FHA Single-Family
Mutual Mortgage Insurance Fund Programs
Quarterly Report to Congress
FY 2011 Q3

The FY 2011 Q3 report shows that the MMI Fund continues to benefit from high-quality endorsement activity in FY 2011 and lower than expected prepayment speeds. The FY2011 Q3 endorsements alone added $1.7 billion in new funds to the capital reserve account. At the same time, the combination of actual and delayed claims (via lengthy foreclosure processes) shows that earlier books of business will result in net losses for the Fund. While we remain cautious about economic conditions, most notably house prices, our recent books of business are performing very well and are helping counteract the lingering effects of the 2006-2008 originations.

- In the third quarter of Fiscal Year 2011, FHA endorsed for insurance 272,978 forward loans and 17,160 reverse mortgages (HECM product). Those counts represent quarterly changes of -4.5 and -16.9 percent, respectively, in FHA's two principal single-family product lines. On a year-over-year basis, forward-loan endorsements were down 29.3 percent while HECM activity was up 12.4 percent. The HECM expansion from the year-early period can be attributed primarily to the new Power Saver option, which accounted for 1,283 endorsements in this quarter.

- This quarter marks the first time that the share of borrowers with credit scores above 680 has declined since FY2008 Q1. This was due to a combination of 1) the largest percentage growth in purchase-loan activity being in the 580+ and 620+ groups, and 2) the largest percentage decline in refinance activity being in the 720+ and 680+ groups.

- The distribution of LTV ratios within major product lines – purchase and refinance loans – changed very little this quarter, but the shift of product shares toward purchase loans affected the overall LTV distribution. The share of loans with LTV ratios above 95 percent rose over six percentage points to 71.5 percent. It had last been at this level during the last two quarters of FY 2010; it had first fallen below this level in the final quarter of FY 2006.

- Even with the sizable shift in LTV shares to the highest category (see Table B-3), the overall average LTV for new endorsements increased by less than one percentage point, to 93.67 percent. This is because the average LTV for refinance loans declined by 0.75 percent while the average LTV for purchase loans rose only 0.17 percent.

- The serious delinquency rate for the single-family portfolio at the end of FY 2011 Q3 continued its downward trend to 8.18 percent.

- The latest quarter reported here (FY 2011 Q1) has an early-period delinquency rate of just 0.30 percent, which is a new low for recent history, and is a small fraction of the peak rate experienced for loans originated in FY2007 Q3 (2.54 percent). The best improvement in early delinquencies compared to the prior quarter was in streamline refinance loans, and they made up 23 percent of all originations in the quarter.

- The vintage curve analysis shown in Table S-4, indicates that the calendar year 2009 and 2010 loan originations are substantially outperforming the 2006-2008 books, as measured by significantly lower rates of serious delinquency. As the 2006-2008 books of business pay off, the stronger more recent originations should help strengthen FHA's finances.