

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HOUSING

FHA--MUTUAL MORTGAGE & COOPERATIVE MANAGEMENT HOUSING INSURANCE

PROGRAM PERFORMANCE

STRATEGIC GOAL/OBJECTIVE	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004
Strategic Goal EM: Embrace high standards of ethics, management, and accountability.			
Discretionary BA (Dollars in Thousands)	\$175,224	\$141,478	\$144,444
FTE			
Headquarters	214	216	214
Field	136	139	138
Subtotal	350	355	352
S&E Cost (Dollars in Thousands)			
Personal Services	\$30,627	\$31,938	\$32,518
Travel	238	208	215
Rent, Communications & Utilities	3	3	3
Printing	144	184	186
Other Services	596	384	308
Supplies	71	58	58
Furniture & Equipment	5	0	0
Claims & Indemnities	0	0	0
Subtotal	31,684	32,775	33,288
Strategic Objective EM.2: Improve HUD's management, internal controls and systems and resolve audit issues.			
Indicator: Exceed the rate of net recovery received on the sale of Single Family property through the Accelerated Claim Program Demonstration (Section 601).	70.5 %	No less than 70.5 %	No less than 70.5 %
Indicator: FHA will continue to address financial management and system deficiencies through the phased implementation of an integrated financial system to support FHA functions to be completed by December 2006.	Not Available	See Footnote a/	Integrate Funds Control and Cash Mgmt
Strategic Objective EM.3: Improve accountability, service delivery, and customer service of HUD and our partners.			
Indicator: HUD will continue to implement procedures to hold single family lenders accountable for the selection and performance of appraisers for FHA-insured mortgages.	N/A	Publish Proposed Rule	Appraiser Watch Rule Issued
Indicator: Process 200,000 mortgage insurance applications through TOTAL Scorecard.	0	40000	200000

Mutual Mortgage & Cooperative Management Housing Insurance

STRATEGIC GOAL/OBJECTIVE	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004
Indicator: Credit Watch	Credit Watch implemented	Not Applicable	Not Applicable

NA = Not Applicable

a/ FHA Subsidiary Ledger System included in A-127 Report to OMB.

EXPLANATION OF PERFORMANCE

Performance/Means and Strategies

Funding in the amount of \$144.4 million in program funding and \$33.3 million in Salaries and Expenses for a total of \$177.7 million in fiscal year 2004 directly supports Strategic Goal EM: Embrace high standards of ethics, management, and accountability.

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 central 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, 2002, the MMI Fund has insured approximately \$1.3 trillion in mortgages for about 20 million families.

Credit Limitation. The Budget requests \$185 billion as limitation on new insurance commitments for fiscal year 2004. 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.

FHA is, and has been, an important player in improving homeownership, especially for minority and low-income populations, and for first time homebuyers. A variety of FHA programs allows many homebuyers to find a program to suit their needs; the Mutual Mortgage Insurance Fund's 203(b) is the largest FHA program, providing insurance for loans to about 1 million homebuyers a year for the past several years.

FHA is committed to improving management and internal controls and resolving audit issues. While FHA has a long record of clean audit opinions by outside auditors, its business systems are, for the most part, outdated, cumbersome to operate, and do not produce management information in a timely manner. Much of the work required for audit and record keeping has entailed extensive manual efforts by FHA staff and contractors. The 2001 FHA audit report identified the HUD/FHA ADP systems environment as a material weakness. Many prior analyses and audits have also cited problems in the areas of financial reporting and business systems, including reports from the HUD IG and GAO.

To remedy these deficiencies, FHA is modernizing its financial systems and operations, and is developing a new core financial system, with a phased roll-out to replace the current legacy system. The present system predates many of recent financial reforms, including the US standard general ledger (SGL) and credit reform. The current system also requires that data from many of the subsidiary systems be manually entered, rather than electronically transferred. When fully implemented, the new system is expected to reduce the manual efforts required, improve data quality, and comply with current accounting regulations and standards.

In October 2002, the new general ledger system was implemented; this system is USSGL and JFMIP compliant, and supports FEDGAAP accounting. This new system is automating input from subsidiary systems. The roll-out of the system will be fully completed in fiscal year 2006, according to current plans, with complete integration of the insurance systems with this core financial system.

In addition to improving financial accounting, FHA is improving the performance of the Fund in support of the President's Management Agenda goal to eliminate most of the falsely inflated appraisals in 2004:

- The demonstration program now underway for accelerated claims processing is expected to increase the recoveries to the Fund on defaulted properties, both by shortening the time these properties are in default prior to claim processing, and by taking mortgage notes from the lenders rather than foreclosed properties, thus avoiding the time and cost of the foreclosure process. Housing conducted the first sale of the new Sec. 601 Demonstration in fiscal year 2003; therefore, no baseline or future indicator can be established until the result of the sale are analyzed.

Mutual Mortgage & Cooperative Management Housing Insurance

- FHA is also instituting a program to identify appraisers involved in questionable transactions, similar to the Credit Watch program for lenders since accurate appraisals are essential to prevent undue risk to the Fund. FHA will hold lenders accountable for the performance of the appraisers they select for FHA-insured mortgages.
- Additional efforts to improve appraisals and their usefulness are underway, such as issuance of a new appraiser handbook for FHA loans, examination to test appraisers' knowledge of new requirements, and requiring appraisers to disclose readily observable defects. These disclosures by appraisers, in combination with a new disclosure form, provide better information to homebuyers prior to purchase, and should reduce defaults due to poor condition of the homes.
- Further efforts to more closely monitor appraisers are being examined.

FHA also plans to increase property sales to owner-occupants by 5 percent between fiscal years 2002 and 2003, at a time when the number properties available for sale is expected to be dropping, as the accelerated claims demonstration project is expected to be expanded to a nationwide program. This increase is expected to provide one measure of FHA's success in reducing "flipping" and other predatory lending practices. Purchases by owner occupants are heavily influenced, as are the single family real estate market sector, by macro-economic factors, and by local economic trends. It is assumed that the percentage of available properties sold to owner occupants in fiscal year 2004 will remain at the fiscal year 2003 level.

Resource Management Information

Discretionary BA is expected to remain almost the same for fiscal year 2004 as in 2003, based on the MMI program account remaining constant between these years. FTE are expected to decrease from fiscal year 2003 to 2004 as the effects of improved systems are reflected, and as the new accelerated claims process is extended nationwide.