U.S. Department of Housing and Urban Development

FHA Single-Family Mutual Mortgage Insurance Fund Programs

Quarterly Report to Congress FY 2011 Q3

Delivered: ***September 30, 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 Q3

Data as of June 30, 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

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 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, 2011, to June 30, 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 this report to Congress, we continue to provide additional transparency on the FHA single-family loan-guarantee portfolios through a series of monthly, quarterly, and annual reports that are posted in the Office of Housing Reading Room on the www.hud.gov website. In addition to this quarterly report to Congress, posted reports include the FHA Single Family Outlook Report, Monthly Report to the FHA Commissioner, forward loan and HECM "Snapshot" reports, and home-purchase and mortgage origination market-share reports. Each one of these provides details on new endorsement activity. Also posted in the Reading Room are annual independent actuarial reviews of the MMI Fund and HUD's Annual Report to Congress on the financial status of that Fund. HUD will issue updates to these two reports for FY 2011 in mid-November. The Annual Report includes an exhaustive analysis of the portfolio, including detailed projections of future performance and discussion of economic risk. The valuations found there are based upon the work of the independent actuaries.

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

Sincerely,

Carol J. Galante

Carol J. Galante
Acting Assistant Secretary for Housing /
Federal Housing Administration
Commissioner

Tables A-1 and A-2. Insurance Endorsements

In the third quarter of Fiscal Year 2011, FHA endorsed for insurance 272,978 forward loans and 17,160 reverse mortgages (HECM product). Those counts represent quarterly changes of -4.5 and -16.9 percent, respectively, in FHA's two principal single-family product lines. On a year-over-year basis, forward-loan endorsements were down 29.3 percent while HECM activity was up 12.4 percent. The HECM expansion from the year-early period can be attributed primarily to the new Saver option, which accounted for 1,283 endorsements in this quarter.

Purchase-loan insurance endorsements continue 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. Overall home sales across the nation have not returned to 2000-2002 levels, but more closely resemble the 1994-1996 period.[1] Thus, FHA's 15 percent share of all home sales in this fiscal year is historically high, and is second only to the 19 percent experienced in FY 2009 and FY 2010.[2] Likewise, refinance activity in FY 2011 remains at very high levels from an historical perspective, though it is well off the peak level activity seen in FY 2009.[3]

Dollar endorsements in the quarter were down for refinance (-42.6 percent) and HECM loans (-20.2 percent), but up for purchase loans (+14.5 percent) Combined endorsements $51.5 billion were 11.4 percent lower than in the previous quarter ($58.1 billion) and 28.0 percent lower than in the year-earlier period ($71.5 billion).

Loan originations precede insurance endorsement, and in this quarter FHA's purchase activity was up 11.6 percent and refinance activity was down 40 percent, from the previous quarter. Relative to changes in overall market origination volumes, FHA purchase-loan growth was stronger than market (+3.8 percent) and the decline in its refinance volumes was more dramatic than the overall market (-8.2 percent). On net FHA origination volumes were down 8.3 percent, while Mortgage Banker Association estimates of all single-family mortgage originations was down 4 percent.[4]

[1] See FHA's Home Purchase Market Share report, which is available online at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/oe/rpts/fhamktsh/fhamkt .

[2] Those two years had exceptional activity because of the availability of first-time-buyer tax credits. Also of note, FHA share of home-purchase *mortgages* is much higher than 15 percent, as many sales today are cash purchases. HUD's estimates of FHA mortgage market shares are available online at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/oe/rpts/fhamktsh/fhamkt .

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

[4] See, MBA Mortgage Finance Forecast, August 19, 2011, which is available at: http://www.mortgagebankers.org/files/Bulletin/InternalResource/77681_.pdf .

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	117,850	478,350	43,082
2006	293,257	58,226	48,421	399,904	76,280
2007	261,165	104,578	36,600	402,343	107,367
2008	591,324	349,129	91,132	1,031,585	112,013
2009	995,103	468,769	367,434	1,831,306	114,640
2010	1,109,161	305,296	252,417	1,666,874	78,757
2011 (Oct-Jun)	566,438	164,764	198,961	930,163	56,193
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	143,299	490,643	28,686
2009Q4	322,614	107,945	100,658	531,217	28,113
2010Q1	304,827	86,517	96,151	487,495	24,729
2010Q2	245,776	88,337	67,978	402,091	20,278
2010Q3	289,684	65,578	31,034	386,296	15,266
2010Q4	268,874	64,864	57,254	390,992	18,484
2011Q1	196,712	65,209	109,436	371,357	18,387
2011Q2	168,703	58,451	58,674	285,828	20,646
2011Q3	201,023	41,104	30,851	272,978	17,160

[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; July 2011.

Table A-2 FHA Single-Family Mortgage Insurance Endorsement Volumes by Fiscal Year and Quarter					
	Volumes (billion $)				
	Forward Mortgages[a]				Reverse Mortgages (HECM)[b]
Time Period	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	14,907	171,806	24,240
2009	171,672	86,984	71,725	330,380	30,164
2010	191,602	56,431	49,463	297,495	20,974
2011 (Oct-Jun)	98,849	31,518	41,763	172,130	14,093
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	90,075	8,051
2009Q4	56,337	19,974	19,519	95,830	8,389
2010Q1	51,950	15,843	18,601	86,394	6,947
2010Q2	42,794	16,402	12,884	72,080	5,491
2010Q3	49,578	12,145	5,901	67,625	3,859
2010Q4	47,279	12,041	12,076	71,396	4,676
2011Q1	35,084	12,785	24,219	72,089	4,612
2011Q2	29,731	11,224	11,830	52,784	5,273
2011Q3	34,034	7,510	5,714	47,257	4,207

[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; July 2011.

Table B-1. Borrower Credit Score Distribution

This quarter marks the first time that the share of borrowers with credit scores above 680 has declined since FY2008 Q1. This was due to a combination of 1) the largest percentage growth in purchase-loan activity being in the 580+ and 620+ groups, and 2) the largest percentage decline in refinance activity being in the 720+ and 680+ groups. It is percentage changes that affect the movement in distributional shares, rather than changes in loan counts per se. Note that within the growth in purchase-loan endorsements, the largest numerical increase was in the 620^+ group (+9,468), followed closely by 720^+ (+ 8,269). On a dollar basis, the growth in the 720^+ purchase-loan group was slightly larger than that for the 620^+ group.

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	35.6	20.9	12.2	0.7	2.1
	Jul-Sep	19.2	16.1	37.5	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	0.7
	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	0.6
2010	Oct-Dec	33.6	22.6	38.6	4.0	0.7	0.0	0.5
	Jan-Mar	34.0	22.9	38.5	3.5	0.5	0.0	0.6
	Apr-Jun	35.1	22.7	38.6	2.7	0.4	0.0	0.5
	Jul-Sep	35.0	22.7	38.5	3.0	0.4	0.0	0.5
2011	Oct-Dec	37.2	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	0.4
	Apr-Jun	35.5	23.9	37.6	2.6	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; July 2011.

Table B-2. Average Borrower Credit Scores

The shifting of credit-score distributional shares to the 580+ and 620+ groups, as noted in Table B-1, is reflected in Table B-2 by lower average FICO scores for all product groups—home purchase, conventional refinance, and FHA-to-FHA refinance. The overall average of 701 for FY 2011 Q3 is very close to where it was in FY 2011 Q1.

Though these are count-based averages, the dollar-based averages follow the same trends. The dollar-based average for this quarter was 705, down from 708 in the previous quarter.

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	Quarter	Loan Purpose: 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	638	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
	Apr-Jun	700	703	700	701

[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; July 2011.

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

The distribution of LTV ratios within major product lines – purchase and refinance loans – changed very little this quarter, but the shift of product shares toward purchase loans affected the overall LTV distribution. The refinance loan share of endorsements fell 10 percentage points this quarter, from 30 to 20 percent, which resulted in a 5 percentage point decline in the share of loans with LTV up to 90. The share of loans with LTV ratios above 95 percent rose over six percentage points to 71.5 percent. It had last been at this level during the last two quarters of FY 2010; it had first fallen below this level in the final quarter of FY 2006.[5]

[5] To arrive at the total share of above-95 LTV loans we include nonprofit downpayment assisted (DPA) loans.

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] Up to 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
	Apr-Jun	19.2	9.0	71.5	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 insurance premium charged since the start of FY 2011 has been 1.00 percent; for FY 2009 and through March 2010 it was 1.75 percent for fully-underwritten loans and 1.50 percent on streamline refinance loans. The premium rate was temporarily raised to 2.25 percent in April 2010, for all loans, for the remainder of FY 2010. Prior to FY 2009, the upfront premium rate 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.

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

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

Even with the sizable shift in LTV shares to the highest category (see Table B-3), the overall average LTV for new endorsements increased by less than one percentage point, to 93.67 percent. This is because the average LTV for refinance loans declined by 0.75 percent while the average LTV for purchase loans rose only 0.17 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	95.55	85.99	87.96	93.49
2011	Oct-Dec	95.62	87.06	88.94	93.22
	Jan-Mar	95.55	85.68	87.73	92.73
	Apr-Jun	95.73	85.00	86.86	93.67

[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 since the start of FY 2011 has been 1.00 percent; for FY 2009 and through March 2010 it was 1.75 percent for fully-underwritten loans and 1.50 percent on streamline refinance loans. The premium rate was temporarily raised to 2.25 percent in April 2010, for all loans, for the remainder of FY 2010. 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; July 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 – June 2011				
	Year-To-Date Predicted[a]	Year-To-Date Actual	Deviation (Actual - Predicted)	Percentage Deviation (Actual vs. Predicted)
Prepayments - Number	433,549	311.915	-112,634	-28%
Claims - Number[b]	112,670	82,513	-30,157	-27%
Claims – Dollars (mil)[b]	$16,559	$10,609	($5,950)	-36%
Net Loss-on-Claims (%)[c]	57.79%	63.34%	5.55%	

[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, preforeclosure (short) sales, and claims paid in connection with sales of delinquent mortgages. They do not include payments for loss mitigation loan-workout actions.

[c]These claim rates are losses as a percentage of the claim payment, for both conveyance and preforeclosure-sale claims. Due to delays in accounting for the final net loss on REO sales, the Actual Rate reported here is subject to revision.

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

Prepayments

Prepayments continue to lag predictions made at the start of the fiscal year. During this quarter, both prepayment counts and the recapture rate of those loans into new FHA-insured (refinance) mortgages were at their lowest levels since FY 2008 Q4. The number of prepayments this quarter was just under 70,000 and the recapture rate was 39 percent. Prepayments in each of the past two quarters have been roughly half of what they were in the first quarter of FY 2011. On a year-over-year basis, however, prepayments and recaptures over the past two quarters have been roughly equal to what they were during the same quarters in FY 2010.

Claims

The number of claims paid this quarter (29,103) was nearly identical to the number paid in the previous quarter (29,108) and was comparable to the year-earlier period (28,308). The gap between predicted and actual claims paid continues on the same track as in earlier quarters, with year-to-date counts 27 percent below forecast and year-to-date dollars 36 percent below forecast. A contributing factor to this gap continues to be delays in foreclosure processing due to so-called robo-signing problems experienced by many major lenders.

In terms of the foreclosure inventory, both the number of loans in-process and those that have gone through property auction but are awaiting transfer of property title to HUD have declined in this quarter. They are down 5.2 and 3.4 percent, respectively, from their FY 2011 Q2 levels.

Net Loss Rate on Loans Resulting in Claims

This quarter we revised our loss-rate calculation to include all REO dispositions in the present fiscal year, and not just those associated with claims in this fiscal year. The actual year-to-date net loss rate on claims of 63.3 percent is up two percentage points from last quarter. This is because of an increase in REO sales and not because of any change in the loss rates on conveyance (REO) or preforeclosure sales. REO sales were up in the quarter as new property management contractors worked off inventories that built up during the contract transition of this past winter. The loss rate on this quarter's REO sales was 69 percent and that for preforeclosure sales was 46 percent.

Table E. Budget Execution Credit Subsidy Rates

The credit subsidy rates for forward-loan endorsements increased in this quarter from -2.58 to-3.91 percent following a 25 basis point increase in the annual premium rate effective April 18, 2011.[6] As OMB credits this for loans insured on or after that date, this premium change provided an additional $296 million of budget receipts in this quarter alone. Those budget receipts are also credited to the MMI Fund Capital Reserve Account.

Table E
FHA Single-Family Mortgage Insurance
Budget Execution Credit Subsidy Rates[a]

FY 2011, First and Second Quarters

Forward Loans	-3.91
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, house-price performance and insurance cash flows.

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

[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/ . The annual premium rate for mortgages with loan-to-value ratios up to 95 percent increased from 85 to 110 basis points, and that for mortgages with ratios above 95 percent – and for streamline refinance loans—increased to 115 basis points.

Table S-1. MMI Fund Balances by Quarter

Total capital resources stayed steady in this quarter, improving by $100 million from the position at the end of the previous quarter. The major change this quarter was movement of funds from the Capital Reserve Account to the Financing Account. That movement of $6.8 billion was to effect an increase in loss reserves required as a result of the annual re-valuation of the insured portfolios (forward and HECM) that takes place each December. This transfer was presaged by the FY2010 Actuarial Review of the MMI Fund, but the actual dollars involved are determined in the annual budget "re-estimate" process using the President's Budget economic forecasts for predicting future loan performance.

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	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
2011	Apr-Jun	2.8	28.9	31.7

[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.

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

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

The MMI Fund business operations cash flows continued to be negative this quarter, but only by $42 million. Higher claim payments in the quarter were offset by a combination of proceeds from accelerated property sales and from higher premium revenue. The higher rate of property sale activity followed lower levels of activity in the first two quarters of this fiscal year as HUD transitioned to a new set of REO management contractors. Accelerated sale activity also required a higher level of Property Maintenance disbursements as large numbers of properties were prepared for sale.

Table S2. FHA MMI Fund Financing Account Business Operations Cash Flows in FY2011 Q1 -FY2011 Q3, by Quarter[a]
(millions)

	FY 2011			
	Quarter 1	Quarter 2	Quarter 3	Past 3 Quarters
Collections				
Premiums	$ 2,232	$ 1,725	$ 1,798	$ 5,755
Property Sale Receipts	913	887	2,378	4,178
Note Sale Collections	32	1	50	83
Other	12	16	14	42
Total	3,189	2,629	4,240	10,058
Disbursements				
Claims[b]	$ (3,765)	$ (3,621)	$ (3,830)	$ (11,216)
Property Maintenance	(170)	(171)	(452)	(793)
Other	-	-	-	-
Total	(3,935)	(3,792)	(4,282)	(12,009)
Net Operations Cash Flow	$ (746)	$ (1,163)	$ (42)	$ (1,951)

[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; July 2011.

Table S-3. Serious Delinquency Rates

The serious delinquency rate for the single-family portfolio at the end of FY 2011 Q3 continued its downward trend to 8.18 percent. However, FHA has not seen the normal seasonal effect on serious delinquency (SD) rate this year, so that the seasonally-adjusted rate is actually the highest it has been this fiscal year—with the exception of an equivalent level in February—at 8.59 percent. The historically large FY 2009 and FY 2010 books-of-business are still at the loan age where SD rates are increasing over time. That effect is balanced by declines in the SD rates for pre-2007 loans, and fairly steady rates for the FY 2007 and FY 2008 books.

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

Endorsement Fiscal Year	FY2011 Q3	FY2011 Q2	FY2011 Q1	FY2010 Q4	FY2010 Q3	FY2010 Q2	FY2010 Q1
Pre-2007	10.77%	10.98%	11.59%	11.41%	11.15%	11.56%	11.89%
2007	21.83	21.71	22.44	21.49	21.11	21.40	21.55
2008	19.97	19.49	19.65	18.37	17.35	17.13	16.22
2009	8.05	7.58	7.23	6.08	4.94	4.07	3.05
2010	2.13	1.61	1.20	0.65	0.33	0.16	0.02
2011	0.22	0.08	0.01				
All years	8.18%	8.31%	8.78%	8.66%	8.59%	9.05%	9.44%
All years – seasonally adjusted[c]	8.59%	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; July 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.

The latest quarter reported here (FY 2011 Q1) has an early-period delinquency rate of just 0.30 percent, which is a new low for recent history, and is a small fraction of the peak rate experienced for loans originated in FY2007 Q3 (2.54 percent). Originations in this recent period had a very large share of refinance loans (47 percent). The best improvement in early delinquencies compared to the prior quarter was in streamline refinance loans, and they made up 23 percent of all originations in the quarter. Among those streamline refinance loans, 73 percent came from the FY 2009 and FY 2010 insurance cohorts, with 26 percent from FY 2010 alone. Those books have much stronger credit quality than do earlier books (See Table B-1).

Table S-4. FHA Single-Family Insurance Early Period Delinquency Rates[a] by Origination Quarter and Loan Type/Purpose					
Fiscal Year	Origination Quarter	Loan Type/Purpose			
		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-Sep	0.40	0.24	0.54	0.39
2011	Oct-Nov	0.30	0.20	0.40	0.30

[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; July 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. The curves shown here confirm what is seen in Table S-4, that the 2009 and 2010 books are substantially outperforming the 2006-2008 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.[7]

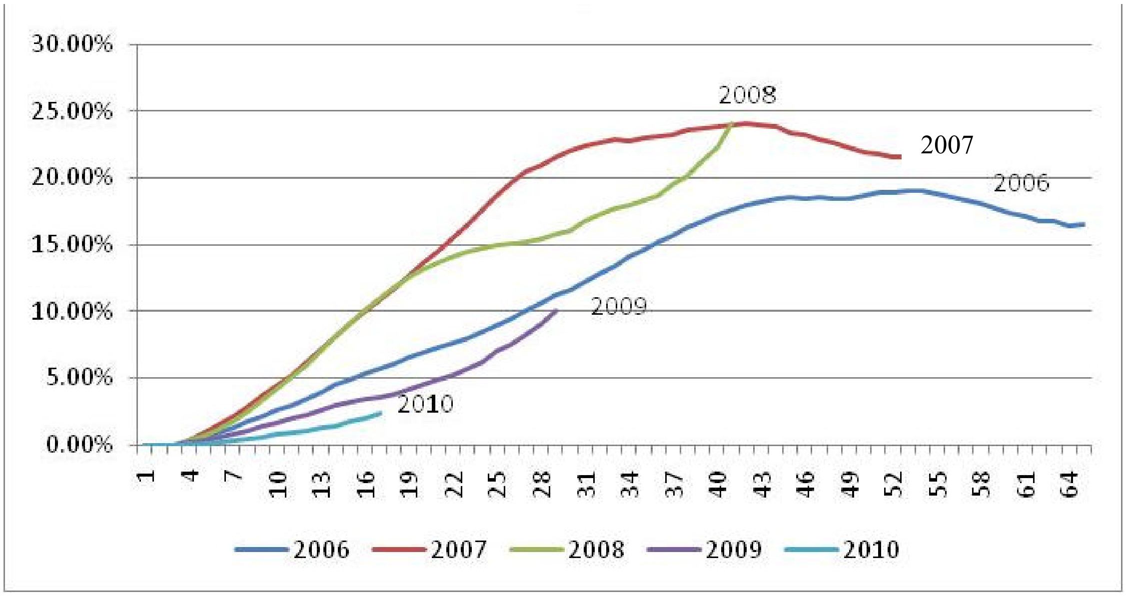
The 2006 and 2007 books are showing improvement from the peak rates seen at the 43 month (2007) and 53 month (2006) vintage points. Though the 2008 vintage has not yet “peaked,” the fact that it is staying well below the 2007 curve is a good sign. The upswing at the end of the 2008 curve is just a reflection of the lower credit quality of loans originations early in the year and not reflective of how the entire vintage should season. It is quite possible that the 2008 book will come to match the out-year 2006 experience once it is fully seasoned to 48 months.

The 2009 book continues 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 property values at the time of refinance put them in an “under water” position relative to any equity in their homes. Because FHA already insures the original loan, there is no requirement for an appraisal on streamline refinance transactions.

Starting in 2011, HUD instituted a net-tangible-benefits test to assure that the new streamline refinance loan reduces risk to FHA by reducing the borrower’s monthly payment burden (see, Mortgagee Letter 2011-11).

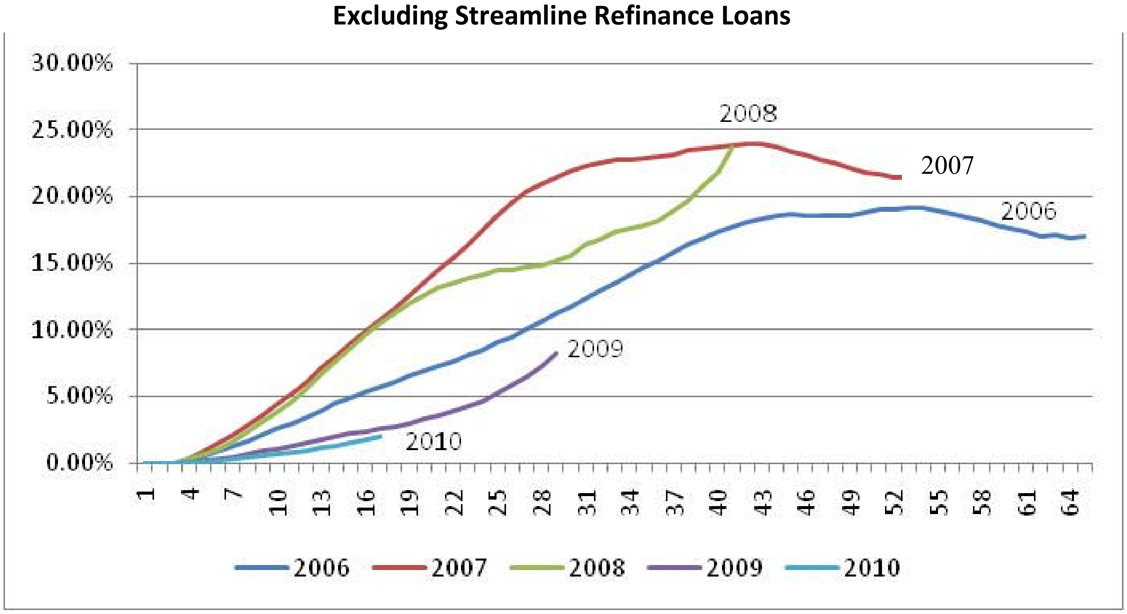
[7] Specifically, credit scores on FHA loan endorsements started their more than three-year rise in early CY 2008, and the quality of refinance loans increased dramatically starting in January 2009 because of the substantial decline in interest rates that started in December 2008.

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



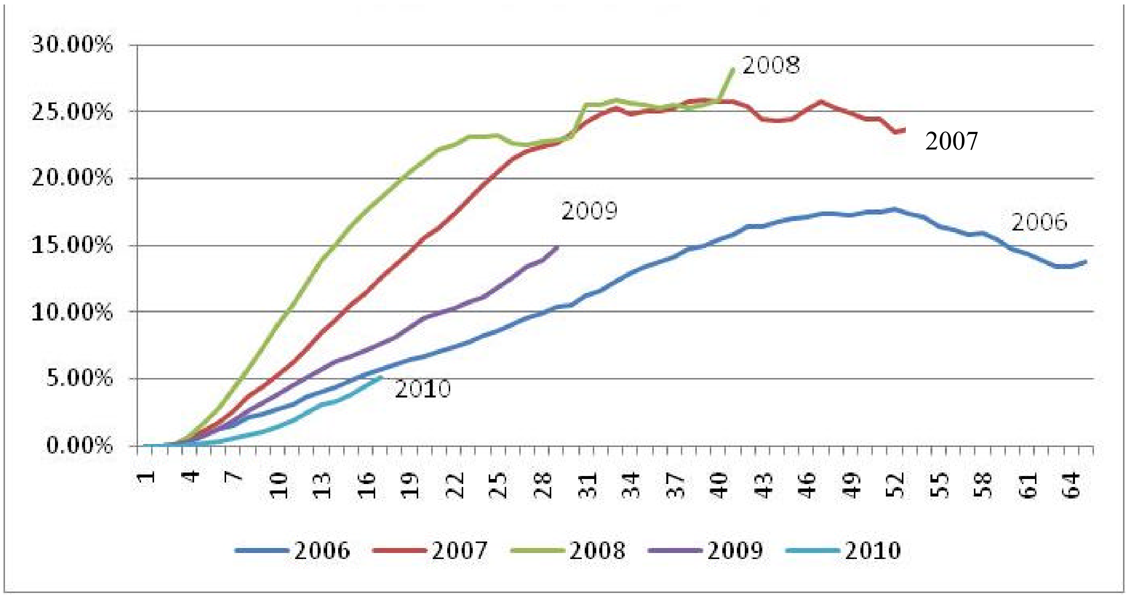
Source: US Department of HUD/FHA; July 2011.

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



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

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



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