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 8.03%, an increase from 6.10% a year ago.** The MMIF capital ratio remains above the 2.00% threshold mandated by Congress for the seventh consecutive year.
- The "MMI Fund Capital" (formerly referred to as "net economic worth") of the MMIF is $100.5 billion, an increase of $21.5 billion from a year ago.
    - The $100.5 billion in MMI Capital is derived from $83.6 billion in total capital resources, plus an additional $16.9 billion in net present value (NPV) of future cash flows.
    - The $21.5 billion increase in MMI Capital from a year ago is derived from total MMIF capital resources increasing by $13.0 billion in FY 2021, plus an increase of $8.6 billion in NPV of future cash flows largely stemming from assumptions related to the lower NPV of projected losses.

The Forward Portfolio

- The forward portfolio performance continues to improve, with a capital ratio of 7.99% (an increase from 6.31% a year ago) and MMI Fund Capital of $94.9 billion.
    - The $94.9 billion in MMI Fund Capital is derived from $78.5 billion in total capital resources and $16.5 billion in NPV of future cash flows.
- 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. The serious delinquency rate remains elevated but fell to 8.81%, representing over 660,000 loans, by the end of FY 2021. The dollar volume of serious delinquencies rose to $110 billion, surpassing the pre-pandemic record of $96 billion in FY 2012.
    - Since March 2020, 1.58 million borrowers with FHA-insured loans, or about 20% of total FHA borrowers, were granted a COVID-19 forbearance. Approximately 387,000 of these borrowers remain in forbearance.
    - Average loss severity rates improved to 35.50%, down from 38.17% 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% by the end of FY 2020, but have moderated to 1.49% by the end of FY 2021.

- In the forward portfolio, many notable risk parameters were little changed from a year ago.
    - Debt-to-income (DTI) ratios remain elevated, with the average DTI ratio increasing to 43.18% from 43.08% a year ago. The share of borrowers with DTI ratios above 50% fell, however, to 23.71% from 24.20% in FY 2020.
    - The average credit score was unchanged at 672. The share of borrowers with credit scores below 620 (or missing) fell to 6.76% from 9.12% a year ago and 12.90% in FY 2019.
    - The share of refinances increased to 40.94% from 38.65% in FY 2020, though cash-out refinances fell to 19.40% of total refinances, down from 24.08% in FY 2020. Streamline refinances grew to 67.78% of total refinances, up from 61.24% in FY 2020.
    - The share of borrowers using some form of downpayment assistance decreased slightly to 39.36% from 39.80% a year ago.

<u>The HECM Portfolio</u>

- The health of the HECM portfolio improved dramatically in FY 2021, reaching a positive level for the first time in six years. The capital ratio of the HECM portfolio is 6.08% (a significant improvement from negative 0.78% a year ago and negative 18.83% as recently as FY 2018), with MMI Fund Capital of $3.8 billion.
    - The $3.8 billion in MMI Fund Capital is derived from $3.4 billion in total capital resources and $0.4 billion in NPV of future cash flows.
    - For the second consecutive year, the NPV of projected losses fell by more than 50%.
- HECM volume grew by over 7,000 endorsements relative to FY 2020, an increase of more than 17%, though volume remains 57% lower than the FY 2009 peak. The original Maximum Claim Amount rose to $21.3 billion, an increase of $5 billion from a year ago and its highest level since FY 2009. The average Maximum Claim Amount increased to $433,870 from $389,378.
- The average Principal Limit for HECMs grew slightly to 58.61% of the Maximum Claim Amount, an increase from 57.56% in FY 2020.

<u>Claims Paying Capacity</u>

- Total claims paying capacity, or the sum of total capital resources and the NPV of projected revenue, grew to $132.6 billion in FY 2021, an increase from $119.5 billion a year ago. This growth was attributable to a nearly $13 billion increase in total capital resources, while the NPV of projected revenue essentially remained unchanged. Total claims paying capacity represents 10.6% of insurance-in-force.
    - Total claims paying capacity of the forward portfolio grew to $124.0 billion, or 10.4% of insurance-in-force, an increase from $111.9 billion and 9.1%, respectively, in FY 2020.
    - Total claims paying capacity of the HECM portfolio increased to $6.9 billion, or 11.0% of insurance-in-force, an increase from $5.8 billion and 9.3%, respectively, in FY 2020.

Scenario Analysis

- 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 1.26 percentage points.
- Subjecting the FY 2021 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 1.54%.

Market Statistics and Other Notes

- Total MMIF insurance-in-force fell to $1.251 trillion, a 3.4% decrease from a year ago.
- FHA endorsed more than 1.43 million forward mortgages in FY 2021, of which 59.1% were purchase mortgages. FHA endorsements totaled $342.8 billion, an increase from $310.3 billion a year ago.
- FHA is providing insurance on 7.5 million forward mortgages, of which 44.5% (based on unpaid principal balance) were endorsed in FY 2020 and FY 2021.
- The share of FHA mortgages endorsed by non-depository institutions continued its multi-year increase, rising to 91.02% from 89.57% a year ago. FY 2021 represents the eighth consecutive year of market share gains for non-depository institutions.
- FHA remains a mission-driven program, with 84.61% of purchase endorsements serving first-time homebuyers as of September 2021.

Forward-Looking Policy Priorities

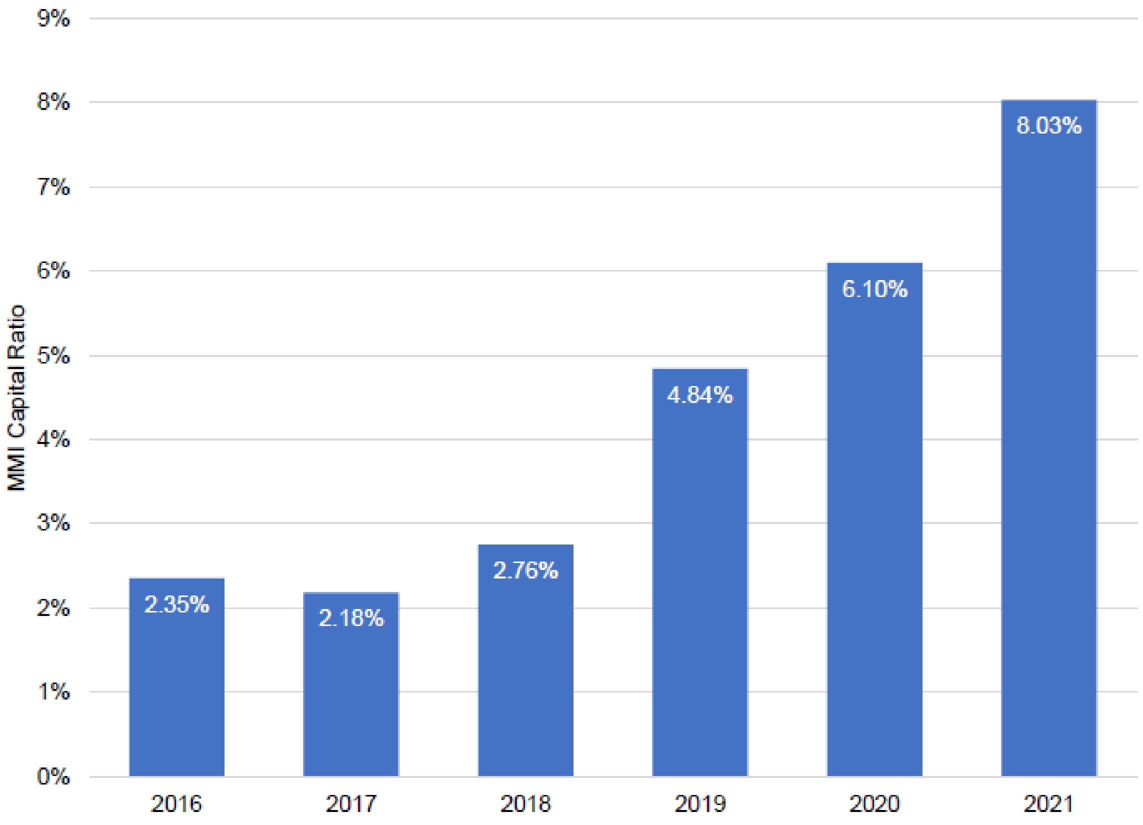
- FHA notes that it remains focused on two broad policy objectives: 1) supporting an equitable recovery and 2) expanding access to homeownership.
  - Supporting an Equitable Recovery
    - Importance of appropriate loss mitigation for the hundreds of thousands of borrowers with FHA-insured mortgages who are reaching the end of their forbearance periods.
  - Expanding Access to Homeownership
    - Address obstacles such as exclusionary zoning and bias in home appraisals.
    - Expand or enhance homebuyer assistance programs.
    - Pursue options to increase the availability of small-dollar mortgages.
    - Evaluate FHA loan underwriting policies and practices to identify elements that unnecessarily prevent low- and moderate-income borrowers and borrowers of color from obtaining FHA-insured mortgages.

        - Leverage assets associated with foreclosed FHA-insured mortgages to create additional supply for owner-occupants, non-profit organizations, and state and local governments.
        - Develop and enhance financing options for manufactured housing units.
        - Identify potential policy and programmatic changes that could facilitate lending with respect to condominiums, shared equity homeownership programs, and accessory dwelling units.
        - Seek to better understand and address climate-related risk in FHA's programs and practices.
- With respect to the need to balance actions that expand access to credit and strong financial stewardship of the MMIF, HUD Secretary Fudge noted in her foreword:
    - "Managing the strong fiscal health and performance of the FHA program is a priority, and the continued health of the MMI Fund is required for FHA to deliver on its vital mission of supporting America's homeowners through all economic cycles."
    - "A healthy and disciplined approach to managing the Mutual Mortgage Insurance Fund made this [COVID-19] flexibility and new loss mitigation toolkit possible…the MMI Fund must be able to endure any number of economic scenarios or disaster events…"
- With respect to lender participation in the FHA program, HUD Secretary Fudge noted in her foreword:
    - "FHA must continue to attract and serve lenders of all types and sizes…We look forward to encouraging more participation in the FHA program by community banks, credit unions, Community Development Financing Institutions, and others in the future."

Review of the 2021 FHA Annual Report on the Mutual Mortgage Insurance Fund

November 2021

MMIF Capital Ratio



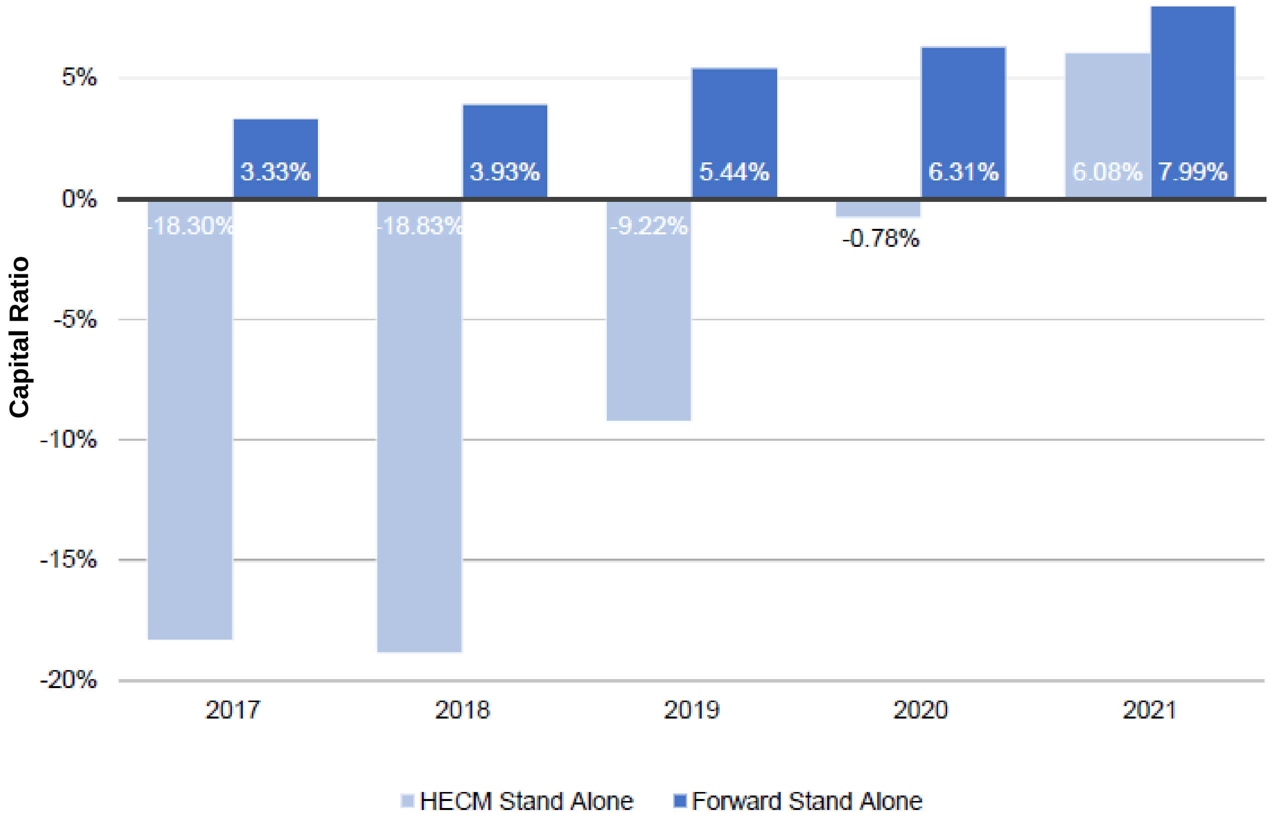
MMI Balance and Capital Ratio Estimates ($ millions)

Description	FY 2019	FY 2020	FY 2021
Total Capital Resources	$57,980	$70,652	$83,604
Cash Flow NPV	4,402	8,298	16,871
MMI Fund Capital	**$62,382**	**$78,950**	**$100,475**
Insurance-In-Force	$1,288,436	$1,294,731	$1,251,270
Total Capital Resources	4.50%	5.46%	6.68%
Cash Flow NPV	0.34%	0.64%	1.35%
MMI Fund Capital Ratio	**4.84%**	**6.10%**	**8.03%**

SOURCE: U.S. Department of HUD/FHA, October 2021.

Note: MMI Fund Capital is the way the report refers to economic net worth.

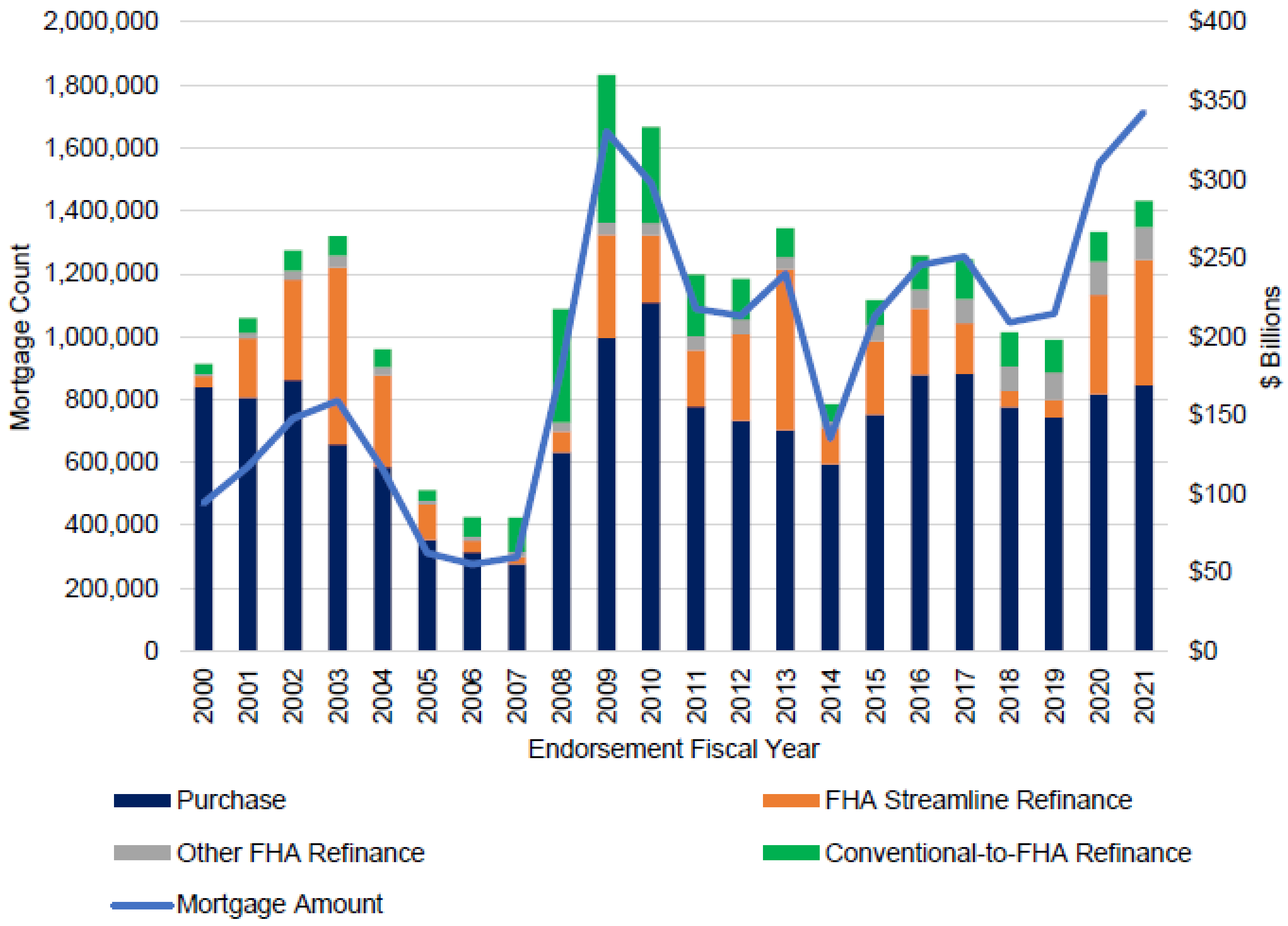
MMIF Components – Forward and HECM



	COMBINED FUND			FORWARD			HECM		
	Value	IIF	Ratio	Value	IIF	Ratio	Value	IIF	Ratio
2014	4.8	1,138	0.42	9.5	1,075	0.88	-6.4	63	-10.13
2015	23.8	1,133	2.10	21.3	1,065	2.00	0.8	68	1.17
2016	27.6	1,170	2.35	34.2	1,100	3.11	-8.3	70	-11.81
2017	26.7	1,227	2.18	38.4	1,154	3.33	-13.4	73	-18.3
2018	34.9	1,265	2.76	46.8	1,192	3.93	-13.6	72	-18.83
2019	62.4	1,288	4.84	66.6	1,224	5.44	-5.9	64	-9.22
2020	79.0	1,295	6.10	77.8	1,232	6.31	-0.5	63	-0.78
2021	**100.5**	**1,251**	**8.03**	**95.0**	**1,189**	**7.99**	**3.8**	**63**	**6.08**

Value and Insurance-In-Force in $ billions
Ratio in percent
Value is equivalent to MMI Capital (or, economic net worth)
Note that from 2013 onward, the total value is greater than the sum of the
Forward and HECM values by $1.7 billion (due to the mandatory appropriation in 2013)

FHA Forward Endorsement Count Increased to 1.43 Million Loans in FY 2021—59% Were Purchase Loans



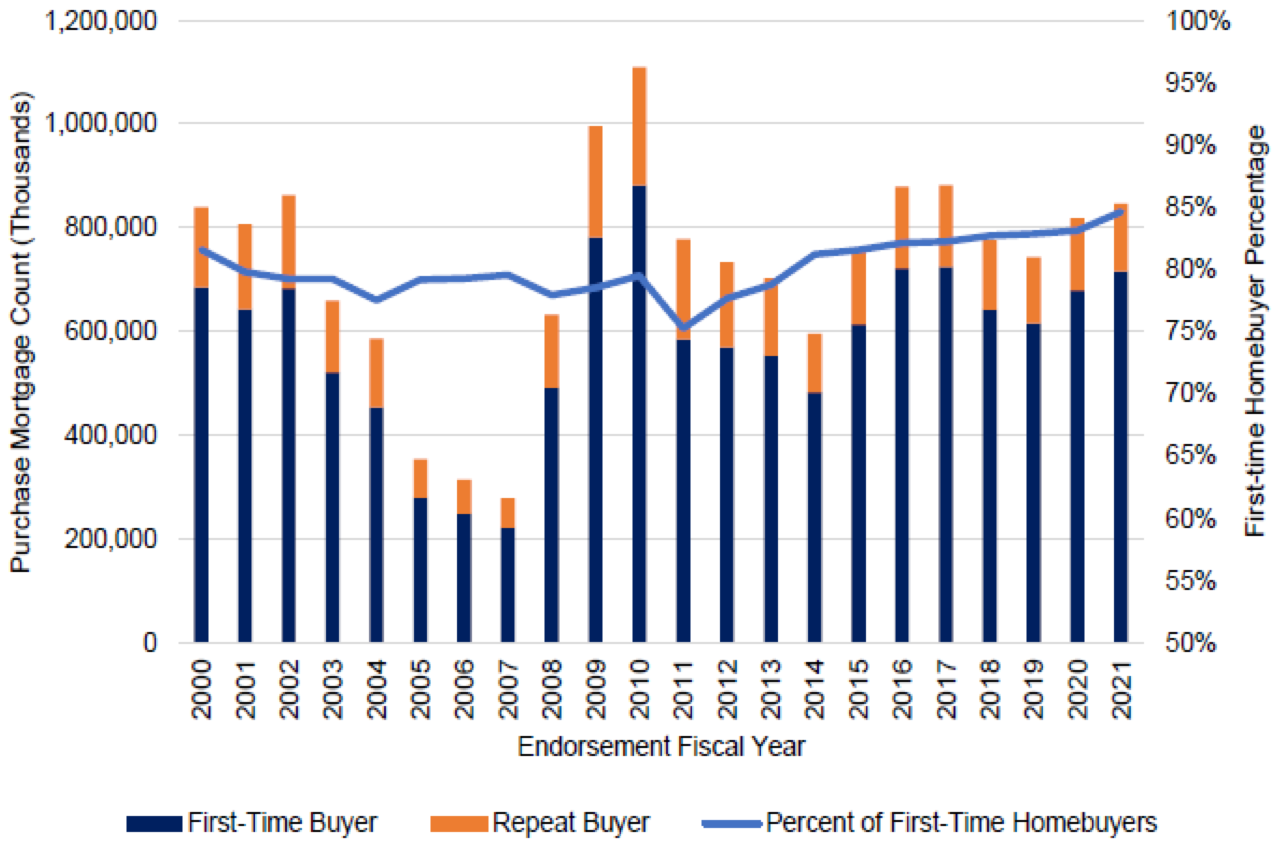
	Forward Endorsements (count, millions)
2016	1.258
2017	1.246
2018	1.015
2019	0.990
2020	1.333
2021	1.433

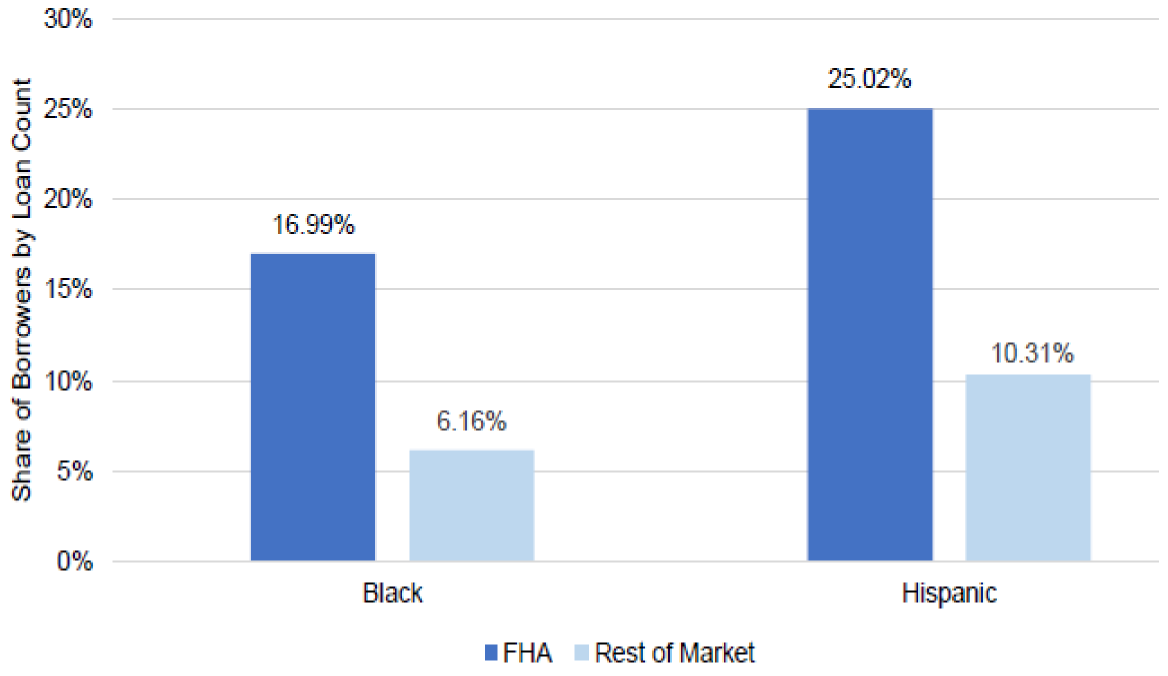
Despite increased endorsement volume, we estimate the FHA market share decreased (from 11.56 percent in FY 2019 and 9.61 percent in FY 2020) to 7.76 percent in FY 2021. **

Exhibit III-1

** Based on MBA market origination volume estimates of $4,418 billion from 2020 Q4—2021 Q3.

FHA Continues to be a Major Source of Funding for First-Time Homebuyers and Remains an Important Option for Many Minority Homebuyers





HECM Endorsements Increased by 18% from FY 2020 to 49,163
This Represents a $5 Billion Increase in Maximum Claim Amount (to $21.33 Billion)

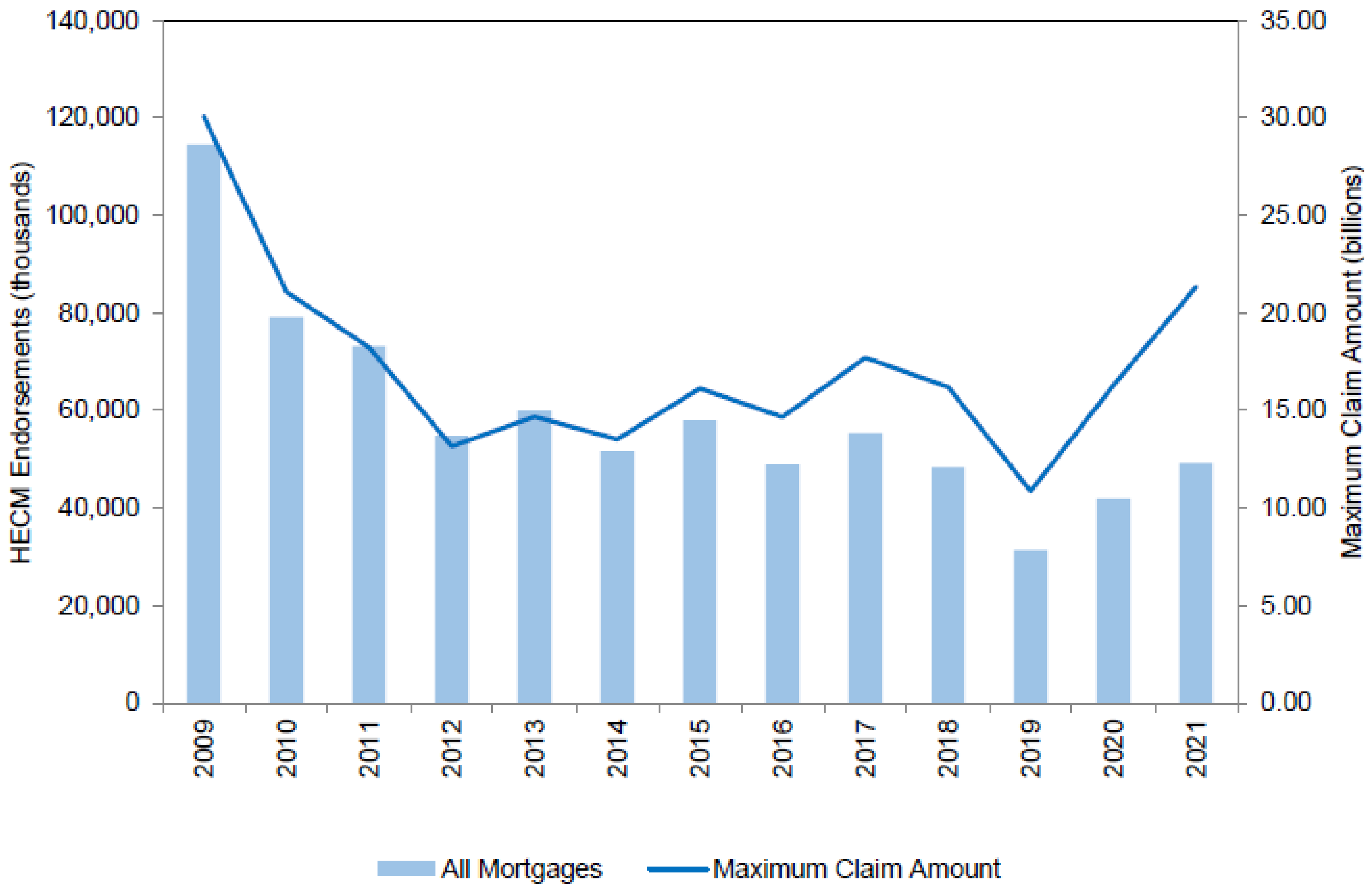
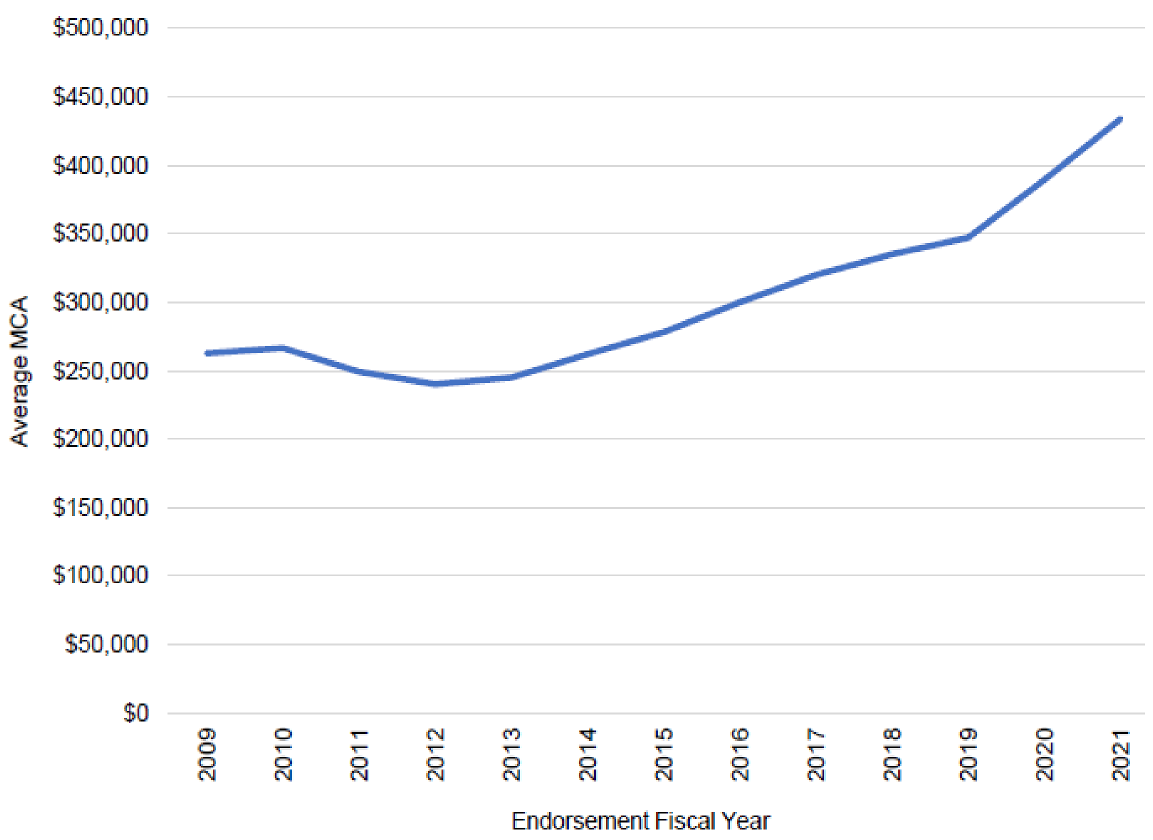
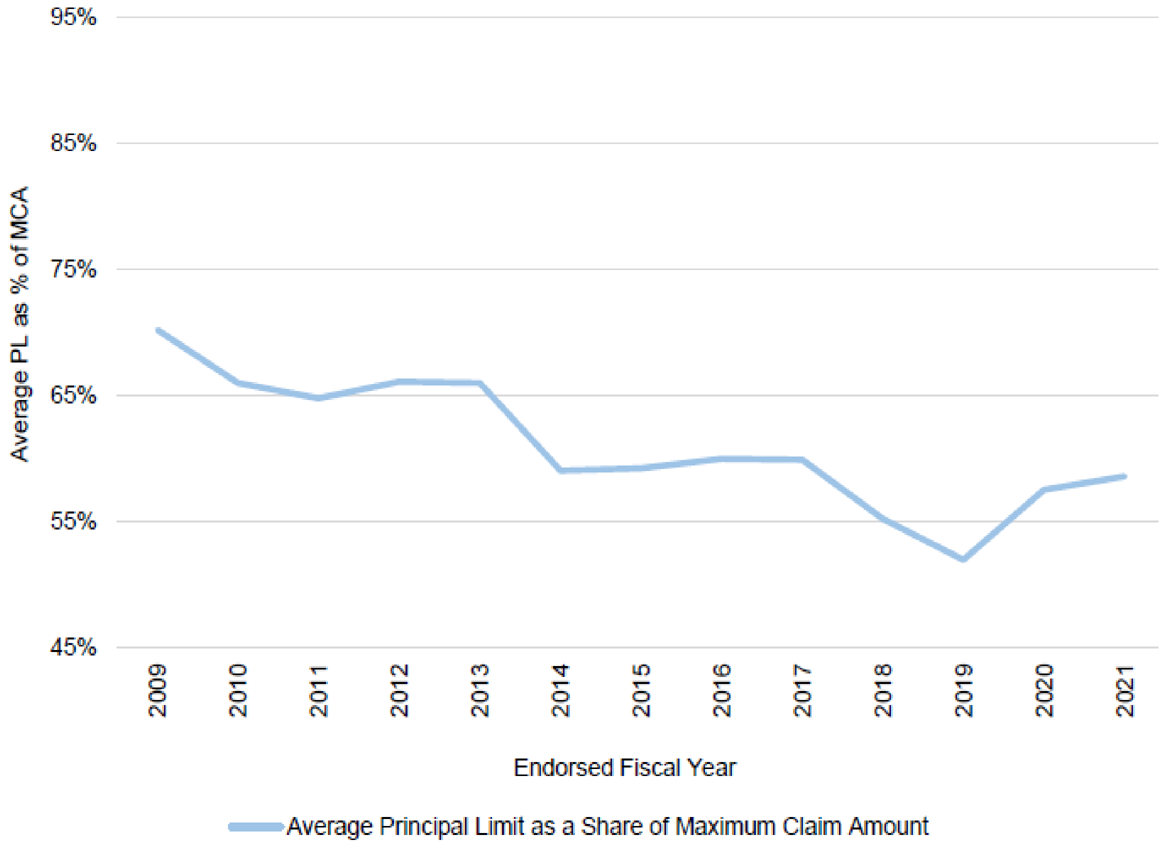


Exhibit III-23

HECM MCAs are on the Rise, and Average Principal Limits Rose for a Second Straight Year (as a Result of Lower Interest Rates and Higher Borrower Ages)

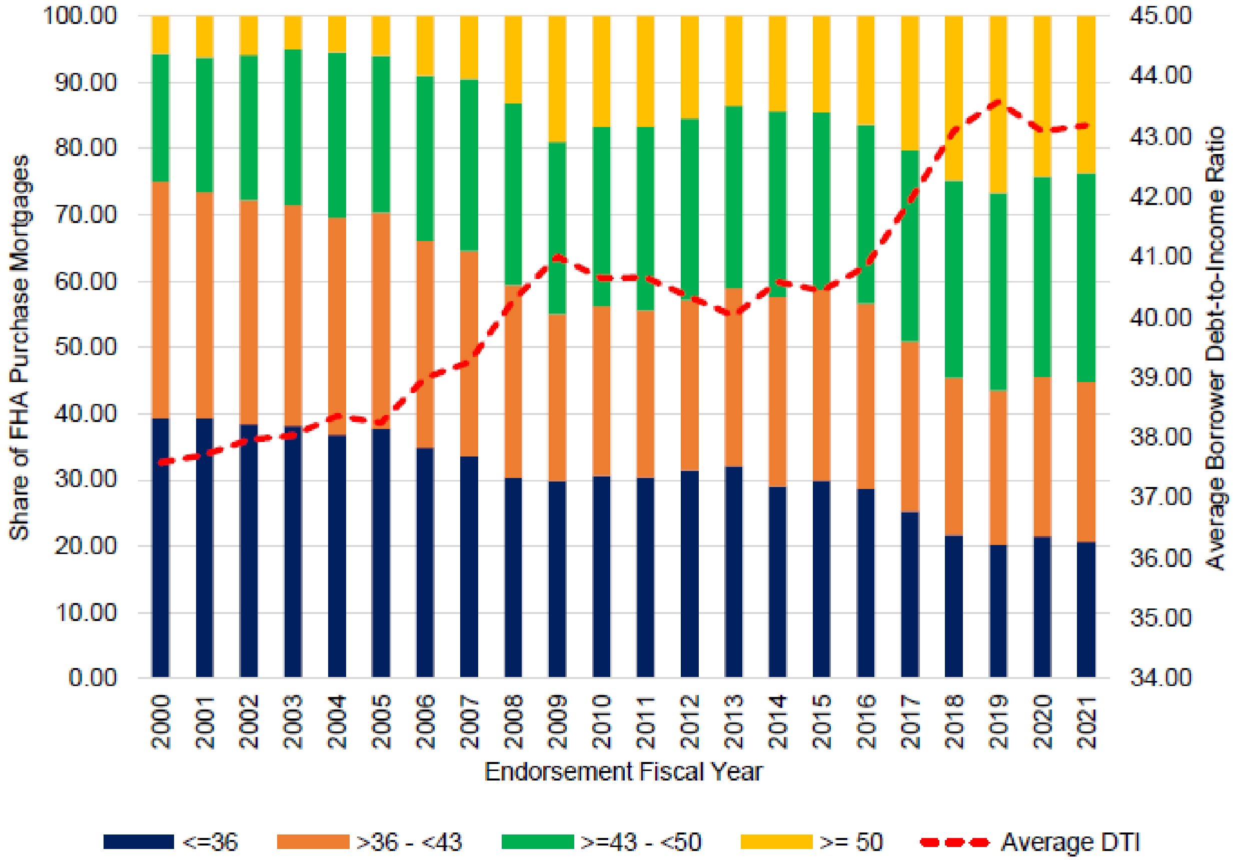




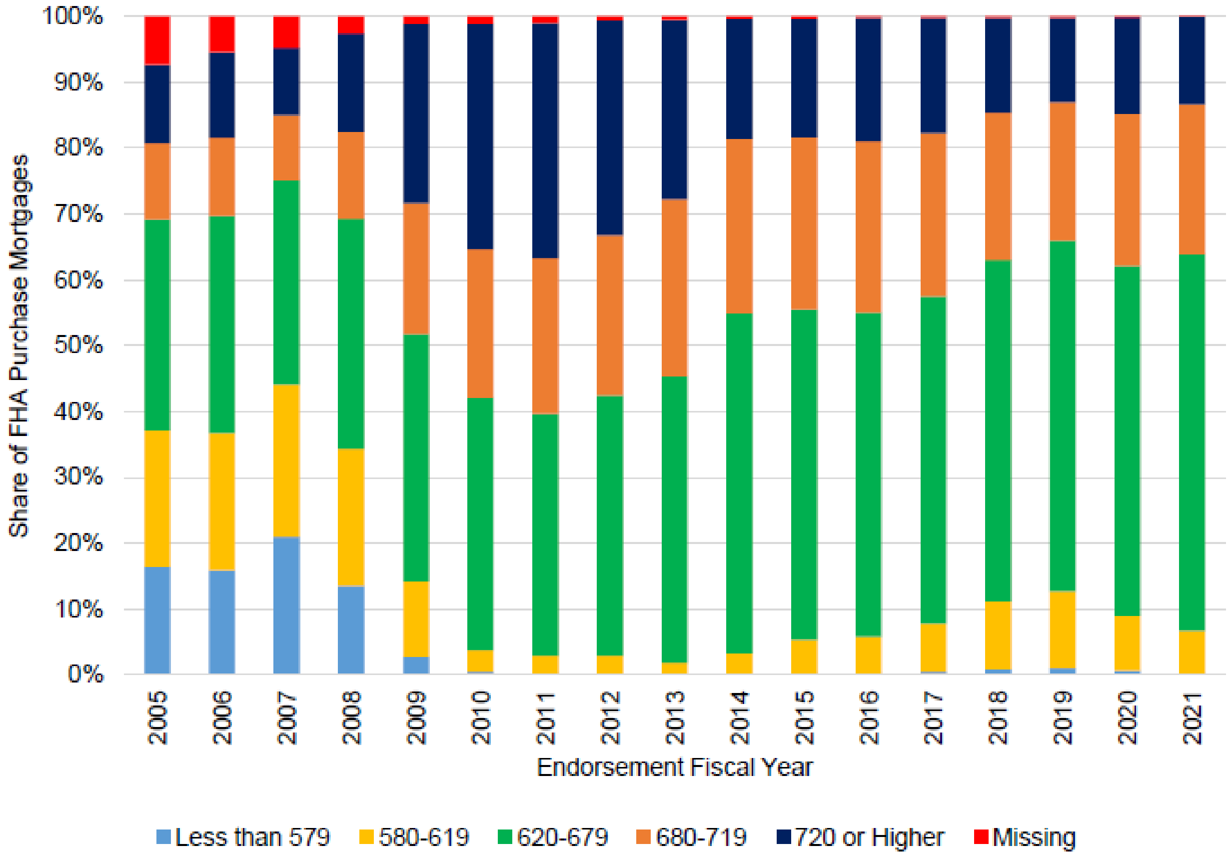
Exhibits III-26 and III-31

MBa®

Risks May Have Stabilized in Forward Book: DTIs and Credit Scores **



The average DTI ratio increased slightly from 43.08% in FY 2020 to 43.18% in FY 2021

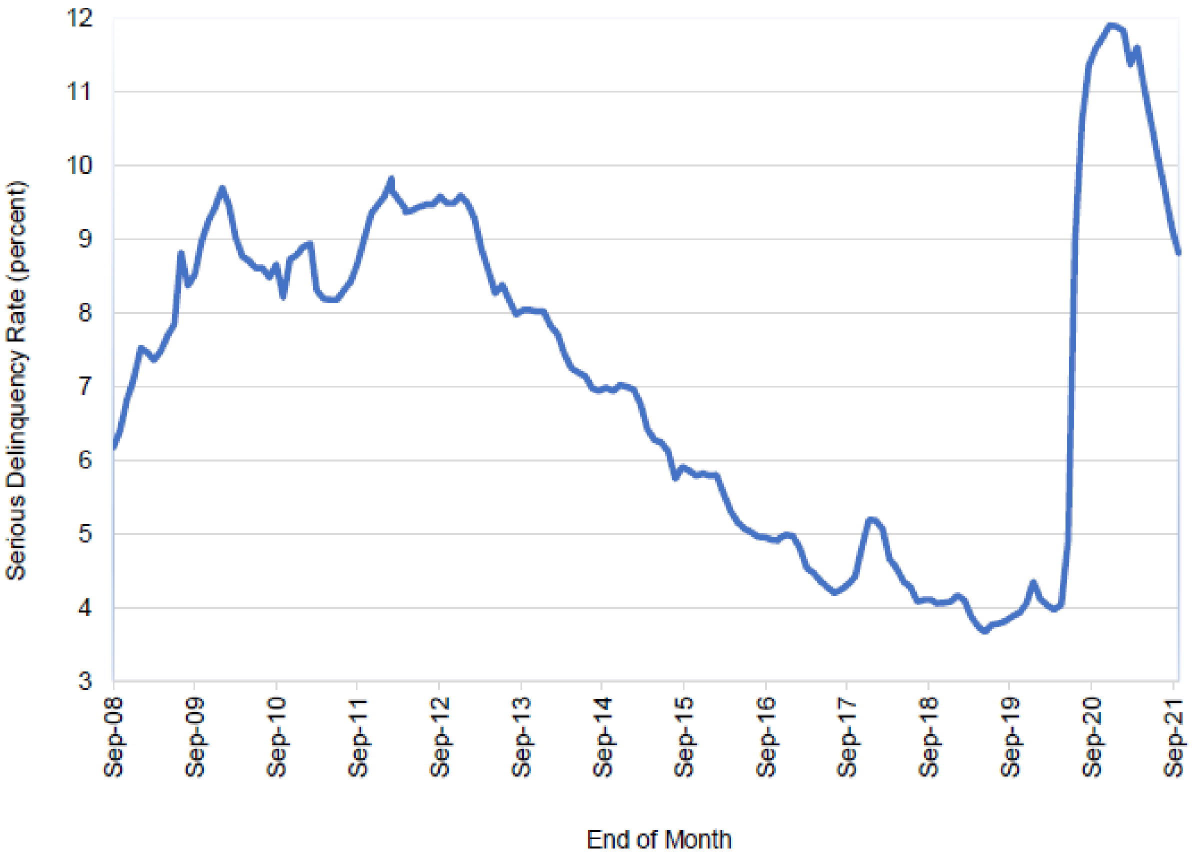


The average credit score was 666 in FY 2019 and 672 in both FY 2020 and FY 2021

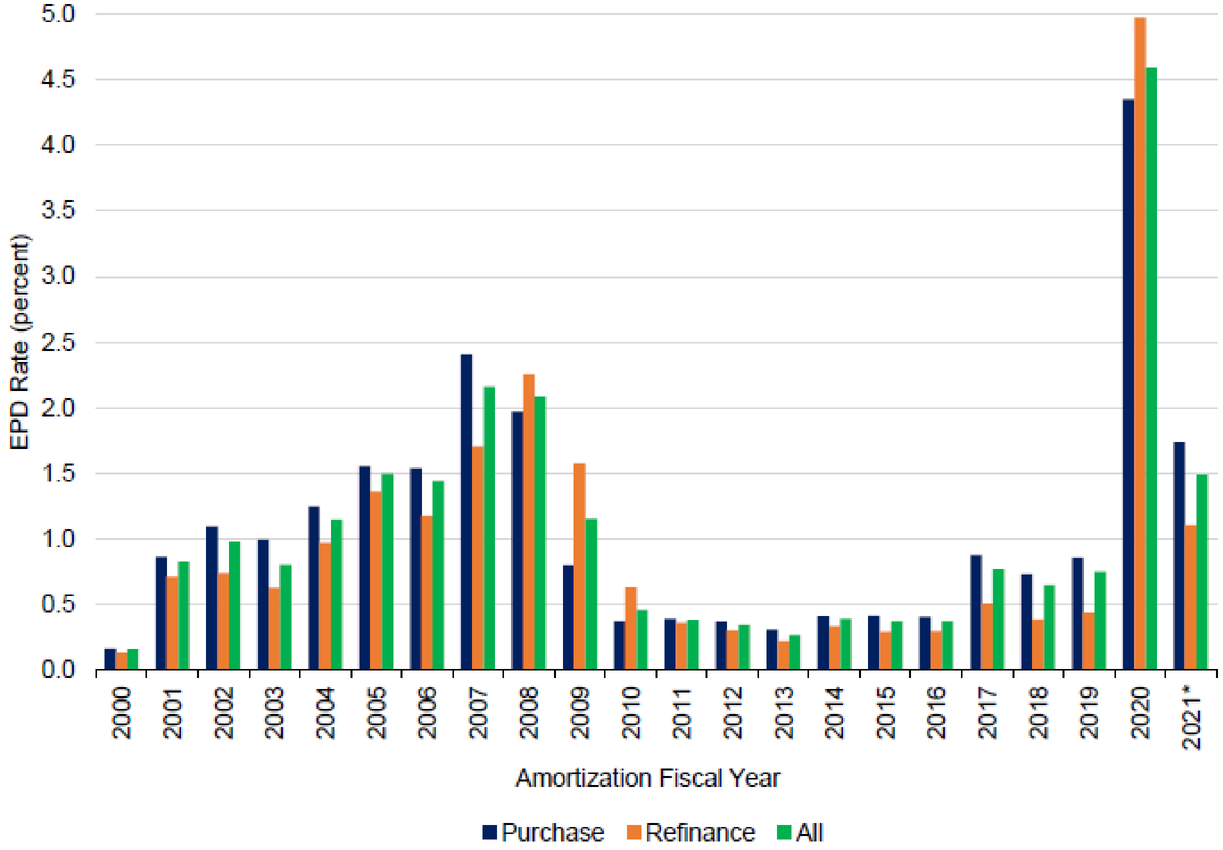
Exhibits III-9 and III-8

** A third risk factor, percent of endorsed loans with downpayment assistance, has remained steady over the last three years (between 39.3% and 39.8%). Note that FHA did not include a discussion of extreme layering in this year's report.

The Effects of the Pandemic—SDQ Rates and EPDs Spiked **



The SDQ rate decreased from 11.59% in April 2020 to 8.81% by the end of FY 2021

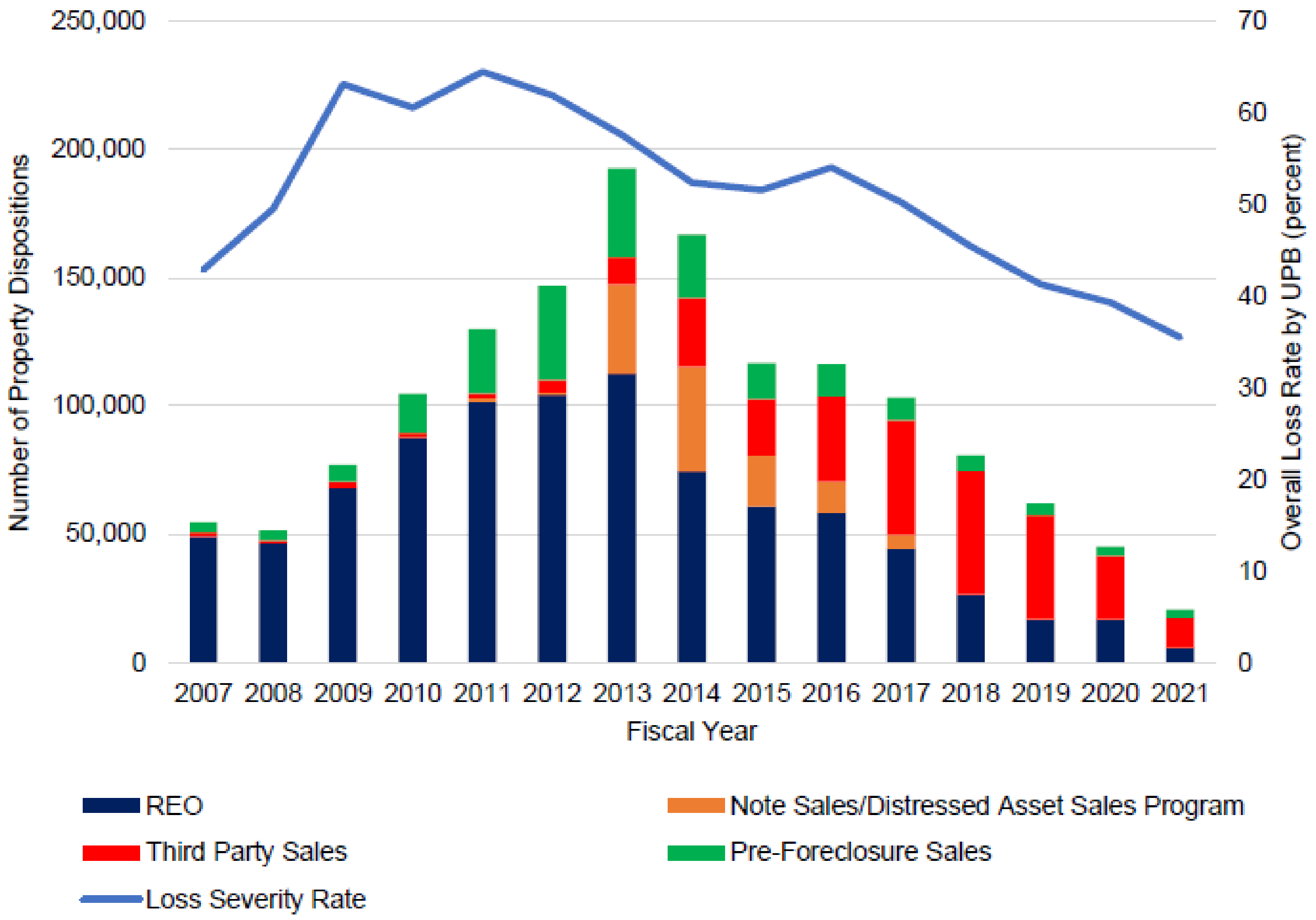


The average EPD rate rose from 0.60% in April 2020 to 9.27% by the end of FY 2020 before moderating to 1.49% by the end of FY 2021

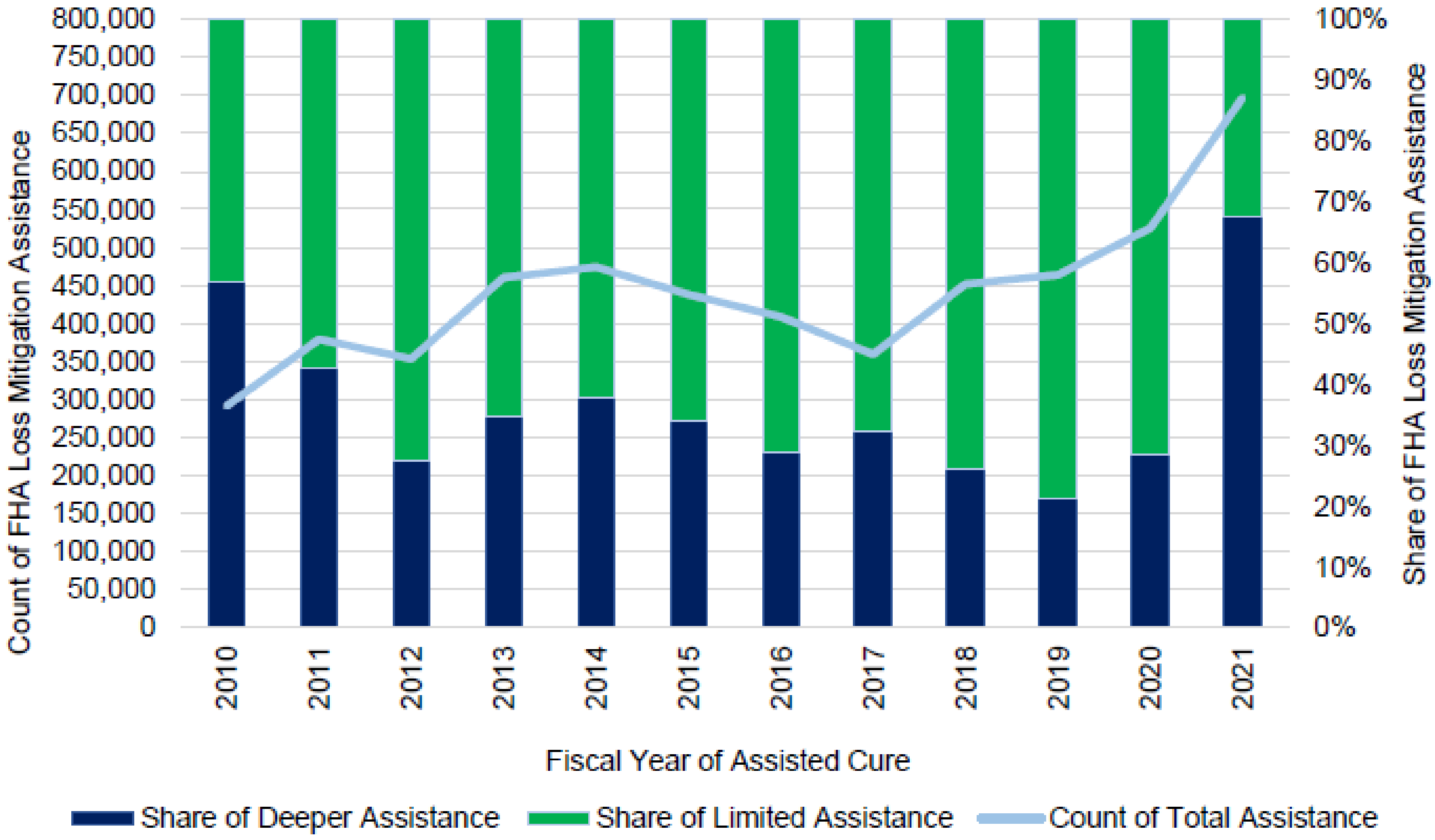
Exhibits III-16 and III-17

** Note: Early Payment Defaults (EPDs) are FHA-insured mortgages where the borrower becomes 90 days or more delinquent within the first six mortgage payments.

Loss and Claim Activity Continues to Improve



FHA, however, is Investing in Deeper Assistance Plans and Expects to do so in FY 2022 as Homeowners Emerge from Forbearance



Sensitivity Analysis of MMIF to Future Macroeconomic Changes **

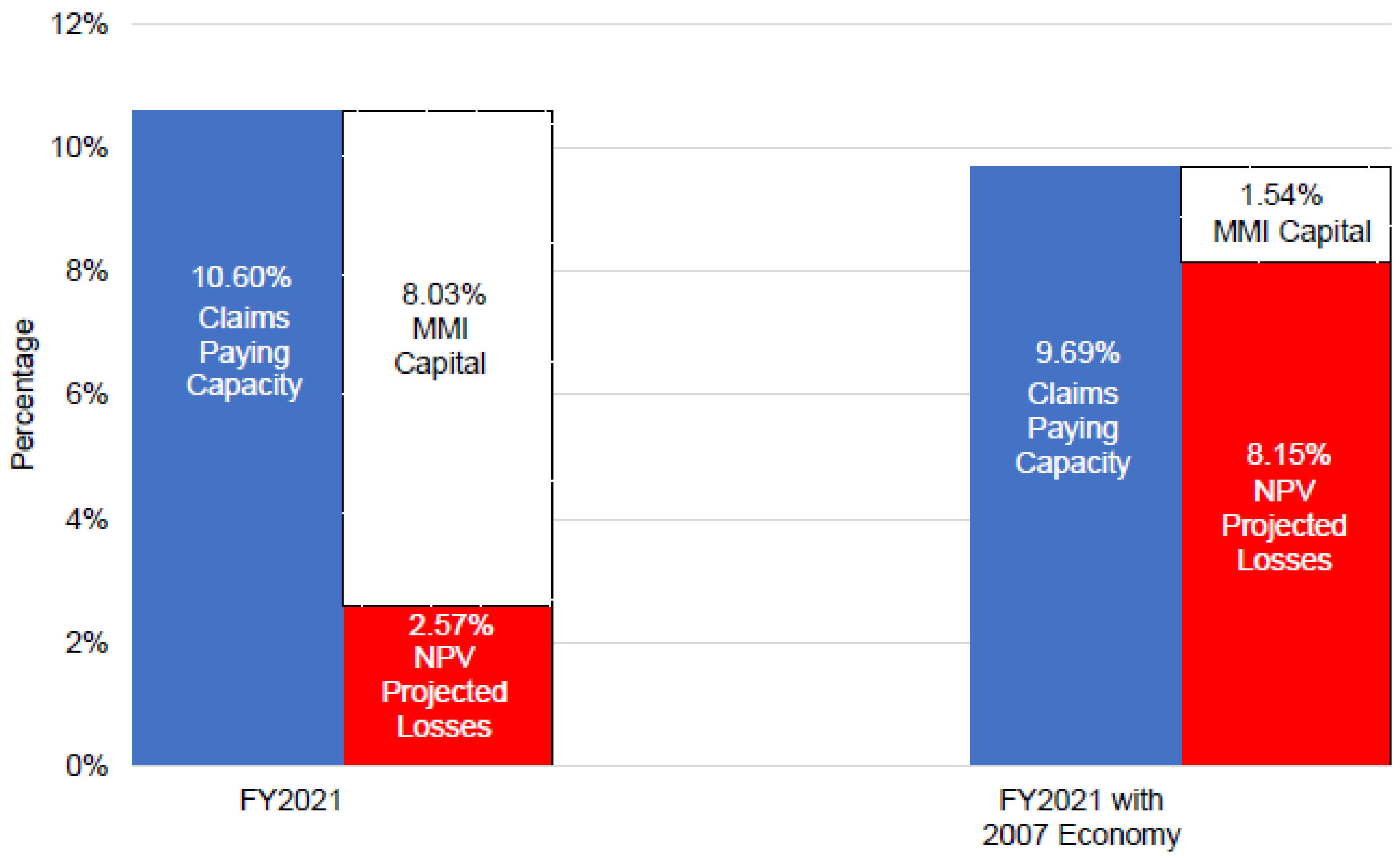
Scenario	Forward Capital ($ billion)	HECM Capital ($ billion)	MMI Capital ($ billion)	MMI Capital Ratio
Interest -1	(5.1)	(0.2)	(5.3)	-0.42%
HPA -1	(9.3)	(6.6)	(15.8)	-1.26%
Interest +1	3.4	0.0	3.4	0.27%
HPA +1	6.1	5.9	12.1	0.97%

- A 1% decrease in HPA projections would reduce the Capital Ratio by 1.26%, while a 1% decrease in interest rates would reduce the Capital Ratio by 0.42%.
- A 1% increase in HPA has a similar dollar impact on the HECM and forward portfolios despite HECMs comprising only five percent of the MMIF portfolio.

Exhibit IV-17

** Note that a decrease of 1% in these scenarios means that the path is shifted down in the forecast for the entire life of all IIF loans. For example, if the forecast HPA was 3.5% for a given future period, the down 1 scenario would replace it with 2.5%, and vice versa, with 4.5% for the up 1 scenario. Note also that all other variables are unchanged in these sensitivity analyses.

Stress Test: Impact of Subjecting the FY 2021 Portfolio to the Same Macroeconomic Conditions Faced by the 2007 Portfolio



Based on this adverse scenario—the most severe of the 100 paths run by FHA—the resulting Capital Ratio would be 1.54%

Note: Claims Paying Capacity = (Total Capital Resources + NPV Projected Revenue)