DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FEDERAL HOUSING ADMINISTRATION

MORTGAGE AND LOAN INSURANCE PROGRAMS

SUMMARY OF THE BUDGET REQUEST

A. Mortgage Insurance Commitment Limitations. The Budget requests an overall mortgage insurance commitment limitation of $181 billion on new fiscal year 2002 FHA loan commitments. The proposed total includes $160 billion under the MMI/CMHI Fund, which will exclusively support insurance of home mortgages; and $21 billion under the GI/SRI Fund which supports home, multifamily rental, and an assortment of special purpose (hospitals, nursing homes, etc.) mortgage insurance.

B. Direct Loan Limitations. The Budget requests a direct loan limitation of $250 million under the MMI/CMHI account. A direct loan limitation of $50 million is requested for the GI/SRI account. These direct loans will be used to facilitate the acquisition and disposition by non-profit intermediaries of FHA single family and multifamily acquired properties.

C. Appropriations for Administrative Expense. The Budget requests a total of $857 million for administrative and administrative contract expenses in the FHA program accounts. Of this total, $531 million will be transferred to Salaries and Expenses (S&E), HUD; $22 million will be transferred to the appropriation for the Office of Inspector General; and $304 million for administrative contract expenses. Of the total $857 million, $497 million would be funded in the MMI/CMHI accounts, and the remaining $360 million would be in the GI/SRI account.

D. Appropriation for Mortgage Insurance Credit Subsidies. The Budget requests an appropriation of $15 million to support the credit subsidies associated with loan guarantees committed under the FHA's GI/SRI account. The credit subsidy is based on the net cost to the Government, exclusive of administrative expenses, of a direct loan or loan guarantee over its full term, discounted to present value at the Treasury's borrowing cost. In cases where premium and fee income is projected to be more than sufficient to support full costs (i.e., there is no net Federal cost), negative credit subsidy is generated as revenue to offset other spending or reduce the deficit. This request has been significantly reduced as a result of a proposal included in the premium structure of the Section 221(d)(4) Multifamily Construction program. MMI Fund insurance activity is expected to generate an estimated $2.5 billion in negative credit subsidy, including new business resulting from a legislative proposal.

E. Increase in the annual premium. The Department proposes to increase the annual premium on the Section 221(d)(4) mortgage insurance guarantees. This would increase premium paid for insurance on loans originated by private, HUD-approved lenders for construction or substantial rehabilitation of projects with 5 or more multifamily rental units for low- to moderate-income and displaced families. Annual premium would increase from 50 basis points to 80 basis points, generate higher receipts for FHA, and improve the financial soundness of the GI/SRI fund.

F. Legislative proposals.

1. Hybrid ARMs. This budget seeks legislative authority to develop a new hybrid ARMs (adjustable-rate mortgage) product to be added to the single family mortgage products offered through the Mutual Mortgage Insurance (MMI) fund. Using the conventional market as a prototype, hybrid ARMs are defined as loan products that carry an initial fixed interest rate for longer than one year. After the initial fixed-rate period ends, these products are subject to interest rate adjustments, typically on an annual basis and indexed to standard financial indicators, such as the corresponding term treasury bond yield.

2. Increase in multifamily construction loan limits. To spur construction of much-needed multifamily rental housing across the country, the Department seeks to raise the FHA loan limits by 25 percent. Under current law, HUD can only provide FHA insurance for a two-bedroom apartment up to approximately $40,248, with cost adjustments allowed for various regions. A maximum adjustment of 240 percent maybe allowed in certain high cost areas. Rising costs and static loan limits have driven down the number of affordable units available. A 25 percent increase, however, when combined with the existing ability to multiply loan limits by up to 240 percent, will mean that FHA multifamily insurance will be available to help increase production in virtually every region of the country.

3. Extension of OMHAR’s restructuring authority. The Office of Multifamily Housing Assistance Restructuring (OMHAR) was established by the Multifamily Assisted Housing Reform and Affordability Act of 1997 to administer the Mark-to-Market program and will expire September 30, 2001. To facilitate efficient restructuring activity after this date, the Administration intends to submit legislation in the near future to extend and modify the expiring restructuring authorities.

PROGRAM DESCRIPTION

Through mortgage insurance, FHA helps lenders reduce their exposure to risk of default. This assistance allows lenders to make money available to more borrowers for home and home improvement loans, and apartment, hospital, and nursing home loans. FHA provides a vital link to financing for America's housing needs.

Mortgage insurance has made financing available in neighborhoods and geographic areas facing economic uncertainty, and to individuals and families not adequately served by the conventional mortgage market. FHA has been a product innovator, and has seen the private sector follow with similar products and terms once they learn from FHA's experience. FHA spreads and manages risk through geographically dispersed loan insurance activity and a portfolio that is diverse in borrowers and products.

Supporting FHA Administrative Costs

The Congress has enacted an amount of funds to be transferred to the Department's Salaries and Expenses account and to the Office of Inspector General to support the general overhead costs associated with the administration of the various insurance funds. Until fiscal year 2000, this sum was transferred from the funds of the FHA; but in 2000 these funds were directly appropriated to FHA for the transfer. In addition to the amounts appropriated to pay for overhead expenses, the Insurance Funds are appropriated funds to pay for certain programmatic contract expenses relating to the conduct of FHA's endorsement, accounting and servicing, portfolio analysis, and other activities directly related to operations of the funds.

Major FHA information processing systems are scheduled to be managed in-house under the direction of the Office of Information Technology (IT); they include the Multifamily Accounting and Reporting System (MARS), Single Family Accounting and Management System (SAMS), Project Management System (PMS), Computerized Home Underwriting Management System (CHUMS), Debt Center Accounting and Management Systems (DCAMS), Home Equity conversion Mortgage System (HECM), and FHA Management Information Systems (FHAMIS). Funding for the development and operation of the systems will be accomplished through reimbursements to the Working Capital Fund. Reimbursements to the Working Capital Fund are also included in the activities to be paid from the program account contract funds. In 2001, the amounts of the transfers to the Working Capital Fund were appropriated. In 2002, the Department proposes to establish a limitation of up to $160 million on the total FHA transfers from MMI and from GI/SRI to the Working Capital Fund, and to delete the language in the 2001 Appropriations Act that set a fixed amount for transfer from each of these funds. This proposed limitation language would allow FHA to allocate funds for information systems development and operations as needs are ascertained, and allocate transfer funding authority between MMI and GI/SRI for the needs of those programs. The limitation would also allow FHA to balance the need for information system services with the need for outside contract services within the tight funding available for FHA contracts.

Costs associated with acquisition, management and disposition of specific assets, Headquarters-directed as well as field originated, are capitalized into the costs of those properties and notes, and affect the profit or loss realized on the disposition of the assets. These costs are not included in the FHA contract totals in the program accounts.

STRATEGIC GOALS AND OBJECTIVES

While FHA has a specific mission and defined goals, it also contributes to the larger goals of the Department. Through its Single Family 203(k) program, which provides for combined purchase and rehabilitation financing, FHA contributes to community revitalization and development. Through its Multifamily Mixed-Income product, available to convert public and other housing to mixed-income developments, FHA contributes to opening housing markets and encouraging economic and social integration. Through FHA's Neighborhood Networks initiative, residents learn new skills and gain access to information that can help them become less dependent on assistance, and successfully make the transitions required by welfare reform. Multifamily's Safe Neighborhood Action Plans improve living conditions in neighborhoods beyond the physical boundaries of FHA-insured properties. Disposition and rehabilitation of multifamily owned property are increasingly a part of the broader community plans and efforts.

FHA's ongoing objective is to continue to enhance its business capacity and to better serve its public purpose. FHA has focused significant effort on reinventing itself to become more streamlined, market-driven, and effective in furthering the Nation's community and housing goals, including increasing the national homeownership rate to an all time high. More remains to be done to ensure that FHA is a blend of the best of public and private business worlds: a business-driven entity created to serve a public mission, and flexible enough to act quickly and cost-effectively in rapidly changing markets.

The fiscal year 2002 Budget provided strategic goals for the Department, including:

- increase availability of decent, safe and affordable housing in American communities;
- ensure equal opportunity in housing for all Americans;

- promote self-sufficiency and asset development of families and individuals;
- improve community quality of life and economic viability; and
- ensure public trust in HUD.

Establishing these objectives, with appropriate indicators, enables FHA to focus activities on measurable results. Specific objectives and performance measures for the MMI and GI/SRI funds are discussed in each of the following sections.

MUTUAL MORTGAGE AND COOPERATIVE MANAGEMENT HOUSING INSURANCE ACCOUNT

PROGRAM HIGHLIGHTS

		ACTUAL 2000	ENACTED 2001	ESTIMATE 2002	INCREASE + DECREASE - 2002 vs 2001
		(Dollars in Millions)			
APPROPRIATION REQUEST					
Insurance Commitment Limitation		$140,000	$160,000	$160,000	...
Use		-$94,161	-$127,609	-$134,736	-$7,127
Subtotal		$45,839	$32,391	$25,264	-$7,127
Direct Loan Limitation		$100	$250	$250	...
Administrative Transfers (S&E, OIG, & FHCC)		$331	$331	$337	+$6
Rescission		NA	-$1	...	+$1
Non-overhead admin. costs	a/	$160	$160	$160	...
Discretionary outlays (Net)	b/				
Negative Subsidy (Discretionary)		-$1,864	-$2,246	-$2,402	-$156
Negative Subsidy (Hybrid ARMs) .		...	...	-$99	-$99
Program Account Discretionary Outlays		$341	$578	$496	-$82
Subtotal		-$1,523	-$1,668	-$2,005	-$337
Mandatory Outlays (Net):					
Liquidating Account		-$856	$2,732 d/	-$1,156	-$3,888
Mortgage Insurance Commitments: (Units)					
Homes Current		911,345	1,207,579	1,243,311	+35,732
Insurance Written (units):					
Homes Current	c/	873,265	1,046,799	1,152,947	+106,148
Insurance Written (dollars):					
Homes Current	c/	$86,274	$106,016	$119,712	+$13,696
Insurance in-force (dollars):					
Homes	c/	$449,805	$505,021	$552,684	+$47,663
Payment of insurance claims		$5,646	$5,532	$5,523	-$9

a/ For 2000 and future years, non-overhead administrative costs (FHA contracts) of $160 million are discretionary appropriations in the program account.
b/ FHA negative subsidy has been reclassified as discretionary starting in fiscal year 2000 by agreement of OMB and CBO, but are not shown in net outlays.
c/ CMHI insurance included.
d/ Includes net reestimates of $3,351 million.

SUMMARY OF BUDGET ESTIMATES

1. Credit Limitation. The Budget requests $160 billion as limitation on new insurance commitments for fiscal year 2002. This limitation includes standby commitments to avoid the need for supplemental appropriations if the demand for insurance should exceed the projected level; but standby commitments are not reflected in the estimates for net outlays and receipts.

An estimated $120 billion of insurance will be written in 2002, covering over 1.2 million units. The estimates include a 10 percent increase in the number of FHA mortgages. About 40 percent of this anticipated increase is due to a legislative proposal to allow FHA to insure “hybrid” ARMs -- that is, adjustable rate mortgages with interest rates that are fixed for an initial period greater than 1 year, and are adjustable annually thereafter.

2. Appropriation Request. An appropriation of $497 million is requested for administrative expenses during fiscal year 2002. Of this sum, $333 million will be transferred to the Departmental Salaries and Expenses and $4 million to the Office of Inspector General. The $160 million remaining is needed for FHA contracts, including maintenance, operation and improvement of ADP systems, financial information and reporting, and management services. The MMI Fund is expected to generate over $2.5 billion of negative subsidy on insurance written in fiscal year 2002, which would offset discretionary outlays.

3. Mortgage Note Sales. Single Family Note Sale Number 6 occurred in fiscal year 2000, and sold most of the notes remaining in inventory. About 7,000 MMI-held notes were sold out of an inventory of about 9,900. After notes were sold, foreclosed, and paid off, less than 1,000 remained in inventory at the end of fiscal year 2000.

Budget estimates are based on the estimates developed in the Actuarial Review, including claim and prepayment rates and the estimated numbers of cases insured in future years. The production of the Review for fiscal year 2000 was expedited, thus making this data available in time for inclusion in the 2002 Budget. In prior Budgets, since the Review has been released in the spring and the Budget must be finished in January, the rates normally used for budget purposes are those in the Review of the year before the actual year in the Budget; thus, for the 2001 Budget, the claim rates from the 1998 Actuarial Review (issued March 1999) were used; for the 2002 Budget, the 2000 Actuarial Review was used, as adjusted by OMB. Each Review contains claim and prepayment rates for prior and future cohorts of business.

EXPLANATION OF INCREASES AND DECREASES

1. Mortgage Origination. FHA anticipates that it will endorse more insurance in single family mortgages in fiscal year 2002 ($120 billion and 1.2 million homes) than in fiscal year 2001 ($106 billion and 1 million homes). No additional commitment authority is requested in 2002 above the $160 billion in 2001.

2. Mortgage Assignment, Property Acquisitions, and Property Sales. There will be no mortgage assignments in 2002, but FHA will acquire notes under Section 601 of the 1999 Appropriations Act. One sale of notes under Section 601 is currently projected for 2001, but more may occur then or in future years as inventory warrants. The claim costs for acquired properties is projected to be an estimated 4 percent below the 2001 levels, using the claim rates from the 2000 Actuarial Review, as adjusted by OMB. This reduction is due in part to increasing use of the loss mitigation techniques on about half the claims in 2002, and in part to moving from property claims to note claims under Section 601 of the 1999 Appropriations Act. Sales are projected based on the estimated inventory at the end of fiscal year 2001 and estimated acquisitions in fiscal year 2002.

3. Legislative Proposal. A legislative proposal included in the 2002 estimates would allow FHA to insure “hybrid ARMs,” that is, adjustable rate mortgages which have a fixed interest rate for an initial period of greater than 1 year, followed by annual adjustments to the interest rate. These mortgages are expected to appeal to potential home buyers who cannot otherwise qualify for a fixed rate mortgage at the level they need, and are wary of annual adjustments in the early years of an adjustable rate mortgage. Commercial lenders have offered these mortgages, and borrowers have found them attractive. FHA proposes to offer these mortgages with an initial fixed rate for time periods of 3, 5, 7, and 10 years. An additional 40 thousand mortgages for $4.8 billion would be insured in 2002 under this proposal, producing $99 million of additional negative subsidy in 2002. This legislative proposal does not include an increase in the limitation on the volume of ARM mortgages, currently 30 percent of the endorsements made during the preceding fiscal year.

4. Financial Activity. Net outlays in 2002 are estimated at -$1.3 billion for all accounts, including the off-budget financing accounts.

The fiscal year 2002 Budget shows the negative subsidy continuing to be disbursed to the Liquidating Account through 2002 and until arrangements can be made so that the reserves in the Receipt Account will earn interest, as they currently do in the Liquidating Account. The Receipt Account is expected to be set up in 2003.

PROGRAM DESCRIPTION AND ACTIVITY

Mortgage and Loan Insurance Programs (FHA Fund)

MMI/CMHI Funds. The Mutual Mortgage Insurance Fund consists of the basic single family home mortgage program (Section 203(b)), the largest of all the FHA programs.

The Section 203(b) program, enacted in the National Housing Act of 1934, provides mortgage insurance for one- to four-family residences. This program has contributed to expanding the opportunities for homeownership in the United States and will continue to meet the needs of first-time homebuyers, working families, and minority families, as well as underserved communities, especially center city and rural areas. Under the 203(b) program, any person able to meet the cash investment, mortgage payments and credit requirements may obtain an FHA-insured loan from a private lending institution to purchase a home. Since its inception through September 30, 2000, the MMI Fund has insured approximately $1.1 trillion in mortgages for about 18 million families.

The Cooperative Management Housing Insurance Fund contains the Cooperative Housing Insurance program (Section 213) which provides mortgage insurance for cooperative housing projects of more than five units which are occupied by members of a cooperative housing corporation. The insurance program can be used for new construction, rehabilitation, acquisition, improvement or repair of a project and resale of individual memberships in the cooperative. Enacted in 1950, only minor program activity has occurred in recent years.

A legislative change proposed for MMI for fiscal year 2002 would allow FHA to insure adjustable rate mortgages which have a fixed initial period (hybrid ARMs). This proposal is discussed in more detail above.

The MMI Fund has stabilized its financial position, exceeding its capital reserve requirement. Thus the Department has thought it appropriate to reduce the amount of up-front fees and the term of payment of periodic premiums as of January 1, 2001, making homeownership within the financial reach of more families. The up-front fees were reduced from a basic fee of 2.25 percent to 1.5 percent. The periodic premiums continue at 0.5 percent per year, but are terminated when the loan balance reaches 78 percent of the original mortgage amount. Prior to the change, home buyers with loan-to-value ratios over 95 percent were required to pay annual fees for the life of the loan. In addition, the period over which homeowners' mortgages were extinguished so that they become eligible to receive a partial rebate of up-front fees was shortened from 7 to 5 years, effective January 1, 2001.

The contracts now in place for management and marketing (M&M) of HUD properties are decreasing the turn-around time on sales, increasing the maintenance on vacant properties (thus, in some cases, helping to stem neighborhood blight), and increasing return to FHA on sales. Since various studies have shown that not all the M&M contractors are performing to contract, FHA has hired additional contractors to check on property management and sales. These contracts should materially increase the oversight of the M&M contractors which can be performed by the limited number of HUD staff.

STRATEGIC GOALS AND OBJECTIVES: RESOURCES REQUESTED ($ AND FTE) AND RESULTS

Discretionary BA (Dollars in Millions)	2000 Actual	2001 Enacted	2002 Estimate
Program Account	$491	$490	$497
Negative Subsidy	1,864	2,246	2,501
FTE	1,086	1,077	1,077

The MMI fund of FHA contributes to a number of Strategic Goals and Objectives: Increasing homeownership, ensuring equal opportunity in housing for all Americans, improving community quality of life and economic vitality, and ensuring the public trust in HUD.

FHA provides a large share of loans to low- to moderate-income families, and to minorities, yet the MMI Fund has not cost the taxpayers since its initial start-up costs in 1934. Not only is it not a cost to general government revenues, but it contributes billions of dollars in negative subsidy, which contributes to the Federal surplus.

SELECTED PERFORMANCE MEASURES

	ACTUAL 2000	ENACTED 2001	ESTIMATE 2002
Strategic Goal 1: Increase the availability of decent, safe and affordable housing in American communities.			
Discretionary BA (Dollars in Thousands)	430,319	430,118	434,487
FTE	886	878	878
Strategic Objective 1.1: Homeownership is increased.			
Outcome Indicator 1.1.1: The overall homeownership rate increases from 67.7 percent in 2000 to 68.5 percent in 2002.	67.7 percent	67.5 percent	68.5 percent
Output Indicator 1.1.b: The share of FHA mortgage defaults resolved by loss mitigation alternatives to foreclosure increases by 2 percentage points to 38.1 percent.	34.1 percent	36.1 percent	38.1 percent
Output Indicator 1.1.c: The FHA Mutual Mortgage Insurance Fund meets congressionally mandated capital reserve targets.	3.51 percent	Not Less Than 2.0 percent	Not Less Than 2.0 percent
Output Indicator 1.1.f: The share of FHA-insured home-purchase mortgages for first-time homebuyers remains at least 82 percent.	81.6 percent	Not Less Than 80 percent	Not Less Than 82 percent
Outcome Indicator 1.1.3: The homeownership rate among households with incomes less than median family income increases by 0.5 percentage point to 53.2 percent.	52.2 percent	52.7 percent	53.2 percent
Strategic Goal 2: Ensure equal opportunity in housing for Americans.			
Discretionary BA (Dollars in Thousands)	...[a]	...[a]	...[a]
FTE	...[a]	...[a]	...[a]
Strategic Objective 2.3: Disparities in homeownership rates are reduced among groups defined by race, ethnicity and disability status.			
Outcome Indicator 2.3.1: The ratio of homeownership rates of minority and nonminority low- and moderate-income families with children increases by 0.4 percentage points to 76.0 percent by 2003.[b]	Not Available	75.6 percent	Not Available
Output Indicator 2.3.a: The share of minority homebuyers among FHA mortgage endorsements increases by 1 percentage point annually to 43.8 percent (also appears as 1.1.j).	41.8 percent	42.8 percent	43.8 percent
Strategic Goal 4: Improve community quality of life and economic vitality.			
Discretionary BA (Dollars in Thousands)	1,514	1,527	1,563
FTE	5	5	5
Strategic Objective 4.2: Economic conditions in distressed communities improve.			
Outcome Indicator 4.2.3: The homeownership rate in underserved neighborhoods ceases to decline by 2005.	To Be Determined	Not Available	Not Available
Output Indicator 4.2.a: Increase FHA single-family mortgage lending in underserved communities by 5 percent.	357,059	393,000	413,000

	ACTUAL 2000	ENACTED 2001	ESTIMATE 2002
Strategic Goal 5: Ensure public trust in HUD.			
Discretionary BA (Dollars in Thousands)	59,054	59,243	60,650
FTE	195	194	194
Strategic Objective 5.1: HUD and HUD's partners effectively deliver results to customers.			
Output Indicator 5.1.l.1: During FY 2002, 8 mission-critical data systems will be assessed and those systems will be certified by the end of FY 2003.	Not Applicable	7	8

a/ Included under Strategic Goal 1.
b/ The 2001 goal is based on actual 1999 performance of 75.2 percent. Data are from the American Housing Survey, which is conducted in odd years.

GENERAL AND SPECIAL RISK INSURANCE ACCOUNT

PROGRAM HIGHLIGHTS

Mortgage and Loan Insurance Programs (FHA Fund)

	ACTUAL 2000	ENACTED 2001	ESTIMATE 2002	INCREASE + DECREASE - 2002 vs 2001
	(Dollars in Millions)			
APPROPRIATION REQUEST				
Insurance Commitment Limitation	$18,100	$21,000	$21,000	...
Direct Loans Limitation	$50	$50	$50	...
Budget Authority				
Administrative Expenses	$118 a/	$211	$216	+$5
Contract Expenses	$144	$144	$144	...
Positive Credit Subsidy	...	$101	$15	-$86
Supplemental	...	$40	...	-$40
Rescission	...	[-$1]	...	+$1
Subtotal	$262	$496	$375	-$120
Program level				
Use of insurance commitment limitation	$9,308	$16,678	$17,003	+$326
Administrative Expenses				
Use of carryover	$94	...	...	...
Appropriation, S&E Transfer	$118 a/	$211	$216	+$5
Appropriation, Contract Costs ..	$144	$144	$144	...
Subtotal	$355	$355	$360	+$5
Credit Subsidy Reservations:				
Use of Carryover	$153	...	...	...
Appropriations	...	$141	$15	-$126
Subtotal	$153	$141	$15	-$126
Insurance Commitments (dollars) :				
Multifamily	$2,990	$5,697	$6,799	+$1,102
Hospitals	$17	$1,030	$100	-$930
Homes	$6,033	$9,476	$9,877	+$401
Title I	$268	$474	$227	-$247
Subtotal	$9,308	$16,678	$17,003	+$326
Insurance Written (units):				
Multifamily	72,568	144,548	159,003	+14,455
Hospitals	...	...	...	...
Homes	62,757	99,980	102,080	+2,100
Title I	19,167	30,396	31,034	+638
Subtotal	154,492	274,924	292,117	+17,193
Insurance Written (dollars):				
Multifamily	$3,869	$4,195	$6,894	+$2,698
Hospitals	$84	$1,030	$100	-$930
Homes	$8,285	$9,476	$9,877	+$401
Title I	$268	$474	$227	-$247
Subtotal	$12,507	$15,175	$17,098	+$1,922

a/ Pursuant to P.L. 106-74, $118 million in new appropriations was actually utilized. This amount differs from the President's Budget, which reflects $87 million.

SUMMARY OF BUDGET ESTIMATES

A. Credit Limitation. A limitation on new insurance commitments for fiscal year 2002 of $21 billion is requested. It is estimated that $6.8 billion in insurance will be issued for multifamily and healthcare related products in fiscal year 2002 for 159,003 units. Another $100 million is estimated in hospital mortgage insurance. Single family and Title 1 commitments are projected at $10.1 billion in fiscal year 2002 for an estimated 133,114 units.

Mortgage and Loan Insurance Programs (FHA Fund)

A direct loan limitation of $50 million is requested. Of this amount, $30 million is intended for bridge loan financing to facilitate the sale of multifamily projects, and $20 million is for 5-year purchase money mortgages for non-profit and governmental agencies to make HUD-acquired single family properties available for resale to purchasers at or below 115 percent of area median incomes.

B. Appropriations. The 2002 request includes appropriations of $15 million for positive credit subsidy necessary for commitments related to various multifamily programs and for the Title I property improvements loan program in the GI/SRI program account. Appropriations of $216 million in administrative expenses are requested for 2002, of which $198 million is transferred to the Departmental Salaries and Expense Account and $18 million is transferred to the Office of Inspector General. In addition, $144 million for administrative contract expenses is requested.

	ACTUAL 2000	CURRENT ESTIMATE 2001	ESTIMATE 2002	INCREASE + DECREASE - 2002 vs 2001
		(Dollars in Millions)		
APPROPRIATION REQUEST				
INSURANCE COMMITMENT				
Limitation Enacted/Requested.........	$18,100	$21,000	$21,000	...
Direct Loans.........................	50	50	50	...
BUDGET AUTHORITY				
Discretionary:				
Administrative Expenses (S&E)........	118	211	216	+5
Non-overhead admin. expenses	144	144	144	...
Positive Subsidy Appropriations......	[153]	101	15	-86
Supplemental	...	40	...	-40
Total Discretionary Approp.......	262	496	375	-121
Offsetting Receipts..................	-62	-103	-245	-142
Mandatory:				
Liquidating account..................	1306	1138	1950	+812
Mortgage sales.......................	-20	-329	-226	+105
Subsidy rate reestimates (net).......	258	NA	NA	...
BUDGET OUTLAYS				
Discretionary:				
Administrative expenses (S&E).......	211	211	216	+5
Non-overhead admin. expenses........	24	137	144	+7
Credit Subsidy......................	160	115	36	-79
Offsetting receipts.................	-62	-103	-245	-142
Supplemental	...	30	10	-20
Mandatory:				
Liquidating Account.................	443	1600	1950	+350
Program Account.....................	...	46	NA	...
Receipt Account.....................	...	...	-200	-200
Receipt Account Downward Reestimate.	...	-304	...	304

EXPLANATION OF INCREASES AND DECREASES

An emergency appropriation of $40 million for fiscal year 2001 was enacted for additional positive credit subsidy requirements associated with several of the multifamily risk categories and the Title I Manufactured Housing program.

The fiscal year 2002 request also includes estimated commitments of $17 billion in products where the present value of projected revenues from new insurance exceeds the present value of estimated costs, resulting in the generation of negative credit subsidy. This negative credit subsidy of $245 million from new insurance will be a discretionary offset against the total budget authority and outlays of the Department.

The reduction in positive credit subsidy requirements from $101 million in fiscal year 2001 to $15 million in fiscal year 2002 reflects a change in the annual premium structure proposed for 221(d)(4)(Apartments NC/SR) of the multifamily program. This premium change from 50 to 80 basis points eliminates the need for positive credit subsidy for this program. Therefore, the $15 million requested in fiscal year 2002 will be used in connection with the 221(d)(3) non-profit/cooperative, 241 supplemental, operating loss loans, and the title I property improvement programs.

PROGRAM DESCRIPTION AND ACTIVITY

A. GI/SRI Insurance Products. The Department will continue to offer a range of alternative products to address specialized mortgage financing needs. These products include mortgage insurance for rehabilitating, developing, and refinancing of apartment buildings, nursing home facilities, nonprofit hospitals and Title I loans. The Department will work to expand the use of new products that were introduced in fiscal year 1997. During fiscal year 2002, the Department will offer a new insurance product, which expands the accommodation of mixed commercial and other uses in apartment developments and encourages the use of additional fund sources in conjunction with FHA mortgage insurance. These new products will enhance the ability of for-profit and nonprofit developers to develop and rehabilitate affordable housing. The Department's insurance products will continue to meet the Nation's need for decent, safe and affordable housing.

B. Hospital Programs. The Department will continue the Section 242 Program, which provides mortgage insurance for loans made for the construction, renovation and/or equipping of acute care hospitals. Since the program began in 1968, FHA has insured 311 hospital mortgages totaling in excess of $9 billion. The Hospital Mortgage Insurance Program also includes: Section 241 supplemental loans; Section 223(a)(7) loans for refinancing existing insured projects; and Section 223(e) loans for hospitals in older, economically declining urban areas. The Hospital Mortgage Insurance Program is administered by HUD Headquarters, with support from staff at the U.S. Department of Health and Human Services.

C. Multifamily Credit Subsidy Rates. The Department continuously devotes significant efforts in fine tuning credit subsidy estimates. The credit subsidy estimates were developed after extensive consultation with OMB by FHA and reflect substantial additional analysis by the Department. The rates applicable for multifamily mortgages were substantially reduced by identifying the offsetting effect of all recoveries received on defaulted properties, including revenues generated for the FHA Fund during periods in which these loan assets are held in the form of notes prior to foreclosure. The Department and OMB continue to examine the data, assumptions, and calculations, which are used to estimate loan program cash flows and subsidy rates. The rates used in the fiscal year 2002 budget incorporate historic performance data on the basis of dollar volume which is heavily weighted toward the experience of the past ten years. This reflects the substantial improvements made in recent years in underwriting, program monitoring, and asset management. The fiscal year 2002 rate for 221(d)(4) also includes an annual premium increase.

D. Title I Program Subsidy Rates. The fiscal year 2002 estimates for the Title I Programs reflect the loan characteristics of the property improvement and the manufactured housing program which are incorporated into the cash flows, which are used to calculate the subsidy rate for loan programs in accordance with the Federal Credit Reform Act of 1990. The subsidy rates reflect program reforms and a premium increase to reduce subsidy costs. These changes to the Title I program are being proposed as final rule during fiscal year 2001.

E. Title II Program Single Family Subsidy Rates. The GI/SRI single family credit subsidy estimates also reflect review of loan performance. This includes updated loan performance data and assumptions of the major GI/SRI single family programs that are currently active. Those mortgage insurance programs are 234(c) Condominium Housing; 203(k) Purchase/Rehabilitation; and 221(d)(2) Homeownership Assistance. FHA is proposing to discontinue the 221(d)(2) program in fiscal year 2001 because of high claim rates, low volumes, and the availability of alternative financing. In addition FHA is also proposing to require an upfront mortgage insurance premium and other program changes which will result in negative subsidy rates for the 234(c) program.

Mortgage and Loan Insurance Programs (FHA Fund)

The following table displays the estimated allocation of commitment authority and subsidy by program for fiscal year 2002.

GI/SRI PROGRAMS	Commitment Authority FY 2002	Subsidy Rate FY 2002	Positive Subsidy BA FY 2002
Multifamily & Healthcare			
Apartments NC/SC (includes Mixed Use)	$3,000,000,000	-0.14%	
221 d3 NP coop owned apts.	$67,125,000	10.30%	$6,913,875
Tax Credit Projects	$500,000,000	-2.50%	
Mixed Income d4 (Hope VI)	$9,342,966	-0.14%	
Apartments Refinance	$951,078,791	-0.97%	
241a Supplemental loans for Apts.	$17,900,000	29.31%	$5,246,490
Operating Loss Loans for Apts	$1,790,000	21.05%	$376,795
HFA Risksharing	$650,000,001	-1.55%	
GSE Risksharing	$100,000,000	-0.57%	
FHA Full Insurance for Health Care Facilities	$1,000,000,000	-2.21%	
Health Care Refinance	$500,000,000	-2.54%	
232 Operating Loss Loans	$1,790,000	21.05%	$376,795
Hospitals (includes refi., & Suppl. Loan)	$100,000,000	-0.36%	
Multifamily & Healthcare Subtotal	**$6,899,026,758**		**$12,913,955**
Single Family Programs			
Title I			
Property Improvements	$216,300,000	0.96%	$2,076,480
Manufactured Housing	$10,747,986	-0.84%	
Title I Subtotal	**$227,047,986**		**$2,076,480**
Title II			
234 Condominium Housing & Other	$8,482,000,000	-1.99%	
203(k)Rehabilitation Mortgage	$1,395,000,000	-1.53%	
Title II Subtotal	**$9,877,000,000**		
Single Family Subtotal	$10,104,047,986		$2,076,480
Stand-by Authority	$3,996,925,256		
GI/SRI TOTAL	**$21,000,000,000**		**$14,990,435**

F. FHA Multifamily Portfolio Reengineering. The Multifamily Assisted Housing Reform and Affordability Act of 1997 was enacted in the 1998 Appropriations Act. The legislative authority establishing OMHAR sunsets at the end of fiscal 2001. To facilitate efficient restructuring activity after this date, the Administration intends to submit legislation in the near future to extend and modify the expiring restructuring authorities. This budget assumes that the portfolio reengineering for the pipeline itself will continue at least through fiscal year 2002.

G. Mortgage Note Sales. The Department executed GI/SRI Single Family Note Sales in fiscal year 2000. Single Family anticipates note sales in fiscal year 2002. The Department did not conduct any multifamily mortgage sales for 2000, however the Department is planning to sell multifamily unsubsidized notes in fiscal year 2001 with an estimated UPB of $753 million. Ongoing note sale activity in the future will be driven by the amount of salable notes entering the inventory. Currently large proportions of the remaining multifamily notes are subsidized. The Department is continuing to review its options for marketing the subsidized inventory.

H. Multifamily Enforcement. The Department's multifamily housing enforcement strategy reflects the integrated and coordinated efforts of the Real Estate Assessment Center (REAC) and the Departmental Enforcement Center (DEC). REAC is completing a comprehensive and uniform portfolio wide assessment of the physical and financial condition of all the properties. Results are being forwarded to Housing's Multifamily Hubs for additional actions. The Multifamily Hubs are responsible for servicing the loans and overseeing subsidy contracts. In those cases where there appear to be severe performance problems, cases are referred to the DEC. The DEC evaluates each case it receives and, where the DEC decides that severe problems exist, the DEC provides an action plan to be implemented by the Hubs to address the problem(s). Qualitative improvement in the assessment and enforcement effort is being realized through the centralization and specialization of these staff. The ultimate goal, however, is improved living conditions for residents, improved neighborhoods and communities, and improved financial performance for FHA because performance standards for participants are raised.

STRATEGIC GOALS AND OBJECTIVES: RESOURCES REQUESTED ($ AND FTE) AND RESULTS

The strategic objectives established for the Department are to: (1) Increase the Availability of Decent, Safe, and Affordable Housing in American communities; (2) Ensure Equal Opportunity in Housing for All Americans; (3) Promote housing stability, self-sufficiency and asset development of families and individuals; (4) Improve Community Quality of Life and Economic Vitality; and (5) Ensure public trust in HUD.

SELECTED PERFORMANCE MEASURES

	ACTUAL 2000	ENACTED 2001	ESTIMATE 2002
Strategic Goal 1: Increase the availability of decent safe and affordable housing in American Communities			
Discretionary BA (Dollars in Thousands)	261,756	455,768	375,100
FTE	531	555	644
Strategic Objective 1.2: Affordable rental housing is available for low-income households.			
Outcome Indicator 1.2.1: The number of households with worst case housing needs decreases 3 percent between 2001 and 2003 among families with children, the elderly and persons with disabilities.[a/]	Not Available	1.739 million families; Elderly 997 thousand	Not Available
Outcome Indicator 1.2.5: The ratio of units available and affordable to extremely- and very-low income families increases to 43 percent and 72 percent, respectively, in 2003.[b/]	Not Available	Very-low 70% Extremely-low-Not Available	Not Available
Output Indicator 1.2.l: FHA endorses at least 800 multifamily mortgages.	579	700	800
Output Indicator 1.2.m: Among multifamily developments newly insured by the FHA, the share that have units affordable to households below 60 percent of area median increases by 2 percentage points.	Not Available	Baseline To Be Determined	Baseline + 2 percent

	ACTUAL 2000	ENACTED 2001	ESTIMATE 2002
Strategic Objective 1.3: America's housing is safer, of higher quality, and disaster resistant.			
Outcome Indicator 1.3.1: The share of very-low-income households living in units with moderate or severe physical problems decreases to 6.6 percent for owners and 12.3 percent for renters by 2003.[c/]	Not Available	Owners 7.8 percent Renters 13.8 percent	Not Available
Strategic Goal 2: Ensure equal opportunity in housing for Americans.			
Discretionary BA (Dollars in Thousands)	...	...	...
FTE	55	54	54
Strategic Goal 3: Promote housing stability, self-sufficiency and asset development of families and individuals.			
Discretionary BA (Dollars in Thousands)	...	...	...
FTE	55	54	54
Strategic Goal 4: Improve community quality of life and economic vitality.			
Discretionary BA (Dollars in Thousands)	...	...	...
FTE	26	26	26
Strategic Objective 4.2: Economic conditions in distressed communities improve.			
Outcome Indicator 4.2.3: The homeownership rate in underserved neighborhoods ceases to decline by 2005.	Not Available	Not Available	Not Available
Strategic Goal 5: Ensure public trust in HUD.			
Discretionary BA (Dollars in Thousands)	...	...	...
FTE	523	518	518
Strategic Objective 5.1: HUD and HUD's partners effectively deliver results to customers.			
Output Indicator 5.1.l.1: During FY 2002, 8 mission-critical data systems will be assessed and those systems will be certified by the end of FY 2003.	Not Available	7	8

a/ 2001 goal based on a 3 percent reduction from 1999 level of 1.87 million. Data are from the American Housing Survey, available in odd years.

b/ Data are from the American Housing Survey, available in odd years.