U.S. Department of Housing and Urban Development

FHA Single-Family Mutual Mortgage Insurance Fund Programs

Quarterly Report to Congress
FY 2010 Q3

Delivered: August 2, 2010

U.S. Department of Housing and Urban Development
Federal Housing Administration

Quarterly Report to Congress on FHA Single-Family Mutual Mortgage Insurance Fund Programs

FY 2010 Q3

Data as of June 30, 2010

This report is in fulfillment of the requirement under section 2118 of the Housing and Economic Recovery Act of 2008 (12 USC 1708(a)(5)) that HUD report to the Congress on a quarterly basis respecting mortgages that are an obligation of the Mutual Mortgage Insurance Fund. The specific items requested under the Act are:

> (A) the cumulative volume of loan guarantee commitments that have been made during such fiscal year through the end of the quarter for which the report is submitted;
>
> (B) the types of loans insured, categorized by risk;
>
> (C) any significant changes between actual and projected claim and prepayment activity;
>
> (D) projected versus actual loss rates; and
>
> (E) updated projections of the annual subsidy rates to ensure that increases in risk to the Fund are identified and mitigated by adjustments to underwriting standards, program participation, or premiums, and the financial soundness of the Fund is maintained.

Foreword from the FHA Chief Risk Officer

On behalf of Secretary Donovan, and pursuant to requirements of section 202(a)(5) of the National Housing Act , as amended by the FHA Modernization Act of 2008 (Public Law 110-289 (122 Stat. 2834), I am herewith transmitting the Fiscal Year 2010 third quarter report on mortgages that are obligations of the Mutual Mortgage Insurance (MMI) Fund of the Federal Housing Administration. The report covers the period April 1, 2010, to June 30, 2010.

I have served as the Federal Housing Administration's first Chief Risk Officer since October 26, 2009, during which time we have conducted rigorous analytical reviews, established new reporting protocols and procedures, and announced some of the most extensive policy changes in FHA's history. Under the direction of Secretary Donovan and Commissioner Stevens, these changes have been made to better protect the safety and soundness of the MMI Fund while continuing to serve our mission and support the stabilization of the housing market. Additionally, we submitted a formal request to Congress to establish a dedicated risk management organization within the Office of Housing. I am pleased to report that, upon receiving Congressional approval on July 28, 2010, we have established the Office of Risk Management and Regulatory Affairs. With this new Office and additional staffing, we will significantly expand our capacity to assess financial and operational risk, perform more sophisticated data analysis, and respond to market developments.

We are committed to increasing the transparency, quality, and quantity of information available on MMI Fund performance and operations. Beginning with this quarterly report, we have added details on the financial status and cash-flows of the Fund, early payment delinquencies, and serious delinquency rates (Tables S1 – S4). In addition to this quarterly report to Congress, we will continue to report additional details about our single family loan guarantee portfolio in the FHA Single Family Outlook report posted monthly on the HUD.gov website. We also intend to further enhance our reporting going forward.

Beyond the specific items delineated in the statute, this report includes additional data that provide context and perspective on recent trends that impact the quality and performance of the FHA single family loan guarantee portfolio. We hope this additional information will increase the usefulness of the report, and we welcome suggestions for further improvements.

The Department will be pleased to provide details on how this report was prepared or to answer any questions about the information presented.

Sincerely,

Bob Ryan
FHA Chief Risk Officer /
Deputy Assistant Secretary for Risk
Management and Regulatory Affairs

Table A FHA Single-Family Mortgage Insurance Endorsements by Year and Quarter					
	Number of New Insurance Cases				
	Forward Mortgages[a]				
Time Period	Home Purchase	Conventional Loan Refinance	FHA-to-FHA Refinance	All Forward Loans	Reverse Mortgages (HECM)[b]
Fiscal Year					
2000	763,063	30,352	38,131	831,546	6,637
2001	730,106	43,802	188,644	962,552	7,789
2002	787,093	61,100	319,985	1,168,178	13,048
2003	602,452	59,499	556,983	1,218,934	18,084
2004	540,313	53,939	298,169	892,421	37,790
2005	328,542	31,958	117,849	478,349	43,082
2006	293,258	58,226	48,419	399,903	76,280
2007	261,165	104,578	36,600	402,343	107,368
2008	591,322	349,136	91,129	1,031,587	112,015
2009	995,104	468,772	367,422	1,831,298	114,641
2010 (Oct-Jun)	840,136	240,412	195,110	1,275,658	60,272
Calendar Year and Quarter					
2009Q1	182,562	120,021	97,837	400,420	30,190
2009Q2	228,666	118,679	143,294	490,639	28,686
2009Q3	322,614	107,946	100,654	531,214	28,114
2009Q4	304,827	86,517	96,148	487,492	24,729
2010Q1	245,777	88,342	67,972	402,091	20,278
2010Q2	289,532	65,553	30,990	386,075	15,265

[a] Starting in 2008Q4, these counts include 203(K) purchase and rehabilitation loans and 234(C) condominium loans.

[b] The FHA reverse-mortgage insurance program is called Home Equity Conversion Mortgage (HECM). Starting in FY 2009 (CY 2008 Q4) all new HECM endorsements are in the Mutual Mortgage Insurance Fund. Previous endorsements, by law, remain in the General and Special Risk Insurance Fund.

Source: US Dept of HUD, Office of Housing/FHA.

Through the first three quarters of fiscal year 2010, FHA has endorsed more than 1.3 million single-family loans, and is on pace to insure 1.7 million loans in the full fiscal year ending September 30. Home purchase mortgage insurance activity may itself surpass one million loans for the first time since 1987. At the same time, refinance activity has slowed sharply from its peak in the second quarter of 2009. Reverse mortgage insurance activity also is down substantially this calendar year, following reductions in cash take-out allowances (principal limits) implemented in October 2009 to assure that the program could be self-sustaining.

Table B.1
FHA Single-Family Mortgage Insurance
Borrower Credit Score[a] Distribution on Fully-Underwritten Loans
By Fiscal Year (FY) and Quarter
(Shares in each row add to 100)

Fiscal Year	FY Quarter	Credit Score Categories[a]						
		720+	680-719	620-679	580-619	500-579	300-499	N/A[b]
2007	1	11.2%	10.9%	31.7%	22.6%	17.8%	1.2%	4.6%
	2	10.3	10.2	31.1	23.1	19.4	1.4	4.5
	3	9.9	9.6	30.7	23.5	20.4	1.5	4.4
	4	9.9	9.3	31.0	23.6	20.8	1.5	3.8
2008	1	9.3	9.1	31.2	23.9	21.3	1.7	3.4
	2	9.9	9.9	31.8	23.3	20.4	1.7	3.0
	3	15.2	13.3	35.7	20.9	12.2	0.7	2.0
	4	19.2	16.1	37.6	19.0	6.7	0.2	1.2
2009	1	20.5	17.2	37.6	18.7	5.1	0.1	0.6
	2	24.4	19.0	37.1	15.6	3.4	0.0	0.5
	3	29.8	21.3	38.4	8.5	1.5	0.0	0.4
	4	33.6	22.2	38.0	4.9	1.0	0.0	0.4
2010	1	33.7	22.6	38.7	4.0	0.7	0.0	0.4
	2	34.1	22.9	38.6	3.5	0.5	0.0	0.4
	3	35.2	22.8	38.6	2.7	0.4	0.0	0.3

[a]Credit scores are co-branded between the three major credit repositories (Equifax, Experian, Transunion) and Fair-Isaac Corporation. Values can range from 300 to 850. They are grouped here according to the “decision” score used for loan underwriting. That score represents the weakest borrower on a loan application, when there are multiple applicants. Streamline refinance loans do not require underwriting and so they are not represented here.

[b]Borrowers without credit histories can be underwritten for FHA insurance using alternative criteria.

Source: US Dept of HUD, Office of Housing/FHA.

The quality of loans coming into the FHA insurance portfolio has improved due to credit restrictions in the conventional market and to new underwriting standards set by FHA. For four quarters running, more than one-third of all FHA borrowers had credit scores at or above 720, while just three percent had credit scores under 620. HUD announced in January, and recently published, a Federal Register Notice that would require borrowers with downpayments (or equity, for refinancing) of less than 10 percent to have credit scores of 580 or better. HUD has also announced stronger underwriting requirements for manually underwritten loans and a reduction in seller concession allowances from a maximum six percent to the industry standard for loans with high LTVs of three percent.

Table B.2
FHA Single-Family Mortgage Insurance
Average Borrower Credit Scores[a] on New Endorsements
By Fiscal Year, Quarter, and Loan Purpose

Fiscal Year	FY Quarter	Loan Purpose			
		Home Purchase	Conventional Loan Refinance	FHA-to-FHA Refinance[b]	All[b]
2007	1	639	620	625	634
	2	635	620	628	631
	3	632	618	628	628
	4	634	615	625	628
2008	1	633	615	626	626
	2	635	620	633	628
	3	655	637	643	648
	4	669	645	647	662
2009	1	673	652	649	666
	2	678	669	663	674
	3	688	685	676	687
	4	697	688	678	694
2010	1	697	690	680	695
	2	697	696	686	696
	3	698	699	689	698

[a]Credit scores are co-branded between the three major credit repositories (Equifax, Experian, Transunion) and Fair-Isaac Corporation. Values can range from 300 to 850. They are grouped here according to the "decision" score used for loan underwriting. That score represents the weakest borrower on a loan application, when there are multiple applicants. Streamline refinance loans do not require underwriting and so they are not represented here.

[b]These include only fully-underwritten loans and exclude streamline refinancing.

Source: US Dept of HUD, Office of Housing/FHA.

The average credit score on current insurance endorsements is just under 700. Until the middle of FY 2008, the average tended to be in the range of 620 to 630. The resulting credit risk improvement for FHA from this change is dramatic. FHA-insured mortgage loans with credit scores of 700 have a foreclosure risk that is roughly one-quarter that of loans with credit scores of 620.

Table B.3
FHA Single-Family Mortgage Insurance
Loan-to-Value (LTV) Ratio[a] Distribution on Fully-Underwritten Loans
By Fiscal Year and Quarter
(Shares in each row add to 100)

		LTV Categories[a]			
Fiscal Year	FY Qtr	Up to 90	91-95	96-98[b]	DPA Loans[c]
2007	1	17.7%	16.3%	41.1%	24.9%
	2	19.0	18.3	37.7	25.0
	3	17.8	18.9	39.1	24.2
	4	17.8	19.7	39.2	23.3
2008	1	19.6	22.9	35.3	22.2
	2	21.7	25.6	33.9	18.8
	3	18.4	22.7	40.0	18.8
	4	15.8	19.3	43.5	21.4
2009	1	17.4	21.1	48.8	12.7
	2	20.3	23.4	55.3	1.0
	3	20.8	17.7	61.3	0.2
	4	21.2	11.5	67.1	0.1
2010	1	20.6	10.1	69.1	0.2
	2	23.7	10.9	65.3	0.1
	3	18.6	9.5	71.7	0.2

[a] In accordance with statutory requirements for determining eligibility of loans for FHA insurance, HUD measures LTV without including any financed mortgage insurance premium in the loan balance. The upfront premium charged from FY 2009 through March 2010 was 1.75 percent for fully-underwritten loans and 1.50 percent for streamline refinance loans. That premium rate rose to 2.25 percent in April 2010, for all loans. Prior to FY 2009, the upfront premium varied depending on a number of factors.

[b] The statutory maximum LTV since October 1, 2008, is 96.5 percent. Prior to October 1, 2008, the statutory maximum was 97 percent, with higher allowances for borrowers financing loan closing costs into the mortgage balance. If there was such financing, then the statutory maximum was between 97 and 98.15 percent, depending on the geographic location and price of the property.

[c] DPA loans represent downpayment assistance programs that operate through charitable organizations. The large shares of such loans endorsed through FY 2009 Q1 were nearly all from organizations funded by property sellers. Downpayment assistance from seller-financed sources was banned by the Housing and Economic Recovery Act of 2008. Insurance endorsements on DPA loans in FY2009 primarily represent loans originated prior to October 1, 2008, but endorsed in FY 2009. In this table, DPA loans are classified as a separate LTV category because their risk profile is substantially different from other loans; however, nearly all DPA loans would be in the 96-98 LTV group. The small percentage of loans in this category that continue into FY 2010 are from charitable sources, which are still permitted.

Source: US Dept of HUD, Office of Housing/FHA.

Table B.4
FHA Single-Family Mortgage Insurance
Average Loan-to-Value (LTV) Ratios[a] on New Endorsements[b]
By Fiscal Year (FY), Quarter, and Loan Purpose

Fiscal Year	FY Quarter	Loan Purpose: Home Purchase	Conventional Loan Refinance	FHA-to-FHA Refinance[b]	All[b]
2007	1	95.9%	86.7%	87.0%	93.5%
	2	95.9	87.0	87.1	93.1
	3	96.1	87.7	87.5	93.4
	4	96.0	88.2	87.6	93.4
2008	1	96.0	88.8	87.9	93.0
	2	96.0	88.9	88.3	92.6
	3	96.2	89.1	88.4	93.3
	4	96.1	89.2	88.0	93.9
2009	1	96.0	89.1	88.8	93.7
	2	95.9	89.4	89.4	93.2
	3	95.7	88.6	87.9	93.1
	4	95.6	86.8	85.8	93.2
2010	1	95.6	86.1	85.2	93.3
	2	95.5	86.2	87.1	92.9
	3	95.6	85.4	86.9	93.6

[a] In accordance with statutory requirements for determining eligibility of loans for FHA insurance, HUD measures LTV without including any mortgage insurance premium financed in the loan balance. The upfront premium charged from FY 2009 through March 2010 was 1.75 percent for fully-underwritten loans and 1.50 percent on streamline refinance loans. The premium rate rose to 2.25 percent in April 2010, for all loans. Prior to FY 2009, the upfront premium rate varied depending on a number of factors.

[b] These include only fully-underwritten loans and exclude streamline refinancing.

Source: US Dept of HUD, Office of Housing/FHA.

The average loan-to-value ratio (LTV) for new FHA insurance endorsements has been fairly stable over time. Purchase loans tend to have LTVs above 95 percent, while refinance loans have a mix of equity positions and have lower LTVs, on average. From mid FY 2006 until mid FY 2008, FHA permitted cash-out refinance transactions with LTVs as high as 95 percent, but has since returned to the historical maximum of 85 percent. As seen in Table A, the share of all insured loans that are refinance loans has decreased over the past four quarters. This decrease in refinance activity is the primary driver in the slight increase in the overall average LTV for newly insured loans.

Table C-D FHA Single-Family Mortgage Insurance Termination and Claim Loss Experience to-date in Current Fiscal Year October 2009 - June 2010				
	Predicted[a]	Actual	Deviation (Actual - Predicted)	Percentage Deviation (Actual vs. Predicted)
Prepayments - Number	598,728	290,880	-307,848	-51%
Claims - Number	94,752	75,442	-19,310	-20%
Claims – Dollars (billion)	$13.041	$9.381	($3.661)	-28%
Net Loss-on-Claims (%)	54.87%	57.79%	2.92%	

[a]Predicted data are from the forecasts used in the FY 2009 FHA financial statements.

Source: US Dept of HUD, Office of Housing/FHA.

The projected number of prepayments and claims for this fiscal year were provided by the independent actuarial study for FY 2009.

Prepayments

Actual prepayments in this fiscal year are less than half the number forecasted by the independent actuary. Prepayments are full loan payoffs. Many come back to FHA as new mortgages and insurance, either through a refinance or a subsequent home purchase. When this happens, HUD records shrinkage in outstanding volumes of older books of business, but growth in new business. On net, FHA maintains its existing premium revenue stream on these loans.

Historically, a large percentage of prepayments did not return to FHA as new FHA-insured loans. Instead, those homeowners refinanced into the conventional market or purchased another home with conventional financing. There is much less of that activity today because lower-cost conventional market mortgage options, especially those without mortgage insurance requirements, are not as readily available to homeowners, or are available only at a higher cost. The fact that it is more difficult to qualify for conventional refinancing today than it was in the past may be a reason for the large over-prediction of prepayments. Current FHA-insured borrowers would only migrate into the conventional market—through refinancing or subsequent home purchase—if they could qualify for conventional financing that would lower their overall housing cost when compared to FHA-insured refinance or purchase options.

Claims

The number and dollar amount of actual insurance claim payments to-date is also much lower than was projected last year, though the trend is upward. To-date, FHA has received 19,310 fewer insurance claims and paid $3.7 billion less than was projected by the independent actuary. There are three possible reasons for this beneficial outcome. First, home prices have been more stable than was projected last year. Indeed, the number of new 90-day delinquencies in this most recent quarter was down 32 percent from the number seen in the first quarter of this fiscal year (104,000 vs. 153,000. This most recent quarter also is the first time in recent years that FHA has had a decline in the number of new 90-day delinquent loans when compared with the year-earlier period. A second reason for claims coming in below projected levels is that FHA loan servicers are aggressively pursuing loss mitigation (foreclosure prevention) interventions, which reduce the number of foreclosures and claims resulting from 90-day delinquencies. And, finally, an additional mitigating factor is that some states are experiencing processing delays because of the large numbers of foreclosures.

Loss rates on claim actions are somewhat higher than projected, at 58 percent versus 55 percent. FHA has taken additional steps to sell its inventory of aged properties (those that were in FHA's real-estate-owned (REO) portfolio for more than a year), and they tend to have fairly low recoveries on sale. Loss rates on insurance claims also continue to be affected by very low recoveries on sale in Michigan, where FHA has its largest number of dispositions.

Table E FHA Single-Family Mortgage Insurance Budget Execution Credit Subsidy Rates[a] April 2010 – June 2010	
Forward Loans	-1.13%[b]
Reverse Loans (HECM)	-0.50 [c]

[a]Budget execution credit subsidy rates are the expected net present value, per dollar of new insurance endorsements, of all cash flows from insurance operations over the life of the loan guarantees, and as-of the year of the insurance commitments. A negative rate means that the present value of premium revenues is expected to be greater than the present value of net claim expenses, over the life of the guarantees, i.e., a negative credit subsidy. Loans with negative credit subsidies are expected to produce receipts for the Federal budget. These initial budget-execution rates are those approved by the Office of Management and Budget for budget accounting. They will be updated on an annual basis, once the guarantees are in place, to reflect both actual experience and updated forecasts of future loan performance and insurance cash flows.

[b]The current credit subsidy rate for forward loans of -1.13 percent applies to loans endorsed since April 2010. The credit subsidy rate changed in response to the increase in the required upfront premium for new originations from 1.75 to 2.25 percent. Prior to April 2010, the FY 2010 execution credit subsidy rate for FHA single-family forward loans was -0.62 percent.

[c]The HECM program has operated under a -0.50 percent credit subsidy rate since October 1, 2009. The quarterly reports to Congress for FY 2010 Q1 and Q2 mistakenly reported this as -0.05 percent.

Source: US Dept of HUD, Office of Housing/FHA.

Execution credit subsidy rates identify the expected contribution of newly-insured FHA loans to the Federal budget. These are rates agreed to by the Office of Management and Budget as preliminary estimates of the net present value of each new dollar of insurance. Each month, FHA passes to the United States Treasury an amount equal to the credit subsidy rate times the dollar volume of new insurance endorsements. Treasury then credits FHA's Capital Reserve Account with the same amount. Over time, as actual loan performance is observed, credit subsidy rates are updated (annually) to reflect loan performance. Those re-estimates lead to movements of money back-and-forth between the Capital Reserve Account and the Financing Account in order to ensure that the Financing Account has the balance required by Federal accounting standards.

Table S1. FHA Single-Family Insurance MMI Fund Balances by Quarter, FY 2008 – FY 2010[a] (billions)			
Date	Capital Reserve Account[b]	Financing Account[c]	Total Capital Resources[d]
September 30, 2008	$ 19.3	$ 9.0	$ 28.2
December 31, 2008	19.6	9.3	28.9
March 31, 2009	19.9	9.7	29.6
June 30, 2009	10.0	20.9	30.9
September 30, 2009	10.7	21.1	31.8
December 31, 2009	11.4	21.2	32.6
March 31, 2010	12.0	20.2	32.2
June 30, 2010[e]	3.5	29.6	33.1

[a]Only end-of-year balances represent audited figures.

[b]This is an on-budget account that records net receipts provided by FHA to the federal budget, over time. Balances are held in cash and Treasury securities. The securities earn interest for FHA.

[c]This is a series of off-budget cash accounts used to manage insurance operation collections and disbursements.

[d]Total Capital Resources is the sum of Capital Reserve and Financing Account balances, and it represents the sum of cash and investments at the Treasury that can be immediately liquidated into cash. It does not represent total assets of the MMI Fund.

[e]Under the requirements of Federal Credit Reform accounting, $9.8 billion was transferred in May 2010 from the Capital Reserve Account to the Financing Account, as part of the annual budget re-estimate process.

Source: US Department of HUD/FHA.

The two accounts represented in Table S1 are the MMI Capital Reserve and Financing Accounts. The sum of these account balances represents the total capital resources of the MMI Fund. The Financing Account is where FHA manages day-to-day cash transactions. In that account, FHA must hold sufficient funds to cover forecasted net outlays over the full life of all outstanding, guaranteed loans. Net outlays are measured as the difference between claim payments and the sum of premium revenues and property recoveries.

The Capital Reserve holds surplus cash in excess of all estimated needs of the insurance operations. The Capital Reserve is intended to function as an additional, secondary reserve. During years in which balances in the Financing Account exceed forecasted needs for future net outlays, funds are transferred from the Financing Account to the Capital Reserve. During years in which the balance in the Financing Account is not sufficient to cover forecasted net outlays over the full life of all loans held on the portfolio, funds are transferred from the Capital Reserve to the Financing Account.

Since the end of fiscal year 2008, total capital resources have grown by $5 billion dollars. In the midst of this period of growth, there have been two upward budget re-estimates. These re-estimates were for $10.4 billion (2008) and $9.8 billion (2009), each posted in the following fiscal year. Upward budget re-estimates require that funds be transferred from the Capital Reserve to the Financing Account in anticipation of potential future cash needs, and not because there is any imminent cash short fall. An upward re-estimate means additional funding needs are anticipated due to increases in expected costs for outstanding loan guarantees in the future.

Re-estimates are calculated at the end of the each fiscal year. They are based on updates to actual loan performance, revisions to loan servicing policies, and updated economic and market forecasts. The re-estimates assume a business wind-down scenario with no new insurance commitments. The required transfer of funds to or from the Financing Account as a result of the annual re-estimate typically occurs in May of the following year. The transfer is delayed from the end of the previous fiscal year to enable the cash transfer requirement to be measured using updated economic forecasts from the most recent President's Budget submission.

Table S2. FHA MMI Fund Financing Account Business Operations Cash Flows in FY2010, by Quarter[a]
(millions)

	Quarter 1	Quarter 2	Quarter 3	Year to Date
Collections				
Premiums	$ 2,418	$ 1,898	$ 2,465	$ 6,781
Property Sale Receipts	1,086	1,093	1,493	3,672
Other	12	10	14	36
Total	3,516	3,002	3,972	10,490
Disbursements				
Claims	$ (2,764)	$ (3,407)	$ (3,479)	$ (9,651)
Property Maintenance	(115)	(117)	(161)	(393)
Other	-	-	-	-
Total	(2,879)	(3,524)	(3,640)	(10,044)
Net Operations Cash Flow	$ 637	$ (523)	$ 332	$ 446

[a]These are unaudited figures; totals may not add due to rounding.

Source: US Department of HUD/FHA.

The second cash-management table presented here (Table S2) displays year-to-date actual cash flows for FHA's MMI Fund programs, as recorded in the Financing Account(s). These cash flows result from both single-family forward and reverse (HECM) mortgages, and include REO property management and disposition. For the nine-month period ending June 30, 2010, MMI Fund operations have experienced a positive net cash flow of $446 million. This positive net cash flow means that FHA has collected more in premium revenues and REO sale proceeds than it has paid out in default claims and expenses associated with holding REO properties.

The increase in claim expenses that began in the second quarter of the fiscal year was offset by an increase in the upfront premium rate during the third quarter so that net cash flow again became positive in the third quarter. The upfront premium rate was increased from 1.75 to 2.25 percent on April 5.

As noted in the President's FY 2011 budget, HUD is seeking Congressional authority for increased flexibility in setting FHA's premium structure, to enable FHA to further increase its revenues and strengthen the Fund. HUD is seeking flexibility to increase the maximum annual premium to 150 basis points; however, HUD's FY 2011 budget proposal does not anticipate increasing the annual premium to that level. Instead, should this flexibility be granted by Congress, FHA will move quickly to reduce the upfront mortgage insurance premium to 100 basis points, and increase the annual premium to 85 basis points for loans with loan-to-value (LTV) ratios up to and including 95 percent, and to 90 basis points for LTVs above 95 percent. The value of these changes to the MMI Fund is estimated to be approximately $300 million per month, which would replenish FHA's capital reserves much faster than is possible under the premium authority currently available to FHA. Additionally, these changes would better protect the MMI Fund in the future from potential further declines in house prices.

Table S3. FHA Single-Family Insurance Serious Delinquency Rates[a] by Endorsement Fiscal Year And Activity Quarter[b]					
Endorsement Fiscal Year	FY2010 Q3	FY2010 Q2	FY2010 Q1	FY2009Q4	FY2009 Q3
Pre-2007	11.15%	11.56%	11.89%	10.72%	8.71%
2007	21.11	21.40	21.55	18.60	14.23
2008	17.35	17.13	16.22	12.19	8.45
2009	4.94	4.07	3.05	1.59	0.84
2010	0.33	0.16	0.02		
All years	8.59%	9.05%	9.44%	8.52%	7.14%

[a]This rate is the sum of 90^{+}-day delinquencies, bankruptcies, and cases in foreclosure processing. These rates are not seasonally adjusted.
[b]As of the last day of each quarter.
Source: US Department of HUD/FHA; July 2010.

This third supplement table provides a time series of serious delinquency rates, by fiscal quarter and insurance book year. These rates identify the percentage of loans that may require intervention in order to prevent a foreclosure and insurance claim. FHA loan servicers are required to attempt contact and intervention with all insured borrowers that have a 90-day delinquency (three missed payments and a fourth due). Indeed, contact attempts can occur much earlier in a delinquency, but servicing guidelines require concerted efforts at this point.

Loans endorsed in FY 2009 are now in their second year, which is when 90^{+}-day delinquency rates typically begin to rise. The early-period 90^{+}-day delinquency rates on loans endorsed in FY2009 have been better than for any book year since 2005, and this new book year has had very few insurance claims. The FY 2009 book year is four times as large as FY 2007 and 75 percent larger than FY 2008. Additionally, the FY 2010 book year is on pace to be almost as large as FY 2009. Together, loans insured in these two fiscal years represent 60 percent of outstanding dollar balances in the insured portfolio. As such, ultimate performance of the FY2009 and FY2010 insurance book years will be a greater driver in the fiscal performance of the MMI Fund than will be performance of loans endorsed in FY 2007 and FY 2008.

Loans endorsed in FY 2007 and 2008 are currently in their highest default and claim years. Those book years have been particularly stressed by the current economic environment, were underwritten to lower standards than are permitted today, and more than thirty percent of purchase loans in each of these years utilized seller-funded downpayment assistance. Claim rates for seller-funded downpayment assistance loans are almost three times greater than those of other loans. As such, the ultimate claim rates (after 30 years) for loans endorsed in FY 2007 and FY 2008 are expected to be 20 percent or higher, which would be on a par with the worst FHA experience from the early 1980s.

Table S4. FHA Single-Family Insurance Early Period Delinquency Rates[a] by Origination Quarter and Loan Type/Purpose

Calendar Year	Quarter	Loan Type/Purpose			
		Purchase	Refinance[b]	Streamline Refinance[c]	All
2007	1	2.58%	1.25%	2.69%	2.20%
	2	2.78	1.91	3.23	2.54
	3	2.60	1.96	2.87	2.40
	4	2.51	1.81	2.79	2.23
2008	1	2.30	1.71	3.14	2.16
	2	1.83	2.00	5.39	2.08
	3	1.50	2.10	5.75	1.78
	4	1.07	1.55	3.55	1.43
2009	1	0.91	0.85	2.32	1.26
	2	0.58	0.60	2.30	1.01
	3	0.42	0.59	1.86	0.68

[a] Early period delinquency is defined here as having had a 90-day delinquency within the first six months of required mortgage payments. The first payment-due month is the second month after loan closing. Thus, these rates indicate the percent of loans experiencing a 90-day delinquency within 7 months of loan closing.
[b] Loans in this column are fully-underwritten conventional-to-FHA and FHA- to-FHA refinancings.
[c] Loans in this column are refinancings of loans already in FHA's portfolio and do not necessarily require property appraisals.

Source: US Department of HUD/FHA; July 2010.

Early-period delinquency rates are the first indication of strength or weakness of new insurance commitments. These rates are measured as the share of loans originated in a given quarter that experienced a 90-day delinquency within the first six payment-cycle months. The continuous decline of these rates starting in 2008 Q1, as shown in Table S4, follows the steady improvement in borrower credit scores seen over the same time period. There is clear improvement in the early-period delinquency rates for FY 2009 loans, when compared to the early-period delinquency rates for loans insured in FY 2007 and FY 2008. The overall early-period delinquency rate for the most recent quarter, 0.68%, is seventy-percent better than the 2.23% rate seen among loans insured in Q1 2007. This improvement suggests that ultimate (30 year) claim rates on loans endorsed in FY 2009 should be markedly better than the ultimate claim rates of loans endorsed in FY 2007 and FY 2008.

The streamline refinance program permits low-cost refinancing options for borrowers with existing FHA-insured mortgages. Recent book years of streamline refinance loans are performing worse than are purchase and fully-underwritten refinance loans in the FHA portfolio, as seen through their higher early-payment delinquency rates. The majority of recent streamline refinance loans were originally underwritten in FY 2007 and 2008. As stated earlier, loans endorsed in those book years were underwritten to lower standards than are permitted today and are currently in their highest default and claim years. As such, the primary driver behind the poorer performance of streamline refinance loans compared to newly originated purchase and refinance loans is because the original FHA loan that is being refinanced was poorly underwritten. Because the original loan is an insurance risk already on FHA's books, streamlining into a new FHA-insured mortgage at a lower interest rate should translate into a net benefit to the borrower, through increased mortgage payment affordability, and also lower the risk to FHA.

However, streamline refinance program guidelines in place prior to January 1, 2010 permitted some borrowers to refinance into loans that did not demonstrate a tangible benefit to the borrower and thus the newly insured streamline refinance loan may have increased the risk to FHA compared to the original FHA-insured mortgage. To address this possibility that some streamline refinances could increase the risk to the FHA over the original FHA-insured loan, HUD announced on September 18, 2009 that it would institute new policies for streamline refinancing, which became effective on January 1, 2010. These policy changes establish new requirements for loan seasoning, payment history, income verification, and demonstration of net tangible benefit to the borrower; and provide for collection of credit score information when available. An appraisal is now required in all cases where a borrower adds closing costs to the transaction. These program revisions bring documentation standards for streamline refinance transactions in line with other FHA loan origination guidelines and ensure the borrower's capacity to repay the new mortgage. While it is too early to measure the performance under the new standards, we expect these changes to improve the performance of streamline refinance loans going forward.