HOUSING
FHA--MUTUAL MORTGAGE INSURANCE FUND
2011 Summary Statement and Initiatives
(Dollars in Thousands)

FHA--MUTUAL MORTGAGE & COOPERATIVE MGMT. HOUSING INSURANCE FUND	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2009 Appropriation	$146,000[a]	...	...	$146,000	$72,061[b]	$42,629[b]
2010 Appropriation/Request	188,900[c]	...	...	188,900	118,106[b]	113,000[b]
2011 Request	457,000[d]	...	...	457,000	384,500[b]	381,000[b]
Program Improvements/Offsets	+268,100	...	...	+268,100	+266,394	+268,000

a/ For fiscal year 2009, the enacted request includes a $58.5 million non-expenditure transfer to Working Capital Fund, and reflects an additional appropriation of $30 million for administrative contract expenses pursuant to the second proviso in the paragraph under the heading "Mutual Mortgage Insurance Program Account" in P.L. 111-8. On February 28, 2009, guaranteed loan commitments for the Mutual Mortgage Insurance (MMI) Fund totaled $130 billion, thereby exceeding the $65.5 billion threshold for additional funding by $64.5 billion. The additional appropriation is calculated at $1,400 for every million dollars of commitments that, prior to April 1, 2009, exceeded the threshold; this additional authority could increase up to a maximum of $30,000,000. As the limitation was reached, the full amount made available under the proviso is reflected herein.

b/ Amounts exclude upward re-estimates.

c/ Includes non-expenditure transfers of $70.8 million to Working Capital Fund and $1.2 million to the Transformation Initiatives Fund.

d/ Includes request of $250 million as an appropriation of credit subsidy for FHA's Home Equity Conversion Mortgage (HECM) Program, a $71.5 million non-expenditure transfer to Working Capital Fund, and a $1.4 million non-expenditure transfer to Transformation Initiatives.

Summary Statement

Appropriation. The Mutual Mortgage Insurance (MMI) Fund of the Federal Housing Administration (FHA) requests an appropriation of $457 million for administrative contract expenses and credit subsidy for fiscal year 2011. The 2011 Budget request includes an appropriation of $207 million for administrative contract expenses; of this amount, up to $71.5 million will be transferred to the Working Capital Fund for FHA systems costs, and up to $1.355 million can be transferred to the Transformation Initiatives account. The 2011 Budget request also includes a $250 million appropriation of credit subsidy for the FHA's Home HECM program.

For fiscal year 2011, as FHA's role has expanded during the mortgage crisis, the increase in funding for administrative contract expenses is necessary to support the following FHA activities:

- Improve upon current modeling techniques. The FHA Commissioner and the financial statement auditors have asked FHA to do more in-depth data analyses by product type as well as borrower type to continually improve modeling capabilities for both the single family forward and HECM programs. Also, the FHA MMI capital ratio fell below 2 percent for fiscal year 2009. As a response, FHA is tightening up its risk management and will need to conduct additional analytics to help strengthen the performance of the MMI portfolio.

- Improvements to credit risk. As part of the Commissioner's credit risk improvements, an Office of Risk Management was created during fiscal year 2010. Fiscal year 2011 will represent the first full fiscal year that this office will be in place. A portion of the additional administrative contract funds will be used to provide contract support for this newly created organization. The funds will be used on both the Single Family and Multifamily FHA portfolios as well as Housing's rental assistance programs.

- Increase for fraud detection and fraud prevention. The new and proposed legislation, heightened economic risks, and significant increase in loan volume underscore the need for a contract vehicle to help close the gaps in our fraud prevention programs.

The HECM reverse mortgage guarantee program credit subsidy rate is especially sensitive to the assumptions for future house price appreciation due to the loans' extended average tenure and the rising outstanding balances that accrue during the life of the loans. The decline in house prices has adversely affected the projected credit performance of HECMs and the program has a positive subsidy rate for 2011. In addition, FHA made numerous improvements in the HECM credit subsidy cash flow model during the past 2 years that provide greater sensitivity to program and economic variables. While the HECM program in fiscal year 2010 was estimated to bear a subsidy rate of -0.50 percent, yielding offsetting budgetary receipts; the rate for fiscal year 2011 switches to +.83 percent, largely due to changes in economic assumptions. Therefore, the HECM program will require a new discretionary appropriation of $250 million to permit the guarantee of the estimated loan volume.

<u>Loan Guarantee Limitation</u>. The fiscal year 2011 Budget requests $400 billion in loan guarantee limitation which is to remain available until September 30, 2012. This limitation includes sufficient authority for any new initiatives as well as standby commitment authority for unanticipated increases in business and allows the authority to be carried over into fiscal year 2012.

For fiscal year 2011, the Administration estimates an endorsement volume of $223 billion for the Purchase and Refinance risk category and $30 billion for the HECM risk category for an estimated total volume of $253 billion. The $223 billion volume projected for the MMI Purchase and Refinance risk category is expected to generate $5.8 billion in negative subsidy receipts on insurance written at a subsidy rate of -2.59 percent. The HECM program is estimated to bear a positive subsidy rate of 0.83 percent in fiscal year 2011.

<u>Direct Loan Limitation</u>. A direct loan limitation of $50 million is also requested to facilitate the purchase and rehabilitation, if necessary, by non-profits and governmental agencies to make HUD-acquired single family properties available for resale to low- and moderate-income families.

The FHA program is, and has been, a critical player in improving homeownership, especially for minority and low-income populations, and for first-time homebuyers. A variety of FHA programs allows many homebuyers to find a program to suit their needs; MMI Fund's 203(b) is the largest FHA program, providing mortgage insurance for 400,000 to 1 million homebuyers a year for the past several years and over 1.7 million in fiscal year 2009. An important target group for increasing homeownership is first-time homebuyers. FHA has long been a valuable resource for enabling the purchase of a first home, especially among minority and low-income families. FHA loans are highly attractive to lower-income and minority groups, and thus also assist in stabilizing economically marginal communities. FHA insurance tends to mitigate the effect of economic downturns on the real estate sector, as FHA does not withdraw from local markets or during periods of recession. FHA, through program reforms, including increasing loan limits, has become a key support for the national mortgage market and is mitigating the foreclosure crisis and the overall economic downturn. During the current housing crisis, FHA market share in the Home-Purchase market (numbers of households) has increased from under 2 percent in 2006 to 18.7 percent in fiscal year 2009.

Beginning in fiscal year 2009, FHA consolidated a majority of its single family mortgage programs into the MMI Fund, including those for condominiums, purchase and rehabilitation loans, and home equity conversion mortgages (HECM). Prior to fiscal year 2009, aside from the Section 203(b) loans, these single family products were endorsed for insurance under the FHA's General and Special Risk Insurance (GI/SRI) Fund. As a result of the consolidation of the single family programs, the MMI Fund has two credit risk categories: the MMI Purchase and Refinance risk category and the MMI HECM risk category. The Title 1 Property Improvement and Manufactured Housing programs remain in the GI/SRI Fund. This shift applies to new mortgages insured. Existing insurance will continue to be administered in the Fund under which the loans were endorsed.

FHA's HECM program allows senior homeowners age 62 and older access to FHA-insured reverse mortgages to convert the equity in their homes into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the homes. Homeowners are required to receive consumer education and counseling by a HUD-approved counselor so they can be sure this program meets their needs. The amount a homeowner is eligible for is based on the borrower's age, the current interest rate, and the lesser of the appraised value or the FHA mortgage limit for HECM. Unlike forward mortgage borrowers, the HECM borrowers have no income or credit qualifications to meet and make no payments as long as the property securing the HECM loan is their main residence.

<u>High Priority Performance Goal: Foreclosure Prevention</u>

The FHA-MMI account supports the High Priority Performance Goal to assist foreclosure prevention of three million homeowners, with a particular focus over the next 2 years. An estimated 200,000 homeowners will be assisted to avoid foreclosure through FHA programs as well as 400,000 homeowners assisted through third-party lender lost mitigation initiatives mandated by FHA but not receiving FHA subsidy. This goal also projects that an additional 2.4 million homeowners will be assisted thorough joint HUD-Treasury programs.

In addition, for all FHA borrowers that become 30 days late, we will achieve a Consolidated Claim Workout (CCW) Ratio of 75 percent, representing a 10 percentage point improvement over current levels, and for those receiving a CCW achieve a 6 month re-default rate of 20 percent or less, representing a 5 percentage point reduction from current levels.

Foreclosure prevention and the recovery of the housing market is a critical component of the broader Administration's plan for economic recovery, including the Administration's Making Home Affordable program, in which HUD plays a leadership role.

In the Department, there are several initiatives that address foreclosure prevention, including:

- Enacting FHA-Home Affordable Modification Program (FHA-HAMP) that complements long-existing FHA loss mitigation programs to assist homeowners with FHA-insured mortgages.
- Implementing new and improved program features for the Hope for Homeowners (H4H) program authorized by the "Helping Families Save Their Homes Act of 2009."
- Utilizing a vast network of counselors and nonprofits to provide critical assistance to the record number of homeowners at-risk of foreclosure.

<u>Proposals</u>

In fiscal year 2011, the following program changes are proposed:

- The following changes are proposed to the mortgage insurance premiums (MIP) for FHA's single family forward mortgage programs:
  - Increase in the annual MIP from a maximum of 55 bps to 90 bps. This is the second step following the policy change implemented in fiscal year 2010 raising the up-front MIP on single family mortgages (described below). If the authority to increase the annual MIP is granted, then FHA will shift the premium increase announced from the up-front MIP to the annual MIP. The up-front premium will decrease from 2.25 percent to 1 percent.

- The following change is proposed to the annual MIP for FHA's HECM program:
  - Increase in the annual MIP for the HECM program from 50 bps to 125 bps. This premium increase is necessary to moderate the credit subsidy cost of the program.

Strengthening FHA's Capital Reserves

During the latter half of fiscal year 2010, FHA will be implementing a set of policy changes and proposals in order to better position itself to manage risk while continuing to support the nation's housing market recovery. This in response to the capital ratio estimated at the end of fiscal year 2009 of just .53 percent, which is below the 2 percent level mandated by statute. FHA is taking the following steps as immediate action to strengthen the capital reserve: increase the up-front mortgage insurance premium; limiting the loan-to-value ratio for lower FICO score borrowers; reduce seller concessions; and implement a series of significant measures aimed at increasing lender enforcement. These policy changes are expected to be implemented in the spring and summer of 2010.

Policy changes for fiscal year 2010:

- **Mortgage insurance premium (MIP) increase and adjustments to upfront/annual MIP relationship**
  - Raise up-front MIP to 2.25 percent for new borrowers, implemented by Mortgagee Letter.
  - Pursue legislative authority for fiscal year 2011 to increase the statutory cap on the annual MIP. Upon receiving legislative approval, the upfront/annual premium structure will be adjusted, with some of the upfront premium being shifted to the annual premium. This shift will allow for an increase to the capital reserve with less impact to the consumer.
- **New down payment/credit score requirements**
  - Loans to borrowers with a FICO score of 500 to 579 will require a minimum 10 percent down payment.
  - Loans to borrowers with a FICO score of 580 or above will require current minimum 3.5 percent down payment.
  - Propose policy change through Federal Register Notice with comment period.
- **Reduction in allowable seller concessions from 6 percent to 3 percent**
  - Conform to industry standards and reduce potential value inflation.
  - Propose policy change through Federal Register Notice with comment period.
- **Increase enforcement on FHA lenders**
  - Publicly report lender performance rankings to complement currently available Neighborhood Watch data.
  - Enhance monitoring of lender performance and compliance with FHA guidelines and standards.
  - Implement statutory authority through regulation of section 256 of the National Housing Act to enforce indemnification provisions for lender's using delegated insuring process.
  - Pursue legislative authority to increase enforcement on FHA lenders. Specific authority includes:

- Amendment of section 256 of the National Housing Act to apply indemnification provisions to all Direct Endorsement lenders. This would require all approved mortgagees to assume liability for all of the loans that they originate and underwrite.
- Legislative authority permitting HUD maximum flexibility to establish separate "areas" for purposes of review and termination under the Credit Watch initiative. This would provide authority to withdraw originating and underwriting approval for a lender nationwide on the basis of the performance of its regional branches.

Strengthening FHA Business Practices

FHA's role has expanded over the last year as the mortgage crisis deepened in the United States. During the current housing crisis, FHA market share in the Home-Purchase market (numbers of households) has increased from under 2 percent in 2006 to 18.7 percent in fiscal year 2009. The Congress, through the fiscal year 2009 Omnibus Appropriations Act, provided FHA with $4 million to develop a strategic plan for Information Technology. FHA is now engaged with a private vendor to create the modernization framework that will enable the Department to address the gaps in the business processes and systems.

FHA's plan has put an emphasis on addressing gaps and the resulting benefits to be achieved through enhanced performance and accountability.

Addressing gaps:

1) improved fraud detection;
2) improved underwriting;
3) improved risk management;
4) improved adaptability to changing economic conditions;
5) improved data management; and
6) improved efficiency of the operations.

Resulting benefits:

1) modernization of antiquated technology allowing easy adaption to change;
2) cost savings related to the retirement of old systems and improved processes;
3) enhanced ability to detect and refer fraud to the OIG;
4) improved service delivery to our customers and the industry; and
5) improved data quality that allows for informed decision making.

The increase in hiring for 2009, resulting from a targeted appropriation for FHA Single Family, to address personnel shortages, will help carry the Office of Single Family into fiscal year 2010 with a sufficient baseline staffing to meet all basic needs.

However, to ensure that the still-limited resources are used most efficiently and effectively, the agency is engaged in an exercise, which began in fiscal year 2009, to streamline and improve the business processes and upgrade the systems that support FHA Single Family operations. The development process of fiscal year 2009 will culminate in a comprehensive plan, which is on track to be completed in fiscal year 2010.

The plan will include an overhaul of the origination and insuring processes and systems that will improve overall risk management as well as communications and transmission of loan data from lending partners. FHA's IT systems will, for the first time, include:

1) FHA Automated Underwriting System (AUS);
2) Electronic risk management tools commonly used in the mortgage industry; and
3) Full capacity to receive and store electronic files, including e-mortgages and e-notes with electronic signatures.

FHA Connection, the portal through which FHA-approved originators interact with and transmit all key loan level data to FHA, will be enhanced to offer the new array of tools that are designed to introduce new automated risk controls into the origination and insuring process.

<u>FHA AUS</u>. The FHA AUS will provide FHA the opportunity to manage compliance of all incoming loan files with FHA standards. This type of tool will permit FHA to build all program rules and requirements into a web-based system that will notify lenders immediately and automatically when loans fail to meet FHA standards and will reject those loan transactions until the areas of concern are addressed. The tool not only will enable FHA to better enforce all programmatic requirements, but also and perhaps more importantly, will enable FHA to quickly and seamlessly implement program changes. An AUS will guarantee uniformity in program execution, preventing multiple policy interpretations by various lenders and FHA staff. These types of automated risk controls will reduce reliance on staff to manually validate all information in the loan files, freeing up staff for other types of quality control reviews.

<u>Risk Management Tools.</u> The FHA AUS will be combined with state-of-the-art risk management tools that will enable the agency to target files for additional review if loan data indicates that key variables are questionable, demonstrating potential fraud or misrepresentation. Today, FHA is engaged in an intensive assessment of the dominant risk management tools used across the mortgage industry and the agency plans to pilot the tool selected in fiscal year 2010. The pilot testing phase will be carried out in the Santa Ana Home Ownership Center jurisdiction. The pilot will help the agency fine-tune the features of the tool to meet FHA's needs and will help FHA assess how the staffing resources are best aligned with the new business processes to get maximum benefit from the use of automated tools. The improved technology will enable FHA to devote more resources to more aggressive monitoring of files and lenders.

<u>E-Mortgage/E-Notes</u>. Finally, in fiscal year 2009, FHA developed the strategy for accepting all loan files electronically in imaged format as well as in full electronic format, including e-mortgages and e-Notes. The electronic transmission and acceptance of all files require an improved interface with FHA-approved lenders and/or vendors operating on behalf of FHA-approved lenders as well as the establishment of some specialized data extraction tools. Today, FHA allows the electronic submission of files from a select group of lenders who are engaged in FHA's Lender Insurance program. The goal of the new effort is to expand and improve upon the processes already in place, to enable all FHA-approved lenders to submit all loan files in this manner. The goal of the exercise is to improve FHA's overall risk controls, by collecting all files (rather than some collected for quality control reviews) and to use automated systems to extract some of the data and run it against the FHA rules-based tools prior to endorsement, to ensure compliance with FHA's requirements.

<u>Correlation between Staffing Needs and Systems Upgrades</u>. Given that staffing resources will always be limited, the improvements in the technology used and the streamlining of the business processes of the FHA Single Family operations will ensure that the staff available are devoted to those activities that truly require manual intervention, human interaction, and/or personal review-–whether the object of the FHA monitoring work is loan files, loan-level or portfolio data, or lenders. Reliance on the automated tools for compliance checks, improved reporting to management, and targeting of files and lenders for additional human review will free up staff and improve the overall efficiency of the organization.

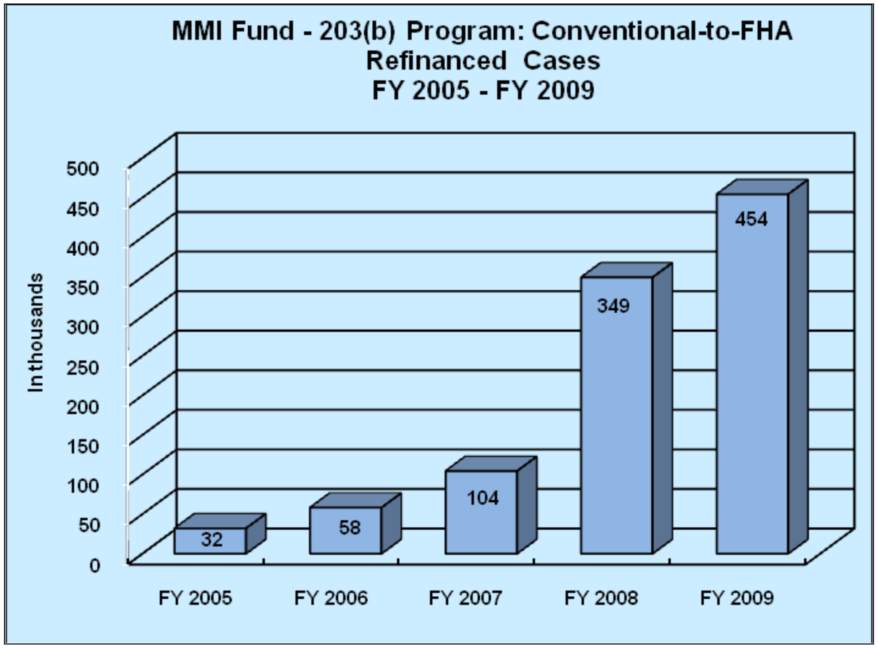
PROGRAM HIGHLIGHTS

The following table displays the estimated commitment authority allocation and subsidy by risk category for fiscal year 2011.

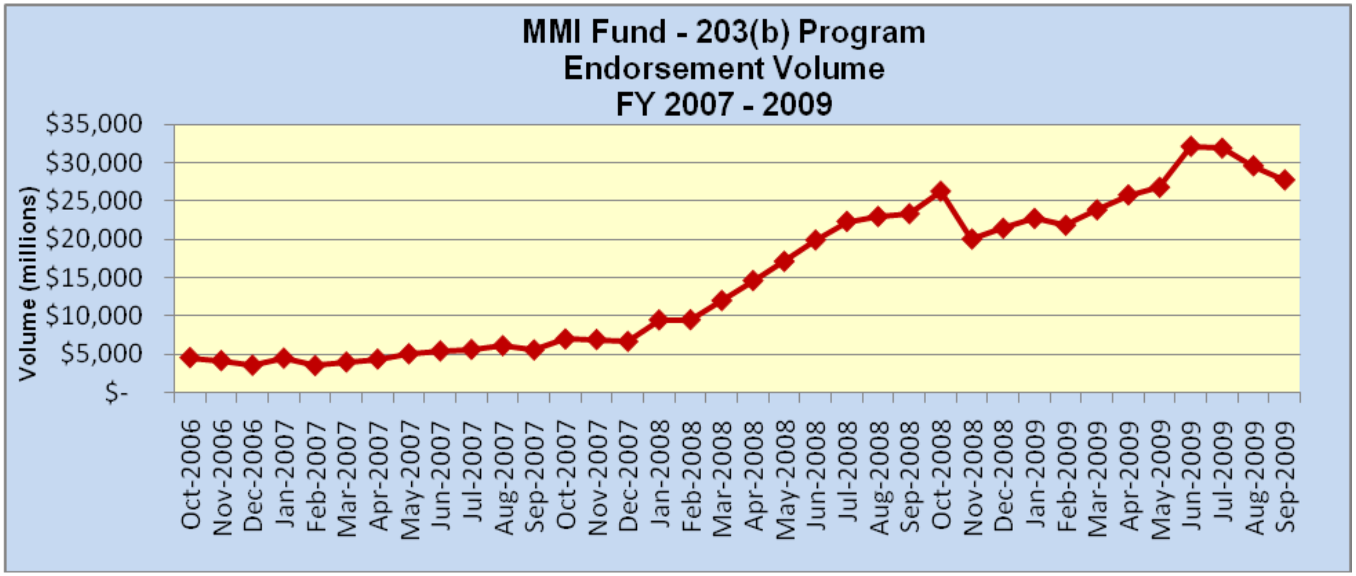
Mutual Mortgage Insurance Fund
Estimated Commitments and Subsidy - by Risk Category
Fiscal Year 2011
(Whole Dollars)

Risk Category	Estimated Commitments	Subsidy Rate	Negative Subsidy	Positive Subsidy
MMI Purchase and Refinance	$222,867,868,010	-2.59%	($5,772,277,781)	…
MMI HECM	30,000,000,000	0.83%	…	249,000,000
Totals	252,867,868,010		(5,772,277,781)	249,000,000
Commitment Limitation	$400,000,000,000			

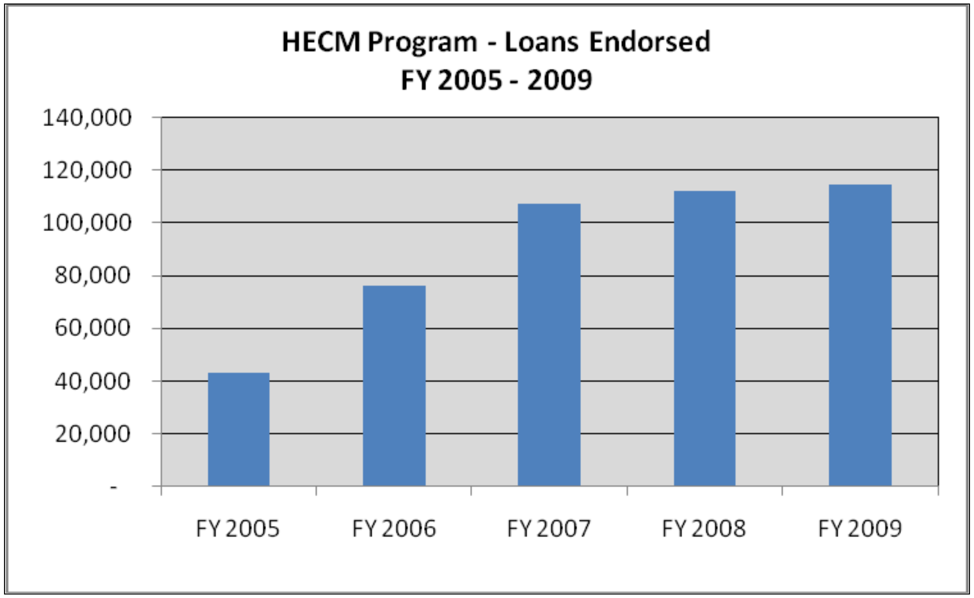
MMI Purchase and Refinance. As a response to the current housing market conditions, FHA has played a major role in the refinance of conventional mortgages into FHA mortgages, especially through its 203(b) program. In fiscal year 2008, over 349,000 families with conventional mortgages refinanced their single family homes with FHA through the MMI fund's 203(b) program. This is a significant increase of 236 percent over the fiscal year 2007 conventional-to-FHA mortgage refinances of just over 104,000 families. During fiscal year 2009, the number of families refinancing their conventional mortgages into a FHA mortgage increased by 30 percent over fiscal year 2008, enabling FHA to serve over 454,000 families.



Since July 2008, the monthly endorsement volume for the MMI fund's 203(b) program has exceeded $20 billion and remained above $20 billion during fiscal year 2009, averaging $25.8 billion per month. With an average monthly endorsement volume of only $4.7 billion for fiscal year 2007, FHA's role in single family mortgages was barely visible. However, during the current housing mortgage crisis, FHA is playing a much more significant role in homeownership and home refinancing with an increase of over 400 percent in monthly endorsement volume in fiscal year 2009. The chart below displays the endorsement volume for fiscal years 2007 – 2009 for the 203(b) program.



HECM. For fiscal year 2011, it is estimated that over 119,000 loans will be endorsed under FHA's home equity conversion mortgage (HECM) program. From the beginning of the HECM program in fiscal year 1990 through fiscal year 2009, over 572,000 loans have been endorsed under the program. Over 50 percent of these loans were endorsed during fiscal years 2007 - 2009. On average, 457 cases were endorsed per business day for fiscal year 2009; the average number of cases endorsed per business day in fiscal years 2008 and 2007 was 445 and 430 cases, respectively.



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

Budget Activity	2009 Budget Authority	2008 Carryover Into 2009	2009 Total Resources	2009 Obligations	2010 Budget Authority/ Request	2009 Carryover Into 2010	2010 Total Resources	2011 Request
Administrative Contract Expense	$146,000	...	$146,000	$72,061	$187,719	...	$187,719	$205,645
Transformation Initiatives transfer .	...	...	...	...	1,181	...	1,181	1,355
Positive Subsidy Appropriation	...	...	...	...	...	...	...	250,000
Total	146,000	...	146,000	72,061	188,900	...	188,900	457,000

NOTE: Amounts exclude upward re-estimates. The Salaries and Expenses for FHA are directly appropriated to the relevant administrative accounts of the Department; the Working Capital Fund amount remains a non-expenditure transfer and is excluded from obligations. The appropriation in this account is for FHA contract expenses, including amounts for education and outreach. Also, for fiscal year 2009, the enacted request reflects an additional appropriation of $30 million for administrative contract expenses pursuant to the second proviso in the paragraph under the heading "Mutual Mortgage Insurance Program Account" in P.L. 111-8. On February 28, 2009, guaranteed loan commitments for the MMI Fund totaled $130 billion, thereby exceeding the $65.5 billion threshold for additional funding by $64.5 billion. The additional appropriation is calculated at $1,400 for every million dollars of commitments that, prior to April 1, 2009, exceeded the threshold; this additional authority could increase up to a maximum of $30,000,000. As the limitation was reached, the full amount made available under the proviso is reflected herein.

FTE	2009 Actual	2010 Estimate	2011 Estimate
Headquarters	305	324	335
Field	620	638	735
Total	925	962	1,070

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

Budget Activity	2009 Budget or Financing Authority	2009 Rescission	2009 Total Resources	2009 Obligations	2010 Enacted	2010 Rescission	2010 Total Resources	2011 Request
Administrative Contracts Expenses a/............	146,000	0	146,000	72,154	188,900	0	188,900	207,000
Working Capital Fund Transfer b/...................	-58,493	0	-58,493	0	-70,794	0	-70,794	-71,500
Transformation Initiatives Transfer c/…………	0	0	0	0	-1,181	0	-1,181	-1,355
Administrative Contract Expenses (net)…	87,507	0	87,507	72,154	116,925	0	116,925	134,145
Positive Subsidy Appropriation.......................	0	0	0	0	0	0	0	250,000
Total..	87,507	0	87,507	72,154	116,925	0	116,925	384,145

a/ Beginning with fiscal year 2010, all administrative contract expenses for FHA are appropriated under the MMI Fund. The fiscal year 2009 amount includes costs for education and outreach of FHA single family loan products as well as costs related to the implementation of the FHA reforms and the increase in Housing’s base contract costs. The fiscal year 2009 total of FHA administrative contract expense appropriations, combining those for both the MMI and GI/SRI funds, was $194,871,000.

b/ Beginning with fiscal year 2010, all funds for FHA systems development are appropriated under the MMI Fund.

c/ In fiscal year 2010, 1 percent of the appropriation for administrative contracts expenses net of the transfer to Working Capital Fund, is transferred to the Department’s Transformation Initiatives account, pursuant to the fiscal year Consolidated Appropriations Act, P.L. 111-117. One percent of the appropriation for administrative contract expenses net of the transfer to the Working Capital Fund, is also requested for transfer to the Transformation Initiatives account in the fiscal year 2011 Budget.

BUDGET HIGHLIGHTS

Budget Activity	**Actual 2009**	**Estimate 2010**	**Estimate 2011**	**Increase + Decrease – 2011 vs. 2010**
		(Dollars in Thousands)		
Insurance Commitment Limitation:				
Loan Guarantees	$400,000,000	$400,000,000	$400,000,000	…
Insurance Commitments ($$):				
MMI Purchase and Refinance	330,458,853	299,953,826	222,867,868	$(77,085,958)
MMI HECM	30,188,776	30,799,717	30,000,000	(799,717)
Subtotal	360,647,629	330,753,543	252,867,868	(77,885,675)
Standby authority	39,352,371	69,246,457	147,132,132	77,885,675
Direct Loan Limitation	50,000	50,000	50,000	…
Discretionary:				
Budget Authority				
Program account - Administrative Contracts	87,507	118,106	135,500	17,394
Program account - Guaranteed Loan Subsidy	-	-	250,000	250,000
Capital Reserve account (negative subsidy)	565,363	2,013,712	5,772,278	3,758,566
Capital Reserve (Loan modification)	360,786	N/A	N/A	-
Net Outlays				
Program account	42,629	113,000	381,000	268,000
Capital Reserve account (negative subsidy)	(565,363)	(2,013,712)	(5,772,278)	(3,758,566)
Capital Reserve (Loan modification)	(360,786)	N/A	N/A	…

	Actual 2009	Estimate 2010	Estimate 2011	Increase + Decrease – 2011 vs. 2010
	(Dollars in Thousands)			
Mandatory:				
Net Outlays				
Program account(upward re-estimates)	$10,383,542	$9,868,204	…	($9,868,204)
Capital Reserve account (downward re-estimate)	(107,881)	(25,675)	…	25,675
Capital Reserve account (interest on Fed. Securities)	(1,017,580)	(735,000)	($622,000)	113,000
Liquidating account (net outlays)	24,799	3,525	2,023	(1,502)
Off Budget:				
Financing account (net disbursements)	(12,658,664)	(7,834,407)	7,940,803	15,775,210
Program Activity:				
Commitments (dollars)				
MMI Purchase and Refinance	330,458,853	299,953,826	222,867,868	(77,085,958)
MMI HECM	30,188,776	30,799,717	30,000,000	(799,717)
Commitments (cases)				
MMI Purchase and Refinance	1,831,534	1,661,975	1,311,889	(350,086)
MMI HECM	114,691	120,429	119,953	(476)
Credit Subsidy				
MMI Purchase and Refinance a/	-0.05%	-0.62%	-2.59%	-1.97%
MMI HECM	-1.37%	-0.50%	0.83%	1.33%
Insurance-In-Force	690,852,029	873,033,294	998,767,710	125,734,416
Negative Subsidy	565,363	2,013,712	5,772,278	$3,758,566
Loan Modification	360,786	N/A	N/A	
Positive Subsidy			250,000	250,000
Default Claim Payments	8,517,355	15,665,990	19,665,606	3,999,616
Recoveries	3,458,545	10,214,558	11,947,445	1,732,887

a/ The credit subsidy rate shown for fiscal year 2009 is a weighted average subsidy rate. During fiscal year 2009, two credit subsidy rates were executed for the MMI Fund's single family forward mortgages (Purchase and Refinance risk category) due to the implementation of the Super Partial Claim Loss Mitigation program that occurred, effective July 2009.

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

Administrative Contract Expense	Amount
2009 Appropriation	$146,000
2010 Appropriation/Request	187,719
2011 Request	205,645
Program Improvements/Offsets	+17,926

Proposed Actions

Under this appropriation FHA will transfer up to $71.5 million to the Working Capital Fund for the development of both MMI and GI/SRI systems.

2009 Appropriation. This amount includes a $58.5 million transfer to the Departmental Working Capital Fund account and an additional $30 million for administrative contract expenses for having exceeded the dollar threshold in the second proviso in the paragraph under the heading “Mutual Mortgage Insurance Program Account”, pursuant to the fiscal year 2009 Omnibus Appropriations Act, P.L. 111-8.

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

2011 Request. Amount excludes $1.4 million for a 1 percent transfer to the Departmental Transformation Initiatives account and includes a request to transfer $71.5 million to the Departmental Working Capital Fund account.

For fiscal year 2011, as FHA’s role has expanded during the mortgage crisis, the increase in funding for administrative contract expenses is necessary to support the following FHA activities:

- Improve upon current modeling techniques. The FHA Commissioner and the financial statement auditors have asked FHA to do more in-depth data analyses by product type as well as borrower type to continually improve modeling capabilities for both the single family forward and HECM programs. Also, the FHA MMI capital ratio fell below 2% for fiscal year 2009. As a response, FHA is tightening up its risk management and will need to conduct additional analytics to help strengthen the performance of the MMI portfolio.

- Improvements to credit risk. As part of the Commissioner’s credit risk improvements, an Office of Risk Management was created during fiscal year 2010. Fiscal year 2011 will represent the first full fiscal year that this office will be in place. A portion of the additional administrative contract funds will be used to provide contract support for this newly created organization. The funds will be used on both the Single Family and Multifamily FHA portfolios as well as Housing’s rental assistance programs.

- Increase for fraud detection and fraud prevention. The new and proposed legislation, heightened economic risks, and significant increase in loan volume underscore the need for a contract vehicle to help close the gaps in our fraud prevention programs.

HOUSING
FHA--MUTUAL MORTGAGE & COOPERATIVE MGMT. HOUSING INSURANCE FUND
Program Offsets
(Dollars in Thousands)

Transformation Initiatives transfer	Amount
2009 Appropriation	...
2010 Appropriation/Request	$1,181
2011 Request	1,355
Program Improvements/Offsets	+174

Proposed Actions

Under this appropriation, FHA requests a transfer of 1 percent of the funds to the Departmental Transformation Initiatives account.

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

Loan Guarantee Limitation	Amount
2009 Request...	$400,000,000
2010 Request..	$400,000,000
2011 Request..	$400,000,000
Program Improvements/Offsets.. ...	…

Proposed Actions

Loan Guarantee Limitation. The fiscal year 2011 Budget requests $400 billion in loan guarantee limitation which is to remain available until September 30, 2012. This limitation includes sufficient authority for any new initiatives as well as standby commitment authority for unanticipated increases in business, and allows the authority to be carried over into fiscal year 2012.

PROGRAM DESCRIPTION

MMI Fund. The MMI Fund consists of FHA's primary single family home mortgage program (Section 203(b)), as well as loans for condominiums, purchase and rehabilitation loans, and home equity conversion mortgages (HECM). Prior to fiscal year 2009, aside from Section 203(b) loans, these single family products were endorsed for insurance under the FHA's General and Special Risk Insurance (GI/SRI) Fund. As a result of the consolidation of the single family programs through the transfer of single family programs from the GI/SRI to the MMI fund, beginning in fiscal year 2009, the MMI Fund has two credit risk categories: the MMI Purchase and Refinance risk category and the MMI HECM risk category.

The Section 203(b) program, enacted in the National Housing Act of 1934, provides mortgage insurance for the purchase or refinancing of one- to four-family residences. This program has contributed to expanding the opportunities for homeownership in the United States and will continue to meet the needs of first-time homebuyers, working families, and minority families. Under the 203(b) program, any person able to meet the cash investment, mortgage payments and credit requirements may obtain a loan insured by FHA from a private lending institution to purchase a home.

The HECM program (Section 255) allows senior homeowners age 62 and older access to FHA-insured reverse mortgages to convert the equity in their homes into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the homes. Unlike forward mortgage borrowers, the HECM borrowers have no income or credit qualifications to meet and make no payments as long as the property securing the HECM loan is their main residence.

Program Activity

MMI Fund
Mortgage Insurance Written and Insurance-in-Force

	FY 2009 Actual	FY 2010 Estimate	FY 2011 Estimate
		(Dollars in Thousands)	
Mortgage Insurance Written (dollars):			
MMI Purchase and Refinance……………….	$330,458,853	$299,953,826	$222,867,868
MMI HECM (Maximum Claim Amount)……..	30,188,776	$30,799,717	$30,000,000
Mortgage Insurance Written (number of loans):			
MMI Purchase and Refinance………………..	1,831,534	1,661,975	1,311,889
MMI HECM……………………………………..	114,691	120,429	119,953
Outstanding balance of insurance in force, end of year:			
MMI Purchase and Refinance……………….	$675,272,202	$843,151,384	$955,951,026
MMI HECM…………………………………….	15,579,827	29,881,910	42,816,684

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

Direct Loan Limitation	Amount
2009 Request	$50,000
2010 Request	50,000
2011 Request	50,000
Program Improvements/Offsets	...

Proposed Actions

Direct Loan Limitation. The fiscal year 2011 Budget requests $50 million in direct loan limitation. This limitation shall be used for direct loans to non-profit and governmental entities in connection with sales of single family real properties owned by the Secretary and formerly insured under the MMI Fund.

HOUSING
FHA--MUTUAL MORTGAGE & COOPERATIVE MGMT. HOUSING INSURANCE FUND
Program Offsets
(Dollars in Thousands)

Positive Subsidy Appropriation	Amount
2009 Appropriation	...
2010 Appropriation/Request	...
2011 Request	$250,000
Program Improvements/Offsets	+250,000

Proposed Actions

For endorsements under FHA's Home Equity Conversion Mortgage program, the 2011 Budget requests $250 million as an appropriation of credit subsidy.

HOUSING
MUTUAL MORTGAGE INSURANCE FUND
Proposed Appropriations Language

The fiscal year 2011 President's Budget included proposed changes in the appropriations language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed.

[During fiscal year 2010] *New* commitments to guarantee single family loans insured under the Mutual Mortgage Insurance Fund shall not exceed [a loan principal of] $400,000,000,000, *to remain available until September 30, 2012:* Provided, That [for new loans guaranteed pursuant to section 255 of the National Housing Act (12 U.S.C. 1715z-20), the Secretary shall adjust the factors used to calculate the principal limit (as such term is defined in HUD Handbook 4235.1) that were assumed in the President's Budget Request for 2010 for such loans, as necessary to ensure that the program operates at a net zero subsidy rate] *for the cost of new guaranteed loans, as authorized by section 255 of the National Housing Act (12 U.S.C 1715z-20), $250,000,000; and, in addition, to the extent that new guaranteed loan commitments under section 255 will and do exceed $30,000,000,000 during fiscal year 2011, an additional $8,300 shall be available for each $1,000,000 in such additional commitments (including a pro rata amount for any new guaranteed loan commitment amount below $1,000,000)*: Provided further, That during fiscal year [2010]*2011*, obligations to make direct loans to carry out the purposes of section 204(g) of the National Housing Act, as amended, shall not exceed $50,000,000: Provided further, That the foregoing amount *in the previous proviso* shall be for loans to nonprofit and governmental entities in connection with sales of single family real properties owned by the Secretary and formerly insured under the Mutual Mortgage Insurance Fund.

For administrative contract expenses of the Federal Housing Administration, [$188,900,000]*$207,000,000, to remain available until September 30, 2012*, of which up to [$70,794,000] *$71,500,000* may be transferred to the Working Capital Fund[, and of which up to $7,500,000 shall be for education and outreach of FHA single family loan products]: *Provided further,* That to the extent guaranteed loan commitments exceed $200,000,000,000 on or before April 1, [2010]*2011*, 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. (Department of Housing and Urban Development Appropriations Act, 2010.)

Explanation of Changes

To ensure that the FHA's single family mortgage insurance operation would continue without disruption while budget deliberations are carried out during continuing resolutions, the fiscal year 2011 Budget for the Mutual Mortgage Insurance requests 2-year appropriations for: (1) single family mortgage insurance commitments and (2) administrative contract expenses.

HOUSING
FHA--MUTUAL MORTGAGE INSURANCE FUND
Crosswalk of 2009 Availability
(Dollars in Thousands)

Budget Activity	2009 Enacted	Supplemental/ Rescission	Approved Reprogrammings	Transfers	Carryover	Total 2009 Resources
Administrative Contract Expense	$146,000	...	...	...	...	$146,000
Transformation Initiatives transfer .	...	...	...	...	...	...
Positive Subsidy Appropriation	...	...	...	...	...	...
Total	146,000	...	...	...	...	146,000

NOTE: For fiscal year 2009, the enacted request includes a $58.5 million non-expenditure transfer to Working Capital Fund, and reflects an additional appropriation of $30 million for administrative contract expenses pursuant to the second proviso in the paragraph under the heading "Mutual Mortgage Insurance Program Account" in P.L. 111-8. On February 28, 2009, guaranteed loan commitments for the MMI Fund totaled $130 billion, thereby exceeding the $65.5 billion threshold for additional funding by $64.5 billion. The additional appropriation is calculated at $1,400 for every million dollars of commitments that, prior to April 1, 2009, exceeded the threshold; this additional authority could increase up to a maximum of $30,000,000. As the limitation was reached, the full amount made available under the proviso is reflected herein.

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

Budget Activity	2010 President's Budget Request	Congressional Appropriations Action on 2010 Request	2010 Supplemental/ Rescission	Reprogrammings	Carryover	Total 2010 Resources
Administrative Contract Expense	$188,900	$187,719	...	...	...	$187,719
Transformation Initiatives transfer .	...	1,181	...	...	...	1,181
Positive Subsidy Appropriation	798,000	...	...	...	...	...
Total	986,900	188,900	...	...	...	188,900

2010 Request. The amount for administrative contract expense includes a request to transfer $70.8 million to the Departmental Working Capital Fund account.