



**TO: All FHA-Approved Mortgagees and Servicers
All Other Interested Stakeholders in FHA Transactions**

NEWS AND UPDATES

Managing Mortgage Risk Trends in the FHA Single Family Portfolio

Comprehensive Approach Starts with Total Mortgage Scorecard Updates to Address High Debt-to-Income/Low Credit Score Combinations

Today, the Federal Housing Administration (FHA) is announcing that it is taking initial steps to better mitigate the increasing risks in recent Single Family fiscal year (FY) endorsements. Effective for mortgages with case numbers assigned on or after March 18, 2019, FHA will update its Technology Open to Approved Lenders (TOTAL) Mortgage Scorecard to specifically manage the decrease in average borrower credit scores and the excessive risk layering that results when multiple risk factors are present.

Federal Housing Commissioner Montgomery has publicly stated numerous times in recent months that FHA must seek the right balance between managing risk and fulfilling its mission of supporting sustainable homeownership. To be successful long term, FHA must maintain the integrity of its insurance endorsements. This includes assessing the causes of the increase in higher-risk credit characteristics in the portfolio and making prudent and necessary changes to recalibrate and adjust its policies as warranted to manage credit risk.

Identifying Risk Trends

As noted in [FHA's Annual Report to Congress for Fiscal Year 2018](#), over the last several years FHA has seen a continued increase in certain higher-risk credit characteristics in the mortgages it insures, including:

- A growth in cash out refinances as a percentage of both its overall business and its refinance endorsement volume. In FY 2018, the portfolio experienced an increase of more than 60 percent in cash out refinances as a percentage of all refinances.
- An increase in the concentration of mortgages with high debt-to-income (DTI) ratios, where almost 25 percent of all FHA-insured forward mortgage purchase transactions in FY 2018 were comprised of mortgages where the borrower had a DTI ratio above 50 percent, the highest percentage since the year 2000. The increase in higher DTI concentrations has continued in FY 2019, with more than 28 percent of January endorsements having a DTI ratio greater than 50 percent.
- A decrease in average borrower credit scores to 670 for FY 2018, the lowest average since 2008. This decline has continued in FY 2019 as:
 - More than 28 percent of new forward mortgage endorsements in the first quarter of FY 2019 had credit scores less than 640; and

- More than 13 percent of new forward mortgage endorsements in the first quarter of FY 2019 had credit scores less than 620, nearly a 19 percent increase over the FY 2018 concentration.
- An increasing concentration of credit scores less than 640 combined with DTI ratios greater than 50 percent.

TOTAL Mortgage Scorecard Updates Effective March 18, 2019

The TOTAL Mortgage Scorecard was updated in 2013 to introduce manual underwriting requirements for mortgages submitted to the Scorecard with less than 620 credit scores and greater than 43 percent DTI ratios (through the establishment of Review Rule 14 (RR14)). This was announced in the now fully superseded [Mortgagee Letter 2013-05](#). In August 2016, RR14 was removed from the TOTAL Mortgage Scorecard. The removal of this rule has contributed to the significant increase in higher-risk loans FHA endorses. Continuing to endorse mortgages with higher risk characteristics, without changes, negatively affects the Mutual Mortgage Insurance Fund.

FHA's TOTAL Mortgage Scorecard updates begin to address the concerns with mortgages with higher-risk characteristics — particularly when multiple risk factors are present.

When updated, lenders submitting mortgages with case numbers assigned on or after March 18, 2019, to the TOTAL Mortgage Scorecard via an automated underwriting system (AUS) may receive feedback results for certain mortgages indicating that they must be manually underwritten. The lender's final underwriting review decision for those mortgages must be documented in accordance with existing FHA requirements for manually underwritten mortgages.

FHA will carefully monitor the impact of this change and is preparing to implement additional changes to maintain a better balance of managing risk and fulfilling its mission.

Quick Links

- View the 2018 Annual Report to Congress at: <https://www.hud.gov/sites/dfiles/Housing/documents/2018fhaannualreportMMIFund.pdf>
- View the fully superseded Mortgagee Letter 2013-05 at: <https://www.hud.gov/sites/documents/13-05ML.PDF>

Resources

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- Visit our online knowledge base to obtain answers to frequently asked questions 24/7 at: www.hud.gov/answers.
- E-mail the FHA Resource Center at: answers@hud.gov. Emails and phone messages will be responded to during normal hours of operation, 8:00 AM to 8:00 PM (Eastern), Monday through Friday on all non-Federal holidays.
- Call 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339.

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