IMMEDIATE
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COMMUNITY MORTGAGE LENDERS of AMERICA COMMENT ON THE FHA MMIF REPORT

We appreciate the hard-working teams at HUD and the FHA in the currently-challenging COVID environment, and we know they care deeply about their mission. We do have a different take on the question of FHA premiums. We believe they are too high, and need to come down today. If they don't come down, the Biden Administration, like the prior Administration, is keeping out creditworthy families for no good reason.

Why do we say this? Actuarial analysis takes pages and pages of course, so let's try an abbreviated, "quick analysis" here. Based on today's report, the FHA MMIF has $100B of "economic net worth," or just over 8% of the overall FHA book of business. (This is not the same as total capital on the books today, and It's true that NPV calculations can swing based on changed in variables, but without access to the calculation, we'll have to defer further analysis until later.)

Seriously-delinquent FHA mortgages have a total balance of $110B. If the entire seriously-delinquent (SDQ) book of business goes into default over time, and there is no recovery whatsoever, the MMIF is in the red. If the entire SDQ book defaults over time and there is just a 23% recovery, the MMIF is 2% (the statutory number).

But the entire SDQ book will not go into default, and the portion that does can expect a recovery rate not dissimilar to the FHA pre-pandemic recovery rate of 50%. But we also know that today, and for years in the future, two housing market trends will continue their dominance:

1. A record US population bulge now in peak first-time homebuying age brackets, and
2. A well-known and continuing housing supply shortage.

In sum, US housing demand remains at record high for demographic reasons, and supply remains anemic. These trends point to an FHA recovery rate that will be no lower than the pre-pandemic recovery rate, and very well could be higher than the 50% recovery rate.

Roll this all up and we are not looking at the possibility of FHA insolvency, nor the possibility of FHA coming close to its required 2% number. Most likely, the FHA reserves will remain above 4%, and might remain, again with significant stress on the books, above 5%.

At the very least, a cut in rates of 25 basis points is an easy layup. High housing premiums across the board, and this includes the GSE capital standards and LLPA situations as well, harm those on the economic margins the most. These creditworthy families remain priced out of homeownership by insurance premiums too rich relative to actual risk. Wealthy people have their mortgages already, or don't need them. Working-class Americans need a chance to move up. Needlessly-high insurance premiums stand in their way for no actuarially-sound reasons.