

Myths and Facts about FHA

(February 10, 2012)

MYTH: FHA IS BANKRUPT

FACT: 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, like every other holder of mortgage risk, has incurred financial losses as a result of increasing foreclosures. However, an analysis of FHA data indicates the problem is concentrated in older FHA loans that have been significantly affected by the 33% decline in house prices since 2006. There has been widespread improvement in the performance of FHA loans since the market collapsed in 2008. In fact, loans originated since 2009, which comprise about 75% of FHA's portfolio, have record low rates of serious delinquency. Loans originated in 2010 & 2011 have the best performance in the 13 year history of the Neighborhood Watch data system with a seriously delinquent rate of 1.85%. Loans originated in last two years now comprise only 7% of the seriously delinquent loans in FHA's portfolio.

MYTH: THE HIGHER LOAN LIMITS 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: FHA was created in 1934 during a difficult time in housing finance markets. It is now filling just the role it was designed for – to provide safe, affordable financing when the private market cannot or will not participate. 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: FHA BORROWERS ARE POOR RISKS

FACT: 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. FHA credit quality has improved steadily since 2007, 4th quarter. Over 50% of FHA loans made in every quarter since 2009 (2nd quarter) had credit scores above 680. In 2006 and 2007, only about 20% of the FHA loans insured in 2006-2007 had credit scores above 680.