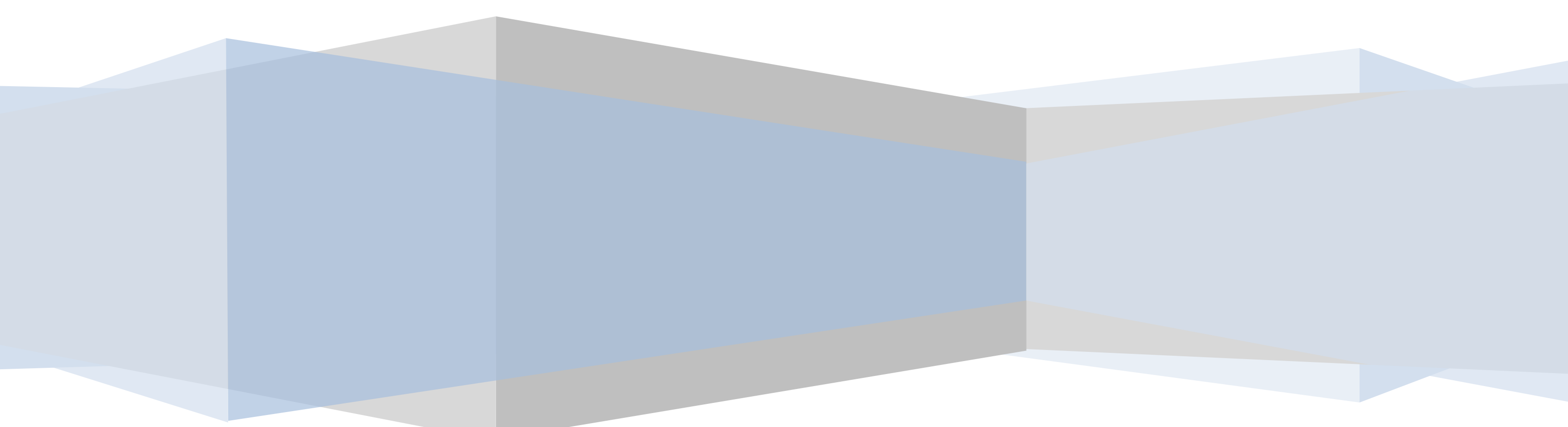
U.S. Department of Housing and Urban Development

FHA Single-Family Mutual Mortgage Insurance Fund Programs

Quarterly Report to Congress FY 2010 Q4

Delivered: November 4, 2010



U.S. Department of Housing and Urban Development
Federal Housing Administration

Quarterly Report to Congress on FHA Single-Family Mutual Mortgage Insurance Fund Programs

FY 2010 Q4

Data as of September 30, 2010

This report is in fulfillment of the requirement under section 2118 of the Housing and Economic Recovery Act of 2008 (12 USC 1708(a)(5)) that HUD report to the Congress on a quarterly basis respecting mortgages that are an obligation of the Mutual Mortgage Insurance Fund. The specific items requested under the Act are:

> (A) the cumulative volume of loan guarantee commitments that have been made during such fiscal year through the end of the quarter for which the report is submitted;
>
> (B) the types of loans insured, categorized by risk;
>
> (C) any significant changes between actual and projected claim and prepayment activity;
>
> (D) projected versus actual loss rates; and
>
> (E) updated projections of the annual subsidy rates to ensure that increases in risk to the Fund are identified and mitigated by adjustments to underwriting standards, program participation, or premiums, and the financial soundness of the Fund is maintained.

Foreword from the FHA Chief Risk Officer

On behalf of Secretary Donovan, and pursuant to requirements of section 202(a)(5) of the National Housing Act , as amended by the FHA Modernization Act of 2008 (Public Law 110-289 (122 Stat. 2834), I am herewith transmitting the Fiscal Year 2010 fourth quarter report on mortgages that are obligations of the Mutual Mortgage Insurance (MMI) Fund of the Federal Housing Administration. The report covers the period July 1, 2010, to September 30, 2010.

Beyond the specific items delineated in the statute, this report includes additional data that provide context and perspective on recent trends that impact the quality and performance of the FHA single family loan guarantee portfolio. We continue our commitment to increasing the transparency, quality, and quantity of information available on MMI Fund performance and operations. In the previous quarterly report, we added details on the financial status and cash-flows of the Fund, early payment delinquencies, and serious delinquency rates (Tables S1 – S4). Beginning with this quarterly report, we have added serious delinquency vintage curves for loans originated since January 2006 (Figures S1 – S3). We hope this additional information will increase the usefulness of the report, and we welcome suggestions for further improvements.

In addition to quarterly reports to Congress, we continue to provide additional details about our single family loan-guarantee portfolio in the monthly FHA Single Family Outlook Report and FHA Monthly Report to the Commissioner. Both of those reports are posted in the Office of Housing Reading Room on the HUD.gov website. Finally, we will deliver the FY 2010 Annual Report to Congress Regarding the Financial Status of the MMI Fund in mid-November, which will include an exhaustive analysis of the portfolio including detailed projections of future performance.

The Department is pleased to provide details on how this report was prepared or to answer any questions about the information presented.

Sincerely,

Bob Ryan
FHA Chief Risk Officer/
Deputy Assistant Secretary for Risk
Management and Regulatory Affairs

Table A. Insurance Endorsements

In this quarter, FHA experienced a slow-down in home-purchase insurance activity that was offset by a resurgence of refinance activity. Historically low interest rates led to the start of a new round of heightened refinance activity in August, while the expiration of first-time homebuyer tax credits resulted in a decline in purchase-loan activity starting in July.[1] The number of home-purchase-loan insurance endorsements in September was half of what it was in June, while the number of refinance endorsements was 59 percent higher than the June count. In June of this year, home purchase insurance endorsements topped 115,000, which is the highest on record since March 1987. FY 2010 closed out the year as the largest home-purchase loan endorsement year and the second largest overall endorsement year, with overall volume second only to last fiscal year.

This quarter experienced a continuation of the lower levels of new insurance activity in FHA's reverse mortgage program for seniors (Home Equity Conversion Mortgage, or HECM) that was evident in the first three quarters of this year. Fourth quarter endorsements were down 34 percent from the year earlier period. Endorsements in all of FY 2010 were 31 percent lower than in FY2009. The decline in FY 2010 followed reductions in equity take-out limits that went into effect for new loan applications effective in October 2009.[2]

Forecasts of lower levels of house price growth in the longer-term, compared to previous projections, requires HUD to again make changes to assure that HECM does not require taxpayer subsidies. In order to minimize the need for further reductions in take-out limits, beyond what was done last year, HUD increased the annual mortgage insurance premium on the standard HECM option from 0.50 percent to 1.25 percent (annual rates, assessed monthly). The upfront insurance premium rate continues at 2 percent, which is charged against the initial house value.[3] HUD also introduced the HECM Saver option in September. With HECM Saver, the maximum equity take-out limit is considerably lower than it is with the HECM Standard option, which lowers the risk to the MMI Fund. In return, FHA charges only a minimal upfront insurance premium. The annual insurance premium for HECM Saver is 1.25 percent of the outstanding loan balance, as it is with HECM Standard, but the upfront insurance premium is just 0.01 percent.[4]

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[1] While the tax credits expired in April, home buyers were permitted to close on the transaction after April, and there are often two month delays between loan closing/origination and insurance endorsement.
[2] At that time, HUD imposed a ten-percent haircut on all principal limit (equity take-out) factors.
[3] Or against the FHA loan limit, if that limit is lower than the house value and, therefore, controls the maximum cash take-out limit.
[4] Current regulations require that some positive upfront premium be charged for HECM loans.

Table A
FHA Single-Family Mortgage Insurance
Endorsements by Year and Quarter

Time Period	Number of New Insurance Cases				
	Forward Mortgages[a]				Reverse Mortgages (HECM)[b]
	Home Purchase	Conventional Loan Refinance	FHA-to-FHA Refinance	All Forward Loans	
Fiscal Year					
2000	763,063	30,352	38,131	831,546	6,637
2001	730,106	43,802	188,644	962,552	7,789
2002	787,093	61,100	319,985	1,168,178	13,048
2003	602,452	59,499	556,983	1,218,934	18,084
2004	540,313	53,939	298,169	892,421	37,790
2005	328,542	31,958	117,849	478,349	43,082
2006	293,258	58,226	48,420	399,904	76,280
2007	261,165	104,578	36,600	402,343	107,368
2008	591,323	349,132	91,129	1,031,584	112,015
2009	995,103	468,769	367,426	1,831,298	114,641
2010	1,105,711	304,318	251,195	1,661,224	78,757
Fiscal Year and Quarter					
2009Q1	261,430	122,162	25,645	409,237	27,651
2009Q2	182,634	120,053	97,856	400,543	30,190
2009Q3	228,752	118,727	143,318	490,797	28,686
2009Q4	322,737	108,021	100,666	531,424	28,114
2010Q1	304,929	86,575	96,157	487,661	24,729
2010Q2	245,881	88,393	67,987	402,261	20,278
2010Q3	289,777	65,655	31,038	386,470	15,266
2010Q4	268,996	64,965	57,259	391,220	18,484

[a]Starting in 2008Q4, these counts include 203(K) purchase and rehabilitation loans and 234(C) condominium loans.

[b]The FHA reverse-mortgage insurance program is called Home Equity Conversion Mortgage (HECM). Starting in FY 2009 (CY 2008 Q4) all new HECM endorsements are in the Mutual Mortgage Insurance Fund. Previous endorsements, by law, remain in the General and Special Risk Insurance Fund.

Source: US Dept of HUD, Office of Housing/FHA.

Table B.1 Borrower Credit Score Distribution

FY 2010 is the highest quality FHA book-of-business in modern history. Nearly 58 percent of borrowers had credit scores of 680 or better, while only four percent had credit scores below 620. As recently as the last half of 2008, less than 20 percent of borrowers had credit scores of 680 or better and 45 percent had credit scores below 620. FHA-insured mortgage loans with credit scores of 700 or above have a foreclosure risk that is approximately one-quarter that of loans with credit scores of 620.

Table B.1
FHA Single-Family Mortgage Insurance
Borrower Credit Score[a] Distribution on Fully-Underwritten Loans
By Fiscal Year (FY) and Quarter
(Shares in each row add to 100%)

Fiscal Year	Quarter	Credit Score Categories[a]						
		720+	680+	620+	580+	500+	300+	N/A[b]
2007	Oct-Dec	11.2%	10.9%	31.7%	22.6%	17.8%	1.2%	4.6%
	Jan-Mar	10.3	10.2	31.1	23.1	19.4	1.4	4.5
	Apr-Jun	9.9	9.6	30.7	23.5	20.4	1.5	4.5
	Jul-Sep	9.9	9.3	31.0	23.6	20.8	1.5	3.8
2008	Oct-Dec	9.3	9.1	31.2	23.9	21.3	1.7	3.5
	Jan-Mar	9.9	9.9	31.8	23.3	20.4	1.7	3.0
	Apr-Jun	15.2	13.3	35.7	20.9	12.2	0.7	2.0
	Jul-Sep	19.2	16.1	37.6	19.0	6.7	0.2	1.2
2009	Oct-Dec	20.5	17.2	37.6	18.7	5.1	0.1	0.7
	Jan-Mar	24.4	19.0	37.1	15.5	3.4	0.0	0.6
	Apr-Jun	29.8	21.3	38.4	8.5	1.5	0.0	0.5
	Jul-Sep	33.5	22.2	37.9	4.9	1.0	0.0	0.4
2010	Oct-Dec	33.7	22.6	38.7	4.0	0.7	0.0	0.4
	Jan-Mar	34.1	22.9	38.6	3.5	0.5	0.0	0.4
	Apr-Jun	35.2	22.8	38.6	2.7	0.4	0.0	0.4
	Jul-Sep	35.0	22.7	38.5	3.0	0.4	0.0	0.4

[a]Credit scores are co-branded between the three major credit repositories (Equifax, Experian, Transunion) and Fair-Isaac Corporation. Values can range from 300 to 850. They are grouped here according to the “decision” score used for loan underwriting. That score represents the weakest borrower on a loan application, when there are multiple applicants. Streamline refinance loans do not require underwriting and so they are not represented here.

[b]Borrowers without credit histories can be underwritten for FHA insurance using alternative criteria.

Source: US Dept of HUD, Office of Housing/FHA.

Table B.2 Average Borrower Credit Scores

Historically, average credit scores for FHA-insured home-purchase loans have been higher than those on refinance loans. The gap started closing in FY 2009 Q2 and now, for two quarters running, average credit scores have been equal across these portfolios.

Table B.2
FHA Single-Family Mortgage Insurance
Average Borrower Credit Scores[a] on New Endorsements
By Fiscal Year, Quarter, and Loan Purpose

Fiscal Year	Quarter	Loan Purpose			
		Home Purchase	Conventional Loan Refinance	FHA-to-FHA Refinance[b]	All[b]
2007	Oct-Dec	639	620	625	634
	Jan-Mar	635	620	628	631
	Apr-Jun	632	618	628	628
	Jul-Sep	634	615	625	628
2008	Oct-Dec	633	615	626	626
	Jan-Mar	635	620	633	629
	Apr-Jun	655	637	643	648
	Jul-Sep	669	645	647	662
2009	Oct-Dec	673	652	649	666
	Jan-Mar	678	669	663	674
	Apr-Jun	688	685	676	687
	Jul-Sep	697	688	678	694
2010	Oct-Dec	697	690	680	695
	Jan-Mar	697	696	686	696
	Apr-Jun	698	699	689	698
	Jul-Sep	698	701	694	698

[a] Credit scores are co-branded between the three major credit repositories (Equifax, Experian, Transunion) and Fair-Isaac Corporation. Values can range from 300 to 850. They are grouped here according to the “decision” score used for loan underwriting. That score represents the weakest borrower on a loan application, when there are multiple applicants. Streamline refinance loans do not require underwriting and so they are not represented here.

[b] These include only fully-underwritten loans and exclude streamline refinancing.

Source: US Dept of HUD, Office of Housing/FHA.

Table B.3 Loan-to-Value (LTV) Ratio Distribution

FHA's LTV distribution saw a shift toward lower ratios this quarter. This was the result of LTV ratio improvement among purchase loans. The LTV distribution among refinance loans shifted slightly upward this quarter.

Overall, refinance loans coming to FHA tend to have more initial equity than home purchase loans. This quarter, similar to the third quarter of FY 2010, 59 percent of refinance loans had LTVs of 90 percent or lower, while fewer than 9 percent of purchase loans had LTVs of 90 percent of lower.

Table B.3 FHA Single-Family Mortgage Insurance Loan-to-Value (LTV) Ratio[a] Distribution on Fully-Underwritten Loans By Fiscal Year and Quarter *(Shares in each row add to 100%)*					
		LTV Categories[a]			
Fiscal Year	Quarter	Up to 90	91-95	96-98[b]	DPA Loans[c]
2007	Oct-Dec	17.7%	16.3%	41.1%	24.9%
	Jan-Mar	19.0	18.3	37.7	25.0
	Apr-Jun	17.7	18.9	39.1	24.2
	Jul-Sep	17.8	19.7	39.2	23.3
2008	Oct-Dec	19.6	22.9	35.3	22.2
	Jan-Mar	21.7	25.6	33.9	18.8
	Apr-Jun	18.4	22.7	40.0	18.8
	Jul-Sep	15.8	19.3	43.5	21.4
2009	Oct-Dec	17.4	21.1	48.8	12.7
	Jan-Mar	20.3	23.4	55.3	1.0
	Apr-Jun	20.8	17.7	61.3	0.2
	Jul-Sep	21.2	11.5	67.1	0.1
2010	Oct-Dec	20.6	10.1	69.1	0.2
	Jan-Mar	23.7	10.9	65.3	0.1
	Apr-Jun	18.6	9.5	71.7	0.2
	Jul-Sep	19.8	10.0	70.1	0.1

[a] In accordance with statutory requirements for determining eligibility of loans for FHA insurance, HUD measures LTV without including any financed mortgage insurance premium in the loan balance. The upfront premium charged from FY 2009 through March 2010 was 1.75 percent for fully-underwritten loans and 1.50 percent for streamline refinance loans. That premium rate rose to 2.25 percent in April 2010, for all loans. Prior to FY 2009, the upfront premium varied depending on a number of factors.

[b]The statutory maximum LTV since October 1, 2008, is 96.5 percent. Prior to October 1, 2008, the statutory maximum was 97 percent, with higher allowances for borrowers financing loan closing costs into the mortgage balance. If there was such financing, then the statutory maximum was between 97 and 98.15 percent, depending on the geographic location and price of the property.

[c]DPA loans represent downpayment assistance programs that operate through charitable organizations. The large shares of such loans endorsed through FY 2009 Q1 were nearly all from organizations funded by property sellers. Downpayment assistance from seller-financed sources was banned by the Housing and Economic Recovery Act of 2008. Insurance endorsements on DPA loans in FY2009 primarily represent loans originated prior to October 1, 2008, but endorsed in FY 2009. In this table, DPA loans are classified as a separate LTV category because their risk profile is substantially different from other loans; however, nearly all DPA loans would be in the 96-98 LTV group. The small percentage of loans in this category that continue into FY 2010 are from truly charitable sources, which are still permitted.

Source: US Dept of HUD, Office of Housing/FHA.

Table B.4 Average Loan-to-Value (LTV) Ratios on New Endorsements

Overall average loan-to-value ratios on new endorsements have remained consistent over the past four years.

Table B.4
FHA Single-Family Mortgage Insurance
Average Loan-to-Value (LTV) Ratios[a] on New Endorsements
By Fiscal Year, Quarter, and Loan Purpose

		Loan Purpose			
FY	FY Quarter	Home Purchase	Conventional Loan Refinance	FHA-to-FHA Refinance[b]	All[b]
2007	Oct-Dec	95.91%	86.75%	86.98%	93.48%
	Jan-Mar	95.93	87.03	87.10	93.13
	Apr-Jun	96.07	87.69	87.51	93.43
	Jul-Sep	96.02	88.21	87.56	93.41
2008	Oct-Dec	96.02	88.77	87.88	93.05
	Jan-Mar	96.03	88.86	88.33	92.57
	Apr-Jun	96.18	89.15	88.40	93.32
	Jul-Sep	96.15	89.16	88.00	93.95
2009	Oct-Dec	96.03	89.14	88.83	93.72
	Jan-Mar	95.93	89.38	89.38	93.21
	Apr-Jun	95.71	88.57	87.90	93.12
	Jul-Sep	95.59	86.78	85.83	93.23
2010	Oct-Dec	95.59	86.11	85.22	93.34
	Jan-Mar	95.51	86.19	87.05	92.86
	Apr-Jun	95.64	85.36	86.93	93.57
	Jul-Sep	95.91	86.75	86.98	93.48

[a] In accordance with statutory requirements for determining eligibility of loans for FHA insurance, HUD measures LTV without including any mortgage insurance premium financed in the loan balance. The upfront premium charged from FY 2009 through March 2010 was 1.75 percent for fully-underwritten loans and 1.50 percent on streamline refinance loans. The premium rate rose to 2.25 percent in April 2010, for all loans. Prior to FY 2009, the upfront premium rate varied depending on a number of factors.

[b] These include only fully-underwritten loans and exclude streamline refinancing.

Source: US Dept of HUD, Office of Housing/FHA.

Table C-D. Termination and Claim Loss Experience Compared to Forecasts

Table C-D
FHA Single-Family Mortgage Insurance
Termination and Claim Loss Experience in Current Fiscal Year
October 2009 – September 2010

	Quarterly Activity				Fiscal Year Summaries			
	Q1	Q2	Q3	Q4	Actual	Predicted[a]	Deviation (Actual - Predicted)	Percent-age Deviation
Prepayments - Number	149,660	80,609	77,446	122,801	430,516	837,842	(407,326)	-49%
Claims - Number[b]	22,522	26,795	26,748	33,199	109,264	126,705	(17,441)	-14
Claims – Dollars (mil)[b]	$2,782	$3,393	$3,392	$4,238	$13,806	$17,402	($3,597)	-21
Net Loss-on-Claims (%)[c]	54.92%	56.42%	54.46%	55.75%	55.28%	54.87%	0.41%	

[a]Predicted data are from the forecasts used in the FY 2009 FHA financial statements. Numbers of Prepayments and Claims used in those forecasts are from the FY 2009 Actuarial Review of the MMI Fund.
[b]Claim payments (and counts) reported here include those for conveyance (foreclosure) claims and preforeclosure (short) sales. They do not include payments for loss mitigation loan-workout actions.
[c]Due to delays in accounting for all property expenditures, the actual rate shown is not the final rate for the subject time period.
Source: US Dept of HUD, Office of Housing/FHA; October 2010.

Prepayments

During the fourth quarter, nearly 123,000 loans paid-off, for a fiscal year tally of slightly more than 430,000 payoffs. This fiscal year total was half of what was projected by the independent actuaries at the start of the year and is principally because refinance activity slowed down more than the statistical models predicted they would. This slowdown in payoffs is also seen in a 50 percent reduction in new refinance endorsements in FY 2010, as compared with FY 2009 (see Table A). Refinance endorsements picked up again in the final quarter, as interest rates dropped to new historical lows, yet the quarterly total of loan payoffs was still only half of what it was in the year-earlier period. The average interest rate on FHA refinance endorsements in this quarter was 4.77 percent, and just 4.64 percent in the month of September. These rates are down from 5.00 percent in the previous quarter and 5.15 percent in the first quarter of FY 2010.

Claims

During the fourth quarter, FHA paid more than 28,800 conveyance (foreclosure) claims and close to 4,300 pre-foreclosure (short) sale claims. Claim counts and dollars in the fourth quarter increased to be in-line with the quarterly prediction by the independent actuaries. Despite the increase in claims in the fourth quarter, the total number of claims for the fiscal year was less than predicted by the independent actuaries by 14 percent.

Based on current new 90-day delinquency rates and foreclosure starts, we anticipate that the number of conveyance claims will peak in the third or fourth quarter of FY 2011.

Net Loss on Claims

FHA's net loss on claim payments stayed within range of the actuarial predictions for the year. Michigan continues to have the lowest recoveries; it is second to Texas in number of foreclosure claims. Net recovery rates against defaulted loan balances in Michigan during FY 2010 have been 16 percent. In contrast, the net recovery of principal in Texas—after all property management and disposition costs are accounted for—was 57 percent.

Across the fiscal year, FHA has seen an improvement in loss rates due to better property recoveries and greater use of pre-foreclosure sales. While the number of conveyance claims in this quarter was 47 percent higher than the year-earlier period (28,783 vs. 19,574), the number of preforeclosure sales was nearly double the year-earlier count (4,294 vs. 2,208).

Table E. Budget Execution Credit Subsidy Rates

There were no changes in execution credit subsidy rates this quarter. Those rates identify the expected contribution of newly-insured FHA loans to the Federal budget. As budget execution rates, they represent preliminary estimates of the net present value of each dollar of insurance.

Each month, FHA passes to the United States Treasury as receipts an amount equal to the credit subsidy rate times the dollar volume of new insurance endorsements. Treasury then credits FHA's Capital Reserve Account with the same amount. Over time, as actual loan performance is observed, credit subsidy rates are updated (annually) to reflect loan performance. Those re-estimates lead to movements of money back-and-forth between the Capital Reserve Account and the Financing Account in order to ensure that the Financing Account has the balance required by Federal accounting standards.

Table E
FHA Single-Family Mortgage Insurance
Budget Execution Credit Subsidy Rates[a]

July 2010 – September 2010

Forward Loans	-1.13%[b]
Reverse Loans (HECM)	-0.50 [c]

[a]Budget execution credit subsidy rates are the expected net present value, per dollar of new insurance endorsements, of all cash flows from insurance operations over the life of the loan guarantees, and as-of the year of the insurance commitments. A negative rate means that the present value of premium revenues is expected to be greater than the present value of net claim expenses, over the life of the guarantees, i.e., a negative credit subsidy. Loans with negative credit subsidies are expected to produce receipts for the Federal budget. These initial budget-execution rates are those approved by the Office of Management and Budget for budget accounting. They will be updated on an annual basis, once the guarantees are in place, to reflect both actual experience and updated forecasts of future loan performance and insurance cash flows.

[b]The current credit subsidy rate for forward loans of -1.13 percent applies to loans endorsed since April 2010. The credit subsidy rate changed in response to the increase in the required upfront premium for new originations from 1.75 to 2.25 percent. Prior to April 2010, the FY 2010 execution credit subsidy rate for FHA single-family forward loans was -0.62 percent.

[c]The HECM program has operated under a -0.50 percent credit subsidy rate since October 1, 2009. The quarterly reports to Congress for FY 2010 Q1 and Q2 mistakenly reported this as -0.05 percent.

Source: US Dept of HUD, Office of Housing/FHA; October 2010.

Table S1. MMI Fund Balances by Quarter

Total Capital Resources in the MMI fund increased slightly in the fourth quarter to $33.3 billion. For all of FY 2010, total Capital Resources increased by $1.5 billion. This compares favorably to last year's projection by the independent actuaries that total capital resources would decline by approximately $5 billion.

The MMI Capital Reserve Account balance grew in this quarter both from continuing deposits, which represent budget receipts on new endorsements each month, and from interest earnings on the account. The Financing Account balance was lower due to net outlays from insurance operations (see Table S2).

The two accounts represented in Table S1 are the MMI Capital Reserve and Financing Accounts. The sum of these account balances represents total capital resources of the MMI Fund. The Financing Account is where FHA manages day-to-day cash transactions. In that account, FHA must hold sufficient funds to cover forecasted net outlays over the full life of all outstanding, guaranteed loans. Net outlays are measured as the difference between claim payments and the sum of premium revenues and property recoveries.

The Capital Reserve holds surplus cash in excess of all estimated future needs of the insurance operations. The Capital Reserve is intended to function as an additional, secondary reserve. During years in which balances in the Financing Account exceed forecasted needs for future net outlays, funds are transferred from the Financing Account to the Capital Reserve. During years in which the balance in the Financing Account is not sufficient to cover forecasted net outlays over the full life of all loans held on the portfolio, funds are transferred from the Capital Reserve to the Financing Account.

Since the end of fiscal year 2008, total capital resources have grown by $5 billion dollars. In the midst of this period of growth, there have been two upward budget re-estimates. These re-estimates were for $10.4 billion (2008) and $9.8 billion (2009), each posted in the following fiscal year. Upward budget re-estimates require that funds be transferred from the Capital Reserve to the Financing Account in anticipation of potential future cash needs, and not because there is any imminent cash short fall. An upward re-estimate means additional funding needs are anticipated due to increases in expected costs for outstanding loan guarantees in the future.

Re-estimates are calculated at the end of each fiscal year. They are based on updates to actual loan performance, revisions to loan servicing policies, and updated economic and market forecasts. The re-estimates assume a business wind-down scenario with no new insurance commitments. The required transfer of funds to or from the Financing Account as a result of the annual re-estimate typically occurs in May of the following year. The transfer is delayed to enable the cash transfer requirement to be measured using updated economic forecasts from the most recent President's Budget submission.

Table S1. FHA Single-Family Insurance MMI Fund Balances by Quarter, FY 2008 – FY 2010[a] (billions)				
Fiscal Year	Quarter Ending in	Capital Reserve Account[b]	Financing Account[c]	Total Capital Resources[d]
2008	September	$19.3	$9.0	$28.2
2009	December	19.6	9.3	28.9
2009	March	19.9	9.7	29.6
2009	June	10.0	20.9	30.9
2009	September	10.7	21.1	31.8
2010	December	11.4	21.2	32.6
2010	March	12.0	20.2	32.2
2010[e]	June	3.5	29.6	33.1
2010	September	4.4	28.9	33.3

[a]Only September 2008 and 2009 represent audited figures.

[b]This is an on-budget account that records net receipts provided by FHA to the federal budget, over time. Balances are held in cash and Treasury securities. The securities earn interest for FHA.

[c]This is a series of off-budget cash accounts used to manage insurance operation collections and disbursements.

[d]Total Capital Resources is the sum of Capital Reserve and Financing Account balances, and it represents the sum of cash and investments at the Treasury that can be immediately liquidated into cash. It does not represent total assets of the MMI Fund.

[e]Under requirements of Federal Credit Reform accounting, $9.8 billion was transferred in May 2010 from the Capital Reserve Account to the Financing Account, as part of the annual budget re-estimate process. Those transferred amounts became earmarked funds to cover possible future net claim losses. If they are not needed, they will be transferred back to the Capital Account in a future budget re-estimate.

Source: US Department of HUD/FHA; October 2010.

Table S2. Insurance Operations Cash Flows in FY2010

The MMI Fund ended FY2010 with net negative cash flow from business operations of $271 million. This was offset by $1.08 billion in interest revenue on business balances held with Treasury (Financing Accounts), so that MMI net income was positive for the year.

The largest movement in insurance operation cash flows this quarter was in claim payments. Total payments increased by more than $1 billion from the previous quarter, and were up 59 percent from the year-earlier period. As mentioned above (Table C-D), claim outlays to date are lower than projected by the independent actuaries but we expect them to continue to rise until the spring or summer of 2011.

Premium revenues this quarter were slightly higher than in the previous quarter (by $42 million) and were $230 million higher than in the year-earlier period.

Table S2. FHA MMI Fund Financing Account
Insurance Operations Cash Flows in FY2010, by Quarter[a]
(millions)

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Fiscal Year Totals
Collections					
Premiums	$ 2,418	$ 1,898	$ 2,465	$ 2,507	$ 9,289
Property Sale Receipts	1,086	1,093	1,493	1,347	5,020
Other	12	10	14	10	46
Total	3,516	3,002	3,972	3,865	14,355
Disbursements					
Claims[b]	$ (2,764)	$ (3,407)	$ (3,479)	$ (4,440)	$ (14,090)
Property Maintenance	(115)	(117)	(161)	(142)	(535)
Other	-	-	-	-	-
Total	(2,879)	(3,524)	(3,640)	(4,582)	(14,625)
Net Operations Cash Flow	$ 637	$ (523)	$ 332	$ (717)	$ (271)

[a]These are unaudited figures; totals may not add due to rounding.

[b]Claim payments shown here include conveyance, preforeclosure sale, note sales, and loss mitigation workout actions.

Source: US Department of HUD/FHA; October 2010.

Table S3. Serious Delinquency Rates

This table provides a time series of serious delinquency rates, by fiscal quarter and insurance book year. These rates identify the percentage of loans that may require intervention in order to prevent a foreclosure and insurance claim. FHA loan servicers are required to attempt contact and intervention with all insured borrowers that have a 90-day delinquency (three missed payments and a fourth due). Contact attempts can occur much earlier in a delinquency period, but servicing guidelines require concerted efforts at this point.

The serious delinquency rate increased slightly this quarter from 8.59% to 8.66%, due to normal seasonal variation. The seasonally-adjusted rate declined from 9.05% to 8.84%. It is typically the case that serious delinquency rates on FHA-insured loans rise between September and January, before falling again in February and March. The summer months—June, July, and August—have the best seasonal performance factors.

FHA's weakest books-of-business are FY 2007 and FY 2008, and the serious delinquency rates on those books-of-business continue to be elevated. Loans endorsed in those years are currently in their highest default and claim period. They have been particularly stressed by the current economic environment, were underwritten to lower standards than are permitted today, and more than 30 percent of purchase loans in each of those years utilized seller-funded downpayment assistance. Claim rates for seller-funded downpayment assistance loans are almost three times greater than those of other loans. As such, the ultimate claim rates (after 30 years) for loans endorsed in FY 2007 and FY 2008 are expected to be 20 percent or higher, which would be on a par with the worst FHA experience from the early 1980s.

Table S3. FHA Single-Family Insurance Serious Delinquency Rates[a] by Endorsement Fiscal Year And Activity Quarter[b]					
Endorsement Fiscal Year	FY2010 Q4	FY2010 Q3	FY2010 Q2	FY2010 Q1	FY2009Q4
Pre-2007	11.41%	11.15%	11.56%	11.89%	10.72%
2007	21.49	21.11	21.40	21.55	18.60
2008	18.37	17.35	17.13	16.22	12.19
2009	6.08	4.94	4.07	3.05	1.59
2010	0.65	0.33	0.16	0.02	-
All years	8.66%	8.59%	9.05%	9.44%	8.52%
All years – seasonally adjusted[c]	8.84%	9.05%	9.10%	8.90%	8.70%

[a]This rate is the sum of 90^{+}-day delinquencies, bankruptcies, and cases in foreclosure processing. These rates are not seasonally adjusted.

[b]As of the last day of each quarter.

[c] These rates are seasonally adjusted using the Census X-12 procedure

Source: US Department of HUD/FHA; October 2010.

Table S4. Early Period Delinquency Rates

Early-period delinquency rates are the first indication of strength or weakness of new insurance commitments. These rates are measured as the share of loans originated in a given quarter that experienced a 90-day delinquency within the first six payment-cycle months. The continued decline in early-payment (90-day) delinquency rates on newly originated loans in the last quarter of CY 2009 suggests that future claim rates could be lower on the FY 2010 book-of-business than they were for the FY 2009 book, while the FY 2009 book performed much better than did the preceding books. The FY 2010 book of insurance, which just closed, is based on loan originations starting in August of 2009. The FY 2010 is expected to perform even better than the FY 2009 book as the loans endorsed in 2009 were originated as both employment and housing markets were stabilizing. As long as the economy continues to recover, even if slowly, the FY 2010 book should have a final claim-rate experience that matches the best books of the 1990s.

The FHA streamline refinance program permits low-cost refinancing options for borrowers with existing FHA-insured mortgages. Recent book years of streamline refinance loans are performing worse than are purchase loans and fully-underwritten refinance loans in the FHA portfolio, as seen through their higher early-payment delinquency rates. The majority of recent streamline refinance loans were originally underwritten in FY 2007 and 2008. As stated earlier, loans endorsed in those book years were underwritten to lower standards than are permitted today and are currently in their highest default and claim years. Those loans also came on-line just at the economy was weakening and unemployment was increasing. Because the original loan was an insurance risk already on FHA’s books, streamlining into a new FHA-insured mortgage at a lower interest rate and payment should translate into a net benefit to the borrower and into lower risk to FHA.

HUD announced on September 18, 2009, that it would institute new policies for streamline refinancing, which became effective on January 1, 2010. Those policy changes established new requirements for loan seasoning, payment history, income verification, and demonstration of net tangible benefit to the borrower. They also require collection of credit score information when available. In addition, an appraisal is now required in all cases where a borrower adds closing costs to the loan balance. These program revisions bring documentation standards for streamline refinance transactions in line with other FHA loan origination guidelines and ensure the borrower's capacity to repay the new mortgage. While it is too early to measure the performance under the new standards, we expect these changes to improve the performance of streamline refinance loans going forward.

Table S4. FHA single-Family Insurance Early Period Delinquency Rates[a]/ by Origination Quarter and Loan Type/Purpose					
Calendar Year	Quarter	Loan Type/Purpose			
		Purchase	Refinance	Streamline Refinance	All
2007	Jan-Mar	2.58%	1.25%	2.69%	2.20%
	Apr-Jun	2.78	1.91	3.23	2.54
	Jul-Sep	2.60	1.96	2.87	2.40
	Oct-Dec	2.51	1.81	2.79	2.23
2008	Jan-Mar	2.30	1.71	3.14	2.16
	Apr-Jun	1.83	2.00	5.39	2.08
	Jul-Sep	1.50	2.10	5.75	1.78
	Oct-Dec	1.07	1.55	3.55	1.43
2009	Jan-Mar	0.91	0.85	2.32	1.26
	Apr-Jun	0.58	0.60	2.30	1.01
	Jul-Sep	0.42	0.59	1.86	0.68
	Oct-Dec	0.33	0.46	1.16	0.52

[a] Early period delinquency is defined here as having had a 90-day delinquency within the first six months of required mortgage payments. The first payment-due month is the second month after loan closing. Thus, these rates indicate the percent of loans experiencing a 90-day delinquency within 7 months of loan closing.

[b] Loans in this column are fully-underwritten conventional-to-FHA and FHA- to-FHA refinancings.

[c] Loans in this column are refinancings of loans already in FHA's portfolio and do not necessarily require property appraisals.

Source: US Department of HUD/FHA; October 2010.

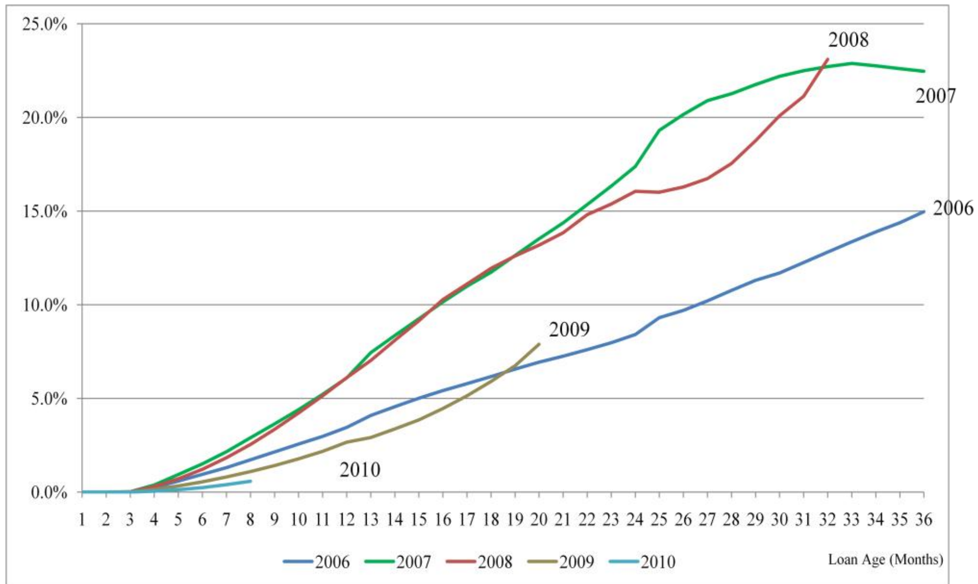
Figures S1-S3. Serious Delinquency Rates by Origination Year and Months of Seasoning

In addition to early delinquency rates (Table S4), the absolute strength of each book-of-business is also seen by tracking delinquency metrics as loans mature. Figures S1-S3 show serious delinquency vintage curves for loans originated since January 2006. Loans are grouped according to the calendar year of loan origination because recent changes in market dynamics are more closely tied to calendar years than to fiscal years. In addition, fiscal years of insurance endorsements actually start with loan originations in August of the previous calendar year. That is, the FY 2009 insurance book starts with loans originated in August 2008, which are then insured in October 2008, the first month of FY 2009.

These illustrations show how the CY2007 and 2008 books have higher credit risk than do the CY2009 and CY2010 books. In general, CY 2009 loans are performing like the 2006 book, and CY2010 loans are (to-date) performing better than those. The tail end of the 2009 curve rising above the 2006 curve in Figures S1 and S2 is only reflective of loans originated early in 2009. As that book matures, the stronger credit quality of loans originated later in the year will be seen by a lowering of that portion of the curve, and an expected settling below the 2006 curve.

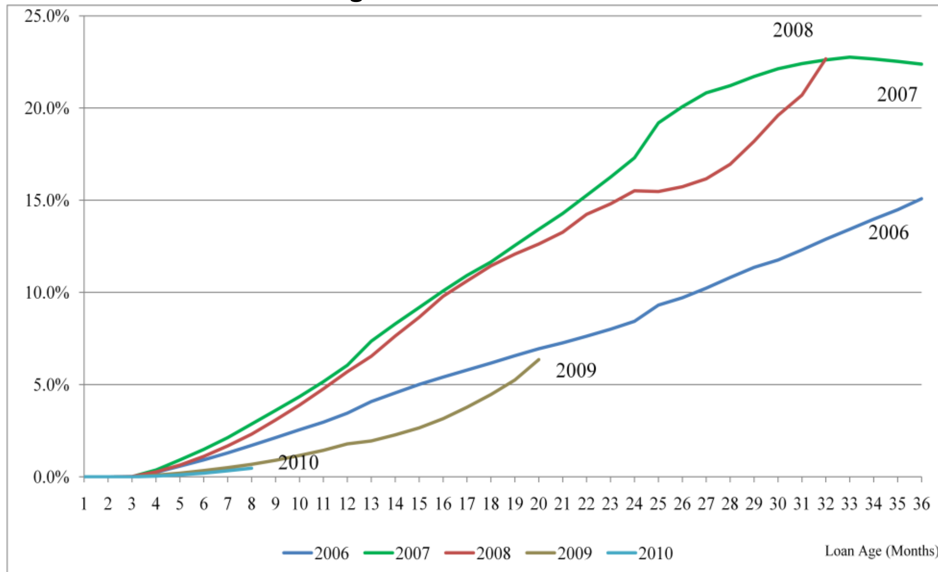
Streamline refinance loans (Figure S3) originated in 2009 are clearly performing worse than 2006 streamline refinance loans, though they are still better than the 2007 and 2008 vintages. The reason streamline loans in 2009 exhibit serious delinquency rates twice those of 2009 fully-underwritten loans (Figure S2) is that large numbers of streamline refinance loans came from the 2007 and 2008 books, and they include significant numbers of loans that began with seller-funded downpayments. What essentially makes the 2009 streamline refinance loans less risk than 2007 or 2008 is that mortgage interest rates fell in December 2008. Thus, loans originated in 2009 were taking advantage of interest rate reductions of one percent or more, which yielded average monthly mortgage payment savings of approximately $150.

Figure S1. Serious Delinquency Rates by Origination (Calendar) Year and Months of Seasoning All Endorsements



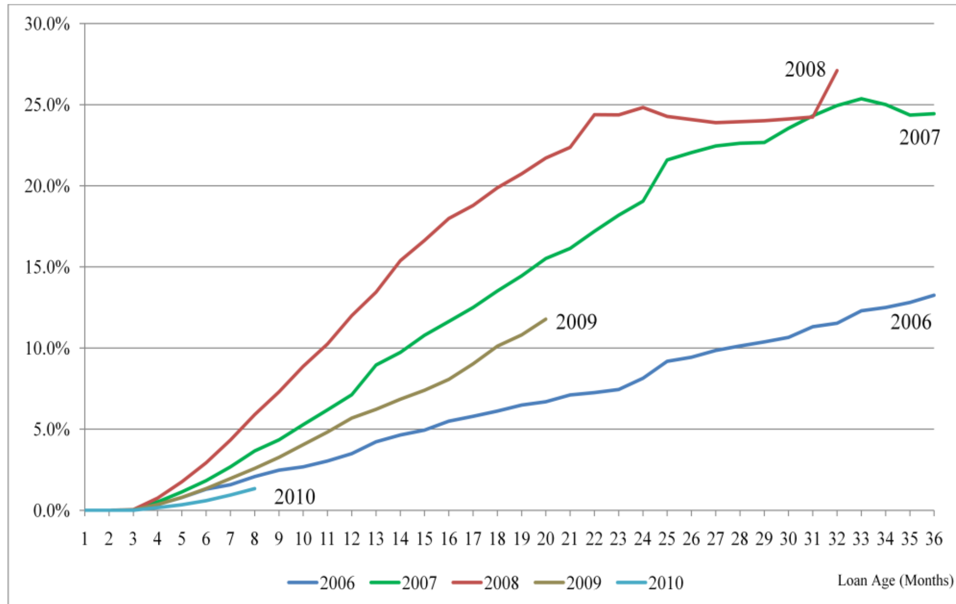
Source: US Department of HUD/FHA; October 2010.

Figure S2. Serious Delinquency Rates by Origination (Calendar) Year and Months of Seasoning Excluding Streamline Refinance Loans



Source: US Department of HUD/FHA; October 2010.

Figure S3. Serious Delinquency Rates by Origination (Calendar) Year and Months of Seasoning Streamline Refinance Loans



Source: US Department of HUD/FHA; October 2010.