Myths and Facts about the FHA Loan Limits

(November 15, 2011)

MYTH: FHA WILL SOON NEED A FEDERAL BAILOUT

FACT: The FY11 actuarial review shows a slight decline in capital reserves. However, it is important to note that this is NOT FHA's only reserve fund. The capital reserves reflect the reserves available **after** paying expected claims and expenses.

FHA's current cash reserves total $33.7 billion - a $400 million increase from a year ago. These reserves are fully capitalized to pay 30 years' worth of expected claims and losses. By comparison, the Financial Accounting Standards Board only requires private financial institutions to hold reserves for losses over the next 12 months. FHA has 30 times that amount in their cash reserves, plus another $2.55 billion in the excess capital reserves.

The FY11 actuarial review states that "On net, the economic value of the Fund in future years has increased significantly due to the new, higher forecast of house price growth." It is anticipated that FHA will again reach the 2% excess reserve requirement by 2014.

MYTH: FHA IS EXPERIENCING HIGH DEFAULTS AND FORECLOSURES

FACT: FHA's seriously delinquent rate for loans originated in the last two years declined to 1.90%. FHA has said this is the lowest seriously delinquent rate in the history of the Neighborhood Watch system (originated in 1999). FHA's total delinquency rate is now at the lowest level in more than five years. Furthermore, FHA's credit quality has improved steadily since 2007. Over fifty percent (50%) of FHA loans made in every quarter since 2009 (2nd quarter) had credit scores above 680. Thirty-five percent (35%) of FHA borrowers in 2010 and 2011 (first half) had credit scores over 720.

MYTH: THE ACTUARIAL REVIEW SHOWS FHA IS IN SERIOUS TROUBLE

FACT: The actuarial review is a "snapshot" of the portfolio at a particular point in time. It estimates how the portfolio will perform in a run-off scenario over the next 30 years. Accordingly, an actuarial review is highly dependent on projections about the future economic environment, particularly house price projections.

According to the review, "Both the economic value and the IIF (insurance in force) of the Fund are expected to increase each year over the next seven years." Even the Wall Street Journal *(11/15/11)* reports that "the independent audit shows that loans made over the last two years are performing far better and are expected to be profitable. While rising losses could prompt new calls for the FHA to take steps to reduce their role in the markets, housing analysis warn those steps could be counter-productive if they prevent qualified borrowers from accessing credit."

MYTH : EXTENDING THE CONFORMING LOAN LIMITS WILL PUT FHA AT GREATER RISK

FACT: The FY11 Actuarial Review actually shows the opposite to be true. The review states, "FHA experience indicates that more expensive houses tend to perform better compared with smaller houses in the same geographical area, all else being equal."

MYTH: FHA IS NOT SERVING ITS MISSION

FACT: In 2010, FHA was used by 56 percent of all first-time homebuyers, and 60 percent of all African-American and Hispanic homebuyers. In addition, 85% of borrowers obtaining homes at the higher loan limits had incomes below $150,000, and nearly 65% had incomes less than $100,000.

MYTH: EXTENDING THE LIMITS WILL SERVE MILLIONAIRES BUYING MCMANSIONS

FACT: Although some have argued this provision provides financing only for high-cost markets, more than 100 counties throughout the Midwest and more than 200 counties in the South experienced declines averaging more than $64,000. The majority of markets that were impacted by the loan limit decline are NOT high cost.

FHA Bailout Not Necessary – Additional Facts

- Moody's July 2011 forecast predicts a return to positive home price growth of 1.21% in FY 2012 and peaking at 6.08% in FY 2014 and between 3 – 4% in FY 2018 and beyond.
- According to the FY11 Actuarial Report, if the private secondary market reestablishes its prior role in the market, FHA's market share will likely revert to its historical norm of 8 - 10 percent.
- According to the FY11 Actuarial Report, the economic value of FHA's MMIF will increase in the future, rising by an average of $8.32 billion per year through FY 2018. The insurance-in-force (IIF) will increase by an average rate of 6.28% per year through FY 2018. The economic value is expected to grow at a substantially faster rate than that of the IIF. The economic value is projected to steadily increase over the next 7 years to reach $59.45 billion by the end of FY 2018.
- According to the FY11 Actuarial Report, FHA's current cash reserves total $33.7 billion - a $400 million increase from a year ago.
- According to the FY11 Actuarial Report, it is anticipated that FHA will again reach the 2% excess reserve requirement by 2014 – sooner than was projected in last year's actuarial report
- FHA estimated that the Mutual Mortgage Insurance Fund (MMIF) has total capital resources of more than $28 billion at the end of FY 2011. The MMIF is projected to have $1.19 billion in economic value that can be used to cover unanticipated future claim losses on the existing portfolio.
- FHA insured 60% of all African-American and Hispanic homeowners in 2010, according to HMDA reports.
- FHA insured 56% of all first-time homebuyers in 2010, according to NAR.
- FHA borrowers in FY 2011 have an average credit score above 700. This is the first time the average credit score for FHA borrowers broke the 700 mark.