Summary of FY 2015 FHA Annual Report to Congress on the Financial Health of the Mutual Mortgage Insurance Fund

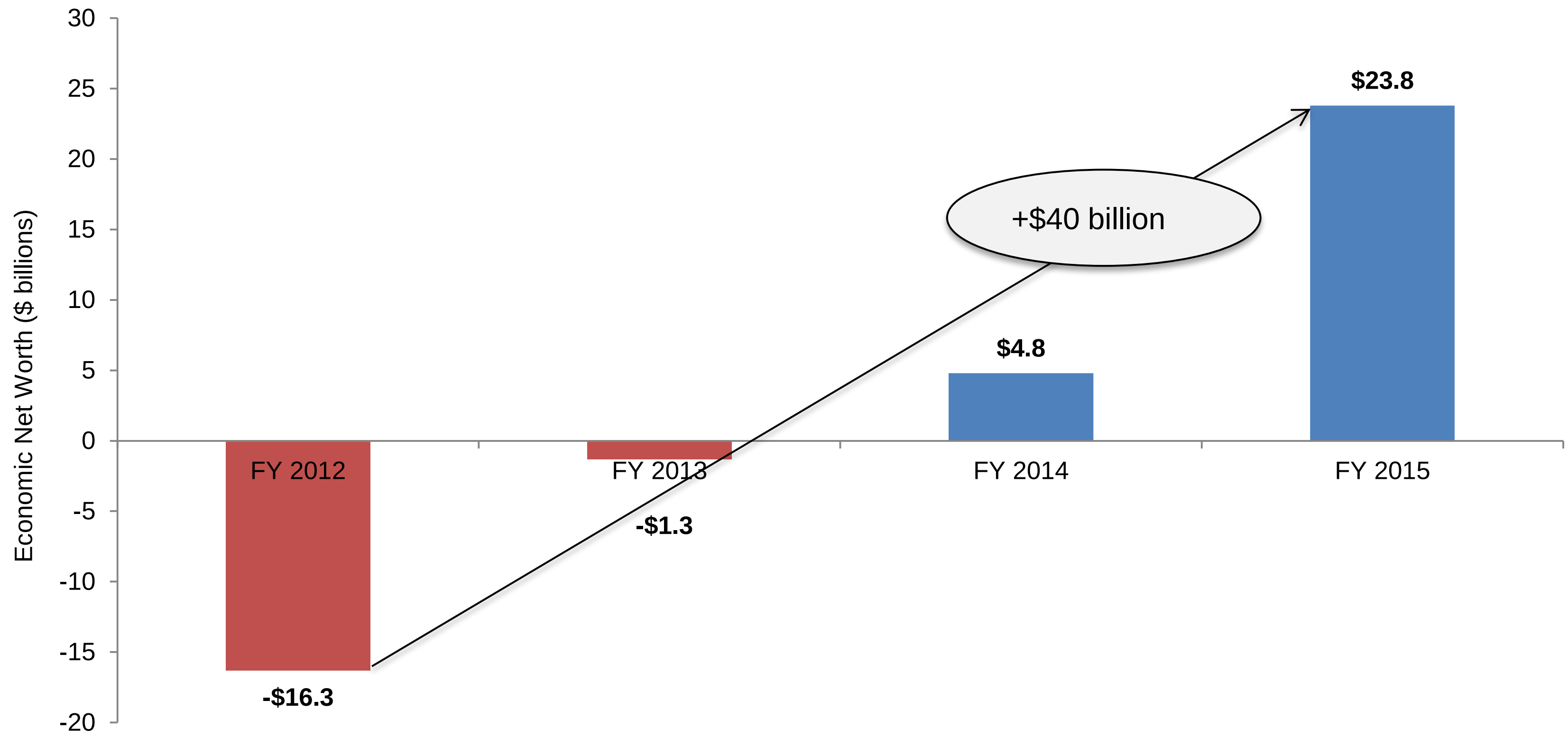
November 16, 2015

Summary

- The MMI Fund has reached 2.07%, up from 0.41% in FY 2014, and has an Economic Net Worth of $23.8 billion, up $19 billion from FY 2014.
- Improvement in the Fund is attributable to FHA actions, including improved risk management and loss mitigation, that have strengthened portfolio performance.
- The MIP reduction has played an important role in the housing recovery and allowed FHA to serve 75,000 new borrowers this year with credit scores below 680.

Source: FY 2015 Independent Actuarial Report, FY 2015 FHA Annual Report

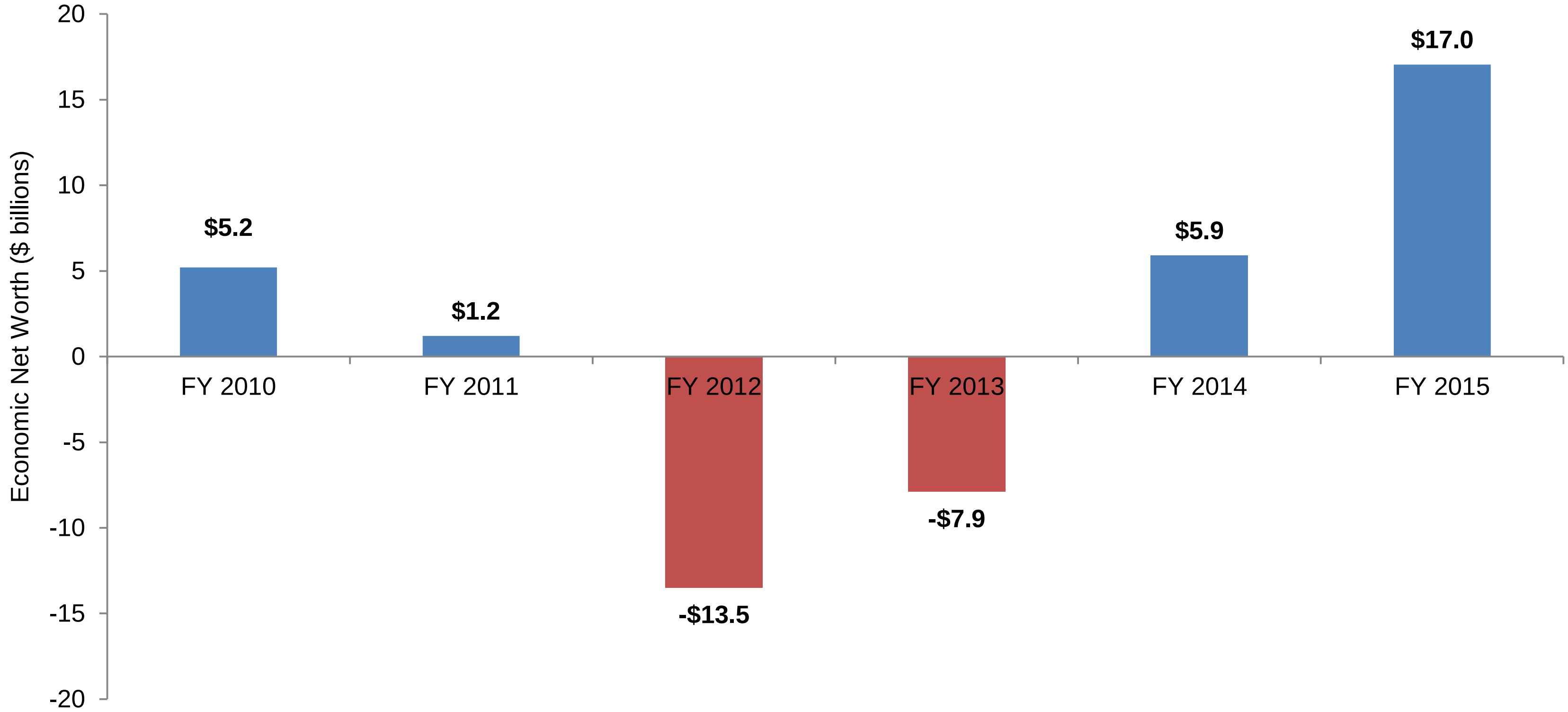
MMI Fund value is now 2.07%, and has improved by more than $40 billion since it first became negative in FY 2012



Capital Ratio	**-1.44**%	**-0.11%**	**0.41%**	**2.07%**

Source: FY 2015 Independent Actuarial Report, FY 2015 FHA Annual Report

The Single Family Forward portfolio improved $11 billion since FY 2014, and $30.5 billion between FYs 2012 and 2015



Capital Ratio	0.59%	0.12%	-1.28%	-0.72%	0.56%	1.63%

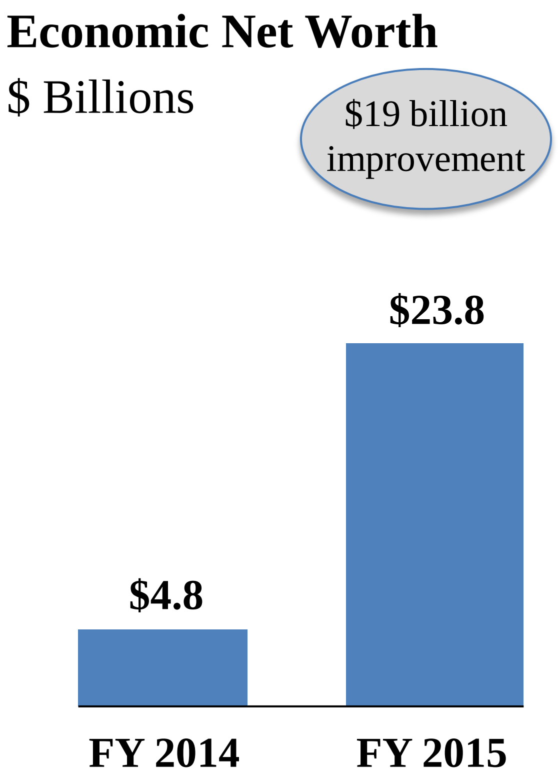
Source: FY 2015 Independent Actuarial Report, FY 2015 FHA Annual Report

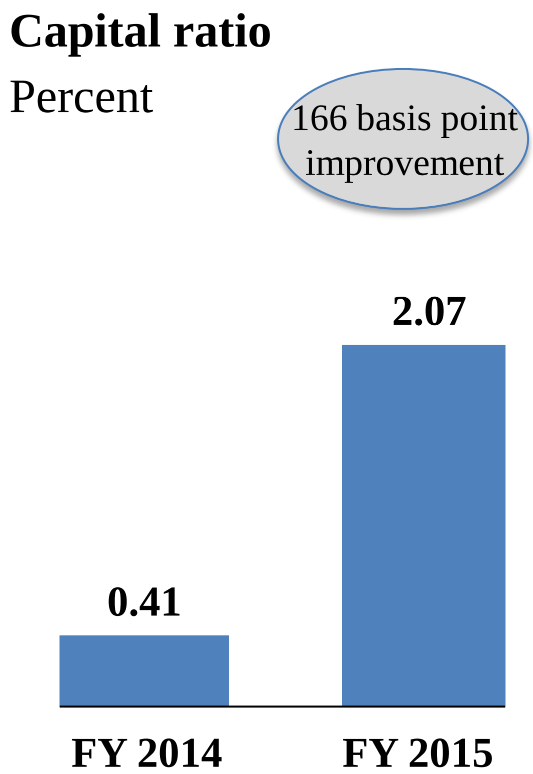
The HECM portfolio has improved since FY 2014, but continues to exhibit significant swings in value

Capital Ratio	**-0.98%**	**1.99%**	**-3.58%**	**7.46%**	**-1.20%**	**6.44%**

Source: FY 2015 Independent Actuarial Report, FY 2015 FHA Annual Report

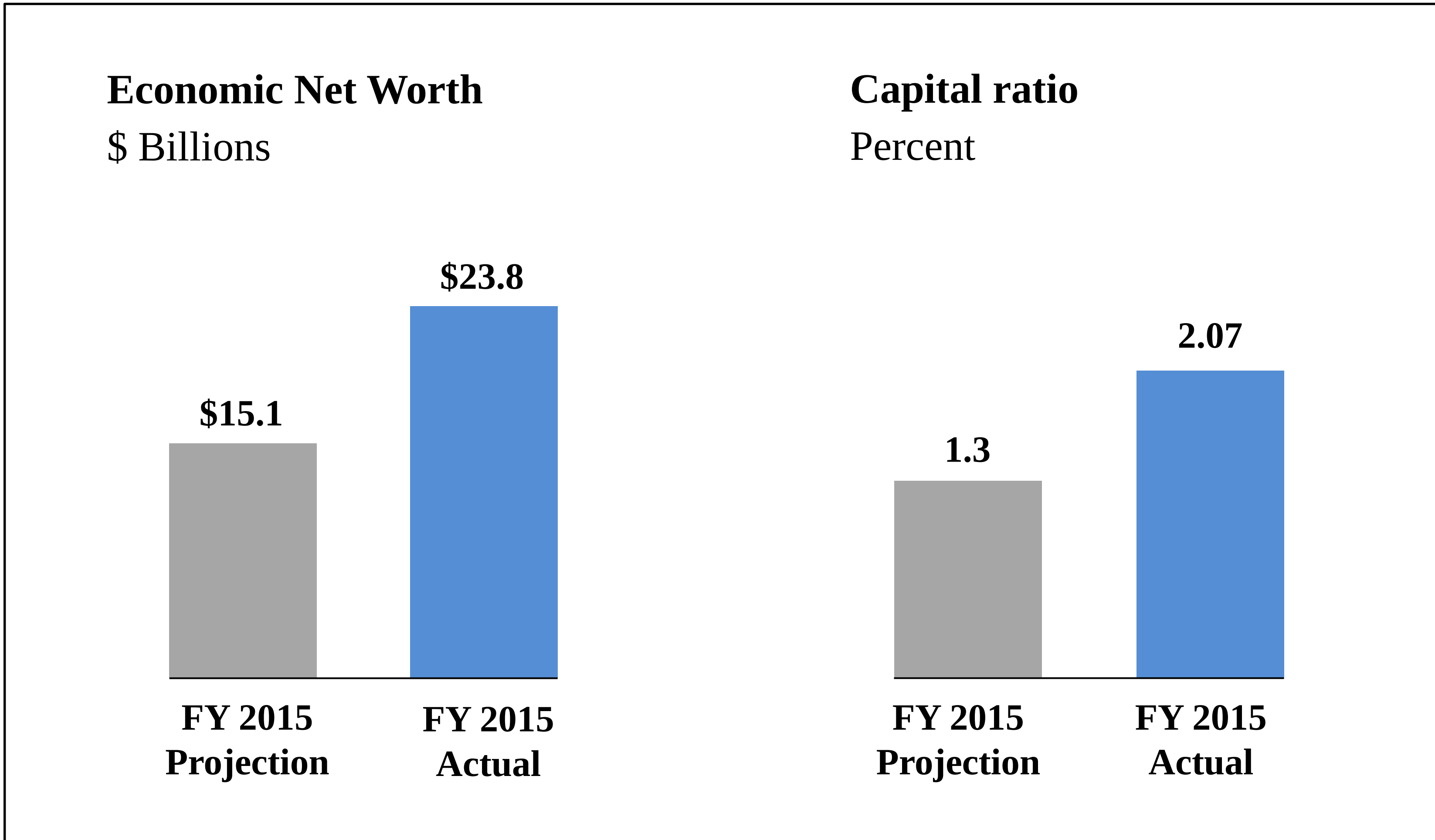
$19 billion improvement for the overall MMI Fund portfolio since the last fiscal year



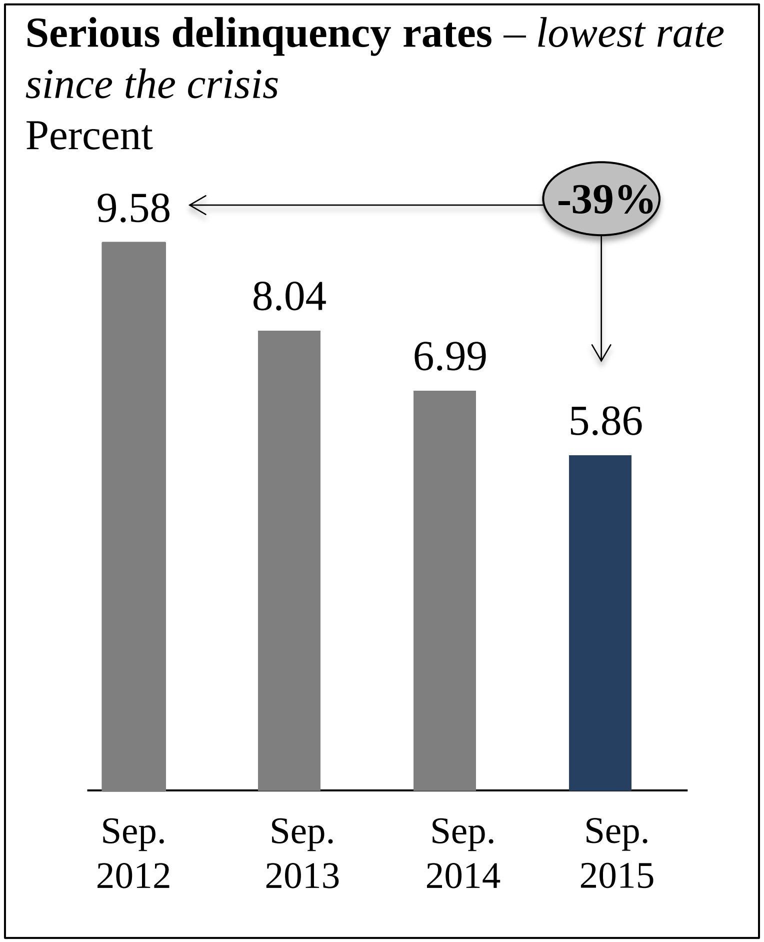


Source: FY 2015 Independent Actuarial Report, FY 2015 FHA Annual Report

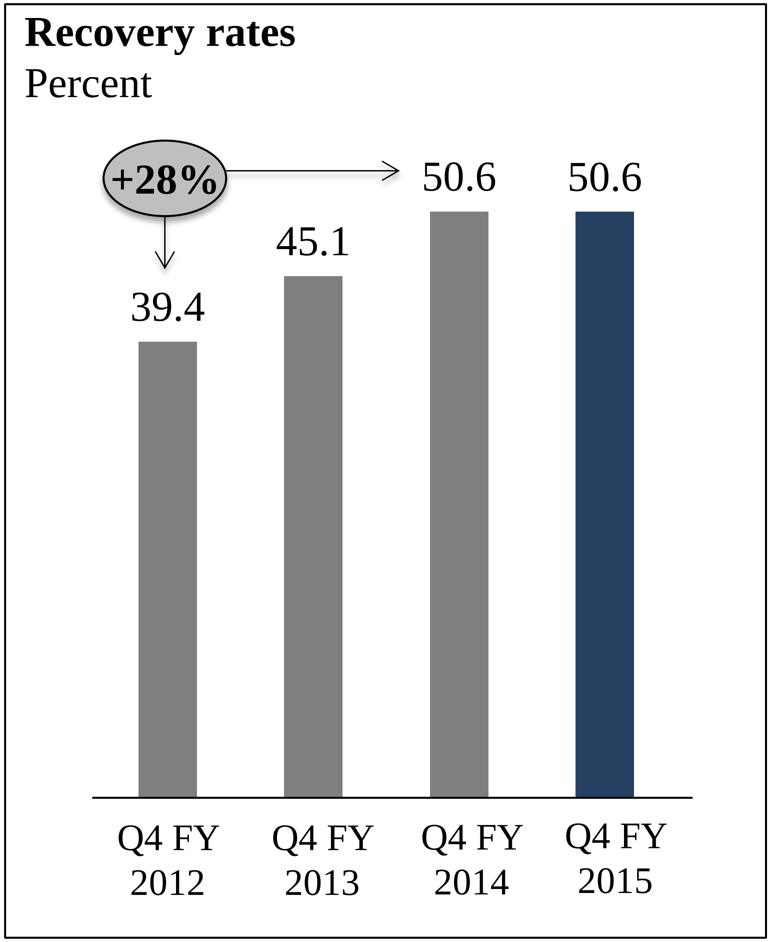
The MMI Fund’s growth was stronger than the independent actuary projected in FY 2014



The decline in delinquency rates and improvement in recovery rates continue



*Monthly Data



*Quarterly Data

Source: FHA

Policy actions have driven improvements

Examples of policy actions that manage risk

- ☐ Continue to avoid ‘toxic’ products (e.g., option arms, interest only, “no-doc” loans)
- ☐ Introduced 10% down payment requirement for credit scores below 580
- ☐ Established higher minimum net-worth requirements for lenders
- ☐ Updated appraisal standards
- ☐ Implemented elimination of seller-funded down-payment assistance
- ☐ Limit risk in the HECM portfolio by capping the amount and number of draws borrowers may take

Policy actions have driven improvements

Example of policies that mitigate losses

- ☐ Launched expanded pre-foreclosure sale program
- ☐ Refined the distressed asset stabilization program
- ☐ Launched expanded conveyance recovery program
- ☐ Revised loss mitigation waterfall

Across a number of measures, the Single Family portfolio has seen significant improvements[1]

~$14 Billion of additional economic value added to MMIF each year since FY 2012

~$8 Billion of additional economic value added to HECMs since FY 2014

39% Drop in seriously delinquent rates

28% Improvement in recovery rates

62% Reduction in foreclosure starts

84% Drop in early payment defaults

1. Improvement rates are relative to peak or trough during the financial crisis

Source: HUD

Since 2009, we have been experiencing an economic recovery

- 67 straight months of private sector growth
- 13 million new jobs
- An unemployment rate cut in half
- Sales of existing homes are near pre-crisis levels
- Home prices have rebounded to 2005 levels in many markets
- Families have built nearly $6 trillion in housing wealth since 2009

FHA actions including the MIP reduction have supported the recovery and helped consumers

According to Mark Zandi, the FHA premium reduction has been "very beneficial to the revival of the housing rebound."

- FHA dollar volumes grew by 58% since FY 2014.
- NAR reports that 37% of housing loans taken out by millennials in CY 2015 were through FHA.[1]
- In the six months since the premium reduction was introduced, more than 75,000 new borrowers with credit scores below 680 were able to purchase homes.
- First-time homebuyers comprised 82% of FHA purchase originations in FY 2015.

[1] Source: www.realtor.com/news/trends/milennials-need-clear-path-to-homeownership-hud-secretary-julian-castro/

Conclusion

- **The MMI Fund has improved by more than $40 billion since the Fund went negative, in FY 2012, and has now reached 2.07%, up from 0.41% in FY 2014. The Fund's Economic Net Worth is $23.8 billion, up $19 billion from FY 2014.**

- **FHA policy actions are responsible for the turnaround in the Fund.**

- **Stronger credit policies and better asset disposition alternatives have led to a significant decline in delinquency rates and improvement in recovery rates.**

- **The FHA premium reduction supports the housing recovery and allows FHA to better serve American borrowers.**

Source: FY 2015 Independent Actuarial Report, FY 2015 FHA Annual Report