Caroline Roy
Branch Manager/Loan Officer, GoPrime Mortgage
271203
2015 Charlotte St Ste. 3 Bozeman, MT 59718

Office: 406.624.6330
caroline@goprime.com
View My Website

FHA Financials Doing Much Better Than Expected

FHA's Mutual Mortgage Insurance Fund (MMIF) is **back in the money**. Housing and Urban Development Secretary Julian Castro told Congress today that the fund, which had declined into insolvency at the crest of the mortgage crisis, is now back above its mandated capital ratio.

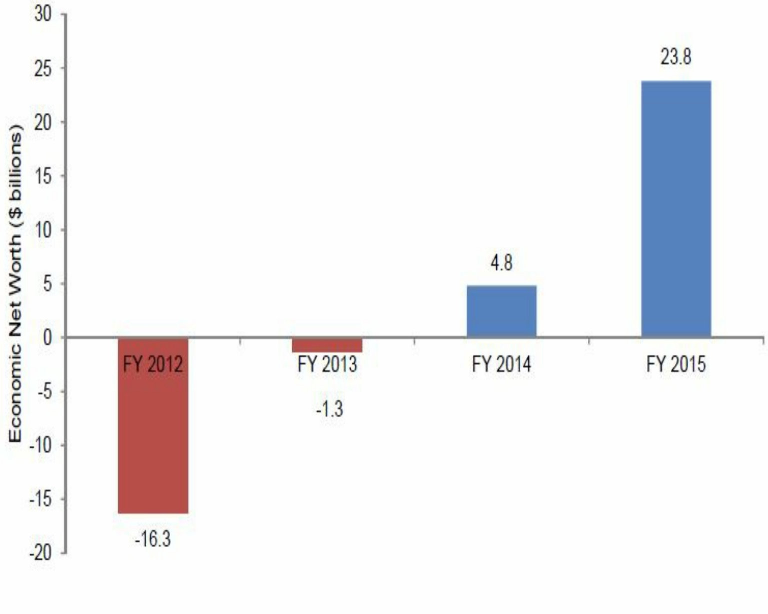
In his annual *Report to Congress*, Castro said that the fund had improved its ratio by **1.66 percentage points** from last year's actuarial result, increasing from 0.41 percent to 2.07 percent. FHA is required to maintain a 2.0 percent ratio. Reaching the goal happened a **full year in advance** of what independent actuaries had projected.

In dollars the increase means that FHA has improved the net worth of MMIF by $40 billion since the 2012 fiscal year and it now has a value of $23.8 billion. In 2012 that capital ratio stood at a negative 1.44 percent.

Recent Housing Data

		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

Exhibit II-1
Overall Results of the Independent Actuarial Study

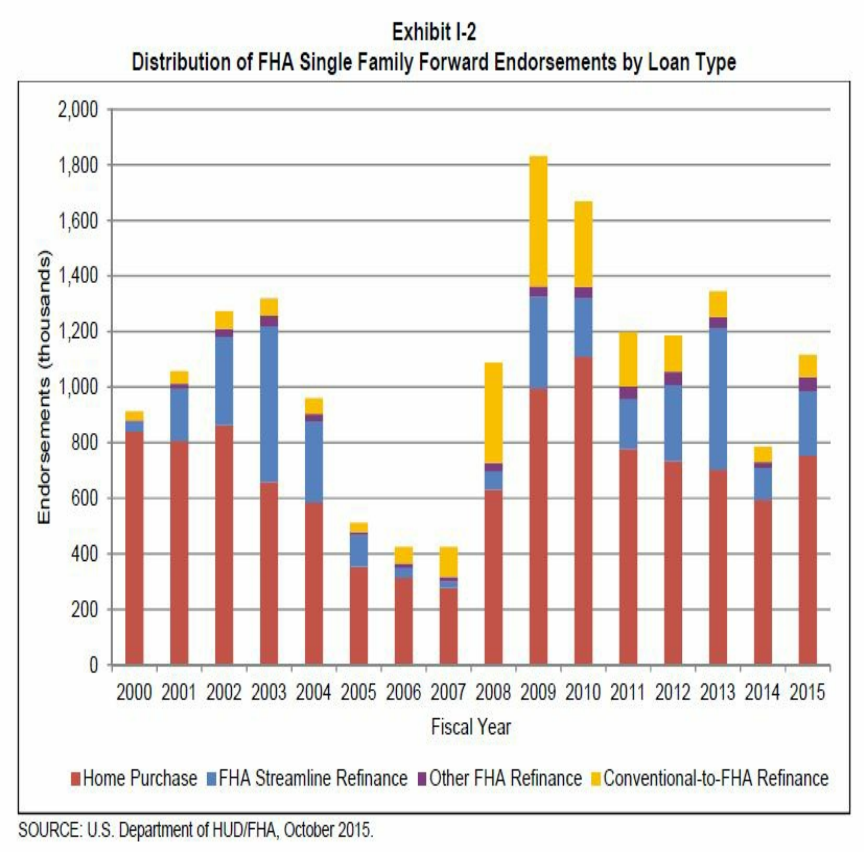


Capital Ratio (%)	-1.44	-0.11	.41	2.07

SOURCE: FY 2012–FY 2015 Actuarial Reviews of the MMI Fund; analysis by U.S. Department of HUD/FHA.

Economic net worth (ENW) improved by **$19 billion**, increasing from $4.8 billion in 2014 to $23.8 billion in the most recent fiscal year. The ENW **exceeds** what was projected last year by approximately $8.7 billion. **Most** of the increase above expectations came from Home Equity Conversion Mortgages (HECM), also known as **Reverse Mortgages**. The capital ratio of that program increased from a negative 1.2 percent to a positive 6.4 percent in the course of one fiscal year.

Castro also reported that FHA endorsed 1,116,232 mortgages during the 2015 fiscal year. Sixty-six percent were purchase mortgages for $140 billion and the 34 percent that were for refinancing totaled $73 billion. During the first three quarters of the fiscal year FHA had a 21 percent share of the purchase mortgage market and 8 percent of the refinancing market.



In January FHA **reduced** its annual mortgage insurance premium by 50 basis points expecting that it would bring 250,000 new borrowers into the market over three years. Castro credits that reduction for the 27 percent increase in FHA's purchase endorsements over 2014 and a growth in refinancing activity of 90 percent. Over the first eight months following the reduction 75,000 new borrowers were able to purchase homes.

The **average credit score** for FHA endorsements was 680 during the year and the average loan size was $190,928 for all mortgages and $186,176 for purchase loans. Eighty-two percent of purchase loans went to first-time homebuyers.

The value of FHA's Forward Portfolio has improved by **more than $30 billion** since the 2012 fiscal year, moving from negative 1.4 percent to a positive 1.6 percent showing a positive and consistent trend. The report says the long-term strategies put in place by the Obama Administration have led to performance metrics that suggest the actuary's findings are sustainable. These include the historic low early payment delinquencies, a seven year low in serious delinquencies, and a 43 percent improvement in loss recoveries since 2011.

HUD's summary risk analysis says the while achieving the 2 percent capital ratio was **a crucial milestone** for FHA, prudent risk management practice should overlay that statutory requirement with a risk management approach that takes into account other factors such as overall economic health. For example, the HECM portfolio lost 8 percent of its value in 2014 while the economy was in the midst of recovery. "This suggests that a 2 percent capital cushion for HECMs would be insufficient in a severe economic downturn."

The report **cautions** that past valuations of the HECM portfolio appear less predictable as valuations have gained or lost more than 5 percentage points in each of the last four years. Much of the difference in the actual and projected value of the Fund has hinged on the difficulty of anticipating the HECM portfolio. It has become clear that the future health of the fund depends on the progress of that portfolio.