



Administration 2011 Budget Request Housing Highlights *Updated February 5, 2010*

Executive Summary

On February 1, the President submitted his \$3.8 trillion budget plan to Congress for fiscal year 2011 (FY 2011) today. FY 2011 begins on October 1, 2010 and ends on September 30, 2011. Compared to the President's FY 2010 budget plan, and the plans of previous administrations, the FY 2011 plan contains fewer details about specific programs. Instead, the FY 2011 budget contains goals for various programs and agencies. In an analytical section describing market and environmental factors, the administration reports that "continued weakness in the financial sector may limit the pace of the recovery. On net, the administration is forecasting a recovery over the next five years that is slightly below historical averages." MBA will continue to focus the administration and Congress toward bolstering support for the housing finance system, as well as MBA's other member priorities in the fiscal year ahead.

Budget Highlights Relating to MBA's Key Priorities

Positive

- For the good of the program, FHA proposes that Congress raise the annual premium to 85 to 90 basis points, which would allow it to lower the up-front premium to one percent.
- Increased resources for FHA to improve risk management systems.
- Department of Justice and Housing and Urban Development would receive additional funds to detect, investigate and prosecute mortgage fraud.

Negative

- Proposes a fee to be levied on financial institutions to recover unpaid TARP funds.
- Proposes to terminate the "brownfields" program which allows expensing (for tax purposes) of real estate environmental remediation.
- Reduced federal support for terrorism risk insurance programs (TRIA).

Uncertain

- Reforms RHS single-family loans to be more akin to FHA or VA single-family loans.
- No recommendations were offered regarding the Future of Fannie Mae and Freddie Mac.

Other Housing-Related Budget Items

Federal Housing Administration (FHA)

- Increases the annual mortgage insurance premium (MIP) for single-family insured loans from 55 percent to 85 percent.
- The mortgage insurance premiums for all of the Multifamily programs remained unchanged but the credit subsidy calculations demonstrated increased stress on most Multifamily programs with higher estimated default rates and lower recovery rates.
- Requests an aggregated limitation of \$400 billion on loan guarantees for the FHA Mutual Mortgage Insurance (MMI) Fund.
- Policy changes that focus on FHA's credit enhancement and credit risk to improve the financial health of the MMI Fund:
 - Proposes a statutory revision to allow FHA more flexibility in establishing annual premiums.

- Changes the underwriting criteria, including raising the minimum credit score required for borrower approval.
- Assuming these changes, the budget projects a total of \$5.8 billion of negative subsidy receipts in 2011.
- Plans were announced to redesign the Section 202 program for the elderly and construction funding for new projects under that program was eliminated for FY2011.
- Funding for the Green Retrofit Program was eliminated in FY2011.
- Requests \$250 million in credit subsidy for the Home Equity Conversion Program (HECM), along with a contingency appropriation to meet all program demand.
- Projects insurance of \$223 billion in single-family forward mortgages and \$30 billion in HECMs, with an additional \$148 billion in commitment limitation available in case these amounts are exceeded.
- Requests a total of \$207 million for administrative expenses, an \$18 million increase from last year, which will allow FHA to implement improved risk management systems.

Manufactured Housing

- New program requirements were mandated by the Manufactured Housing Improvement Act of 2000, including procurement of an administering organization, formation of a consensus committee to recommend revision and interpretations of the manufactured housing standards, development and implementation of standards for installation of manufactured housing, and the development and implementation of a dispute resolution program.
- Proposes approximately \$7 million in fees and appropriations of \$7 million to fund the costs of authorized activities necessary to carry out all aspects of the manufactured housing legislation.
- Fees are deposited in a trust fund administered by HUD, and a portion of the fee receipts are used to defray the direct administrative expenses of the program.
- The direct appropriation will offset the effect of declining fee revenue caused by the substantial reduction in manufactured housing production rates.

Energy Efficient Mortgages

- No new funds are requested for the Energy Innovation Fund as it is anticipated that the 2010 appropriations of \$50 million will fund significant pilot program activity through 2011.

HUD

- Provides \$48.5 billion in program funding to support core programs and new initiatives; approximately \$2 billion budget reduction from last year.
- Funding will be offset by an estimated collection of \$6.9 billion from credit premiums charged for HUD mortgage insurance and other credit enhancements.
- Funding of \$1 billion was requested to capitalize the Housing Trust Fund authorized by Congress last year.
- Funding for the HOME program was proposed to be decreased from \$1.825 billion to \$1.641.
- Provides \$20 million to combat mortgage fraud within the HUD Transformation Initiative, which from the budget description will be available for a broader range of purposes. The fund may be spent on a range of purposes including mortgage fraud, addressing fair lending, implementing SAFE and RESPA. From the material it is not clear to what extent fraud against lenders will be emphasized. This is in addition to the \$20 million appropriated by Congress for this purpose in FY 2010.

- Proposes increasing funding for the Housing Counseling Assistance Program to \$88 million, up from \$65 million in FY 2010, which supports eligible counseling activities, such as pre-and post-purchase counseling, reverse mortgage product education and foreclosure prevention/mitigation counseling.

Treasury Department

- Proposes to reduce itemized deductions for families filing joint returns with incomes over \$250,000 and single taxpayers with income over \$200,000. The tax rate at which itemized deductions can be taken is limited to 28 percent. This will affect all housing-related tax deductions including points, mortgage interest, real estate taxes, etc. This would raise \$7.9 billion in additional revenue in fiscal 2011 and \$291.2 billion over the ten-year period.
- Proposes to reinstate the personal exemption limitation on itemized deductions for taxpayers over \$250,000 (joint) and \$200,000 (single). This will raise \$6.8 billion in 2011 and \$208.5 billion for the ten-year period.
- Expands the 28 percent tax rate and re-instates the 36 percent and 39.6 percent rates for those taxpayers with income over \$250,000 (joint) and \$200,000 (single). For example, the 39.6 percent tax rate would apply to joint filer income over \$373,650. This change in personal income tax rates is expected to raise an additional \$16 billion in fiscal 2011 and \$395 billion over the ten year period.
- Proposes to impose a 20 percent tax rate on capital gains and dividends for those taxpayers with income over \$250,000 (joint returns) and \$200,000 (single returns). This is higher than the current 15 percent tax rate. This would raise \$12.2 billion in FY 2011 and \$105.4 billion over the ten-year period.
- Eliminates capital gains tax on investments in small business stock.
- Requires the financial services industry to pay back taxpayers for TARP program losses through a tax on certain liabilities for financial services firms with assets exceeding \$50 billion. This was announced several weeks ago. However, in the earlier announcements the duration of the fee was to be 10 years. The budget announcement states that the fee “will last at least 10 years, but longer if necessary.” The annual revenue from the new fee is estimated to be \$8 billion for fiscal 2011 and \$90 billion for the ten year period. The fee would be assessed (for banks) by taking 0.15 percent of the sum of total assets minus tier 1 capital minus insured deposit. MBS liabilities that were put on the balance sheet of banks on January 1 under FAS 167 would be included in the assessment.
- Taxes investment managers at ordinary tax rates for “carried interest.” Presently, carried interest is taxed at the capital gains tax rate. This will raise just under \$1.5 billion in fiscal 2011 and \$24 billion over the ten year period.
- The proposed jobs initiatives announced in the State of the Union address are expected to cost \$25 billion in 2011. Under these initiatives, employers will receive a \$5,000 tax credit for every net new employee that they employ in 2010. Small businesses will be reimbursed for the Social Security payroll taxes they pay on real increases in their payrolls. Specifically, firms that increase wages, expand hours or hire new workers would get a credit against the added payroll taxes that result. This bonus would be based on Social Security payrolls, so it would not apply to wage increases above the current taxable maximum of \$106,800. The total benefit from these provisions will be capped at \$500,000 per firm, to ensure that the majority of the benefit goes to small businesses.
- No apparent changes to estate and gift tax rules other than minor tax revenues relating to valuation rule changes.

- Extends additional first-year depreciation deduction for one year – generally for property placed in service during 2010.
- Extends the provision that allows states to elect cash assistance in lieu of housing tax credits for 2010.
- For dealers in securities, income from day-to-day dealer activities would be taxed at ordinary income as opposed to today's treatment as capital gains.

TARP

- Redirects TARP to small businesses and homeowners. The budget continues to support existing government programs that help stabilize the financial system and restart markets. However, new TARP programs in FY 2011 will be directed toward assisting homeowners threatened with foreclosure and small businesses needing access to affordable credit. Over the past year, financial markets have rebounded faster than expected, and as a result the Budget reflects a significantly lower cost and volume of TARP asset purchases than previously estimated.
- TARP financing accounts are estimated to have balances of \$189.7 billion as of the end of 2010, indicating that – as of the end of 2010 – the government is expected to hold TARP-related assets with an expected present value of \$189.7 billion in future cash flows.
- The TARP is expected to reduce the 2010 deficit by \$95.5 billion.

Department of Justice

Mortgage Fraud Prevention

- Requests \$104 million for additional FBI agents and DOJ attorneys to investigate and prosecute major white collar crime including mortgage fraud.
- Proposes \$23.5 million under U.S. Attorney salaries expenses for “program enhancements” to assist in the workload of combating financial and mortgage fraud crimes.

Fair Lending

- Requests \$6.3 million in program enhancements is proposed for the Civil Rights Division. These enhancements would support voting rights enforcement, the deterrence of hate crimes and “discrimination in lending and foreclosures.” This follows the Assistant Attorney General for Civil Rights recent announcement that DOJ was setting up a lending discrimination task force.

Financial Services Regulatory Reform Proposal

- The budget includes a comprehensive financial reform proposal to Congress to help prevent future financial crises by filling gaps in the U.S. regulatory regime and redistributing responsibilities among regulators. The proposal attempts to address many of the themes addressed during the past year:
 - The proposal prevents future bailout scenarios for “Too Big to Fail” firms by creating a new Financial Services Oversight Council “to regulate large, interconnected firms if their failure during a downturn would severely impact the functioning of financial markets.” In addition, the proposal would empower the Government “to unwind such firms in an orderly manner when they fail to protect the financial system.”
 - The proposal “closes the gaps in and strengthens regulation of consumer financial products in the bank and non-bank sectors by consolidating existing consumer protection authorities to better protect consumers from unscrupulous practices.” The

- proposal creates a single, new regulator, the Consumer Financial Protection Agency, whose sole mission is to look out for consumers.
- The proposal “shines a light on dark pools of capital and derivatives markets,” by expanding the authority of the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) to register and regulate hedge funds and to require central clearing for over-the-counter derivatives.
 - The proposal creates a new Office of National Insurance within the Treasury Department to gather information, develop expertise, negotiate international agreements, and coordinate policy in the insurance sector. “Better monitoring will help prevent the kind of intervention that AIG’s failure required to preserve financial stability.”
 - Also, “to prevent depository institutions from selecting a corporate structure based on their preference for a particular regulator,” proposal consolidates the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS) into a single, unified National Bank Supervisor (NBS).
 - Finally, “in an effort to further strengthen and provide consistent regulation while promoting growth and innovation in the marketplace, the Administration’s proposal includes numerous other reform measures.” The measures include, but are not limited to, strengthening important payment, clearing, and settlement systems, enhancing credit rating agency regulation, and increasing investor protections.
 - Notably, the budget provides significant increases above 2010 for the SEC and CFTC in 2011. The SEC would receive \$1,258 million, an increase of \$147 million or 13 percent over 2010, of which \$24 million is contingent upon enactment of financial reform legislation. For CFTC, \$261 million is provided, which is an increase of \$93 million or 55 percent over 2010, of which \$45 million is contingent upon enactment of financial reform legislation.

Miscellaneous Provisions

Fannie Mae and Freddie Mac

- The budget did not include plans to address the Future of Fannie Mae and Freddie Mac. Rather the administration indicated that more information may be provided later this year.
- On Affordable Housing Goals, FHFA will issue regulations in the first half of 2010 to implement the HERA-authorized goals. These goals include four single family and one special affordable multifamily goals.
- Earnings resulting from the expansion of the Federal Reserve’s balance sheet such as through the purchase of GSE debt and mortgage-backed securities are expected to increase the Federal Reserve’s deposit of excess earnings with the Treasury. It is estimated that the Treasury will receive \$77.0 billion from the Federal Reserve in 2010, and \$79.3 billion in 2011, which represents an average 125 percent increase over 2009 deposits of \$34.3 billion.

Veterans Affairs

- The guaranteed amount for veterans’ home loans would be reduced from \$58.3 million in FY 2010 to \$53.6 million in FY 2011.

Rural Housing Service

- The Department of Agriculture (USDA) would fund the single-family housing direct loan program at \$1.2 billion, approximately \$80 million over what was funded for FY 2010; however the budget proposes to structure USDA single-family housing guaranteed loans

similar to FHA guaranteed loans. The existing up-front fee on new purchase loans will remain at two percent, and increase by one percent for refinance loans, but an annual fee of 0.15 percent will be added to both new and refinanced loans, pending Congressional approval. Furthermore, the proposed reforms would also make the program a direct endorsement program.

The FY 2011 Budget and supporting documents are available at the Office of Management and Budget's (OMB) Web site: www.whitehouse.gov/OMB/.

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