**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
**FEDERAL HOUSING ADMINISTRATION**
**MORTGAGE AND LOAN INSURANCE PROGRAMS**

## PROGRAM DESCRIPTION

Through mortgage insurance, the Federal Housing Administration (FHA) helps lenders reduce their exposure to risk of default. This assistance allows lenders to make lower-cost financing available to more borrowers for home and home improvement loans, and apartment, hospital, and nursing home loans. FHA provides a vital link in addressing America's homeownership and affordable rental housing needs.

Mortgage insurance has made financing available in neighborhoods and geographic areas facing economic uncertainty, and to individuals and families not adequately served by the conventional mortgage market. FHA has been a product innovator, and has seen the private sector follow with similar products and terms once they learn from FHA's experience. FHA spreads and manages risk through geographically dispersed loan insurance activity and a portfolio that is diverse in borrowers and products.

To date, FHA continues to play a countercyclical role-–serving as a vital backstop to the private mortgage market during the current economic downturn, in which severe capital constraints have greatly reduced the ability of private firms to take on credit risk. The share of FHA-insured single family mortgage originations, at a low point of just 1.9 percent in the fourth quarter of 2006, rose continuously over the next 3 years, reaching 18.7 percent in fiscal year 2009. In terms of dollar volume, FHA insured $181.2 billion of single family mortgages in fiscal year 2008 and $330 billion in fiscal year 2009.

Furthermore, FHA is actively involved in foreclosure mitigation, homeownership counseling and a myriad of efforts to curb mortgage fraud and lending discrimination; it is also part of the Federal Government's efforts to rethink the regulatory structure governing the housing sector and to prevent the repetition of the reckless and speculative lending that precipitated the current housing crisis.

FHA is comprised of five separate insurance funds: Mutual Mortgage Insurance (MMI) fund, Cooperative Management Housing Insurance (CMHI) fund, General Risk Insurance (GI) fund, Special Risk Insurance (SRI) fund, and the HOPE for Homeowners (H4H) fund. For presentation purposes, the budget transactions are separated into three accounts. The main single family programs, including those for condominiums and the Home Equity Conversion Mortgage programs are reported under the MMI/CMHI account. All multifamily programs, excluding the CMHI fund, and other specialized insurance programs form the GI/SRI account. The H4H program, a single family program that was established by Congress with its own separate fund from the other FHA funds, is intended to help those at risk of default and foreclosure to refinance into more affordable, sustainable loans through FHA.

## SUMMARY OF THE BUDGET ESTIMATES

**Mortgage Insurance Commitment Limitations.** The Budget requests a mortgage insurance commitment limitation of $420 billion in fiscal year 2011 for new FHA loan commitments for the MMI and GI/SRI funds. The proposed total includes $400 billion under the MMI Fund, which supports insurance of single family home mortgages and mortgages under the Home Equity Conversion Mortgage (HECM) program; and $20 billion under the General and Special Risk Insurance (GI/SRI) Fund, which supports multifamily rental and an assortment of special purpose insurance programs for hospitals, nursing homes, and Title I lending. For mortgages insured under the H4H program, the principal obligation of all mortgages may not exceed $300 billion over a 3-year period; the program is effective from October 1, 2008 to September 30, 2011.

**Direct Loan Limitations.** The Budget requests a direct loan limitation of $50 million for the MMI fund and $20 million for the GI/SRI fund to facilitate the sale of HUD-owned properties acquired through insurance claims to, or for use by low- and moderate-income families.

**Appropriations for Administrative Contract Expenses.** A total of $207 million is requested for administrative contract expenses for the MMI and GI/SRI funds; of this amount, up to $71.5 million will be transferred to the Working Capital Fund for FHA systems costs. In addition, 1 percent, or $1.4 million, of the balance remaining after the Working Capital Fund transfer will be transferred to the Transformation Initiatives account. Beginning with fiscal year 2010, all administrative contract expenses for the GI/SRI fund will be appropriated under the MMI Fund. The administrative costs associated with the H4H program are paid out of HOPE Bonds. Under the Housing and Economic Recovery Act (HERA) of 2008, the Department of the Treasury is authorized to issue HOPE Bonds, up to the aggregate insurance amount, to finance the net costs of the program to the Federal Government, including administrative costs.

**Appropriation for Mortgage Insurance Credit Subsidies.** The Budget does not request any new appropriations for credit subsidies associated with loan guarantees committed under FHA's GI/SRI account. HUD anticipates unobligated balances from prior year appropriations will be sufficient to cover costs for the three GI/SRI programs projected to require positive subsidy in fiscal year 2011. As with the administrative costs for the H4H program, HOPE Bonds are authorized by the Act to be issued to finance the credit subsidy amounts necessary for H4H loan guarantees. A new appropriation of not less than $250 million is requested for the HECM program in the MMI Fund.

The credit subsidy is based on the net cost to the Government, exclusive of administrative expenses, of a direct loan or loan guarantee over its full-term, discounted to present value at the rate reflecting Treasury's borrowing cost. In cases where premium and fee income are projected to be more than sufficient to support full costs (i.e., there is no net cost to the Federal Government), negative credit subsidy is generated as revenue to offset other spending or reduce the deficit.