FHA Required to Take Treasury Draw

By: Jann Swanson | Fri, Sep 27 2013, 1:26 PM

The Federal Housing Administration (FHA) notified Congress this morning that, as had been rumored earlier in the week, it will need to draw on its borrowing authority from the U.S. Treasury. In a letter signed by FHA Commissioner Carol Galante, FHA said **it would require $1.7 billion** to shore up its Mutual Mortgage Insurance (MMI) Fund, marking the first time in the agency's 79 year history it has needed taxpayer help.

The request is twice what Housing and Urban Development Secretary Shaun Donovan said last April would be FHA's shortfall at the end of the fiscal year next week, $943 million, and well above the $1 billion number that was rumored earlier this week.

Those rumors previously sparked a reaction from Republican members of both the House and Senate committees studying the reform of the nation's housing finance system. Jeb Hensarling, Chairman of the House Financial Services Committee issued a statement in which he called FHA **"the nation's largest subprime lender."**

In her letter Galante said that the need for a Treasury draw **does not mean** the agency's finances are in trouble and that forthcoming data will indeed show its finances to be on solid footing. Other FHA officials said there is more than $30 billion in cash and investments on hand to pay expenses and potential mortgage claims. However Congress requires the MMI to maintain 2 percent in capital reserves, a level it has not met for some time.

In addition to the unprecedented claims FHA has had to pay out since 2007 for defaults on mortgages it guaranteed, largely during the 2005-2007 real estate boom, the company has had **losses totalling $5 billion** in its Home Equity Conversion (HECM) or reverse mortgage.

An independent actuarial audit of FHA last year found the MMI to have a negative value of about $16 billion. Through raising guarantee fees, tightening credit requirements, changing HECM lending procedures, and other risk reducing factors FHA had substantially reduced that shortfall by spring when Donovan quoted the $943 million number.

Reuters quoted Maxine Waters (R-CA), ranking member of the Financial Services Committee as saying "Although this one-time transfer of funds from the Treasury is **legally necessary**, it's important to note that FHA is far from bankrupt." She noted the agency continues to generate revenue.

The Center for Responsible Lending released a statement that said in part, "The proposed draw from the U.S. Treasury Department would not have been needed if Congress had not prevented FHA from clamping down on fraudulent seller-funded down payment loans, as it tried to do. Noting that FHA's losses are related to only a small portion of its portfolio, CRL said "In response, FHA has increased its pricing and tightened its underwriting, including the ban on seller-funded down payments and fixing some reverse mortgage problems. These administrative adjustments have led recent loans to perform extremely well."

According to Reuters, "Since the cash draw from Treasury will not be disbursed by the FHA, it will not impact how quickly the government runs out of money to pay its bills under the nation's $16.7 trillion debt ceiling. In addition, the **Treasury has the authority** to take the $1.7 billion back once the FHA rebuilds its reserves."

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