# SPECIAL EDITION

*from the*

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Your Door to FHA HOMEOWNERSHIP

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Today FHA issued its annual independent financial report and economic outlook for Fiscal Year 2010 to Congress. I am pleased to report that FHA is stronger today than last year. The actuarial study finds that since last year, FHA's capital reserves held steady, insurance claims declined significantly, and the economic value of FHA's single-family insurance fund grew by more than $1 billion.

Even before last year's actuarial review, the FHA management team began instituting a sweeping series of policy changes to strengthen the fund. These policies have improved loan quality, strengthened lender enforcement, and helped to protect future portfolio performance. This year's report shows FHA's MMI Fund performance has improved on a number of metrics in FY2010.

Specifically, capital resources are at their highest level ever and are $6.5 billion greater than the independent actuary predicted last year. This year, FHA's total capital resources have increased by $1.5 billion to $33.3 billion. Insurance claim expenses are 21 percent lower than predicted in last year's report and single family loan quality has improved dramatically. In fact, the FY2010 book of business has the best credit characteristics in FHA's history.

FHA's capital reserve ratio measures reserves in excess of those needed to cover projected losses over the next 30 years. Despite adopting more conservative economic forecasts, today the independent review projects FHA's capital reserve ratio to remain positive at 0.50 percent of total insurance in force, falling fractionally from 0.53 percent in 2009.

Like last year's report to Congress, the independent accounting shows that FHA sustained significant losses from loans made prior to 2009 and its capital reserve ratio remains below its congressionally mandated threshold. However, the report concludes that under the most conservative economic scenarios, and without any new policy actions, FHA's capital ratio is expected to be 1.99 percent in 2014 and exceed the 2 percent statutory requirement by 2015.

Loans insured before 2009 are responsible for 70 percent of the expected single family loan losses. Though they are now prohibited, so-called "seller-financed down payment assistance loans" produced $6.6 billion in claims to-date and may ultimately cost FHA $13.6 billion. Without these seller-financed loans, FHA's capital ratio would be above the congressionally mandated two percent threshold.

## LINKS


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Conversely, loans insured since 2009 earned $4.8 billion in economic value to the MMI Fund and are estimated to generate $28.3 billion in economic value by 2016. Expected earnings in FY2010 and FY2011 alone are estimated to reach $11 billion.

FHA continues to play a critical role in the housing and mortgage markets as we fulfill our mission to serve underserved communities and to help facilitate the recovery of the housing market by serving as a responsible countercyclical source of liquidity.

FHA is on a path towards restoring the capital ratio but we remain cautious and vigilant. The volatility of future housing price forecasts remains the biggest risk to the MMI Fund as we take steps to rebuild FHA's capital reserves. We will continue to monitor economic conditions and may make additional policy changes to protect the MMI Fund if necessary.

Thank you for your continued support of FHA and the mission we serve. For more information on today's announcement, please click here.

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