DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HOUSING

FHA--GENERAL AND SPECIAL RISK INSURANCE

PROGRAM PERFORMANCE

| STRATEGIC GOAL/OBJECTIVE | ACTUAL 2002 | ESTIMATE 2003 | ESTIMATE 2004 |
|---|---|---|---|
| **Strategic Goal H: Increase homeownership opportunities.** | | | |
| Discretionary BA (Dollars in Thousands) | $24,753 | $23,052 | $23,411 |
| FTE | | | |
| Headquarters | 12 | 15 | 15 |
| Field | 62 | 65 | 65 |
| Subtotal | 74 | 80 | 80 |
| S&E Cost (Dollars in Thousands) | | | |
| Personal Services | $6,102 | $6,806 | $6,990 |
| Travel | 139 | 117 | 123 |
| Transportation of Things | 0 | 0 | 0 |
| Rent, Communications & Utilities | 0 | 0 | 0 |
| Printing | 8 | 13 | 13 |
| Other Services | 78 | 67 | 68 |
| Supplies | 4 | 4 | 4 |
| Furniture & Equipment | 1 | 0 | 0 |
| Subtotal | 6,332 | 7,007 | 7,198 |
| **Strategic Objective H.1: Expand national homeownership opportunities.** | | | |
| Indicator: Improve National homeownership opportunities. | 68% (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% | 80.0% | 80.0% |
| 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 Objective H.2: Increase minority homeownership.** | | | |
| Indicator: The minority homeownership rate will increase to 50 percent. | 49.1% | Tracking Indicator | Tracking Indicator |

| STRATEGIC GOAL/OBJECTIVE | ACTUAL 2002 | ESTIMATE 2003 | ESTIMATE 2004 |
|---|---|---|---|
| | | | |
| Indicator: The ratio of home purchase mortgage disapproval rates between minority and other applicants. | Not Available | Not Available | Not Available |
| 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% |
| Indicator: The homeownership rate among households with incomes less than median family income. Tracking indicator. | Not Available | Under Review | Under Review |
| 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 homeownership rate in central cities. Tracking indicator. | Not Available | Under Review | Under Review |
| **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% | No less than 40% |

EXPLANATION OF PERFORMANCE

Performance/Means and Strategies

Funding in the amount of $23.4 million supports Strategic Goal H: Increase homeownership opportunities.

GI/SRI Insurance Programs. The Department will continue to offer a range of alternative loan guarantee programs 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's insurance programs will continue to meet the Nation’s need for decent, safe and affordable housing.

Title I Program Subsidy Rates. The fiscal year 2004 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 used to calculate the subsidy rate for loan programs, in accordance with the Federal Credit Reform Act of 1990.

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 and 203(k) Purchase/Rehabilitation. Premium policy changes for the 203(k) program in the 2004 budget include cancellation of annual premium when loan to value reaches 65 percent, rather than 78 percent. On an average 203(k) loan, it is estimated that annual premium will be required for the first 17 years of a 30-year term. With this slight alteration of the premium structure, this program is expected to break even and require no positive credit subsidy appropriations. Other small programs that do not have sufficient volume to model and estimate individually are included in the Section 234(c) risk category for budgetary purposes.

FHA is, and has been, an important player in improving homeownership, especially for minority and low-income populations. A variety of FHA programs allow many homebuyers to find a program to suit their needs; some of these single family programs are:

The 203(k) program of the General Insurance/Special Risk Insurance Fund provides insurance for homebuyers to get both purchase mortgage and rehabilitation funds to repair and restore rundown housing.

The Home Equity Conversion Loan Mortgage program of the General Insurance/Special Risk Insurance Fund insures reverse mortgages for elderly homeowners allowing them to draw on the capital in their homes to get cash to stay at home.

Insurance of condominium loans is also available from the FHA General Insurance/Special Risk Insurance Fund.

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.

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 a depressed area.

An important group for increasing homeownership is the first time homebuyers. FHA has long been a valuable resource for allowing the purchase of a first home, especially among minority and low-income group. No target is set for this group 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. 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 that are not munificently remunerated, the OND and TND programs help stabilize marginal neighborhoods, and provide valuable role models to the youth.

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 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 homebuying. A final rule regarding excessive points and fees on FHA loans is expected to be issued by the end of fiscal year 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 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 6 months. 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 Computerized Home Underwriting Management System (CHUMS) that is used to collect mortgage transaction data, will be modified to prevent FHA mortgage insurance from being issued to any property being sold within six months of acquisition. Under exceptional circumstances, a manual override to the 6-month rule will be available. FHA also plans further 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 in reducing 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, 46.1 percent of single-family claims were handled through loss mitigation. In fiscal years 2002 and 2003, the targets are 38.1 percent and 40 percent, respectively. A target for 2004 is assumed to be the same as 2003. 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 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 and 3) improve the monitoring of FHA mortgages processed through AUS.

Resource Management Information

Discretionary BA is expected to increase in fiscal year 2004 over the fiscal year 2003, based on GI/SRI program. The FTEs are expected to remain unchanged from fiscal year 2003.