Mortgage Insurance Fund Circling the Drain - Better Loans to Blame?

By: Jann Swanson | Wed, Nov 15 2017, 10:29 AM

FHA's **Mortgage Insurance Fund** (MIF) lost ground this past year, which is bad news for those hoping for a cut in its fees. The Department of Housing and Urban Development (HUD) released results of the statutorily required independent actuarial analysis of the MIF on Tuesday which showed the balance of the fund **declined by $2 billion** during the 2017 fiscal year.

The analysis, conducted by Pinnacle Actuarial Associates, put the fund's capital reserves at $25.6 billion at the end of September. That equates to 2.09 percent of the $1.23 trillion outstanding balance of the mortgages FHA guarantees. By law, MIF must maintain a minimum of 2.0 percent as a reserve against loans that default. The fund had a balance equal to 2.35 percent of its guaranteed loans at the end of the 2016 fiscal year.

The fund **fell well below i**ts statutory minimum during the housing crisis and FHA received an infusion of $1.7 million from the U.S. Treasury, the first such assistance since its founding in 1934. FHA and its parent, HUD, initiated several risk management practices on both the borrower and approved lender level, and raised the MIF insurance fees. Borrowers are required to pay both an upfront premium and an annual premium in return for the FHA guarantee. The fund climbed to back above its 2 percent minimum in 2015.

FHA traditional customer base is primarily first-time homebuyers, those with little money for downpayments, and borrowers who cannot qualify for loans from other sources. Its share of mortgage loans rose dramatically during the housing crisis as other mortgages sources, but has been shrinking of late. Many have blamed the decline on the cost of the insurance, especially with the availability of **new lower downpayment loans** from Fannie Mae and Freddie Mac and changes made by private mortgage insurers which make their product more attractive to the most credit-worthy borrowers among those who lack a 20 percent down payment.

Bloomberg quotes HUD as blaming this year's decrease in the MIF's reserves on FHA's Home Equity Conversion Mortgage (HECM) Program which offers what are commonly called reverse mortgages. The Department made changes to HECM fees earlier this year in an attempt to stem losses and said its traditional loan programs are performing well.

The Obama Administration had proposed a cut in FHA premiums which was scheduled to take effect early in 2017, however implementation was halted as one of the new administration's first official acts. Affordable housing advocates and congressional Democrats have urged the cut be restored but Bloomberg says the actuarial report makes this even more unlikely.

HUD says the fee cut would have lowered reserves to 1.76 percent, but it is unclear if this takes the potential for **increased lending** into account.

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