HFA Institute:
Update on FHA & VA

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January 17, 2019

Overview

- FHA’s FY 2018 Report to Congress
  – Review key financial and performance metrics
- FHA’s Assessment of Performance
  – “Continues to monitor credit risk on new endorsements”
- What is on the horizon?
  – Ongoing debate about the role of government in housing
    - “Footprint” concern vs. balancing FHA’s dual roles
      – ”mission” and operating at no expense to the taxpayer
  – Underwriting/operational issues
    - When will FHA make changes?

FY 2018 Report to Congress

- Financial Highlights
  - Total capital ratio increased to 2.76% (2.18%* - ’17)
    - Forward ratio increased to 3.93% (3.33% - 2017)
    - Reverse ratio declined to -18.83% (-18.30% - 2017)
  - Economic value increased $8 billion to $34.8 billion
    - Single-family reserves increased to $46.8 billion
      - Capital resources are 97% of total: “known & audited”
- Single-family program is sustaining MMI Fund
  - FHA SF Fund has grown steadily in last five years
  - FY 2015 Report to Congress
    - Independent actuary said forward program would need $30 billion “to withstand level of losses in last crisis

Reasons for FHA's Strong Performance

- Home prices/economy certainly helped
- FHA portfolio credit quality is also much better
  - 90% of portfolio – 2009 or later
    - 60% have credit scores above 660; 10% below 620
    - Only 3% insured between FY 2005 – FY 2007
      - Over 40% had credit scores below 620 in those years
    - Seller funded DPA loans are now less than 1% of portfolio
      - Cost to the MMI Fund = $16 billion
  - Credit quality is also better than 1990s' originations
    - Two HUD studies
      - PDR study = 25% had credit scores below 620 - 1996
      - Contractor = Average credit score – 643 in 1998 - 2000

FHA FY 2018 Key Metrics

- Purchase activity fell 12% to 776,000 loans
  - Purchase activity is 8% lower than in FY 2000
- First-time homebuyers (FTBs) fell 11% to 641,920 borrowers
  - FTB activity is 6% lower than in FY 2000
- Minority lending fell more than 5% in FY 2018
  - African/American & Hispanic lending is lower than in 2000
- Good news: FHA is serving its "mission"
  - Low and moderate income borrowers = 57% of new originations

FHA's FY 2018 Loan Performance

- Portfolio SDQ rate = 4.11%
  - Peaked at 9.90% in FY 2012
  - Lower now than in September 2001 (4.36%)
- Mortgage claims fell 27% in FY 2018
  - Fewer claims in FY 2018 than in1998 (76,040)
  - Claims were 43% lower than predicted – based on 9 mos.
- Loss rate declined 13% from 50% to 43.5%
  - Loss rate had peaked at 63.7% in FY 2011

FHA Portfolio Risk Factors

- Credit scores
  - Loans >660 perform 2+ x's better than <660
- Higher balance loans perform better than lower balance loans
  - Loans in each loan category above $150,000 perform better than the FHA average
  - Loan above $400,000 are 2.6%; lowest SDQ rate
- Refinances perform better than purchases
  - Conv. cash-out refi's perform slightly better
- Repeat purchasers = 34% better than FTBs
- Downpayment assistance

Downpayment Assistance

DPA Type	Share of FHA Portfolio	Serious Delinquency Rate
Government	6.75%	4.90%
Relative	15.92%	4.73%
Other	2.15%	7.94%
Seller Funded	.61%	14.60%
No DPA	74.57%	3.72%

- Portfolio data – "No DPA" includes refinances
- First-time homebuyers' SDQ Rate – 4.57%
- https://www.hud.gov/sites/dfiles/Housing/documents/FHALPT_Sep2018.pdf

HUD Assessment of the Report

- HUD is primarily concerned about two issues:
  - HECM program
  - “Despite sound performance of the Forward portfolio, there are latent credit risks which persist that FHA is vigilantly monitoring …”
- FY 2018 Report repeats FY 2017 warnings
  - Downpayment assistance
  - Higher DTIs
  - Cash-out refinances
  - Lack of bank participation – False Claims Act
  - HECM actions - appraisals
    - Raised questions about group of single-family appraisals

HUD Report: Additional Details

- Downpayment assistance
  - DPAs = 37.6% of purchase activity
    - Self-identified gov't entities = 4% of total purchase activity
  - SDQs are higher for all DPAs
    - Self-identified gov't entities = "much higher"
- Cash-out refinances – "growing segment"
  - "there was an increase of COR of conv. Loans"
- DTIs "increased for 6^{th} straight year"
  - DTIs over 50% rose to 24% of total purchases
- Ave. credit score declined to 670 (from 676)
  - FY 2009 – FY 2016 average score exceeded 680

What’s on the Horizon?

- In November, Brian Montgomery said:
  - “We will be making some additional changes soon”
  - No premium change
    - “still far away from being in a position to consider any reduction”
- Advanced Notice of Proposed Rulemaking
  - Announced in October – Was due in December
  - “Borrower equity position”
    - Includes all “warnings” + seller concessions
- Also waiting for final condominium rule
  - Allow “spot loan” in unapproved projects

Impact of Current Policy/Operational Issues

- Mortgage industry is frustrated by inability to get “definitive” answers to many questions
  - Two most frequent questions
    - Are borrowers w/ DACA status eligible?
      - HUD has said “no” at HOC meetings and emails
    - Are downpayment assistance loans from ”self-identified government entities” permitted today?
  - Lenders are “neutral” on what answers should be
    - Lender’s risk appetite is driving their current actions
- Recommendation
  - Always submit your questions to Resource Center in writing (answers@hud.gov)

Summary

- FHA Fund is strong and expected to get stronger
- HFA performance compares well to other FTB loans w/ similar characteristics
- FHA is concerned about "latent credit risks" on recent originations
- When/what actions is FHA going to take?