December 13, 2013

Report to Congress

On December 13th, HUD released its Fiscal Year (FY) 2013 Annual Report to Congress on the Financial Status of the Mutual Mortgage Insurance Fund, which reports the results of an independent actuarial evaluation of the of the Fund.

According to the independent actuary, the Fund's value has improved by $15 billion since last year, and is currently valued at negative $1.3 billion. This change represents a 92 percent improvement in the capital reserve ratio rising from negative 1.44 percent to negative 0.11 percent. The independent actuary now estimates that the Fund will reach the required two percent reserve ratio in 2015, two years faster than predicted in last year's report.

This Administration has worked hard to implement the policies and practices that have led to this turn-around. Since 2008, FHA has taken a number of steps to restore capital, including adjusting premiums, tightening credit policies, and expanding its use of alternative disposition strategies for defaulted assets. As a result, recovery rates have substantially improved and the credit quality of our most recent books of business remains at historically high levels – keeping FHA on the right track for the future.

While these policy changes were necessary and prudent, we are aware of the impact they have on our lending partners. In the years since the crisis began, the housing industry has been asked to adjust to an unprecedented amount of change. No doubt it has been challenging to keep up with all of the new policies and initiatives introduced by FHA and other regulatory agencies.

The initiatives that led to the Fund's improvement are part of a wider effort to transform the way FHA operates. We are committed to becoming more efficient and making it easier for our partners to do business with us. Toward those ends, we have been focused on improving the consistency and transparency of our quality assurance practices and communication with lenders. We realize that a strong, consistent and transparent QA framework creates the best environment to ensure compliance with FHA's origination and servicing guidelines and provides lenders the confidence needed to reduce overlays and enable broader access to credit.

That is why FHA is focused on improving the utility of all of its guidance. As a first step, FHA has worked to consolidate more than 900 Mortgagee Letters into an updated Single Family Handbook – a definitive guide on originating and servicing a single family FHA-insured loan. And our transformation efforts do not end there. We have begun issuing the quarterly Lender Insight publication, are developing an automated lender approval and re-certification process, and are working to streamline the way we develop and announce new policies. When these initiatives

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are complete, it should be easier for everyone to stay informed and appropriately utilize existing and new FHA guidance.

We are doing everything possible within our existing capabilities to improve our policies, operations and business practices, but with additional tools we could make even more progress. So, we continue to ask Congress to pass legislation that will enhance our overall ability to manage risk. Specifically, FHA needs the ability to require indemnification from all classes of FHA-approved lenders, the authority to terminate lender approval on a more refined geographic basis, and the flexibility to engage specialty servicers. Legislation to revise the calculation of the compare ratio and reduce barriers to more effective risk management would also be beneficial to the Fund.

Fiscal Year 2013 Highlights

FHA had an important impact on the market in 2013. This past year, FHA:

- Insured nearly 1.1 million single-family forward mortgage loans during the year, with a total dollar value of approximately $240 billion and $13.6 billion in reverse mortgages (HECM). This brings the active single family portfolio to nearly $1.2 trillion.
- Insured more than 675,000 new purchase loans, 79 percent of which were for first-time homebuyers.
- Provided refinancing for more than 610,000 homeowners who were enabled to take advantage of historically low interest rates.

These numbers illustrate the continued importance of FHA to the housing finance market. Moving forward, FHA will continue to focus on using aggressive strategies to reduce losses, increase recoveries, and maintain access to credit for qualified borrowers. We believe that managing risk to the Fund is a critical element of ensuring that FHA is here to help future generations buy that first home, refinance into a more sustainable mortgage, or age in place as they get older.

Thank you for your continued support of FHA and our mission. HUD's Annual Report to Congress on the Financial Status of the MMI Fund and the accompanying actuarial reviews are available at http://blog.hud.gov/index.php/2013/12/13/annual-report-to-congress-shows-progress/

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