DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Office of Housing

FHA – Mutual Mortgage Insurance Fund

SUMMARY OF RESOURCES

(Dollars in Thousands)

	Enacted/ Requested	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Net Outlays
2021 Appropriation	130,000	43,575	-	173,575	151,044	126,000
2022 Annualized CR	130,000	22,531	-	152,531	130,000	116,000
2023 President's Budget	165,000	24,531	-	189,531	174,000	130,000
Change from 2022	35,000	2,000	-	37,000	44,000	14,000

a/ 2021 Carryover includes $39.6 million in carryover and $4.0 million in recaptures.
b/ 2022 Carryover includes $20.2 million in estimated carryover and $2.3 million in anticipated recaptures.
c/ 2023 Carryover includes $22.5 million in estimated carryover and $2 million in anticipated recaptures.

PROGRAM PURPOSE

Under the Federal Housing Administration (FHA) Single Family Housing programs, the Mutual Mortgage Insurance (MMI) Fund has insured approximately 52.3 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. FHA 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, low- to moderate-income and minority homebuyers who, without FHA insurance, may find mortgage credit to be unaffordable or simply unavailable. FHA also remains active and viable in all markets during times of economic disruption, playing an important countercyclical role until private capital returns to its normal levels. During times of credit contraction, FHA plays an integral role in expanding equitable access to financing for traditionally marginalized borrowers. Through the MMI Fund, the Department offers several types of single-family forward (traditional) mortgage insurance products and Home Equity Conversion Mortgages (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.

BUDGET OVERVIEW

The 2023 President's Budget requests $165 million for FHA administrative contract expenses, which is $35 million more than the 2022 annualized CR level. This amount includes up to $15 million for a new Home Equity Accelerator Loan (HEAL) pilot. The 2023 Budget also requests $400 billion in loan guarantee commitment authority and $1 million in direct loan authority, which are both equal to the 2022 annualized CR level.

The increase of $35 million over the 2022 Annualized CR level includes an additional $20 million for administrative contract expenses, which is attributable to increased costs for Secretary-held mortgage servicing, including HECM servicing, mortgagee compliance contractor expenses, and real estate owned (REO) case management. The primary cause of the increase is the growing expense of servicing the Secretary-held HECM portfolio. In addition, due in part to the increased volume of partial claims in response to the COVID-19 pandemic and natural disasters, the Secretary-held mortgage servicing portfolio continues to grow. FHA anticipates expending significantly more resources to service these mortgages and to dispose of the properties once they become vacant.

The increase also includes $15 million for the Home Equity Accelerator Loan (HEAL) pilot program. The HEAL pilot program will offer a new loan product to increase access to homeownership and facilitate faster accumulation of home equity for first-generation and/or low-wealth first-time homebuyers.

JUSTIFICATION

The 2023 President's Budget requests $165 million for the FHA MMI Program Account. This amount will provide funding for contracts necessary for the administration of FHA programs operating under the MMI and the General Insurance and Special Risk Insurance (GI/SRI) Fund, as well as the HEAL pilot program. It will fund activities including, but not limited to: insurance endorsement of single-family mortgages, single-family case management system for REO properties, Secretary-held mortgage servicing, HECM counseling tools, construction inspections on multifamily projects, the required annual FHA independent actuarial review, FHA Resource Center, management and oversight of asset disposition, risk analysis, accounting and audit support, and assistance with claims, partial claims, and premium refund processing.

The services identified in the 2023 Budget also support Multifamily Housing's core program functions, including, but not limited to: post-closing portfolio management, loan underwriting support services, construction inspections, document scanning and imaging, loan servicing and accounting, financial advisor services, and the Clearinghouse Call-in Center.

Together these activities and services support underserved communities and promote homeownership as demonstrated in the discussion below.

For budgetary purposes, the programs of the MMI Fund are broken into three risk categories: Forward mortgages, HECMs, and HEAL.

- Forward 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 (i.e., loan limits) are calculated annually by HUD and are generally set at 115 percent of the median house price in each county, subject to a "low-cost" floor and "high-cost" ceiling. There are also special exception loan limits for certain areas to account for higher construction costs.
- The HECM program: provides senior homeowners aged 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 unique role 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 as they age. 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 borrower no longer occupies the property or fails to comply with other requirements of the loan, such as payment of property taxes and insurance.
- HEAL: is a positive credit subsidy program that will provide more opportunities for homeownership to first-generation and/or low-wealth first-time homebuyers. This program will offer new loan products to enable these individuals to more rapidly access homeownership and build equity.

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

The 2023 President's Budget requests $400 billion in loan guarantee commitment limitation, which is to remain available until September 30, 2024. This limitation includes sufficient authority for insurance of single-family forward mortgages and HECMs. Loan volume projected in 2023 for MMI programs is $254.8 billion that includes $225 billion for standard forward mortgages, $26.4 billion for HECMs, and $3.4 billion for the HEAL pilot program. The size and two-year availability for the total commitment authority reduces the likelihood of program disruption due to delays in enactment of full-year appropriations or greater than expected demand for loan guarantees.

Negative Subsidy Receipts

The $251.4 billion in loan volume projected for the forward and HECM MMI portfolios in 2023 is expected to generate $7.97 billion in negative subsidy receipts, which are transferred to the MMI Capital Reserve account, where they are available to cover any unexpected future 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 used 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 REO inventory of properties.

Administrative Contracts- $150 million

The $150 million requested for 2023 will provide funding for contracts necessary in the administration of FHA programs operating under MMI and GI/SRI. This will fund activities including, but not limited to, insurance endorsement of single-family mortgages, construction inspections on multifamily projects, the required annual FHA independent actuarial review in support of the financial audit and other mandated requirements, management and oversight of asset disposition, risk analysis, accounting support services, and assistance with claims and premium refund processing.

Home Equity Accelerator Loan (HEAL) Pilot - $15 million

This funding will support the subsidy cost of the HEAL pilot, which will offer new loan products designed to lower barriers to homeownership for first-generation and/or low-wealth first-time homebuyers. This initiative will expand eligibility for FHA home mortgage insurance and may include incentives for lenders or borrowers.

Information Technology

FHA Catalyst is a critical information technology modernization initiative to make FHA systems operationally more efficient and effective for both internal users and external customers. This modernization effort is necessary for FHA to support HUD's mission and objectives including to promote homeownership, equitable access to credit, and wealth building in underrepresented communities. For additional information regarding HUD's Information Technology investments, please see the Information Technology Fund Justification.

SUMMARY OF RESOURCES BY PROGRAM

(Dollars in Thousands)

Budget Activity	2021 Budget Authority	2020 Carryover Into 2021	2021 Total Resources	2021 Obligations	2022 Annualized CR	2021 Carryover Into 2022	2022 Total Resources	2023 President's Budget
Administrative Contract Expenses	130,000	43,575	173,575	151,044	130,000	22,531	152,531	150,000
Home Equity Accelarator Loans	-	-	-	-	-	-	-	15,000
Total	**130,000**	**43,575**	**173,575**	**151,044**	**130,000**	**22,531**	**152,531**	**165,000**

LEGISLATIVE PROPOSALS AND GENERAL PROVISIONS

Appropriations Language Changes

The 2023 President's Budget includes the following:

- Removed language for a pilot expansion of the Good Neighbor Next Door program.

General Provisions

The 2023 President's Budget re-proposes the following general provision(s) that were enacted in the 2021 appropriations bill:

- Eminent Domain Restrictions: Prohibits HUD from guaranteeing mortgages or mortgage-backed securities that refinance or otherwise replace mortgages that have been subject to eminent domain. (President's Budget Section 217)

Legislative Proposals

The 2023 Budget supports the following legislative proposal(s) and will seek changes through the authorization process:

- HECM Non-Borrowing Spouses: Current law is ambiguous on the limits of foreclosure protections (i.e., loan deferrals) for non-borrowing spouses, which has led to questions regarding their availability for non-borrowing spouses NOT identified at origination (e.g., HECM borrower remarries). This proposal would clarify that automatic protections apply only to non-borrowing spouses identified at origination, consistent with current policy, while also establishing flexibility to extend further protections at the Secretary's discretion.
- FHA Lender Suspension Authority: Currently, if FHA wants to suspend a lender's approval to do business with FHA, it must do so for a minimum of 6 months. HUD proposes to allow shorter suspension periods such as one month. FHA rarely uses its existing suspension authority because a 6-month suspension would put many lenders out of business and therefore has the same practical effect as the more severe sanction of withdrawing a lender's FHA authority. Allowing HUD to impose shorter suspensions would pressure lenders to address violations without permanently forcing them out of the program.
- FHA Civil Money Penalties: Under current law, FHA imposes civil money penalties against lenders up to per-violation ($10,366) and annual ($2,073,133) caps. For some lenders, civil

money penalties may not be an effective deterrent to bad behavior, or incent corrective action, due to the limited costs permitted by the annual cap. Depending on the number of violations, a lender may look at the cost of remedying the violations and compare it to the annual cap and decide it is less costly to pay the penalty. This proposal would strengthen FHA's enforcement authority by eliminating the annual cap while maintaining the per-violation maximum in place.

- Remove HECM Loan Cap: This proposal would eliminate the statutory cap on the number of HECM loans that can be insured by FHA, which is routinely waived in the 2023 Budget and Appropriations Acts.
- Removal of Obsolete Language: This proposal would strike obsolete language related to the use of a 2001 study to set HECM premiums, which would have no practical implications for the program.
- Improvements to Partial Claim Execution: HUD's current partial claim authority requires the creation of a separate junior lien to the FHA-insured first mortgage. This proposal would provide HUD more flexibility in structuring partial claim notes, such as tying them to the first lien and directing lenders to conduct servicing. This would reduce FHA administrative costs and possibly increase recoveries since junior liens can be extinguished in foreclosure or bankruptcy.
- Claim adjustments for errors in property disposition: This proposal would allow downward adjustments to FHA claim payments in the unlikely event that a servicer inadvertently sells a foreclosed property below the FHA-approved floor.
- HECM Foreclosure Notifications: This proposal would clarify that foreclosure notices can be provided to heirs of a deceased HECM borrower or other persons designated by the borrower in the HECM loan documents to mitigate the risk of unnecessary foreclosure delays and associated costs to FHA.
- Standardize Language in Section 203: This proposal would amend the FHA 203 program statute to ensure consistent terms and definitions.
- PACE priming of FHA-insured Loans: Current policy prohibits new FHA-insured loans on properties with outstanding first-lien Property Assessed Clean Energy (PACE) loans but does not prevent first-lien PACE loans after a mortgage is insured by FHA. This proposal would address this gap by requiring PACE providers to obtain HUD consent before adding PACE loans to properties with outstanding FHA-insured mortgages.
- Housing Counseling for HECM Refinances: Under current law, prospective borrowers must receive HUD-approved housing counseling to qualify for a HECM, except a borrower can waive this requirement for a refinance if less than five years has passed since the closing date of their current HECM. This proposal would extend the counseling requirement to refinances of HECMs obtained within the last five years.

APPROPRIATIONS LANGUAGE

The 2023 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, 2024: Provided, That during fiscal year 2023, 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, $165,000,000, to remain available until September 30, 2024: Provided further, That of the amount in the previous proviso, up to $15,000,000, to remain available until September 30, 2025, shall be for the cost of guaranteed loans to support a pilot of new loan products, which may include mortgagee and borrower incentives designed to lower barriers to homeownership, notwithstanding the limitations on eligibility in section 203(b) of the National Housing Act: Provided further, That such costs in the previous proviso, including the costs of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974: Provided further, That notwithstanding the limitation in the first sentence of section 255(g) of the National Housing Act (12 U.S.C. 1715z–20(g)), during fiscal year 2023 the Secretary may insure and enter into new commitments to insure mortgages under section 255 of the National Housing Act.*

Note.—A full-year 2022 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, 2022 (Division A of P.L. 117-43, as amended). The amounts included for 2022 reflect the annualized level provided by the continuing resolution.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Housing

FHA – General and Special Risk Insurance Fund

SUMMARY OF RESOURCES

(Dollars in Thousands)

	Enacted/ Requested	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Net Outlays
2021 Appropriation	-	1,574	-	1,574	-	-
2022 Annualized CR	-	1,574	-	1,574	-	-
2023 President's Budget	-	1,574	-	1,574	-	-
Change from 2022	-	-	-	-	-	-

PROGRAM PURPOSE

The Federal Housing Administration's (FHA) General Insurance and Special Risk Insurance (GI/SRI) Fund programs are a critical component of the Department's efforts to meet the Nation's need for decent, safe, and affordable housing. These programs provide the necessary liquidity so that communities can:

- Continue to provide quality affordable housing and assisted living/nursing home/hospital 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, places of historic disinvestment or exclusion that might otherwise not be possible.

Credit programs under the FHA GI/SRI Fund include:

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

BUDGET OVERVIEW

The 2023 President's Budget for the Federal Housing Administration's (FHA) General Insurance and Special Risk Insurance (GI/SRI) Fund program requests $35 billion in loan guarantee commitment authority, and $1 million in direct loan authority. The loan guarantee commitment authority is $5 billion more than the 2022 President's Budget. The Budget estimates $789 million in offsetting negative credit subsidy receipts in 2023 from GI/SRI loan guarantees.

At the requested level, GI/SRI is projected to issue over $28 billion in loan insurance commitments in 2023, including:

- Approximately $1.5 billion in loan guarantees for 38 new Federal Financing Bank (FFB) Risk Sharing loans;
- Approximately $21.1 billion in loan guarantees to support 1,113 housing apartment projects;
- Approximately $5.6 billion in loan guarantees for 404 healthcare facilities; including residential care facilities (skilled nursing homes, assisted living facilities, and board & care homes), and 11 hospitals; and
- Approximately $51 million for 3,025 Title I manufactured housing and property improvement projects.

JUSTIFICATION

GI/SRI commitment volume exceeded $30 billion for the first time in 2021, totaling over $37 billion. Commitment authority has been set at $30 billion since 2014, a level designed to ensure no interruption in availability of liquidity. GI/SRI commitment volume began a dramatic increase in 2020, reaching record volumes in 2021. Several factors driving the increase are low interest rates (even with recent increases), a strong ongoing demand for rental housing, and COVID-19 capital market disruption. Increasing commitment guarantee authority to $35 billion will ensure no interruption in availability of liquidity.

The 2023 Budget supports mortgage insurance programs that are essential in supporting underserved communities, ensuring access to and increasing the production of affordable housing, promoting home ownership, and advancing sustainable communities. More specifically:

- GI/SRI mortgage insurance encourages private lenders to make loans for new rental housing in high-demand markets, innovative energy technology renovations, nursing homes serving aging senior citizens, and critical 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 for the health and safety of the residents.

- FHA mortgage insurance enhances a borrower's credit and provides banks with better access to capital markets, most notably through Ginnie Mae securities for eligible programs. 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.

- FHA mortgage insurance facilitates fixed-rate loans with long-term amortization not found with conventional lending sources. This mitigates interest rate risk for owners because they do not necessarily have to refinance to maintain affordability of their payments. The long-term amortization period and guarantee of payment in the event of claim stabilizes interest rates and can also allow monthly mortgage payments to be less than payments required under non-insured financing. These savings in turn can reduce the overall costs of developing and maintaining housing, stabilizing housing markets, and benefiting low- and moderate-income residents. Similarly, FHA financing of healthcare facilities contributes to lower healthcare costs for taxpayers and consumers.

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

GI/SRI Risk Categories and Estimated Volume:

2023 GI/SRI Programs (Dollars in Millions)	Commitment Volume (projected)	Credit Subsidy Rate	Offsetting Receipts (projected) [a]
Direct Loans Levels	-	-	-
FFB Risk Sharing [b]	$1,496	-8.13%	$161
	-	-	-
Guaranteed Loan Levels	-	-	-
Apartments New Construction / Substantial Rehab (221d4)	$3,143	-0.90%	$32
Tax Credit Projects (includes Healthcare Tax Credit Projects)	$5,522	-2.17%	$121
Apartment Refinances (223a7 & 223f)	$11,957	-2.25%	$297
Housing Finance Agency Risk Sharing (542c)	$303	-1.56%	$6
GSE risk-share	-	-	-
Other Rental	$195	-2.64%	$7
Subtotal - Multifamily Programs [c]	*$21,118*	*-2.02%*	*$463*
	-	-	-
New Construction and 241(a)/Residential Care Facilities (232_nc), 241(d)	$125	-5.80%	$7
Refinances (a7 and 223(f))/Residential Care Facility Refinances (232_refi), Operation Loss	$4,812	-2.27%	$121
Hospitals (242)	$642	-5.73%	$36
Subtotal - Healthcare Programs [c]	*$5,579*	*-2.75%*	*$164*
	-	-	-
Title 1 - Property Improvement	$50	-1.60%	$1
Title 1 - Manufactured Housing	$1	-6.15%	$0
Total - Guaranteed Loan Levels [c]	*$26,749*	*-2.17%*	$628
	-	-	-
Total - GI/SRI Fund [c]	***$28,245***	***-2.49%***	**$789**

a/ Receipts are recognized as the underlying loans are disbursed.
b/ The FFB Risk Sharing program ceased accepting new applications after December 31, 2018. New applications were accepted starting September 1, 2021 when the program was reactivated, and loan commitments resumed in 2022.
c/ The subsidy rate is a weighted average.

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 creditworthiness, 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, 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 of renewed capital investment in the community balanced with the 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 and Regulatory Affairs 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, defined as those that occur 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 January 2022 included 3,729 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 88 hospitals within 22 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, as of February 2022 FHA's Commercial Mortgage Portfolio (Multifamily and Healthcare programs) currently supports 15 thousand loans on 1.98 million units.

Multifamily Risk Categories

<u>Federal Financing Bank (FFB) Risk Share</u>: The FFB Risk Share Initiative was started in 2015 to increase access to and reduce the cost of funding for multifamily mortgage loans insured by FHA through its Section 542 Risk Sharing programs with Housing Finance Agencies (HFAs). This Initiative was an inter-agency partnership between HUD, Treasury's FFB and HFAs that provided a Ginnie Mae-like financing mechanism for HFA risk-share partners until Ginnie Mae securitization is allowed for the Section 542(c) programs. This Initiative ended in 2018. To address the critical need for affordable housing, and to ensure a stable source of capital in an environment of volatile tax-exempt bond pricing, HUD has temporarily resumed the Initiative, with a renewed emphasis on enacting legislation to provide a permanent source of lower-cost capital through Ginnie Mae securitization. This second phase of the FFB Initiative has started with the first loans issued in 2022, and will sunset in 2024. In the interim, HUD is pursuing legislation that will permit 542(c) loans to access Ginnie Mae securitization permanently.

<u>Section 221(d)(4) Mortgage Insurance for Rental Housing</u>: 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 85 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.

<u>Sections 223(f) and 223(a)(7) Mortgage Insurance for Refinancing or Purchase of Existing Multifamily Rental Housing</u>: 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. For budgetary purposes, these loans are included in the risk category of the primary loan they are supplementing.

Section 542(b) Risk Sharing with Qualified Participating Entities (QPEs): This is one of two multifamily programs under which FHA insures only a portion of the losses by sharing the risk with Fannie Mae, Freddie Mac, and other qualified federal, state, and local public financial and housing institutions. If a loan insured under Section 542(b) defaults, the QPE will pay all costs associated with loan disposition and will seek reimbursement from HUD for 50 percent of the losses.

Section 542(c) Risk Sharing with Housing Finance Agencies (HFAs): Section 542(c) provides mortgage insurance of multifamily housing projects whose loans are underwritten, processed, serviced, and disposed of by state and local HFAs. FHA insurance enhances HFA bonds to investment grade and provides capital for affordable housing construction. HFAs may elect to share from 10 to 90 percent of the loss on a loan with HUD. Section 542(c) insured-projects often include low-income housing tax-credits, in which case they are reported under GI/SRI's risk category for Tax Credit Projects.

Other Rental Programs: This risk category includes several relatively low-volume programs that have been grouped together for budgetary purposes, including Section 220 loans in urban areas, Section 231 loans for elderly housing, and Section 207 loans for mobile home park development. Section 220 is a new-construction program, distinct from 221(d)(4) in that it insures loans for multifamily housing projects in urban renewal areas, code enforcement areas, and other areas where local governments have undertaken designated revitalization activities. The program offers special underwriting allowances for greater mixed-use development. Section 231 is also a new construction/substantial rehabilitation program, but for projects specifically designed for senior citizens. For Section 231 projects with 90 percent or greater rental assistance, the maximum loan amount is 90 percent of the estimated replacement cost.

Tax Credit Projects: Projects assisted with Low-Income Housing Tax Credits (LIHTC) may be insured under several FHA multifamily programs but are grouped together in a single budget risk category. These loans have a lower risk of default than similar projects without tax credits and require borrowers to pay lower FHA mortgage insurance premiums.

Healthcare Risk Categories

Section 232 New Construction/Substantial Rehabilitation of Residential Care Facilities: Section 232 programs are split into two budget risk categories, the first of which includes new-construction and substantial-renovation projects. The program enables access to capital that may not otherwise be available for many quality providers in underserved areas, thereby providing access to needed healthcare and residences for seniors. These loans are offered for terms of up to 40 years and provide both construction and permanent financing. This risk category also includes Section 241(a) supplemental loans made to projects with a primary FHA Section 232 mortgage.

Section 232/223(f) Refinancing and Purchase of Existing Residential Care Facilities: The Section 232/223(f) refinancing program, the second of the two budget risk categories of the section 232 program, enables existing facilities to take advantage of refinancing at low-interest rates with 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 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, as well as operating loss loans insured under Section 223(d).

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.

SUMMARY OF RESOURCES BY PROGRAM

(Dollars in Thousands)

Budget Activity	2021 Budget Authority	2020 Carryover Into 2021	2021 Total Resources	2021 Obligations	2022 Annualized CR	2021 Carryover Into 2022	2022 Total Resources
Positive Subsidy Appropriation	-	1,574	1,574	-	-	1,574	1,574
Total	**-**	**1,574**	**1,574**	**-**	**-**	**1,574**	**1,574**

LEGISLATIVE PROPOSALS AND GENERAL PROVISIONS

Legislative Proposals

The 2023 Budget supports the following legislative proposal(s) and will seek changes through the authorization process:

Section 232 Loans – Civil Money Penalties: FHA's Section 232 program insures loans made to residential care facilities, such as nursing homes. The borrowers responsible for repaying the loan often lease the facility to operators who provide day-to-day management of the facility and its residents. Although these operators can directly impact the performance of the property, FHA's ability to enforce quality operations is somewhat diluted, relying on either the owner or regulatory agreements with the operator. FHA seeks explicit authority to assess civil monetary penalties for violations of the regulatory agreement, as a more immediate lever for addressing financial performance issues and reducing the risk of management-related defaults.

Increase in Property Improvement Loan limits under Title I and provide for construction of new residential structures**:** The current Property Improvement loan program, which provides insurance for loans and mortgages made for the purpose of financing property alterations, repairs and improvements, has seen a steady decline in usage over the past ten years and a significant reduction since the peak in the mid 1990's[1]. The decline in utilization has been particularly problematic for homeowners that lack capital for property improvements, as much of the improvements are increasingly executed with existing reserves rather than financing. Because low- and moderate-income homeowners often lack sufficient reserves, viable and cost-effective financing products are necessary to enable needed repairs or improvements that improve livability and increase homeowner equity.

While multiple market forces affect the use of the program, a significant obstacle to its use has been the static loan limit of $25,000 for single unit properties which has been in effect since 1992[2]. Since that time, there have been significant increases in the cost of building materials, labor, and other renovation costs.

As mortgage interest rates rise and the inventory of homes available for purchase remains low, demand for property improvement loans is expected to increase. Access to affordable renovation financing will allow households that currently have lower interest rates for their first mortgages to make adaptations to their existing homes to meet their current needs. In order for the Title I program to assist in meeting expected market demand for property improvement financing, it must offer loan limits that are commensurate with its eligible uses.

For the FHA Title I program to meet the demand for renovation financing in today's housing market, the program's loan limits must be increased to levels commensurate with current market conditions and program uses.

<u>Increase Title I Manufactured Housing Loan limits and provide flexibility to establish an index for future increases:</u> The current loan limits for the Title I Manufactured Housing program were established in 2008 based upon average manufactured housing prices at the time. The existing statute also provides for the indexing of such limits based upon manufactured housing price data collected by the United States Census Bureau.

Manufactured housing represents the largest source of unsubsidized affordable housing throughout the nation. Increasing the baseline loan limits for FHA-insured manufactured housing loans to a level that is commensurate with the current prices of single and multi-unit manufactured homes will allow buyers to utilize FHA-insured financing to purchase manufactured homes at more affordable rates than are presently available in the market. This will further enhance the availability of high quality affordable housing for low- and moderate-income households.

Providing FHA with the ability to utilize indexes other than Census Bureau data for the establishment of Title I manufactured housing loan limits will ensure that FHA's loan limits are calibrated to factors more appropriate and specific to this housing market. This flexibility is crucial for Title I to be a useful and reliable financing source for the manufactured housing market.

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[1] FHA insured 9,320 loans in FY 2012 and 1015 loans in FY 2021. FHA insured 110,117 loans in 1996.

[2] The Housing and Economic Recovery Act of 2008 (HERA) also increased the loan limit to $25,090 and established indexing for Manufactured Home improvement loans only. Manufactured Home improvement loans make up only .02% of all Property Improvement loans since 2008. HERA set the limit at $60,000 or an average amount of $12,000 per family unit for dwellings with greater than one unit.

APPROPRIATIONS LANGUAGE

The 2023 President's Budget includes the appropriation language listed below.

GENERAL AND SPECIAL RISK PROGRAM ACCOUNT

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 35,000,000,000 in total loan principal, any part of which is to be guaranteed, to remain available until September 30, 2024: Provided, That during fiscal year 2023, 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 2022 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, 2022 (Division A of P.L. 117-43, as amended). The amounts included for 2022 reflect the annualized level provided by the continuing resolution.