Strategic Objective 1C: FHA's Financial Health

Restore the Federal Housing Administration's financial health, while supporting the housing market recovery and access to mortgage financing.

OVERVIEW

A strong Federal Housing Administration (FHA) is critical to the recovery of the housing market and our economy at large. The mortgage insurance provided by FHA has made financing available to individuals and families not adequately served by the conventional private mortgage market. The Mutual Mortgage Insurance Fund is the largest fund covering activities of FHA. The recession put substantial strain on the MMIF as private capital retreated and FHA played a countercyclical role to support the broader housing market. Over time, FHA has experienced significant swings in its market share as it has stepped in to provide capital for qualified borrowers who would otherwise be shut out of the mortgage market.

In addition, the severe decline in house prices, the sluggish performance of the economy, and the behavior of some lending partners resulted in increased FHA losses that drove its excess capital reserve ratio[1] below the congressionally mandated 2 percent level.

STRATEGIES

- **Restore FHA's excess capital reserve ratio** to the congressionally mandated 2 percent level by 2016. Strengthen FHA's book of business through policy reforms and minimize losses on existing books.
- **Continue loss mitigation efforts in order to prevent foreclosures**. Focus on effective and proactive loss mitigation. HUD will track the effectiveness of these efforts by measuring the number of homeowners who re-default after receiving assistance.
- **Maximize Real Estate Owned (REO) recovery rate** by enhancing contractor performance through use of a scorecard and implementing a best execution model across all asset disposition options.
- **Increase the number of FHA-insured mortgages for which the borrower received either pre-purchase or post-purchase housing counseling** in order to improve outcomes for FHA-insured borrowers and strengthen the health of the Mutual Mortgage Insurance (MMI) fund.

[1] The capital ratio compares the "economic net worth" of the MMI Fund to the dollar balance of active, insured loans, at a point in time. Economic net worth is defined as a net asset position, where the present value of expected future revenues and net claim expenses is added to current balance sheet positions. The capital ratio computation is part of an annual valuation of the outstanding portfolio of insured loans at the end of each fiscal year.

LEADING THIS OBJECTIVE

Kathleen Zadareky
Acting Deputy Assistant Secretary for Single Family Housing
Office of Housing

Sarah Gerecke
Deputy Assistant Secretary
Office of Housing Counseling

MEASURING OUR PROGRESS

To track our progress towards this objective, HUD will monitor the following performance indicators.

- **Asset disposition recovery rate**
  This is the net recovery rate that FHA realizes on the sale of assets as a percentage of claim payment.
- **Percentage of modifications resulting in re-defaults within six months of closing**
  This measure will track the percentage of borrowers that become 90 days or more delinquent on their loans within six months of receiving a loan modification/FHA HAMP modification.
- **Loss mitigation uptake**
  This is the percentage of loss mitigation actions taken as a percentage of serious delinquencies.
- **Number of FHA insured mortgages benefitting from housing counseling**
  This is the number of FHA borrowers that receive pre- or post-purchase counseling.
- **Capital Reserve Ratio**
  The capital ratio compares the "economic net worth" of the MMI Fund to the dollar balance of active, insured loans, at a point in time. Economic net worth is defined as a net asset position, where the present value of expected future revenues and net claim expenses is added to current balance sheet positions. The capital ratio computation is part of an annual valuation of the outstanding portfolio of insured loans at the end of each fiscal year.