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FHA's Refusal to Seek Bailout Met With Skepticism

Critics Concerned About Agency's Reserves Dropping Below Mandated Level

By [Dina ElBoghdady](#)

Washington Post Staff Writer
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The Federal Housing Administration's assertion that it will not need to ask for a bailout even though its loss reserves are eroding was met with skepticism Friday from the agency's longtime critics.

FHA Commissioner David H. Stevens said Friday that the surplus fund set aside to cover unexpected losses on mortgages backed by the agency will fall below the 2 percent threshold required by Congress when the next fiscal year starts in October.

The housing bust has taken its toll on the agency, Stevens said. But he insisted that the FHA will not ask taxpayers to kick in for the shortfall or raise premiums because it has more than \$30 billion in cash to cover future losses. He dismissed as erroneous previous claims by government officials that those were the only two options available to the agency should its reserves dip below mandatory levels.

But critics of the FHA said they question the agency's financial soundness. They say that the job market and overall health of the economy are big unknowns going forward, and further deterioration on either front could send FHA scrambling for a bailout.

The shrinking loss reserves "is just the tip of the iceberg as job losses continue to mount, and more and more homeowners are expected to lose value in their homes," Sen. Christopher S. Bond (R-Mo.) said in a statement. "It's critical we address FHA's problems now because the taxpayer credit card is maxed out."

Mark Calabria, director of financial regulation studies at the Cato Institute, said Stevens seems committed to "cleaning up" the agency he took over in July. But so much is out of the agency's control, he said.

"The only way they will survive without taxpayer assistance is if the housing market turns around and the labor market turns around fairly soon," said Calabria, a former Republican staffer on the Senate Banking Committee. "Nobody has a crystal ball right now."



FHA Commissioner David H. Stevens says the agency won't ask for taxpayer money because it has \$30 billion in cash to cover future losses. (Courtesy Of Long & Foster)

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One of the key problems dogging the housing market has been plummeting home prices, which left many borrowers owing more than their homes were worth and making it impossible for them to sell or refinance their way out of trouble. They lapsed into foreclosure, and those foreclosures have helped drag prices down further.

The FHA said that the results of an independent audit due out in November will be based partly on home price forecasts calculated by an outside firm, which show price declines continuing through the first quarter of 2010.

Based on that assumption, the audit concluded that FHA's reserves will bounce back to the necessary threshold in the next two to three years, Stevens said.

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Although the reserves had remained well above the minimum required level during the housing boom, the audit last year showed they had shrunk to 3 percent as of Sept. 30, compared with 6.4 percent a year earlier. The fund's value was estimated at \$12.9 billion, down from \$21.2 billion the previous year.

Stevens proposed new policies Friday that he said will help the reserves recover even sooner.

Two of the measures address fraudulent loans. One would require banks and

other lenders that do business with the FHA to have at least \$1 million in capital to repay the agency for losses if they were involved in fraud. Now, they are required only to hold \$250,000. Another would require lenders to be responsible for any losses due to fraud committed by the mortgage brokers with whom they work.

Stevens also said he plans to hire a chief risk officer for the first time in the agency's 75-year history to help reduce losses going forward.

Brian Montgomery, FHA commissioner under President George W. Bush, said Friday that these were all "good steps" and that he does not expect the agency will need a bailout.

While the agency has been attracting more business from more creditworthy borrowers, its newest loans are falling into default at a higher rate, according to the latest publicly available FHA data.

The number of borrowers falling 90 days behind on their loans within the first two years was 4.6 percent at the end of July, up from about 3.5 percent a year earlier. The number of new loans being insured has more than doubled from a year ago, but the number of those new loans in default has tripled.

Guy Cecala, publisher of Inside Mortgage Finance, said the audit is based on future assumptions and "none of us know what the future is going to be. We've always felt you could make the insurance fund look as good or bad as you want regardless of the economics of it, depending on your goal."

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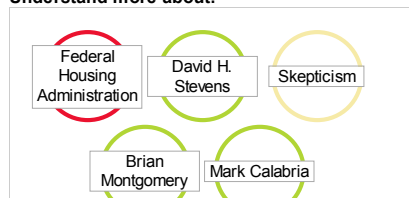
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