The Government Accountability Office (GAO) released a report yesterday on budgetary and actuarial reviews of the Mutual Mortgage Insurance Fund (MMI Fund) by the Federal Housing Administration (FHA).

The report focuses on assessments of the MMI Fund’s financial condition, and FHA’s capital requirement and stress testing practices. It also discusses including reverse mortgages in the fund’s capital assessment rather than testing reverse mortgages separately.

GAO concludes that the capital requirements and stress-testing practices used by FHA to evaluate the MMI Fund are inconsistent with a framework developed by GAO to evaluate such tools. Inconsistencies in FHA’s practices included unspecified risk thresholds for statutory capital requirements, an absence of accountability mechanisms and fund-wide stress tests, and undefined stress test objectives. GAO recommends that Congress take steps to identify the economic conditions that the MMI Fund should be expected to withstand, and that the FHA should conduct stress tests on a fund-wide basis and clarify the objectives of such tests.

The framework developed by GAO to assess the FHA’s capital requirements and stress-testing practices was based on capital and stress testing principles used by financial institutions and regulators. Feedback on the framework was provided by the members of the Academy’s Casualty Practice Council, as well as federal and mortgage industry officials.

If you have any questions regarding this Academy Alert, please contact Marc Rosenberg, senior casualty policy analyst (rosenberg@actuary.org; 202-785-7865).

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