U.S. Department of Housing and Urban Development

FHA Single-Family Mutual Mortgage Insurance Fund Programs

Quarterly Report to Congress
FY 2011 Q2

Delivered: June 27, 2011

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 2011 Q2

Data as of March 31, 2011

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 2011 second quarter report on mortgages that are obligations of the Mutual Mortgage Insurance (MMI) Fund of the Federal Housing Administration. The report covers the period January 1, 2011, to March 31, 2011.

This quarterly report continues to provide detailed information on the composition and credit quality of new insurance, and on FHA's financial position. The five principal tables required by the Act are supplemented by two tables on Fund balances and insurance operation cash flows, and by two tables and three figures that provide various depictions of serious delinquency rates in the forward-loan portfolio.

In addition to quarterly reports to Congress, we continue to provide additional details about our single family loan-guarantee portfolio in the monthly FHA Single Family Outlook Report and FHA Monthly Report to the Commissioner. Both of those reports are posted in the Office of Housing Reading Room on the www.hud.gov website. Finally, we delivered the FY 2010 Annual Report to Congress Regarding the Financial Status of the MMI Fund in mid-November. That too is available in the Reading Room at hud.gov, and it includes an exhaustive analysis of the portfolio including detailed projections of future performance. The Annual Report relays economic valuations performed in the independent actuarial studies of the forward and reverse loan portfolios of the MMI Fund, and those reports also are available through the same portal.

The Department is 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

Tables A-1 and A-2. Insurance Endorsements

FHA endorsed 285,725 forward loans and 20,644 reverse mortgages (HECM product) in the second quarter of Fiscal Year 2011. These counts represent quarterly changes of -23 percent and +12 percent in the two major single-family product lines, respectively. On a year-over-year basis, forward-loan endorsements were down 29 percent while HECM activity was up two percent. Purchase loan endorsements are on an annual pace that resembles activity during the FY 2000 – 2002 period, a time that just preceded the significant swings of the ensuing housing boom-and-bust period. Refinance activity in FY 2011 remains at very high levels, from an historical perspective, though well off the peak level activity seen in FY 2009.[1]

Changes in dollar volumes of new insurance in the quarter parallel changes in numbers of borrowers served. Total endorsements ($58.0 billion) were twenty-four percent lower than in the previous quarter ($77.7 billion) and 25 percent lower than in the year-earlier period. Refinance volumes experienced a much larger decline (38 percent) than did purchase volumes (15 percent), primarily due to a more than 50 percent decline in FHA-to-FHA refinance activity. The one product-line with a directional difference in movements of numbers and dollar volumes is HECM. While the year-over-year change in number of HECM loans insured was positive (+2 percent), the dollar volume decreased (4 percent). This is likely due to continued house price declines across many areas of the country.[2]

FHA forward loan dollar volumes have had a much larger year-over-year decline than has the mortgage market as a whole. According to the Mortgage Bankers Association, year-over-year declines in both market segments—purchase and refinance—were around 12 percent. FHA activity is more heavily reliant upon purchase loans than is the overall mortgage market, and the FHA purchase-loan volumes were down 30 percent from the year-earlier period. FHA refinance volumes were down 21 percent from FY 2010 Q2.[3]

---

[1] FY 2011 could end with the fourth highest number of refinance loans ever insured, after FY 2009, 2003, and 1994.

[2] While HUD introduced the HECM Saver option in October 2010, which is targeted at homeowners with lower needs for cash, that should not be influencing the drop in dollar volume seen here. Dollar volumes of HECM loans insured are measured by the maximum claim amount, which is 98 percent of the appraised value of the home, and Saver borrowers tend to have higher-valued homes than do borrowers using the HECM Standard option.

[3] FHA endorsement activity is not completely comparable to market loan origination volumes because of insurance endorsement delays. However, HUD does publish market share reports that match FHA loan originations to market originations. These reports are available at www.hud.gov in the Office of Housing Reading Room, at http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/hsgrroom . The link on the page is to "FHA-Insured Single-Family Market Share (Quarterly)."

Table A-1
FHA Single-Family Mortgage Insurance
Endorsement Counts by Fiscal Year and Quarter

Time Period	Number of New Insurance Cases				
	Forward Mortgages[a]				Reverse Mortgages (HECM)[b]
	Home Purchase	Conventional Loan Refinance	FHA-to-FHA Refinance	All Forward Loans	
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	293,257	58,226	48,420	399,903	76,280
2007	261,165	104,578	36,600	402,343	107,368
2008	591,323	349,130	91,127	1,031,580	112,015
2009	995,103	468,769	367,429	1,831,301	114,641
2010	1,109,160	305,296	252,400	1,666,856	78,757
2011 (Oct-Mar)	365,360	123,657	168,060	657,077	39,031
Fiscal Year and Quarter					
2009Q1	261,262	122,124	25,638	409,024	27,651
2009Q2	182,562	120,021	97,839	400,422	30,190
2009Q3	228,665	118,679	143,296	490,640	28,686
2009Q4	322,614	107,945	100,656	531,215	28,114
2010Q1	304,827	86,517	96,148	487,492	24,729
2010Q2	245,776	88,338	67,975	402,089	20,278
2010Q3	289,685	65,577	31,027	386,289	15,266
2010Q4	268,872	64,864	57,250	390,986	18,484
2010Q1	196,712	65,212	109,428	371,352	18,387
2011Q2	168,648	58,445	58,632	285,725	20,644

[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).

[c]Starting in FY 2009 (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; April 2011.

Table A-2 FHA Single-Family Mortgage Insurance Endorsement Volumes by Fiscal Year and Quarter					
Time Period	Volumes (billion $)				
	Forward Mortgages[a]				Reverse Mortgages (HECM)[b]
	Home Purchase	Conventional Loan Refinance	FHA-to-FHA Refinance	All Forward Loans	
Fiscal Year					
2000	$79,397	$3,181	$3,697	$86,276	$827
2001	79,709	4,947	22,894	107,550	1,095
2002	91,025	7,404	37,713	136,141	1,975
2003	73,026	7,602	66,682	147,310	3,001
2004	66,835	6,998	33,787	107,620	6,885
2005	40,196	4,258	13,520	57,975	8,877
2006	37,102	8,521	6,109	51,732	17,973
2007	35,002	16,095	5,418	56,515	24,623
2008	95,373	61,526	14,906	171,805	24,241
2009	171,672	86,984	71,724	330,379	30,165
2010	191,601	56,431	49,459	297,491	20,974
2011 (Oct-Mar)	64,804	24,008	36,039	124,851	9,885
Fiscal Year and Quarter					
2009Q1	$45,286	$22,277	$4,440	$72,002	$5,955
2009Q2	31,285	22,273	18,915	72,474	7,769
2009Q3	38,763	22,460	28,851	90,074	8,051
2009Q4	56,337	19,974	19,518	95,830	8,390
2010Q1	51,950	15,843	18,600	86,394	6,947
2010Q2	42,794	16,402	12,884	72,079	5,491
2010Q3	49,578	12,145	5,900	67,624	3,859
2010Q4	47,279	12,041	12,075	71,395	4,676
2010Q1	35,084	12,786	24,218	72,088	4,612
2011Q2	29,720	11,222	11,821	52,763	5,273

[a] Starting in 2008Q4, these amounts 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).

[c] Starting in FY 2009 (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; April 2011.

Table B-1. Borrower Credit Score Distribution

The share of borrowers with credit scores of 620 or higher was 97.2 percent for the quarter; only 2.8 percent of borrowers had credit scores below 620. In stark contrast, 50.4 percent of borrowers had credit scores below 620 during the first quarter of 2008. The percentage of borrowers with credit scores of 720 or higher also continues to rise and is more than four times the level seen in the first quarter of 2008.

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

Fiscal Year	Quarter	Credit Score Categories[a]						
		720^+	680^+	620^+	580^+	500^+	300^+	N/A[c]
2007	Oct-Dec	11.2%	10.9%	31.7%	22.6%	17.8%	1.2%	4.7%
	Jan-Mar	10.3	10.2	31.1	23.0	19.4	1.4	4.6
	Apr-Jun	9.9	9.6	30.7	23.5	20.4	1.5	4.5
	Jul-Sep	9.9	9.3	31.0	23.6	20.8	1.5	3.9
2008	Oct-Dec	9.3	9.1	31.2	23.9	21.3	1.7	3.5
	Jan-Mar	9.9	9.9	31.8	23.3	20.4	1.7	3.1
	Apr-Jun	15.2	13.2	35.7	20.9	12.2	0.7	2.1
	Jul-Sep	19.2	16.1	37.6	19.0	6.7	0.2	1.3
2009	Oct-Dec	20.5	17.2	37.6	18.7	5.1	0.1	0.7
	Jan-Mar	24.4	19.0	37.0	15.5	3.4	0.0	0.6
	Apr-Jun	29.8	21.3	38.3	8.5	1.5	0.0	0.6
	Jul-Sep	33.5	22.2	37.9	4.9	1.0	0.0	0.5
2010	Oct-Dec	33.6	22.6	38.6	4.0	0.7	0.0	0.5
	Jan-Mar	34.0	22.9	38.6	3.5	0.5	0.0	0.5
	Apr-Jun	35.1	22.7	38.6	2.7	0.4	0.0	0.4
	Jul-Sep	35.0	22.7	38.5	3.0	0.4	0.0	0.4
2011	Oct-Dec	37.3	23.3	36.2	2.5	0.3	0.0	0.4
	Jan-Mar	37.9	24.2	35.1	2.2	0.2	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 full underwriting and so they are not represented here.

[b]Excludes streamline refinance loans.

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

Source: US Dept of HUD, Office of Housing/FHA; April 2011.

Table B-2. Average Borrower Credit Scores

The average borrower credit score on new endorsements across all product types has risen to 704. The largest improvement in credit scores continues to be within the refinance portfolio. Over the past four quarters the average credit score for home purchase loan endorsements has risen 6 points, that for conventional-to-FHA refinancing is up 12 points, and that for FHA-to-FHA refinance loans is up 18 points.

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

		Loan Purpose			
Fiscal Year	Quarter	Home Purchase	Conventional Loan Refinance	FHA-to-FHA Refinance[b]	All[b]
2007	Oct-Dec	639	620	625	634
	Jan-Mar	635	620	628	631
	Apr-Jun	632	618	628	628
	Jul-Sep	634	615	625	628
2008	Oct-Dec	633	615	626	626
	Jan-Mar	635	620	633	628
	Apr-Jun	655	637	643	648
	Jul-Sep	669	645	647	662
2009	Oct-Dec	673	652	649	666
	Jan-Mar	678	669	663	674
	Apr-Jun	688	685	676	687
	Jul-Sep	697	688	678	694
2010	Oct-Dec	697	690	680	695
	Jan-Mar	697	696	686	696
	Apr-Jun	698	699	689	698
	Jul-Sep	698	701	694	698
2011	Oct-Dec	701	705	701	702
	Jan-Mar	703	708	704	704

[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 full 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; April 2011.

Table B-3. Loan-to-Value (LTV) Ratio Distribution

In this quarter, 24.4 percent of all newly endorsed, fully-underwritten loans had LTVs below 90 percent. This is almost 10 percentage points greater than the 2008 Q4 low of 15.8% and also reflects a trend over the past ten years of fully-underwritten (non-streamline) refinance loans becoming more a core component of FHA's insurance activity. Within refinance insurance activity, the share of below-90 LTV loans increased by three percentage point in this quarter, from 60 to 63 percent. FHA purchase loan insurance continues to primarily be a first-time buyer, high LTV business, with 83 percent of new endorsements having LTVs above 95 percent.

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

Fiscal Year	Quarter	LTV Categories[a]			
		Below 90	91-95	96-98[c]	DPA Loans[d]
2007	Oct-Dec	17.7%	16.3%	41.1%	24.9%
	Jan-Mar	19.0	18.3	37.7	25.0
	Apr-Jun	17.7	18.9	39.1	24.2
	Jul-Sep	17.8	19.7	39.2	23.3
2008	Oct-Dec	19.6	22.9	35.3	22.2
	Jan-Mar	21.7	25.6	33.9	18.8
	Apr-Jun	18.4	22.7	40.0	18.8
	Jul-Sep	15.8	19.3	43.5	21.4
2009	Oct-Dec	17.4	21.1	48.8	12.7
	Jan-Mar	20.3	23.4	55.3	1.0
	Apr-Jun	20.8	17.7	61.3	0.2
	Jul-Sep	21.2	11.5	67.1	0.1
2010	Oct-Dec	20.6	10.1	69.1	0.2
	Jan-Mar	23.7	10.9	65.3	0.1
	Apr-Jun	18.6	9.5	71.7	0.2
	Jul-Sep	19.8	10.0	70.1	0.1
2011	Oct-Dec	22.0	11.0	66.9	0.1
	Jan-Mar	24.4	10.4	65.0	0.1

[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]Excludes streamline refinance loans.

[c]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.

[d]DPA loans represent downpayment assistance programs that operated through charitable organizations. The large shares of such loans endorsed through FY 2009 Q1 were nearly all from 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 here 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 truly charitable sources, which are still permitted.

Table B-4. Average Loan-to-Value (LTV) Ratios on New Endorsements

Average LTVs decreased slightly for each loan-purpose group – home purchase, conventional-to-FHA refinance, and FHA-to-FHA refinance. The average LTV for all loans declined by 49 basis points, from 93.22 to 92.73 percent.

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

Fiscal Year	Quarter	Loan Purpose: Home Purchase	Conventional Loan Refinance	FHA-to-FHA Refinance[b]	All[b]
2007	Oct-Dec	95.91%	86.75%	86.98%	93.48%
	Jan-Mar	95.93	87.03	87.10	93.13
	Apr-Jun	96.07	87.69	87.51	93.43
	Jul-Sep	96.02	88.21	87.56	93.41
2008	Oct-Dec	96.02	88.77	87.88	93.05
	Jan-Mar	96.03	88.86	88.33	92.57
	Apr-Jun	96.18	89.15	88.40	93.32
	Jul-Sep	96.15	89.16	88.00	93.95
2009	Oct-Dec	96.03	89.14	88.83	93.72
	Jan-Mar	95.93	89.38	89.38	93.21
	Apr-Jun	95.71	88.57	87.90	93.12
	Jul-Sep	95.59	86.78	85.83	93.23
2010	Oct-Dec	95.59	86.11	85.22	93.34
	Jan-Mar	95.51	86.19	87.05	92.86
	Apr-Jun	95.64	85.36	86.93	93.57
	Jul-Sep	95.56	85.99	87.96	93.49
2011	Oct-Dec	95.62	87.05	88.94	93.22
	Jan-Mar	95.55	85.68	87.73	92.73

[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 insurance 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; April 2011.

Table C-D Termination and Claim Loss Experience Compared to Forecasts

Table C-D FHA Single-Family Mortgage Insurance Termination and Claim Loss Experience to-date in Current Fiscal Year October 2010 – March 2011				
	YTD Predicted[a]	YTD Actual	Deviation (YTD Actual - YTD Predicted)	Percentage Deviation (YTD Actual vs. YTD Predicted)
Prepayments - Number	289,033	246,950	-42,083	-15%
Claims - Number[b]	75,114	54,764	-20,350	-27%
Claims – Dollars (mil)[b]	$11,039	$6,942	($4,097)	-37%
Net Loss-on-Claims (%)[c]	57.79%	54.57%	-3.21%	

[a]Predicted data is from forecasts used in the FY 2010 FHA financial statements; projections of numbers of prepayments and claims for the FY come from the annual independent actuarial study for FY2010; quarterly predictions shown here use straight-line interpolation techniques with the annual projections and thus reflect expected trend trajectories for the year.
[b]Claim payments (and counts) reported here include those for conveyance (foreclosure) claims and preforeclosure (short) sales. They do not include payments for loss mitigation loan-workout actions.

[c]Due to delays in accounting for all property expenditures, the Actual Rate reported here is subject to revision.

Source: US Dept of HUD, Office of Housing/FHA; April 2011.

Prepayments

Prepayment activity can fluctuate widely with changes in market interest rates. While FY 2011 Q1 payoffs were 13 percent higher than the trend indicated by actuarial projections for the year, Q2 payoffs were 42 percent lower than trend. Combined, they yield a year-to-date deviation of actual from initial predictions of -15 percent.

The “recapture” rate of borrowers paying off loans but then refinancing with FHA insurance was 73 percent in the quarter. This matches the (revised) rate of 73 percent in the first quarter of the fiscal year. While these rates are historically high, they still do not reach the unprecedented 93 percent recapture rate of the year-earlier period.

Claims

Actual claims paid continues to track well below the actuarial projections for the fiscal year, with number of claims 27 percent below forecast and the dollar amount 37 percent below forecast. HUD continues to monitor delays in foreclosure processing in many areas of the country, as they are most likely causing delays in claim payments rather than any ultimate avoidance of insurance claims on defaulted loans. At the end of the quarter, FHA’s in-foreclosure inventory was nearly 6,000 loans larger than at the end of the previous quarter and more than 19,000 larger than it was one year earlier (181,600 versus

162,300 loans).[4] If there had been no foreclosure process delays then actual claims would likely be at or slightly above the actuarial projections.

Net Loss on Claims

The actual year-to-date net loss rate on claims of 54.57% is down from last quarter due to a slightly lower loss rate on disposition actions in the quarter (54.46 versus 55.81 in the previous quarter). The number of claim actions was similar between the two quarters.

[4] These counts include loans in any stage of foreclosure processing that have yet to result in an insurance claim. Some of these have gone through the foreclosure auction but lenders have not yet filed insurance claims because of continued uncertainty over whether their documentation of standing to foreclose may be deemed insufficient.

Table E. Budget Execution Credit Subsidy Rates

The credit subsidy rates for endorsements in this quarter were the same as in the first quarter. However, HUD increased insurance premiums on all single-family (forward) loans effective with loan applications (insurance case number assignment) starting April 18, 2011. The next quarterly report will then report how the credit subsidy rate is changing for the second half of the year.

Table E FHA Single-Family Mortgage Insurance Budget Execution Credit Subsidy Rates[a] FY 2011, First and Second Quarters	
Forward Loans	-2.58
Reverse Loans (HECM)	0.00

[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.

Source: US Dept of HUD, Office of Housing/FHA; April 2011.

Table S-1. MMI Fund Balances by Quarter

Total capital resources declined from $32.7 billion to $31.6 billion this quarter, as gross claim expenses were again larger than revenues from premiums and property sales (see Table S-2). The Capital Reserve Account increased by $1.4 billion while the Financing Account balance decreased by $2.5 billion. The decline in the balance of the Financing Account represents both a net outflow of claim expenses versus premium revenues ($1.16 billion) and transfers of funds to the MMI Capital Reserve Account. The transfers that affect net cash flows are a by-product of the new insurance premium structure in FY 2011, which relies more upon the periodic premium than it does the upfront premium charge. Government accounting rules require that expected net receipts be transferred to the Capital Reserve Account at the time of insurance endorsement. The expectation is that future premium revenues will outweigh net claim costs and thus repay the Financing Account for the immediate transfers. HUD expects that this repayment-effect will take about two years for loans insured in the first two quarters of FY 2011. Premium collections from this group of loans after that time are expected to be sufficient to pay for ongoing net claim expenses. [5]

For the entire MMI portfolio, the movement to a lower upfront premium rate creates a situation where total premium revenues are lower each month than they would have been if HUD had not changed the premium structure in October 2010. That imbalance, however, is a temporary situation that should last no more than one year. In the meantime, the Financing Account has sufficient funds to manage the resulting cash-flow need. As more loans come into the portfolio each month with the new premium structure—which provides for more total revenues over time—their higher monthly premiums will eventually offset the lower upfront premium collected on new endorsements. In the meantime, Capital Reserve Account balances are growing at a faster rate under the new premium structure than they would have under the former structure.

[5] Few claims occur in the first two years of loan life.

Table S1. FHA Single-Family Insurance MMI Fund Balances by Quarter, FY 2009 – FY 2011[a] (billions)

Fiscal Year	Quarter	Capital Reserve Account[b]	Financing Account[c]	Total Capital Resources[d]
2009	Oct-Dec	$19.6	$9.3	$28.9
2009	Jan-Mar	19.9	9.7	29.6
2009	Apr-Jun	10.0	20.9	30.9
2009	Jul-Sep	10.7	21.1	31.8
2010	Oct-Dec	11.4	21.2	32.6
2010	Jan-Mar	12.0	20.2	32.2
2010	Apr-Jun	3.5	29.6	33.1
2010[e]	Jul-Sep	4.4	28.9	33.3
2011	Oct-Dec	6.3	26.4	32.7
2011	Jan-Mar	7.7	23.9	31.6

[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 Dept of HUD, Office of Housing/FHA; April 2011.

Table S-2. Insurance Operations Cash Flows in FY 2011

In line with the decline in dollar volume of MMI insurance endorsements, total premium revenues collected in the quarter decreased by $500 million from the previous quarter.

Claim expenses decreased by $144 million dollars this quarter, to $3.621 billion. In future quarters, claim expenses are likely to increase temporarily as loan servicers resolve foreclosure processing deficiencies. These claim expenses are anticipated and are fully accounted for in HUD's actuarial forecasts and loan-loss reserves. Transfers from the Capital Reserve Account to the Financing Account over the past three years were made in preparation for the anticipated high levels of net claim outlays—after recoveries from property sales—that will likely continue through FY 2012.

On April 18, 2011, FHA increased the annual mortgage insurance premium on forward loans by 25 bps. The premium rate for mortgages with loan-to-value ratios up to 95 percent increased from 85 to 110 basis points, and the premium rate for mortgages with ratios above 95 percent – and for streamline refinance loans—increased to 115 basis points.[6] This premium increase is expected to accelerate the return to positive operating cash flow and also increase reserves in the Capital Reserve Account more quickly than previously forecasted.

[6] See Mortgagee letter 11-10, February 14, 2011, "Annual Mortgage Insurance Premium Changes and Guidance on Case Numbers," which is available at : http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/

Table S2. FHA MMI Fund Financing Account
Business Operations Cash Flows in FY2010 Q3 -FY2011 Q2, by Quarter[a]
(millions)

	FY 2010		FY 2011		
	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Past 4 Quarters
Collections					
Premiums	$ 2,465	$ 2,507	$ 2,232	$ 1,725	$ 8,929
Property Sale Receipts	1,493	1,347	913	887	4,640
Note Sale Collections	-	-	32	1	33
Other	14	10	12	16	52
Total	3,972	3,865	3,189	2,629	13,655
Disbursements					
Claims[b]	$ (3,479)	$ (4,440)	$ (3,765)	$ (3,621)	$ (15,305)
Property Maintenance	(161)	(142)	(170)	(171)	(644)
Other	-	-	-	-	-
Total	(3,640)	(4,582)	(3,935)	(3,792)	(15,949)
Net Operations Cash Flow	$ 332	$ (717)	$ (746)	$ (1,163)	$ (2,294)

[a]These are unaudited figures; totals may not add due to rounding.
[b]Claim payments shown here include conveyance, preforeclosure sale, note sales, and loss mitigation (home retention) actions, and all HECM claims (assignment and short-fall claims).

Source: US Dept of HUD, Office of Housing/FHA; April 2011.

Table S-3. Serious Delinquency Rates

The serious delinquency rate for the single-family portfolio at the end of Q2 2011 is 8.31 percent. This is substantially lower than the 9.05 percent rate observed one year earlier. Although the seasonally adjusted series (currently at 8.34 percent) rose slightly from the previous quarter, it is still trending downward over the longer horizon.

Table S-3. FHA Single-Family Insurance Serious Delinquency Rates[a] by Endorsement Fiscal Year And Activity Quarter[b]

Endorsement Fiscal Year	FY2011 Q2	FY2011 Q1	FY2010 Q4	FY2010 Q3	FY2010 Q2	FY2010 Q1
Pre-2007	10.98%	11.59%	11.41%	11.15%	11.56%	11.89%
2007	21.71	22.44	21.49	21.11	21.4	21.55
2008	19.49	19.65	18.37	17.35	17.13	16.22
2009	7.58	7.23	6.08	4.94	4.07	3.05
2010	1.61	1.20	0.65	0.33	0.16	0.02
2011	.08	0.01				
All years	8.31%	8.78%	8.66%	8.59%	9.05%	9.44%
All years – seasonally adjusted[c]	8.34%	8.29%	8.84%	9.05%	9.10%	8.90%

[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.

[c] These rates are seasonally adjusted using the Census X-12 procedure

Source: US Department of HUD/FHA; April 2011.

Table S-4. Early-Period Delinquency Rates

Early-period delinquency rates are the first indication of strength or weakness of new insurance commitments. These rates measure the share of loans originated in a given quarter that experienced a 90-day delinquency within the first six payment-cycle months.

Although the early-period delinquency rate rose a marginal 0.02% in the recent period, the overall quality of newly originated FHA loans, as measured by early-period delinquency rates, continues to be significantly stronger than historical levels. The much improved early-delinquency rates are an indication that the FY2010 book should perform substantially better than did the FY 2009 book, which itself is performing substantially better than have the FY2007 and FY 2008 books. Early period delinquency rates for the 2011 book will start to be reported in the FY 2011 Q3 report. Given the continued increase in credit quality of newly insured borrowers, it is expected that the 2011 book will be at least as strong as is 2010. In this most recent quarter (FY 2011 Q2) HUD issued new guidance on underwriting standards for refinance transactions that should provide a new foundation for assuring that that portfolio remains strong in the future.[7]

[7] See ML-2011-11, available at http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/11-11ml.pdf .

Table S-4. FHA Single-Family Insurance Early Period Delinquency Rates[a] by Origination Quarter and Loan Type/Purpose					
		Loan Type/Purpose			
Fiscal Year	Origination Quarter	Purchase	Refinance[b]	Streamline Refinance[c]	All
2007	Oct-Dec	1.84%	0.87%	1.61%	1.55%
	Jan-Mar	2.58	1.25	2.69	2.20
	Apr-Jun	2.78	1.91	3.23	2.54
	Jul-Sep	2.60	1.96	2.87	2.40
2008	Oct-Dec	2.51	1.81	2.79	2.23
	Jan-Mar	2.30	1.71	3.14	2.16
	Apr-Jun	1.83	2.00	5.39	2.08
	Jul-Sep	1.50	2.10	5.75	1.78
2009	Oct-Dec	1.07	1.55	3.55	1.43
	Jan-Mar	0.91	0.85	2.32	1.26
	Apr-Jun	0.58	0.60	2.30	1.01
	Jul-Sep	0.42	0.59	1.86	0.68
2010	Oct-Dec	0.33	0.46	1.16	0.52
	Jan-Mar	0.36	0.35	0.89	0.40
	Apr-Jun	0.39	0.38	0.75	0.41
	Jul-Aug	0.43	0.27	0.63	0.43

[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 that replace loans already in FHA's portfolio and do not necessarily require property appraisals.

Source: US Department of HUD/FHA; April 2011.

Figures S-1 through S-3. Serious Delinquency Rates by Origination Year and Months of Seasoning

These vintage curves show serious delinquency rates on each book-of-business, with loans grouped by age, in months. For example, the 10-month rates within each origination-book year are the grouped rates for all loans 10 months after they were originated. These curves provide a longer-term perspective on delinquency rates than do the early-period delinquency rates depicted in Table S-4. At the same time, the curves shown here confirm what is seen in the early period delinquency rates of Table S-4, that the 2009 and—especially—the 2010 book are substantially outperforming the 2007 and 2008 books, as measured by significantly lower rates of serious delinquency at each month of seasoning. Data here are organized by calendar-year books rather than by fiscal year because this view more clearly shows that changes in the quality of loans coming to FHA in 2008 and 2009 were closely correlated to changes in economic and market conditions that were more closely associated with calendar years than with fiscal years.[8]

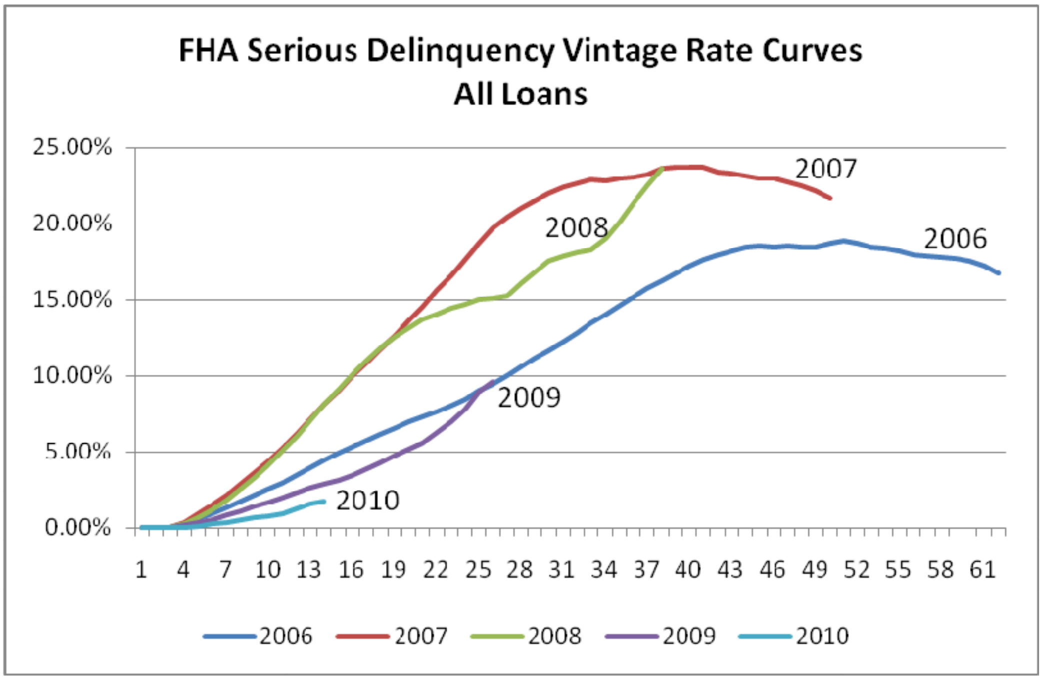
During times of uncertain economics, or when the nature of a book is changing as new originations come on-board, the outer tails of these curves are subject to change as they encompass more of the origination book. That is especially true here for the 2008 and 2009 vintages. The underlying credit quality of borrowers in those books increased on a monthly basis, and that improvement continued even into 2010 and 2011. Thus, the upswing in the tails of the 2008 and 2009 curves indicates that the credit quality of originations early in each year was lower than the credit quality of loans originated later in each year (see Table B-2). As the 2009 book continues to season, and the later originations are reflected in what is now the tail of the curve, that tail should adjust downward. We anticipate that the 2009 vintage curve will remain below that of 2006 for the second and third years of seasoning, just as it is for the first 18 months of loan seasoning. Likewise, the 2008 vintage curve should settle to a position below that of the 2007 curve for the full third year of seasoning and beyond once originations from last in the year are fully reflected in the curve.

The 2009 book does continue to show weakness in its streamline refinance portfolio. Those loans initially obtained FHA mortgage insurance prior to or during the significant decline in home prices that began in 2007. Thus, the streamline refinance portfolio for 2009 is likely to be heavily weighted with borrowers whose low property values at the time of refinance put them in an "under water" position relative to any equity in their homes. Because FHA is already insuring the original loans, there is no requirement for an appraisal on streamline refinance transactions. The new tangible-benefits test outlined in Mortgagee Letter 2011-11, however, assures that the new refinance loan reduces risk to FHA by reducing the borrower's monthly payment burden.

.

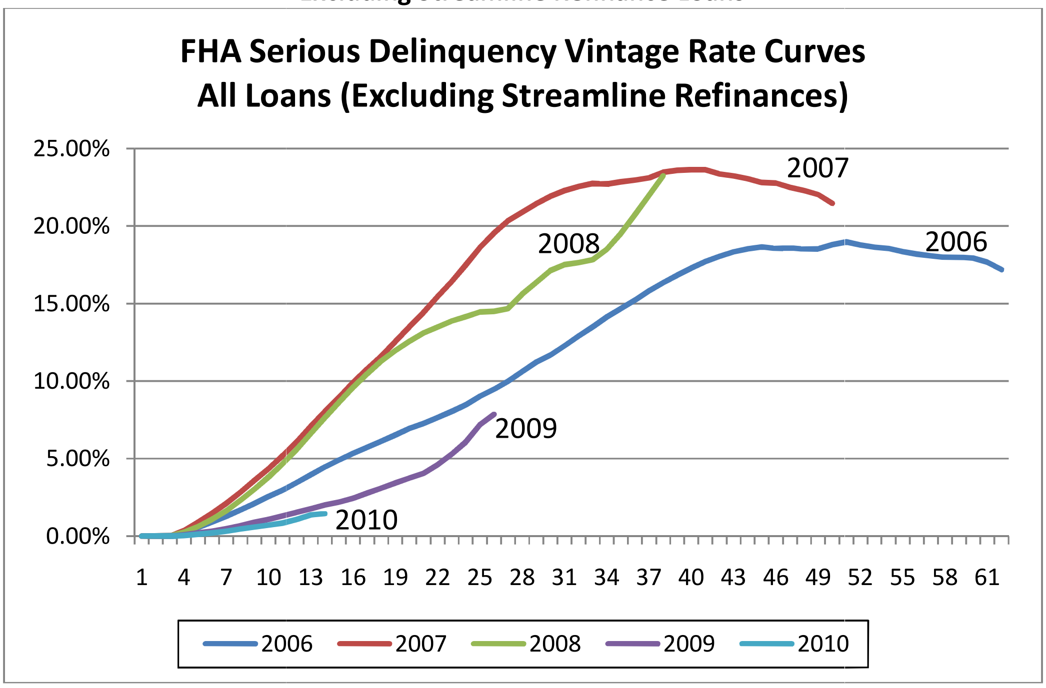
[8] Specifically, credit scores on FHA loan endorsements started their more than two-year rise in early CY 2008, and the quality of refinance loans increased dramatically starting in January 2009 because of the substantial decline in interest rates that started in December 2008.

Figure S-1. Serious Delinquency Rates
By Origination (Calendar) Year and Months of Seasoning
All Endorsements



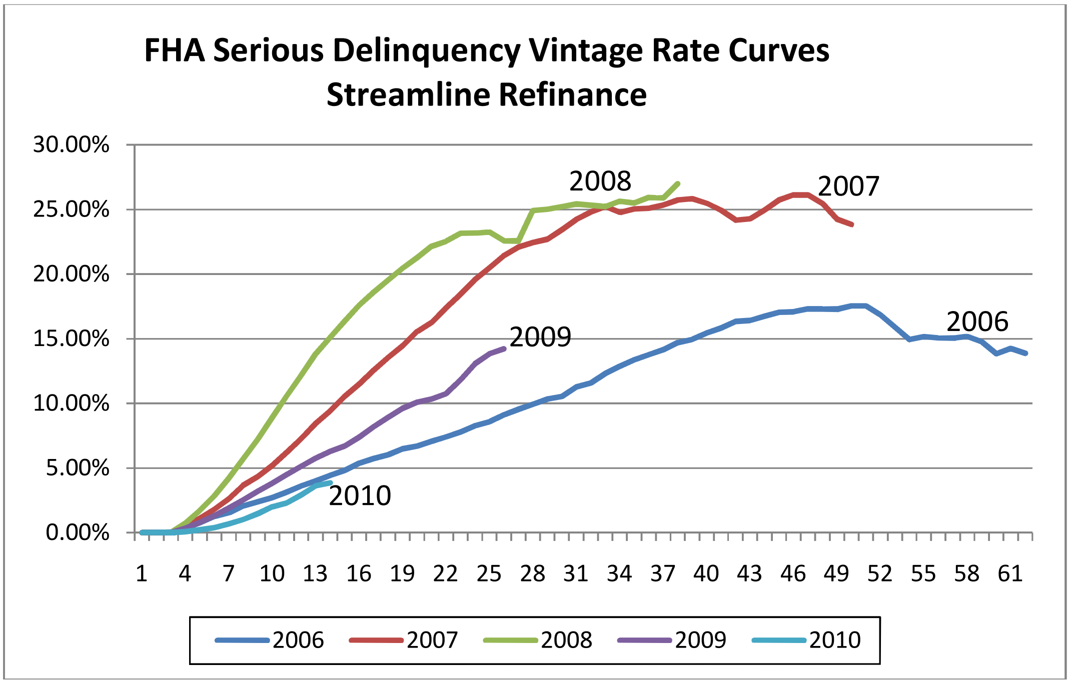
Source: US Department of HUD/FHA; April 2011.

Figure S-2. Serious Delinquency Rates
By Origination (Calendar) Year and Months of Seasoning
Excluding Streamline Refinance Loans



Source: US Department of HUD/FHA; April 2011.

Figure S-3. Serious Delinquency Rates
By Origination (Calendar) Year and Months of Seasoning
Streamline Refinance Loans



Source: US Department of HUD/FHA; April 2011.