

## Why GAO Did This Study

The Federal Housing Administration (FHA) has helped millions purchase homes by insuring private lenders against losses from defaults on single-family mortgages. In recent years, FHA has experienced a dramatic increase in its market role due, in part, to the contraction of other mortgage market segments. The increased reliance on FHA mortgage insurance highlights the need for FHA to ensure that it has the proper controls in place to minimize financial risks while meeting the housing needs of borrowers.

This statement discusses (1) changes in the financial condition of FHA's fund used to insure mortgages—the Mutual Mortgage Insurance Fund (Fund)—and the budgetary implications of these changes; (2) how FHA evaluates the financial condition of the Fund; and (3) steps FHA has taken to assess and manage risks.

This statement is drawn from a recent report on FHA's oversight capacity (GAO-12-15) as well as a report issued in September 2010 on the financial condition of the Fund (GAO-10-827R). GAO also obtained updated information on the status of the Fund from the recently issued actuarial report on the Fund.

## What GAO Recommends

GAO previously made recommendations on modeling the Fund's financial condition, risk assessments, and human capital. FHA agreed with these recommendations and told GAO they have efforts underway to implement them.

View [GAO-12-277T](#). For more information, contact Mathew J. Scire at (202) 512-8678 or [sciremj@gao.gov](mailto:sciremj@gao.gov).

# FEDERAL HOUSING ADMINISTRATION

## Risks to the Mutual Mortgage Insurance Fund and the Agency's Operations

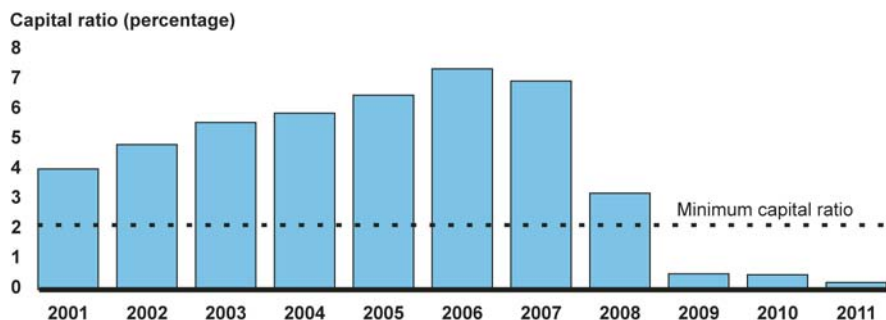
### What GAO Found

For the third consecutive year, FHA reported that the Fund's capital ratio (the ratio of economic value to insurance-in-force) has not met the 2 percent statutory minimum (see below). FHA cites declines in the Fund's economic value due to higher-than-expected defaults, claims, and losses. At the same time, the other component of the ratio, FHA's insurance-in-force, has grown rapidly. The Fund's condition also worsened from a budgetary perspective, with balances in the Fund's capital reserve account reaching new lows. If the account were depleted, FHA would require more funds to help cover costs on insurance issued to date.

FHA enhanced methods for assessing the Fund's financial condition but has not yet addressed GAO's 2010 recommendation for improving the reliability of its estimates. It relies on a single economic forecast, which does not fully account for variability in future house prices and interest rates. An approach that would simulate hundreds of economic paths for house prices and interest rates would improve the reliability of its capital ratio estimates.

FHA has taken or plans a number of steps to better assess and manage risk. It created a risk office in 2010 and hired a consultant to recommend best practices. FHA plans to charter committees to evaluate risks at enterprise-wide and programmatic levels. It began a quality control initiative in the Office of Single Family Housing, in which program and field offices assess and report on risks. FHA also enhanced lender and appraiser reviews. While FHA's consultant recommended integrating risk assessments, the quality control and risk office activities currently remain separate efforts. Also, the Office of Single Family Housing has not annually updated assessments since 2009 as required. Without integrated and updated risk assessments that identify emerging risks, FHA lacks assurance it has identified all its risks. Further, human capital presents challenges. FHA has not created a systematic workforce plan to identify critical skills and skill gaps. Such a plan will be needed because high percentages of staff are eligible to retire soon. Without a workforce planning process that includes succession planning, FHA's ability to systematically identify workforce needs is limited.

Estimate of the Fund's Capital Ratio, 2001-2011



Source: GAO analysis of FHA data.