Center for American Progress

FACT SHEET

# The Federal Housing Administration's 2012 Actuarial Report

John Griffith November 19, 2012

The Federal Housing Administration's actuarial report for fiscal year 2012 projects that the government-run mortgage insurer could soon require taxpayer support for the first time in its 78-year history. According to the report, the agency's primary insurance fund has a *negative* "economic value" of $16.3 billion, meaning it does not have enough money to cover all expected claims *over the next 30 years*.[1]

Here are seven key points to consider:

- **The Federal Housing Administration is not running out of cash anytime soon.** The agency still has $30.4 billion in its coffers to settle insurance claims as they come in. But according to federal budget rules, the agency must hold enough capital to cover all expected claims over the next 30 years, which would require about $46.7 billion according to its actuaries. That leaves a long-run shortfall of $16.3 billion.[2]

- **This report does not mean the Federal Housing Administration will definitely require taxpayer support.** The actuarial report is meant to help the agency with its annual budgeting process. It will be months before we know whether the Federal Housing Administration will require support from taxpayers and how much that support will cost. In the meantime, the agency is expected to generate $11 billion in revenues through the remainder of the fiscal year, which will help shore up the capital reserve.[3]

- **If the Federal Housing Administration does require support, taxpayers would be getting a bargain.** Without the agency's help in recent years, it would have been much more difficult for middle-class families to access mortgage credit since the housing crisis began. According to Moody's Analytics, the agency's actions prevented home construction from plummeting 60 percent from already depressed levels and home prices from dropping an additional 25 percent. This would have sent our economy into a double-dip recession, costing 3 million jobs and half a trillion dollars in economic output.[4]

- **The Federal Housing Administration's current financial troubles are the result of a prolonged foreclosure crisis and a few poor policy decisions.** The bulk of the agency's losses come from loans originated between 2007 and early 2009. A large percentage of those loans included so-called "seller-financed down payment assistance," where sellers covered the required down payment at the time of purchase, but often fraudulently inflated the purchase price to make the transaction worthwhile. If the agency had never allowed seller-financed loans in its insurance programs it could have avoided more than $15 billion in losses and would not need taxpayer support today.[5]

- **The Federal Housing Administration's basic business model of sustainable low-down-payment lending is still profitable.** The agency's more recent years of business, roughly 70 percent of which had down payments of less than 5 percent,[6] are likely to be some of its most profitable ever due in part to higher fees and new protections put in place by the Obama administration.[7]

- **If the Federal Housing Administration does need to draw money from the U.S. Treasury, it would not be a "bailout."** According to the budget rules governing all federal credit programs, if the agency does not have enough money to cover all expected claims over the next 30 years, the U.S. Treasury automatically fills the gap—there would be no need for Congress to act.[8] The chance of that support has always been part of the agreement taxpayers made with the Federal Housing Administration, dating back to the 1930s.[9]

- **It's actually quite remarkable that the agency made it this far without support.** In the wake of the crisis, most private mortgage insurers have either gone out of business[10] or significantly scaled back their insurance activity,[11] while the Federal Housing Administration increased its business.[12] So the agency has actually outperformed its counterparts in the private sector.

*John Griffith is a Policy Analyst with the Economic Policy team at the Center for American Progress.*

## Endnotes

1 Department of Housing and Urban Development, *Annual Report to Congress: Fiscal Year 2012 Financial Status of the FHA Mutual Mortgage Insurance Fund* (2012), available at http://portal.hud.gov/hudportal/documents/huddoc?id=F12MMIFundRepCong111612.pdf.

2 Ibid.

3 Ibid.

4 Data provided to the author from Moody's Analytics. For more information, see: John Griffith, "The Federal Housing Administration Saved the Housing Market" (Washington: Center for American Progress, 2012), available at http://www.americanprogress.org/issues/housing/report/2012/10/11/40824/the-federal-housing-administration-saved-the-housing-market/.

5 HUD, *Annual Report to Congress: Fiscal Year 2012 Financial Status of the FHA Mutual Mortgage Insurance Fund*.

6 Department of Housing and Urban Development, *FHA Single-Family Mutual Mortgage Insurance Fund Quarterly Report to Congress FY 2012 Q3* (2012), available at http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/oe/rpts/rtc/fhartcqtrly.

7 HUD, *Annual Report to Congress: Fiscal Year 2012 Financial Status of the FHA Mutual Mortgage Insurance Fund*.

8 For more information on the budget rules for federal credit programs under the Federal Credit Reform Act, see: John Griffith, "Managing Taxpayer Risk," available at http://www.americanprogress.org/issues/economy/report/2012/05/03/11571/managing-taxpayer-risk/.

9 According to the 1934 National Housing Act (which created the Federal Housing Administration): "In the event that the amount in the [FHA Insurance] Fund is insufficient to pay upon demand, when due, the principal of or interest on any debentures so guaranteed, the Secretary of the Treasury shall pay to the holders the amount thereof which is hereby authorized to be appropriated out of any money in the Treasury not otherwise appropriated."

10 PMI Group, one of the country's largest private mortgage insurers, filed for Chapter 11 bankruptcy in November 2011 after posting 16 straight quarterly losses. Another major insurer, Triad Guaranty Inc., stopped selling policies in July 2008. See: Dawn McCarty and Steven Church, "PMI Group Seeks Bankruptcy After Regulators Take Over Main Unit," *Bloomberg Businessweek*, November 28, 2011, available at http://www.businessweek.com/news/2011-11-28/pmi-group-seeks-bankruptcy-after-regulators-take-over-main-unit.html.

11 According to the Federal Housing Finance Agency, private mortgage insurers underwrote $193.4 billion in insurance in 2008, the first year after the housing bust. That was the industry's lowest volume since 2000. See: Federal Housing Finance Agency, "State of the Private Mortgage Insurance Industry" (2009), available at http://www.fhfa.gov/webfiles/14779/MMNOTE_09-04%5B1%5D.pdf.

12 Griffith, "The Federal Housing Administration Saved the Housing Market."