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 H: Increase homeownership opportunities.			
Discretionary BA (Dollars in Thousands)	$334,858	$289,333	$293,811
FTE			
Headquarters	108	135	135
Field	562	591	581
Subtotal	670	726	716
S&E Cost (Dollars in Thousands)			
Personal Services	$55,238	$61,750	$62,567
Travel	1,263	1,071	1,106
Rent, Communications & Utilities	0	0	0
Printing	72	115	117
Other Services	698	599	606
Supplies	36	36	37
Furniture & Equipment	13	0	0
Claims & Indemnities	0	0	0
Subtotal	57,320	63,571	64,433
Strategic Objective H.1: Expand national homeownership opportunities.			
Indicator: Improve National homeownership opportunities.	68.0% (2001 AHS)	Tracking Indicator	Tracking Indicator
Indicator: The share of all homebuyers who are first-time homebuyers. Tracking indicator.	40.1 % (2001 AHS)	Tracking Indicator	Tracking Indicator
Indicator: The number of FHA single family mortgage insurance endorsements nationwide. Tracking indicator.	1.3 million	1.3 million	1.2 million
Indicator: First-time homebuyers will account for at least 80 percent of FHA-insured home-purchase mortgages.	78.0 %	80.0%	80.0%
Indicator: The FHA Mutual Mortgage Insurance Fund meets Congressionally mandated capital reserve targets.	4.52%	No less than 2%	No less than 2%
Indicator: The share of REO properties that are sold to owner-occupants will continue at 67.7 percent.	62.7%	67.7%	67.7%

STRATEGIC GOAL/OBJECTIVE	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004
Indicator: The share of FHA loan applications processed through Automated Underwriting Systems increases by 10 percentage points.	35.1 %	45.1 %	45.1 %
Strategic Objective H.2: Increase minority homeownership.			
Indicator: The minority homeownership rate will increase to 50 percent.	49.1 %	Tracking Indicator	Tracking Indicator
Indicator: The ratio of homeownership rates of minority and nonminority low- and moderate-income families with children increases by 0.4 percentage points to 73.7 percent by 2003. Tracking indicator.	Not Available	73.7%	Not Available
Indicator: The ratio of home purchase mortgage disapproval rates between minority and other applicants.	Not Available	Under Review	Under Review
Indicator: The share of minority homebuyers among FHA home purchase-endorsements increases by 1 percentage point. Tracking indicator.	36.0 %	37.0 %	38.0 %
Indicator: The share of minority endorsements processed by the FHA Technology Open To All Lenders (TOTAL) Scorecard increases by 1 percentage point.	Not Available	First Year	Increase by 1.0 %
Indicator: The homeownership rate among households with incomes less than median family income. Tracking indicator.	Not Available	Under Review	Under Review
Indicator: The homeownership rate in central cities. Tracking indicator.	Not Available	Under Review	Under Review
Strategic Objective H.3: Make the home buying process less complicated and less expensive.			
Strategic Objective H.4: Fight practices that permit predatory lending.			
Indicator: By the end of fiscal year 2003, FHA will prevent the issuance of FHA mortgage insurance on properties that have been transferred within 90 days.	Not Available	Implement final rule	95% compliant
Strategic Objective H.6: Keep existing homeowners from losing their homes.			
Indicator: Loss mitigation claims are at least 40 percent of total claims on FHA-insured single family mortgages.	49.7 %	No less than 40.0 %	No less than 40.0%

NOTE: Indicators include data for all single family programs.

EXPLANATION OF PERFORMANCE

Performance/Means and Strategies

Funding in the amount of $293.8 million in program funding and $7.2 million in Salaries and Expenses for a total of $30.6 million directly supports Strategic Goal H: Increase homeownership opportunities in 2004.

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.

In fiscal year 2002, MMI insurance was written for about 1.2 million families. Insurance in fiscal year 2004 is expected to be somewhat lower than in fiscal year 2002, due to less favorable economic conditions.

Most of the FHA Indicators for this goal are tracking indicators, rather than targets, because activity in FHA, as in the housing sector in general, is subject to the dominant impact of the macro-economy. Thus, when the economy is in a downturn, housing markets tend to be flat or decreasing. In order to balance the importance of measuring MMI activity with an appreciation of the enormous effect the market plays on MMI business, the Department has decided to track certain measures, but not establish numeric targets at this time.

However, FHA insurance tends to mitigate the effect of economic downturns on the real estate sector, as FHA does not withdraw from local markets or during periods of recession. Thus, would-be homebuyers qualifying for FHA loans can purchase a home, even if Private Mortgage Insurers (PMIs) are not covering loans in an economically depressed area.

An important group for increasing homeownership is the first time homebuyer. FHA has long been a valuable resource for allowing the purchase of a first-home, especially among minority and low-income groups. No target is set for this group at this time since they are especially subject to the dominant impact of the macro-economy. This tracking measure is based on the American Housing Survey (AHS), which is conducted biennially, with a lag of about a year from the time the data is taken until it is available.

Aside from the regular FHA insured loan programs, special programs are aimed at increasing homeownership and neighborhood stability, including sale of HUD properties to homebuyers in general, and sales to specific groups, such as public safety officers and teachers. Under the Officer-Next-Door (OND) and the Teacher-Next-Door (TND) programs, qualified personnel in these professions who will become first time homebuyers are able to buy FHA properties in designated revitalization areas for a 50 percent discount off the appraised price, if they agree to reside in the property for at least 3 years. Through the end of fiscal year 2002, the OND program has sold 5,000 FHA-held homes in its 6-year existence, while the TND program has sold 2,000 in its 3-year life. Revitalization areas are generally in center cities, so these programs will assist in increasing homeownership there. In addition to assisting homeownership for public service professionals who are not munificently remunerated, the OND and TND programs help stabilize marginal neighborhoods, and provide valuable role models to the youths.

Other programs dealing with sale of HUD held properties are not specifically aimed at revitalization areas, but have a higher impact in center cities than in more prosperous locations. Under the Dollar Homes program, single family homes that are acquired in foreclosure actions by the FHA are eligible for sale to local governments around the nation for $1 each whenever FHA is unable to sell the homes after 6 months on the market. The Dollar Homes program makes it possible for communities to fix up the homes and put them to good use at a considerable savings. The newly occupied homes can then act as catalysts for neighborhood revitalization, attracting new residents and businesses to an area.

Local governments can partner with local non-profit homeownership organizations or tap into existing local programs to resell the homes to low- and moderate-income residents of the community. FHA also offers qualified community-based nonprofit organizations the opportunity to purchase HUD homes at discounts of up to 30 percent off the appraised value. With this discount, local nonprofit organizations invest in property rehabilitation and re-sell properties to first-time homebuyers and low- and moderate-income families. Every year, more than 500 local nonprofit organizations partner with HUD in this program to rebuild their communities.

FHA has been a leader in some advances in the real estate business, with Private Mortgage Insurers (PMIs) following the FHA example when the changes proved attractive. Reductions to FHA closing costs may again lead the rest of the market in the direction of less expensive and less complicated home buying. A final rule regarding excessive points and fees on FHA loans is expected to be issued by the end of 2003, with implementation to follow. Generally, fees and charges in excess of 5 percent of the loan amount would disqualify the loan for FHA insurance under this rule.

A database of closing costs on 10,000 FHA loans from 2001 will be established for study. These data will be studied to understand where reductions may be made and where regulations may be necessary, such as to control fees where charges to homebuyers at closing far exceed costs to the lender for providing an item. Examples could include copying, delivery, and appraisal costs. This study will be repeated in fiscal year 2006 to assess the results in reducing costs and complexity of home purchase. It is hoped that lenders and PMIs will follow suit in controlling closing costs and simplifying the purchase process.

FHA loans will be made more secure by additional efforts to control predatory lending. For example, FHA plans to prohibit the issuance of FHA mortgage insurance on loans that have been transferred within the last 90 days. The practice of "flipping", which is buying up decrepit homes, making cosmetic repairs, and reselling them quickly at inflated prices, often with the collusion of an appraiser, has been a serious problem in some neighborhoods. "Flipping" has caused losses to homeowners, who then defaulted on the loans on these substandard properties, and to the FHA programs that insured the loans. By the end of fiscal year 2003, the HUD system that collects mortgage transaction data, Computerized Home Underwriting Management System (CHUMS), will be modified to prevent FHA mortgage insurance from being issued to any property being sold within 90 days of acquisition. Under exceptional circumstances, a manual override to the 90-day rule will be available. FHA also plans to identify appraisers involved in questionable transactions on FHA loans and hold lenders accountable for the performance of the appraisers they select.

Loss mitigation tools used for homeowners in default also help to reduce the number of homeowners who would otherwise have lost their homes. The use of partial claims, loan recasting, and special forbearance have allowed a large number of homeowners to recover over time from 3 months of defaulted mortgage, and remain in their homes while the recovery is in process. Other tools, such as deeds-in-lieu-of-foreclosure and preforeclosure sales, allow the homeowner for whom there is little hope of recovery from a default to dispose of the home with less negative financial consequences than disposing of the home through foreclosure. In fiscal year 2001, 46 percent of single family claims were handled through loss mitigation; in 2002, 50 percent. In 2003 and 2004, the target is 40 percent. Certain additional controls on some of the loss mitigation tools are being prepared, and may be issued in 2003 or 2004, to prevent excessive use of some tools by some of the lenders.

Three scorecards, developed within the mortgage industry, are currently approved for use on FHA mortgages. These scorecards will be replaced by one developed by FHA for use specifically to assess the credit worthiness of FHA borrowers based on objective and consistent criteria statistically proven to predict the likelihood of borrower default. Unlike the present scorecards, borrowers are not rejected solely on the basis of the scorecard, but lenders are required to manually underwrite the mortgage request. Use of the scorecard is expected to: 1) standardize the credit approval for FHA mortgages processed through the Automated Underwriting System(AUS), 2)improve the risk management of FHA mortgages (President's Management Agenda initiative)and 3) improve the monitoring of FHA mortgages processed through AUS.

MMI is required by statute to maintain a capital reserve of no less than 2 percent (expressed as the economic value of the MMI Fund divided by Insurance-in-Force) for fiscal year 2000 and future years, in order to mitigate the effects of economic downturns on the MMI fund, and to minimize the possibility that MMI would need to draw on general revenues to meet possible increased costs of the Fund in an adverse economy. This capital reserve requirement was established by statute on November 5, 1990, as part of a solution to the then negative economic value of the MMI fund. MMI continues to show a capital ratio well above that required by statute; for fiscal year 2001, the capital ratio was determined to be 3.75 percent by the outside Actuarial Review performed by Deloitte and Touche. The 2002 Actuarial Review will not be available until the winter of fiscal years 2002-2003. Analysis by the Congressional Budget Office indicated that the reserve could protect the Fund against all but exceedingly severe economic conditions, similar to the great depression.

Resource Management Information

Discretionary BA is expected to increase slightly in fiscal year 2004 than in fiscal year 2003. The Department's efforts to increase homeownership are attributed to the staffing increases in fiscal year 2003. Staffing decreases from fiscal year 2003 to 2004 to realign FTE based on Departmental programmatic priorities.