

**Statement by Conrad Egan
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Federal Housing Administration (FHA) Audit Finds No Need for Taxpayer Support – Toll of Housing Crisis on Agency’s Reserves Illustrates Its Pivotal Role in the Recovery

"FHA’s annual audit released today confirms that with \$31 billion in total reserves the agency will not need to seek support from the American taxpayer under even some of the most extreme economic scenarios. Experts also emphasized that the toll the housing crisis has taken on FHA’s reserves illustrates the agency’s pivotal role in the housing recovery.

Specifically, as private lenders tighten their credit standards and capital sources are diminished, FHA continues to fill the void in the market by insuring single- and multi-family loans to qualified buyers who might not otherwise be able to secure a loan at a reasonable cost. Almost 50 percent of all first-time homebuyers in the housing market used an FHA loan in the second quarter of 2009 alone.

The agency has provided this same type of temporary support to the nation’s housing markets over its 75 year history, resulting in an eventual net positive return for taxpayers. Of course, with an increased FHA role there is initial financial risk, but many experts agree that the worst is over for the current crisis. Default rates on FHA loans made recently are not anticipated to be as great as previous loan defaults. The credit quality of agency-insured borrowers has gone from an average FICO score of 633 two years ago to 693 today, making the loans that the agency is insuring now less risky.

FHA does face immediate challenges and is currently implementing the necessary reforms. In particular, the agency is emphasizing risk management that includes additional real-time monitoring of portfolio performance and delinquency, default and economic conditions, in order to help minimize risks to remaining capital. FHA is also tightening rules for appraisals, streamline refinances and lender approvals to help prevent further erosion of and ensure increases in its financial reserves."