



Why Has the Number of FHA Mortgage Delinquencies Increased?

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This brief investigates the recent rise in Federal Housing Administration (FHA) mortgage delinquencies. There has been considerable discussion on this topic, with several commonly identified possible reasons. These include (1) relaxed origination standards, particularly the debt-to-income (DTI) ratio; (2) competition from the government-sponsored enterprises (GSEs) pushing a greater number of riskier loans toward the FHA space; (3) lack of home price appreciation; (4) loss mitigation improvements encouraging borrowers not to pay their mortgage; and (5) credit scores not being as indicative of creditworthiness as they were before the pandemic.

We first examine the history of FHA delinquencies, demonstrating that a significant portion of the increase occurs in the first year following origination. We then empirically analyze the five hypotheses above and show that none of these factors can make a substantial contribution toward explaining the rise in FHA delinquencies.

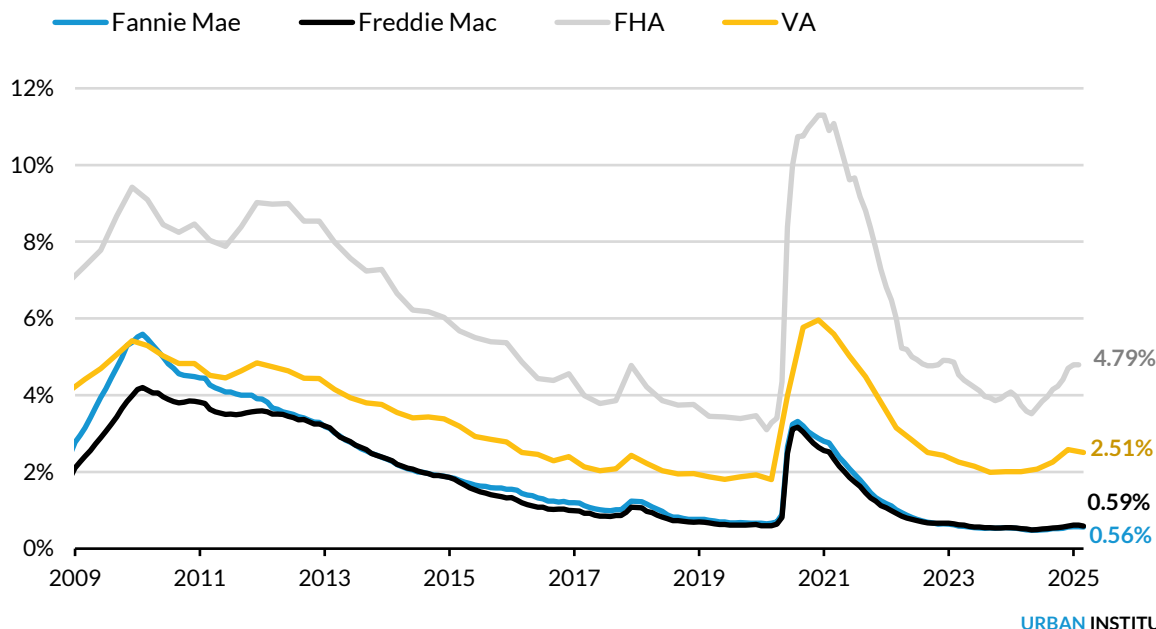
Further, though the delinquency increase might seem large on a percentage basis, the actual delinquency rate simply brings us back to 2017 and 2018 FHA delinquency levels, not nearly a large enough increase to affect the health of the Mutual Mortgage Insurance Fund (MMI Fund). Moreover, improvements in the loss mitigation waterfall will substantially offset financial losses from the increased delinquencies.

An Overview of Delinquency Trends

In the past several months, delinquency rates have been up substantially for FHA and US Department of Veterans Affairs (VA) loans and up modestly for GSE loans (i.e., Fannie Mae and Freddie Mac loans). Figure 1 shows serious delinquency rates for FHA, VA, and GSE loans since 2009. Seriously delinquent

loans include loans that are 90 or more days behind on payment and those in foreclosure or bankruptcy. For FHA loans, delinquencies are up from a low of 3.7 percent in the second quarter of 2024 (Q2 2024) to 4.8 percent in February 2025, bringing overall numbers on par with 2017. Meanwhile, GSE delinquencies in Q1 2025 are basically flat from mid-2024.

FIGURE 1
Serious Delinquency Rates among Single-Family Loans



Source: Laurie Goodman, Janneke Ratcliffe, Michael Neal, et al., [Housing Finance at a Glance: A Monthly Chartbook, May 2025](#) (Washington, DC: Urban Institute, 2025).

Note: FHA = Federal Housing Administration; VA = US Department of Veterans Affairs.

Much of the contribution to the rise in FHA delinquencies is the delinquency rate among recent vintages. According to our analysis of ICE Mortgage Technology data, about 10 percent of FHA purchase loans that were delinquent in December 2019 were originated in 2018 or 2019, but in December 2024, 17 percent of the delinquent loans were originated in 2023 or 2024. The percentage of loans from these recent vintages going 90 or more days delinquent in the first year is much higher than the historical norm.

Table 1 shows the FHA loan serious delinquency rates ever (among all outstanding loans as of May 2025) and in the first year following origination (as a share of originated loans). Both these measures are calculated from our mortgage-backed securities database, and the latter measure excludes loans that have been repurchased from mortgage-backed securities pools or that have been otherwise resolved.

TABLE 1

Federal Housing Administration Mortgage Serious Delinquency Rates*During the first year versus ever*

Origination year	Seriously delinquent in the first year	Ever seriously delinquent, as of May 2025
2017	1.95%	2.30%
2018	1.75%	3.14%
2019	6.45%	3.20%
2020	5.93%	3.21%
2021	4.13%	4.46%
2022	4.82%	5.53%
2023	3.99%	4.14%
2024	2.54%	1.53%

Source: Urban Institute calculations using eMBS data.

Note: Serious delinquency refers to loans 90 or more days delinquent.

Let us focus on the loans that went 90 or more days delinquent in the first year. This share is highest among the pandemic-affected 2019 and 2020 vintages, tapers in 2021 (which still has a small pandemic effect), and picks back up in 2022. Rates from 2024 originations do not reflect a full year of performance, so it is hard to compare these data with data from earlier years.

So, what explains the rise in first-year FHA delinquencies? We investigate underwriting, GSE competition, slowing home price appreciation, enhanced loss mitigation options, and deterioration of the predictability of credit score in capturing borrowers' likelihood of making future mortgage payments. We find that none of these factors can fully explain the increase.

Are High DTI Ratios to Blame?

Rising DTI ratios among mortgage borrowers has been one of the most commonly mentioned possible reasons for the rise in FHA delinquency rates, but our analysis shows they are not to blame.

The distribution of DTI ratios shifted higher as home prices rose substantially from 2019 to 2024, and starting in 2022, interest rates also rose. For example, in 2017, close to half the loans had DTI ratios less than 43 percent; by 2024, this share had declined to 37.8 percent. In 2017, 21 percent of the loans had DTI ratios of 50 percent or higher; this share was 31 percent in 2024 (table 2).

While DTI ratios were increasing, risk was declining on other measures, with credit scores rising and loan-to-value (LTV) ratios falling. Moreover, default rates are less sensitive to DTI ratios than to LTV ratios or FICO scores (Golding, Goodman, and Zhu 2017).

TABLE 2

Origination DTI Ratio, FICO Score, and LTV Ratio Distribution for FHA Loans*Shares are measured by origination counts*

Year	DTI Ratio			FICO Score			LTV Ratio	
	< 43%	43–50%	≥ 50%	< 680	680–720	≥ 720	< 95%	≥ 95%
2017	49.1%	29.4%	21.3%	57.7%	24.6%	17.7%	35.2%	64.8%
2018	43.5%	30.3%	26.0%	62.8%	22.5%	14.7%	34.1%	65.9%
2019	44.4%	28.9%	26.4%	63.6%	22.1%	14.3%	36.4%	63.6%
2020	46.5%	30.1%	23.3%	59.0%	24.8%	16.3%	32.6%	67.4%
2021	45.3%	30.3%	24.4%	65.2%	21.9%	12.9%	41.6%	58.4%
2022	39.2%	31.5%	29.3%	66.9%	20.9%	12.1%	43.8%	56.2%
2023	37.1%	32.2%	30.7%	56.5%	23.7%	19.8%	44.0%	56.0%
2024	37.8%	31.7%	31.0%	51.3%	23.6%	25.1%	43.0%	57.0%

Source: Urban Institute calculations using eMBS data.**Note:** DTI = debt-to-income; FHA = Federal Housing Administration; LTV = loan-to-value.

While DTI ratios were rising, credit scores were also up considerably for more recent originations. The share of borrowers with FICO scores below 680 was 57.7 percent in 2017. The share had risen to 66.9 percent by 2022, but after the FHA mortgage insurance premium, the share of borrowers with credit scores below 680 dropped to 56.5 percent in 2023 and to 51.3 percent in 2024. The share of borrowers with FICO scores of 720 and above increased from 17.7 percent in 2017 to 25.1 percent in 2024. Moreover, as DTI ratios were rising, the share of high-LTV loans (loans with LTV ratios of 95 percent and higher) was also declining, from 64.8 percent in 2017 to 57.0 percent in 2024.

DTI ratios are a less meaningful predictor of default than FICO scores and LTV ratios.¹ Table 3 shows the impact of DTI ratios, FICO scores, and LTV ratios on first-year default rates for FHA loans. There is much less variation between low and high DTI ratios than between low and high FICO scores. For example, 2023-originated loans with DTI ratios below 43 percent had a default rate of 3.5 percent versus 4.3 percent for loans with DTI ratios above 50 percent. By contrast, loans with FICO scores below 680 have a default rate of 5.8 percent versus 2.3 percent for loans with scores from 680 to 720 and 0.9 percent for loans with scores of at least 720. We have divided LTV ratios into only two categories, and they, too, show more difference in default rates than do DTI ratios.

TABLE 3

Default Rates in the First Year following Origination, by DTI Ratio, FICO Score, and LTV Ratio

Origination year	DTI Ratio			FICO Score			LTV Ratio	
	< 43%	43–50%	≥ 50%	< 680	680–720	≥ 720	< 95%	≥ 95%
2017	1.60%	2.20%	2.40%	2.70%	1.00%	0.60%	1.50%	2.19%
2018	1.50%	1.90%	1.90%	2.40%	0.70%	0.30%	1.29%	1.99%
2019	5.20%	7.00%	7.90%	7.80%	4.80%	3.20%	5.32%	7.10%
2020	4.70%	6.60%	7.50%	7.50%	4.30%	2.70%	4.73%	6.50%
2021	3.40%	4.60%	4.90%	5.30%	2.50%	1.20%	3.08%	4.88%
2022	3.90%	5.20%	5.60%	6.10%	2.70%	1.30%	3.94%	5.50%
2023	3.50%	4.30%	4.30%	5.80%	2.30%	0.90%	3.62%	4.29%
2024	2.25%	2.78%	2.63%	3.96%	1.54%	0.55%	2.66%	2.37%

Source: Urban Institute calculations using eMBS data.

Note: DTI = debt-to-income; LTV = loan-to-value.

Is GSE Competition Responsible?

The GSEs have increased their high-LTV share within the agency mortgage space but are also not to blame. The increase in high-LTV lending (loans with LTV ratios of at least 95 percent) reflects the GSEs' desire to fulfill their social mission to serve low-income borrowers, especially as low-income borrowers face greater challenges accessing homes in an expensive market. As the total number of high-LTV loans decreased in a tight market, the GSEs' portion increased. Table 4 shows that the GSE share of high-LTV loans has increased from 43.7 percent of the combined GSE loans (i.e., regardless of credit score) in 2019 to 49.9 percent in 2024. The share had actually risen even higher in 2021 and 2022 before the FHA cut its mortgage insurance premiums in 2023.

TABLE 4

Share of 95+ Percent Loan-to-Value Ratio Lending, by Credit Score

Year	Federal Housing Administration Loans				Government-Sponsored Enterprise Loans			
	< 680	680–720	≥ 720	All	< 680	680–720	≥ 720	All
2019	35.4%	12.3%	8.7%	56.3%	3.2%	10.2%	30.3%	43.7%
2020	26.3%	11.0%	7.9%	45.2%	2.9%	11.5%	40.4%	54.8%
2021	25.0%	8.9%	5.9%	39.8%	3.7%	13.3%	43.2%	60.2%
2022	26.2%	9.9%	6.5%	42.6%	3.1%	12.3%	42.0%	57.4%
2023	25.3%	12.3%	11.2%	48.7%	2.5%	10.1%	38.6%	51.3%
2024	23.2%	12.4%	14.4%	50.1%	2.9%	9.3%	37.7%	49.9%

Source: Urban Institute calculations using eMBS data.

Note: Shares are measured by origination counts.

Many people believe this increase in the high-LTV GSE share would mean a deterioration in the FHA book of business. That is, the GSEs skim off the best loans with the strongest credit characteristics, leaving the FHA with the remaining loans. When we look at the configuration for credit scores, we see that loans with the highest credit scores (at least 720) are up substantially for both FHA and GSE loans.

It is possible (probable) that the GSEs are more sophisticated than the FHA in looking beyond FICO scores to measure borrower credit risk, and hence, within each credit score bucket, get stronger borrowers. We know the GSEs rely on their own measures of trended credit information, rather than credit scores alone, in the mortgage application process. But we cannot control for this in the data. Even so, it is unlikely this GSE skimming effect would be large enough to explain a more than doubling in FHA loan serious delinquency rates in the first year for 2023-originated loans compared with those originated in 2017 and 2018, given that FHA credit qualification, as measured by FICO scores, has improved over the period.

Is It Because of Shifts in FHA Borrower Characteristics?

To further test whether the two possible reasons above explain the rise in FHA delinquency, we conducted a simulation analysis to see the impact of borrower characteristics on serious delinquency rates on FHA mortgages in the first year. This includes both the impact of the upward shift in DTI ratios and the impact of the change in GSE behavior. We use delinquencies from the 2017 book of business by FICO score, LTV ratio, and DTI ratio buckets, using fairly small buckets in each category. We then simulate what the delinquencies would be by grafting the composition each year to the 2017 delinquency rate (table 5). Although the lending composition has shifted, the effects offset, and the simulated default rate does not vary much from year to year.

Comparing the simulated results with the actual results shows, as expected, that delinquencies among loans originated in 2019 and 2020 were much higher than predicted because the pandemic occurred in the first year following origination. The pandemic's impact was much diminished by the 2021 book of business, and delinquencies began to fall. But delinquencies on loans originated in 2022, which should have been less affected by the pandemic, were higher than those originated 2021, and the 2023 book of business did not show much of a decline from 2022. Comparing the actual serious delinquency rates with the 2017 simulated results, the rates are more than double for 2022 and 2023. The 2024 actual numbers cannot be used for the comparison, as we do not have a full year of data.

TABLE 5

Actual versus Simulated Serious Delinquency Rates for FHA Loans in the First Year, by Origination Year

Origination year	Actual serious delinquency rates in the first year	Predicted serious delinquency rates in the first year ^a
2017	1.95%	1.95%
2018	1.75%	2.15%
2019	6.45%	2.14%
2020	5.93%	1.96%
2021	4.13%	2.05%
2022	4.82%	2.14%
2023	3.99%	1.92%
2024	2.54%	1.83%

Source: Urban Institute calculations using eMBS data.

Note: FHA = Federal Housing Administration.

^a Using 2017 first-year default rates.

We see the same effects in other channels, but the effects are more muted for GSE loans than for FHA loans (table 6). Delinquency rates on VA loans show a very similar percentage increase to rates on FHA loans. For the full Fannie Mae sample (all LTV ratios), the 2022 projected serious delinquency rate was 0.38 percent (using 2017 delinquencies and the 2022 composition), and the actual default rate was 0.62 percent. For 2023, the actual experience was only marginally worse than the simulated experience. We repeated the analysis using Fannie Mae loans with LTV ratios of 95 percent and above. Although the delinquency rates were different, the results were qualitatively similar, on a relative basis, to the full Fannie Mae sample.

By contrast, VA loans show a pattern more similar to FHA loans. The actual VA default rates for 2022 and 2023 were double those that would have been projected using the 2017 default experience and the 2022 and 2023 VA loan composition.

TABLE 6

Actual versus Simulated Serious Delinquency Rates for GSE and VA Loans in the First Year, by Origination Year

Year	Full Sample of Fannie Mae Loans		Fannie Mae Loans with LTV Ratios of at Least 95%		VA Loans	
	Actual serious delinquency rates	Predicted serious delinquency rates	Actual serious delinquency rates	Predicted serious delinquency rates	Actual serious delinquency rates	Predicted serious delinquency rates
2017	0.39%	0.39%	0.70%	0.70%	1.00%	1.00%
2018	0.27%	0.44%	0.50%	0.70%	1.00%	1.10%
2019	3.00%	0.35%	4.30%	0.60%	3.10%	1.00%
2020	0.95%	0.27%	2.00%	0.60%	2.60%	0.80%
2021	0.40%	0.31%	0.90%	0.60%	1.50%	0.80%
2022	0.62%	0.38%	0.90%	0.60%	2.00%	1.00%
2023	0.38%	0.33%	0.60%	0.50%	2.10%	1.00%
2024	0.05%	0.33%	0.10%	0.50%	1.51%	1.00%

Source: Urban Institute calculations using eMBS data and Fannie Mae loan-level data.

Notes: VA = US Department of Veterans Affairs. Predicted rates are based on 2017 rates.

Does Lower Home Price Appreciation Play a Role?

Home price appreciation has slowed in recent years, but this does not explain the rise in FHA delinquency. Lower cumulative home price appreciation is associated with higher future default rates (Case and Shiller 1996). If borrowers have substantial home equity, they can sell the home and retain the equity, rather than default. They also have more incentive to continue to make their payments.

But equity accumulation occurs over time and is not highly predictive of default rates in the first year, as home price appreciation has not had enough time to occur. To show this, we use Fannie Mae loan-level data (FHA data are not available for this analysis) and look solely at high-LTV lending. We then conduct logistic analyses to examine the relationship between loan and market characteristics and the probability of serious delinquency within the first year after origination. The dependent variable is a binary indicator for whether the loan became 90 or more days delinquent within 12 months of origination. The key independent variable is home price appreciation, measured using the ICE Mortgage Technology Home Price Index at the three-digit zip code level at the end of the first year. Additional covariates include borrower DTI ratio, FICO score, and loan controls, including origination loan amount, interest rate, purchase versus refinance indicator, single-family property indicator, first-time homebuyer indicator, and owner-occupancy indicator.

Table 7 shows the results of the analysis. For each specification, coefficient estimates are shown on the top line with t-statistics in brackets below. All regressions are estimated separately by origination year (2017 through 2023). The coefficients on FICO score are consistently negative (higher FICO scores are correlated with lower default rates) while the coefficients on DTI ratio are consistently positive (higher DTI ratios are correlated with higher default rates), as expected. By contrast, the characteristics

of home price appreciation vary from year to year (sometimes positive, sometimes negative), indicating a more ambiguous relationship.

TABLE 7

Factors Explaining the Likelihood of Experiencing Serious Delinquency in the First Year following Origination

Logit model results

Variable	2017 (1)	2018 (2)	2019 (3)	2020 (4)	2021 (5)	2022 (6)	2023 (7)
HPA	-3.382*** (-4.140)	-2.290** (-1.940)	4.290*** (17.320)	-4.507*** (-25.000)	0.596*** (3.150)	-1.627*** (-3.490)	1.764* (1.680)
DTI ratio	0.029*** (9.100)	0.025*** (7.020)	0.045*** (38.720)	0.048*** (31.040)	0.037*** (17.170)	0.023*** (9.130)	0.034*** (7.920)
FICO score	-0.015*** (-29.490)	-0.019*** (-31.270)	-0.014*** (-66.060)	-0.010*** (-38.640)	-0.015*** (-37.990)	-0.018*** (-39.450)	-0.019*** (-25.830)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Urban Institute calculations using Fannie Mae loan-level data and ICE Mortgage Technology home price data.

Notes: DTI = debt-to-income; HPA = home price appreciation. HPA is an annual estimation at the zip code level. Values in the brackets are *t*-statistics.

*** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$.

What about Improved Loss Mitigation?

Some believe the improved loss mitigation waterfall has caused defaults to increase, as borrowers who go delinquent are often rewarded with mortgage modifications, which can lower payments. But this cannot be the culprit behind the increase in first-year delinquencies. We can prove this point using two methods.

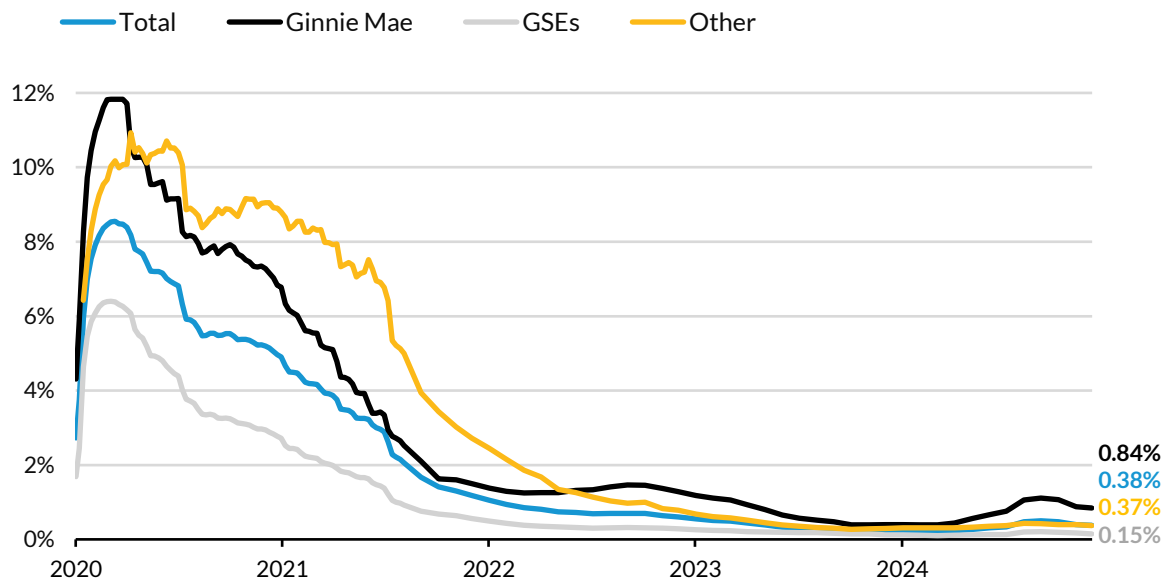
Before the pandemic, a borrower seeking assistance was expected to know whether their issue was short term (in which case, they could suspend payments for some time but had to make them up quickly) or long term (in which case, the borrower might be entitled to a mortgage modification). But since the pandemic began, forbearance has been institutionalized as the first step of a well-integrated loss mitigation waterfall (Goodman and Zhu 2024). Essentially, the borrower can stop making payments while they assess their financial circumstances. The maximum forbearance period is 12 months, though there was a time during the pandemic when the maximum was 18 months. At the end of the forbearance period, when the borrower better understands the payments they can make going forward, there is a hierarchy of options.

1. Can the borrower pay the missed payments back in a lump sum and make the original payment?
2. If not, can the borrower pay the missed payments back over a short period and make the original payment?
3. If not, can the borrower resume the original payment and pay the missed payments back at the end of the life of the mortgage?

4. If not, can the borrower afford a payment that is 20 percent or so less than the original payment?
5. If not, the borrower is referred to a foreclosure or a foreclosure alternative.

Given that forbearance is the first step for all borrowers, we can look at forbearance rates to gauge the size of the effect. The Mortgage Bankers Association collected these data weekly starting early in the pandemic and then moved to a monthly format in October 2021. Note that 0.84 percent of Ginnie Mae loans are in forbearance (figure 2); the total for all loan types is 0.38 percent. A loan in forbearance counts as delinquent. Most loans in forbearance would likely have gone delinquent in any case. The question is what proportion of the loans in forbearance would have kept paying had forbearance not been an option.

FIGURE 2
Forbearance Rates, by Channel



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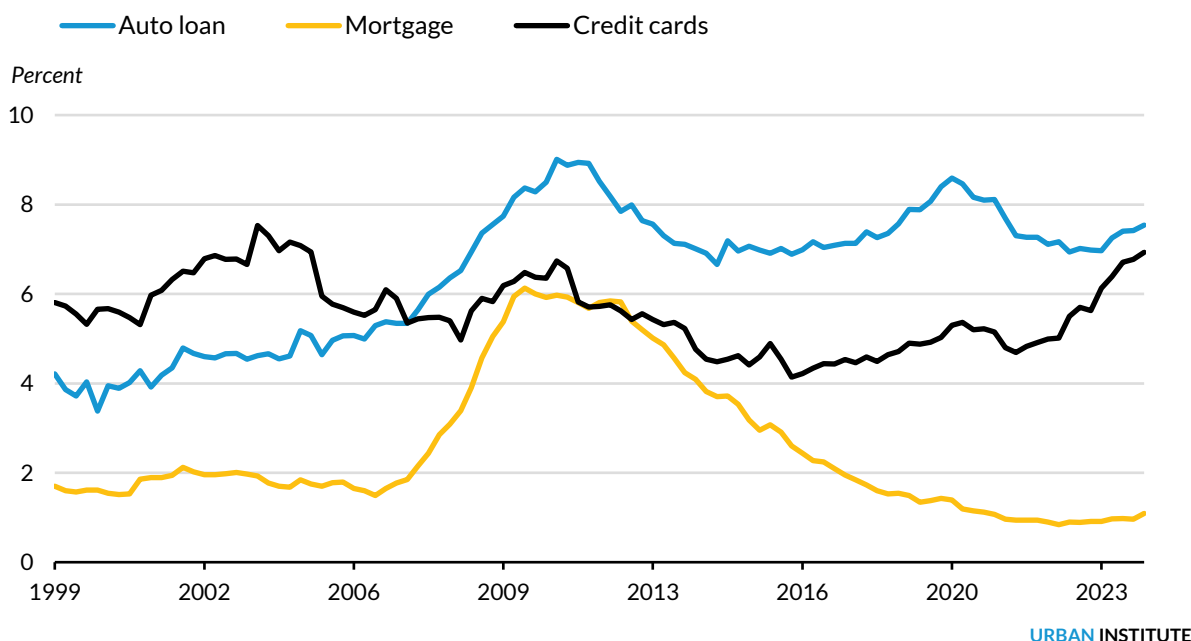
Source: Laurie Goodman, Janneke Ratcliffe, Michael Neal, et al., [Housing Finance at a Glance: A Monthly Chartbook, May 2025](#) (Washington, DC: Urban Institute, 2025).

Note: GSEs = government-sponsored enterprises.

If we assume 25 percent of the loans would have paid had forbearance not been available, the delinquency rate would have increased by about 0.21 percent (25 percent of 0.84 percent). Recall from our simulation exercise in table 5 that FHA delinquencies for 2022 and 2023 originations are more than double what would have been expected based on the 2017 experience—that is, they were over 4 percent, versus a 2 percent expectation. Based on our assumptions above, increased forbearance could not explain more than 10 percent of the increase.²

If the improved loss mitigation waterfall were to lead to more strategic defaults, we would expect to see borrowers deprioritize their mortgages in favor of other types of debt, such as credit cards and auto loans. But this is not the case. The Federal Reserve Bank of New York Consumer Credit Panel shows that mortgages have lower delinquency rates than other types of consumer debt (RSG 2025) (figure 3).

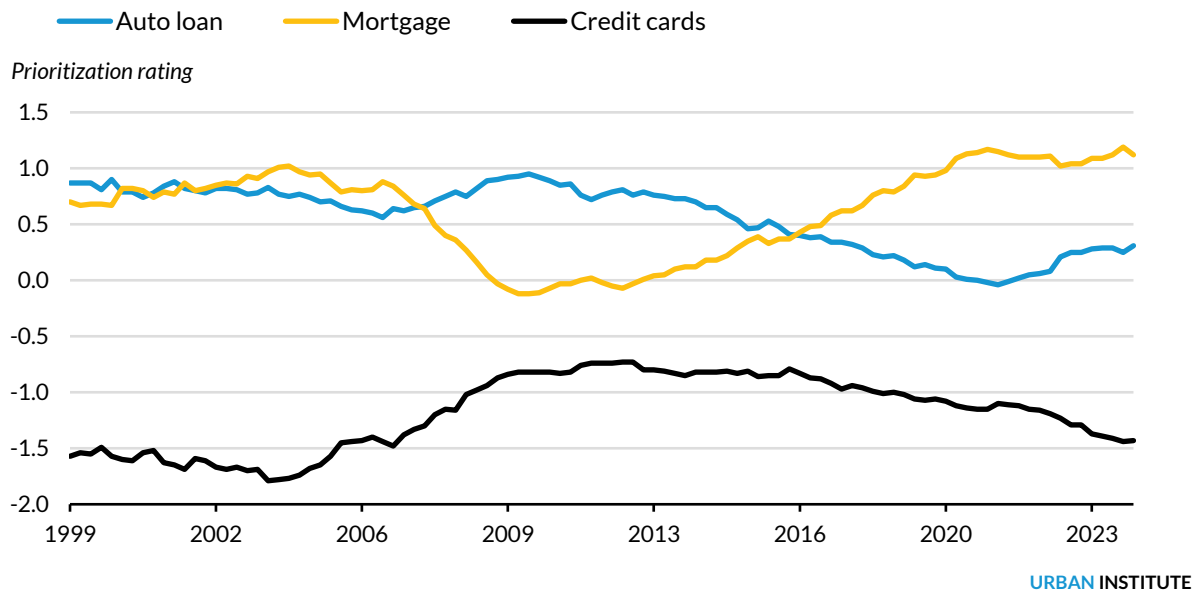
FIGURE 3
Delinquency Rates, by Loan Type



Source: Jacob Conway, Natalia Fischl-Lanzoni, and Matthew Plosser, “When the Household Pie Shrinks, Who Gets Their Slice?” *Liberty Street Economics* (blog), Federal Reserve Bank of New York, March 6, 2025, <https://libertystreeteconomics.newyorkfed.org/2025/03/when-the-household-pie-shrinks-who-gets-their-slice/>.

Recent research by Conway and coauthors looked at consumer credit files to determine debt prioritization.³ Figure 4 shows the results of their analysis of consumer debt prioritization over time—lower numbers on the prioritization rating indicate the debt is less likely to be paid. They found that paying mortgages has become an increasing priority and is the debt most likely to get paid. By contrast, during the financial crisis, borrowers were more apt to pay their auto debt than their mortgage debt.

FIGURE 4
Debt Prioritization over Time



Source: Jacob Conway, Natalia Fischl-Lanzoni, and Matthew Plosser, “When the Household Pie Shrinks, Who Gets Their Slice?” *Liberty Street Economics* (blog), Federal Reserve Bank of New York, March 6, 2025, <https://libertystreeteconomics.newyorkfed.org/2025/03/when-the-household-pie-shrinks-who-gets-their-slice/>.

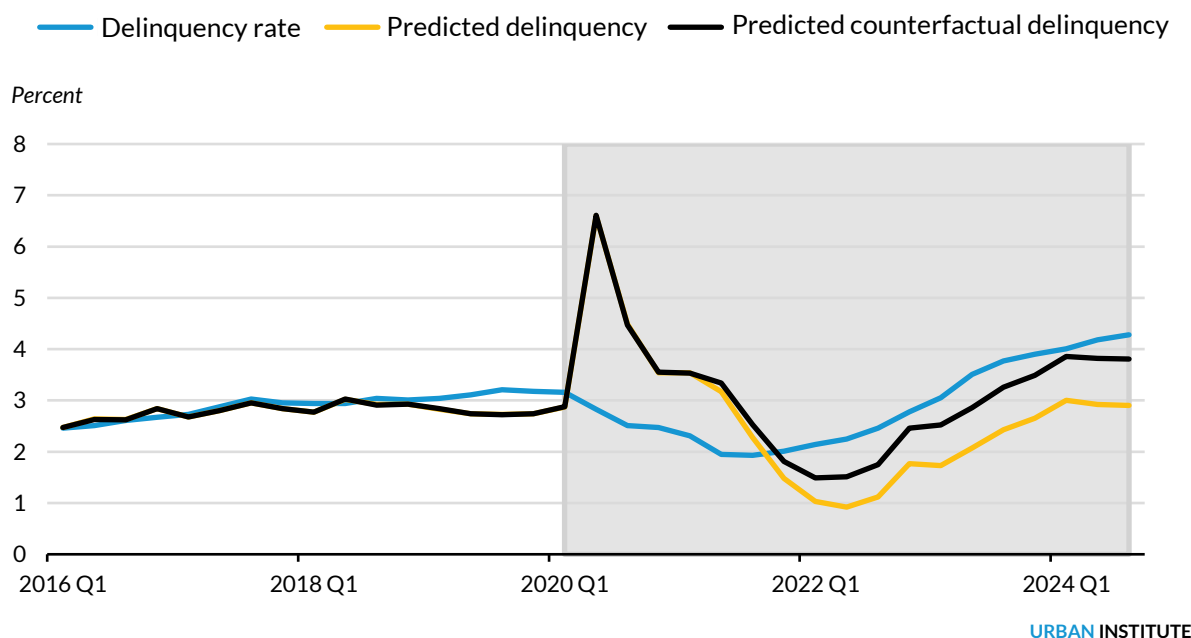
Could It Be Shifts in Credit Score Predictability?

Some believe that credit scores became less reliable in predicting borrowers’ future payments during and after the pandemic, as the three rounds of economic impact payments during the pandemic (in March 2020, December 2020, and March 2021) allowed consumers to pay down some of their debts and inflated credit scores. The first payment was \$1,200 per adult and \$500 per qualifying child; the second was \$600 per eligible individual (adults and children), and the third was \$1,400 per eligible individual (adults and children). The income restrictions on the payments were set high enough that most Americans qualified. The argument has been made that since the payments were nonrecurring events, the improved credit scores would drop over time. Although borrowers could qualify for a mortgage based on the inflated credit scores, their delinquency behavior would mirror the behavior of borrowers with lower scores.

There is some evidence of this in the credit card arena; credit card delinquencies are up substantially. Barnes and coauthors looked at credit card delinquencies as a function of borrower characteristics and macroeconomic factors, fitting delinquencies from 2000 to 2019.⁴ The authors then forecasted 2020 to 2024 delinquencies out of sample using the regression results from the in-sample period. Realized delinquencies were higher than projected delinquencies. The authors then adjusted the projections, holding the 2019 credit score distribution constant throughout the projection period. Realized delinquencies were slightly higher than the projected delinquencies from this simulated

analysis, but the difference was much smaller, indicating that inflated credit scores could partially explain the differences.

FIGURE 5
Credit Score Mitigation



Source: Kayleigh Barnes, Connor Bopst, and John Driscoll, “Predicting Credit Card Delinquency Rates,” *FEDS Notes* (blog), Board of Governors of the Federal Reserve System, February 28, 2025, <https://www.federalreserve.gov/econres/notes/feds-notes/predicting-credit-card-delinquency-rates-20250228.html>.

Notes: Q = quarter. This figure plots the realized delinquency rate, the predicted delinquency rate from specification 2, and the predicted counterfactual delinquency rate from specification 2, fixing the nonprime share at its Q4 2019 level. The out-of-sample period (Q1 2020 through Q3 2024) is shaded in gray.

We essentially repeated that simulation exercise looking at the 2017 experience for LTV and DTI ratios (table 8). Doing this implicitly assumes the distribution by FICO score remained unchanged at 2017 levels. The results did not change much. Although credit scores shifted, the shift was too small to have much explanatory power. The results are in line with figures 3 and 4 that mortgage delinquencies have significantly fallen in the past 10 years compared with delinquencies for other types of debt, and paying mortgages has become an increasing priority for households.

TABLE 8

Actual versus Simulated Serious Delinquency Rates in the First Year, Ignoring Changes in FICO Scores

Origination year	Actual serious delinquency rates	Predicted delinquency rates
2017	1.95%	1.95%
2018	1.75%	2.00%
2019	6.45%	1.98%
2020	5.93%	1.99%
2021	4.13%	1.93%
2022	4.82%	1.96%
2023	3.99%	1.98%
2024	2.54%	1.98%

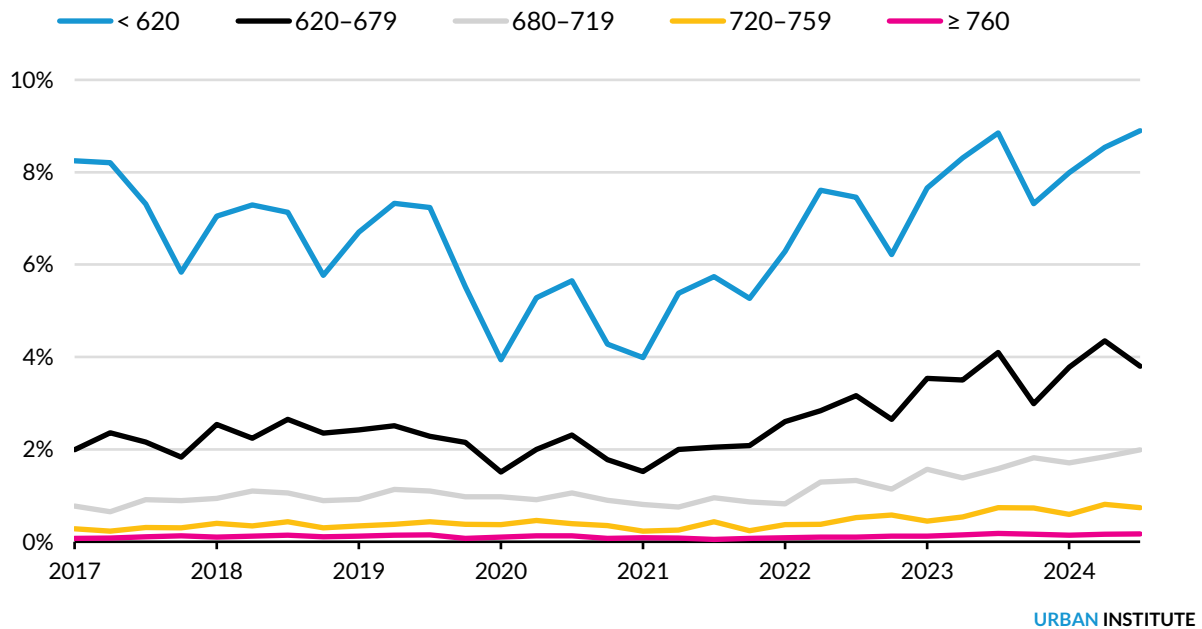
Source: Urban Institute calculations using eMBS data.

Notes: Serious delinquency refers to loans 90 or more days delinquent. Predicted rates are based on 2017 rates.

Where Does This Leave Us?

We have investigated commonly cited possible reasons for the increased delinquency in the first year following mortgage origination and found that none of them explain the phenomenon. The most likely explanation remaining is the most obvious: borrowers are simply more financially stressed. Inflation has risen faster than wages, and borrowers are less able to establish an adequate emergency savings account to absorb shocks. The stress is disproportionately greater on borrowers with low credit scores, as shown by the experience with auto loan delinquencies (figure 6), taken from a post from Haughwout and coauthors.⁵

FIGURE 6
Auto Loan Delinquencies, by Credit Score



Source: Andrew Haughwout, Donghoon Lee, Daniel Mangrum, Joelle Scally, and Wilbert van der Klaauw, “Breaking Down Auto Loan Performance,” *Liberty Street Economics* (blog), Federal Reserve Bank of New York, February 13, 2025, <https://libertystreeteconomics.newyorkfed.org/2025/02/breaking-down-auto-loan-performance/>.

Note: Figure shows share of auto loans newly 30 days past due.

Delinquency has increased on FHA mortgages, auto loans, and credit cards,⁶ and new SHED data find that the share of buy-now, pay-later loans that are behind has also increased in a similar period.⁷ Though low-income households have a higher delinquency rate for all products, the growth in delinquency is observed for all income buckets, in different types of loans, suggesting financial stress has risen among all income groups.

In addition to inflation outpacing wages, borrowers in many parts of the country have been subject to an abnormal number of natural disasters, as well as outside increases in insurance payments and, to a lesser extent, tax payments.⁸ Although an increase in tax and insurance payments should have a small effect on first-year delinquencies, as updated numbers are used to qualify the borrower, the impact will not be zero.

Another contributor might be that older FHA loans that defaulted and were subsequently modified with 40-year terms and repooled might be experiencing high redefault rates fairly soon after modification. But this factor would not affect our analysis because our database includes only loans with original terms of 30 years or less. Any loans that were modified to 40-year terms and repooled would not appear in our dataset, even though they might show up as “new” loans in other data sources. Therefore, although 40-year modification performance might be a concern in the broader market, it does not contribute to the default patterns we observe in our analysis.

Do We Need to Worry about the Increased FHA Delinquencies?

FHA delinquencies, particularly first-year delinquencies on new production, are up substantially from pre-pandemic levels, but we do not believe it is cause for concern. First, improved loss mitigation has cut the serious-delinquency-to-home-loss rate substantially. This cut mostly offsets the increases we are seeing. Second, the FHA MMI Fund is well capitalized and can sustain greater losses than have historically been realized. In fact, we are at delinquency levels similar to those in 2018, a time when the MMI Fund was growing, and nothing near the levels of the financial crisis. We look at each of these points in turn.

Before the improvements in the loss mitigation waterfall, borrowers needed to rapidly assess whether their problems were temporary (in which case, they received short-term forbearance with a repayment plan that must be repaid quickly) or were permanent (in which case, they could receive a permanent mortgage modification). The combination and integration of the two loss mitigation paths provided borrowers with a valuable “time-out” period where they could assess their financial situation. When they exited forbearance, they could work with their servicer to figure out the loss mitigation option that best met their needs.

Goodman and Zhu (2024) have examined the impacts of the pandemic loss mitigation policies for the GSEs, and the FHA’s are similar. The authors conclude that the improved policies—putting forbearance at the top of the loss mitigation waterfall and creating an integrated process—have cut the transition rate from serious delinquency to foreclosure by 46 percent. This suggests that if one’s goal was to hold expected losses constant, the percentage of loans that go seriously delinquent could nearly double ($1 / 0.54$). That is,

$$\text{Losses} = \text{share of loans that go seriously delinquent} * \text{share of loans that transition from serious delinquency to home loss} * \text{loss severity}$$

Although the new loss mitigation waterfall reduces losses, it is not costless for credit risk holders (or for the FHA). For borrowers who take advantage of the loss mitigation waterfall and then cannot maintain their payments, the timeline is lengthened. And some borrowers, who would otherwise have been able to recover, use forbearance. There is a cost to deferring the payments. Goodman and Zhu (2024) estimate that these costs are about 25 percent of the savings. Even so, the results suggested that the increase in serious delinquency rates would be offset by the effects of improved loss mitigation.

Moreover, the FHA MMI Fund is statutorily required to have a capital ratio of 2 percent of its insurance in force. At the end of fiscal year 2024, the ratio was 11.47 percent (FHA 2024), a sharp increase from 2.1 percent in 2015. To put this in perspective, delinquency rates would need to increase far beyond anything observed historically to meaningfully erode this capital cushion. The fund consists of two components: capital resources and the net present value of outstanding loans. Capital resources, representing 8.29 percent of insurance in force, can be thought of as money in the bank. It is composed of collected up-front and monthly insurance premiums, investments, recoveries on disposed assets, and

any notes and properties awaiting disposition. This would be unaffected by any increase in delinquencies on outstanding loans. The net present value of the outstanding loans component equals the net present value of the projected insurance premiums less the net present value of projected claim payments, as well as property preservation expenses and disposition expenses. The net present value calculation already includes the effect of slower home price appreciation going forward.

With an 11.47 percent capital ratio, the MMI Fund maintains a robust buffer against potential losses. To put this in perspective, current FHA foreclosure rates of 0.92 percent⁹ translate to just 0.46 percent annual losses (assuming 50 percent loss severity), a fraction of the available capital.

The fund's resilience becomes clear under stress testing. Even if foreclosure rates increased more than fivefold to 5 percent—matching the worst levels during the financial crisis—annual losses would reach only 2.5 percent, well below the capital buffer. For the fund to face serious depletion in a single year, foreclosure rates would need to surge to over 20 percent, producing roughly 10 percent losses. This scenario is more than 20 times the current levels and far beyond any historical precedent.

Moreover, the MMI Fund benefits from continuous capital replenishment through new loan originations, which contribute up-front premiums of 1.75 percent and annual premiums of 55 basis points. Each new vintage can absorb lifetime losses of up to 4.5 percent while remaining profitable. Even during housing stress when origination volumes typically decline, this ongoing premium income provides additional protection beyond the existing capital buffer.

The bottom line is that the MMI Fund's 11.47 percent capital ratio provides substantial protection for FHA loans, with ample cushion to weather even severe housing market stress.

Notes

- ¹ Richard Green, “The Trouble with DTI as an Underwriting Variable—and as an Overlay,” Richard’s Real Estate and Urban Economics blog, December 7, 2016, <https://real-estate-and-urban.blogspot.com/2016/12/the-trouble-with-dti-as-underwriting.html>.
- ² Market participants have also mentioned the high redefault rates on mortgages that have been modified with their term extended to 40 years. See, for example, “A Look at the Ginnie Mae 40-Year Mod,” Recursion blog, March 24, 2023, <https://www.recursionco.com/blog/a-look-at-the-ginnie-mae-40-yr-mod>. Our database includes only loans with original terms of 30 years or less, so any elevated default rates associated with 40-year loan modifications would not be captured in our analysis. Our data will pick up the original mortgage when it goes 90 or more days delinquent before the modification, and Mortgage Bankers Association data will pick up the forbearance on the original loan. Our data do not include the repooled mortgages with extended terms, though the FHA’s released data do include them. The number of these modified loans is small, and the number is expected to drop as the new payment supplement (required as of January 1, 2025) provides a more effective modification tool than payment extension.
- ³ Jacob Conway, Natalia Fischl-Lanzoni, and Matthew Plosser, “When the Household Pie Shrinks, Who Gets Their Slice?” *Liberty Street Economics* (blog), Federal Reserve Bank of New York, March 6, 2025, <https://libertystreeteconomics.newyorkfed.org/2025/03/when-the-household-pie-shrinks-who-gets-their-slice/>.
- ⁴ Kayleigh Barnes, Connor Bopst, and John Driscoll, “Predicting Credit Card Delinquency Rates,” *FEDS Notes* (blog), Board of Governors of the Federal Reserve System, February 28, 2025, <https://www.federalreserve.gov/econres/notes/feds-notes/predicting-credit-card-delinquency-rates-20250228.html>.
- ⁵ Andrew Haughwout, Donghoon Lee, Daniel Mangrum, Joelle Scally, and Wilbert van der Klaauw, “Breaking Down Auto Loan Performance,” *Liberty Street Economics* (blog), Federal Reserve Bank of New York, February 13, 2025, <https://libertystreeteconomics.newyorkfed.org/2025/02/breaking-down-auto-loan-performance/>.
- ⁶ Juan M. Sánchez and Masataka Mori, “The Broad, Continuing Rise in Delinquent U.S. Credit Card Debt Revisited,” *On the Economy* (blog), Federal Reserve Bank of St. Louis, May 9, 2025, <https://www.stlouisfed.org/on-the-economy/2025/may/broad-continuing-rise-delinquent-us-credit-card-debt-revisited>.
- ⁷ “Survey of Household Economics and Decisionmaking,” Board of Governors of the Federal Reserve System, last updated May 28, 2025, <https://www.federalreserve.gov/consumerscommunities/shed.htm>.
- ⁸ Mortgage Bankers Association, “Mortgage Delinquencies Increase in the Fourth Quarter of 2024,” news release, February 6, 2025, <https://www.mba.org/news-and-research/newsroom/news/2025/02/06/mortgage-delinquencies-increase-in-the-fourth-quarter-of-2024>.
- ⁹ Mortgage Bankers Association, “Mortgage Delinquencies Increase Slightly in the First Quarter of 2025,” news release, May 13, 2025, <https://www.mba.org/news-and-research/newsroom/news/2025/05/13/mortgage-delinquencies-increase-slightly-in-the-first-quarter-of-2025>.

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