HOUSING
FHA--MUTUAL MORTGAGE INSURANCE FUND
2012 Summary Statement and Initiatives
(Dollars in Thousands)

FHA--MUTUAL MORTGAGE & COOPERATIVE MGMT. HOUSING INSURANCE FUND	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2010 Appropriation	$188,900[a]	...	...	$188,900	$111,567[b]	$59,938[b]
2011 CR	188,900[c]	...	...	188,900	118,106[b]	260,000[b]
2012 Request	230,000[d]	...	...	230,000	158,000[b]	163,000[b]
Program Improvements/Offsets	+41,100	...	...	+41,100	+39,894	-97,000

a/ Includes non-expenditure transfers of $70.8 million to Working Capital Fund and $1.2 million to the Transformation Initiative Fund.
b/ Amounts exclude upward re-estimates.
c/ Includes non-expenditure transfers of $70.8 million to Working Capital Fund.
d/ Includes requests of a $72 million non-expenditure transfer to Working Capital Fund.

Summary Statement

Appropriation. The Mutual Mortgage Insurance (MMI) Fund of the Federal Housing Administration (FHA) requests an appropriation of $230 million for administrative contract expenses for fiscal year 2012; of this amount, up to $72 million will be transferred to the Working Capital Fund for FHA systems costs.

For fiscal year 2012, 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:

- Improvements to credit risk. As part of the Commissioner's credit risk improvements, the creation of an Office of Risk Management was proposed 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.

- Continue improvements to 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 remains below 2 percent. As a response, FHA is tightening up its risk management to help strengthen the performance of the MMI portfolio.

Loan Guarantee Limitation. The fiscal year 2012 Budget requests $400 billion in loan guarantee limitation which is to remain available until September 30, 2013. This limitation includes sufficient authority for insurance of single family mortgages, mortgages under the Home Equity Conversion Mortgage (HECM) program and the new FHA Refinance program. The FHA Refinance program was designed to help borrowers who owe more on their mortgages than the value of their homes the opportunity to refinance into affordable FHA loans. By doing this, a borrower who is current on his mortgage is eligible for an FHA refinance loan, provided that the lender or investor writes off a portion of the unpaid principal balance of the original first lien mortgage.

Mortgage and Loan Insurance Programs – MMI/CMHI Account

For fiscal year 2012, the Administration estimates an endorsement volume of $218 billion for the Purchase and Refinance risk category, $20 billion for the HECM risk category, and $84 billion for the FHA Refinance risk category for an estimated total volume of $322 billion. The $218 billion volume projected for the MMI Purchase and Refinance risk category is expected to generate $4.7 billion in negative subsidy receipts on insurance written at a subsidy rate of -2.16 percent. The HECM program is estimated to bear a subsidy rate of -1.52 percent, which will generate about $304 million in negative subsidy receipts in fiscal year 2011.

Direct Loan Limitation. A direct loan limitation of $50 million is also requested for fiscal year 2012 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 supporting 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 1.6 million in fiscal year 2010. 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 borrowers who are credit-worthy but have difficulty assembling a large downpayment or securing conventional financing. FHA insurance has played a key role in mitigating 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 38 percent of all home-purchase loans during the 9-month period ending in June 2010 in fiscal year 2010.

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. In fiscal year 2010, HUD and the Department of Treasury announced an enhancement to FHA's refinance program that will give a greater number of responsible borrowers the opportunity to remain in their homes. The enhancements were designed to maintain homeownership by providing borrowers, who owe more on their mortgage than the value of their home, opportunities to refinance into an affordable FHA loan. This opportunity allows a borrower who is current on his mortgage to qualify for an FHA refinance loan, provided that the lender or investor writes off the unpaid principal balance of the original first lien mortgage by at least 10 percent. As a result of the consolidation of the single family programs and the enhancements to the refinance program, there are three credit risk categories in the MMI Fund: the MMI Purchase and Refinance risk category, the MMI HECM risk category and the Negative Equity (FHA Refi) risk category.

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. In fiscal year 2010, HUD introduced a new product, HECM Saver, to the HECM portfolio that was created as a second initial mortgage insurance premium (MIP) option for the purpose of lowering upfront loan closing costs, for mortgagors who want to borrow a smaller amount than that available with the Standard HECM product. Homeowners who select either option 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 borrower is eligible for is based on the borrower's age, the current interest rate, and the lesser of the appraised property value or the FHA mortgage limit for HECM. Unlike forward mortgage borrowers, the HECM borrower has no income or credit qualifications to meet and makes no payments as long as the property securing the HECM loan is his main residence.

Program Relationship to Strategic Plan Goals and Subgoals:

Strategic Plan Goal 1 – Strengthen the Nation's Housing Market to Bolster the Economy and Protect Consumers

FHA endorsed 1,746,997 mortgages in fiscal year 2010, compared to 1,946,809 mortgages in fiscal year 2009.

Subgoal 1A: Stem the foreclosure crisis

FHA's mortgage refinance activity played a critical role in sustaining homeownership among distressed mortgagors during fiscal year 2010. FHA endorsed over 558,000 refinancing transactions, and more than 400,000 families were assisted through forbearance, partial claim, loan modification, pre-foreclosure sale, and deed-in-lieu of foreclosure, among others.

Subgoal 1B: Protect and educate consumers when they buy, refinance, or rent a home

Pertains to Forward and HECM Programs

Subgoal 1C: Create financially sustainable homeownership opportunities

FHA endorsed 1,746,997 mortgages in fiscal year 2010, compared to 1,946,809 mortgages in fiscal year 2009.

Subgoal 1D: Establish an accountable and sustainable housing finance system

In fiscal year 2012, FHA will be implementing the following policy changes and proposals to strengthen its capital reserves:

- Increase mortgage insurance premium (MIP) and adjust upfront/annual MIP relationship;
- Reduce allowable seller concessions from 6 percent to 3 percent;
- Increase enforcement on FHA lenders; and
- Strengthen FHA Business Practices.

Strategic Plan Goal 3 – Utilize Housing as a Platform for Improving Quality of Life

Subgoal 3C: Utilize HUD assistance to increase economic security and self-sufficiency

FHA homeownership insurance is a bedrock stable affordable targeted program to assist and preserve homeownership with mortgages with fair and stable rates and reasonable downpayment. In fiscal year 2010, more than 400,000 families were assisted through forbearance, partial claim, loan modification, pre-foreclosure sale, and deed-in-lieu of foreclosure, among others. In addition, over 558,000 families improved their economic position by refinancing through FHA, as did over 79,000 seniors who received HECM financing.

Subgoal 3D: Utilize HUD assistance to improve housing stability through supportive services for vulnerable populations, including the elderly, people with disabilities, homeless people, and those individuals and families at risk of becoming homeless

79,106 seniors received HECM financing during fiscal year 2010. By preserving and strengthening homeownership this program indirectly supports the preservation and expansion of affordable rental housing.

Strategic Plan Goal 4 - Build Inclusive and Sustainable Communities Free From Discrimination

Subgoal 4B: Promote energy-efficient buildings and location-efficient communities that are healthy, affordable, and diverse

FHA-insured mortgages are a major source of mortgage financing for minority as well as lower-income buyers. In fiscal year 2010, first time minority homebuyers represented 30 percent of first time home purchase mortgages endorsed for insurance by FHA.

Subgoal 4C: Ensure open, diverse, and equitable communities

FHA-insured mortgages are a major source of mortgage financing for minority as well as lower-income buyers. They are designed to aid families not always adequately served by other means and is targeted to affordable homeownership. In fiscal year 2010, first time minority homebuyers represented 30 percent of first time home purchase mortgages endorsed for insurance by FHA.

Subgoal 4D: Facilitate disaster preparedness, recovery, and resiliency

Pertains to Forward and HECM Programs

Performance Indicators that Reflect MMI Activity

There are 15 core indicators associated with the Strategic Plan. The programs under the MMI Fund are part of the strategies to produce outcome results in 6 of the 15. These indicators are as follows:

1. Reduce the number of completed foreclosures.
2. Restore FHA's excess capital reserve ratio to the congressionally mandated 2-percent level by 2014.
3. Reduce the average residential vacancy rate in Neighborhood Stabilization Program (NSP) investment areas.
4. Reduce the share of household income spent on the combined costs of housing and transportation in communities that receive assistance from the Office of Sustainable Housing and Communities.
5. Increase the proportion of HUD-assisted families in low-poverty and racially diverse communities (cross-cutting measure for Goals 2 and 4).
6. Increase the percentage of Gulf Coast homes in Louisiana, Mississippi, and Texas that have been reoccupied or converted to another viable purpose after being severely impacted by Hurricanes Katrina and Rita in 2005.

Proposals

The fiscal year 2012 Budget reflects a 25 basis point increase in the annual premium for forward mortgages planned for implementation in April 2011.

Strengthening FHA's Capital Reserves

During the latter half of fiscal year 2010, FHA implemented 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 was 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 took the following steps as immediate action to strengthen the capital reserve: increased the up-front mortgage insurance premium; limited the loan-to-value ratio for lower FICO score borrowers; reduced seller concessions; and implemented a series of significant measures aimed at increasing lender enforcement. These policy changes were implemented in the spring and summer of 2010.

Policy changes that took place in fiscal year 2010:

- **Increase mortgage insurance premium (MIP) and adjust upfront/annual MIP relationship**
    - Raised up-front MIP to 2.25 percent for new borrowers, implemented by Mortgagee Letter.
    - Pursued legislative authority to increase the statutory cap on the annual MIP. After receiving legislative approval, the upfront/annual premium structure was adjusted, with some of the upfront premium being shifted to the annual premium. The shift allowed for an increase to the capital reserve with less impact to the consumer.
- **Implement new downpayment/credit score requirements**
    - Loans to borrowers with a FICO score of 500 to 579 required a minimum 10 percent down payment.
    - Loans to borrowers with a FICO score of 580 or above required a minimum 3.5 percent down payment.
    - Proposed policy change through Federal Register Notice with comment period.
- **Reduce allowable seller concessions from 6 percent to 3 percent**
    - Conformed to industry standards and reduced potential property value inflation.
    - Proposed policy change through Federal Register Notice with comment period.
- **Increase enforcement on FHA lenders**
    - Publicly reported lender performance rankings to complement currently available Neighborhood Watch data.
    - Enhanced monitoring of lender performance and compliance with FHA guidelines and standards.
    - Implemented statutory authority through regulation of section 256 of the National Housing Act to enforce indemnification provisions for lenders using delegated insuring process.
    - Pursued legislative authority to increase enforcement on FHA lenders. Specific authority includes:
        - An 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

During the current housing crisis, FHA market share in mortgage originations (in terms of the number of home purchases) has increased from 4.1 percent in the fourth quarter of fiscal year 2005 to an estimated 35.5 percent of all home purchase loans in June 2010. With conventional mortgage financing still highly constrained, and with FHA playing a large and critical role in supporting the overall housing market, 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 operating efficiency.

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 plan overhauls 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.

FHA AUS. 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.

Risk Management Tools. 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 that 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.

E-Mortgage/E-Notes. 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.

Correlation between Staffing Needs and Systems Upgrades. 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.

Mortgage and Loan Insurance Programs – MMI/CMHI Account

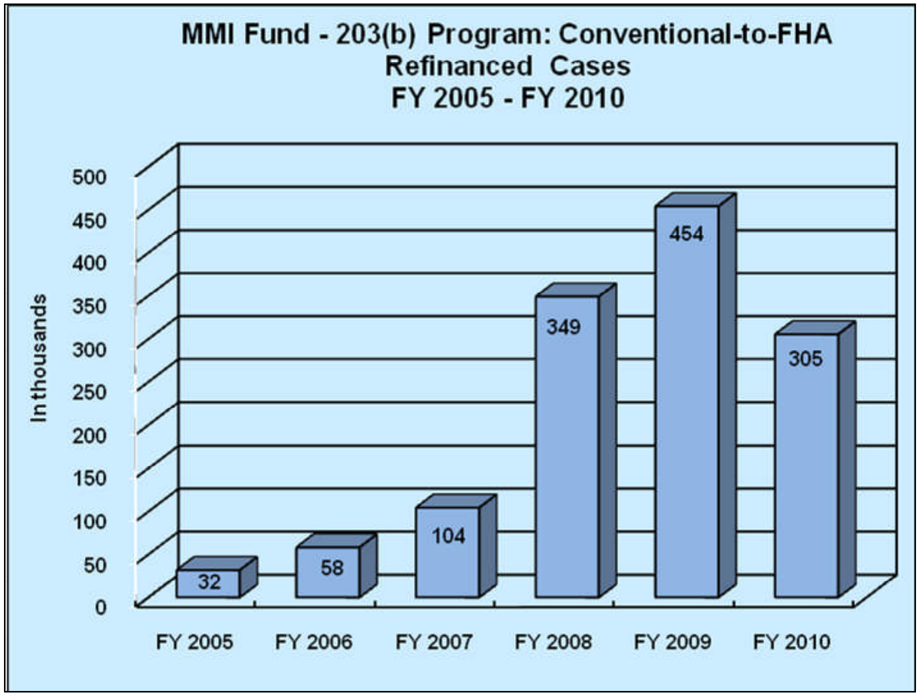
PROGRAM HIGHLIGHTS

The following table displays the estimated commitment authority allocation and subsidy by risk category for fiscal year 2012.

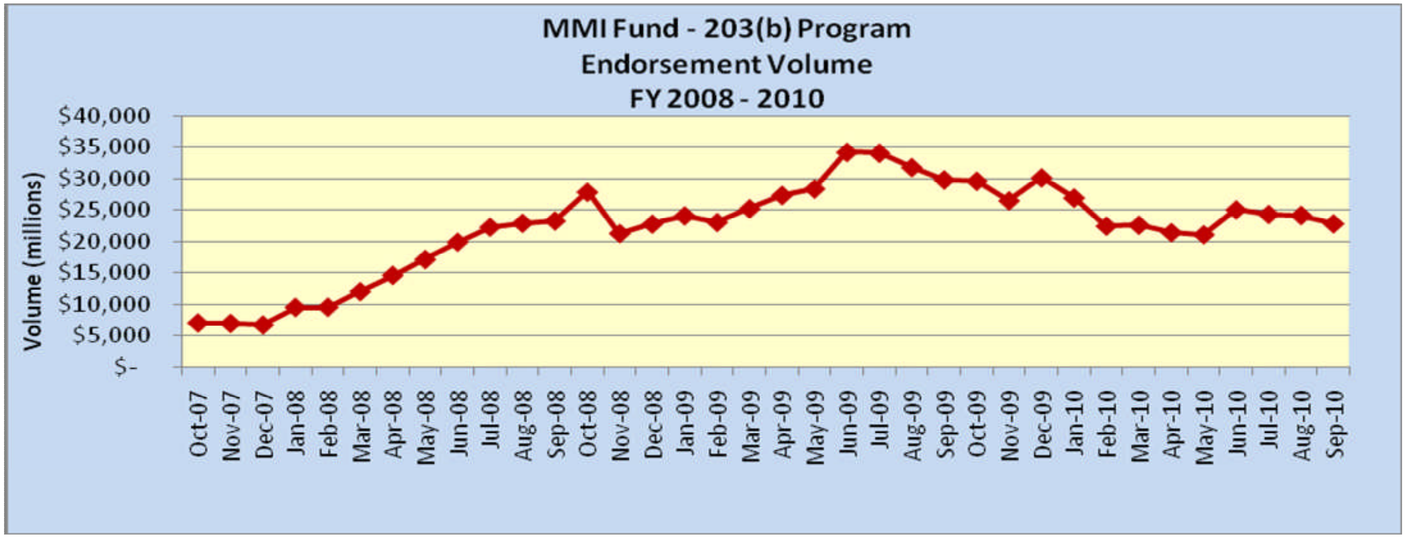
Mutual Mortgage Insurance Fund
Estimated Commitments and Subsidy - by Risk Category
FY 2012
(Whole Dollars)

ESTIMATED COMMITMENTS BY RISK CATEGORY	**Estimated Commitments**	**Subsidy Rate**	**Negative Subsidy**
MMI Purchase and Refinance	$218,000,000,000	-2.16%	$(4,708,800,000)
MMI HECM	$ 20,000,000,000	-1.52%	(304,000,000)
FHA Refi	$ 83,681,000,000	0.00%	…
Totals	$321,681,000,000		$(5,012,800,000)
Commitment Limitation	$400,000,000,000		

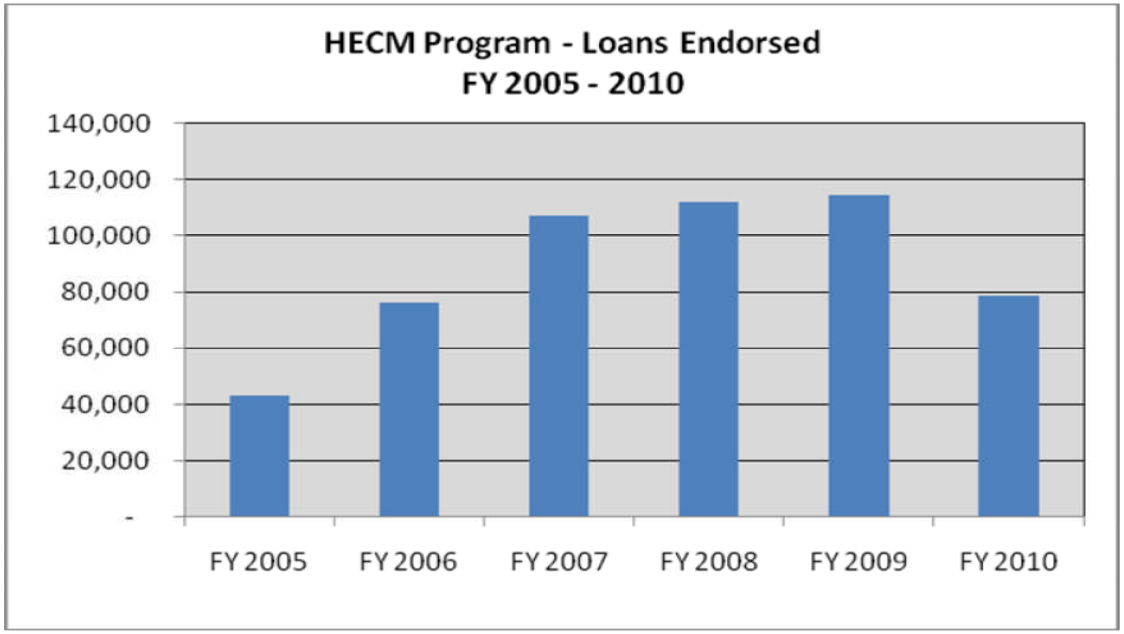
MMI Purchase and Refinance. As a response to the current housing market conditions, FHA has played a major role in the refinance of conventional mortgages into FHA mortgages, especially through its 203(b) program. More than 450,000 families in fiscal year 2009 and more than 300,000 families in fiscal year with conventional mortgages refinanced their single family homes with FHA through the MMI fund's 203(b) program. During fiscal year 2010, the number of families refinancing their conventional mortgages into a FHA mortgage decreased by 33 percent over fiscal year 2009, however, FHA was still able to serve over 305,000 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 years 2009 and 2010, averaging $27.5 billion and $24.8 billion per month, respectively. 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 that continued through fiscal year 2010. The chart below displays the endorsement volume for fiscal years 2008 – 2010 for the 203(b) program.



HECM. For fiscal year 2012, it is estimated that over 78,000 loans will be endorsed under FHA's home equity conversion mortgage (HECM) programs. With an estimated 55,000 deriviving from the HECM Standard product and over 23,000 deriving from the HECM Saver product. From the beginning of the HECM program in fiscal year 1990 through fiscal year 2010, over 650,000 loans have been endorsed under the program. Over 60 percent of these loans were endorsed during fiscal years 2007 through 2010.



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

Budget Activity	2010 Budget Authority	2009 Carryover Into 2010	2010 Total Resources	2010 Obligations	2011 CR	2010 Carryover Into 2011	2011 Total Resources	2012 Request
Administrative Contract Expense	$187,719	...	$187,719	$111,567	$188,900	...	$188,900	$230,000
Transformation Initiatives transfer .	1,181	...	1,181	...	...	...	...	...
Positive Subsidy Appropriation	...	...	...	...	...	...	...	...
Total	188,900	...	188,900	111,567	188,900	...	188,900	230,000

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.

FTE	2010 Actual	2011 Estimate	2012 Estimate
Headquarters	266	250	259
Field	769	770	833
Total	1,035	1,020	1,092

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

Budget Activity	2010 Budget or Financing Authority	2010 Rescission	2010 Total Resources	2010 Obligations	2011 Enacted	2011 Rescission	2011 Total Resources	2012 Request
Administrative Contracts Expenses a/............	188,900	…	188,900	111,567	188,900	…	188,900	230,000
Working Capital Fund Transfer b/..................	-70,794	…	-70,794	…	-70,794	…	-70,794	-72,000
Transformation Initiatives Transfer c/…………	-1,181	…	-1,181	…	…	…	…	…
Administrative Contract Expenses (net)…	116,925	…	116,925	111,567	118,106	…	118,106	158,000

a/ Beginning with fiscal year 2010, all administrative contract expenses for FHA are appropriated under the MMI Fund. Fiscal years 2010 amounts include cost 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; whereas the fiscal year requests for 2011 and 2012 do not include funding for education and outreach.

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 2010 Consolidated Appropriations Act, P.L. 111-117.

BUDGET HIGHLIGHTS

Budget Activity	Actual 2010	Estimate 2011	Estimate 2012	Increase + Decrease – 2012 vs. 2011
	(Dollars in Thousands)			
Insurance Commitment Limitation:				
Loan Guarantees	$400,000,000	$400,000,000	$400,000,000	…
Insurance Commitments ($$):				
MMI Purchase and Refinance	297,614,083	300,317,770	218,000,000	$(82,317,770)
MMI HECM	21,087,322	24,281,047	20,000,000	(4,281,047)
MMI FHA Refi	…	60,000,000	83,681,000	23,681,000
Subtotal	318,701,405	384,598,817	321,681,000	(62,917,817)
Standby authority	81,298,595	15,401,183	78,319,000	62,917,817
Direct Loan Limitation	50,000	50,000	50,000	…
Discretionary:				
Budget Authority				
Program account - Administrative Contracts	$111,567	$188,900	$158,000	$(30,900)
Capital Reserve account (negative subsidy)	2,651,435	9,762,756	5,012,800	(4,749,956)
Net Outlays				
Program account	59,938	260,000	163,000	(97,000)
Capital Reserve account (negative subsidy)	(2,651,435)	(9,762,756)	(5,012,800)	4,749,956
Mandatory:				
Budget Authority				
Program account (upward re-estimates)	…	3,226,000	…	(3,226,000)
Capital Reserve account (negative subsidy)	2,651,000	6,536,756	5,012,800	(1,523,956)

	Actual 2010	**Estimate 2011**	**Estimate 2012**	**Increase + Decrease – 2012 vs. 2011**
		(Dollars in Thousands)		
Mandatory:				
Net Outlays				
Program account(upward re-estimates)	$9,868,204	$7,601,295	…	($7,601,295)
Capital Reserve account (downward re-estimate)	(25,675)	(847,403)	…	847,403
Capital Reserve account (interest on Fed. Securities)	(1,023,192)	(618,854)	(750,000)	(131,146)
Liquidating account (net outlays)	24,317	15,115	16,643	1,528
Off Budget:				
Financing account (net disbursements)	(7,995,304)	3,802,000	4,915,000	1,113,000
Program Activity:				
Commitments (dollars)				
MMI Purchase and Refinance	$297,614,083	$ 300,317,770	$ 218,000,000	(82,317,770)
MMI HECM	$ 21,087,322	$ 24,281,047	$ 20,000,000	(4,281,047)
MMI FHA Refi	…	$ 60,000,000	$ 83,681,000	23,681,000
Commitments (cases)				
MMI Purchase and Refinance	1,667,119	1,696,127	1,241,540	(454,587)
MMI HECM	79,106	83,826	78,227	(5,599)
MMI FHA Refi	0	353,184	492,579	139,395
Credit Subsidy				
MMI Purchase and Refinance a/	-0.86%	-3.25%	-2.16%	1.09%
MMI HECM	-0.50%	-0.01%	-1.52%	-1.51%
MMI FHA Refi	0.00%	0.00%	0.00%	0.00%
Insurance-In-Force	$891,382,708	$1,140,674,999	$1,257,045,000	$116,370,001
Negative Subsidy	$ 2,651,435	$9,762,756	$5,012,800	($4,749,956)
Default Claim Payments	$ 13,694,671	$ 22,833,845	$ 22,557,167	($276,678)
Recoveries	$ 5,084,809	$ 14,265,480	$ 15,501,129	$1,235,649

a/ The credit subsidy rate shown for fiscal years 2010 and 2011 are weighted average subsidy rates. During fiscal year 2010, 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 increase in the upfront premium on forward mortgages, from 1.75 percent to 2.25 percent, effective April 2010. For fiscal year 2011, FHA intends to increase the annual premium by 25 bases points, effective April 2011. As a result of the increase, the subsidy rate changes from -2.58 to -3.92, yielding a weighted average subsidy rate of -3.25 percent for that fiscal year.

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

Administrative Contract Expense	Amount
2010 Appropriation	$187,719
2011 CR	188,900
2012 Request	230,000
Program Improvements/Offsets	+41,100

Proposed Actions

Under this appropriation, FHA will transfer up to $72 million to the Working Capital Fund for the development of both MMI and GI/SRI systems.

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

2011 Request. Amount includes a request to transfer $70.8 million to the Departmental Working Capital Fund account.

2012 Request. Amount includes a request to transfer $72 million to the Departmental Working Capital Fund account.

For fiscal year 2012, as FHA's role has expanded during the mortgage crisis, the increase in funding for administrative contract expenses is necessary to continue to provide support for the following FHA activities:

- Improvements to credit risk. As part of the Commissioner's credit risk improvements, the creation of an Office of Risk Management was proposed 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.
- Continue improvements to 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 remains below 2 percent. As a response, FHA is tightening up its risk management to help strengthen the performance of the MMI portfolio.

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

Transformation Initiatives transfer	Amount
2010 Appropriation	$1,181
2011 CR	...
2012 Request	...
Program Improvements/Offsets	...

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

Loan Guarantee Limitation	**Amount**
2010 Appropriation Request...	$400,000,000
2011 CR…...	$400,000,000
2012 Request..	$400,000,000
Program Improvements/Offsets...	…

Proposed Actions

Loan Guarantee Limitation. The fiscal year 2012 Budget requests $400 billion in loan guarantee limitation which is to remain available until September 30, 2013. This limitation includes sufficient authority for insurance of single family mortgages, mortgages under the Home Equity Conversion Mortgage (HECM) program and the new FHA Refinance program. The FHA Refinance program was designed to help borrowers who owe more on their mortgage than the value of their home the opportunity to refinance into an affordable FHA loan. By doing this, borrowers who are current on their mortgage are eligible for a FHA refinance loan, provided that the lender or investor writes off a portion of the unpaid principal balance of the original first lien mortgage.

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. In fiscal year 2010, HUD and the Department of Treasury announced an enhancement to FHA's refinance program that will give a greater number of responsible borrowers the opportunity to remain in their homes. The enhancements were designed to maintain homeownership by providing borrowers, who owe more on their mortgage than the value of their home, opportunities to refinance into an affordable FHA loan. This opportunity allows a borrower who is current on his mortgage to qualify for an FHA refinance loan, provided that the lender or investor writes off the unpaid principal balance of the original first lien mortgage by at least 10 percent. As a result of the consolidation of the single family programs and the enhancements to the refinance program, there are three credit risk categories in the MMI Fund: the MMI Purchase and Refinance risk category, the MMI HECM risk category and the Negative Equity (FHA Refi) 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 purchase a home by obtaining a loan insured by FHA from a private lending institution.

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
(Dollars in Thousands)

	FY 2010 Actual	FY 2011 Estimate	FY 2012 Estimate
Mortgage Insurance Written (dollars):			
MMI Purchase and Refinance	$297,614,083	$300,317,770	$218,000,000
MMI HECM (Maximum Claim Amount)	21,087,322	$24,281,047	$20,000,000
FHA Refi Program	$0	$60,000,000	$83,681,000
Mortgage Insurance Written (number of loans):			
MMI Purchase and Refinance	1,667,119	1,696,127	1,241,540
MMI HECM	79,106	83,826	78,227
FHA Refi Program	0	353,184	492,579
Outstanding balance of insurance in force, end of year:			
MMI Purchase and Refinance	$863,031,943	$1,039,915,443	$1,117,793,918
MMI HECM	28,350,765	42,331,603	54,839,749
FHA Refi Program	…	58,427,953	84,411,333

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

Direct Loan Limitation	**Amount**
2010 Appropriation	$50,000
2011 CR	50,000
2012 Request	50,000
Program Improvements/Offsets	...

Proposed Actions

Direct Loan Limitation. The fiscal year 2012 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
MUTUAL MORTGAGE INSURANCE FUND
Appropriations Language

Below is the italicized appropriations language for the Mutual Mortgage Insurance Fund.

New commitments to guarantee single family loans insured under the Mutual Mortgage Insurance Fund shall not exceed $400,000,000,000, to remain available until September 30, 2013: Provided, That during fiscal year 2012, 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, $230,000,000, to remain available until September 30, 2013, of which up to $72,000,000 may be transferred to the Working Capital Fund: Provided further, That to the extent guaranteed loan commitments exceed $200,000,000,000 on or before April 1, 2012, 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.

<u>Changes from 2010 Appropriations</u>

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 2012 Budget for the Mutual Mortgage Insurance requests 2-year appropriations for: (1) single family mortgage insurance commitments and (2) administrative contract expenses, as was proposed in the President's Budget for fiscal year 2011.

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

Budget Activity	2010 Enacted	Supplemental/ Rescission	Approved Reprogrammings	Transfers	Carryover	Total 2010 Resources
Administrative Contract Expense	$187,719[a]	...	...	...	...	$187,719
Transformation Initiatives transfer .	1,181	...	...	...	...	1,181
Positive Subsidy Appropriation	...	...	...	...	...	...
Total	188,900	...	...	...	...	188,900

Explanation

In fiscal year 2012, the Department renews its request for the Transformation Initiative, which provides the Secretary the flexibility to undertake an integrated and balanced effort to improve program performance and test innovative ideas. Up to 0.5 percent of the funds appropriated for this account may be transferred to the Transformation Initiative Fund account for the following purposes: research, evaluations, and program metrics; program demonstrations; and technical assistance and capacity building. Departmentwide, no more than $120 million will be transferred to the Transformation Initiative Fund account in fiscal year 2012. More details on the overall Transformation Initiative and these projects are provided in the justification for the Transformation Initiative Fund account.

HOUSING
FHA--MUTUAL MORTGAGE INSURANCE FUND
Crosswalk of 2011 Changes
(Dollars in Thousands)

Budget Activity	2011 President's Budget Request	2011 CR	2011 Supplemental/ Rescission	Reprogrammings	Carryover	Total 2011 Resources
Administrative Contract Expense	$205,645	$188,900	...	...	...	$188,900
Transformation Initiatives transfer .	1,355	...	...	...	...	...
Positive Subsidy Appropriation	250,000	...	...	...	...	...
Total	457,000	188,900	...	...	...	188,900

2011 CR. The amount for administrative contract expense includes a request to transfer $70.8 million to the departmental Working Capital Fund account.