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

SUMMARY OF THE BUDGET ESTIMATES

Modernization of FHA Single family Mortgage Insurance Activities. The budget proposes comprehensive reform of FHA single family mortgage insurance activities to better meet its mission of reducing barriers to homeownership. These legislative proposals will enable FHA to respond more flexibly to changes in market conditions and to offer new products specifically designed for hard to reach families. As part of this reform package, legislation is being proposed to shift financial responsibility for all new single family mortgage insurance activity under the Mutual Mortgage Insurance (MMI) Fund. These changes are discussed in greater detail in the justifications for the affected accounts.

Mortgage Insurance Commitment Limitations. The budget requests an overall mortgage insurance commitment limitation of $220 billion in new fiscal year 2008 FHA loan commitments. The proposed total includes $185 billion under the MMI Fund, which will exclusively support insurance of single family home mortgages; and $35 billion under the General and Special Risk Insurance (GI/SRI) Fund, which supports multifamily rental and an assortment of special purpose insurance programs for hospitals, nursing homes, and title I lending.

Direct Loan Limitations. The budget requests a direct loan limitation of $50 million each for the MMI and GI/SRI funds to facilitate the sale of HUD properties to, or for use by low- and moderate-income families.

Appropriations for Administrative Expenses. A total of $736 million is requested for administrative and administrative contract expenses in the FHA program accounts. Of this total, $556.8 million will be transferred to Salaries and Expenses, HUD; $23.8 million will be transferred to the appropriation for the Office of Inspector General (OIG); and $155.5 million will be used for administrative contract expenses, including not less than $41.2 million to be transferred to the Working Capital Fund (WCF). Of the total $580.5 million transferred to the Department’s Salaries and Expenses, HUD and OIG accounts, $351.5 million will be from the MMI account and $229 million will be from the GI/SRI account.

Appropriation for Mortgage Insurance Credit Subsidies. The budget also requests an appropriation of $8.6 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.

PROGRAM DESCRIPTION

Through mortgage insurance, FHA helps lenders reduce their exposure to risk of default. This assistance allows lenders to make lower-cost financing available to more borrowers for home and home improvement loans, and apartment, hospital, and nursing home loans. FHA provides a vital link in addressing America’s homeownership and affordable rental 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 and GI/SRI program accounts to be transferred to the Department’s Salaries and Expenses HUD 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, education and outreach, and other activities directly related to operations of the funds. For fiscal year 2008, the Department is proposing a total appropriation for the contract expenses of $155.5 million, of which $77.4 million is in the MMI account and $78.1 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
FHA--MUTUAL MORTGAGE INSURANCE FUND
2008 Summary Statement and Initiatives
(Dollars in Thousands)

FHA--MUTUAL MORTGAGE & COOPERATIVE MGMT. HOUSING INSURANCE FUND	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2006 Appropriation	$417,600	...	-$4,176[a]	$413,424	$412,515[b]	$414,371[b]
2007 Full Year CR Estimate.........	413,850	...	...	413,850	413,850	413,850
2008 Request	428,850	...	...	428,850	428,850	425,850
Program Improvements/Offsets	+15,000	...	...	+15,000	+15,000	+12,000

a/ Reflects a 1 percent governmentwide rescission for fiscal year 2006 pursuant to the fiscal year 2006 Department of Defense Appropriations Act (P.L. 109-148).
b/ Excludes upward re-estimates. See the Detailed Summary of Resources by Program table for details.

Summary Statement

Loan Guarantee Limitation. A loan guarantee limitation of $185 billion is requested for fiscal year 2008. New insurance commitments are estimated at $82 billion. This amount will support the consolidation of all single family mortgage insurance programs into the MMI Fund, including those for condominium, purchase and rehabilitation, and Home Equity Conversion Mortgages (HECM). The additional amount requested above the $82 billion minimizes 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 (FHA) requests an appropriation of $429 million for administrative expenses for fiscal year 2008, an increase of $15 million over the fiscal year 2007 full-year funding level under the 2007 continuing resolution. Of this sum, $347.5 million is to be transferred to the Salaries and Expenses, HUD account, $4 million to the Office of Inspector General account, and $77.4 million is for administrative contract expenses, including $5 million for consumer education and a transfer of $25.6 million to the Working Capital Fund for systems development and maintenance.

The MMI Fund is expected to generate $164 million of negative subsidy on insurance written in fiscal year 2007 at a subsidy rate of –0.37 percent, which is the rate for the basic mortgage insurance program authorized under section 203(b) of the National Housing Act. Also, an additional $12.5 million in negative subsidy is being generated from a loan modification in 2006 relating to lower net costs achieved by offering expanded partial payment of claim assistance for families affected by Hurricane Katrina.

In 2008, FHA is proposing several legislative changes to the MMI Fund that are expected to generate a total of $680 million in negative subsidy from the new MMI Purchase and Refinance and HECM programs. The weighted average subsidy rate that includes the proposed changes for the MMI Purchase and Refinance program is -0.60 percent and the subsidy rate for the MMI HECM program is -1.35 percent.

This budget request reflects proposed legislative reforms that will include improved FHA product lines and overall a more vibrant and flexible FHA program. It is projected that the amount and number of insured mortgages will increase. The FHA programs are vital contributors to the Department’s Strategic Goal A: “Increase Homeownership Opportunities”; Strategic Objective A.2: “Increase Minority Homeownership” and C.2: “Enhance sustainability of communities by expanding economic opportunities”. The FHA program is also a key contributor to the Presidential Goal of creating 5.5 million new minority homeowners over 10 years and is a component of a wider effort to fight predatory lending. FHA has also adopted an efficiency measure to increase the use of loss mitigation and decrease the staff time required to calculate and communicate loss mitigation scores and simplify services performance measurement.

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.

Initiatives

In fiscal year 2008, the following legislative changes are proposed:

- Introduce an array of products to more fairly price its guarantee to individual borrowers. FHA will base each borrower’s mortgage insurance premiums upon the risk that the borrower poses to the FHA Mortgage Insurance fund. The mortgage insurance premiums will consider the borrower’s credit history, loan-to-value ratio, and debt-to-income ratio and will be based on FHA’s historical experience with similar borrowers. It is anticipated that this change will decrease premiums for many of FHA’s traditional borrowers, thereby increasing their access to homeownership.

- Remove legislative impediments that affect FHA’s ability to offer new mortgage products. FHA has already taken steps, within its current authority, to streamline its paperwork requirements and remove impediments to its use by lenders and buyers. However, it lacks the ability to respond rapidly and flexibly to changing market conditions that could affect its traditional borrowers. In response, the Administration proposed legislation that will remove impediments to FHA’s ability to offer new mortgage products that continue to serve non-prime borrowers. This will be achieved within a framework of improved pricing and program performance targets that ensure that risks are wisely managed. Updating FHA’s statutory authorities will enable it to respond flexibly and rapidly to changing market conditions, provide borrowers with a fairly priced option to high-cost, non-prime loans, and offer borrowers a range of mortgage insurance products designed to overcome specific impediments to homeownership.

- FHA proposes consolidating all of its single family mortgage programs into the MMI fund, including those for condominiums, purchase and rehabilitation loans, and home equity conversion mortgages. Currently these products are endorsed for insurance under the FHA’s General and Special Risk Insurance (GI/SRI) fund. As a result of the consolidation of the single family programs into the MMI fund, two new credit risk categories will be created, the MMI Purchase and Refinance risk category and the MMI HECM (home equity conversion mortgages) risk category. The Title 1 Property Improvement and Manufactured Housing programs will remain in the GI/SRI fund. This shift will apply to new mortgages insured. Existing insurance will continue to be administered in the Fund under which they were endorsed.

The following table displays the estimated allocation of commitment authority and subsidy by program for fiscal years 2007 and 2008.

ESTIMATED COMMITMENT AUTHORITY BY RISK CATEGORY

MMI PROGRAMS	Commitment Authority FY 2007		Subsidy Rates FY 2007	Commitment Authority FY 2008	Subsidy Rates FY 2008
MMI Purchase and Refinance	$44,418,000,000	a/	-0.37%	$56,995,908,090	-0.60%
MMI HECM	8,939,000,000	b/	-2.82%	25,000,000,000	-1.35%
sub-total	53,357,000,000			81,995,908,090	
Stand-by Authority	131,643,000,000			103,004,091,910	
MMI Total	185,000,000,000			185,000,000,000	

a/ Includes Section 203(b) only.

b/ Prior to fiscal year 2008, HECM mortgages were included in FHA’s GI/SRI Fund.

HOUSING
FHA – MUTUAL MORTGAGE INSURANCE FUND
Summary of Resources by Program
(Dollars in Thousands)

Budget Activity	2006 Budget Authority	2005 Carryover Into 2006	2006 Total Resources	2006 Obligations	2007 CR Estimate	2006 Carryover Into 2007	2007 Total Resources	2008 Request
Administrative Expense	$351,450	...	$351,450	$351,450	$351,450	...	$351,450	$351,450
Administrative Contract Expense	61,974	...	61,974	61,065	62,400	...	62,400	77,400
Total	413,424	...	413,424	412,515	413,850	...	413,850	428,850

2006 Budget Authority. Amounts reflect appropriations reduced by the 1 percent governmentwide rescission pursuant to the fiscal year 2006 Department of Defense Appropriations Act (P.L. 109-148).

FTE	2006 Actual	2007 Estimate	2008 Estimate
Headquarters	326	344	341
Field	645	631	655
Total	971	975	996

JUSTIFICATION OF FTE INCREASE FROM FY 2007 TO FY 2008

- To revamp Single Family business processes in line with current trends and practices in the mortgage industry.
- To undertake industry analysis, promotional strategies, and event facilitation associated with efforts to expand FHA products.
- To increase oversight of FHA appraisers and Special Property Inspections of REO properties to assure appropriate quality control of the performance of Housing’s Management & Marketing contractors.
- To certify or recertify an increased number of non-profit organizations for participation in FHA’s Single Family mortgage insurance programs.
- To prepare and publish revised and updated regulations that increase lender compliance and accountability for Single Family FHA mortgage insurance programs.

HOUSING
FHA -- MUTUAL MORTGAGE INSURANCE FUND
Detailed Summary of Resources by Program

(Dollars in Thousands)

Budget Activity	2006 Budget or Financing Authority	2006 Rescission	2006 Total Resources	2006 Obligations	2007 Budget Authority	2007 Total Resources	2008 Request
Administrative transfers:							
S&E	$351,000	$(3,510)	$347,490	$347,490	$347,490	$347,490	$347,490
OIG	4,000	(40)	3,960	3,960	3,960	3,960	3,960
Subtotal	355,000	(3,550)	351,450	351,450	351,450	351,450	351,450
Non-overhead admin costs:							
Housing contracts a/	44,319	(443)	43,876	42,967	38,838	38,838	51,850
Working Capital Fund transfer	18,281	(183)	18,098	18,098	23,562	23,562	25,550
Subtotal	62,600	(626)	61,974	61,065	62,400	62,400	77,400
Total, Admin & Non-overhead admin costs	417,600	(4,176)	413,424	412,515	413,850	413,850	428,850

a/ The request includes up to $5 million for education and outreach of FHA single family loan products in fiscal year 2008. The increase in request for 2008 is related to the implementation of the FHA reforms and the increase in Housing's base contract costs.

PROGRAM HIGHLIGHTS

Budget Activity	Actual 2006	Estimate 2007	Estimate 2008	Increase + Decrease – 2008 vs. 2007
		(Dollars in Thousands)		
Insurance Commitment Limitation:				
Loan Guarantees	$185,000,000	$185,000,000	$185,000,000	$0
Insurance Commitments ($$):				
MMI 203(b)	51,782,950	44,418,000		
MMI Purchase and Refinance	N/A	N/A	56,995,908	
MMI HECM [a]	N/A	N/A	25,000,000	
Sub-total	51,782,950	44,418,000	81,995,908	$37,577,908
Standby authority	$133,217,050	$140,582,000	$103,004,092	($37,577,908)
Direct Loan Limitation	$50,000	$50,000	$50,000	$0

a/ Prior to fiscal year 2008, HECM mortgages were included in FHA's GI/SRI Fund.

Discretionary:				
Budget Authority				
Program account	413,424	413,850	428,850	15,000
Capital Reserve account (negative subsidy/loan modification)	(889,338)	(176,880)	(679,463)	(502,583)
Net Outlays				
Program account	414,371	413,850	425,850	12,000
Capital Reserve account (negative subsidy/loan modification)	(889,338)	(176,880)	(679,463)	(502,583)

Mortgage and Loan Insurance Programs - MMI/CMHI Account

Budget Activity	Actual 2006	Estimate 2007	Estimate 2008	Decrease – 2008 vs. 2007
Mandatory:		(Dollars in Thousands)		
Budget Authority				
Capital Reserve account (negative subsidy)	889,338	176,880	679,463	(502,583)
Net Outlays				
Program account(upward re-estimates)	3,403,869	1,350,468	-	(1,350,468)
Capital Reserve account (downward re-estimate and interest on Fed. Securities)	(1,272,306)	(1,663,952)	(1,118,815)	545,137
Liquidating account (net outlays)	25,289	30,519	22,823	(7,696)
Off Budget:				
Financing account (net disbursements)	(2,213,145)	(1,932,000)	127,000	2,059,000
Program Activity:				
Insurance written	$51,782,950	$44,418,000	$66,118,045	$21,700,045
Insurance written – Numbers of cases	408,435	344,326	484,324	139,998
Insurance-In-Force, homes	$317,249,260	$314,888,496	$334,599,412	$19,710,916
Negative Subsidy	($889,338)	($176,880)	($679,463)	($502,583)
Payment of Insurance claims	$5,530,459	$5,866,328	$6,370,056	$503,728

HOUSING
FHA--MUTUAL MORTGAGE & COOPERATIVE MGMT. HOUSING INSURANCE FUND
Program Offsets
(Dollars in Thousands)

Administrative Expense	**Amount**
2006 Appropriation	$351,450
2007 Full-Year CR Estimate...	351,450
2008 Request	351,450
Program Improvements/Offsets	...

2006 Appropriations. Amount reflects appropriations reduced by the 1 percent governmentwide rescission pursuant to the fiscal year 2006 Department of Defense Appropriations Act (P.L. 109-148).

Proposed Actions

The 2008 budget request proposes no change to the 2007 amounts to be transferred to the Salaries and Expenses, HUD, or the Office of the Inspector General accounts.

HOUSING
FHA--MUTUAL MORTGAGE & COOPERATIVE MGMT. HOUSING INSURANCE FUND
Program Offsets
(Dollars in Thousands)

Administrative Contract Expense	Amount
2006 Appropriation	$61,974
2007 Full-Year CR Estimate...	62,400
2008 Request	77,400
Program Improvements/Offsets	+15,000

2006 Appropriations. Amount reflects appropriations reduced by the 1 percent governmentwide rescission pursuant to the fiscal year 2006 Department of Defense Appropriations Act (P.L. 109-148).

HOUSING
FHA -- MUTUAL MORTGAGE INSURANCE FUND
Program Offsets
(Dollars in Thousands)

Loan Guarantee Limitation	Amount
2006 Appropriation	$185,000,000
2007 Full-Year CR Estimate	$185,000,000
2008 Request	$185,000,000
Program Improvements/Offsets	...

Proposed Actions

Loan Guarantee Limitation. The fiscal year 2008 budget requests $185 billion in loan guarantee limitation. This limitation includes sufficient authority for any new initiatives as well as standby commitment authority for unanticipated increases in business.

PROGRAM DESCRIPTION

MMI Fund. The Mutual Mortgage Insurance Fund consists of all single family home mortgage programs (Section 203(b)), and pursuant to proposed legislation in the 2008 Budget, all new endorsements previously insured under Section 234(c) (condominiums), Section 203(k) (purchase and rehabilitation), and Section 255 (home equity conversion mortgages for seniors).

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. Under the 203(b) program, any person able to meet the cash investment, mortgage payments and credit requirements may obtain a loan insured by FHA from a private lending institution to purchase a home.

Program Activity

	FY 2006	FY 2007	FY 2008	Increase/Decrease 2008 vs. 2007
		(Dollars in Thousands)		
Standby Authority	$133,217,050	$140,582,000	$103,004,092	($37,577,908)
Insurance written	51,782,950	$44,418,000	$66,118,045	$21,700,045
Insurance written – number of cases.	408,435	344,326	484,324	139,998
Insurance-In-Force, end-of-year	$317,249,260	$314,888,496	$334,599,412	$19,710,916
Payment of Insurance claims	$5,530,459	$5,866,328	$6,370,056	$503,728

HOUSING
FHA -- MUTUAL MORTGAGE INSURANCE FUND
Program Offsets
(Dollars in Thousands)

Direct Loan Limitation	Amount
2006 Appropriation	$50,000
2007 Full-Year CR Estimate	$50,000
2008 Request	$50,000
Program Improvements/Offsets	...

Proposed Actions

Direct Loan Limitation. The fiscal year 2008 budget requests $50 million in direct loan limitation. This limitation shall be used for direct loans to non-profit 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
MUTUAL 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**	
		2006 Plan	2006 Actual	2007 Plan	2008 Plan
Improve National homeownership opportunities.	PD&R – Current Population Survey data	Tracking indicator	68.8%	Tracking indicator	Tracking indicator
The share of all homebuyers who are first-time homebuyers.	PD&R – American Housing Survey	Tracking Indicator	39.1%	Tracking indicator	Tracking indicator
The number of FHA single family mortgage insurance endorsements nationwide.	FHA's Single Family Housing Enterprise Data Warehouse	Tracking indicator	502,049	Tracking indicator	Tracking indicator
The share of first-time homebuyers among FHA home purchase endorsements is 71 percent.	FHA's Single Family Housing Enterprise Data Warehouse	71%	79.3%	71%	71%
The share of FHA-insurable real estate owned (REO) properties that are sold to owner-occupants is 90 percent.	FHA's Single Family Acquired Asset Management System	90%	90%	90%	90%
The minority homeownership rate.	PD&R – Current Population Survey data	Tracking Indicator	51.2%	Tracking Indicator	Tracking Indicator
The share of first-time minority homebuyers among FHA home purchase endorsements is 35 percent.	FHA's Single Family Housing Enterprise Data Warehouse	35%	31.7%	35%	35%
The mortgage disapproval rates of minority applicants.	FHEO – Home Mortgage Disclosure Act	Tracking indicator	Tracking indicator	Tracking indicator	Tracking indicator

Performance Indicators	Data Sources	Performance Report		Performance Plan	
		2006 Plan	2006 Actual	2007 Plan	2008 Plan
Loss mitigation claims are 55 percent of total claims on FHA insured single family mortgages.	FHA's Single Family Housing Enterprise Data Warehouse, Loss Mitigation Table	50%	61%	55%	55%
At least 35 percent of single family mortgages endorsed for insurance by FHA are in underserved communities.	FHA's Consolidated Single Family Statistical System	35%	40.2%	At least 35%	At least 35%
FHA increases the percentage of at risk loans that substantively comply with FHA program requirements.	FHA's Approval Re-certification/Review Tracking System (ARRTS).	85%	95%	85%	85%
The Accelerated Claim and Asset Disposition demonstration program (Section 601) will exceed the rate of net recovery received through the conveyance program on the sale of single family assets.	FHA's Single Family Insurance System—Claims Subsystem and FHA's Single Family Acquired Asset Management System	68% (net recovery rate received through the conveyance program on the sale of single family assets in FY 2006)	76%	Net recovery rate received through the conveyance program on the sale of single family assets in FY 2007	Net recovery rate received through the conveyance program on the sale of single family assets in FY 2008

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 69.0 percent homeownership rate in early 2004. 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 2003, 39.1 percent of homebuyers 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 by 2010. 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 2008 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 2008.

The share of first-time homebuyers among FHA home purchase endorsements is 71 percent. 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 fiscal year 2008 goal is to ensure that 71 percent of home purchase mortgages endorsed for insurance by FHA are to first-time homebuyers.

The share of FHA-insurable real estate owned (REO) properties that are sold to owner-occupants is 90 percent. This indicator tracks one measure of the Department's success in expanding homeownership opportunities and helping stabilize neighborhoods. HUD intends to increase sales of its FHA-insurable REO homes directly to families who will occupy them rather than to investors. The fiscal year 2008 goal is to ensure that the share of FHA-insurable REO properties that are sold to owner-occupants is 90 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 31.7 percent of all FHA-insured home purchases in fiscal year 2006. 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 on-going responsibilities of homeownership.

The share of first-time minority homebuyers among FHA home purchase endorsements is 35 percent. FHA is a major source of mortgage financing for minority as well as lower-income buyers. Increasing the number of FHA endorsements for first-time minority homebuyers will help reduce the homeownership gap between whites and minorities as well as increase the overall homeownership rate. The fiscal year 2008 goal is to ensure that first-time minority homebuyers represent 35 percent of home purchase mortgages endorsed for insurance by FHA.

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.

The most recent data available show that mortgage denial rates edged upward in 2003 for all racial and ethnic groups tracked for this indicator, as they also did for non-minority households. Disapprovals for minority households overall increased from 13.7 percent in 2002 to 15.3 percent in 2003. The lower success rate for minority mortgage applicants occurred during a year when low interest rates stimulated a record volume of home purchase applications. As a result, the higher denial rate conceals that fact that these data show 1.30 million minority home purchase applications were approved in 2003, a substantial increase from 1.12 million in 2002. 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. The rates are provided by the Home Mortgage Disclosure Act (HMDA) database, and consist of calendar-year data submitted by lenders to the Federal Financial Institutions Examination Council (FFIEC) and HUD. HMDA data are available with a 1-year lag (calendar 2005 data will become available in August 2006).

Loss mitigation claims are 55 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 more financially sound 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 61.0 percent in fiscal year 2006. The fiscal year 2008 goal is to ensure that 55 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 2008. HUD’s programmatic objective is to sustain the high level of participation in loss mitigation even as the Office of Housing tightens programmatic requirements designed to increase the ultimate success rate of loss mitigation in helping borrowers avoid foreclosure.

At least 35 percent of single family mortgages endorsed for insurance by FHA are 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. From fiscal year 2000 through fiscal year 2006, 38.2 percent of all single family mortgages endorsed for insurance by FHA were in underserved communities. The fiscal year 2008 goal is to ensure that at least 35 percent of all single family mortgages endorsed for insurance by FHA are in underserved areas. The achievement of this goal is influenced by national economic conditions.

FHA increases the percentage of at risk loans that substantively comply with FHA program requirements. This indicator monitors efforts to reduce fraud and compliance problems in FHA relative to the number of “at risk” single family loans reviewed that do not contain substantive findings. A substantive finding is defined as a failure to adhere to FHA program requirements (pertaining to the origination and/or servicing of mortgage loans) such that it materially affects the insurability of the loan. Lenders are reviewed on the basis of a target methodology that focuses on high early default and claim rates in addition to other risk factors that represent “at risk” loans. Samples of defaulted loans (90 days or more delinquent) that are originated by the targeted lenders are then evaluated for findings. Quality Assurance Division (QAD) reviews of FHA-approved lenders provide the means of data collection for this performance measure. For this indicator, the denominator is the number of loans reviewed and the numerator is the number of loans without material findings. Since this is a new indicator, HUD set the initial target on the basis of the 3-year average for fiscal years 2002 – 2004, which is 85 percent. This indicator replaces the previous performance measure that tracked the number of insured single family mortgage loans originated by FHA-approved lenders that, after review, were determined to have findings.

<u>The Accelerated Claim and Asset Disposition demonstration program (Section 601) will exceed the rate of net recovery received through the conveyance program on the sale of Single Family assets.</u> Section 601 of the fiscal year 1999 HUD Appropriations Act amended Section 204 of the National Housing Act (12 U.S.C. 1710) to provide HUD with greater flexibility for modifying the single family claim and asset disposition process. HUD is conducting a demonstration program to reform the single family claims and asset disposition process, maximize recoveries on claims paid, and support the Department's goal of homeownership retention. FHA has the opportunity to execute various asset disposition strategies as a part of the Accelerated Claim and Asset Disposition (ACD) demonstration, including special servicing, securitizations, whole loan sales, and a combination whole loan/pipeline sales. Currently, FHA is utilizing 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 Claim and Asset Disposition demonstration 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. Three subsequent auctions were held September 2003, June 2004, and May 2005. This indicator tracks the rate of recovery on FHA claims between fiscal years 2007 and 2008. The benchmark or target for this performance indicator, which is the final rate of net recovery received on the sale of single family assets through the conveyance program, will be determined when fiscal year end data is available.

HOUSING
MUTUAL MORTGAGE INSURANCE FUND
Proposed Appropriations Language

During fiscal year 2008, commitments to guarantee loans 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 2008, 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, $351,450,000, of which not to exceed $347,490,000 shall be transferred to the appropriation for ''Salaries and expenses''; and not to exceed $3,960,000 shall be transferred to the appropriation for ''Office of Inspector General''. In addition, for administrative contract expenses, $77,400,000, of which $25,550,000 shall be transferred to the Working Capital Fund, and of which up to $5,000,000 shall be for education and outreach of FHA single-family loan products: Provided, That to the extent guaranteed loan commitments exceed $65,500,000,000 on or before April 1, 2008, an additional $1,400 for administrative contract expenses shall be available for each $1,000,000 in additional guaranteed loan commitments (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.

HOUSING
FHA -- MUTUAL MORTGAGE INSURANCE FUND
Crosswalk of 2006 Availability
(Dollars in Thousands)

Budget Activity	2006 Enacted	Supplemental/ Rescission	Approved Reprogrammings	Transfers	Carryover	Total 2006 Resources
Administrative Expense	$355,000	-$3,550	...	...	...	$351,450
Administrative Contract Expense	62,600	-626	...	...	...	61,974
Total	417,600	-4,176	...	...	...	413,424

Supplemental/Rescission. Amounts reflect the 1 percent governmentwide rescission pursuant to the fiscal year 2006 Department of Defense Appropriations Act (P.L. 109-148).

HOUSING
FHA -- MUTUAL MORTGAGE INSURANCE FUND
Crosswalk of 2007 Changes
(Dollars in Thousands)

Budget Activity	2007 President's Budget Request	FY 2007 CR Estimate	2007 Supplemental/ Rescission	Reprogrammings	Carryover	Total 2007 Resources
Administrative Expense	$351,450	$351,450	...	...	...	$351,450
Administrative Contract Expense	62,400	62,400	...	...	...	62,400
Total	413,850	413,850	...	...	...	413,850

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
2008 Summary Statement and Initiatives
(Dollars in Thousands)

FHA--GENERAL AND SPECIAL RISK INSURANCE FUND	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2006 Appropriation	$319,721	$50,906[a]	-$3,197[b]	$367,430	$307,244[c]	$291,438[c]
2007 Full-Year CR Estimate.........	310,464	56,299[a]	...	366,763	305,000	309,000
2008 Request	315,797	61,763[a]	...	377,560	306,000	317,000
Program Improvements/Offsets	+5,333	+5,464	...	+10,797	+1,000	+8,000

a/ Includes only carryover for positive credit subsidy, which consists of unused annual appropriations and $39,912,000 from the fiscal year 2001 Emergency Supplemental Appropriation (P.L. 106-554) of $40,000,000 reduced by a .22 percent governmentwide rescission. However, the funds from the Emergency Supplemental Appropriation are not available to the Department. Funds for administrative purposes expire at the end of prior fiscal year and are not reflected in the carryover total.
b/ Reflects the one percent government-wide rescission pursuant to the fiscal year 2006 Department of Defense Appropriations Act (P.L. 109-148).
c/ Obligations and outlays exclude upward re-estimates.

Summary Statement

Loan Guarantee Limitation. A loan guarantee limitation of $35 billion is requested for fiscal year 2008. New insurance commitments are estimated at $9.5 billion. The additional amount requested above $9.5 billion minimizes the possibility of reaching the limitation and suspending program activity prior to the end of the year. It is estimated that of this amount, $8.5 billion in insurance commitments will be issued for FHA’s multifamily and healthcare-related programs. Another $900 million is estimated in hospital mortgage insurance commitments. Title I commitments are projected at $102 million.

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 General and Special Risk Insurance (GI/SRI) Fund of the FHA requests an appropriation of $316 million for administrative expenses and credit subsidy for fiscal year 2008, that is an increase of more than $5 million over the fiscal year 2007 full year funding level under the 2007 continuing resolution and is the same as the fiscal year 2007 President’s request. The 2008 budget request includes an appropriation of $8.6 million for positive credit subsidy. That amount, together with an estimated $21.8 million in carryover, will be available for commitments related to the few relatively small loan programs in the GI/SRI Fund requiring such subsidies. Out of the $21.8 million in carryover, $1 million is Church Arson funding. Appropriations of $229 million in administrative expenses are also requested, of which $209.3 million is for transfer to the Salaries and Expenses account and $19.8 million for the Office of Inspector General account, and $78.1 million will be used for administrative contract expenses, including a transfer of $15.7 million to the Working Capital Fund for systems development and operations.
The Department proposes to remit $39.9 million back to the Treasury. This amount is the balance of the $40 million received from the fiscal year 2001 Emergency Supplemental Appropriation (P.L. 106-554), net of the .22 percent governmentwide rescission.

Initiatives

This budget request reflects proposed legislative reforms that will include improved FHA single family product lines and overall a more vibrant and flexible FHA program, with financial responsibility for these new single family products, including the HECM reverse mortgage guarantee program, consolidated under the Mutual Mortgage Insurance Fund. The budget also proposes increases in the multifamily loan limits to account for geographic differences in construction costs and implements a modest administrative premium for multifamily loan guarantees to help offset taxpayer costs for loans to certain developments. In addition, the Budget proposes to extend restructuring authorities under the Multifamily Assisted Housing Reform and Affordability Act of 1997 to the end of fiscal year 2011.

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

Budget Activity	2006 Budget Authority	2005 Carryover Into 2006	2006 Total Resources	2006 Obligations	2007 CR Estimate	2006 Carryover Into 2007	2007 Total Resources	2008 Request
Administrative Expenses (S&E)	$229,086	...	$229,086	$229,086	$229,086	...	$229,086	$229,086
Administrative Contract Expenses	78,726	...	78,726	74,839	72,778	...	72,778	78,111
Positive Subsidy Appropriation	8,712	$50,906	59,618	3,319	8,600	$56,299	64,899	8,600
Total	316,524	50,906	367,430	307,244	310,464	56,299	366,763	315,797

2005 Carryover Into 2006. Does not include prior (expired) years' obligated positive credit subsidy recaptured during fiscal year 2005.

2006 Carryover Into 2007. Does not include prior (expired) years' obligated positive credit subsidy recaptured during fiscal year 2006.

FTE	2006 Actual	2007 Estimate	2008 Estimate
Headquarters	283	293	293
Field	846	835	838
Total	1,129	1,128	1,131

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

Budget Activity	2006 Budget or Financing Authority	2006 Rescission	2006 Total Resources	2006 Obligations	2007 Budget Authority	2007 Rescission	2007 Total Resources	2008 Request
Administrative transfers:								
S&E	$211,400	$(2,114)	$209,286	$209,286	$209,286	…	$209,286	$209,286
OIG	20,000	(200)	19,800	19,800	19,800	…	19,800	19,800
Subtotal	231,400	(2,314)	229,086	229,086	229,086	…	229,086	229,086
Non-overhead admin costs:								
Housing contracts	68,721	(687)	68,034	64,147	62,086	…	62,086	62,419
Working Capital Fund transfer	10,800	(108)	10,692	10,692	10,692	…	10,692	15,692
Subtotal	79,521	(795)	78,726	74,839	72,778	…	72,778	78,111
Total, Admin & Non-overhead admin. costs	310,921	(3,109)	307,812	303,925	301,864	…	301,864	307,197

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

Administrative Expenses (S&E)	Amount
2006 Appropriation	$229,086
2007 Full-Year CR Estimate	229,086
2008 Request	229,086
Program Improvements/Offsets	...

2006 Appropriation. The amount reflects a 1 percent governmentwide rescission, pursuant to the fiscal year 2006 Department of Defense Appropriations Act (P.L. 109-148).

Proposed Actions

2008 Request. The 2008 request includes $229.1 million for administrative expenses, of which $209.3 million is transferred to the Salaries and Expenses, HUD account and $19.8 million is transferred to the Office of Inspector General account.

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

Administrative Contract Expenses	**Amount**
2006 Appropriation	$78,726
2007 Full-Year CR Estimate...	72,778
2008 Request	78,111
Program Improvements/Offsets	+5,333

2006 Appropriation. The amount reflects a 1 percent governmentwide rescission, pursuant to the fiscal year 2006 Department of Defense Appropriations Act (P.L. 109-148).

Proposed Actions

2008 Request. The 2008 request includes $78.1 million for administrative contract expenses, of which $15.7 million is transferred to the Working Capital Fund account.

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

Positive Subsidy Appropriation	Amount
2006 Appropriation	$8,712
2007 Full-Year CR Estimate...	8,600
2008 Request	8,600
Program Improvements/Offsets	...

2006 Appropriation. The amount reflects a 1 percent governmentwide rescission, pursuant to the fiscal year 2006 Department of Defense Appropriations Act (P.L. 109-148).

Proposed Actions

Appropriations. The 2008 request includes appropriations of $8.6 million for positive credit subsidy. That amount, together with an estimated $21.8 million in carryover, will be available for commitments related to various multifamily programs and Title I loan programs in the GI/SRI program account. Of the $21.8 million in carryover, $1 million is Church Arson funding.

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. Title I loan 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 341 hospital mortgages totaling approximately $12 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 consultation with the Office of Management and Budget (OMB) and reflect 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, with adjustments made for significant policy shifts as well as changing economic and market conditions.

Multifamily Mortgage Insurance Premiums. The Budget reflects implementation of a modest administrative premium for the Sec. 221(d)(4) new construction/substantial rehabilitation program and the apartment refinancing program to help offset the administrative cost of the programs.

Multifamily Loan Limits. The Budget proposes legislation to increase the multifamily loan limitation to account for geographic differences in construction costs.

Office of Affordable Housing Preservation (OAHP). The Multifamily Assisted Housing Reform and Affordability Act of 1997, which was included in the 1998 Appropriations Act, created the Mark-to-Market program (M2M). The initial legislative authority established the Office of Multifamily Housing Assistance Restructuring (OMHAR) to administer M2M, with a sunset date of 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 5 years through fiscal year 2006. On October 1, 2004, the Office of Housing established the Office of Affordable Housing Preservation (OAHP) as the successor to OMHAR in the administration of the M2M program. The Continuing Resolution for fiscal year 2007 provides for the extension of the mortgage restructuring authorities. This Budget proposes to further extend these authorities through fiscal year 2011.

Multifamily Enforcement. The Department's multifamily housing enforcement strategy reflects the integrated and coordinated efforts of the Office of Housing, 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. The Office of Housing directs the overall effort. REAC, under policy direction from the Office of Housing, conducts comprehensive and uniform portfolio-wide assessments of the physical condition of all properties. The Multifamily Hubs receive and analyze the assessment results and take action to assure compliance with physical condition standards. The Office of Housing evaluates the financial condition of the HUD insured, privately owned properties through the review of the annual audited or certified financial statements. These financial statements are collected directly from multifamily housing owners by REAC through an Internet based secure system. Upon receipt, the statements are available to the Office of Housing's Multifamily Hubs for analysis and additional action. The Multifamily Hubs ensure owners operate within the regulatory and performance policies of the Office of Housing, including management operations, physical condition standards and financial compliance standards. Where the Office of Housing detects serious compliance and/or performance problems, it may refer those cases to the DEC. The DEC, under policy and procedural direction from the Office of Housing, evaluates each case it receives. In each case referred, the DEC develops facts and analyzes litigation/sanction potential and recommends options to the Office of Housing. The Office of Housing determines how to proceed in each case. Qualitative improvement in the assessment and enforcement effort is being realized through the centralization and specialization of these staff. The ultimate goal is improved living conditions for residents, improved neighborhoods, communities, and improved financial performance for HUD because participant performance standards 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 2008.

GI/SRI PROGRAMS	Commitment Authority FY 2008	Subsidy Rates FY 2008	Positive Subsidy BA FY 2008
Multifamily & Healthcare			
221(d)(4) Apts. NC/SR(includes Mixed Use)	$848,000,000	-2.02%	
221(d)(3) non-profit apts.	102,000,000	5.67%	$5,783,400
Tax Credit Projects	1,091,000,000	-3.20%	
Apartments Refinance	2,563,000,000	-4.09%	
241(a) Supplemental loans for Apts.	6,500,000	2.99%	194,350
223 Operating Loss Loans	3,300,000	15.43%	509,190
HFA Risksharing	156,000,000	-1.25%	
GSE Risksharing	11,000,000	-1.42%	
Full Insurance for Health Care Facilities	339,000,000	-0.68%	
Health Care Refinance	3,069,000,000	-1.58%	
Other Rental	324,000,000	-1.82%	
Hospitals (includes refi. & Suppl. Loan)	900,000,000	-2.66%	
Multifamily & Healthcare Subtotal	9,412,800,000		6,486,940
Title I			
Property Improvements	43,496,000	0.52%	226,179
Manufactured Housing	59,070,000	0.13%	76,791
Title I Subtotal	102,566,000		302,970
Total New Commitment Authority	9,515,366,000		
Stand-by Authority	25,484,634,000		
GI/SRI TOTAL	35,000,000,000		6,789,910

Beginning with loans made in fiscal year 2008, the Department proposes consolidating all of its single family mortgage programs into the Mutual Mortgage Insurance Fund, including those for condominiums, purchase and rehabilitation, and home equity conversion mortgages. Title I loans as well as single family loan guarantees made in prior years will continue to be financed in the GI/SRI Fund.

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

Insurance Commitment Limitation Enacted/Requested	Loan Guarantees Amount
2006 Appropriation	$35,000,000
2007 Full-Year CR	35,000,000
2008 Request	35,000,000
Program Improvements/Offsets	...

Proposed Actions

Loan Guarantee Limitation. The fiscal year 2008 budget proposes $35 billion in loan guarantee limitation. This will cover an estimated $9.5 billion of new commitments and leave $25.5 billion available for unanticipated increases in business. It is estimated that $8.5 billion in insurance commitments will be issued for multifamily and healthcare related programs. Another $900 million is estimated in hospital mortgage insurance commitments. Title I commitments are projected at $102 million. These activities are discussed in detail in the previous section.

GENERAL AND SPECIAL RISK INSURANCE FUND
Program Highlights

	Actual 2006	Estimate 2007	Estimate 2008	Increase + Decrease – 2008 vs 2007
		(Dollars in Millions)		
Insurance Commitment Limitation:				
Loan Guarantees	$35,000	$35,000	$35,000	...
Insurance Commitments (dollars)				
Multifamily	4,344	4,421	5,104	+683
Hospitals	943	900	900	...
Homes	21,561	12,584	...	-12,584
Title I	101	102	102	...
Nursing Homes (includes refis)	1,753	2,492	3,408	+916
Subtotal	28,702	20,499	9,514	-10,985
Insurance Written (units)				
Multifamily	99,649	98,325	110,938	+12,613
Homes	100,168	61,735	...	-61,735
Title I	4,701	4,702	4,702	...
Nursing Homes (includes refis)	25,689	46,643	64,370	+17,727
Subtotal	230,207	211,405	180,010	-31,395
Insurance Written (dollars)				
Multifamily	$4,021	$3,316	$7,734	+4,418
Hospitals	366	675	900	+225
Homes	21,662	12,584	...	-12,584
Title I	101	102	102	...
Nursing Homes (includes refis)	1,690	1,869	3,178	+1,309
Subtotal	27,840	18,546	11,914	-6,632

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

Insurance Commitment Limitation Enacted/Requested	Direct Loan Amount
2006 Appropriation	$50,000
2007 Full-Year CR	50,000
2008 Request	50,000
Program Improvements/Offsets	...

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	
		2006 Plan	**2006 Actual**	**2007 Plan**	**2008 Plan**
The share of all homebuyers who are first-time homebuyers.	Single Family Program Office PD&R – American Housing Survey	Tracking indicator	30.6%	Tracking indicator	N/A
The share of first-time homebuyers among FHA home purchase endorsements is 71 percent.	FHA's Single Family Housing Enterprise Data Warehouse	71%	79.3%	71%	71%
The number of FHA single family mortgage insurance endorsements nationwide.	FHA's Single Family Housing Enterprise Data Warehouse	Tracking indicator	502,049	Tracking indicator	Tracking indicator
The share of FHA-insurable real estate owned (REO) properties that are sold to owner-occupants is 90 percent.	FHA's Single Family Acquired Asset Management System	90%	90%	90%	90%
The minority homeownership rate.	Single Family Program Office PD&R – Current Population Survey data	Tracking Indicator	51.2% Last Quarter, FY 2005	Tracking Indicator	N/A
The share of first-time minority homebuyers among FHA home purchase endorsements is 35 percent.	FHA's Single Family Housing Enterprise Data Warehouse	35%	31.7%	35%	35%
The homeownership rate among households with incomes less than median family income.	Single Family Program Office PD&R – Current Population Survey data	Tracking Indicator	52.8%	Tracking Indicator	N/A

Performance Indicators	Data Sources	Performance Report		Performance Plan	
		2006 Plan	2006 Actual	2007 Plan	2008 Plan
The homeownership rate in central cities.	Single Family Program Office PD&R – Current Population Survey data	Tracking Indicator	54.0%	Tracking Indicator	N/A
The mortgage disapproval rates of minority applicants.	Single Family Program Office FHEO – Home Mortgage Disclosure Act	Tracking Indicator	19.8%(Black) 16.6% (American Indian) 11.8%(Asian) 14% (Pacific Islander) 16.6% Hispanic) 10%(White)	Tracking Indicator	N/A
Loss mitigation claims are 55 percent of total claims on FHA-insured single-family mortgages.	FHA's Single Family Housing Enterprise Data Warehouse, Loss Mitigation Table	50%	61%	55%	55%
FHA endorses at least 1,000 multifamily mortgages.	Multifamily Program Office OH – FHA's Real Estate Management System	1,000	1,017	1,000	1,000
HUD will complete 80 percent of the initial fiscal year 2008 Mark-to-Market pipeline during the fiscal year, reducing rents and restructuring mortgages where appropriate.	OHMAR – Mark-to-Market Management Information System	80%	82%	80%	80%
The share of multifamily properties in underserved areas insured by FHA is maintained at 33 percent of initial endorsements.	Multifamily Program Office OH	Maintain 25%	43%	25%	33%

Performance Indicators	Data Sources	Performance Report		Performance Plan	
		2006 Plan	2006 Actual	2007 Plan	2008 Plan
FHA increases the percentage of at risk loans that substantively comply with FHA program requirements.	FHA's Approval Re-certification/Review Tracking System (ARRTS).	85%	95%	85%	85%
The Accelerated Claim and Asset Disposition demonstration program (Section 601) will exceed the rate of net recovery received through the conveyance program on the sale of Single Family assets.	FHA's Single Family Insurance System – Claims Subsystem and FHA's Single Family Acquired Asset Management System	68% net recovery rate received through the conveyance program on the sale of single family assets in FY 2006	76%	Net recovery rate received through the conveyance program on the sale of single family assets in FY 2007	Net recovery rate received through the conveyance program on the sale of single family assets in FY 2008

N/A = Not Applicable.

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 2003, 39.1 percent of homebuyers 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 endorsements is 71 percent. 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. Beginning with fiscal year 2007 this indicator will be under FHA's Mutual Mortgage Insurance Fund.

The share of FHA-insurable real estate owned (REO) properties that are sold to owner-occupants is 90 percent. This indicator tracks one measure of the Department's success in expanding homeownership opportunities and helping stabilize neighborhoods. HUD intends to increase sales of its REO homes directly to families who will occupy them rather than to investors. In fiscal year 2006, 90 percent of FHA-insurable REO properties were sold to owner-occupants. The fiscal year 2008 goal is to ensure that the share of FHA-insurable REO properties that are sold to owner-occupants is 90 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 31.7 percent of all FHA-insured home purchases in fiscal year 2006. 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 first-time minority homebuyers among FHA home purchase endorsements is 35 percent. FHA is a major source of mortgage financing for minority as well as lower income buyers. Increasing the number of FHA endorsements for first-time minority homebuyers will help reduce the homeownership gap between whites and minorities as well as increase the overall homeownership rate. The fiscal year 2008 goal is to ensure that first-time minority homebuyers represent 35 percent of home purchase mortgages endorsed for insurance by FHA.

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.

Loss mitigation claims are 55 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 60.0 percent in fiscal year 2006. The fiscal year 2008 goal is to ensure that 55 percent of the total number of claims are resolved through loss mitigation.

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. HUD will complete 80 percent of the initial fiscal year 2008 Mark-to-Market (M2M) pipeline during the fiscal year, reducing rents and restructuring mortgages where appropriate. HUD will continue the Mark-to-Market program. Under the M2M program, the Office of Affordable Housing Preservation (OAHP) 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. OAHP administers M2M by contracting with Participating Administrative Entities (PAEs), including a number of state housing finance agencies, to conduct the mortgage restructuring.

The share of multifamily properties in underserved areas insured by FHA is maintained at 33 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 measures the proportion of multifamily properties in "underserved" neighborhoods as a percentage of all multifamily properties that receive FHA mortgage endorsements. 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 non-metropolitan areas, using counties rather than tracts.

The fiscal year 2008 goal is to maintain the share of multifamily properties in underserved areas insured by FHA at 33 percent of initial endorsements. The achievement of this goal in fiscal year 2008 is influenced by National economic conditions.

FHA increases the percentage of at risk loans that substantively comply with FHA program requirements. This indicator monitors efforts to reduce fraud and compliance problems in FHA relative to the number of “at risk” single family loans reviewed that do not contain substantive findings. A substantive finding is defined as a failure to adhere to FHA program requirements (pertaining to the origination and/or servicing of mortgage loans) such that it materially affects the insurability of the loan. Lenders are reviewed on the basis of a target methodology that focuses on high early default and claim rates in addition to other risk factors that represent “at risk” loans. Samples of defaulted loans (90 days or more delinquent) that are originated by the targeted lenders are then evaluated for findings. Quality Assurance Division (QAD) reviews of FHA-approved lenders provide the means of data collection for this performance measure. For this indicator, the denominator is the number of loans reviewed and the numerator is the number of loans without material findings. Since this is a new indicator, HUD set the initial target on the basis of the 3-year average for fiscal years 2002 through 2004, which is 85%. This indicator replaces the previous performance measure that tracked the number of insured single-family mortgage loans originated by FHA-approved lenders that, after review, were determined to have findings.

The Accelerated Claim and Asset Disposition demonstration program (Section 601) will exceed the rate of net recovery received through the conveyance program on the sale of Single Family assets. 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 disposition. 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. This indicator tracks the rate of recovery on FHA claims between fiscal years 2007 and 2008. The benchmark or target for this performance indicator, which is the final rate of net recovery received on the sale of single family assets through the conveyance program, will be determined when fiscal year end data is available.

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

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, $8,600,000, to remain available until expended: Provided, That commitments to guarantee loans shall not exceed $35,000,000,000 in total loan principal, any part of which is to be guaranteed.

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, $229,086,000, of which $209,286,000 shall be transferred to the appropriation for "Salaries and Expenses"; and of which $19,800,000 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, $78,111,000, of which $15,692,000 shall be transferred to the Working Capital Fund; Provided, That to the extent guaranteed loan commitments exceed $8,426,000,000 on or before April 1, 2008, 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.

Explanation of Changes

No new policy changes are proposed for inclusion in the Appropriations Act. A legislative package will be transmitted to Congress subsequent to presentation of the President's Budget that will reflect the shift in activities administered in this Fund.

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
Crosswalk of 2006 Availability
(Dollars in Thousands)

Budget Activity	2006 Enacted	Supplemental/ Rescission	Approved Reprogrammings	Transfers	Carryover	Total 2006 Resources
Administrative Expenses (S&E)	$231,400	-$2,314	...	...	...	$229,086
Administrative Contract Expenses	79,521	-795	...	...	...	78,726
Positive Subsidy Appropriation	8,800	-88	...	...	$50,906 [a]	59,618
Total	319,721	-3,197	...	...	50,906	367,430

a/ Includes only carryover for positive credit subsidy, which consists of unused annual appropriations and $39,912,000 from the fiscal year 2001 Emergency Supplemental Appropriation (P.L. 106-554) of $40,000,000 reduced by a .22 percent governmentwide rescission. However, the funds from the Emergency Supplemental Appropriation are not available to the Department. Funds for administrative purposes expire at the end of prior fiscal year and are not reflected in the carryover total.

Supplemental/Rescission

Reflects the governmentwide rescission of 1 percent pursuant to the fiscal year 2006 Department of Defense Appropriations Act (P.L. 109-148).

HOUSING
GENERAL AND SPECIAL RISK INSURANCE ACCOUNT
Crosswalk of 2007 Changes
(Dollars in Thousands)

Budget Activity	2007 President's Budget Request	FY 2007 CR Estimate	2007 Supplemental/ Rescission	Reprogrammings	Carryover	Total 2007 Resources
Administrative Expenses (S&E)	$229,086	$229,086	...	...	...	$229,086
Administrative Contract Expenses	72,111	72,778	...	...	...	72,778
Positive Subsidy Appropriation	8,600	8,600	...	...	$56,299[a]	64,899
Total	309,797	310,464	...	...	56,299	366,763

a/ Includes only carryover for positive credit subsidy, which consists of unused annual appropriations and $39,912,000 from the fiscal year 2001 Emergency Supplemental Appropriation (P.L. 106-554) of $40,000,000 reduced by a .22 percent governmentwide rescission. However, the funds from the Emergency Supplemental Appropriation are not available to the Department. Funds for administrative purposes expire at the end of prior fiscal year and are not reflected in the carryover total.

Mortgage and Loan Insurance Programs – GI/SRI Account

	ENACTED 2006	CURRENT ESTIMATE 2007	ESTIMATE 2008	INCREASE + DECREASE - 2008 vs 2007
		(Dollars in Millions)		
APPROPRIATION REQUEST				
INSURANCE COMMITMENT				
Limitation Enacted/Requested……………………	$35,000	$35,000	$35,000	…
Direct Loans…………………………………………………………	50	50	50	…
BUDGET AUTHORITY				
Discretionary:				
Administrative Expenses (S&E)……………………	231	229	229	…
Non-overhead administrative expenses…	80	73	78	+5
Positive Subsidy Appropriations………………	9	9	9	…
Rescissions…………………………………………………………	-3	…	…	…
Total Discretionary Appropriation	317	311	316	+5
Offsetting Receipts………………………………………………	-495	-483	-333	+150
Mandatory:				
Liquidating account (net)………………………………	192	519	301	-218
Mortgage sales……………………………………………………	[-6]	[-10]	[-10]	[…]
Program Account Upward Re-estimate………	361	109	…	-109
Receipt Account Downward Re-estimate…	-180	-1,746	…	+1,746

Mortgage and Loan Insurance Programs – GI/SRI Account

	ENACTED 2006	CURRENT ESTIMATE 2007	ESTIMATE 2008	INCREASE + DECREASE - 2007 vs 2008
		(Dollars in Millions)		
BUDGET OUTLAYS				
Discretionary:				
Administrative Expenses (S&E)……………………	$229	$229	$229	…
Non-overhead administrative expenses	59	73	79	+6
Positive Subsidy Appropriations………………	3	7	9	+2
Offsetting receipts………………………………………………	-495	-483	-333	+150
Mandatory:				
Liquidating account (net)………………………………	48	336	264	-72
Program Account Upward Reestimate………	361	109	…	-109
Receipt Account Downward Reestimate……	-180	-1,746	…	+1,746