U.S. Department of Housing and Urban Development

FHA Single-Family Mutual Mortgage Insurance Fund Programs

Quarterly Report to Congress
FY 2011 Q1

Delivered: March 17, 2011

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 2011 Q1

Data as of December 31, 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 2011 first quarter report on mortgages that are obligations of the Mutual Mortgage Insurance (MMI) Fund of the Federal Housing Administration. The report covers the period October 1, 2010, to December 31, 2010.

This quarterly report continues to provide detailed information on the composition and credit quality of new insurance, and on FHA's financial position. The five principal tables required by the Act are supplemented by two tables on Fund balances and insurance operation cash flows, and by two tables and three figures that provide various depictions of serious delinquency rates in the forward-loan portfolio.

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 www.hud.gov website. Finally, we delivered the FY 2010 Annual Report to Congress Regarding the Financial Status of the MMI Fund in mid-November. That too is available in the Reading Room at hud.gov, and it includes an exhaustive analysis of the portfolio including detailed projections of future performance. The Annual Report relays economic valuations performed in the independent actuarial studies of the forward and reverse loan portfolios of the MMI Fund, and those reports also are available through the same portal.

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

Tables A-1 and A-2. Insurance Endorsements

FHA endorsed 371,310 forward loans and 18,387 reverse mortgages in the first quarter of Fiscal Year 2011. On net, the dollar volume of new insurance in the quarter ($72.1 billion) was very close to that of the previous quarter ($71.4 billion). FHA single-family insurance activity in the quarter was marked by a decline in home-purchase endorsements, which was mostly offset by an increase in refinance activity. At the same time, dollar volumes in this quarter were more than sixteen percent below the year-earlier period level ($86.4 billion). The year-earlier period was marked by very high purchase-loan activity corresponding to the first expiration of the first-time-buyer tax credit.

Declines in insurance volumes are expected in the next quarter as loan originations – which precede insurance endorsements—fell throughout this past quarter. The overall dollar volume of loans originated for FHA insurance in the quarter was down 33 percent compared with the year-earlier period, with a 44 percent decline in home-purchase loan originations and a 16 percent decline in refinance originations. These product-level changes are in-line with other estimates of overall, national mortgage origination activity for the quarter. The year-over-year decline in total origination volume for FHA was larger than that for the overall market (33 percent vs. 24 percent) because home purchase loans are a greater share of FHA activity than they are for the overall market.[1]

HUD saw very little change in reverse mortgage (HECM) insurance activity in this quarter. Endorsement counts and dollar volumes were down just slightly from the previous quarter, though they were again down substantially from the year-earlier period. Applications for HECM loans in the quarter suggest that endorsements in FY 2011 Q2 should be close to the level of FY 2011 Q1. The premium rate increase that took place on October 4 has not appeared to have any measurable effect on HECM activity.

[1] Early estimates of market originations activity in 2010Q4 used here are from the MBA Mortgage Finance Forecast, January 14, 2011. See: http://www.mortgagebankers.org/files/Bulletin/InternalResource/75318_.pdf .

Table A-1 FHA Single-Family Mortgage Insurance Endorsement Counts by Fiscal 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	293,257	58,226	48,420	399,903	76,280
2007	261,165	104,578	36,600	402,343	107,368
2008	591,322	349,130	91,127	1,031,579	112,015
2009	995,103	468,769	367,427	1,831,299	114,641
2010	1,109,161	305,297	252,399	1,666,857	78,757
2011 (Oct-Dec)	196,690	65,211	109,409	371,310	18,387
Fiscal Year and Quarter					
2009Q1	261,262	122,124	25,638	409,024	27,651
2009Q2	182,562	120,021	97,838	400,421	30,190
2009Q3	228,665	118,679	143,295	490,639	28,686
2009Q4	322,614	107,945	100,656	531,215	28,114
2010Q1	304,827	86,517	96,148	487,492	24,729
2010Q2	245,777	88,338	67,975	402,090	20,278
2010Q3	289,685	65,577	31,027	386,289	15,266
2010Q4	268,872	64,865	57,249	390,986	18,484
2011Q1	196,690	65,211	109,409	371,310	18,387

[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 (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; January 2011.

Table A-2 FHA Single-Family Mortgage Insurance Endorsement Volumes by Fiscal Year and Quarter					
Time Period	Volumes (billion $)				
	Forward Mortgages[a]				Reverse Mortgages (HECM)[b]
	Home Purchase	Conventional Loan Refinance	FHA-to-FHA Refinance	All Forward Loans	
Fiscal Year					
2000	$ 79,397	$ 3,181	$3,697	$ 86,276	$827
2001	79,709	4,947	22,894	107,550	1,095
2002	91,025	7,404	37,713	136,141	1,975
2003	73,026	7,602	66,682	147,310	3,001
2004	66,835	6,998	33,787	107,620	6,885
2005	40,196	4,258	13,520	57,975	8,877
2006	37,102	8,521	6,109	51,732	17,973
2007	35,002	16,095	5,418	56,515	24,623
2008	95,373	61,526	14,906	171,805	24,241
2009	171,671	86,984	71,723	330,379	30,176
2010	191,602	56,431	49,459	297,492	20,974
2011 (Oct-Dec)	35,080	12,786	24,214	72,080	4,612
Fiscal Year and Quarter					
2009Q1	$45,286	$22,277	$4,440	$72,002	$5,955
2009Q2	31,285	22,273	18,915	72,473	7,771
2009Q3	38,763	22,460	28,851	90,074	8,059
2009Q4	56,337	19,974	19,518	95,830	8,390
2010Q1	51,950	15,843	18,600	86,393	6,947
2010Q2	42,794	16,402	12,884	72,080	5,491
2010Q3	49,578	12,145	5,900	67,624	3,859
2010Q4	47,279	12,041	12,075	71,395	4,676
2011Q1	35,080	12,786	24,214	72,080	4,612

[a]Starting in 2008Q4, these amounts 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 (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; January 2011.

Table B-1. Borrower Credit Score Distribution

For the first time since FHA began to require that lenders report borrower credit scores (May 2004), more than 60 percent of loans endorsed in the quarter were made to borrowers with credit scores above 680. That share is more than 20 percentage points higher than just two years ago (38 percent), and more than 40 percentage points higher than three years ago (18 percent). The average credit score for the highest-rated group—those with scores of 720 or better—is 761, which is just slightly higher than it was in the year-earlier quarter.

Table B-1
FHA Single-Family Mortgage Insurance
Borrower Credit Score[a] Distribution on New Endorsements[b]
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[c]
2007	Oct-Dec	11.2%	10.9%	31.7%	22.6%	17.8%	1.2%	4.7%
	Jan-Mar	10.3	10.2	31.1	23.0	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	3.9
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	23.2	20.4	1.7	3.1
	Apr-Jun	15.2	13.3	35.7	20.9	12.2	0.7	2.1
	Jul-Sep	19.2	16.1	37.5	19.0	6.7	0.2	1.3
2009	Oct-Dec	20.5	17.2	37.6	18.7	5.1	0.1	0.7
	Jan-Mar	24.4	19.0	37.0	15.5	3.4	0.0	0.6
	Apr-Jun	29.8	21.3	38.3	8.5	1.5	0.0	0.5
	Jul-Sep	33.5	22.2	37.9	4.9	1.0	0.0	0.5
2010	Oct-Dec	33.7	22.6	38.6	4.0	0.7	0.0	0.5
	Jan-Mar	34.0	22.9	38.6	3.5	0.5	0.0	0.5
	Apr-Jun	35.1	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
2011	Oct-Dec	37.3	23.3	36.2	2.5	0.3	0.0	0.3

[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 full underwriting and so they are not represented here.
[b]Excludes streamline refinance loans.
[c]Borrowers without credit histories can be underwritten for FHA insurance using alternative criteria.

Source: US Dept of HUD, Office of Housing/FHA; January 2011.

Table B-2. Average Borrower Credit Scores

The average borrower credit score across all product types has risen to 702. The largest improvements in credit scores continue to be within the refinance portfolio. Over the past four quarters the average credit score for home purchase loan endorsements has risen 4 points, that for conventional-to-FHA refinancing is up 15 points, and that for FHA-to-FHA refinance loans is up 21 points.

Among refinance loans, those with higher loan-to-value (LTV) ratios also have higher average credit scores. Those with LTVs above 90 percent have an average credit score of 714, while those with LTVs of 90 or less have an average credit score of 697.

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	638	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
2011	Oct-Dec	701	705	701	702

[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 full 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; January 2011.

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

In this quarter, 22 percent of all newly endorsed fully-underwritten loans had LTVs below 90 percent. This is the largest share of lower-LTV loans for any quarter over the past four years, with the exception of Q2 2010. This portfolio-level shift towards a lower average LTV is largely due to the increased share of refinance loans this quarter compared to loans for a home-purchase (Table A-1). While just eight percent of purchase-loan endorsements had LTVs below 90 percent (with an 83 percent share being in the 96-98 percent LTVclass), 55 percent of refinance endorsements in FY 2011 Q1 had LTVs of 90 or less and only 26 percent were above 95 percent.

Table B-3

FHA Single-Family Mortgage Insurance

Loan-to-Value (LTV) Ratio[a] Distribution on New Endorsements[b]

By Fiscal Year and Quarter

(Shares in each row add to 100%)

		LTV Categories[a]			
Fiscal Year	Quarter	Below 90	91-95	96-98[c]	DPA Loans[d]
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
2011	Oct-Dec	22.0	11.0	66.9	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]Excludes streamline refinance loans.

[c]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

[d]DPA loans represent downpayment assistance programs that operated through charitable organizations. The large shares of such loans endorsed through FY 2009 Q1 were nearly all from
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 here 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; January 2011.

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

Average LTVs rose slightly for each loan purpose group – home purchase, conventional-to-FHA refinance, and FHA-to-FHA refinance. At the same time, the average LTV for all loans decreased slightly in this quarter, from 93.49 to 93.22 percent,. As discussed in Table B-3, this seeming paradox is the result of refinance loans comprising a greater share of this quarter's endorsement totals.

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			
Fiscal Year	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	95.55	85.99	87.96	93.49
2011	Oct-Dec	95.62	87.06	88.94	93.22

[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 insurance 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; January 2011.

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

Table C-D FHA Single-Family Mortgage Insurance Termination and Claim Loss Experience to-date in Current Fiscal Year 2011 October 2010 – December 2010				
	YTD Predicted[a]	YTD Actual	Deviation (YTD Actual - YTD Predicted)	Percentage Deviation (YTD Actual vs. YTD Predicted)
Prepayments - Number	144,516	162,779	18,263	13%
Claims - Number[b]	37,557	27,048	-10,509	-28
Claims – Dollars (mil)[b]	$5,520	$3,397	($2,122)	-38
Net Loss-on-Claims (%)[c]	57.79%	55.81%	-1.98%	

[a]Predicted data are from the forecasts used in the FY 2010 FHA financial statements. Numbers of Prepayments and Claims used in those forecasts are from the FY 2010 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 reported here is subject to revision.

Source: US Dept of HUD, Office of Housing/FHA; January 2011.

Prepayments

Actual loan prepayments in the quarter were 13 percent higher than predicted in the FY 2010 Actuarial Review forecasts. This likely can be explained by the unexpectedly low interest rate environment during the quarter. In periods of decreasing interest rates, loans are more likely to prepay as borrowers have the opportunity to refinance their homes at lower interest rates and with lower monthly payments.

It is important to note that, of the nearly 163,000 prepayments in this past quarter, more than 109,000 (67 percent) returned to FHA in a new refinance transaction. Thus, a higher level of prepayments than anticipated does not, by itself, mean FHA is in jeopardy of losing expected premium revenue. In fact, due to the recently enacted reforms to FHA's mortgage insurance premium structure, all new FHA-to-FHA refinance loans coming from earlier books-of-business (before October 2010) will contribute more revenues to the MMI Fund over time than was expected. That is because the annual premium rates on the new refinance loans are higher than the rates required on the previous loans.

Claims

Compared with predictions from the FY 2010 Actuarial Review, the number of actual claims was 28 percent lower and the dollar amount was 38 percent lower than forecast. It is likely that this trend will be reversed as the fiscal year continues because expected claims appear to be delayed, rather than avoided. Although the number of actual claims decreased in this quarter, FHA's in-foreclosure inventory at the end of the quarter, and the length of time loans are spending in foreclosure, has risen due to various delays in foreclosure processing imposed by servicers. At nearly 176,000 loans, FHA's in-foreclosure inventory is at an historic high, and is 27 percent higher than it was one year earlier.

Net Loss on Claims

The net loss rate on claims remains high in the current economic environment, but it is in-line with actuarial projections made at the start of the fiscal year. Net loss rates on foreclosure cases are comparable to where they have been over the past year. FHA's overall loss rate continues to benefit from strong preforeclosure (short) sale activity as a default resolution tool. Preforeclosure (or, short) sales result in a lower net loss per claim than if a loan were to otherwise go through the entire foreclosure process and HUD then manage and sell the property. In this quarter HUD paid claims for 4,072 preforeclosure sales, up from 2,714 in the year-earlier period. That increase represents more than a 2 percentage point change in share of all claim payments, from 12.3 percent one year ago to 14.4 percent in FY 2011 Q1.

Table E. Budget Execution Credit Subsidy Rates

The new credit subsidy rates used this quarter reflect a combination of program changes that took effect in October 2010, and economic forecasts used in the President's FY 2011 budget.

The credit subsidy rate for forward loans endorsed in FY 2011 is -2.58 percent, which compares to a -1.13 percent rate for loans endorsed between April and October of 2010. The new credit subsidy rate is thus 1.45 percentage points higher than the execution rate used for the last six months of FY 2010.[2] That means FHA is now putting more money into its capital reserve account for each new dollar of loans insured—1.45 cents more. In the forward-loan program, FHA implemented a new premium structure, with higher expected revenues over the life of the loan guarantees. This new structure relies more upon higher annual mortgage insurance premiums and less upon the upfront mortgage insurance premium.[3]

The credit subsidy rate for reverse mortgages endorsed in FY 2011 is 0.00 percent, which compares to -0.50 percent for loans endorsed throughout FY 2010. With HECM loans, FHA increased the periodic premium rate from 0.50 to 1.25 percent, but it also introduced an option for borrowers to eliminate the upfront premium in exchange for a lower maximum equity take out. Credit subsidy rates for HECM do not show the same benefit from higher premium charges as does the rate for forward loans. In fact, the FY 2011 credit subsidy rate for HECM provides for no funds to be added to the capital reserve account for new loan guarantees. New premium revenues are offset by two factors. First is an accounting for an expense factor associated with the potential cost of claims on loans where the borrowers stop paying required property charges (e.g., taxes and hazard insurance, and the lender pays them to protect HUD's lien position). Second is accounting for new research that shows expected home-value appreciation for seniors can be less than average expectations for an entire housing market. That increases both the incidence and severity of projected losses.

[2] In the federal budget, negative values represent net inflows or receipts, so a larger negative credit subsidy rate implies higher expected net receipts from new insurance endorsements.

[3] FHA reduced the upfront charge from 2.25 to 1.00 percent and increased the annual charge (paid monthly) by 35 basis points, to 0.85 percent for loans with LTVs up to 95 percent and 0.90 percent for loans with LTVs above 95 percent.

Table E FHA Single-Family Mortgage Insurance Budget Execution Credit Subsidy Rates[a] FY 2011	
Forward Loans	-2.58
Reverse Loans (HECM)	0.00

[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.

Source: US Dept of HUD, Office of Housing/FHA; January 2011.

Table S-1. MMI Fund Balances by Quarter

As anticipated, total capital resources declined from $33.3 billion to $32.7 billion this quarter as gross claim expenses were larger than revenues from premiums and property sales (see Table S-2). The Capital Reserve Account increased by $1.9 billion while the Financing Account balance decreased by $2.5 billion. The decline in the balance of the Financing Account represents both a net outflow of claim expenses versus premium revenues and an additional transfer of funds to the MMI Capital Reserve Account. This transfer is a by-product of the new premium structure, which relies more upon the periodic premium than it does the upfront premium charge.

To see this, note that the execution budget credit subsidy rate of -2.58 percent (Table E) means HUD transfers 2.58 cents per dollar of new insurance endorsements into the Capital Reserve Account each month. In contrast, the upfront insurance premium charge is only 1.00 percent, so that additional monies—1.58 percent of the new loan balances—are needed to cover the full credit subsidy transfer. Those additional monies are paid from general Financing Account balances. The Financing Account effectively will be repaid by the monthly premiums charged on these loans over the first two years of their active life. [4] Premium collections from this group of loans after that time are expected to be sufficient to pay for ongoing net claim expenses.

For the entire MMI portfolio, the movement to a lower upfront premium rate creates a situation where total premium revenues are lower each month than they would have been if HUD had not changed the premium structure in October 2010. That imbalance, however, is a temporary situation that should last no more than one year. In the meantime, the Financing Account has sufficient funds to manage the resulting cash-flow need. As more loans come into the portfolio each month with the new premium structure—which provides for more total revenues over time—their higher monthly premiums will eventually offset the lower upfront premium collected on new endorsements. In the meantime, Capital Reserve Account balances are growing at a faster rate under the new premium structure than they would have under the former structure.

[4] Few claims occur in the first two years of loan life.

Table S-1. FHA Single-Family Insurance MMI Fund Balances by Quarter, FY 2009 – FY 2011[a] (billions)				
Fiscal Year	Quarter Ending in	Capital Reserve Account[b]	Financing Account[c]	Total Capital Resources[d]
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
2011	December	6.3	26.4	32.7

[a]Only September 2009 and September 2010 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 the 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 claims

Source: US Department of HUD/FHA; January 2011.

Table S-2. Insurance Operations Cash Flows in FY 2011

Although the dollar volume of MMI insurance endorsements was stable this quarter, at $77 billion, total premium revenues collected in the quarter decreased by $275 million from the previous quarter. The decrease in total premiums collected is temporary and is due to the lower upfront premium charged on new forward-loan endorsements that went into effect on October 4, 2010. Over time, the higher annual premium charge will lead to an increase in total premiums collected per quarter.[5]

Claim expenses decreased by $675 million dollars this quarter, to $3.8 billion, yet remain at elevated levels. In future quarters, claim expenses are likely to increase temporarily as loan servicers resolve foreclosure processing deficiencies. These claim expenses are anticipated and are fully accounted for in HUD's actuarial forecasts and loan-loss reserves. Transfers from the Capital Reserve Account to the Financing Account over the past three years were made in preparation for the anticipated high levels of net claim outlays—after recoveries from property sales—that will likely continue through FY 2012.

Under mortgage insurance premiums and policies that governed loans throughout Q1 2011, operating cash flow was expected to become positive again in the second quarter of FY 2012. Beginning April 18, 2011, FHA will increase the annual mortgage insurance premium on forward loans by 25 bps. The premium rate for mortgages with loan-to-value ratios up to 95 percent will increase from 85 to 110 basis points, and the premium rate for mortgages with ratios above 95 percent – and for streamline refinance loans—will increase to 115 basis points.[6] This premium increase is expected to accelerate the return to positive operating cash flow and also increase reserves in the Capital Reserve Account more quickly than previously forecasted.

[5] FHA lowered the upfront mortgage insurance annual premium from 2.25 to 1.00 percent, for all loans with application dates of October 4 or later. As insurance endorsement lags application and loan origination, the full negative effect of this change in cash flows will not be seen until FY 2011 Q2. The switching point, at which time premium revenue is higher than it would have been under the former premium structure should be in FY 2012 Q1.

[6] See Mortgagee letter 11-10, February 14, 2011, "Annual Mortgage Insurance Premium Changes and Guidance on Case Numbers," which is available at : http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/

Table S-2. FHA MMI Fund Financing Account
Insurance Operations Cash Flows in FY2010 Q2 -FY2011 Q1, by Quarter[a]
(millions)

	FY 2010 Quarter 2	FY 2010 Quarter 3	FY 2010 Quarter 4	FY 2011 Quarter 1	Cumulative Past 4 Quarters
Collections					
Premiums	$ 1,898	$ 2,465	$ 2,507	$ 2,232	$ 9,102
Property Sale Receipts	1,093	1,493	1,347	913	4,846
Note Sale Collections	-	-	-	32	32
Other	10	14	10	12	46
Total	3,002	3,972	3,865	3,189	14,028
Disbursements					
Claims[b]	$ (3,407)	$ (3,479)	$ (4,440)	$ (3,765)	$ (15,091)
Property Maintenance	(117)	(161)	(142)	(170)	(590)
Other	-	-	-	-	-
Total	(3,524)	(3,640)	(4,582)	(3,935)	(15,681)
Net Operations Cash Flow	$ (523)	$ 332	$ (717)	$ (746)	$ (1,654)

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

[b]Claim payments shown here include conveyance, preforeclosure sale, note sales, loss mitigation (home retention) actions, and all HECM claims (assignment and short-fall claims).

Source: US Department of HUD/FHA; January 2011.

Table S-3. Serious Delinquency Rates

The serious delinquency rate for the total portfolio at the end of Q1 2011 is 8.78 percent, which is substantially lower than the 9.44 percent rate observed one year earlier. The seasonally adjusted series has been falling for each of the past four quarters and the rate is 8.29 percent at the end of Q1 2011.

This improved loan performance is due to the stronger 2009-2011 books, which now represent half of all insured loans, by count. The 2007 and 2008 books, which continue to be the worst performing, now represent just 15 percent of the active portfolio, compared to close to 19 percent one year ago. The 2009 book is now starting to enter its peak default period (years two through four), but it is expected to perform much better than did its predecessors. At this stage in its seasoning, the 2009 book has claim rates that are less than half those seen at the same stage for the 2005-2008 books (Figures S1-S3 beginning on page 21).

Table S-3. FHA Single-Family Insurance Serious Delinquency Rates[a] by Endorsement Fiscal Year And Activity Quarter[b]

Endorsement Fiscal Year	FY2011 Q1	FY2010 Q4	FY2010 Q3	FY2010 Q2	FY2010 Q1
Pre-2007	11.59%	11.41%	11.15%	11.56%	11.89%
2007	22.44	21.49	21.11	21.40	21.55
2008	19.65	18.37	17.35	17.13	16.22
2009	7.23	6.08	4.94	4.07	3.05
2010	1.20	0.65	0.33	0.16	0.02
2011	0.01				
All years	8.78%	8.66%	8.59%	9.05%	9.44%
All years – seasonally adjusted[c]	8.29%	8.84%	9.05%	9.10%	8.90%

[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; January 2011.

Table S-4. Early-Period Delinquency Rates

Early-period delinquency rates are the first indication of strength or weakness of new insurance commitments. These rates measure the share of loans originated in a given quarter that experienced a 90-day delinquency within the first six payment-cycle months.

The quality of newly originated FHA loans continues to improve each quarter, as measured by early-period delinquency rates, with the early-period delinquency rate of new loans falling to a historic low of 0.37 percent for loans originated in FY 2010 Q3 (as measured in FY 2011 Q1). Early indications are that the FY2010 book should perform substantially better than did the FY 2009 book, which itself performed substantially better than did the FY2007 and FY 2008 books.

Table S-4. FHA Single-Family Insurance
Early Period Delinquency Rates[a] by Origination Quarter
and Loan Type/Purpose

Fiscal Year	Origination Quarter	Loan Type/Purpose			
		Purchase	Refinance[b]	Streamline Refinance[c]	All
2007	Oct-Dec	1.84%	0.87%	1.61%	1.55%
	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
2008	Oct-Dec	2.51	1.81	2.79	2.23
	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
2009	Oct-Dec	1.07	1.55	3.55	1.43
	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
2010	Oct-Dec	0.33	0.46	1.16	0.52
	Jan-Mar	0.36	0.35	0.89	0.40
	Apr-May	0.37	0.35	0.82	0.37

[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 that replace loans already in FHA's portfolio and do not necessarily require property appraisals.

Source: US Department of HUD/FHA; January 2011.

Figures S-1 through S-3. Serious Delinquency Rates by Origination Year and Months of Seasoning

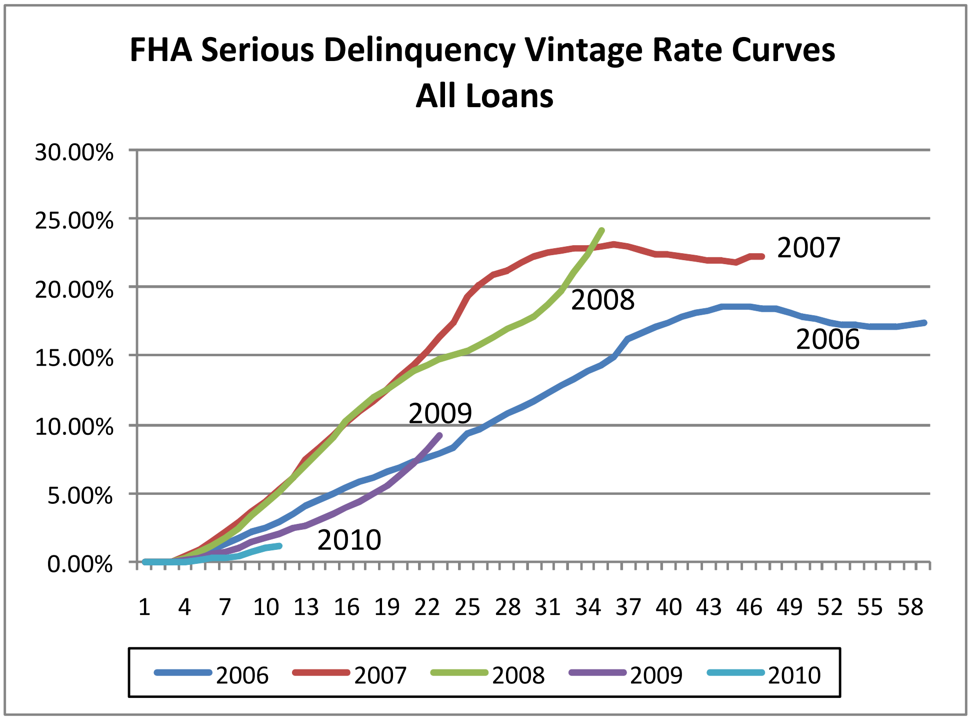
These vintage curves show serious delinquency rates on each book-of-business, with loans grouped by age, in months. For example, the 10-month rates within each origination-book year are the grouped rates for all loans 10 months after they were originated. These curves provide a longer-term perspective on delinquency rates than the early-period delinquency rates depicted in Table S-4. The curves shown here confirm what is seen in the early period delinquency rates of Table S-4, that the 2009 and—especially—the 2010 book are substantially outperforming the 2007 and 2008 books, as measured by significantly lower rates of serious delinquency at each month of seasoning. Data here are organized by calendar-year books rather than by fiscal year because this view more clearly shows that the characteristics of loans coming to FHA in 2008 and 2009 were closely correlated to economic conditions occurring in the calendar years.[7]

During times of uncertain economics, or when the nature of a book is changing as new originations come on-board, the outer tails of these curves are subject to change as they encompass more of the origination book. That is the case especially for the 2008 and 2009 vintage curves. The underlying credit quality of borrowers in those books increased on a monthly basis, and that improvement continued even into 2010. Thus, the upswing in the tails of the 2008 and 2009 curves indicates that the credit quality of originations early in each year was lower than the credit quality of loans originated later in each year (see Table B-2). As the 2009 book continues to season, and the later originations are reflected in what is now the tail of the curve, that tail should adjust downward. We anticipate that the 2009 vintage curve will remain below that of 2006 for the second and third years of seasoning, just as it is for the first 18 months of loan seasoning. Likewise, the 2008 vintage curve should settle to a position below that of the 2007 curve for the full third year of seasoning and beyond.

It appears that the 2006 and 2007 books have experienced their peak delinquency period, with serious delinquency rates trending downward over the past 10 calendar months. The fact that the 2006 book peaked at a seasoning point approximately 12 months later than that of the 2007 book is indicative of how both books have been strongly affected by the economic climate that they experienced together – the performance of both books has been more closely related to the downturn in the economy than to the length of time after the loan was originated.

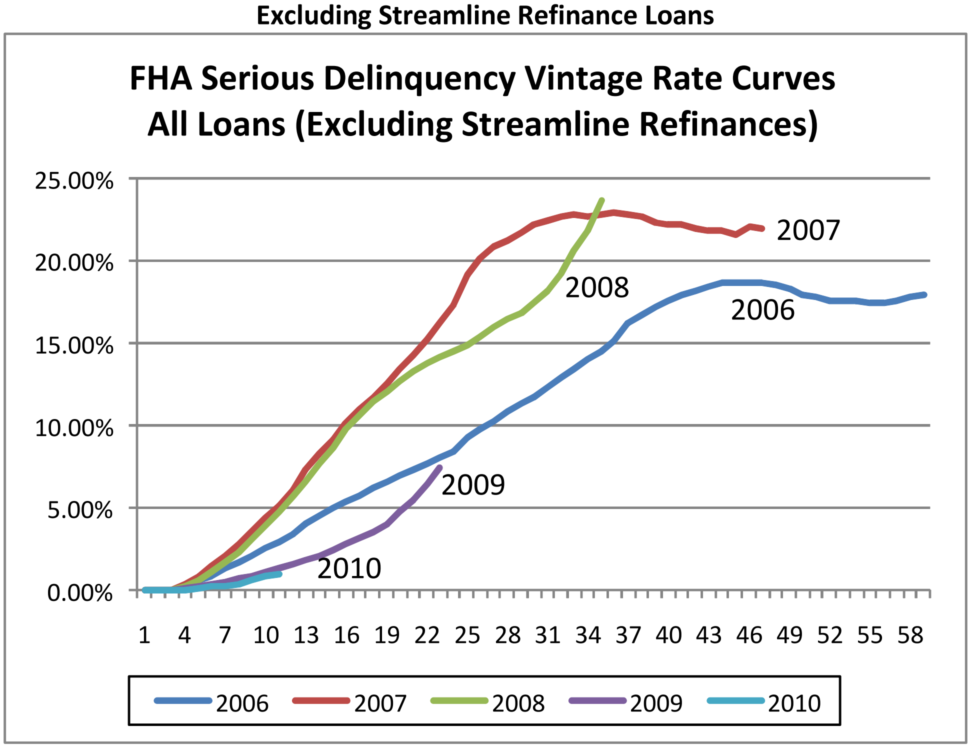
[7] Specifically, credit scores on FHA loan endorsements started their more than two-year rise in early CY 2008, and the quality of refinance loans increased dramatically starting in January 2009 because of the substantial decline in interest rates that started in December 2008.

Figure S-1. Serious Delinquency Rates
by Origination (Calendar) Year and Months of Seasoning
All Endorsements



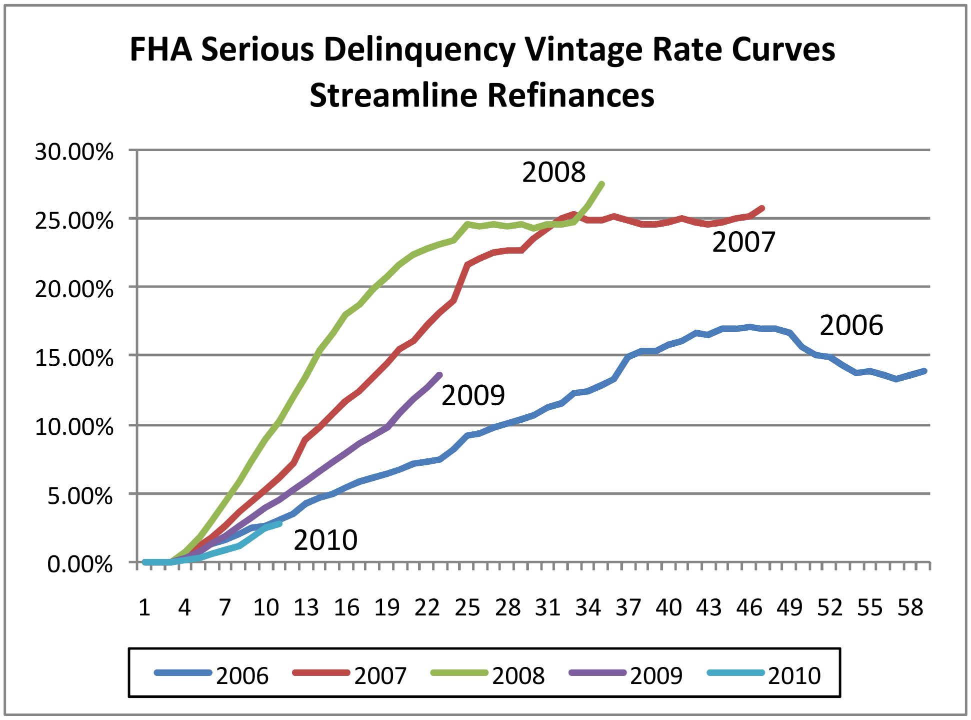
Source: US Department of HUD/FHA; January 2011.

Figure S-2. Serious Delinquency Rates
by Origination (Calendar) Year and Months of Seasoning
Excluding Streamline Refinance Loans



Source: US Department of HUD/FHA; January 2011.

Figure S-3. Serious Delinquency Rates by Origination (Calendar) Year and Months of Seasoning Streamline Refinance Loans



Source: US Department of HUD/FHA; January 2011.