CENTER ON
FEDERAL FINANCIAL
INSTITUTIONS

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The Center on Federal Financial Institutions (COFFI) is a nonprofit, nonpartisan, non-ideological policy institute focused on federal insurance and lending activities.

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Federal Housing Administration

The FHA's mission. The administration's stated goals are to increase homeownership, support community development, and increase the availability of affordable housing.

The FHA has progressively broadened its scope over the last 70 years. Born out of the New Deal in 1934, the Federal Housing Administration was brought under HUD in 1965. The FHA assisted victims of the Depression as well as veterans after World War II. It currently facilitates financing for millions of homeowners.

FHA

Guaranteed Loans Outstanding: $474.5 billion

Guaranteed Loans Originated FY2004: $131.5 billion

Direct Loans Outstanding: $7.0 billion

Direct Loans Originated FY2004: None

Statutory Taxpayer Exposure*: $481.4 billion

Budget Cost of Loan Programs FY 2004: $1.3 billion

*Note: Reflects total federal losses in a worse case scenario given current law and current financial commitments

Structure and Functions

Nuts and bolts. The FHA is an agency of the Department of Housing and Urban Development. It is directed by the Assistant Secretary for Housing, who reports to HUD's Secretary. The FHA's loan program guidelines are set by Congress pursuant to 12 U.S.C 13. Each year, Congress appropriates funds for the operating costs of the agency. The FHA is overseen in Congress by the House's Financial Services committee and the Senate's Banking, Housing, and Urban Affairs committee.

The FHA's credit functions. The Federal Housing Administration guarantees loans against default. Private lenders, approved by the FHA, originate and execute the loans themselves. Homeowners and developers apply directly to FHA-approved lenders who decide whether to make the loan. The FHA incentivizes lenders to offer loans to those with minimal credit histories, little money for down payments, and other hardships by guaranteeing the loans. The FHA typically covers 100% of the loan against default.

The FHA's programs cover purchasing, refinancing, and improvement to single-family, multi-family, and rental housing as well as hospitals and nursing homes.

Single Family Housing

Guaranty: Generally 100%

Delivered by: FHA-approved private lender

Mutual Mortgage Insurance Program

Purpose: Purchase or refinancing of a 1-4 family home.

Maximum Loan: $172,000 to $312,000 depending on location (determined by cost of living, median home prices, etc.)

FY2004 Originations: $107.7 billion

Section 203(k) Rehabilitation Mortgage

Purpose: Purchase or refinance of a single family home. Mortgages must have at least $5,000 in rehabilitation costs.

Maximum Loan: Subject to same limits as other single-family loan programs

FY2004 Originations: $659 million

Section 234 Condominiums

Purpose: To facilitate buyers who have recently had their apartments converted to condominiums.

Maximum Loan: Dependent on local median home prices.

FY2004 Originations: $14.6 billion

Section 255 Home Equity Conversion Mortgages

Purpose: Converts home equity into income for those who have paid off all or most of their mortgage.

Maximum Loan: Dependent on home equity and borrower age; subject to same limits as other single-family loan programs

FY2004 Originations: Program begins in FY2006

Guaranteed Loan Programs

The FHA primarily supports homeownership by guaranteeing mortgages. The FHA operates more than a dozen different lending programs. Each targets different customers and circumstances. Many of these programs have been in existence for more than a decade. However, specific programs can, and are, cut and added each year by Congress. The FHA has three major subsets of programs: single-family, multi-family, and health care.

Single-family programs. The FHA insures mortgages that fall under program guidelines and are borrowed from approved lenders. The typical guaranty is 100%, though it may be less depending on the program and individual characteristics of the loan.

The Mutual Mortgage Insurance Program covers the purchase or refinancing of 1-4 family homes. It is by far the biggest program at FHA. It has $384 billion in loans outstanding, as compared to $481 billion for FHA as a whole. The MMI program is conducted from a separate budgetary account from all other FHA programs.

All other FHA programs come under the General Risk and Special Programs account. This fund has $91 billion in current outstanding loans. Its single-family programs include coverage for rehabilitation costs, property

Single Family Housing (cont.)

Title I Manufactured Housing

Purpose: Purchase of a manufactured home.

Maximum Loan: $48,600 for home; $64,800 for home and property

FY2004 Originations: $69 million

Title I Property Improvement

Purpose: General property improvements to increase livability of home.

Maximum Loan: $17,500 manufactured; $25,000 single-family; $60,000 multi-family

FY2004 Originations: $68 million

Multifamily Housing

Guaranty: Generally 100%

Delivered by: FHA-approved private lender

FY2004 Originations: $4.0 billion

Multifamily Development and Section 221(d3) Cooperatives

Purpose: Construction or refinance of multi-family rental or cooperative housing.

Maximum Loan: $40,000 to $90,000 per unit; varies by location

Section 241 Supplemental Loans

Purpose: Finance repairs, additions, and improvements to HUD-insured multi-family rental housing or health care facilities

Maximum Loan: Subject to same limits for multi-family or health care facilities, respectively

Multifamily Operating Loss Loans

Purpose: Covers operating losses for the first two years after completion for multi-family projects financed by HUD-insured mortgage

Maximum Loan: No set limit

improvements, and purchase of manufactured homes and home sites. Section 234 provides financing for those whose apartments are being converted to condominiums.

The home equity conversion mortgage program allows those who have paid off all or most of their mortgage to borrow against their equity. The FHA insures lenders against the risk that the home equity when sold will be less than the disbursed loan and interest.

There are a number of smaller programs as, including ones for police officers and teachers as well as for energy efficiency projects.

Multi-family programs. As is the case for single-family programs, the FHA typically insures loans up to 100% for approved projects made by approved lenders.

Loans are typically taken out by developers, management companies or builders. Multi-family programs include those for the construction and refinance of multi-family rental and cooperative housing. Programs also provide financing for repairs and improvements of rental housing and for operating losses incurred during the first few years after completion.

Health care programs. The Federal Housing Administration not only facilitates financing for homes and apartments but also for nursing homes and hospitals. These loans are available for the construction, expansion, and renovation of health care facilities as well as capital equipment purchase and financing. FHA insures up to 99% of these loans.

Guarantee process. The FHA guarantees a loan against default, allowing private lenders to provide loans to those borrowers who would otherwise not be offered loans. Homeowners, condo developers, etc. apply directly to private lenders for loans. These lenders provide and administer loans in circumstances stipulated by the FHA. These lenders structure loans to FHA guidelines. The FHA guarantees qualifying loans from approved lenders. This guaranty is a guaranty against payment default, not against lender negligence.

Health Care

Maximum guaranty: up to 99% of loan

Delivered by: FHA-approved private lender

FY2004 Originations: $2.9 billion

Hospitals

Purpose: Construction, expansion, modernization, or refinancing of acute care hospitals; purchase of capital equipment

Maximum Loan: No set limit

Health Care and Nursing Homes

Purpose: Construction and rehabilitation of nursing and care homes

Maximum Loan: No set limit

GSE and HFA Risk Sharing

Purpose: Expand credit to single and multi-family housing projects while significantly reducing the FHA's risk

Maximum Loan: Standard FHA limits for single and multi-family housing and health care

Maximum guaranty: 50% to 90% of loan

Delivered by: Government Sponsored Enterprises (Fannie Mae, Freddie Mac) and Housing Finance Agencies

FY2004 Originations: $277 million

Direct Loan Programs

The FHA provides a limited number of direct loans. All direct loans outstanding are from currently unused programs such as multi-family bridge loans. No direct loans were originated in FY 2004, though $54 million in direct loans is allocated for FY 2005. For FY 2005, Congress has approved authority for the FHA to use Puchase Money Mortgages to finance the sale of single-family homes to non-profits and local governments who would then sell these to local buyers. This program is meant to help the FHA encourage targeted revitalization at the local level.

Housing for Elderly or Handicapped Loan Program. Prior to 1992, when budgeting rules for credit programs where changed, the Housing for Elderly or Handicapped Loan Fund provided direct loans. Since 1992 a capital grant program has been in place to cover this function. While, the loan program continues to show up in outstanding loans reporting, it has not made any new loans since 1992. It has nearly $7 billion in outstanding loans.

Finances

Overall size. The FHA currently has outstanding guaranteed loans in excess of $474 billion and direct loans in excess of $7 billion. See Table 1. The agency made upwards of $131 billion in new direct and guaranteed loans during FY2004. See Table 2. It currently insures more than 4.8 million single-family mortgages and 13,000 multi-family projects.

Table 1: Outstanding Loans

Fiscal Years	2003 Act.	2004 Act.	2005 Est.	2006 Proj.
Guaranteed Loans *in millions*				
Mutual Mortgage Insurance	$ 407,186	$ 383,677	$ 425,943	$ 452,075
General Risk and Special Programs	$ 89,123	$ 90,819	$ 91,754	$ 95,384
	$ 496,309	$ 474,496	$ 517,697	$ 547,459
Direct Loans *in millions*				
Mutual Mortgage Insurance	$ 1	$ 2	$ 2	$ 2
General Risk and Special Programs	$ 23	$ 22	$ 16	$ 11
Housing for Elderly and Handicapped	$ 7,449	$ 6,991	$ 6,811	$ 6,631
	$ 7,473	$ 7 ,015	$ 6,829	$ 6,644
Total *in millions*				
Total Loans	$ 503,782	$ 481,411	$ 524,526	$ 554,103
Total Guaranteed Portion plus Direct Loans	$ 503,782	$ 481,411	$ 524,526	$ 554,103

Source: President's FY2005-6 Budget
Note: Loan levels reflect total for financing and liquidating accounts

Statutory taxpayer exposure. Total potential taxpayer exposure to the Federal Housing Administration at the current time includes the net present value of its direct loans and the guaranteed portion of its guaranteed loans. This is the total cost if all covered borrowers defaulted on their loans today and no recoveries were possible. At present this is approximately $481 billion.

Loan program budgeting. Since 1992, loan programs have been reflected two ways in the budget. See COFFI's "Budgeting for Credit Programs: A Primer" at www.coffi.org for a fuller explanation on how federal credit programs are accounted for.

On-budget program accounts record the net cost or revenue of a loan program to the federal government. Costs and revenues are broken into two pieces: a "subsidy" cost and annual administrative expenses. Subsidies are calculated by projecting future cash inflows to and outflows from the government and discounting these flows back to today's dollars. The net "present value" represents the subsidy amount. A deficit is registered as a positive subsidy and a surplus as a negative subsidy. Since the net present value relies on default rate estimates and a discount rate which is recalculated each year (varying with interest rates), subsidy reestimates are made yearly. Reestimates are reflected in program costs, but do not directly affect discretionary appropriations, as they fall under an indefinite, unlimited appropriations authority of their own.

Non-budgetary financing accounts record the actual collections from a loan program and the cost of defaults and losses. This is on a cash flow basis, meant to make it easier to understand a program's inflows and outflows. Loans existing before the 1992 law are kept in a third type of account, a liquidating account, which operates in a similar manner to a financing account but is on-budget.

In general, with a positive subsidy, the program account receives appropriations from general revenues to cover the net cost of administrative, subsidy, and subsidy reestimate costs.

In general, with a negative subsidy, the program account applies the negative subsidy to cover administrative expenses, any subsidy reestimate costs, or subsidy costs incurred by positive subsidy programs in the same account. In some cases, the negative subsidy is enough to cover all costs and no appropriations are made to the program account. In other cases, some appropriations from general revenues are made to cover the difference. Often, negative subsidy programs pay for their own administrative costs but subsidy reestimate costs are paid through general revenues.

Most FHA loan programs run negative subsidies, bringing in more revenues than they pay out in expenses. See Table 4.

Table 2: Loan Originations

Fiscal Years	**2003 Act.**	**2004 Act.**	**2005 Est.**	**2006 Proj.**
Loans Originated *in millions*				
Mutual Mortgage Insurance				
MMI Guaranteed	$ 147,395	$ 107,699	$ 116,550	$ 90,336
MMI Direct	$ 50	$ 0	$ 50	$ 50
General and Special Risk				
Apartments Guaranteed (All Programs)	$ 5,175	$ 3,978	$ 4,814	$ 4,914
Condominiums Guaranteed	$ 14,145	$ 14,585	$ 11,190	$ 7,266
Cooperatives Guaranteed	$ 0	$ 11	$ 50	$ 52
GSE and HFA Risk Sharing Guaranteed	$ 347	$ 277	$ 450	$ 468
Home Equity Conversion Guaranteed	N/A	N/A	N/A	$ 3,552
Hospital and Health Care Guaranteed (All Programs)	$ 2,243	$ 2,869	$ 2,425	$ 2,446
Rehabilitation Guaranteed	$ 688	$ 659	$ 632	$ 589
Rental Guaranteed	$ 129	$ 198	$ 400	$ 416
Tax Credits Guaranteed	$ 1,016	$ 1,079	$ 1,100	$ 1,100
Title I Guaranteed (All Programs)	$ 134	$ 137	$ 208	$ 209
Direct (All Programs)	$ 4	$ 0	$ 4	$ 4
	$ 171,367	$ 131,492	$ 137,869	$ 111,398

Source: President's FY2005-6 Budget Appendix

FHA budgeting. The FHA is financed in part through interest, fees, and recoveries on defaults collected through guaranteed loan programs as well as interest, fees, and principal payments on its direct loan programs. The FHA is split between two funds. See Table 3.

Mutual Mortgage Insurance Fund. This fund, which has over 80% of FHA loans outstanding, primarily covers single-family mortgages. It has a significant negative subsidy surplus. See Table 4.

Positive subsidy reestimates are mandatorily appropriated from surpluses earned from the loan program. These proceeds are kept in a capital reserve account which covers subsidy reestimates into the future. As of the end of FY2004, this capital reserve account held $23.5 billion. In FY 2004, there were over $7 billion in subsidy reestimate costs, due to both interest rate changes and technical changes such as reestimates of default and recovery rates.

Discretionary appropriations from general revenues fund administrative expenses, as is typical of federal loan programs.

General and Special Risk Fund. This fund, which encompasses all other programs listed in the previous section, also has a negative average subsidy cost. However, this negative subsidy is substantially lower than the one for the MMIF. The G&SRF does not have large capital reserves to cover future subsidy reestimates. The financing account held less than $2 billion as of the end of FY2004. Subsidy reestimates, as a result, are mandatorily appropriated from general revenues rather than from a capital reserve account, as is the case for the MMIF. In addition, discretionary appropriations from general revenues cover administrative costs and subsidy costs (a few small programs in the G&SRF run positive subsidies).

Table 3: Budget Costs

Fiscal Years	Mutual Mortgage Insurance Fund		General and Special Risk Fund		Total FHA Loans	
	2004 Act.	2005 Est.	2004 Act.	2005 Est.	2004 Act.	2005 Est.
Costs *in millions*						
Guaranteed Loan Subsidy	-	-	$ 4	$ 10	$ 4	$ 10
Guaranteed Loan Reestimates and Interest	$ 7,029	$ 2,394	$ 517	$ 767	$ 7,546	$ 3,161
Administrative Costs	$ 432	$ 431	$ 296	$ 311	$ 728	$ 742
	$ 7,461	$ 2,825	$ 817	$ 1,088	$ 8,278	$ 3,913
Revenues *in millions*						
Discretionary (from general revenues)	$ 441	$ 432	$ 336	$ 291	$ 780	$ 725
Mandatory (from general revenues)	$ 0	$ 0	$ 517	$ 767	$ 517	$ 767
Transfers (from capital reserve account)	$ 7,029	$ 2,394	-	-	$ 7,029	$ 2,394
	$ 7,470	$ 2,826	$ 853	$ 1,058	$ 8,323	$ 3,883
Balance *in millions*						
Balance from previous year	$ 72	$ 81	$ 38	$ 77	$ 110	$ 158
Total Costs	$ -7,461	$ -2,826	$ -817	$ -1,088	$ 8,278	$ 3,913
Total Revenues	$ 7,470	$ 2,825	$ 853	$ 1,058	$ 8,323	$ 3,883
Other funds available	$ 0	$ 0	$ -25	$ 0	$ 0	$ -25
Balance carried forward	$ 81	$ 80	$ 77	$ 47	$ 158	$ 127

Source: President's FY2006 Budget Appendix
Note: FHA direct loan programs have no positive or negative subsidy costs as they are paid off each year.

Table 4: Subsidy Rates

Fiscal Years	2003 Act.	2004 Act.	2005 Est.	2006 Proj.
Subsidy Rates *in %*				
Mutual Mortgage Insurance				
MMI Direct	0.00%	N/A	0.00%	0.00%
MMI Guaranteed	-2.53%	-2.47%	-1.82%	-1.70%
Weighted Average	-2.53%	-2.47%	-1.82%	-1.70%
General and Special Risk				
Multifamily Bridge Direct	0.00%	N/A	0.00%	0.00%
Purchased Money Mortgages Direct	0.00%	N/A	0.00%	0.00%
Apartments Guaranteed	-0.06%	-0.62%	-0.03%	-0.18%
Apartments Operating Loss Guaranteed	18.69%	17.84%	16.45%	15.89%
Apartments Refinance Guaranteed	-2.17%	-2.13%	-2.46%	-1.84%
Apartments Supplemental Guaranteed	6.35%	8.60%	6.22%	5.43%
Condominiums Guaranteed	-1.08%	-1.03%	-0.40%	-2.19%
Cooperatives Guaranteed	3.93%	5.35%	10.58%	9.74%
GSE Risk Sharing Guaranteed	-1.36%	-1.08%	-1.04%	-0.83%
Health Care Facilities Guaranteed	-1.19%	-0.22%	-0.06%	-0.76%
Health Care Refinance Guaranteed	-1.97%	-1.28%	-1.80%	-1.26%
HFA Risk Sharing Guaranteed	-1.37%	-1.67%	-0.79%	-0.67%
Home Equity Conversion Guaranteed	N/A	N/A	N/A	-1.74%
Hospital Guaranteed	-2.76%	-3.33%	-2.02%	-1.76%
Rehabilitation Guaranteed	-0.46%	-0.02%	0.59%	-1.12%
Rental Guaranteed	-0.07%	-0.08%	-0.40%	-0.73%
Tax Credits Guaranteed	-0.65%	-1.59%	-4.45%	-3.45%
Title I Improvement Guaranteed	2.02%	1.86%	1.92%	1.79%
Title I Manufactured Homes Guaranteed	-0.47%	-0.14%	0.12%	1.10%
Weighted Average	-1.02%	-1.00%	-0.51%	-0.98%

Source: President's FY2005-6 Budget Appendix

Cost to general revenues. Mandatory and discretionary appropriations, minus transfers from the capital reserve account, represent the budget cost of the programs from general revenues for the year. This varies slightly from the total obligations, or costs, of the loan programs since they have a small amount of cash on hand (balances carried forward) that is accumulated or depleted each year.

For FY2004, the budget cost of the Mutual Mortgage Insurance Fund was $441 million. This covers $432 million in administrative expenses as well as changes to its overall fund balance. The $7.0 billion in loan reestimates was completely covered by transfers from the fund's capital reserve. The cost of the General and Special Risk Fund was $853 million, of which $4 million was subsidy cost, $296 million was administrative expenses, $517 million was loan reestimation, and $36 million was a change in balances. The total cost to the federal budget of the two funds was $1.3 billion.

Current Issues

Proposed programs. For FY2006, FHA has proposed a controversial new program which would provide mortgages with zero down payments. It is meant to encourage first time homebuyers as well as those with limited assets. The program's risk is that it will most likely have a higher rate of default than other FHA programs. Moreover, without a down payment, there can be little or nothing to recoup in order to cover losses in lost equity or fees for the lenders involved.

Sources

FHA: Program Descriptions; available via http://www.hud.gov/funds/index.cfm

U.S. Code: Full Text of 12 U.S.C. 13; available via http://uscode.house.gov

OMB: President's FY2006 Budget; available via http://www.whitehouse.gov/omb