

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING
FHA-MUTUAL MORTGAGE INSURANCE FUND
2020 Summary of Resources

(Dollars in Thousands)

	Enacted/ Requested	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2018 Appropriation	130,000	41,715 ^a	-	171,715	127,194	110,132
2019 Annualized CR	130,000	38,919 ^b	-	168,919	126,598	111,198
2020 Request	150,000 ^c	45,503 ^d	-	195,503	140,425	121,183
Change from 2019	20,000	6,584	-	26,584	13,827	9,985

a/ Includes \$4.8 million in recoveries of prior year obligations.

b/ Includes \$3.1 million in anticipated recoveries; but does not include \$8.8 million that expired at the end of 2018.

c/ The 2020 Budget proposes a Single-Family Housing (SFH) IT fee estimated to produce \$20 million in offsetting collections.

d/ Includes \$3.1 million in anticipated recoveries.

1. Program Purpose and Budget Overview

The 2020 President’s Budget requests \$150 million for the administrative expenses that support the Federal Housing Administration (FHA), which is \$20 million more than the 2019 Annualized Continuing Resolution (CR) level. The \$20 million increase is offset by the proposed single-family information technology fee to be assessed on lenders. The net request is equal to the 2019 annualized CR level. The budget also requests \$400 billion in loan guarantee commitment authority and \$1 million in direct loan commitment authority for the Mutual Mortgage Insurance (MMI) Fund.

The MMI Fund has insured over 47.5 million home mortgages since 1934. It provides mortgage insurance on single family mortgage loans made by FHA-approved lenders throughout the United States and its territories. Single Family Housing programs provide mortgage insurance for the purchase and refinance of homes with one to four units. The MMI Fund strives to meet the needs of many first-time and minority homebuyers who, without the FHA guarantee, may find mortgage credit to be unaffordable or simply unavailable.

Mortgage and Loan Insurance Programs—MMI/CMHI Account

2. Request

Commitment Authority - Up to \$400 billion for New Loan Guarantees

The 2020 Budget requests \$400 billion in loan guarantee commitment limitation, which is to remain available until September 30, 2021. This limitation includes sufficient authority for insurance of single-family mortgages and mortgages under the Home Equity Conversion Mortgages (HECM) program. Total loan volume projected for all MMI programs for 2020 is \$218.6 billion. Of that total, \$205 billion is estimated for standard forward mortgages and \$13.6 billion is for HECM. The size of the request and two-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 \$218.6 billion in loan volume projected for the entire MMI portfolio in 2020 is expected to generate \$4.6 billion in negative subsidy receipts, which are transferred to the MMI Capital Reserve account, where they are available to cover any unexpected cost increases for the MMI portfolio.

Commitment Authority - Up to \$1 million for Direct Loans

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 and local government subsidies needed to offset participants' development costs associated with administering the program. Nonetheless, the program remains a valuable tool for HUD's support of affordable homeownership opportunities in distressed communities while responsibly managing its real estate owned (REO) inventory of properties.

Administrative Contract Expense - \$150 million

The \$150 million request for 2020 will provide funding for contracts necessary in the administration of FHA programs operating under MMI and General Insurance and Special Risk Insurance (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

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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 requested funding will be partially offset by a proposed IT fee assessed on lenders. The systems maintained by FHA and utilized by industry without cost are antiquated and far beyond their useful lives, and they have become prohibitively expensive to maintain. The higher requested appropriations facilitated by the fee will be used to modernize these systems and will result in significant savings to the taxpayer. Although the budget assumes a four-year IT fee, the enactment of \$20 million for IT development, modernization, and enhancement (DME) in the 2019 HUD Appropriations Act may facilitate a shorter duration for the IT fee (e.g., three years). The Department looks forward to working with Congress on possible adjustments to the IT fee proposal based on 2019 enacted IT funding and other factors.

The authority to collect a fee is being requested because FHA has not kept pace with the private market. In the private market, the technological advances in the housing finance industry have enhanced loan origination, servicing, and lender monitoring capabilities. Because funding has not been made available to update these systems, FHA is forced to use a patchwork approach to perform the functions of insurance endorsement, claims payments, and risk management. The systems in the origination component of FHA's Single-Family mortgage insurance operations are almost 20 years old, on average, with the age of one key system exceeding 40 years. Similarly, the systems supporting the servicing, default, claims, and REO areas have an average age of 14 years and are extremely inflexible in their capabilities. This outdated systems environment places the MMI Fund at significant risk and hampers FHA's ability to effectively partner with the industry.

FHA requires systems with the following capabilities:

- Ability to capture and effectively process the extensive volumes of data now in use;
- Enhanced storage and processing mechanisms to handle the migration from paper forms to digital ones; and
- The ability to analyze and manage insured loans comprehensively over the many phases of the mortgage life cycle in order to manage risk and allow FHA to make data-driven decisions.

Acquiring systems with these capabilities will allow FHA to more effectively manage risk to the MMI Fund and protect taxpayers. Prior to developing or purchasing any new systems, FHA will evaluate the efficacy of shared technology platforms among government entities to include USDA and VA, as well as those built by government-sponsored entities (GSEs).

Mortgage and Loan Insurance Programs—MMI/CMHI Account

3. Justification

Since 1934, FHA has insured over 47.5 million home mortgages, making financing available to individuals and families not adequately served by the conventional private mortgage market. Through the MMI Fund, the Department offers several types of single-family forward (traditional) mortgage insurance products and HECMs for seniors. Activity for the Cooperative Management Housing Insurance (CMHI) Fund—which insures mortgages for multifamily cooperatives—is also reported together with the MMI Fund. As of September 30, 2018, the MMI insurance portfolio included 8.4 million loans with an unpaid principal balance exceeding \$1.2 trillion.

FHA has served over 3.6 million families during the past three years with:

- Over 2.5 million forward purchase loans;
- Over 980 thousand refinances—resulting in reduced loan terms or monthly payments; and
- Over 152 thousand HECM loans, enabling seniors to stay in their homes.

Over the past three years, FHA endorsed purchase loans for 2.1 million first-time buyers, or 82 percent of its total purchase loan endorsements during this period. FHA has provided access to homeownership for people who otherwise may have faced difficulty obtaining a conventional mortgage.

FHA provides mortgage insurance on single-family mortgage loans made by FHA-approved lenders throughout the United States and its territories. 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. Throughout the housing crisis that began in 2007, for example, FHA provided key support for the national mortgage market and helped mitigate the foreclosure crisis and the overall economic downturn.

For budgetary purposes, the programs of the MMI Fund are broken into two risk categories (forward mortgages and HECMs); each is 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 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.

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- **HECM.** FHA’s HECM program provides senior homeowners age 62 and older access to FHA-insured reverse mortgages, which enable seniors to access the 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 for seniors to access their equity through monthly payments, draws from a line of credit, a combination of these options, or one-time draws at closing. 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.

General Provisions

The 2020 Budget includes General Provisions related to MMI (Sec. 208, 216, and 223). These provisions are described further in “Fiscal Year 2020 General Provisions”.

Other Legislative Proposals and Programmatic Improvements

The 2020 Budget supports the following legislative changes that will result in programmatic improvements. HUD will seek the changes through the authorization process rather than the appropriations process.

- **HECM - Waiver of Counseling Requirement (Sec. 255 of the National Housing Act (12 U.S.C. 1715z-20)).** Provide HUD the authority for mandatory counseling for all HECM transactions. Currently, housing counseling is required for all HECMs except that the National Housing Act provides that Housing Counseling can be waived in a refinance transaction if less than five years have passed since the closing date of the current HECM and the application date of the new refinanced HECM loan. Counseling for HECMs provides seniors the tools to understand a complex financial transaction that affects them and their heirs. While working to stabilize the HECM program, HUD has made and continues to make programmatic changes to the HECM program. Counseling would be both beneficial to aiding seniors in understanding the impact of the HECM program on their finances and estate planning and has also been identified as a key factor in reducing the risk of tax and insurance defaults as seniors age in place.
- **Mortgagee Review Board (MRB) actions authorized-sanctions (12 U.S. Code § 1708—Federal Housing Administration Operations Section(c)(3)(C)).** The statutory change is requested because the current statute mandates that the MRB may suspend

Mortgage and Loan Insurance Programs—MMI/CMHI Account

a lender for a minimum of six months, not to exceed 12 months, and permits a one-time six-month extension. For many lenders, a minimum six-month suspension will result in the lender winding down its business because it cannot sustain itself for the six-month period. The removal of the six-month minimum would permit the MRB to use this sanction more effectively by permitting the imposition of a shorter suspension period which in turn would effectuate a change at the lender level and permit the lender to remain in business. This statutory change is being sought as part of the goal to bring enforcement of housing policy back to the Office of Housing. Currently the suspension sanction is rarely used because it has the same practical effect as a withdrawal of FHA authority. Giving the MRB the authority to sanction a lender for a shorter period of time than six months would strengthen it as an enforcement tool for the MRB.

- **Civil money penalties against mortgagees, lenders, and other participants in FHA program (12 U.S. Code § 1735f-14-(a)(2)).** The MRB’s civil money penalty (CMP) statute provides the MRB with a maximum CMP for each violation, with an annual cap. Currently, the maximum civil money penalty per violation is \$ 9,819 and the annual cap \$1,963,870. The maximum per violation dollar amount is adequate to meet the MRB’s enforcement needs but the annual cap is an impediment to effective enforcement.
- **Downpayment Assistance from Government Entities (Sec. 203(b)(9)(c) of the National Housing Act 12 USC 1709).** In response to the need to strike the appropriate balance between making FHA-insured mortgages available to qualified borrowers and reducing programmatic risk, FHA has recognized the need to provide insurance for mortgages where borrowers require assistance in providing the minimum required cash investment. While FHA sought, and Congress enacted, restrictions to prohibit the source of such assistance from entities that financially benefit from the transaction, FHA and industry participants continue to evaluate how such financial benefit should be interpreted when applied towards government entities that are providing such assistance. Furthermore, questions have arisen around the geographic and legal boundaries surrounding the ability of these entities to provide such assistance.
- **Cap on number of HECM loans (Sec. 255(g) of the National Housing Act (12 U.S.C. 1715z-20(g)).** This provision would permanently remove the limitation placed on the number of Home Equity Conversion Mortgages (HECMs) that can be insured by the FHA. Although this was proposed as a general provision in the 2019 Budget, the 2020 Budget seeks this change through the authorization process.
- **HECM spousal survival (Sec. 255 of the National Housing Act 12 U.S.C. 1715z-20).** This provision gives the Department discretion to make deferrals on HECM loans and provides program flexibility to exempt lenders who would otherwise be required to immediately foreclose upon a living spouse. Although this was proposed as a general provision in the 2019 Budget, the 2020 Budget seeks this change through the authorization process.

Mortgage and Loan Insurance Programs—MMI/CMHI Account

- **HECM - Credit for Premiums Paid (Sec. 255 of the National Housing Act (12 U.S.C. 1715z-20)).** The current statutory language requires HUD to utilize an actuarial analysis conducted in 2001 to determine the adequacy of its HECM insurance premiums in reducing the initial mortgage insurance premium charged at the time a mortgage is being refinanced, in the establishment of a single national limit on the benefits of insurance in the HECM program and on the combined effect of reduced insurance premiums and a single national limitation on insurance authority. Due the passage of time, FHA does not believe that the 2001 study remains adequate for these purposes. In connection with changes in home prices and other market forces, HECM has increasingly become a challenge to maintaining a healthy Mutual Mortgage Insurance Fund (MMIF). Utilizing the most recent FHA Actuarial study, which provides in depth modeling of the MMIF, provides the best benchmark to set premiums in order to manage the impact to that Fund. Additionally, with the continued volatility in the HECM program, allowing the Commissioner the flexibility to utilize a study that is conducted at their discretion will allow FHA the maximum flexibility to address risk to the taxpayer.

Mortgage and Loan Insurance Programs—MMI/CMHI Account

HOUSING
FHA-MUTUAL MORTGAGE INSURANCE FUND
Summary of Resources by Program

(Dollars in Thousands)

Budget Activity	2018 Budget Authority	2017 Carryover Into 2018	2018 Total Resources	2018 Obligations	2019 Annualized CR	2018 Carryover Into 2019	2019 Total Resources	2020 Request
Administrative Contract Expense	130,000	41,715	171,715	127,194	130,000	38,919	168,919	150,000
Total	130,000	41,715	171,715	127,194	130,000	38,919	168,919	150,000

HOUSING
FHA-MUTUAL MORTGAGE INSURANCE FUND
Appropriations Language

The 2020 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, 2021: Provided, That during fiscal year 2020, obligations to make direct loans to carry out the purposes of section 204(g) of the National Housing Act, as amended, shall not exceed \$1,000,000: 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, \$150,000,000, to remain available until September 30, 2021, of which up to \$20,000,000 may be used for necessary single family 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 to be used for single family information technology purposes pursuant to the previous proviso shall be transferred to the "Information Technology Fund" account under this title for such purposes: Provided further, That receipts from administrative support fees collected pursuant to section 223 of this title shall be credited as offsetting collections to this account.

Note.—A full-year 2019 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2019 (Division C of P.L. 115–245, as amended). The amounts included for 2019 reflect the annualized level provided by the continuing resolution.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
2020 Summary of Resources

(Dollars in Thousands)

	Enacted/ Requested	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2018 Appropriation	-	1,582 ^a	-	1,582	8	-
2019 Annualized CR	-	1,574	-	1,574	-	-
2020 Request	-	-	-	-	-	-
Change from 2019	-	(1,574)	-	(1,574)	-	-

a/ 2018 Carryover includes \$805 thousand carryover from 2017 and \$777 thousand recoveries of prior year unpaid obligations.

1. Program Purpose and Budget Overview

The 2020 President’s Budget requests no subsidy budget authority for the Federal Housing Administration’s (FHA) General Insurance and Special Risk Insurance (GI/SRI) Fund, \$30 billion in loan guarantee commitment authority, and \$1 million in direct loan authority, which is equal to the 2019 President’s Budget. The Budget estimates \$602 million in offsetting negative credit subsidy receipts in 2020 from GI/SRI loan guarantees. 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 FHA GI/SRI Fund include:

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

Mortgage and Loan Insurance Programs—GI/SRI Account

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, GI/SRI is projected to issue more than \$20 billion in loan insurance commitments in 2020, including:

- Approximately \$16 billion in loan guarantees to support 1,000 housing apartment projects;
- Approximately \$5 billion in loan guarantees for 350 healthcare facilities, including skilled nursing homes, assisted living facilities, board and care homes, and hospitals; and
- Approximately \$63 million for 3,000 Title I manufactured housing and property improvement projects.

Projected activity by risk category is detailed in the "GI/SRI Risk Categories and Estimated Volume" table; please see the "Justification" section for descriptions of each loan category.

Mortgage and Loan Insurance Programs—GI/SRI Account

GI/SRI Risk Categories and Estimated Volume:

GI/SRI Programs (Dollars in Thousands)	Fiscal Year 2020		
	Commitment	Credit	Offsetting
	Volume (projected)	Subsidy Rate	Receipts (projected) ^a
Direct Loans Levels			
FFB Risk Sharing ^b	-	-12.42%	\$41,742
Guaranteed Loan Levels			
Apartments New Construction/Substantial Rehab(221d4)	\$4,943,380	-1.18%	\$40,493
Tax Credits	\$5,137,293	-2.25%	\$107,366
Apartment Refinances (223a7 & 223f)	\$5,111,613	-3.18%	\$171,942
Housing Finance Agency Risk Sharing (542c)	\$83,800	-1.83%	\$849
Qualified Participating Entity Risk Sharing (542b)	\$4,400	-0.26%	\$11
Other Rental (207MHP, 231 and 220)	\$235,472	-1.77%	\$4,048
Subtotal - Multifamily Programs^c	\$15,515,959	-2.21%	\$324,709
Residential Care Facilities (232_nc)	\$301,000	-5.20%	\$12,792
Residential Care Facility Refinances (232_refi)	\$3,672,000	-4.89%	\$182,805
Hospitals (242)	\$619,760	-5.56%	\$38,514
Subtotal - Healthcare Programs^c	\$4,592,760	-5.00%	\$234,111
Title 1 - Property Improvement	\$46,760	-1.42%	\$664
Title 1 - Manufactured Housing	\$16,293	-4.79%	\$780
Total - Guaranteed Loan Levels^c	\$20,171,771	-2.84%	\$560,264
Total - GI/SRI Fund	\$20,171,771	-2.84%	\$602,006

a/ Receipts are recognized as the underlying loans are disbursed; FY 2020 projected receipts include amounts for pre-2020 loan commitments.

b/ The FFB Risk Sharing program ceased accepting new applications after December 31, 2018. Existing obligations will be honored, but no new commitments are projected for 2020.

c/ The subsidy rate is a weighted average.

3. Justification

The 2020 Budget supports mortgage insurance programs that are essential in achieving the Department’s mission of providing decent, safe, and affordable housing as a safety net for those who need it the most.

- GI/SRI mortgage insurance encourages private lenders to make loans for important projects that might otherwise not be possible. Among the types of projects made possible are new workforce housing in high-demand markets, innovative energy technology renovations, nursing homes serving aging senior citizens, and acute care access hospitals. 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 the affordability of their payments. The long-term amortization period and guarantee of payment in the event of claim stabilize 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

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, 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 the 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 of each transaction and the Office of Risk Management conducts 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. The healthcare portfolio as of the end of 2018 included 3,636 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 77 hospitals within 30 states and territories including Puerto Rico. Through proactive risk management, HUD has maintained extremely low claim rates of under two percent in both programs.

FHA's effectiveness is demonstrated by the tangible result of its programs. Quality housing and healthcare facilities are made possible and more affordable throughout the country due to the 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.

Mortgage and Loan Insurance Programs—GI/SRI Account

Multifamily Risk Categories:

Federal Financing Bank (FFB) Risk Share. The FFB Risk Share Initiative was started in 2015 to stimulate affordable housing production in response to tightening bond markets and lack of private sector funding and liquidity that followed the financial crisis. This initiative ceased accepting new applications for commitments after December 31, 2018. HUD continues to evaluate how to best serve its HFA partners going forward.

Section 221(d)(4) Mortgage Insurance for Rental and Cooperative Housing. The Section 221(d)(4) program is FHA's largest for new-construction/substantial rehabilitation of multifamily housing. The program insures loans for up to between 83.3 and 90 percent of the project replacement cost (as limited by debt service coverage and per-unit cost requirements). The program covers long-term mortgages of up to 40 years and, like all FHA new construction loan programs, provides for both construction and permanent financing.

Section 223(f) Mortgage Insurance for Refinancing or Purchase of Existing Multifamily Rental Housing. Section 223(f) allows for long-term mortgages of up to 35 years for refinancing 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 the 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

Mortgage and Loan Insurance Programs—GI/SRI Account

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. 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 increased dramatically in 2014 and 2015 because 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.

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 the appraised value (90 percent if

Mortgage and Loan Insurance Programs—GI/SRI Account

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.

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.

General Provisions

The 2020 Budget includes General Provisions related to GI/SRI (Sec. 209 and 216). These provisions are described further in “Fiscal Year 2020 General Provisions”.

Mortgage and Loan Insurance Programs—GI/SRI Account

**HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
Summary of Resources by Program**

(Dollars in Thousands)

Budget Activity	2018 Budget Authority	2017 Carryover Into 2018^a	2018 Total Resources	2018 Obligations	2019 Annualized CR	2018 Carryover Into 2019	2019 Total Resources	2020 Request
Positive Subsidy Appropriation	-	1,582	1,582	8	-	1,574	1,574	-
Total	-	1,582	1,582	8	-	1,574	1,574	-

a/ 2018 Carryover includes \$805 thousand carryover from 2017 and \$777 thousand recoveries of prior year unpaid obligations.

HOUSING
GENERAL AND SPECIAL RISK INSURANCE FUND
Appropriations Language

The 2020 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, 2021: Provided, That during fiscal year 2020, 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 \$1,000,000, 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 2019 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2019 (Division C of P.L. 115–245, as amended). The amounts included for 2019 reflect the annualized level provided by the continuing resolution.