IS FHA'S STATUTORY CAPITAL RATIO SUFFICIENT?

USMI U.S. MORTGAGE INSURERS

35-Year-Old Statutory Requirement Falls Short When Compared to Risk-Based Capital Frameworks Developed After the Great Financial Crisis

INTRODUCTION AND OVERVIEW

The Federal Housing Administration (FHA) plays an important role in America's housing finance system, enabling homeownership opportunities for borrowers who may not otherwise be able to qualify through traditional underwriting and performing a critical countercyclical function designed to support access to mortgage credit and the payment of claims during all market cycles. Given this role, the safety and soundness of the program is paramount. In the coming weeks, FHA is expected to release its annual report to Congress detailing the financial status of the Mutual Mortgage Insurance Fund (MMIF) as of the end of the fiscal year. The taxpayer-backed MMIF is designed to cover expected losses on FHA's insured portfolio of single-family loans. It has paid out claims on FHA-insured home mortgages for more than 90 years, insuring an estimated 53.7 million home mortgages in that time,[i] and it is expected that the MMIF's Capital Ratio will exceed the statutory minimum requirement. However, the number only tells part of the story: what that number represents and how it stacks up against other capital frameworks that are used in mortgage finance provide critical context for policymakers as they evaluate the financial strength of the MMIF.

Unlike risk-based capital frameworks that have been developed and/or significantly updated since the Great Financial Crisis, the MMIF simply requires that a 2% Capital Ratio be maintained pursuant to a 1990 statute.[ii] To enhance transparency around the fiscal condition of the MMIF and FHA, U.S. Mortgage Insurers (USMI) commissioned Milliman, a third-party actuarial firm, to estimate the risk-based capital FHA would be required to hold if subject to the same capital frameworks as private mortgage insurers and the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac. Using publicly available securities data published by Ginnie Mae and last year's Fiscal Year 2024 MMIF Actuarial Review, Milliman estimated the risk-based capital that FHA would be required to hold if subject to the Private Mortgage Insurer Eligibility Requirements (PMIERs) or the Enterprise Regulatory Capital Framework (ERCF) as of September 30, 2024. The analysis indicates that these more recent, risk-based frameworks would require higher levels of capital than the existing 2% Capital Ratio requirement.

THE BOTTOM LINE

After 35 years, Congress should consider replacing the 2% Capital Ratio requirement with an updated standard to align with other loan-level, risk-weighted frameworks in the mortgage finance system that have been developed or updated since the Great Financial Crisis, which would ensure FHA has sufficient capital to meet its obligations during times of severe stress.

FHA comfortably meets the 2% minimum Capital Ratio established by Congress but, as of September 30, 2024, it would have run a $31.7 billion shortfall when estimated under PMIERs, the capital standard private mortgage insurers must meet to insure loans acquired by the GSEs in the conventional market. In fact, FHA would have needed to hold $250 billion to achieve a comparable capital cushion to the private MI sector's capital position, which was approximately 170% of the minimum requirements as of September 30, 2024.[iii] If FHA was to comport to the

ERCF to which the GSEs are subject, it would have needed to hold $166 billion, whereas FHA held $115 billion as of the end of Fiscal Year 2024.

PMIERs and the ERCF are modern, risk-based frameworks that were developed in the aftermath of the Great Financial Crisis to ensure that the housing finance system is strong and resilient in the face of stress events. Given the direct taxpayer exposure, reporting FHA's capital position relative to PMIERs and the ERCF provides policymakers with more transparency into the estimated capital required to support credit risk in the FHA forward mortgage program.

WHAT IS THE FHA CAPITAL RATIO?

FHA's Mutual Mortgage Insurance Fund is a negative subsidy program, meaning the fees and premiums collected from borrowers are expected to exceed the costs of defaults and other expenses, resulting in annual savings for the federal budget. Amidst concerns about the program's solvency and its long-term ability to pay future claims, Congress enacted a statutory requirement in 1990 that requires the MMIF to maintain a positive economic value of 2% going forward to help cover any unexpected losses.[iv] This requirement is often referred to as FHA's **Capital Ratio**, and reflects not only its "Total Capital Resources" (the MMIF's theoretical current balance sheet position), but also the future estimated present value of monthly premiums for the life of a loan minus the estimated present value of losses paid in claims, in comparison to the total amount of insurance-in-force (IIF).[v] The inclusion of the "Cash Flow Net Present Value" is unique to the MMIF's capital framework and was excluded from Milliman's analysis to assess the MMIF's capital position consistent with PMIERs and the ERCF.

Despite its intended self-sufficiency, the Capital Ratio fell below the 2% requirement in 2008, and even turned negative in 2013. In order to regain its solvency, the MMIF received $1.7 billion from the Department of the Treasury "to ensure that it was holding enough funds to cover expected future losses on insured loans."[vi] Although the MMIF ultimately returned to the 2% Capital Ratio level following that infusion of capital, it demonstrated the insufficiency of the 2% Capital Ratio in times of economic stress.

WHAT ARE PMIERS AND THE ERCF?

In the conventional mortgage market, PMIERs and the ERCF are stress-based capital frameworks that utilize loan-level risk weights based on loan attributes (e.g., borrower's credit score, loan-to-value ratio, debt-to-income ratio and other factors) and loan status to estimate the capital required to withstand credit losses during a market stress. Both PMIERs and ERCF are administered under the oversight of U.S. Federal Housing (FHFA), although PMIERs apply to private mortgage insurers while the ERCF applies to the GSEs. Notably, unlike the FHA Capital Ratio - which has not been updated since 1990 – the ERCF was created and PMIERs was significantly amended following the 2008 Great Financial Crisis to ensure sufficient capital levels following actual stress loss experience.[vii,viii]

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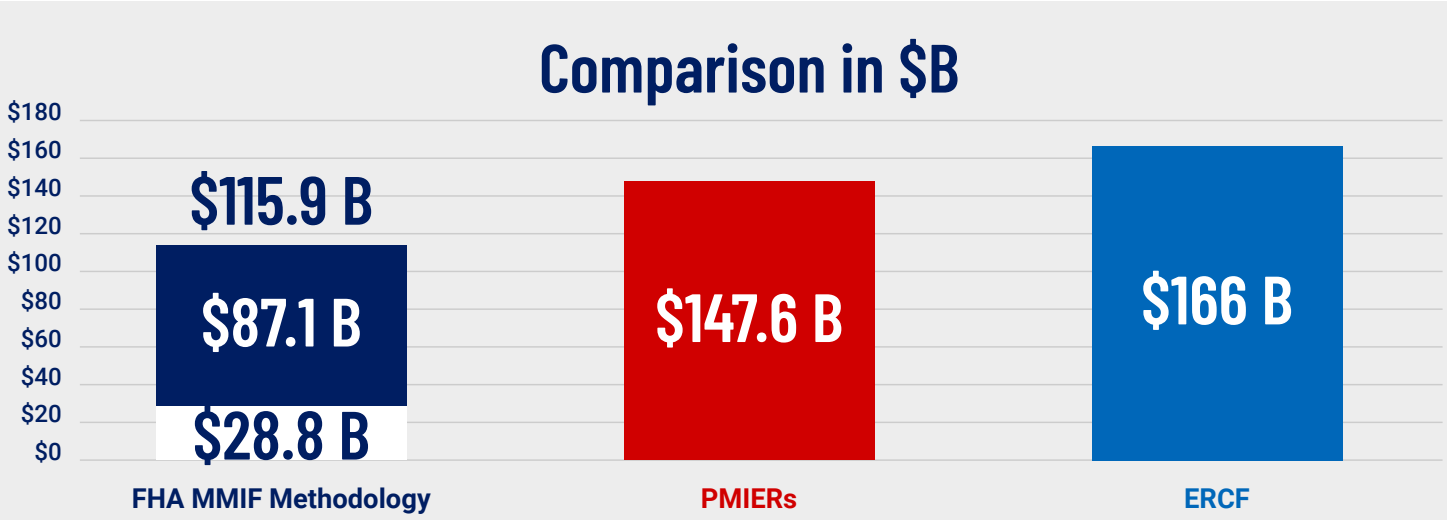
FHA CAPITAL UNDER PMIERS AND ERCF

FHA's Total Capital Resources for the forward mortgage program (the most appropriate component for comparison to PMIERs and the ERCF) at the end of FY 2024 were $115.9 billion, $87.1 billion over its statutory minimum. However, this falls short of the minimum capital that would be required to be compliant with PMIERs and ERCF based on the loan attributes of FHA-insured mortgages. Independent analysis from Milliman found that FHA would need to hold **$147.6 billion** to meet the minimum PMIERs standard for FHA's book of business. If FHA were to meet a comparable cushion of excess capital as the private mortgage insurance industry did as of September 30, 2024,[ix] FHA would need to hold **$250.9 billion**. Similarly, Milliman found that FHA would need to hold **$166.0 billion** to meet the minimum ERCF requirement for FHA's book of business, more than $50 billion more than it holds.



PMIERs and ERCF are calibrated to the performance of conventional loans, which generally perform better than FHA-insured loans. For example, in Q2 2025, the delinquency rate for conventional loans stood at 2.60%, while the FHA delinquency rate was at 10.57% (numbers reflect all past due/delinquent loans).[x] As such, the true disparity may be greater than is shown here. In addition, the ERCF estimate only took into account unexpected losses, the core aspects of the risk-based capital under the ERCF. Applying the additional buffers of ERCF would further increase the estimated minimum capital needed.

PUBLIC POLICY IMPLICATIONS

FHA plays an important countercyclical role in America's housing finance system, and it must remain strong and well-capitalized in order to perform this critical function – especially during economic downturns or periods of uncertainty.[xi] After 35 years, and the benefit of data from a stressed market environment, policymakers should consider replacing the 2% Capital Ratio requirement with an updated stress-based, loan-level risk-weighted standard that would ensure FHA has sufficient capital to meet its obligations during times of severe stress, similar to how the GSEs and the private MI industry have built safeguards to ensure sufficient capital levels to withstand downturns.

As an interim step, reporting FHA's capital position relative to PMIERs and the ERCF would provide additional transparency into the program and ensure that future policy changes do not diminish its fiscal strength under the existing framework.

CONCLUSION

FHA's MMIF has been subject to the same 2% Capital Ratio since 1990, but assessing that threshold against the minimum requirements under PMIERs and the ERCF demonstrates that the ratio is not consistent with other prudent capital frameworks applied to mortgage credit risk. Indeed, while exceeding the minimum statutory requirement in place today, FHA's Total Capital Resources are not sufficient to meet the minimum standards of other risk-based capital frameworks utilized elsewhere in the market today.

Private mortgage insurers worked in partnership with FHFA and the GSEs following the Great Financial Crisis to strengthen the industry's safety and soundness through enhanced capital standards designed to be more resilient and withstand severe economic stress. Policymakers could look to these lessons and consider pursuing congressional approval to revise the 2% Capital Ratio, which would ensure that FHA is well-positioned to perform its critical functions in the housing market during all economic cycles.

APPENDIX: METHODOLOGY OF MILLIMAN ANALYSIS

Milliman is a global, independent, actuarial and consulting firm – spanning Health, Life, Employee Benefits, and Property & Casualty – with over 4,600 employees and $1.4 billion revenue (2022). Milliman has been providing modeling, analytics and actuarial services to the mortgage industry for over 25 years. USMI engaged Milliman to calculate the amount of capital that would be required under the PMIERs Risk-Based Required Asset Amounts (RBRAA) and FHFA's ERCF Risk-Based Capital Requirements (RBCR) for FHA loans. All estimates are based on publicly available loan-level data accessed via Ginnie Mae mortgage-backed securities disclosures ("MBS SF PORTFOLIO – LOAN LEVEL" dataset) and Milliman's mortgage analytics software which includes modules to estimate the required capital under each framework.

Milliman compiled all FHA loan records published 2014 to-date. The data includes both origination data (e.g., loan attributes) as well as performance data (e.g., current status). Given the MBS data source, the dataset does not include loans that were 'bought-out' of securities prior to their ultimate resolution. Given these data limitations, Milliman developed factors to gross-up the dataset to be fully reflective of the total size of the MMI Fund as reported in FHA's 2024 Annual Report. Once the data was compiled and validated, Milliman calculated PMIERs RBRAA and ERCF RBCR using Milliman's Mortgage Platform for Investments and Reinsurance (M-PIRe), a mortgage analytics platform hosted on Microsoft's Azure cloud.

While Milliman's M-PIRe contains proprietary models to estimate mortgage credit risk, M-PIRe also includes calculators to estimate industry capital frameworks to evaluate mortgage credit risk. Two such frameworks are PMIER RBRAA[xii] and ERCF RBCR.[xiii] Both frameworks assign capital factors to loans using a series of grids and adjustment factors to produce a required capital amount for each loan based on the loan's underwriting attributes, status, loan age and economic considerations (for ERCF).

Milliman's ERCF estimates assign loan-level risk-weights to each loan, subject to a minimum risk-weight of 20%. The estimates do not include adjustments for the stress capital buffer, countercyclical capital buffer, or stability capital buffer. Milliman's ERCF estimates also do not reflect an estimate for Expected Losses – which is often handed via an Allowance for Loan and Lease Losses (ALLL) and estimated outside of the ERCF framework. Milliman's PMIERs estimates are based on the published 2018 rule and do not include any additional adjustments (e.g. COVID forbearance factor). For FHA policies, Milliman assumed a 50% loss severity under full coverage to estimate PMIER RBRAA.

ENDNOTES

[i] Department of Housing and Urban Development Office of Housing, 2024. "FHA – Mutual Mortgage Insurance Fund." Available at: https://www.hud.gov/sites/dfiles/CFO/documents/2024_CJ_Program_-_FHA2.pdf

[ii] Public Law 101-508, Omnibus Budget Reconciliation Act of 1990.

[iii] Private MI 3Q2024 10-Q Filings.

[iv] Ibid.

[v] Jones, Katie. "FHA Single-Family Mortgage Insurance: Financial Status of the Mutual Mortgage Insurance Fund (MMI Fund)." Congressional Research Service, May 27, 2022. Available at: https://www.congress.gov/crs-product/R42875

[vi] Ibid.

[vii] See page 11 of the Enterprise Regulatory Capital Framework final rule, published in Federal Register Vol. 85, No. 243, December 17, 2020. Available at: https://www.govinfo.gov/content/pkg/FR-2020-12-17/pdf/2020-25814.pdf

[viii] See, for example, Federal Housing Finance Agency. "Fannie Mae and Freddie Mac Update Their Private Mortgage Insurer Eligibility Requirements," August 21, 2024. Available at: https://www.fhfa.gov/news/news-release/fannie-mae-and-freddie-mac-update-their-private-mortgage-insurer-eligibility-requirements-2024

[ix] Approximately 170% of the minimum required assets, as of September 30, 2024.

[x] Mortgage Bankers Association. "Mortgage Delinquencies Decrease Slightly in the Second Quarter of 2025," August 14, 2025. Available at: https://www.mba.org/news-and-research/newsroom/news/2025/08/14/mortgage-delinquencies-decrease-slightly-in-the-second-quarter-of-2025.

[xi] Department of Housing and Urban Development Office of Housing, 2024. "FHA – Mutual Mortgage Insurance Fund." Available at: https://www.hud.gov/sites/dfiles/CFO/documents/2024_CJ_Program_-_FHA2.pdf

[xii] See https://sf.freddiemac.com/docs/pdf/requirements/pmiers.pdf

[xii] See https://www.fhfa.gov/regulation/federal-register/final-rule/enterprise-regulatory-capital-framework-final-rule