*U.S. Department of Housing and Urban Development*

# *FHA Single-Family Mutual Mortgage Insurance Fund Programs*

## *Quarterly Report to Congress*

### *FY 2013 Q1*

*Delivered: May 15, 2013*

**FOREWORD**

On behalf of Secretary Donovan and Acting FHA Commissioner Carol Galante, 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 2013 first quarter report. This report covers mortgages that are obligations of the Mutual Mortgage Insurance (MMI) Fund of the Federal Housing Administration and the reporting period is from October 1, 2012 through December 31, 2012.

This quarterly report continues to provide detailed information on the composition and credit quality of new insurance, and on FHA's financial position. In addition to this report to Congress, FHA provides information regarding the status of FHA the single-family loan-guarantee portfolio via the publication of other complementary reports. All FHA reports can be found on the Office of Housing Reading Room on the www.hud.gov website. FHA is presently in the process of streamlining its reporting and intends to improve the regularity of its publications.

Also posted in the Office of Housing Reading Room are annual independent actuarial reviews of the MMI Fund and HUD's Annual Report to Congress on the financial status of that Fund. HUD posted the actuarial review and Annual Report to Congress for FY 2012 in mid-November. The FY 2012 Annual Report, which summarizes an independent actuary's exhaustive analysis of the portfolio, includes detailed projections of future performance and discussion of economic risk to the MMI Fund.

At the end of Fiscal Year 2012, the independent actuary determined that the MMI Fund had a negative economic value of $16.3 billion and a negative capital reserve ratio of 1.44 percent. We take this these findings extremely seriously. While this point-in-time valuation of the economic net worth of FHA's portfolio is obviously of concern, it does not in and of itself mean that FHA will have to draw from the Treasury to possess sufficient funds today to cover expected future losses on FHA's existing portfolio. In addition to the reforms made thus far to strengthen FHA's health—the most sweeping in the nearly 80-year history of FHA—the Department has launched a series of other actions designed to increase revenues and lessen credit losses while ensuring that no harm comes to borrowers or to the emerging housing recovery. These additional measures, combined with authorities we are seeking from Congress, will make the Fund even stronger over the long term.

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

Sincerely,

Frank Vetrano

Frank Vetrano
Deputy Assistant Secretary
Risk Management and Regulatory Affairs

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

## FY 2013 Q1

## Data as of December 31, 2012

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

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:

| Mandated Item | Summary | Page | Exhibit |
|---|---|---|---|
| **A)** 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; | The forward-loan endorsement count for the quarter was above 353,000 with a dollar volume of $63.7 billion. This represents a 6 percent increase in number of loans and 5 percent increase in dollar volume.The HECM endorsement count was 11,734 and volume was $2.7 billion. Each represent a slight increase from the previous quarter. | **5, 16, 17** | **1, A-1, A-2** |
| B) Types of loans insured, categorized by risk; | The average credit score this quarter was 696, and the average loan-to-value ratio 94.3%. Both were unchanged from the previous quarter. | **6 - 8, 18 - 21** | **2 - 4, A-3 – A-6** |
| C) Significant changes between actual and projected claim and prepayment activity; | Q1 prepayment activity was 139% above actuarial predictions, due to interest rates remaining near historical lows. Over 60 percent of those prepayments returned to FHA as new refinance loans. Claim activity continued to trend well below predicted levels due to delays in foreclosure processing. | **9** | **5** |
| D) Projected versus actual loss rates | The average net loss rate on all claim activity (57.8%) was in-line with actuarial projections (57.1%). | **9, 24** | **5, A-7** |
| E) Updated projections of the annual subsidy rates | The budget credit subsidy rates for FY 2013 are higher (in absolute value) than FY 2012 for forward loans but lower (in absolute value) for HECM loans. | **10** | **8** |

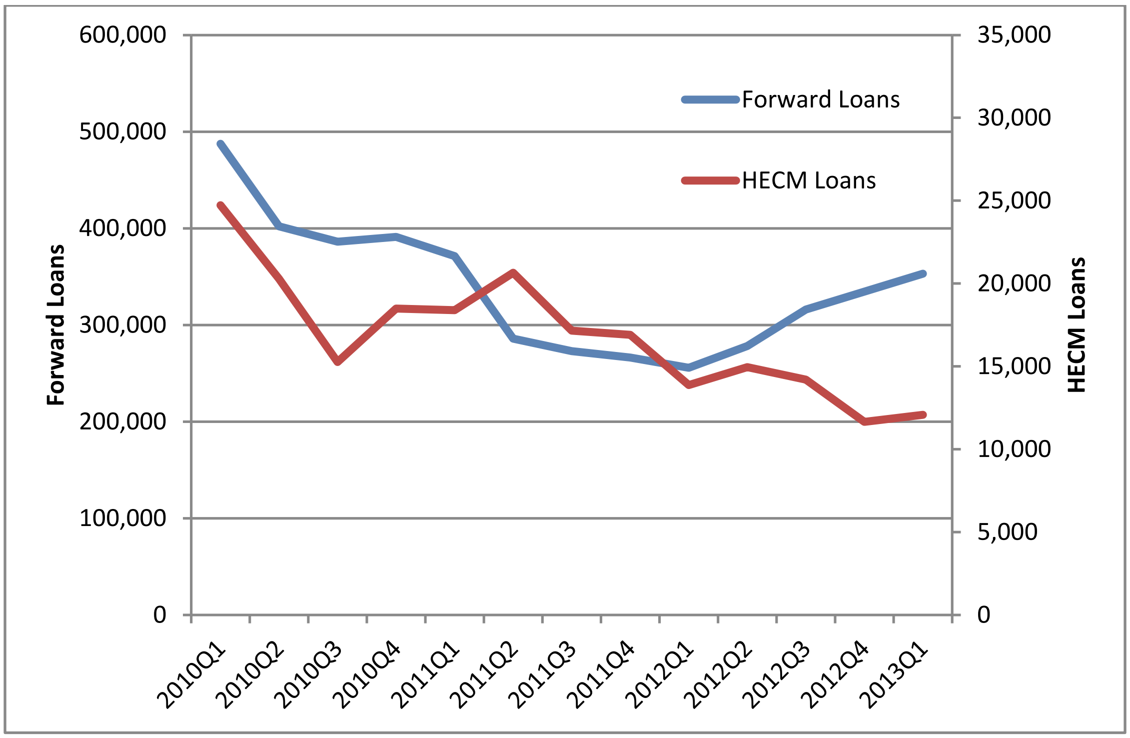
| Other | Summary | Page | Exhibit |
|---|---|---|---|
| F) MMI Fund Balances | MMI Fund balances at the end of FY 2013 Q1 were $37.1 billion, a decline of $1.3 billion from the previous quarter. | **11** | **9** |
| G) Business Operations Cash Flows | Core business-operations cash flow in FY 2013 Q1 was -$1.3 billion. FHA paid $6.0 billion in claims and property expenses, while receiving $4.7 billion in revenues from premium income and | **12** | **10** |

| | | | |
|---|---|---|---|
| | sales of notes and properties. | | |
| H) Early Period Delinquency | Early period delinquency rates for the most recently available quarter (FY 2012 Q3) increased slightly from the previous quarter (from 0.33 to 0.35%) due to an increase in the rate for refinance loans. | **13** | **11** |
| I) Serious Delinquent Rates | The portfolio-level seasonally-adjusted serious delinquency rate (SD) declined for the second consecutive quarter. At 9.16% it is now close to the year-earlier rate (9.05%). By vintage, the non-adjusted SD rates declined for all cohorts through 2010. While the 2011 and 2012 cohorts experienced increases, those reflect only normal trends as cohorts age. | **14 -15** | **12 - 13** |

## Endorsement Activity

In the first quarter of Fiscal Year (FY) 2013, FHA endorsed for insurance 353,125 forward loans, including 152,513 in FHA-to-FHA refinances and 12,079 reverse (Home Equity Conversion) mortgages (HECM). Forward-loan endorsements increased about six percent, while HECM loans declined four percent from the previous quarter. On a year-over-year basis, forward-loan endorsements increased by 38 percent and HECM decreased one percent. The increase in forward-loan activity was all due to refinance actions, with little change in home-purchase loan endorsements.

**Exhibit 1: Endorsement Counts by Fiscal Year and Quarter**

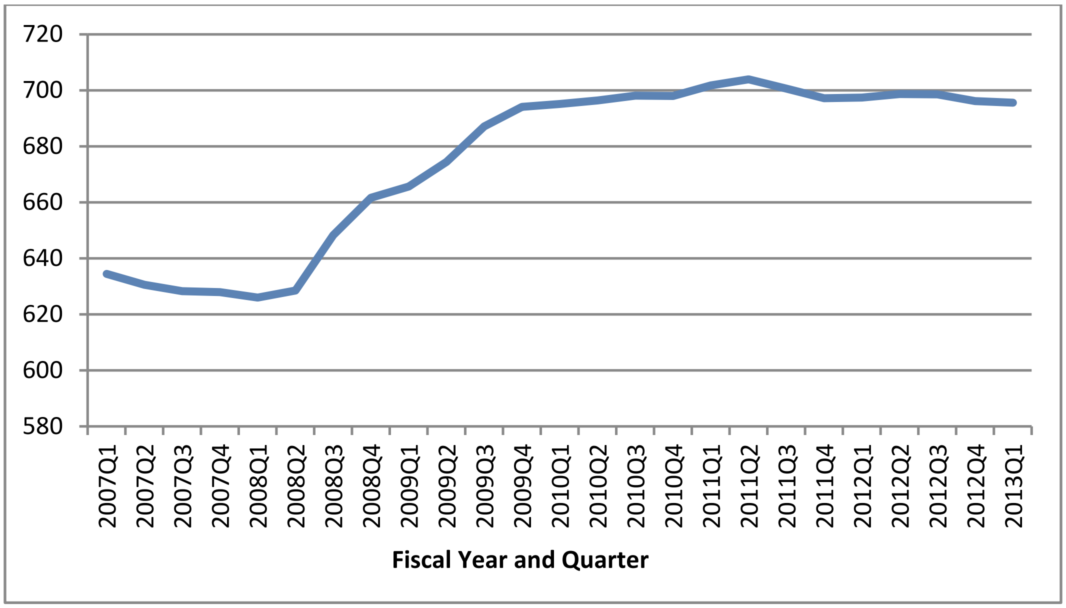



Source: US Department of HUD/FHA, April 2013

## Borrower Credit Scores

The overall average borrower credit score for FY 2013 Q1 was 696, unchanged from the previous quarter and one point lower than in the year-earlier period. The average score has been in the range of 694 and 703 since FY 2009 Q4.

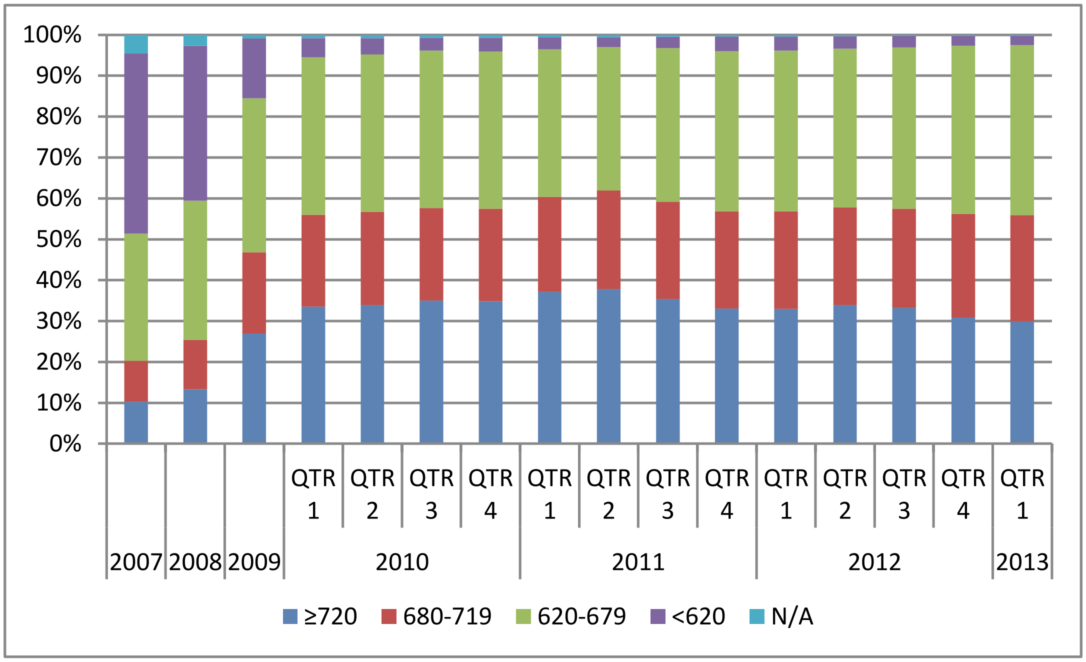
**Exhibit 2: Average Borrower Credit Scores by Quarter**




Source: US Department of HUD/FHA, April 2013.

A breakdown of endorsements by credit-score ranges shows small movements from the previous quarter. The share of loans in the highest value range, 720-850, was down by one percent to 29.9 percent, while the share in the 680-719 range was up 1.3 percent to 26.0 percent. The share of borrowers in the 620–679 segment, FHA's traditional, core borrower base, increased by a small amount this quarter to 41.6 percent. The 100-point range of 620-719 comprised nearly 68 percent of FHA's endorsement activity this quarter.

**Exhibit 3: Distribution of Borrower Credit Scores by Quarter**

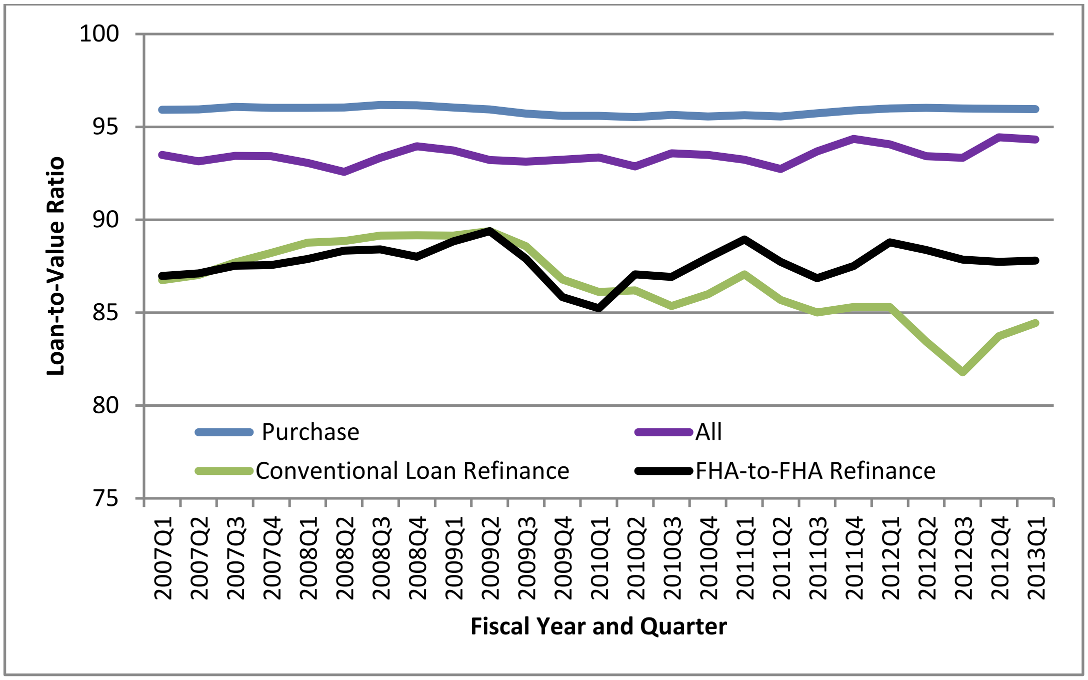



Source: US Department of HUD/FHA, April 2013.

## Average Loan-to-Value (LTV)

The average LTV for new endorsements was unchanged from the previous quarter at 94.4 percent. There was virtually no change in the average LTV for any major product group.

**Exhibit 4: Average Loan-to-Value (LTV) Ratios on New Insurance Endorsements[a]**




[a] Excludes Streamline refinance activity.
Source: US Department of HUD, Office of Housing/FHA, April 2013.

## Predicted and Actual Termination and Claim-Loss Rates

**Exhibit 5: Termination and Claim Loss Experience Compared to Forecasts**

| FHA Single-Family Mortgage Insurance<br>Termination and Claim Loss Experience to-date in Current Fiscal Year<br>October 2012 – December 2012 | | | | |
|---|---|---|---|---|
| | Year-To-Date Predicted[a] | Year-To-Date Actual | Deviation (Actual - Predicted) | Percentage Deviation (Actual vs. Predicted) |
| Prepayments - Number | 108,385 | 258,600 | 150,215 | 139% |
| Claims - Number[b] | 77,906 | 39,667 | (38,239) | -49 |
| Claims – Dollars (mil)[b] | $ 13,770 | $ 5,255 | (8,515) | -62 |
| Net Loss-on-Claims (%)[c] | 57.14% | 57.84% | 0.70% | |

[a] Projections of prepayment counts, claim counts, and claim dollars are from the FY 2012 FHA financial statements; all projections shown here use quarterly forecasts and thus reflect cyclical trends throughout the year.
[b] Claim payments (and counts) reported here include those for conveyance (foreclosure) claims, pre-foreclosure (short) sales, and claims paid in connection with sales of delinquent mortgages. They do not include payments for loss mitigation loan-workout actions.
[c] These rates are losses as a percentage of the defaulted loan balance, for both conveyance and pre-foreclosure-sale claims.
Source: US Department of HUD/FHA, April 2013.

### Prepayment Activity Remains at Elevated Levels

Prepayments in FY 2013 Q1 (266,000) were the highest seen since FY 2004 Q4. Continued low interest rates, along with FHA permitting borrowers with older loans to streamline refinance without an increase in their annual premium rate, have led to Q1 prepayments that were 139 percent above what was predicted by the independent actuaries. At the same time, the rate at which prepayments are returning as new refinance endorsements is a high 62 percent, up from 61 percent in the previous quarter and 51 percent in the year-earlier period.

### Claims activity lower than projected

The difference between predicted and actual claims paid shows little variation from the previous quarters, with year-to-date counts 49 percent below forecast. The principal contributing factor to this variance continues to be delays in foreclosure processing in many areas of the country. Claims activity should move closer to the actuarial predictions as HUD continues its efforts to sell delinquent mortgages out of the foreclosure pipeline through its Distressed Asset Sale Program (DASP).

**Net Loss Rate on Claims Matching Actuarial Predictions**

Net loss rates on (full) claim actions are trending downward due to several factors. First is an increase in home prices for distressed properties, which is helping recoveries on REO sales. Second is the sale of mortgage notes out of foreclosure queues through the DASP program. HUD had its first large-scale auction of distressed notes in September 2012, with most of the claims being paid in FY 2013 Q1. The next large auction was scheduled for March 2013. September DASP assets had concentrations in distressed markets with below-average REO recovery rates such as Illinois and Arizona. Note sale recovery rates, though below the national average REO recovery rate, are above recovery rates for REO in the same jurisdictions. Both of these factors were included in the actuarial predictions. A third factor affecting net loss rates in this quarter, but which is not yet captured in the actuarial projections, is the completion of a pilot program to encourage third-party sales at foreclosure auctions. Promising results from a one-year demonstration among a small group of lenders and targeted property States have led to a planned national roll-out in FY 2013 Q2.

## Budget Execution Credit Subsidy Rates

The budget execution credit subsidy rates for FY 2013 changed significantly from FY 2012 for both forward and HECM loans. The rate for forward loans increased (in absolute value) from -2.75 to -5.98 percent. That was due primarily to updated expectations of prepayment activity out of recent and near-term endorsements, which continue to have near-historical low interest rates. Lower interest rates on new endorsements mean longer time periods for collecting insurance premiums and thus they increase the budgetary value of premium increases made during FY 2012, which now affect the FY 2013 endorsements.

The credit subsidy rate for HECM loans declined (in absolute value) to -0.92 from -1.52 percent as a result of predictions of lower long-term house price increases and greater shares of borrowers taking full draws against their principal limits at time of loan origination. It is important to note the volume of HECM loans continued to decline in FY 2013 Q1. The quarterly volume of $2.7 billion was five percent below the previous quarter's volume and almost 20 percent below the year-earlier volume of $3.3 billion.

**Exhibit 8: Budget Execution Credit Subsidy Rates**

| **FHA Single-Family Mortgage Insurance<br>Budget Execution Credit Subsidy Rates[a]<br>FY 2013** | |
|---|---|
| Forward Loans | -5.98% |
| Reverse Loans (HECM) | -0.92 |

[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 *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. The rates 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 Department of HUD/FHA; April 2013.

## MMI Fund Balances

Total capital resources declined by $1.3 billion to $37.1 billion at the end of FY 2013 Q1. The Capital Reserve Account balance increased by $3.8 billion, while the financing account decreased by $5.1 billion.

**Exhibit 9: MMI Fund Balances by Quarter, FY2009 – FY2013**

**FHA Single-Family Insurance**
**MMI Fund Balances by Quarter, FY2009 – FY2013 First Quarter**[a]
(billions $)

| Fiscal Year | Quarter | Capital Reserve Account[b] | Financing Account[c] | Total Capital Resources[d] |
|---|---|---|---|---|
| 2009 | Oct-Dec | $ 19.6 | $ 9.3 | $ 28.9 |
| 2009 | Jan-Mar | 19.9 | 9.7 | 29.6 |
| 2009 | Apr-Jun | 10.0 | 20.9 | 30.9 |
| 2009 | Jul-Sep | 10.7 | 21.1 | 31.8 |
| 2010 | Oct-Dec | 11.4 | 21.2 | 32.6 |
| 2010 | Jan-Mar | 12.0 | 20.2 | 32.2 |
| 2010 | Apr-Jun | 3.5 | 29.6 | 33.1 |
| 2010 | Jul-Sep | 4.4 | 28.9 | 33.3 |
| 2011 | Oct-Dec | 6.3 | 26.4 | 32.7 |
| 2011 | Jan-Mar | 7.7 | 23.9 | 31.6 |
| 2011 | Apr-Jun | 2.8 | 28.9 | 31.7 |
| 2011 | Jul-Sep | 4.7 | 29.0 | 33.7 |
| 2012 | Oct-Dec | 5.7 | 27.6 | 33.3 |
| 2012 | Jan-Mar | 7.0 | 25.3 | 32.3 |
| 2012 | Apr-Jun | 9.8 | 21.9 | 31.6 |
| 2012 | Jul-Sep | 3.3 | 35.1 | 38.4 |
| 2013 | Oct-Dec | 7.1 | 30.0 | 37.1 |

[a]Only end-of-year balances 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. Periods in which there are large changes in the balance represent transfers of funds to the Financing Accounts to effect the re-balancing required under annual budget re-estimates.
[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.
Source: US Department of HUD/FHA; April 2013.

## Cash Flows from Business Operations

The core business operations cash flow in FY 2013 Q1 was -$1.3 billion. FHA paid $6.0 billion in claims in FY 2013 Q1 with cash flow from operations covered the remaining $4.7 billion.

**Exhibit 10: Business Operations Cash Flows FY 2012 Q2 - FY2 013 Q1**

**FHA MMI Fund Financing Account**
**Business Operations Cash Flows in FY 2012 Q2 - FY 2013 Q1, by Quarter[a]**
(millions $)

| | FY 2012 Q2-Q4 and First Quarter FY 2013 | | | | Past 4 Quarters |
|---|---|---|---|---|---|
| | FY 2012 Quarter 2 | FY 2012 Quarter 3 | FY 2012 Quarter 4 | FY 2013 Quarter 1 | |
| **Collections** | | | | | |
| Premiums | $ 2,019 | $ 2,329 | $ 2,393 | $ 2,735 | $ 9,476 |
| Property Sale Receipts | 1,435 | 1,606 | 2,090 | 1,861 | 6,992 |
| Note Sale Collections | 0 | 5 | 23 | 76 | 104 |
| Other[c] | 20 | 16 | 1,136 | 15 | 1,187 |
| Total | 3,474 | 3,956 | 5,642 | 4,687 | 17,759 |
| **Disbursements** | | | | | |
| Claims[b] | $ (4,358) | $ (5,370) | $ (4,783) | $ (5,666) | $ (20,177) |
| Property Maintenance | (270) | (291) | (364) | (294) | (1,219) |
| Other | - | (1) | - | 0 | (1) |
| Total | (4,628) | (5,662) | (5,147) | (5,960) | (21,397) |
| Net Operations Cash Flow | $ (1,154) | $ (1,706) | $ 495 | $ (1,273) | $ (3,638) |

[a] Unaudited figures; totals may not add due to rounding.

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

[c] This includes National Mortgage Settlement amounts of $1.12 billion recognized in August 2012.

Source: US Department of HUD/FHA; April 2013.

## Early-Period Delinquency (EPD)

Early payment delinquencies extending to three months in arrears (EPDs) increased by 2 basis points from the 2nd to the 3rd quarter of FY 2012. This was due to an increase in the rate for refinance loans, while the rate for purchase loans had no change.

**Exhibit 11: Early Period Delinquency Rates by Origination Quarter and Loan Type/Purpose**

**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] | All |
| 2007 | Jan-Mar | 2.42% | 1.17% | 2.01% |
| | Apr-Jun | 2.78 | 1.63 | 2.42 |
| | Jul-Sep | 2.69 | 2.15 | 2.52 |
| 2008 | Oct-Dec | 2.51 | 1.80 | 2.21 |
| | Jan-Mar | 2.46 | 1.73 | 2.10 |
| | Apr-Jun | 1.92 | 1.86 | 1.90 |
| | Jul-Sep | 1.66 | 2.24 | 1.84 |
| 2009 | Oct-Dec | 1.20 | 1.68 | 1.36 |
| | Jan-Mar | 1.02 | 1.04 | 1.03 |
| | Apr-Jun | 0.64 | 0.66 | 0.65 |
| | Jul-Sep | 0.49 | 0.63 | 0.53 |
| 2010 | Oct-Dec | 0.32 | 0.51 | 0.36 |
| | Jan-Mar | 0.40 | 0.34 | 0.38 |
| | Apr-Jun | 0.35 | 0.36 | 0.35 |
| | Jul-Sep | 0.44 | 0.31 | 0.42 |
| 2011 | Oct-Dec | 0.32 | 0.19 | 0.28 |
| | Jan-Mar | 0.39 | 0.21 | 0.34 |
| | Apr-Jun | 0.47 | 0.33 | 0.45 |
| | Jul-Sep | 0.36 | 0.35 | 0.36 |
| 2012 | Oct-Dec | 0.33 | 0.16 | 0.29 |
| | Jan-Mar | 0.39 | 0.14 | 0.33 |
| | Apr-Jun | 0.39 | 0.22 | 0.35 |

[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 percentage of loans experiencing a 90-day delinquency within 7 months of loan closing.

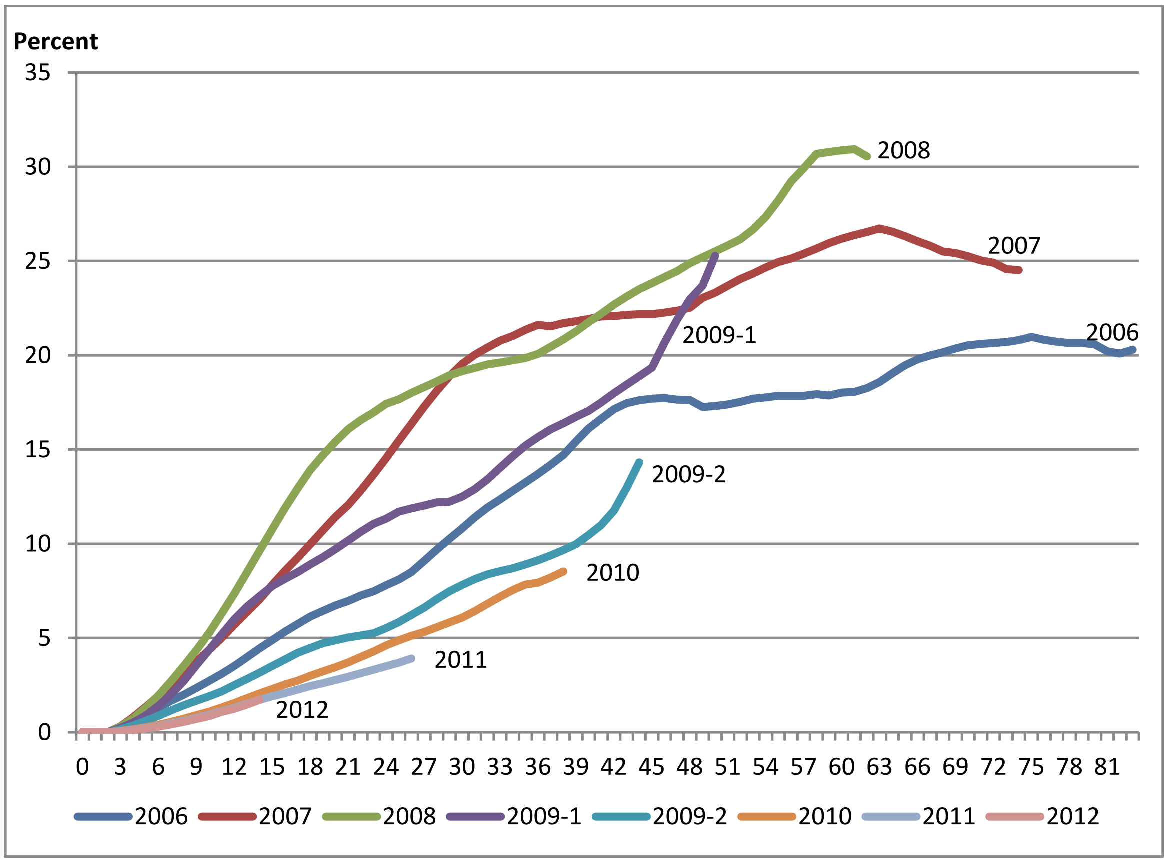
[b] Loans in this column are fully-underwritten conventional-to-FHA and FHA-to-FHA refinancings.

Source: US Department of HUD/FHA, April 2013.

## Serious Delinquency Rates

Serious delinquency rates for those vintages most heavy impacted by the recentprevious economic recession are now stabilizing. Most notable are improvements seen in the 2007 portfolio. In this Exhibit we separate the 2009 cohort into two parts, representing loan originations in the first and second halves of the fiscal year. This is because the composition of that cohort changed dramatically throughout the year due to improvements in borrower credit quality and reductions in mortgage interest rates. The “tails” on the end of each of the two 2009 vintage curves represent the lower quality of loans originated toward the start of each six-month period. We expect to see a lessening of those effects as each group continues to season (i.e., a flattening of the tails). The post-2009 vintages are still within the age range where defaults are rising and so increases in their rates are as expected.

**Exhibit 12: Serious Delinquency Rates by Fiscal Year of Loan Origination and Months of Seasoning, All Endorsements**




Source: US Department of HUD/FHA, April 2012

**Exhibit 13: Serious Delinquency Rates[a] by Endorsement Fiscal Year and Activity Quarter[b]**

| Endorsement Fiscal Year | Activity Period | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | FY2013 Q1 | FY2012 Q4 | FY2012 Q3 | FY2012 Q2 | FY2012 Q1 | FY2011 Q4 | FY2011 Q3 | FY2011 Q2 | FY2011 Q1 | FY2010 Q4 | FY2010 Q3 |
| Pre-2007 | 11.80% | 12.99% | 12.60% | 12.33% | 12.58% | 11.57% | 10.77% | 10.98% | 11.59% | 11.41% | 11.15% |
| 2007 | 23.09 | 26.88 | 25.82 | 25.55 | 25.59 | 23.36 | 21.83 | 21.71 | 22.44 | 21.49 | 21.11 |
| 2008 | 22.02 | 26.38 | 24.88 | 24.25 | 23.83 | 21.38 | 19.97 | 19.49 | 19.65 | 18.37 | 17.35 |
| 2009 | 11.61 | 13.45 | 12.18 | 11.41 | 10.92 | 9.13 | 8.05 | 7.58 | 7.23 | 6.08 | 4.94 |
| 2010 | 5.80 | 5.88 | 5.18 | 4.52 | 4.07 | 2.96 | 2.13 | 1.61 | 1.2 | 0.65 | 0.33 |
| 2011 | 2.86 | 2.49 | 1.81 | 1.28 | 0.93 | 0.45 | 0.22 | 0.08 | 0.01 | | |
| 2012 | 0.68 | | | | | | | | | | |
| All years | 9.47% | 9.58% | 9.44% | 9.42% | 9.59% | 8.70% | 8.18% | 8.31% | 8.78% | 8.66% | 8.59% |
| All years – Seasonally Adjusted[c] | 9.16% | 9.66% | 9.75% | 9.46% | 9.05% | 8.89% | 8.59% | 8.34% | 8.29% | 8.84% | 9.05% |

[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, April 2013.

# APPENDIX

## Exhibit A-1: Endorsement Counts by Fiscal Year and Quarter

**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 | 61,101 | 319,985 | 1,168,179 | 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 | 117,853 | 478,353 | 43,082 |
| 2006 | 293,257 | 58,226 | 48,422 | 399,905 | 76,280 |
| 2007 | 261,166 | 104,578 | 36,601 | 402,345 | 107,367 |
| 2008 | 591,325 | 349,126 | 91,133 | 1,031,584 | 112,013 |
| 2009 | 995,103 | 468,767 | 367,448 | 1,831,318 | 114,639 |
| 2010 | 1,109,161 | 305,297 | 252,440 | 1,666,898 | 78,758 |
| 2011 | 777,102 | 194,809 | 224,761 | 1,196,672 | 73,093 |
| 2012 | 733,699 | 129,187 | 321,608 | 1,184,494 | 54,676 |
| 2013 | 177,855 | 22,757 | 152,513 | 353,125 | 12,079 |
| ***Fiscal Year and Quarter*** | | | | | |
| 2010Q1 | 304,827 | 86,516 | 96,154 | 487,497 | 24,730 |
| 2010Q2 | 245,777 | 88,338 | 67,986 | 402,101 | 20,278 |
| 2010Q3 | 289,683 | 65,577 | 31,037 | 386,297 | 15,266 |
| 2010Q4 | 268,874 | 64,866 | 57,263 | 391,003 | 18,484 |
| 2011Q1 | 196,712 | 65,206 | 109,428 | 371,346 | 18,387 |
| 2011Q2 | 168,703 | 58,450 | 58,685 | 285,838 | 20,646 |
| 2011Q3 | 201,081 | 41,106 | 30,879 | 273,066 | 17,161 |
| 2011Q4 | 210,606 | 30,047 | 25,769 | 266,422 | 16,899 |
| 2012Q1 | 176,085 | 31,834 | 47,871 | 255,790 | 13,867 |
| 2012Q2 | 166,088 | 36,594 | 75,528 | 278,210 | 14,955 |
| 2012Q3 | 193,556 | 38,078 | 84,426 | 316,060 | 14,204 |
| 2012Q4 | 197,970 | 22,681 | 113,783 | 334,434 | 11,650 |
| 2013Q1 | 177,855 | 22,757 | 152,513 | 353,125 | 11,734 |

[a] Starting in 2008 Q4, the 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).
[c] Starting in FY 2009 (2008 Q4), all new HECM endorsements are included in the Mutual Mortgage Insurance Fund. Previous endorsements, by law, remain in the General and Special Risk Insurance Fund.
Source: US Department of HUD, Office of Housing/FHA; April 2013.

## Exhibit A-2: Endorsement Volumes by Fiscal Year and Quarter

| FHA Single-Family Mortgage Insurance<br>Endorsement Volumes by Fiscal Year and Quarter | | | | | |
|---|---|---|---|---|---|
| | Volumes (million$) | | | | |
| | Forward Mortgages[a] | | | | |
| Time Period | Home Purchase | Conventional Loan Refinance | FHA-to-FHA Refinance | All Forward Loans | Reverse Mortgages (HECM)[b] |
| ***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 | 13,521 | 57,975 | 8,877 |
| 2006 | 37,102 | 8,521 | 6,109 | 51,732 | 17,973 |
| 2007 | 35,003 | 16,095 | 5,418 | 56,516 | 24,623 |
| 2008 | 95,373 | 61,525 | 14,907 | 171,806 | 24,240 |
| 2009 | 171,672 | 86,984 | 71,728 | 330,383 | 30,161 |
| 2010 | 191,602 | 56,431 | 49,467 | 297,500 | 20,974 |
| 2011 | 134,357 | 36,845 | 46,440 | 217,642 | 18,208 |
| 2012 | 124,454 | 23,474 | 65,342 | 213,270 | 13,113 |
| 2013 | 30,994 | 4,136 | 28,593 | 63,723 | 2,117 |
| ***Fiscal Year and Quarter*** | | | | | |
| 2010Q1 | 51,950 | 15,843 | 18,601 | 86,395 | 6,948 |
| 2010Q2 | 42,794 | 16,402 | 12,886 | 72,082 | 5,491 |
| 2010Q3 | 49,578 | 12,145 | 5,902 | 67,624 | 3,859 |
| 2010Q4 | 47,279 | 12,041 | 12,078 | 71,399 | 4,676 |
| 2011Q1 | 35,084 | 12,785 | 24,216 | 72,085 | 4,612 |
| 2011Q2 | 29,731 | 11,223 | 11,832 | 52,786 | 5,273 |
| 2011Q3 | 34,045 | 7,510 | 5,721 | 47,275 | 4,207 |
| 2011Q4 | 35,497 | 5,327 | 4,672 | 45,496 | 4,115 |
| 2012Q1 | 29,227 | 5,731 | 9,661 | 44,619 | 3,268 |
| 2012Q2 | 27,730 | 6,572 | 15,665 | 49,967 | 3,646 |
| 2012Q3 | 32,981 | 7,061 | 17,776 | 57,819 | 3,466 |
| 2012Q4 | 34,515 | 4,110 | 22,240 | 60,865 | 2,733 |
| 2013Q1 | 30,994 | 4,136 | 28,593 | 63,723 | 2,738 |

[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).
[c] 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: US Department of HUD, Office of Housing/FHA; April 2013.

## Exhibit A-3: Borrower Credit Score Distributions on New Endorsements

**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% | 31.6% | 22.5% | 17.8% | 1.2% | 4.8% |
| | Jan-Mar | 10.3 | 10.2 | 31.1 | 23.0 | 19.3 | 1.4 | 4.7 |
| | Apr-Jun | 9.8 | 9.6 | 30.6 | 23.4 | 20.4 | 1.5 | 4.7 |
| | Jul-Sep | 9.9 | 9.2 | 30.9 | 23.6 | 20.8 | 1.5 | 4.0 |
| 2008 | Oct-Dec | 9.3 | 9.1 | 31.2 | 23.9 | 21.2 | 1.7 | 3.7 |
| | Jan-Mar | 9.9 | 9.9 | 31.8 | 23.2 | 20.4 | 1.7 | 3.2 |
| | Apr-Jun | 15.2 | 13.2 | 35.6 | 20.8 | 12.2 | 0.7 | 2.3 |
| | Jul-Sep | 19.1 | 16.0 | 37.5 | 18.9 | 6.7 | 0.2 | 1.5 |
| 2009 | Oct-Dec | 20.5 | 17.2 | 37.6 | 18.6 | 5.1 | 0.1 | 0.9 |
| | Jan-Mar | 24.3 | 18.9 | 36.9 | 15.5 | 3.4 | 0.0 | 0.9 |
| | Apr-Jun | 29.7 | 21.2 | 38.2 | 8.5 | 1.5 | 0.0 | 0.9 |
| | Jul-Sep | 33.4 | 22.1 | 37.8 | 4.9 | 1.0 | 0.0 | 0.9 |
| 2010 | Oct-Dec | 33.5 | 22.5 | 38.5 | 4.0 | 0.7 | 0.0 | 0.8 |
| | Jan-Mar | 33.9 | 22.8 | 38.4 | 3.5 | 0.5 | 0.0 | 0.8 |
| | Apr-Jun | 35.0 | 22.7 | 38.5 | 2.7 | 0.4 | 0.0 | 0.8 |
| | Jul-Sep | 34.9 | 22.6 | 38.4 | 3.0 | 0.4 | 0.0 | 0.8 |
| 2011 | Oct-Dec | 37.1 | 23.2 | 36.1 | 2.5 | 0.3 | 0.0 | 0.7 |
| | Jan-Mar | 37.8 | 24.2 | 35.0 | 2.2 | 0.2 | 0.0 | 0.6 |
| | Apr-Jun | 35.4 | 23.8 | 37.5 | 2.6 | 0.2 | 0.0 | 0.5 |
| | Jul-Sep | 33.1 | 23.7 | 39.2 | 3.3 | 0.2 | 0.0 | 0.5 |
| 2012 | Oct-Dec | 33.0 | 23.9 | 39.3 | 3.2 | 0.2 | 0.0 | 0.4 |
| | Jan-Mar | 33.9 | 23.9 | 38.8 | 2.8 | 0.2 | 0.0 | 0.4 |
| | Apr-Jun | 33.2 | 24.2 | 39.5 | 2.5 | 0.2 | 0.0 | 0.3 |
| | Jul-Sep | 30.9 | 25.3 | 41.1 | 2.3 | 0.2 | 0.0 | 0.3 |
| 2013 | Oct-Dec | 29.9 | 26.0 | 41.6 | 2.1 | 0.2 | 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 therefore, 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 Department of HUD, Office of Housing/FHA, April 2013.

### Exhibit A-4: Average Borrower Credit Scores on New Endorsements

**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 | 628 |
| | 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 |
| | Jan-Mar | 703 | 708 | 704 | 704 |
| | Apr-Jun | 700 | 703 | 700 | 701 |
| | Jul-Sep | 698 | 695 | 698 | 697 |
| 2012 | Oct-Dec | 696 | 702 | 706 | 697 |
| | Jan-Mar | 696 | 708 | 709 | 699 |
| | Apr-Jun | 695 | 711 | 709 | 698 |
| | Jul-Sep | 696 | 698 | 704 | 696 |
| 2013 | Oct-Dec | 695 | 697 | 703 | 696 |

[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 therefore, they are not represented here.
[b] These include only fully-underwritten loans and exclude streamline refinancing.
Source: US Department of HUD, Office of Housing/FHA, April 2013.

## Exhibit A-5: Loan-to-Value (LTV) Ratio Distribution on New Endorsements

**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%)*

| Fiscal Year | Quarter | LTV Categories[a] | | | | |
|---|---|---|---|---|---|---|
| | | Up to 80 | 81-90 | 91-95 | 96-98[c] | DPA Loans[d] |
| 2008 | Oct-Dec | 7.7% | 11.9% | 22.9% | 35.3% | 22.2% |
| | Jan-Mar | 8.4 | 13.3 | 25.5 | 33.9 | 18.8 |
| | Apr-Jun | 6.9 | 11.6 | 22.7 | 40.0 | 18.8 |
| | Jul-Sep | 5.7 | 10.1 | 19.2 | 43.5 | 21.4 |
| 2009 | Oct-Dec | 6.2 | 11.2 | 21.1 | 48.8 | 12.7 |
| | Jan-Mar | 6.9 | 13.4 | 23.4 | 55.3 | 1.0 |
| | Apr-Jun | 6.4 | 14.4 | 17.7 | 61.3 | 0.2 |
| | Jul-Sep | 6.0 | 15.2 | 11.5 | 67.1 | 0.1 |
| 2010 | Oct-Dec | 5.8 | 14.8 | 10.1 | 69.1 | 0.2 |
| | Jan-Mar | 6.8 | 16.9 | 10.9 | 65.3 | 0.1 |
| | Apr-Jun | 5.7 | 12.9 | 9.5 | 71.7 | 0.2 |
| | Jul-Sep | 6.0 | 13.9 | 9.9 | 70.1 | 0.1 |
| 2011 | Oct-Dec | 6.2 | 15.9 | 10.9 | 66.9 | 0.1 |
| | Jan-Mar | 7.6 | 16.9 | 10.4 | 65.0 | 0.1 |
| | Apr-Jun | 6.2 | 13.1 | 9.0 | 71.5 | 0.2 |
| | Jul-Sep | 5.2 | 11.0 | 8.8 | 74.7 | 0.3 |
| 2012 | Oct-Dec | 5.8 | 12.0 | 9.3 | 72.4 | 0.4 |
| | Jan-Mar | 7.5 | 12.5 | 9.3 | 70.6 | 0.2 |
| | Apr-Jun | 7.7 | 11.3 | 8.9 | 71.9 | 0.2 |
| | Jul-Sep | 5.1 | 9.3 | 9.6 | 75.9 | 0.2 |
| 2013 | Oct-Dec | 5.2 | 10.0 | 10.1 | 74.6 | 0.2 |

[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 insurance premium charged since the start of FY 2011 has been 1.00 percent; for FY 2009 and through March 2010 it was 1.75 percent for fully-underwritten loans and 1.50 percent on streamline refinance loans. The premium rate was temporarily raised to 2.25 percent in April 2010, for all loans, for the remainder of FY 2010. Prior to FY 2009, the upfront premium rate 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 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 FY 2009 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 Department of HUD, Office of Housing/FHA, April 2013.

**Exhibit A-6: Average Loan-to-Value (LTV) Ratios on New Endorsements**

| FHA Single-Family Mortgage Insurance<br>Average Loan-to-Value (LTV) Ratios[a] on New Endorsements<br>By Fiscal Year, Quarter, and Loan Purpose | | | | | |
|---|---|---|---|---|---|
| | | Loan Purpose | | | |
| Fiscal Year | Quarter | Home Purchase | Conventional Loan Refinance | FHA-to-FHA Refinance[b] | All[b] |
| 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 | 89.39 | 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 | 85.23 | 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 | 87.05 | 88.94 | 93.22 |
| | Jan-Mar | 95.56 | 85.68 | 87.73 | 92.73 |
| | Apr-Jun | 95.73 | 85.00 | 86.85 | 93.67 |
| | Jul-Sep | 95.88 | 85.30 | 87.50 | 94.34 |
| 2012 | Oct-Dec | 95.98 | 85.29 | 88.79 | 94.06 |
| | Jan-Mar | 96.01 | 83.44 | 88.37 | 93.41 |
| | Apr-Jun | 95.99 | 81.79 | 87.85 | 93.32 |
| | Jul-Sep | 95.96 | 83.74 | 87.73 | 94.43 |
| 2013 | Oct-Dec | 95.95 | 84.43 | 87.80 | 94.31 |

[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 since the start of FY 2011 has been 1.00 percent; for FY 2009 and through March 2010 it was 1.75 percent for fully-underwritten loans and 1.50 percent on streamline refinance loans. The premium rate was temporarily raised to 2.25 percent in April 2010, for all loans, for the remainder of FY 2010. 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 Department of HUD, Office of Housing/FHA, April 2013.

**Exhibit A-7: FHA Single Family Mortgage Insurance**

**Termination Claim Type and Loss Severity Rates**

| Fiscal Year and Quarter | Loss Rates by Claim Type (% of UPB) | | | | | Counts by Claim Type | | | | | Foreclosure Alternatives Share of Dispositions |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | REO | Prefore-closure Sales | Note Sales | Third-Party Sales | All | REO | Preforeclosure Sales | Note Sales | Third-Party Sales | All | |
| 2007 - Q2 | 45.4% | 24.5% | | | 43.9% | 11,764 | 925 | | | 12,689 | |
| 2007 - Q3 | 45.7 | 23.6 | | | 44.0 | 13,155 | 1,098 | | | 14,253 | |
| 2007 - Q4 | 44.3 | 24.5 | | | 42.8 | 11,039 | 950 | | | 11,989 | |
| 2008 - Q1 | 49.2 | 25.1 | | | 47.3 | 10,669 | 894 | | | 11,563 | |
| 2008 - Q2 | 53.4 | 26.6 | | | 51.3 | 10,924 | 928 | | | 11,852 | 7.8 |
| 2008 - Q3 | 53.4 | 26.7 | | | 50.9 | 11,903 | 1,252 | | | 13,155 | 9.5 |
| 2008 - Q4 | 56.8 | 28.3 | | | 54.5 | 12,875 | 1,134 | | | 14,009 | 8.1 |
| 2009 - Q1 | 65.1 | 29.1 | | | 61.8 | 14,032 | 1,428 | | | 15,460 | 9.2 |
| 2009 - Q2 | 69.2 | 34.0 | | | 66.4 | 14,967 | 1,273 | | | 16,240 | 7.8 |
| 2009 - Q3 | 71.8 | 37.0 | | | 68.5 | 19,910 | 2,118 | | | 22,028 | 9.6 |
| 2009 - Q4 | 68.0 | 39.1 | | | 64.0 | 19,135 | 3,092 | | | 22,227 | 13.9 |
| 2010 - Q1 | 65.8 | 40.4 | | | 61.9 | 19,451 | 3,515 | | | 22,966 | 15.3 |
| 2010 - Q2 | 67.1 | 42.9 | | | 63.5 | 20,166 | 3,522 | | | 23,688 | 14.9 |
| 2010 - Q3 | 65.1 | 42.4 | | | 60.7 | 25,453 | 6,062 | | | 31,515 | 19.2 |
| 2010 - Q4 | 66.4 | 45.5 | | | 62.5 | 22,716 | 5,310 | | | 28,026 | 18.9 |
| 2011 - Q1 | 67.3 | 46.8 | | | 61.8 | 14,929 | 5,451 | | | 20,380 | 26.7 |
| 2011 - Q2 | 71.0 | 47.6 | | | 64.7 | 16,540 | 6,132 | | | 22,672 | 27.0 |
| 2011 - Q3 | 71.1 | 47.2 | | | 67.0 | 37,381 | 7,736 | | | 45,117 | 17.1 |
| 2011 - Q4 | 72.3 | 47.8 | | | 67.7 | 32,664 | 7,592 | | | 40,256 | 18.9 |
| 2012 - Q1 | 72.4 | 48.4 | | | 67.0 | 27,034 | 7,978 | | | 35,012 | 22.8 |
| 2012 - Q2 | 71.1 | 47.7 | | | 65.2 | 23,379 | 7,777 | | | 31,156 | 25.0 |
| 2012 - Q3 | 67.9 | 47.2 | | | 62.5 | 25,213 | 8,781 | | | 33,994 | 25.8 |
| 2012 – Q4 | 65.1 | 45.4 | | | 60.5 | 28,631 | 8,603 | | | 37,234 | 23.1 |
| 2013 - Q1 | 64.5 | 44.4 | 73.8% | 50.7% | 60.4 | 26,499 | 8,856 | 3,664 | 1,483 | 40,502 | 34.65 |