DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION
MORTGAGE AND LOAN INSURANCE PROGRAMS

SUMMARY OF THE BUDGET ESTIMATES

Mortgage Insurance Commitment Limitations. The Budget requests an overall mortgage insurance commitment limitation of $220 billion in new fiscal year 2005 FHA loan commitments. The proposed total includes $185 billion under the Mutual Mortgage and Cooperative Management Housing Insurance (MMI/CMHI) Fund, which will exclusively support insurance of home mortgages; and $35 billion under the General and Special Risk Insurance (GI/SRI) Fund which supports home, multifamily rental, and an assortment of special purpose (hospitals, nursing homes, etc.) mortgage insurance.

Direct Loan Limitations. The Budget requests a direct loan limitation of $50 million under both the MMI/CMHI and GI/SRI funds to facilitate the purchase of HUD properties acquired for resale to low- and moderate-income families.

Appropriations for Administrative Expense. A total of $752.5 million is requested for administrative and administrative contract expenses in the FHA program accounts. Of this total, $576 million will be transferred to Salaries and Expenses (S&E), HUD; $24 million will be transferred to the appropriation for the Office of Inspector General (OIG); and $152.5 million will be used for administrative contract expenses. Of the total $600 million transferred to the Department's S&E and OIG accounts, $366 million will be from the MMI/CMHI account and $234 million will be from the GI/SRI account.

Appropriation for Mortgage Insurance Credit Subsidies. The Budget also requests an appropriation of $10 million to support the credit subsidies associated with loan guarantees committed under 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.

Rescission. A rescission is proposed for $30 million from the unobligated balance of credit subsidy funding appropriated in prior years for GI/SRI account.

Initiatives

Several legislative changes are proposed in 2005, as well as an administrative change to the rebates of up-front premiums. Administratively, FHA plans to shorten the time available for partial rebates of upfront insurance premiums from the current 5 years to 3 years. This will yield $91 million in additional negative subsidy. Only homeowners repaying their FHA loans within this period will get a portion of the upfront premiums back, on a sliding scale of amortization. This provision will apply only to loans insured after the effective date of the administrative changes. Once this administrative action is taken, an additional $323.5 million in negative subsidy will be realized from the following legislative proposals.

The legislative changes proposed would:

1. Add a new FHA Payment Incentives mortgage program formatted to permit would-be homebuyers who cannot meet existing underwriting standards due to poor credit ratings to qualify for FHA insurance. Borrower would still be required to meet debt, income, and repayment ability standards. Increased risk of default associated with these borrowers is offset by requiring greater owner equity and by charging a higher upfront premium than the current one and one-half percent and a higher annual premium than the one-half of one percent currently charged MMI borrowers. After 60 months, the annual premiums, which are higher than those of the regular MMI business, will be reduced.

2. Offer a new 100 percent financing mortgage product to help first-time homebuyers purchase a home by allowing zero downpayment loans and financing of the settlement costs. Currently, MMI requires a minimum downpayment of 3 percent. Premiums will also be increased for these borrowers to cover the higher risk involved.

3. Amend Section 203(c) of the National Housing Act to restrict payments of refunds of unearned upfront premium to borrowers who refinance with a new FHA loan. The restriction will affect mortgages that become insured on or after the date of enactment of the legislation.

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

Annual Appropriations Acts include amounts under the MMI/CMHI and GI/SRI program accounts to be transferred to the Department's S&E account and to the OIG to support the general overhead costs associated with the administration of the various insurance funds. In addition to these amounts, the program accounts also include appropriations 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. For fiscal year 2005, the Department is proposing a total appropriation for the contract expenses of $152.5 million, of which $70.9 million is in the MMI/CMHI account and $81.6 million is in the GI/SRI account.

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, but rather are reflected in the net cash flows reported in the FHA liquidating and financing accounts.

HOUSING
MUTUAL MORTGAGE INSURANCE/COOPERATIVE HOUSING MORTGAGE INSURANCE FUND
2005 Summary Statement and Initiatives
(Dollars in Thousands)

MUTUAL MORTGAGE & COOPERATIVE MGMT. HOUSING INSURANCE FUND	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2003 Appropriation	$433,549	...	-$2,818	$430,731	$421,387 [a]	$410,031 [a]
2004 Appropriation/Request	444,000	...	-2,619	441,381	441,381 [a]	441,381 [a]
2005 Request	436,900	...	...	436,900	436,900	436,900
Program Improvements/Offsets	-7,100	...	2,619	-4,481	-4,481	-4,481

a/ Excludes estimates. See 2005 Summary Statement and Initiative table for details.

Summary Statement

Loan Guarantee Limitation. A loan guarantee limitation of $185 billion is requested for fiscal year 2005. New insurance commitments are estimated at $151.9 billion. The additional amount requested above the $151.9 billion is intended to minimize the possibility of reaching the limitation and suspending the program prior to the end of the year.

Appropriation. The Mutual Mortgage Insurance (MMI) Fund of the Federal Housing Administration requests an appropriation of $436.9 million for administrative expenses for fiscal year 2005. Of this sum, $362 million is to be transferred to the Departmental Salaries and Expenses, $4 million to the Office of Inspector General accounts, and $70.9 million is for administrative contract expenses, including a transfer of not less than $7 million to the Working Capital Fund. The net decrease of $4.5 million in total administrative expenses, from fiscal year 2004 to fiscal year 2004, is due to a $13.6 million decrease in the transfer of funds to the Working Capital Fund for information technology system development and modification, offset by an increase of $9.1 million to cover the anticipated increase in personnel and other administrative costs for the MMI Fund.

Direct Loan Limitation. A direct loan limitation of $50 million is also requested to facilitate the purchase and rehabilitation, if necessary, by non-profits and governmental agencies to make HUD-acquired single-family properties available for resale to low- and moderate-income families.

The MMI Fund is expected to generate $3.5 billion of negative subsidy on insurance written in fiscal year 2004 at a subsidy rate of -2.47 percent. In 2005, $2.6 billion in negative subsidy is expected to result from the current types of business and two new products: the FHA Payment Incentives and 100 percent Financing. Both of these new lines of business are requested as new legislation. The weighted average subsidy rate that includes all the proposed changes, both administrative and legislative as discussed below, is -1.73 percent.

Initiatives

Several legislative changes are proposed in 2005, as well as an administrative change to the rebates of up-front premiums.

Administratively, FHA plans to shorten the time available for partial rebates of up-front insurance premiums from the current 5 years to 3 years. This is expected to yield additional negative subsidy of $91 million. Only homeowners repaying their FHA loans within this period will get a portion of the up-front premiums back, on a sliding scale of amortization. This provision will apply only to loans insured after the effective date of the administrative changes. Once this action is taken, an additional $323.5 million in negative subsidy will be realized from the following legislative proposals.

The legislative changes proposed would:

-- Add a new FHA Payment Incentives mortgage program formatted to permit would-be homebuyers who cannot meet existing underwriting standards due to poor credit ratings to qualify for FHA insurance. A Borrower would still be required to meet debt, income, and repayment ability standards. Increased risk of default associated with these borrowers is offset by requiring greater owner equity and by charging a higher up-front premium than the current one and one-half percent and a higher annual premium than the one-half of one percent currently charged MMI borrowers. After 60 months, the annual premiums, which are higher than those of the regular MMI business, will be reduced.

-- Offer a new 100 percent financing mortgage product to help first time homebuyers purchase a home by allowing zero downpayment loans and financing of the settlement costs. Currently, MMI requires a minimum downpayment of three percent. Premiums will also be increased for these borrowers to cover the higher risk involved.

-- Amend Section 203(c) of the National Housing Act to restrict payments of refunds of unearned upfront premium to borrowers who refinance with a new FHA loan. The restriction will affect mortgages that become insured on or after the date of enactment of the legislation.

HOUSING
MUTUAL MORTGAGE INSURANCE/COOPERATIVE HOUSING MORTGAGE INSURANCE FUND
Summary of Resources by Program
(Dollars in Thousands)

Budget Activity	2003 Budget Authority	2002 Carryover Into 2003	2003 Total Resources	2003 Obligations	2004 Budget Authority/ Request	2003 Carryover Into 2004	2004 Total Resources	2005 Request
Administrative Expense	$345,568	...	$345,568	$345,568	$356,881	...	$356,881	$366,000
Administrative Contract Expense	85,163	...	85,163	345,568	84,500	...	84,500	70,900
Total Mutual Mortgage & Cooperative Mgmt. Housing Insurance Fund	430,731	...	430,731	691,136	441,381	...	441,381	436,900
FTE								
Headquarters			312				356	357
Field			639				680	678
Total			951				1,036	1,035

HOUSING
MUTUAL MORTGAGE INSURANCE/COOPERATIVE HOUSING MORTGAGE INSURANCE FUND

2005 Summary Statement and Initiatives
(Dollars in Thousands)

Budget Activity	2003 Budget or Financing Authority	2003 Rescission	2003 Total Resources	2003 Obligations	2004 Budget Authority/	2004 Rescission	2004 Total Resources	2005 Request
Administrative transfers:								
S&E	$ 343,807	$ (2,235)	$ 341,572	$ 341,572	$ 355,000	$ (2,095)	$ 352,906	$ 362,000
OIG	$ 4,022	$ (26)	$ 3,996	$ 3,996	$ 4,000	$ (24)	$ 3,976	$ 4,000
Subtotal	$ 347,829	$ (2,261)	$ 345,568	$ 345,568	$ 359,000	$ (2,118)	$ 356,882	$ 366,000
Non-overhead admin costs:								
Housing contracts	$ 64,360	$ (1,288)	$ 63,072	$ 53,728	$ 64,256	$ (356)	$ 63,900	$ 63,898
Working Capital Fund transfer	$ 21,360	$ 731	$ 22,091	$ 22,091	$ 20,744	$ (144)	$ 20,600	$ 7,002
Subtotal	$ 85,720	$ (557)	$ 85,163	$ 75,819	$ 85,000	$ (500)	$ 84,500	$ 70,900

PROGRAM HIGHLIGHTS

Budget Activity **Insurance Commitments**:	Actual 2003	Estimate 2004	Estimate 2005	Increase + Decrease − 2005 vs 2004
		(Dollars in Thousands)		
Guaranteed Loan limitation	$165,000,000	$185,000,000	$185,000,000	…
Use	147,395,494	143,521,171	151,876,556	$8,355,385
Standby authority	17,604,506	41,478,829	33,123,444	(8,355,385)
Mortgage Insurance commitment units	1,264,293	1,162,829	1,148,273	(14,556)
Direct Loan Limitation	$100,000	$50,000	$50,000	…
Discretionary:				
Program account Budget Authority	430,731	441,381	436,900	(4,481)
Program account-Outlays	430,731	441,381	436,900	(4,481)
Mandatory:				
Program account(reestimates) net outlays	2,390,375	7,029,411	-	(7,029,411)
Liquidating account (net outlays)	154,947	27,414	9,395	(18,019)
Capital Reserve Account (offsetting collections)	(3,583,674)	(3,544,973)	(2,627,464)	917,509
Subtotal	(1,038,352)	3,511,852	(2,618,069)	(6,129,921)
Off Budget:				
Financing account (net disbursements)	2,361,846	(5,158,442)	331,462	5,489,904
Program Activity:				
Insurance written	$147,395,494	$143,521,171	$151,876,556	$8,355,385
Insurance written - Units	1,264,293	1,162,829	1,148,273	(14,556)
Insurance-In-Force, homes	$407,185,831	$457,889,059	$540,102,500	$82,213,441
Negative Subsidy	(3,583,674)	(3,544,973)	(2,627,464)	917,509
Payment of Insurance claims	$7,811,136	$4,807,480	$4,654,236	$(153,244)

HOUSING
MUTUAL MORTGAGE INSURANCE/COOPERATIVE HOUSING MORTGAGE INSURANCE FUND
Program Offsets
(Dollars in Thousands)

Administrative Expense	Amount
2003 Appropriation	$345,568
2004 Appropriation/Request	356,881
2005 Request	366,000
Program Improvements/Offsets	9,119

Proposed Actions

The Budget request reflects a modest increase in the amount to be transferred to Departmental Salaries and Expenses account to cover estimated increases in personnel and other administrative costs for FHA.

HOUSING
MUTUAL MORTGAGE INSURANCE/COOPERATIVE HOUSING MORTGAGE INSURANCE FUND
Program Offsets
(Dollars in Thousands)

Administrative Contract Expense	Amount
2003 Appropriation	$85,163
2004 Appropriation/Request	84,500
2005 Request	70,900
Program Improvements/Offsets	-13,600

Proposed Actions

The $14 million decrease reflects a reduction in the transfer to the Working Capital Fund. Sufficient carryover funds are available to meet program requirements.

HOUSING
MUTUAL MORTGAGE INSURANCE/COOPERATIVE HOUSING MORTGAGE INSURANCE FUND
Program Offsets
(Dollars in Thousands)

Loan Guarantee Limitation	Amount
2003 Appropriation	$165,000,000
2004 Appropriation/Request	$185,000,000
2005 Request	$185,000,000
Program Improvements/Offsets	NA

Proposed Actions

Loan Guarantee Limitation: The fiscal year 2005 Budget requests $185 billion in loan guarantee limitation. This limitation includes sufficient authority for the new initiatives as well as standby commitment authority for unanticipated increases in business.

PROGRAM DESCRIPTION

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.

The Cooperative Management Housing Insurance Fund finances the Cooperative Housing Insurance program (Section 213), which provides mortgage insurance for cooperative housing projects of more than five units that 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. This program was enacted in 1950 and only minor program activity has occurred in recent years.

Program Activity:

	FY 2003	FY 2004	FY 2005	Increase +/Decrease – 2005 vs 2004
		(Dollars in Thousands)		
Standby Authority	$17,604,506	$41,478,829	$33,123,444	$(8,355,385)
Insurance written	$147,395,494	$143,521,171	$151,876,556	$ 8,355,385
Insurance written - units	1,264,293	1,162,829	1,148,273	(14,556)
Insurance-In-Force, homes	$407,185,831	$457,889,059	$540,102,500	$ 82,213,441
Payment of Insurance claims	$7,811,136	$4,807,480	$4,654,236	$ (153,244)

HOUSING
MUTUAL MORTGAGE INSURANCE/COOPERATIVE HOUSING MORTGAGE INSURANCE FUND
Program Offsets
(Dollars in Thousands)

Direct Loan Limitation	Amount
2003 Appropriation	$100,000
2004 Appropriation/Request	$50,000
2005 Request	$50,000
Program Improvements/Offsets	NA

Proposed Actions

Direct Loan Limitation: The fiscal year 2005 Budget requests $50 million in direct loan limitation. This limitation shall be used for direct loans to nonprofit and governmental entities in connection with sales of single family real properties owned by the Secretary and formerly insured under the Mutual Mortgage Insurance Fund.

HOUSING
MUTUTAL MORTGAGE INSURANCE/COOPERATIVE HOUSING MORTGAGE INSURANCE FUND
Program Offsets
(Dollars in Thousands)

New business initiatives: (Negative Subsidy)	Amount
2003	$0
2004	0
2005 Estimate (net)	-414,500
Program Improvements/Offsets	-414,500

Proposed Actions

Administrative Changes

FHA will shorten the time available for partial rebates of upfront insurance premiums from the current 5 years to 3 years. This is expected to yield additional negative subsidy of $91 million.

Legislative Changes

In addition, the Department proposes several legislative changes to MMI/CMHI. First, as an incentive for high quality current MMI borrowers to refinance with MMI, the payment of partial refunds of upfront premiums is proposed to be eliminated for borrowers who refinance with conventional loans and retained for those who refinance with new MMI loans. Retaining the refund for MMI refinances will partially offset the upfront premium cost to the borrower for a new loan. Eliminating refunds for all other borrowers will add $78 million in negative subsidy.

Second, the Payment Incentives proposal will allow MMI to reach out to the subprime market; however, by charging higher fees for an initial period during which the buyers demonstrate good payment histories, the increased risk for MMI will be offset by increased revenues. This program is expected to generate almost 60 thousand new loans per year, and $45 million in additional negative subsidy.

The third legislative proposal establishes another new program allowing financing of 100 percent of the cost of a home, as well as financing of the up-front insurance premiums and certain other settlement costs. Again, with higher premiums expected to cover the additional risk to the Fund, this proposal will generate 109 thousand new cases in 2005 and $184 million in additional negative subsidy.

Further, an estimated 36,000 cases that would otherwise qualify for the regular 203(b) program are expected to choose 100 percent financing program at a higher premium instead, thereby decreasing the risk to the base program, and adding $16 million to the baseline negative subsidy. As the cases coming into this new program from the regular business are among the most risky, they will improve the health of the basic business, while paying fees more proportional to their risk.

HOUSING
MUTUAL MORTGAGE INSURANCE/COOPERATIVE HOUSING MORTGAGE INSURANCE FUND
Performance Measurement Table

Program Name: **MUTUTAL MORTGAGE INSURANCE/COOPERATIVE HOUSING MORTGAGE INSURANCE FUND**

Program Mission: **Expand national homeownership opportunities.**

Performance Indicators	**Data Sources**	**Performance Report**		**Performance Plan**	
		2003 Plan	2003 Actual	2004 Enacted	2005 Plan
Improve National homeownership opportunities.	PD&R				
The share of all homebuyers who are first-time homebuyers.	PD&R		Tracking Indicator		
The number of FHA single-family mortgage insurance endorsements nationwide.		None (Tracking Indicator)	1,338	None (Tracking Indicator)	None (Tracking Indicator)
The share of first-time homebuyers among FHA-insured home purchase mortgages. TRACKING INDICATOR		At least 80%	77.1%	None (Tracking Indicator)	None (Tracking Indicator)
The FHA Mutual Mortgage Insurance Fund meets Congressionally mandated capital reserve targets.	2003 Actuarial Review	2%	5.21%	2%	2%
The share of REO properties that are sold to owner-occupants will be at 66 percent.		Increase by 5%	61.5%	Maintain at 67.7%	66.0%
The minority homeownership rate.	PD&R		49.3		
The share of minority homebuyers among FHA home purchase endorsements.		Increase by 1 percentage point	35%	None (tracking indicator)	None (tracking indicator)
The mortgage disapproval rates of minority applicants.	FHEO	Under Review	191%	Under Review	
Loss mitigation claims are 45 percent of total claims on FHA insured single-family mortgages.		At least 40%	50%	At lest 40%	45%

Endorse FHA single-family mortgages in underserved communities		At least 421,000	464,272	390,000	390,000
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.		Achieve compliance with A-127 Sec 7(a)-(f) for FHA's general ledger and 12 interfacing systems	Results too complex to summarize	Eliminate one stand alone cash management system and two stand alone funds control systems	Integrate financial operations in three service areas with the FHA subsidiary Ledger, eliminating two stand alone systems.

Explanation of Indicators:

Improve National homeownership opportunities. This is a tracking indicator for which no numeric target is established because of the current dominant impact of the macroeconomy. The overall homeownership rate indicates the share of households that have achieved the "American dream" of homeownership. Homeownership is widely believed to encourage commitment to communities and good citizenship. The homeownership rate has reached record levels in recent years, but is resistant to increases above an undetermined level because homeownership is not practical or desirable for all households. HUD programs helped families take advantage of strong economic conditions to increase homeownership in recent years, contributing to a 68.0 percent homeownership rate in early 2003. HUD is promoting overall homeownership by striving to increase homeownership among subgroups that face greater barriers, including minority and low-income families, as well as families in central cities. Each 0.1 percentage point increase in the national homeownership rate translates to about 100,000 new homeowners (if total households remain constant). Such results are well within the scope of HUD program impacts reported under indicators H.1.3, H.1.4 and A.1.2, among others. Nevertheless, demographic and economic factors may limit the rate of progress in the near term.

The share of all homebuyers who are first-time homebuyers. This is a tracking indicator for which no numeric target is established because of the current dominant impact of the macroeconomy. Increases in overall ownership rates generally result when better opportunities become available for first-time homebuying by low- and moderate-income households. The most recent available data show that during calendar year 2001, 41.3 percent of homebuyers—about 2.5 million households—were purchasing their first home. A number of economic factors not controlled by HUD affect this outcome, especially changes in mortgage interest rates.

The number of FHA single-family mortgage insurance endorsements nationwide. This is a tracking indicator. FHA insures mortgages issued by private lenders, increasing access to mortgage capital so homeownership opportunities increase. This indicator tracks FHA's contribution to the homeownership rate through the annual volume of FHA-insured loans, and is a key component of the Department's efforts to improve the National Homeownership rate and fulfill the President's fiscal year 2002 commitment to creating 5.5 million new minority homeowners over a 10 year period. As such, this indicator greatly affects first-time and minority homeownership in addition to overall homeownership. While the number of FHA mortgage endorsements is a key measure of HUD's contribution to homeownership, the actual rate achieved during fiscal year 2005 will be dramatically affected by market forces outside of HUD's control, especially interest rates. Balancing the importance of reporting this key measure of HUD activity with an appreciation of the huge effect the market plays in the final result, the Department has decided to track this measure, but not establish a numeric goal for fiscal year 2005.

The share of first-time homebuyers among FHA-insured home purchase mortgages. This is a tracking indicator. FHA is a major source of mortgage financing for first-time buyers as well as for minority and lower income buyers. HUD will help increase the overall homeownership rate, as well as reduce the homeownership gap between whites and minorities, by increasing FHA endorsements for first-time homebuyers. This indicator tracks the share of first-time homebuyers among FHA endorsements for home purchases—thus excluding loans made for home improvements.

The FHA Mutual Mortgage Insurance Fund meets Congressionally mandated capital reserve targets. FHA's Mutual Mortgage Insurance Fund (MMIF) covers all expenses, including insurance claims, incurred under FHA's basic single-family mortgage insurance program. The insurance program and fund are expected to be entirely self-financing from up-front and annual insurance premiums paid by borrowers obtaining FHA mortgage loans as well as from earnings on fund assets. Because the Department is expected to operate the program in an actuarially sound way, the Fund is subject to an annual actuarial review that assesses the Fund's current economic value, its capital ratio, and its ability to provide homeownership opportunities while remaining self-sustaining based on current and expected future cash flows.

The capital ratio is an important indicator of the MMIF's financial soundness and of its continuing ability to make homeownership affordable to more renters when economic downturns increase insurance claims. The capital ratio is defined as the sum of FHA's capital resources plus the net present value of expected future cash flows (resulting from premium collections, asset earnings, and insurance claim losses) divided by the amortized insurance-in-force. The capital ratio has exceeded the congressionally mandated 2 percent threshold for solvency since 1995.

The share of REO properties that are sold to owner-occupants will be at 68 percent. This indicator tracks one measure of the Department's success in reducing the risk of predatory lending linked to property flipping. HUD intends to increase sales of its real estate owned homes directly to families who will occupy them rather than to investors. In fiscal year 2002, 62.2 percent of REO properties were sold to owner-occupants. The fiscal year 2005 goal is to ensure that the share of REO properties that are sold to owner-occupants is 68 percent.

The minority homeownership rate. This is a tracking indicator for which no numeric target is established because of the current dominant impact of the macroeconomy. Many of HUD's programs improve homeownership by targeting underserved populations including minorities. Minority households represented 36 percent of all FHA-insured home purchases in fiscal year 2002. Strategies to increase minority homeownership include increased outreach and continued enforcement of equal opportunity in housing. The Department also is requesting increased funding for the Housing Counseling program. New counseling resources will help more members of minority and other underserved groups to build the knowledge to become homeowners and to sustain their new tenure by meeting the ongoing responsibilities of homeownership.

The share of minority homebuyers among FHA home purchase endorsements. FHA is a major source of mortgage financing for minority as well as lower income buyers. Increasing the number of FHA endorsements for minority homebuyers will help reduce the homeownership gap between whites and minorities as well as increase the overall homeownership rate. This is a tracking indicator because FHA has limited control regarding the percentage of minority participation.

The mortgage disapproval rates of minority applicants. This is a tracking indicator for minority mortgage disapproval rates, an important early indicator of trends in minority homeownership. Equal access to home loans is critical for decreasing disparities in homeownership rates. However, lender decisions about which applications to accept or deny are primarily beyond HUD's control.

In 2001, the average mortgage disapproval rate for minority applicants was 15.7 percent, nearly twice the 8.1 percent disapproval rate for non-minority white applicants. The primary cause of differences in mortgage disapprovals between ethnic groups is differences in average disposable income and credit worthiness. In some cases, lenders have been shown to discriminate against minority applicants for mortgages by disapproving their mortgages while approving non-minorities who were less creditworthy or had less income. In such cases, HUD can take fair housing enforcement actions. The goals that HUD has established for the two largest secondary mortgage market lenders, Fannie Mae and Freddie Mac, encourage increased lending to minorities. In addition, FHA can increase minority lending through targeted marketing and counseling to potential minority home purchasers. Home Mortgage Disclosure Act (HMDA) database, consisting of calendar-year data submitted by lenders to the Federal Financial Institutions Examination Council (FFIEC) and HUD. HMDA data are available with a one-year lag (calendar 2002 data will become available in August 2003).

Loss mitigation claims are 45 percent of total claims on FHA insured single-family mortgages. This indicator measures the success of FHA loan servicers in implementing statutorily required loss-mitigation techniques when borrowers default on their FHA mortgages. A borrower can resolve a default (90-day delinquency) in several ways short of foreclosure: for example, by paying down the delinquency (cure), by a pre-foreclosure sale with FHA perhaps paying an insurance claim in the amount of the shortfall, or by surrendering a deed in lieu of foreclosure. Better loss-mitigation efforts, such as enhanced borrower counseling, help borrowers keep their current homes or permit them to buy another home sooner. Avoidance of foreclosure also reduces FHA's insurance losses, making FHA financially sounder and enabling it to help more borrowers. For both reasons, by achieving this goal HUD will help increase the overall homeownership rate.

The use of loss mitigation as a share of total claims increased from 46.1 percent in fiscal year 2001 to 49.7 percent in fiscal year 2002. The fiscal year 2005 goal is to ensure that 45 percent of the total number of claims are resolved through loss mitigation. Loss mitigation actions do not permanently stabilize many borrowers' financial status. However, about 60 percent of borrowers who receive the benefits of loss mitigation remain current on their mortgage for at least a 12-month period. This reduction in foreclosure claim expenses is a key component of Departmental budget estimates for fiscal year 2005. Our programmatic objective is to sustain the high level of participation in loss mitigation even as the Office of Housing tightens programmatic requirements designated to increase the ultimate success rate of loss mitigation in helping borrowers avoid foreclosure.

Endorse FHA single-family mortgages in underserved communities. FHA's role in the mortgage market is to extend homeownership to families that otherwise might not achieve homeownership. There is substantial evidence that lower income and minority neighborhoods are less well served by the conventional mortgage market than are more affluent and non-minority neighborhoods. FHA lending in disadvantaged neighborhoods increases the homeownership rate.

While it is extremely important that FHA loans be available in underserved communities for those who otherwise might not become homeowners, it is also important that FHA be a complement to, and not a substitute for, conventional lending. A healthy housing market requires the availability of conventional mortgages as well. A goal for increasing FHA lending in such neighborhoods should not involve an increased FHA share of the total mortgage market in these communities, but should be accompanied by increased conventional lending as well. The fiscal year 2002 goal was to increase the tally by 5 percent, or to approximately 433,000, and 492,000 was achieved. Given economic uncertainties, the fiscal year 2005 goal is to insure 390,000 mortgages in underserved areas. The achievement of this goal is strongly influenced by National economic conditions.

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. The FHA Comptroller has developed a Blueprint for Financial Management that will implement an integrated Core Financial Management System to address financial management and system deficiencies documented by HUD's Inspector General, FHA and HUD financial statement auditors, OMB examiners and GAO auditors. The new Core Financial Management System will support the President's Management Agenda for HUD in strengthening program controls through improved information systems. Implementing this new system is one of the Secretary's strategic actions to address material weaknesses and reportable conditions identified in FHA's most recent audited financial statement, reported to Congress in "Building the Public Trust." The Blueprint for Financial Management also provides corrective action for 14 different FHA systems that are currently non-compliant with the requirements of OMB Circular A-127.

The plan for the development of an integrated Financial Management System that will address financial management and system deficiencies has the following key objectives:

- Implement U.S. Standard General Ledger and credit reform accounts in the FHA general ledger;
- Implement automated funds control processes using the FHA general ledger;
- Automate FHA's interface with HUD's general ledger;
- Produce FHA financial statements and regulatory reports directly from the FHA general ledger;
- Enhance FHA cash accounting and Treasury reconciliation with automated support from the integrated financial management system;
- Enhance FHA contract accounting with automated support from the integrated financial management system; and
- Eliminate manual accounting processes and improve integration of FHA financial and program systems.

This systems project has a phased implementation. In Phase I, FHA identified approximately 20 automated sources of accounting transactions within FHA's insurance systems; defined pro-forma accounting transactions to support Federal Generally Accepted Accounting Principles; and acquired a commercial-off-the-shelf product that is compliant with the Joint Financial Management Improvement Program (JFMIP) to serve as the new core financial system.

In Phase II, FHA implemented the new JFMIP-compliant core financial software, beginning with the general ledger in October 2002. FHA will implement additional JFMIP-compliant modules of the core financial software to complete support for accounting operations by December 2004. During this same period, FHA will also upgrade the software for Web operation to improve critical accounting processes such as funds control.

In Phase III, FHA will complete the integration of its insurance systems with the new core financial system. Phase III of the project is expected to be completed by December 2006.

HOUSING
MUTUAL MORTGAGE INSURANCE/COOPERATIVE HOUSING MORTGAGE INSURANCE FUND
Justification of Proposed Changes in Appropriations Language

The 2005 President's Budget includes proposed changes in the appropriations language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed. The 2005 President's Budget includes proposed changes in the appropriations language listed and explained below. New language is:

During fiscal year [2004, commitments to guarantee loans] 2005, *loan guarantees* to carry out the purposes of section 203(b) of the National Housing Act, as amended, shall not exceed a loan principal of $185,000,000,000.

During fiscal year [2004] 2005, obligations to make direct loans to carry out the purposes of section 204(g) of the National Housing Act, as amended, shall not exceed $50,000,000: *Provided,* That the foregoing amount shall be for loans to nonprofit and governmental entities in connection with sales of single family real properties owned by the Secretary and formerly insured under the Mutual Mortgage Insurance Fund.

For administrative expenses necessary to carry out the guaranteed and direct loan program, [$359,000,000] *$366,000,000,* of which not to exceed [$355,000,000] *$362,000,000* shall be transferred to the appropriation for ''Salaries and expenses''; and not to exceed $4,000,000 shall be transferred to the appropriation for ''Office of Inspector General''. In addition, for administrative contract expenses, [$85,000,000] *$70,900,000,* of which no less than [$20,744,000] *$7,002,000* shall be transferred to the Working Capital Fund for the development of and modifications to information technology systems which serve programs or activities under ''Housing programs'' or ''Federal Housing Administration'': *Provided,* That to the extent [guaranteed loan commitments] *loan guarantees* exceed $65,500,000,000 on or before April 1, [2004] *2005,* an additional $1,400 for administrative contract expenses shall be available for each $1,000,000 in additional [guaranteed loan commitments] *loan guarantees* (including a pro rata amount for any amount below $1,000,000), but in no case shall funds made available by this proviso exceed $30,000,000. *(Division G, H.R. 2673, Consolidated Appropriations Bill, FY 2004.)*

Administrative Provisions:

(1) LIMITATION ON PAYMENT OF REFUNDS

Sec. 222. Section 203(c)(2)(A) of the National Housing Act (12 U.S.C. 1709(c)(2)(A)) is amended in the last sentence after "subparagraph" by inserting the following: ", provided that the mortgagor refinances the unpaid principal obligation under title II of this Act". This provision shall apply to loans that become insured on or after date of enactment of this Act.

(2) FHA PAYMENT INCENTIVES PROGRAM

Sec. 219. Title II of the National Housing Act (12 U.S.C. 1707 et seq.) is amended by adding the following new section at the end:

"SEC. 257. FHA PAYMENT INCENTIVE PROGRAM. For purposes of establishing an alternative to high cost mortgages for borrowers with credit impairments, the Secretary may insure under sections 203(b) and 234(c) of this title any mortgage that meets the requirements of such sections, except as provided in the following sentences. The Secretary may establish lower percentages of appraised value limitations than those provided in section 203(b)(2)(B). Notwithstanding section 203(c)(2)(B), the Secretary may establish and collect annual premium payments in an amount not exceeding 1.0 percent of the remaining insured principal balance, and such payments may be reduced or eliminated in subsequent years based on mortgage payment performance. All mortgages insured pursuant to this section shall be obligations of the Mutual Mortgage Insurance Fund, notwithstanding section 519 of this Act."

(3) ZERO DOWNPAYMENT

Sec. 221. Section 203 of the National Housing Act (12 U.S.C. 1709) is amended by adding the following new subsection at the end:

"(y) Notwithstanding any provision of this section or any other section of this title, the Secretary is authorized to insure, and to commit to insure, any mortgage, involving a property upon which there is located a dwelling designed principally for a 1-family residence which (1) involves a principal obligation not in excess of 100 percent of the applicable maximum dollar amount limit under subsection (b)(2)(A) for a one unit dwelling and (2) is not in excess of 100 percent of the appraised value of the property plus any initial service charges, appraisal, inspection, and other fees in connection with the mortgage as approved by the Secretary. The Secretary is authorized to establish any additional requirements as may be necessary, or appropriate, including requirements regarding mortgagor and property eligibility."; and

(b) In Section 519(e):

(1) by striking "and" after "203(h)" and inserting a comma; and

(2) *by inserting after "203(i)," and 203(y),".*

Explanation of Changes

Limits repayment of a portion of upfront fees on MMI mortgages to those refinancing with FHA;

Reduces time available for partial rebates of up-front insurance premiums from current 5 years to 3 years;

Adds a new product to the MMI program allowing for borrowers with damaged credit to get MMI insurance, with payment of higher fees to cover additional risk; and

Adds an additional new product to the MMI program allowing the Fund to insure 100 percent of the value of a home, along with certain closing costs, with payment of higher fees to cover the increased risk. Also allows insuring the new product under the GI/SRI fund.

HOUSING
MUTUAL MORTGAGE INSURANCE/COOPERATIVE HOUSING MORTGAGE INSURANCE FUND
Crosswalk of 2003 Availability
(Dollars in Thousands)

Budget Authority	2003 Enacted	Supplemental/ Rescission	Approved Reprogrammings	Transfers	Carryover	Total 2003 Resources
Administrative Expense	$347,829	-$2,261	...	...	...	$345,568
Administrative Contract Expense	85,720	-557	...	...	...	85,163
Total	433,549	-2,818	...	...	...	430,731

NOTES

None.

Transfers

None.

HOUSING
MUTUAL MORTGAGE INSURANCE/COOPERATIVE HOUSING MORTGAGE INSURANCE FUND
Crosswalk of 2004 Changes
(Dollars in Thousands)

Budget Authority	2004 President's Budget Request	Congressional Appropriations Action on 2004 Request	2004 Supplemental/ Rescission	Reprogrammings	Carryover	Total 2004 Resources
Administrative Expense	$359,000	$359,000	-$2,119	...	...	$356,881
Administrative Contract Expense	85,000	85,000	-500	...	...	84,500
Total Changes	444,000	444,000	-2,619	...	...	441,381

NOTES

None.

Transfers

None.

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
2005 Summary Statement and Initiatives
(Dollars in Thousands)

GENERAL AND SPECIAL RISK INSURANCE FUND	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2003 Appropriation	$332,496	$52,832 [a]	-$2,161 [c]	$383,167	$291,781 [f]	$279,706 [f]
2004 Appropriation/Request	337,780	65,356 [b]	-1,993 [d]	401,143	330,000 [f]	354,000 [f]
2005 Request	325,600	71,143	-30,000 [e]	366,743	329,000	330,000
Program Improvements/Offsets	-12,180	5,787	-28,007	-34,400	-1,000	-24,000

a/ Includes only carryover for credit subsidy. Funds for other purposes expired at the end of fiscal year 2002 and are not reflected in the carryover total.
b/ Excludes $26 million that expired at the end of fiscal year 2003. In addition, $130.5 million of funds that expired in prior year remain on the accounting ledger. Pursuant to OMB Circular No. A-11, funds are required to be carried on the accounting ledgers for 5 years upon the expiration of funds.
c/ Amount reflects the .65 percent governmentwide rescission.
d/ Amount reflects the .59 percent governmentwide rescission.
e/ Rescission of funds from the unobligated balance of credit subsidy appropriated in previous fiscal years.
f/ Excludes re-estimates. Also excludes $48 thousand in accounting adjustments in fiscal year 2003.

Summary Statement

Loan Guarantee Limitation. A loan guarantee limitation of $35 billion is requested for fiscal year 2005. New insurance commitments are estimated at $26.7 billion. The additional amount requested above $26.7 billion is intended to minimize the possibility of reaching the limitation and suspending program activity prior to the end of the year. It is estimated that of this amount, $11.1 billion in insurance will be issued for 251,117 units for FHA's multifamily and healthcare-related programs. Another $900 million is estimated in hospital mortgage insurance. Single family and Title I commitments are projected at $14.6 billion for an estimated 121,084 units.

Direct Loan Limitation. A direct loan limitation of $50 million is also 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.

Appropriations. The 2005 budget request includes appropriations of $10 million for positive credit subsidy. That amount, together with an estimated $1.7 million in carryover, will be necessary for commitments related to the few relatively small loan programs in the GI/SRI Fund requiring such subsidies. Appropriations of $315.6 million in administrative expenses are also requested, of which $214 million is transferred to the Departmental Salaries and Expenses Account, $20 million is transferred to the Office of Inspector General account, and $81.6 million will be used for contract expenses, including a transfer of not less than $5.2 million to the Working Capital Fund for systems development.

A $30 million rescission is also proposed from the unobligated balance of credit subsidy funding appropriated in prior years.

Initiatives

In fiscal year 2005, the Department is not proposing any new initiative for this program.

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
Summary of Resources by Program
(Dollars in Thousands)

Budget Activity	2003 Budget Authority	2002 Carryover Into 2003	2003 Total Resources	2003 Obligations	2004 Budget Authority/ Request	2003 Carryover Into 2004	2004 Total Resources	2005 Request
Administrative Expenses (S&E)	$222,262	...	$222,262	$222,262	$227,649	...	$227,649	$234,000
Administrative Contract Expenses	93,171	...	93,171	67,050	93,227	...	93,227	81,600
Positive Subsidy Appropriation	14,902	52,832 a/	67,734	2,469	14,911	65,356 b/	80,267	10,000
Total General and Special Risk Insurance Fund	330,335	52,832	383,167	291,781	335,787	65,356	401,143	325,600
FTE								
Headquarters			304				336	324
Field			888				917	922
Total			1,192				1,253	1,246

a/ Includes only carryover for credit subsidy. Funds for other purposes expired at the end of fiscal year 2002 and are not reflected in the carryover total.
b/ Excludes $26 million that expired at the end of fiscal year 2003. In addition, $130.5 million of funds that expired in prior year remain on the accounting ledger. Pursuant to OMB Circular No. A-11, funds are required to be carried on the accounting ledgers for 5 years upon the expiration of funds.

NOTES

2003 Budget Authority. Amounts reflect appropriations reduced by the .65 percent governmentwide rescission.

2004 Budget Authority/Request. Amounts reflect appropriations reduced by the .59 percent government-wide rescission.

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
Program Offsets
(Dollars in Thousands)

Administrative Expenses (S&E)	**Amount**
2003 Appropriation	$222,262
2004 Appropriation/Request	227,649
2005 Request	234,000
Program Improvements/Offsets	6,351

Proposed Actions

Appropriations. The 2005 request includes appropriations of $234 million in administrative expenses, of which $214 million is transferred to the Departmental Salaries and Expenses account and $20 million is transferred to the Office of Inspector General account. An increase of $6.4 million reflects an increase in personnel and other administrative cost for FHA.

NOTES

Amounts for 2003 Appropriation and 2004 Appropriation/Request have been adjusted for corresponding rescissions.

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
Program Offsets
(Dollars in Thousands)

Administrative Contract Expenses	Amount
2003 Appropriation	$93,171
2004 Appropriation/Request	93,227
2005 Request	81,600
Program Improvements/Offsets	-11,627

Proposed Actions

Appropriations. The 2005 request includes $81.6 million for administrative contract expenses, including a transfer of not less than $5.2 million to the Working Capital Fund for systems development and modifications. The $11.6 million decrease reflects a reduction in the transfer to the Working Capital Fund. Sufficient carryover funds are available to meet program requirements.

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
Program Offsets
(Dollars in Thousands)

Positive Subsidy Appropriation	Amount
2003 Appropriation	$14,902
2004 Appropriation/Request	14,911
2005 Request	10,000
Program Improvements/Offsets	-4,911

Proposed Actions

Appropriations. The 2005 request includes appropriations of $10 million for positive credit subsidy. That amount, together with an estimated $1.7 million in carryover, will be necessary for commitments related to various multifamily programs, Title I loan programs, and the 203(k) rehabilitation mortgage program in the GI/SRI program account. A rescission is proposed for $30 million, from the unobligated balance appropriated in previous fiscal years.

GI/SRI Insurance Programs. The Department offers a range of 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, and nonprofit hospitals. In addition, single-family mortgage guarantees are offered for condominium properties, home mortgages that also require rehabilitation financing, and home equity conversion mortgages for senior homeowners. Title I loans guarantees are also offered for manufactured housing and for property improvement loans. The Department's insurance programs will continue to meet the Nation’s need for decent, safe and affordable housing.

Hospital Programs. The Section 242 Program 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 320 hospital mortgages totaling more than $9.5 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 additional administrative support from the U.S. Department of Health and Human Services.

Multifamily Credit Subsidy Rates. The Department continuously devotes significant efforts in updating and refining credit subsidy estimates. The credit subsidy estimates were developed after extensive consultation with the Office of Management and Budget (OMB) and reflect substantial additional analysis by the Department. Each year the extensive statistical base, from which projections of future loan performance is calculated, is updated with an additional year of actual data. The Department and OMB continue to examine the data, assumptions, and calculations, which are used to estimate loan program cash flows and subsidy rates in order to eliminate errors, and to seek improvements in the accuracy and reliability of the analysis.

The multifamily credit subsidy rates used in previous years reflected historic performance data for similar loans made over the past 40 years. Concerns were raised over the accuracy of these assumptions based on historical data in light of recent improvements in underwriting, program monitoring, and asset management, as well as unprecedented changes in tax law in the 1980’s adversely affecting the performance of loans in the FHA portfolio at that time.

For the fiscal year 2005 Budget, updated loan performance data yield a break-even premium at about 45 basis points, a reduction of 5 basis points from the current level, for the section 221(d)(4) program that serves as the primary apartment development program of

FHA. Positive credit subsidy continues to be required for the section 221(d)(3), 223(d) and 241(a) loan programs so no reduction in the applicable 80 basis point insurance premium is proposed.

Additional claim experience in recent years in the section 232 nursing home development program require an increase in the annual premium, from 50 basis points to 57 basis points, in order to avoid requiring subsidy appropriations.

Title I Program Subsidy Rates. The fiscal year 2005 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. Both of these loan products will incur postive subsidy costs in fiscal year 2005.

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 that are expected to continue in the 2005 Budget include cancellation of annual premium when the loan to value ratio reaches 65 percent, rather than 78 percent. On an average 203(k) loan, it is estimated that an annual premium will be required for the first 17 years of a 30-year term. Notwithstanding this assumption for higher premiums, the 203(k) program will require credit subsidy funding in fiscal year 2005.

Office of Multifamily Housing Assistance Restructuring (OMHAR). The Multifamily Assisted Housing Reform and Affordability Act of 1997 was included in the 1998 Appropriations Act. The initial legislative authority establishing OMHAR ended September 30, 2001. Prior to expiration, Public Law 107-116 extended OMHAR as an entity within the Office of Housing for an additional 3 years through fiscal year 2004 and extended the attendant mortgage restructuring authorities for another 5 years through fiscal year 2006. The restructuring process is expected to preserve over 200,000 units of affordable housing stock through long-term use agreements.

The restructurings are performed through oversight of a national network of 16 public Participating Administrative Entities (PAEs), and 8 private partners. OMHAR staff is currently located in a central District of Columbia office and three satellite field offices, located in Chicago, New York and San Francisco, which oversees the program through nationally consistent guidelines, which provide for local flexibility to the extent possible.

As of September 30, 2003, OMHAR reported completing over 1,900 restructurings, averaging 35-40 per month, and resulting in an annual reduction of Section 8 outlays of $142 million. The average rent reduction is $93 per unit per month. The reductions in future Section 8 outlays and expected recoveries of second mortgage payments exceed the one-time costs of restructuring for FHA claims and PAE costs. In addition to ensuring long-term financial viability and achieving Section 8 savings, physical and managerial assessments are conducted for each property to assure the long-term viability of the portfolio. Expenses are analyzed to ensure efficient operations. Immediate capital needs are addressed through repair escrows. Long-term physical needs are provided for through increased deposits to reserve for replacement accounts. Initial deposits to these accounts were increased on average from $1,228 to $2,657 per unit, and annual deposits increased on average from $264 to $420 per unit per year. Over 600 deals are currently in various stages of restructuring.

The Mark-to-Market (M2M) program realigns the owners' and HUD's interest by providing a return on the owner's equity through a capital recovery payment, an incentive performance fee, and 25 percent of net cash flow. The financial structure of the properties is designed to ensure efficient operations and maintenance of the properties. HUD is closely monitoring the performance of restructured properties through a portfolio management contract and through a "watch list" for at-risk properties which had rents reduced without a debt restructuring.

Mortgage Note Sales. FHA successfully executed GI/SRI Multifamily Mortgage Note Sales in fiscal year 2003 which will continue into 2005. In 2003, FHA sold 98 unsubsidized mortgage loans with an unpaid principal balance (UPB) of $397 million. These notes were valued to HUD at $175 million. The net sales proceeds amounted to $236 million. Negative subsidy realized from the sale amounted to $61 million.

FHA plans to continue selling Multifamily unsubsidized mortgage notes in fiscal years 2003 through 2005. Currently, large portions of the remaining multifamily notes are subsidized. Therefore, FHA is also planning to sell the subsidized inventory in fiscal year 2005. Ongoing note sale activity in the future will be driven by the amount of salable notes entering the inventory.

Multifamily Enforcement. The Department's multifamily housing enforcement strategy reflects the integrated and coordinated efforts of the Real Estate Assessment Center (REAC) within the Office of Public and Indian Housing and the Departmental Enforcement Center (DEC), an element of the Office of the General Counsel. REAC is completing a comprehensive and uniform portfoliowide 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, communities, and improved financial performance for FHA because performance standards for participants are raised.

Mortgage and Loan Insurance Programs – GI-SRI Account

The following table displays the estimated allocation of commitment authority and subsidy by program for fiscal year 2005.

GI/SRI PROGRAMS	Commitment Authority FY 2005	Subsidy Rates FY 2005	Positive Subsidy BA FY 2005
Multifamily & Healthcare			
Apartments NC/SR (includes Mixed Use)	$3,100,000,000	-0.03%	
221 (d3) NP coop owned apts.	50,000,000	10.58%	$5,290,000
Tax Credit Projects	1,200,000,000	-4.45%	
Apartments Refinance	3,500,000,000	-2.46%	
241a Supplemental loans for Apts.	10,000,000	6.22%	622,000
223 Operating Loss Loans	4,000,000	16.45%	658,000
HFA Risksharing	400,000,000	-0.79%	
GSE Risksharing	50,000,000	-1.04%	
FHA Full Insurance for Health Care Facilities	525,000,000	-0.06%	
Health Care Refinance	1,900,000,000	-1.80%	
Other Rental	400,000,000	-0.40%	
Hospitals (includes refi. & Suppl. Loan)	900,000,000	-2.02%	
Multifamily & Healthcare Subtotal	12,039,000,000		6,570,000
Single Family Programs			
Title I			
Property Improvements	75,000,000	1.92%	1,440,000
Manufactured Housing	75,000,000	0.12%	90,000
Title I Subtotal	150,000,000		1,530,000
Title II			
234 Condominium Housing & Other	13,876,000,000	-0.40%	
203(k) Rehabilitation Mortgage	607,000,000	0.59%	3,581,300
Title II Subtotal	14,483,000,000		
Single Family Subtotal	14,633,000,000		5,111,300
Stand-by Authority	8,328,000,000		
GI/SRI TOTAL	35,000,000,000		11,681,300

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUNDS
Program Offsets
(Dollars in Thousands)

Insurance Commitment Limitation Enacted/ Requested	**Amount**
2003 Appropriation	$25,000,000
2004 Appropriation/Request	25,000,000
2005 Request	35,000,000
Program Improvements/Offsets	10,000,000

Proposed Actions

Loan Guarantee Limitation. The fiscal year 2005 Budget proposes $35 billion in loan guarantee limitation. This will cover an estimate of $26.7 billion of new commitments and leave $8 billion available for unanticipated increases in business. It is estimated that $11.1 billion in insurance commitments will be issued for 251,117 for multifamily and healthcare related programs. Another $900 million is estimated in hospital mortgage insurance. Single-family and Title I endorsements are projected at $14.6 billion for an estimated 121,084 units. These activities are discussed in detail under the Positive Subsidy Appropriation section.

GENERAL AND SPECIAL RISK INSURANCE FUND
Program Highlights

	Actual 2003	Estimate 2004	Estimate 2005	Increase + Decrease – 2005 vs 2004
		(Dollars in Millions)		
Insurance Commitment Limitation:				
Loan Guarantees	25,000	25,000	35,000	10,000
Insurance Commitments (dollars):				
Multifamily	$6,711	$8,264	$8,714	450
Hospitals	241	896	900	4
Homes	14,833	13,290	14,483	1,193
Title I	135	150	150	0
Nursing Homes (includes refis)	2,002	2,400	2,425	25
Subtotal	23,922	25,000	26,672	1,672
Insurance Written (units):				
Multifamily	146,864	198,338	200,981	2,643
Homes	118,221	103,648	112,761	9,113
Title I	7,073	8,323	8,323	0
Nursing Homes (includes refis)	44,795	47,369	50,136	2,767
Subtotal	316,953	357,678	372,200	14,522
Insurance Written (dollars):				
Multifamily	5,832	7,876	10,667	2,791
Hospitals	285	732	899	167
Homes	14,833	13,290	14,483	1,193
Title I	135	150	150	0
Nursing Homes (includes refis)	2,175	2,300	2,419	119
Subtotal	23,260	24,348	28,618	4,270

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
Program Offsets
(Dollars in Thousands)

Insurance Commitment **Direct Loan**	**Amount**
2003 Appropriation	$50,000
2004 Appropriation/Request	50,000
2005 Request	50,000
Program Improvements/Offsets	0

Proposed Actions

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.

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
Performance Measurement Table

Program Name: **GENERAL AND SPECIAL RISK INSURANCE ACCOUNT**					
Program Mission: **Expand national homeownership opportunities.**					
Performance Indicators	**Data Sources**	**Performance Report**		**Performance Plan**	
		2003 Plan	**2003 Actual**	**2004 Enacted**	**2005 Plan**
The share of all homebuyers who are first-time homebuyers.	Single Family Program Office PD&R		Tracking indicator		
The share of first-time homebuyers among FHA-insured home purchase mortgages.	Single Family Program Office OH	At least 80%	77.1 %	Tracking indicator	Tracking indicator
The number of FHA single-family mortgage insurance endorsements nationwide.	Single Family Program Office OH	Tracking indicator	1,338	Tracking indicator	Tracking indicator
The share of REO properties that are sold to owner-occupants will be at 66 percent.	Single Family Program Office OH	Increase by 5%	61.5%	Maintain at 67.7%	66%
The minority homeownership rate.	Single Family Program Office PD&R		49.3%		
The ratio of homeownership rates of minority and non-minority low- and moderate-income families with children increases by 0.4 percentage points by 2005.	Single Family Program Office PD&R				
The share of minority homebuyers among FHA home purchase-endorsements.	Single Family Program Office OH	Increase by 1%	35%	Tracking indicator	Tracking indicator
The homeownership rate among households with incomes less than median family income.	Single Family Program Office PD&R		52.1%		
The homeownership rate in central cities.	Single Family Program Office PD&R		52.3%		

The mortgage disapproval rates of minority applicants.	Single Family Program Office FHEO	Under Review	Under Review	Under Review	
Loss mitigation claims are 45 percent of total claims on FHA-insured single-family mortgages.	Single Family Program Office OH	At least 40%	At least 50%	At least 40%	45%
FHA endorses at least 1,000 multifamily mortgages.	Multifamily Program Office OH	800	1,331	1,000	1,000
HUD will complete 80 percent of the initial FY 2005 Mark-to-Market pipeline during the fiscal year, reducing rents and restructuring mortgages where appropriate.	OHMAR	470	445	80%	80%
The number of multifamily properties in underserved areas insured by FHA is maintained at 25 percent of initial endorsements.	Multifamily Program Office OH	Increase by 5%	53,200 units	Maintain 25% of initial endorsements in underserved areas	Maintain 25%
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.	FAB	Achieve compliance with A-127 Sec. 7(a)-(f) for FHA's general ledger and 12 interfacing systems	Achieve compliance with A-127 Sec. 7(a)-(f) for FHA's general ledger and 11 interfacing systems	Eliminate one stand alone cash management system and two stand alone funds control systems	Integrate financial operation in three service areas with the FHA Subsidiary Ledger, eliminating two stand alone systems
Exceed the rate of net recovery received on the sale of property through the Accelerated Claim Program Demonstration (Section 601).	Single Family Program Office OH	No numeric target tracks the rate of recovery on FHA claims between FYs 2002 and 2003	No numeric target – tracks the rate of recovery on FHA claims between FYs 2002 and 2003	No numeric target – tracks the rate of recovery on FHA claims between FY 2003s and 2004	No numeric target – tracks the rate of recovery on FHA claims between FYs 2004 and 2005
The Center will conduct comprehensive outreach to inform potential partners of HUD opportunities.	Multifamily Program Office Faith Based Community Initiative				

Explanation of Indicators

The share of all homebuyers who are first-time homebuyers. This is a tracking indicator for which no numeric target is established because of the current dominant impact of the macroeconomy. Increases in overall ownership rates generally result when better opportunities become available for first-time homebuying by low- and moderate-income households. The most recent available data show that during calendar year 2001, 41.3 percent of homebuyers—about 2.5 million households—were purchasing their first home. A number of economic factors not controlled by HUD affect this outcome, especially changes in mortgage interest rates.

The share of first-time homebuyers among FHA-insured home purchase mortgages. FHA is a major source of mortgage financing for first-time buyers as well as for minority and lower income buyers. HUD will help increase the overall homeownership rate, as well as reduce the homeownership gap between whites and minorities, by increasing FHA endorsements for first-time homebuyers.

This indicator tracks the share of first-time homebuyers among FHA endorsements for home purchases—thus excluding loans made for home improvements.

The number of FHA single-family mortgage insurance endorsements nationwide. This is a tracking indicator. FHA insures mortgages issued by private lenders, increasing access to mortgage capital so homeownership opportunities increase. This indicator tracks FHA's contribution to the homeownership rate through the annual volume of FHA-insured loans, and is a key component of the Department's efforts to improve the National Homeownership rate and fulfill the President's fiscal year 2002 commitment to creating 5.5 million new minority homeowners over a 10 year period. As such, this indicator greatly affects first-time and minority homeownership in addition to overall homeownership. While the number of FHA mortgage endorsements is a key measure of HUD's contribution to homeownership, the actual rate achieved during fiscal year 2005 will be dramatically affected by market forces outside of HUD's control, especially interest rates. Balancing the importance of reporting this key measure of HUD activity with an appreciation of the huge effect the market plays in the final result, the Department has decided to track this measure, but not establish a numeric goal for fiscal year 2005.

The share of REO properties that are sold to owner-occupants will be at 68 percent. This indicator tracks one measure of the Department's success in reducing the risk of predatory lending linked to property flipping. HUD intends to increase sales of its real estate owned homes directly to families who will occupy them rather than to investors. In fiscal year 2002, 62.2 percent of REO properties were sold to owner-occupants. The fiscal year 2005 goal is to ensure that the share of REO properties that are sold to owner-occupants is 68 percent.

The minority homeownership rate. This is a tracking indicator for which no numeric target is established because of the current dominant impact of the macroeconomy. Many of HUD's programs improve homeownership by targeting underserved populations including minorities. Minority households represented 36 percent of all FHA-insured home purchases in fiscal year 2002. Strategies to increase minority homeownership include increased outreach and continued enforcement of equal opportunity in housing. The Department also is requesting increased funding for the Housing Counseling program. New counseling resources will help more members of minority and other underserved groups to build the knowledge to become homeowners and to sustain their new tenure by meeting the ongoing responsibilities of homeownership.

The ratio of homeownership rates of minority and non-minority low- and moderate-income families with children increases by 0.4 percentage points by 2005. One of HUD's central objectives is to remove homeownership barriers and increase homeownership among minorities. Homeownership rates are most susceptible to policy intervention among renters who are marginally creditworthy, discouraged by discrimination, or unaware of the economic benefits of homeownership. This indicator measures progress in reducing these barriers to homeownership among racial and ethnic minorities, as measured by the ratio of minority homeownership rates to homeownership of non-Hispanic whites. The effects of income and household type are controlled by comparing homeownership rates for low- and moderate-income families with children (those with incomes of 51 to 120 percent of area median income). The goal for the fiscal year 2004-2005 period is to increase the ratio by 0.4 percentage points from calendar year 2003 levels by calendar year 2005.

The share of minority homebuyers among FHA home purchase-endorsements. FHA is a major source of mortgage financing for minority as well as lower income buyers. Increasing the number of FHA endorsements for minority homebuyers will help reduce the homeownership gap between whites and minorities as well as increase the overall homeownership rate. This is a tracking indicator because FHA has limited control regarding the percentage of minority participation.

The homeownership rate among households with incomes less than median family income. This tracking indicator has no numeric target because of the current dominant impact of the macroeconomy. Homeownership is advantageous because of its contributions to asset development, better neighborhoods and schools, stability of tenure, and wider choice of housing types. Holding other factors equal, homeownership improves outcomes for children on a number of dimensions, including school achievement and dropout rates. HUD is supporting increased homeownership among the half of all households who earn less than the national median family income in numerous ways. These include improved partnering, marketing and outreach, as well as through the higher loan limits recently approved for FHA. Over 70 percent of FHA-insured single-family mortgages in recent years have been to families with below-median income. Homeownership vouchers and CDBG, HOME and IHBG homeownership activities also primarily support this population.

The homeownership rate in central cities. This tracking indicator has no numeric target because of the current dominant impact of the macroeconomy. Central cities have below-average rates of homeownership—in part because of higher density development and multifamily housing—but also because of losses of middle-class families in past decades. Low homeownership can contribute to neighborhood decline because absentee landlords and their tenants put forth less maintenance effort than homeowners. In such cases, low homeownership often leads to a shrinking municipal tax base.

HUD is increasing marketing and outreach efforts to promote central city homeownership, including targeted sales of HUD-owned properties. The Department's geographically-targeted goals for the housing GSEs include central city criteria to help ensure that mortgage capital is available. Cities also are making efforts to increase homeownership rates, as a substantial proportion of HOME funds support new homebuyers. This indicator tracks the progress in reestablishing central cities as desirable places for long-term individual investment.

The mortgage disapproval rates of minority applicants. This is a tracking indicator for minority mortgage disapproval rates, an important early indicator of trends in minority homeownership. Equal access to home loans is critical for decreasing disparities in homeownership rates. However, lender decisions about which applications to accept or deny are primarily beyond HUD's control.

In 2001, the average mortgage disapproval rate for minority applicants was 15.7 percent, nearly twice the 8.1 percent disapproval rate for non-minority white applicants. The primary cause of differences in mortgage disapprovals between ethnic groups is differences in average disposable income and creditworthiness. In some cases, lenders have been shown to discriminate against minority applicants for mortgages by disapproving their mortgages while approving nonminorities who were less creditworthy or had less income. In such cases, HUD can take fair housing enforcement actions. The goals that HUD has established for the two largest secondary mortgage market lenders, Fannie Mae and Freddie Mac, encourage increased lending to minorities. In addition, FHA can increase minority lending through targeted marketing and counseling to potential minority home purchasers.

Home Mortgage Disclosure Act (HMDA) database, consisting of calendar-year data submitted by lenders to the Federal Financial Institutions Examination Council (FFIEC) and HUD. The mortgage applications counted are conforming loans or loans insured by FHA, VA or the Rural Housing Service, and are limited to owner-occupied single-family home purchases from metropolitan areas. HMDA data are available with a 1 year lag (calendar 2002 data will become available in August 2003)

Loss mitigation claims are 45 percent of total claims on FHA-insured single-family mortgages. This indicator measures the success of FHA loan servicers in implementing statutorily required loss-mitigation techniques when borrowers default on their FHA mortgages. A borrower can resolve a default (90-day delinquency) in several ways short of foreclosure: for example, by paying down the delinquency (cure), by a pre-foreclosure sale with FHA perhaps paying an insurance claim in the amount of the shortfall, or by surrendering a deed in lieu of foreclosure. Better loss-mitigation efforts, such as enhanced borrower counseling, help borrowers keep their current homes or permit them to buy another home sooner. Avoidance of foreclosure also reduces FHA's insurance losses, making FHA financially sounder and enabling it to help more borrowers. For both reasons, by achieving this goal HUD will help increase the overall homeownership rate.

The use of loss mitigation as a share of total claims increased from 46.1 percent in fiscal year 2001 to 49.7 percent in fiscal year 2002. The fiscal year 2005 goal is to ensure that 45 percent of the total number of claims are resolved through loss mitigation.

Loss mitigation actions do not permanently stabilize many borrowers' financial status. However, about 60 percent of borrowers who receive the benefits of loss mitigation remain current on their mortgage for at least a 12-month period. This reduction in foreclosure claim expenses is a key component of Departmental budget estimates for fiscal year 2005. Our programmatic objective is to sustain the high level of participation in loss mitigation even as the Office of Housing tightens programmatic requirements designated to increase the ultimate success rate of loss mitigation in helping borrowers avoid foreclosure.

FHA endorses at least 1,000 multifamily mortgages. FHA multifamily mortgage insurance plays an important role in the mortgage market, especially for a number of higher risk segments in the housing industry. These include small builders, buyers or owners of aging inner-city properties, and nonprofit sponsors. FHA's unique and valuable products include insurance that covers both the construction financing and long-term permanent financing of modest-cost rental housing, insurance for assisted living facilities, and a vehicle whereby lenders (including many with public purpose missions such as housing finance agencies) can gain access to the AAA rating of Ginnie Mae securities.

FHA brings stability to the market. Many conventional multifamily loans that otherwise would have gone into default as they reached maturity during the credit crunch of the early 1990s were successfully refinanced with FHA. FHA also retains a leadership position in the market for high loan-to-value and long-term fully-amortizing multifamily loans, which can help in the provision of affordable rental housing. Maintaining FHA multifamily volume will help make more decent rental housing available to consumers at modest cost. This indicator tracks FHA's annual output of initial multifamily endorsements.

The Department is maintaining its goal for fiscal year 2005 at 1,000 initial endorsements with the increased use of FHA's Multifamily Accelerated Processing program by lenders gaining knowledge and capacity in the program and of the Development Applications Processing system for automated underwriting of multifamily mortgages. Nonetheless, since FHA responds to local markets and the National economic conditions, it remains conservative in estimating this goal in the interest of assuring sound underwriting.

HUD will complete 80 percent of the initial fiscal year 2005 Mark-to-Market (M2M) pipeline during the fiscal year, reducing rents and restructuring mortgages where appropriate. Under the M2M program, the Office of Multifamily Housing Assistance Restructuring (OMHAR) analyzes FHA-insured multifamily properties for which Section 8 rents exceed comparable market rents, and reduces Section 8 rents to bring them in line with comparable market rents or levels that preserve financial viability. Properties also are eligible for debt restructuring that involves a write-down of the existing mortgage in conjunction with the reduced rent levels. Rent adjustments and mortgage restructuring reduce the average cost of providing housing assistance and help maintain the supply of good quality, affordable housing units. OMHAR administers M2M by contracting with Participating Administrative Entities (PAEs), including a number of state housing finance agencies, to conduct the mortgage restructuring.

The fiscal year 2005 goal is based on an OMHAR projection of anticipated workload, which is, in part, based on an estimate of market rents for contracts expiring in the future. These projections may be affected by owner decisions, real estate market trends, accuracy of the REMS database, and future legislative changes relative to M2M eligible properties. For fiscal year 2003, as of April 2003, OMHAR has completed 260 project actions, which is 55 percent of the APP goal of 470 project actions. In fiscal year 2002, OMHAR completed a total of 510 project actions which is 66 percent of the pipeline on 10/01/2001; in fiscal year 2001, OMHAR completed a total of 630 project actions which is 76 percent of the pipeline on 10/01/2000; and in fiscal year 2000, OMHAR completed a total of 519 project actions which is 66 percent of the pipeline on 10/01/1999. OMHAR's goal of 80 percent was based on the above completion rates and pipeline projections.

The number of multifamily properties in underserved areas insured by FHA is maintained at 25 percent of initial endorsements. FHA insures loans for new construction and substantial rehabilitation of multifamily rental units under Sections 221(d)(3), 221(d)(4), and 220, and risk-sharing under 542(b) and (c). Section 223(f) insures mortgages for existing multifamily properties, either to refinance an existing mortgage or to facilitate the purchase of a property. A moderate amount of rehabilitation cost may be included in the mortgage. These programs improve the quality and affordability of rental housing, and increasing their availability in underserved neighborhoods will promote revitalization of those neighborhoods.

This indicator tracks the number of units in multifamily properties within "underserved" neighborhoods that receive mortgage endorsements by FHA. Beginning in fiscal year 2003, refinanced mortgages are included. Section 202 and Section 811 properties are excluded. Underserved neighborhoods are defined in metropolitan areas as census tracts either with a minority population of 30 percent and median family income below 120 percent of the metropolitan area median, or with median family income at or below 90 percent of area median (irrespective of minority population percentage). A similar definition of underserved applies to nonmetropolitan areas, using counties rather than tracts.

The fiscal year 2005 goal is to maintain the number of units –at 25 percent, building on an equivalent fiscal year 2004 goal. The achievement of this goal in fiscal year 2005 is influenced by National economic conditions.

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. The FHA Comptroller has developed a Blueprint for Financial Management that will implement an integrated Core Financial Management System to address financial management and system deficiencies documented by HUD's Inspector General, FHA and HUD financial statement auditors, OMB examiners and GAO auditors.
The new Core Financial Management System will support the President's Management Agenda for HUD in strengthening program controls through improved information systems. Implementing this new system is one of the Secretary's strategic actions to address material weaknesses and reportable conditions identified in FHA's most recent audited financial statement, reported to Congress in "Building the Public Trust." The Blueprint for Financial Management also provides corrective action for 14 different FHA systems that are currently non-compliant with the requirements of OMB Circular A-127.

The plan for the development of an integrated Financial Management System that will address financial management and system deficiencies has the following key objectives:

- Implement U.S. Standard General Ledger and credit reform accounts in the FHA general ledger;
- Implement automated funds control processes using the FHA general ledger;
- Automate FHA's interface with HUD's departmental general ledger;
- Produce FHA financial statements and regulatory reports directly from the FHA general ledger;

- Enhance FHA cash accounting and Treasury reconciliation with automated support from the integrated financial management system;
- Enhance FHA contract accounting with automated support from the integrated financial management system; and
- Eliminate manual accounting processes and improve integration of FHA financial and program systems.

This systems project has a phased implementation. In Phase I, FHA identified approximately 20 automated sources of accounting transactions within FHA's insurance systems; defined pro-forma accounting transactions to support Federal Generally Accepted Accounting Principles; and acquired a commercial-off-the-shelf product that is compliant with the Joint Financial Management Improvement Program (JFMIP) to serve as the new core financial system.

In Phase II, FHA implemented the new JFMIP-compliant core financial software, beginning with the general ledger in October 2002. FHA will implement additional JFMIP-compliant modules of the core financial software to complete support for accounting operations by December 2004. During this same period, FHA will also upgrade the software for Web operation to improve critical accounting processes such as funds control.

In Phase III, FHA will complete the integration of its insurance systems with the new core financial system. Phase III of the project is expected to be completed by December 2006.

Exceed the rate of net recovery received on the sale of property through the Accelerated Claim Program Demonstration (Section) 601. Under authority from Section 601 of the National Housing Act in 1999, HUD is implementing a demonstration program to reform the single-family claims and property disposition process and maximize recoveries on claims paid. Under the demonstration, FHA will take assignment of notes and transfer them to private parties for servicing, foreclosure avoidance, property management and asset dispositio. FHA has the opportunity to execute various asset disposition strategies as a part of the Accelerated Claim Demonstration (ACD), securitizations, whole loan sales, and a combination whole loan/pipeline sale. Currently, FHA is utilizing a structured financing and retaining an equity interest in the limited liability company formed to acquire, service and dispose of portfolios of single family notes. The overall goal of the Accelerated Claims Disposition (ACD) program is to ensure that FHA's public policy issues are addressed while expediting the disposition of defaulted FHA single family assets and maximizing the return to the FHA Insurance Funds. The first demonstration initiative was a sealed bid auction held in October 2002. Claims were paid beginning October 31, 2002. This indicator tracks the rate of recovery on FHA claims between fiscal year 2004 and fiscal year 2005.

The Center will conduct comprehensive outreach to inform potential partners of HUD opportunities. The Center is executing a comprehensive outreach and technical assistance plan that uses the HUD regional and field offices, targeted media, and presentations at national and regional conferences. These efforts were initiated in fiscal year 2003 and will continue in fiscal year 2005. The Center-trained faith-based and community liaisons in each of HUD's 10 regional and 85 field offices will continue to conduct training and outreach on behalf of the Initiative and serve as a point-of contact for the FBCOs in their region. The Center uses mass mailings, blast faxes, emails, and webcasts to inform FBCOs about the Initiative and HUD programs. The goal is to increase this list from the fiscal year 2004 target of 5,000 FBCOs to a fiscal year 2005 target of 10,000 FBCOs. The Center and the FBCI liaisons will conduct at least eighty grant-writing workshops in fiscal year 2005, which will enhance the ability of FBCOs to navigate the Government grant process –especially the HUD grant process. The Center also publishes annually a CD-ROM with the SuperNOFA information and materials.

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
Justification of Proposed Changes in Appropriation Language

The 2005 President's Budget includes proposed changes in the appropriations language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed. The 2005 President's Budget includes proposed changes in the appropriation language listed and explained below.

For the cost of guaranteed loans, as authorized by sections 238 and 519 of the National Housing Act (12 U.S.C. 1715z–3 and 1735c), including the cost of loan guarantee modifications, as that term is defined in section 502 of the Congressional Budget Act of 1974, as amended, [$15,000,000] *$10,000,000*, to remain available until expended: *Provided,* That these funds are available to subsidize total loan principal, any part of which is to be guaranteed, of up to [$25,000,000,000] *$35,000,000,000: Provided, That of the amounts of such credit subsidy appropriated under this heading in prior years, $30,000,000 is rescinded.*
Gross obligations for the principal amount of direct loans, as authorized by sections 204(g), 207(l), 238, and 519(a) of the National Housing Act, shall not exceed $50,000,000, of which not to exceed $30,000,000 shall be for bridge financing in connection with the sale of multifamily real properties owned by the Secretary and formerly insured under such Act; and of which not to exceed $20,000,000 shall be for loans to nonprofit and governmental entities in connection with the sale of single-family real properties owned by the Secretary and formerly insured under such Act.
In addition, for administrative expenses necessary to carry out the guaranteed and direct loan programs, [$229,000,000] *$234,000,000*, of which [$209,000,000] *$214,000,000* shall be transferred to the appropriation for ''Salaries and expenses''; and of which $20,000,000 shall be transferred to the appropriation for ''Office of Inspector General''.
In addition, for administrative contract expenses necessary to carry out the guaranteed and direct loan programs, [$93,780,000] *$81,600,000*, of which no less than [$16,946,000] *$5,200,000* shall be transferred to the Working Capital Fund for the development of and modifications to information technology systems which serve programs or activities under ''Housing programs'' or ''Federal Housing Administration'': *Provided,* That to the extent guaranteed loan commitments exceed $8,426,000,000 on or before April 1, [2004] *2005*, an additional $1,980 for administrative contract expenses shall be available for each $1,000,000 in additional guaranteed loan commitments over $8,426,000,000 (including a pro rata amount for any increment below $1,000,000), but in no case shall funds made available by this proviso exceed $14,400,000. *(Division G, H.R. 2673, Consolidated Appropriations Bill, FY 2004.)*

Explanation of Changes

No new policy changes are proposed.

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
Crosswalk of 2003 Availability
(Dollars in Thousands)

Budget Authority	2003 Enacted	Supplemental/ Rescission	Approved Reprogrammings	Transfers	Carryover	Total 2003 Resources
Administrative Expenses (S&E)	$223,716	-$1,454	...	...	...	$222,262
Administrative Contract Expenses	93,780	-609	...	...	...	93,171
Positive Subsidy Appropriation	15,000	-98	...	...	52,832[a]	67,734
Total	332,496	-2,161	...	...	52,832	383,167

a/ Includes only carryover for credit subsidy. Funds for other purposes expired at the end of fiscal year 2002 and are not reflected in the carryover total.

NOTES

Supplemental/Rescission.

Reflects the governmentwide rescission of .65 percent.

HOUSING
GENERAL AND SPECIAL RISK INSURANCE ACCOUNT
Crosswalk of 2004 Changes
(Dollars in Thousands)

Budget Authority	2004 President's Budget Request	Congressional Appropriations Action on 2004 Request	2004 Supplemental/ Rescission	Reprogrammings	Carryover	Total 2004 Resources
Administrative Expenses (S&E)	$229,000	$229,000	-$1,351	...	...	$227,649
Administrative Contract Expenses	93,780	93,780	-553	...	...	93,227
Positive Subsidy Appropriation	15,000	15,000	-89	...	65,356[b]	80,267
Total Changes	337,780	337,780	-1,993	...	65,356	401,143

a/ Excludes $26 million that expired at the end of fiscal year 2003. In addition, $130.5 million of funds that expired in prior year remain on the accounting ledger. Pursuant to OMB Circular No. A-11, funds are required to be carried on the accounting ledgers for 5 years upon the expiration of funds.

NOTES

2004 Supplemental/Rescission.

Reflects a governmentwide rescission of .59 percent.