



MORTGAGE BANKERS ASSOCIATION

MBA BRIEF: FHA RELEASES ANNUAL REPORT ON THE FINANCIAL STATUS OF THE MUTUAL MORTGAGE INSURANCE FUND FOR FISCAL YEAR 2023

The Combined Fund

- **The current MMIF capital ratio is 10.51%, a 60 basis point decrease from 11.11% a year ago.** The MMIF capital ratio remains above the 2.00% threshold mandated by Congress for the ninth consecutive year.
- The “MMI Fund Capital” (formerly referred to as “economic net worth”) of the MMIF is \$145.3 billion, an increase of \$3.6 billion from a year ago.
 - The \$145.3 billion in MMI Capital is derived from \$110.5 billion in total capital resources, plus an additional \$34.8 billion in net present value (NPV) of future cash flows.
 - The \$3.6 billion increase in MMI Capital from a year ago is derived from total MMIF capital resources increasing by \$12.1 billion in FY 2023, coupled with a decrease of \$8.5 billion in the NPV of future cash flows chiefly due to an increased projected losses.

The Forward Portfolio

- The forward portfolio performance continues to improve, with a capital ratio of 10.20% (a 27 basis point decrease from 10.47% a year ago) and MMI Fund Capital of \$134.3 billion.
 - The \$134.3 billion in MMI Fund Capital is derived from \$101.9 billion in total capital resources and \$55.4 billion in NPV of future cash flows, less \$23.1 billion in NPV losses.
- The serious delinquency rate fell from 4.77% at the end of FY 2022 to 3.93%, falling below the pre-pandemic level of 4.04% in April 2020.
 - Since March 2020, 1.9 million borrowers with FHA-insured loans were granted a COVID-19 forbearance. More than 311,000 FHA borrowers requested and received forbearance for the first-time in FY 2023. Approximately 124,000 borrowers remain in forbearance.
 - Average loss severity rates decreased to 24.54%, down from 27.47% a year ago and down from 57.62% in FY 2013.
 - Average early payment default (EPD) rates, which were impacted adversely by the pandemic and corresponding forbearance authorization in the CARES Act, spiked from 0.60% in April 2020 to 9.27% in July 2020, but have fallen drastically to 1.75% by the end of FY 2023.

- In the forward portfolio, two of the three risk factors that FHA follows improved when compared to a year ago.
 - Debt-to-income (DTI) ratios remain elevated, with the average DTI ratio increasing to 45.10% from 44.19% a year ago. The share of borrowers with DTI ratios above 50% increased to 31.12% from 27.95% in FY 2022.
 - The average credit score increased to 670 from 664 in fiscal year 2022. The share of borrowers with credit scores above 720 (or higher) increased from 10.67% in FY 2022 to 14.95% in FY 2023.
 - The share of borrowers using some form of downpayment assistance fell to 39.53% in FY 2023 from 40.13% in FY 2022.
- The share of refinances decreased to 20.56% from 29.46% in FY 2022, and cash-out refinances rose to 93.8% of total refinances, up from 61.4% in FY 2022. Streamline refinances fell to 0.69% of total refinances, down from 29% in FY 2022.

The HECM Portfolio

- The capital ratio for the HECM portfolio was above 2% for the third time since FY 2015. It decreased from 22.77% in FY 2022 to 16.72%, with MMI Fund Capital of \$11.9 billion, a \$4.1 billion decrease from the previous year.
- HECM endorsements totaled 32,963 in FY 2023, a 50 percent decrease from FY 2022's record-high endorsement amount. The current outstanding Maximum Claim Amount of the HECM portfolio was \$115 billion at the end of FY 2023. The average Maximum Claim Amount decreased to \$490,396 from \$498,210.
- The average Principal Limit for HECMs in FY 2023 declined to 46.96% of the Maximum Claim Amount from 55.81% in FY 2022.

Claims Paying Capacity

- Total claims paying capacity, or the sum of total capital resources and the NPV of projected revenue, grew to \$169.2 billion in FY 2023, an increase from \$151.8 billion a year ago. This growth was attributable to an over \$12 billion increase in total capital resources, while the NPV of projected revenue increased marginally from 4.18% to 4.24%. Total claims paying capacity represents 12.23% of insurance-in-force.
 - Total claims paying capacity of the forward portfolio grew to \$157.3 billion, an increase from \$139.5 billion in FY 2022.
 - Total claims paying capacity of the HECM portfolio increased to \$11.9 billion, an increase from \$15.1 billion in FY 2022.

Scenario Analysis

- The report emphasizes that the health of the MMIF is highly sensitive to changes in home price appreciation:
 - A 1 percentage point reduction in the estimated baseline rate of home price appreciation, for example, would reduce the MMIF capital ratio by 112 basis points to 9.39%.

- Subjecting the FY 2023 portfolio to the same macroeconomic conditions faced by the FY 2007 portfolio would result in an MMIF capital ratio of 5.43%.

Market Statistics and Other Notes

- FHA endorsed 732,319 forward mortgages in FY 2023, of which 79.4% were purchase mortgages. FHA endorsements totaled \$208.73 billion, down from \$255.50 billion a year ago.
- The share of FHA mortgages endorsed by non-depository institutions decreased slightly, though for the second consecutive fiscal year, falling to 88.4% from 89.4% a year ago.
- The share of FHA mortgages endorsed by depository institutions increased from 10.8% in FY 2022 to 11.5% in FY 2023.
- FHA remains a mission-driven program, with 82.21% of purchase endorsements serving first-time homebuyers as of September 2023, which came in slightly lower than FY 2022 at 83.52%.

Forward-Looking Policy Priorities

- Planned initiatives:
 - Release of updates to 203(k) Rehabilitation Mortgage Insurance Program
 - In cooperation with the Federal Housing Finance Agency, FHA will release standards concerning the appraisal reconsideration of value (ROV) process.
 - Develop and enhance financing options for manufactured housing units.