HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
2014 Summary Statement and Initiatives
(Dollars in Thousands)

FHA--GENERAL AND SPECIAL RISK INSURANCE FUND	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2012 Appropriation	...	$16,547[a/]	...	$16,547[a/]	$144	$2,819
2013 Annualized CR	...	16,403	...	16,403	...	8,000
2014 Request	...	16,403	...	16,403	...	...
Program Improvements/Offsets	...	...	...	...	...	-8,000

a/ Amount includes $5,603 recaptured during fiscal year 2012.

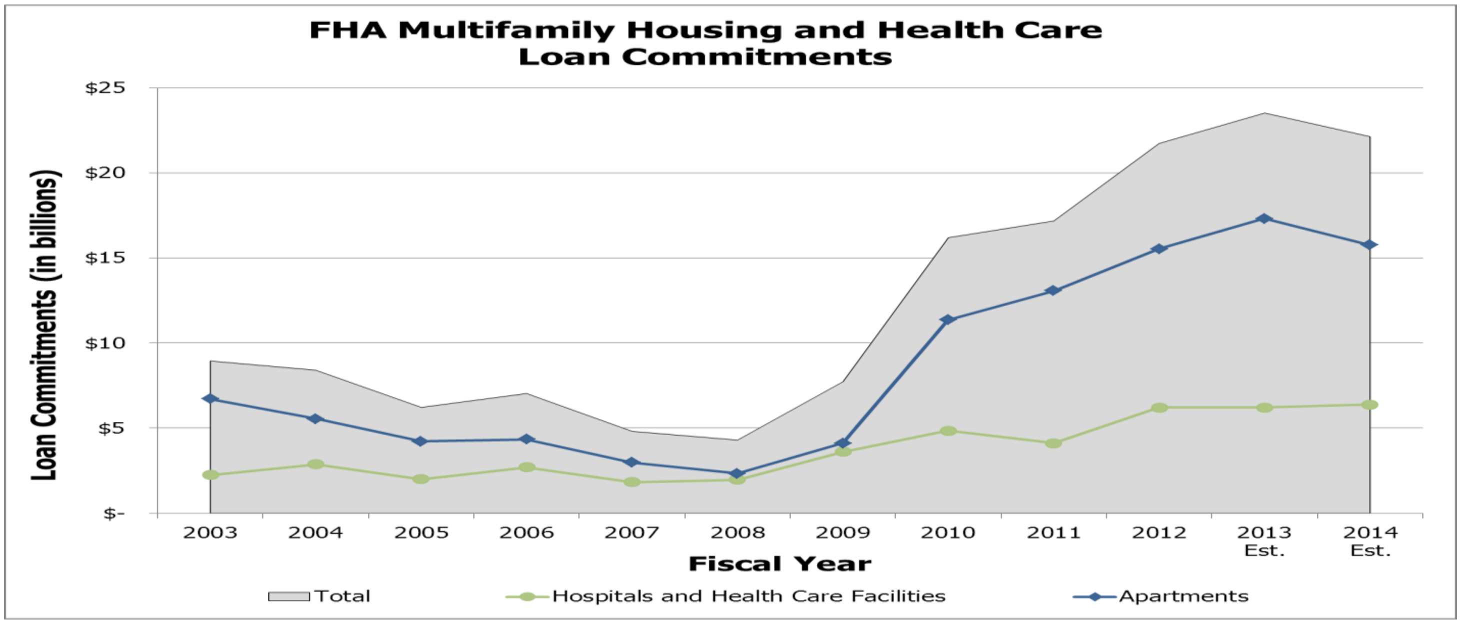
1. What is this request?

Loan guarantee programs operating under the Federal Housing Administration's (FHA) General Insurance and Special Risk Insurance (GI/SRI) Fund encourage critical mortgage financing opportunities that strengthen communities across the country. GI/SRI houses a wide range of mortgage insurance products to address specialized financing needs, including insurance for loans to develop, rehabilitate, and refinance multifamily rental housing, nursing home facilities, and hospitals. GI/SRI programs also include loan guarantees for Title I manufactured housing and for property improvement loans.

FHA's multifamily and healthcare programs are a critical component of the Department's efforts to meet the Nation's need for decent, safe and affordable housing. At a time, in particular, when there is unprecedented stress in the financial markets, FHA Multifamily programs provide the necessary liquidity so that communities can continue to provide quality affordable housing and assisted living/nursing home opportunities. Driven by low interest rates, more constrained lending in the conventional mortgage market, and improvements in HUD business operations, demand for FHA loan insurance for multifamily and healthcare programs has increased dramatically in the last 3 years. In fiscal year 2013, FHA is projected to issue loan insurance commitments providing financing for over 1,700 apartment projects with more than 250,000 units and for 767 healthcare facilities with more than 86,600 beds. We expect to see FHA volume stabilize and then decline over the next several years as private mortgage markets are strengthened.

FHA mortgage commitment issuances for multifamily housing and healthcare rose from $4.3 billion in fiscal year 2008 to $15.9 billion in 2010 to $21.6 billion in 2012. As of September 30, 2012, GI/SRI's multifamily/healthcare portfolio had an unpaid principal balance (UPB) of $84.9 billion on 13,186 loans, an increase of $8.4 billion over that at the end of September 2011. FHA's multifamily programs have helped private lenders fill the gap resulting from the shrinkage of conventional financing resources. In addition, Multifamily and Healthcare interest rates have been at historic lows, which have provided opportunity for FHA to strengthen and preserve our existing portfolio through refinancing. The fiscal year 2014 request for GI/SRI includes four components:

- **Commitment authority for up to $30 billion in new loan guarantees, $5 billion more than in fiscal year 2013.** New insurance commitments exceeded $22 billion in fiscal year 2012, and are expected to be even higher in fiscal year 2013 before dropping to $21.9 billion in fiscal year 2014. The amount requested above the 2014 projection 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 2014, it is estimated that $15.7 billion will be issued for FHA's multifamily housing programs. Another $6 billion is estimated for hospitals, nursing homes, and assisted living facility mortgages. Title I Property Improvements and Manufactured Housing commitments – which represent the only new single-family activity for fiscal years 2013 and 2014 – are projected to increase to $151 million in fiscal year 2013 and to $166 million in fiscal year 2014.



- **Offsetting receipt estimates from negative credit subsidy.**

  Negative subsidy receipt estimates for fiscal year 2014 for GISRI are $885 million. No new appropriations for positive credit subsidy are requested for fiscal year 2014, the same as in fiscal year 2013. In fiscal year 2013, FHA suspended new activity for three GI/SRI programs that have not been self-supporting and realigned certain supplemental loans to the risk categories of the primary FHA mortgage, for which they enhance or maintain performance.

- Funding for administrative contracts associated with GI/SRI programs was realigned to the Mutual Mortgage Insurance (MMI) Fund beginning in fiscal year 2010 to enable more efficient management of FHA resources.

- **Commitment authority for up to $20 million in direct loans to facilitate single family property disposition.**

  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. This program has been infrequently utilized in recent years, but remains a valuable tool for HUD in managing its property portfolio.

2. What is this program?

FHA has insured mortgages on over 41 million single family and multifamily properties since its inception in 1934 (under both MMI and GI/SRI Funds). At the end of fiscal year 2012, the GI/SRI insurance portfolio included over 514,500 loans with an unpaid principal balance of $144.5 billion (including 59.6 billion in single-family loans issued before 2009). These active loans cover more than two million apartments, healthcare facility beds, and single family homes across the nation. FHA mortgage insurance enhances a borrower's credit and provides banks with better access to capital markets, most notably through Ginnie Mae securities. In exchange for adherence to strict underwriting and application requirements established by HUD and the payment of annual insurance premiums, HUD-certified lenders are able to file claims with FHA when a borrower defaults. Mortgage insurance premiums and specific terms for claim payments vary by program.

FHA mortgage insurance works in part by helping private lenders access liquidity otherwise not available to borrowers developing or maintaining rental housing for low- and moderate-income families. The credit enhancement provided by an FHA loan guarantee (typically 100 percent) enables borrowers to obtain long-term, fully amortizing financing (up to 40 years in the case of new construction/substantial rehabilitation) which can result in substantial cost savings that can be passed on to residents. FHA mortgage insurance provides long-term amortization not found with conventional lending sources. The fact that FHA loans are fully amortizing protects properties from interest rate and liquidity risk in that project owners don't have to refinance with unattractive terms. The long-term amortization period and guarantee of payment in the event of claim stabilizes interest rates and allows monthly mortgage payments to be less than payments required under non-insured financing. These savings in turn can also reduce the overall costs of developing and maintaining housing, stabilizing housing markets and benefiting low- and moderate-income residents. In a similar relationship, FHA financing of healthcare facilities contributes to lower healthcare costs for taxpayers and consumers.

Multifamily and healthcare loans – which now constitute 99 percent of new insurance commitments in GI/SRI – are much larger and substantially more complex than their FHA single-family counterparts. Prior to receiving a mortgage guarantee for any multifamily or healthcare loan, lenders and borrowers must complete a rigorous application process in which HUD staff review borrower credit worthiness, project cash flow projections, property appraisals, architectural design, environmental impact, requested loan size, quality of the property management, and other information that establishes a loan as an acceptable credit risk to HUD. Large multifamily housing projects and all healthcare facility loans receive secondary review and approval by a national loan committee of senior HUD officials. Once insurance has been approved, progress on any new construction or renovations is closely monitored by HUD inspectors. HUD asset managers monitor project financial statements on an ongoing basis and periodic physical inspections are conducted by HUD's Real Estate Assessment Center. (Note that GI/SRI does not include funding for administrative contracts and program staffing, which are covered by appropriations under MMI and Housing Personnel and Benefits, respectively.) Loss mitigation measures – including a partial payment of claim policy approved in 2010 – are undertaken before a default and full claim on the loan occurs. When a borrower does default and a claim is filed, HUD will take possession of the mortgage note or property and seek to recover losses.

Active programs included under GI/SRI are authorized under Sections 220, 221(d)(3) with tax credits, 221(d)(4), 223(a)(7), 223(f), 223(d), 231, 241(a), 232, 207,and 242 of the National Housing Act and Sections 542(c) and 542(b) of the Housing and Community Development Act. In addition, GI/SRI includes single family property improvement and manufactured housing programs authorized by Title 1 of the National Housing Act. Sections of the act citations are commonly used to identify the programs, both within HUD and the housing industry. In the President's Budget, programs are identified and discussed according to their risk category. Risk categories are groupings of loans with similar terms and/or credit risks. A credit subsidy rate and loan volume projection is prepared annually for each risk category. For fiscal year 2014, there will be 11 risk categories within GI/SRI – 6 covering multifamily housing programs, 3 for healthcare facilities, and 2 for Title 1 programs. Each risk category is briefly described below.

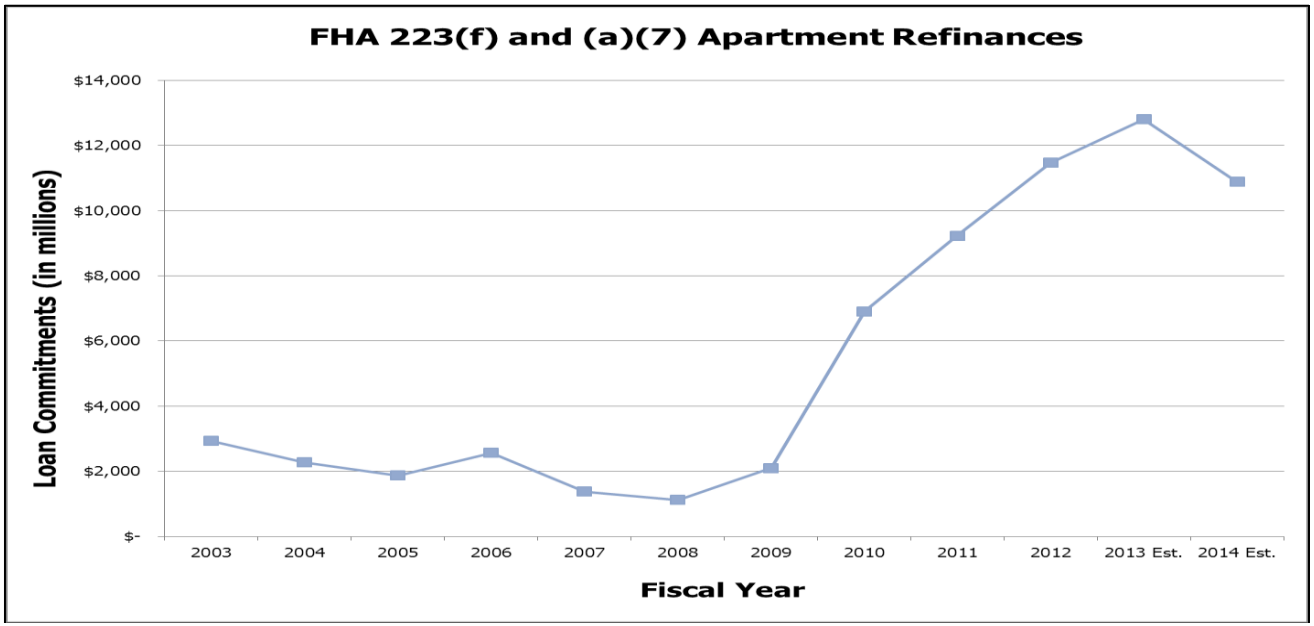
Beginning in fiscal year 2013 and continuing in fiscal year 2014, new insurance is not being issued for Section 223(d) operating loss loans to multifamily housing projects with a HUD-insured primary mortgage, Section 238(c) single family loans in military impact areas (suspended in March 2012), and Section 221(d)(3) loans to non-profit housing developers except when tax credits are being utilized. Section 241(a) supplemental loans to FHA-financed multifamily housing projects and Section 223(d) Operating Loss loans to heath care facilities with a primary Section 232 mortgage are reported in the budget risk category of the primary FHA mortgage.

Multifamily Housing Risk Categories

Section 221(d)(4) Mortgage Insurance for Rental and Cooperative Housing. The Section 221(d)(4) program is FHA's largest new construction/substantial rehabilitation for multifamily housing. In 2012, new Section 221(d)(4) loans averaged $16.4 million and included an average of 162 units. The program insures loans made primarily to profit-motivated sponsors, with financing allowed for up to 90 percent of the project replacement cost (as limited by debt service coverage and per-unit cost requirements). The program covers long-term mortgages of up to 40 years and, like all FHA new construction loan programs, provides for both construction and permanent financing. In 2010, HUD implemented tighter underwriting requirements for 221(d)(4) – with the largest adjustments coming for market-rate projects – to ensure deals in the rapidly increasing portfolio remain financially sound.

Section 223(f) Mortgage Insurance for Refinancing or Purchase of Existing Multifamily Rental Housing. Section 223(f) is currently the highest volume program operating under GI/SRI. It allows for long-term mortgages of up to 35 years for refinance or purchase of existing multifamily rental housing. Refinances of current FHA-insured multifamily loans are also offered under Section 223(a)(7), but are grouped together with Section 223(f) for budgetary purposes. Properties must have been completed or substantially rehabilitated for at least 3 years prior to the date of the application for mortgage insurance. This "3-year rule" may currently be waived for affordable housing projects that are now unable to obtain permanent financing.

The maximum mortgage limitation for a market-rate refinance transaction is up to 83.3 percent of the HUD appraised value. Commitments under these programs totaled $11.1 billion in fiscal year 2012, an increase of 23 percent over fiscal year 2011. This high level of activity has been due to the historically low interest rates for FHA Insurance combined with Ginnie Mae securities. As rates remain low, high demand is expected to continue.



Section 241(a) Mortgage Insurance for Supplemental Loans for Multifamily Housing Projects. Section 241(a) provides mortgage insurance for supplemental loans for multifamily housing projects already insured or held by HUD. Beginning in fiscal year 2013, each 241(a) loan is assigned to the risk category of the associated primary FHA mortgage. In fiscal year 2012, FHA made no loan commitments under this program. This program is intended to keep projects competitive, extend their economic life, and finance the replacement of obsolete equipment. Section 241(a) mortgages finance repairs, additions, and other improvements. These loans take second position to the primary mortgage.

Section 542(b) Risk Sharing with Qualified Participating Entities (QPEs). This is one of two multifamily programs under which FHA insures only a portion of the losses by sharing the risk with Fannie Mae, Freddie Mac, and other qualified Federal, State, and local public financial and housing institutions. If a loan insured under Section 542(b) defaults, the QPE will pay all costs associated with loan disposition and will seek reimbursement from HUD for 50 percent of the losses. A variation of Section 542(b), called "Green Refinance Plus," – introduced in 2011 – permits QPEs to offer loans to both preserve older affordable properties and install energy-saving features by allowing expansion of the QPE's Debt Service coverage and Loan-To-Value lending limits for qualified properties. With terms of 10, 15, or 30 years (all with 30-year amortization), "Green Risk Sharing" loans require an MIP higher than under the standard Section 542(b) program. The first Green Risk Sharing loan, for a 274-unit preservation project in Santa Ana, California, was submitted by Fannie Mae in June 2012. This variation of Section 542(b) is also known as "Green Risk Sharing" or "Risk Sharing Plus".

The Budget proposes amendments to the Section 542(b) authorizing statute that will facilitate lending to small multifamily properties, which are an important provider of affordable, but unsubsidized, housing for low- and moderate-income families. According to the 2010 American Community Survey, nearly one-third of all renters live in 5- to 49-unit buildings. The 2001 Residential Finance Survey also demonstrates that these small multifamily properties have lower median rents than larger properties: $400 per month for 5- to 49- unit properties, as compared to the $549 monthly rent for properties with 50 or more units. While 62 percent of unsubsidized 5- 49- unit properties charge rent below $500 per month, just 38.5 percent of larger unsubsidized properties charge rent below $500 per month. At a time when Federal budgets are shrinking and the need for affordable housing is growing, the amendments will allow us to preserve this vital asset without significant cost to the Federal Government, by drawing in State, local and community resources to these rental properties.

The amendments would allow HUD to enter into Risk Share agreements with qualified lenders, such as well-capitalized Housing Finance Agencies or Community Development Financial Institutions, with demonstrated experience making loans for affordable housing. HUD could then work with these approved lenders to endorse loans to refinance and recapitalize small multifamily rental properties. If the approved lenders meet Ginnie Mae servicer requirements, they would have authority to then securitize these loans with Ginnie Mae. The proposed language provides more flexibility to use the Risk Share program to target small multifamily properties. It also enables lenders to securitize these loans on the secondary market, increasing the availability of capital for more multifamily lending.

Section 542(c) Risk Sharing with Housing Finance Agencies (HFAs). Section 542(c) provides mortgage insurance of multifamily housing projects whose loans are underwritten, processed, serviced, and disposed of by State and local HFAs. FHA insurance enhances HFA bonds to investment grade and provides capital for affordable housing construction. HFAs may elect to share from 10 to 90 percent of the loss on a loan with HUD. Section 542(c) insured projects often include low-income housing tax-credits, in which case they are reported under GI/SRI's risk category for Tax Credit Projects.

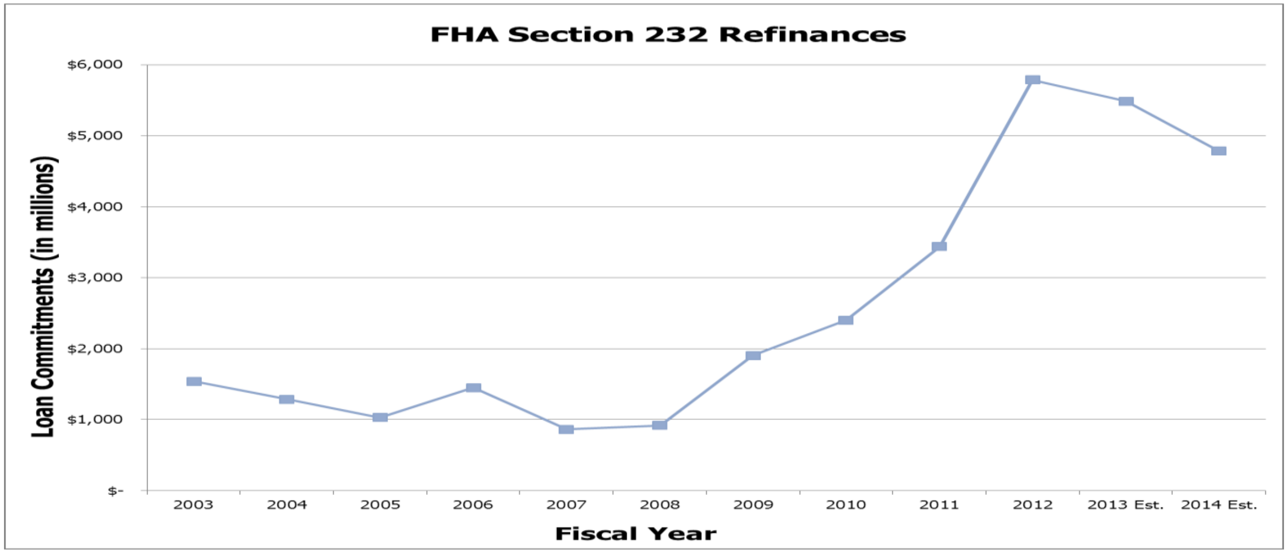
Other Rental Programs. This risk category includes several relatively low-volume programs that have been grouped together for budgetary purposes, including: Section 220 loans in urban areas, Section 231 loans for elderly housing, and Section 207 loans for mobile home park development. Section 220 is a new construction program, distinct from 221(d)(4) in that it insures loans for multifamily housing projects in urban renewal areas, code enforcement areas, and other areas where local governments have undertaken designated revitalization activities. The program offers special underwriting allowances for greater mixed-use development. Section 231 is also a new construction/substantial rehabilitation program, but for projects specifically designed for senior citizens. For Section 231 projects with 90 percent or greater rental assistance, the maximum loan amount is 90 percent of the estimated replacement cost. For market-rate projects, the maximum loan is 83.3 percent of the replacement cost.

Tax Credit Projects. Projects assisted with Low-Income Housing Tax Credits (LIHTC) may be insured under a number of FHA multifamily programs, but are grouped together in a single budget risk category. These loans have a lower risk of default than similar projects without tax credits and require borrowers to pay lower FHA mortgage insurance premiums. Use of Section 221(d)(4) with LIHTC will likely be below original estimates for 2014 given business declines and limits of available tax-credit resources for new construction. However, it is hoped that use of Section 223(f) with LIHTC will begin to increase in 2014 as a result of the Tax Credit Pilot introduced in spring 2012.

Healthcare Risk Categories

Section 232 New Construction/Substantial Rehabilitation of Skilled Nursing, Assisted Living, and Board and Care Facilities. Section 232 programs are split into two budget risk categories, the first of which includes new construction and substantial renovation projects. The program enables access to capital that may not otherwise be available for many quality providers in underserved areas, thereby providing access to needed healthcare and residences for seniors. These loans are offered for terms of up to 40 years, and provide both construction and permanent financing. This risk category also includes Section 241(a) supplemental loans made to projects with a primary FHA Section 232 mortgage.

Section 232/223(f) Refinancing and Purchase of Existing Skilled Nursing, Assisted Living, and Board and Care Facilities. The Section 232/223(f) refinancing program has grown to be one of the highest volume insurance programs in GI/SRI, second only to the apartment refinance program in fiscal year 2012. This program offers loan terms of up to 35 years. For a refinance, maximum mortgage amounts are up to 85 percent of appraised value (90 percent if the borrower is a non-profit organization). For acquisitions, mortgages are insured up to 85 percent of the acquisition price plus transaction costs (90 percent of acquisition price if the borrower is a non-profit organization). Equity cash-out transactions are prohibited under this program. Section 223(a)(7) refinances of existing Section 232 loans are also reported under this risk category. New loan commitments for Section 232/223(f) and (a)(7) surpassed $3.4 billion in fiscal year 2011 and $5.7 billion in fiscal year 2012, and are projected to drop slightly to $5.5 billion in fiscal year 2013 and $4.8 billion in fiscal year 2014.



Section 242 Hospitals. The Section 242 program provides mortgage insurance for loans made for the construction, renovation, and/or equipping of acute care hospitals. An FHA guarantee allows hospitals to lock in low interest rates and reduce borrowing costs for major renovation, expansion, replacement, and refinancing projects that help improve healthcare access and quality. Loans are up to 25 years in length, plus a construction period. The risk category also includes the following types of loans when made to hospitals: 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. On February 5th, 2013, HUD published a final rule that will enable HUD to resume offering Section 242/223(f) refinance loans. Under the standard Section 242 program, refinances are offered only for existing FHA loans, with all other loans required to be at least 20 percent new construction. New loan commitments for all Hospital programs were $392 million in fiscal year 2011 and $295 million in fiscal year 2012. Favorable interest rates have sparked interest in refinancing the mortgage debt of hospitals in the FHA Section 242 portfolio using Section 223(a)(7) authority.

Section 223(d) Mortgage Insurance for 2-year Operating Loss Loans. Section 223(d) insures short term 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) for projects with a HUD-insured first mortgage. Since 2012, HUD has offered this type of mortgage insurance only to healthcare 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 it is no longer viewed as a cost-effective means for preventing future losses on the associated primary FHA mortgages. The program remains a valuable option for Section 232 projects, which are more likely to benefit from the early infusion of working capital and thus avoid default on the primary mortgage. Beginning in fiscal year 2013, each 223(d) loan is assigned to the risk category of the associated primary FHA mortgage.

Single Family Risk Categories

Title 1 Property Improvement. 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 $79 million in fiscal year 2011 and $101 million in 2012. This increase was due in part to the addition to the program of a new lender and to the implementation of the 2-year FHA "PowerSaver" pilot program (begun in the spring of 2011). Operating under Title 1 authority and regulatory framework, PowerSaver provides single-family homeowners loans of up to $25,000 for proven energy improvements. Program lenders will receive incentive grants from the HUD Energy Innovation Fund to help lower the cost of loans to consumers. The program was recently extended for 2 additional years, through May 2015.

Title 1, Manufactured Housing. Under Title I, HUD provides mortgage insurance for individuals to purchase manufactured homes. In fiscal year 2012, $32 million in manufactured housing loans were endorsed, with $24 million and $26 million projected for fiscal years 2013 and 2014, respectively. Projections are based on industry trends and actual activity through the end of fiscal year 2012.

Salaries and Expenses (S&E) and Full-Time Equivalents (FTE) Request

The primary workload for FHA programs in the GI/SRI Fund is carried by HUD's Office of Housing, mainly the Office of Multifamily Housing and the Office of Healthcare programs. Critical functions are also supported by financial, procurement, IT, and other administrative organizations.

A total of 734 FTE are requested for the Multifamily and Healthcare Programs, which is a decrease of 102 from the fiscal year 2012 enacted level. Total S&E funding is $93.91 million, or a decrease of $8.92 million from the fiscal year 2012 enacted. Personnel services decrease by $9.28 million, or 9.2 percent, due to decreased FTE usage. Multifamily and Healthcare Programs are continuously refining and reviewing their operating model in an effort to create efficiencies in delivering their products to stakeholders. During fiscal year 2013 Multifamily piloted and is implementing a workload sharing model that will not only create better efficiencies, but will manage an existing workload imbalance across the platform.

Non-personnel services are increased by $364 thousand due to increase in training. Non-personal services are 16.7 percent higher in fiscal year 2014 than fiscal year 2012.

Workload by Functions

The overall S&E requests reflect the following workload by functions for the Multifamily and Healthcare Programs:

- Multifamily and Healthcare Asset Management and Recapitalization has 264 FTE (36.0 percent) to ensure the successful operations of the oversight, monitoring and implementation of policy and procedures related to sponsor and owner obligations and responsibilities and ensures compliance with HUD business agreements with respect to financial and physical requirements; oversight and monitoring of the Use Agreement and other contracts.

- Multifamily and Healthcare Production and Processing has 441 FTE (60.1 percent) for operation of the program activities associated with pre-application and full application review of applications for mortgage insurance for hospitals and multifamily properties.
- Multifamily and Healthcare Policy Development 29 FTE (3.9 percent) are associated with performing the functions to administer FHA Mortgage Insurance Programs to develop and update policy related to all aspects of implementing the multifamily and healthcare programs and provide technical support and assistance to staff.

3. Why is this program necessary and what will we get for the funds?

FHA's multifamily and healthcare programs are a critical component of the Department's efforts to meet the Nation's need for decent, safe and affordable housing. At a time, in particular, when there is unprecedented stress in the financial markets, FHA Multifamily programs provide the necessary liquidity so that communities can continue to provide quality affordable housing and assisted living/nursing home opportunities. Driven by low interest rates, more constrained lending in the conventional mortgage market, and improvements in HUD business operations, demand for FHA loan insurance for multifamily and healthcare programs has increased dramatically in the last 3 years. In fiscal year 2013, FHA is projected to issue loan insurance commitments providing financing for over 1,700 apartment projects with more than 250,000 units and for 767 healthcare facilities with more than 86,600 beds. We expect to see FHA volume stabilize and then decline over the next several years as private mortgage markets are strengthened.

The fiscal 2014 request supports mortgage insurance programs that are essential in achieving the Department's mission of strong, sustainable, inclusive communities and quality affordable homes for all. More specifically:

- At a time when credit availability is low, FHA mortgage insurance encourages private lenders to make loans for important projects that might otherwise not be possible. New workforce housing in high demand markets, innovative "green" technology renovations, nursing homes serving aging senior citizens, and critical access hospitals are among the types of projects that FHA makes possible. In fiscal year 2012, HUD endorsed a total of 2,087 multifamily and healthcare loans in GI/SRI in 50 states, the District of Columbia, Virgin Islands and Puerto Rico, covering 286,753 units of housing and healthcare facility beds.

- In addition to new development, FHA supports refinance lending that preserves financially healthy housing and healthcare projects that are endangered due to their current debt obligations. FHA's major refinancing programs for housing and nursing home facilities offer long-term amortization periods and are a critical option for many conventionally financed projects facing large balloon payments. FHA refinancing may also enable properties to undertake needed renovation and rehabilitation. New loan insurance commitments in 2012 included 1,311 refinances of existing properties that include more than 195,000 apartment homes and 87,500 nursing home/assisted living beds.

Mortgage and Loan Insurance Programs – GI/SRI Account

- FHA mortgage insurance has a strong secondary effect of creating and preserving jobs. HUD estimates that Multifamily housing loans endorsed in fiscal year 2011 are supporting 54,525 private sector jobs in construction, property management, service and administrative fields. In addition, FHA's internal forecast estimates that the 17 loans made to hospitals in fiscal year 2010 are creating an economic benefit of $3.9 billion and nearly 15,500 jobs during the construction period alone. Following construction, the completed hospital projects will generate $1.4 billion in economic activity per year, and support an additional 8,500 jobs in the community.

Approval of the requested GI/SRI commitment limitation of $30 billion for fiscal year 2014 will allow FHA to respond to the continuing high level of need for FHA programs and contribute to the nation's economic recovery. Loan volume projections for fiscal year 2014 will be the product of several factors, including:

- Pace of recovery and re-engagement by the conventional market;
- Interest rates, which may significantly impact refinance activity;
- Changes in HUD policy to improve risk position;
- HUD capacity to process high volumes of applications; and
- Mortgage insurance premium increases implemented in fiscal year 2013.

The following table indicates projected loan commitment volumes, credit subsidy rates, and subsidy obligations for each risk category in fiscal year 2013 and 2014. Credit subsidy rates represent the projected net present value cost or savings to the government of operating a loan guarantee program, and take into account projected claims, pre-payments, premium revenue, and recoveries on defaults for a cohort of loans over their lifetime. For more information on credit subsidy calculation please see the Notes section of this justification.

Mortgage and Loan Insurance Programs – GI/SRI Account

GI/SRI PROGRAMS (IN $MILLIONS)	Commitment Estimates FY2012	Commitment Estimates FY2013 [1]	Subsidy Rate FY2013	Negative Subsidy FY2013	Commitment Estimates FY2014	Subsidy Rate FY2014	Negative Subsidy FY2014
Multifamily							
221(d)(4) Apartments New Construction/Sub. Rehab	$2,584	$2,500	-2.51%	($63)	$2,711	-3.58%	($97)
Tax Credit Projects	$1,283	$1,252	-3.15%	($39)	$1,501	-3.24%	($49)
238(c) Military Impact Area	$32	N/A	N/A		N/A		
223(f)/223(a)(7) Apartments Refinance/Purchase	$11,144	$12,802	-4.65%	($595)	$10,889	-4.19%	($456)
HFA Risksharing	$166	$170	-3.41%	($6)	$187	-2.85%	($5)
GSE Risksharing	$128	$135	-2.15%	($3)	$137	-1.16%	($2)
Other Rental (Sections 220,231,207)	$331	$242	-1.08%	($3)	$287	-0.41%	($1)
Multifamily Housing Subtotal	**$15,668**	**$17,101**		**($709)**	**$15,712**		**($610)**
Section 242 - Hospitals (includes Refinances & Supplemental Loans)	**$295**	**$675**	**-6.41%**	**($43)**	**$1,025**	**-4.09%**	**($42)**
Section 232 - Nursing Homes/Assisted Living							
Full Insurance for Health Care Facilities	$266	$256	-3.15%	($8)	$224	-1.16%	($3)
Health Care Refinance Facility Refinance	$5,688	$5,486	-4.29%	($235)	$4,785	-4.04%	($193)
Section 232 Subtotal	**$5,954**	**$5,743**		**($243)**	**$5,008**		**($196)**
Title I							
Title I Property Improvements	$101	$128	0.00%		$140	-0.10%	($0)
Title I Manufactured Housing	$32	$24	-2.58%	($1)	$26	-1.66%	($0)
Title I Subtotal	**$133**	**$151**		**($1)**	**$166**		**($1)**
GI/SRI TOTAL	**$22,050**	**$23,670**		**($996)**	**$21,911**		**($848)**
Offsetting Receipts Paid to Treasury [2]				**$890**			**$885**

1. Recent trends indicate that actual performance in fiscal year 2013 commitments may exceed this level.
2. Negative subsidy is obligated when the commitment for insurance is issued and disbursed subsequently at the time of initial endorsement.

Examples of Developments Using FHA Insurance

FHA's multifamily programs have encouraged the development of housing with important, positive benefits beyond just the permanent shelter of families. Many projects feature supporting energy conservation and sustainability efforts, and all new construction and rehabilitation projects stimulate job creation and preservation. Some examples:

> Malibu Apartments is a new construction project for the development of 476 affordable housing units in Austin, Texas, located in the North Austin Corridor. FHA financing of this Section 221(d)(4) property is supported by Low Income Housing Tax Credits allocated under the State of Texas Department of Housing and Community Affairs. The site is located within a short distance of the local rapid transit route.
>
> Westchester Tower Apartments is a Section 223(a)(7) refinance of a 223-unit mixed-income family development rehabilitated with Low-Income Housing Tax Credits, and located in Wayne, Michigan, a suburb of Detroit. The project has several energy-savings features, including the installation of Energy Star appliances in all units, Energy Star furnaces and air conditioners and water saving devices as well. Westchester Tower Apartments is transit-oriented with access to public transportation located less than 200 feet from the property.
>
> Veranda at University Homes is a 221(d)(4) 100-unit Low-Income Housing Tax Credit mid-rise complex currently under construction; it is five stories high and located in Atlanta, Georgia immediately adjacent to the Atlanta University Center which consists of the campuses of Clark Atlanta University, Spellman College, Morehouse College, and Morris Brown. The subject has a 100 percent project-based rental assistance (PBRA) contract through the Atlanta Housing Authority. The project is located west of downtown Atlanta and slightly north of Interstate 20. Numerous bus stops along various MARTA lines are within a reasonable walking distance. In addition, two MARTA rail stations are in close proximity to the project: West End to the south (1.5 miles) and Ashby to the North (1.0 mile). Adequate police and fire protection services are provided by the City of Atlanta and Fulton County. Retail and other commercial developments are easily accessible and can be found on major thoroughfares such as Martin Luther King Drive. The project has convenient access to downtown landmarks including the Georgia Dome, Georgia World Congress Center, Centennial Olympic Park and the 5 million-square foot Atlanta Market Center.

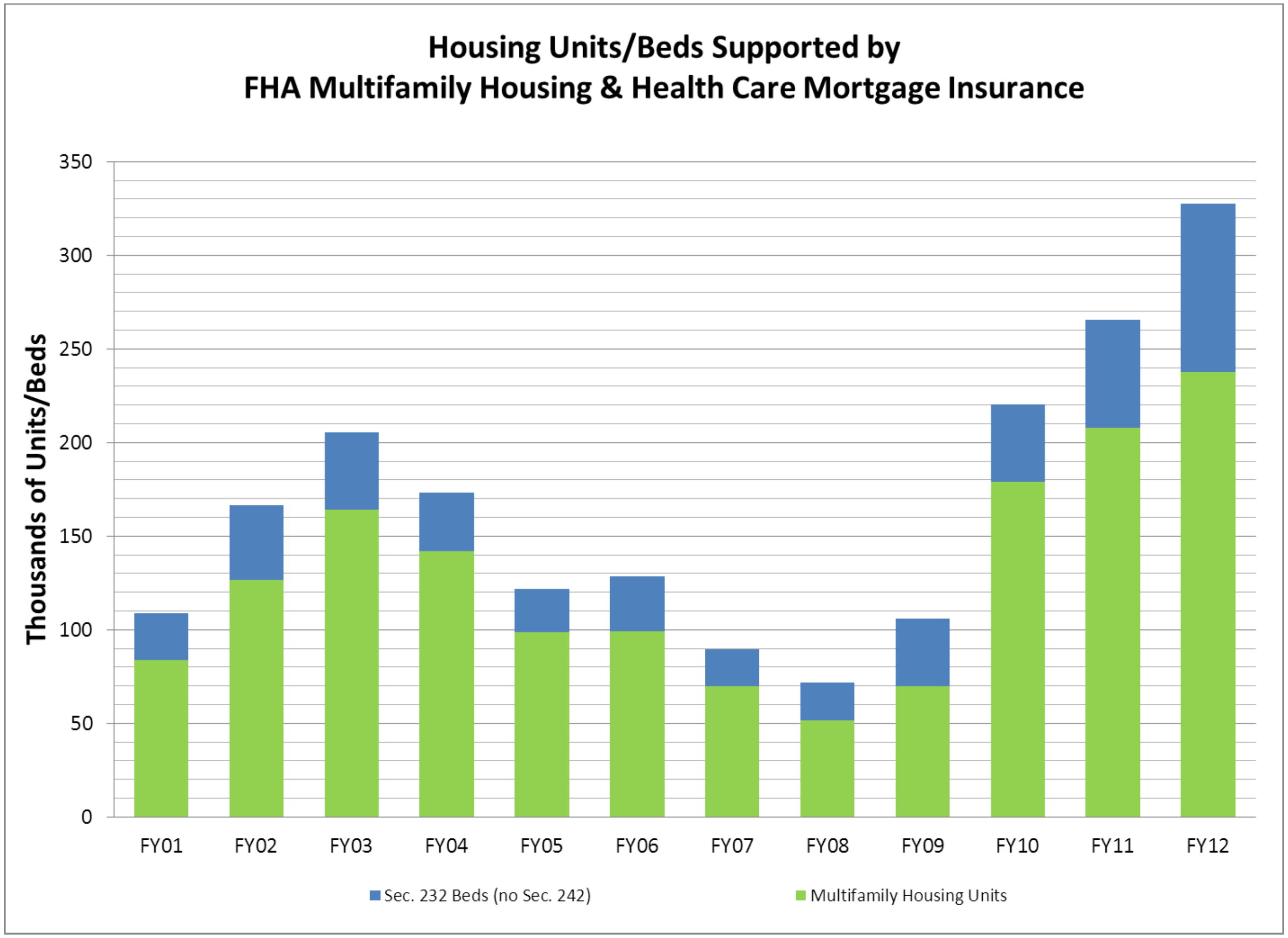
The principles of sustainable development also extend to Section 232 healthcare facility projects. The Elizabeth Seton Pediatric Center received $100 million in FHA-insured financing in 2010 for the construction of a skilled nursing facility to better serve Medically Fragile Pediatric Patients in Yonkers, NY, a designated underserved area. The new facility includes 137 beds to serve children from birth to 21 years of age. The Pediatric Center is committed to creating and sustaining a healthful, healing environment for its resident building users and community and has taken great efforts to design a green, sustainable building. The new building, which opened its doors in March 2012, is expected to attain a LEED Silver certification.

Construction on Phase V of a Section 232 assisted living project, Mayberry Gardens, located in Garland, Texas, was completed in April 2012. The facility provides family-style living for seniors who need some assistance, but don't require full time skilled nursing care. The three new 11-bed buildings and club house were added to the existing campus with a 241(a) loan. Each residential building has been designed as a standalone home, with its own living/dining area, residential kitchen, office, and common areas. Phases I – III of the project were financed with Section 232 new construction loans and Phase IV was added with a 242(a) loan. This Phase V construction project now includes a total of 121 assisted living apartment units, with 136 beds.

The Federal Housing Administration, through its Section 242 Hospital Mortgage Insurance Program, committed to insure a $37.1 million mortgage loan for Knox Community Hospital on November 30, 2011. Knox Community Hospital, a sole community provider designated by The Center for Medicare and Medicaid Services, is a not-for-profit operating a 115-bed acute care facility in Mount Vernon, OH. The $37.1 million loan allows Knox Community Hospital to renovate operating rooms, expand the catheterization laboratory for diagnostic and interventional cardiac services, and implement a hospital-wide electronic health records system. In addition, the loan will refinance $15.9 million of 2004 revenue bonds held by the Hospital. By insuring the mortgage loan, FHA is enabling the hospital to obtain lower cost financing that will save an estimated $8.5 million in interest costs over the life of the loan. HUD estimates that the Knox Community Hospital construction project will support approximately 328 full-time jobs and provide an economic boost of $61 million to the community. HUD's estimates are based on results from an economic model used by public and private institutions to examine a variety of economic development issues. Knox Community Hospital representatives estimate that, following construction completion, the hospital will support a full-time employment base of approximately 730 jobs.

4. How do we know this program works?

The greatest testament to FHA's effectiveness is the tangible result of its programs. Quality housing and healthcare facilities are made possible and/or more affordable throughout the country due to an FHA mortgage guarantee. For example, FHA recently approved mortgage insurance for a loan supporting the preservation of 312 units of affordable housing at Inwood on the Park in Dallas, Texas. The loan ensures the continued availability of housing for residents whose income is at or below 40 percent or 60 percent of area median income. This is just one example from the 1.3 million multifamily housing units that GI/SRI insurance has supported over the last 10 years.



In addition to the direct impact of production and preservation of needed multifamily housing units and healthcare facilities, FHA projects can be significant contributors to the economic health of a community. For fiscal year 2012, there have been 26 firm commitments issued to: 16 section 232/New Construction projects, 9 section 232/241(a) projects and 1 section 223(f)/Substantial Rehabilitation project. The Office of Healthcare Programs (OHP) has estimated the economic impact of these projects based on an Economic Development Model (EDM) developed by OHP and HUD's Office of Policy, Development and Research. The results for the EDM illustrate the significant favorable economic impact that these programs are having on local communities, including a substantial impact on employment (25 projects endorsed in 2012 are estimated to create direct employment during construction for 2,543 full-time positions in 14 States).

Mortgage and Loan Insurance Programs – GI/SRI Account

With each mortgage it insures, FHA carefully considers the benefits to the community along with financial risks to the government. Cognizant of the increased risk associated with FHA's expanding role in the multifamily housing market, the Department has launched several new initiatives aimed at appropriately managing the risk involved with multifamily and healthcare loans. In fiscal year 2010, FHA made a number of updates to underwriting requirements for multifamily housing loans.

These updated requirements are part of a broader strategy that features a national loan committee process for all large projects, new initiatives (under development) to improve lender oversight, and a revised partial payment of claim policy that will generate savings by reducing the number of full claims. FHA also adopted a more balanced approach to loan-to-value and debt service coverage requirements and increased scrutiny of borrowers' other real estate obligations which could jeopardize their financial positions and make it more difficult for them to assist projects with financial or operational challenges. FHA is taking steps such as these to ensure its policies and practices do not contribute to any unanticipated losses.

As a companion to risk management efforts, FHA increased mortgage insurance premiums (MIP) beginning October 1, 2013 for market-rate projects. MIPs for all market-rate new construction and substantial rehabilitation loans – including Section 221(d)(4), Section 220, Section 231, and Section 242 –increased by 20 basis points. MIPs for refinances made under 223(a)(7) increased by 5 basis points, with a 15-basis point increase for all other multifamily housing and healthcare loans. The increases do not apply to loans to projects with HUD rental assistance contracts, LIHTC deals, and those under FHA risk sharing programs. These modest increases ensure that the MIPs are priced appropriately to compensate for FHA's risk, consistent with current and potentially volatile market conditions. The MIP increases are also in line with programmatic requirements to align pricing with the administration's risk tolerance and address potential risk attributed to the shift in portfolio, from a primarily subsidized stock with small loans to a primarily market-rate portfolio with larger average loan sizes and the attendant risk of single point failures.

GI/SRI by the Numbers – FY 2012

Insurance in Force	**$144.5 Billion**
New Commitments	$22.1 Billion
Average Multifamily Housing Loan	$9.8 Million/150 Beds
Average Section 232 Loan	$7.7 Million/115 Beds
Average Hospital Loan	$40.6 Million/116 Beds
Negative Subsidy Offsetting Receipts	$395 Million
Premiums Collected	$803 Million
Claims Paid – Single-Family/HECM	$1.88 Billion
Claims Paid - Multifamily/Healthcare	$312 Million
Recoveries on Defaults	$854 Million

In addition to strengthening performance in the portfolio, FHA has also taken steps to improve program administration through business process improvements. For the Section 232 program, a Lean Process has been adopted for both new construction and refinance applications. Lean Processing employs standardized work product and processes to obtain a consistent, timely result. The following are some of the specific changes implemented with Lean Processing: standardized checklists, statements of work for third party work, certifications, and templates for the lenders to use in their assembly of the application package; development of standardized punchlists for HUD staff to use in their underwriting of submitted applications; initiation of HUD legal review immediately when the Firm Application is submitted in order to cut down the time between Firm Commitment issuance and closing; and removal of portions of the application process/requirements for submittal that were duplicative or not necessary.

For the multifamily housing insurance programs, FHA has launched the "Breaking Ground" initiative that focuses on optimizing processes, strengthening risk management, developing specialized skills of the staff and strengthening the way the organization manages this workload. The Office of Multifamily Housing is employing standardization of processes to achieve consistent and timely results. It has created a standardized loan underwriting review template, adopted an early warning system, created application staging areas, and standardized work products. It has established timeframes for which staff must strive to meet regarding the review and approval/rejection of applications. In addition, it has created a dashboard which tracks and reports the number of concept meetings, applications in processing, the number of decisions made and the length of time that applications are in processing as well as how many decisions are overdue for each multifamily processing office. The dashboard is reviewed monthly by Headquarters with each office to discuss the successes and issues/challenges that the office may be facing as it meets the targeted timeframes. FHA has moved applications to various processing centers, using the existing Hub structure, in an effort to clear the backlog and balance workloads across offices. In fiscal year 2012, the total backlog in offices that completed Breaking Ground decreased by almost 75 percent. Specifically, the number of applications in processing for over 90 days dropped from 191 to 50 in just 7 months.

FHA Transformation

FHA Transformation is developing and implementing a modern financial services IT environment to better manage and reduce risk across all of FHA's Mortgage Insurance Programs. To date, FHA Transformation has delivered a new lender certification system, and has made sound progress on the Single Family Housing's systems and its new risk management tool. HUD has also made critical enterprise software and infrastructure investments for FHA that will reduce maintenance costs once the FHA Transformation initiative is completed.

FHA Transformation will allow HUD to start the careful process of migrating relevant portions of Housing's legacy applications into a modern financial service automated environment, and will help administer many aspects of the multifamily and health care insurance programs. FHA Transformation monitoring and enforcement projects will allow the Office of Lender Activities to automate many currently manual processes.

FHA Transformation will also bring a new level of intelligent rules-based activities such as automated risk analysis and lender targeting according to a risk scoring framework. This will help HUD manage its credit risk prudently at the portfolio and loan level, and will enable HUD to respond rapidly to changing market conditions. The new Federal Financial Services Platform will be leveraged across several Housing programs by migrating away from the 30-year old Computerized Home Underwriting Management System (CHUMS). These FHA Transformation initiatives will enable FHA to better recognize risk and fraud trends in borrower attributes, collateral attributes, and appraisal valuation accuracy during the transaction process, and to help identify cases that may be detrimental to the MMI fund.

The next steps for FHA Transformation will enable risk detection and fraud prevention by capturing critical data points at the front-end of the loan life cycle; and will leverage the right set of risk and fraud tools, rules-based technology, and transactional controls to minimize exposure to FHA's Insurance Funds. These IT investments will facilitate enhanced business analytics and informed decision-making by providing decision-makers with data that is higher quality and more up-to-date. This will enable FHA's leadership to analyze portfolio trends and patterns across the lending community, and will help with the identification of fraudulent lenders and reduce risk in the FHA portfolio.

5. Notes to Justification

GI/SRI Single Family Portfolio

In addition to new insurance commitments for the multifamily, healthcare and Title 1 programs, the GI/SRI fund also houses activity on mortgage insurance and HUD-held notes for a number of large single family programs. Prior to fiscal year 2009, the GI/SRI Fund housed new insurance for a number of significant single family insurance programs, such as the Home Equity Conversion Mortgage (HECM) reverse mortgage guarantees and condominium unit financing. With the enactment 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. However, obligations made prior to 2009 (and the associated cash flows) remain in GI/SRI. Eighty-five percent of the current liabilities for loans guaranteed in the fund are associated with the HECM reverse mortgage program.

Credit Subsidy Calculations and the Annual Re-estimate

Credit subsidy rates represent the projected net cost or savings to the government of operating a loan guarantee program, and take into account the present value of projected claims, pre-payments, premium revenue, and recoveries on defaults for a cohort of loans over their lifetime. In accordance with the Credit Reform Act of 1990, administrative costs (excluding property disposition) are not included in credit subsidy calculations. FHA 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 Department devotes significant efforts to updating and continuously refining the credit subsidy estimates. 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.

Each year, FHA completes a required re-estimate of liabilities and subsidy costs associated with the existing insurance portfolio. Revised liability estimates take into account another year of actual performance and the latest economic assumptions. Vacancy rates, Treasury interest rates, individual property's past financial performance, and house price appreciation are among the key variables that shape GI/SRI's projected cash flows. Multivariate statistical models generate the claim and prepayment rates that drive calculations of the Fund's financial worth. To determine the re-estimate, the revised liabilities (net of projected loan default recoveries) are compared to the current assets on hand. When assets exceed projected liabilities, a downward reestimate occurs with the difference being transferred to the Treasury general fund as mandatory receipts. When projected liabilities exceed assets, an upward re-estimate occurs and the fund receives a mandatory appropriation to bring assets and liabilities into balance. For example, if the portfolio of loans made in a given year has a net liability of $250 million and cash on hand of $300 million, then the cohort would require a downward re-estimate in which $50 million would be paid from the Fund's Financing account (which handles all loan guarantee cash flows) to the Treasury. If the financial position was reversed – if a cohort had assets of $250 million and a net liability of $300 million – then a $50 million mandatory appropriation would be recorded in the GI/SRI Program Account to cover the cost of the upward re-estimate. Those funds would then be forwarded to the Financing Account to ensure it contained sufficient cost to cover the anticipated lifetime liabilities of the portfolio.

Re-estimates are calculated each year for each cohort of loans. Twelve GI/SRI cohorts have net lifetime downward re-estimates, meaning costs to the government for that group of loans are now projected to be less than the original subsidy calculation. Nine cohorts have a lifetime upward re-estimate, meaning the original subsidy calculation is now believed to have underestimated costs. While GI/SRI's newer books of business consist primarily of multifamily and healthcare loans, it is important to keep in mind that GI/SRI re-estimates for all cohorts prior to 2009 also include assets and liabilities for a large portfolio of single family loans (programs subsequently transferred to MMI).

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
SUMMARY OF RESOURCES BY PROGRAM
(Dollars in Thousands)

Budget Activity	2012 Budget Authority	2011 Carryover Into 2012	2012 Total Resources	2012 Obligations	2013 Annualized CR	2012 Carryover Into 2013	2013 Total Resources	2014 Request
Positive Subsidy								
Appropriation	...	$16,547	$16,547	$144	...	$16,403	$16,403	...
Total	...	16,547	16,547	144	...	16,403	16,403	...

NOTE: 2011 Carryover into 2012 amount includes $5,603 recaptured during fiscal year 2012.

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
Appropriations Language

Below is the italicized appropriations language for the General and Special Risk Insurance Program.

New commitments to guarantee loans insured 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), shall not exceed $30,000,000,000 in total loan principal, any part of which is to be guaranteed, to remain available until September 30, 2015: Provided, That during fiscal year 2014, 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 nonprofit and governmental entities in connection with the sale of single family real properties owned by the Secretary and formerly insured under such Act.

Note.--A full-year 2013 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Resolution, 2013 (P.L. 112-175). The amounts included for 2013 reflect the annualized level provided by the continuing resolution.