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 (in terms of dollars for home purchases), at a low of just 2.4 percent in the fourth quarter of 2005, rose continuously over the next 5 years, reaching a high of 36.3 percent in the second quarter of fiscal year 2010. The share of FHA home-purchase mortgages, having been mired in single digits for several years, had jumped above 10 percent and remained substantially above it since the beginning of fiscal year 2008. In terms of dollar volume, FHA insured $360 billion in fiscal year 2009 and $319 billion in fiscal year 2010.

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 (HECM) 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 Budget Estimates

Mortgage Insurance Commitment Limitations. The Budget requests a mortgage insurance commitment limitation of $425 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 $25 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. No new loan commitments will be issued in fiscal year 2012 for the Hope for Homeowners (H4H) program whose authority sunsets on 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 $230 million is requested for administrative contract expenses for the MMI and GI/SRI funds; of this amount, up to $72 million will be transferred to the Working Capital Fund for FHA systems costs. Beginning with fiscal year 2010, all administrative contract expenses for the GI/SRI fund are appropriated under the MMI Fund.

Appropriation for Mortgage Insurance Credit Subsidies. The Budget requests $8.6 million for credit subsidies associated with loan guarantees committed under FHA's GI/SRI account. These will support the three program estimated to require such funds: Section 241(a) supplemental loans for multifamily housing projects with a primary FHA mortgage; 223(d) operating loss loans to nursing home facilities with a Section 232 FHA mortgage; and Section 221(d)(3) new construction/substantial rehabilitation loans to non-profit sponsors.

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.