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

PROGRAM DESCRIPTION

Through mortgage insurance, the Federal Housing Administration (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.

To date, FHA continues to play a countercyclical role-–serving as a vital backstop to the private mortgage market during the current economic downturn, in which severe capital constraints have greatly reduced the ability of private firms to take on credit risk. The share of FHA-insured single family mortgage originations, at a low point of just 1.9 percent in the fourth quarter of 2006, rose continuously over the next 3 years, reaching 18.7 percent in fiscal year 2009. In terms of dollar volume, FHA insured $181.2 billion of single family mortgages in fiscal year 2008 and $330 billion in fiscal year 2009.

Furthermore, FHA is actively involved in foreclosure mitigation, homeownership counseling and a myriad of efforts to curb mortgage fraud and lending discrimination; it is also part of the Federal Government's efforts to rethink the regulatory structure governing the housing sector and to prevent the repetition of the reckless and speculative lending that precipitated the current housing crisis.

FHA is comprised of five separate insurance funds: Mutual Mortgage Insurance (MMI) fund, Cooperative Management Housing Insurance (CMHI) fund, General Risk Insurance (GI) fund, Special Risk Insurance (SRI) fund, and the HOPE for Homeowners (H4H) fund. For presentation purposes, the budget transactions are separated into three accounts. The main single family programs, including those for condominiums and the Home Equity Conversion Mortgage programs are reported under the MMI/CMHI account. All multifamily programs, excluding the CMHI fund, and other specialized insurance programs form the GI/SRI account. The H4H program, a single family program that was established by Congress with its own separate fund from the other FHA funds, is intended to help those at risk of default and foreclosure to refinance into more affordable, sustainable loans through FHA.

SUMMARY OF THE BUDGET ESTIMATES

Mortgage Insurance Commitment Limitations. The Budget requests a mortgage insurance commitment limitation of $420 billion in fiscal year 2011 for new FHA loan commitments for the MMI and GI/SRI funds. The proposed total includes $400 billion under the MMI Fund, which supports insurance of single family home mortgages and mortgages under the Home Equity Conversion Mortgage (HECM) program; and $20 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. For mortgages insured under the H4H program, the principal obligation of all mortgages may not exceed $300 billion over a 3-year period; the program is effective from October 1, 2008 to September 30, 2011.

Direct Loan Limitations. The Budget requests a direct loan limitation of $50 million for the MMI fund and $20 million for the GI/SRI fund to facilitate the sale of HUD-owned properties acquired through insurance claims to, or for use by low- and moderate-income families.

Appropriations for Administrative Contract Expenses. A total of $207 million is requested for administrative contract expenses for the MMI and GI/SRI funds; of this amount, up to $71.5 million will be transferred to the Working Capital Fund for FHA systems costs. In addition, 1 percent, or $1.4 million, of the balance remaining after the Working Capital Fund transfer will be transferred to the Transformation Initiatives account. Beginning with fiscal year 2010, all administrative contract expenses for the GI/SRI fund will be appropriated under the MMI Fund. The administrative costs associated with the H4H program are paid out of HOPE Bonds. Under the Housing and Economic Recovery Act (HERA) of 2008, the Department of the Treasury is authorized to issue HOPE Bonds, up to the aggregate insurance amount, to finance the net costs of the program to the Federal Government, including administrative costs.

Appropriation for Mortgage Insurance Credit Subsidies. The Budget does not request any new appropriations for credit subsidies associated with loan guarantees committed under FHA's GI/SRI account. HUD anticipates unobligated balances from prior year appropriations will be sufficient to cover costs for the three GI/SRI programs projected to require positive subsidy in fiscal year 2011. As with the administrative costs for the H4H program, HOPE Bonds are authorized by the Act to be issued to finance the credit subsidy amounts necessary for H4H loan guarantees. A new appropriation of not less than $250 million is requested for the HECM program in the MMI Fund.

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 rate reflecting Treasury's borrowing cost. In cases where premium and fee income are projected to be more than sufficient to support full costs (i.e., there is no net cost to the Federal Government), negative credit subsidy is generated as revenue to offset other spending or reduce the deficit.

HOUSING
FHA--MUTUAL MORTGAGE INSURANCE FUND
2011 Summary Statement and Initiatives
(Dollars in Thousands)

FHA--MUTUAL MORTGAGE & COOPERATIVE MGMT. HOUSING INSURANCE FUND	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2009 Appropriation	$146,000[a]	...	...	$146,000	$72,061[b]	$42,629[b]
2010 Appropriation/Request	188,900[c]	...	...	188,900	118,106[b]	113,000[b]
2011 Request	457,000[d]	...	...	457,000	384,500[b]	381,000[b]
Program Improvements/Offsets	+268,100	...	...	+268,100	+266,394	+268,000

a/ For fiscal year 2009, the enacted request includes a $58.5 million non-expenditure transfer to Working Capital Fund, and reflects an additional appropriation of $30 million for administrative contract expenses pursuant to the second proviso in the paragraph under the heading "Mutual Mortgage Insurance Program Account" in P.L. 111-8. On February 28, 2009, guaranteed loan commitments for the Mutual Mortgage Insurance (MMI) Fund totaled $130 billion, thereby exceeding the $65.5 billion threshold for additional funding by $64.5 billion. The additional appropriation is calculated at $1,400 for every million dollars of commitments that, prior to April 1, 2009, exceeded the threshold; this additional authority could increase up to a maximum of $30,000,000. As the limitation was reached, the full amount made available under the proviso is reflected herein.

b/ Amounts exclude upward re-estimates.

c/ Includes non-expenditure transfers of $70.8 million to Working Capital Fund and $1.2 million to the Transformation Initiatives Fund.

d/ Includes request of $250 million as an appropriation of credit subsidy for FHA's Home Equity Conversion Mortgage (HECM) Program, a $71.5 million non-expenditure transfer to Working Capital Fund, and a $1.4 million non-expenditure transfer to Transformation Initiatives.

Summary Statement

Appropriation. The Mutual Mortgage Insurance (MMI) Fund of the Federal Housing Administration (FHA) requests an appropriation of $457 million for administrative contract expenses and credit subsidy for fiscal year 2011. The 2011 Budget request includes an appropriation of $207 million for administrative contract expenses; of this amount, up to $71.5 million will be transferred to the Working Capital Fund for FHA systems costs, and up to $1.355 million can be transferred to the Transformation Initiatives account. The 2011 Budget request also includes a $250 million appropriation of credit subsidy for the FHA's Home HECM program.

For fiscal year 2011, as FHA's role has expanded during the mortgage crisis, the increase in funding for administrative contract expenses is necessary to support the following FHA activities:

- Improve upon current modeling techniques. The FHA Commissioner and the financial statement auditors have asked FHA to do more in-depth data analyses by product type as well as borrower type to continually improve modeling capabilities for both the single family forward and HECM programs. Also, the FHA MMI capital ratio fell below 2 percent for fiscal year 2009. As a response, FHA is tightening up its risk management and will need to conduct additional analytics to help strengthen the performance of the MMI portfolio.

- Improvements to credit risk. As part of the Commissioner's credit risk improvements, an Office of Risk Management was created during fiscal year 2010. Fiscal year 2011 will represent the first full fiscal year that this office will be in place. A portion of the additional administrative contract funds will be used to provide contract support for this newly created organization. The funds will be used on both the Single Family and Multifamily FHA portfolios as well as Housing's rental assistance programs.

- Increase for fraud detection and fraud prevention. The new and proposed legislation, heightened economic risks, and significant increase in loan volume underscore the need for a contract vehicle to help close the gaps in our fraud prevention programs.

The HECM reverse mortgage guarantee program credit subsidy rate is especially sensitive to the assumptions for future house price appreciation due to the loans' extended average tenure and the rising outstanding balances that accrue during the life of the loans. The decline in house prices has adversely affected the projected credit performance of HECMs and the program has a positive subsidy rate for 2011. In addition, FHA made numerous improvements in the HECM credit subsidy cash flow model during the past 2 years that provide greater sensitivity to program and economic variables. While the HECM program in fiscal year 2010 was estimated to bear a subsidy rate of -0.50 percent, yielding offsetting budgetary receipts; the rate for fiscal year 2011 switches to +.83 percent, largely due to changes in economic assumptions. Therefore, the HECM program will require a new discretionary appropriation of $250 million to permit the guarantee of the estimated loan volume.

Loan Guarantee Limitation. The fiscal year 2011 Budget requests $400 billion in loan guarantee limitation which is to remain available until September 30, 2012. This limitation includes sufficient authority for any new initiatives as well as standby commitment authority for unanticipated increases in business and allows the authority to be carried over into fiscal year 2012.

For fiscal year 2011, the Administration estimates an endorsement volume of $223 billion for the Purchase and Refinance risk category and $30 billion for the HECM risk category for an estimated total volume of $253 billion. The $223 billion volume projected for the MMI Purchase and Refinance risk category is expected to generate $5.8 billion in negative subsidy receipts on insurance written at a subsidy rate of -2.59 percent. The HECM program is estimated to bear a positive subsidy rate of 0.83 percent in fiscal year 2011.

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 FHA program is, and has been, a critical player in improving homeownership, especially for minority and low-income populations, and for first-time homebuyers. A variety of FHA programs allows many homebuyers to find a program to suit their needs; MMI Fund's 203(b) is the largest FHA program, providing mortgage insurance for 400,000 to 1 million homebuyers a year for the past several years and over 1.7 million in fiscal year 2009. An important target group for increasing homeownership is first-time homebuyers. FHA has long been a valuable resource for enabling the purchase of a first home, especially among minority and low-income families. FHA loans are highly attractive to lower-income and minority groups, and thus also assist in stabilizing economically marginal communities. FHA insurance tends to mitigate the effect of economic downturns on the real estate sector, as FHA does not withdraw from local markets or during periods of recession. FHA, through program reforms, including increasing loan limits, has become a key support for the national mortgage market and is mitigating the foreclosure crisis and the overall economic downturn. During the current housing crisis, FHA market share in the Home-Purchase market (numbers of households) has increased from under 2 percent in 2006 to 18.7 percent in fiscal year 2009.

Beginning in fiscal year 2009, FHA consolidated a majority of its single family mortgage programs into the MMI Fund, including those for condominiums, purchase and rehabilitation loans, and home equity conversion mortgages (HECM). Prior to fiscal year 2009, aside from the Section 203(b) loans, these single family products were 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, the MMI Fund has two credit risk categories: the MMI Purchase and Refinance risk category and the MMI HECM risk category. The Title 1 Property Improvement and Manufactured Housing programs remain in the GI/SRI Fund. This shift applies to new mortgages insured. Existing insurance will continue to be administered in the Fund under which the loans were endorsed.

FHA's HECM program allows senior homeowners age 62 and older access to FHA-insured reverse mortgages to convert the equity in their homes into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the homes. Homeowners are required to receive consumer education and counseling by a HUD-approved counselor so they can be sure this program meets their needs. The amount a homeowner is eligible for is based on the borrower's age, the current interest rate, and the lesser of the appraised value or the FHA mortgage limit for HECM. Unlike forward mortgage borrowers, the HECM borrowers have no income or credit qualifications to meet and make no payments as long as the property securing the HECM loan is their main residence.

High Priority Performance Goal: Foreclosure Prevention

The FHA-MMI account supports the High Priority Performance Goal to assist foreclosure prevention of three million homeowners, with a particular focus over the next 2 years. An estimated 200,000 homeowners will be assisted to avoid foreclosure through FHA programs as well as 400,000 homeowners assisted through third-party lender lost mitigation initiatives mandated by FHA but not receiving FHA subsidy. This goal also projects that an additional 2.4 million homeowners will be assisted thorough joint HUD-Treasury programs.

In addition, for all FHA borrowers that become 30 days late, we will achieve a Consolidated Claim Workout (CCW) Ratio of 75 percent, representing a 10 percentage point improvement over current levels, and for those receiving a CCW achieve a 6 month re-default rate of 20 percent or less, representing a 5 percentage point reduction from current levels.

Foreclosure prevention and the recovery of the housing market is a critical component of the broader Administration's plan for economic recovery, including the Administration's Making Home Affordable program, in which HUD plays a leadership role.

In the Department, there are several initiatives that address foreclosure prevention, including:

- Enacting FHA-Home Affordable Modification Program (FHA-HAMP) that complements long-existing FHA loss mitigation programs to assist homeowners with FHA-insured mortgages.
- Implementing new and improved program features for the Hope for Homeowners (H4H) program authorized by the "Helping Families Save Their Homes Act of 2009."
- Utilizing a vast network of counselors and nonprofits to provide critical assistance to the record number of homeowners at-risk of foreclosure.

Proposals

In fiscal year 2011, the following program changes are proposed:

- The following changes are proposed to the mortgage insurance premiums (MIP) for FHA's single family forward mortgage programs:
    - Increase in the annual MIP from a maximum of 55 bps to 90 bps. This is the second step following the policy change implemented in fiscal year 2010 raising the up-front MIP on single family mortgages (described below). If the authority to increase the annual MIP is granted, then FHA will shift the premium increase announced from the up-front MIP to the annual MIP. The up-front premium will decrease from 2.25 percent to 1 percent.

- The following change is proposed to the annual MIP for FHA's HECM program:
  - Increase in the annual MIP for the HECM program from 50 bps to 125 bps. This premium increase is necessary to moderate the credit subsidy cost of the program.

Strengthening FHA's Capital Reserves

During the latter half of fiscal year 2010, FHA will be implementing a set of policy changes and proposals in order to better position itself to manage risk while continuing to support the nation's housing market recovery. This in response to the capital ratio estimated at the end of fiscal year 2009 of just .53 percent, which is below the 2 percent level mandated by statute. FHA is taking the following steps as immediate action to strengthen the capital reserve: increase the up-front mortgage insurance premium; limiting the loan-to-value ratio for lower FICO score borrowers; reduce seller concessions; and implement a series of significant measures aimed at increasing lender enforcement. These policy changes are expected to be implemented in the spring and summer of 2010.

Policy changes for fiscal year 2010:

- **Mortgage insurance premium (MIP) increase and adjustments to upfront/annual MIP relationship**
  - Raise up-front MIP to 2.25 percent for new borrowers, implemented by Mortgagee Letter.
  - Pursue legislative authority for fiscal year 2011 to increase the statutory cap on the annual MIP. Upon receiving legislative approval, the upfront/annual premium structure will be adjusted, with some of the upfront premium being shifted to the annual premium. This shift will allow for an increase to the capital reserve with less impact to the consumer.
- **New down payment/credit score requirements**
  - Loans to borrowers with a FICO score of 500 to 579 will require a minimum 10 percent down payment.
  - Loans to borrowers with a FICO score of 580 or above will require current minimum 3.5 percent down payment.
  - Propose policy change through Federal Register Notice with comment period.
- **Reduction in allowable seller concessions from 6 percent to 3 percent**
  - Conform to industry standards and reduce potential value inflation.
  - Propose policy change through Federal Register Notice with comment period.
- **Increase enforcement on FHA lenders**
  - Publicly report lender performance rankings to complement currently available Neighborhood Watch data.
  - Enhance monitoring of lender performance and compliance with FHA guidelines and standards.
  - Implement statutory authority through regulation of section 256 of the National Housing Act to enforce indemnification provisions for lender's using delegated insuring process.
  - Pursue legislative authority to increase enforcement on FHA lenders. Specific authority includes:

- Amendment of section 256 of the National Housing Act to apply indemnification provisions to all Direct Endorsement lenders. This would require all approved mortgagees to assume liability for all of the loans that they originate and underwrite.
- Legislative authority permitting HUD maximum flexibility to establish separate "areas" for purposes of review and termination under the Credit Watch initiative. This would provide authority to withdraw originating and underwriting approval for a lender nationwide on the basis of the performance of its regional branches.

Strengthening FHA Business Practices

FHA's role has expanded over the last year as the mortgage crisis deepened in the United States. During the current housing crisis, FHA market share in the Home-Purchase market (numbers of households) has increased from under 2 percent in 2006 to 18.7 percent in fiscal year 2009. The Congress, through the fiscal year 2009 Omnibus Appropriations Act, provided FHA with $4 million to develop a strategic plan for Information Technology. FHA is now engaged with a private vendor to create the modernization framework that will enable the Department to address the gaps in the business processes and systems.

FHA's plan has put an emphasis on addressing gaps and the resulting benefits to be achieved through enhanced performance and accountability.

Addressing gaps:

1) improved fraud detection;
2) improved underwriting;
3) improved risk management;
4) improved adaptability to changing economic conditions;
5) improved data management; and
6) improved efficiency of the operations.

Resulting benefits:

1) modernization of antiquated technology allowing easy adaption to change;
2) cost savings related to the retirement of old systems and improved processes;
3) enhanced ability to detect and refer fraud to the OIG;
4) improved service delivery to our customers and the industry; and
5) improved data quality that allows for informed decision making.

The increase in hiring for 2009, resulting from a targeted appropriation for FHA Single Family, to address personnel shortages, will help carry the Office of Single Family into fiscal year 2010 with a sufficient baseline staffing to meet all basic needs.

However, to ensure that the still-limited resources are used most efficiently and effectively, the agency is engaged in an exercise, which began in fiscal year 2009, to streamline and improve the business processes and upgrade the systems that support FHA Single Family operations. The development process of fiscal year 2009 will culminate in a comprehensive plan, which is on track to be completed in fiscal year 2010.

The plan will include an overhaul of the origination and insuring processes and systems that will improve overall risk management as well as communications and transmission of loan data from lending partners. FHA's IT systems will, for the first time, include:

1) FHA Automated Underwriting System (AUS);
2) Electronic risk management tools commonly used in the mortgage industry; and
3) Full capacity to receive and store electronic files, including e-mortgages and e-notes with electronic signatures.

FHA Connection, the portal through which FHA-approved originators interact with and transmit all key loan level data to FHA, will be enhanced to offer the new array of tools that are designed to introduce new automated risk controls into the origination and insuring process.

<u>FHA AUS</u>. The FHA AUS will provide FHA the opportunity to manage compliance of all incoming loan files with FHA standards. This type of tool will permit FHA to build all program rules and requirements into a web-based system that will notify lenders immediately and automatically when loans fail to meet FHA standards and will reject those loan transactions until the areas of concern are addressed. The tool not only will enable FHA to better enforce all programmatic requirements, but also and perhaps more importantly, will enable FHA to quickly and seamlessly implement program changes. An AUS will guarantee uniformity in program execution, preventing multiple policy interpretations by various lenders and FHA staff. These types of automated risk controls will reduce reliance on staff to manually validate all information in the loan files, freeing up staff for other types of quality control reviews.

<u>Risk Management Tools.</u> The FHA AUS will be combined with state-of-the-art risk management tools that will enable the agency to target files for additional review if loan data indicates that key variables are questionable, demonstrating potential fraud or misrepresentation. Today, FHA is engaged in an intensive assessment of the dominant risk management tools used across the mortgage industry and the agency plans to pilot the tool selected in fiscal year 2010. The pilot testing phase will be carried out in the Santa Ana Home Ownership Center jurisdiction. The pilot will help the agency fine-tune the features of the tool to meet FHA's needs and will help FHA assess how the staffing resources are best aligned with the new business processes to get maximum benefit from the use of automated tools. The improved technology will enable FHA to devote more resources to more aggressive monitoring of files and lenders.

<u>E-Mortgage/E-Notes</u>. Finally, in fiscal year 2009, FHA developed the strategy for accepting all loan files electronically in imaged format as well as in full electronic format, including e-mortgages and e-Notes. The electronic transmission and acceptance of all files require an improved interface with FHA-approved lenders and/or vendors operating on behalf of FHA-approved lenders as well as the establishment of some specialized data extraction tools. Today, FHA allows the electronic submission of files from a select group of lenders who are engaged in FHA's Lender Insurance program. The goal of the new effort is to expand and improve upon the processes already in place, to enable all FHA-approved lenders to submit all loan files in this manner. The goal of the exercise is to improve FHA's overall risk controls, by collecting all files (rather than some collected for quality control reviews) and to use automated systems to extract some of the data and run it against the FHA rules-based tools prior to endorsement, to ensure compliance with FHA's requirements.

<u>Correlation between Staffing Needs and Systems Upgrades</u>. Given that staffing resources will always be limited, the improvements in the technology used and the streamlining of the business processes of the FHA Single Family operations will ensure that the staff available are devoted to those activities that truly require manual intervention, human interaction, and/or personal review-–whether the object of the FHA monitoring work is loan files, loan-level or portfolio data, or lenders. Reliance on the automated tools for compliance checks, improved reporting to management, and targeting of files and lenders for additional human review will free up staff and improve the overall efficiency of the organization.

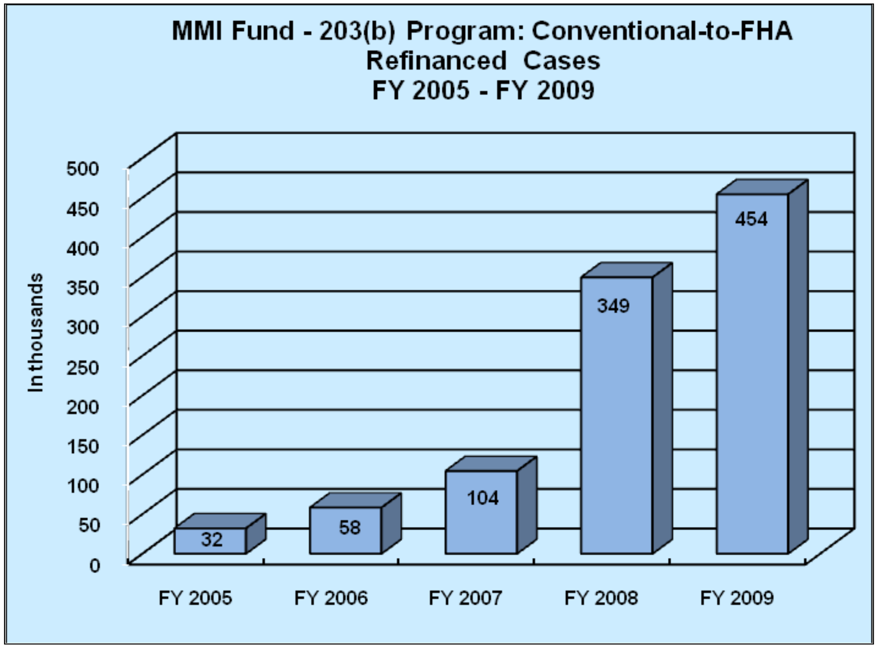
PROGRAM HIGHLIGHTS

The following table displays the estimated commitment authority allocation and subsidy by risk category for fiscal year 2011.

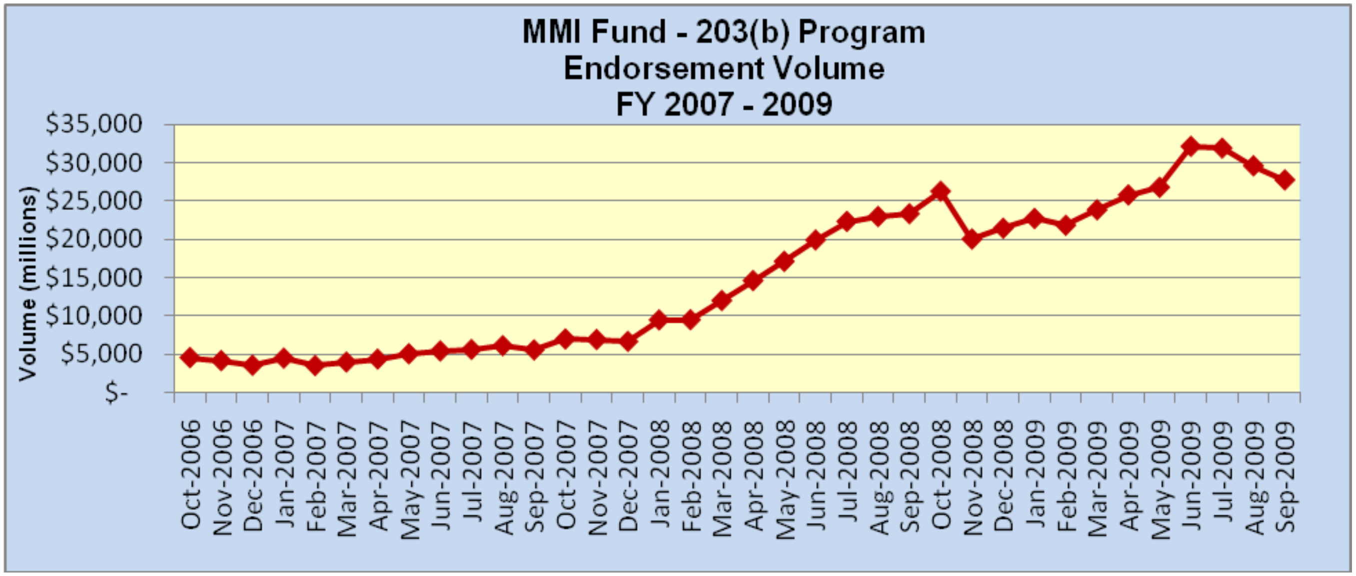
Mutual Mortgage Insurance Fund
Estimated Commitments and Subsidy - by Risk Category
Fiscal Year 2011
(Whole Dollars)

Risk Category	Estimated Commitments	Subsidy Rate	Negative Subsidy	Positive Subsidy
MMI Purchase and Refinance	$222,867,868,010	-2.59%	($5,772,277,781)	…
MMI HECM	30,000,000,000	0.83%	…	249,000,000
Totals	252,867,868,010		(5,772,277,781)	249,000,000
Commitment Limitation	$400,000,000,000			

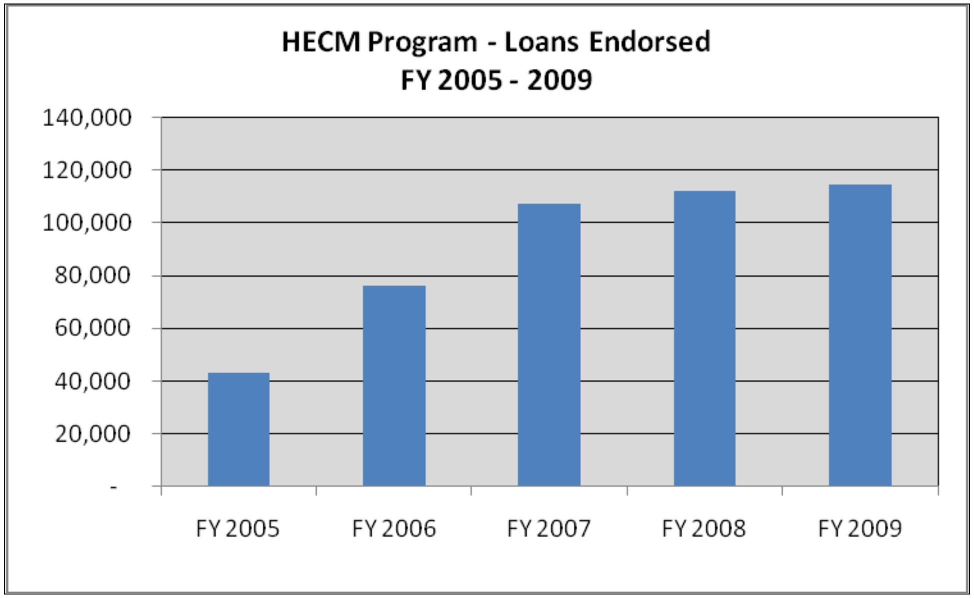
MMI Purchase and Refinance. As a response to the current housing market conditions, FHA has played a major role in the refinance of conventional mortgages into FHA mortgages, especially through its 203(b) program. In fiscal year 2008, over 349,000 families with conventional mortgages refinanced their single family homes with FHA through the MMI fund's 203(b) program. This is a significant increase of 236 percent over the fiscal year 2007 conventional-to-FHA mortgage refinances of just over 104,000 families. During fiscal year 2009, the number of families refinancing their conventional mortgages into a FHA mortgage increased by 30 percent over fiscal year 2008, enabling FHA to serve over 454,000 families.



Since July 2008, the monthly endorsement volume for the MMI fund's 203(b) program has exceeded $20 billion and remained above $20 billion during fiscal year 2009, averaging $25.8 billion per month. With an average monthly endorsement volume of only $4.7 billion for fiscal year 2007, FHA's role in single family mortgages was barely visible. However, during the current housing mortgage crisis, FHA is playing a much more significant role in homeownership and home refinancing with an increase of over 400 percent in monthly endorsement volume in fiscal year 2009. The chart below displays the endorsement volume for fiscal years 2007 – 2009 for the 203(b) program.



HECM. For fiscal year 2011, it is estimated that over 119,000 loans will be endorsed under FHA's home equity conversion mortgage (HECM) program. From the beginning of the HECM program in fiscal year 1990 through fiscal year 2009, over 572,000 loans have been endorsed under the program. Over 50 percent of these loans were endorsed during fiscal years 2007 - 2009. On average, 457 cases were endorsed per business day for fiscal year 2009; the average number of cases endorsed per business day in fiscal years 2008 and 2007 was 445 and 430 cases, respectively.



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

Budget Activity	2009 Budget Authority	2008 Carryover Into 2009	2009 Total Resources	2009 Obligations	2010 Budget Authority/ Request	2009 Carryover Into 2010	2010 Total Resources	2011 Request
Administrative Contract Expense	$146,000	...	$146,000	$72,061	$187,719	...	$187,719	$205,645
Transformation Initiatives transfer .	...	...	...	...	1,181	...	1,181	1,355
Positive Subsidy Appropriation	...	...	...	...	...	...	...	250,000
Total	146,000	...	146,000	72,061	188,900	...	188,900	457,000

NOTE: Amounts exclude upward re-estimates. The Salaries and Expenses for FHA are directly appropriated to the relevant administrative accounts of the Department; the Working Capital Fund amount remains a non-expenditure transfer and is excluded from obligations. The appropriation in this account is for FHA contract expenses, including amounts for education and outreach. Also, for fiscal year 2009, the enacted request reflects an additional appropriation of $30 million for administrative contract expenses pursuant to the second proviso in the paragraph under the heading "Mutual Mortgage Insurance Program Account" in P.L. 111-8. On February 28, 2009, guaranteed loan commitments for the MMI Fund totaled $130 billion, thereby exceeding the $65.5 billion threshold for additional funding by $64.5 billion. The additional appropriation is calculated at $1,400 for every million dollars of commitments that, prior to April 1, 2009, exceeded the threshold; this additional authority could increase up to a maximum of $30,000,000. As the limitation was reached, the full amount made available under the proviso is reflected herein.

FTE	2009 Actual	2010 Estimate	2011 Estimate
Headquarters	305	324	335
Field	620	638	735
Total	925	962	1,070

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

Budget Activity	2009 Budget or Financing Authority	2009 Rescission	2009 Total Resources	2009 Obligations	2010 Enacted	2010 Rescission	2010 Total Resources	2011 Request
Administrative Contracts Expenses a/............	146,000	0	146,000	72,154	188,900	0	188,900	207,000
Working Capital Fund Transfer b/..................	-58,493	0	-58,493	0	-70,794	0	-70,794	-71,500
Transformation Initiatives Transfer c/…………	0	0	0	0	-1,181	0	-1,181	-1,355
Administrative Contract Expenses (net)…	87,507	0	87,507	72,154	116,925	0	116,925	134,145
Positive Subsidy Appropriation.......................	0	0	0	0	0	0	0	250,000
Total...	87,507	0	87,507	72,154	116,925	0	116,925	384,145

a/ Beginning with fiscal year 2010, all administrative contract expenses for FHA are appropriated under the MMI Fund. The fiscal year 2009 amount includes costs for education and outreach of FHA single family loan products as well as costs related to the implementation of the FHA reforms and the increase in Housing's base contract costs. The fiscal year 2009 total of FHA administrative contract expense appropriations, combining those for both the MMI and GI/SRI funds, was $194,871,000.

b/ Beginning with fiscal year 2010, all funds for FHA systems development are appropriated under the MMI Fund.

c/ In fiscal year 2010, 1 percent of the appropriation for administrative contracts expenses net of the transfer to Working Capital Fund, is transferred to the Department's Transformation Initiatives account, pursuant to the fiscal year Consolidated Appropriations Act, P.L. 111-117. One percent of the appropriation for administrative contract expenses net of the transfer to the Working Capital Fund, is also requested for transfer to the Transformation Initiatives account in the fiscal year 2011 Budget.

BUDGET HIGHLIGHTS

Budget Activity	**Actual 2009**	**Estimate 2010**	**Estimate 2011**	**Increase + Decrease – 2011 vs. 2010**
		(Dollars in Thousands)		
Insurance Commitment Limitation:				
Loan Guarantees	$400,000,000	$400,000,000	$400,000,000	…
Insurance Commitments ($$):				
MMI Purchase and Refinance	330,458,853	299,953,826	222,867,868	$(77,085,958)
MMI HECM	30,188,776	30,799,717	30,000,000	(799,717)
Subtotal	360,647,629	330,753,543	252,867,868	(77,885,675)
Standby authority	39,352,371	69,246,457	147,132,132	77,885,675
Direct Loan Limitation	50,000	50,000	50,000	…
Discretionary:				
Budget Authority				
Program account - Administrative Contracts	87,507	118,106	135,500	17,394
Program account - Guaranteed Loan Subsidy	-	-	250,000	250,000
Capital Reserve account (negative subsidy)	565,363	2,013,712	5,772,278	3,758,566
Capital Reserve (Loan modification)	360,786	N/A	N/A	-
Net Outlays				
Program account	42,629	113,000	381,000	268,000
Capital Reserve account (negative subsidy)	(565,363)	(2,013,712)	(5,772,278)	(3,758,566)
Capital Reserve (Loan modification)	(360,786)	N/A	N/A	…

	Actual 2009	Estimate 2010	Estimate 2011	Increase + Decrease – 2011 vs. 2010
		(Dollars in Thousands)		
Mandatory:				
Net Outlays				
Program account(upward re-estimates)	$10,383,542	$9,868,204	…	($9,868,204)
Capital Reserve account (downward re-estimate)	(107,881)	(25,675)	…	25,675
Capital Reserve account (interest on Fed. Securities)	(1,017,580)	(735,000)	($622,000)	113,000
Liquidating account (net outlays)	24,799	3,525	2,023	(1,502)
Off Budget:				
Financing account (net disbursements)	(12,658,664)	(7,834,407)	7,940,803	15,775,210
Program Activity:				
Commitments (dollars)				
MMI Purchase and Refinance	330,458,853	299,953,826	222,867,868	(77,085,958)
MMI HECM	30,188,776	30,799,717	30,000,000	(799,717)
Commitments (cases)				
MMI Purchase and Refinance	1,831,534	1,661,975	1,311,889	(350,086)
MMI HECM	114,691	120,429	119,953	(476)
Credit Subsidy				
MMI Purchase and Refinance a/	-0.05%	-0.62%	-2.59%	-1.97%
MMI HECM	-1.37%	-0.50%	0.83%	1.33%
Insurance-In-Force	690,852,029	873,033,294	998,767,710	125,734,416
Negative Subsidy	565,363	2,013,712	5,772,278	$3,758,566
Loan Modification	360,786	N/A	N/A	
Positive Subsidy			250,000	250,000
Default Claim Payments	8,517,355	15,665,990	19,665,606	3,999,616
Recoveries	3,458,545	10,214,558	11,947,445	1,732,887

a/ The credit subsidy rate shown for fiscal year 2009 is a weighted average subsidy rate. During fiscal year 2009, two credit subsidy rates were executed for the MMI Fund's single family forward mortgages (Purchase and Refinance risk category) due to the implementation of the Super Partial Claim Loss Mitigation program that occurred, effective July 2009.

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

Administrative Contract Expense	Amount
2009 Appropriation	$146,000
2010 Appropriation/Request	187,719
2011 Request	205,645
Program Improvements/Offsets	+17,926

Proposed Actions

Under this appropriation FHA will transfer up to $71.5 million to the Working Capital Fund for the development of both MMI and GI/SRI systems.

2009 Appropriation. This amount includes a $58.5 million transfer to the Departmental Working Capital Fund account and an additional $30 million for administrative contract expenses for having exceeded the dollar threshold in the second proviso in the paragraph under the heading "Mutual Mortgage Insurance Program Account", pursuant to the fiscal year 2009 Omnibus Appropriations Act, P.L. 111-8.

2010 Appropriation/Request. Amount excludes $1.2 million for a 1 percent transfer to the Departmental Transformation Initiatives account and includes a transfer of $70.8 million to the Departmental Working Capital Fund account.

2011 Request. Amount excludes $1.4 million for a 1 percent transfer to the Departmental Transformation Initiatives account and includes a request to transfer $71.5 million to the Departmental Working Capital Fund account.

For fiscal year 2011, as FHA's role has expanded during the mortgage crisis, the increase in funding for administrative contract expenses is necessary to support the following FHA activities:

- Improve upon current modeling techniques. The FHA Commissioner and the financial statement auditors have asked FHA to do more in-depth data analyses by product type as well as borrower type to continually improve modeling capabilities for both the single family forward and HECM programs. Also, the FHA MMI capital ratio fell below 2% for fiscal year 2009. As a response, FHA is tightening up its risk management and will need to conduct additional analytics to help strengthen the performance of the MMI portfolio.

- Improvements to credit risk. As part of the Commissioner's credit risk improvements, an Office of Risk Management was created during fiscal year 2010. Fiscal year 2011 will represent the first full fiscal year that this office will be in place. A portion of the additional administrative contract funds will be used to provide contract support for this newly created organization. The funds will be used on both the Single Family and Multifamily FHA portfolios as well as Housing's rental assistance programs.

- Increase for fraud detection and fraud prevention. The new and proposed legislation, heightened economic risks, and significant increase in loan volume underscore the need for a contract vehicle to help close the gaps in our fraud prevention programs.

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

Transformation Initiatives transfer	Amount
2009 Appropriation	...
2010 Appropriation/Request	$1,181
2011 Request	1,355
Program Improvements/Offsets	+174

Proposed Actions

Under this appropriation, FHA requests a transfer of 1 percent of the funds to the Departmental Transformation Initiatives account.

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

Loan Guarantee Limitation	**Amount**
2009 Request	$400,000,000
2010 Request	$400,000,000
2011 Request	$400,000,000
Program Improvements/Offsets	…

Proposed Actions

Loan Guarantee Limitation. The fiscal year 2011 Budget requests $400 billion in loan guarantee limitation which is to remain available until September 30, 2012. This limitation includes sufficient authority for any new initiatives as well as standby commitment authority for unanticipated increases in business, and allows the authority to be carried over into fiscal year 2012.

PROGRAM DESCRIPTION

MMI Fund. The MMI Fund consists of FHA's primary single family home mortgage program (Section 203(b)), as well as loans for condominiums, purchase and rehabilitation loans, and home equity conversion mortgages (HECM). Prior to fiscal year 2009, aside from Section 203(b) loans, these single family products were 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 through the transfer of single family programs from the GI/SRI to the MMI fund, beginning in fiscal year 2009, the MMI Fund has two credit risk categories: the MMI Purchase and Refinance risk category and the MMI HECM risk category.

The Section 203(b) program, enacted in the National Housing Act of 1934, provides mortgage insurance for the purchase or refinancing of 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.

The HECM program (Section 255) allows senior homeowners age 62 and older access to FHA-insured reverse mortgages to convert the equity in their homes into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the homes. Unlike forward mortgage borrowers, the HECM borrowers have no income or credit qualifications to meet and make no payments as long as the property securing the HECM loan is their main residence.

Program Activity

MMI Fund
Mortgage Insurance Written and Insurance-in-Force

	FY 2009 Actual	FY 2010 Estimate	FY 2011 Estimate
		(Dollars in Thousands)	
Mortgage Insurance Written (dollars):			
MMI Purchase and Refinance……………….	$330,458,853	$299,953,826	$222,867,868
MMI HECM (Maximum Claim Amount)……..	30,188,776	$30,799,717	$30,000,000
Mortgage Insurance Written (number of loans):			
MMI Purchase and Refinance………………..	1,831,534	1,661,975	1,311,889
MMI HECM……………………………………..	114,691	120,429	119,953
Outstanding balance of insurance in force, end of year:			
MMI Purchase and Refinance……………….	$675,272,202	$843,151,384	$955,951,026
MMI HECM…………………………………….	15,579,827	29,881,910	42,816,684

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

Direct Loan Limitation	**Amount**
2009 Request	$50,000
2010 Request	50,000
2011 Request	50,000
Program Improvements/Offsets	...

Proposed Actions

Direct Loan Limitation. The fiscal year 2011 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 MMI Fund.

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

Positive Subsidy Appropriation	Amount
2009 Appropriation	...
2010 Appropriation/Request	...
2011 Request	$250,000
Program Improvements/Offsets	+250,000

Proposed Actions

For endorsements under FHA's Home Equity Conversion Mortgage program, the 2011 Budget requests $250 million as an appropriation of credit subsidy.

HOUSING
MUTUAL MORTGAGE INSURANCE FUND
Proposed Appropriations Language

The fiscal year 2011 President's Budget included proposed changes in the appropriations language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed.

[During fiscal year 2010] *New* commitments to guarantee single family loans insured under the Mutual Mortgage Insurance Fund shall not exceed [a loan principal of] $400,000,000,000, *to remain available until September 30, 2012:* Provided, That [for new loans guaranteed pursuant to section 255 of the National Housing Act (12 U.S.C. 1715z-20), the Secretary shall adjust the factors used to calculate the principal limit (as such term is defined in HUD Handbook 4235.1) that were assumed in the President's Budget Request for 2010 for such loans, as necessary to ensure that the program operates at a net zero subsidy rate] *for the cost of new guaranteed loans, as authorized by section 255 of the National Housing Act (12 U.S.C 1715z-20), $250,000,000; and, in addition, to the extent that new guaranteed loan commitments under section 255 will and do exceed $30,000,000,000 during fiscal year 2011, an additional $8,300 shall be available for each $1,000,000 in such additional commitments (including a pro rata amount for any new guaranteed loan commitment amount below $1,000,000)*: Provided further, That during fiscal year [2010]*2011*, 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 further, That the foregoing amount *in the previous proviso* 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 contract expenses of the Federal Housing Administration, [$188,900,000]*$207,000,000, to remain available until September 30, 2012*, of which up to [$70,794,000] *$71,500,000* may be transferred to the Working Capital Fund[, and of which up to $7,500,000 shall be for education and outreach of FHA single family loan products]: *Provided further,* That to the extent guaranteed loan commitments exceed $200,000,000,000 on or before April 1, [2010]*2011*, 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. (Department of Housing and Urban Development Appropriations Act, 2010.)

Explanation of Changes

To ensure that the FHA's single family mortgage insurance operation would continue without disruption while budget deliberations are carried out during continuing resolutions, the fiscal year 2011 Budget for the Mutual Mortgage Insurance requests 2-year appropriations for: (1) single family mortgage insurance commitments and (2) administrative contract expenses.

HOUSING
FHA--MUTUAL MORTGAGE INSURANCE FUND
Crosswalk of 2009 Availability
(Dollars in Thousands)

Budget Activity	2009 Enacted	Supplemental/ Rescission	Approved Reprogrammings	Transfers	Carryover	Total 2009 Resources
Administrative Contract Expense	$146,000	...	...	...	...	$146,000
Transformation Initiatives transfer .	...	...	...	...	...	...
Positive Subsidy Appropriation	...	...	...	...	...	...
Total	146,000	...	...	...	...	146,000

NOTE: For fiscal year 2009, the enacted request includes a $58.5 million non-expenditure transfer to Working Capital Fund, and reflects an additional appropriation of $30 million for administrative contract expenses pursuant to the second proviso in the paragraph under the heading "Mutual Mortgage Insurance Program Account" in P.L. 111-8. On February 28, 2009, guaranteed loan commitments for the MMI Fund totaled $130 billion, thereby exceeding the $65.5 billion threshold for additional funding by $64.5 billion. The additional appropriation is calculated at $1,400 for every million dollars of commitments that, prior to April 1, 2009, exceeded the threshold; this additional authority could increase up to a maximum of $30,000,000. As the limitation was reached, the full amount made available under the proviso is reflected herein.

HOUSING
FHA--MUTUAL MORTGAGE INSURANCE FUND
Crosswalk of 2010 Changes
(Dollars in Thousands)

Budget Activity	2010 President's Budget Request	Congressional Appropriations Action on 2010 Request	2010 Supplemental/ Rescission	Reprogrammings	Carryover	Total 2010 Resources
Administrative Contract Expense	$188,900	$187,719	...	...	...	$187,719
Transformation Initiatives transfer .	...	1,181	...	...	...	1,181
Positive Subsidy Appropriation	798,000	...	...	...	...	...
Total	986,900	188,900	...	...	...	188,900

2010 Request. The amount for administrative contract expense includes a request to transfer $70.8 million to the Departmental Working Capital Fund account.

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
2011 Summary Statement and Initiatives
(Dollars in Thousands)

FHA--GENERAL AND SPECIAL RISK INSURANCE FUND	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2009 Appropriation	$57,471	$18,203	-$5,000	$70,674	$50,674	$57,963
2010 Appropriation/Request	8,600[a/]	14,715	...	23,315	14,552	49,909
2011 Request	...	8,763	...	8,763	8,656	29,144
Program Improvements/Offsets	-8,600	-5,952	...	-14,552	-5,896	-20,765

a/ Appropriation level reflects the realignment of all administrative contract funding to the FHA Mutual Mortgage Insurance Fund. Amount includes a 1 percent transfer to the Departmental Transformation Initiatives account pursuant to the fiscal year 2010 Consolidated Appropriations Act, P.L. 111-117.

Summary Statement

Through the FHA's General and Special Risk Insurance (GI/SRI) Fund, HUD offers a range of loan guarantee programs to address specialized mortgage financing needs. The most active programs include those authorized under Sections 220, 221(d)(3) and (4), 223(a)(7), 223(f), 223(d), 231, 241, 232, and 242 of the National Housing Act and Sections 542(c) and 542(b) of the Housing and Community Development Act. These programs include mortgage insurance for developing, rehabilitating, and refinancing multifamily rental housing, nursing home facilities, and hospitals. Title I loan guarantees are also offered for manufactured housing and for property improvement loans. These insurance programs are a critical component of the Department's efforts to meet the Nation's need for decent, safe and affordable housing. The role of these programs is especially significant in the current economic climate. Driven by low interest rates, more limited lending in the conventional mortgage market, the introduction of a refinance product for hospitals, and a number of other factors, GI/SRI commitment projections for fiscal year 2010 have increased significantly since initial estimates were presented in the fiscal year 2010 President's Budget. Once projected at $7.3 billion, commitments are now expected to closely approach the Fund's $15 billion limitation. High levels of mortgage insurance activity are anticipated to continue in fiscal year 2011.

Loan Guarantee Limitation. A loan guarantee limitation of $20 billion is requested for fiscal year 2011, an increase of $5 billion from 2010. New insurance commitments are projected to exceed $14 billion in fiscal year 2010 and increase to $15.7 billion in 2011. The amount requested above $15.7 billion minimizes the potential for reaching the limitation and having to suspend program activity prior to the end of the year. Of the total commitments projected for fiscal year 2011, it is estimated that $7.5 billion will be issued for FHA's multifamily housing programs. Another $8 billion in commitments are estimated for hospitals and other health care facility mortgages. Title I Property Improvements and Manufactured Housing commitments are projected to reach $189 million in 2011, a 5 percent increase over the current fiscal year 2010 estimate.

Prior to fiscal year 2009, the GI/SRI fund carried certain single family insurance programs in addition to the multifamily insurance programs. With the passage of the Housing and Economic Recovery Act of 2008 (HERA), financial responsibility for almost all single family programs was transferred to the Mutual Mortgage

Insurance (MMI) Fund at the beginning of fiscal year 2009. The loan guarantee limitation of $15 billion enacted for GI/SRI for fiscal year 2010 and the $20 billion requested for 2011 are substantially lower than the fiscal year 2009 level of $45 billion, reflecting the smaller portfolio of programs now included in the Fund.

Appropriations. No appropriation is requested for fiscal year 2011, a reduction of $8.6 million from fiscal year 2010. The Department anticipates that carryover funds available from prior year appropriations will be sufficient to cover positive credit subsidy requirements for the handful of loan programs in GI/SRI that are not self-funding. The zero funding level also reflects the consolidation of all administrative contract expense appropriations in the MMI Fund beginning in the fiscal year 2010.

For fiscal year 2011, three risk categories are estimated to require positive subsidy: 1) 221(d)(3) which insures loans to non-profit, public, or cooperative organizations for new development or substantial rehabilitation of multifamily rental housing; 2) 241(a) insurance for supplemental loans to finance improvements for multifamily housing projects; and 3) insurance of 223(d) Operating Loss Loans, which help cover losses during a 2-year period for projects with a HUD-insured first mortgage. For fiscal year 2011, HUD will propose to cease offering 223(d) loans to multifamily housing projects, but will continue to make the product available for eligible Section 232 nursing home/assisted living facilities.

Through rulemaking, HUD will also seek the termination of single family lending in military impact areas under Section 238(c), a program that would otherwise require positive subsidy in 2011. The elimination of Section 238(c) will not negatively impact the availability of FHA insured financing in the six counties currently covered under this program. All other GI/SRI programs will generate modest negative subsidy, which will be returned to the Treasury general fund as offsetting receipts.

Direct Loan Limitation. A direct loan limitation of $20 million is requested, the same as fiscal year 2010. The loan authority requested is for short-term purchase money mortgages for non-profit and governmental agencies to make HUD-acquired single family properties available for resale to purchasers with household incomes at or below 115 percent of an area's median.

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

Budget Activity	2009 Budget Authority	2008 Carryover Into 2009	2009 Total Resources	2009 Obligations	2010 Budget Authority/ Request	2009 Carryover Into 2010	2010 Total Resources	2011 Request
Administrative Contract Expenses	$48,871	...	$48,871	$43,583	...	...	...	...
Positive Subsidy Appropriation	8,600	$13,203	21,803	7,091	$8,514	$14,715	$23,229	...
Transformation Initiatives transfer .	...	...	...	...	86	...	86	...
Discount Multifamily Property and Loan Sales Appropriation ..	-5,000	5,000	...	...	...	...	...	...
Total	52,471	18,203	70,674	50,674	8,600	14,715	23,315	...

FTE	2009 Actual	2010 Estimate	2011 Estimate
Headquarters	376	399	400
Field	841	833	833
Total	1,217	1,232	1,233

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

Administrative Contract Expenses	Amount
2009 Appropriation	$48,871
2010 Appropriation/Request	...
2011 Request	...
Program Improvements/Offsets	...

Proposed Actions

2011 Request. Beginning in 2010, funding for all FHA administrative contract expenses is consolidated in the MMI Fund.

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

Positive Subsidy Appropriation	Amount
2009 Appropriation	$8,600
2010 Appropriation/Request	8,514
2011 Request	...
Program Improvements/Offsets	-8,514

2010 Appropriation/Request. The $8.5 million reflects appropriation of $8.6 million reduced by $86,000 provided for the transfer to the Transformation Initiatives account.

Proposed Actions

No appropriation is requested for GI/SRI for fiscal year 2011, a reduction of $8.5 million from fiscal year 2010. It is anticipated that approximately $8.8 million of unobligated prior year appropriations will carry forward to fiscal year 2011, which is sufficient funding to support loan commitments at the projected levels.

For fiscal year 2011, three programs are estimated to require positive subsidy: 1) 221(d)(3) which insures loans to non-profit, public, or cooperative organizations for new development or substantial rehabilitation of multifamily rental housing; 2) 241(a) insurance for supplemental loans to finance improvements for multifamily housing projects; and 3) insurance of 223(d) Operating Loss Loans, which help cover losses during a 2-year period for projects with a HUD-insured first mortgage. For fiscal year 2011, HUD will cease offering 223(d) loans to multifamily housing projects, but will continue to make the product available for eligible Section 232 nursing home/assisted living facilities. Through rulemaking, HUD will seek the termination of single family lending in military impact areas under Section 238(c), a program that would otherwise require positive subsidy in 2011. All other GI/SRI programs will generate modest negative subsidy, which will be returned to the Treasury general fund as offsetting receipts. Approximately, $412 million in negative subsidy receipts are projected to be generated in fiscal year 2011.

Credit Subsidy Rates. The Department devotes significant efforts to updating and continuously refining credit subsidy estimates. The fiscal year 2011 credit subsidy estimates were developed after consultation with the Office of Management and Budget (OMB) and reflect on-going analysis by the Department. Each year the extensive statistical base from which projections of future loan performance are calculated is updated with an additional year of actual data. The Department and OMB continue to examine the data, assumptions, and calculations that are used to estimate loan program cash flows and subsidy rates in order to eliminate errors and improve the accuracy and reliability of projections. The credit subsidy rates reflect 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.

The following table displays the estimated allocation of commitment authority and subsidy by budget risk category for fiscal year 2011.

Mortgage and Loan Insurance Programs – GI/SRI Account

GI/SRI PROGRAMS	Commitment Estimates FY 2011	Subsidy Rates FY 2011	Positive Subsidy BA FY 2011	Negative Subsidy BA FY 2011
Multifamily				
221(d)(4) Apartments New Construction/Sub. Rehab	1,950,000,000	-1.76%		(34,320,000)
221(d)(3) Non-profit Apartments	64,000,000	10.74%	6,873,600	
Tax Credit Projects	900,000,000	-3.43%		(30,870,000)
223(f)/223(a)(7) Apartments Refinance/Purchase	3,400,000,000	-3.35%		(113,900,000)
241(a) Supplemental Loans for Apartment	25,000,000	5.40%	1,350,000	
223(d) Operating Loss Loans	2,000,000	21.63%	432,600	
HFA Risksharing	370,000,000	-1.42%		(5,254,000)
GSE Risksharing	35,000,000	-1.43%		(500,500)
Other Rental (Sections 220,231,207)	755,000,000	-3.10%		(23,405,000)
Subtotal	7,501,000,000			
Hospitals (includes Refinances & Supplemental Loans)	4,040,000,000	-3.67%		(148,268,000)
Nursing Homes				
Full Insurance for Health Care Facilities	900,000,000	-0.19%		(1,710,000)
Health Care Facility Refinance	3,030,000,000	-1.32%		(39,996,000)
Subtotal	3,930,000,000			
Title I				
Property Improvements	63,000,000	-0.76%		(478,800)
Manufactured Housing	126,000,000	-0.99%		(1,247,400)
Subtotal	189,000,000			
GI/SRI TOTAL	**$15,660,000,000**		**$8,656,200**	**($399,949,700)**
Stand-by Authority	4,340,000,000			
Total New Commitment Authority	$20,000,000,000			

HOUSING - FEDERAL HOUSING COMMISSIONER
FHA--GENERAL AND SPECIAL RISK INSURANCE FUND
Program Offsets
(Dollars in Thousands)

Transformation Initiatives transfer	Amount
2009 Appropriation	...
2010 Appropriation/Request	$86
2011 Request	...
Program Improvements/Offsets	-86

Proposed Actions

No budget authority is requested and therefore, no transfer is proposed for the Transformation Initiatives account.

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

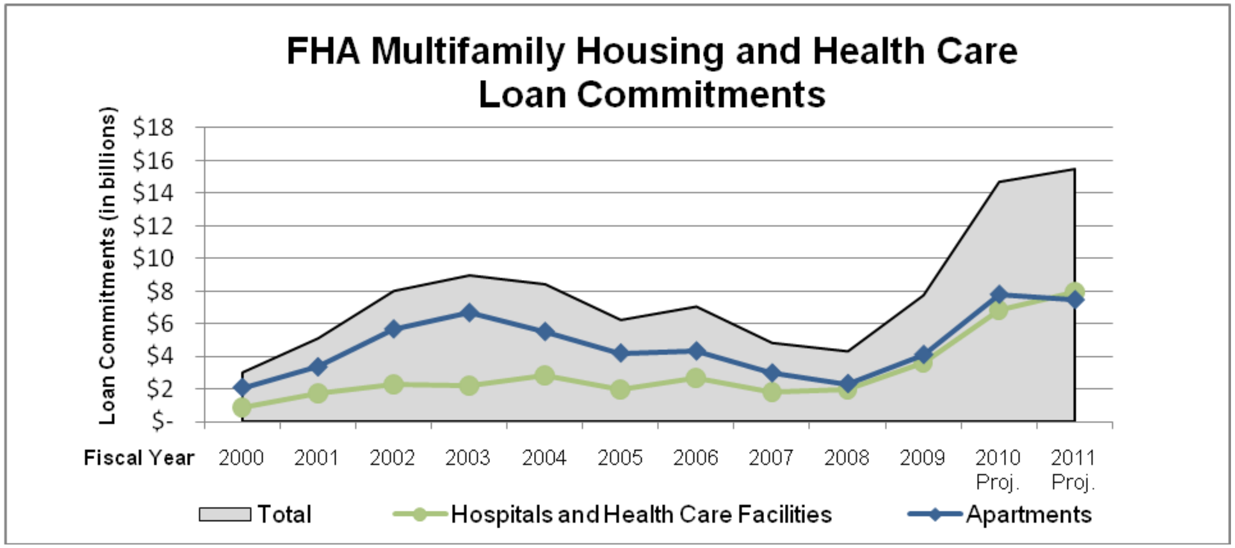
Insurance Commitment

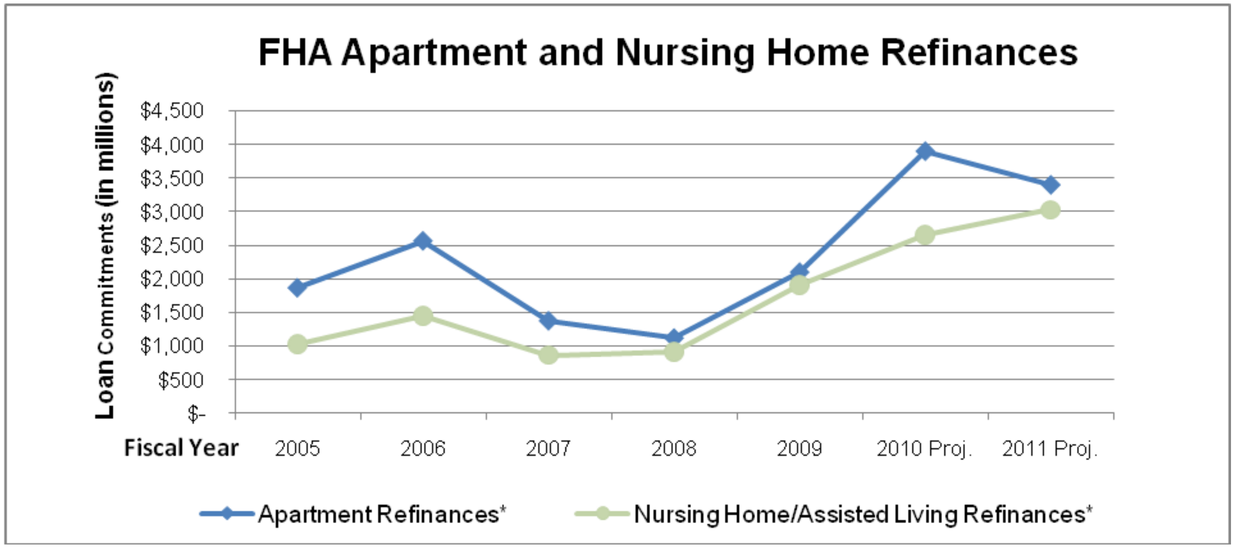
Limitation Enacted/Requested	**Loan Guarantees Amount**
2009 Appropriation	$45,000,000
2010 Request	15,000,000
2011 Request	20,000,000
Program Improvements/Offsets	5,000,000

Proposed Actions

Loan Guarantee Limitation. The fiscal year 2011 Budget proposes a loan guarantee limitation of $20 billion for GI/SRI, an increase of $5 billion over the fiscal year 2010 request. New insurance commitments are estimated at $14.95 billion for 2010 and $15.7 billion for 2011. The 2011 request is substantially lower than the $45 billion limitation in 2009 and previous years due to the transfer of several single family mortgage guarantee programs to the MMI Fund in fiscal year 2009. The limitation will cover estimated commitments and allow a contingency reserve cushion for unanticipated increases in volume. The requested commitment level minimizes the potential for reaching the ceiling and having to suspend program activity prior to the end of the year.

While growth is projected to occur across all FHA multifamily and healthcare programs in fiscal year 2010, increased activity in the refinance programs is especially notable. More than $750 million in commitments were issued under multifamily and healthcare refinance risk categories in the final month of fiscal year 2009. This volume represented a dramatic surge in activity that continued through the first quarter of 2010. In addition to growth in long-standing programs, FHA anticipates $1.2 billion in volume for a new refinance product for Hospitals (Sec 242/223(f)) in fiscal year 2010. Refinance activity for the Fund is expected to remain at a high level, estimated at $7.8 billion in fiscal year 2011, but is sensitive to interest rate changes.





* Refinance totals reflect all loans insured under Apartment Refinance and Health Care Facility Refinance risk categories, including any Section 223(f) loans made for the purchase of existing facilities not requiring substantial rehabilitation.

Mortgage and Loan Insurance Programs – GI/SRI Account

Active GI/SRI mortgage insurance programs are divided into 15 different risk categories, which can be grouped together as follows: hospital programs, nursing home programs, multifamily housing programs, Title I programs, and other single family/military impact areas.

Hospital Programs. The Section 242 Program provides mortgage insurance for loans made for the construction, renovation, and/or equipping of acute care hospitals. As of December 2009, the Section 242 program was insuring 88 hospital mortgage loans with a total remaining principal balance of $7.39 billion. The program also includes: Section 241(a) supplemental loans; Section 223(a)(7) loans for refinancing current FHA- insured projects; and Section 223(e) loans for hospitals in older, economically declining urban areas. New loan commitments for all Hospital programs are estimated to total $3.5 billion in fiscal year 2010 and $4 billion in fiscal year 2011. In the current economic climate, hospitals with higher-quality credits (rated "A") are beginning to apply for FHA mortgage insurance as a way of accessing affordable capital for their projects. This participation has the potential to further strengthen the performance of the Hospitals portfolio.

The significant increase in activity projected for 2010 and 2011 stems in part from the Department's plans to offer a new hospital refinance product under the statutory authority of 223(f). The new program will insure refinancing of loans to acute care hospitals suffering financial hardship caused by high-interest rate debt. Unlike Section 242 loans, there will not be a requirement that at least 20 percent of the funds be used for construction and equipment. Demand for the program is expected to be high, with approximately $1.2 billion and $1.4 billion in loan commitments anticipated for fiscal years 2010 and 2011, respectively. These loans will be included within the Hospitals risk category.

Nursing Home Programs. The Section 232 Program provides mortgage insurance for loans made for the refinancing, construction, and renovation of nursing homes and assisted living facilities. As of December 2009, the Section 232 program was insuring 2,321 loans with a total remaining principal balance of $14.6 billion. HUD expects to complete $3.4 billion in new loan commitments in fiscal year 2010 and an additional $3.9 billion in fiscal year 2011. The program has been experiencing a significant level of increasing demand, due to a combination of the Department's improvements in processing times and the reduced availability of affordable credit in the capital markets.

Multifamily Housing Programs. FHA multifamily insurance programs play an important role in the mortgage market, especially for a number of higher risk segments in the housing industry. In fiscal year 2009, insurance commitments for multifamily housing programs (excluding nursing homes and assisted care facilities) were more than $4.1 billion, translating to support for upwards of 65,000 units of housing. New loan commitments are expected to increase dramatically in fiscal year 2010 to $7.8 billion and drop slightly to $7.5 billion in 2011 as refinance activity declines.

Multifamily programs assist private industry in the construction or rehabilitation of rental and cooperative housing for moderate-income and displaced families by making capital more readily available. Assistance is sought by small builders, buyers or owners of aging inner-city properties, and non-profit 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, and is 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. Loans insured by FHA can be securitized by Ginnie Mae and sold in the secondary mortgage market, which has the potential to improve the availability of loan funds and permit more favorable interest rates.

Specific multifamily housing risk categories are summarized as follows:

> *Section 221(d)(3) and Section 221(d)(4) Mortgage Insurance for Rental and Cooperative Housing*. These two programs assist private industry in the construction or rehabilitation of rental and cooperative housing. Section 221(d)(4) is the largest of FHA's multifamily programs and constitutes mortgage insurance for profit motivated sponsors. Non-profit sponsors apply under Section 221(d)(3). The programs allow for long-term mortgages (up to 40 years) that can be financed with the Government National Mortgage Association (GNMA) Mortgage Backed Securities (MBS). Section 221(d)(4) provides for up to 90 percent financing on the replacement cost of a project, while 221(d)(3) allows for up to 100 percent financing.

Section 223(f) Mortgage Insurance for Refinancing or Purchase of Existing Multifamily Rental Housing. This high-volume program allows for long-term mortgages (up to 35 years) for refinance or purchase of existing multifamily rental housing. Refinances of current FHA insured multifamily loans are offered under Section 223(a)(7), but are grouped together with Section 223(f) for budgetary purposes.

Section 223(d) Mortgage Insurance for 2-year Operating Loss Loans. Section 223(d) insures 2-year operating loss loans that cover operating losses during the first 2 years after a project's completion (or any other 2-year period within the first 10 years after completion) of multifamily projects with a HUD-insured first mortgage. In 2011, HUD plans to offer this type of mortgage insurance only to health care facilities with a primary mortgage under Section 232. Mortgage insurance on this type of loan has previously been offered (though infrequently utilized) for multifamily housing, but is no longer viewed as a cost effective means for preventing future losses on the associated primary FHA mortgages. However, the program remains a valuable option for Section 232 loans.

Section 241(a) Mortgage Insurance for Supplemental Loans for Multifamily Projects. This program is intended to keep projects competitive, extend their economic life, and finance the replacement of obsolete equipment. Insured mortgages finance repairs, additions, and improvements to multifamily projects already insured by HUD or held by HUD.

Section 542(b) and 542(c) Mortgage Risk Sharing. Under these two programs, state and local housing finance agencies (HFAs) and Government-Sponsored Enterprises (GSEs) share the risk and mortgage insurance premium with FHA for multifamily housing loans. HFA risk share agreements range between 10 and 90 percent, while GSE risk shares are fixed at a 50-50 split.

Tax Credit Projects. Projects assisted with Low Income Housing Tax Credits may be insured under a number of FHA multifamily programs, but are grouped together in a single budget risk category.

<u>Title I Manufactured Housing and Property Improvement Programs</u>. These two relatively small FHA programs fill an important niche. Under Title I, HUD provides mortgage insurance for the purchase of manufactured homes. In fiscal year 2009, $97 million in manufactured housing loans were endorsed. The program is expected to experience continuing growth in fiscal years 2010 and 2011 due to the implementation of program reforms authorized under HERA, including increased loan limits. The program is expected to generate a loan volume of $120 million in 2010 and $126 million in 2011.

The Title I Property Improvement program insures loans for repairs and other improvements to residential and non-residential structures, as well as new construction of non-residential buildings. Property Improvement endorsements were $56 million in fiscal year 2009, and are projected at $60 million in 2010 and $63 million in 2011.

<u>Other Single Family/Military Impact Areas</u>. In July of 2008, the enactment of HERA was intended to transfer single family mortgage insurance programs in the GI/SRI Fund authorized under Title II of the National Housing Act to the MMI Fund, but the legislation left in the GI/SRI Fund one small program with new activity--238(c) Military Impact Areas. This program has offered mortgage insurance in a small number of counties where housing demand is heavily dependent on the continuing presence of a military installation. HUD has determined that any benefits gained through the program do not justify the projected cost to the government and will seek to suspend all activity through the rulemaking process. No new endorsements are planned for fiscal year 2011. The elimination of Section 238(c) will not negatively impact the availability of FHA- insured financing in the six counties currently covered under this program.

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

	Actual 2009	Enacted 2010	Estimate 2011	Increase + Decrease – 2011 vs 2010
Insurance Commitment Limitation:	$45,000,000	$15,000,000	$20,000,000	$5,000,000
Insurance Commitments (dollars)				
Multifamily	4,112,653	7,832,000	7,501,000	-331,000
Hospitals	1,111,124	3,450,000	4,040,000	590,000
Nursing Homes	2,501,323	3,400,000	3,930,000	530,000
Single Family Homes	88,678	88,000	0	-88,000
Title I	153,634	180,000	189,000	9,000
Total	7,967,412	14,950,000	15,660,000	710,000
Insurance Commitments (units/beds)				
Multifamily	66,535	127,212	119,033	-8,179
Hospitals	1,623	4,841	5,563	722
Nursing Homes	36,073	47,891	54,199	6,308
Single Family Homes	583	606	0	-606
Title I	6,031	6,714	6,918	204
Total	110,845	187,264	185,713	-1,551
Insurance Written (dollars)				
Multifamily	3,050,800	7,506,128	7,583,750	77,622
Hospitals	1,564,258	2,817,425	3,892,500	1,075,075
Nursing Homes	1,918,980	3,398,914	3,797,500	398,586
Single Family Homes	88,678	88,000	0	-88,000
Title I	153,634	180,000	189,000	9,000
Total	6,776,350	13,990,467	15,462,750	1,472,283
Insurance in Force – End of Year (dollars)	$127,663,000	$120,124,000	$121,413,000	$1,289,000

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

Direct Loan

Limitation Enacted/Requested	**Direct Loan Amount**
2009 Appropriation	$50,000
2010 Request	20,000
2011 Request	20,000
Program Improvements/Offsets	. . .

Proposed Actions

A direct loan limitation of $20 million is requested for fiscal year 2011, the same as fiscal year 2010. The loan authority requested is for short-term purchase money mortgages for non-profit and governmental agencies to make HUD-acquired single family properties available for resale to purchasers with household incomes at or below 115 percent of an area's median.

HUD has not previously utilized direct loan authority for bridge financing in connection with the sale of multifamily real properties held by the Secretary. Language authorizing this type of direct loan was not included in the fiscal 2010 HUD Appropriations Act, and not included in the proposed language for fiscal year 2011.

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

Discount Multifamily Property and Loan Sales Appropriation	Amount
2009 Appropriation	-$5,000
2010 Appropriation/Request	...
2011 Request	...
Program Improvements/Offsets	...

Proposed Actions

The Congress included a $5 million appropriation for this purpose in the fiscal year 2008 Appropriations Act. These funds were rescinded in the Omnibus Appropriations Act for fiscal year 2009. No funds are requested for discount sales for fiscal years 2010 or 2011.

HOUSING
FHA--GENERAL AND SPECIAL RISK INSURANCE FUND
Summary of Budget Authority
(Dollars in Millions)

	ENACTED 2009	CURRENT ESTIMATE 2010	ESTIMATE 2011	INCREASE + DECREASE- 2011 vs 2010
LOAN LIMITATIONS				
Insurance Commitment Limitation	$45,000	$15,000	$20,000	$5,000
Direct Loans Limitation	50	20	20	0
BUDGET AUTHORITY				
Discretionary:				
Administrative Contract Expenses	49	0	0	0
Positive Subsidy Appropriations	9	9	0	-9
Discount Loan Sales	-5	0	0	0
Total Discretionary Appropriation	53	9	0	-9
Offsetting Receipts (negative subsidy disbursed to the General Fund)	-146	-399	-412	-13
Mandatory:				
Liquidating account (Pre-1992 Insurance Obligations) (net)	97	201	172	-29
Program Account Upward Re-estimate	6,793	863	0	-863
Receipt Account Downward Re-estimate	-19	-164	0	164

HOUSING
FHA--GENERAL AND SPECIAL RISK INSURANCE FUND
Summary of Budget Outlays
(Dollars in Millions)

	ENACTED 2009	ENACTED 2010	ESTIMATE 2011	INCREASE+ DECREASE- 2011 vs 2010
BUDGET OUTLAYS				
Discretionary:				
Administrative Contract Expenses	51	37	20	-17
Positive Subsidy/Loan Modification Appropriations	7	13	9	-4
Total Discretionary Outlays	58	50	29	-21
Offsetting Receipts (negative subsidy disbursed to the General Fund)	-146	-399	-412	-13
Mandatory:				
Liquidating account (Pre-1992 Insurance Obligations) (net)	-106	50	107	57
Program Account Upward Re-estimate	6,793	863	0	-863
Receipt Account Downward Re-estimate	-19	-164	0	164
Negative Subsidies (Loan Modifications)	-18	0	0	0

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

[For the cost of guaranteed loans,] _*During fiscal year 2011, commitments to guarantee loans incurred under the General and Special Risk Insurance Funds,*_ 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 [$15,000,000,000] _*$20,000,000,000*_ 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 $20,000,000, which shall be for loans to non-profit and governmental entities in connection with the sale of single family real properties owned by the Secretary and formerly insured under such Act. (Department of Housing and Urban Development Appropriations Act, 2010.)

Explanation of Changes

Language requesting appropriations for positive credit subsidy is removed, since no new funds are being sought. The commitment limitation is increased from $15 billion to $20 billion in order to accommodate increasing demand for FHA programs.

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
Crosswalk of 2009 Availability
(Dollars in Thousands)

Budget Activity	2009 Enacted	Supplemental/ Rescission	Approved Reprogrammings	Transfers	Carryover	Total 2009 Resources
Administrative Contract Expenses	$48,871	...	...	...	...	$48,871
Positive Subsidy Appropriation	8,600	...	...	...	$13,203	21,803
Transformation Initiatives transfer .	...	...	...	...	...	...
Discount Multifamily Property and Loan Sales Appropriation	...	-$5,000	...	...	5,000	...
Total	57,471	-5,000	...	...	18,203	70,674

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
Crosswalk of 2010 Changes
(Dollars in Thousands)

Budget Activity	2010 President's Budget Request	Congressional Appropriations Action on 2010 Request	2010 Supplemental/ Rescission	Reprogrammings	Carryover	Total 2010 Resources
Administrative Contract Expenses	...	...	...	...	...	...
Positive Subsidy Appropriation	$8,600	$8,514	...	...	$14,715	$23,229
Transformation Initiatives transfer .	...	86	...	...	...	86
Discount Multifamily Property and Loan Sales Appropriation	...	...	...	...	...	...
Total	8,600	8,600	...	...	14,715	23,315