



Mortgage Settlement Saves FHA From Bailout

HOUSING, SAVING HOUSING, FHA
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If you look deep inside the 2013 [federal budget](#) (Appendix P. 636-ish) released today, it looks as if the Federal Housing Administration (FHA) is asking for a cash bailout for the first time its 78-year history.

A \$688 million bailout from the U.S. Treasury, a.k.a. the taxpayers.

Well that might have been the case several months back, when the White House Office of Management and Budget (OMB) was running the numbers.

Now, not so much.

As part of the \$25 billion [attorneys general settlement](#) with the nation's five largest mortgage servicers over so-called, "robo-signing" foreclosure paperwork fraud, and a concurrent \$1 billion settlement with Bank of America/Countrywide, the FHA nets a cool \$1 billion infusion into its Mutual Mortgage Insurance fund (MMI). Add to that increased insurance premiums and the fact that the FHA's 2010/2011 book of business are performing far better than previous books, and officials at FHA say the previous OMB estimate is, "obsolete."

The budget calls for a 25 basis point increase in insurance premiums for higher priced loans (over \$625,500). The current loan limit for FHA is far higher than it has been historically, \$729,750, thanks to Congressional action to keep mortgage capital flowing. HUD Secretary Shaun Donovan said in a conference call today with reporters that FHA premiums, which were raised ten basis points recently to pay for the extension of the payroll tax cut, will be raised even beyond the budget proposal in order to strengthen the FHA fund, "as well as to insure that private capital continues to return to the housing market," Donovan added.

But all of the improvements made in underwriting that led to better performance of recent FHA loans can be offset if home prices perform worse than expected, Donovan admits. In fact, the administration's home price expectations in the budget are "more conservative" than the Moody's estimates used in the FHA's annual actuarial report, he adds.

In addition to the existing AG settlement, there could be additional similar settlements with other servicers that could net the FHA even more cash. Had the AG settlement not happened, or happened on a smaller scale, FHA would arguably have been deeper in a financial hole.

"I think it's fair to assume that had we not gotten the settlement done, we would have implemented larger premium increases than we will next week," said Donovan.

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