

GAO Highlights

Highlights of [GAO-13-722](#), a report to congressional requesters

Why GAO Did This Study

FHA insures private lenders against losses from defaults on single-family mortgages that meet FHA criteria. FHA's insured portfolio was more than \$1 trillion at the end of fiscal year 2012. The mortgage insurance market also includes PMIs regulated by the states. Since 2009, FHA's Fund (under which FHA insures almost all its single-family mortgages) has not met its statutory 2 percent capital requirement. GAO was asked to examine the financial condition requirements that apply to FHA and PMIs. This report examines (1) how reserving practices and capital requirements for FHA's Fund compare with those for PMIs, and (2) how applicable PMI practices and requirements could enhance Fund oversight.

To address these objectives, GAO reviewed accounting standards, federal and state laws, regulations, and policies; analyzed FHA data; and interviewed federal officials and PMI industry officials and analysts.

What GAO Recommends

Congress should consider requiring FHA to submit a capital restoration plan and regular updates on implementation whenever the Fund's capital ratio does not meet required levels. Also, FHA should disclose estimates of specific cash flows (premiums, claims, and recoveries) over time to provide additional perspective on the Fund's financial status. FHA generally agreed with GAO's recommendation.

View [GAO-13-722](#). For more information, contact Mathew Scire at 202-512-8678 or sciremj@gao.gov

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FHA MORTGAGE INSURANCE

Applicability of Industry Requirements Is Limited, but Certain Features Could Enhance Oversight

What GAO Found

Reserving practices and capital requirements for the Mutual Mortgage Insurance Fund (Fund) of the Federal Housing Administration (FHA) differ in key respects from those for private mortgage insurers (PMI). These differences stem from the distinct environments in which FHA and PMIs operate, including the particular accounting principles and statutory provisions that they must follow. For example, statutory accounting principles (developed to meet the needs of insurance regulators in assessing financial condition) require PMIs to establish several reserve components, including a reserve for estimated losses expected in the near term on loans that are delinquent (loss reserve). In contrast, generally accepted accounting principles for federal entities (developed to align financial statement reporting with federal budget requirements) require FHA to reserve for the present value of estimated losses for all outstanding loans net of anticipated revenues (liability for loan guarantees). For both FHA and PMIs, capital requirements are expressed as comparisons of risk to capital, but the calculations measure risk and capital differently. Like FHA, PMIs have struggled to meet their capital requirements in recent years.

The PMI regulatory framework has limited applicability to FHA's Fund, but it has certain features that could enhance Fund oversight. Some of the purposes and concepts underlying PMI reserving practices and capital requirements are not pertinent to FHA. For example, two of the PMI reserve components (the unearned premium reserve and the contingency reserve) are intended, in part, to prevent PMIs from reducing capital through payment of excessive dividends to stockholders. However, the concept of separately disclosing reserve components as PMIs do could be applied to the Fund. The PMI loss reserve and unearned premium reserve focus on the timing of specific cash flows—the loss reserve on near-term insurance claims for delinquent loans and the unearned premium reserve on insurance premiums as they are earned over time. In contrast, FHA's liability for loan guarantees combines 30-year estimates of future claims, premiums, and recoveries into a single number, as required, and does not disclose the timing of each type of cash flow. Disclosing the timing of specific cash flows would help illustrate the extent to which estimates of claims payments, premiums, and recoveries in the liability for loan guarantees are concentrated in the near term or longer term and therefore more or less certain. Such disclosure could enhance congressional oversight of FHA and would be consistent with reporting practices of other federal programs and federal internal control guidance for communicating externally about an agency's risks. Accountability features of the PMI regulatory framework also could be applied to FHA. Unlike FHA, PMIs must take certain actions for noncompliance with their capital requirements. These actions may include remediation plans to restore capital to required levels and additional reporting. In 2012, FHA provided Congress with a set of planned actions to address its capital shortfall, but had not done so in prior years. Producing a capital restoration plan when the capital ratio fell below the required level could help ensure prompt action by FHA. This type of requirement is contained in legislative proposals currently before Congress and would be consistent with requirements Congress has enacted for the Federal Deposit Insurance Corporation and certain financial institutions.