

# FHA May Request Bailout as Early as Next Week

By: Jann Swanson | Thu, Sep 26 2013, 10:22 AM

Reuters and the *Wall Street Journal* are both reporting that the Department of Housing and Urban Development (HUD) and its Federal Housing Administration (FHA) will be seeking Treasury fund to shore up the FHA's Mutual Mortgage Insurance Fund. Both Reuters and *The Journal* quoted unnamed sources for their reports.

The *Journal* is reporting that the cash needed may be **as much as \$1 billion** while Reuters says no decision about an amount has been made but quotes HUD Secretary Shaun Donovan's statement in April that there would be a \$943 million shortfall by the end of this month. FHA has an authorized line of credit with Treasury but if it does request a draw it would be for the first time in its 80 year history.

FHA is required by Congress to maintain a **2 percent cash reserve** in the MMI, but credit related expenses, largely related to loans guaranteed by the agency over the several years prior to the housing meltdown, depleted that fund and it has been operating below its mandated reserve level for several years. An independent actuarial report late last year found the fund operating at a deficit of \$16.3 billion

FHA Commissioner Carol Galante, testifying about the audit before the House Financial Services Committee in February said the deficit identified by the actuaries was against an active portfolio of \$1.13 trillion. She estimated the economic value of the forward portfolio at **negative \$13.5 billion**, the HECM portfolio at negative \$2.8 billion or capital reserve ratios of negative 1.28 percent and negative 3.58 percent respectively. At the time of the assessment the actuary projected that the funds capital reserve ratio will be **positive by FY 2014** and reach 2.0 percent during FY 2017 assuming no changes in policy or other actions by FHA.

At a press conference accompanying release of the FY2014 budget in April Donovan declined to speculate about a Treasury draw but said that much progress had been made in plugging the hole identified by the auditor. He said that if comparisons were made "apples to apples" the fund was actually in negative territory by more like \$19 billion but in the few months since the report FHA had made changes which had narrowed that gap to \$943 million. The changes included ramped up modifications and increased loan sales to increase recoveries from the 2007 and earlier loans, suspending the bulk draw payment option of the reverse mortgage program, and substantially increasing premiums for both FHA and GNMA loans. FHA has also tightened enforcement of underwriting rules, and suspended or revoked lending authority of a number of companies. Donovan said **no decision would be made on the need for a Treasury draw until October 1**. Current news reports are apparently relying on the April statement in drawing their conclusions about the size of any draw.

The White House, HUD, and FHA have to this point declined comment however critics of FHA have not been so reticent. Senator Bob Corker (R-TN), a member of the Senate Banking Committee and co-author of the Corker-Warner bill to reform the housing finance system said, "**No reasonable person could believe** that we should continue along with the current housing finance system in this country when three separate entities - Fannie, Freddie, and, according to reports, now the FHA - have all had to come to the taxpayer for billions of dollars in bailout funds."

House Financial Services Committee Chairman Jeb Hensarling (R-TX) is sponsor of the so-called "PATH" legislation which was favorably voted out of the Committee in July. He issued the following statement in response to the news reports.

"Hardworking American taxpayers are sick and tired of having to bail out Washington's failed housing policies, whether it's the nearly \$200 billion bailout of Fannie Mae and Freddie Mac or a bailout of the FHA. Reports that the FHA will require its own billion dollar bailout reinforce the need for the PATH Act, our proposal to create a sustainable housing finance system. **The PATH Act** not only ends the bailout of Fannie and Freddie, it includes reforms that will help ensure the FHA is solvent. Over the years, the FHA has strayed far from its original mission. It has become the nation's largest subprime lender. It's time to return the FHA to its traditional mission of helping first-time homebuyers and those with low and moderate incomes, and that's exactly what the PATH Act does."

PATH co-sponsor Randy Neugebauer (R-TX) and Senate Banking Committee member David Vitter (R-LA) also issued statements following the *Journal* and Reuter reports.

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