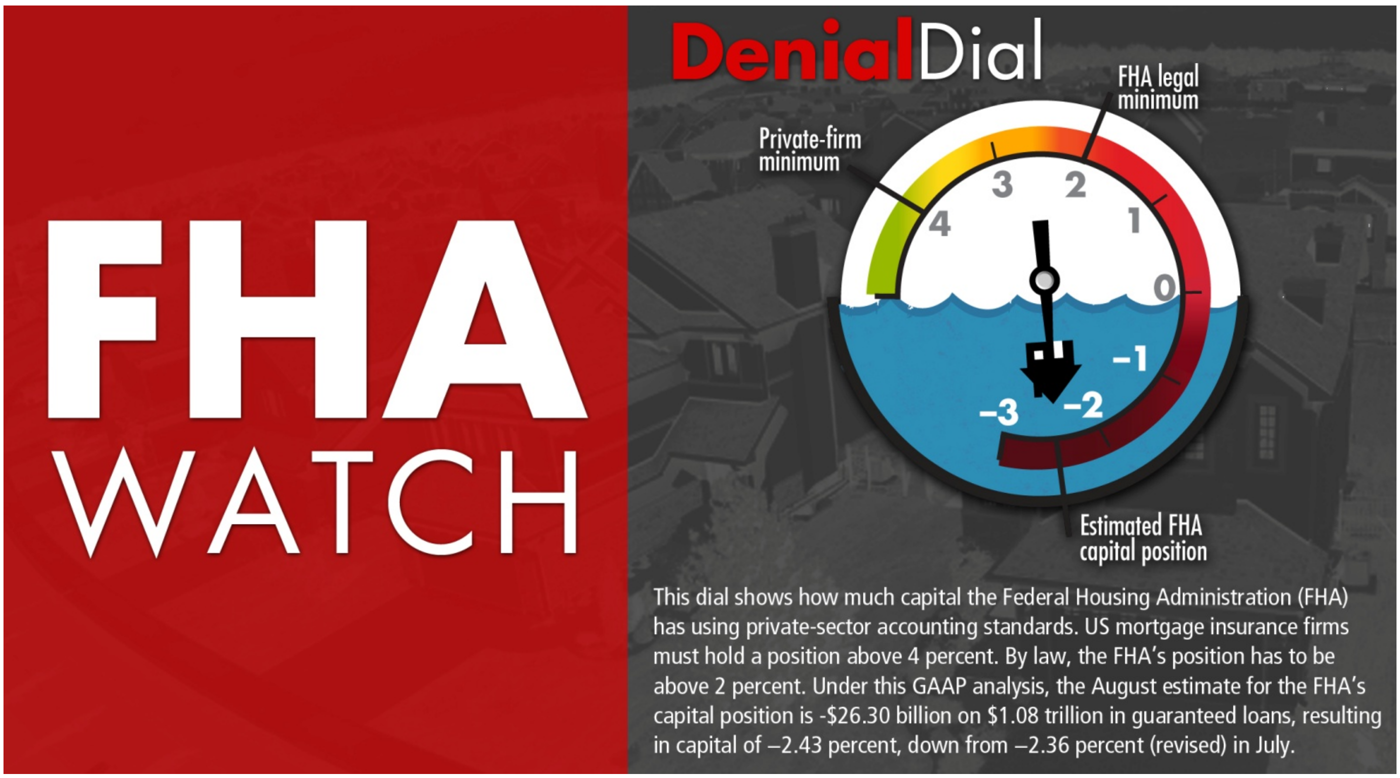
FHA Watch

September 2012
Volume 1, No. 9

Edward J. Pinto

Edward J. Pinto (edward.pinto@aei.org) is a resident fellow at AEI.

Getting *FHA Watch* from a colleague? To receive your own copy, e-mail edward.pinto@aei.org.



This Issue's Highlight

FHA's Financial Condition Continues to Decline; Denial Dial Once Again Reset to Lowest Level Ever

One in six Federal Housing Administration (FHA) loans continued to be delinquent in August as the total delinquency rate eased slightly to 16.35 percent. This was due to modest declines across all delinquency categories.

In August, the FHA had an estimated current net worth of –$26.30 billion and a capital shortfall of $46–65 billion. The FHA's estimated net worth on a generally accepted accounting principles (GAAP) basis has declined by $10 billion since the end of FY 2011. As a result of these data, the Denial Dial has been reset to –2.43 percent, eclipsing the previous low set in July 2012.

This Month's Features

Spotlight on Returning the FHA to Its Traditional Mission

Reforms Needed to Get the FHA Back on Track

On September 12, 2012, I spoke at the American Mortgage Conference on "Moving the Housing Market Forward: Principles for Returning FHA to Its Traditional Mission." The following is a summary of my remarks:

When it was set up in 1934, FHA insured fully amortizing twenty-year term loans combined with a 20 percent down payment. As a result homebuyers accumulated nearly 30 percent equity after four years without relying on inflation. By 1954, the FHA had insured 2.9 million mortgages, yet had paid claims on only 5,712 properties, for a cumulative claims rate of 0.2 percent. Today, the FHA has 7.5 million loans outstanding and pays 12,000 claims per month. This is not your great-grandmother's FHA.

The FHA needs to return to its traditional mission of being a targeted provider of mortgage credit for low- and moderate-income Americans and first-time homebuyers. It performs a disservice to American families and communities by continuing practices that result in a high proportion of families losing their homes.

Reform can be accomplished by following four principles:

> Principle 1: Step back from markets that can be served by the private sector. FHA has significant advantages that allow it to offer much lower rates than the private sector. These include a free explicit federal guarantee and no need to earn a return on capital, pay taxes, or cover administrative costs. Unless these substantial advantages are narrowly targeted, they lead to unfair and dangerous competition with the prime and subprime private sector, political interference, and the muting of pricing signals. Over a period of three to five years, the FHA should return to a purchase market share of 10 percent rather than

today's 30 percent.

Principle 2: Stop knowingly lending to people who cannot afford to repay their loans. While the loans the FHA insured in 2009–11 are called its "good books of business," its 2011 Actuarial Study[1] projects that even under a rosy scenario, these guaranty books will experience an average cumulative foreclosure rate of 8.5 per 100 loans, or about 1 in 12 loans. But averages can be deceiving. The worst-performing 25 percent will likely have a claim rate of 15 percent under the rosy scenarios used in the 2011 Actuarial Study and of 20 percent or more under more realistic scenarios. This group is largely comprised of thirty-year fixed-rate term loans with a loan-to-value (LTV) ratio greater than 90 percent and a FICO credit score less than 660, with most also having a total debt-to-income (DTI) ratio greater than 40 percent. By 2015, the FHA is projecting over 40 percent of its loans will have these high-risk characteristics. Instead, the FHA should aim for a projected rate of 5 foreclosures per 100 loans.

Principle 3: Set loan terms that help homeowners establish meaningful equity in their homes. The FHA should balance the layering of risk factors such as low LTV, low FICO, thirty-year loan term, and high DTI ratio so as to allow borrowers to achieve meaningful equity and build wealth. It should limit its insurance to refinance loans where the lower rate is used to enable a reduction in loan term. This way, the benefit of the lower interest rate speeds amortization and builds wealth. FHA insurance should not be used to enable cash-out refinances, since those work against wealth building.

Principle 4: Concentrate on those homebuyers who truly need help purchasing their first home. In fiscal year 2011, 54 percent of FHA's dollar volume went to finance homes that were greater than 125 percent of an area's median house price. This was up from 22 percent in 2009. Given that the FHA's mission is to help low- and moderate-income homebuyers, the homes it finances should cost less than the median home price for an area. Additionally, first-time homebuyers should be limited to an income of less than 100 percent of median area income and repeat homebuyers to an income of less than 80 percent of area median income.

Adopting these four principles would return the FHA to its traditional mission of being a targeted provider of sustainable mortgage credit to low- and moderate-income Americans and first-time homebuyers.

Spotlight on Insolvency

FHA's Estimated Net Worth Continues Sharp Decline to –$26.30 Billion, with a Capital Shortfall of $46–65 Billion

The estimate for August of the FHA's GAAP net worth is –$26.30 billion, down from –$16.31 billion and –$25.43 billion in September 2011 and July 2012 (adjusted), respectively. The capital shortfall stands at $46 billion (using a 2 percent capital ratio) and $65 billion (using a 4 percent capital ratio). The Denial Dial was reset to −2.43 percent, eclipsing the previous low set in July 2012. The FHA's estimated net worth on a GAAP basis has declined by $10 billion since the end of FY 2011.

This month's decline is largely the result of a growing liability for upfront premiums and the use of new data from the FHA's recently released FY 2012 Q3 Quarterly Report to Congress, which shows growing monthly losses in excess of monthly cash flow.[2] This increase in monthly losses is notwithstanding growing income from substantially higher premium rates and depressed disbursements resulting from delays in loans going to claim because of continued foreclosure backlogs. The net worth calculation for prior months were also recalculated using these new data. For example, July's net worth estimate was revised to −2.36 percent, down from the previously reported −2.27 percent.

During the first eleven months of FY 2012, the FHA has lost $10 billion in net worth on a GAAP basis. This decline is in line with a recent FHA projection that it may end FY 2012 with $3 billion in reserves,[3] not the $11.5 billion it projected in its FY 2011 Actuarial Report.[4]

The latest quarterly report to Congress contained other evidence pointing to the FHA's continued deteriorating financial condition:

1. The 2007 and 2008 books set new records with serious delinquency rates of 25.82 percent and 24.88 percent, respectively. While foreclosure delays undoubtedly have contributed to these levels, they are still nothing short of stunning. The serious delinquency rate (Q2 of 2012) for subprime loans (all vintages) as reported by the Mortgage Bankers Association is 22.79 percent.[5]

2. The 2009–10 books, while performing better than 2007–08, are showing rapidly growing, serious delinquency rates as these books season and enter their period of peak delinquencies. The 2009 and 2010 books are experiencing serious delinquency rates of 12.18 percent and 5.18 percent, respectively. These rates are for books that have an average FICO credit score of 680 (2009) and 697 (2010). It is also noteworthy that the FHA's 2009 and 2010 books are experiencing serious delinquency rates that are sixteen and thirteen times those of Fannie's 2009 and 2010 prime books, respectively.[6]

What allows the FHA to keep afloat is its ability to use government accounting principles (as opposed to generally accepted accounting and regulatory principles applicable to private mortgage insurance firms) combined with its competitive advantages, which it uses to crowd out private competitors in the 680–740 FICO category. (See example loans B, C, and E[7] in the **Spotlight on Best Price Execution** section.)

The FHA's position is also helped by its ability to, in effect, use revenue three times:

1. Under the Federal Credit Reform Act of 1990, the FHA must estimate the net lifetime costs—known as credit subsidy costs—of its loan insurance programs and include those costs in the annual federal budget. As a result of substantially higher upfront and annual premium rates, the FHA estimated its credit subsidy rate for FY 2012 at −2.75 percent up, from −2.16 percent in April 2012 in its latest quarterly report to Congress. (A negative number means the FHA is contributing budget revenue to the federal government.)
2. The FHA is able to count this future revenue as capital for purposes of its statutorily imposed capital requirement.
3. The FHA is able to charge upfront premiums that it then pays to itself from proceeds it loaned to the borrower. It is able to spend this money today even though it is intended to cover future losses. This is because under government accounting this cash is taken into income immediately. Under private GAAP accounting applicable to private insurers, upfront premiums would be accounted for as an estimated liability for excess upfront premiums beyond GAAP allowance rather than as income that could be spent. Under GAAP, this excess liability is estimated at $8.8 billion on August 31, 2012.

On September 11, the US House of Representatives passed the FHA Emergency Fiscal Solvency Act of 2012 (H.R. 4262). It contains a provision requiring the GAO to retain an independent third party to conduct a safety and soundness review under GAAP applicable to the private sector and report within sixty days. Conducting such a study would help Congress better understand the FHA's actual financial condition and the appropriate steps for returning it to fiscal solvency and protecting taxpayers.

For the monthly data tabulation, see table A1 in the appendix.

Spotlight on Delinquency

One in Six FHA Loans Delinquent in August; Serious Delinquency Rate Nearly Unchanged at 9.49 Percent

One in six FHA loans remain delinquent, with total delinquencies easing by 9,000 loans from July, dropping the rate by 0.17 percent to 16.35 percent in August. This was due to modest declines across all delinquency categories. The FHA's serious delinquency rate eased to 9.49 percent and remains at a near-record level, substantially higher than August 2011, when it stood at 8.4 percent.

For the monthly data tabulation, see table A2 in the appendix.

Spotlight on Best Price Execution

Fannie Guarantee Fee Increase May Further Entrench Ginnie Brands' Pricing Dominance

On August 31, 2012, the Federal Housing Finance Agency (FHFA) announced a ten basis point increase in Fannie's annual guarantee fee. This is the latest in a series of such increases, with more expected in the future as the FHFA endeavors to align Fannie and Freddie guarantee fees "more closely with the level one might expect to see if mortgage credit risk was borne solely by private capital."[8] Further increases are expected over the next months. The FHFA indicated that the ultimate goal is to "encourage[e] greater participation in the mortgage market by private firms." While the goals set by FHFA are to be lauded, their implementation risks unintended consequences. Unless Ginnie/FHA and Ginnie/US Department of Agriculture (USDA) also raise their guarantee/premium rates and Congress reduces their loan limits, the real effect will likely be to further entrench the Government Mortgage Complex's Ginnie brands' pricing dominance over Fannie, Freddie, and the private sector. At the same time, the private sector needs relief from the crushing regulatory burden and uncertainty facing even traditional prime loans.

Table 1 demonstrates the pricing advantages the Ginnie/FHA, Ginnie/US Department of Agriculture (USDA), and Ginnie/US Department of Veterans Affairs (VA) divisions have over Fannie Mae. The FHA division had a better execution than Fannie on seven out of ten representative loans, both the USDA the VA on ten out of ten loans. And the greater the credit risk, the greater the advantage—Ginnie had an advantage of nearly $15,000 on the highest-risk loan shown (loan A guaranteed by the VA).

Table 1. Best Price Execution (Ginnie pricing advantages in bold)

Feature	Loan A	Loan B	Loan C	Loan D	Loan E	Loan F	Loan G	Loan H	Loan I	Loan J
MBS coupon	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	2.50%
Term	30-yr	30-yr	30-yr	30-yr	30-yr	30-yr	30-yr	30-yr	30-yr	15-yr
LTV	95.00%	96.50%	95%	90%	95%	90%	78%	78%	75%	78%
FICO	620	680	700	700	720	740	720	740	740	740
Risk level	Very high	High	Medium	Medium	Medium	Medium-low	Low	Low	Low	Very low
Ginnie/FHA Execution	98.26	98.03	98.26	98.26	98.26	98.26	103.66	103.66	103.66	103.28
Ginnie/USDA Execution	102.06	102.06	102.06	102.06	102.06	102.06	103.41	103.41	103.41	103.03
Ginnie/VA Execution	103.91	103.26	103.91	104.16	103.91	104.16	104.16	104.16	104.16	103.78
Fannie Execution	93.96	96.43	97.38	98.82	99.09	100.15	102.11	102.36	102.61	102.65
Ginnie/FHA advantage on a $150,000 loan compared to Fannie	**$6,450**	**$2,400**	**$1,320**	-$840	-$1,252	-$2,842	**$2,325**	**$1,950**	**$1,575**	**$949**
Ginnie/USDA advantage on a $150,000 loan compared to Fannie	**$12,150**	**$8,438**	**$7,020**	**$4,860**	**$4,448**	**$2,858**	**$1,950**	**$1,575**	**$1,200**	**$574**
Ginnie/VA advantage on a $150,000 loan compared to Fannie	**$14,925**	**$10,238**	**$9,795**	**$8,010**	**$7,223**	**$6,008**	**$3,075**	**$2,700**	**$2,325**	**$1,699**

Source: Adapted from JPMorgan's *2012 Securitized Products Outlook*, November 23, 2011, 18.
Note: Mortgage-backed security (MBS) pricing from *MBS Live*, published by Mortgage News Daily. Comparison based on MBS pricing as of September 14, 2012. On that date a Ginnie thirty-year MBS with a coupon of 3.0 percent had a price of 105.41, and a Fannie thirty-year MBS with the same 3.0 percent coupon had a price of 104.03. These prices were then adjusted based on the present value (where necessary) of applicable borrower-paid credit fees, mortgage insurance premiums, and the value of the base servicing fee. Fannie's guarantee fee was increased by ten basis points effective April 2012, as mandated by Congress and for a second ten basis

point increase announced on August 31, 2012 by FHFA. All publicly announced FHA premium increases are included. USDA and VA premiums are unchanged.

Each of the Government Mortgage Complex's five divisions (Freddie Mac is the fifth) has substantial pricing advantages over the private sector. The result is that the Government Mortgage Complex's share of the entire first-mortgage market continues to remain at around 90 percent.

The Road Map to FHA Reform

House Passes FHA Emergency Solvency Act Including Policy Changes Recommended by FHA Watch

On September 11, the US House of Representatives passed the FHA Emergency Fiscal Solvency Act of 2012 (H.R. 4262). It contained a number of provisions recommended by *FHA Watch*:

1. Require application of US Securities and Exchange Commission disclosure standards to information disclosed regarding the FHA's insurance programs and funds.
2. Require the GAO to retain an independent third party to conduct a safety and soundness review under applicable generally accepted accounting principles applicable to the private sector and report within sixty days.
3. Require the FHA to establish an emergency capital plan with biweekly updates to Congress.

Below is a compendium of all of *FHA Watch's* suggested reforms. Each month, the "Road Map to Reform" will chronicle progress made in putting the FHA on a sustainable road to reform. There have been no status changes over the last month.

Table 2. Road Map to Program Reform

Principles for Program Reform:

1. Step back from markets that can be served by the private sector by taking steps to return to a traditional 10 percent home purchase market share.

2. Stop knowingly lending to people who cannot afford to repay their loans.

3. Help homeowners establish meaningful equity in their homes.

4. Concentrate on homebuyers who truly need help purchasing their first home.

Suggested Reforms to Implement Program Reform Principles 1–4	**Status (green denotes progress toward adoption, red denotes a step backward)**
Set loan limits equal to the county's current median house price.	In November 2011, Congress set higher limits.
Serve first-time homebuyers with incomes below the area median.	No action
Serve repeat homebuyers below 80 percent of area	No action

median.	
Set maximum FICO score at 675.	No action
Limit rate-reduction refinances to term reduction only; payment remains the same.	No action
Eliminate cash-out refinances.	No action
Eliminate specific risks that are difficult to offset with lower-risk features: 1. FICO scores below 580. 2. Adjustable rate mortgages. 3. Seller concessions greater than 3 percent.	1. Needs further action. In 2010, minimum down payment increased to 10 percent. 2. No action 3. Needs further action. In February 2012, the FHA issued a proposed rule that limits seller concessions to the greater of 3 percent or $6,000. This layering of risk leaves borrowers central to the FHA's low- and moderate-income mission prey to excessive default rates. The most common concession levels of 3, 4, and 5 percent experience 43, 64, and 96 percent higher failure rates, respectively, than loans with no seller concessions.
Limit/adjust risk layering to meet target projected average claim rates of 5 per 100 insured loans under normal circumstances and 10 per 100 insured loans under stress circumstances.	No action
Immediately reduce maximum claim coverage to 80 percent from the current 100 percent, with an ultimate goal of 50 percent.	No action
Require lenders to buy back any loan that defaults within six months of origination.	No action
Reinstate the use of an appraisal board. This would replace the current system where the lender chooses the appraiser.	No action
Require the FHA to make its data and actuarial analysis programs available publicly.	No action
Until the above reforms are implemented, levy a 0.25 percent, 0.50 percent, and 0.75 percent per-year government subsidy reduction fee on any Ginnie/FHA or Ginnie/USDA insured loan with an initial LTV of > 90 percent and <= 95 percent, with	No action

an initial LTV of > 80 percent and <= 90 percent, and with an initial LTV of <= 80 percent, respectively. Revenue would be paid directly to the Treasury and not benefit Ginnie, the FHA, or the USDA.	
Until the above reforms are implemented, the HUD Secretary shall require FHA mortgagees to disclose to applicants for a forward FHA single-family loan with a clear and conspicuous notice both within 72 hours of application and at closing setting forth the applicant's LTV, FICO score, and total debt-to-income ratio, all as used in underwriting applicant's FHA loan. This disclosure shall also include the estimated cumulative claim rate for loans insured by the secretary with similar risk characteristics to the applicant's and the average estimated cumulative claim rate for the most recent fiscal year as determined in the FHA's annual actuarial study. The secretary shall calculate such estimates in a manner similar to that used in the FHA's annual actuarial study and provide it to the mortgagee.	No action

Table 3. Road Map to Fiscal Reform

Principles for Fiscal Reform:

1. Utilize generally accepted accounting principles, and set rigorous disclosure standards.
2. Establish and maintain loan loss and unearned premium reserves.
3. Establish and maintain a minimum capital requirement of 4 percent of amortized risk in force.
4. Fund a countercyclical premium reserve.

Suggested Reforms to Implement Fiscal Reform Principles 1, 2, 3, and 4	Status (green denotes progress toward adoption, red denotes a step backward)
Require use of generally accepted accounting standards applicable for private mortgage insurers with respect to quarterly examinations of the FHA's financial condition.	No action
Require application of US Securities and Exchange Commission disclosure standards to information disclosed regarding the FHA's insurance programs and funds.	This provision contained in the FHA Emergency Solvency Act of 2012, which passed the full House on September 11, 2012.

Require the GAO to retain an independent third party to conduct a safety and soundness review under applicable generally accepted accounting principles applicable to the private sector and report within sixty days.	This provision contained in the FHA Emergency Solvency Act of 2012.
Require the FHA to establish an emergency capital plan with biweekly updates to Congress.	This provision contained in the FHA Emergency Solvency Act of 2012.
Require the FHA to establish and maintain loan loss and unearned premium reserves on a similar basis as applied to private mortgage insurers.	No action
Hold oversight hearings to determine the FHA's current and ongoing fiscal condition based on emergency capital plan reports.	No action
Require the maintenance of a minimum capital level of 4 percent calculated in accordance with generally accepted accounting principles as applied to private mortgage insurers.	No action
The FHA's premium structure should be set where 50 percent of the premium is sufficient to meet normal claim expectations on insured loans. Unused portions of this premium would accumulate in the capital reserve account. The remaining 50 percent of the premium would accumulate in a separate countercyclical catastrophic premium reserve account for a ten-year period and would be available to pay catastrophic losses from periodic but unpredictable general economic risks.	No action

Appendix: Historical Data Tables

Table A1. Insolvency Watch ($ Billions)

Date	FHA's "Capital Resources" (Assets)	Cash Flow since Sept. 30, 2011*	Estimated Loss Reserve (Liabilities on PMI Basis)**	Estimated Liability for Excess Upfront Premiums beyond GAAP Allowance	Current Net Worth (PMI Basis)	Required Capital Ratio	Required Capital Under Applicable Ratio***	Capital Shortfall (PMI Basis)
Sept. 30, 2011	$28.18	---	$36.49	$8.00	($16.31)	2%	$18.14	($34.46)
Sept. 30, 2011	$28.18	---	$36.49	$8.00	($16.31)	4%	$36.29	($52.60)
Dec. 31, 2011	$28.18	($0.43)	$40.39	$8.00	($20.63)	2%	$18.47	($39.10)
Dec. 31, 2011	$28.18	($0.43)	$40.39	$8.00	($20.63)	4%	$36.94	($57.57)
Jan. 31, 2012	$28.18	($0.81)	$41.03	$8.00	($21.66)	2%	$18.59	($40.25)
Jan. 31, 2012	$28.18	($0.81)	$41.03	$8.00	($21.66)	4%	$37.18	($58.85)
Feb. 29, 2012	$28.18	($1.20)	$39.58	$8.00	($20.60)	2%	$18.75	($39.35)
Feb. 29, 2012	$28.18	($1.20)	$39.58	$8.00	($20.60)	4%	$37.51	($58.11)
Mar. 31, 2012	$28.18	($1.58)	$38.02	$8.00	($19.42)	2%	$19.16	($38.58)
Mar. 31, 2012	$28.18	($1.58)	$38.02	$8.00	($19.42)	4%	$38.32	($57.74)
Apr. 30, 2012	$28.18	($2.15)	$39.49	$8.00	($21.46)	2%	$19.25	($40.71)
May 31, 2012	$28.18	($2.78)	$40.04	$8.00	($22.64)	2%	$19.36	($42.00)
May 31, 2012	$28.18	($2.78)	$40.04	$8.00	($22.64)	4%	$38.72	($61.36)
June 30, 2012	$28.18	($3.37)	$40.76	$8.00	($24.23)	2%	$19.32	($43.56)
June 30, 2012	$28.18	($3.37)	$40.76	$8.00	($24.23)	4%	$38.65	($62.88)
July 31, 2012	$28.18	($3.97)	$41.08	$8.56	($25.43)	2%	$19.31	($44.74)
July 31, 2012	$28.18	($3.97)	$41.08	$8.56	($25.43)	4%	$38.61	($64.04)
Aug. 31, 2012	$28.18	($4.56)	$41.08	$8.84	($26.30)	2%	$19.43	($45.73)
Aug. 31, 2012	$28.18	($4.56)	$41.08	$8.84	($26.30)	4%	$38.85	($65.15)

Notes: Table A1 estimates FHA's current net worth and capital shortfall under accounting rules applicable to a private mortgage insurer (PMI) such as Genworth. Estimates are based on Genworth having the FHA's delinquent loans, risk exposure, capital resources, and capital ratio (under both the 2 percent statutory requirement for the FHA and the 4 percent of risk-in-force requirement applicable to a PMI). In quarter 2 of 2012, Genworth had loss reserves equaling 60 percent of its risk-in-force on sixty-days-plus delinquent loans. This was unchanged from quarter 1 of 2012. Genworth, Quarterly Financial Supplements, Delinquency Metrics-US Mortgage Insurance Segment, 52, http://phx.corporate-ir.net/phoenix.zhtml?c=175970&p=irol-quarterlyreports (accessed August 18, 2012).

*The FHA's negative cash flow was $143 million, $385 million, and $596,000 per month during Q1 of FY 2012, Q2 of FY 2012, and Q3 of FY 2012 respectively. See exhibit 10, US Department of Housing and Urban Development, *FHA Single-Family Mutual Mortgage Insurance Fund Programs, Quarterly Report to Congress*, 12. The FHA raised its upfront premium from 1 to 1.75 percent (excluding streamline refinances) effective for case numbers assigned on or after April 9, 2012. Since under GAAP accounting this

amount would not be taken into income immediately, it will be accounted for in the "Estimated liability for excess upfront premiums beyond GAAP allowance." The amount of this liability was estimated at $8.8 billion as of August 31, 2012.
**Total based on the FHA's total amortized risk in force net of loans covered by loan loss reserve of $907.2 billion ($1.009 trillion − $101.8 billion) and $971 billion ($1.082 trillion − $111 billion) as of September 30, 2011, and August 31, 2012 (estimated), respectively. See exhibit II-2 in US Department of Housing and Urban Development, *Actuarial Review of the Federal Housing Administration Mutual Mortgage Insurance Fund Forward Loans for Fiscal Year 2011* (excludes HECM) (Washington, DC: Author, October 12, 2011), 14; US Department of Housing and Urban Development, *Monthly Report to the FHA Commissioner*, June 2012, 6, http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/oe/rpts/com/commenu (accessed September 15, 2012); and US Department of Housing and Urban Development, *FHA Outlook*, March 2012, http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/oe/rpts/ooe/olmenu (accessed May 19, 2012). Outstanding balance of loans sixty-days-plus delinquent at August 31, 2012, and September 30, 2011, based on loan counts of 874,656 and 803,899, respectively, and an average loan balance for loans going to claim of $126,524.

Table A2. National Delinquency Watch

End Date	Thirty-Days Delinquency Rate and Number of Loans	Sixty-Days-Plus Delinquency Rate and Number of Loans	Thirty-Days-Plus Delinquency Rate and Number of Loans	Serious Delinquency Rate and Number of Loans	Total Loans
Jan. 2011	N/A	N/A	N/A	8.9% / 612,443	6,882,984
Feb. 2011	N/A	N/A	N/A	8.9% / 619,712	6,932,510
Mar. 2011	N/A	N/A	N/A	8.3% / 580,480	6,983,893
Apr. 2011	N/A	N/A	N/A	8.2% / 575,950	7,035,016
May 2011	N/A	N/A	N/A	8.2% / 578,933	7,090,489
June 2011	5.79% / 411,258	10.55% / 749,204	16.62% / 1,160,462	8.34% / 592,366	7,103,531
Aug. 2011	N/A	N/A	N/A	8.4% / 611,822	7,259,736
Sept. 2011	5.70% / 413,834	11.08% / 803,899	16.78% / 1,217,733	8.77% / 636,778	7,258,328
Oct. 2011	5.55% / 404,773	11.47% / 836,789	17.02% / 1,241,562	9.05% / 660,499	7,296,639
Nov. 2011	5.61% / 411.663	11.81% / 865,658	17.42% / 1,277,321	9.46% / 693,314	7,331,525
Dec. 2011	5.72% / 421,404	12.07% / 889,602	17.79% / 1,311,006	9.73% / 716,786	7,370,426
Jan. 2012	5.35% / 397,018	12.18% / 903,748	17.53% / 1,300,766	9.92% / 735,760	7,418,830
Feb. 2012	4.78% / 355,092	11.70% / 871.870	16.47% / 1,226,962	9.73% / 725,002	7,450,480
Mar. 2012	4.57% / 341,213	11.21% / 837,472	15.78% / 1,178,685	9.47% / 707,930	7,471,708
Apr. 2012	4.77% / 358,174	11.20% / 840,803	15.97% / 1,198,977	9.42% / 707,222	7,507,031
May 2012	4.93% / 372,514	11.29% / 852,608	16.23% / 1,225,222	9.43% / 711,612	7,549,730
June 2012	5.19% / 393,894	11.43% / 867,959	16.61% / 1,261,853	9.48% / 719,984	7,594,689
July 2012	5.04% / 384,349	11.48% / 874,802	16.52% / 1,259,151	9.51% / 725,074	7,622,873
Aug. 2012	4.91% / 375,464	11.44% / 874,656	16.35% / 1,250,120	9.49% / 725,692	7,645,912

Source: US Department of Housing and Urban Development, "Neighborhood Watch," https://entp.hud.gov/sfnw/public (Servicing download, Excel; accessed September 15, 2012) and US Department of Housing and Urban Development, "FHA Outlook," http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/oe/rpts/ooe/olmenu (accessed September 15, 2012). Rates not seasonally adjusted. Serious delinquency includes ninety-days-plus delinquency and loans in bankruptcy or foreclosure.

Notes

[1] US Department of Housing and Urban Development, *Actuarial Review of the Federal Housing Administration Mutual Mortgage Insurance Fund Forward Loans for Fiscal Year 2011 (excludes HECM)* (Washington, DC: Author, October 12, 2011).
[2] US Department of Housing and Urban Development, *FHA Single-Family Mutual Mortgage Insurance Fund Programs, Quarterly Report to Congress*, (Washington, DC: Author, September 7, 2012).

[3] Clea Benson, "FHA Finances Said to Rebound on Higher Premiums, Loan Volume," Bloomberg, August 2, 2012, www.bloomberg.com/news/2012-08-02/fha-finances-said-to-rebound-on-higher-premiums-loan-volume.html (accessed August 20, 2012).
[4] See table 14 in US Department of Housing and Urban Development, *Annual Report to Congress, Fiscal Year 2011 Financial Status, FHA Mutual Mortgage Insurance Fund*, November 15, 2011, http://portal.hud.gov/hudportal/documents/huddoc?id=fhammifannrptfy2011.pdf (accessed August 18, 2012).
[5] Mortgage Bankers Association, *National Delinquency Survey*, Quarter 2 2012 (subscription only).
[6] Since FHA and Fannie's books of business are reported on a fiscal and calendar year basis respectively, FHA delinquency data was lagged by one quarter so that cumulative seasoning was the same.
[7] With respect to loan E, the pricing advantage shown for the Fannie execution is offset for many borrowers by the FHA's higher allowable debt ratios and seller-paid concessions. As a result, it is still able to substantially crowd out the market.
[8] Federal Housing Finance Agency, "FHFA Announces Increase in Guarantee Fees," news release, August 31, 2012, www.fhfa.gov/webfiles/24259/Gfee083112.pdf (accessed September 17, 2012).