MORTGAGE BANKERS ASSOCIATION

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

<u>The Combined Fund</u>

- **The current MMIF capital ratio is 11.11%, an increase from 8.03% a year ago.** The MMIF capital ratio remains above the 2.00% threshold mandated by Congress for the eighth consecutive year.
- The “MMI Fund Capital” (formerly referred to as “net economic worth”) of the MMIF is $141.7 billion, an increase of $41.2 billion from a year ago.
  - The $141.7 billion in MMI Capital is derived from $98.4 billion in total capital resources, plus an additional $43.2 billion in net present value (NPV) of future cash flows.
  - The $41.2 billion increase in MMI Capital from a year ago is derived from total MMIF capital resources increasing by $14.8 billion in FY 2022, plus an increase of $26.4 billion in NPV of future cash flows largely increasing due to a significantly lower NPV of projected losses.

<u>The Forward Portfolio</u>

- The forward portfolio performance continues to improve, with a capital ratio of 10% (an increase from 7.99% a year ago) and MMI Fund Capital of $126.6 billion.
  - The $126.6 billion in MMI Fund Capital is derived from $89.5 billion in total capital resources and $50.0 billion in NPV of future cash flows (up from $16.5 billion in FY 2021, a 203% increase), less $12.9 billion in NPV losses (55% lower than the FY 2021 figure).
- The serious delinquency rate has fallen from 8.81% at the end of FY 2021 to 4.77%, close to the pre-pandemic level of 4.04% in April 2020. Roughly 350,000 borrowers are currently seriously delinquent.
  - Since March 2020, 1.8 million borrowers with FHA-insured loans were granted a COVID-19 forbearance. More than 400,000 FHA borrowers requested and received forbearance for the first-time in FY 2022. Approximately 83,000 borrowers remain in forbearance (only a portion of those considered seriously delinquent).
  - Average loss severity rates improved to 26.86%, down from 35.50% a year ago and from a post-crisis peak of 64.53% in FY 2011.
  - Average early payment default (EPD) rates, which were impacted adversely by the pandemic and corresponding forbearance authorization in the CARES

    Act, spiked from 0.60% in April 2020 to 9.27% in July 2020, but have moderated to 1.7% by the end of FY 2022.

- In the forward portfolio, many notable risk parameters grew compared to a year ago.
    - Debt-to-income (DTI) ratios remain elevated, with the average DTI ratio increasing to 44.19% from 43.18% a year ago. The share of borrowers with DTI ratios above 50% rose to 27.95% from 23.71% in FY 2020.
    - The average credit score decreased to 664 from 672. The share of borrowers with credit scores below 620 (or missing) increased from 6.76% in FY 2021 to 10.67% in FY 2022.
    - The share of borrowers using some form of downpayment assistance rose to 40.12%, a record high.
- The share of refinances decreased in FY 2022 to 30% from 40.94% in FY 2021, and cash-out refinances rose to 61.4% of total refinances, up from 19.4% in FY 2021. Streamline refinances fell to 29.0% of total refinances, down from 67.78% in FY 2021.

<u>The HECM Portfolio</u>

- The health of the HECM portfolio continues to improve in FY 2022, achieving a positive level for the second time since FY 2015. The capital ratio of the HECM portfolio is 22.77%, with MMI Fund Capital of $15.1 billion.
    - The $15.1 billion in MMI Fund Capital is derived from $8.9 billion in total capital resources and $6.2 billion NPV cash flow.
- HECM volume grew by over 15,000 endorsements relative to FY 2021, an increase of more than 30%, though volume remains 44% lower than the FY 2009 peak. The original Maximum Claim Amount rose to $32.1 billion, an increase of $21.3 billion from a year ago and its highest level since FY 2009. The average Maximum Claim Amount increased to $498,221 from $433,991.
- The average Principal Limit for HECMs declined to 55.82% of the Maximum Claim Amount, a decrease from 58.62% in FY 2021.

<u>Claims Paying Capacity</u>

- Total claims paying capacity, or the sum of total capital resources and the NPV of projected revenue, grew to $151.8 billion in FY 2022, an increase from $132.6 billion a year ago. This growth was attributable to an over $14 billion increase in total capital resources, while the NPV of projected revenue increased marginally from 3.92% to 4.18%. Total claims paying capacity represents 11.9% of insurance-in-force.
    - Total claims paying capacity of the forward portfolio grew to $139.5 billion, an increase from $124.0 billion in FY 2021.
    - Total claims paying capacity of the HECM portfolio increased to $15.1 billion, an increase from $6.9 billion in FY 2021.

<u>Scenario Analysis</u>

- The report emphasizes that the health of the MMIF is highly 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 0.95 percentage points.
- Subjecting the FY 2022 portfolio to the same macroeconomic conditions faced by the FY 2007 portfolio – which produces the highest loss of 100 historical scenarios modeled by FHA – would result in an MMIF capital ratio of 6.31%, still more than three times required minimum.

Market Statistics and Other Notes

- FHA endorsed more than 982,202 forward mortgages in FY 2022, of which 70% were purchase mortgages. FHA endorsements totaled $255.5 billion, down from $342.8 billion a year ago.
- FHA is providing insurance on 7.2 million forward mortgages, of which 44% (based on unpaid principal balance) were endorsed in FY 2021 and FY 2022.
- The share of FHA mortgages endorsed by non-depository institutions decreased for the first time since FY 2010, falling to 89.41% from 91.02% a year ago.
- FHA remains a mission-driven program, with 83.52% of purchase endorsements serving first-time homebuyers as of September 2022, which came in slightly less than FY 2021 at 84.61%.

Forward-Looking Policy Priorities

- “The strength of the MMI Fund due to FHA’s responsible stewardship of its programs positions us well to continue removing barriers to affordable homeownership over the coming year.”
    - Planned initiatives:
        - Facilitate increased origination of 203(k) home rehabilitation mortgages.
        - Pursue options to increase the availability of small-dollar mortgages.
        - Develop and enhance financing options for manufactured housing units.