

MEMORANDUM

To: Members of the Committee on Financial Services

From: FSC Majority Staff

Date: November 30, 2018

Subject: December 5, 2018, Housing and Insurance Subcommittee Hearing on
“Oversight of the Federal Housing Administration”

The Subcommittee on Housing and Insurance will hold a hearing entitled “Oversight of the Federal Housing Administration” on Wednesday, December 5, 2018, at 2:00 p.m. in Room 2128, Rayburn House Office Building. The Honorable Brian D. Montgomery, Assistant Secretary for Housing – Federal Housing Commissioner, U.S. Department of Housing and Urban Development will be the sole witness.

The Federal Housing Administration (FHA) is an agency within the Department of Housing and Urban Development (HUD) that insures private mortgage lenders against the risk that borrowers might default on single-family or multi-family mortgages. When an FHA-insured mortgage goes to foreclosure, the lender files a claim with FHA for the balance owed on the mortgage. Claims on FHA-insured single-family home mortgages are paid from the FHA’s Mutual Mortgage Insurance Fund (MMIF), which is funded from premiums paid by borrowers. To qualify for FHA insurance, a mortgage must be originated by an FHA-approved lender, and the mortgage and the borrower must meet certain criteria. For example, to be eligible for coverage under the FHA’s single-family mortgage insurance program, the mortgage must be for a principal balance of \$679,650 or less, and the borrower must put down a 3.5 percent down payment and intend to live in the house as a primary residence.

On November 15, 2018, the FHA released its FY 2018 Annual Report to Congress on the economic condition of the agency’s Mutual Mortgage Insurance Fund (MMIF).¹ The MMIF supports FHA’s single family mortgage insurance programs, including all forward purchase and refinance transactions, as well as mortgages insured under the Home Equity Conversion Mortgage (HECM) or reverse mortgage program originated

¹ <https://www.hud.gov/sites/dfiles/Housing/documents/2018fhaannualreportMMIFund.pdf>

since FY 2009. The MMIF's FY 2018 Capital Ratio is 2.76 percent, a 0.58 percentage point increase over the restated FY 2017 Capital Ratio of 2.18 percent. The Economic Net Worth of the MMIF is \$34.86 billion, an increase of over \$8.12 billion from FY 2017. The fiscal condition of FHA's forward mortgage portfolio is materially better than the HECM portfolio. Excluding HECMs, FHA's FY 2018 forward mortgages have a capital ratio of 3.93 percent and a positive Economic Net Worth of \$46.8 billion. By contrast, the 2018 HECM portfolio has a *negative* capital ratio of 18.83 percent and a *negative* economic net worth of \$13.63 billion.²

FHA's footprint in the U.S. housing market remains substantial. As of September 30, 2018, the MMIF had \$1.26 trillion of insurance-in-force, an increase of 3.08 percent from FY 2017. The over 8 million FHA-insured mortgages comprise 12.10 percent of single-family residential mortgage originations (by dollar volume). In FY 2018, FHA endorsed 1,014,609 forward mortgages totaling \$209.05 billion in unpaid principal balance.³

² U.S. Department of Housing and Urban Development, "Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund, FY 2018" November 16, 2018. Available at <https://www.hud.gov/sites/dfiles/Housing/documents/2018fhaannualreportMMIFund.pdf>

³ FY 2018 Annual Report.