HOUSING
FHA-MUTUAL MORTGAGE INSURANCE FUND
2018 Summary Statement and Initiatives
(Dollars in Thousands)

FHA--MUTUAL MORTGAGE & COOPERATIVE MGMT. HOUSING INSURANCE FUND	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2016 Appropriation	$130,000	$45,026[a]	...	$175,026	$120,008	$104,672
2017 Annualized CR	130,000	52,794[b]	-$247[c]	182,547	122,782	123,000
2018 Request	160,000[d]	63,765[e]	...	223,765	142,498	103,000
Change from 2017	+30,000	+10,971	+247	+41,218	+19,716	-20,000

a/ Carryover includes $45 million carried forward into fiscal year 2016 and $5 thousand recaptured during fiscal year 2016. Of the recaptured amount, $4 thousand expired at the end of fiscal year 2016.

b/ Carryover includes $47.7 million carried forward into fiscal year 2017 and $5 million estimated to be recaptured during fiscal year 2017.

c/ Public Law 114-254 requires a reduction from the fiscal year 2016 enacted budget authority of 0.1901 percent.

d/ The 2018 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.

e/ Carryover includes $59.8 million carried forward into fiscal year 2018 and $4 million estimated to be recaptured during fiscal year 2018.

1. Program Purpose and Fiscal Year 2018 Budget Overview

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 (traditional) mortgage insurance products and Home Equity Conversion Mortgages (HECM) (reverse mortgages) for seniors. Activity for the Cooperative Management Housing Insurance (CMHI) Fund – which insures mortgages for multifamily cooperatives – is also reported together with MMI. FHA MMI has served over 3.3 million families over the past three fiscal years through:

- Over 2.2 million forward purchase loan endorsements.
- Over 940 thousand families have refinanced their homes and reduced either their loan term or monthly payment.
- Over 158 thousand seniors have obtained a HECM loan enabling them to stay in their homes.

MMI's purchase loan endorsements for the past 3 years include 1.8 million first-time buyers, or 82.2 percent of all of the purchase loan endorsements. It is likely that many of these families would otherwise not have been served by the conventional mortgage market, providing crucial access to homeownership for these families.

2. Request

The fiscal year 2018 request for MMI includes four components:

- Commitment authority for up to $400 billion in new loan guarantees. The fiscal year 2018 Budget requests $400 billion in loan guarantee commitment limitation, which is to remain available until September 30, 2019. This limitation includes sufficient authority for insurance of single family mortgages and mortgages under the HECM program. Total loan volume projected for all MMI programs for fiscal year 2018 is $228.7 billion. Of that total, $213.9 billion is estimated for standard forward mortgages and $14.8 billion is for Home Equity Conversion Mortgages (HECM). 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 $228.7 billion in loan volume projected for the entire MMI portfolio in fiscal year 2018 is expected to generate $ 7.1 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, all of which will serve to benefit the lender, and ultimately the borrower. For this reason, 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 to be used for these 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.

3. Justification

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 strives 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.

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 can 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. FHA plays a counter-cyclical role, providing access to mortgage credit during periods of constriction in credit markets. Throughout the recent recession, FHA provided key support for the national mortgage market and mitigated the foreclosure crisis and the overall economic downturn.

As of September 30, 2016, the MMI insurance portfolio included 7.8 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 two risk categories (Forward Mortgages and HECM), each are discussed below:

<u>Forward Mortgage Insurance and Guaranteed Loans</u>. Single family programs provide mortgage insurance for the purchase and refinance of homes with one to four units. Loan products under this category include single family forward mortgages (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 95.0 percent of the total $260.3 billion in insurance endorsements for the MMI Fund under Section 203(b) during fiscal year 2016, the single family program is the largest FHA insurance program authorized under the National Housing Act.

<u>HECM</u>. 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; further changes will continue into fiscal year 2018. 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 (Butrica, Smith, and Iams 2012; Favreault et al. 2012; Munnell, Hou, and Webb 2014; VanDerhei 2011), rising health care and other costs (Johnson and Mommaerts 2009, 2010), fewer defined benefit pension programs and diminished investment values have had on senior's income and savings (Munnell 2014; Munnell and Sunden 2005). 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.

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.

Administrative Contract Appropriations

The $160 million request for fiscal year 2018 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.

In the private market, the technological advances in the housing finance industry have enhanced loan origination, servicing and lender monitoring capabilities. Because of a constrained fiscal environment and despite providing billions in offsetting collections to the federal government, FHA has not kept pace with these trends and continues to rely on antiquated technology and is forced to use a patchwork approach to insurance endorsement, claims payments and risk management. The President's Budget proposal of a $30 million increase over the fiscal year 2017 annualized CR will be offset by the proposed $30 million dollars in offsetting collections from lenders. These resources will fund enhancements to bring FHA's operations up to the industry standards by providing administrative contract support, 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, to be used for these purposes.

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

Budget Activity	2016 Budget Authority	2015 Carryover Into 2016	2016 Total Resources	2016 Obligations	2017 Annualized CR	2016 Carryover Into 2017	2017 Total Resources	2018 Request
Administrative Contract Expense	$130,000	$45,026	$175,026	$120,008	$129,753	$52,794	$182,547	$160,000[d]
Research and Technology (transfer)	...	...	...	...	...	...	...	...
Total	130,000	45,026	175,026	120,008	129,753	52,794	182,547	160,000

HOUSING
FHA – MUTUAL MORTGAGE INSURANCE FUND
Appropriations Language

The fiscal year 2018 President's Budget includes the appropriation language listed below.

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, 2019: Provided, That during fiscal year 2018, 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, $160,000,000, to remain available until September 30, 2019, of which up to $30,000,000 may be used for necessary salaries and expenses and information technology systems of the Federal Housing Administration, and shall be in addition to amounts otherwise provided under this title for such purposes: Provided further, That any amounts made available for salaries and expenses pursuant to the previous proviso shall be transferred to the "Housing" account under the general heading "Program Office Salaries and Expenses" under this title for such purposes and shall remain available until September 30, 2019, and any amounts to be used for information technology purposes pursuant to the previous proviso shall be transferred to the "Information Technology Fund" account under this title for such purposes and shall remain available until September 30, 2019: Provide further, That any amounts transferred pursuant to the previous proviso may be transferred back to this account and shall remain available until September 30, 2019: Provided further, That to the extent guaranteed loan commitments exceed $200,000,000,000 on or before April 1, 2018, 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 222 of this title, shall be credited as offsetting collections to this account.

Note.—A full-year 2017 Annualized CR for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Further Continuing Appropriations Act, 2017 (P.L. 114-254). The amounts included for 2017 reflect the annualized level provided by the continuing resolution.

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
2018 Summary Statement and Initiatives
(Dollars in Thousands)

FHA--GENERAL AND SPECIAL RISK INSURANCE FUND	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2016 Appropriation	...	$6,408	-$6,000[a]	$408	...	...
2017 Annualized CR	...	408	...	408	...	...
2018 Request	...	...	...	...	...	...
Change from 2017	...	-408	...	-408	...	...

a/ Amount reflects the rescission of funds from the unobligated balance of credit subsidy appropriated in previous fiscal years. In 2016, $12 million was 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 amount, $6 million was rescinded from the GI/SRI Program account.

1. Program Purpose and Fiscal Year 2018 Budget Overview

The 2018 President's Budget requests no subsidy budget authority, and $30 billion in loan guarantee commitment authority, the same level as 2017, with loan guarantees resulting in an estimated $619 million in offsetting receipts to the U.S. Treasury General Fund. GI/SRI's mortgage insurance programs are designed to operate without the need for subsidy appropriations, with fees set higher than anticipated losses.

Credit programs under the Federal Housing Administration's (FHA) General Insurance and Special Risk Insurance (GI/SRI) Fund include:

- *Multifamily Rental Housing:* loan guarantees for the construction, rehabilitation, preservation, and refinancing of multifamily rental housing;
- *Healthcare Facilities:* loan guarantees for the construction, rehabilitation, and refinancing of hospitals, nursing homes and other healthcare facilities; and
- *Single family:* loan guarantees for Title I manufactured housing and property improvement loans.

GI/SRI programs are a critical component of the Department's efforts to meet the Nation's need for decent, safe and affordable housing. They provide the necessary liquidity so that communities can:

- Continue to provide quality affordable housing and assisted living/nursing home opportunities;
- Improve access to quality healthcare, reduce the cost of that care, and support the needs of aging populations in communities nationwide;
- Strengthen local economies by playing a countercyclical role in the market;
- Improve the availability and maintenance of rental housing for low- and moderate-income families; and
- Enable private lenders to make loans for important projects in underserved markets that might otherwise not be possible.

2. Request

At the requested level, GISRI is projected to issue approximately $18 billion in loan insurance commitments in 2018, including:

- Approximately $14 billion in loan guarantees to support 1,040 affordable housing apartment projects including construction of more than 2,900 new affordable housing units and rehabilitation of more than 33,000 existing affordable housing units;
- $4 billion in loan guarantees for 330 healthcare facilities, including skilled nursing homes, assisted living facilities, board and care homes, and hospitals; and
- $125 million for 4,000 Title I manufactured housing and property improvement projects.

These loan activities cover construction, substantial rehabilitation, and refinancing of apartments and healthcare facilities, including hospitals, across the nation. Multifamily and healthcare loans constitute 99 percent of new insurance commitments in GI/SRI. Refinancing programs preserve financially healthy housing and healthcare facilities by helping them to reduce high current debt obligations. Refinancing offers long-term amortization periods and are a critical option for many conventionally financed projects facing large balloon payments.

3. Justification

The fiscal year 2018 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:

- GI/SRI 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 energy technology renovations, nursing homes serving aging senior citizens, and critical access hospitals are among the types of projects made possible. In addition to providing better access to credit for new developments, GI/SRI supports refinance lending to preserve financially healthy housing and healthcare projects by helping them reduce high current debt obligations. The 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. GI/SRI refinancing may also enable properties to undertake needed renovation and rehabilitation.

- 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 can file claims with FHA when a borrower defaults. Mortgage insurance premiums and specific terms for claim payments vary by program. GI/SRI 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.

Mortgage and Loan Insurance Programs-GI/SRI Account

GI/SRI Risk Categories and Estimated Volume:

GI/SRI PROGRAMS
(Dollars in Thousands)

	Fiscal Year 2018		
	Commitment Volume (projected)	Credit Subsidy Rate	Offsetting Receipts (projected)[1]
Direct Loans Levels			
FFB Risk Sharing	$807,000	-8.18%	$68,783
Guaranteed Loan Levels			
Apartments New Construction / Substantial Rehab (221d4)	$2,816,000	-1.61%	$50,293
Tax Credits[5]	$3,008,000	-1.63%	$42,300
Apartment Refinances (223a7 & 223f)	$6,585,000	-3.92%	$238,624
Housing Finance Agency Risk Sharing (542c)	$160,000	-0.27%	$700
Qualified Participating Entity Risk Sharing (542b)	$11,000	-0.72%	$61
Other Rental (207MHP, 231 and 220)	$74,000	-3.68%	$2,508
Subtotal - Multifamily Programs[2]	***$12,654,000***	***-2.81%***	***$334,486***
Residential Care Facilities (232_nc)	$313,000	-7.04%	$19,887
Residential Care Facility Refinances (232_refi)	$2,650,000	-5.94%	$143,318
Hospitals (242)	$1,059,000	-5.23%	$48,106
Subtotal - Healthcare Programs[2]	***$4,022,000***	***-5.84%***	***$211,311***
Title 1 - Property Improvement	$49,793	-1.47%	$732
Title 1 - Manufactured Housing	$74,983	-4.36%	$3,272
Total - Guaranteed Loan Levels[2]	***$16,800,776***	***-3.54%***	***$549,800***
Total - GI/SRI Fund[2]	**$17,607,776**	**-3.75%**	**$618,583**

[1] Receipts are recognized as the underlying loans are disbursed.
[2] The subsidy rate is a weighted average.

Multifamily 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. 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. 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.

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. 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.

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.

Tax Credit Projects. Projects assisted with Low-Income Housing Tax Credits (LIHTC) may be insured under several 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.

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.

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.

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.

Mortgage and Loan Insurance Programs-GI/SRI Account

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.

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.

Multifamily and healthcare loans are large and complex. 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.

With each mortgage it insures, FHA carefully considers the benefits to the community along with financial risks to the government. Cognizant of the risks associated with FHA's role in the housing market, the Department has launched several new initiatives aimed at appropriately managing the risk involved with multifamily loans. Risk mitigation procedures for Multifamily Housing originations include a tiered loan approval structure requiring increasing levels of Loan Committee review based on program and dollar amount of each loan. In addition, HUD staff conduct a thorough underwriting review on each transaction and the Office of Risk Management conducts a sampling of post-commitment reviews. Loan origination and default data and trends are monitored by HUD and lenders are required to obtain third party quality control reviews on a sampling of loans, and for all early claims within four years of final endorsement.

Healthcare facilities are major economic engines and community anchors that are pivotal for economic growth and quality of life within communities nationwide. Using the widely respected IMPLAN economic model, HUD calculates the economic benefits for healthcare facility construction projects that receive mortgage insurance commitments. It is estimated that, in the past 5 years between fiscal years 2012-2016, the healthcare facility construction projects that received insurance commitments from FHA created over 37,000 new jobs during construction with over $8.3 billion in overall economic benefit to their local communities. Once the projects complete construction, they will create over 24,000 full time equivalent jobs with an annual ongoing economic impact of $3.4 billion per year.

The healthcare portfolio as of the end of fiscal year 2016 includes 3,263 insured residential care facilities (assisted living facilities, nursing homes, and board and care homes) in all 50 states as well as the District of Columbia and the U.S. Virgin Islands, and 79 hospitals within 33 states and territories including Puerto Rico. Through proactive risk management, HUD has maintained extremely low claim rates of under 2 percent in both programs.

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

Budget Activity	2016 Budget Authority	2015 Carryover Into 2016	2016 Total Resources	2016 Obligations	2017 Annualized CR	2016 Carryover Into 2017	2017 Total Resources	2018 Request
Positive Subsidy								
Appropriation	-$6,000	$6,408	$408	...	...	$408	$408	...
Total	-6,000	6,408	408	...	...	408	408	...

HOUSING
FHA – GENERAL AND SPECIAL RISK INSURANCE FUND
Appropriations Language

The fiscal year 2018 President's Budget includes the appropriation language listed below.

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, 2019: Provided, That during fiscal year 2018, 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.

Note.—A full-year 2017 Annualized CR for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Further Continuing Appropriations Act, 2017 (P.L. 114-254). The amounts included for 2017 reflect the annualized level provided by the continuing resolution.