MORTGAGE BANKERS ASSOCIATION

MBA Selected Highlights
Biden Administration's Fiscal Year 2022 Budget/Appropriations Proposals
May 28, 2021

On May 28, 2021, the Biden Administration submitted its proposed $6 trillion "Budget for the U.S. Government" for fiscal year 2022 to Congress, along with more detailed supplemental information. Each year, the White House publishes the President's Budget request for the upcoming fiscal year, which begins on October 1, 2021. The President's Budget lays out the administration's proposals for discretionary spending, revenue and borrowing and typically marks the opening of a dialog with Congress that culminates in appropriations bills, and on a parallel path, tax expenditure and revenue-raising legislation.

We summarize below key points of interest to our members, focusing separately on the tax and other elements of the proposal.

Note that what we highlight below is only a proposal. The actual federal budget and associated tax provisions will be what Congress enacts and the President signs, which may vary materially from what the administration has proposed.

KEY ELEMENTS OF PROPOSED APPROPRIATIONS

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

- **HUD programs and administration**

The 2022 President's Budget requests $68.7 billion for HUD, approximately $9.0 billion or 15 percent more than the enacted level for 2021. The priorities in the budget include:

- $30.4 billion for the Housing Choice Voucher Program, which accommodates 200,000 new vouchers, prioritizing those fleeing from domestic violence and households experiencing homelessness.
- $800 million in targeted climate resilience and energy efficiency improvements in public housing and other assisted housing.
- $2 billion for Management and Administration expenses, or about three percent of the proposed Budget, investing in critical staffing and information technology needs to strengthen HUD's capacity to deliver on its mission.
- $1.7 billion toward staffing and expenses (S&E), $189 million more than the enacted level for 2021, which, in combination with carryover of 2021 funding, will support 8,186 employees, of which $452.3 million is allocated for the Office of Housing and provides for 2,595 employees for FHA.

- $323 million for the IT Fund, to continue the modernization of HUD's IT systems and cybersecurity. These investments in IT and staffing will help ensure that HUD has the resources and capacity to continue to meet its role of providing affordable housing.

- **FHA Risk-Share Loans**
  - **Ginnie Mae and risk-share loans (legislation)**

The budget proposes to amend the Housing and Community Development Act to permit Ginnie Mae, at the discretion of the HUD Secretary, to securitize FHA 542(c) risk-sharing loans, and to assign any defaulted risk-sharing loans to FHA in exchange for payment of the full mortgage insurance claim. The risk-sharing agreement must provide for full or partial reimbursement to HUD of losses on insured loans.

  - **FFB partnership (administrative action)**

The HUD Budget in Brief indicates that as an interim measure, HUD indicates that is "is resuming" its partnership with the Federal Financing Bank (FFB) to provide Ginnie-like financing for HFA risk-sharing loans. Unlike other parts of the budget proposal, this would not require congressional action.

- **FHA**
  - The Budget notes that, while the Mutual Mortgage Insurance Fund (MMIF) has a capital ratio of 6.10 percent – well above its statutory 2 percent minimum – the serious delinquency rate of FHA-insured loans jumped from 3.9 percent to 11.6 percent over the past year. The Budget notes that the impact of this rise in delinquencies, which is attributable to the COVID-19 pandemic, on the Fund is uncertain. This statement corresponds with an earlier HUD announcement that it does not intend to reduce FHA premiums in the near future. It is expected that HUD will wait on any such changes until it determines the impact of the pandemic on the Fund.

  - The Budget requests $400 billion in authority for FHA loan guarantees for the MMIF. The Budget projects insurance of $247 billion in forward mortgages and $15.9 billion in HECMs, with additional commitment authority available in case these amounts are exceeded during execution.

  - The Budget includes $85.9 million for the Housing Counseling Assistance Program, of which $61.4 million is intended to fund grants to HUD-approved housing counseling agencies for direct services and to develop training for HUD-approved housing counselors. In addition, the Budget continues the program from the 2021 enacted appropriations that directs $20 million for legal services to help low-income families avoid eviction.

  - The Budget requests $85 million for fair housing activities to support efforts to end housing discrimination. Of the amount requested, $25 million is for the Fair Housing Assistance Program (FHAP); $56 million is for the Fair Housing Initiatives Program (FHIP); $3 million is for the National Fair Housing Training Academy (NFHTA); and $1 million is for the Limited English Proficiency Initiative (LEPI).

  - The Budget reflects the administration's proposal in the *American Jobs Plan* to provide $5 billion for a new competitive grant program to award funding to jurisdictions that take steps to eliminate exclusionary zoning and other barriers to the production of affordable housing.

  - As in prior years, the Budget continues to prevent funds to be used by HUD (including FHA and Ginnie Mae) to support loans on properties subject to seizure through eminent domain.

- **Other FHA**
  - $15.8 billion for the Office of Housing staffing and general expenses, which is $1 billion more than the enacted level for 2021.
  - $30 billion in loan guarantee commitment authority under the General and Special Risk Insurance (GI/SRI) Fund to insure mortgages for multifamily housing, residential healthcare facilities and acute care hospitals.
  - $15.3 billion for rental assistance programs managed by the Office of Housing, including Project-Based Rental Assistance, Housing for the Elderly (Section 202), and Housing for Persons with Disabilities (Section 811). This funding level provides over 1.3 million low-income households and vulnerable populations with rental assistance, as well as funding the construction of 2,000 additional Section 202 and Section 811 units.
  - It provides funding for the Office of Lead Hazard Control and Healthy Homes (OLHCHH), which enforces HUD's lead-based paint regulations, provides public outreach and technical assistance on issues regarding housing and health, and conducts technical studies to develop and evaluate cost-effective methods to protect children and their families from health and safety hazards in the home:
    - $400 million in grants for OLHCHH, which is $40 million more than the enacted level in 2021.
    - $5 million for grants for radon testing and mitigation in public housing units with levels at or above the Environmental Protection Agency

(EPA)'s radon action level in areas identified by the EPA or a State or local government as having high potential for elevated indoor radon levels.

- $250 million for the new Green and Resilient Retrofit Program. This funding, which provides for climate resiliency and energy efficiency will enable owners of Multifamily assisted properties to rehabilitate approximately 15,000 units to be more energy efficient, healthier, and more resilient to extreme weather events, and will improve the existing affordable housing available to many low- and extremely low-income families, often from marginalized communities.

- **Other Ginnie Mae (GNMA)**

The 2022 President's Budget requests $900 billion in commitment authority for Ginnie Mae, which is $400 billion lower than the 2021 enacted level:

- Over the last several years, Ginnie Mae has seen steady demand for its MBS issuances. Driven largely by the decline in interest rates and the resulting increase in refinance activity, Ginnie Mae experienced record growth in 2020 with more than $749 billion in MBS issuances (nearly 50 percent more than the previous highpoint of $505 billion set in 2017). The Budget projects a lower but historically elevated MBS issuance level of $616 billion in 2022.

US DEPARTMENT OF AGRICULTURE (USDA) AND RURAL HOUSING SERVICE (RHS)

- **USDA rental assistance**
  - $1.4 billion for rental assistance to reduce rent expenses for very low-income and low-income families living in RHS-financed rural rental and farm labor housing projects.
- **USDA multifamily Housing Revitalization Program**
  - $68 billion for the rural housing voucher program.
- **USDA Rural Housing Insurance Fund Program**
  - $30 billion for Section 502 single family housing guarantees.
  - $10 million for credit sales of acquired property for single-family housing loans.
  - $1.5 billion for Section 502 single-family housing direct loans.
  - $40 million for Section 515 multi-family housing direct loans.

  - $28 million for Section 504 very low-income housing repair loans.
  - $5 million, for Section 524 site development loans.
  - $5 million. for Section 523 self-help housing land development loans.
  - $32 million for the multi-family housing preservation and revitalization pilot program.

- **Rural Housing Service**
  - $45 million for grants for very low-income housing repair and rural housing preservation.
  - $30 million for low-income housing repair grant program.
  - $15 million for other housing assistance grants, including housing preservation grants and supervisory and technical assistance grants.

GOVERNMENT SPONSORED ENTERPRISES (GSES)

- With respect to housing finance reform, the Budget includes only a statement that the Biden Administration is ready to work with Congress. No further details on the specifics of potential reforms to the GSEs are provided.
- The Budget assumes that the GSEs will not reach the minimum capital levels required by the new FHFA capital rule before 2031. MBA has advocated for significant changes to this rule, citing concerns about the excessive level of capital required, the excessive frequency with which required capital would be determined by a risk-insensitive leverage ratio, and the punitive treatment of credit risk transfer mechanisms.
- The Budget assumes that the additional 10-basis-point increase in g-fees that was put in place a decade ago to fund a temporary payroll tax cut will expire as scheduled in October 2021.
- In addition to the annual GSE contributions to the Housing Trust Fund and the Capital Magnet Fund (which are projected to total $400-500 million per year over the next decade), the Budget reflects proposals in the Biden Administration's *American Jobs Plan* to provide an additional $45 billion to the Housing Trust Fund and an additional $12 billion to the Capital Magnet Fund over the next decade. The Housing Trust Fund is operated by HUD and provides grants to states to produce and preserve affordable housing for extremely low- and very low-income households – the bulk of which is used for rental housing. The Capital Magnet Fund is operated by the Treasury Department and offers competitive grants to CDFIs and qualified non-profit housing organizations to finance affordable housing and economic development activities.

DEPARTMENT OF THE TREASURY

- **Emergency Rental Assistance (ERA)**

Proposal reflects $15 million in funding for oversight of the ERA program and also reflects that all but $39 million of the $45.5 billion 2021 appropriation of funds for the ERA program were distributed in 2021.

FEDERAL ENERGY MANAGEMENT AGENCY (FEMA) AND NATIONAL FLOOD INSURANCE PROGRAM (NFIP)

- **FEMA flood mapping**
    - $60 million for flood maps and data that form the basis of land use regulations, determine flood insurance requirements by lending institutions, and inform development of flood insurance rates and mitigation investments decisions. This funding will help continue to ensure low-income or impoverished areas are considered throughout this process.
- **NFIP**
    - Would authorize the NFIP for fiscal year 2022 at $215 billion. Would also put the NFIP "on a more sustainable financial footing by signaling to households the true cost associated with the risk of living in a floodplain, including a targeted means-tested assistance program and providing additional flood mitigation assistance grant resources to NFIP participating communities and policyholders who are eligible for the means-tested assistance program." The intent is to increase the number of policy holders and help make obtaining and maintaining flood insurance more affordable for those who qualify.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)

- As of December 31, 2020, the number of insured institutions on the FDIC's "problem list" (institutions with the highest risk ratings) totaled 56, which represented a decrease of 94 percent from December 2010, the peak year for bank failures during the financial crisis. Furthermore, the assets held by problem institutions were nearly 87 percent below the level in December 2009, the peak year for assets held by problem institutions.