HOUSING
FHA--MUTUAL MORTGAGE INSURANCE FUND
2017 Summary Statement and Initiatives
(Dollars in Thousands)

FHA--MUTUAL MORTGAGE & COOPERATIVE MGMT. HOUSING INSURANCE FUND	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2015 Appropriation	$130,000	$47,238[a]	...	$177,238	$129,815	$118,673
2016 Appropriation	130,000	49,667[b]	...	179,667	137,857	104,373
2017 Request	160,000[c]	46,810[d]	...	206,810	150,501	113,000
Program Improvements/Offsets	+30,000	-2,857	...	+27,143	+12,644	+8,627

a/ Carryover includes $42.8 million carried forward into fiscal year 2015 and $ 4.4 million recaptured during fiscal year 2015. Of the recaptured amount, $1.5 million expired at the end of fiscal year 2015.
b/ Carryover includes $45.0 million carried forward into fiscal year 2016 and $4.6 million estimated to be recaptured during fiscal year 2016.
c/ The 2017 Budget proposes an administrative support fee estimated to produce $30 million in offsetting collections. This fee will fund enhancements to FHA Single Family's risk management approach, IT system delivery and operations. Such initiatives could include increased quality assurance sampling or implementation of additional tools to ensure optimal asset disposition or the creation of in-house capabilities to model the portfolio's future performance. This request also includes an $800,000 transfer to the HUD Research and Technology account based on the 2017 Budget priorities and requirements.
d/ Carryover includes $41.8 million carried forward into fiscal year 2017 and $5 million estimated to be recaptured during fiscal year 2017.

1. What is this request?

For fiscal year 2017 the Budget requests $160 million in support of the Mutual Mortgage Insurance (MMI) Fund, the largest fund covering activities of the Federal Housing Administration (FHA). Since 1934, mortgage insurance provided by FHA has made financing available to individuals and families not adequately served by the conventional private mortgage market. Through MMI, the Department offers several types of single family forward mortgage insurance products and Home Equity Conversion Mortgages (HECMs) for seniors. Activity for the Cooperative Management Housing Insurance (CMHI) Fund – which insures mortgages for multifamily cooperatives – is reported together with MMI.

The fiscal year 2017 Budget request will enable FHA to continue its mission of providing access to mortgage credit for families with low and moderate wealth, and to play an important role in the continuing stabilization and recovery of the nation's housing market. By facilitating the availability of vital liquidity through a variety of HUD-approved lenders, including community banks and national credit unions, FHA has made a number of achievements including:

- Helping over 5.4 million families buy a home since President Obama took office.

- Providing credit access to more than 614,315 first-time buyers in fiscal year 2015, representing over 81.5 percent of FHA purchase loan endorsements. It is likely that many of these families would otherwise not have been served by the conventional mortgage market.
- The number of first time homebuyers that FHA has supported over the past 3 years now totals 1.6 million.
- Through its streamline refinance option, FHA helped 232,814 families reduce their monthly housing costs by an average of $122 per month, for an annual savings of $1,264 per family.
- FHA also helped more than 443,000 families avoid foreclosure this past year through its loss mitigation home retention servicing tools.

In addition to facilitating affordable access to homeownership opportunities, FHA continues to make it a priority to minimize losses to the MMI Fund by assisting homeowners through early delinquency intervention, loss mitigation programs, and specific joint efforts with the Department of Treasury, including: the Home Affordable Modification Program and the FHA Short Refinance program for underwater borrowers with conventional loans.

The fiscal year 2017 request for MMI includes four components:

- Commitment authority for up to $400 billion in new loan guarantees. The fiscal year 2017 Budget requests $400 billion in loan guarantee commitment limitation, which is to remain available until September 30, 2018. This limitation includes sufficient authority for insurance of single family mortgages, mortgages under the HECM program, and the FHA Short Refinance program. Total loan volume projected for all MMI programs for fiscal year 2017 is $ 222.7 billion. Of that total, $204 billion is estimated for standard forward mortgages, $18.5 billion for Home Equity Conversion Mortgages (HECM), and $200.0 million for FHA Short Refinances. The size of the request and 2-year availability for this commitment authority reduces the likelihood of program disruption under a continuing resolution or greater than expected volume.
- Negative Subsidy Receipts. The $222.7 billion in loan volume projected for the entire MMI portfolio in fiscal year 2017 is expected to generate $9.1 billion in negative subsidy receipts, which are transferred to the MMI Capital Reserve account, where they are available to cover any projected cost increases for the MMI portfolio.
- Appropriations for Administrative Contracts. The Department requests an appropriation of $160 million, offset by estimated collections of $30 million from a proposed administrative fee charged to lenders. These resources will fund enhancements to administrative contract support, FHA staffing and information technology. The request asks for a transfer of up to $30 million from this account to the Office of Housing Salaries and Expenses account and the Information Technology Fund. Any funds transferred will be used for FHA salaries and expenses and information technology purposes.

- Commitment authority for up to $5 million in direct loans to facilitate single family property disposition. The loan authority requested would provide short-term purchase money mortgages for non-profit and governmental agencies. It would enable these entities 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 income. This program has been infrequently utilized in recent years due to the shortage of state/local government subsidies needed to offset participant's development costs associated with administering the program. Nonetheless, the program remains a valuable tool for HUD supporting affordable homeownership opportunities in distressed communities while responsibly managing its real estate owned (REO) inventory of properties.

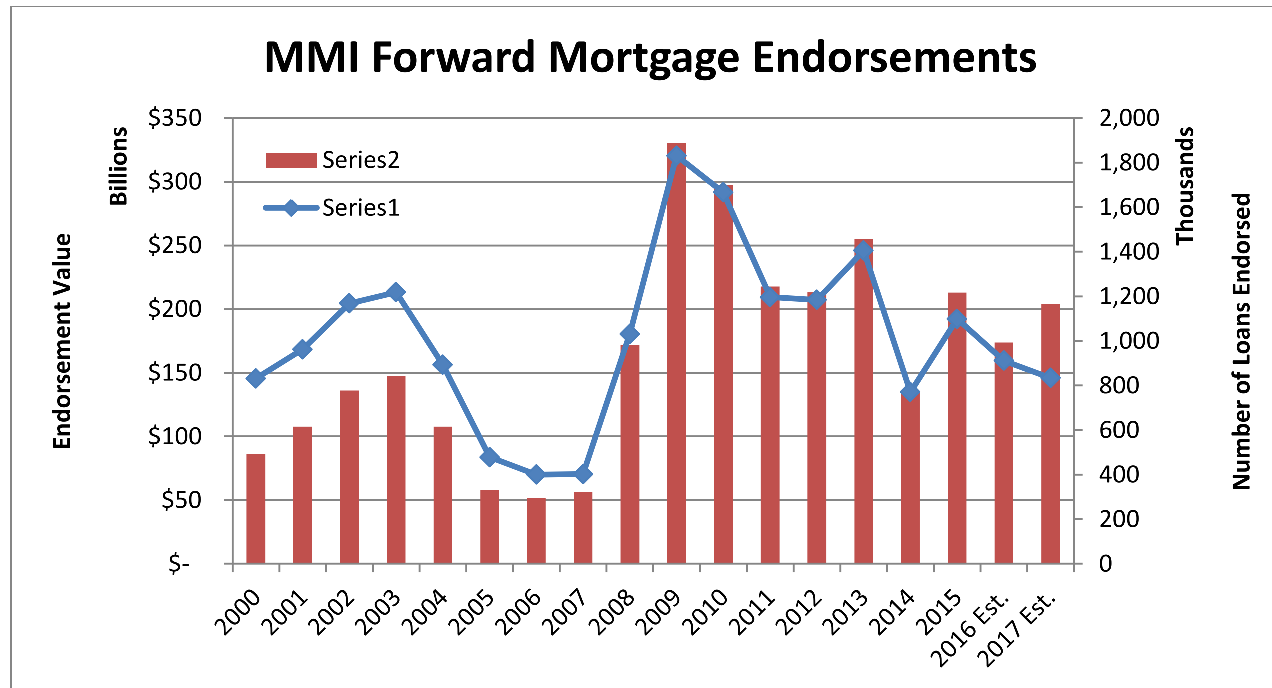
	2015 Enacted	**2016 Request**	**2017 Request**	**Increase/ Decrease**
Loan Guarantee Commitment Limitation	$400,000,000,000	$400,000,000,000	$400,000,000,000	...
Direct Loan Limitation	$20,000,000	$5,000,000	$5,000,000	...

2. What is this program?

FHA has insured over 41 million home mortgages since 1934. In exchange for adherence to strict underwriting and application requirements established by HUD and the payment of insurance premiums, HUD-approved lenders are able to file claims with FHA when a borrower defaults. Mortgage insurance premiums and specific terms for claim payments vary by program. With a strong loss mitigation program, FHA insurance has played a key role in mitigating the effect of economic downturns on the real estate sector, as FHA plays a counter-cyclical role, providing access to mortgage credit during periods of constriction in credit markets. Through the recession, FHA provided key support for the national mortgage market and mitigated the foreclosure crisis and the overall economic downturn.

As of September 30, 2015, the MMI insurance portfolio included 7.6 million loans with an unpaid principal balance exceeding $1.1 trillion. FHA mortgage insurance enhances a borrower's credit and provides banks with better access to capital markets, most notably through Ginnie Mae securities. 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 down payment or securing conventional financing.

For budgetary purposes, the programs of the MMI Fund are broken into three risk categories (Forward Mortgages, FHA Short Refinances (Refi), and HECM), each are discussed below:

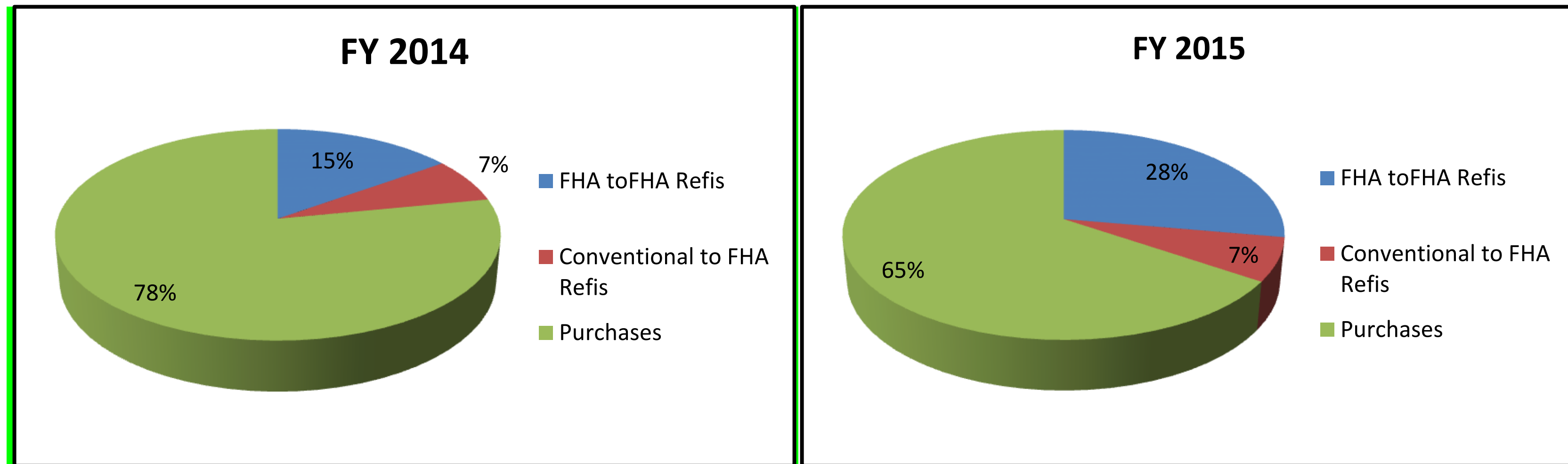


Forward Mortgage Insurance and Guaranteed Loans. Single family programs provide mortgage insurance for the purchase and refinance of homes with one to four units. Loan products under this category include Section 203(b), condominiums, homes purchased on Indian and Hawaiian lands, and rehabilitation loans (Section 203(k)). Maximum mortgage amounts insured by FHA are calculated annually by HUD and are generally tied to 115 percent of the median house price in each county.

With 88.8 percent of the total $229.1 billion in insurance endorsements for the MMI Fund under Section 203(b) during fiscal year 2015, the single family 203(b) program is the largest FHA insurance program authorized under Section 203(b) of the National Housing Act.

FHA endorsement activity peaked in fiscal year 2009, when monthly volume surpassed $25.8 billion. From this peak, FHA's annual forward mortgage endorsement volume dropped markedly in 2011 and 2012, but then increased in 2013 because of a large volume of refinance activity. Forward mortgage endorsements in fiscal year 2015 were $213.0 billion, roughly equal to the forward volume activity in fiscal year 2012. Current estimates show that forward mortgage volume will decrease to $209 billion for fiscal year 2016 and $204 billion in fiscal year 2017. The current activity counts for FHA's core home-purchase business are comparable to levels experienced in the mid-1990s and lower than the experience of the 1998-2002 periods that preceded the recent boom-bust cycle.

203(b) Endorsement Volume by Loan Type



FHA Short Refinance. In fiscal year 2010, HUD and the Department of Treasury announced enhancements to FHA's refinance program that give a greater number of responsible borrowers the opportunity to remain in their homes. The enhancements were designed to maintain homeownership by borrowers who owe more on their mortgages than the value of their homes with opportunities to refinance into an affordable FHA loan. This program allows a borrower, whose mortgage is current, 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. FHA will accept applications for this program through the end of calendar year 2016.

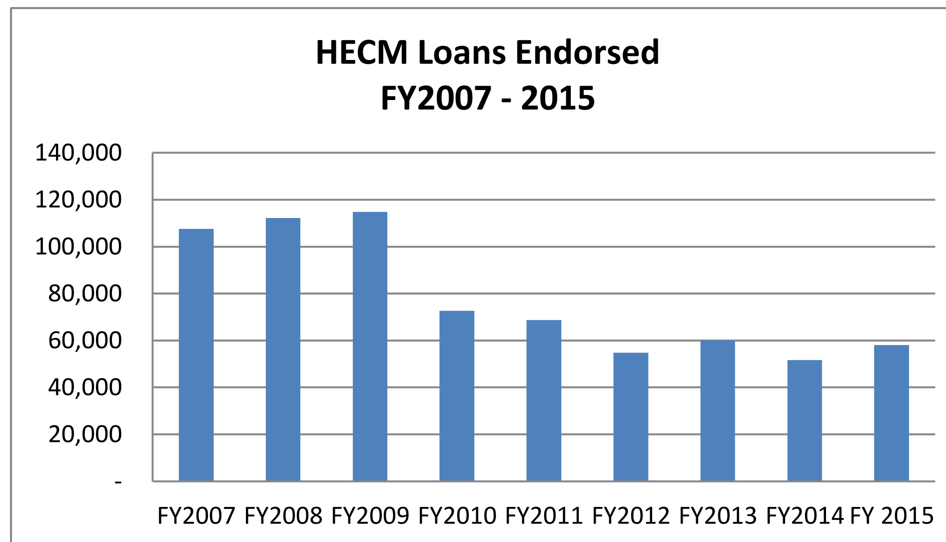
HECM**.** FHA's HECM program provides senior homeowners age 62 and older access to FHA-insured reverse mortgages which enable seniors to access equity in their homes to support their financial and housing needs as they age. The HECM program fills a special niche in the national mortgage market and offers critical opportunities for the nation's seniors to utilize their own assets and resources to preserve their quality of life. The HECM program provides options to seniors to access their equity through monthly payments, draws from a line of credit, or one-time draw at close. Unlike a forward mortgage, the HECM borrower does not make payments on the loan and the loan does not become due and payable until the last remaining mortgagor no longer occupies the property or fails to comply with other requirements of the loan such as payment of property taxes and insurance.

During the housing crises, seniors were significantly impacted by the recession and falling home prices and, as with Forward Mortgages, risk to the MMI Fund increased. Since the passage of the Reverse Mortgage Stabilization Act in 2013, FHA has

implemented several changes to strengthen and enhance the HECM program. These changes include limiting upfront draws, changes to the mortgage insurance premium structure to encourage lower initial draws and a shift to Adjustable Rate HECMs which encourage borrowers to access funds as they need them, preserving equity to support them over time. A Financial Assessment is now required for all HECM Mortgagors.

There are many studies that highlight the impact that increased longevity, rising health care and other costs, fewer defined benefit pension programs and diminished investment values have had on senior's income and savings. HECMs provide a viable option to access equity in their homes. Due to the housing crises and lack of available private sector products, FHA has provided a critical counter-cyclical role in this market, as it has with Forward loans, providing access to credit for seniors.

From the program's inception in 1989 through fiscal year 2015, FHA has endorsed 948,147 HECM loans. Volume increased significantly from 2005 to 2009. Since then, endorsements have declined from a high of 114,640 to an estimated 58,043 in fiscal year 2015. This decline in production reflects market pressures and FHA policy changes that better manage risk and ensure the program is sustainable for seniors.

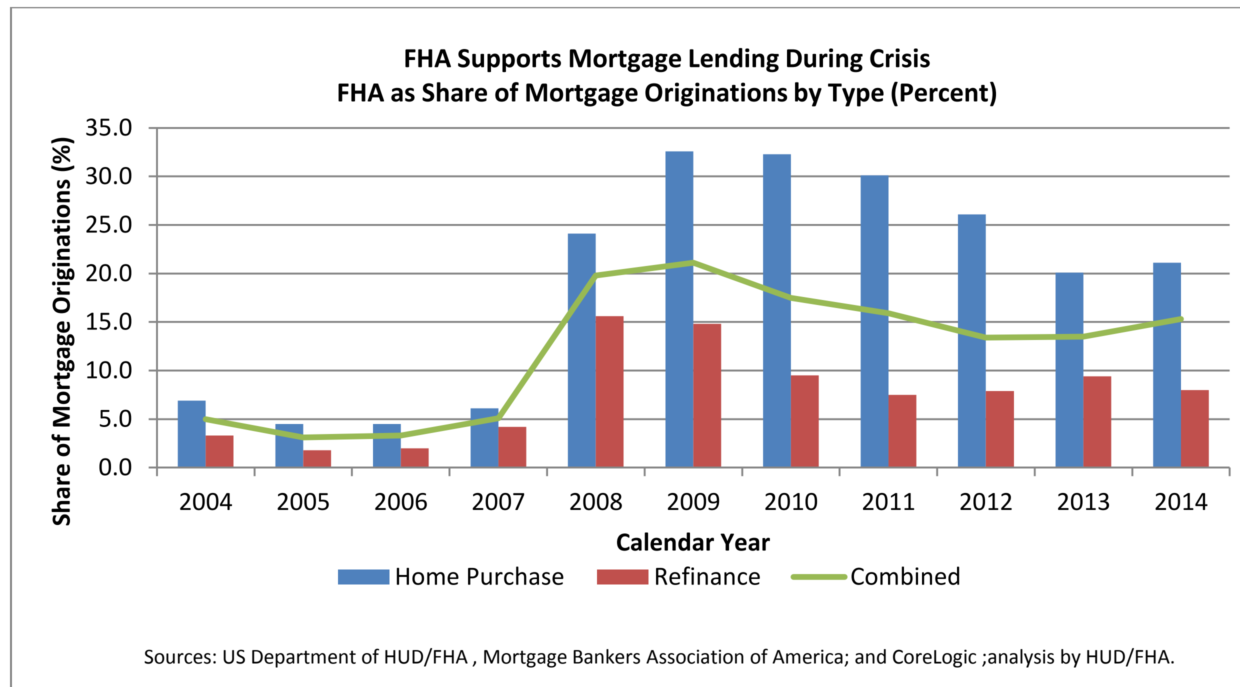


The HECM program was introduced as a "demonstration" program in 1987 and became a permanent HUD program in 1998. Eventually, in 2006, a statutory aggregate cap of 275,000 HECM loan guarantees was put in place. It has been necessary to lift this cap on an annual basis through the appropriations process. In addition to requesting commitment authority for HECM, the Budget will again propose permanently lifting the cap of 275,000 loan guarantees to provide further stability for the HECM program. This

change supports the significant improvements that have been made to the program to reduce risk to the MMI Fund and to ensure responsible lending to seniors.

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

FHA provides mortgage insurance on single family mortgage loans made by FHA-approved lenders throughout the United States and its territories. FHA's single family mortgage insurance program supports our nation's housing recovery by meeting the needs of borrowers facing difficult economic conditions, such as declining property values and shrinking credit markets. FHA remains active and viable in all markets during times of economic disruption, playing an important counter-cyclical role until private capital returns to its normal levels. FHA will continue to meet the needs of many first time and minority homebuyers who–without the FHA guarantee–may otherwise find mortgage credit to be prohibitively costly or simply unavailable.



Sources: US Department of HUD/FHA , Mortgage Bankers Association of America; and CoreLogic ;analysis by HUD/FHA.

<u>Commitment Authority and Subsidy Projections</u>

The fiscal year 2017 Budget request will provide the commitment authority and administrative funding for FHA to continue its important work.

Below is a table indicating loan commitment volumes, credit subsidy rates, and subsidy obligations for each MMI risk category in fiscal years 2016 and 2017. Credit subsidy rates represent the projected net cost (positive credit subsidy) or savings (negative credit subsidy) 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.

Estimates of single family commitment volume are calculated using both empirical inputs such as recent loan application volume and endorsement trends, as well as a variety of assumptions regarding expected condition in the housing and credit markets, interest rates, historic seasonal adjustment, and anticipated effect of program changes. These estimates are also very sensitive to other factors that cannot be readily anticipated or predicted, such as economic or fiscal policy changes. Even model variations in market trends or economic assumptions can result in significant changes in actual program demand and commitment volume.

MMI COMMITMENT VOLUME BY RISK CATEGORY (in millions)	**FY 2015 Endorsements**	**FY 2016 Estimate**	**FY 2016 CSR**	**FY 2016 Subsidy Receipts**	**FY 2017 Estimate**	**FY 2017 CSR**	**FY 2017 Subsidy Receipts**
MMI Purchase and Refinance	$212,961	$209,000	-3.70%	($7,733)	$204,000	-4.42%	($9,017)
MMI HECM	15,988	15,138	-0.69%	(104)	18,469	-0.33%	($61)
FHA Short Refinance	194	300	0.00%	...	200	0.00%	...
Totals	$229,143	$224,438	-3.49%	($7,837)	$222,669	-4.08%	($9,078)

Administrative Contract Appropriations

The $160 million request for fiscal year 2017 will provide funding for contracts necessary in the administration of FHA programs, operating under MMI and GI/SRI. This request will fund activities including, but not limited to: insurance endorsement of Single Family mortgages, construction inspections on multifamily projects, the required annual FHA independent actuarial review and financial audit, management and oversight of asset disposition, risk analysis, accounting support, and assistance with claims and premium refund processing. The $30 million increase over the fiscal year 2016 appropriation will be offset by the proposed $30 million dollars in offsetting collections. These resources will fund enhancements to administrative contract support, FHA staffing and information technology. The request asks for a transfer of up to $30 million from this account to the Office of Housing Salaries and Expenses account and the Information Technology Fund. Any funds transferred will be used for FHA salaries and expenses and information technology purposes.

The benefits to be derived from these initiatives include the ability to: 1) appropriately set reserve prices to ensure optimal outcome whether a short sale, claims without conveyance of title, or REO disposition path is chosen; 2) leverage an external quality control vendor to add re-verification processes and absorb variations in quality control sample sizes without taxing our already limited staff; 3) analyze portfolio risk, leverage external research and data on market trends, and enable more comprehensive and rapid policy change analysis in response to changing market dynamics; and 4) improve recovery rates for defective loans.

These initiatives are explained in detail below.

Quality Assurance/Compliance

FHA relies on private-sector lenders and servicers to underwrite and service endorsed loans. Occasionally, these lenders and servicers have operational failures that increase the likelihood of default and, thus, the likelihood of FHA having to pay a claim. When FHA detects a major operational failure, FHA generally requests that the associated lender or servicer to indemnify the MMI Fund for any claims paid or seeks other enforcement actions against that lender or servicer. FHA detects these failures through its quality-control and quality-assurance programs; wherein FHA reviews a subset of loan files, looking for errors made by its lenders and servicers. Over the past few years, FHA has significantly improved its enforcement policies and practices.

FHA's lenders and servicers work hard to avoid major operational failures, because indemnifying FHA for losses is very costly; however, some instances of failure will always remain. As such, because FHA's quality assurance efforts are focused primarily on defaulted loans, lenders curtail the amount they lend to high-risk populations to mitigate potentially higher indemnification costs. Unfortunately, it is precisely those high-risk populations that FHA seeks to help in fulfilling its mission to provide affordable housing to those most in need.

Earlier feedback on a statistically relevant sample of non-adverse loans will ensure that FHA understands the loan quality risk embedded in its portfolio before loans start to default and allow lenders to take actions to resolve operational issues contributing to loan quality issues before they build up several years' worth of exposure.

Currently, FHA has the capacity to review approximately 35,000 loans annually. This capacity is distributed largely to a risk-based sample of early defaulted loans. In the near term, FHA aims to increase its capacity to reviewing approximately 70,000 loans annually to ensure sufficient early reviews of a more statistically relevant sample of endorsed loans, as well as still sampling early defaulted loans which are more likely to have defects. Without increased funding, FHA sampling will not be able to increase at the level needed for robust risk management.

Portfolio Analytics

As FHA works to improve and strengthen its capability for detecting and mitigating front and back end portfolio risks, access to timely and decision-useful data is key. Essential to FHA's risk management strategy is its ability in fiscal year 2017 to procure

comprehensive services and tools that allow the Office of the Chief Risk Officer to model risk at the portfolio levels and to perform data analysis to identify key credit risk drivers, segmentation profiles and emerging trends in credit and operational risk. In addition, the future state of FHA's risk and fraud detection business environment calls for continuing work on the integration of FHA's risk and fraud tools with its credit score card. The benefits to be derived from these services include improved cash flow projections, better accuracy in budget inputs and subsidy modeling, reduced claims against the capital reserve and informed executive decisions and policies that are supported by healthier data.

Automated Valuation Model (AVM) and Broker's Price Opinion (BPO) to support Real Estate Owned (REO) Property Values

Traditionally, the Federal Housing Administration's (FHA) initial list price for its real estate-owned (REO) property is based solely on an appraisal. Based on discussions with other stakeholders, FHA has learned that other market holders of REO properties establish the list price of their REO properties based on at least two valuation tools (Appraisal and/or Automated Valuation Model (AVM) , Broker's Price Opinion (BPO), etc.). FHA has conducted pilots in the Santa Ana Homeownership Center (HOC) and the Atlanta HOC to test the price variance by establishing the list price of their REO properties based on at least two valuation tools, and initial results indicate that in certain markets, appraisals are lagging the market, which has resulted in FHA not maximizing its recovery rates. The pilots have resulted in offers of approximately 104 percent of appraised value, compared to 93 percent nationally. This suggests that expanding these tools and approach could lower losses to MMIF significantly, perhaps by as much as 10 percent for REO dispositions.

4. How do we know this program works?

FHA single family insurance is known to work, not only because it provides a counter-cyclical backstop, but also because it: 1) increases liquidity for mortgage lending, including mortgage lending for low wealth families; 2) serves as a primary source of mortgage credit for minority and first time homebuyers; and 3) has key features that provide consumer protections that were lacking in much of the private lending leading up to the mortgage market collapse.

FHA continuously monitors and evaluates the results of its programs and updates its policies as necessary, taking into consideration product performance as well as market forces. To address current and difficult conditions in the housing market, aid homeowners, and mitigate risk to FHA's insurance fund, FHA develops new programs, modifies existing programs and improves controls. For example, in 2014 FHA made significant changes to its HECM program as described above, updated its manual underwriting requirements for forward mortgages and updated requirements for pre-foreclosure sales and deeds-in-lieu, steps that raised negative subsidy receipts and helped restore FHA's capital reserve.

In 2015, FHA assisted over 443 thousand homeowners through its loss mitigation home retention servicing tools. However, when it is not possible for homeowners to retain their homes under FHA guidelines, FHA has expanded use of its Distressed Asset Sale pilot

Program to sell notes to other investors who may be able to provide alternative loss mitigation options or other strategies for homeowners.

Strengthening FHA's Capital Reserves

The 2015 actuarial review reported that the MMI Fund's capital ratio is now above Congress' two percent requirement, a full year earlier than last year's projection. FHA's independent actuary reports the Fund's capital ratio is 2.07 percent, up from 0.41 percent in fiscal year 2014. The economic health of the MMI Fund improved significantly in fiscal year 2015 with a net value of nearly $24 billion, an increase of $19 billion over fiscal year 2014. This gain in economic value is the largest one-year increase since fiscal year 2012. In the past three consecutive fiscal years, the Fund's value increased by $40 billion. This improvement shows tremendous progress, especially considering that the Fund had a negative value of $16.3 billion in fiscal year 2012.

FHA's decision in January to reduce annual mortgage insurance premiums (MIP) helped stimulate a 42 percent increase in total volume including a 27 percent hike in purchase-loan endorsements. The MIP reduction also promoted access to credit by serving 75,000 new borrowers with credit scores of 680 or below.

Housing Counseling as a Means of Increasing Sustainable Access to Credit and Protecting the MMIF

The HUD-approved housing counseling network provides a valuable service to existing and prospective homebuyers. These benefits include improved loan performance as counseled borrowers perform better than similar borrowers that do not receive the benefit of housing counseling. There is strong and mounting evidence that properly structured and delivered housing counseling provides a significant benefit to borrowers, lenders, servicers and guarantors. The HUD approved housing counseling network is also leveraged by many state and local governments. In response, many states, local governments and large private lenders mandate or encourage housing counseling for homebuyers as a condition for participation in programs that increase access to home mortgages, including FHA insured mortgage loans, for eligible first-time buyers underserved by the current mortgage market.

While counseling is already integrated into FHA's HECM program and a component of its Back to Work mortgage product, in 2016, FHA will look for opportunities to increase the awareness of housing counseling for all prospective and existing homebuyers. In addition, it will look for opportunities to expand the number of people benefiting from housing counseling, including the number of FHA borrowers who are counseled.

Strengthening FHA Business Practices – FHA Transformation IT Investments

Housing/FHA Automation of Business Processes

The technology supporting FHA is a set of complex, aging IT systems with COBOL-based mainframe applications as the foundation. These legacy systems were assembled as needs surfaced over the last 30 years without the benefit of an architectural plan in which these systems could be integrated and grow in an orderly fashion.

Today, FHA operations require data to move between numerous touch points through hundreds of interfaces, resulting in an environment that has become increasingly complex, costly, and difficult to maintain. The complex nature of the current IT environment constrains FHA's ability to adapt its operations to changes in the housing industry, economic trends, and new legislation.

This funding request supports the continued planning, design, and execution for requirements focused on Counterparty Management, Portfolio Analysis, Borrower/Collateral Risk Management/Fraud Monitoring and Infrastructure/Application Modernization. It will modernize obsolete applications and reduce infrastructure costs, reduce fragmentation of legacy systems, and leverage shared components and data in support of multiple Housing programs.

Business Need/Value

In fiscal year 2010, FHA began planning for the execution of strategic initiative recommendations originating from the IT Strategy and Improvement Plan completed in August 2009. These initiatives sought to streamline current FHA business processes and modernize the technical infrastructure and applications for Loan Origination and Underwriting, Business Partner Approval, and Business Partner Monitoring processes.

To date FHA has deployed multiple transformed business capabilities consistent with the objective of automating and consolidating processes to drive improvements in the acquisition of lender, borrower, and asset data for improved reporting, transparency, and informed decision-making throughout the end-to-end life cycle of the loan.

FHA must keep pace with industry standards as lenders, servicers, investors, and others are improving their access to data. By continuing to invest in automated and modernized business processes, FHA will be better informed of risk and improve its policies for endorsement, servicing, quality control, counterparty management, and enforcement. Critical data needs include appraisal, loan application, borrower, loan documents and data, and counterparty data such as appraiser, lender, servicer, and non-profit entity information.

Loan Review System

Throughout fiscal year 2015, after considering comments solicited from stakeholders, FHA developed a new Quality Assurance Defect Taxonomy to simplify and more effectively and clearly communicate quality control results to FHA lenders. FHA developed a framework around three key components: identifying defects, assessing the severity of the defects, and focusing on the sources and causes of the defects. During fiscal year 2016 FHA will work to make systems changes and build the Loan Review System (LRS) that

will allow the new Quality Assurance Taxonomy to be implemented. This will provide clarity and transparency in FHA's policies and encourage lending to qualified borrowers across the credit spectrum.

Risk Management

The major objective of the Office of Risk Management and Regulatory Affairs (ORMRA) is to: conduct analysis and recommend actions to reduce exposure to FHA insurance funds while meeting its housing mission; ensure that FHA operates in compliance with statutory capital requirements; and promote a well-controlled operational infrastructure. The risk management staff's scope of credit and operational risk management work encompasses Program Area (Single Family, Multifamily and Healthcare) activities conducted at headquarters and the Field Offices.

ORMRA performs the following functions to manage risk:

- performs analyses and recommends actions to support FHA's ability to reduce risk exposure to its insurance funds;
- identifies the policies and processes that are key drivers of risk via a structured risk identification framework;
- recommends risk mitigation strategies for FHA and specific program areas and provide independent oversight and assessment of risk remediation activities;
- designs and maintains a comprehensive risk governance infrastructure, including implementing policies, processes, and committees to reduce risk exposure to the insurance funds;
- maintains risk management processes to perform independent internal risk and assessments aligned with federal standards, including front end risk assessments of new and high impact programs and activities; and
- ensures that risks are measured, monitored and managed according to an integrated framework across programs.

5. Proposals in the Budget

- Administrative Support Fee. Up to $30 million in fees on endorsements through September 30, 2019, to be charged to lenders pursuant to section 202 of the National Housing Act, as amended by section 238 of the General Provisions. Collection of the receipts from such fees will be credited as offsetting collections to the MMI Program account. Up to $30 million of the total fees may be transferred to the Information Technology Fund and/or the Housing Salaries & Expenses account to be used for the purpose of modernizing FHA systems and supporting the implementation of new practices for interaction with lenders. (Section 238; account language)

- Permanent Removal of HECM Cap. This provision removes the aggregate mortgage cap in Section 255(g) of the National Housing Act (Act), which limits the total number of Home Equity Conversion Mortgages (HECM) loans that can be insured by the FHA. The Department proposes to repeal the first sentence in the Act to remove the cap permanently. (Sec. 209)

- Clarification on Non-Borrower Spouse Upon Death of HECM Borrower. This section revises the National Housing Act to clarify that the term mortgagor does not include the successors and assigns of the original borrower. In addition, it allows that the obligation to satisfy the loan is deferred until the death of the homeowner, the sale of the home, or other occurrence of other events specified in regulations of the Secretary. Finally, it provides for the Secretary, in his sole discretion, to provide for further deferrals. (Sec. 249)

- Amend the National Housing Act to allow third party loan originators to close loans in their own name instead of the name of their FHA approved funding partner. The inability of non-approved entities to close loans in their names poses a number of problems for these lenders. First, many states' licensing criteria for particular lender types is based upon whether or not a lender closes loans in its own name. As a result, absent a change to this statutory requirement, many lenders that have originated FHA loans for years will be forced to alter their state licensing. Such changes can be difficult and costly. In addition to the licensing problems posed by the statutory prohibition in 203(b)(1), many lenders will also be forced to change their funding arrangements if this statute is not amended. (Sec. 243)

- Amend the National Housing Act to enable FHA to take enforcement action against lenders on a nationwide instead of branch by branch termination authority. Amends section 533 of the National Housing Act (12 U.S.C. 1735f-11) to give the Secretary enhanced ability to review mortgagee performance and, if a mortgagee is found to have an excessive rate of early defaults or claims, to terminate the approval of the mortgagee to originate or underwrite single family mortgages in a specified area or areas, or on a nationwide basis. (Sec. 244)

- Amend Credit Watch language to allow for a comparison of rates and revises the rate provision to allow for some evaluation of multiple rates or other marker. The current statutory definition of credit watch is too prescriptive, creating difficulties in developing and implementing policies. This requested language is also included in the enforcement reform item. (Sec. 244)

- Allow FHA to seek indemnification from DE lenders in addition to LI Lenders. This has been included in FHA Reform Efforts. This language will make all FHA lenders subject to the same enforcement regime. Section 3 amends section 202 of the National Housing Act (12 U.S.C. 1708) by adding a new section that gives FHA/the Secretary authority to ensure that DE (similar to LI) mortgage lenders are liable to indemnify the Secretary for loss on loans they originate or underwrite if fraud or misrepresentation was involved in connection with the origination or underwriting regardless of when an insurance claim is paid. (Sec. 245)

- Revises the National Housing Act to allow for short sales in the case of imminent and not just actual default. Currently FHA is only able to allow for pre-foreclosure/short sales if a borrower has entered into default, creating a negative disincentive for homeowners having trouble making their mortgage payments and seeking a loss mitigation solution. (Sec. 246)

- Limit the applicability of government financed down payment assistance towards satisfying FHA requirements. This amendment seeks to clarify that Down payment Assistance from state and local governments and their respective agencies and instrumentalities are not impermissible sources of down payment assistance. Rather the amendment clarifies Congress's intent to avoid the additional risks and costs to the FHA fund created by seller-funded down payment assistance programs and, consequently, eliminates government assistance, whether state or local, as a prohibited source of down payments assistance. (Sec. 247)

- Allow for FHA to direct servicers to move servicing to identified sub-servicers. Failure to effectively service loans creates liability for the FHA insurance fund; as such, FHA needs the ability of direct servicers to utilize identified sub-servicers to ensure that loans are appropriately serviced in ways that mitigate loss levels for the Fund. (Sec. 248)

6. Notes to Justification

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 projected claims, pre-payments, premium revenue, and recoveries on defaults for a cohort of loans over their lifetime. In accordance with the Federal 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. Re-estimates are calculated for each cohort of loans (from 1992 onward). For more information on the re-estimates, please view the Federal Credit Supplement.

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

Budget Activity	2015 Budget Authority	2014 Carryover Into 2015	2015 Total Resources	2015 Obligations	2016 Budget Authority	2015 Carryover Into 2016	2016 Total Resources	2017 Request
Administrative Contract Expense	$130,000	$47,238	$177,238	$129,815	$130,000	$49,667	$179,667	$160,000
Research and Technology (transfer)	...	...	...	...	...	...	...	[800]
Total	130,000	47,238	177,238	129,815	130,000	49,667	179,667	160,000

HOUSING
FHA – MUTUAL MORTGAGE INSURANCE FUND
Appropriations Language

The fiscal year 2017 President's Budget includes proposed changes in the appropriation language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed.

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, [2017] *2018*: Provided, That during fiscal year [2016] *2017*, obligations to make direct loans to carry out the purposes of section 204(g) of the National Housing Act, as amended, shall not exceed $5,000,000: 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: Provided further, That for administrative contract expenses of the Federal Housing Administration, [$130,000,000] *$160,000,000*, to remain available until September 30, [2017] *2018: of which up to $30,000,000 may be used for necessary salaries and expenses and information technology systems of the Federal Housing Administration, which is in addition to amounts otherwise provided under this title for such salaries and expenses and information technology purposes: Provided further, That any amounts to be used for such salaries and expenses pursuant to the previous proviso shall be transferred to the "Housing" account under the heading "Program Office Salaries and Expenses" under this title for such purposes and shall remain available until September 30, 2018, and any amounts to be used for such information technology purposes pursuant to the previous proviso shall be transferred to the Information Technology Fund under this title for such purposes and shall remain available until September 30, 2018, and any such transferred amounts may be transferred back to this account and shall remain available until September 30, 2018*: Provided further, That to the extent guaranteed loan commitments exceed $200,000,000,000 on or before April 1, [2016] *2017*, 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*: Provided further, That receipts from administrative support fees collected pursuant to section 202 of the National Housing Act, as amended by section 238 of this title, shall be credited as offsetting collections to this account*.
(Department of Housing and Urban Development Appropriations Act, 2016.)

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
2017 Summary Statement and Initiatives
(Dollars in Thousands)

FHA--GENERAL AND SPECIAL RISK INSURANCE FUND	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2015 Appropriation	...	$16,408	-$10,000[a]	$6,408	...	...
2016 Appropriation	...	6,408	-6,000[b]	408	...	...
2017 Request	...	408	...	408	...	...
Program Improvements/Offsets	...	-6,000	+6,000	...	...	...

a/ The rescission of funds from the unobligated balance of credit subsidy appropriated in previous fiscal years, pursuant to the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235).

b/ In 2016, a total $12 million will be permanently rescinded from the GI/SRI Program Account and the Native American Housing Block Grants, pursuant to the Consolidated Appropriations Act, 2016 (P.L. 114-113). Of this total, $6 million will be rescinded from the GI/SRI Program account.

1. What is this request?

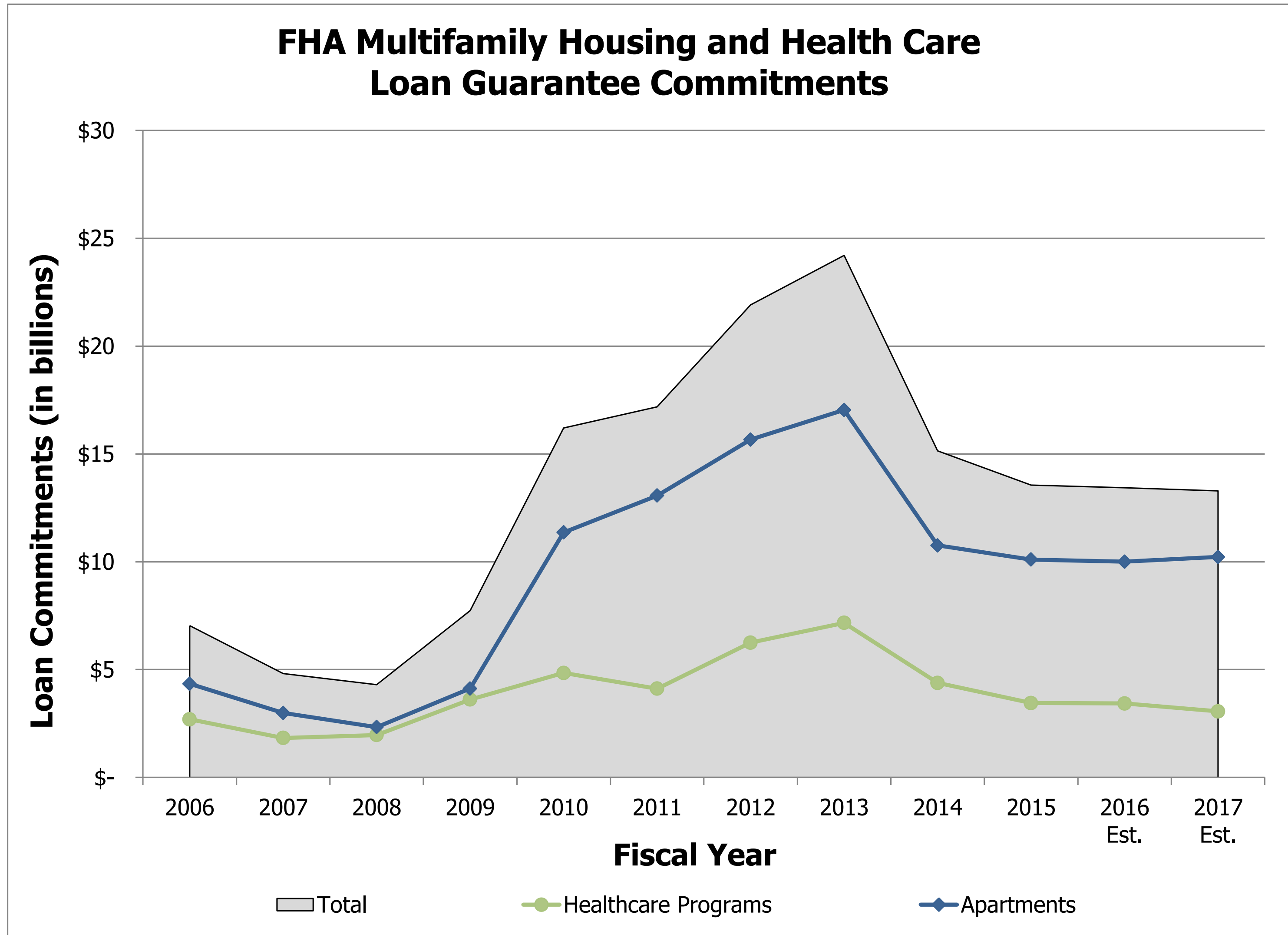
Credit programs operating under the Federal Housing Administration's (FHA) General Insurance and Special Risk Insurance (GI/SRI) Fund fill underserved market segments and play a countercyclical role in the market by insuring critical mortgage financing for multifamily rental housing, nursing home facilities, and hospitals. GI/SRI programs also include loan guarantees for Title I manufactured housing and property improvement loans. GI/SRI houses a wide range of mortgage insurance products to address specialized financing needs, including insurance for loans to develop, rehabilitate, and refinance these properties.

The fiscal year 2017 request for GI/SRI includes four components:

Commitment authority for up to $30 billion in new loan guarantees. New loan guarantee commitments were $15.3 billion in fiscal year 2014 and decreased to $13.4 billion in fiscal year 2015. In fiscal year 2015, the Department began initiating loans under the Federal Financing Bank (FFB) risk share program. The $30 billion requested for fiscal year 2017, together with $30 billion in 2016 unused commitment authority carried over to 2017, will allow up to $60 billion in new insurance commitments. This will permit the Fund to respond to unforeseen countercyclical events while minimizing the risk of suspension of program activity as a result of having exhausted the fund's loan guarantee limitation.

It is estimated that 2017 new loan guarantee commitments will be $13.8 billion. Of the total commitments projected for 2017, it is estimated that $10.6 billion will be issued for FHA's multifamily housing programs, which includes $350 million in direct loan obligations under the FFB Risk Share Program. Another $3.1 billion is estimated for hospitals and residential care facility mortgages.

Title I Property Improvements and Manufactured Housing commitments are expected to make up less than 1 percent of new activity in the fund.



Mortgage and Loan Insurance Programs-GI/SRI Account

Offsetting receipt estimates from negative credit subsidy. Fiscal year 2017 negative subsidy receipts for GISRI are estimated at $464 million, with the subsidy rate for new business averaging -3.60 percent. No new appropriations for positive credit subsidy are requested for fiscal year 2017.

Administrative contract funding 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 across mortgage insurance programs.

Commitment authority for up to $5 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 income. This program remains a valuable tool for HUD in supporting affordable homeownership opportunities in distressed communities where private, state or local government funding is in limited supply while responsibly managing its real estate owned (REO) inventory of properties.

	2015 Enacted	**2016 Enacted**	**2017 Request** a/	**Increase / (Decrease)**
Loan Guarantee Limitation	$30,000,000,000	$30,000,000,000	$30,000,000,000	...
(+) Unused Loan Guarantee Limitation from Prior Year	14,728,000,000	30,000,000,000	30,000,000,000	...
Subtotal, Loan Guarantee Limitation	44,728,000,000	60,000,000,000	60,000,000,000	...
(-) Loan Guarantee Commitments Used	13,440,000,000	13,805,000,000	13,760,000,000	($45,000,000)
Unused Loan Guarantee Limitation	31,288,000,000	46,195,000,000	46,240,000,000	45,000,000
Direct Loan Limitation	20,000,000	5,000,000	5,000,000	...

a/ The 2017 Unused Loan Guarantee Limitation from Prior Year and Loan Guarantee Commitments Used are estimated. Commitment authority is assumed to be used and expired on a first-in-first-out basis.

2. What is this program?

Multifamily and healthcare loans constitute 99 percent of new insurance commitments in GI/SRI. At the end of fiscal year 2015, GI/SRI's multifamily/healthcare portfolio had an unpaid principal balance (UPB) of $104.3 billion, an increase of $3.2 billion over that at the end of September 2014.

As of the end of fiscal year 2015, the entire GI/SRI insurance portfolio had an unpaid principal balance of $149.2 billion, including $44.9 billion in single family loans and Home Equity Conversion Mortgage (HECM) loans issued before 2009. These active loans cover apartments, healthcare facility beds, and single family homes across the nation.

Reductions to the multifamily mortgage insurance premiums (MIP) for affordable housing and energy-efficient housing will be implemented on April 1, 2016. FHA predicts that the premium reductions will promote the development of more than 400 new affordable units per year and the rehabilitation of 12,000 units of affordable housing per year due to the owners receiving additional loan proceeds. Furthermore, FHA projects that the MIP reductions will increase access to affordable units by promoting inclusionary zoning and other affordability initiatives, while also expanding the mobility options for residents by increasing the number of units accepting voucher holders as tenants. With respect to energy-efficient housing, FHA believes the rate reductions will encourage property owners to adopt higher standards for construction and rehabilitation, which will result in projects with greater energy and water efficiency. This will reduce utility costs, improve indoor air quality, and reduce the impact on the environment.

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 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.

FHA mortgage insurance facilitates fixed-rate loans with long-term amortization not found with conventional lending sources. This mitigates interest rate risk for owners because they do not necessarily have to refinance to maintain affordability of their payments. The long-term amortization period and guarantee of payment in the event of claim stabilizes interest rates and can also allow monthly mortgage payments to be less than payments required under non-insured financing. These savings in turn can reduce the overall costs of developing and maintaining housing, stabilizing housing markets and benefiting low- and moderate-income residents. Similarly, FHA financing of healthcare facilities contributes to lower healthcare costs for taxpayers and consumers.

Multifamily and healthcare loans are large and complex, as seen in the program administration. Prior to receiving a mortgage guarantee for any multifamily or healthcare loan, lenders and borrowers must complete a rigorous application process in which HUD

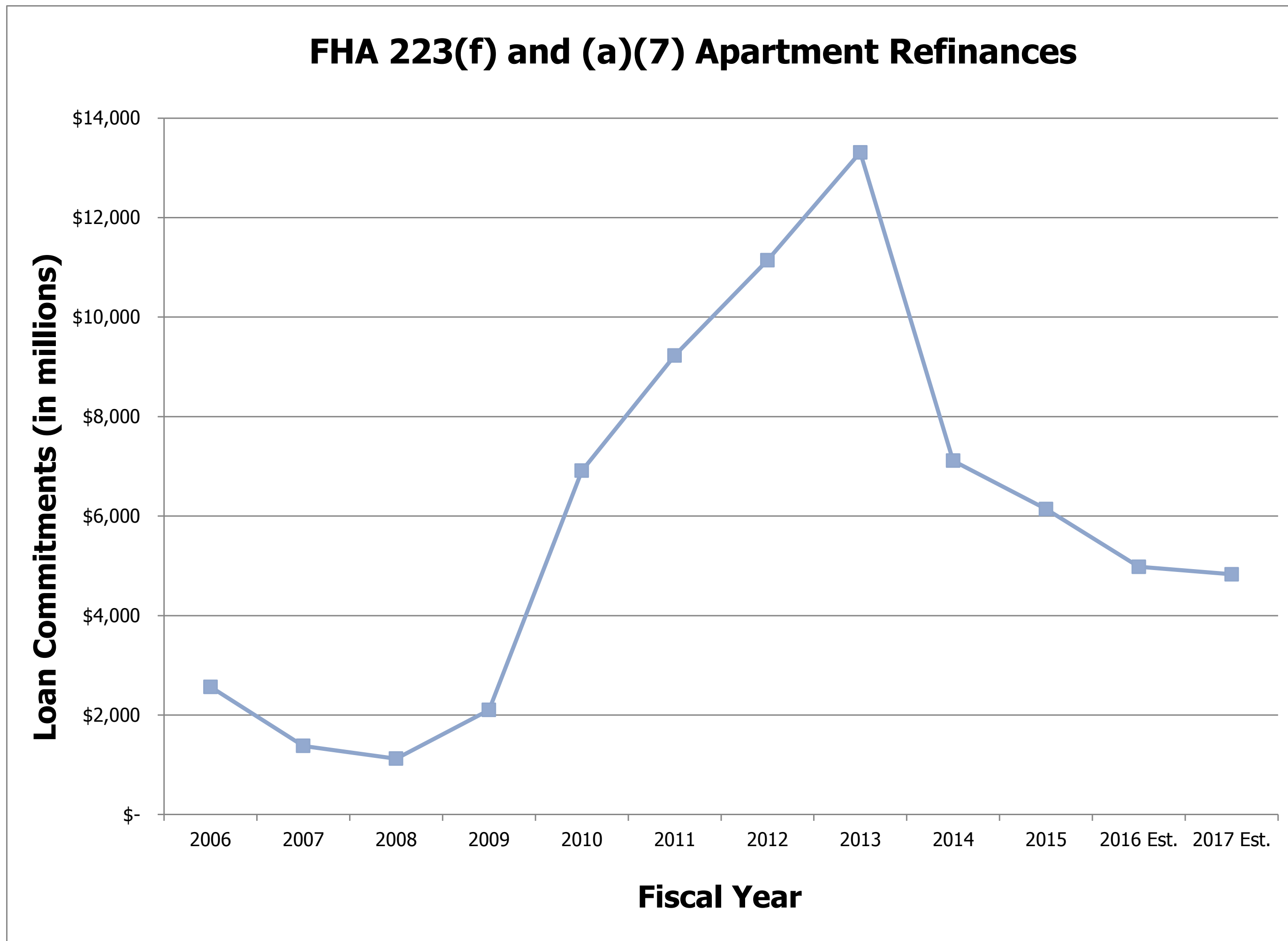
staff review borrower credit worthiness, project cash flow projections, property appraisals, architectural design, environmental impact, requested loan size, quality of the property management, and other information that establishes a loan as an acceptable credit risk to HUD. Large multifamily housing 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 renovation 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. Loss mitigation measures, including partial payment of claims based on 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.

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 2015, new Section 221(d)(4) loans averaged $23.4 million and included an average of 164 units. The program insures loans for up to 100 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.

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.

Commitments under these programs totaled $5.5 billion in fiscal year 2015, a decrease of 23 percent from fiscal year 2014. In the period from fiscal years 2009 – 2015, FHA issued commitments in excess of $55 billion as indicated in the following chart. The lower volume in 2015 is due to higher interest rates and a much more robust capital environment. Since interest rates are expected to stay more or less the same or increase gradually, fiscal year 2016 volume is expected to decrease by 10 percent. Fiscal year 2017 volume is forecasted to remain relatively flat.



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 FHA-insured first mortgage. In fiscal year 2015, thirty-five Section 241(a) loans were insured. 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), these loans require a Mortgage Insurance Premium (MIP) higher than under the standard Section 542(b) program. This variation of Section 542(b) is also known as "Green Risk Sharing" or "Risk Sharing Plus".

HUD launched the Small Buildings Risk Share (SBRS) Initiative in 2015 and continues to implement that in fiscal year 2016. The Budget continues to propose an amendment to the Section 542(b) authorizing statute that would remove affordability restrictions for small (5-49 units) properties financed under the SBRS Initiative. The change is intended to reduce the burden on owners who utilize the Risk Sharing Program to refinance or rehabilitate their properties, the small multifamily properties that 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- to 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.

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.

Section 542 (b) and (c) FFB Financed Direct Loan and HFA Risk Share. The Federal Financing Bank (FFB) is a unit within the Treasury Department that focuses on reducing the cost of federally-assisted borrowing. Announced in June 2014, this initiative is an inter-agency partnership between HUD, FFB and Housing Finance Agencies to develop a Ginnie Mae-like financing mechanism for risk share partners. Specifically, the Federal Financing Bank (FFB) provides funding for multifamily mortgage loans insured by FHA through its Risk Sharing programs. FFB does not securitize the mortgages; rather, FFB purchases certificates backed by the FHA-insured mortgages. The proposed program substitutes FFB as the funding source until use of Ginnie Mae Securitization is allowed

for the Section 542 (b) and (c) programs. FFB funding rates are designed to be comparable to Ginnie Mae rates, since the FFB charges interest for a transaction based on the comparable Treasury rate plus a small liquidity premium.

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.

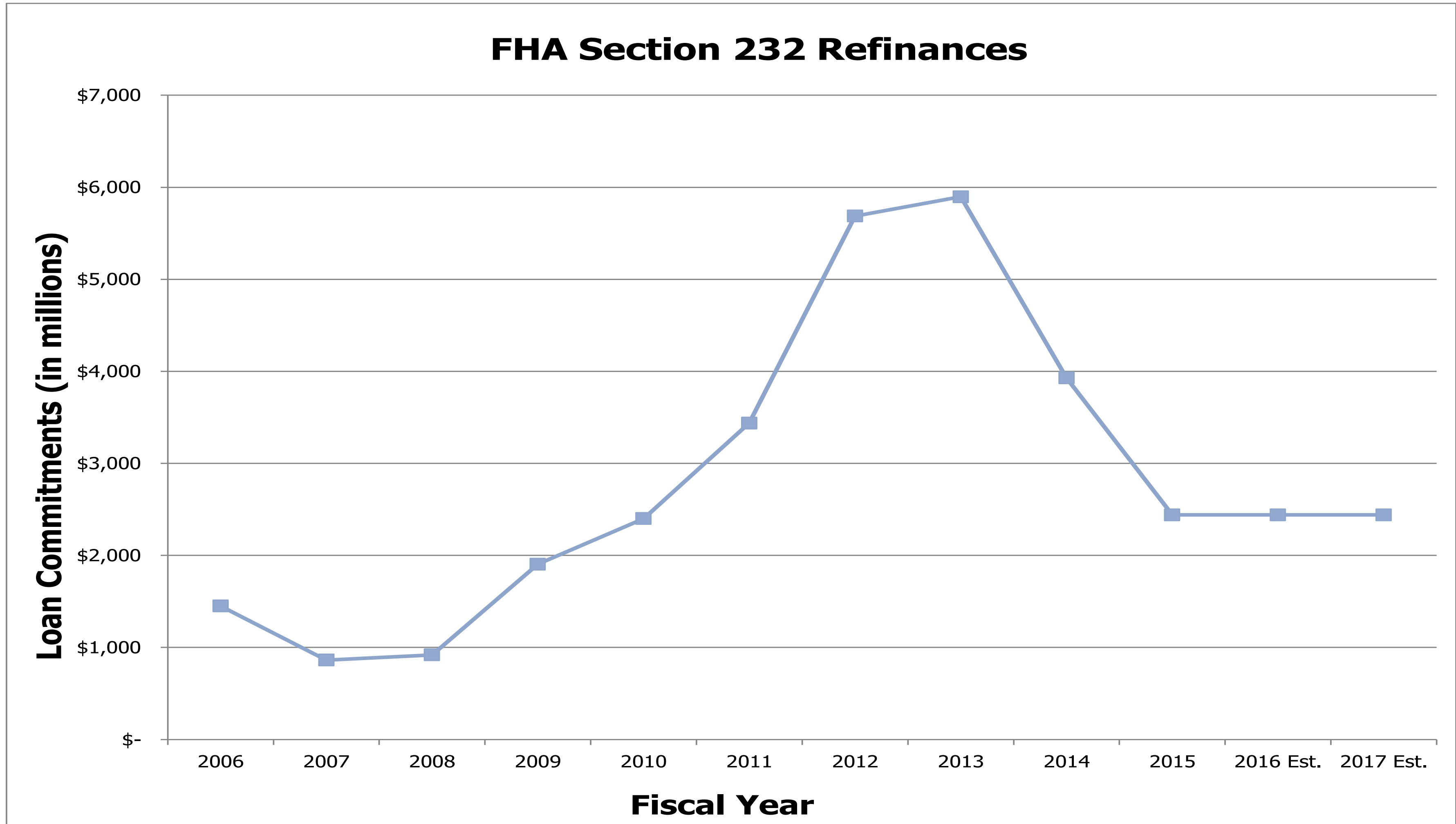
Tax Credit Projects. Projects assisted with Low-Income Housing Tax Credits (LIHTC) may be insured under a number of FHA multifamily programs, but are grouped together in a single budget risk category. These loans have a lower risk of default than similar projects without tax credits and require borrowers to pay lower FHA mortgage insurance premiums. Use of Section 221(d)(4) with LIHTC will likely be consistent with original estimates for 2014 given recent increased interest in FHA lending by state HFA's and other mission driven lenders for new construction and substantial rehabilitation transactions. Use of Section 223(f) with LIHTC has increased dramatically in 2014 and 2015 as a result of the Tax Credit Pilot introduced in spring 2012.

Healthcare Risk Categories

Section 232 New Construction/Substantial Rehabilitation of Residential 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. For fiscal year 2015, new loan commitments for this program were $325 million, and are estimated to be approximately $325 million for both fiscal years 2016 and 2017.

Section 232/223(f) Refinancing and Purchase of Existing Residential Care Facilities. The Section 232/223(f) refinancing program, the second of the two budget risk categories of the section 232 program, has grown to be one of the highest volume insurance programs in GI/SRI, due in great part to mortgagors of existing facilities taking advantage of refinancing at low interest rates. 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 were $2.4 billion for fiscal year 2015 and are projected to be $2.4 billion for both fiscal years 2016 and 2017.



Section 242 Hospitals. The Section 242 program provides mortgage insurance for loans made to 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, if applicable. The risk category also includes Section 241(a) supplemental loans, Section 223(a)(7) loans for refinancing current FHA-insured projects, and Section 223(e) loans for hospitals in older, economically declining urban areas. On February 5, 2013, HUD published a final rule that enables HUD to offer Section 242/223(f) refinance loans, allowing non-portfolio hospitals to refinance capital debt through FHA. New loan commitments for all Hospital programs were $160 million in fiscal year 2015 and are projected to reach nearly $665 million and $300 million in fiscal years 2016 and 2017, respectively.

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 disbursements were $90 million in fiscal year 2015 and are projected to be $90 million in fiscal years 2016 and 2017. In 2011, FHA launched a "PowerSaver" pilot program that has generated new loan volume for this risk category. Operating under Title 1 authority and regulatory framework, PowerSaver provides single-family homeowners loans of up to $25,000 for proven energy-saving improvements. Program lenders received incentive grants from the HUD Energy Innovation Fund to help lower the cost of loans to consumers. PowerSaver was designed as a two-year pilot, and later extended through May 4, 2015.

Title 1, Manufactured Housing. Under Title I, HUD provides mortgage insurance for individuals to finance manufactured homes and lots on which to set the homes. In fiscal year 2015, $32 million in manufactured housing loans were endorsed, with $30 million projected for fiscal years 2016 and 2017.

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. These programs provide the necessary liquidity so that communities can continue to provide quality affordable housing and assisted living/nursing home opportunities. In fiscal year 2017, FHA is projected to issue loan insurance commitments providing financing for approximately 1,000 apartment projects and 350 healthcare facilities. The fiscal 2017 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:

- 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 addition to providing better access to credit for new developments, FHA supports refinance lending that preserves financially healthy housing and healthcare projects by helping them to reduce high 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.

The following tables indicate projected FFB risk share direct loan levels and loan guarantee commitment volumes in fiscal years 2015, 2016, and 2017 and their respective credit subsidy rates and negative subsidy in fiscal year 2017. 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

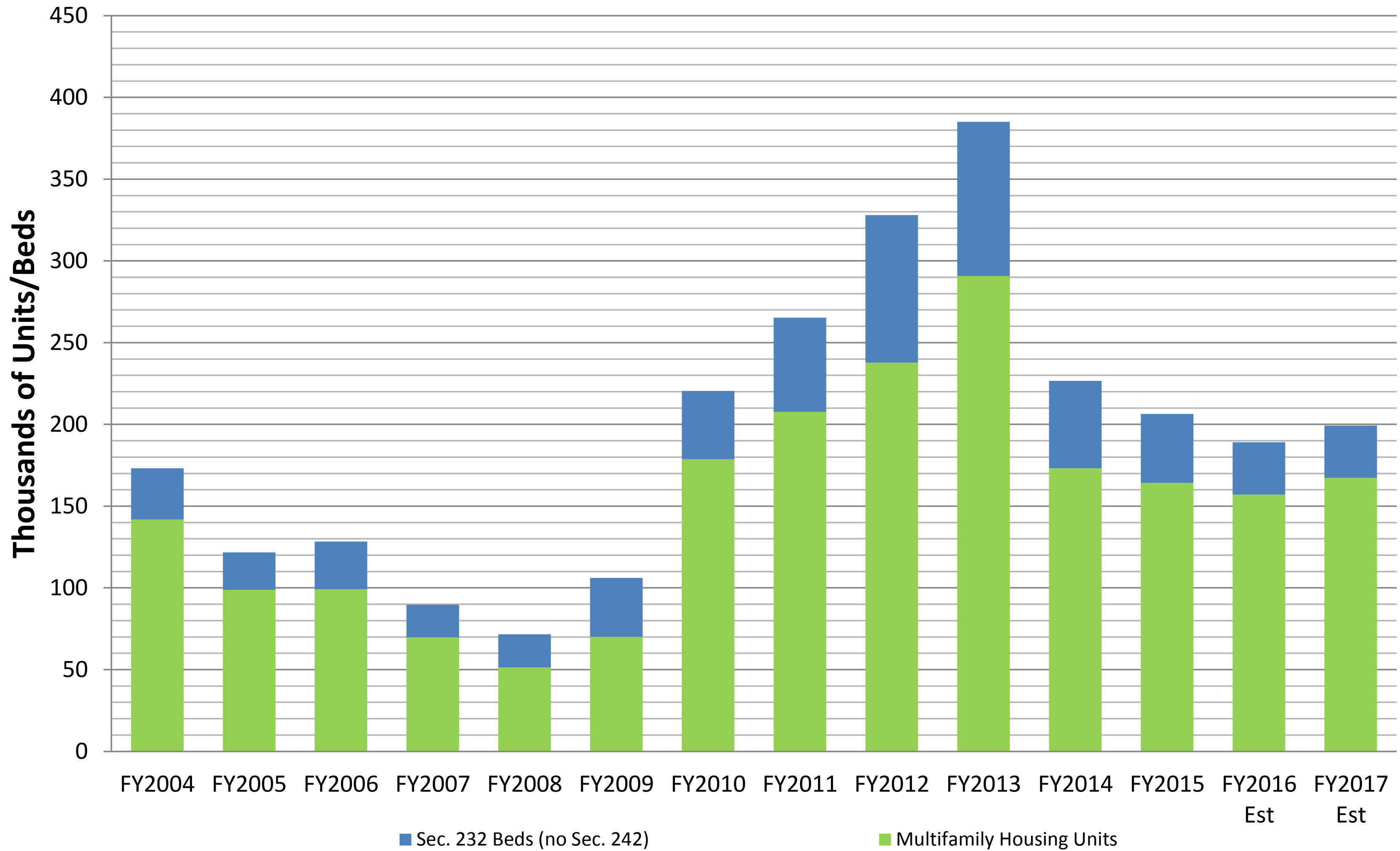
GI/SRI PROGRAMS (IN $MILLIONS)	Obligations Actual FY2015	Obligations Estimate FY2016	Obligations Estimate FY2017	Subsidy Rate[1] FY2017	Negative Subsidy Budget Authority FY2017	Offsetting Receipts Paid to Treasury [2] FY2017
Direct Loan Levels						
FFB Risk Sharing	$106	$250	$350	-11.19%	$39	$34

Guaranteed Loan Levels	Commitment Estimates FY2015 [1]	Commitment Estimates FY2016	Commitment Estimates FY2017	Subsidy Rate FY2017	Negative Subsidy Budget Authority FY2017	Offsetting Receipts Paid to Treasury [2] FY2017
Apartment New Construction / Substantial Rehab	$2,333	$2,460	$2,630	-2.76%	$73	$67
Tax Credits	$2,247	$2,360	$2,525	-1.14%	$29	$28
Apartment Refinances	$5,531	$4,980	$4,830	-3.89%	$188	$183
Housing Finance Agency Risk Sharing	$100	$105	$110	-1.05%	$1	$1
Qualified Participating Entity Risk Sharing	$4	$30	$55	-0.31%	$0	$0
Other Rental	$67	$70	$75	-3.45%	$3	$2
Sutotal - Multifamily Programs[3]	***$10,282***	***$10,005***	***$10,225***	***2.88%***	***$294***	***$281***
Residential Care Facilities	$325	$325	$325	-5.85%	$19	$16
Residential Care Facility Refinances	$2,445	$2,440	$2,440	-5.14%	$125	$114
Hospitals	$160	$665	$300	-5.52%	$17	$17
Sutotal - Healthcare Programs[3]	***$2,930***	***$3,430***	***$3,065***	***5.25%***	***$161***	***$147***
Title I Property Improvement	$90	$90	$90	-1.07%	$1	$1
Title I Manufactured Housing	$32	$30	$30	-3.78%	$1	$1
Total - Guaranteed Loan Levels[3]	***$13,334***	***$13,555***	***$13,410***	***3.40%***	***$457***	***$430***
Total - GI/SRI Fund[3]	**$13,440**	**$13,805**	**$13,760**	**3.60%**	**$496**	**$464**

1. Fiscal year 2017 subsidy rates reflect reduced Mortgage Insurance Premiums that are expected to take effect on April 1, 2016.
2. Negative subsidy is obligated when the commitment for insurance is issued and disbursed subsequently at the time of initial endorsement.
3. The subsidy rate is a weighted average.

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, over the last 10 years, FHA GI/SRI insurance has supported over 1.5 million multifamily housing units and nearly 500,000 residential care facility beds. FHA-insured projects can have a significant impact on the economic health of the community, as described in the previous section.


Housing Units/Beds Supported by
FHA Multifamily Housing & Health Care Mortgage Insurance
Thousands of Units/Beds
450
400
350
300
250
200
150
100
50
0
FY2004
FY2005
FY2006
FY2007
FY2008
FY2009
FY2010
FY2011
FY2012
FY2013
FY2014
FY2015
FY2016 Est
FY2017 Est
Sec. 232 Beds (no Sec. 242)
Multifamily Housing Units

With each mortgage it insures, FHA carefully considers the benefits to the community along with financial risks to the government. Cognizant of the increased risks associated with FHA's expanding role in the housing market, the Department has launched several new initiatives aimed at appropriately managing the risk involved with multifamily loans.

In addition to the multifamily risk-management processes, FHA has also taken steps to improve program administration of the healthcare insurance programs through business process improvements. In the Section 232 program, Lean Thinking continuous improvement methodologies have been applied to new construction and refinance application processing to streamline applications, eliminate waste, and increase efficiency. Section 232's Lean Program employs standardized work products and processes that focus attention on loan risk in order to obtain consistent, timely results.

GI/SRI by the Numbers – FY 2015

Insurance in Force	**$149.2 Billion**
New Commitments	$13.4 Billion
Average Multifamily Housing Loan	$13.8 Million
Average Section 232 Loan	$9.5 Million
Average Hospital Loan	$14.5 Million
Negative Subsidy Offsetting Receipts	$521.0 Million
Premiums Collected	$858.0 Million
Claims Paid – Single-Family/HECM	$3.6 Billion
Claims Paid - Multifamily/Healthcare	$98.0 Million
Recoveries on Claims	$699.6 Million

For multifamily housing insurance programs, FHA launched the "Multifamily for Tomorrow" (MFT) initiative in fiscal year 2010 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 standardizing processes to achieve consistent and timely results. One of the signature elements of Multifamily for Tomorrow is the new Single Underwriter model, which assigns a single person to be responsible for a transaction. The underwriter coordinates with specialists as needed during the underwriting process. In addition, a new workload management system, ASAP, is being rolled out to better track deal flow.

FHA's efficiency improvement efforts have resulted in an increase in the number of applications processed within the target timeframes. The Southwest Region of Multifamily Housing, the first region to complete the MFT initiative, has exceeded its prior-year processing times across all application types. For a period of several months prior to MFT, the region issued firm commitments within the target timeframes on zero percent of its 223(a)(7) applications. In the same period after MFT, that number rose sharply, with the region completing 78 percent of the applications within target timeframes. Similarly, for 223(f) applications, the percent processed within the target timeframes rose from 12 percent to 32 percent over the same periods.

5. Proposals in the Budget

- Eligibility for FHA-insured Properties: Clarifies that low-and-moderate income persons under 62 years of age are eligible for occupancy of dwelling units in a project financed with a mortgage insured under 221(d)(4), similar to those with a mortgage insured under 221(d)(3). (Sec. 235)

- Loan Assignment Authority: Eliminates Section 221(g)(4) of the National Housing Act regarding loan assignment authority. The provision is no longer necessary because there are no longer any outstanding loans remaining in the portfolio that would qualify under this provision. (Sec. 236)

- Remove "Technical Suitability of Products Program" Requirement: Remove from mandatory use the "Technical Suitability of Products Program" for programs covered under FHA's mortgage insurance platform. This program has fallen into disuse as the industry and HUD are increasingly relying on industry standards. (Sec. 242)

- FHA/Ginnie Mae Risk Sharing Securitization: HUD is expanding its pool of risk sharing lenders to include lenders that have demonstrated experience in affordable housing lending, specifically in order to increase the availability of capital to small multifamily properties of 5-49 units. The language would authorize Ginnie Mae to securitize these small loans made under Sections 542(b) and 542(c). (Sec. 225)

- Multifamily Risk Share Program: Amendment of Affordability Restrictions for Small Buildings: The language would remove some of the affordability restrictions currently required under Section 542(b), for loans originated under the small buildings initiative, in order to reduce the ongoing burden on owners. Specifically, the language will remove the requirement for owners to perform annual income recertifications for residents. These small properties are underserved by the conventional market, and are traditionally underserved by FHA as well. The provision focuses on the particular needs of very small (20 units and under), unsubsidized properties. These small properties comprise a significant share of rental housing in certain urban areas. Small multifamily properties are an important means for the Department to meet its affordable housing and community development goals. These properties are more likely to be owned by small entities or individuals, tend to be concentrated in lower income neighborhoods, and often offer rents affordable to households below median income. (Sec. 225)

- Critical Access Hospitals: Eliminates the sunset date and makes permanent the exemption for Critical Access Hospitals from the requirement that fifty percent of patient days must be for acute care services. That requirement is not appropriate for small rural hospitals, which provide many sub-acute services to their communities. Since 2003, the

exemption has allowed 10 such hospitals to qualify for mortgage insurance to modernize or replace their facilities. (Sec. 241)

- Amend the Definition of Multifamily Mortgage: This provision amends the definition of "multifamily mortgage" in the Multifamily Mortgage Foreclosure Act, 12 USC 3702(2), to include a mortgage held by the Secretary pursuant to "(F) Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRAA), as amended, 42 USC 1437f note" so that foreclosure of HUD-held loans originated under MAHRAA would be resolved in federal court rather than state courts. (Sec. 263)

6. 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.

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 ensure accurate 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 improve the accuracy and reliability of cost projections.

Each year, FHA completes a required re-estimate of liabilities and subsidy costs associated with the existing insurance portfolio. For more information on subsidy rates and re-estimates, please see the Federal Credit Supplement to the President's Budget.

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

Budget Activity	2015 Budget Authority	2014 Carryover Into 2015	2015 Total Resources	2015 Obligations	2016 Budget Authority	2015 Carryover Into 2016	2016 Total Resources	2017 Request
Positive Subsidy								
Appropriation	-$10,000	$16,408	$6,408	...	-$6,000	$6,408	$408	...
Total	-10,000	16,408	6,408	...	-6,000	6,408	408	...

HOUSING
FHA – GENERAL AND SPECIAL RISK INSURANCE FUND
Appropriations Language

The fiscal year 2017 President's Budget includes proposed changes in the appropriation language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed.

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, [2017] *2018*: Provided, That during fiscal year [2016] *2017*, 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 $5,000,000, 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. (Department of Housing and Urban Development Appropriations Act, 2016.)