volatile even though the portfolio is about a tenth the size of the forward portfolio. This year the actuary places the value of the HECM portfolio at negative $7.7 billion, after projecting in FY 2015 that the HECM portfolio would increase marginally from positive $6.8 billion in FY 2015 to positive $7.4 billion in FY 2016. In recent years, much of the difference between the actual and projected value of the Fund has hinged on the difficulty of anticipating fluctuations in the value of the HECM portfolio.

Exhibit II-5
Economic Net Worth under Base-Case Estimates, FY 2012–FY 2016



SOURCE: FY 2012–FY 2016 Actuarial Reviews of the MMI Fund; analysis by U.S. Department of HUD/FHA.

B. MMI FUND CASH FLOWS

Net cash flow from MMIF insurance operations increased to $876 million in FY 2016, up from $473 million a year earlier as shown in Exhibit II-6. Net cash flow from the forward program was $4,090 million in FY 2016, up from $2,073 million in FY 2015. The forward program's net cash inflows were offset by negative $3,214 million in net cash outflows on HECM insurance operations. HECM's net cash outflow nearly doubled from the negative $1,600 million net outflow in FY 2015. In FY 2016, HECM's cash outflows offset more than 78 percent of the cash inflows to the MMIF from the forward program, making HECM a serious drag on the MMIF capital ratio even though the forward program is 16 times larger by insurance in force.

Exhibit II-6
Insurance Operations Cash Flow – MMI Fund

Type of Cash Flow	Fiscal Year 2012	2013	2014	2015	2016
Cash Inflow ($ millions)					
Premiums	8,822	11,174	11,036	12,587	13,196
Recoveries	7,852	10,654	10,726	7,522	6,574
Total Inflow	16,674	21,828	21,762	20,109	19,770
Cash Outflow ($ millions)					
Claims	(18,244)	(26,894)	(25,255)	(19,269)	(18,569)
Property Expenses	(1,253)	(1,340)	(562)	(367)	(325)
Total Outflow	(19,497)	(28,234)	(25,817)	(19,636)	(18,894)
Net Cash Flow ($ millions)					
Net Cash Flow	(2,823)	(6,406)	(4,055)	473	876
Average Insurance in Force ($ millions)					
Average Insurance in Force	1,079,588	1,130,499	1,140,787	1,135,545	1,150,419
Cash Flow as a Percentage of Average Insurance in Force					
Cash Inflow (%)					
Premiums	0.82	0.99	0.97	1.11	1.15
Recoveries	0.73	0.94	0.94	0.66	0.57
Total Inflow	1.54	1.93	1.91	1.77	1.72
Cash Outflow (%)					
Claims	-1.69	-2.38	-2.21	-1.70	-1.61
Property Expenses	-0.12	-0.12	-0.05	-0.03	-0.03
Total Outflow	-1.81	-2.50	-2.26	-1.73	-1.64
Net Cash Flow (%)					
Net Cash Flow	-0.26	-0.57	-0.36	0.04	0.08

SOURCE: U.S. Department of HUD/FHA, October 2016.

Our assessment of the year-to-year projections for the forward and HECM portfolios is discussed in greater detail throughout the remainder of this chapter.

C. STATUS OF THE FORWARD PORTFOLIO

1. Stable Performance Expected from the Forward Portfolio

Compared to last year, the forward portfolio more than doubled from $17 billion to $35.3 billion. Exhibit II-5 shows that the value of the forward portfolio has steadily improved since FY 2012 by more than $40 billion. Other measures of the health of the Fund show similar progress—improvements in the credit quality of new production, reduced early payment delinquencies and seriously delinquent loans, and higher recoveries on distressed assets.

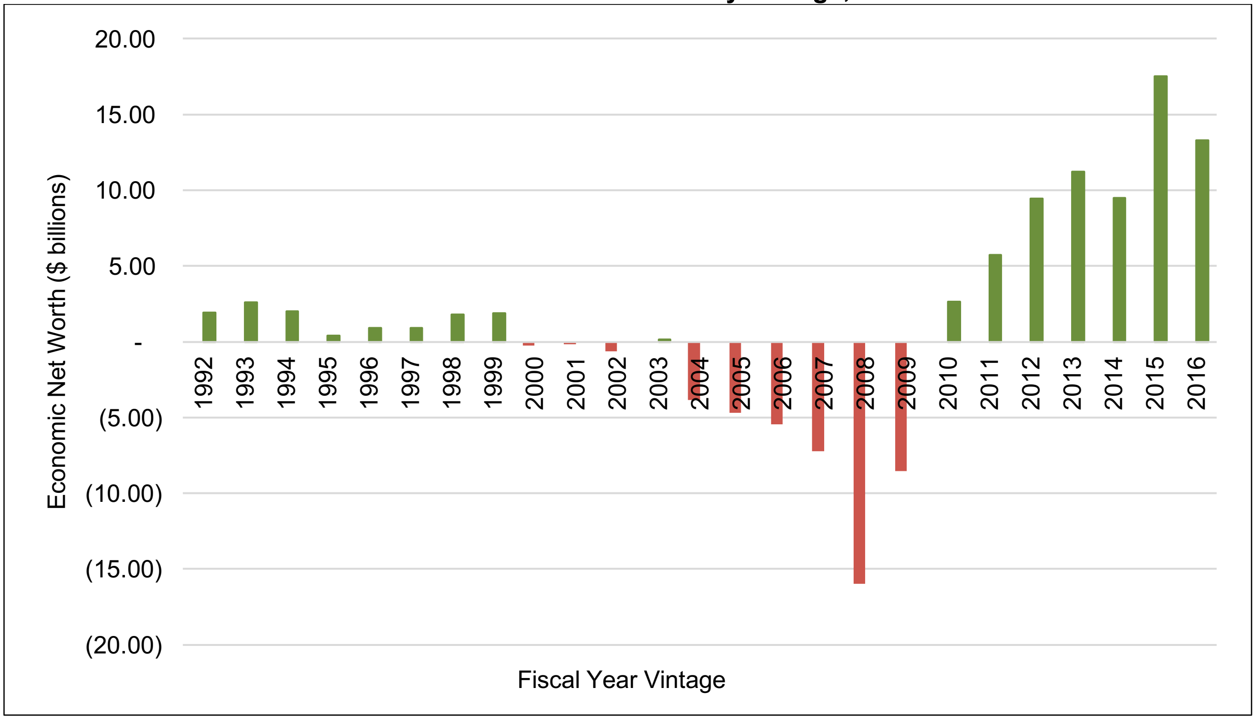
a) Improved Credit Quality of New Production

In response to the extreme risk conditions FHA experienced during the Great Recession, FHA has made substantial changes to its credit guidelines. Hard cutoffs (e.g., minimum credit scores or maximum debt-to-income ratios) are not the dominant approach used. FHA instead relies on risk-based underwriting to discourage risk layering, but also recognizes that borrowers with weakness in one risk area might still be good credit risks because of offsetting strengths in other areas. FHA uses its Technology Open to All Lenders (TOTAL) Scorecard to rank borrowers by credit risk based on many indicators, including credit scores, reserves, and income ratios. FHA tightened its credit standards in FY 2013 by referring a greater number of higher-risk loans—those that did not rank well under TOTAL—to manual underwriting. Other changes that materially improved the quality of post-crisis loans include:

— A 10 percent down payment is required on loans with credit scores less than 580.
— FHA's manual underwriting guidelines were strengthened to discourage extreme risk layering.
— Seller-funded down-payment assistance is no longer allowed. According to the actuary, loans with these features account for almost $17 billion in losses to the Fund.

Improving the quality of incoming business increases the value of the forward portfolio slowly but steadily. First, each individual vintage (cohort) adds relatively small but measurable incremental value to the portfolio. Second, as the relative share of successive post-2009 vintages increases, the overall impact of the detrimental older vintages diminishes (Exhibit II-7). For example, the 2005–2009 vintages now represent only 13 percent of the forward portfolio.

Exhibit II-7
Economic Net Worth of Forward Portfolio by Vintage, FY 1992–FY 2016



SOURCE: U.S. Department of HUD/FHA, October 2016.

While Exhibit II-5 shows the forward portfolio ENW at each fiscal year end from 2012 to 2016, Exhibit II-7 shows the contribution each individual vintage (cohort) makes to the FY 2016 ENW of $35.3 billion.

Although the overall effect of any individual vintage year on a $1 trillion portfolio is limited, a steady accumulation of high-quality loans over many years improves the value of the forward portfolio. Other metrics speak to the superior quality of post-2009 production.

b) Risk Exposure Over the Last Seven Vintages Is Lower than Historic Norms

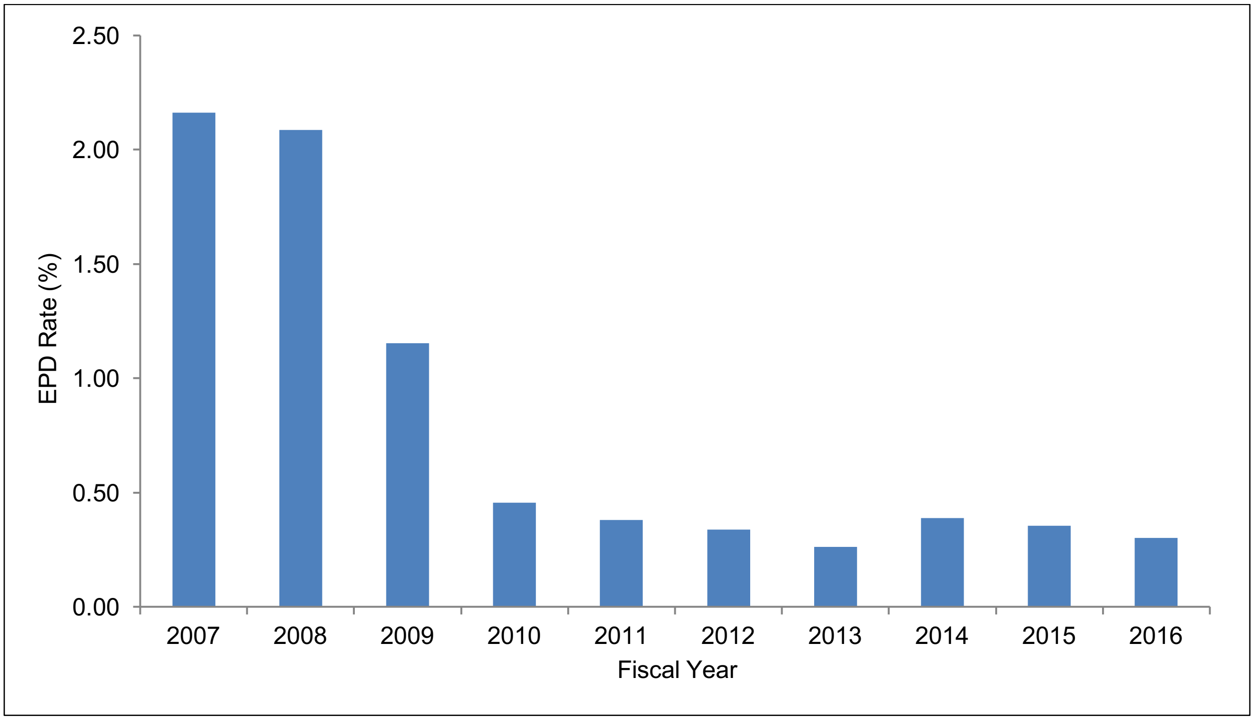
Credit scores provide one picture of improved risk profile. For example, when FHA performed its countercyclical function in 2007 and 2008, FHA originated loans of which more than 50 percent had credit scores less than 640, and 30 percent had credit scores less than 580. Both of these shares were substantially higher than historic norms. As the market recovered in 2010 and 2011, the pendulum swung back, and the share of loans with credit scores greater than 720 grew well above historic norms. In 2014, FHA introduced the *Blueprint for Access*, an initiative aimed at continuing the shift of FHA's business back toward making loans to its traditional borrower profile, somewhere between the borrower characteristics of 2007–2008 and 2010–2011 (Exhibit B-9).

c) Early Payment Delinquencies (EPD) Continue at Historic Lows

The quality of new business is reflected by EPD rates. The EPD rate is the rate at which loans experience 90-day delinquencies within the first six months of origination. This is another metric that suggests the sustainability of the recovery in the forward portfolio. EPD rates provide the first indication of potential credit performance of newly insured loans and are a leading indicator of the long-term claim risk of a particular book of business.

The EPD performance of FHA's portfolio in FY 2016 continued trends seen in recent years, as newer books of business vastly outperform those insured in prior years. EPD rates for the FY 2010 through February 2016 vintages are roughly one third of one percent, less than 20 percent of the EPD rates for the FY 2007 and 2008 vintages (Exhibit II-8).

Exhibit II-8
Early Payment Delinquency Rates by Vintage

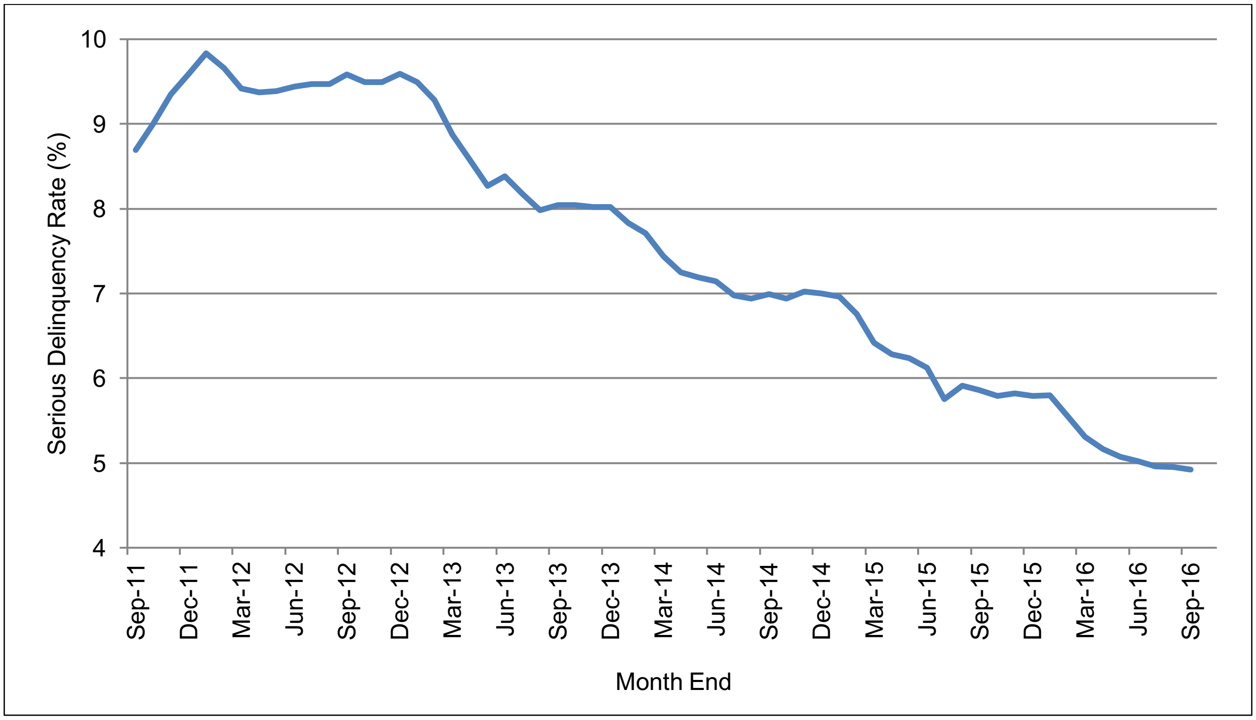


NOTE: FY 2016 includes loans with beginning amortization dates from October 2015 through February 2016.
SOURCE: U.S. Department of HUD/FHA, October 2016.

i. Serious Delinquencies Are at a Ten-Year Low

The number of seriously delinquent FHA loans continued to decline in FY 2016. Exhibit II-9 shows the serious delinquency rate has fallen by 50 percent over the last four years, approximately a $60 billion improvement in the dollar amount of seriously delinquent mortgages. In addition, the seriously delinquent rate is now at the lowest level in at least ten years—from a peak of 9.83 percent in January 2012 to 4.92 percent at the end of FY 2016.

Exhibit II-9
FHA Serious Delinquency Rate



SOURCE: U.S. Department of HUD/FHA, October 2016.

d) Loss Recoveries Improved by 33 Percent Since 2011

The FY 2014 actuarial review projected that more than $35 billion in claims would come from loans with serious delinquencies, highlighting the importance of loss mitigation efforts. In response, throughout FY 2015 and 2016, FHA continued its focus on further reducing loss severities associated with the legacy book—delivering on this commitment through an overall asset management strategy targeted at keeping borrowers in their homes. This was primarily accomplished through enhancement of existing loss mitigation tools such as modification programs and streamlined refinancing.

In addition to these efforts, FHA has pursued a more diversified approach to distressed asset disposition. FHA has done this by expanding existing initiatives that allow for better alignment of outcomes, and choosing the best execution path based on the conditions and circumstances of the borrower. Prior to 2010, the real estate owned (REO) alternatives—pre-foreclosure sales, note sales, and third party sales—represented about 10 percent of the total dispositions per year. The share of REO alternatives increased to about 25 percent between 2010 and 2012, largely through increased usage of pre-foreclosure sales. In FY 2013, FHA began expanding the menu of alternatives. The share of REO alternatives has grown to more than 50 percent during the last two years. The net effect of these efforts is summarized in Exhibit II-10.

The successes of note sales and third party sales are described below.

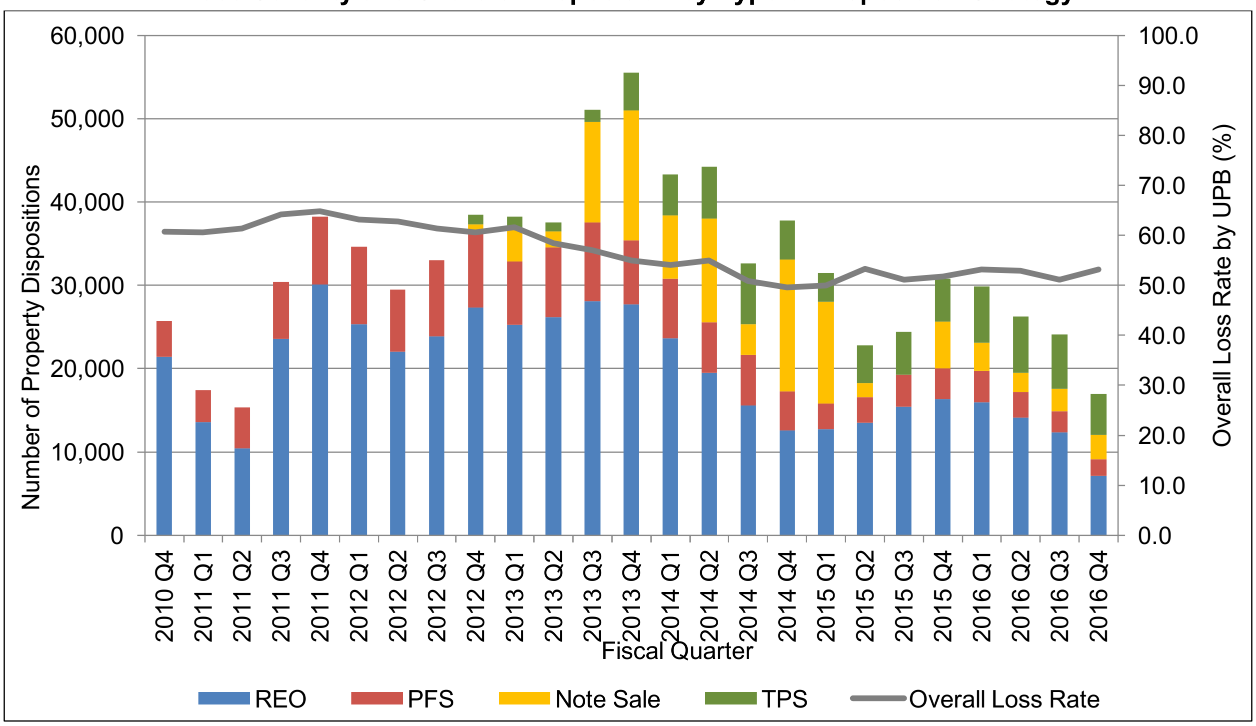
i. Expansion of the Note Sales Program into the Distressed Asset Stabilization Program (DASP)

FHA began expanding the note sales program in 2012, and this has evolved into DASP. Through DASP, defaulted notes are sold in pools to third party purchasers without ever being conveyed to FHA. Since 2013, FHA has sold more than 100,000 nonperforming loans through these note sales. FHA estimates that DASP recoveries over that period netted $2.4 billion, about $16,000 per unit, over what would have been collected through the standard REO execution. DASP has been especially useful in clearing up the backlog of seriously delinquent loans that have been in the foreclosure pipeline, while simultaneously providing borrowers with loss mitigation options that HUD does not have the ability or the authority to offer. Additionally, DASP has a post-sale component that requires purchasers to document efforts to contact borrowers and apply additional tools to avoid foreclosure.

ii. Third Party Sale (TPS) Program

Through the TPS program, individual foreclosed properties secured by non-performing, FHA-insured loans are offered for sale to third party purchasers before conveyance. TPS auctions are of individual properties, unlike DASP, which is used to sell pools of loans. Participation in this program has expanded from 5 percent of dispositions in FY 2013 to 25 percent in FY 2016.

Exhibit II-10
Loss Severity and Share of Disposition by Type of Disposition Strategy



REO = real estate owned, PFS = pre-foreclosure sale, TPS = third party sale.
SOURCE: U.S. Department of HUD/FHA, October 2016; analysis by U.S. Department of HUD/FHA.

D. FORWARD PORTFOLIO CASH FLOWS

Net cash flow from MMIF forward insurance operations nearly doubled to $4,090 million in FY 2016 from $2,073 million in FY 2015 as shown in Exhibit II-11. Net cash flows on forward mortgage insurance represented 0.38 percent of insurance in force in FY 2016, up from 0.19 percent in FY 2015.

Cash inflows from forward insurance premiums increased to $12,364 million in FY 2016, up from $11,783 million in FY 2015. Forward premium inflows were 1.14 percent of insurance in force in FY 2016, up from 1.10 percent in FY 2015.

Claim outflows on forward insurance policies declined to $14,323 million in FY 2016 from $16,789 in FY 2015. Cash outflows on claims were negative 1.32 percent of insurance in force in FY 2016, down from negative 1.57 percent in FY 2015. Cash inflows on recoveries also declined, to $6,353 million in FY 2016 from $7,426 million in FY 2015.

Exhibit II-11
Insurance Operations Cash Flow – Forward Portfolio

Type of Cash Flow	Fiscal Year 2012	2013	2014	2015	2016
Cash Inflow ($ millions)					
Premiums	8,288	10,508	10,341	11,783	12,364
Recoveries	7,850	10,644	10,684	7,426	6,353
Total Inflow	16,138	21,152	21,025	19,209	18,717
Cash Outflow ($ millions)					
Claims	(18,021)	(26,177)	(24,344)	(16,789)	(14,323)
Property Expenses	(1,253)	(1,343)	(560)	(347)	(304)
Total Outflow	(19,274)	(27,520)	(24,904)	(17,136)	(14,627)
Net Cash Flow ($ millions)					
Net Cash Flow	(3,136)	(6,368)	(3,879)	2,073	4,090
Average Insurance in Force ($ millions)					
Average Insurance in Force	1,035,539	1,077,825	1,080,690	1,070,046	1,081,372
Cash Flow as a Percentage of Average Insurance in Force					
Cash Inflow (%)					
Premiums	0.80	0.97	0.96	1.10	1.14
Recoveries	0.76	0.99	0.99	0.69	0.59
Total Inflow	1.56	1.96	1.95	1.80	1.73
Cash Outflow (%)					
Claims	-1.74	-2.43	-2.25	-1.57	-1.32
Property Expenses	-0.12	-0.12	-0.05	-0.03	-0.03
Total Outflow	-1.86	-2.55	-2.30	-1.60	-1.35
Net Cash Flow (%)					
Net Cash Flow	-0.30	-0.59	-0.36	0.19	0.38

SOURCE: U.S. Department of HUD/FHA, October 2016.

E. STATUS OF THE HECM PORTFOLIO

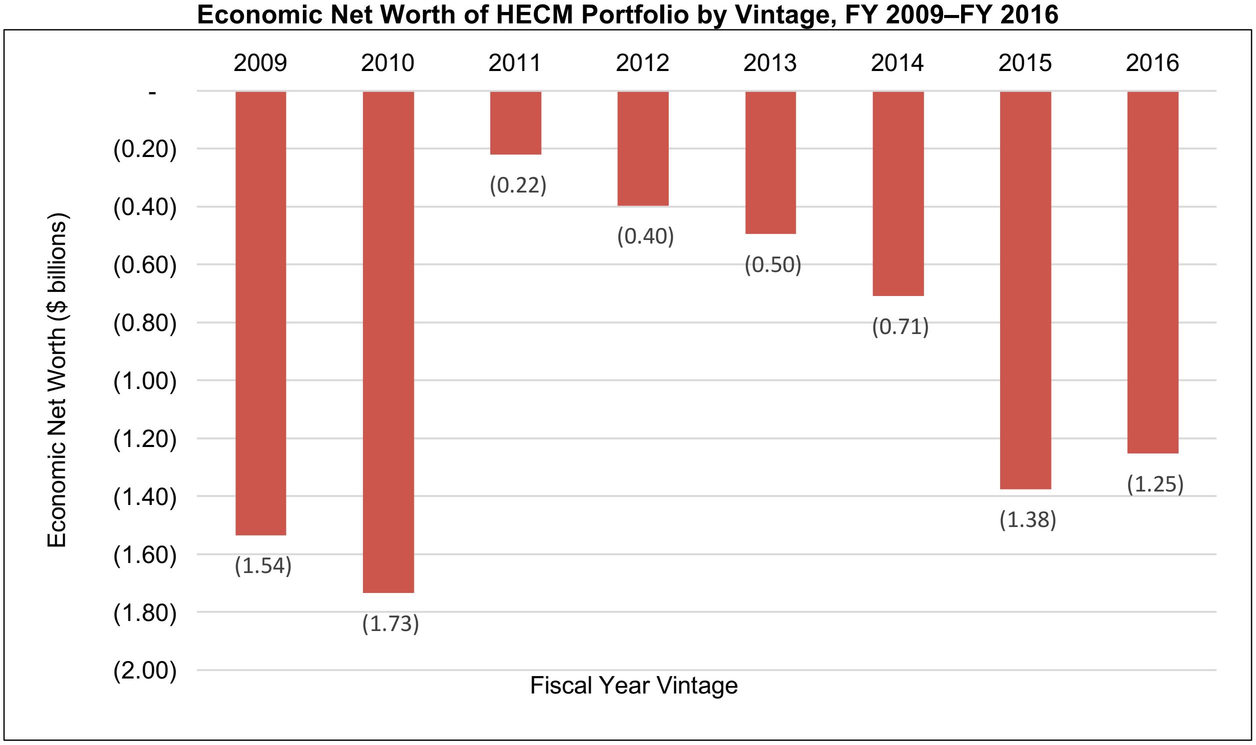
1. Volatility of the HECM Portfolio

As presented in Exhibit II-5, the estimated economic value of the HECM portfolio exhibits volatility. The FY 2016 HECM ENW was negative $7.7 billion compared with positive $6.8 billion at FY 2015, for a net change of negative $14.5 billion. The bulk of the change can be attributed to modeling changes for FY 2016.

For FY 2016, the independent actuarial report incorporated three changes in its modeling assumptions that resulted in a $13.2 billion reduction in the ENW of HECM. Two of the changes relate to the lower sales price and higher expenses on houses that are conveyed to FHA. These two changes essentially resulted in lower recoveries at time of sale for FHA, negatively impacting the ENW by $8.8 billion. The third change applies to loan assignments. The lender has the option to assign loans to FHA when the loan balance reaches 98 percent of the maximum claim amount. While this option is available, not all loans meet the assignment eligibility requirements and thus never assign. Modeling a lower assignment assumption resulted in a negative $4.4 billion impact to the ENW of the HECM portfolio. Unlike in FY 2015, the discount factor update in the actuarial results for FY 2016 had little impact on the economic value.

While Exhibit II-5 shows the HECM portfolio's ENW at each fiscal year-end from 2012 to 2016, Exhibit II-12 shows the contribution each individual vintage (cohort) makes to the FY 2016 ENW of negative $7.7 billion. Summing each vintage's negative ENW results in the current negative $7.7 billion ENW.

Exhibit II-12
Economic Net Worth of HECM Portfolio by Vintage, FY 2009–FY 2016



SOURCE: U.S. Department of HUD/FHA, October 2016.

The negative net worth assigned to each HECM MMI Fund cohort indicates that the independent actuary expects the net cash outflows from HECM insurance operations shown in Exhibit II-15 to persist despite FHA's recent efforts to improve HECM's financial performance. Note however that there are almost no claims for the FY 2014–FY 2016 cohorts; so, in many ways, it is difficult to project how these changes will affect performance.

At endorsement, each HECM loan has a maximum claim amount (MCA) equal to the lesser of appraised value or the FHA loan limit. Prior to loan assignment, the MCA serves as a measure of equity or collateral. Initial draws against the equity are managed through principal limit factors

(PLF) that establish the initial amount of the loan (initial unpaid principal balance or UPB). As a given cohort seasons, the UPB on HECMs increases with additional draws and with the accrual of interest and MIPs while the equity coverage diminishes. A cash outlay in HECM portfolio does not always represent a loss as assignment at 98 percent of MCA does not necessarily represent a loss at loan termination. Exhibit II-13 provides a current snapshot of the amount of equity coverage existing for each HECM cohort and insight on the potential impacts of FHA's efforts to stabilize HECM. Note that for the FY 2016 cohort, UPB/MCA is at 41 percent compared to 80 percent for FY 2009.

Exhibit II-13
HECM UPB / MCA

Cohort	UPB ($)	MCA ($)	UPB / MCA (%)
2009	14,882,988,130	18,653,117,851	80
2010	10,245,926,509	12,396,291,644	83
2011	10,154,499,299	12,692,258,538	80
2012	7,587,809,647	9,752,337,155	78
2013	8,510,290,078	11,746,110,358	72
2014	5,876,816,621	10,831,186,775	54
2015	7,163,837,563	14,728,647,546	49
2016	5,931,965,729	14,348,919,006	41

UPB = unpaid principal balance, MCA = maximum claim amount.
SOURCE: U.S. Department of HUD/FHA, October 2016.

HECM PLFs and upfront premiums were adjusted beginning with the FY 2014 cohort in an effort to limit initial cash draws exceeding 60 percent of the PLF to hardship situations. Limiting the amount of principal a HECM borrower can draw helps to ensure that the value of the collateral will partially cover the outstanding balance of the loan when the loan is terminated. Additional adjustments to the PLFs were made late in FY 2014 in part to accommodate non-borrowing spouses under age 62 at origination. Exhibit II-13 illustrates the initial impacts of these changes. For the FY 2013 and earlier cohorts, unpaid balances as of September 30, 2016, are 72 percent of MCA or more. For the FY 2014 and later cohorts, unpaid balances are 54 percent of MCA or less. Interest rates on HECM mortgages have generally fluctuated in the neighborhood of 5 percent to 6 percent on a fixed rate basis. These early results suggest that the adjustments to the PLFs encouraged many HECM borrowers to reduce cash draws significantly in the early policy years. Although it is still too early to be conclusive, early claim experience for the FY 2014 cohorts also sheds light on the impacts of FHA's efforts to stabilize HECM.

Exhibit II-14 presents the dollar amount of HECM claims as a percentage of MCA by cohort and policy year. No claims are shown for any cohort in policy year one and the 2010 cohort is the only one showing claims in its second policy year. With cumulative claims of 29.6 percent of MCA in policy year seven, the 2010 cohort is HECM's worst since joining the MMIF. The 2010 cohort had claims of 0.1 percent in it is second policy year and 0.6 percent in its third year. All the other cohorts except one had no claims in their second policy year and claims of only 0.1 percent of MCA in their third year. The 2014 cohort is the exception with no claims in its first three policy years. This very early indication may be offset by future events but reinforces the view that adjustments to the PLFs in combination with FHA's other efforts to stabilize HECM may be having the intended impact.

Exhibit II-14
HECM Claims Paid, Cumulative Total as a Percentage of MCA by Policy Year

	Policy Year								
Cohort	1	2	3	4	5	6	7	8	Total
2009	0.0	0.0	0.1	0.9	3.0	5.3	11.6	18.9	18.9
2010	0.0	0.1	0.6	3.0	6.5	15.3	29.6		29.6
2011	0.0	0.0	0.1	0.3	1.8	8.4			8.4
2012	0.0	0.0	0.1	0.5	2.7				2.7
2013	0.0	0.0	0.1	0.4					0.4
2014	0.0	0.0	0.0						0.0
2015	0.0	0.0							0.0
2016	0.0								0.0
Total	0.0	0.0	0.0	0.3	1.2	2.9	7.1	15.2	8.1

MCA = maximum claim amount.
SOURCE: U.S. Department of HUD/FHA, October 2016.

F. HECM PORTFOLIO CASH FLOWS

Net cash outflow from HECM insurance operations doubled to negative $3,214 million in FY 2016 from $1,600 million in FY 2015 as shown in Exhibit II-15. Net cash flows on HECM mortgage insurance represented negative 4.65 percent of insurance in force in FY 2016, down from negative 2.44 percent in FY 2015.

Cash inflows from HECM insurance premiums increased to $832 million in FY 2016, up from $804 million in FY 2015. HECM premium inflows were 1.20 percent of insurance in force in FY 2016, down from 1.23 percent in FY 2015.

Claim outflows on HECM insurance policies increased to negative $4,246 million in FY 2016 from negative $2,480 million in FY 2015. Cash outflows on claims were negative 6.15 percent of insurance in force in FY 2016, down from negative 3.79 percent in FY 2015. Cash inflows on recoveries increased to $221 million in FY 2016 from $96 million in FY 2015.

Exhibit II-15
Insurance Operations Cash Flow – HECM Portfolio

Type of Cash Flow	Fiscal Year 2012	2013	2014	2015	2016
Cash Inflow ($ millions)					
Premiums	534	666	695	804	832
Recoveries	2	10	42	96	221
Total Inflows	536	676	737	900	1,053
Cash Outflow ($ millions)					
Claims	(223)	(717)	(911)	(2,480)	(4,246)
Property Expenses	0	3	(2)	(20)	(21)
Total Outflow	(223)	(714)	(913)	(2,500)	(4,267)
Net Cash Flow ($ millions)					
Net Cash Flow	313	(38)	(176)	(1,600)	(3,214)
Average Insurance in Force ($ millions)					
Average Insurance in Force	44,049	52,674	60,098	65,499	69,047
Cash Flow as a Percentage of Average Insurance in Force					
Cash Inflow (%)					
Premiums	1.21	1.26	1.16	1.23	1.20
Recoveries	0.00	0.02	0.07	0.15	0.32
Total Inflow	1.22	1.28	1.23	1.37	1.53
Cash Outflow (%)					
Claims	-0.51	-1.36	-1.52	-3.79	-6.15
Property Expenses	0.00	0.01	0.00	-0.03	-0.03
Total Outflow	-0.51	-1.36	-1.52	-3.82	-6.18
Net Cash Flow (%)					
Net Cash Flow	0.71	-0.07	-0.29	-2.44	-4.65

SOURCE: U.S. Department of HUD/FHA, October 2016.

G. RISK ANALYSIS CONCLUSION

Improvement of the Fund's capital ratio to 2.32 percent in FY 2016 rests solely on the strength of the forward program. The forward portfolio's capital ratio has improved significantly in each of the last five fiscal years, rising from negative 1.28 percent in FY 2012 to positive 3.28 percent in FY 2016. In contrast, HECM's capital ratio has fluctuated widely over the past five years with no apparent trend toward improvement. Actuarial study results show HECM's capital ratio at negative 3.58 percent in FY 2012 followed by two cycles of significant recovery and decline to end FY 2016 at negative 6.90 percent. A key challenge facing FHA is to stabilize HECM's financial performance. Recent changes to the HECM program show preliminary positive results. The Department will continue to monitor its performance and evaluate options to ensure the Fund is healthy and borrowers are protected.

III. FHA Single Family Policy Accomplishments

FHA's finalized policy in FY 2016 was the culmination of several years of hard work that focused on improving its programs to better serve borrowers while mitigating risk to the Mutual Mortgage Insurance Fund. This section highlights some of FHA's key achievements.

1. Publication and Updates to the New Single Family Handbook

FHA will continue to work toward the publication and implementation of its new Single Family Handbook. While much of the Handbook became effective in September 2015, FHA continued to complete and update the Handbook throughout 2016. Working collectively with mortgagees and other stakeholders, the following sections became effective:

1. *Section I – Doing Business with FHA – Other Participants – 203(k) Consultant, DE Underwriter Nonprofit and Governmental Entity, Real Estate Brokers, and Closing Agents*
2. *Section I – Doing Business with FHA – Updates (March and September publications)*
3. *Section II.A.8.o and Section II.B.12.e – HUD REO Purchasing*
4. *Section II. Origination through Post – Closing/Endorsement – Updates (March, June and September publications)*
5. *Section III.A. Servicing and Loss Mitigation – Updates*
6. *Section IV.A – Title II Claims and Section IV.B – Title II Disposition*
7. *Section V – Quality Control, Oversight and Compliance – Other Participants – 203(k) Consultant, DE Underwriter Nonprofit and Governmental Entity, Real Estate Brokers, and Closing Agents*

During FY 2017, FHA will finalize the remaining sections of the Handbook and continue to update and refine policy through the Handbook, which will allow mortgagees and other stakeholders to benefit from an ongoing consolidated, consistent, and comprehensive set of policies.

2. Single Family Asset Management Updates

In FY 2016, FHA focused its single family asset management efforts on crafting new policies to help support the financial soundness of the FHA Mutual Mortgage Insurance Fund and position FHA as a more solid partner within the mortgage housing industry. To assist in accomplishing these objectives, the following actions were taken:

– *Published HUD's Single Family Property Disposition Final Rule.* FHA worked closely with HUD's Office of General Counsel to update 20-year old regulatory guidance for the purpose of aligning the Department's disposition activities with current industry practices. For example, this new regulation allows FHA to establish its sales price for HUD-owned properties using valuation tools other than FHA appraisals. In addition, this rule increases FHA's most commonly used 203(b) insured mortgage product's escrow limits from $5,000 to $10,000. To help further stabilize distressed neighborhoods adversely impacted by the housing finance crisis, the rule now requires all properties purchased under the Good Neighbor Next Door program to be in the service area of the qualified purchasers (i.e., police officers, teachers, firefighters, and EMTs) in exchange for the 50 percent discount they receive on these properties.

- *Updated FHA's Loss Mitigation Retention Option Waterfall.* To help the increased number of struggling FHA borrowers needing a sustainable and easily accessible loan modification, FHA published a new Mortgagee Letter and updated corresponding Handbook 4000.1 guidance that: (1) established a 20 percent targeted mortgage payment reduction on *all* FHA modified mortgage loans by removing unnecessary steps in its former Loss Mitigation Waterfall used by mortgage servicers; and (2) minimized documentation requirements for borrowers who are in default and have mortgage payments above 31 percent of their gross monthly income.

- *Distributed legally-binding "Pre-Conveyance" Inspection Pilot Agreements*. These were distributed to certain FHA-approved mortgagees in order to fully implement FHA's landmark Pre-Conveyance Inspection Pilot program, necessary to help eliminate high costs to FHA and its mortgage industry partners when properties conveyed to HUD—in exchange for an FHA insurance benefit—do not comply with FHA's property condition requirements and must be re-conveyed to an FHA-approved mortgage servicer for repair. Under these agreements, joint inspections will be done in advance of a conveyance to ensure properties meet FHA's conveyance condition, thereby eliminating the cost incurred by all parties when properties are re-conveyed.

3. Condominium Updates

During FY 2016, FHA revised its condominium guidelines through a mortgagee letter and continued the rulemaking process. On July 29, 2016, Congress passed H.R. 3700, the Housing Opportunity Through Modernization Act (HOTMA). This bill contains provisions that intersect with guidance for condominiums included in the proposed rule. A provision of HOTMA that required FHA to adopt the Private Transfer Fee regulations of the Federal Housing Finance Agency was immediately effective, and a provision on owner occupancy will be addressed in FY 2017 through a mortgagee letter.

- *Proposed Rule*. The proposed condominium rule institutes single unit approvals and codifies requirements Direct Endorsement lenders must meet to receive direct endorsement approval authority for condominiums. Also, it extends the timeline for recertifying approval for projects from two years to three years and revises the basic standards that projects must meet in order to have units approved for FHA insurance. Additionally, it provides FHA the flexibility to adjust policies to react to the market by setting ranges for owner-occupancy, FHA concentration, and commercial floor space, which FHA can change by notice as needed. This proposed rule was published in the Federal Register at the end of September 2016 and is currently in its 60-day comment period. FHA is on target to finish the rulemaking process in FY 2017.

4. Property Assessed Clean Energy (PACE)

To encourage homeowners seeking clean energy technologies, FHA published guidance in FY 2016 that defines the circumstances under which it will insure mortgages on properties with Property Assessed Clean Energy (PACE) assessments. This guidance approves purchase and refinance mortgage applications in states that treat PACE obligations as special assessments similar to property taxes. In accordance with existing guidance, lenders are responsible for escrowing PACE payments as they would property taxes. In addition, purchasers of homes with existing PACE obligations will be responsible for any unpaid balance of the obligation. This new policy increases the financing options for homeowners who have PACE assessments.

5. New Quality-Assurance Taxonomy and Loan Review System

During FY 2016, FHA began building the Loan Review System (LRS) that will implement the new Quality Assurance Taxonomy, allowing FHA to simplify and more effectively and clearly communicate quality control results to FHA lenders. The LRS is targeted for production implementation in FY 2017.

6. Home Equity Conversion Mortgage (HECM)

FHA has made many significant changes to the HECM program over the past several years, and HUD issued a proposed rule in FY 2016 that will codify existing policy that has been implemented by mortgagee letters under various statutory authorities. Among the existing policies being codified, this includes the new financial assessment requirements, the deferral of the due and payable status for eligible non-borrowing spouses, and limitation of disbursements in the first twelve months. The proposed rule introduces some new policy enhancements as well, including new language that allows fees that are customarily paid by a seller in the property’s locality to be a permissible interested party contribution, and amending seasoning requirements to allow pay-off of Home Equity Lines of Conversion in certain circumstances, along with several additional changes. As of the end of the fiscal year, FHA was working towards issuance of a final rule. FHA will continue to implement statutory changes, issue new origination and servicing policies, and clarify existing regulatory language.

Appendix A: Summary of FHA Policy Changes Since 2010

1. **Mortgage Insurance Premium (MIP) Changes and Adjustments to Upfront and Annual MIP Relationship (Forward Mortgages)**
   a) Mortgagee Letter effective January 12, 2010
      i. Increased upfront MIP to 2.25%
   b) Mortgagee Letter effective October 4, 2010
      i. Lowered upfront MIP to 1%
      ii. Raised annual MIP by 30 basis points
   c) Mortgagee Letter effective April 18, 2011
      i. Increased annual MIP by 25 basis points
   d) Mortgagee Letter effective April 9,2012
      i. Increased upfront MIP from 1% to 1.75%
      ii. Increased annual MIP by 10 basis points
   e) Mortgagee Letter effective June 11, 2012
      i. Increased annual MIP for loans in excess of $625,500 by 25 basis points
   f) Mortgagee Letter published January 31, 2013
      i. Effective April 1, 2013: Increased annual MIP by 10 basis points for loans below $625,500, and 5 basis points (maximum permitted by law) for loans at or above $625,500
      ii. Effective June 3, 2013: Eliminated the automatic cancellation of annual MIP for most loans when they reach 78% of their original value
   g) Mortgagee Letter effective January 26, 2015
      i. Decreased annual MIP by 50 basis points for nearly all Title II forward mortgages, with terms greater than 15 years.

2. **New Down Payment Requirements**
   a) Mortgagee Letter effective October 4, 2010
      i. Loans to borrowers with a credit score of 579 or lower require a minimum 10% down payment
      ii. Loans to borrowers with a credit score of 580 or above require current minimum 3.5% down payment
      iii. Established minimum credit score of 500
   b) Federal Register Notice published February 6, 2013
      i. Loans to borrowers seeking loans above $625,500 require a 5% down payment
   c) Mortgagee Letter effective July 1, 2013
      i. Offered guidance on required documentation as evidence of borrower’s minimum cash investment

3. **Enhanced Underwriting Requirements**
   a) Mortgagee Letter effective January 1, 2010
      i. Modifications to streamline refinance documentation requirements
      ii. New appraisal standards
   b) Mortgagee Letter effective April 1, 2012
      i. Updated documentation requirements for self-employed borrowers
      ii. Offered new guidance on disputed accounts

   iii. Expanded the definition of family members for identity of interest transactions
c) Mortgagee Letter published January 31, 2013
   i. Required that borrowers with credit scores below 620 and debt-to-income ratios over 43% subject to manual underwriting
   ii. Final Federal Register Notice published December 11, 2013, outlining manual underwriting requirements
d) Mortgagee Letter effective October 15, 2013
   i. Amended guidance on collections and disputed accounts, and clarified guidance on judgments
e) Mortgagee Letter effective August 15, 2013 through September 30, 2016
   i. Provided guidance to ensure that borrowers who have experienced financial hardship due to extenuating circumstances and have recovered are given the opportunity to be fully evaluated if foreclosure was a direct result of the hardship. Borrowers are required to complete housing counseling and to be financially stable for more than 12 months (Back to Work)
f) Mortgagee Letter effective January 1, 2014
   i. Provided notice of FHA's single family loan limits for Title II Forward Mortgages and Home Equity Conversion Mortgages and provided loan limit instructions for streamline refinance transactions without an appraisal
g) Mortgagee Letter effective January 30, 2014
   i. Expanded FHA's acceptance of electronic signatures, which was previously limited to third party documents included in the case binder for mortgage insurance endorsement
h) Mortgagee Letter effective April 21, 2014
   i. Provided policy guidance for revised manual underwriting requirements published in a Federal Register Notice on December 11, 2013
   ii. Explained maximum qualifying ratios for manually underwritten loans and revised and clarified the compensating factors that lenders must cite in order to exceed FHA's standard qualifying ratios for these loans
   iii. Explained new reserve requirement for manually underwritten loans on one- and two-unit properties
   iv. Not applicable to streamline refinances, short refinances, HECM, or Title I
i) Mortgagee Letter effective June 26, 2016
   i. Announced implementation of Electronic Appraisal Delivery (EAD) portal and provided guidance to delivering appraisals through the new platform
j) Mortgagee Letter effective January 25, 2016
   i. Updated FHA's Energy Efficient Homes (EEH) program, and adds the use of the Home Energy Score option for mortgages on existing construction homes.
k) Handbook 4000.1 Update published March 30, 2016, with multiple effective dates
   i. Updated and/or clarified 40 underwriting/eligibility requirements including:
      1. Use of non-traditional credit reports
      2. Cost estimates for Limited 203(k) mortgages
      3. Use of the 203(k) Calculator
      4. Requirements for data entry for completion of escrow items related to repairs, weatherization items, or HUD REO transactions.
l) Mortgagee Letter effective June 30, 2016

   i. Updated FHA's requirements for calculation of student loan payments used to compute borrowers' debt to income ratios (DTI)
- m) Mortgagee Letter effective August 10, 2016
   i. Updated the allowable 203(k) consultant draw inspection fee
- n) Mortgagee Letter effective September 18, 2016
   i. Provided guidance for eligibility of properties encumbered with Property Assessed Clean Energy (PACE) obligations
- o) Handbook 4000.1 Update published September 30, 2016, with multiple effective dates
   i. Updated and/or clarified 22 underwriting/eligibility requirements including:
      1. Use of individual water purification systems
      2. Increase in the allowable repair escrow amount on HUD REO properties from $5,000 to $10,000

4. New Consolidated Single Family Policy Handbook

- a) Origination through Post-Closing/Endorsement section published September 30, 2014
   i. Consolidated origination, processing, and underwriting guidance for the standard 203(b) FHA-insured mortgage as well as FHA's special programs, such as Hawaiian Homelands, Disaster Areas, and Refinances
- b) Appraiser Property Requirements, 203(b) Requirements, and Consultant Requirements sections, Doing Business with FHA and Quality Control sections for Mortgagees and Appraisers published March 18, 2015
   i. Provided consolidated appraisal requirements for all Title II mortgages, guidance on mortgagee approval and recertification requirements and underwriting guidance on 203(k) mortgages
- c) Servicing for Title II Forward Mortgages section published June 24, 2015
   i. Consolidated servicing requirements for Title II forward mortgages
- d) Nonprofits, DE Underwriters, 203(k) Consultants as parts of the Other Participants sections; HUD REO section in the Origination section published August 26, 2015
   i. Consolidated guidance on approval and program standards for non-profits, 203(k) consultants, and Direct Endorsement Underwriters
   ii. Provided revised requirements for financing HUD REO properties
- e) Addition of Home Energy Score guidance from Mortgagee Letter 15-22 published January 19, 2016
- f) Multiple OSFAM Mortgagee Letters incorporated into Section III. Servicing February 12, 2016 (MLs 15-18, 15-20, 15-21, 15-23, 15-24, 16-02, 16-03, and 16-04)
- g) Technical updates to previously published content published March 14, 2016, including
   i. Reorganization of table of contents to make space for future publications
- h) Addition of new sections: IV.A. Title II Claims and IV.B. Title II Disposition March 14, 2016
- i) Incorporation of Student Loan Mortgagee Letter 16-08, final update from EAD ML 15-08 and addition of E-SIGN waiver reference published June 30, 2016
- j) Technical updates to previously published content published September 30, 2016
   i. Incorporated PACE guidance from ML 16-11
   ii. Incorporated FHA's Loss Mitigation Retention Options and Miscellaneous Mortgage Servicing Policy from ML 16-14

5. **Changes to the HECM Program**
   a) Mortgagee Letter effective October 4, 2010
      i. Introduced HECM Saver, which provided a lower upfront premium (.01%) and a lower max principal limit
      ii. Increased annual MIP from .50% to 1.25%
      iii. Adjusted the HECM Principal Limit Factors, resulting in lower maximum principal limits
   b) Mortgagee Letter published January 3, 2011
      i. Provided detailed guidance regarding the property charge loss mitigation requirements for HECM loans
   c) Mortgagee Letter published January 30, 2013
      i. Consolidated the fixed-rate Standard program into the fixed-rate Saver, limiting the amount borrowers can draw
   d) Congress passed the Reverse Mortgage Stabilization Act in August 2013 giving FHA the authority to make changes to help reduce risk
   e) Mortgagee Letter published September 3, 2013
      i. Implemented a new limit on initial draws during the first 12 months of the loan term and a new single lump sum initial draw limit at origination (effective September 30, 2013), a required financial assessment, and required property charge set-aside. Although policy was published, HUD decided to update the policy to reflect comments received in response to a Federal Register notice that was posted with the Mortgagee Letter. The updated policy was published in November 2014.
      ii. Eliminated the fixed standard and fixed HECM Saver programs and introduced a new Fixed Rate and ARM product with reduced Principal Limit Factors and new upfront mortgage insurance premium structure based on percentage of initial draw under existing authority
   f) Mortgagee Letter published April 25, 2014
      i. Announced a Due and Payable deferral option for an eligible non-borrowing spouse upon the death of the last surviving mortgagor
   g) Mortgagee Letter published June 18, 2014
      i. Limited FHA insurability of Fixed Interest rate products under the HECM program to a single disbursement, one time draw at close. This policy followed Ginnie Mae's policy announcement that, for fixed-rate loans, it would only allow securitization with a Single Lump Sum Draw at close
   h) Mortgagee Letter published June 27, 2014
      i. Implemented new Principal Limit Factors (PLFs) which were effective August 4, 2014. PLF tables included PLFs for younger non-borrowing spouses that are eligible for the due and payable deferral period
      ii. Used the authority granted HUD in the Reverse Mortgage Stabilization Act of 2013 to amend the FHA HECM program regulations and requirements concerning due and payable status where there is a Non-Borrowing Spouse at the time of loan closing
   i) Mortgagee Letters published November 10, 2014
      i. Revised the HECM program's Financial Assessment and Property Charge Set-Aside requirements
      ii. Announced a new Financial Assessment and Property Charge Guide
   j) Mortgagee Letter published January 9, 2015

   i. Defined a new type of Non-Borrowing spouse (Ineligible), provided new model certification language, new model language for mortgages, notes, and loan agreements, provided a 30-day cure to reinstate a deferral period, and provided clarification and additional documentation for seasoning requirements

k) Mortgagee Letter published March 27, 2015
   i. Established a monthly growth rate for Life Expectancy Set-Asides

l) Mortgagee Letter published April 23, 2015
   i. Provided guidance on FHA's policies and timing requirements applicable to HECMs, including requirement for notice of "due and payable" status, and the requirement to provide notice of initiation of foreclosure

m) Mortgagee Letter published April 23, 2015
   i. Revised permissible loss mitigation options for when property charges are not paid in accordance with the terms of a HECM

n) Mortgagee Letter published June 12, 2015
   i. Provided an alternative option for Eligible Surviving Non-Borrowing Spouse on HECM loans with case numbers assigned prior to 8/4/14 (Mortgagee Optional Election)

o) Mortgagee Letter published October 1, 2015
   i. Single Family Foreclosure Policy and Procedural Changes

p) Mortgagee Letter published February 12, 2016
   i. Additional guidance for Mortgagee Letter 2015-15 – Mortgagee Optional Election

q) Mortgagee Letter published March 30, 2016
   i. Expanded Permissive Loss Mitigation and Optional Extension Due and Payable Request

r) Mortgagee Letter published July 13, 2016
   i. Added charges for a Third Party Property Tax Verification Fee to the list of allowable fees and charges
   ii. Announced publication of an updated HECM Financial Assessment Guide, superseding Mortgagee Letter 2014-22 and the Financial Assessment Guide attached to that ML

6. Increased Enforcement for FHA-Approved Lenders

a) Mortgagee Letter effective January 21, 2010
   i. Enhanced monitoring of lender performance and compliance with FHA guidelines and standards
   ii. Expanded the Credit Watch Termination Initiative to include evaluation of lender underwriting performance in addition to origination performance

b) Implementation of statutory authority to enforce indemnification provisions for lender's using the Lender Insurance process
   i. Final rule published January 25, 2012, with an effective date of February 24, 2012
   ii. Mortgagee Letter and Lender Insurance guide issued to implement this rule

c) Final Rule and Mortgagee Letter effective May 20, 2013
   i. Increased minimum net worth requirement for FHA-approved lenders to $1 million plus 1% of the lender's FHA mortgage volume in excess of $25 million
   ii. Required that lenders hold 20% of minimum required net worth in liquid assets

d) Mortgagee Letter effective December 31, 2013

  i. Announced the implementation of FHA's Tier Ranking System II (TRS II)
  ii. TRS II will be used to evaluate a mortgagee's compliance with FHA's Loss Mitigation guidance, default servicing regulations, and default reporting requirements

7. Changes to FHA Lender Approval Requirements

a) Mortgagee Letter effective January 1, 2010
  i. Submission of audited financial statements required for supervised lenders
b) Final rule published week of April 20, 2010
  i. Increased net worth requirements for approved mortgagees. All new lender applicants for FHA programs must possess a minimum net worth of $1 million. Effective one year from enactment of the rule, current FHA approved lenders, with the exception of small businesses, must possess a minimum net worth of $1 million. Current FHA-approved small business lenders must possess a minimum net worth of $500,000. Effective three years after enactment of the rule, approved lenders and applicants to FHA single family programs, regardless of size, must have a net worth of $1 million plus 1% of total loan volume in excess of $25 million
  ii. Eliminated independent FHA approval of mortgage brokers who originate but do not underwrite loans. FHA-approved mortgagees that underwrite loans retain strict liability for all loans, regardless of origination via their retail operations or through their sponsored mortgage brokers
  iii. Codified requirements for submission of audited financial statements by supervised mortgagees
c) Mortgagee Letter published on January 5, 2011
  i. Required mortgagees that possess National Mortgage Licensing System & Registry (NMLS) IDs to provide those to FHA for both lender approval and loan origination processes
d) Mortgagee Letter effective July 28, 2011
  i. Provided alternative financial reporting requirements for small supervised lenders to decrease burdens associated with FHA's lender approval and renewal processes
e) Mortgagee Letter effective September 23, 2011
  i. Announced changes to requirements for obtaining, maintaining, and utilizing FHA approval, including:
    1. Defined corporate officers and principal owners
    2. Clarified requirements around office facilities and conversion of FHA lender type
    3. Prohibited net branching arrangements
    4. Expanded the single family origination lending area of each home office and registered branch office to include all HUD field office jurisdictions
    5. Required lenders to notify FHA within 10 days of any business changes, including changes in corporate officers or owners
    6. Required lenders to register all "Doing Business As" names with FHA
f) Mortgagee Letter effective December 11, 2012
  i. Informed lenders of changes to the way in which HUD calculates recertification fees
g) Mortgagee Letter effective December 21, 2012
  i. Provided alternative financial reporting requirements for small supervised lenders to decrease burdens associated with FHA's lender approval and renewal processes (follow up to July 28, 2011 Mortgagee Letter)

h) Final rule published September 17, 2013
   i. Effective October 17, 2013
   ii. Permanently waived the requirement for small supervised lenders with less than $500 million in consolidated assets to submit audited financial statements as a condition of FHA approval or renewal
i) Mortgagee Letter published September 27, 2013 effective March 31, 2014
   i. Announced the consolidation of Title I and Title II lender identification numbers

8. Updated Quality Control Requirements for Direct-Endorsement Lenders

a) Mortgagee Letter effective January 5, 2011
   i. Updated FHA's quality control requirements to include new requirements related to Sponsored Third Party Originators, reporting of fraud and material deficiencies, and recording of sales or transfers of FHA mortgages
b) Mortgagee Letter effective April 15, 2011
   i. Communicated requirements regarding the use of official HUD/FHA logos, seals, names, and acronyms used by lenders in advertising devices
c) Mortgagee Letter effective September 6, 2011
   i. Announced that FHA-approved holders and servicers are subject to sanctions for failure to report Mortgage Record Changes for mortgage sales, transfers, and terminations of mortgage insurance
d) Mortgagee Letter effective November 13, 2013
   i. Clarified lender self-reporting requirements when in the course of required quality control activities lenders discover loans that violate FHA requirements

9. Refinance Program Policy

a) Mortgagee Letter published February 14, 2011
   i. Extensive guidance regarding requirements and changes for FHA Standard and Streamlined refinance programs
b) Mortgagee Letter published March 6, 2012
   i. For borrowers who are current on their loans, FHA reduced the upfront and annual MIPs for Streamline refinances of FHA-insured loans endorsed on or before May 31, 2009 to permit these borrowers to take advantage of historically low interest rates, reducing their payments and decreasing risk to FHA

10. Consolidated and Updated FHA Condominium Policy

a) Mortgagee Letter issued June 30, 2011, and effective August 29, 2011
   i. Consolidated guidelines published in 2009
   ii. Provided a single source of information for the Condominium Approval and Recertification Process
   iii. Updated, consolidated, and clarified existing condominium policy guidance
   iv. Expanded FHA's flexibility to consider exceptions at the individual project level
b) Mortgagee Letter issued in summer 2012 to revise updated guidance
c) Mortgagee Letter published August 29, 2014
   i. Announced an extension of the temporary condominium project approval guidelines to allow time for completion of the condominium rulemaking process

   ii. Relief was provided in the condominium approval process requirements to address the current housing market conditions.

11. Loss Mitigation

a) Mortgagee Letter effective February 14, 2013
   i. Revised the requirements for FHA's Loss Mitigation Home Retention Options, in an effort to reduce the number of full claims against the FHA Mutual Mortgage Insurance Fund by assisting a greater number of qualified, distressed mortgagors in retaining their homes
b) Mortgagee Letter effective July 1, 2013
   i. Issued guidance on subordinating partial claims for FHA Streamlined refinances
c) Mortgagee Letter effective July 1, 2013
   i. Issued guidance on the interest rates for loss mitigation home retention homes
d) Mortgagee Letter effective September 1, 2013
   i. Updated clarification regarding title approval at conveyance
e) Mortgagee Letter effective August 1, 2013
   i. Issued guidance on partial claim documentation and delivery requirements
f) Mortgagee Letter effective June 27, 2013 or October 1, 2013
   i. Extended unemployment special forbearance
g) Mortgagee Letter effective October 1, 2013
   i. Confirmed priority for mortgagor in default. Mortgagee must evaluate viability of a pre-foreclosure sale before a Deed-in-Lieu. Updated pre-foreclosure and Deed-in-Lieu of Foreclosure requirements including documentation requirements to verify assets, income, and expenses; use of a Deficit Income Test; elimination of financial hardship requirement for service members with PCSs and validation requirements for appraisals. Requires arm's length transaction
h) Mortgagee Letter effective January 1, 2014
   i. Clarified methods of communication with borrowers and addressed importance of contact early in the delinquency, in addition to requiring standardized escalation procedures
i) Mortgagee Letter effective January 1, 2014
   i. Clarified loss mitigation requirements before foreclosure can be initiated and communication requirements during the foreclosure process
j) Mortgagee Letter effective October 1, 2014
   i. Sets forth the Department's policies on Pre-Foreclosure Sales and Deed-in-Lieu transactions
k) Mortgagee Letter effective October 1, 2014
   i. Provided guidance on the retention of foreclosure-related documents in servicing files (stored electronically) and to extend the record retention period to at least seven years after the life of an FHA-insured mortgage
l) Mortgagee Letter effective June 1, 2015
   i. Communicated FHA's requirements for a Trial Payment Plan (i.e., associated with any FHA loan modification) as related to the plan's duration, required signatures, and conditions under which FHA deems a plan to have failed
m) Mortgagee Letter effective September 1, 2015

   i. Revised timeframes for mortgagees to submit promissory notes associated with partial claims

n) Mortgagee Letter effective September 14, 2015
   i. Adjusted definitions for HUD REO purchasing

o) Mortgagee Letter effective October 1, 2015
   i. Reiterated the existing eight automatic extensions for mortgage servicers to file first legal action on FHA defaulted mortgage loans and added two new automatic extensions, which are associated with mortgage servicers' compliance with the Consumer Financial Protection Bureau

p) Mortgagee Letter effective November 1, 2015
   i. Provided a revised Sample Notice to Occupants of Pending Acquisition, which advises occupants of the criteria upon which they may be able to remain in a property for an extended period of time post-foreclosure

q) Mortgagee Letter effective January 1, 2016
   i. Updated the reasonable due diligence timeframes for conveyance of single family properties insured by FHA and to update foreclosure Attorney Fee Schedule

12. Office of Housing Counseling

a) Published a Proposed Rule regarding new certification requirements for housing counselors
   i. Continued to review comments, conduct outreach and training, design a housing counselor certification examination, and build a platform to create a certification roster. Conducted meetings with other HUD programs covered by the rule to consult on conforming rules and develop FAQs
   ii. Launched a website June 4, 2015, www.hudhousingcounselors.com, to provide free training in preparation for the examination
   iii. Obtained Departmental Clearance for Final Rule in June 2016 and submitted Final Rule to OMB on September 20, 2016

b) Home Owners Armed with Knowledge (HAWK)
   i. During 2014, a proposed pilot was published for HAWK for new homebuyers. It was halted by Congress in December 2014, and HUD completed an orderly shut-down of the planning in January 2015

c) Continued to incorporate housing counseling into FHA lending
   i. Mortgagee Letter effective August 15, 2013 through September 30, 2016: Extenuating Circumstances/Back to Work
   ii. Published Mortgagee Letter 15-04 providing clearer notice to delinquent FHA borrowers of the benefits and availability of HUD housing counseling agencies to assist them

d) HECM changes
   i. In concert with changes made by FHA to the reverse mortgage program to reduce risk for borrowers, HUD's Office of Housing Counseling trained reverse mortgage counselors on the changes and reminded them of their responsibilities to provide unbiased and detailed reviews of the features of reverse mortgage products
   ii. HECM Housing Counseling Notices have been published in concert with Single-Family's Mortgagee Letters to date

e) Tracking the number of FHA-insured mortgages benefitting from housing counseling

i. FHA implemented systems changes to better capture these data from lenders in the second quarter of fiscal year 2016, and the Office of Housing Counseling hopes to see positive results from those changes beginning in the fourth quarter of fiscal year 2016
ii. Instituted changes to lender reporting on counseling in connection with an FHA loan where now only counseling delivered by a HUD-approved agency is reported in FHA Connection

f) Uniform Residential Loan Application (URLA) / Mortgage Industry Standards Maintenance Organization (MISMO)
i. Incorporated counseling questions and counseling agency contact information in the new version of the URLA that will be implemented in 2018.
ii. Defined housing counseling data fields for MISMO from which counseling information will be collected

g) Housing Counseling Federal Advisory Committee (HCFAC)
i. Established the Committee April 14, 2015, through notice filed with Library of Congress, Congress, and Federal Register
ii. Requested applications in April 2015
iii. Twelve applicants selected by Secretary Castro on March 10, 2016
iv. Twelve applicants appointed effective June 1, 2016
v. Orientation meeting with the HCFAC members on June 21, 2016, at the White House Eisenhower Executive Office Building
vi. First HCFAC meeting to be held on November 1, 2016 in Washington, DC

13. Guidance on Nonprofits Assisting Government Entities in Providing Secondary Financing in Conjunction with FHA-Insured Mortgages

a) Mortgagee Letter effective June 29, 2014
i. Clarified circumstances under which a nonprofit assisting a government entity with a secondary financing program needs to be approved by HUD and placed on its Nonprofit Roster
1. Nonprofits do not need to be HUD-approved if the functions they are performing are limited to the government entities secondary financing program and the note and deed of trust name the government entity as the Mortgagee
2. Nonprofits do need to be placed on our Roster where the secondary financing will be closed in their name

Appendix B: Additional Data Tables

Exhibit B-1
FHA Single Family Mortgage Insurance Forward Endorsements

	Counts by Loan Purpose					
Fiscal Year	Home Purchase	FHA Streamline Refinance	Other FHA Refinance	Conventional-to-FHA Refinance	All Forward Loans	Volume ($ billions)
2000	839,870	34,443	6,780	32,007	913,100	94.2
2001	806,818	188,422	17,230	46,207	1,058,677	117.7
2002	862,899	318,245	28,525	64,475	1,274,144	148.1
2003	658,640	560,891	37,504	62,694	1,319,729	159.2
2004	586,110	291,483	26,147	56,695	960,435	116.0
2005	353,844	113,062	11,840	33,581	512,327	62.4
2006	313,998	36,374	14,722	60,397	425,491	55.3
2007	278,395	22,087	16,504	107,739	424,725	59.8
2008	631,655	66,772	28,510	360,455	1,087,392	181.2
2009	995,550	329,437	38,071	468,941	1,831,999	330.5
2010	1,109,580	212,896	39,599	305,533	1,667,608	297.6
2011	777,427	180,265	44,559	195,559	1,197,810	217.8
2012	733,864	274,060	47,595	129,221	1,184,740	213.3
2013	702,415	511,843	39,087	91,501	1,344,846	240.1
2014	594,998	115,039	20,963	55,353	786,353	135.2
2015	753,387	232,811	50,013	80,018	1,116,229	213.1
2016	879,521	210,632	60,446	107,464	1,258,063	245.4
2013 Q1	177,852	142,364	10,156	22,755	353,127	63.7
2013 Q2	157,439	156,019	11,468	25,428	350,354	63.7
2013 Q3	181,297	140,373	10,534	24,176	356,380	63.3
2013 Q4	185,827	73,087	6,929	19,142	284,985	49.4
2014 Q1	152,965	35,909	5,003	14,610	208,487	35.8
2014 Q2	119,833	26,405	4,797	13,456	164,491	28.3
2014 Q3	148,016	26,881	5,161	13,574	193,632	32.8
2014 Q4	174,184	25,844	6,002	13,713	219,743	38.3
2015 Q1	154,807	23,530	7,435	15,827	201,599	35.2
2015 Q2	132,528	43,003	9,177	15,429	200,137	37.2
2015 Q3	198,802	97,354	17,011	21,489	334,656	66.1
2015 Q4	267,250	68,924	16,390	27,273	379,837	74.7
2016 Q1	210,551	49,196	14,275	27,166	301,188	58.1
2016 Q2	187,069	50,071	14,176	26,112	277,428	53.5
2016 Q3	225,135	50,769	15,133	26,058	317,095	61.5
2016 Q4	256,766	60,596	16,862	28,128	362,352	72.3

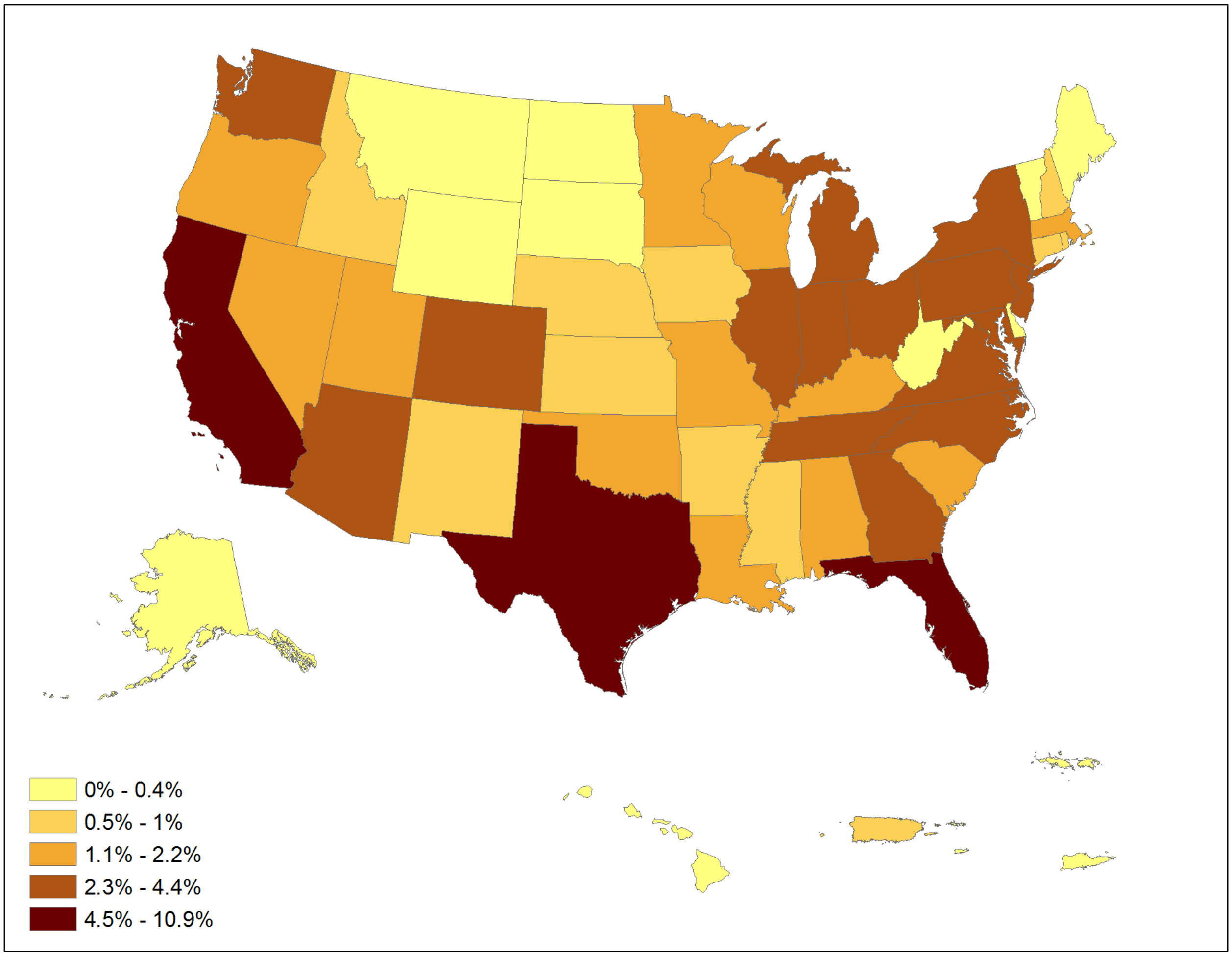
NOTE: This table includes all single family forward endorsements. Prior to FY 2009, the 203(k) program (Mortgage Insurance for Home Rehabilitation) and 234(c) program (Mortgage Insurance for Condominium Units) were not obligations of the MMI Fund. They are included for all years in this table to provide a complete picture of FHA activity.
SOURCE: U.S. Department of HUD/FHA, October 2016.

Exhibit B-2
FHA Home Equity Conversion Mortgage Endorsements

Fiscal Year	Interest Rate Type: Fixed	Interest Rate Type: ARM	Loan Purpose: Purchase	Loan Purpose: Refinance	Total	MCA ($ billions)
2000	12	6,625	6,614	23	6,637	0.8
2001	6	7,783	7,789	0	7,789	1.1
2002	2	13,046	13,048	0	13,048	2.0
2003	4	18,080	18,084	0	18,084	3.0
2004	34	37,757	37,760	31	37,791	6.9
2005	45	43,037	41,851	1,231	43,082	8.9
2006	20	76,260	70,776	5,504	76,280	18.0
2007	120	107,247	100,635	6,732	107,367	24.6
2008	2,697	109,316	107,644	4,369	112,013	24.2
2009	13,328	101,311	105,464	9,175	114,639	30.2
2010	54,471	24,287	74,177	4,581	78,758	21.0
2011	49,751	23,342	70,380	2,713	73,093	18.2
2012	38,015	16,662	53,331	1,346	54,677	13.1
2013	36,331	23,587	58,084	1,834	59,918	14.7
2014	9,637	41,979	49,212	2,404	51,616	13.5
2015	9,133	48,857	52,419	5,571	57,990	16.1
2016	5,210	43,658	43,472	5,396	48,868	14.7
2013 Q1	8,868	3,211	11,853	226	12,079	2.8
2013 Q2	11,585	4,245	15,497	333	15,830	3.8
2013 Q3	11,533	4,838	15,791	580	16,371	4.1
2013 Q4	4,345	11,293	14,943	695	15,638	3.9
2014 Q1	1,079	12,015	12,341	753	13,094	3.4
2014 Q2	2,134	12,693	14,143	684	14,827	4.0
2014 Q3	3,793	8,797	12,165	425	12,590	3.2
2014 Q4	2,631	8,474	10,563	542	11,105	2.9
2015 Q1	2,849	11,350	13,153	1,046	14,199	3.8
2015 Q2	2,372	11,916	12,794	1,494	14,288	3.9
2015 Q3	1,831	12,227	12,707	1,351	14,058	3.9
2015 Q4	2,081	13,364	13,765	1,680	15,445	4.5
2016 Q1	1,556	11,021	11,128	1,449	12,577	3.6
2016 Q2	1,288	11,714	11,460	1,542	13,002	3.9
2016 Q3	1,139	10,504	10,499	1,144	11,643	3.5
2016 Q4	1,227	10,419	10,385	1,261	11,646	3.6

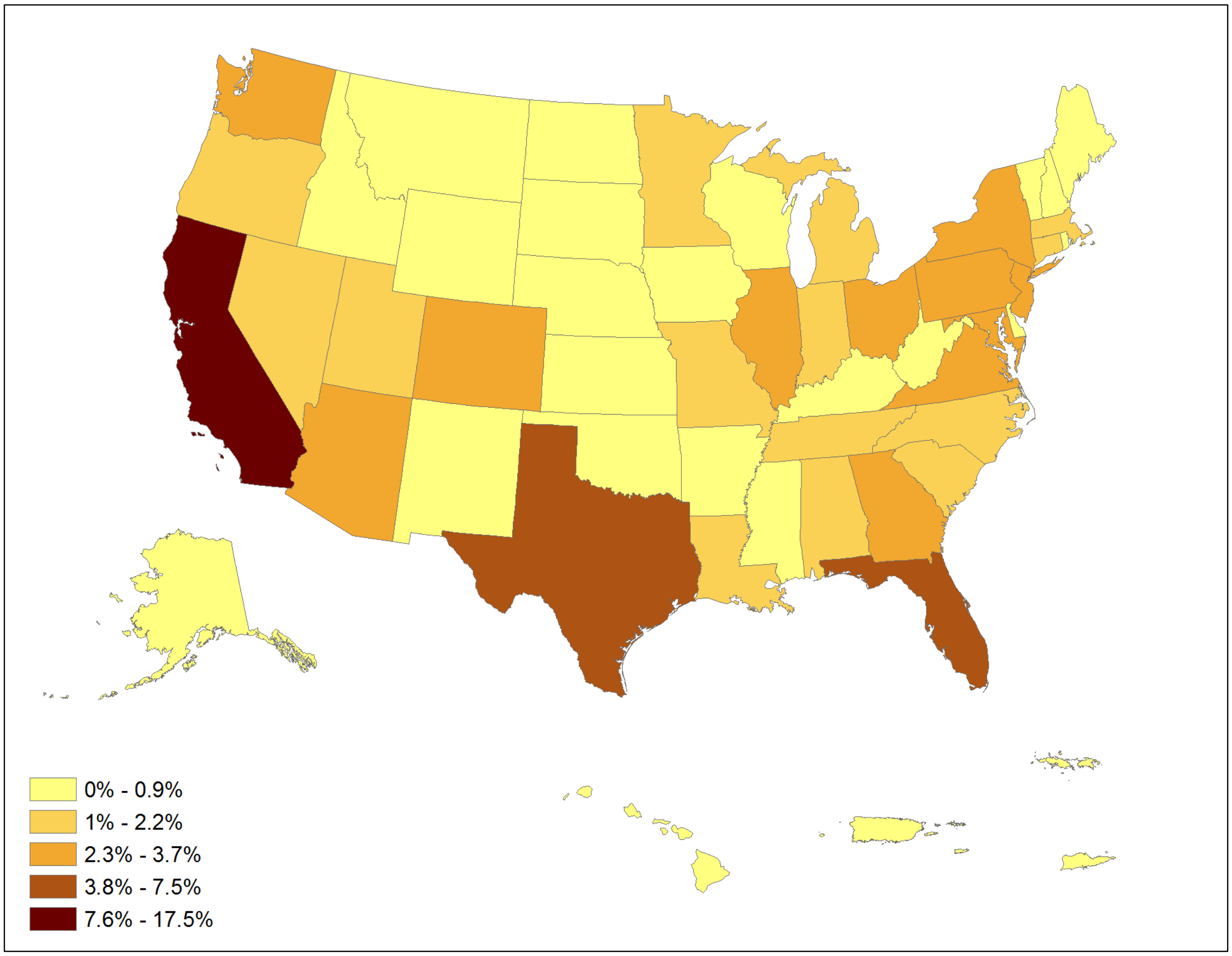
ARM = adjustable rate mortgage, MCA = maximum claim amount.
NOTE: The FHA reverse-mortgage insurance program is called Home Equity Conversion Mortgage (HECM). Starting in FY 2009 (2008 Q4), all new HECM endorsements are now in the Mutual Mortgage Insurance Fund. Previous endorsements, by law, remain in the General and Special Risk Insurance Fund.
SOURCE: U.S. Department of HUD/FHA, October 2016.

Exhibit B-3
Forward Endorsements as Percent of Total Loan Count, FY 2016



NOTES: See Exhibit B-5 for number of endorsements by state. This map includes all single family endorsements. Prior to FY 2009, the 203(k) program (Mortgage Insurance for Home Rehabilitation) and 234(c) program (Mortgage Insurance for Condominium Units) were not obligations of the MMI Fund. They are included for all years in this table to provide a complete picture of FHA activity.
SOURCE: U.S. Department of HUD/FHA, October 2016.

Exhibit B-4
Forward Endorsements as Percent of Total Loan Volume, FY 2016



NOTES: See Exhibit B-5 for volume of endorsements by state. This map includes all single family endorsements. Prior to FY 2009, the 203(k) program (Mortgage Insurance for Home Rehabilitation) and 234(c) program (Mortgage Insurance for Condominium Units) were not obligations of the MMI Fund. They are included for all years in this table to provide a complete picture of FHA activity.
SOURCE: U.S. Department of HUD/FHA, October 2016.

Exhibit B-5
FHA Forward Endorsement Count and Volume by State, FY 2016

State/Territory	Count of Endorsements	Volume of Endorsements ($ billions)	State/Territory	Count of Endorsements	Volume of Endorsements ($ billions)
Alabama	19,050	2.7	Nebraska	6,851	1.0
Alaska	2,366	0.6	Nevada	22,151	4.4
Arizona	46,513	8.4	New Hampshire	5,509	1.2
Arkansas	10,212	1.4	New Jersey	33,457	8.4
California	136,986	43.0	New Mexico	8,667	1.3
Colorado	34,049	8.1	New York	35,086	8.7
Connecticut	12,754	2.6	North Carolina	32,042	4.9
Delaware	4,977	1.0	North Dakota	2,558	0.5
District of Columbia	1,124	0.4	Ohio	47,113	6.1
Florida	91,408	16.6	Oklahoma	14,681	2.0
Georgia	54,729	9.0	Oregon	16,332	3.6
Hawaii	1,144	0.5	Pennsylvania	44,538	7.1
Idaho	9,790	1.6	Puerto Rico	7,746	0.9
Illinois	43,332	7.5	Rhode Island	5,407	1.1
Indiana	32,201	4.2	South Carolina	20,122	3.1
Iowa	7,963	1.0	South Dakota	2,473	0.4
Kansas	10,044	1.4	Tennessee	29,568	4.8
Kentucky	16,099	2.2	Texas	106,674	18.4
Louisiana	15,439	2.5	Utah	21,800	4.5
Maine	3,581	0.6	Vermont	1,037	0.2
Maryland	33,798	8.8	Virgin Islands	58	0.0
Massachusetts	17,563	4.8	Virginia	36,161	8.5
Michigan	39,722	5.3	Washington	30,795	7.6
Minnesota	22,499	4.1	West Virginia	3,700	0.5
Mississippi	8,919	1.3	Wisconsin	14,411	2.1
Missouri	27,296	3.8	Wyoming	2,567	0.5
Montana	3,001	0.6	Total	1,258,063	245.4

NOTE: This table includes all single family forward endorsements. Prior to FY 2009, the 203(k) program (Mortgage Insurance for Home Rehabilitation) and 234(c) program (Mortgage Insurance for Condominium Units) were not obligations of the MMI Fund. They are included for all years in this table to provide a complete picture of FHA activity.
SOURCE: U.S. Department of HUD/FHA, October 2016.

Exhibit B-6
FHA Forward Purchase Endorsements as a Proportion of Total State Purchase Originations, CY 2015

Rank	State/Territory	FHA Purchase Endorsement Loans	Total State Purchase Originations	Percent of State Purchase Originations
1	Puerto Rico	5,024	9,709	51.7
2	Nevada	13,593	36,023	37.7
3	Arizona	29,953	86,151	34.8
4	Rhode Island	3,086	9,527	32.4
5	Maryland	19,295	62,854	30.7
6	Georgia	33,384	109,061	30.6
7	Oklahoma	10,849	35,452	30.6
8	Utah	14,750	48,663	30.3
9	New Mexico	4,791	16,016	29.9
10	Delaware	2,834	9,643	29.4
11	Mississippi	5,129	17,902	28.7
12	Florida	62,165	217,388	28.6
13	Indiana	20,426	74,021	27.6
14	Texas	79,228	289,224	27.4
15	Alabama	11,167	41,822	26.7
16	Ohio	29,867	112,681	26.5
17	Louisiana	10,100	38,529	26.2
18	Michigan	25,904	99,311	26.1
19	California	77,484	299,129	25.9
20	Pennsylvania	28,062	108,712	25.8
21	Arkansas	6,669	25,857	25.8
22	Idaho	6,525	25,358	25.7
23	Missouri	16,446	64,586	25.5
24	Tennessee	18,299	72,612	25.2
25	New Jersey	17,678	70,461	25.1
26	Alaska	2,171	8,846	24.5
27	New Hampshire	3,489	14,268	24.5
28	Kentucky	9,558	39,633	24.1
29	Connecticut	7,119	29,934	23.8
30	Wyoming	1,669	7,205	23.2
31	Kansas	6,907	29,901	23.1
32	Minnesota	16,570	73,710	22.5
33	South Carolina	12,674	56,494	22.4
34	Nebraska	5,049	22,511	22.4
35	Illinois	27,659	123,811	22.3
36	Colorado	20,381	91,503	22.3
37	Virginia	21,144	95,754	22.1
38	New York	23,502	110,698	21.2
39	Oregon	10,427	50,313	20.7
40	North Dakota	1,846	8,937	20.7
41	Washington	18,553	94,197	19.7
42	South Dakota	1,834	9,324	19.7
43	Montana	2,041	11,047	18.5
44	Maine	2,040	11,385	17.9
45	West Virginia	2,103	12,136	17.3
46	North Carolina	18,322	109,937	16.7
47	Massachusetts	10,897	65,999	16.5
48	Iowa	5,498	38,038	14.5
49	Wisconsin	8,275	59,430	13.9
50	Vermont	519	4,705	11.0
51	District of Columbia	696	7,009	9.9
52	Hawaii	572	9,370	6.1
	Total	794,223	3,176,787	25.0

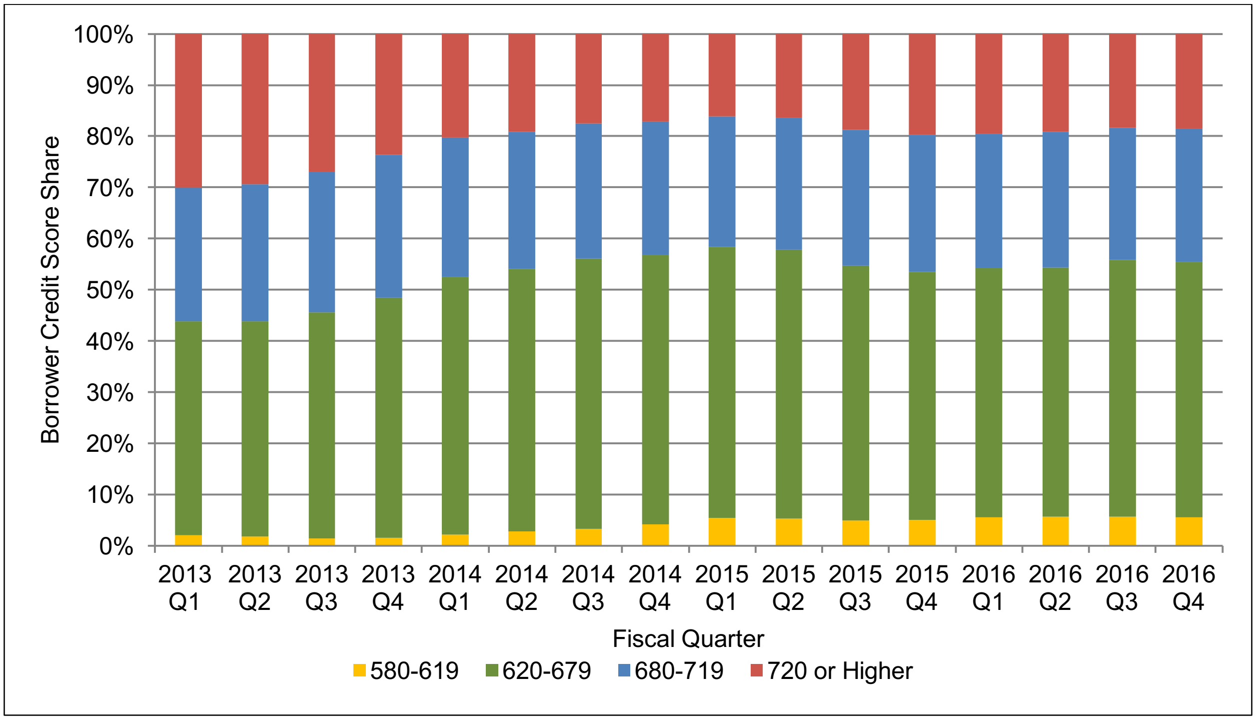
SOURCE: HMDA, 2015.

Exhibit B-7
FHA Loan Count and Average Loan Amount by Loan Purpose

	Home Purchase		FHA Streamline Refinance		Other FHA Refinance		Conventional-to-FHA Refinance		All Forward Loans	
FY 2016	Count	Amount ($)	Count	Amount ($)	Count	Amount ($)	Count	Amount ($)	Count	Amount ($)
Oct	84,110	192,874	19,551	202,629	5,362	199,658	10,162	184,990	119,185	194,107
Nov	65,281	191,282	15,484	193,100	4,315	197,842	8,252	184,679	93,332	191,303
Dec	61,160	193,814	14,161	190,662	4,598	196,498	8,752	186,793	88,671	192,757
Jan	62,397	195,917	14,599	189,565	4,358	197,029	8,073	194,336	89,427	194,791
Feb	59,055	195,876	16,278	180,632	4,663	195,009	8,722	193,951	88,718	192,844
Mar	65,617	193,453	19,194	183,207	5,155	197,149	9,317	190,506	99,283	191,387
Apr	66,721	192,580	17,261	194,345	4,784	199,245	8,415	189,991	97,181	192,997
May	73,862	192,846	16,656	196,957	5,027	202,224	8,721	191,101	104,266	193,809
Jun	84,552	194,345	16,852	199,597	5,322	200,924	8,922	191,578	115,648	195,200
Jul	83,551	197,401	17,817	195,757	5,166	199,842	8,710	193,134	115,244	196,934
Aug	92,469	199,249	22,776	200,589	5,549	205,091	9,379	195,895	130,173	199,491
Sep	80,746	199,909	20,003	210,744	6,147	204,139	10,039	197,523	116,935	201,780
Total	879,521	195,145	210,632	195,348	60,446	199,788	107,464	191,238	1,258,063	195,068

NOTE: This table includes all single family forward endorsements. Prior to FY 2009, the 203(k) program (Mortgage Insurance for Home Rehabilitation) and 234(c) program (Mortgage Insurance for Condominium Units) were not obligations of the MMI Fund. They are included for all years in this table to provide a complete picture of FHA activity.
SOURCE: U.S. Department of HUD/FHA, October 2016.

Exhibit B-8
Distribution of FHA Borrower Credit Scores for FY 2013–FY 2016



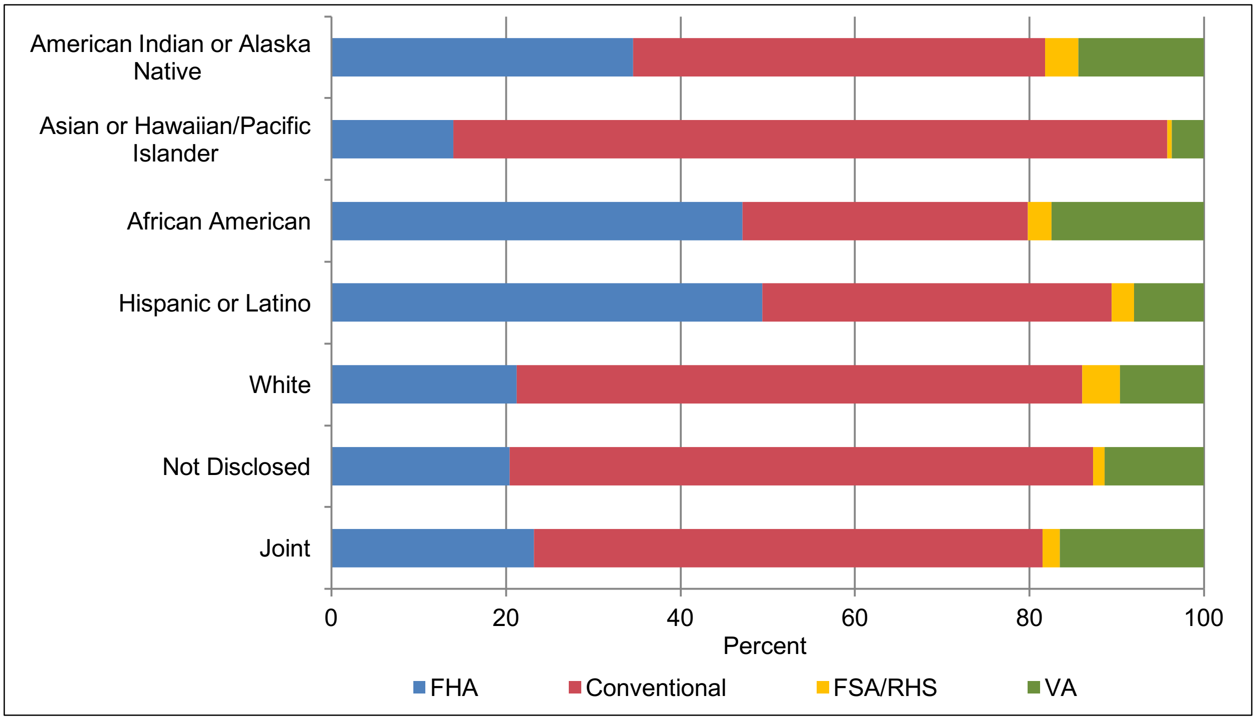
NOTE: Data exclude streamline refinances.
SOURCE: U.S. Department of HUD/FHA, October 2016.

Exhibit B-9
Distribution of FHA Borrower Credit Scores by Fiscal Year and Quarter

Fiscal Year	Quarter	720 or Higher	680–719	620–679	580–619	579 or Lower	Missing
2008	Oct-Dec	8.9	8.9	31.0	24.1	23.4	3.8
	Jan-Mar	9.5	9.7	31.7	23.4	22.4	3.3
	Apr-Jun	14.7	13.0	35.7	21.1	13.1	2.4
	Jul-Sep	18.5	15.8	37.7	19.3	7.1	1.6
2009	Oct-Dec	20.5	17.2	37.5	18.6	5.2	1.0
	Jan-Mar	24.3	18.9	36.9	15.5	3.4	1.1
	Apr-Jun	29.6	21.2	38.1	8.4	1.5	1.1
	Jul-Sep	33.3	22.1	37.7	4.9	1.0	1.0
2010	Oct-Dec	33.5	22.5	38.5	4.0	0.7	1.0
	Jan-Mar	33.9	22.8	38.4	3.5	0.5	1.0
	Apr-Jun	34.9	22.6	38.4	2.7	0.4	1.0
	Jul-Sep	34.8	22.6	38.3	3.0	0.4	0.9
2011	Oct-Dec	37.0	23.2	36.0	2.5	0.3	0.9
	Jan-Mar	37.7	24.1	35.0	2.2	0.2	0.8
	Apr-Jun	35.3	23.8	37.5	2.6	0.2	0.7
	Jul-Sep	33.1	23.8	39.2	3.3	0.2	0.6
2012	Oct-Dec	32.9	23.9	39.3	3.2	0.2	0.5
	Jan-Mar	33.9	23.9	38.8	2.8	0.2	0.4
	Apr-Jun	33.2	24.2	39.5	2.5	0.2	0.4
	Jul-Sep	30.9	25.3	41.1	2.3	0.2	0.4
2013	Oct-Dec	29.9	26.0	41.6	2.1	0.2	0.3
	Jan-Mar	29.2	26.6	41.9	1.8	0.2	0.3
	Apr-Jun	26.9	27.4	43.9	1.5	0.1	0.3
	Jul-Sep	23.6	27.7	46.7	1.6	0.2	0.2
2014	Oct-Dec	20.1	27.3	50.1	2.2	0.1	0.3
	Jan-Mar	19.1	26.6	51.1	2.8	0.2	0.3
	Apr-Jun	17.4	26.4	52.5	3.3	0.2	0.2
	Jul-Sep	17.0	26.0	52.5	4.1	0.2	0.2
2015	Oct-Dec	16.0	25.4	52.8	5.3	0.3	0.2
	Jan-Mar	16.3	25.7	52.4	5.2	0.3	0.2
	Apr-Jun	18.7	26.5	49.7	4.9	0.2	0.2
	Jul-Sep	19.7	26.6	48.3	5.0	0.2	0.2
2016	Oct-Dec	19.5	26.1	48.5	5.5	0.3	0.2
	Jan-Mar	19.1	26.4	48.5	5.7	0.3	0.2
	Apr-Jun	18.3	25.7	50.1	5.6	0.2	0.1
	Jul-Sep	18.4	25.9	49.8	5.5	0.2	0.1

NOTE: Shares are based on loan counts. Data exclude streamline refinances.
SOURCE: U.S. Department of HUD/FHA, October 2016.

Exhibit B-10
Home Purchase Loans and Racial Shares across Market Segments, CY 2015



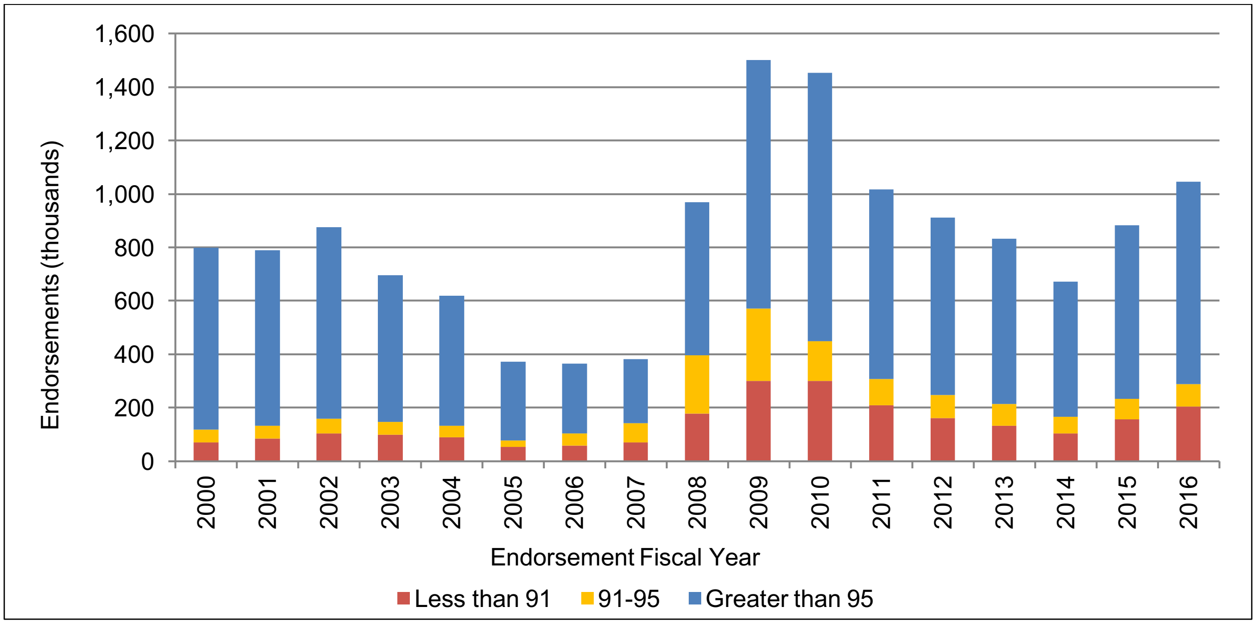
NOTE: See Exhibit B-11 for notes and data.
SOURCE: FFIEC/HMDA Data, 2015.

Exhibit B-11
Home Purchase Loans and Racial Shares across Market Segments, CY 2015

Race or Ethnicity	Number of Loans	Conventional	FHA	FSA/RHS	VA
All Borrowers	3,257,750	61.6	24.9	10.0	3.5
American Indian or Alaska Native	11,810	47.3	34.6	14.4	3.8
Asian or Hawaiian/Pacific Islander	177,062	81.9	13.9	3.7	0.5
Black or African-American	178,731	32.7	47.1	17.5	2.7
Hispanic or Latino	298,513	40.1	49.4	8.0	2.5
White	2,241,284	64.8	21.2	9.6	4.3
Not Disclosed[a]	246,042	66.8	20.5	11.4	1.3
Joint[b]	104,308	58.3	23.2	16.5	2.0

FSA = Farm Service Agency, RHS = Rural Housing Service, VA = Veterans Administration.
[a] Includes Missing and Not Applicable.
[b] Applies when one applicant reports a single racial designation of White and the other applicant reports one or more minority racial designations.
NOTE: Race on the loan application is categorized by the first person listed on the loan application. The Home Mortgage Disclosure Act reports race separately from ethnicity.
SOURCE: FFIEC/HMDA Data, 2015.

Exhibit B-12
Distribution of FHA Forward Endorsements by Loan-to-Value Ratio



NOTE: Excludes streamline refinances.
SOURCE: U.S. Department of HUD/FHA, October 2016.

Exhibit B-13
Distribution of FHA Forward Endorsements by Loan-to-Value Ratio

Fiscal Year of Endorsement	Loan-to-Value Categories			
	Less Than 91	91-95	Greater Than 95	Total
2000	70,030	46,930	682,743	799,703
2001	83,276	48,718	657,894	789,888
2002	103,411	54,117	717,009	874,537
2003	99,695	45,913	551,112	696,720
2004	89,316	41,899	487,085	618,300
2005	53,368	23,684	294,349	371,401
2006	58,643	44,633	262,044	365,320
2007	69,736	72,557	239,165	381,458
2008	178,030	217,475	572,344	967,849
2009	300,026	271,250	930,647	1,501,923
2010	300,865	146,993	1,006,176	1,454,034
2011	208,347	99,782	708,317	1,016,446
2012	162,121	84,487	663,855	910,463
2013	132,000	82,302	618,697	832,999
2014	104,618	61,307	505,389	671,314
2015	157,301	76,737	649,374	883,412
2016	204,496	83,093	757,316	1,044,905

NOTE: Excludes streamline refinances.
SOURCE: U.S. Department of HUD/FHA, October 2016.

Exhibit B-14
FHA Foreclosure Starts

SOURCE: U.S. Department of HUD/FHA, October 2016.

Exhibit B-15
FHA Foreclosure Starts

Month	Foreclosure Starts	Month	Foreclosure Starts	Month	Foreclosure Starts	Month	Foreclosure Starts
10/10	19,391	06/12	27,331	02/14	12,845	10/15	11,400
11/10	15,941	07/12	25,710	03/14	13,786	11/15	10,400
12/10	14,870	08/12	25,432	04/14	13,039	12/15	11,814
01/11	14,496	09/12	20,682	05/14	11,051	01/16	10,979
02/11	13,923	10/12	23,696	06/14	11,043	02/16	11,428
03/11	14,743	11/12	18,305	07/14	11,063	03/16	11,725
04/11	11,703	12/12	17,786	08/14	10,628	04/16	10,057
05/11	10,752	01/13	17,846	09/14	11,463	05/16	8,807
06/11	11,210	02/13	16,671	10/14	12,334	06/16	9,128
07/11	10,515	03/13	16,795	11/14	9,946	07/16	8,964
08/11	12,258	04/13	19,472	12/14	11,654	08/16	10,460
09/11	12,179	05/13	17,777	01/15	13,214	09/16	10,266
10/11	12,156	06/13	16,356	02/15	12,757		
11/11	14,259	07/13	15,550	03/15	13,675		
12/11	14,069	08/13	15,487	04/15	12,465		
01/12	16,065	09/13	14,969	05/15	10,220		
02/12	18,725	10/13	15,704	06/15	10,954		
03/12	21,747	11/13	13,289	07/15	10,506		
04/12	22,062	12/13	13,810	08/15	11,013		
05/12	30,170	01/14	13,671	09/15	11,116		

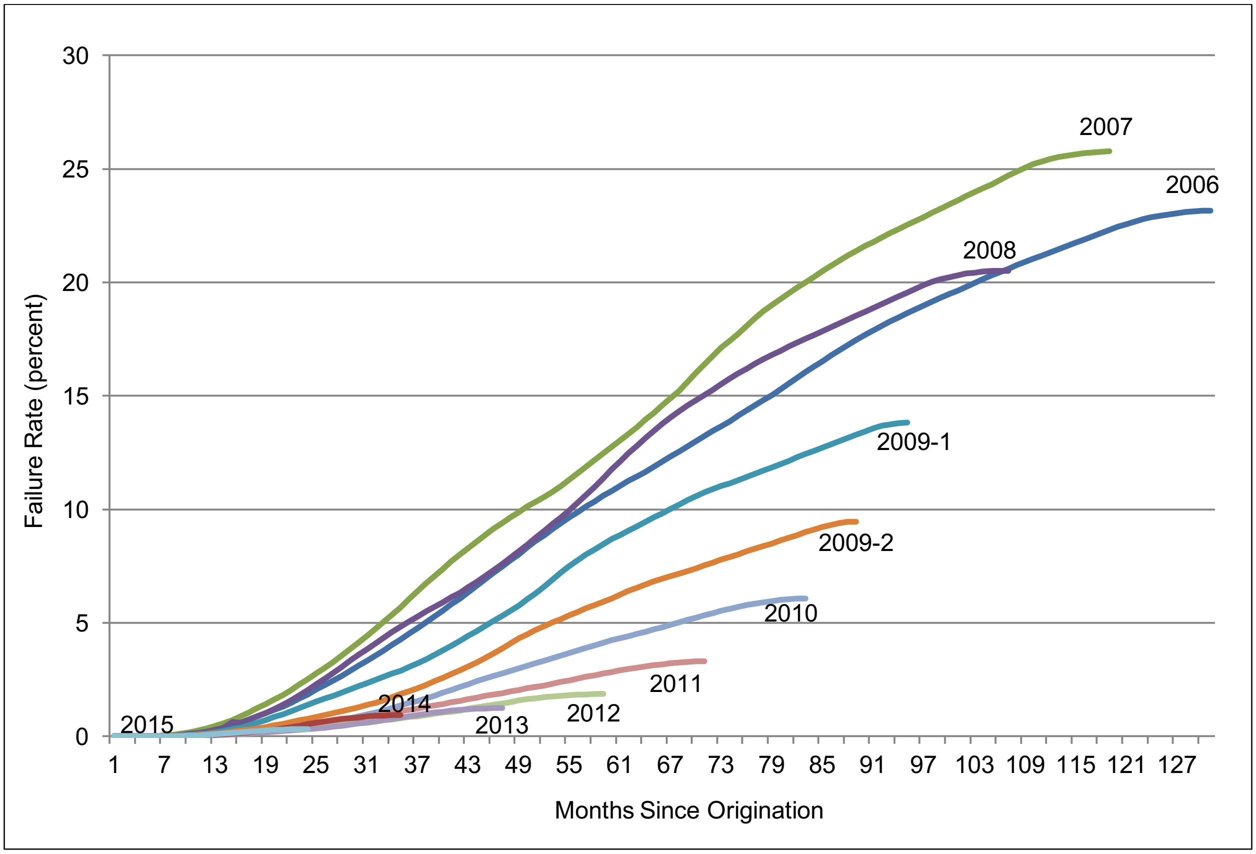
SOURCE: U.S. Department of HUD/FHA, October 2016.

Exhibit B-16
Serious Delinquency Rates by Loan Origination Year at Various Stages of Seasoning

Age (years)	Fiscal Year of Origination (%)										
	2015	2014	2013	2012	2011	2010	2009-2	2009-1	2008	2007	2006
1	1.2	1.4	0.9	1.0	1.2	1.2	1.6	5.4	7.0	5.7	3.5
2		3.8	2.3	2.6	3.2	4.0	4.1	10.5	17.0	14.5	7.7
3			3.0	3.2	4.2	5.9	7.2	14.7	19.7	21.5	13.0
4				3.6	4.5	6.3	8.6	19.3	24.5	22.5	17.2
5					4.6	6.0	8.0	18.5	26.1	26.2	17.6
6						5.9	7.5	17.0	23.5	26.0	20.1
7								14.8	20.9	23.7	20.5
8									17.8	21.1	19.3
9										17.9	17.2
10											14.4

NOTE: Excludes streamline refinances.
SOURCE: U.S. Department of HUD/FHA, October 2016.

Exhibit B-17
Failure Rates by Seasoning and Vintage



NOTES: A failure rate is the sum of to-date claims and active foreclosures, as a percentage of initial endorsements for each vintage. Excludes streamline refinances. The 2009 vintage is separated into two parts, representing loan originations from October through March in 2009-1 and loan originations from April through September in 2009-2.
SOURCE: U.S. Department of HUD/FHA, October 2016.

Exhibit B-18
Number of Assisted Cures by Fiscal Year with Assistance Type

Fiscal Year of Assisted Cure	Type of Loss Mitigation Assistance: Repayment Plans	Loan Modifications	Partial Claims	FHA HAMP	Promise to Pay	Total Assisted Cures
Assistance Counts						
2007	123,771	44,021	7,951	na	na	175,743
2008	164,831	59,424	5,271	na	na	229,526
2009	110,769	72,768	8,894	na	na	192,431
2010	132,084	154,060	11,348	2,298	na	299,790
2011	216,386	146,212	12,188	9,366	na	384,152
2012	254,773	82,735	6,861	14,966	na	359,335
2013	293,698	97,740	14,667	59,962	1,344	467,411
2014	171,076	12,663	29,604	141,988	125,098	480,429
2015	124,454	6,965	69,840	74,898	167,025	443,182
2016	87,061	5,702	65,051	48,727	206,407	412,948
Shares by Assistance Type within Fiscal Year (%)						
2007	70.4	25.0	4.5	na	na	100.0
2008	71.8	25.9	2.3	na	na	100.0
2009	57.6	37.8	4.6	na	na	100.0
2010	44.1	51.4	3.8	0.8	na	100.0
2011	56.3	38.1	3.2	2.4	na	100.0
2012	70.9	23.0	1.9	4.2	na	100.0
2013	62.8	20.9	3.1	12.8	0.3	100.0
2014	35.6	2.6	6.2	29.6	26.0	100.0
2015	28.1	1.6	15.8	16.9	37.7	100.0
2016	21.1	1.4	15.8	11.8	50.0	100.0

HAMP = Home Affordable Modification Program, na = not applicable.
SOURCE: U.S. Department of HUD/FHA, October 2016.

Exhibit B-19
Comparison of FY 2015 and FY 2016 Default Dispositions

	FY 2016			FY 2015		
Disposition Type	Loss Rate (% UPB)	Case Count	Share of Dispositions	Loss Rate (% UPB)	Case Count	Share of Dispositions
REO	57.5	39,323	54.7	58.2	58,029	53.0
Note Sales (DASP)	58.0	5,830	8.1	48.6	19,556	17.9
Third Party Sales	47.3	18,133	25.2	47.1	18,251	16.7
Pre-foreclosure Sales	42.5	8,595	12.0	40.1	13,611	12.4
Total	52.5	71,881	100.0	51.4	109,447	100.0

UPB = Unpaid Principal Balance, REO = real estate owned, DASP = Distressed Asset Stabilization Program.
SOURCE: U.S. Department of HUD/FHA, October 2016.

Appendix C: Definitions and Clarifications

1. Structure and Operation of the Mutual Mortgage Insurance Fund

Transactions associated with FHA's guarantee programs for single family mortgages are recorded in a series of accounts of the federal government known as the Mutual Mortgage Insurance Fund (MMIF or the Fund). The assets and liabilities of the MMIF are recorded in its financing accounts and capital reserve accounts.

Transactions arising from the MMIF's ongoing insurance operations are recorded in the financing accounts of the forward and HECM programs. The capital reserve account is the ultimate repository for all net budgetary resources collected by the MMIF. Estimated net receipts from each book of insurance business are transferred from the financing accounts to the capital reserve account as each new guaranteed loan is disbursed. Expected net receipts are then re-estimated annually thereafter as part of the federal budget process. Re-estimates reflecting increased expected net federal receipts result in additional transfers from the financing accounts to the capital account. Re-estimates reflecting decreased expected net receipts result in transfers from the capital account to the financing accounts to ensure that each financing account has enough assets to meet all of its insurance obligations. Transfers from the capital reserve account to the financing account that would reduce the balance of the capital account below zero trigger mandatory appropriations sufficient to eliminate the deficit and ensure that the MMIF always has sufficient funds to meet its claim and other obligations.

For purposes of the actuarial studies, the net assets of the MMIF financing accounts are added to the balance of the capital reserve account as of each September 30 to calculate the current capital resources of the MMIF. The actuarial studies then combine the current capital resources of the MMIF with the estimated net receipts expected from future insurance transactions to estimate the economic value of the Fund.

2. Assessment of the Independent Actuary

The National Housing Act requires that HUD contract for an independent actuarial study of the MMIF each year.[3] The two portfolios of the Fund—forward (single family) and reverse (HECM) mortgages—are fundamentally different in characteristics and performance, so they are analyzed in two separate reports. The final written reports are available online in the FHA Office of Housing Reading Room.[4]

The actuarial studies use statistical models to develop long-term projections of default, claim, loss-on-claim, and prepayment rates on current and future books of business. The models are estimated using historical patterns of FHA-insured loan performance under a wide variety of economic conditions. They are applied to active loans, and they use commercially-available forecasts of home prices and interest rates to predict loan performance in the future. The

[3] See 12 USC 1708(a)(4).

[4] http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/hsgrroom.

resulting projections determine business-operation cash flows needed to estimate the economic value of the Fund.

The actuarial study applies a stochastic method to estimate the net present value (NPV) of future cash flows. This year, like last year, 100 equally likely paths were generated to develop a wide variety of possible economic conditions, creating what is known as a Monte Carlo simulation. The discounted NPV of cash flows was computed for each path. Then they were averaged to obtain an overall estimate of the expected NPV that provides the base-case estimate.

The outcome of the complete actuarial study modeling effort is the estimated economic net worth (ENW) of the MMIF, which is defined by the National Housing Act as capital resources plus the present value of future cash flows of the Fund.[5] The calculation of ENW is repeated for each of the next seven years by adding projected endorsements each year, forecasting their cash flows and adding them to those of the current portfolio, and then reassessing ENW on the updated portfolio at the end of each fiscal year.

ENW represents additional resources directly available to FHA for absorbing claim expenses above-and-beyond those already anticipated in the present-value-of-future-cash-flow calculations. Those calculations are for the remaining life of all outstanding loan guarantees and can extend for more than 30 years on HECM loans. The statutory capital ratio is ENW divided by the outstanding dollar volume of active insurance contracts.

[5] See 12 USC 1711(f)(4). The statute refers only to capital resources (liquid assets) and the present value of future cash flows. The actuarial studies, however, include value of properties in inventory and net accounts receivable and payable in their calculation of capital resources rather than in the present value of future cash flows. This is because they do not predict these items, but rather take their values from the values used by FHA in its annual financial statements.