MORTGAGE BANKERS ASSOCIATION

MBA BRIEF: FHA RELEASES ANNUAL REPORT ON THE FINANCIAL STATUS OF THE MUTUAL MORTGAGE INSURANCE FUND

The Combined Fund

- **The current MMIF capital ratio is 6.10%, an increase from 4.84% a year ago.** The MMIF capital ratio remains above the 2.00% threshold mandated by Congress for the sixth consecutive year and is at its highest level since 2007.
- The "MMI Capital" (formerly referred to as "net economic worth") of the MMIF is $79.0 billion, an increase of $16.6 billion from a year ago.
  - The $79.0 billion in MMI Capital is derived from $70.7 billion in total capital resources, plus an additional $8.3 billion in net present value (NPV) of future cash flows.
  - The $16.6 billion increase in MMI Capital from a year ago is derived from total MMIF capital resources increasing by $12.7 billion in FY 2020, plus an increase of $3.9 billion in NPV of future cash flows.

The Forward Portfolio

- The forward portfolio performance continues to improve, with a capital ratio of 6.31% (an increase from 5.44% a year ago) and MMI Capital of $77.8 billion.
- Loan performance in the forward portfolio was impacted by the COVID-19 pandemic, as evidenced by the rise in the serious delinquency rate from 4.04% in April 2020 to 11.59% by the end of FY 2020.
  - Average loss severity rates improved to 38.17%, down from 40.99% a year ago and a post-crisis peak of 63.72% in FY 2011.
  - Recent improvements in early payment default (EPD) rates were adversely impacted by the pandemic and corresponding forbearance authorization in the CARES Act. In April 2020, EPD rates were at 0.60%, increasing rapidly to 5.97% by June 2020.
- In the forward portfolio, FHA is closely monitoring notable risks, many of which moderated over the past year—which FHA attributes in part to lenders tightening credit standards as a result of the pandemic:
  - Decrease in DTI ratios (43.08% average down from 43.58% average a year ago, with 24.53% of endorsements at a DTI ratio above 50%—a 2.58 percentage-point decrease from FY 2019);
  - Modest increase in average credit scores from 666 to 672, with 8.96% of endorsements at a credit score below 620—a 3.74 percentage point decrease from FY 2019;

- Increase in share of refinance transactions, though cash-out refinances fell dramatically as a share of total refinances (decreasing from 64.68% to 24.08%), with streamline refinances representing the majority of refinances at a 61.24% share (up from 22.83%);
- Slight increase in use of downpayment assistance (39.80% of purchase endorsements, up from 39.34% in FY 2019);
- Decreasing share of loans with minimal borrower reserves (45.0% of purchase endorsements with less than 2 months of reserves, down from 48.0% in FY 2019); and
- Decreasing prevalence of what FHA defines as "risk layering" – 2.40% of endorsements have a DTI ratio above 50%, a credit score below 640, <u>and</u> less than 2 months of reserves. This figure is down 0.38 percentage points from FY 2019.

<u>The HECM Portfolio</u>

- The health of the HECM portfolio improved dramatically in FY 2019, though HECMs remain a drag on the health of the combined fund. The capital ratio of the HECM portfolio is negative 0.78% (a significant improvement from negative 9.22% a year ago), with MMI Capital of negative $0.5 billion.
  - The negative $0.5 billion in MMI Capital is derived from $1.6 billion in total capital resources, offset by a negative $2.1 billion in NPV of future cash flows.
- HECM volume grew by over 10,000 endorsements relative to FY 2019, an increase of nearly 34%, though volume remains 63% lower than the FY 2009 peak. The average Maximum Claim Amount increased to more than $389,000 from $347,000.
- The average Principal Limit for HECMs grew to 57.57% of the Maximum Claim Amount, an increase from 52.00% in FY 2019.

<u>Claims Paying Capacity</u>

- Total claims paying capacity, or the sum of total capital resources and the NPV of projected revenue, grew to $119.5 billion in FY 2020, an increase from $109.4 billion a year ago. This growth was attributable to a nearly $13 billion increase in total capital resources, which was offset by a nearly $3 billion decrease in the NPV of projected revenue. Total claims paying capacity represents 9.2% of insurance-in-force.
  - Total claims paying capacity of the forward portfolio grew to $111.9 billion, or 9.1% of insurance-in-force, an increase from $100.4 billion and 8.2%, respectively, in FY 2019.
  - Total claims paying capacity of the HECM portfolio fell to $5.8 billion, or 9.3% of insurance-in-force, a decrease from $7.3 billion and 11.4%, respectively, in FYI 2019.
- FHA estimates that the total claims paying capacity needed to withstand a stress event equivalent to the Great Recession is $135.1 billion. This would require an additional $15.6 billion over the current claims paying capacity, which equates to a 7.3% capital ratio for the combined fund.

Scenario Analysis

- The report emphasizes that the health of the MMIF is extremely sensitive to changes in house price appreciation:
    - A 1 percentage point reduction in the estimated baseline rate of house price appreciation, for example, would reduce the MMIF capital ratio by 1.30 percentage points.

Market Statistics and Other Notes

- Total MMIF insurance-in-force increased slightly to $1.295 trillion, a 0.50% increase from a year ago.
- FHA-insured mortgages comprise 9.61% of single-family residential mortgages by dollar volume, a decrease from the 11.56% market share a year ago and from a post-crisis peak of 17.90% in 2009.
    - In the purchase market, FHA-insured mortgages comprise 13.45% of mortgages (dollar volume), an increase from 12.71% in FY 2019.
    - In the refinance market, FHA-insured mortgages comprise 6.83% of mortgages (dollar volume), a decrease from 9.23% in FY 2019.
- The share of FHA mortgages endorsed by non-depository institutions continued its multi-year increase, rising to 89.57% from 86.34% a year ago. FY 2020 represents the seventh consecutive year of market share gains for non-depository institutions.
- FHA remains a mission-driven program, with 83.10% of purchase endorsements serving first-time homebuyers—a new program high. Minority households accounted for 32.59% of all FHA forward endorsements.

Policy Recommendations

- FHA notes several areas in which it recommends reforms that would require legislative action:
    - Mortgagee Review Board internal staff realignment
    - Removal of minimum 6-month suspension when Mortgagee Review Board suspends a lender’s FHA approval
    - Reductions in FHA high-cost area loan limits
    - Reductions in FHA HECM loan limits
    - Separation of the forward and HECM capital ratio requirements
    - Protection of FHA’s lien position on loans for which PACE financing is obtained at a later date
    - Limits on cash-out refinances
    - Streamlining of the partial claim process to allow repayment to remain secured under the borrower’s original mortgage
    - Establishment of FHA as an autonomous corporation within HUD (similar to Ginnie Mae)