U.S. Department of Housing and Urban Development

FHA Single-Family Mutual Mortgage Insurance Fund Programs

Quarterly Report to Congress

FY 2014 Q1

Delivered: March 31, 2014

FOREWORD

On behalf of Secretary Donovan and 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 2014 first quarter report. This report covers mortgages that are obligations of the Mutual Mortgage Insurance (MMI) Fund of the Federal Housing Administration. The reporting period covers October 1, 2013 through December 31, 2013.

This quarterly report provides 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 HUD Office of Housing Reading Room on the www.hud.gov website.

Also posted in the 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 2013 in mid-December 2013. The FY 2013 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. For the first time, the FY 2013 Annual Report also included results of a second independent analysis of Fund's capital position and discussed the issue of model risk.

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 here.

Sincerely,

Frank Vetrano

Chief Risk Officer and
Deputy Assistant Secretary for
Risk Management and Regulatory Affairs

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

FY 2014 Q1

Data as of December 31, 2013

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 208,488 with a dollar volume of $35.8 billion. This represents a 28 percent decrease in dollar volume from the previous quarter. The HECM endorsement volume was $3.4 billion, representing a decrease of thirteen percent.	**5, 17 - 18**	**1, A-1, A-2**
B) Types of loans insured, categorized by risk;	The average credit score this quarter was 685 and the average borrower loan-to-value ratio 94.2 percent.	**6 - 8, 19-22**	**2 - 4, A-3 – A-6**
C) Significant differences between actual and projected claim and prepayment activity persisted;	Prepayment activity was 26 percent above actuarial predictions, due to low interest rates. Claim losses were 20 percent below predicted levels due to delays in foreclosure processing and lower loss severities.	**9**	**5**
D) Projected versus actual loss rates	The year-to-date net loss rate on claim activity (53 percent) remained below actuarial projections (56 percent).	**9, 23**	**5, A-7**
E) Updated projections of the annual subsidy rates	The budget execution credit subsidy rate (CSR) for forward loans was -7.25% and the CSR for HECMs at -0.41% in Q1.	**10**	**6**

Other	Summary	Page	Exhibit
F) MMI Fund Balances	MMI Fund account balances at the end of FY 2014 Q1 were $47.1 billion, a decrease of $1.3 billion from the previous quarter.	**11**	**7**
G) Business Operations Cash Flows	Core business-operations cash flow in FY 2014 Q1 was -$1.3 billion. FHA paid $6.4 billion in claims and property expenses, while receiving $5.2 billion in revenues from premium income and sale of notes and properties.	**12**	**8**
H) Early Period Delinquency	The early period delinquency rate for loans originated in FY 2013 Q3 was up slightly from the previous quarter (from 0.24 to 0.26 percent), remaining close to the historical low points of Q1 and Q2.	**13**	**9**

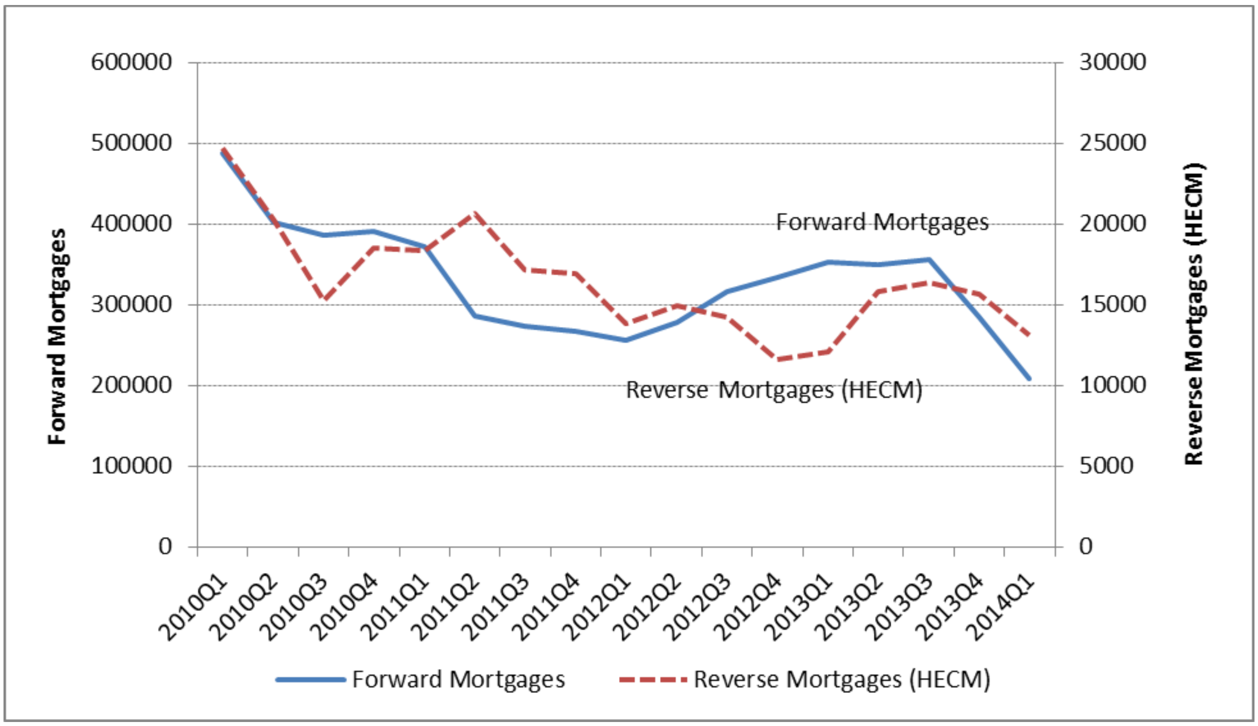
I) Serious Delinquent Rates	The serious delinquency rate (SD) on all active loans declined for the fourth consecutive quarter, to 8.01 percent. The seasonally-adjusted rate fell to 7.58 percent.	**14 - 15**	**10 - 11**

Endorsement Activity

In the first quarter of Fiscal Year (FY) 2014, FHA endorsed 208,488 forward mortgages for insurance. This represents a 28 percent decline from the previous quarter and a 41 percent from the year-earlier period. Nearly all the difference from the prior year is due to a sharp decline in refinance activity. Among FHA-to-FHA refinance actions, the number of endorsements fell from 153,000 in Q1 2013 to 41,000 in Q1 2014. Conventional refinance activity declined by 36 percent, but the actual numbers involved are small. Home purchase mortgage endorsements were down by 14 percent, year-over-year (See Exhibit A-1).

Counter to this trend, Home Equity Conversion Mortgage (HECM) endorsement activity was up by 1,015 loans, or 8.4 percent from the year-earlier period, from 12,079 to 13,094.

Exhibit 1: Endorsement Counts by Fiscal Year and Quarter

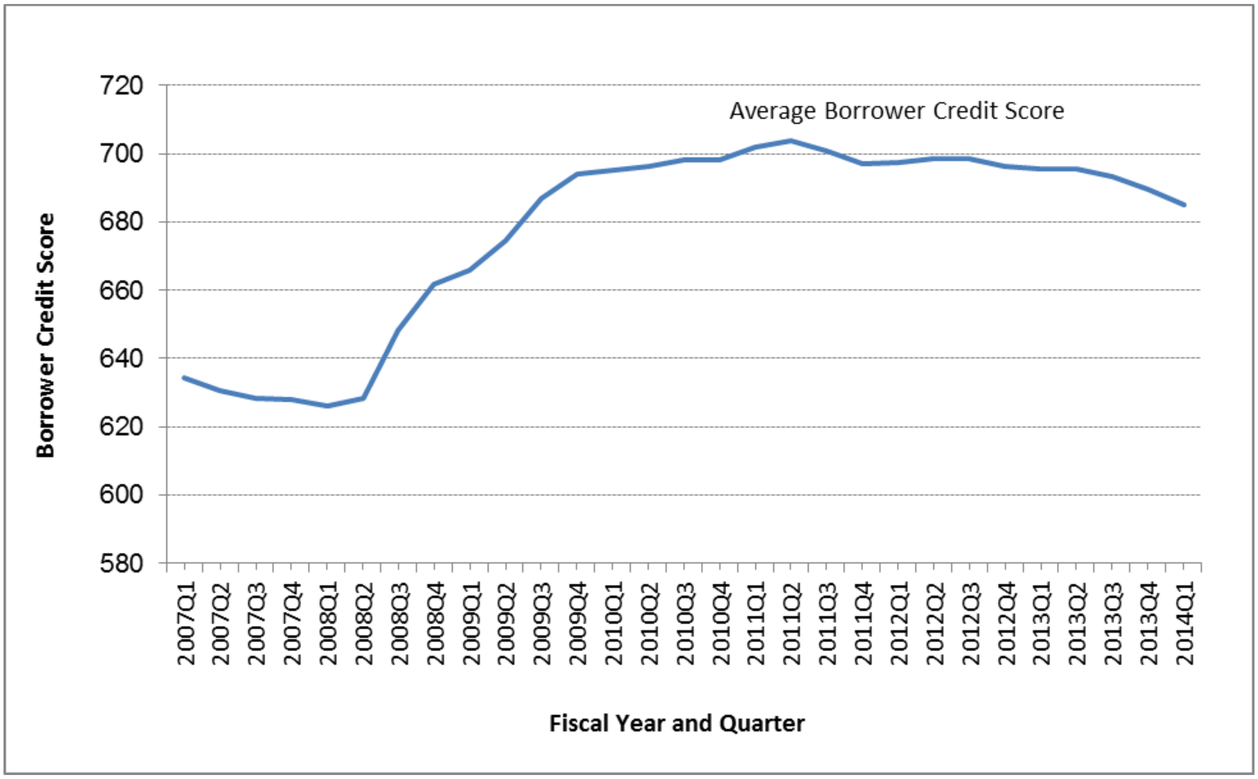


Source: US Department of HUD/FHA, February 2014

Borrower Credit Scores

Credit scores of new FHA-insured borrowers continued to decline from the historic highs observed in FY 2011. The average credit score in Q1 was 685, which was down 5 points from the previous quarter, and comparable to Q3 2009. The Q1 average credit score remains nearly 60 points above the low point of Q1 2008. (See Exhibit A-4).

Exhibit 2: Average Borrower Credit Scores by Quarter

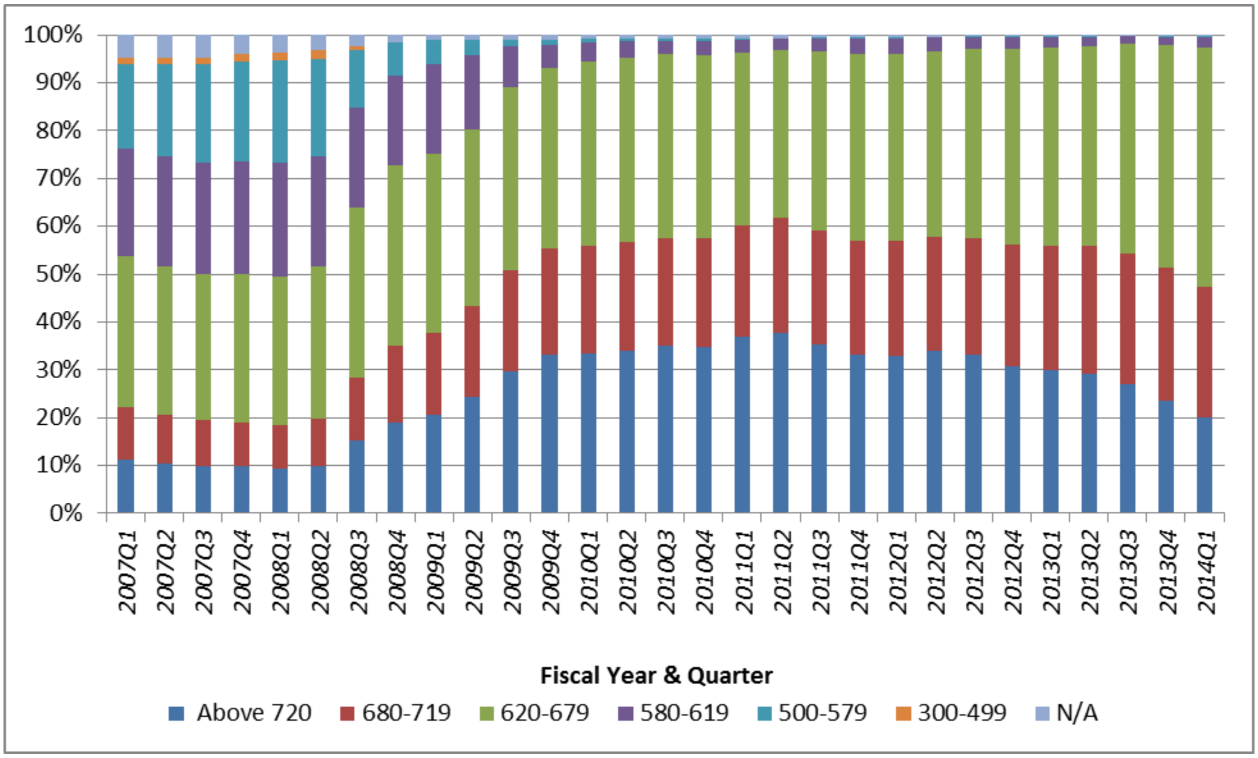


Source: US Department of HUD/FHA, Febuary 2014.

While the composition of new FHA endorsements has shifted from the 720-850 range into the 620-679 and 680-719 ranges, there is no movement into the below-620 space that had become as much as half of FHA's endorsement activity in 2008. The substantial change in borrower credit quality from what it was prior to the recent recession is seen in Exhibit 3 (and in Exhibit A-3) .[1]

[1] The high credit scores are shown in the bottom segments of the graph, while the lower credit scores, if present, appear in the top of each bar.

Exhibit 3: Distribution of Borrower Credit Scores by Quarter

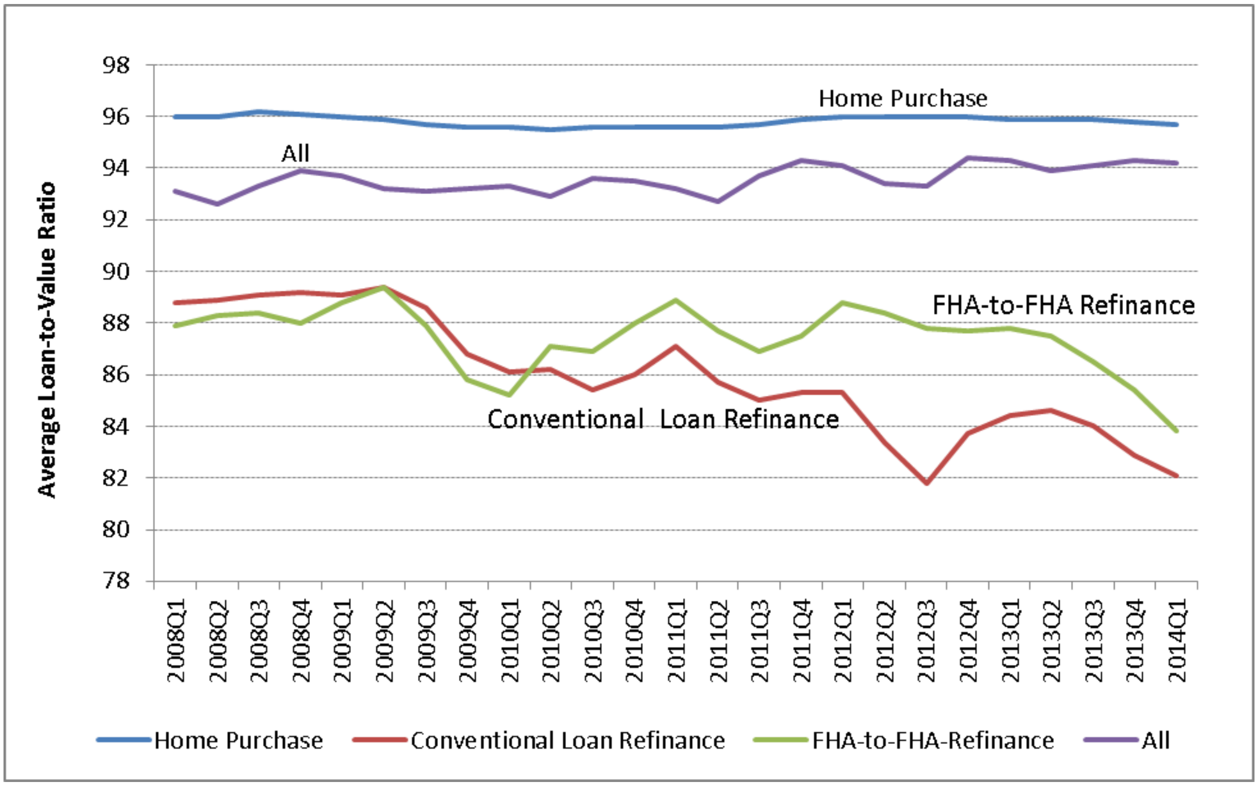


Source: US Department of HUD/FHA, February 2014.

Average Loan-to-Value (LTV)

The average LTV on new FHA endorsements has been very stable over time at around 94%. As shown in Exhibit 4, the average LTV for both FHA-to-FHA and conventional-to-FHA refinance endorsements were at or near low points recorded since the start of the recent financial crisis. However, the share of refinance endorsements has dropped significantly in the most recent quarter and exerts a small impact on the overall average as a result. (See Exhibits A-5 and A-6.)

Exhibit 4: Average Loan-to-Value (LTV) Ratios on New Insurance Endorsements[2]



Source: US Department of HUD/FHA, February 2014

[2] Excludes Streamline refinance activity.

Predicted and Actual Termination and Claim-Loss Rates

As Exhibit 5 shows, the FHA loan portfolio outperformed the actuarial predictions for Q1 in that both actual claims and the loss on those claims were below expectations. On the other hand, prepayment actions were above actuarial predictions.

The number of claims is about the same it was a year ago–between 39 and 40 thousand. Similarly, the value of claims is near the year-ago value, about $5 billion. In response to a huge under-prediction of prepayments in Q1 FY 2013, the prediction was raised. In spite of the increased prediction and, despite the 32 percent drop in prepayments compared to Q1 FY 2013, the forecast still under-predicted the prepayments.

Exhibit 5: Termination and Claim Loss Experience Compared to Forecasts

FHA Single-Family Mortgage Insurance
Termination and Claim Loss Experience to-date in Current Fiscal Year
October 2013 – December 2013

	Year-To-Date Predicted[3]	Year-To-Date Actual	Deviation (Actual - Predicted)	Percentage Deviation (Actual vs. Predicted)
Prepayments - Number	126,877	159,234	32,357	+26
Claims - Number[4]	49,064	39,120	(9,944)	-20
Claims - Dollars(mil)[3]	$6,766	$4,846	($1,920)	-28
Net Loss-on-Claims (%)[5]	55.98	52.90	-3.08	

Source: US Department of HUD/FHA, February 2014.

[3] Projections of prepayment counts, claim counts, and claim dollars are from the FY 2013 FHA financial statements; all projections shown here use quarterly forecasts and thus reflect cyclical trends throughout the year.
[4] 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.
[5] These rates are losses as a percentage of the defaulted loan balance, for both conveyance and pre-foreclosure-sale claims.

Budget Execution Credit Subsidy Rates

The budget execution credit subsidy rate for all guaranteed loans changed with the new budget year on October 1. New credit subsidy rates reflect assumptions concerning the mix of loans to be insured and the economic forecast of the President's 2014 Budget. They also reflect all programmatic and premium-rate changes made during the past fiscal year.

For HECM there was a significant policy change that took effect on October 1, whereby the amount of cash draws permissible in the first year of the loan are now restricted to the greater of 60 percent of the Initial Principal Limit of the loan, or any mandatory obligations that must be paid-off at time of HECM origination, up to the amount of the Initial Principal Limit. For Forward Loans, the credit subsidy rate came down on October first due to expectations of faster prepayment speeds on loans insured this year, as compared to the type of loans insured last year.

Exhibit 6: Budget Execution Credit Subsidy Rates

FHA Single-Family Mortgage Insurance Budget Execution Credit Subsidy Rates[6] FY 2014 Q1 October - December	
Forward Loans	-7.25%
Reverse Loans (HECM)	-0.41

Source: US Department of HUD/FHA, February 2014.

MMI Fund Balances

As Exhibit 7 shows, MMI Fund account balances were down $1.3 billion in the quarter. The Capital Reserve Account balance grew during the quarter as a result of new insurance endorsement activity. Financing account balances were down due to negative business-operations cash flow ($1.3 billion) and temporary use of Financing Account funds to facilitate required booking of budget receipts for the quarter ($1.6 billion). The latter funds will be replenished from ongoing premium collections.

[6] 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.

Exhibit 7: MMI Fund Balances by Quarter, FY2009 – FY2013

FHA Single-Family Insurance
MMI Fund Account Balances by Quarter, FY2009 – FY2013 Fourth Quarter[7]
(billions $)

Fiscal Year	Quarter	Capital Reserve Account[8]	Financing Accounts[9]	Total[10]
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	37.1
2013	Jan-Mar	11.0	25.1	36.1
2013	Apr-Jun	15.8	17.3	33.1
2013	Jul-Sep	0.0	48.4	48.4
2014	Oct-Dec	2.6	44.5	47.1

Source: US Department of HUD/FHA; February 2014.

[7] Only end-of-year balances represent audited figures.

[8] 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 showing a decline in the balance represent times in which there were transfers of funds to the Financing Accounts to effect the re-balancing required under annual budget re-estimates.

[9] HUD maintains a series of cash accounts to facilitate business transactions of MMI Fund programs. These Financing Accounts are "off budget" and are used to manage ongoing premium collections, claim payments, and property recoveries. Balances do earn interest and are recorded at book value. Once a year, the accounts are re-balanced according to requirements of OMB under the Federal Credit Reform Act. The re-balancing occurs as part of the annual budget re-estimate exercise. That exercise results in either excess funds being moved to the Capital Reserve Account or else additional funds drawn from that Account into the Financing Accounts. The reconciled balances in the Financing Accounts are to reflect future net cash flow requirements of outstanding loan guarantees, over the remaining life of each budget cohort of loan guarantees.

[10] Total account balances shown here represent liquid assets immediately available to MMI Fund programs for any cash needs.

Cash Flows from Business Operations

Q1 FY 2014 experienced a net cash outflow of $1.3 billion, much like Q1 FY 2013. The four-quarter net outflow of $6.4 billion was a significant increase from the previous four-quarter period ($3.6 billion), and reflects use of large-scale auctions of nonperforming assets through the FHA Distressed Asset Sale Program (DASP). DASP auctions have enabled HUD to reduce potential loss exposure by directly addressing the large backlog of foreclosure actions that has accumulated since 2009. Over the last three quarters, HUD has paid over $6.4 billion in claims to facilitate DASP auctions of MMI Fund loans. These actions directly reduce the Fund's liability for future conveyance (REO) claims and will accelerate recovery of local housing markets impacted by high rates of foreclosure.

Exhibit 8: Business Operations Cash Flows FY 2013 Q1 - FY2013 Q4

FHA MMI Fund Financing Account
Business Operations Cash Flows in FY 2013 Q1 - FY 2013 Q4, by Quarter[11]
(millions $)

	FY 2013 Q2 through First Quarter FY 2014				Past 4 Quarters
	FY 2013 Quarter 2	FY 2013 Quarter 3	FY 2013 Quarter 4	FY 2014 Quarter 1	
Collections					
Premiums	$2,710	$2,921	$2,808	$2,722	$11,161
Property Sale Receipts	1,954	2,261	2,303	1,870	8,388
Note Sale Collections	233	370	1,522	595	2,720
Other	18	20	18	23	79
Total	4,915	5,572	6,651	5,210	22,348
Disbursements					
Claims[11]	($5,555)	($8,215)	($7,458)	($6,186)	($27,414)
Property Maintenance	(358)	(338)	(351)	(279)	(1,326)
Other	0	0	1	(1)	0
Total	(5,913)	(8,553)	(7,808)	(6,466)	(28,740)
Net Operations Cash Flow	($998)	($2,981)	($1,157)	($1,256)	($6,392)

Source: US Department of HUD/FHA; February 2014.

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

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

Early-Period Delinquency (EPD)

Early Period Delinquencies (EPD) for loans originated in Q3 FY 2013 (0.26%) remained near the low points recorded for the previous two quarters.

Exhibit 9: Early Period Delinquency Rates by Origination Quarter and Loan Type/Purpose

FHA Single-Family Insurance

Early Period Delinquency Rates[12]
by Origination Quarter and Loan Type/Purpose

Fiscal Year	Origination Quarter	Loan Type/Purpose		
		Home Purchase	Refinance[13]	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
	Jul-Sep	0.36	0.26	0.34
2013	Oct-Dec	0.26	0.20	0.23
	Jan-Mar	0.29	0.20	0.24
	Apr-Jun	0.30	0.22	0.26

Source: US Department of HUD/FHA, February 2014.

[12] Early period delinquency is defined here as having 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.

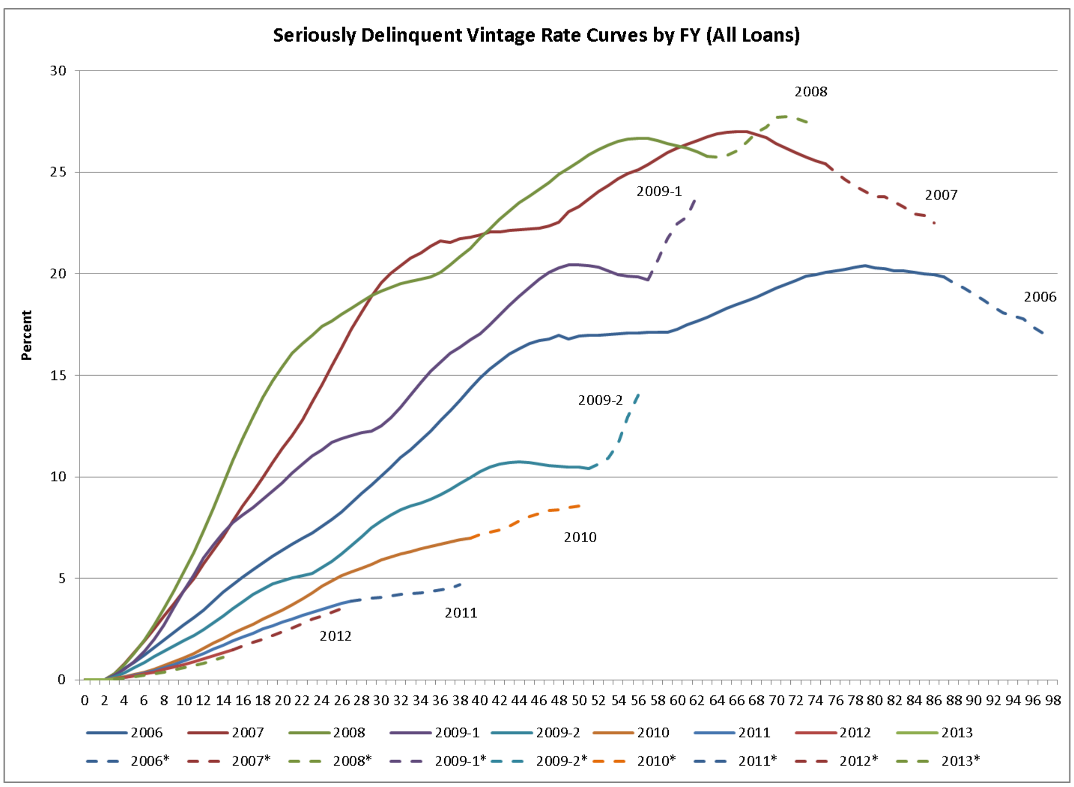
[13] Loans in this column are fully-underwritten conventional-to-FHA and FHA- to-FHA refinancing.

Serious Delinquency Rates

Serious delinquency rates for vintages most seriously affected by the recent economic recession (2006-2008) are now stabilizing. Most notable are improvements seen in the 2007 portfolio. In Exhibit 10 the 2009 cohort is separated into two parts, representing loan originations from October through March in 2009-1, and from April through October in 2009-2. This is done because borrower credit quality improved dramatically across the year, creating very different performance trends for early- versus late-year originations.

The dashed portion of each vintage curve represents age ranges that do not yet have experience recorded for all originations in the fiscal cohort. Thus, these sections of each curve are subject to revision over time. Though the 2008 and 2009 vintages show upward trends in this portion of their experience, that is only because loans originated early in the year have lower credit quality than do loans originated later in the year. Thus, future revisions should result in a decline in the final delinquency rates recorded for these age ranges and those vintages, so that the curves do not have a "flip" in their tails.

Exhibit 10: Serious Delinquency Rates by Fiscal Year of Loan Origination and Months of Seasoning, All Endorsements



Source: US Department of HUD/FHA, March 2014

Exhibit 11 shows serious delinquency rates from a different perspective. These are snapshots at a point in time of all active loans within each vintage class. The full portfolio seasonally-adjusted rate of 7.58 percent is the best recorded since Q2 FY 2009. The improvements seen in Exhibit 10 for origination vintages 2006 – 2008 are not yet appearing in the endorsement-cohort snapshots in Exhibit 11. Because insurance endorsements lag loan origination, what is shown in Exhibit 11 will lag what is shown in Exhibit 10.

Exhibit 11: Serious Delinquency Rates[14]
by Endorsement Fiscal Year and Activity Quarter[15]

Endorsement Fiscal Year	Activity Period								
	FY2014 Q1	FY2013 Q4	FY2013 Q3	FY2013 Q2	FY2013 Q1	FY2012 Q4	FY2012 Q3	FY2012 Q2	FY2012 Q1
Pre-2007	12.48%	12.21%	11.41%	12.29%	11.80%	12.99%	12.60%	12.33%	12.58%
2007	24.42	24.36	22.12	24.88	23.09	26.88	25.82	25.55	25.59
2008	24.80	24.79	22.00	24.56	22.02	26.38	24.88	24.25	23.83
2009	13.61	13.66	12.02	13.13	11.61	13.45	12.18	11.41	10.92
2010	7.10	6.89	6.14	6.36	5.80	5.88	5.18	4.52	4.07
2011	4.45	4.06	3.42	3.32	2.86	2.49	1.81	1.28	0.93
2012	2.33	1.83	1.31	0.99	0.68				
2013	0.55	0.27	0.41	0.11					
2014	0.00								
All years	8.01%	8.05%	8.47%	8.87%	9.59%	9.58%	9.44%	9.42%	9.59%
All years – Seasonally Adjusted[16]	7.58%	8.22%	8.82%	8.91%	9.09%	9.80%	9.94%	9.48%	9.05%

Source: US Department of HUD/FHA, February 2014.

---

14 This rate is the sum of 90+-day delinquencies, bankruptcies, and cases in foreclosure processing. These rates are not seasonally adjusted.

15 As of the last day of each quarter.

16 These rates are seasonally adjusted using the Census X-12 procedure.

APPENDIX

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

FHA Single-Family Mortgage Insurance Endorsement Counts by Fiscal Year and Quarter					
	Number of New Insurance Cases				
	Forward Mortgages[17]				
Time Period	Home Purchase	Conventional Loan Refinance	FHA-to-FHA Refinance	All Forward Loans	Reverse Mortgages (HECM)[18]
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	540,314	53,939	298,169	892,422	37,791
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	591,326	349,126	91,133	1,031,585	112,013
2009	995,102	468,768	367,448	1,831,318	114,639
2010	1,109,163	305,297	252,443	1,666,903	78,758
2011	777,102	194,809	224,761	1,196,672	73,093
2012	733,699	129,186	321,611	1,184,496	54,677
2013	702,417	91,499	550,923	1,344,839	59,918
Fiscal Year and Quarter					
2012Q1	176,085	31,834	47,872	255,791	13,867
2012Q2	166,088	36,594	75,529	278,211	14,956
2012Q3	193,556	38,078	84,425	316,059	14,204
2012Q4	197,970	22,680	113,785	334,435	11,650
2013Q1	177,852	22,754	152,517	353,123	12,079
2013Q2	157,438	25,428	167,489	350,355	15,831
2013Q3	181,298	24,176	150,903	356,377	16,371
2013Q4	185,829	19,141	80,014	284,984	15,637
2014Q1	152,966	14,611	40,911	208,488	13,094

Source: US Department of HUD, Office of Housing/FHA; February 2014.

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

[18] The FHA reverse-mortgage insurance program is called Home Equity Conversion Mortgage (HECM). 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.

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

FHA Single-Family Mortgage Insurance Endorsement Volumes by Fiscal Year and Quarter					
	Volumes ($ million)				
	Forward Mortgages[19]				
Time Period	Home Purchase	Conventional Loan Refinance	FHA-to-FHA Refinance	All Forward Loans	Reverse Mortgages (HECM)[20]
Fiscal Year					
2000	$79,397	$3,181	$3,697	$86,276	$825
2001	79,709	4,947	22,894	107,550	1,094
2002	91,025	7,404	37,713	136,141	1,975
2003	73,026	7,602	66,682	147,310	3,000
2004	66,835	6,998	33,787	107,620	6,886
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	71,729	330,384	30,172
2010	191,602	56,431	49,468	297,501	20,974
2011	134,357	36,845	46,440	217,642	18,208
2012	124,454	23,474	65,343	213,271	13,113
2013	124,934	16,932	98,248	240,114	14,681
Fiscal Year and Quarter					
2012Q1	29,227	5,731	9,661	44,619	3,268
2012Q2	27,730	6,572	15,666	49,968	3,647
2012Q3	32,981	7,061	17,777	57,819	3,466
2012Q4	34,515	4,110	22,240	60,865	2,732
2013Q1	30,994	4,135	28,595	63,724	2,819
2013Q2	27,887	4,793	30,991	63,671	3,840
2013Q3	32,330	4,510	26,445	63,284	4,090
2013Q4	33,724	3,494	12,217	49,435	3,932
2014Q1	27,346	2,577	5,903	35,826	3,434

Source: US Department of HUD, Office of Housing/FHA; February 2014.

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

[20] The FHA reverse-mortgage insurance program is called Home Equity Conversion Mortgage (HECM). 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.

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

FHA Single-Family Mortgage Insurance
Borrower Credit Score[21] Distribution on New Endorsements[22]
By Fiscal Year (FY) and Quarter

Fiscal Year	Quarter	Credit Score Categories (Shares in each row add to 100%)						
		720+	680+	620+	580+	500+	300+	N/A[23]
2008	Oct-Dec	9.3	9.1	31.1	23.8	21.2	1.7	3.7
	Jan-Mar	9.9	9.8	31.8	23.2	20.3	1.7	3.3
	Apr-Jun	15.2	13.2	35.6	20.8	12.2	0.7	2.4
	Jul-Sep	19.1	16.0	37.5	18.9	6.7	0.2	1.5
2009	Oct-Dec	20.5	17.2	37.5	18.6	5.1	0.1	1.0
	Jan-Mar	24.3	18.9	36.9	15.5	3.3	0.0	1.0
	Apr-Jun	29.7	21.2	38.2	8.4	1.5	0.0	1.0
	Jul-Sep	33.3	22.1	37.8	4.9	1.0	0.0	1.0
2010	Oct-Dec	33.5	22.5	38.5	4.0	0.7	0.0	0.9
	Jan-Mar	33.9	22.8	38.4	3.5	0.5	0.0	0.9
	Apr-Jun	34.9	22.6	38.4	2.7	0.4	0.0	0.9
	Jul-Sep	34.8	22.6	38.4	3.0	0.4	0.0	0.8
2011	Oct-Dec	37.0	23.2	36.1	2.5	0.3	0.0	0.8
	Jan-Mar	37.8	24.1	35.0	2.2	0.2	0.0	0.7
	Apr-Jun	35.4	23.8	37.5	2.6	0.2	0.0	0.6
	Jul-Sep	33.1	23.7	39.1	3.3	0.2	0.0	0.5
2012	Oct-Dec	33.0	23.9	39.3	3.2	0.2	0.0	0.5
	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
	Jan-Mar	29.3	26.6	41.9	1.8	0.2	0.0	0.3
	Apr-Jun	26.9	27.4	43.9	1.5	0.1	0.0	0.2
	Jul-Sep	23.6	27.7	46.7	1.6	0.2	0.0	0.2
2014	Oct-Dec	20.1	27.3	50.1	2.2	0.1	0.0	0.2

Source: US Department of HUD, Office of Housing/FHA, February 2014.

[21] 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.

[22] Excludes streamline refinance loans.

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

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

FHA Single-Family Mortgage Insurance
Average Borrower Credit Scores[24] on New Endorsements
By Fiscal Year, Quarter, and Loan Purpose

Fiscal Year	Quarter	Loan Purpose: Home Purchase	Loan Purpose: Conventional Loan Refinance	Loan Purpose: FHA-to-FHA Refinance[25]	Loan Purpose: All[21]
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
	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
	Jan-Mar	695	697	703	695
	Apr-Jun	693	694	699	693
	Jul-Sep	690	686	690	690
2014	Oct-Dec	686	677	680	685

Source: US Department of HUD, Office of Housing/FHA, February 2014.

[24] Credit scores are co-branded between the three major credit repositories (Equifax, Experian, Transunion) and Fair-Isaac Corporation (FICO). 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.

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

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

FHA Single-Family Mortgage Insurance Loan-to-Value (LTV) Ratio[26] Distribution on New Endorsements[27] By Fiscal Year and Quarter						
Fiscal Year	Quarter	LTV Categories (Shares in each row add up to 100%)				
		Up to 80	81-90	91-95	96-98[28]	DPA Loans[29]
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
	Jan-Mar	6.0	11.5	10.8	71.6	0.2
	Apr-Jun	5.6	10.3	9.7	74.2	0.2
	Jul-Sep	5.3	9.7	8.9	75.9	0.2
2014	Oct-Dec	5.6	9.9	9.0	75.3	0.2

Source: US Department of HUD, Office of Housing/FHA, February 2014

[26] 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.

[27] Excludes streamline refinance loans.

[28] 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.

[29] 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.

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

FHA Single-Family Mortgage Insurance Average Loan-to-Value (LTV) Ratios[30] on New Endorsements By Fiscal Year, Quarter, and Loan Purpose					
		Loan Purpose			
Fiscal Year	Quarter	Home Purchase	Conventional Loan Refinance	FHA-to-FHA Refinance[31]	All[27]
2008	Oct-Dec	96.0	88.8	87.9	93.1
	Jan-Mar	96.0	88.9	88.3	92.6
	Apr-Jun	96.2	89.1	88.4	93.3
	Jul-Sep	96.1	89.2	88.0	93.9
2009	Oct-Dec	96.0	89.1	88.8	93.7
	Jan-Mar	95.9	89.4	89.4	93.2
	Apr-Jun	95.7	88.6	87.9	93.1
	Jul-Sep	95.6	86.8	85.8	93.2
2010	Oct-Dec	95.6	86.1	85.2	93.3
	Jan-Mar	95.5	86.2	87.1	92.9
	Apr-Jun	95.6	85.4	86.9	93.6
	Jul-Sep	95.6	86.0	88.0	93.5
2011	Oct-Dec	95.6	87.1	88.9	93.2
	Jan-Mar	95.6	85.7	87.7	92.7
	Apr-Jun	95.7	85.0	86.9	93.7
	Jul-Sep	95.9	85.3	87.5	94.3
2012	Oct-Dec	96.0	85.3	88.8	94.1
	Jan-Mar	96.0	83.4	88.4	93.4
	Apr-Jun	96.0	81.8	87.8	93.3
	Jul-Sep	96.0	83.7	87.7	94.4
2013	Oct-Dec	95.9	84.4	87.8	94.3
	Jan-Mar	95.9	84.6	87.5	93.9
	Apr-Jun	95.9	84.0	86.5	94.1
	Jul-Sep	95.8	82.9	85.4	94.3
2014	Oct-Dec	95.7	82.1	83.8	94.2

Source: US Department of HUD, Office of Housing/FHA, February 2014

[30] 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.

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

Exhibit A-7: Termination Claim Type and Loss Severity Rates

FHA Single Family Mortgage Insurance Termination Claim Dispositions and Loss Severity								
Fiscal Year	Quarter	REO Loss Rate[32]	REO Alternatives Loss Rate[33]	Overall Loss Rate	REO Dispositions	REO Alternatives Dispositions	Total Dispositions	REO Alternatives Share
2008	Oct-Dec	53.4%	26.60%	51.30%	10,924	928	11,852	7.80%
	Jan-Mar	53.4	26.7	50.9	11,903	1,252	13,155	9.5
	Apr-Jun	56.8	28.3	54.5	12,875	1,134	14,009	8.1
	Jul-Sep	65.1	29.1	61.8	14,032	1,428	15,460	9.2
2009	Oct-Dec	69.2	34	66.4	14,967	1,273	16,240	7.8
	Jan-Mar	71.8	37	68.5	19,910	2,118	22,028	9.6
	Apr-Jun	68	39.1	64	19,135	3,092	22,227	13.9
	Jul-Sep	65.8	40.4	61.9	19,451	3,515	22,966	15.3
2010	Oct-Dec	67.1	42.9	63.5	20,166	3,522	23,688	14.9
	Jan-Mar	65.1	42.4	60.7	25,453	6,062	31,515	19.2
	Apr-Jun	66.4	45.5	62.5	22,716	5,310	28,026	18.9
	Jul-Sep	67.3	46.8	61.8	14,929	5,451	20,380	26.7
2011	Oct-Dec	71	47.6	64.7	16,540	6,132	22,672	27
	Jan-Mar	71.1	47.2	67	37,381	7,736	45,117	17.1
	Apr-Jun	72.3	47.8	67.7	32,664	7,592	40,256	18.9
	Jul-Sep	72.4	48.4	67	27,034	7,978	35,012	22.8
2012	Oct-Dec	71.1	47.7	65.2	23,379	7,777	31,156	25
	Jan-Mar	67.9	47.2	62.5	25,213	8,781	33,994	25.8
	Apr-Jun	65.1	45.4	60.5	28,631	8,603	37,234	23.1
	Jul-Sep	66.6	45.9	61.3	28,632	6,227	34,859	17.7
2013	Oct-Dec	65.6	54.5	60.9	25,209	13,341	38,550	34.6
	Jan-Mar	63.2	48.6	57.6	26,117	11,744	37,861	31.0
	Apr-Jun	59.2	53.2	56.0	28,025	23,646	51,671	45.8
	Jul-Sep	57.6	50.8	53.7	27,621	28,565	56,186	50.8
2014	Oct-Dec	58.5	45.2	52.2	22,801	15,541	38,342	40.5

Source: US Department of HUD, Office of Housing/FHA; February 2014.

[32] REO – Real Estate Owned refers to properties that HUD has assumed ownership through the conveyance of title.

[33] REO Alternatives composes of Short Sales, Claims without Conveyance of Title (CWCOT) and Note Sales. Short sales refer to the sale of property defaulted Borrower to sell his/her home and use the net sale proceeds to satisfy the mortgage debt even though the proceeds are less than the amount owed. Short sales are part of the Preforeclosure Sale (PFS) program. CWCOT- Claim without Conveyance of Title refers to a program approved under Section 426 of the Housing and Urban-Rural Recovery Act of 1983 designed to reduce the number of single family loans owned by HUD, by authorizing the payment of claims to mortgagees without conveying (transferring) the title to the property to HUD. Note Sale refers to the sale of defaulted mortgage notes designed to reduce foreclosure costs for borrowers. Notes sales are conducted through the Distressed Asset Stabilization Program (DASP)