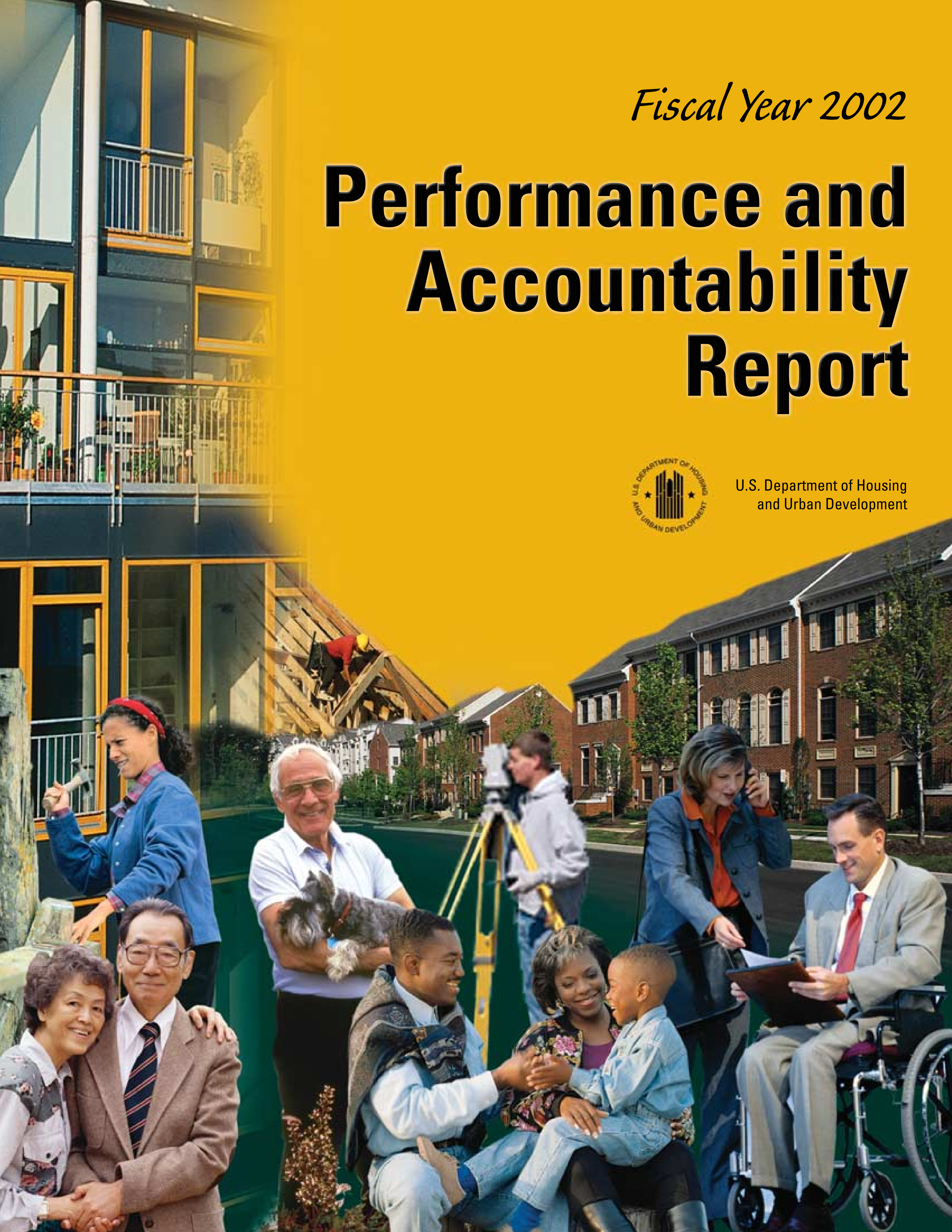
Fiscal Year 2002

Performance and Accountability Report

U.S. Department of Housing
and Urban Development



The FY 2002 Performance and Accountability Report consists of three major parts:

- Part 1, Management Discussion and Analysis
- Part 2, Performance Information
- Part 3, Financial Information
- In addition, there are four Appendices.

Each page has a header that indicates which Part (1, 2, or 3) of the Report you are in. The page numbering at the bottom center of each page also corresponds to the Part of the report you are in. The page numbering consists of an Arabic number (which indicates which Major Part of the Report you are in) followed by a dash followed by sequential Arabic numbers starting with 1.

- The Management Discussion and Analysis is numbered 1-1, 1-2, 1-3, etc.
- Performance Information is numbered 2-1, 2-2, 2-3, etc.
- Financial Information is numbered 3-1, 3-2, 3-3, etc.
- The Appendices are numbered A-1, A-2, A-3, etc.

This report and prior year reports are available on the web at

www.hud.gov/offices/cfo/reports/cforept.cfm

The following is a list of direct web links to the major HUD program offices:

Community Planning and Development	***www.hud.gov/offices/cpd/about/cpd_programs.cfm***
Fair Housing and Equal Opportunity	***www.hud.gov/progdesc/fheoindx.cfm***
Federal Housing Administration	***www.hud.gov/offices/hsg/hsgabout.cfm***
Government National Mortgage Association	***www.hud.gov/progdesc/gnmaindx.cfm*** ***www.ginniemae.gov/***
Government Sponsored Enterprises	***www.hud.gov/offices/hsg/gse/gse.cfm***
Healthy Homes/Lead Hazard Control	***www.hud.gov/offices/lead/***
Multifamily Housing	***www.hud.gov/offices/hsg/mfh/progdesc/progdesc.cfm***
Single Family Housing	***www.hud.gov/funds/singlefamily.cfm***
Public and Indian Housing	***www.hud.gov/progdesc/pihindx.cfm***
Policy Development and Research	***www.hud.gov/progdesc/pdrindx.cfm***

TABLE OF CONTENTS

1. Management Discussion and Analysis

Message from Secretary Martinez

January 31, 2003

I am pleased to report that Fiscal Year 2002 was a year of continued improvement and significant achievement for the U.S. Department of Housing and Urban Development. HUD's FY 2002 ***Performance and Accountability Report*** highlights accomplishments, management stewardship, and financial information for HUD's vital housing and community development programs. It also documents our expanded efforts to integrate the Department's budget and performance and to promote electronic government. In addition, this year's report has been prepared to better meet the public's need for transparency in government. Our performance goals are clearly listed, accompanied by concise statements about how we fared in meeting our goals, with a detailed examination of the results and our performance for each goal.

The Department's mission is to "promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination." This is a complex challenge, but it reflects the responsibility we have to the citizens of the United States. As a key member of the federal government's domestic family, HUD is dedicated to working with our federal, state, and local partners and the United States Congress to efficiently and effectively deliver critically needed programs and services to the American people. To underscore our commitment, I am pleased to highlight some of HUD's accomplishments in the areas of homeownership, consumer protection, predatory lending, affordable housing, fair housing, and chronic homelessness.

Over the past two years, the national homeownership rate for all Americans has reached record levels of 68 percent, but minority homeownership rates still lag too far behind. In FY 2002, the President issued a bold challenge to create 5.5 million new minority homeowners by the end of the decade, and HUD is working in unprecedented partnership with representation from throughout the housing industry to answer that challenge. HUD programs will play key roles in helping reach the President's goal, including FHA mortgage insurance, an important source of financing, especially for minority and lower income homebuyers; homeownership vouchers; the HOME program; Community Development Block Grants; housing counseling; and other focused efforts.

During FY 2002, HUD launched a major consumer advocacy initiative: reforming outdated and needlessly complex regulatory requirements under the Real Estate Settlement Procedures Act (RESPA). RESPA reform is intended to make the process of buying and refinancing a home significantly simpler, less expensive, and better able to protect consumers—especially the vulnerable elderly, lower income, and minority Americans—from unscrupulous lending practices. Simplifying and improving the real estate settlement process will be a landmark accomplishment, saving American homebuyers an estimated six to ten billion dollars a year.

To assist citizens who decide against or who may not be prepared for homeownership, HUD also maintains a commitment to increasing quality affordable rental housing. Working with public agencies, nonprofit, faith-based, and community organizations as well as private partners, the Department has helped expand the availability of affordable housing and improve structural and living conditions at HUD-insured and—assisted rental housing projects. Moreover, a variety of HUD program offices offer specially targeted programs to provide housing and other essential support to populations with special needs, including the elderly, persons with disabilities, individuals with HIV/AIDS, and the homeless.

The Department plays a major role in another challenge issued by President Bush: to end chronic homelessness within ten years. Research indicates that approximately ten percent of all homeless persons are chronically homeless and that this population consumes over half of the resources designed to assist all homeless individuals and families. To help meet this ambitious goal, we reactivated the Interagency Council on Homelessness, which had been dormant for the previous six years. The Council consists of 18 federal agencies that assist homeless individuals and families, and as HUD Secretary I serve as chairman. We have shifted the federal emphasis to meeting the needs of the most vulnerable homeless persons, and made more resources available for local homelessness programs. During FY 2002, HUD awarded a record $1.1 billion to fight homelessness, and achieved notable success in expanding the supply of permanent and transitional housing with supportive services.

In FY 2002, the Department also completed the National Housing Discrimination study. The report compares results to a 1989 study and provides up-to-date information to further fight discrimination, expand homeownership, and increase housing opportunities for all Americans. While the report reflects progress in many areas, unacceptable levels of discrimination persist which we continue to address.

Regarding the management of HUD, I certify with reasonable assurance that, except for the one material weakness and the two non-conformance issues specifically identified in the Financial Management Accountability section of this report, the Department is in compliance with the provisions of Section 2 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. While the Department maintains its commitment of full compliance of its internal controls and systems and while most of the Department's financial management systems are substantially compliant, I am unable to certify that HUD fully meets the requirements of Section 4 of the Act. HUD has not been able to certify compliance with Section 4 since FMFIA was enacted in 1982. However, this report evidences the plans and progress HUD is making to establish fully compliant financial management systems that better meet the Department's business needs.

HUD is further committed to providing financial and performance data that are complete and reliable to those who rely on such data for decision-making. This report responds to past reviews and continues our efforts to improve data reporting by replacing estimates with actual data, by improving the quality and extent of reporting, and by establishing baselines where necessary. In general, the financial and performance data in this report are complete and reliable with any exceptions noted in Sections 2 and 3 of this report. Sections 2 and 3, covering Performance Information and Financial Information, discuss the reliability and completeness of the data. Finally, the "President's Management Agenda" and "Financial Management Accountability" sections describe our continuing efforts to provide timely and useful performance and financial data to Congress, OMB, the public, and HUD managers.

I look forward to continued and successful working relationships with our program partners and the Congress. Our goal is to improve both the performance and financial accountability of HUD's vital housing and community development programs, which will enable us to provide better service to the American people.

Mel Martinez
Secretary

An Overview of the Performance and Accountability Report

HUD's Performance and Accountability Report for Fiscal Year 2002 provides the Congress and the American people with an accounting for the results of the expenditure of public funds towards the mission and strategic goals and objectives of the Department for this year. The Department pursues its mission by specifying in a six-year Strategic Plan and Annual Performance Plans the strategic goals and objectives HUD seeks to achieve through its funded programs.

The ***Management Discussion and Analysis*** section of this report provides summary information on HUD's:

- organization and major programs,
- strategic goals and objectives for FY 2002,
- performance highlights in FY 2002,
- progress in meeting management challenges and correcting material weaknesses, including activity under the President's Management Agenda, and
- analysis of financial conditions and results for FY 2002.

The ***Performance Information*** section of this report provides detailed data and analysis on specific performance indicators under each FY 2002 strategic goal and objective.

HUD's five strategic goals in FY 2002 were to:

1. Increase the availability of decent, safe and affordable housing in American communities,
2. Ensure equal opportunity in housing for all Americans,
3. Promote housing stability, self-sufficiency and asset development of families and individuals,
4. Improve community quality of life and economic vitality, and
5. Ensure public trust in HUD.

The ***Financial Information*** section of the report provides the Department's consolidated financial statements for FY 2002, along with the independent auditor's report on those financial statements. This section also contains the HUD Inspector General's independent assessment of the Department's major management and performance challenges and progress in addressing those challenges.

The FY 2002 Performance and Accountability Report satisfies the reporting requirements of the:

- Federal Managers' Financial Integrity Act of 1982,
- Chief Financial Officers Act of 1990,
- Government Performance and Results Act of 1993,
- Government Management Reform Act of 1994, and
- Reports Consolidation Act of 2000.

Major Program Areas

HUD's major program areas fall into three categories:

1. The Federal Housing Administration (FHA)

2. The Government National Mortgage Association (Ginnie Mae)

3. HUD's Grant, Subsidy, and Loan Programs

1. Federal Housing Administration

FHA programs provide insurance on mortgages originated by private lenders relating to one to four family residences, multifamily rental housing, condominiums, nursing homes, assisted living facilities, hospitals, manufactured housing, property improvement, and "special risk" units.

FHA has been an innovator in housing finance from its introduction of mortgage insurance in the 1930s to reverse annuity mortgages for seniors in the 1980s. For nearly 70 years, FHA has successfully supported the availability of capital for single family and multifamily homeownership and for the development of affordable rental housing, stabilizing the housing markets and providing homeownership opportunities. FHA continues to serve families and markets that are not well served by the conventional mortgage markets.

FHA Funds. FHA's activities are financed by the FHA Funds, which are supported through premium and fee income, interest income, congressional appropriations, borrowings from the U.S. Treasury and other sources. There are four FHA Funds:

1. ***The Mutual Mortgage Insurance (MMI) Fund***, a historically self-sustaining fund that supports FHA's basic single family homeownership program. At the end of FY 2002, the MMI Fund comprised 82.95 percent of the FHA Insurance Fund.

2. ***The General Insurance (GI) Fund***, which supports a wide variety of multifamily and single family insured loan programs for rental apartments, cooperatives, condominiums, housing for the elderly, nursing homes, hospitals, property improvement, manufactured housing (Title I) and disaster assistance. At the end of FY 2002, the GI Fund comprised 16.06 percent of the FHA Insurance Fund.

3. ***The Special Risk Insurance (SRI) Fund***, which supports multifamily rental projects and loans to high risk borrowers. At the end of FY 2002, the SRI Fund comprised 0.95 percent of the FHA Insurance Fund.

4. ***The Cooperative Management Housing Insurance (CMHI) Fund***, a historically self-sustaining fund that supports insurance on market-rate cooperative apartment projects. This fund is no longer active, except for refinancing. At the end of FY 2002, the CMHI Fund comprised 0.04 percent of the FHA Insurance Fund.

2. Government National Mortgage Association (Ginnie Mae)

Ginnie Mae, through its Mortgage-Backed Securities program, facilitates the financing of residential mortgage loans by guaranteeing the timely payment of principal and interest to investors of privately issued securities backed by pools of mortgages insured or guaranteed by FHA, the Department of Veterans Affairs, and the Rural Housing Service. The Ginnie Mae guarantee gives lenders access to the capital market to originate new loans.

3. HUD's Grant, Subsidy, and Loan Programs

The most significant of these in terms of expenses are:

Grant, Subsidy, and Loan Program Gross Expenses for FY 2002

Section 8 Lower Income Rental Assistance	$18.474 billion	48.6%
Community Development Block Grants (CDBG)	$5.443 billion	14.3%
Public and Indian Housing (PIH) Grants and Loans	$4.252 billion	11.2%
Operating Subsidies for Public Housing Agencies	$3.699 billion	9.7%
HOME Investment Partnerships	$1.551 billion	4.1%
Housing for the Elderly and Disabled	$1.163 billion	3.1%
All Other Programs	$3.437 billion	9.0%
Total	$38.019 billion	100%

Expenses during FY 2002 for grant, subsidy, and loan program expenses were $38.019 billion compared to $34.571 billion in FY 2001. The following is a description of these programs.

The Office of Housing administers rental subsidy, homeownership subsidy, and grant programs designed to provide housing to low and moderate income persons.

Section 8 Project-Based Rental Assistance: This program encourages owners to develop or rehabilitate rental housing for low and very-low income families with rental assistance tied to specific units under an assistance contract with the project owner.

Section 202/811 Capital Grants: Capital grants are provided for the construction and long-term support of housing for the elderly (Section 202) and persons with disabilities (Section 811). Advances are interest-free and do not have to be repaid providing the housing remains available for low-income persons for at least 40 years. Prior to the Section 202 Capital Grant program, Section 202 loans were made to finance housing for low-income elderly persons.

Other Housing Programs: Housing also maintains manufactured housing construction and safety standards, administers the Real Estate Settlement Procedures Act (RESPA), and regulates interstate land sales.

The Office of Public and Indian Housing (PIH) serves low-income families and individuals who live in public housing, Section 8-assisted housing, and Native American housing.

Section 8 Tenant-based Rental Assistance is provided to low-income families to enable them to obtain decent, safe and sanitary housing in privately owned housing units. This tenant-based-rent-subsidies program is administered by State and local Housing Authorities (HAs).

Public Housing Operating Subsidies are financial assistance provided for project operations to approximately 3,160 HAs managing approximately 1.2 million units.

Public Housing Capital Funds are provided for capital improvements (i.e., developing, rehabilitating and demolishing units), for replacement housing, and for management improvements.

Native American Housing Block Grants and Home Loan Guarantees assist Native Americans in building or purchasing homes on Trust Land; obtaining affordable housing; implementing local housing strategies to promote homeownership; and developing communities.

Supportive Services to Families and Individuals are grants to HAs to administer programs that help to stabilize the lives of families living in public housing.

The Office of Community Planning and Development (CPD) administers the Department's major economic and community development grant programs, several housing programs, and HUD's homeless assistance programs. The following are the largest:

Community Development: Community Development Block Grants are provided to units of local government and States for the funding of local community development programs that address housing and economic development needs, primarily for low and moderate income persons.

Affordable Housing Programs: HOME Investment Partnership Grants provide assistance to renters, existing home-owners, and first-time homebuyers, build state and local capacity to carry out affordable housing programs, and expand the capacity of nonprofit community housing organizations to develop and manage housing. The Housing Opportunities for Persons with AIDS (HOPWA) provides affordable housing and related assistance to persons with HIV/AIDS.

Homeless Programs: This consists primarily of grants to public and private entitles to establish comprehensive systems for meeting the needs of homeless people.

The Office of Fair Housing and Equal Opportunity (FHEO) enforces the Federal Fair Housing Act and other civil rights laws in its effort to ensure equal housing opportunity. The Federal Fair Housing Act prohibits discrimination based on race, color, religion, sex, national origin, disability, or familial status. FHEO also endeavors to direct jobs, training, and economic opportunities to low-income residents in communities receiving housing and community development assistance.

Fair Housing Assistance Program (FHAP) provides grants to State and local agencies that administer fair housing laws which are substantially equivalent to the Federal Fair Housing Act.

Fair Housing Initiatives Program (FHIP) provides funds competitively to private and public entities to carry out local, regional and national programs that assist in eliminating discriminatory housing practices and educate the public and housing providers on their fair housing rights and responsibilities.

The HUD Center for Faith and Community-Based Initiatives is one of five Cabinet department centers formed by the President to implement his vision of government and faith-based and community-based organizations working together to accomplish the shared objective of more effectively helping the needy. The Center's goal is simple: More organizations providing more services to help more people.

The Office of Healthy Homes and Lead Hazard Control provides funds to state and local governments to develop cost effective ways to reduce lead-based paint hazards and other housing related health risks.

The Office of Federal Housing Enterprise Oversight (OFHEO) is an independent office within HUD that provides oversight with respect to the financial safety and soundness of the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae).

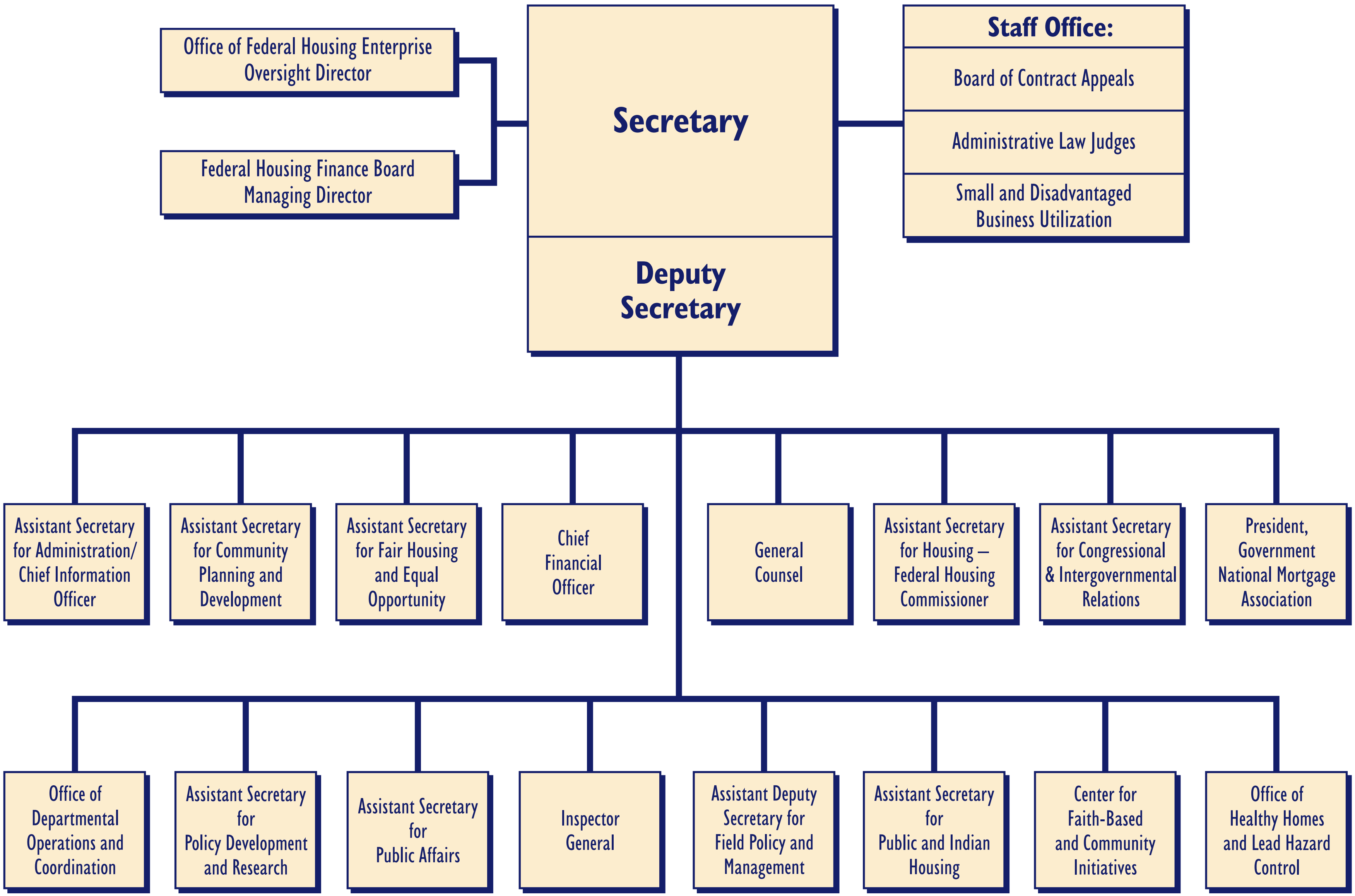
Support Organizations

In addition to the major program offices, HUD has the following support organizations:

- Administration
- Chief Financial Officer
- Chief Information Officer
- Congressional and Intergovernmental Relation
- Departmental Operations and Coordination
- Field Policy and Management
- General Counsel
- Inspector General
- Policy Development and Research
- Public Affairs

On the following page is overview of the organizational components of the Department.

HUD Organization



HUD's FY 2002 Strategic Framework

HUD's Mission:

Promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination.

Vision:

To fulfill our mission, HUD will be a high-performing, well-respected, and empowering partner with all levels of government, with the private sector, and with families and individuals.

Strategic Goal 1	Strategic Goal 2	Strategic Goal 3	Strategic Goal 4	Strategic Goal 5
Increase the availability of **decent, safe** and **affordable housing** in American communities.	Ensure **equal opportunity** in housing for all Americans.	Promote **housing stability, self-sufficiency and asset development** of families and individuals.	Improve community **quality of life** and **economic vitality**.	Ensure **public trust** in HUD.
Strategic Objectives	**Strategic Objectives**	**Strategic Objectives**	**Strategic Objectives**	**Strategic Objectives**
1.1 Homeownership is increased.	2.1 Housing discrimination is reduced.	3.1 Homeless families and individuals achieve housing stability.	4.1 The number, quality, and accessibility of jobs increase in urban and rural communities.	5.1 HUD and HUD's partners effectively deliver results to customers.
1.2 Affordable rental housing is available for low-income households.	2.2 Minorities and ow-income people are not isolated geographically in America.	3.2 Poor and disadvantaged families and individuals become self-sufficient and develop assets.	4.2 Economic conditions in distressed communities improve.	5.2 HUD leads housing and urban research and policy development nationwide.
1.3 America's housing is safer, of higher quality, and disaster resistant.	2.3 Disparities in homeownership rates are reduced among groups defined by race, ethnicity, and disability status.	3.3 The elderly and persons with disabilities achieve maximum independence.	4.3 Communities become more livable.	

This Strategic Framework reflects what was in place for FY 2002 with the modifications reported in the FY 2003 Annual Performance Plan. HUD is issuing a revised Strategic Plan in 2003. Performance highlights for the FY 2002 strategic goals are discussed on the following pages of the Management Discussion and Analysis. More detailed information on each HUD performance indicator for FY 2002 is presented in Part 2, Performance Information.

Strategic Goal 1: Increase the Availability of Decent, Safe, and Affordable Housing in American Communities

Homeownership

HUD has contributed significantly to raising and sustaining the Nation's homeownership rate to record levels of 68 percent, despite a downturn in the economy. Homeownership is a stabilizing economic force for families, communities and the Nation as a whole. HUD is committed to helping more Americans enjoy the benefits of homeowners, particularly those populations and geographic areas that lag behind.

Through HUD efforts, central cities have gained homeowners and held steady with a homeownership rate of over 52 percent at the end of FY 2002. In addition, the minority homeownership rate has held steady at record levels in excess of 49 percent for the past two years. However, this still lags far behind the national homeownership rate, and HUD continues to expand its efforts to increase minority homeownership in FY 2003 and beyond.

National and Minority Homeownership Rates in the United States – Last Quarter of Fiscal Year

	1999	2000	2001	2002
National	67.0%	67.7%	68.1%	68.0%
Minority	47.6%	48.2%	49.2%	49.1%

HUD has a wide variety of programs that support homeownership. The programs with the greatest impact on homeownership are Federal Housing Administration (FHA) mortgage insurance and the Government National Mortgage Association (Ginnie Mae). These organizations cut the costs of homeownership—including financing, production, and transaction costs and fees—to make homeownership more affordable and financing more widely available.

Other programs that contribute to homeownership are the Community Development Block Grants (CDBG) and HOME (Housing Investment Partnerships) programs, the Public Housing Homeownership program, and the homeownership voucher program. Homeownership is further advanced through goals set by HUD for the housing government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac.

FHA Single Family Programs

In FY 2002, FHA endorsed 1.3 million single-family mortgage loans (including re-financings), compared with 1.1 million loans in FY 2001. Seventy-eight percent of all FHA single-family home purchase endorsements, or 683,677 loans, were for first-time homebuyers. This is a 6 percent increase over the 643,748 endorsements made to first-time homebuyers during FY 2001. Thirty-six percent of the homebuyers with FHA mortgage insurance were minorities. These positive results were due in large part to increased FHA marketing and outreach events, with a focus on outreach to minority communities, during a period of low mortgage interest rates.

FHA continued to promote increased use of loss mitigation tools during FY 2002, to keep families in their homes during difficult economic times and to reduce the level and cost of FHA's Real Estate Owned (REO) inventory. The percentage of potential FHA mortgage insurance claims resolved by loss mitigation techniques was 49.7 percent, exceeding the goal of 48.1 percent. The number of cases resolved through loss mitigation techniques during FY 2002 (68,755) exceeded foreclosures during a single fiscal year for the first time.

FHA's focus on increasing the number of its REO property sales to owner occupants has also been a part of its efforts to support homeownership. During FY 2002, there were 39,214 such sales, compared to 38,108 sales during FY 2001.

RESPA

In June 2002, Secretary Martinez announced a plan to reform the regulatory requirements under the Real Estate Settlement Procedures Act. RESPA was first introduced in 1974 as a consumer protection statute designed to help homebuyers be better shoppers in the home buying process. However, RESPA has not been substantially revised in decades and has not kept pace with changes in the marketplace. The proposed rule change would simplify and improve the process of obtaining home mortgages and reduce settlement costs for consumers.

An economic analysis of HUD's proposed rule finds that the comprehensive regulation changes could potentially save consumers $6.3 to $10.3 billion a year. The major changes to RESPA include clearly disclosing mortgage broker fees, improving the Good Faith Estimate, and removing regulatory barriers to lower costs. Changes to RESPA are anticipated to help boost homeownership beyond 68 percent of the population and further the administration's goal of producing 5.5 million minority homeowners by the end of the decade.

Ginnie Mae

The Government National Mortgage Association supports the federal government's housing initiatives by attracting capital from the nation's financial markets into the residential mortgage markets. Ginnie Mae guarantees the payment of principal and interest on securities issued by private institutions and backed by pools of federally insured or guaranteed mortgage loans.

Since 1970, Ginnie Mae has guaranteed the issuance of over $2 trillion in securities, providing the capital to purchase or refinance 28.4 million homes for American families. In FY 2002, Ginnie Mae securitized 87.5 percent of eligible FHA and Veterans Administration (VA) loans. FY 2002 production provided the capital to purchase or refinance homes for approximately 1.5 million American families including multifamily units.

Ginnie Mae's Targeted Lending Initiative helps raise homeownership levels in central city areas. The program provides financial incentives for lenders to increase loan volumes in traditionally underserved areas. In six years of operation, the Targeted Lending Initiative has issued $30.1 billion in securities, representing 218,954 targeted loans with a mortgage value of $21.8 billion.

Government-Sponsored Enterprises

HUD regulates Fannie Mae and Freddie Mac, the two housing government-sponsored enterprises (the GSEs) which were chartered by Congress to create a secondary market for residential mortgage loans. The GSEs purchase mortgage loans from lenders and hold them in portfolio or package them into mortgage securities for sale to investors. HUD sets affordable housing and geographically targeted goals for the GSEs. In general, GSEs must assure that a set percentage of dwelling units financed by their mortgage purchases go to targeted lower income groups or underserved areas, including central cities, and rural areas. In 2001, the GSE's financed 8.3 million housing units that contributed to meeting or exceeding all of their goals for affordable housing and geographic targeting.

Affordable Rental Housing

HUD has many programs that serve to increase the production and quality of affordable rental housing and to provide rental assistance to households in need.

FHA Multifamily Housing Programs. Production of multifamily housing loans increased dramatically in FY 2002 to 1,105 FHA-insured loans, compared with 758 loans in FY 2001 and 574 loans in FY 2000. Total FHA- insured loans for FY 2002 equaled $6.5 billion. These loans financed approximately 147,000 housing units and beds in nursing homes and assisted living facilities. Of the 1,105 FY 2002 loans, FHA shared the risk with state housing finance agencies for 57 of these loans totaling over $437 million and about 7,200 units.

The high level of FHA mortgage insurance in FY 2002 was due largely to low mortgage interest rates and widespread lender use of FHA's Multifamily Accelerated Processing (MAP). MAP places responsibility on the lenders for underwriting the loan. HUD retains responsibility for reviewing the work and for final approval of the mortgage insurance. In FY 2002, the Department created a Lender Qualification and Monitoring Division to review underwriting and regulatory compliance on MAP transactions.

On three occasions from 1994-2001, FHA was forced to temporarily shut down several of its popular construction programs because its appropriation for credit subsidy was exhausted. The last shut down occurred in 2001. To prevent this problem in the future, FHA for FY 2002 raised the mortgage insurance premium for its Section 221(d)(4) program to 80 basis points (eight tenths of one percent) in order to eliminate the requirement for credit subsidy for the program. At the same time, FHA conducted the first systematic analysis of the credit subsidy calculation in a decade. The analysis examined the statistical techniques used to evaluate loan performance; updated and refined FHA's data, considered FHA underwriting changes and incorporated the major tax law changes in the 1980s that affected the profitability of multifamily housing. As a result of the re-analysis of credit subsidy, the Department was able to further reduce the premium for the Section 221(d)(4) program to 57 basis points, thus making the program self-sustaining.

Multifamily Housing also contributed substantially to the supply of affordable housing for special needs populations—the elderly and persons with disabilities. In FY 2002, 307 projects were brought to initial closing under the Section 202 and Section 811 programs, up from 301 in FY 2001.

Ginnie Mae Multifamily Housing. Ginnie Mae supported FHA multifamily mortgage insurance by securitizing 100 percent of the eligible FHA-insured multifamily mortgage volume in FY 2002. The outstanding balance of Ginnie Mae's Multi family Mortgage-Backed Securities was $25.4 billion at the end of FY 2002, compared to $21.7 billion at the end of FY 2001.

HOME. HOME Investment Partnerships provide funds to State and local governments to address their affordable housing needs. HOME encourages public-private partnerships by providing incentives to for-profit and non-profit developers for production of housing for low-income households. Participating jurisdictions committed 84,054 new units of assisted housing for FY 2002, a 3 percent increase over FY 2001. Of this total, 27,243 units were rental housing, 32,490 units were homebuyer housing, 14,082 units were existing homeowner rehabilitation housing and 10,239 units were tenant-based rental assistance.

Government-Sponsored Enterprises. To increase the supply of affordable rental housing, HUD establishes annual targets for purchases, guarantees, or acquisitions of interests in special affordable multifamily mortgages by the GSEs. Special affordable multifamily mortgages are those that serve very low-income families and low-income families living in low-income areas. The most recent available data show that during calendar year 2001, Fannie Mae and Freddie Mac substantially exceeded their HUD-established targets: Fannie Mae funded $7.36 billion qualifying multifamily mortgages, far exceeding its goal of $2.85 billion; and Freddie Mac funded $4.65 billion, also exceeding its goal of $2.11 billion for the year.

Rental Housing Assistance. In FY 2002, HUD's various rental housing assistance programs provided housing to over 4.7 million households. HUD's primary rental housing assistance programs are:

- Public housing;
- Housing Choice Vouchers; and
- Project-based assisted housing, including supportive housing for the elderly (Section 202) and for persons with disabilities (Section 811).

Under these programs, assisted households typically pay 30 percent of their income for housing and HUD funding covers the balance of the stipulated rent or remaining operating costs, in accordance with program regulations.

There are an estimated 4,535 housing agencies (HAs) across the nation that manage HUD's Public and Indian Housing and Housing Choice Voucher Programs. These HAs are primarily composed of Public Housing Agencies (PHAs) and Tribally Designated Housing Entities (TDHEs).

Public Housing is the oldest federal low-income housing program. Approximately 3,160 PHAs manage approximately 1.2 million public housing units that are homes for some 2.58 million persons. The rental income collected from public housing residents is supplemented by federal funding to support the operating and capital funding needs of these public housing entities. Many of these PHAs also administer Housing Choice Voucher program activity. Another 1,020 HAs manage voucher programs but no public housing. In addition, approximately 355 TDHEs manage an estimated 70,000 to 80,000 housing units, but under the Native American Housing Assistance and Self Determination Act (NAHASDA), TDHEs are not required to report to HUD.

HUD's project-based assistance is administered through over 22,000 contracts with private for-profit and non-profit multifamily housing project owners. Other HUD programs also contribute to rental housing assistance or production. Low-income households are helped by the rental assistance component of the Housing Opportunities for Persons With AIDS (HOPWA) program and the tenant-based rental assistance component of the HOME program. A variety of programs, including HOME, HOPWA and the Low-Income Housing Tax Credit (LIHTC, regulated by the U.S. Department of Treasury), provide subsidies that lower the costs of producing new rental housing or rehabilitating existing housing. Finally, the Rural Housing and Economic Development program provides grants for a variety of housing and capacity building activities, with a focus on the severe needs in reservations, colonias, and small towns.

Utilization of Vouchers. HUD and Congress have taken a number of steps to improve utilization of Housing Choice Vouchers. HUD's Section 8 Management Assessment Program (SEMAP) measures a HA's utilization rate as the higher of the share of budget authority spent or the share of units utilized during the HA's fiscal year, excluding units under contract for less than one year or reserved for litigation. For this assessment period, the HA utilization rate was increased to 94 percent[1].

Preserving Affordable Rental Housing. In 1998, HUD implemented the "Mark-to-Market" program as a means to preserve HUD's assisted affordable housing stock. Many Section 8 properties with HUD-insured mortgages have assisted rents that are much higher than comparable market rate rental properties. Rather than renew these Section 8 contracts at above-market rents with above-market subsidies, HUD reduces rents to market levels and, where needed, reduces the existing mortgage debt to levels supportable by the lower rents. In FY 2002, the Office of Multifamily Housing Assistance Restructuring (OMHAR) completed 50 rent reduction agreements, 294 full debt restructuring agreements, and an additional 166 restructuring plans were resolved or completed in an action other than a full debt restructuring, for a total of 510 project actions.

The table on the following page shows how many units of housing assistance are available under the major HUD rental assistance programs and certain other HUD housing assistance programs.

[1] *The utilization data for 2001 and 2002 is based on year-end statements for HAs with fiscal years ending September 30 through June 30, each year.*

Units Eligible for Payment

	1999	2000	2001	2002
Section 8 Low Income Rental Assistance Program:				
Tenant-based Assistance	*1,681,774	1,837,428	1,966,171	1,997,733
Project-based Assistance	*1,386,533	1,358,797	1,343,574	1,328,532
Total Section 8	*3,068,307	3,196,225	3,309,745	3,326,265
Public Housing Program	1,273,500	1,266,980	1,219,238	1,208,730
Sub-total	*4,341,807	4,463,205	4,528,983	4,534,995
Other Assistance Programs				
Homeownership Assistance Program (Section 235)	43,116	26,477	17,746	13,043
Rental Housing Assistance Program (Section 236)	464,020	446,300	414,576	392,233
Rent Supplement	20,860	20,261	20,161	18,600
Sub-total	527,996	493,038	452,483	423,876
Less estimated number of households receiving more than one form of assistance (double count)	(190,140)	(190,140)	(190,140)	(190,140)
Total, Public and Assisted Housing	*4,679,663	4,766,103	4,791,326	4,768,731
CDBG Households Assisted	158,280	187,500	172,445	187,380
HOME Tenant-Based Assistance	8,246	6,899	11,756	10,239
HOME Rental Units Committed	25,114	33,487	27,456	27,243
HOME New Homebuyers Committed	30,695	30,748	29,690	32,490
HOME Existing Homeowners Committed	13,952	14,731	12,566	14,082
HOME Total Households	78,007	85,865	81,468	84,054
HOPWA Households	41,670	43,902	**72,117	91,065 (est)
Total of CDBG, HOME and HOPWA	277,957	317,267	**326,030	362,499

**These numbers differ from those reported in the FY 1999 Accountability Report because of a prior period adjustment to Tenant-based Assistance units and to Moderate Rehabilitation units in the Project-based Assistance number.*

***These two numbers differ from those reported in the FY 2001 Performance and Accountability Report because HOPWA used a more accurate system (IDIS) to generate data. See Indicator 1.2.d in Part 2, Performance Information, for more details.*

America's Housing is Safer, of Higher Quality, and Disaster Resistant

The Nation's housing quality has improved markedly over the past five decades. The most recent data from the American Housing Survey (AHS) show that the share of low-income households who live in units with threats to health and safety declined from 6.2 percent in 1997 to 5.8 percent in 1999 to 4.9 percent in 2001. The most recent data from the AHS show that the share of very-low-income renters living in units with moderate or severe physical problems declined from 14.8 percent in 1999 to 13.9 percent in 2001. Very-low-income homeowners experienced even greater improvements in housing quality, as the proportion with similar problems decreased from 8.1 percent in 1999 to 7.4 percent in 2001.

Working with its program partners at privately owned and public housing, HUD continued to improve the quality of housing supported by its multifamily housing mortgage insurance, project-based assistance, and public housing programs in FY 2002.

Multifamily Insured and Assisted Housing

The results of the most recent physical inspections conducted on the MF housing portfolio provide the following profile on 28,898 insured and assisted properties with approximately 2.6 million housing units. Currently, over 94 percent of projects meet or exceed HUD's physical condition standards, compared to a baseline of 87 percent.

Multifamily Housing Inspection Profiles

Project Conditions	Baseline Profile (28,038 projects)	Cycle II Profile (28,647 projects)	Current Profile (28,898 projects)
Exemplary	37%	55%	54%
Above Standard	24%	25%	25%
Standard	26%	14%	15%
Sub-Standard	11%	5%	5%
Troubled	2%	1%	1%

(Current profile [FY 2002] represents inspections conducted between 10/1/2001 and 9/30/2002. For comparable unit-weighted data, see Performance Indicator 1.3.3).

Based on the baseline project inspections conducted over the period 1999-2000, HUD instituted a "3-2-1" inspection policy, where projects in exemplary condition get inspected every 3 years, projects in above standard condition every 2 years, and projects at or below standard condition every year.

The less than 1 percent of projects that fell in the "troubled condition" category were referred to HUD's Enforcement Center to better assure these more egregious conditions are appropriately addressed. For the other 5 percent of sub-standard performers representing 6 percent of units, Office of Housing field staff follow-up to assure that Management Improvement Operating (MIO) Plans are negotiated and adhered to by project owners.

The percentage of projects with "life-threatening" health and safety deficiencies increased from 37 to 39 percent from Cycle II to the current Cycle III profile. A key driver of this increase was the recent change in the inspection protocol that added 16 specific violations to the list of potential violations. When such life threatening health and safety deficiencies are detected during HUD's on-site physical inspections, citations are issued to project owners and agents requiring corrective action and response to HUD within three business days. In FY 2002, 98 percent of these deficiencies were so corrected or mitigated.

These results apply to projects without regard to the size of the project. The results are considerably different when they are weighted by the number of units in the project. The percentage of total units located at projects with identified life threatening deficiencies fell from 16.4 percent in FY 2001 to 16.2 percent in FY 2002.

Public Housing

While the physical condition standards and on-site physical inspection requirements are the same for both public housing and MF housing, there are differences in how the information is used and acted upon, due to differences in the statutory, regulatory and contractual relationships between HUD and its respective PHA and MF project owner partners. Inspections at PHAs are conducted and scored at the project level, but the results of project inspections are aggregated at the PHA level into an interim Public Housing Assessment System (PHAS) Physical Indicator score and reported as one of four components of the PHAS rule scoring process.

Nevertheless, individual PHA project inspection results indicate a PHA's compliance with HUD's physical condition standards. The results of project inspections associated with the current (third) cycle of PHAS scores (scores for PHAs with fiscal years ending June 30, 2001 – March 31, 2002) were as follows:

Public Housing Inspection Profiles

Project Conditions	Cycle I Profile (13,569 projects)	Cycle II Profile (14,011 projects)	Cycle III Profile (14,021 projects)
Above Standard	22%	33%	38%
Standard	61%	58%	55%
Sub-Standard	17%	9%	7%

During Cycle II, HUD converted to a "2-1" inspection policy, wherein projects in PHAs with a PHAS Physical Indicator score of at least 80 percent are inspected every 2 years, while "standard" and "sub-standard" projects are inspected annually. Therefore, the Cycle III profile is a mix of new inspection scores on projects in PHAs with lower PHAS Physical Indicator scores (below 80 percent) from Cycle II, plus carry-over scores on projects in high scoring PHAs from Cycle II.

Overall, the percentage of public housing projects that meet or exceed HUD's physical condition standards is approximately 93 percent, an increase of 2 percent since last year. Many of the PHA projects failing to meet HUD's physical condition standards are larger projects, as the 7 percent of projects with sub-standard conditions represented 13 percent of the total public housing units. The percentage of inspected projects with "life threatening" health and safety deficiencies was 46 percent for public housing.

Office of Public and Indian Housing staff use physical inspection results to evaluate annual PHA plans to assure available resources are used to address problem projects and significant housing quality standards deficiencies. HUD's independent physical inspection process is having the desired effect of improving living conditions for residents of HUD-supported public housing.

Lead Paint and Other Hazards

HUD is playing a central role in the interagency initiative to eliminate lead poisoning of the Nation's children by 2010. HUD intends to eliminate lead hazards in housing by expanding the Lead Hazard Control Program and leveraging other resources. The Centers for Disease Control and Prevention report that nearly 1 million children ages 1 to 5 have elevated blood lead levels—amounting to about 5 percent of all children in that age group. The majority of cases involve low-income children. Exposure to lead can cause permanent damage to the nervous system and a variety of health problems, including reduced intelligence and attention span, hearing loss, stunted growth, reading and learning problems, and behavior difficulties.

HUD's Lead Hazard Control Grant Program has consistently exceeded its goals in all years since the Annual Performance Plan was initiated. In FY 2002, the program completed 8,040 lead-safe units (homes), 12 percent more than its goal of 7,200. This performance level and increase in funding levels is a reflection of the maturation and success of the program, both in terms of a growing infrastructure of trained and certified contractors and the capacity of state and local governments to manage the program more effectively as a result of their increased experience and knowledge.

Homes Made Lead-Safe by the Lead Hazard Control Program

1999	2000	2001	2002
7,471	7,969	8,212	8,040

The cumulative total of homes made lead-safe at the end of FY 2002 was 44,244. A recent HUD study showed that the number of housing units with lead-based paint declined from 64 million units in 1990 to 38 million in 2000, further evidence of the program's success.

Risks, Trends and Factors Affecting this Goal

National and regional economic conditions, as well as the actions of many private and public players, exert a critical influence on increasing homeownership or achieving any of HUD's specific performance targets that measure progress toward that objective. Higher interest rates can reduce the number of first-time homebuyers, thus reducing the number of homes insured by FHA. But lower interest rates do not necessarily mean that the number of first-time homebuyers will increase, because lower interest rates can also signal a weakening of the economy. One interesting point is that lower interest rates usually increase the number of refinancings, thus reducing the *share* of new loans going to first-time buyers, even if their numbers rise. However, during FY 2002, low mortgage interest rates contributed to FHA greatly exceeding its goals for total single-family endorsements and for increasing the endorsements made to first-time homebuyers and minorities over the previous fiscal year. Increases in the number of new endorsements made to first-time homebuyers and minorities were especially influenced by the continued emphasis that FHA placed on marketing and outreach events to reach un-served and under-served housing markets.

Economic weakness and rising unemployment traditionally lead to fewer persons applying for FHA loans, and higher loan default rates. During FY 2002, FHA was able to help increasing numbers of homeowners experiencing financial difficulties to resolve their mortgage defaults instead of foreclosing. Through loss mitigation techniques, such as home retention tools, pre-foreclosure sales, and deeds-in-lieu (DIL) more defaults were resolved and fewer homeowners lost their homes. While greatly influenced by external factors, both FHA and the housing industry overall have maintained a high level of performance, even during weakened economic conditions.

Many external factors also affect the supply of affordable rental housing, including tax policy, local rental markets, building codes and land use regulations, State and local program decisions, and the actions of HUD's many other partners. Although rental vacancy rates nationally have been unusually high for at least 5 years, local rental markets vary in the availability of housing with rents below local fair market rents (FMRs). Some large metropolitan areas have relatively few units that would be affordable to extremely-low-income renters without Section 8 vouchers.

The availability of Federal resources for subsidy payments also affects HUD's ability to provide access to affordable housing. Changes in unemployment rates, in the cost of developing and maintaining housing or in personal income—factors over which HUD has little control—all affect housing affordability. Since tenant-paid rents are established as a percent of income in HUD's rental assistance programs, lower incomes necessitate greater subsidies. With the number of renters with worst case housing needs far exceeding the available funds, and with the pressure of welfare reform, the success of HUD's efforts in this area will be highly dependent on the ability of the economy to continue to generate jobs with decent wages.

A wide array of local factors, such as building codes and other regulations, affect the choices that builders make in constructing and rehabilitating American homes. While HUD can encourage local communities to improve and enforce building codes and regulations, and can encourage private builders and owners to improve their properties, the Department cannot mandate these changes. Increasing building density and other land use factors also have major impacts on the vulnerability to natural disasters and the magnitude of associated risk. Public awareness of hazards and of ways of reducing them is also important but often lacking.

Internal factors such as improving management practices and business process streamlining also made an impact on HUD's ability to provide access to affordable housing and FHA's ability to increase homeownership. Through improved management of its portfolio, insurance premiums, and more stringent measures to ensure data integrity, FHA increased the capital ratio of its Mutual Mortgage Insurance (MMI) Fund during FY 2002, a direct influence on its ability to provide insurance coverage to homeowners. The emphasis that HUD has placed on automating its business processes and procedures has been manifested in FHA's current business practices and initiatives.

Strategic Goal 2: Ensure Equal Opportunity in Housing for All Americans

HUD's strategic goal of ensuring equal opportunity in housing for all Americans has three objectives:

- Housing discrimination is reduced.
- Minorities and low-income people are not isolated geographically in America.
- Disparities in homeownership rates are reduced among groups defined by race, ethnicity and disability status.

HUD achieves these objectives in the private housing market by enforcing the Fair Housing Act (Title VIII) and within HUD-administered programs by enforcing Title VI of the Civil Rights Act and Section 504 of the Rehabilitation Act.

Fair Housing Enforcement Under Title VIII

Despite the long-standing protections of the Fair Housing Act, studies on the incidence of housing discrimination conducted in 1978 and 1989 showed that alarming levels of illegal discrimination persisted in the housing market. In 2002, HUD released "Discrimination in Metropolitan Housing Markets: Phase I," the first of a three-part study that examines the extent of housing discrimination in America. The Housing Discrimination Study, also known as HDS 2000, provides the most rigorous estimates of housing discrimination since HUD's housing discrimination study in 1989. Between 1989 and 2000, African-Americans and Hispanics benefited from significant reductions in unfair treatment in the housing market. HUD's performance goal was substantially achieved, based on a 2 percentage point decrease in discrimination for three of four measures.

A recent HUD awareness study entitled ***"How Much Do We Know?"*** measured the general public awareness of the nation's fair housing laws. The study revealed that there is a widespread basic knowledge of fair housing law, but many Americans fail to recognize some types of unlawful discrimination when it occurs. For example, 46 percent of respondents were not aware that it is illegal for real estate agents to limit a home search to geographical areas based on racial composition. An alarming 62 percent were not aware that it is illegal to discriminate against families and children. The study also found that almost one in five persons who felt they had experienced housing discrimination did not report it.

The findings of these and other recent fair housing studies will be a valuable tool in increasing public awareness about housing discrimination and will help HUD and its partners assess how best to use fair housing enforcement education and technical assistance resources.

Enforcement Activities. In FY 2002, HUD's Office of Fair Housing and Equal Opportunity (FHEO) completed 1,010 enforcement actions, an increase from the FY 2001 level of 600. State and local government agencies become HUD partners when they administer fair housing laws that HUD determines to be substantially equivalent to the Federal Fair Housing Act and receive funding under the Fair Housing Assistance Program (FHAP). During FY 2002, 7,263 cases were received, compared with 7,872 cases in FY 2001. FHEO and its FHAP partners closed 8,164 cases, compared with 9,082 closed in FY 2001, reflecting the fewer cases received in FY 2002. Closures included administrative closures, conciliation/agreements, cause and no-cause determinations, and referrals to the Department of Justice

Reducing Aged Cases. In FY 2002, FHEO continued to place a major emphasis on reducing the number of aged cases within its inventory, employing strict controls and more aggressive targeting. As a result, the percentage of HUD closed cases that had been open longer than 100 days continued its marked decline, falling from 37.1 percent in FY 2001 to 29.0 percent in FY 2002.

Accessibility. Amendments to the Fair Housing Act (the Act) require that certain multifamily dwellings first occupied after March 13, 1991, must be accessible to persons with disabilities. Nevertheless, across the country multifamily dwellings are being constructed that do not meet the design and construction requirements of the Act. A significant effort is needed to educate the building industry—including architects, builders and owners—as well as State and local governments and others about the accessibility requirements to improve compliance with the Act. In FY 2001 and FY 2002, a total of $2.5 million was committed to carry out a training and technical guidance program for this purpose.

Fair Housing Enforcement Under Title VI and Other Laws

Compliance Reviews and Voluntary Compliance Agreements (VCA). HUD is required to conduct compliance reviews of grant recipients by Title VI of the Civil Rights Act of 1964 (for discrimination based on race, color or national origin) and Section 504 of the Rehabilitation Act of 1973 (for discrimination based on disability). Section 504 reviews increased to 108 in FY 2002 from 68 in FY 2001. FHEO started 143 compliance reviews in FY 2002 under Title VI, an increase of 37 reviews over the 106 started in FY 2001.

Complaints Investigated. FHEO received 778 complaints under Title VI and Section 504 in FY 2002, a 20 percent increase over the 645 complaints received in FY 2001. FHEO completed 99 Title VI investigations compared to 65 in 2001. FHEO continues to work with recipients of HUD funds to ensure to the greatest extent possible compliance with the civil rights laws.

Fair Lending. One of HUD's primary means for increasing the homeownership rates of minorities is to ensure equal access to mortgage lending. The most recent data collected from lenders under the Home Mortgage Disclosure Act show that in 2002, minority applicants (excluding Asian-Americans, whose denial rates differ little from non-minorities) were denied mortgages at a rate 92.6 percent higher than the denial rate for non-minority applicants. This is a greater disparity than the 76.4 percent difference in 2001, but denial rates for non-Asian minorities actually declined to the lowest rate in over six years, from 17.8 in 2000 to 15.1 in 2001. To improve results in this area, HUD will promote the Technology Open To All Lenders (TOTAL) scorecard. When used in an automated underwriting system, the TOTAL scoring system will ensure that mortgage applications are evaluated fairly and uniformly.

In addition to enforcing fair lending laws through FHEO, HUD regulates the Government-Sponsored Enterprises (GSEs)—Fannie Mae and Freddie Mac—and continually monitors their programs and practices to ensure consistency with fair lending requirements. Beginning in 2001, HUD increased the share of mortgage purchases each GSE must acquire from underserved areas from 24 percent to 31 percent. During calendar year 2001 (the latest year for which data is available), 32.6 percent of Fannie Mae mortgage purchases and 31.7 percent of Freddie Mac mortgage purchases were for properties in underserved neighborhoods.

Targeted Efforts. HUD aims to increase the share of FHA single-family mortgage endorsements that go to minority homebuyers. Along with comparable goals for first-time homebuyers and central-city homebuyers—both disproportionately minority groups—this focus ensures that minority homebuyers have access to the lower interest rates of FHA-insured mortgages.

In FY 2002, due to the Department's continued efforts and increased emphasis on appropriately targeted marketing, 36 percent of the home purchase mortgages endorsed for FHA insurance were to minorities, a modest decrease from the FY 2001 figure of 36.5 percent given the difficult economic conditions.

Risks, Trends and Factors Affecting this Goal

Social, cultural and economic conditions influence the acceptance of minorities, persons with disabilities and other protected classes. In addition, disparities in wealth and income levels among groups contribute to the inability of some persons to purchase a home, obtain affordable and/or accessible rental housing, and realize economic opportunity.

HUD depends upon the Department of Justice as well as state and local government partners to assist in furthering fair housing. State legislation that is substantially equivalent to the Federal Fair Housing Act is critical to increase the Nation's capacity to effectively enforce fair housing laws.

State regulation of finance, insurance and real estate also affects fair housing and homeownership within specific populations or neighborhoods. FHA has worked to ensure equal housing opportunities through targeted marketing and outreach activities to un-served and underserved markets.

Local policies, including land use controls and accessible building code enforcement, will continue to influence levels of discrimination, income isolation, and disparities in homeownership rates. The private sector likewise plays a central role in achieving fair housing outcomes. Businesses which adopt fair housing policies and practices go far to promote justice. Finally, some individuals continue to discriminate because they lack awareness of their fair housing responsibilities.

Strategic Goal 3: Promote Housing Stability, Self-Sufficiency, and Asset Development by Families and Individuals

In FY 2002, HUD had the following objectives related to these outcomes:

- Homeless families and individuals achieve housing stability.
- Poor and disadvantaged families and individuals become self-sufficient and develop assets.
- The elderly and persons with disabilities achieve maximum independence.

Homeless Families and Individuals Achieve Housing Stability

As economic conditions have worsened, the need for housing resources has become greater. The U.S. Conference of Mayors reports that in 2001, demand for emergency shelter increased by 13 percent overall—and 22 percent among families—in the 27 major cities that were surveyed. Furthermore, 37 percent of the overall need and 52 percent of the need among families was unmet.

Addressing homelessness requires a comprehensive approach. Data from a December 1999 HUD report entitled, ***Homelessness: Programs and the People They Serve*** demonstrate that most people who become homeless have suffered severe hardships—including physical and sexual abuse, childhood trauma, poverty, poor education, disability, and disease. When homeless persons get the housing assistance and needed services—such as health care, substance abuse treatment, mental health services, education and job training—76 percent of those living in families and 60 percent of those living alone end their homeless status and move to an improved living situation.

HUD is committed to ending chronic homelessness over ten years in cooperation with Federal partners. The Department of Health and Human Services and the Veterans Administration are funding services while HUD concentrates on providing shelter, transitional and permanent housing. Beginning in FY 2003, all three Departments are participating in a jointly administered homeless initiative to further increase the efficiency and impact of the overall effort to reduce homelessness and in particular to eliminate chronic homelessness over 10 years.

Continuum of Care

HUD is partnering with communities through a Continuum of Care (CoC) approach to addressing homelessness. This strategy is used by communities nationwide to organize and coordinate delivery of housing and services to homeless persons as they move off the streets, into stable housing, and towards self-sufficiency. The CoC process encourages public and private organizations to work together to identify the unique needs in their communities, seek alternative resources, and determine their priorities for HUD funding. Several programs funded by HUD under the McKinney-Vento Homeless Assistance Act of 1987 help meet the needs of homeless individuals and families.

During FY 2002, HUD helped approximately 47,905 homeless persons move into HUD McKinney-Vento funded permanent housing compared to an estimated 30,000 in FY 2001. The number of formerly homeless persons who move to HUD funded permanent housing is a result of demand by communities for new permanent housing assistance and a Congressional directive and HUD commitment that 30 percent of homeless funds be used for permanent housing projects for homeless persons with disabilities. Increased permanent housing is crucial to meeting HUD's goal of eliminating chronic homelessness over 10 years.

Transitional housing with supportive services can be an important intermediary step between emergency shelter and permanent housing. In 2002, approximately 192,392 homeless persons moved into HUD-funded transitional housing with supportive services, far exceeding our goal of over 77,000.

To streamline the provision of homeless assistance services, HUD has proposed to consolidate several homeless assistance programs into a single program in FY 2003. This change will reduce the administrative burden associated with the current application process and provide communities with the flexibility they need to appropriately address homelessness.

In support of the President's Faith-Based and Community Initiative, HUD is undertaking a Department-wide effort to increase the participation of faith-based and community organizations in HUD's programs. Increasing the already high level of participation of these groups in HUD's homeless assistance programs will introduce more partners in the overall effort to address homelessness.

Poor and Disadvantaged Families and Individuals Become Self-Sufficient and Develop Assets

Self-Sufficiency Tools in Public and Assisted Housing

The housing stability provided by public and assisted housing creates better opportunities and a safety net so welfare families can step towards self-sufficiency. Over the past several years, HUD has been transforming public housing to reduce the geographic and economic isolation of low-income households. HUD provides funding for microenterprise and small business development for public housing residents with an entrepreneurial spirit.

Family Self-Sufficiency. The Family Self-Sufficiency (FSS) program uses several means to support self-sufficiency among residents of public and assisted housing. FSS provides job training and employment services to voucher holders, and funds program coordinators to support residents' transitions to self-sufficiency. FSS also allows a portion of increases in earnings to be deposited into an escrow account that can be used for purchasing a home, continuing education, or other personal goals.

Welfare to Work Vouchers. In FY 1999, Congress appropriated 50,000 Welfare to Work (WtW) vouchers that require coordination between local housing authorities and welfare agencies. Because stable housing is so critical for steady employment, and because many jobs are located in suburbs while the people leaving welfare are in central cities, these vouchers are an important tool in promoting self-sufficiency. By the end of FY 2002, all WtW vouchers were being fully utilized and emphasis had shifted to tracking the employment status of WtW voucher families as described under Indicator 3.2.2.

Community and Economic Development Tools

Increasing self-sufficiency requires investments in job training, economic development, supportive services, and other infrastructure needs. HUD's Community Development Block Grants (CDBG) provide a mechanism for making these investments while recognizing the unique needs of every community. The Empowerment Zones (EZ) program targets flexible assistance to the most distressed communities. Many eligible uses of the CDBG and EZ program are related to self-sufficiency:

- Job Training, including the Youthbuild program
- Supportive services, including health care, transportation, and child care
- Education assistance
- Job Fairs

The Faith-Based and Community Initiative is also contributing to HUD's efforts to activate faith-based and community organizations in the objective of meeting the needs of disadvantaged families and individuals.

Homeownership is a milestone on the road to self- sufficiency for many families, so HUD is promoting homeownership among residents of public and assisted housing.

The Elderly and Persons With Disabilities Achieve Maximum Independence

The elderly population is projected to expand at an increasing rate as baby boomers age. Elderly households and persons with disabilities have special needs that require flexible housing strategies. HUD intends to maximize the independence of these households by promoting community-based living opportunities where appropriate. The Department also makes supportive services available to residents to help them live as independently as possible in the most integrated setting.

Assisted Living. Many people who are elderly or disabled need some assistance with daily tasks yet are otherwise able to live independently. HUD supports such assisted living arrangements in several ways. Under a HUD conversion program, two Section 202 elderly projects were converted to assisted living during FY 2002, with eight more scheduled to be converted in FY 2003, which will meet HUD's goal of converting ten by the end of FY 2003.

In FY 2000, Congress authorized the Department to increase assisted living opportunities by allowing housing agencies to use housing vouchers in assisted-living developments. By the end of FY 2002, HUD had authorized the use of vouchers for assisted living facilities in at least five states.

HUD's Service Coordinator program allows managers of assisted multifamily housing to hire service coordinators to help elderly residents. During FY 2002, Service Coordinator grants funded service coordinators for 25,012 additional units in elderly projects. This is a 40 percent increase to over 88,000, far exceeding the goal of a 10 percent increase. HUD also funds service coordinators in public housing through the Resident Opportunity and Self-Sufficiency program.

Risks, Trends and Factors Affecting this Goal

Success in aiding the homeless to become self-sufficient is affected by a variety of factors beyond HUD's control. The incidence of homelessness is affected by macroeconomic forces such as unemployment levels, structural factors, including the supply of entry-level jobs, and the availability of low-cost housing. Personal factors such as domestic violence, substance abuse, disabilities, and the extent of a person's educational or job skills also may underlie homelessness. Successful transitions to society from prisons, treatment facilities or other institutions are increasingly recognized as critical to reductions of chronic homelessness.

Participation levels by partners in the provision of homeless assistance—including State and local agencies, nonprofit organizations, service providers, housing developers, neighborhood groups, private foundations, the banking community, local businesses, and current and former homeless persons—will substantially determine the success of homeless families and individuals in becoming more self-sufficient. Increasing fiscal strains on these governments may reduce their ability to make contributions towards HUD's objectives. State and local governments also make critical decisions about zoning and the use of funds from programs such as CDBG, HOME, and tax-exempt bonds for rental housing, which may affect the local housing supply.

The recent economic downturn has led to increased unemployment, which hampers self-sufficiency efforts. Recessions tend to affect homeless people and other low-income people disproportionately, because they are usually among the first to be laid off, and generally have few marketable skills. An economic rebound will make it easier for many low-skilled or inexperienced workers to enter the workforce in the coming years.

Opportunities for better paying jobs continue to be concentrated in technical fields for which many recipients of HUD assistance are not prepared. Jobs continue to grow faster in suburban areas, while families making the transition from welfare are more likely to live in inner-city or rural areas. Many of the educational, training, and service programs available to help families make the transition to self-sufficiency are operated by local recipients of Federal funds from agencies other than HUD.

External factors also affect the supply of affordable rental housing for the elderly and persons with disabilities. The share of the population who are elderly (65 and older) is projected to increase from 13 percent to 20 percent of the population by 2030, with rapid growth beginning around 2010. Other factors include local rental markets, building codes and land use regulations, State and local program decisions, and the actions of HUD's partners.

The Supreme Court held in 1999 that States must place persons with disabilities in community settings rather than institutions when treatment professionals determine that community placement is appropriate ***(Olmstead v. L.C.)***. As a result of this decision, more persons with disabilities will be moving into communities at a time when affordable housing is increasingly scarce.

Strategic Goal 4: Improve Community Quality of Life and Economic Vitality

In 2002, the National economic performance was uneven and a recession began in March. Over the year, the unemployment rate increased from its previous level and income growth slowed. Concentrations of poverty, joblessness, and homelessness continue to degrade the social and economic fabric of communities across the country. A key to reviving these markets is expanding access to private equity investment in business and industries that serve these communities. The Nation's economic challenges are not confined to the cities and suburbs in metropolitan areas. Many rural communities are struggling as well—especially in Appalachia, the Mississippi Delta, Indian country, and the borderland colonias. The Department's efforts in the economic development arena are based on a partnership and leveraging of resources model working with private and non-profit groups, State and local governments, and other Federal Departments and agencies.

In FY 2002, HUD had the following objectives related to these outcomes:

- The number, quality, and accessibility of jobs increase in urban and rural communities.
- Economic conditions in distressed communities improve.
- Communities become more livable.

Doubly Burdened Cities

One measure that captures changing conditions in urban areas is the number of "doubly burdened" cities. Doubly burdened cities are defined by HUD as cities that experience unemployment rates 50 percent above the national average, accompanied by either a population loss of five percent since 1980 or poverty rates of 20 percent or higher. The combined effects of population loss, high unemployment, and high poverty drain a city's fiscal capacity and limit its ability to improve aging infrastructure and invest in new economic opportunities. Doubly burdened cities decreased from 75 cities in FY 2001 to 66 cities in FY 2002, surpassing our goal of a two-city reduction. The variance observed in this measure between 1999 and 2002 suggests that the impact of macroeconomic factors exceeds the span of control of HUD's economic development programs.

Block Grant Assistance

The Community Development Block Grant (CDBG) is HUD's largest block grant program, and an important vehicle for improving the community quality of life and economic vitality. During FY 2002, States and more than 1,000 cities entitled to receive CDBG grants expended $5.12 billion of non-disaster CDBG funds, an increase of $178 million over FY 2001 expenditures. Grantees have discretion to use this funding for a variety of eligible purposes, including economic development, housing construction and rehabilitation, and infrastructure improvements. Several small categorical programs—Youthbuild, the Self-Help Opportunities Program, and others—are also included in the CDBG total above, and while not part of the formula program, generally fund activities consistent with the overall CDBG program.

CDBG formula grantees are required to use at least 70 percent of this funding for activities that principally benefit low- and moderate-income persons. During FY 2002, entitlement communities used 94.4 percent of funds and States used 96.4 percent of funds for such activities.

During FY 2002, HUD, in response to the President's Management Agenda, began with our partners a consideration of ways to streamline the Consolidated Planning process. Consolidated planning requires that every large city, urban county, and State develop a three- to-five-year strategic plan describing how they plan to use CDBG, HOME Investment Partnerships, Housing Opportunities for Persons with AIDS (HOPWA), and Emergency Shelter Grants to meet their priorities. The planning process provides HUD with a way to review grantees' needs.

Community Renewal

In 1994, 73 distressed urban communities across the country were designated as either one of 8 empowerment zones (EZs) or 65 enterprise communities (ECs). In 1999, an additional 15 urban EZs were designated. On December 31, 2001, the Secretary also designated eight tax benefit only Round III EZs and 40 tax benefit only Renewal Communities (RCs). The purpose of the EZ/EC initiative is to combine "seed" grants (Rounds I and II only)—for capacity building, workforce and business development, supportive services, and physical improvements—with tax incentives to encourage partnerships between the residents, nonprofits, governments, and businesses in a community (all EZs, ECs and RCs). The EZ/EC Initiative is focused on the creation of self-sustaining, long-term development in distressed areas. It is based on a holistic, participatory approach whereby community stakeholders partner together to develop and implement innovative and comprehensive strategic plans for revitalization. HUD measures the percentage of completed EZ/EC programs and projects for which locally defined goals in seven categories were achieved. During FY 2002, local performance improved in only two of the seven categories of activity.

The Department is partnering with localities to improve their capacity and efficiency and goals are being re-examined to better capture outcomes. It is important to note that a 2001 study of Round I EZs did find that the majority of EZ/EC's had significant impact in job growth, increased minority businesses, increased resident businesses and increased resident employment.

Leveraging Private Capital

The future prospects for many distressed communities are contingent on the amount of capital being invested today. In addition to providing direct investment, HUD programs help leverage other sources of public and private capital. In 2001, the latest year for which data are available from lenders under the Home Mortgage Disclosure Act, $6.167 billion of private capital was used to rehabilitate housing in underserved neighborhoods.

Private Lending for Housing Rehabilitation in Underserved Areas
(Dollars in Billions)

1998	1999	2000	2001
$5.737	$6.078	$5.862	$6.167

FHA Lending

To enhance homeownership opportunities in lower-income and minority neighborhoods, HUD seeks to extend single-family mortgage lending in under-served communities. During FY 2002, FHA endorsed 491,592 mortgages in underserved areas, exceeding the target of 432,802 endorsements, and surpassing the approximately 412,000 such endorsements made in FY 2001.

FHA Single Family Mortgage Endorsements in Underserved Areas
(Thousands)

1999	2000	2001	2002
449	357	412	492

The increase is partially a result of changes in the real estate market that affected most FHA single-family programs, including lower interest rates. There was a general increase in FHA single-family activity in FY 2002. As a percentage of all single family lending, the number of endorsements in underserved areas was relatively stable.

FHA also insures loans to develop and rehabilitate multifamily properties in underserved neighborhoods. In FY 2002, approximately 33 percent of the multifamily projects (372 of 1,105) endorsed by FHA insurance were for properties in underserved areas. Multifamily properties that received FHA-insured mortgages for the first time during FY 2002 included 13,903 units in underserved areas, compared with 5,464 in FY 2001.

Rental Units in Newly Endorsed Multifamily Developments in Underserved Areas

1999	2000	2001	2002
5,480	9,072	5,464	13,903

Fannie Mae and Freddie Mac

The Department sets four types of public purpose targets for Fannie Mae and Freddie Mac (the Government-Sponsored Enterprises or GSEs). One target requires that the GSEs must fund mortgages that support underserved areas. During calendar year 2001, each GSE's goal was 31 percent of the total number of dwelling units financed. This is an increase from the previous year's goal of 24 percent. During the 2001 calendar year (the latest year for which data is available), Fannie Mae exceeded the goal by achieving 32.6 percent, which represented a slight increase from 31 percent in 2000. Freddie Mac achieved 31.7 percent, an increase from its 29.2 percent performance in 2000.

Fannie Mae Mortgage Purchases in Underserved Areas
(Percent of All Units Financed)

1998	1999	2000	2001
27.0%	26.8%	31.0%	32.6%

Freddie Mac Mortgage Purchases in Underserved Areas
(Percent of All Units Financed)

1998	1999	2000	2001
26.1%	27.5%	29.2%	31.7%

Risks, Trends and Factors Affecting this Goal

The country's economic growth has produced millions of new jobs, including many in central cities and other older communities. Reversals of macroeconomic trends, however, can overcome recent successes as well as HUD's partnership efforts. In addition, there are sizable imbalances in the job market, with most jobs requiring high skill levels, while many persons seeking employment are looking for low-skill jobs. The changing structure of the global economy has made it challenging for communities to compete when capital is highly mobile, markets for goods and services are widely dispersed, and wages for low-skilled employment are much lower in many locations abroad.

Local shortages of low-skilled jobs are compounded by mismatches between the locations of available jobs and the residences of the unemployed. Many older communities tax rates exceed rates in newer communities because they struggle to provide quality services despite declining tax bases. Job development is complicated by large concentrations of poor residents. School systems struggle to provide the education and job skills essential for their students, but in many cases, have fewer resources as tax bases decline and capital maintenance costs increase. Crime, whether real or perceived, deters businesses from locating in these communities. The extent to which residents of areas of concentrated poverty are increasingly minorities may add barriers of racial discrimination to the mix.

Rural communities face additional challenges because of the changing structure of the farming industry, under-investment, weak infrastructure, limited services, and few community institutions. Rural labor forces are more narrowly based and are more dispersed. Both urban and rural communities are further affected by the extent to which their States provide financial assistance to overcome these obstacles.

While ultimately job creation is dependent upon the investment decisions of the private sector, the coordinated efforts of all levels of government, along with the private sector, are needed to address these challenges.

Another factor that must be considered is that communities have a great deal of flexibility when using HUD funds to address their economic conditions. Many programs, including the Community Development Block Grants (CDBG), may be used for a wide variety of eligible activities at the discretion of the grantee. When communities do choose to address job growth for low-income individuals, there are a wide variety of approaches that are difficult to measure. Some communities may support infrastructure to increase business development in certain areas, while others may directly apply CDBG funds toward preparing individuals for employment. Thus the ability of communities to respond with discretion to local conditions also establishes constraints on assessing results at a national level.

Strategic Goal 5: Ensure Public Trust in HUD

To better achieve its mission, HUD is focused on the goal of establishing and maintaining the organizational competence and capacity to deliver effective programs and services to the public. In pursuing that goal, HUD is fulfilling its fundamental responsibility to build performance, customer service, ethical standards and accountability into all aspects of its program delivery and stewardship of the billions of public and private dollars entrusted to the Department.

Management Challenges

As independently reported over the past decade by the GAO and HUD's Office of Inspector General (OIG), improvements are needed in HUD's management of its human capital and information systems in order to provide adequate internal controls, reduce risk, and improve performance in HUD's core program areas. HUD's rental housing assistance and single family housing mortgage insurance programs have been designated as "high risk" program areas by the GAO. Those program areas also have internal control weakness issues, as discussed in the Independent Auditor's Report on the Financial Statements section of this report.

The ***President's Management Agenda*** contains the following interrelated government-wide and HUD-specific initiatives to comprehensively address HUD's longstanding management challenges, high-risk program areas, and material control weaknesses.

Government-Wide Initiatives:

1. Strategic Management of Human Capital
2. Competitive Sourcing
3. Improved Financial Performance
4. Expanded Electronic Government
5. Budget and Performance Integration

HUD-Specific Initiatives:

6. HUD Management and Performance
7. Faith-Based and Community Initiative

Information on the goals, progress, and remaining plans under each of these initiatives is provided in the President's Management Agenda section of this report. In addition, the HUD Inspector General's independent assessment of HUD's major management and performance challenges and progress is provided in the Financial Information section of this report.

FY 2002 was a year of substantial progress in addressing the longstanding management and control deficiencies that have hindered HUD's past program delivery and fiscal stewardship. As examples of that progress during this period, HUD:

- Received an unqualified audit opinion on HUD's consolidated financial statements for the third consecutive year—a strong indicator of financial management stability.
- Produced mid-year financial statements and accelerated the year-end close-out, financial audit, and production of the annual Performance and Accountability Report—to provide more timely information for HUD, OMB and Congressional oversight and decision making.
- Completed implementation of a new staffing resource estimation and allocation system—with use of the resultant information to re-deploy staff to critical program needs and support development of staffing plans and budget proposals.
- Enhanced staff recruiting, development and training programs; planned a HUD Integrated Human Resources and Training System (HIHRTS); and established a Human Capital Steering Committee that developed a draft Five-Year Strategic Human Capital Management Plan that provides for succession planning and filling of mission critical skill gaps.

- Improved the Department's Information Technology (IT) Capital Planning and Investment Control process—to better assure the Department's $376 million portfolio of IT investments in FY 2002, and future year investments, adequately address HUD's business needs and are managed to achieve expected benefits against accurate and complete cost, schedule, technical and performance baselines.

- Completed development and implementation of FHA's new general ledger system on schedule—a major step in a multi-year effort to replace FHA's commercial accounting system with an integrated financial management system that fully complies with federal requirements, including budgetary and credit reform accounting and funds control.

- Updated program guidance, provided staff training, and re-instituted monitoring of program administrator income and rent determinations—as important steps in reducing erroneous payments in HUD's rental assistance programs.

- Initiated new program rules to strengthen requirements for lenders, underwriters and appraisers participating in the single family housing mortgage insurance programs—to reduce FHA's risk and curtail predatory lending practices.

- Consolidated security and emergency planning functions in a new Office of Security and Emergency Planning—which completed the first Continuity of Operations Program (COOP) plans by a federal Department to ensure that critical HUD programs and services are provided during any national emergency or catastrophic event.

Program Monitoring

Third party intermediaries, who include government, non-profit and for-profit entities, perform most of the direct processing or administration of HUD's program services. HUD's primary role is to provide guidance and assistance to its program partners, and to monitor and enforce program compliance and performance requirements. HUD's continuing improvement of its program monitoring and oversight is having a positive benefit on program results.

Rental Housing Assistance Programs

HUD performs periodic assessments of the physical condition, financial soundness, management capability, and resident satisfaction applicable to the HUD-supported rental housing portfolio. This portfolio consists of 14,000 public housing properties at approximately 3,160 Public Housing Agencies (PHAs), and over 28,000 multifamily housing properties, which collectively serve over 2.8 million households. The improving physical conditions in this housing portfolio are discussed under HUD Strategic Goal No. 1. Information on the significant monitoring results on PHAs and multifamily housing projects follows.

Resident Satisfaction. During the 2002 assessment year, HUD conducted a random sample survey of 543,985 public housing residents and a stratified sample of 112,869 multifamily tenants. To date, 89 percent of public housing residents have indicated that they were "Satisfied" or "Very Satisfied" with "overall living conditions."[2] 2002 Multifamily results will be available in February 2003.

Public Housing Assessment System (PHAS). The PHAS rule process was developed to provide a more comprehensive and independent assessment of a PHA's performance and risk to HUD. PHAS aggregates the scores of the following four component indicators:

- Physical Condition, based on independent annual HUD project inspections (30 points);

- Financial Condition, based on independent annual financial and compliance audits (30 points);

- Management Performance, based on annual PHA certifications (30 points); and

- Resident Satisfaction, based on annual resident surveys (10 points).

[2] *This data pertains to PHAs with fiscal years ending 03/31/02, 12/31/01, 09/30/01, and 06/30/01. Due to delayed funding, 2002 survey assessments for PHA fiscal years ending 6/30/02 and 9/30/02 will not be available until February 2003.*

The scores of each of the four component indicators are aggregated in conjunction with a PHA's fiscal year-end to arrive at an integrated or combined PHAS "score" and "designation" in one of the following categories:

- High Performers: Overall PHAS Score of 90 or greater.
- Standard Performers: PHAS Score of 60 to 89 with no score less than 18 for the component indicators for Physical Condition, Financial Condition or Management Performance (Indicator Nos. 1, 2 or 3).
- Troubled Performers: PHAS Score less than 60 or more than 60 with at least one major component (Indicator Nos. 1, 2 or 3) with a sub-standard score (less than 18).

PHAS scores and underlying information provide a basis for HUD staff to target risk-based monitoring efforts, as well as necessary technical assistance and program intervention. HUD established Troubled Agency Recovery Centers (TARCs) to assist troubled PHAs in correcting major physical, financial and management deficiencies. In worst-case situations, HUD can take over a PHA directly or through an administrative receivership, or seek a court appointed receiver to replace PHA management. High performing PHAs receive less HUD oversight and can be eligible for certain funding preferences.

The PHAS rule was originally scheduled to be effective for PHAs with fiscal years ending September 30, 1999, and thereafter. PHA fiscal years end on calendar year quarters, with a fairly even distribution of PHAs between each quarter. Due to delays in the formal implementation of the PHAS rule, the scores for FY 2001 were considered "advisory scores." During the PHAS advisory scoring period, PHAs could not be referred to a TARC solely on the basis of PHAS scores, except for PHAs that self-certified a troubled "management performance" indicator.

For FY 2002, the number of units managed by officially designated "troubled" agencies at the beginning of the year was reduced by 23 percent. On October 1, 2001, 55 PHAs, which were responsible for 31,549 low rent units, were assigned to the TARCS. By September 30, 2002, 16 of these PHAs had been returned to their HUD HUBs after TARC recovery assistance, thus reducing the low rent units counts by 7,289 units to 24,260 low rent units.

The complete PHAS scores are the best available information on PHA conditions. Complete PHAS scores were available for 3,092 PHAs, or 98 percent of the 3,171 PHAs active during the FY 2002 reporting cycle. Scores not yet available or reported are primarily due to filing extensions, waivers and pending appeals. The distribution of designations and scores for PHAs with complete PHAS scores for FY 2002 are as follows:

FY 2002 PHAS Designations
Advisory Scores for PHAs

	PHAs	Units
High Performer	1,361	336,681
Standard Performer	1,374	619,616
Troubled – Physical Only	49	41,554
Troubled – Management Only	14	7,677
Troubled – Financial Only	215	43,267
Troubled – Overall*	79	23,340
Troubled – Total**	357	115,838
Total Scored	3,092	1,072,145

**PHA with a score less than 60 or with more than one sub-standard component*

***"Troubled-Total" is the aggregate of the four Troubled categories; it is not included in the "Total Scored" to prevent a double count of Troubled Performers.*

Comparison of the FY 2002 and FY 2001 PHAS score results reveals that the number and proportion of high performing PHAs has increased markedly while troubled PHAs have decreased markedly.

Comparison of FY 2001 and FY 2002 Advisory Scores for PHA Performance Assessments

	FY 2001 (2,714 PHAs)	FY 2002 (3,092 PHAs)
High Performer	22.2%	44.0%
Standard Performer	59.1%	44.4%
Troubled Performer	18.7%	11.6%

Multifamily Housing Financial Compliance. All insured and some non-insured multifamily housing (MFH) projects are required to electronically submit annual financial and compliance audit information to the MFH Financial Assessment Subsystem (FASS). These submissions facilitate risk-based monitoring and management of program compliance requirements to reduce the financial and program risk related to the MF housing portfolio.

For the third submission cycle for project fiscal years ending 12/31/00 – 12/30/01 (Cycle III), 20,676 financial statements were required. Of this number, HUD received and reviewed 19,390 submissions through September 30, 2002; the number will increase as overdue submissions for this cycle continue to be received. HUD also received and reviewed an additional 1,428 non-insured project financial statement submissions that were not required to be submitted to FASS.

Of the 20,818 total submissions received for Cycle III, 20,597 were processed with 51 percent having no financial compliance deficiencies. Of the 10,187 submissions with deficiencies, 3,925 were referred to the Departmental Enforcement Center (DEC) and the remaining 6,262 to MFH program field staff for additional action.

The increase in the total number of Cycle III submissions with conditions, and the higher percentage of cases referred to the DEC, are attributed to a number of factors, including: (1) the addition of new compliance deficiency indicators that were not applicable in Cycles I and II; (2) the cumulative effect of open DEC cases from Cycle II resulting in automatic referrals of Cycle III submissions on the same projects; and (3) the increased number of submissions received in Cycle III. In addition, HUD has increased action on "non-filers" from all cycles. Until actions are completed against "non-filers" from Cycles I and II, submissions from those same projects in Cycle III are also referred for the DEC's consideration, even if the submission reflects "no conditions" for Cycle III.

Multifamily Housing Financial Assessment Results

	Cycle II	Cycle III
No Conditions	70%	51%
MFH Referrals	23%	30%
DEC	7%	19%
Total Processed	100%	100%

Despite the sharply increased number of referrals, both the DEC and MFH improved their follow-up performance. For DEC, the percentage of open or unresolved cases decreased from 39 percent to 33 percent while the percentage of MFH open referral cases decreased from 16 percent to four percent.

Lender Oversight. HUD monitors lenders who make FHA loans to ensure compliance and to deter fraud. In FY 2002, HUD conducted 916 lender reviews, exceeding the goal of 900 reviews. These reviews resulted in 213 case referrals to the Office of the Inspector General (OIG), 147 Final Debarments, and 3,105 indemnification agreements. The importance of these reviews and the actions taken is in the degree of risk reduction they provide to FHA through uncovering fraudulent activity, and in the protection that FHA insured borrowers receive by not being taken advantage of by unscrupulous entities. FHA will be assisted in future lender reviews through a system called "Neighborhood Watch Early Warning System" that will monitor the rate of defaults and claims on mortgages by lenders down to branch office levels.

Departmental Enforcement Center. DEC addresses serious problems of distressed multifamily properties that have failed physical and financial inspections and require corrective action by owners, lenders and management agents. DEC also enforces administrative and regulatory business agreements through the debarment or suspension of individuals in noncompliance in single and multiple family properties. DEC is also charged with imposing monetary penalties in cases of serious non-compliance.

DEC was established within HUD to work in a collaborative fashion with all Program Offices in implementing necessary enforcement actions. The DEC aggressively pursues enforcement actions against owners, landlords, lenders, management agents, recipients, grantees and other participants who are in non-compliance or in violation of statutes, regulations and/or other program requirements relating to programs administered by HUD. DEC refers criminal cases to the Office of the Inspector General and civil cases to the Department of Justice. These actions bring resolution to the most difficult and significant non-compliance issues among recipients of HUD program resources and ensure compliance with legal requirements under HUD agreements to preserve decent, safe and sanitary housing for low- and moderate-income households.

This year the DEC received 15,883 referrals (393 physical referrals, 8,199 financial referrals, and 7,291 Annual Financial Statement (AFS) non-filer/late filers) more than four times the number of referrals received from Multifamily Housing via the REAC system in the prior three years. The DEC closed 7629 referrals, nearly 41 percent of all referrals received since FY 1999. On those projects received from REAC with a score below 30 points, 1st inspection scores averaged 23 points. After DEC involvement, 2nd inspection scores improved to an average of 64 points, an improvement exceeding 200 percent.

In FY 2002, the DEC continued special emphasis on non-filers and late-filers of annual financial statements. Civil Money Penalties (CMPs) resulting from settlements and judgments against non-filers and late-filers amounted to $718,350 from 160 Settlement Agreements. In the last 2 years the DEC has imposed $1.3 million in CMPs. Additionally, the DEC has increased referrals to the Department of Justice and increased interaction with the Inspector General's office. The DEC enforcement actions this year have resulted in approximately 5,000 housing units being restored to decent, safe, and sanitary condition, bringing the total of housing units restored since FY 1999 to 230,000.

In FY 2002, judgments, assessments of penalties, settlements of lawsuits or administrative actions, or other agreements that obligated HUD participants to make payments to HUD, or returned funds to HUD insured/subsidized projects resulted in financial recoveries of $36,689,179.

The Mortgagee Review Board (MRB or Board) is a statutorily created entity within the Department responsible for the sanctioning of FHA approved lenders. The primary source of MRB referrals comes from Single Family's Quality Assurance Division. As the volume of Quality Assurance reviews has increased in recent years, so has the number of Board referrals. In FY 2002, the MRB met four times and considered 14 lender cases. It voted to enter into 12 settlement agreements, to withdraw the lender's FHA approval in 2 cases, and to impose civil money penalties in 12 cases. In addition, lenders agreed to indemnify HUD for any losses incurred in 97 loans. MRB staff also worked with the Office of Multifamily Housing on a project to force multifamily mortgagees to comply with the requirement to inspect projects. Notices of Violation were issued to the first group of offenders this year.

The Compliance Division processed 536 Administrative sanctions (including debarments, suspensions, and proposed debarments) that resulted in 760 actions taken in FY 2002 for a total of 3,022 actions since FY 1999.

The DEC *exceeded* all FY 2002 management goals. It reduced the number of multifamily cases in the DEC as of the end of FY 2001 by 81 percent, issued sanction notices for suspension and/or proposed debarments to 85 percent of participants referred this year and closed 88 percent of the Mortgagee Review Board cases that had reached the dispatch of the 30-day letter stage as of October 1, 2001.

Fannie Mae/Freddie Mac Risk Capitalization. The Office of Federal Housing Enterprise Oversight (OFHEO), financial safety and soundness regulator for Fannie Mae and Freddie Mac, released test results December 30, 2002 stating that Fannie Mae and

Freddie Mac met both their statutory risk-based and minimum capital standards as of September 30, 2002. This is the first official application of both standards. Fannie Mae and Freddie Mac are Congressionally chartered, Government Sponsored Enterprises (GSEs) that provide a ready supply of mortgage funds for housing by linking capital markets and mortgage lenders. They guarantee securities backed by pools of mortgages and invest in mortgage assets.

OFHEO's risk-based capital standard relies on a state-of-the-art stress test that includes broad swings in interest rates and changes in house prices that can create risks and losses for the GSEs. The GSEs must balance their portfolios and hold enough capital to protect against these inherent risks. OFHEO found Fannie Mae's total capital level of $27.3 billion exceeded the risk-based capital requirement of $21.3 billion by almost $6 billion. Freddie Mac's $23.1 billion in total capital was over $18 billion more than its required $4.9 billion. Both GSEs continued to exceed their required minimum capital levels, another statutory component of capital adequacy. These tests complement OFHEO's comprehensive risk-based examination program and internal research and analysis program to ensure the continued financial safety and soundness of the Enterprises. OFHEO will announce results for the GSEs' next quarterly capital classification in late March. More information on OFHEO's examination standards or capital requirements can be found at *www.ofheo.gov*

Grantee Oversight. Communities develop five-year Consolidated Plans to guide their use of CDBG, HOME, Emergency Shelter, and HOPWA grants. Grantees have a wide array of eligible activities from which to choose, so the quality of planning for self-defined objectives is critical. A goal of reviewing 956 Consolidated Plans for measurable performance goals for housing and community activities was established at the beginning of FY 2002. The Department reviewed over 1000 plans by the end of the fiscal year . In addition, the Department monitored 464 grantees on-site, monitored 178 non-homeless grantees, and monitored 533 Continuum of Care projects, all three of which exceeded the FY 2002 goals.

Risks, Trends and Factors Affecting this Goal

Ensuring Public Trust in HUD requires that HUD both ensure operational consistency in reforms it has already instituted, and complete effective corrective actions on remaining material management control weaknesses and other concerns discussed in the "President's Management Agenda" and "Financial Management Accountability" sections of this report.

To better ensure operational consistency, it is essential that HUD complete the comprehensive workforce analysis and execute its Strategic Five-Year Human Capital Management Plan to assure mission critical functions are adequately staffed and performed. Succession planning is critical, in light of the fact that HUD has an aging workforce where over 40 percent of the employees are eligible to retire. It is also essential that efforts continue to improve upon the use of risk-based monitoring techniques in HUD programs, so as to use existing staff and program resources more efficiently and effectively. When significant performance and compliance problems are identified - be they from single family mortgage lenders, MF project owners or agents, PHAs, local governmental entities, or other participants - HUD must act appropriately to address those problems to minimize the risk and further program objectives.

To address material weaknesses in rental subsidy programs, HUD will need the cooperation of its program partners and tenant groups to push for simplification of program requirements and improved internal controls for assuring that subsidy payments go to those for whom they were intended, in the proper amounts. Statutory change may be required to simplify and standardize subsidy program requirements, and to provide increased authority to conduct effective upfront income data matching, thereby reducing administrative burdens and costs and the risk of payment errors.

In the area of information systems, the Office of the Chief Information Officer has instituted many process improvements to better support the planning, development and maintenance of HUD's Information Technology (IT) investments. However, it is essential that HUD program managers assume a stronger systems ownership role in assuring that systems requirements and controls over data quality are properly established to better support their program delivery and mission.

In response to widespread concerns that faulty appraisals are facilitating predatory lending and financial risk to the FHA funds, FHA is developing a system to monitor individual appraisers and the rate of early defaults and claims on mortgages. This system, termed Appraiser Watch, will rely on statistical analysis of default and claim rates to identify appraisers whose appraisals were performed on properties securing loans with early defaults and claims. FHA recognizes that appraisers do not perform the underwriting of a mortgage or make the decision to lend. However, when considering the performance of all loans for which an individual appraiser performed the appraisal, FHA has found the default and claim rates for some of these loans are far in excess of the default and claim rates for the area in which the appraiser operated. Under Appraiser Watch, appraisals performed by appraisers associated with these loans will be examined, and the associated appraisers will be considered for removal from participation in FHA single-family programs.

The Department has issued an Advance Notice of Proposed Rulemaking for Appraiser Watch and has received comments preparatory to issuing a proposed rule. Meanwhile, FHA is using the statistical analysis to identify appraisers for field reviews. Using this approach, the number of appraisers removed from the FHA Roster during FY 2002 was four times the number for FY 2001 under previous appraiser review processes. The Department intends to issue a rule establishing Appraiser Watch during FY 2004.

The President's Management Agenda

The President's Management Agenda is designed to improve the overall efficiency and effectiveness of the Federal government and to address significant management deficiencies at individual agencies. The below numbered interrelated government-wide and HUD-specific program initiatives in the President's Management Agenda are structured to correct HUD's remaining material management control weaknesses and improve the Department's critically important housing and community development program delivery and results.

HUD fully embraces this sound management agenda and is on-target with the necessary plans and actions to meet the challenging goals set by the President. To sustain the focus needed to achieve these goals, they have been engrained in HUD's strategic and annual performance and operating plans. Details on the goals, progress and remaining plans under each of the President's Management Agenda initiatives are as follows:

1. Strategic Management of Human Capital

HUD's staff, or "human capital" is its most important asset in the delivery and oversight of the Department's mission. However, HUD's need to deploy effective strategic and systematic human capital management practices is particularly acute. Over the past decade, HUD experienced a thirty percent reduction in staffing during a period of program and budget growth. This left HUD with staff shortages and skills gaps in many mission critical areas. Furthermore, HUD's remaining workforce is among the most mature in the federal government, with about half of HUD staff eligible for retirement over the next five years. The effectiveness of HUD's future program delivery depends on effective succession planning today. Lastly, HUD has lacked a systemic means to identify and justify staff resource needs and to properly allocate staff resources provided. Actions have been taken or planned to address these and other human capital management challenges.

In FY 2002, HUD completed implementation of the new Resource Estimation and Allocation Process (REAP) and Total Estimation and Allocation Mechanism (TEAM) to provide a systemic basis for estimating and justifying its staffing resource needs and allocating staffing resources available. Baseline outputs of the REAP were used to assist in making decisions on redeploying HUD's existing staff resources to address priority program staffing needs, and as inputs to HUD's 2002-2003 staffing plans and 2004 budget justification. HUD hiring actions in FY 2002 positioned the Department to fully utilize its staffing authorization in FY 2003.

To address the human capital issues facing the Department, the Human Capital Management Executive Steering Committee was established in June 2002. The Committee developed a draft Strategic Human Capital Management Plan in December 2002, which is projected for completion in the second quarter of FY 2003. This strategic plan includes three goals: first, to become a mission-focused agency, work will be aligned to promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination; second, to maintain a high quality workforce, HUD will recruit, develop, and manage a highly qualified and diverse workforce; and, third, to implement effective succession planning over the next five years to ensure employees retiring are succeeded by qualified staff.

Careful planning is underway to conduct a comprehensive workforce analysis and develop a Departmental Workforce Plan. This comprehensive plan will identify the kind of work to be done now and in the future; knowledge, skills and abilities of staff to do this work; capabilities and development needs of staff and appropriate deployment across organizations; and strategies for identifying and filling gaps.

Implementation of HUD's Human Capital Management Plan will support other HUD management improvement initiatives, such as integrating budget and performance and providing the skills needed to better manage information technology and reduce risks in the rental housing assistance and single family housing programs.

2. Competitive Sourcing

The reduction in staffing over the past decade increased HUD's dependency on outsourced services to deliver and oversee its programs. HUD's previous outsourcing was done without the benefit of competitive public-private cost comparison studies because staffing was reduced through attrition, buy-outs or redeployments. Competition promotes innovation, efficiency and greater effectiveness. Under the Federal Activities Inventory Reform (FAIR) Act of 1998, HUD is required to conduct and publish an annual inventory of commercial functions performed by its staff, for use in consideration of competitive sourcing studies. The President's Management Agenda calls for 15 percent of the full time equivalent (FTE) staffing level in each agency's baseline year 2000 FAIR Act commercial activities inventory to be subjected to competitive public-private cost comparison studies or direct contract conversion to realize cost efficiencies and improved service.

HUD's Competitive Sourcing Plan identifies some initial opportunities for possible outsourcing or in-sourcing studies or direct conversions to meet the President's goal. During the period January through May 2003, HUD will conduct a Feasibility Analysis and Planning Phase to determine whether or not to proceed, and how to proceed, with sourcing studies or conversions in the areas identified. Other possible study opportunities will be assessed in conjunction with performing HUD's 2003 FAIR Act inventory update. Any studies or direct conversions pursued will be in accordance with revised guidelines under OMB Circular A-76, Performance of Commercial Activities.

In order to meet the President's 15 percent goal, HUD needs to study or directly convert activities related to 870 FTE staff. However, given HUD's significant downsizing and extensive outsourcing of administrative and program functions over the past decade, opportunities for further competitive sourcing are limited and need to be carefully considered in the context of program risk exposure. In recognition of HUD's situation, the Office of Management and Budget has approved HUD to also consider competitive "in-sourcing" studies to see if bringing outsourced functions back in-house proves to be more cost-efficient and effective.

3. Improved Financial Performance

HUD's biggest financial management challenge is to replace the Federal Housing Administration's (FHA) commercial accounting system with a system that is fully compliant with Federal financial management systems requirements and applicable Federal accounting standards. To meet this challenge, the FHA Subsidiary Ledger Project was established and funded as a multi-year phased development effort that will utilize a commercial-off-the-shelf (COTS) software package to establish a new fully compliant FHA general ledger system with integration to 19 program feeder systems over the period 2002 through 2006. FHA successfully completed the general ledger implementation phase of the project on-schedule in October 2002, and is on-schedule with remaining phases of the project.

HUD has 48 financial management systems of which 17 fail to fully conform to federal financial management systems requirements. The FHA Subsidiary Ledger Project is addressing 14 of the 17 non-conforming systems. Remediation plans are also in place and progressing on the other three non-conforming systems.

Regarding HUD's core financial management system, the focus of the past two years has been to enhance and stabilize the existing financial management systems operating environment to better support the Department and produce auditable financial statements in a timely manner. Action on the prior administration's Financial Management Systems Vision of 2000 was deferred. Now that the existing financial management systems operating environment has been enhanced and stabilized, HUD will proceed to study the feasibility, cost and risk of various options for the next generation core financial management system for the Department.

HUD is also strengthening its administrative control of funds under this initiative. Policies and procedures on funds control were updated and revised to provide a more disciplined process that reduces the risk of Antideficiency Act violations. Actions to fully implement these new policies and procedures in FY 2003, will serve to eliminate reportable conditions from the OIG's annual financial statement audits regarding the timely obligation, expenditure and recapture of funds in HUD programs.

4. Expanded Electronic Government

Under this initiative, HUD is not only pursuing increased electronic commerce and actively participating in the President's "E-Government" (eGov) projects, but is also focused on more fundamental HUD-specific information technology (IT) management improvements.

HUD's Government Paperwork Elimination Act (GPEA) Compliance submission of October 2001 identified opportunities to unify, simplify and reduce redundancy in IT systems. HUD also conducted an eGov assessment to determine how HUD's IT projects meet the President's goals to unify, simplify and reduce redundancy in IT systems government wide. As part of HUD's eGov Strategic Plan, current, short-term and long-term eGov opportunities were identified. HUD currently has over 75 eGov efforts at various levels of sophistication and maturity, serving citizens, business partners and the HUD enterprise. These efforts have been assessed and coordinated with the 24 eGov projects included in the President's Management Agenda. HUD is participating as a Partner Agency in the following 17 projects with the greatest potential benefit to HUD:

- ***Government-to-Citizen:*** E-Loans, Federal Asset Sales, GovBenefits, USA Services.
- ***Government-to-Business:*** Online Rulemaking Management.
- ***Government-to-Government:*** Disaster Management, E-Grants, Geospatial Information One-Stop.
- ***Internal Efficiency and Effectiveness:*** E-Training, Recruitment One-Stop, Enterprise Human Resource Integration, E-Clearance, E-Payroll, E-Travel, Integrated Acquisition, Electronic Records Management.
- ***Cross-Cutting Initiatives:*** E-Authentication.

HUD also continues to improve its IT capital planning process, convert to performance-based IT service contracts, strengthen IT project management to better assure results, extend the data quality improvement program, and improve systems security on all platforms and applications.

5. Budget and Performance Integration

The Department consulted with the Congress and other stakeholders and will reissue its Strategic Plan in FY 2003 to streamline and clarify goals to better focus on the core mission of the Department. Continued integration of performance and the budget was pursued through the development of HUD's FY 2004 budget justification. HUD developed its fiscal year 2004 budget with a focus on collecting and using quality performance information, utilizing full cost accounting principles and emphasizing program evaluations and research to inform decision makers. HUD has presented its budget justifications in both the traditional format and in a new performance-based format. Staffing and other resources are aligned with strategic goals, objectives and accomplishments.

HUD views the integration of performance and budgeting as an iterative process that will reflect short-, intermediate and long-term results. Over time, the effort will require improved information and data in order to better mesh performance and budgeting efforts. Additional data will depend in part on systems and data development and pursuing needed program evaluations. The Department is working hard to continue to improve and measure program performance.

6. HUD Management and Performance

The objective of this initiative is to strengthen HUD's internal controls to eliminate all material weakness issues and remove all HUD programs from the GAO's high-risk list by addressing the following areas.

Improve the Performance of Housing Intermediaries

HUD's considerable efforts to improve the physical conditions at HUD-supported public and assisted housing projects are meeting with success. HUD and its housing partners have already achieved the original housing quality improvement goals through fiscal year 2005, and are raising the bar with new goals.

HUD's oversight capability, and the related performance of the third party intermediaries that administer HUD's public and assisted housing programs on HUD's behalf, are expected to further improve upon the revision and full implementation of the Public Housing Assessment System (PHAS) and Section Eight Management Assessment Program (SEMAP) rules, and the full benefit of the Performance-Based Contract Administrators assisting in the oversight of the Office of Housing's project-based assistance programs. Further information on the improved oversight and performance of HUD's housing intermediaries is provided under other sections of this report addressing Strategic Goal 1: Increase the Availability of Decent, Safe and Affordable Housing, and Strategic Goal 5: Ensure Public Trust in HUD.

Reduce Overpaid Rent Subsidies

HUD's rental housing assistance programs—including Public Housing, Section 8 Tenant-Based Assistance and Multifamily Housing Project-Based Assistance—have been collectively designated as a "high risk" area by the U.S. General Accounting Office, with material management control weaknesses reported by HUD's Office of Inspector General. These programs are HUD's largest appropriated program activity with $23 billion in expenditures in FY 2002. The programs are administered by third party intermediaries at public housing agencies, private housing owners or contracted housing management agents. HUD estimates that there are over $2 billion in net annual assistance overpayments attributed to program administrator processing errors or tenant underreporting of income.

Footnote 17 of the Department's Consolidated Fiscal Year 2002 Financial Statements, which are included in the Financial Performance section of this report, provides specific information on HUD efforts to establish a baseline rental housing assistance payment error estimate on year 2000 program activity.

Under the President's Management Agenda, HUD's goal is to reduce rental assistance program errors and resulting erroneous payments 50 percent by 2005.

A multi-organizational Rental Housing Integrity Improvement Project (RHIIP) Advisory Group developed a comprehensive strategy for addressing the root causes of all known sources of assistance payment error. The RHIIP strategy includes actions that seek to: (1) simplify overly complex program requirements that contribute to error; (2) enhance the existing capacity to effectively administer the programs; and (3) establish the controls, systems, incentives and sanctions necessary to improve program performance and accountability on the part of the Department, HUD's program intermediaries, and the tenant beneficiaries.

In FY 2002, HUD focused on updating and strengthening program guidance, initiating staff training, and re-instituting rental assistance program monitoring activity by (1) launching the Office of Public Housing Rental Integrity Monitoring (RIM) initiative to perform and track the results of income and rent reviews and (2) strengthening the efforts of the Office of Housing's outsourced performance-based contract administrator services. HUD also developed a legislative proposal for increased computer matching authority to provide for upfront verification of tenant income sources and amounts to eliminate income-related errors. Upfront income verification with automated state or federal data bases, such as the National Directory of New Hires database maintained for the

U.S. Department of Health and Human Services, has the greatest potential for reducing rental assistance payment errors.

Improve FHA Single Family Risk Management

FHA manages its single-family housing mortgage insurance program area in a manner that balances program risks with the furtherance of program goals, while maintaining the financial soundness of the Mortgage Mutual Insurance (MMI) Fund that supports these programs. As confirmed by recent GAO audit work, the MMI Fund is financially sound and the single- family housing programs are contributing to record homeownership rates, with a focus on homebuyers that are underserved by the conventional market. Nevertheless, overall program performance and the condition of the MMI Fund could be further improved if all lenders, appraisers, property managers and other participants in FHA's program delivery structure fully adhered to FHA program requirements designed to reduce program risks and further program goals.

In FY 2002, FHA pursued a number of actions to improve the content, oversight and enforcement of its program requirements, including consideration of alternative business processes. Several new risk management rules were proposed or completed to protect both the FHA fund and homebuyers. One rule will deter a practice called "property flipping" to reduce the risk of loss to the FHA fund and protect homebuyers from a predatory lending practice. Other rules will further protect homebuyers from predatory lending practices and increase the accountability and performance of lenders, underwriters and appraisers. FHA is also developing an "Appraiser Watch" process where housing appraisers can be automatically targeted for monitoring or other appropriate action when the loans they are associated with hit certain unacceptable performance thresholds.

FHA also continued strong action against non-performing participants—in the from of suspensions, debarments, withdrawals, monetary penalties, settlements, and terminations—through the efforts of HUD field staff, the Mortgage Review Board and the Credit Watch Program.

In addition, FHA continued to enhance its staff capacity for administering this program area, and continued to achieve favorable property disposition results through its performance-based management and marketing (M&M) contracts. M&M contracts have resulted in a steady decline in FHA's property inventory, from 36,000 homes at the end of FY 2000 to 30,113 at the end of FY 2002. The loss per claim has been cut from 37 percent to 29.5 percent.

Reduce Meaningless Compliance Burdens

HUD is closely working with local program stakeholders to streamline the Consolidated Plan requirement to make it more results-oriented and useful to communities in assessing their own progress toward addressing the problems of low-income areas. A stakeholders group was convened to discuss alternative planning requirements and suggestions for improving the existing process. Working groups were formed to work with HUD in the design of pilot projects to be tested and evaluated. Working Groups indicated the need for the development of guidance to clarify the current Consolidated Plan process, and it was issued in early November 2002. Pilot efforts are being designed for the completion of pilot testing and evaluation over the 2003-2004 period.

7. Faith-Based and Community Initiatives

The President formed the HUD Center for Faith-Based and Community Initiatives (CFBCI)—along with centers in four other cabinet departments—to implement his vision of government and faith and community-based organizations working together to accomplish the shared objective of more effectively helping the needy. The Center's goal is simply stated: more organizations providing more services to help more people.

In pursuit of its goal, the Center conducted a review of HUD's regulations and identified eighty-two instances of unwarranted barriers to the participation of faith-based organizations (FBOs) in HUD programs. The Center spearheaded the regulatory reform process and new regulations were published in January 2003.

An in-depth examination of all HUD competitive grant award processes was also conducted to identify possible barriers to faith-based participation, as well as incentives to increase participation. The Center proposed reforms and worked on the implementation of the reforms with HUD's grant program offices.

The Center has also taken steps to create a welcoming environment for FBOs through numerous outreach efforts to make it clear that the Department welcomes faith-based partnerships. Such efforts have come in the form of brochures, Internet-based materials, and brokering of relationships between FBOs, HUD Program Offices and HUD's third party program administrators.

Financial Management Accountability

This section covers:

Federal Managers' Financial Integrity Act Reporting

Secretary's Audit Resolution Report to Congress

Delinquent Debt Collection

Federal Managers' Financial Integrity Act Reporting

FMFIA Assurance Statement

I am able to certify with reasonable assurance that, except for the material weakness and non-conformances specifically identified in this section of the FY 2002 Performance and Accountability Report, the Department is in compliance with the provisions of Section 2 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. With regard to Section 4, I am unable to certify that HUD is in full compliance with FMFIA. While most of HUD's financial management systems are substantially compliant, the Department continues its efforts to ensure full compliance with capturing standard general ledger information at the transaction level.

HUD continues to be fully committed to bringing its internal controls and systems into full compliance with the requirements of FMFIA.

Mel Martinez, Secretary
Department of Housing and Urban Development

Material Weaknesses and Non-Conformances

Material weaknesses are management control deficiencies that preclude reasonable assurance that: obligations and costs are in accordance with applicable laws, assets are safeguarded, and accountability is maintained. Section 2 of FMFIA requires the annual reporting of material weaknesses and plans to correct any such weaknesses. Section 4 of FMFIA requires the reporting of any material non-conformance with financial management systems requirements prescribed in OMB Circular A-127. In addition, HUD reports on Management Concerns, which are areas that warrant actions to strengthen management controls, although the level of risk is assessed as within an acceptable materiality threshold.

HUD continues to make significant progress in addressing the material weaknesses, non-conformances and concerns reported in prior FMFIA assurance statements. Progress is independently verified by the Office of the Inspector General (OIG) in annual audits of the Department's Financial Statements.

Material Weakness

At the beginning of FY 2002, the Department reported one open material weakness. While progress is being made on a comprehensive, multi-year corrective action strategy, HUD continued to report this material weakness as open at the end of FY 2002.

Material Weakness FY 2001 Carry Over Issue and FY 2002 Status

First Reported	Material Weakness	Status at End of FY 2002
1996	Controls Over Rental Subsidies[1]	Open

[1] This material weakness was presented in 1999 and prior reports as "Income Verification". In FY 2000, HUD expanded the weakness to include all issues associated with improving controls over rental subsidies, including a previously reported management concern entitled "Project-Based Subsidy Payments."[1]

Status of Remaining Material Weakness

HUD's rental housing assistance programs—including Public Housing, Section 8 Tenant-Based Assistance and Multifamily Housing Project-Based Assistance—have been collectively designated as a "high risk" area by the U.S. General Accounting Office, with material management control weaknesses reported by HUD's Office of Inspector General. Corrective actions are in process to reduce an estimated $2 billion in net annual rental assistance overpayments that are occurring as a result of inadequate management controls. Under the President's Management Agenda, a goal has been established to reduce processing errors and resulting erroneous payments 50 percent by 2005. Specific information on completed and planned corrective actions is provided in the President's Management Agenda section of this report.

Financial Management Systems Compliance

The following material systems non-conformances are carried over from the prior year:

Material Non-Conformances FY 2001 Carry Over Issues and FY 2002 Status

First Reported	Material Non-Conformances	Status at End of FY 2002
1989	Departmental Financial Management Systems	Open
1991	FHA Accounting and Financial Management Systems	Open

In recent years, HUD's focus has been to stabilize and enhance the Department's existing core financial management systems environment to better support the Department and produce auditable financial statements in a timely manner. Now that the operating environment has been enhanced and stabilized, HUD is proceeding with plans to study the feasibility, cost and risks of various options for the next generation core financial management system for the Department. That study will begin in FY 2003, as part of a HUD Integrated Financial Management Improvement Project (HIFMIP) to establish a better integrated and more efficient core financial management system.

HUD continues to address financial management systems non-compliance with OMB Circular A-127 at the individual systems level. A listing of non-compliant financial management systems is shown in Appendix A-2. As of fiscal year end 2002, HUD is reporting 17 non-compliant systems, the same number as fiscal year end 2001. Fourteen of those non-compliant systems are in FHA. Prior year audits have discussed weaknesses with FHA's feeder systems, the need for manual processes and procedures to convert system data to be compliant with the U.S. Standard General Ledger, and the inability of FHA to update the Departmental general ledger on a timely basis.

As discussed in the President's Management Agenda section of this report, FHA is replacing its commercial accounting system to become fully compliant with the requirements of the Federal Financial Management Improvement Act and OMB Circular A-127. FHA's existing financial management system deficiencies preclude the Department's overall compliance with the Federal Financial Management Improvement Act provisions for compliance with: Federal Financial Management Systems Requirements; applicable accounting standards; and the U.S. Standard General Ledger (SGL) at the transaction level.

HUD has developed corrective action/remediation plans to address the identified deficiencies for its non-compliant systems. Since 1998, HUD has obtained independent reviews of its financial management systems to verify compliance with federal financial systems requirements, identify system and procedural weaknesses, and develop the corrective action steps to address identified weaknesses. Actions to address these systems non-conformance issues are being tracked under the President's Management Agenda.

Management Concerns

At the beginning of FY 2002, HUD had 12 open management concerns. In FY 2002, progress was made on needed improvements in each of these areas. However, all concerns will continue to be reported pending completion of further planned improvements in FY 2003.

Management Concerns
FY 2001 Carry Over Issues
and FY 2002 Status

Carry Over Issues	Management Concern	Status at End of FY 2002
MC1	Performance Measures *	Open
MC3	PHA Monitoring	Open
MC4	HUD's Computing Environment*	Open
MC5	Personnel Security Over Systems*	Open
MC7	Obligation Balances*	Open
MC8	FHA Loss Prevention*	Open
MC10	SF Property Inventory*	Open
MC12	FHA Systems Controls*	Open
MC13	Resource Management	Open
MC14	Management Controls	Open
MC16	Single Audit Act Coverage	Open
MC17	Administrative Funds Control*	Open

**Reportable Conditions in OIG's FY2002 HUD Financial Audit*

Status of Remaining Management Concerns

Performance Measures. HUD continues to improve the completeness, accuracy and reliability of pertinent performance data in support of the Department's strategic goals and objectives. An OIG review of the reliability of data presented in HUD's FY 1999 Annual Performance Report found a number of performance indicators with inadequate measures or inadequate controls over data quality. While overall performance data has improved considerably over the last couple of years, concerns with the availability and reliability of some performance measure data remain. There have been major data clean-ups and improvements in HUD's data systems, resulting in greater data accuracy and timeliness. HUD's current data quality initiative includes assessment of data elements in mission-critical systems, correcting data problems, and certifying the systems. Information integrity is also being improved with a series of computer security projects and by implementing HUD's information quality policy for disseminated information. The nature of HUD's performance data is now clearly reported in HUD's Annual Performance Plans and Performance and Accountability Reports, along with plans for further improvements.

PHA Monitoring. During FY 2002, HUD continued its efforts to improve the monitoring of Public Housing Authorities (PHAs). The Office of Public and Indian Housing (PIH) risk-based targeting model has been finalized and is currently in use. Satellite monitoring training was provided to field office staff in June 2002, and the Compliance and Monitoring Training Program was continued. In addition, the Department plans to more fully develop the Public Housing Assessment System (PHAS) so that it will assess multiple dimensions of public housing management and conditions, and identify PHAs that are troubled in order to improve their operations. HUD will also fully implement and improve the Section 8 Management Assessment Program (SEMAP), used to objectively measure PHA performance related to their Housing Choice Voucher programs, and identify troubled agencies for remedial measures.

HUD's Computing Environment. The Department has significantly improved the controls over its computing environment; however, more needs to be done. HUD has to continue to improve the controls over the emergency software fixes; reduce the risk of unauthorized changes for applications; and complete the Configuration Management (CM) implementation for any remaining client/server financial applications. Actions taken during FY 2002 include the development of procedures to control mainframe applications and development of Department-wide policies and procedures for implementing and managing CM. Funds have been allocated to implement CM for those mission critical client/server financial applications without CM. Actions in process include the development of detailed procedures to verify the CM implementation for mission critical client/server applications and the implementation of an on-line user registration system that provides immediate notice to the Office of Administration for each access request for a mission critical system.

Personnel Security Over Systems. In the past, the Department's personnel security practices have been inadequate. Improvements were needed to ensure that only authorized individuals with appropriate clearances were granted access to HUD's critical systems. During FY 2002, all identified system users who were granted access to critical and sensitive systems without the appropriate background investigations were required to either submit the background investigation forms or have their access reduced to query. Background investigation policies and procedures were implemented and are being enforced. Execution of a planned quarterly reconciliation of access security authorizations in FY 2003 should close this concern.

Obligation Balances. While HUD has taken a number of actions to improve the monitoring of obligated balances, further improvements are needed and are planned to ensure that requirements for timely use of outstanding HUD obligations of funds are enforced. The Office of Public and Indian Housing demonstrated improvement in enforcing compliance with the United States Housing Act of 1937, as amended by the Quality Housing and Work Responsibility Act of 1998, for the timely expenditure and obligation by housing authorities of public housing capital funds. The Office of Multifamily Housing implemented new recapture procedures to ensure that all funds on contracts with expired terms are recaptured in a timely manner. In addition, an annual review of the entire portfolio was instituted to ensure that all contracts in the accounting system represent valid obligations. An Automated Renewals and Amendments Management System recapture module is in the final stages of development. This new module will improve documentation of actions relative to recaptures and provide for an interface with accounting systems to ensure that all amounts determined to be excess are de-obligated.

FHA Loss Prevention. During FY 2002, FHA continued to make progress in its effort to reduce the frequency and severity of losses on Single Family insured mortgages. FHA continued a steady increase in the number of loss mitigation efforts by paying 68,755 home retention claims, a 36.46 percent increase over FY 2001 levels. FY 2002 also marked the first year that the number of families assisted through loss mitigation exceeded the number of foreclosures. Aggressive training, combined with increased monitoring were key factors in the increase in loss mitigation activities. FHA also implemented a process that removes non-performing non-profits and 203(k) consultants from the roster of approved program participants. Additional regulations are being processed that will further strengthen the oversight of program participants. These regulations will establish an Appraiser Watch system to measure the performance of individual appraisers, establish procedures for ensuring that all approved appraisers meet the requirements of the Appraisal Qualifications Board, require lenders to exercise more oversight of appraisers they employ, and track the performance of lenders who underwrite loans. The Department is also promulgating a final rule to prohibit property flipping on FHA-insured mortgages. Several rules are also under development to increase the required qualifications of lenders who participate in the FHA program.

Single Family Property Inventory. FHA continues to improve its management acquisition services associated with the disposition of its Single Family properties. The entire approach to monitoring and accounting for properties in the single family Real Estate Owned (REO) inventory was revamped by implementing the REO property Management and Marketing (M&M) contracting model nationwide in FY 1999. Since then, FHA has seen an increased rate of return and more rapid sales of REO properties.

FHA is currently involved in a number of initiatives to improve controls over the disposition of single family assets. A new Accelerated Claim Disposition Demonstration program that experiments with new ways to handle assets—acquiring mortgage notes rather than properties—is currently underway.

FHA Systems Control. FHA relies on 20 different systems to process large volumes of data that include accounting data for program functions as well as cash receipts and disbursement transactions. Since these systems play such a vital role in FHA's accomplishment of its mission, FHA continues to make security concerns a priority to ensure that systems are properly controlled to prevent unauthorized access. FHA has taken action to ensure that that these systems are maintained in such a manner that data integrity and system continuity are not compromised.

A number of initiatives were undertaken to provide a more secure systems environment. These efforts included continued enhancement of segregation of duties for key data processing functions, implementing stronger access controls, and ensuring that security risk assessments are performed for key applications. As FHA moves forward in its efforts to develop an integrated financial management system, addressing systems security issues will continue to be a high priority.

Resource Management. In the past, OMB, GAO, Congress, and the OIG had criticized HUD for its inability to estimate staffing needs and support its staffing requests. In FY 2002, HUD completed implementation of a new staffing resource estimation and allocation system. Building on this foundation, HUD will prepare a comprehensive, strategic workforce plan. This comprehensive plan will identify the kind of work to be done now and in the future; knowledge, skills and abilities of staff to do this work; capabilities and development needs of staff and appropriate deployment across organizations; and strategies for identifying and filling gaps. Further information on HUD's efforts to improve its strategic management of its human capital is provided in the President's Management Agenda section of this report.

Management Control Program. The Department continues to strengthen the Management Control Program within HUD and to emphasize to all managers the importance of ongoing assessments of program controls. The Department has embraced high standards of ethics, management and accountability that extend not only to HUD's programs and business partners, but to each employee as well. Further ethics training and guidelines were issued to HUD staff in FY 2002.

Recognizing the importance of maintaining consistency and efficiency for HUD's program monitoring efforts, the Department again delivered the Compliance and Monitoring Training Program to HUD staff with monitoring responsibilities. This program was developed in FY 2000 to ensure that employees with program management or compliance responsibilities were prepared to perform in accordance with the Department's overall monitoring policies and procedures, as well as with those of their respective organizations. Two training sessions were held in FY 2002, and a total of approximately 214 employees were trained.
In addition, a new Compliance and Monitoring Course designed specifically for managers and supervisors was introduced in FY 2002. Approximately 90 managers and supervisors were trained, bringing the total number of employees trained under the Compliance and Monitoring Program to over 1534.

FY 2002 marked the third cycle of reviews conducted under the Quality Management Review (QMR) Program. These reviews are internal assessments of program operations and deficiencies, as well as efficiencies. They provide for early-warning alerts on emerging management issues or problems, and the opportunity to provide immediate technical assistance and training and share exemplary practices. Eleven QMRs were conducted in FY 2002, with additional reviews planned for FY 2003. The QMR process has been used to review and monitor the execution of internal controls in the HUD field offices. This has been an excellent tool for identifying and addressing emerging problems. In addition, HUD will revise its Management Control Handbook to further strengthen HUD's Management Control Program.

Single Audit Act Coverage. Several actions to improve oversight of program participant compliance with the Single Audit Act requirements have been completed or are underway. GAO surveyed HUD's use of Single Audits and reported that improvements were needed in HUD's resolution and use of single audit reports. The need for improved control over this activity was most apparent in the Offices of Community Planning and Development (CPD) and Public and Indian Housing (PIH).

To help ensure compliance with audit responsibilities, CPD issued audit follow-up guidance to its field offices in March 2002, and PIH has drafted similar guidance and is providing for an automated tracking of the resolution of single audit report findings. In addition, Departmental guidance for all HUD program areas whose awards are subject to the Single Audit Act has been drafted. The Office of the Chief Financial Officer also assesses compliance with the Single Audit Act requirements as part of its QMR participation. In 2003, HUD plans to work with the Federal Audit Clearinghouse to obtain reports and data queries to strengthen HUD's management and oversight of single audit activity.

Administrative Funds Control. The Department has made significant improvements in the area of funds control. In its FY 2001 financial statement audit, the OIG reported weaknesses in the FHA's administrative funds control process. To address the FHA's weaknesses and strengthen funds control policies and procedures throughout HUD, a two-phase process was adopted.

Phase I consisted of FHA actions to enhance its interim Funds Control Database system and a corresponding Departmental effort to strengthen HUD's general policies and procedures for the administrative control of funds. The Chief Financial Officer (CFO) updated HUD's Administrative Control of Funds Handbook for implementation in FY 2003. Appropriations law training was also provided to HUD staff with key roles in the funds control process.

Phase II incorporates the longer-term systems development effort under the FHA Subsidiary Ledger Project. Under development are new funds control features of the FHA Subsidiary Ledger System that will fully comply with positive funds control requirements that current FHA systems do not support. These efforts will ultimately provide the basis for an improved FHA funds control process and full elimination of the management concern.

Secretary's Audit Resolution Report to Congress

This information on the Department of Housing and Urban Development's audit resolution and follow-up activity covers the period October 1, 2001 through September 30, 2002. It is required by Section 106 of the Inspector General Act Amendments (P.L. 100-504) and provides information on the status of audit recommendations without management decisions and recommendations with management decisions but no final action. The report also furnishes statistics on the total number of audit reports and dollar value of disallowed costs for FY 2002, and statistics on the total number of audit reports and dollar value of recommendations that funds be put to better use.

Audit Resolution Highlights

For only the third time since the Inspector General first began reporting overdue management decisions, the Department ended FY 2002 with no reportable management decisions. This hallmark event was due to the high degree of collaboration between HUD's managers and the Inspector General's auditors, from the managers of HUD's smallest field offices to the top levels of Headquarters and OIG management. In addition, the Chief Financial Officer is working with the Inspector General to develop a new on-line system for reaching management decisions and tracking the implementation of recommendations. This system, referred to as the Audit Resolution Corrective Action Tracking System (ARCATS), is targeted for implementation in the FY 2003 timeframe.

Recommendations Without Management Decisions

The Department is required to provide a management decision (an action plan with milestones) for each audit recommendation within the six month statutory period from issuance of the related audit report issued by the Inspector General.

FY 2002 began with a total of 296 recommendations without a management decision. During the year, 649 recommendations requiring management decisions were added to our active workload and management decisions were made on a total of 666 recommendations. FY 2002 ended with 279 recommendations without management decisions. There were no recommendations beyond the statutory period of six months at the close of the year.

Summary of Recommendations Without Management Decisions October 1, 2001 – September 30, 2002

Opening Inventory	296
New Audit Recommendations Requiring Decision	649
Management Decisions Made	(666)
Audit Recommendations Awaiting Management Decisions	279
Audit Recommendations Beyond Statutory Period	0

Recommendations With Management Decision But No Final Action Taken

The Department began the year with an inventory of 942 management decisions requiring final action. During the year 666 additional management decisions were made. During FY 2002, the Department completed final action on a total of 825 recommendations. The total number of audit recommendations with management decisions but final actions not yet completed at the end of the year was 783. Of this 783 number, 64 are under active multi-year repayment plans that will remain open until the collected activities are completed.

Summary of Recommendations With Management Decisions and No Final Action October 1, 2001 – September 30, 2002

Opening Inventory	942 [1]
Management Decisions Made During FY 2002	666
Sub-Total No Final Action at End of Period	1,608
Final Action Taken	(825)
Total Audit Recommendations Requiring Final Actions	783 [2]

[1] This value was reduced by 10 to reflect a one-time change to a systems report of greater reliability.

[2] The Department has 64 recommendations under current repayment plans. These recommendations are considered open and count in the audit inventory, until final repayment is made.

Status Of Audits With Disallowed Costs

As of October 1, 2001, there were 162 audits with management decisions on which final action had not been taken, with a dollar value of disallowed costs totaling $220 million. During FY 2002, management decisions were made for 44 audits with disallowed costs totaling approximately $20.4 million. The Department had 75 audits in which final action was taken during the fiscal year, with approximately $23 million in recoveries and $46.8 million in write-offs. As of September 30, 2002, there were 131 audits with disallowed costs awaiting final action, with an associated value of approximately $170 million.

Note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, disallowed costs are not recorded until all recommendations in a report are closed. When reporting is done at the more detailed recommendation level, the $170 million of disallowed costs awaiting final action are reduced by $46.5 million (See footnote 4).

Management Report on Final Action on Audits With Disallowed Costs for the Fiscal Year Ending 9/30/02

Classification	Number of Audit Reports	Disallowed Costs
A. Audit report with management decisions on which final action had not been taken at the beginning of the period.	162	$219,886,352
B. Audit reports on which management decisions were made during the period.	44	$20,422,716
C. Total audit reports pending final action during period	206	$240,309,068
D. Audit reports on which final action was taken during the period		
1. Recoveries	59[1]	$23,040,569
(a) Collections and offsets	59	$22,971,569
(b) Property	0	$0
(c) Other	1	$ 69,000
2. Write-offs	48	$46,814,464
3. Total of 1 and 2	75[2]	$69,855,033
E. Audit reports needing final action at the end of the period (subtract D3 from C)	131[3]	$170,454,035
	(266)[4]	($123,986,857)

[1] *Audit reports are duplicated in D.1.(a) and D.1.(c), thus the total is reduced by 1.*

[2] *Audit reports will not add by 32 because of partial recoveries and write-offs which are included in both D.1 and D.2.*

[3] *Litigation, legislation, or investigation is pending for 23 audit reports with costs totaling $44,036,951.*

[4] *The figures in brackets represent data at the recommendation level as compared to the report level.*

Status of Audits With Recommendations That Funds Be Put to Better Use

At the beginning of FY2002, there were 17 audits with management decisions on which final action had not been taken with recommendations to put funds to better use (i.e., used more efficiently), with a dollar value of approximately $9.9 million. The Department had two recommendations which final action was taken during the fiscal year with a dollar value of $1.3 million, and two recommendations totaling $1.7 million that management concluded should not or could not be implemented. At the end of the year, there were nine audits with recommendations to put funds to better use awaiting final action with an associated value of approximately $8.24 million.

Management Report on Final Action on Audits With Recommendations That Funds Be Put to Better Use for the Fiscal Year Ending 9/30/02

Classification	Number of Audit Reports	Disallowed Costs
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period	17	$9,964,117
B. Audit reports on which management decisions were made during the period	3	$1,274,636
C. Total audit reports pending final action during period (Total of A and B)	20	$11,238,753
D. Audit reports on which final action was taken during the period		
1. Value of recommendations implemented (completed)	2	$1,293,672
2. Value of recommendations that management concluded should not or could not be implemented	2	$1,700,902
3. Total of 1 and 2	4	$2,994,574
E. Audit reports needing final action at the end of the period (Subtract D3 from C)	16[1]	$8,244,179
	(9)[2]	($20,316,129)

[1] *Litigation, legislation, or investigation is pending for 3 audit reports with costs totaling $4,675,692.*

[2] *The figures in brackets represent data at the recommendation level as compared to the report level.*

Delinquent Debt Collection

Fiscal Year Ending	Total Debt (In millions)	Delinquent Debt (In millions)	Delinquent Debt Collections (In millions)
2002	$12,933	$1,130	$3,237

In FY 2002, Due Process Notices were sent to 3,566 delinquent debtors advising them that their debts were past due. These notices provide the debtor with the right to establish a repayment plan or appeal the enforceability of the debt through the HUD Board of Contract appeals or an Administrative Law Judge (Federal employees). Debtors who fail to make payment arrangements or successfully appeal the enforceability of the debt are referred to Treasury where they are subjected to aggressive collection efforts, including offset of federal payments, referral to private collection agencies and administrative wage garnishment (AWG), a new collection tool that the Department implemented in FY 2002.

AWG is a collection tool authorized by the Debt Collection Improvement Act of 1996 that allows Federal Agencies to garnish up to 15 percent of the disposable pay of delinquent debtors. Unlike standard garnishments, which require a judgment and court order to implement, AWG is accomplished administratively. HUD's final rule regarding AWG was published in the Federal Register on July 18, 2002, with an effective date of August 19, 2002. HUD will rely primarily on Treasury to conduct AWG. In September 2002, HUD notified Treasury to initiate AWG for all eligible debts referred to Treasury by HUD.

During FY 2002, over 28,600 delinquent HUD debtors were eligible for the Treasury Offset Program (TOP). TOP offset collections during FY 2002 totaled $13 million. The Department also sent 2,691 debts, totaling $35.2 million to Treasury for cross servicing during the year, resulting in collections of $4.6 million.

In FY 2002, the Department continued to refer delinquent debtors to Treasury for offset on a weekly basis and to cross servicing on a monthly basis. During FY 2002, HUD's Financial Operations Center began working with Treasury on the development of a new Treasury debt collection system called "FedDebt". One of the main enhancements for the new system will be the ability to handle HUD's debts with multiple debtors. HUD is also modifying its Debt Collection and Asset Management System (F71) to incorporate the "Currently Not Collectible" (CNC) debt status. This improvement is a bookkeeping requirement mandated by OMB Circular A-129 and will allow HUD to reflect a more accurate value of the delinquent debts in its portfolio.

Analysis of Financial Condition and Results

This section covers:

- *Analysis of Financial Position*
- *Analysis of Off-Balance-Sheet Risk*

Summarized Financial Data
(Dollars in Millions)

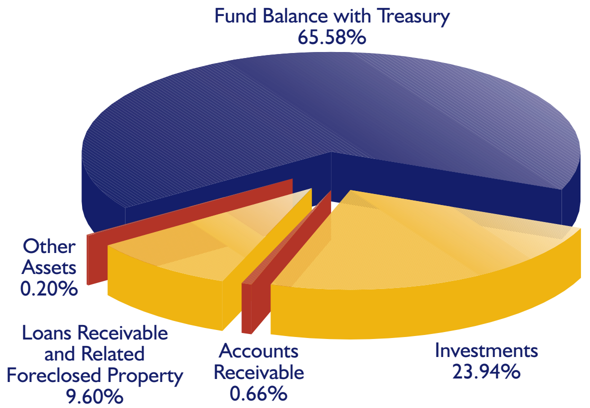
	2002	2001[1]
Total Assets at End of FY	$118,377	$109,817
Total Liabilities at End of FY	$28,834	$28,262
Net Position at End of FY	$89,543	$81,555
FHA Insurance-In-Force	$563,378	$555,463
Ginnie Mae MBS Guarantees	$568,351	$604,300
Non-FHA/Ginnie Mae Commitments	$83,702	$87,499

[1] *Change in FY 2001 Statements are due to FHA Restatements for FY 2001*

Analysis of Financial Position

Composition of HUD Assets

Composition of HUD Assets



HUD's FY 2002 total assets of $118.4 billion are predominantly comprised of its fund balance with Treasury ($77.6 billion) and investments ($28.3 billion). The fund balance represents HUD's aggregate amount funds available to make authorized expenditures and pay liabilities.

The investments of $28.3 billion consist primarily of investments by FHA's MMI/CMHI Fund and by Ginnie Mae in non-marketable market-based Treasury interest-bearing obligations (i.e., investments not sold in public markets).

Accounts Receivable of $782 million primarily consist of claims to cash from the public and state and local authorities for bond refunding, Section 8 year end settlements, sustained audit findings, FHA insurance premiums and foreclosed property proceeds. A 100 percent allowance for loss is established for all delinquent debt 90 days and over.

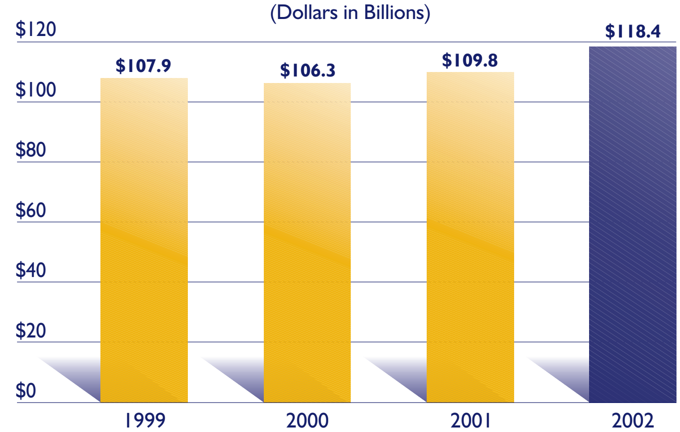
Loans Receivable and Related Foreclosed Property of $11.4 billion are generated by HUD's support of construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program, and FHA credit program receivables.

Remaining assets of $239 million include cash; Other Monetary Assets; Property, Plant, & Equipment; and Other Assets.

Trends in Assets

Total Assets increased 7.8 percent ($8.6 billion) from $109.8 billion at September 30, 2001 to $118.4 billion at September 30, 2002.

Total Assets Trend
(Dollars in Billions)

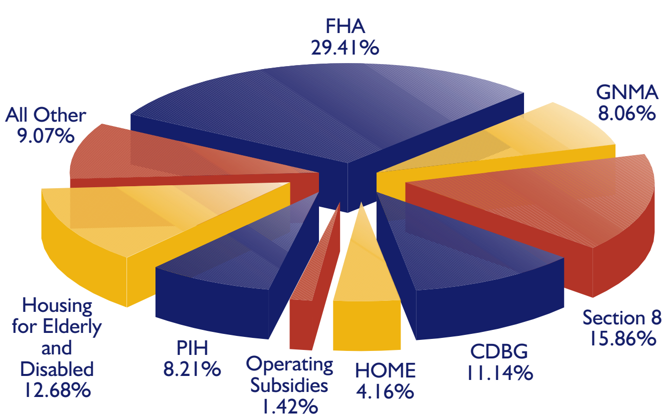


The net increase was due primarily to an increase of 5.0 percent ($3.7 billion) in fund balance with Treasury from $73.9 billion at September 30, 2001 to $77.6 billion at September 30, 2002 and an increase of 18.2 percent ($4.4 billion) in investments from $23.9 billion at September 30, 2001 to $28.3 billion at September 30,2002.

Assets by Responsibility Segments

HUD's $3.7 billion fund balance increase was due to fund balance increases in the following programs: FHA ($154 million), Ginnie Mae ($466 million), Section 8 ($338 million), CDBG ($3,050 million), HOME ($257 million), and Housing for Elderly and Disabled ($242 million). The HUD programs that did not experience a fund balance increase were PIH, whose balance decreased by $570 million, Operating Subsidies, whose balance decreased by $143 million, and All Other, whose balance decreased by $110 million. The decrease was primarily attributable to increased program expenditures that consumed both new appropriations and portions of pre-existing funding during FY 2002.

Assets by Responsibility Segments

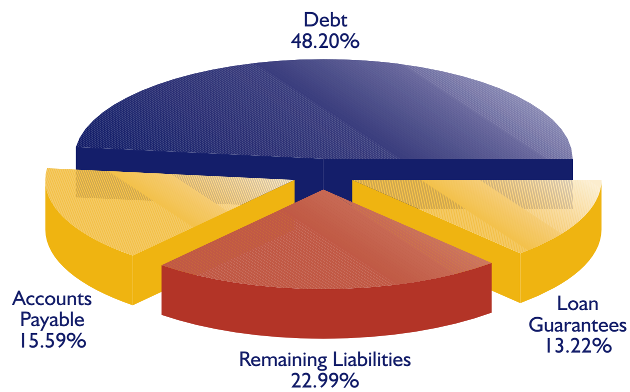


HUD's $4.4 billion investments increase was due to investments increases in the following programs: FHA ($4,008 million) and Ginnie Mae ($355 million).

Composition of HUD Liabilities

HUD's Total Liabilities of $28.8 billion consists of $13.9 billion in debt, $3.8 billion in loan guarantee liabilities, $4.5 billion in accounts payable, and $6.6 billion in other liabilities. HUD's debt in the chart above includes intra-governmental debt of $11.7 billion and debt held by the public of $2.2 billion. The intra-governmental debt consists of loans from the Treasury, Public Housing Authorities (PHA), Tribally Designated Housing Entities (TDHE), Federal Financing Bank, and debentures issued by FHA in lieu of cash disbursements to pay claims. HUD's debt held by the public consists of new housing authority bonds and FHA debentures issued to the public at par.

Composition of HUD Liabilities



Accounts Payable consist primarily of pending grants payments and cash claims for single family properties and multifamily mortgage notes assigned.

Liability for Loan Guarantees (LLG) consist of:

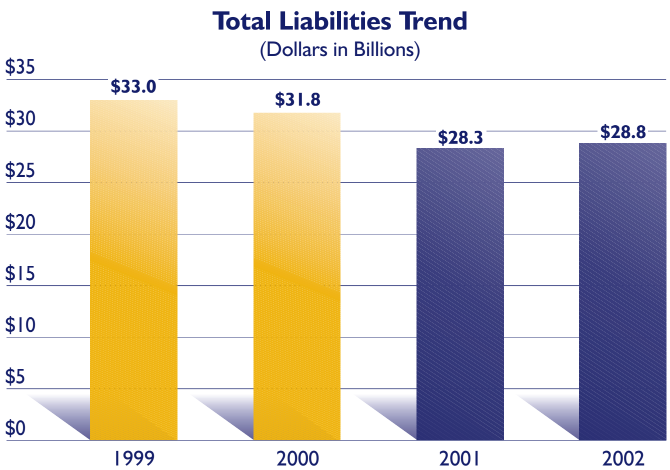
- The LLG related to Credit Reform loans (made after October 1, 1991) is comprised of the present value of anticipated cash outflows for defaults such as claim payments, premium refunds, property expense for on-hand properties, and sales expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from property sales, and principal interest on Secretary-held notes.

- The Pre-Credit Reform LLG is computed using the net realizable value method. The LLG for pre-Credit Reform single family insured mortgages includes estimates for defaults that have taken place, but where claims have not yet been filed with FHA. In addition, the LLG for pre-Credit Reform multifamily insured mortgages includes estimates for defaults which are considered probable but have not been reported to FHA.

Remaining Liabilities of $6.6 billion consist primarily of Insurance Liabilities, Loss Reserves, and Other Liabilities.

Trends in Liabilities

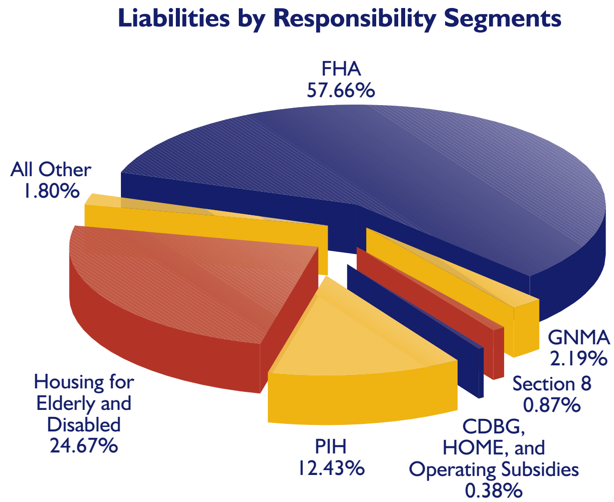
Total Liabilities increased 2.0 percent ($0.57 billion) from $28.26 billion at September 30, 2001 to $28.83 billion at September 30, 2002.



The increase was due to an increase of $1.0 billion in accounts payable and $2.2 billion in debt offset by a decrease of $2.3 billion in loan guarantee liability, and $0.3 billion in remaining liabilities.

Liabilities by Responsibility Segments

The $1.0 billion increase in HUD accounts payable was primarily due to a $1.0 billion increase in FHA intra-government accounts payable. The $2.2 billion increase in HUD debt (repayments exceed new borrowings) was primarily due to a $3.0 billion increase in FHA debt offset partially by a decrease of $0.3 billion in Public and Indian Housing and $0.5 billion in Housing for Elderly and Disabled program debt. The $2.3 billion decrease in loan guarantees was almost completely due to an overall decrease in loan guarantees for FHA programs.

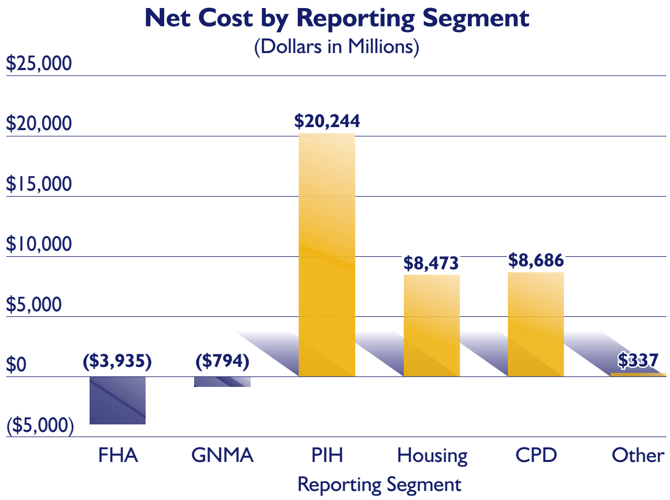


Net Position

HUD's Net Cost of Operations, Financing Sources, and Change in Unexpended Appropriations combine to determine the Net Position at the end of the year. HUD's FY 2002 Net Position of $89.5 billion represents a 10 percent ($8.0 billion) increase over FY 2001. This increase is primarily attributable to a $5.9 billion increase in cumulative results of operations (Financing Sources in excess of Net Cost of Operations) and a $2.1 billion increase in Unexpended Appropriations.

Net Cost of Operations

HUD's Net Cost of Operations consists of total costs, including direct and indirect program costs, as well as general Department costs, offset by program exchange revenues (in exchange for HUD services provided).



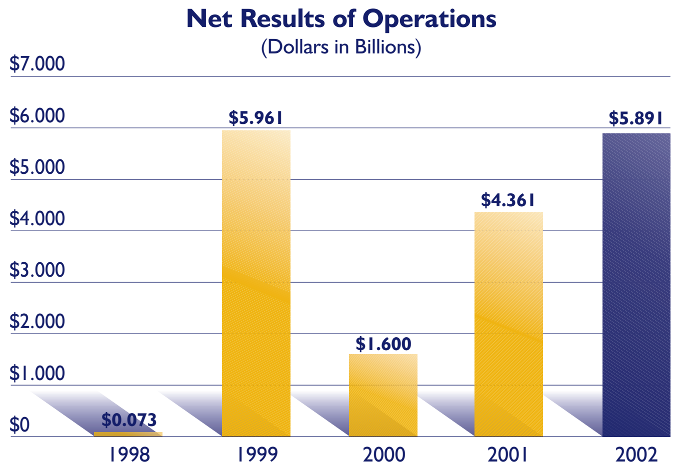
HUD's total Net Cost for FY 2002 was $33.0 billion. Of this amount, 56 percent ($18.5 billion) was spent in support of the Section 8 program (administered jointly by the Housing, Community Planning and Development (CPD), and Public and Indian Housing (PIH) programs). Total HUD Net Costs were offset by a FHA surplus of $3.9 billion, attributable to FHA's downward re-estimate of the anticipated long-term costs of its insurance programs.

Financing Sources

As shown in HUD's Statement of Changes in Net Position, HUD's financing sources (other than exchange revenues contributing to Net Cost) for FY 2002 totaled $38.9 billion. This amount is comprised primarily of $40.5 billion in Appropriations Used, offset by approximately $1.7 billion in net transfers out. The transfers out consist of new FHA negative subsidy endorsements and credit subsidy downward re-estimates.

Net Results of Operations

The combined effect of HUD's Net Cost of Operations and Financing Sources resulted in a 35 percent increase in Net Results of Operations of $5.9 billion during FY 2002. The significant year-to-year fluctuation shown below is due primarily to the annual re-estimation of long-term credit program costs, which can be impacted by both program performance and economic forecasts.



Unexpended Appropriations

HUD's unexpended appropriations, which increased 3 percent ($2.1 billion) to $65.4 billion in FY 2002, represents the accumulation of appropriated funds not yet disbursed, and can change as the fund balance with Treasury changes. A significant portion of these unexpended funds is attributable to long-term commitments as discussed in the following section.

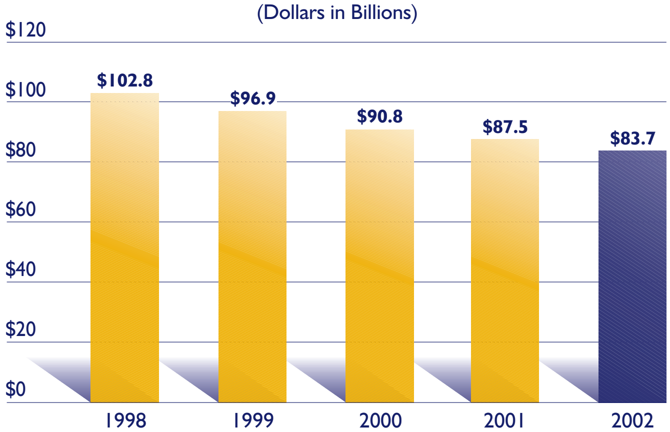
Analysis of Off-Balance-Sheet Risk

The financial risks of HUD's credit activities are due primarily to managing FHA's insurance of mortgage guarantees and Ginnie Mae's guarantees of mortgage-backed securities. Financial operations of these entities can be affected by large unanticipated losses from defaults by borrowers and issuers and by an inability to sell the underlying collateral for an amount sufficient to recover all costs incurred.

Contractual and Administrative Commitments

HUD's contractual commitments of $83.7 billion in FY 2002 represents HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. Administrative Commitments (reservations) of $5.6 billion relate to specific projects for which funds will be provided upon execution of the related contract.

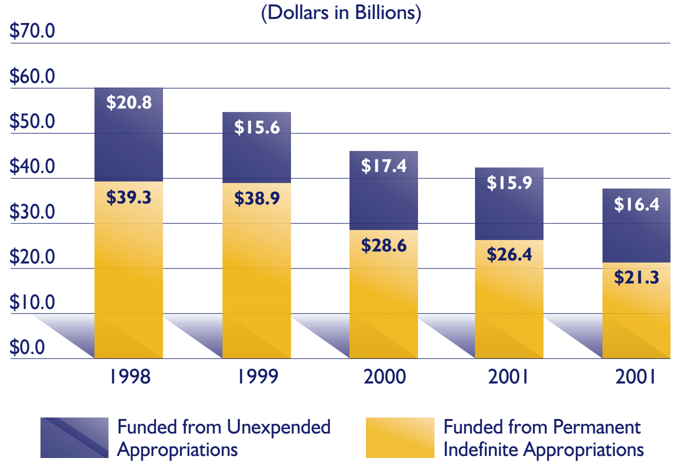
Contractual Commitments Under HUD's Grants, Subsidy, and Loan Program
(Dollars in Billions)



These commitments are primarily funded by a combination of unexpended appropriations and permanent indefinite budget authority, depending on the inception date of the contract. HUD draws on permanent indefinite budget authority to fund the current year's portion of contracts entered into prior to fiscal year 1988. Since fiscal 1988, HUD has been appropriated funds in advance for the entire contract term in the initial year, resulting in substantial increases and sustained balances in HUD's unexpended appropriations.

Total commitments (administrative and contractual) decreased $4.0 billion or 4.3 percent during FY 2002. The majority of this change is attributable to a decrease of $4.6 billion in Section 8 commitments, $2.3 billion decrease in All Other commitments partially offset by a $3.0 billion increase in CDBG commitments.

Section 8 Contractual Commitments
(Dollars in Billions)

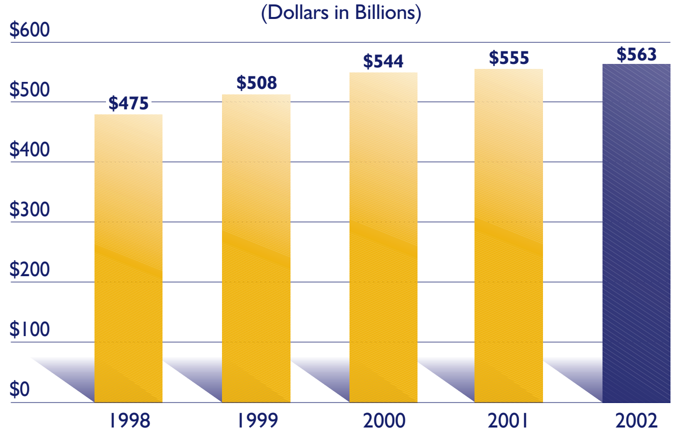


To contain the costs of future Section 8 contract renewals, the Department began converting all expiring contracts to 1-year terms during fiscal 1996. By changing to 1-year contract terms, HUD effectively reduced the annual budget authority needed from Congress to fund the subsidies while still maintaining the same number of contracts outstanding.

FHA Insurance-in-Force

FHA's total insurance-in-force increased $8 billion or 1.4 percent from $555 billion in FY 2001 to $563 billion in FY 2002. Most of this increase was due to an $8.0 billion increase in the Mutual Mortgage Insurance (MMI) fund, which comprises almost 83 percent of FHA's total insurance-in-force.

FHA Insurance in Force
As of September 30
(Dollars in Billions)

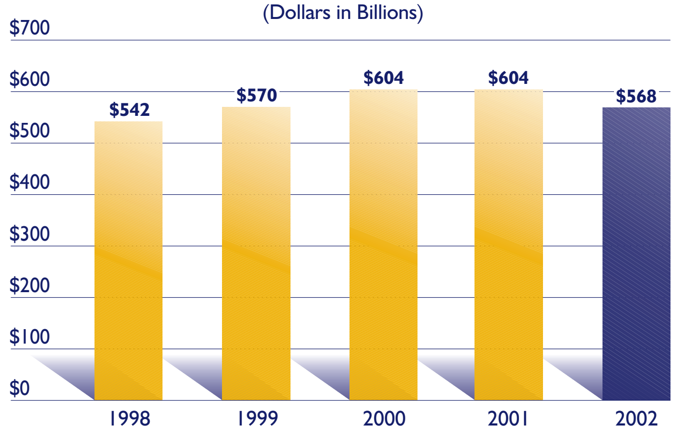


Ginnie Mae Guarantees

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of Mortgage-Backed Securities (MBS) and commitments to guaranty MBS. The securities are backed by pools of FHA-insured, RHS-insured, and VA-guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2002 and 2001, was approximately $568 billion and $604 billion, respectively. However, Ginnie Mae's potential loss is considerably less because the FHA and RHS insurance and VA guaranty serve to indemnify Ginnie Mae for most losses. Also, as a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2002 and 2001 were $43.2 billion and $42.8 billion, respectively.

GINNIE MAE
Mortgage-Backed Securities
Outstanding at FY End
(Dollars in Billions)



Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers.

In fiscal 2002 and 2001, Ginnie Mae issued a total of $122.9 billion and $67.4 billion respectively in its multi-class securities program (REMICs and Platinums). The estimated outstanding balance at September 30, 2002 and 2001, were $214.4 billion and $165.6 billion, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

2. Performance Information

Overview of Performance Information

Reporting on Progress Toward Achieving Strategic Goals

The second part of HUD's FY 2002 Performance and Accountability Report (PAR) focuses on the actual performance of program indicators/targets published in the Department's FY 2002 Annual Performance Plan (APP). Performance indicators are a short-term reflection of progress toward the Department's Strategic Goals and Objectives as outlined in the Department's six-year Strategic Plan. Annual reporting on performance against HUD's indicators and targets is required under the Government Performance and Results Act. Many of the significant performance results were initially discussed in the Management Discussion and Analysis section of this report.

A number of improvements have been made to the Performance Section in this year's PAR. The Performance Section's data discussion sections now provide more detailed accounts of both the quality and source of data for most performance indicators. The FY 2002 PAR also includes a newly added summary table at the beginning of each strategic goal section. The summary table illustrates, in a transparent way, whether or not each target has been substantially achieved.

Discussion of Performance Indicators

The performance indicators that are discussed in this section were, for the most part, originally published in the Final FY 2002 APP and submitted to Congress in March 2001. A select number of indicators and/or performance goals were subsequently modified in the Revised FY 2003 Annual Performance Plan, which was transmitted to Congress in April 2001. HUD revised the FY 2003 APP to reflect appropriations provided by Congress in the FY 2002 budget.

For each indicator, a background discussion is provided to explain the program being assessed, the measure used, the time period being reported, and the ongoing status of the indicator in the FY 2002 APP and the revised FY 2003 APP.

Results are provided for the majority of indicators. To prevent repetition, indicators that rely on data within intervals of two years or longer (as often occurs for those relying on the American Housing Survey) are not reported. The FY 2001 Performance and Accountability Report contains the most recent data available for these indicators.

As results are presented, a statement is included to indicate whether or not the performance goal has been achieved. An analysis is also provided to explain the results and outcomes including external factors as appropriate and feasible. The Department is continuing its efforts to enhance this analysis.

In instances where the Department failed to achieve a performance goal, a strategy for improvement is presented, including strategies for human capital improvement and information technology improvement, where applicable. Although similar strategies may be in place for programs that successfully achieved their goals, they are not presented because repeating these strategies would limit our ability to clearly and concisely present performance achievements.

Finally, as noted above, some indicators are supplemented with additional information about recent program evaluations and how HUD will use them to improve program management.

Reliability of Performance Data

The Department has made substantial advances in improving the completeness, accuracy and reliability of performance data. As a result, the reader can generally rely on the data reported here to assess the Department's achievements. An important part of data reliability is the extent to which limitations are disclosed. HUD has made substantial efforts to reveal limitations of completeness and accuracy in this report. Each performance indicator now includes a data discussion, where it is relevant. Additional information about data limitations, validation and verification is presented in HUD's Annual Performance Plan—in many cases, with greater detail each year. Nevertheless, as the summary of results discussed above suggests, data limitations, including lack of availability, continue to prevent comprehensive understanding of HUD's achievements for every program.

HUD can assess outcomes of a number of programs only in limited ways because of statutory provisions, potential reporting burdens and privacy concerns. The Community Development Block Grant program (CDBG) is a prime example. CDBG allows grantee discretion to conduct a broad variety of activities, and there is a necessary balance between assessing their impacts on final customers and creating reporting burdens for our partners. In such cases, the Department is consulting with partners and conducting research on ways to use available data more effectively, including data from external sources such as the Bureau of Census. In other cases, performance measures that use survey techniques are being developed. Some of these survey results are reported this year, and others are forthcoming.

External data also come with availability problems because the cost of data collection keeps survey-based data from being produced on an annual basis for the small areas or populations of interest to HUD. Timeliness is also a weakness of external data sources. This Performance and Accountability Report and the FY 2003 APP reflect the Department's continuing attempts to help the reader assess data reliability with greater confidence, including efforts to report statistical confidence intervals for measures that rely on sampling.

Data completeness is a problem for several program data systems. Household data submitted by public housing agencies were incomplete during FY 2002 because of a transition to a new information system. Although the Department has tried to use available data to its fullest effect, incomplete data creates the potential for bias in the reported results. Therefore, incomplete and preliminary data are identified, often with extensive footnotes.

Use of Evaluations to Improve Strategies

Performance indicators face inherent limitations because they often cannot address the issue of attribution. That is, performance measures can show results but may not be well suited for showing that the program rather than external factors caused the results. In areas where externalities are significant the most that can be done with performance measures is to plausibly attribute the outcome to the program by demonstrating a logical connection between the efforts and the results of HUD's activities.

To address the attribution problem, the Department also relies on program evaluations. Evaluations are studies that assess program impacts, sometimes by using control groups, random assignment, econometric modeling, and other methodologies to exclude the effects of external forces. The Department attempts to use evaluation resources effectively to learn about how programs work or fail.

Evaluation results are used to improve the Department's strategies, programs and policies. For example, a major experimental evaluation conducted in the 1970s was used to develop the Section 8 tenant-based program, a major innovation compared to previous "bricks and mortar" approaches to affordable housing. As a result, the Housing Choice Voucher program now relies on the private market to house more families than public housing does. In a similar way, current program evaluations are used both to attribute results and to improve program strategies and operations. The recently completed "quality control" study of rent determination errors in HUD's housing programs has led the Department to undertake the Rental Housing Integrity Improvement Project to reduce the impact of rent errors and fraud within the Federal budget.

Indicators on the following pages are supplemented, when appropriate, with a discussion of relevant program evaluations that were completed during FY 2002 or soon thereafter. In some cases, the program evaluations are direct studies of the programs in question, and in other cases the discussions cover research that affects the performance measure. An appendix to this report systematically summarizes FY 2002 research efforts and findings.

Strategic Goal 1: Increase the Availability of Decent, Safe, and Affordable Housing in American Communities

Strategic Objectives:

1.1 Homeownership is increased.

1.2 Affordable rental housing is available for low-income households.

1.3 America's housing is safer, of higher quality and disaster resistant.

Performance Report Card – Goal 1

	Performance Indicators	1999	2000	2001	2002	2002 Target	Substantially Met	Notes
1.1.1	The overall homeownership rate	67.0%	67.7%	68.1%	68.0%	68.5%		c
1.1.2	Share of all homebuyers who are first-time homebuyers		40.1%		41.3%	41.1%	✓	e
1.1.3	Homeownership rate among households with incomes below median	51.4%	52.2%	52.6%	51.9%	53.1%		c
1.1.a	Ginnie Mae securitization rate for FHA and VA loans	87.2%	86.2%	97.9%	87.5%	85.0%	✓	
1.1.b	Share of FHA mortgage defaults resolved by loss mitigation	26.2%	34.1%	46.1%	49.7%	48.1%	✓	
1.1.c	The FHA MMI capital reserve ratio	3.66%	3.51%	3.75%	4.52%	2.00%	✓	
1.1.d	The net recovery of FHA REO sales		61.5%	65.5%	70.5%	66.5%	✓	
1.1.e	Number of FHA single-family endorsements (thousands)	1,291	921	1,067	1,288			b
1.1.f	Share of FHA mortgages going to first-time homebuyers	81.1%	81.6%	79.8%	78.0%	82.0%		
1.1.g (a)	Fannie Mae meets HUD-defined targets for low- and moderate-income mortgage purchases	44.1%	45.9%	49.5%	51.5%	50.0%	✓	d
1.1.g (b)	Freddie Mac meets HUD-defined targets for low- and moderate-income mortgage purchases	42.9%	46.1%	49.9%	53.2%	50.0%	✓	d
1.1.h	Estimated number of homeowners assisted with HOME							See 1.2.d
1.1.i	Number of homeowners assisted with SHOP							See 1.2.d
1.1.j	Number of new homebuyers assisted with the homeownership downpayment assistance initiative					10,000		Program Not Funded
1.1.4	Homeownership rate in central cities	50.5%	51.9%	52.3%	52.2%	52.8%		c
1.1.k (a)	Fannie Mae meets special affordable targets							See 2.3.c
1.1.k (b)	Freddie Mac meets special affordable targets							See 2.3.c
1.1.l	Number of minority homebuyers among FHA mortgage endorsements							See 2.3.a
1.1.m	Percent of EZ and EC projects achieve local goals in promoting homeownership by residents	80%	81%	88%	76%	90%		
1.1.n	Number of emerging technologies identified in PATH inventory			160	198	200	✓	
1.2.1.1	Number of worst case needs, families with children, households (1000s)		1,793		1,832	1,740		e

	Performance Indicators	1999	2000	2001	2002	2002 Target	Substantially Met	Notes
1.2.1.2	Number of worst case needs, elderly households, households (1000s)		1,028		1,184	1,000		e
1.2.1.3	Number of worst case needs, disabled households, households (1000s)		1,100		1,100	1,100	✓	e
1.2.2.1	National average voucher utilization rate (SEMAP utilization)		92.0%		94.0%	94.0%	✓	
1.2.2.2	National average voucher utilization rate (unit utilization)					94.0%		
1.2.3	Share of renters in HOME rental projects who have extremely low incomes		42.0%	41.0%	41.8%			b
1.2.a	Among extremely-low-income renters, ratio of assisted to worst case needs or already assisted		44.7%		43.7%	45.2%		e
1.2.b.1	Number of families relocated for HOPE VI program				4,986	4,749	✓	
1.2.b.2	Number of units demolished for HOPE VI program				8,787	11,550		
1.2.b.3	Number of HOPE VI new or rehabilitated units completed				6,583	5,485	✓	
1.2.b.4	Number of HOPE VI units occupied				6,123	4,987	✓	
1.2.c	Share of vouchers administered by housing agencies with low lease-up rates			42.8%	33.1%	32.8%		
1.2.d.1	Number of households receiving CDBG assistance.	158,280	182,700	172,445	187,380	183,031	✓	
1.2.d.2	Number of households receiving HOME tenant-based assistance.	8,246	6,899	11,756	10,239	8,439	✓	
1.2.d.3	Number of rental units for which HOME assistance is committed	25,114	33,487	27,456	27,243	27,779	✓	
1.2.d.4	Number of new homebuyers for whom HOME assistance is committed	30,695	30,748	29,690	32,490	33,976	✓	
1.2.d.5	Number of existing homeowners for whom HOME assistance is committed	13,952	14,731	12,566	14,082	15,444		
1.2.d.6	Sum of households for whom four types of HOME assistance is committed	78,007	95,865	81,468	84,054	85,568	✓	
1.2.d.7	Number of households receiving HOPWA assistance.	41,670	43,902	72,117	91,065	68,000	✓	
1.2.d.8	Number of homeowners assisted with SHOP	1,983	1,675	1,655	2,063	1,120	✓	
1.2.d.9	Number of housing units constructed or habilitated with NAHBG				52,000	20,669	✓	g
1.2.e.1	Number of HOME rental units produced	18,806	29,309	20,453	19,076	20,341		
1.2.e.2	Number of HOME new homebuyers	25,008	34,126	24,757	23,241	27,048		
1.2.e.3	Number of HOME existing homeowners assisted	12,254	13,174	9,938	10,027	13,254		
1.2.e.4	Sum of households for whom three types of HOME assistance is committed	56,068	76,609	55,148	52,344	60,643		
1.2.f	Share of households living in HOME rental projects who are income-eligible and pay appropriate rents				95%	100%	✓	
1.2.g	Share of units of public housing and Section 8 programs that are occupied by families with children, elderly, and persons with disabilities							b, g
1.2.5 (a)	Ratio of units affordable to extremely-low income families (units per 100 households)		78		77	80		e
1.2.5 (b)	Ratio of units affordable and available to very-low income families (units per 100 households)		78		76	80		e
1.2.i (a)	Fannie Mae meets special affordable multifamily targets (billion $)	3.53	4.06	3.79	7.36	2.85	✓	d
1.2.i (b)	Freddie Mac meet special affordable multifamily targets (billion $)	2.69	2.26	2.40	4.65	2.11	✓	d

	Performance Indicators	1999	2000	2001	2002	2002 Target	Substantially Met	Notes
1.2.j	Share of FHA multifamily mortgages securitized by Ginnie Mae	98%	100%	100%	100%	80%	☐	
1.2.k	The volume of Ginnie Mae credit enhancements on REMIC securities ($ billions)	49.7	41.9	67.4	122.9	50.7	☐	
1.2.l	Number of FHA multifamily mortgage endorsements		574	758	1,105	800	☐	
1.2.m	Share of units in new multifamily developments that use LIHTC				8.3%			b
1.2.n	Number of multifamily properties with rent reductions under Mark-to-Market		517	625	510	750		
1.2.p	Share of Consolidated Planning jurisdictions that include housing authority representatives					90.0%		a
1.2.q.1	Percentage of EZ/EC projects achieving goals for new affordable units	93%	91%	88%	79%	90.0%		
1.2.q.2	Percentage of EZ/EC projects achieving goals for rehabilitated affordable units	71%	88%	86%	76%	85.0%		
1.3.1.1	Share of very-low-income homeowners in units with physical problems (percent of units)		8.10%		7.40%	7.80%	☐	e
1.3.1.2	Share of very-low-income renters in units with mod/sev physical problems (percent of units)		14.80%		13.90%	13.80%	☐	e
1.3.2	Share of units with low-income households containing threats to health and safety (percent of units)		5.8%		4.9%	5.6%	☐	e
1.3.a	Estimated number of households assisted with CDBG, HOME, HOPWA, NAHASDA							See 1.2.d
1.3.3.1	Share of public housing units meeting HUD-established standards	62.5%	73.3%	82.4%	87.1%	85.4%	☐	f
1.3.3.2	Share of assisted multifamily units meeting HUD-established standards	77.3%	86.2%	92.1%	93.2%	95.1%		f
1.3.4.1	Number of life-threatening health and safety deficiencies observed per 100 public housing properties		22.2%	19.3%	16.0%	18.3%	☐	f
1.3.4.2	Number of life-threatening health and safety deficiencies observed per 100 assisted multifamily properties			16.4%	16.2%	15.8%		f
1.3.b.1	Number of units of public housing demolished		13,476	14,144	15,065	13,000	☐	
1.3.5	Number of units made lead safe	7,471	7,969	8,212	8,040	7,200	☐	
1.3.6	Number of children under age of six who have elevated blood lead in 2004							a,b,f
1.3.e.1	Number of agreements operational under Healthy Homes Initiative		8	20	35	21	☐	
1.3.e.2	Number of agreements awarded under Healthy Homes Initiative			14	5	4	☐	
1.3.7	The rate of death in residential fires (deaths per 100,000 persons)	1.07	1.06	1.21	1.09			b,e,g
1.3.f.1	Share of public housing units with smoke detectors	86.5%	87.7%	89.8%	91.4%	91.0%	☐	f
1.3.f.2	Share of multifamily projects that comply with fire safety standards		90.1%	91.5%	92.4%	92.2%	☐	f

(Values represent fiscal year data unless otherwise noted.)

a – Data not available.

b – No performance goal for this fiscal year.

c – Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).

d – Calendar year ending in the current fiscal year.

e – Calendar year ending the previous fiscal year.

f – Other reporting period.

g – Result too complex to summarize. See indicator.

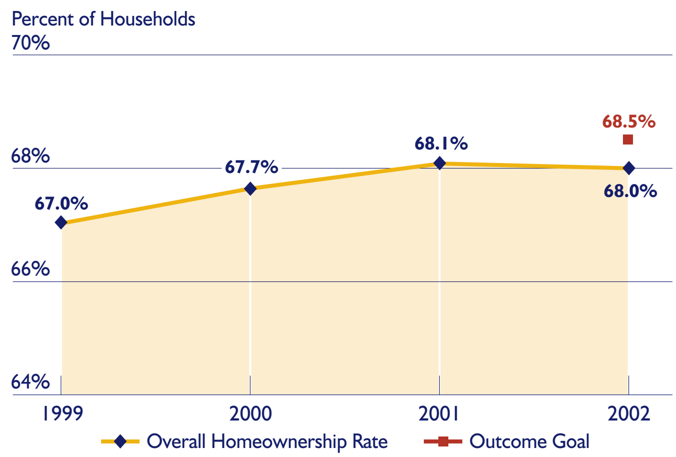
Objective 1.1: Homeownership is increased.

Outcome Indicator 1.1.1:
The overall homeownership rate increases from 67.7 percent in 2000 to 68.5 percent in 2002.

Background. The overall homeownership rate indicates the share of the Nation's households that have achieved the "American dream" of homeownership. The homeownership rate has reached record levels in recent years, but it can be resistant to increases above an undetermined level because homeownership is not practical or desirable for all households. Broad economic conditions including employment, incomes and interest rates will also impact homeownership rates. To reflect the limits of HUD span of control relative to the homeownership rate, this indicator was converted to a tracking indicator with no numeric goal beginning with FY 2003. While it will not be a specific HUD goal in the future, the rate will be tracked and presented in the context of HUD overall homeownership strategies.

Results and Analysis. The ambitious homeownership goal was not met for FY 2002. During the third quarter of calendar year 2002, the homeownership rate of 68.0 percent remained statistically indistinguishable from the record established in the third quarter of 2001. Nevertheless, the annual homeownership rate increased to a record high 67.9 percent in 2002, up 0.1 percentage points from the 2001 rate of 67.8 percent.

Overall Homeownership Rate



The pace of homeownership increases slowed slightly in FY 2002, yet reached a new quarterly high of 68.3 percent in the fourth quarter of 2002. The slowing gains can be attributed to declines in household income and employment due to the slowing economy. A related indicator—mortgage delinquency rates—helps to illustrate: the proportion of mortgages that are delinquent over 90 days increased from its record low of 0.56 percent in 2000 to 0.71 percent by the first quarter of 2002.

The estimated decrease of 0.1 percentage point in the third-quarter homeownership rate reflects proportionally more household formations by renters than by homeowners. The Nation gained about 2 million households between the third quarter of 2001 and the third quarter of 2002, but the number of homeowners and renters increased at approximately the same rate. In contrast, during the 1999-2001 period, the renter population actually shrank while the number of homeowners grew rapidly.

During FY 2002, low market interest rates continued to help many renters become new homebuyers, thereby keeping the homeownership rate stable as the number of households grew. The rate for 30-year conventional mortgages was 6.81 percent in the second quarter of 2002, compared with an average of 7.1 percent for the second quarter of 2001. These interest rates worked together with FHA single-family mortgage insurance programs during FY 2002 to maintain the high level of homeownership (see indicator 1.1.e). FHA mortgage insurance helps families who have little cash become homeowners because it has low down payment requirements, liberal income qualification guidelines and flexible credit standards. The vast majority of FHA endorsements for home purchases benefit first-time homebuyers (1.1.f). Communities have also used HOME block grants and SHOP competitive grants to promote homeownership (1.2.d).

Data Discussion. This measure is based on averages of monthly Current Population Survey data for the third quarter (the last quarter of the fiscal year). The CPS data are free of limitations affecting the measure's reliability. Changes in estimated rates that exceed 0.47 percent are statistically significant with 90 percent confidence.

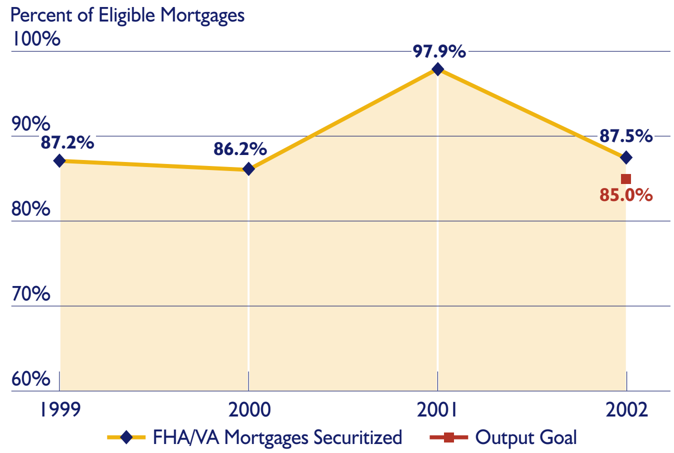
Programmatic Output Indicator 1.1.a:
Ginnie Mae securitizes at least 85 percent of single-family FHA and VA loans.

Background. The Government National Mortgage Association (Ginnie Mae) is a wholly owned instrumentality of the United States government within HUD. Section 306(g) of the National Housing Act authorizes Ginnie Mae to facilitate the financing of residential mortgage loans insured or guaranteed by the Federal Housing Administration, the Department of Veterans Affairs, and the Rural Housing Service. Ginnie Mae's principal products are mortgage backed securities (MBS).

Results and Analysis. Ginnie Mae slightly exceeded the FY 2002 goal by securitizing 87.5 percent of single-family FHA and VA loans. Ginnie Mae achieved this rate because of the decrease in purchases of FHA/VA loans by the Federal Home Loan Banks (Banks). These Banks purchased less government loans because their regulator limited their government loan purchases to a percentage of their conventional loan purchases. The Banks also slowed their purchases to allow for strategic planning and program evaluation.

Data Discussion. The data source used was Ginnie Mae's database of FHA and VA loans.

FHA/VA Single-Family Mortgages Securitized by Ginnie Mae



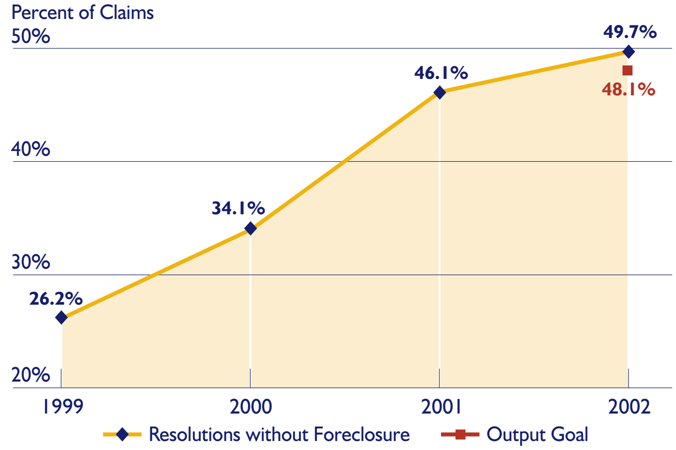
Programmatic Output Indicator 1.1.b:
The share of FHA mortgage defaults resolved by loss mitigation alternatives to foreclosure increases by 2 percentage points to 38.1 percent.

Background. Servicers of FHA-insured loans are statutorily required to employ loss-mitigation techniques to try to avoid foreclosure claims against the FHA funds when borrowers default on insured mortgages. A borrower can resolve a default (90-day delinquency) in several ways short of foreclosure: by paying down the delinquency (cure), by a preforeclosure sale with FHA perhaps paying an insurance claim in the amount of the shortfall, or by surrendering a deed in lieu of foreclosure, among others. Better loss-mitigation efforts, such as enhanced borrower counseling, help borrowers keep their current homes or permit them to buy another home sooner. Avoidance of foreclosure also reduces FHA insurance losses, maintaining FHA financial integrity and enabling it to help more borrowers. For both reasons, greater use of loss mitigation helps maintain the overall homeownership rate. For FY 2003, the goal was established at 40 percent.

Results and Analysis. The ratio of non-foreclosure claims to total claims on FHA insurance as a result of loss mitigation rather than foreclosure increased substantially from 46.1 percent in FY 2001 to 49.7 percent in FY 2002. The increase of 3.6 percentage points substantially exceeded the goal of a 2.0 point increase.

Increased use of housing counseling for borrowers is a likely contributor to the high rate of loss mitigation tools used in FY 2002. The Department also took actions to ensure that loss mitigation was a major component of industry meetings held on regulations to motivate lenders to follow FHA's loss mitigation requirements. As a result of these steps, the use of loss mitigation tools has more than doubled in the past few years. There were 24,874 cases resolved through loss mitigation in FY 1999, 31,120 in FY 2000, and 50,385 in FY 2001. During FY 2002, 68,755 cases were resolved with loss mitigation tools, marking the first time that defaults resolved through loss mitigation exceeded the number of foreclosures in a fiscal year. FHA will continue to encourage lenders to use loss mitigation alternatives to foreclosure.

FHA Single-Family Mortgage Claims Resolved without Foreclosure



Data Discussion. Data used for this measure come from FHA A43-C data system, and are verified by FHA staff using quality assurance sampling methods.

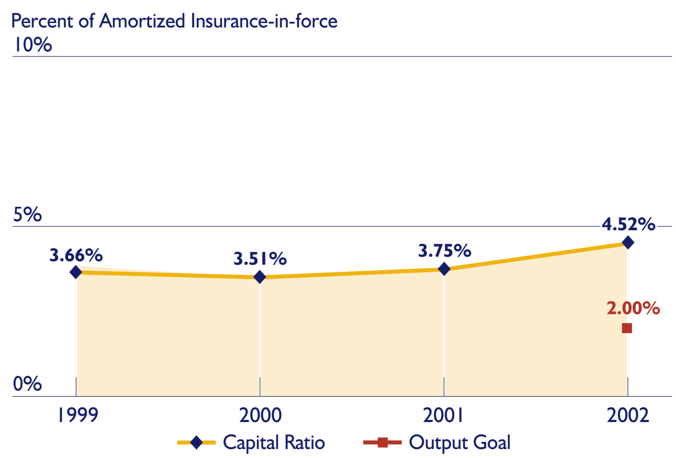
Programmatic Output Indicator 1.1.c: The FHA Mutual Mortgage Insurance Fund meets congressionally mandated capital reserve targets.

Background. FHA's Mutual Mortgage Insurance Fund (MMIF) funds all expenses, including insurance claims, incurred under FHA's basic single-family mortgage insurance program. The insurance program and fund are expected to be entirely self-financing from up-front and annual insurance premiums paid by borrowers obtaining FHA mortgage loans as well as from earnings on fund assets. Because the Department is expected to operate the program in an actuarially sound way, the fund is subject to an annual actuarial review. The review assesses the fund's current economic value, its capital ratio, and its ability to provide homeownership opportunities while remaining self-sustaining based on current and expected future cash flows.

The capital ratio is an important indicator of the MMIF's financial soundness and of its continuing ability to make homeownership affordable to more renters when economic downturns increase insurance claims. The capital ratio is defined as the sum of FHA's capital resources plus the net present value of expected future cash flows (resulting from premium collections, asset earnings, and insurance claim losses) divided by the unamortized insurance-in-force. This measure is based on the current capital ratio determined by the independent actuarial review discussed above.

Results and Analysis. The MMI Fund's capital ratio was 4.52 percent for FY 2002. The ratio exceeded the FY 2001 result of 3.75 percent by 0.77 percentage points. The congressionally mandated goal of 2 percent was surpassed, as it has been since FY 1995. FHA was able to achieve this performance level through improvements in the management of its portfolio and insurance premiums, in personnel training, and in controls on data integrity.

Capital Ratio for FHA Mutual Mortgage Insurance Fund



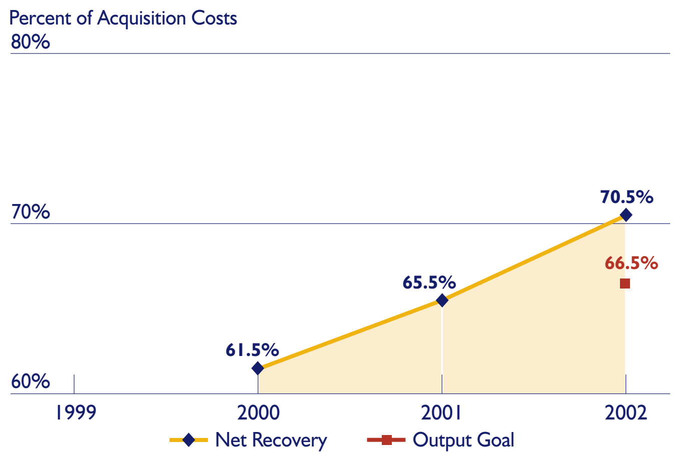
Data Discussion. The measure is determined through the annual actuarial review. The results are validated through the audit process.

Programmatic Output Indicator 1.1.d:
The net recovery of FHA real estate owned sales increases by 1 percentage point to 64.8 percent.

Background. When defaulted FHA loans go to foreclosure and insurance claim, HUD acquires the property, which then becomes known as real estate owned (REO). Increasing the net recoveries on sales of REO properties will reduce FHA insurance claim losses and strengthen the financial position of the FHA insurance funds. The net recovery is a ratio defined as one minus the sales price net of expenses and acquisition cost, divided by the acquisition cost. To reduce FHA insurance claim losses associated with defaults, a goal was set to increase the net recovery rate by 1.0 percentage point in FY 2002.

Results and Analysis. To reduce FHA insurance claim losses associated with defaults, a goal was set to increase the net recovery rate by 1.0 percentage point in FY 2002. The fiscal year goal was surpassed with a recovery rate of over 70.5 percent, matching the all-time high in 1977. The actual average net recovery for FY 2002 was $63,021, surpassing the figure of $60,993 for FY 2001. FHA success in increasing the recovery rate for REO property sales is a result of improved Management and Marketing contractor performance. The Department is currently implementing a risk-based targeting project to support more strategic monitoring of the management of REO properties.

Net Recovery for Real Estate Owned Sales



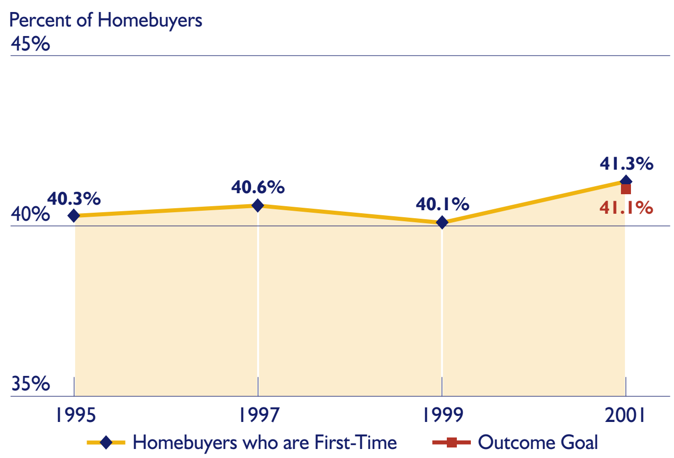
Data Discussion. Data are from FHA A43-C and A80S data systems, and are verified by FHA staff using quality assurance sampling methods.

Outcome Indicator 1.1.2:
The share of all homebuyers who are first-time homebuyers increases by 0.5 percentage point to 46.2 percent.

Background. Increasing the proportion of homebuyers who are purchasing a home for the first time is a key to higher homeownership rates. The FY 2003 APP establishes this measure as a tracking indicator with no numeric target. This change reflects the dominant impact of the macro-economy compared with HUD's limited span of control over the outcome.

Results and Analysis. The percentage of homebuyers who were first-time homebuyers increased to 41.3 percent in calendar 2001. The increase of 1.2 percentage points over two years exceeded the performance goal of a 0.5 point increase each year.

Share of Homebuyers who are First-Time Homebuyers



The strong performance of this indicator reflects the influence of the strong economy that was coming to an end in 2001. Low mortgage interest rates and a period of sustained income growth put homeownership within reach of a number of renters. FHA mortgage insurance also makes homebuying feasible for numerous households each year who would otherwise be deemed uncreditworthy.

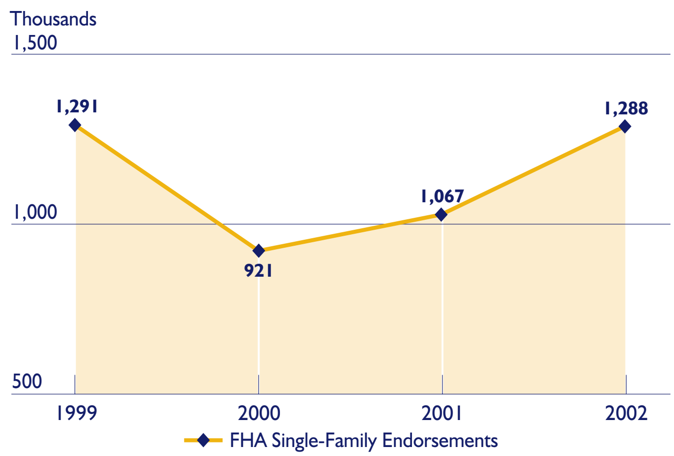
Data Discussion. This measure uses data from the biennial American Housing Survey (AHS). During 2002, HUD contractors completed a study that verified and validated the AHS for purposes of mortgage market and housing finance analysis. Researchers assessed the replicability, internal consistency and reliability of AHS estimates, and found the data generally reliable. Chicago Title data were used for this measure in previous years, but are no longer available.

Programmatic Output Monitor 1.1.e:
The number of FHA single-family mortgage insurance endorsements nationwide.

Background. FHA insures mortgages issued by private lenders, increasing access to mortgage capital so homeownership opportunities increase. FHA mortgage insurance helps families who have little cash become homeowners because it has low downpayment requirements, liberal income qualification guidelines and flexible credit standards. This indicator tracks FHA contribution to the homeownership rate through the annual number of FHA-insured loans. Because this measure is primarily driven by market conditions, the FY 2002 Annual Performance Plan has changed it to a tracking indicator with no performance target.[1]

Results and Analysis. During FY 2002, the number of FHA single-family (SF) mortgage endorsements increased by nearly 21 percent to approximately 1.3 million (including re-financings). This figure compares with 1,066,464 total endorsements made in FY 2001.

FHA Single-Family Mortgage Endorsements



FHA single-family mortgage insurance endorsements make a significant contribution to HUD's overall effort to provide homeownership opportunities and to meet the President's goal of adding 5.5 million minority homeowners by the end of the decade.

The volume almost matched the peak levels of activity recorded in FY 1999. Changes in household incomes and interest rates affect the demand for home purchase mortgages or refinanced mortgages, both of which count in this measure. Because FHA mortgage limits increase annually as home prices increase, more families are enabled to become homeowners than would otherwise be possible. FHA marketing and outreach initiatives coupled with its efforts to keep the Mutual Mortgage Insurance Fund in sound financial condition and the use of loss mitigation techniques to resolve mortgage defaults versus foreclosure (see Indicators 1.1.b and 1.1.c) also are critical to sustaining large numbers of new endorsements through diverse economic conditions.

Data Discussion. Data are from FHA A43 data system and are monitored by FHA staff using quality assurance sampling methods.

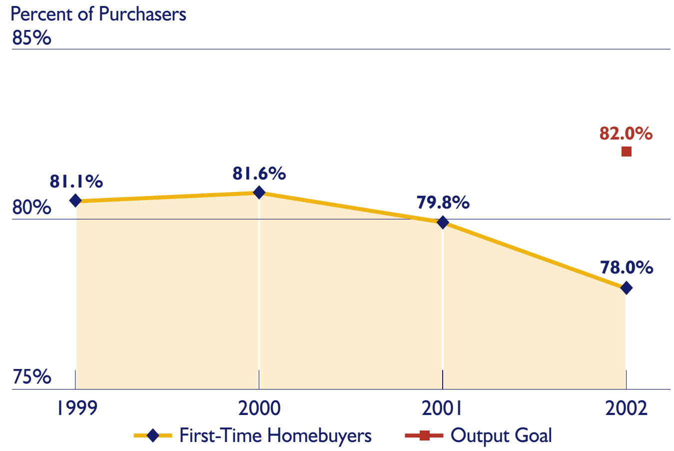
[1]Beginning with FY 2002, HUD established a small number of "monitors" of certain outcomes and programmatic outputs. Like standard indicators, monitors measure and report results that the Department deems important for achieving strategic goals and objectives. Unlike other indicators, however, monitors will not have performance goals attached because the results are nearly entirely controlled by external factors or by the discretionary decisions of the Department's partners.

Programmatic Output Indicator 1.1.f:
The share of FHA-insured home-purchase mortgages for first-time homebuyers reaches 82 percent.

Background. FHA mortgage insurance is the major vehicle by which first-time, minority and low-income buyers are able to secure mortgage loans for the purchase of a home. HUD will help increase the overall homeownership rate and reduce the homeownership gap between whites and minorities by increasing FHA endorsements for first-time homebuyers. This indicator tracks the share of first-time homebuyers among FHA endorsements for home purchases—thus excluding refinance mortgages.

Results and Analysis. During FY 2002, 78.0 percent of FHA endorsements for home purchase mortgages were for first-time homebuyers. FHA endorsed 683,677 loans to first time homebuyers during FY 2002. This exceeds the number of SF endorsements made to first-time homebuyers during FY 2001 (643,748) and surpasses the FY 2002 Management Plan goal of 660,000 endorsements, although the targeted percentage share of home purchase mortgages for first-time homebuyers was not met. The reason for this is perhaps due to the number of non-first-time homebuyers receiving home purchase endorsements being greater than anticipated. This performance continues FHA's strong support of first time homebuyers. American Housing Survey data show that during the 1990s, FHA-insured loans comprised 14 percent of all home purchases, and 25 percent of purchases by first-time homebuyers. The same data show that "FHA's share of the first-time homebuyer market increased during the late 1990s, rising from an average of 23 percent in 1991-96 to 30 percent in 1997-99."[2]

Percent of FHA Home Purchase Endorsements for First-Time Homebuyers



To further improve the share of home-purchase mortgages made to first-time homebuyers, during FY 2002 the Department increased staff resources and efforts for appropriately targeted marketing. Activities such as homeownership fairs provided a non-threatening venue where renters with short-term or long-term home buying potential could gain understanding of the prerequisites, benefits and responsibilities of homeownership.

HUD is continuing to work with lenders in addressing the needs of the first-time homebuyer. The Department also is providing homeownership vouchers and supporting the use of CDBG and HOME block grants for homeownership activities. These programs interact with FHA single-family programs.

Data Discussion. FHA data are entered into FHA A43 data system by direct-endorsement lenders with monitoring by FHA.

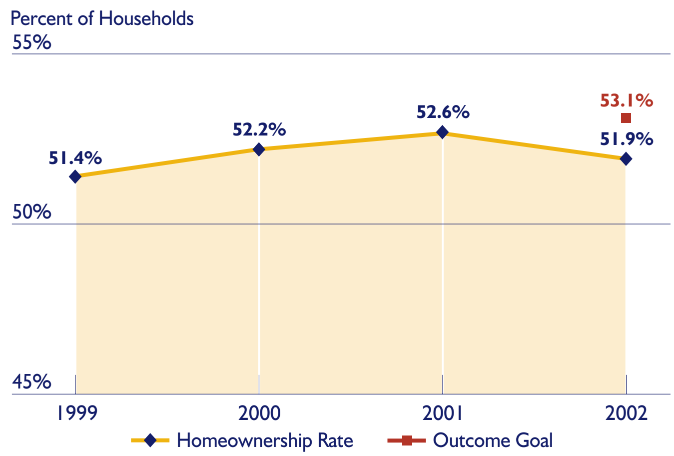
[2] *HUD Office of Policy Development and Research.* U.S. Housing Market Conditions. *Fall 2001. Available at* ***www.huduser.org***. *The report notes that the American Housing Survey data include home purchases not financed with new mortgages, and that FHA market share would be higher if only home purchases that had mortgages were included.*

Outcome Indicator 1.1.3:
The homeownership rate among households with incomes less than median family income increases by 0.5 percentage point to 53.2 percent.

Background. Homeownership is advantageous because it contributes to asset development, better neighborhoods and schools, stability of tenure, and wider choice of housing types. Holding other factors equal, homeownership improves outcomes for children on a number of dimensions, including school achievement and dropout rates. This indicator tracks national progress in increasing homeownership among households with incomes below the national median family income. To reflect the limits of HUD's span of control relative to this homeownership rate, this indicator was converted to a tracking indicator with no numeric goal beginning with FY 2003. While it will not be a specific HUD goal in the future, the rate will be tracked and presented in the context of HUD's overall homeownership strategies.

Results and Analysis. In 2002, the homeownership rate among households with incomes below the national median decreased by 0.7 percentage points to 51.9 percent. This rate is below HUD's goal, which sought a 0.5-point increase from 2001 levels.

Homeownership Rate for Households with Income Less than Median Family Income



The results reversed a trend of significant homeownership gains among families with incomes below the national median. The increases through FY 2001 corresponded to real gains in median incomes. The 1.1 percentage point gain in homeownership between 1998 and 2000 is associated with a 2.7 percent increase in real median income, 1998 to 2000.[3] However, between 2000 and 2001 median household income fell from $43,162 to $42,228 (in 2001 dollars), a decline of 2.2 percent in real terms (after adjusting for inflation).[4]

The reduction in the rate during FY 2002 reflects reduced incomes and economic uncertainties created by the recession. While the low mortgage interest rates during FY 2002 have been a mitigating factor against further reductions in the low- and moderate-income homeownership rate, many of these families receive little gain from the mortgage-interest tax deduction because their marginal tax rate is lower or because they do not itemize their deductions.

HUD will continue to promote higher homeownership rates among low-income households through improved partnering, marketing, and outreach in the single-family FHA programs. Over 70 percent of FHA-insured single-family mortgages in recent years have been to households with below median income. Homeownership vouchers and the proposed homeownership downpayment assistance initiative will play a growing role in contributing to low-income homeownership in the future. HUD block grant programs, CDBG and HOME, also provide homeownership assistance of various types, depending on local needs and preferences. Both of these programs are targeted primarily to groups with incomes below median.

Data Discussion. The measure uses Current Population Survey (CPS) data from the third quarter of the calendar year, corresponding to the end of HUD's fiscal year. The CPS data are free of limitations affecting the measure's reliability. Changes in estimated rates that exceed 0.71percentage point are statistically significant with 90 percent confidence.

[3] *U.S. Census Bureau, Current Population Reports, P60-213.* Money Income in the United States: 2000, *Table C. September 2001.*

[4] *Note that the median income rates are calculated on an annual basis; whereas the homeownership rates are third quarter rates corresponding to the end of the fiscal year. Incomes for 2001 include the first quarter of 2002, and reflect a significant decline.*

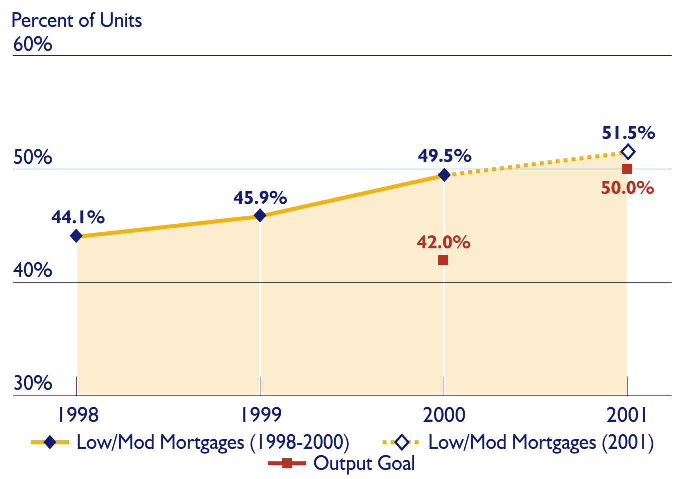
Programmatic Output Indicator 1.1.g:
Fannie Mae and Freddie Mac meet or surpass HUD-defined targets for low- and moderate-income mortgage purchases.

Background. Congress mandated that, as Government-Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac must achieve a number of public purpose goals, one of which is to expand homeownership opportunities for persons of low and moderate income. To ensure that this public purpose is achieved, HUD regulations establish an annual performance standard—the Low- and Moderate-Income Goal—for mortgages purchased or guaranteed by the GSEs that serve low- and moderate-income families. These are families earning incomes at or below area medians. Beginning in 2001, HUD substantially increased the Low- and Moderate-Income Goal from 42 percent to 50 percent. HUD also implemented new scoring rules.

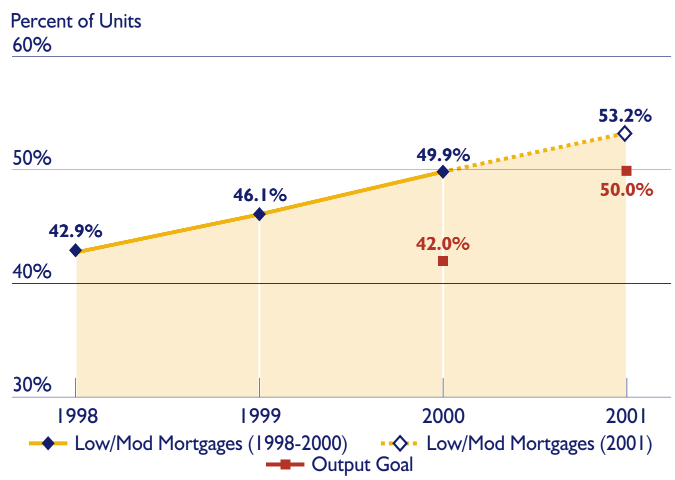
Results and Analysis. In calendar year 2001, both Fannie Mae and Freddie Mac surpassed HUD's target of 50 percent. Fannie Mae achieved 51.5 percent and Freddie Mac achieved 53.2 percent, representing a combined 3.8 million dwelling units that qualified as low/mod purchases. These performance figures include bonus point incentives that each GSE can earn for acquiring loans serving specific underserved markets. For example, each GSE can earn double credit towards HUD-defined targets by purchasing loans secured by small, 5-50 unit multifamily properties and two-to-four unit owner-occupied properties. Incentives were designed to encourage purchases of mortgages that disproportionately serve lower income families. Congress also determined that Freddie Mac should receive a multifamily parity adjustment of 35 percent for purchasing mortgages that fund properties with more than 50 units. Although the GSEs may count both multifamily and single-family purchases towards the low/mod target, both GSEs achieve the bulk of their performance through the purchase of loans on single-family owner-occupied housing.

The new scoring rules made it possible for the GSEs to achieve the Low-and Moderate-Income target in 2001. Absent these changes, the GSEs' performance actually decreased from their 2000 levels, with Fannie Mae's performance falling from 49.5 percent to 47.7 percent and Freddie Mac's falling from 49.9 percent to 47.2 percent.[5]

Fannie Mae Performance Relative to Low/Mod Target



Freddie Mac Performance Relative to Low/Mod Target



[5] *In the accompanying graphs, the change from a solid line to a dotted line from 2000 to 2001, and the change in shapes from a solid diamond to a hollow diamond, reflect the changes in HUD scoring rules that became effective in 2001. The squares show the levels of the housing goals at different dates.*

An analysis of the composition of units qualifying as low- and moderate-income purchases in 2001 shows that 1.6 million dwelling units, which equates to 70.2 percent of the units that qualified towards Fannie Mae's performance, served families earning 80 percent or less of area median income. Similarly, Freddie Mac purchased mortgages for 1.1 million low-income dwelling units, which equated to 70.2 percent of Freddie Mac's qualifying purchases serving this market. With regard to the minority composition of the GSEs' low- and moderate-income performance, 10.6 percent of single-family housing units that qualified towards Freddie Mac's performance served African-American and Hispanic borrowers, compared to 13.1 percent in 2000. This compares to 82 percent for white non-Hispanic borrowers, an increase from 80 percent in 2000. Fannie Mae's minority purchases increased somewhat in 2001, with 13.4 percent of single-family units qualifying as low- and moderate-income purchases serving African American and Hispanic borrowers, compared to 13.2 percent in 2000. Fannie Mae's purchases for white, non-Hispanic borrowers remained unchanged between 2000 and 2001 with 79 percent of purchases serving this market in both years.[6]

Data Discussion. This measure uses calendar-year data from HUD GSE database. There is a one-year reporting lag because the GSEs report to HUD in the year following the performance year.

Programmatic Output Indicator 1.1.h:
The number of homeowners who have been assisted with HOME is maximized (see table under 1.2.d).

Background. The HOME Investment Partnerships Program gives States and local communities flexibility to meet their housing needs in a variety of ways. Many participating jurisdictions choose to use their funds to promote homeownership, both by helping low- and moderate-income families to purchase their homes and by rehabilitating existing owner-occupied units, ensuring that existing homeowners do not lose their homes. In this way, the HOME program contributes to the Presidential initiative to expand homeownership opportunities for minorities and other under-served groups.

HOME also contributes to another HUD priority, reducing the number of households with worst-case housing needs (low-income households who pay more than half of their incomes for housing or who live in substandard housing), by increasing the number of families living in decent, safe, and affordable homes. This indicator measures the number of new or existing homeowner units for which funds have been committed in FY 2002.

Results and Analysis. During FY 2002, participating jurisdictions committed funds to 14,082 existing homeowner rehabilitation units and 32,490 new homebuyer units, for a total of 46,572 units. This total of new homebuyers represents 96 percent of the 2002 target of 33,976 units, thus substantially meeting the 2002 goal. These accomplishments also represent an increase over FY 2001 results by 12.1 percent (1,516 units) for existing homeowner rehabilitation units and by 9.4 percent (2,800 units) for new homebuyer units.

Participating jurisdictions committed a total of $225,000,000 to existing homeowner rehabilitation units and $407,000,000 to new homebuyer units during FY 2002. The per-unit HOME cost of producing a homeowner rehabilitation unit ($15,556) or homebuyer unit ($11,128) increased only modestly compared to FY 2001 by $49 and $203, respectively.

The rescission of $50 million from the HOME Program appropriation that had been originally earmarked for the American Dream Downpayment Initiative (ADDI) and which was scheduled for reallocation to grantees following the inability to pass ADDI authorizing legislation affected accomplishments.

[6] *Minority percentages are HUD estimates based on GSE loan purchase data, including HUD's adjustments for missing data.*

A major ongoing Integrated Disbursement and Information System (IDIS) data clean-up effort eliminated duplicate and inaccurately reported units, and may have affected accomplishments for this indicator.

During FY 2002, HUD continued to provide training and technical assistance, including web-based assistance, to participating jurisdictions to improve their HOME program performance. Six new advanced HOME training courses were rolled out including one focusing on productivity entitled *Measuring Up: A Practical Approach to Measuring Productivity and Performance*.

The accomplishment of this output indicator is affected by several external factors: the level of annual HOME appropriations, the number of new and relatively inexperienced participating jurisdictions entering the program, the choices that participating jurisdictions make among their competing housing needs, fiscal conditions affecting State and local government program staffing levels, and general economic conditions affecting the cost and availability of housing and the income levels of potential homebuyers.

Data Discussion. Data entered by participating jurisdictions in HUD Integrated Disbursement and Information System (IDIS) are used to track quarterly performance. Ongoing HUD-sponsored IDIS training and data clean-up efforts are used to consistently improve data quality and reliability. HUD has established a team of management, technical staff and contractors, under the working title of HOME ROCS! (Re-engineering our Computer System), to make improvements to IDIS beginning in FY 2003 and ultimately reduce the need for data cleanup. Screen designs and terminology are being simplified. More checks (edits) will be added to reduce errors. The report functions are being improved and a search feature added so that users easily find information on activities by grantee and by date range.

Programmatic Output Indicator 1.1.i:
The number of homeowners who have used sweat equity to earn assistance with Self-Help Homeownership Opportunities Program (SHOP) funding is maximized (see table under 1.2.d).

Background. This indicator tracks the number of housing units completed by national and regional nonprofit organizations and consortia receiving SHOP funds during the FY 2002 program year. The SHOP program cycle is a multi-year one; it may take a year or more from the time funds are committed to grantees until the time units are completed. Thus the program goal indicated here is targeted to the number of units completed by grantees during the fiscal year and is not tied to a specific year's SHOP grant.

SHOP funds are limited to an average investment of $10,000 per unit for land acquisition and infrastructure improvements. Up to 20 percent of the grant may be used for administrative costs. Prospective homeowners perform construction-related work with volunteers. Future annual performance reports will continue to track the number of completed SHOP units.

Results and Analysis. During FY 2002, SHOP grantees completed 2,063 housing units, exceeding the program goal of 1,120 completed units by 84 percent. Another 2,936 SHOP units were under development at the close of the fiscal year. SHOP grantees in FY 2002 were Habitat for Humanity, the Housing Assistance Council, Northwest Regional Facilitators, ACORN Housing Corporation, and Wisconsin Association of Self-Help Executive Directors.

The accomplishment of this output indicator is affected by several external factors: the level of SHOP appropriations, the "pass-through" nature of program funds to local affiliates, the level of sophistication of local SHOP organizations in developing and managing self-help housing, and the varying skill levels of the homebuyers and volunteers who work on the construction of the homes. During FY 2002, HUD continued to provide technical assistance upon request to SHOP grantees to improve the efficiency and capacity of the program which, taken together with the increasing experience of the grantees and their numerous affiliates with the SHOP program over the past several years, has led to the very positive production results in 2002.

The SHOP program is targeted to a low-income population with average incomes typically between 30 and 60 percent of area median income. Absent SHOP, few if any of these families could reasonably expect to become homeowners. SHOP directly supports HUD efforts to increase the National homeownership rate and contributes to the President's goal of adding 5.5 million new minority homeowners by the end of the decade. Recognizing the targeting and success of the program, the President proposed a tripling of the funding in the FY 2003 budget, which was funded at 22 million in FY 2002.

Data Discussion. Data reported to HUD by each grantee are used to track quarterly performance. New uniform reporting procedures are under development to ensure consistent and accurate reporting of SHOP accomplishments by grantees and affiliates. The use of standardized definitions for "units completed" and "under development" in reports beginning in 2003 may result in changes to currently reported accomplishments.

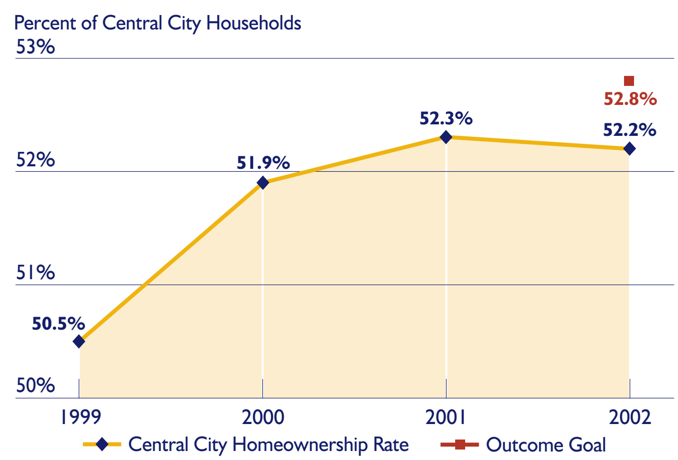
Programmatic Output Indicator 1.1.j:
The homeownership down-payment assistance initiative will be fully implemented and assist 10,000 new homebuyers.

Background. Funding was not provided for the homeownership downpayment assistance initiative in FY 2002 pending authorization. The FY 2003 budget requests $200 million. This initiative will help remove the most significant obstacle to homeownership among lower income groups—that of obtaining the resources to meet upfront down payment and closing costs. In doing so, the initiative will provide an estimated 40,000 families each year with the opportunity to share in the American dream, and will contribute to the President's and Secretary's goal of adding 5.5 million additional minority homeowners by the end of the decade.

Outcome Indicator 1.1.4:
The homeownership rate in central cities increases by 0.5 percentage point to 52.9 percent.

Background. Central cities have below-average rates of homeownership, in part because of higher density development and multifamily rental housing, but also because of losses of middle-class families in past decades. Low levels of homeownership can contribute to neighborhood decline because absentee landlords and their tenants put forth less maintenance effort than homeowners. In such cases, low homeownership often leads to a shrinking municipal tax base. This indicator tracks the progress in reestablishing central cities as desirable places for long-term individual investment. To reflect the limits of HUD span of control relative to the homeownership rates, this indicator was converted to a tracking indicator with no numeric goal beginning with FY 2003. While it will not be a specific HUD goal in the future, the rate will be tracked and presented in the context of HUD's overall homeownership and urban development strategies.

Central City Homeownership Rate



Results and Analysis. The homeownership rate in central cities was 52.2 percent in 2002, not significantly different from 52.3 percent a year earlier. The result fell short of the FY 2002 goal of a 0.5 percentage point increase to 52.8 percent.

A number of HUD programs contribute to homeownership in central cities. FHA insurance supports low- and moderate- income homeownership and assists proportionately more minority households, who are more likely to be central city residents. In addition, of households who receive HOME assistance, over one-third (or roughly 30,000 homebuyers annually) receive homebuyer assistance.

HUD is increasing marketing and outreach efforts to promote central city homeownership, including targeted sales of HUD-owned properties. The Department's geographically targeted goals for the housing GSEs include central city criteria to help ensure that mortgage capital is available. Cities also are making efforts to increase homeownership rates, as grantees increasingly use HOME funds to promote homeownership.

Data Discussion. This measure uses averages of monthly data from the Current Population Survey for the third quarter of the calendar year, corresponding to the fiscal year end. The CPS data are free of limitations affecting the measure's reliability.

Programmatic Output Indicator 1.1.k:
Fannie Mae and Freddie Mac meet or surpass HUD-defined targets for special affordable mortgage purchases.

Background. This output indicator is included under this objective because of its influence on the overall homeownership rate. It is discussed in more detail under output indicator 2.3.c where it supports minority homeownership.

Programmatic Output Indicator 1.1.L:
The share of minority homebuyers among FHA home purchase endorsements increases by 1 percentage point to 43.8 percent.

Background. This output indicator is included under this objective because of its influence on the overall homeownership rate. It is discussed in more detail as indicator 2.3.a, where it supports minority homeownership.

Programmatic Output Indicator 1.1.m:
At least 90 percent of EZ and EC projects achieve local goals in promoting homeownership by residents.

Background. HUD has 79 communities reporting as Empowerment Zones (EZs) or Enterprise Communities (ECs) in FY 2002. HUD measures their performance in seven areas including residents receiving homeownership assistance. Data for this indicator represent the number of grantees that achieved at least 95 percent of their projected outputs divided by the total number of grantees with applicable completed projects. A more detailed discussion of this measure is included under Indicator 4.2.d.

Results and Analysis. In FY 2002, 76 percent of EZ and EC projects met goals with respect to residents that receive homeownership assistance. This level misses the target of 90 percent and is below FY 2001's revised actual of 88 percent. HUD has begun to employ a number of management strategies to help the communities become better at setting reachable goals; however, anecdotal evidence also suggest outside factors sometimes make it difficult for the communities to reach the projected target.

Programmatic Output Indicator 1.1.n:
PATH increases to 200 the number of identified technologies for PATH's emerging technologies inventory.

Background. This indicator tracks the number of "emerging" technologies identified by the Partnership for Advancing Technology in Housing (PATH). PATH is a partnership between Federal agencies and private industry that was launched to develop and accelerate the diffusion of technology in the housing industry. The industry tends to adopt new technologies slowly because of liability issues, building codes, market fragmentation and lack of consumer awareness. Each PATH Technology has at least one attribute that contributes to achieving the PATH goals of affordability, energy efficiency, quality or durability, environmental performance, and safety of occupants or construction crews or disaster mitigation. For FY 2004, PATH will place greater emphasis on advancing the technologies that have already been identified beyond their emergent status.

Results and Analysis. During FY 2002, PATH increased the number of identified technologies[7] to 198. The results fell slightly below the goal of 200 technologies, but the target was set at an approximate level and the slight discrepancy does not reflect materially on overall program performance.

By the end of FY 2001, PATH had identified 160 emerging technologies for the industry. The new total of 198 includes 165 technologies classified as emerging, plus 33 technologies that have "graduated" by advancing beyond 5 percent market penetration. PATH's online Technology Inventory increases awareness of emerging technologies and thus contributes to their successful advancement in the market. The highest priority items will proceed through an evaluation process.

Data Discussion. This measure is based on emerging technologies as recorded in technology inventory index files on PATH's website, ***www.toolbase.org***. HUD is conducting research to develop a better understanding of the process of technological diffusion in the housing industry. The research was completed early in FY 2003. The findings will help PATH develop strategies to accelerate the adoption of cost-effective housing technologies.

Objective 1.2: Affordable rental housing is available for low-income households.

Outcome Indicator 1.2.1:
The number of households with worst case housing needs decreases by 4 percent between 2001 and 2003 among families with children, the elderly, and persons with disabilities.

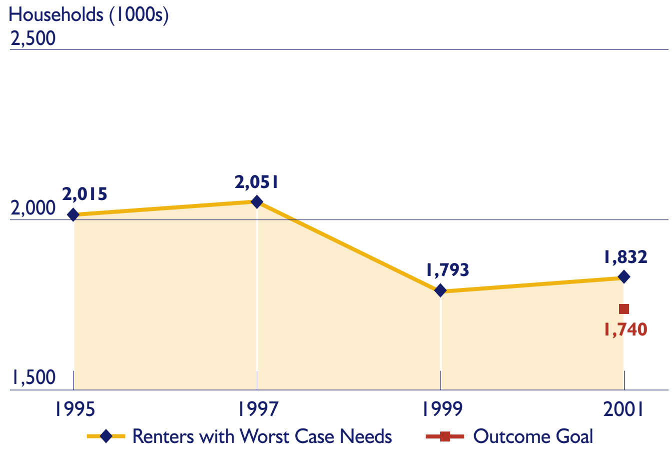
Background. This performance measure provides a central indication of whether HUD and the Nation are advancing or losing ground in the fight to ensure decent, safe and affordable housing for America's families. Because the elderly, disabled persons, and families with children are particularly susceptible to housing problems and targeted by HUD housing programs, they are the focus of this indicator. Worst case needs are defined as unassisted renters with very low incomes and a priority housing problem: either severely inadequate housing or, more commonly, housing costs exceeding 50 percent of monthly income. Data for calendar year 2003 are not yet available for reporting against the FY 2002 goal. However, the 2001 data are newly available to report against the FY 2001 goal, a 3 percent decrease in worst case needs for families with children and elderly households.

[7] *Emerging technologies are defined as those with market share below 5 percent.*

Results and Analysis. Between 1997 and 1999, worst case housing needs declined substantially among families with children and elderly households, surpassing the FY 1999 goal. The most recent available data show that between 1999 and 2001, however, worst case housing needs increased among both groups, missing the FY 2001 goal of a 3 percent decrease.

Among very-low-income families with children, the number of households with worst case needs rose slightly from 1999 levels to 1.83 million in 2001. This increase is not statistically significant.

Worst Case Needs for Housing Assistance Among Families with Children

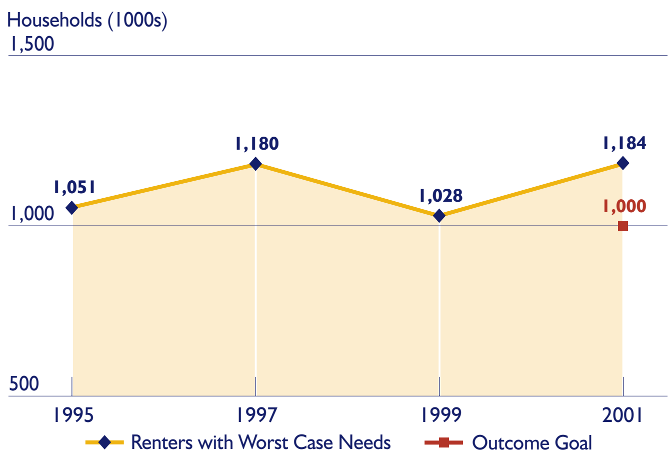


Data Discussion. The calendar year data come from the American Housing Survey (AHS). A number of HUD performance indicators rely upon data from the American Housing Survey, conducted for HUD's Office of Policy Development and Research by the Bureau of Census. The national AHS is conducted biennially in odd years. Because of slight procedural changes in the 1999 AHS, the 1999 estimates shown are not directly comparable with the 1997 estimates. The 2001 data are comparable with the 1999 data, however.

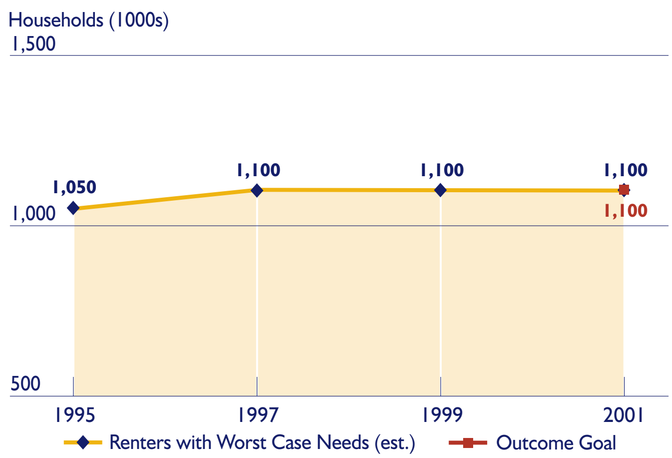
The number of elderly households with worst case needs rose to 1.18 million. This increase is statistically significant.

Among households containing adults with disabilities, worst case needs are estimated to remain at the level of 1.1 million calculated for 1999. Because these estimates are based on AHS data, further adjusted by comparison with Supplemental Security Income (SSI), they are subject to larger sampling error than the estimates for families with children and the elderly.

Worst Case Needs Among Elderly Households



Worst Case Needs Among Households with Disabilities



The increases in worst case needs reflect income losses attributable to the economic downturn combined with continued losses in the number of housing units affordable to these income groups. (Changes in the supply of affordable rental housing are discussed in more detail under indicator 1.2.5.) Many HUD programs, including public housing, Section 8, HOME and CDBG, provide affordable or assisted housing for very low-income renter households. Without these contributions to the affordable housing inventory, it is likely that the worst case needs for the household types measured in this indicator would have been higher in 2001.

Unreported FY 2001 Outcome Indicator:
The share of very-low-income renter households with worst case housing needs declines by at least 1 percentage point in at least five States between 1990 and 2000.

Background. This indicator relies upon data from the long-form Census 2000, which the Bureau of Census has not released in time for this report. This indicator was not carried forward in the FY 2002 APP because of the long reporting interval and the difficulty of attributing results to HUD programs.

Outcome Indicator 1.2.2:
The utilization of Housing Choice Vouchers increases by 2 percentage points from the FY 2000 level to 94 percent.

Background. The Housing Choice voucher program is one of HUD's best tools for providing affordable housing to renters with very-low or extremely-low incomes. While most Housing Choice Vouchers are currently being used to assist low-income families, some PHAs are not fully utilizing all allocated funds. Increasing PHAs' utilization of voucher funds was a key HUD priority for FY 2002.

In the past several years, the Department and Congress have taken a number of steps to improve Section 8 utilization rates. These include: merger of the certificate and voucher programs, reforms to make the voucher program more attractive to landlords, expanded flexibility for PHAs to raise voucher payment standards to respond to changes and variations in local market conditions, a new Fair Market Rent policy that allows housing agencies experiencing low voucher success rates to obtain payment standards based on the 50th rather than the 40th percentile of rents, and authorization to allow housing vouchers to be used for homeownership.

In FY 2002, HUD implemented the Section 8 Management Assessment Program (SEMAP), which scores PHAs on their performance in managing Section 8 programs and heavily emphasizes voucher utilization rates. HUD also plans to adopt a new system for tracking up-to-date utilization rates to allow for early intervention and conduct in-depth research into the caused and potential solutions for underutilization.

This measure tracks the extent to which Housing Choice Vouchers are being utilized by housing agencies through the unit utilization rate, defined as the sum of vouchers under lease divided by the sum of units under Annual Contributions Contracts with housing agencies—excluding vouchers awarded to each HA during its past fiscal year and vouchers issued in connection with litigation. The FY 2000 baseline was 92 percent utilization, as determined from the most recent year-end statements available for each PHA in HUDCAPS in February 2002, and counting only units that had been under contract for 12 months or more at the HA year-end.

Results and Analysis. For the PAR reporting period, FY 2002, utilization of housing choice vouchers was 94 percent. The SEMAP utilization score measures the greater of (1) units leased out of those awarded and contracted under an annual contributions contract or (2) dollars spent out of available budget authority. During the performance period, actual utilization of both units and budget authority increased, by 1 percentage point and 4 percentage points respectively.

The assessment was based on actual financial data from public housing authorities (PHAs), for the PHA quarters ending 9/30/2001, 12/31/2001, 3/31/2002, and 6/30/2002. There were 70 PHAs that had not reported as of the end of the reporting period. For the purposes of a comparable assessment, the FY 2001 baseline included actual financial data from PHAs with fiscal years ending 9/30/2001, 12/31/2001, 3/31/2002, and 6/30/2002. The PHA fiscal year ends were selected because they contained the latest financial data available at the time of the PAR assessment, and provide information for a full year. The financial data required for this indicator cannot use the quarters relating to the federal fiscal year because the data available for the 9/30/2002 PHA quarter have not yet been submitted. PHAs are allowed 60 days after the close of their fiscal year to provide annual financial reports to HUD.

Increasing utilization of vouchers has been a high priority for PIH for the last several years. There have been numerous policy changes implemented that are contributing factors to goal accomplishment. Factors that have had the greatest impact are:

- Issuing SEMAP scores to all PHAs had an effect on utilization. A PHA with utilization of less than 95 percent cannot achieve “High Performer” status.

- Additional funding is only awarded to PHAs that have a 97 percent utilization rate. This serves as an incentive to high performing PHAs.

- HUD also published a new regulation that allows any PHA that is not in an area covered by a 50th percentile FMR to request HUD approval of higher “success rate payment standard amounts” based on the 50th percentile rent. (Certain PHAs with low voucher-holder success rates in leasing housing have been able to request approval for higher “success rate payment standards amounts” since December 2000.)

- The increase in the FY 2002 FMRs was almost double the amount of increase in recent years—on average 5.1 percent more than the previous year’s FMRs. These higher rents have increased the availability of affordable rental units.

Training and technical assistance on utilization are routinely conducted for PHAs when HUD staff are invited to attend industry group meetings and participate in panel discussions. These factors and others have contributed to a national increase in utilization, both lease-up and annual budget authority utilization. In 2001, HUD successfully assisted 1.7 million families, elderly, and disabled program participants. The number continues to rise as we receive more current data from PHAs. We are on target for meeting or exceeding the current year goal.

Data Discussion. HUD Central Accounting Program System (HUDCAPS). Fiscal periods used for this assessment are described in the results and analysis section. The data do not cover an entire federal fiscal year, but represent PHA quarters ending over two federal fiscal years. PHAs with a fiscal year ending on September 30, 2002, have not submitted financial reports as of the PAR reporting period.

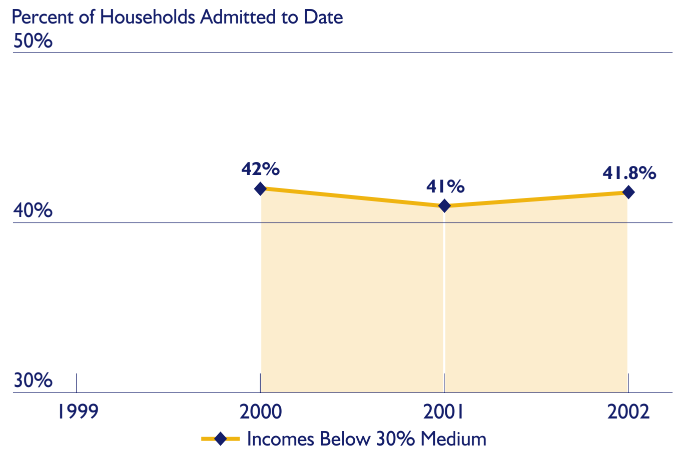
PHA year-end financial data is entered into HUDCAPS and is reviewed by Financial Analysts for consistency and accuracy. All data receives a further review by the HUDCAPS approver. In addition, validation of the data is accomplished through quality control reviews that establish threshold standards. The data is routinely compared to the standard to identify anomalies or inconsistent data. All items determined to be outside of the threshold are verified again and corrected manually in HUDCAPS, where appropriate.

Outcome Monitor 1.2.3:
Among households living in HOME rental developments, the share with incomes below 30 percent of area median at initial occupancy.

Background. The HOME Program contributes a sizable number of new affordable rental units to the housing stock each year. Regulations allow HOME-assisted rental developments to admit households with incomes up to 80 percent of area median, but 90 percent of residents must have incomes below 60 percent of median. HOME currently exceeds these statutory requirements.

Although HOME rental developments are not required to serve families with incomes below 30 percent of the area median, HUD believes it is important to track this usage, as such families have the greatest incidence of worst-case housing needs (defined as low-income households who pay more than half of their incomes for housing or who live in substandard housing). Because the number of such households served by HOME rental developments vary based upon the discretionary decisions of HUD grantees, HUD has not established a specific performance goal for this indicator. However, HUD is tracking and reporting on the proportion of households in HOME rental developments with incomes below 30 percent of area median at initial occupancy through this monitoring indicator.

Percentage of Households Admitted to HOME Rental Developments Who Have Extremely Low Incomes



Results and Analysis. Based on cumulative IDIS (Integrated Disbursement and Information System) data since the beginning of the HOME Program in 1992, 41.8 percent of all households in HOME rental developments have had incomes below 30 percent of the area median (i.e., extremely low-income) at initial occupancy. This rate has stayed relatively stable since FY 2001, when the cumulative percentage of HOME-assisted rental households with incomes below 30 percent of area median was 41 percent.

Data Discussion. The data system used for this indicator is the Integrated Disbursement and Information System (IDIS).

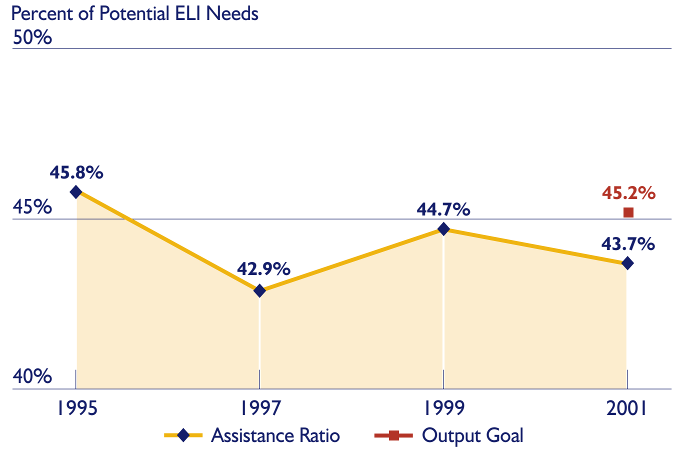
Programmatic Output Indicator 1.2.a:
Among extremely-low-income renters, the ratio of assisted households to households with worst case needs or already assisted increases to 45.7 percent by 2003.

Background. This indicator assesses the disparity between the number of households who qualify for Federal housing assistance and the number who are assisted. Although 2003 data are not available, the newly available 2001 data are being reported against the FY 2001 performance goal. In the FY 2003 APP, this measure has been converted to a tracking indicator, with no associated goal, because the reduction of worst case needs is controlled primarily by economic factors and Congressional appropriations for incremental housing assistance.

Results and Analysis. The most recent available data show that in calendar year 2001, 43.7 percent of extremely-low-income renters who would otherwise have worst case needs received Federal housing assistance. This result fell short of the revised FY 2001 goal of 45.2 percent (published in the FY 2002 APP).

The ratio decreased because fewer households reported that they received rental assistance. This decrease in the assisted population may be related to multifamily property owners who have opted not to continue participating in the Section 8 program. The public housing program, Housing Choice Vouchers, and Section 8 project-based housing are the primary programs that support this indicator.

Ratio of Assisted ELI Renters to ELI Renters with Assistance or Worst Case Needs



Data Discussion. This measure uses data from the biennial American Housing Survey. Counts of assisted households in the AHS are known to be imperfect because survey respondents may be unsure of the source of assistance. To improve this limitation, different questions about assistance were asked beginning in 1997, making the pre-1997 ratios shown not directly comparable to the 1997 data. Further research is being conducted to improve the survey instrument.

Programmatic Output Indicator 1.2.b:
The HOPE VI Revitalization Development program for public housing relocates 4,749 families, demolishes 11,550 units, completes 5,485 new and rehabilitated units, and occupies 4,987 units.

Background. This indicator tracks the implementation of HOPE VI redevelopment plans in terms of four key outputs: households relocated to permit redevelopment, units demolished, new and rehabilitated units completed, and units occupied. The goals reflect planned achievements based on HOPE VI plans submitted to HUD by PHAs. Incremental goals may change if cumulative goals are achieved earlier than expected.

Results and Analysis. In FY 2002, the HOPE VI Revitalization program for public housing exceeded its redevelopment plans in three of the four key outputs. Grantees relocated 4,986 families to permit redevelopment, 5 percent above the goal of 4,749 relocations. Completions of new or rehabilitated units totaled 6,583, exceeding the goal of 5,485 by 20 percent. Families occupied 6,123 units, 23 percent more than the goal. The HOPE VI program demolished 8,787 units, 76 percent of the goal of 11,550 units.

Cumulative HOPE VI Achievements	FY 2001 actual	FY 2002 actual
Households relocated	39,758	44,744
Units demolished	46,827	55,614
Units constructed	14,439	21,022
Units occupied	13,619	19,742

At the end of FY 2002, a cumulative total of 44,744 families had been relocated; 55,614 units had been demolished; 21,022 units (new and rehabilitated) had been completed; and 19,742 completed units had been occupied.

The HOPE VI program office is now emphasizing timeliness and accountability in the implementation of HOPE VI grants. The primary tools for achieving these objectives include vigilant management and monitoring of grants by grant managers, holding PHAs accountable to following their program schedule, extensive use of the Quarterly Progress Reporting System in the all aspects of the HOPE VI program, risk assessment of grantees, trainings and workshops for grantees, and a range of program and policy guidance. In those instances where grantees have difficulties managing their programs, the recapture of funds is a new option available to the Department.

Data Discussion. The data are submitted quarterly to HUD by housing authorities via PIH's HOPE VI Quarterly Progress Reporting System. In addition to the grant management tools mentioned above, field staff verifies reports of redevelopment progress through site visits.

Programmatic Output Indicator 1.2.c:
By helping housing agencies issue rental vouchers in timely fashion, HUD decreases the share of the program administered by housing agencies with substandard lease-up rates by 10 percent.

Background. This indicator tracks the number of PHAs that have substandard lease-up (i.e., utilization) rates and the share of the program that they administer. The standard for substandard lease-up rates for this indicator is based on the Section 8 Management Assessment Program (SEMAP).

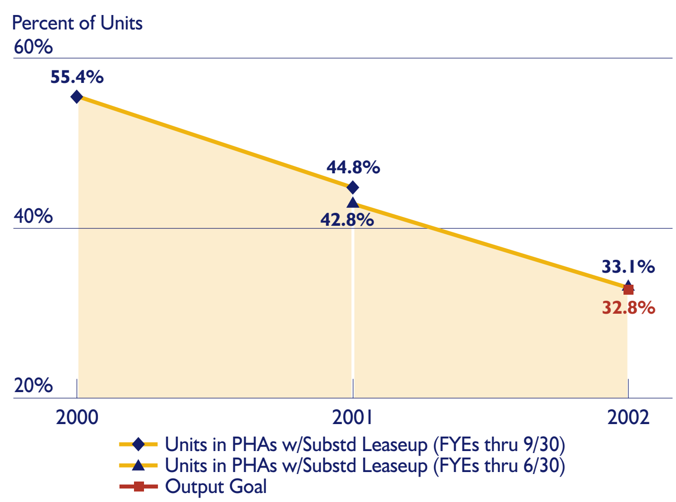
In accordance with the standards in SEMAP, "substandard lease-up" by a housing agency is identified with a two-pronged test of the "lease-up rate" and "budget authority utilization rate" are below 95 percent. Under an improved SEMAP definition for FY 2001 and future years, the lease-up rate is defined as the number of unit-months under Housing Assistance Payments contracts divided by the number of unit-months available for leasing—based on the number of reserved units for which HUD has obligated funding under Annual Contributions Contracts, and adjusted to exclude units associated with funding increments obligated during the last HA fiscal year as well as units obligated for litigation. The budget authority utilization rate is defined as the share of funds for vouchers authorized by HUD that are actually used by the PHA. This indicator focuses on the largest substandard performers by applying unit weights: the sum of reserved vouchers administered by HAs with substandard lease-up is divided by the sum of reserved vouchers program-wide.

In FY 2000, 703,700 Section 8 units, or 44.3 percent of the program, were managed by PHAs with substandard lease-up under the improved SEMAP definition. The FY 2002 goal was to reduce the share of units subject to substandard leaseup by 10 percent from the FY 2001 baseline.

Results and Analysis. In FY 2002, the share of vouchers under management by agencies with substandard leaseup decreased by 9.7 percentage points. The decline substantially met the goal of a 10 point reduction.

The number of PHAs with substandard utilization in the baseline year was 1,208 and 781,821 units (baseline period is identified above), representing 43 percent of the inventory managed by PHAs with

Percentage of Housing Choice Vouchers Managed by Housing Agencies with Substandard Leaseup



substandard performance. The current year PHAs with substandard utilization were 879 and 639,380 units. This represented 33 percent of the inventory managed by PHAs with substandard performance. However, please note that the inventory increased by 104,000 vouchers during the PAR reporting period. A baseline of public housing authorities with financial information for the periods ending 9/30/2000, 12/31/2000, 3/31/2001 and 6/30/2001 was compared to current financial information from PHAs for the periods ending 9/30/2001, 12/31/2001, 3/31/2002 and 6/30/2002. This analysis demonstrated that the number of vouchers administered by PHAs with substandard utilization decreased by 18 percent from 2001 to 2002.

The PHA fiscal year-ends were selected because they contained the latest financial data available at the time of the PAR assessment, and provide information for a full year. The financial data required for this indicator cannot use the quarters relating to the federal fiscal year because the data available for the 9/30/2002 PHA quarter has not yet been submitted. PHAs are allowed 60 days after the close of their fiscal year to provide annual financial reports to HUD.

The information used in this comparison was based on a total count of 2,490 PHAs with 1,826,366 units under contract in the baseline period, and 2,510 PHAs with 1,930,654 units under contract in the current year.

Given the critical task of increasing lease-up in the housing choice voucher program, the Department implemented changes in program policy that resulted in noticeable improvement allowing PIH to exceed the goal. Policies and procedures governing the Section 8 Management Assessment Program have been useful. SEMAP provides for objective measurement of the performance of a public housing agency in key areas of the Section 8 tenant based assistance program, such as utilization. SEMAP enables HUD to ensure that program initiatives are met and increases accountability for PHAs by identifying management capabilities and deficiencies, and by improving risk assessment to effectively target monitoring and program assistance. PHAs can use the SEMAP performance analysis to assess their own program operations. The first SEMAP scores were issued in FY 2001 for PHAs with a fiscal year ended 12/31/2000. PHAs with years ending subsequent to 12/31/2000 have also been assessed and received SEMAP scores.

Other examples of program policies recently implemented to support increased utilization are:

- HUD has provided incentives for high performing PHAs by awarding fair-share incremental vouchers only to PHAs with utilization rates of 97 percent or above.

- HUD issues warning letters to substandard performers to advise them that, if their performance does not improve over two budget cycles, vouchers may be subject to reallocation. The issuance of these letters has had a tremendous impact on increased utilization among this group of PHAs. For example, in 2000 a housing authority in Iowa had a utilization rate of 76 percent. Two years after the warning letter was issued, the current utilization for the year ended June 30, 2002 is 96 percent.

Finally, HUD continues to identify techniques to resolve reasons for PHA inability to lease-up, through internal and external studies. A study conducted in FY 2002 looked at utilization in a sampling of market areas with more than one PHA to identify why some PHAs are more successful than others. The study is due to be published in FY 2003. The results of this study will address some underlying causes and provide recommendations to improve PHA performance.

Data Discussion. HUD Central Accounting Program System (HUDCAPS). Fiscal periods used for this assessment are described in the results and analysis section.

The data do not cover an entire federal fiscal year but consist of PHA quarters ending over two federal fiscal years. PHAs with a fiscal year ending on September 30, 2002 have not submitted financial reports as of the PAR reporting period.

PHA year-end financial data are entered into HUDCAPS and are reviewed by Financial Analysts for consistency and accuracy. All data receive a further review by the HUDCAPS approver. In addition, validation of the data is accomplished through quality control reviews that establish threshold standards. The data are routinely compared to the standard to identify anomalies or inconsistent data. All items determined to be outside of the threshold are verified again and corrected manually in HUDCAPS, where appropriate.

Programmatic Output Indicator 1.2.d:
The number of households receiving housing assistance with CDBG, HOME, HOPWA, and NAHASDA increases.

Background. HUD can utilize a number of programs to assist in providing affordable housing. The HOME Investment Partnerships program is one of HUD's major affordable housing production programs. The HOME Program's block grant structure enables participating State and local governments to build or rehabilitate housing for rent or ownership, provide home purchase or rehabilitation financing assistance to existing homeowners and new homebuyers, and provide tenant-based rental assistance to assist low and moderate income households.

The Community Development Block Grant (CDBG) program is another tool, although housing assistance is only one of several eligible activities among which CDBG grantees may choose.

The Housing Opportunities for Persons With AIDS (HOPWA) program supports the goal of increasing the availability of decent, safe, and affordable housing in American communities by providing emergency, transitional, and permanent housing coupled with supportive services to low-income persons living with HIV/AIDS and their families. HOPWA used its funds to provide housing and related supportive services through short-term rent, mortgage or utility payments; transitional or short-term housing through rental assistance; and facility-based housing assistance. In FY 2002, 108 formula State and eligible metropolitan area grantees and 84 active competitive grants used HOPWA program funds to provide housing and related supportive services.

The Native American Housing Assistance and Self-Determination Act (NAHASDA) of 1996 (25 U.S.C. 4101 et seq.), as amended, established two separate housing assistance programs for American Indians and Alaska Natives. Title I of NAHASDA authorizes the Native American Housing Block Grant (NAHBG) Program, which is the focus of this output indicator. The other program, authorized by Title VI of NAHASDA, is the Tribal Housing Activities Loan Guarantee Program, which provides a Federal guarantee for the repayment of loans made to tribes for NAHASDA-eligible affordable housing activities. Although both programs support the goal of providing affordable housing assistance, only the number of households assisted with NAHBG funds is being tracked through this particular indicator. Under the NAHBG, in FY 2002 participating tribes or their tribally designated housing entities shared $641 million in NAHBG funds allocated through a formula developed under Negotiated Rule Making.

Households Assisted	FY 1999 act.	FY 2000 act.	FY 2001 act.	FY 2002 act.	***FY 2002 goal***
CDBG households	158,280	182,700	172,445	187,380	183,031
HOME tenant-based assistance	8,246	6,899	11,756	10,239	8,439
HOME rental units committed	25,114	33,487	27,456	27,243	27,799
HOME new homebuyers committed	30,695	30,748	29,690	32,490	33,976
HOME existing homeowners committed	13,952	14,731	12,566	14,082	15,444
HOME total households	78,007	85,865	81,468	84,054	85,658
HOPWA households	41,670	43,902	*72,117	**91,065	68,000
SHOP homeowners	1,983	1,675	1,655	2,063	1,120
NAHBG households	–	–	—	***52,000	20,669

**This number differs from the one in the FY 2001 PAR because HOPWA used a more accurate system (IDIS) to generate data.*

***As of December 11, 2002.*

****The 2002 actual is based on the 1998-2001 average and has been carried over to 2002. All 2002 Annual Performance Reports (APR) have not yet been submitted because many tribes have fiscal years that end at the calendar year. The FY 2002 actual base will be modified in March 2003 after all APRs are received. ONAP is establishing FY 2001 as a baseline for future projections and this baseline will be adjusted to reflect FY 2002 actual numbers.*

Combined, all measures tracked by this indicator show the contribution of important HUD programs toward increasing the national homeownership rate and the number of minority homeowners, two key Presidential and Secretarial priorities. These programs also help reduce the number of households with worst-case housing needs (very-low-income households who pay more than half of their incomes for housing or who live in substandard housing).

Results and Analysis. During FY 2002, the total number of households receiving housing assistance through these programs was 364,260. CDBG, HOPWA, and SHOP exceeded their numeric goals. HOME substantially met its goal for total households assisted, with one component of this total (tenant-based rental assistance) exceeding 2002 projections and the three other components (rental units, homebuyer units, and existing homeowner units) falling slightly short of projections. Data were not available for the NAHASDA program.

CDBG. For FY 2002, the number of households receiving housing assistance with CDBG was 187,380 households, 2.4 percent greater than the FY 2002 projected goal of 183,031 assisted households. This FY 2002 accomplishment is also an 8.7 percent increase over the FY 2001 actual performance level of 172,445 units assisted.

Continued progress in this area is dependent on adequate funding for technical assistance and for improvements to the Integrated Disbursement and Information System (IDIS). Other external factors that may affect the level of accomplishments in the future are the level of CDBG annual appropriations, the choices grantees make among their community, housing and economic development needs, and the level of availability of other resources, notably local and state funds that are used in conjunction CDBG assisted housing.

HOME. In the HOME program, participating jurisdictions committed 84,054 new units of assisted housing for FY 2002, substantially meeting the 2002 goal by achieving 98 percent of the target of 85,658 units. The 2002 performance also represents an increase of 2,586 units, or over 3 percent, compared to FY 2001. Of the 2002 total, 27,243 units were rental housing, 32,490 units were homebuyer housing, 14,082 units were existing homeowner rehabilitation housing and 10,239 units were tenant-based rental assistance (TBRA). TBRA units exceeded the estimate by 1,800 units, while rental units, homebuyer units, and existing homeowner units were less than estimated. A major ongoing IDIS data clean-up effort eliminated duplicate and inaccurately reported units, and may have contributed to the small shortfall in overall accomplishments.

The blended per-unit HOME cost average of producing a rental, homebuyer or homeowner unit increased by $334, or approximately 2 percent from the FY 2001 level. The rescission of $50 million from the HOME Program appropriation that had been originally earmarked for the American Dream Downpayment Initiative (ADDI) and which was scheduled for reallocation to grantees following the inability to pass ADDI authorizing legislation impacted accomplishments (see Indicator 1.1.j).

During FY 2002, HUD continued to provide training and technical assistance, including web-based assistance, to participating jurisdictions to improve their HOME program performance. Six new advanced HOME training courses were rolled out including one focusing on productivity entitled *Measuring Up: A Practical Approach to Measuring Productivity and Performance*. HUD also issued monthly production reports, which were posted on the web, and aggressively followed-up with participating jurisdictions that were not meeting production goals—including deobligating funds from those that failed to meet the 24-month statutory commitment deadline. Participating jurisdictions committed $1.4 billion in HOME funds to projects during FY 2002.

The accomplishment of this output indicator is affected by several external factors: the level of annual HOME appropriations, the number of new and relatively inexperienced participating jurisdictions entering the program, the choices that participating jurisdictions make among their competing housing needs, and general economic conditions affecting the cost and availability of housing and the income levels of potential homebuyers. For additional details on the HOME Program, see indicator 1.1.h.

HOPWA. A preliminary estimate based on FY 2002 financial data anticipates that the Housing Opportunities for Persons With AIDS (HOPWA) program supported 91,065[8] units of housing, exceeding HUD's goal of 68,000 units by 34 percent. This compares with the comprehensive data for FY 2001 that shows that 72,117 households received housing assistance through both formula and competitive HOPWA programs that used the calculation of CAPER and APR reports. As the remaining HOPWA formula and competitive grantees submit accomplishment information to HUD, the office will update these report accomplishments. For the first time the HOPWA data are provided through the use of IDIS and reflect substantial progress in the accurate use of this system.

In FY 2002, HUD's financial system documented that HUD disbursed $313.5 million to HOPWA grantees to support HIV/AIDS housing programs across the country. This compares to the $240 million disbursed in FY 2001 and shows that the program continues to grow in its support of persons living with HIV/AIDS and their families.

NAHASDA. Based on the 1998-2001 average results, a preliminary estimate of 52,000 assisted households has been established as the FY 2002 result for the Native American Housing Block Grant program. (See the table footnote and the data discussion below.) The Office of Native American Programs provided extensive technical assistance, training, and on-site consultations to the Tribes during FY 2002.

SHOP. The SHOP program completed 2,063 properties in FY 2002, exceeding the goal of 1,120 units by 84 percent. Under SHOP, grant funds are combined with local funding and donated materials, and prospective low-income homeowners contribute "sweat equity" by performing construction-related work with volunteers, which vastly reduces labor costs. Grantee organizations such as Habitat for Humanity play a critical role in motivating volunteer resources and supporting affiliates. For additional details on the SHOP Program, see indicator 1.1.i.

[8] *The data will be validated by grantees.*

Data Discussion. Data for CDBG, HOME, and HOPWA are reported in the Integrated Disbursement and Information System. During FY 2002, the Department undertook a major data clean-up effort to improve the quality of data reported and eliminate duplicate or erroneous entries. Ongoing HUD-sponsored IDIS training and extensive follow-up with grantees to obtain corrections was part of the effort.

The HOME Program office has established a team of management, technical staff and contractors, under the working title of HOME ROCS! (**R**e-engineering **o**ur **C**omputer **S**ystem), to make improvements beginning in FY 2003 to IDIS and ultimately reduce the need for data cleanup. Screen designs and terminology are being simplified. More checks (edits) will be added to reduce errors. The report functions are being improved and a search feature added so that users easily find information on activities by grantee and by date range.

In the case of HOPWA, the reported accomplishments are based on annual reports from formula and competitive grantees, which are due to HUD 90 days after the close of the grantee's performance year. For the FY 2002 period, the grantees' reports received to date from IDIS for formula projects and from Annual Performance Reports (APR) for active competitive grantees demonstrate that 91,065 units of housing have been supported by HOPWA during FY 2002. It should be noted that the data are substantially complete but do not include all grantees. A number of grantees using IDIS will complete their reports within 90 days of the completion of the their program year and 28 remaining competitive grantees will complete their APR in the coming months. A HOPWA technical assistance provider, CSC, Inc., is currently working with grantees to update and validate this information through the data clean-up process and expects to have complete and accurate accomplishment data scheduled for February 2003.

NAHASDA data are based on annual performance reports submitted by grantees corresponding to their respective Indian Housing Plans. The Public and Indian Housing Information Center (PIC) system captures this data. Because of technical difficulties, the PIC system was not available to the Office of Native American Programs during FY 2002. The office, in conjunction with ONAP field offices located in Chicago, Oklahoma City, Denver, Phoenix, Seattle, and Anchorage, is currently developing internal spreadsheets to collect the relevant information. ONAP plans on using this system for FY 2003 if the PIC system is not available.

Programmatic Output Indicator 1.2.e:
The number of HOME production units that are completed within the fiscal year will be maximized.

Background. States and localities receiving HOME Investment Partnership funds can promote affordable housing by funding rental or homeownership projects. Participating jurisdictions can use funds to provide downpayment and closing cost assistance to homebuyers, construct new homebuyer or rental units, and acquire or rehabilitate existing housing units. HOME runs on a multi-year program cycle; funds committed to participating jurisdictions in one fiscal year may not result in built or assisted housing units until a subsequent fiscal year. This indicator tracks the number of HOME-assisted units that have been completed and put into service in FY 2002.

HOME Units Completed	FY 1999 act.	FY 2000 act.	FY 2001 goal	FY 2001 act.	*FY 2002 goal*
HOME rental units produced	18,806	29,309	20,453	19,076	20,341
HOME new homebuyers	25,008	34,126	24,757	23,241	27,048
HOME existing homeowners	12,254	13,174	9,938	10,027	13,254
HOME total households assisted	56,068	76,609	55,148	52,344	60,643

Results and Analysis. During FY 2002, participating jurisdictions completed 52,344 HOME-assisted production units, 13.6 percent less than the goal of 60,643 units. Of this total, 19,076 units were rental housing, 23,241 units were homebuyer housing and 10,027 units were existing homeowner rehabilitation housing. The number of completed units fell short of the estimate in each category. The FY 2002 goals were clearly over-ambitious in light of the fact that HOME funding did not increase from FY 2001 levels, and the capacity of State and local governments to undertake and manage additional projects has not improved over the past several years. A major IDIS data clean-up effort eliminated duplicate and inaccurately reported units, and may also have contributed to the reduction in overall accomplishments.

The blended per-unit HOME cost average of producing a rental, homebuyer or homeowner unit increased by $334, or approximately 2 percent, compared to FY 2001. Participating jurisdictions disbursed $1,278,966,000 in HOME funds to projects during FY 2002.

During FY 2002, HUD continued to provide training and technical assistance, including web-based assistance, to participating jurisdictions to improve their HOME program performance. Six new advanced HOME training courses were rolled out including one focusing on productivity entitled *Measuring Up: A Practical Approach to Measuring Productivity and Performance*. HUD also issued monthly production reports, which were posted on the web, and aggressively followed-up with participating jurisdictions that were not meeting production goals. All participating jurisdictions have met the five-year expenditure deadline.

The accomplishment of this output indicator is affected by several external factors: the level of annual HOME appropriations, the number of new and relatively inexperienced participating jurisdictions entering the program, the choices that participating jurisdictions make among their competing housing needs, fiscal conditions affecting State and local government program staffing levels, and general economic conditions affecting the cost and availability of housing and the income levels of potential homebuyers.

Data Discussion. Data entered by participating jurisdictions in HUD Integrated Disbursement and Information System (IDIS) are used to track quarterly performance. Ongoing HUD-sponsored IDIS training and data clean-up efforts are used to consistently improve data quality and reliability. HUD has established a team of management, technical staff, and contractors under the working title of HOME ROCS! (Re-engineering our Computer System) to make improvements beginning in FY 2003 to IDIS and ultimately reduce the need for data cleanup. Screen designs and terminology are being simplified. More checks (edits) will be added to reduce errors. The report functions are being improved and a search feature added so that users easily find information on activities by grantee and by date range.

Programmatic Output Indicator 1.2.f:
All households living in HOME-assisted rental units will be income eligible and pay appropriate rent.

Background. HOME requires that rental housing be occupied by income-eligible tenants at affordable rents for a period of five to twenty years after completion, depending on the type and amount of HOME assistance. The Office of Policy Development and Research awarded a contract for a baseline survey of HOME rental developments to determine compliance with HOME long-term affordability requirements. This study was completed in June 2001. Based on the results of this study, future performance plans will not track this programmatic output indicator. This data can only be extracted at project completion from HUD Integrated Disbursement and Information System (IDIS). Ongoing compliance is generally reviewed as part of HUD's on-site monitoring of a participating jurisdiction's HOME performance.

Results and Analysis. The June 2001 study of HOME-assisted rental housing found that 95 percent of the units surveyed were in compliance with HOME rent requirements two or more years after completion. This result substantially meets the goal of complete eligibility. The study concluded that the few cases of non-compliance with HOME rent requirements were caused by misunderstandings about the HOME requirements. HUD will address these misunderstandings through technical assistance and training. A web-based training module on managing HOME-assisted rental developments to ensure program compliance is in development and additional sessions of our course on property and asset management are scheduled for nationwide delivery.

Data Discussion. A study of HOME-assisted rental housing was used for this indicator. See, HUD Office of Policy Development and Research, 2001. "Study of the Ongoing Affordability of HOME Program Rents." Available at ***www.huduser.org***.

Programmatic Output Monitor 1.2.g:
The share of units of public housing and Section 8 programs that are occupied by families with children, elderly, and persons with disabilities.

Background. This is a tracking indicator that measures the share of households with various characteristics that receive rental assistance through the public housing operating fund, Housing Choice Vouchers, or project-based Section 8 assistance in privately-owned multifamily developments. No goals are established for this indicator because housing providers have discretion regarding admissions policies. HUD includes these data in its Annual Performance Plan to inform policy decisions by Congress and HUD.

Results and Analysis. No goals are established for this indicator. The public housing and voucher programs continued to serve a sizable proportion of families with children. For the private project-based Section 8 program, in contrast, families with children are less than a third of households, while elderly households account for nearly half of households. Preferences for which families to admit are determined by housing providers, not by HUD.

Units in Program Occupied by Families of Various Attributes

	No Children			With Children		
	elderly	non-elderly disabled	non-elderly non-disabled	elderly	non-elderly disabled	non-elderly non-disabled
Public Housing	31.3%	14.9%	11.5%	1.5%	4.3%	36.5%
Housing Choice Vouchers	15.1%	16.7%	8.0%	1.0%	7.7%	51.5%
Project-based Section 8	48.5%	13.3%	8.1%	0.7%	2.3%	27.1%

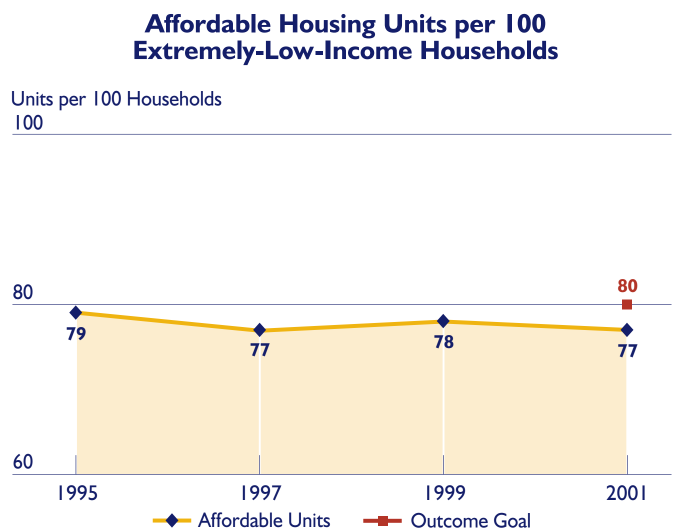
The affordable rents paid under these programs in most cases keep assisted households from falling into worst case housing needs.

Data Discussion. Data about households served by public housing and vouchers are from the PIH Information Center (PIC) 50058 system. Data about households receiving project-based Section 8 assistance are from the Tenant Rental Assistance Certification System (TRACS). Data are believed to be reliable for this measure. The PIC reporting rate was only about 70 percent during this snapshot, but no household category varied more than 2.1 percentage points from a May 31, 2001 snapshot with nearly complete reporting. Both PIC and TRACS systems verify the accuracy of tenant data by performing automated checks on data ranges and internal consistency.

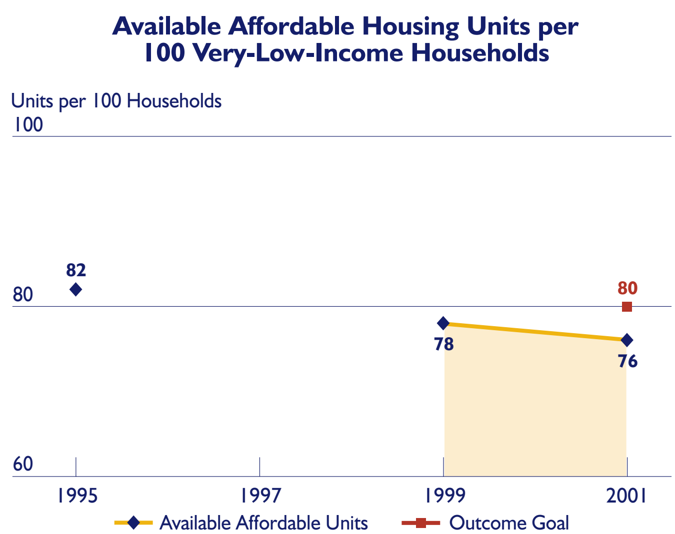
Outcome Indicator 1.2.5:
The ratio of units available and affordable to extremely- and very-low income families increases to 43 percent and 72 percent, respectively, in 2003.

Background. This indicator uses two of the best measures available to compare the relationship between supply of affordable housing and the demand for it. The 2003 American Housing Survey data needed to report against the FY 2002 goals are not yet available, but 2001 AHS data are newly available to report against the FY 2001 goals.

An extremely-low-income renter (ELIR) is one whose income is less than 30 percent of area median income (AMI). In 1999, there were 8.5 million extremely-low-income renters, but only 6.7 million units affordable to them (78 units per 100 renters). And because 3.1 million of these units were occupied by higher income renters, there were only 42 affordable and available units per 100 ELI renters, and 3.75 million ELI renters had worst-case housing needs. A very-low-income renter (VLIR) is one whose income is less than 50 percent of area median income. Much of HUD's rental assistance is targeted to ELI and VLI renters.



Results and Analysis. The latest available data show that in calendar year 2001, the number of affordable units decreased to 77 per 100 extremely-low-income households. The decrease of 1 unit fell short of the FY 2001 goal of a 2 unit increase. The results for very-low-income renters also missed the FY 2001 goal of a 2 unit increase, decreasing to 76 units affordable and available per 100 very-low-income renter households. (For both measures, the FY 2001 targets have been revised on the basis of the revised baselines shown, which are now based on HUD adjusted median income figures rather than on unadjusted median incomes.)



The values shown in the chart for extremely-low-income renters are simply affordable units, rather than the affordable ***and available*** units that will be used to report on the FY 2002 goal using 2003 data. By comparison, only 43 units were both affordable and available per 100 ELI renters in 2001, a slight improvement from 42 units in 1999, and on track to meet the FY 2002 goal. The corrected 2001 value shown for very-low-income renters (76 units per 100 households) makes the FY 2002 target of 72 units shown above ineffective and essentially moot.

Unreported FY 2001 Outcome Indicator:
Ratios of affordable units to extremely-low-income households will be higher for at least six of the 30 States that in 1990 had absolute shortages of rental units affordable to extremely-low-income households.

Background. This indicator relies upon data from the long-form Census 2000, which the Bureau of Census has not released in time for this report. Because of the difficulty in attributing the results of this indicator to HUD programs, the indicator was not included in the FY 2002 Annual Performance Plan.

Unreported FY 2001 Outcome Indicator:
Ratios of affordable rental units to rental households will be higher for at least four of the 16 States that in 1990 had absolute or relative shortages of rental units affordable to very-low-income households.

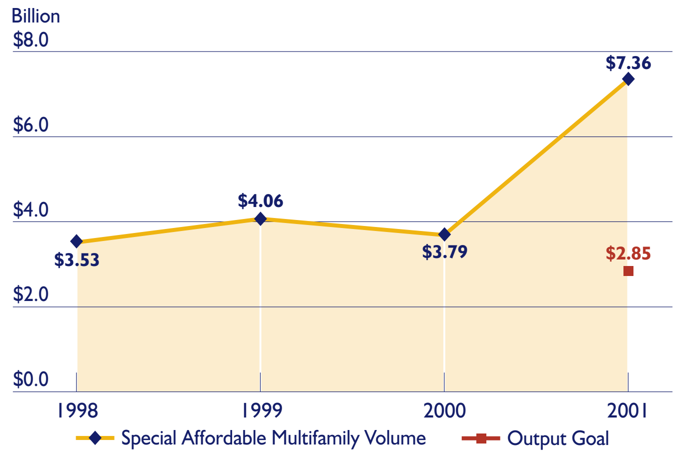
Background. This indicator relies upon data from the long-form Census 2000, which the Bureau of Census has not released in time for this report. Because of the difficulty in attributing the results of this indicator to HUD programs, the indicator was not included in the FY 2002 Annual Performance Plan.

Programmatic Output Indicator 1.2.i:
Fannie Mae and Freddie Mac meet or surpass HUD-defined targets for special affordable multifamily mortgage purchases.

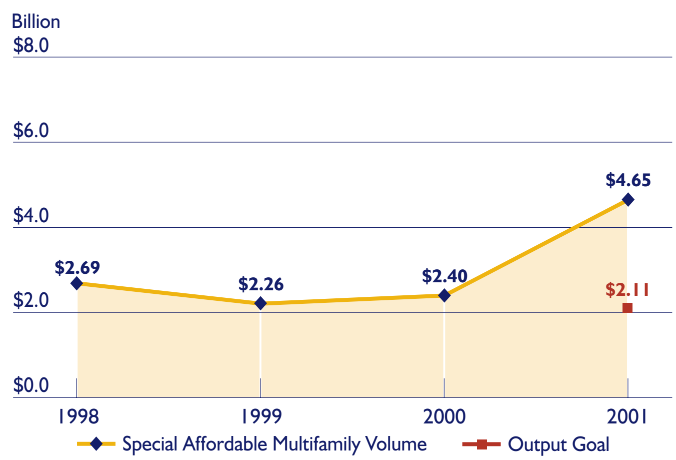
Background. This indicator tracks the performance of Fannie Mae and Freddie Mac (two housing Government-Sponsored Enterprises or "GSEs") in providing capital for special affordable multifamily housing. The GSEs purchase, guarantee, or acquire interests in multifamily mortgages secured by residential properties that contain at least five dwelling units. When a GSE acquires a multifamily mortgage, or an interest in such mortgages, it is entitled to count the dwelling units towards the calculation of the Special Affordable Multifamily target to the extent that the units meet HUD eligibility requirements. Qualifying multifamily mortgages are those that fund dwelling units affordable to families earning incomes less than or equal to 60 percent of the area median income, or that are affordable to families earning incomes which are less than or equal to 80 percent of the area median income and which are also located in low-income areas.

Results and Analysis. In calendar year 2001, Fannie Mae purchased $7.36 billion of qualifying multifamily mortgages, far exceeding the goal of $2.85 billion. Freddie Mac purchased $4.65 billion; also well above its goal of $2.11 billion.

Fannie Mae Performance Relative to Special Affordable Multifamily Target



Freddie Mac Performance Relative to Special Affordable Multifamily Target



HUD implemented new scoring rules in 2001 that included bonus point incentives for the acquisition of small (5-50 unit) multifamily properties that typically serve lower-income families. Although these bonus points are not applied to the dollar volumes both GSEs counted towards the Special Affordable Multifamily target in 2001, they did provide incentive for the GSEs to increase their purchases of small multifamily properties. Because qualifying multifamily loans counted towards other HUD-defined targets may also be counted towards the affordable multifamily target, these purchases contributed to the strong results achieved under the multifamily target in 2001. For example, Fannie Mae's acquisition of units in small multifamily properties that qualified under the special affordable multifamily target increased from 4,450 units in 2000 to 17,255 units in 2001. Units financed by Freddie Mac increased substantially during this period from 1,636 units in 2000 to 36,600 units in 2001.

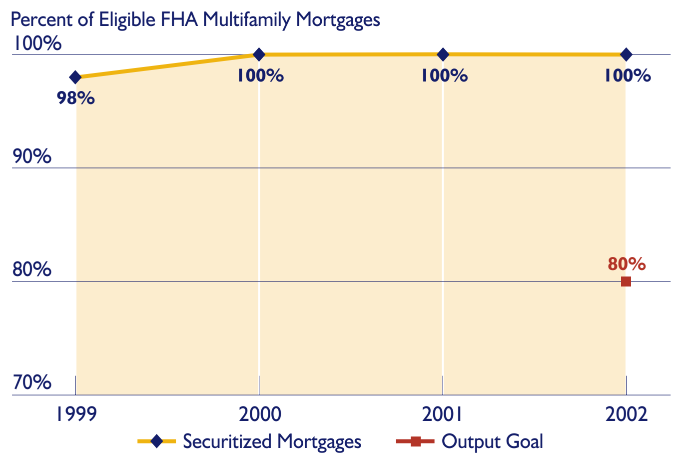
Data Discussion. This measure uses calendar-year data from HUD GSE database. There is a one-year reporting lag because the GSEs report to HUD in the year following the performance year.

Programmatic Output Indicator 1.2.j:
Ginnie Mae securitizes at least 80 percent of eligible FHA multifamily mortgages.

Background. The Government National Mortgage Association (Ginnie Mae) is a wholly owned instrumentality of the United States government within HUD. Section 306(g) of the National Housing Act authorizes Ginnie Mae to facilitate the financing of residential mortgage loans insured or guaranteed by the Federal Housing Administration, the Department of Veterans Affairs, and the Rural Housing Service. For multifamily residential lending, Ginnie Mae uses two major programs, Mortgage-Backed Securities and Multiclass Securities.

Results and Analysis. Ginnie Mae surpassed its FY 2002 goal of 80 percent by securitizing 100 percent of eligible FHA multifamily mortgages. Ginnie Mae increased efficiency by streamlining requirements for the multifamily program. The multifamily portfolio steadily grew in both loan volume and remaining principal balance at an annualized rate of ten percent. The multifamily remaining principal increased to $25 billion in FY 2002 from $22 billion in FY 2001. Investors in multifamily securities used Ginnie Mae multifamily MBS programs because of the stability of insured government guaranteed loans over conventional loans. Additionally, low interest rates contributed to performance improvement in FY 2002.

Eligible FHA Multifamily Mortgages Securitized by Ginnie Mae



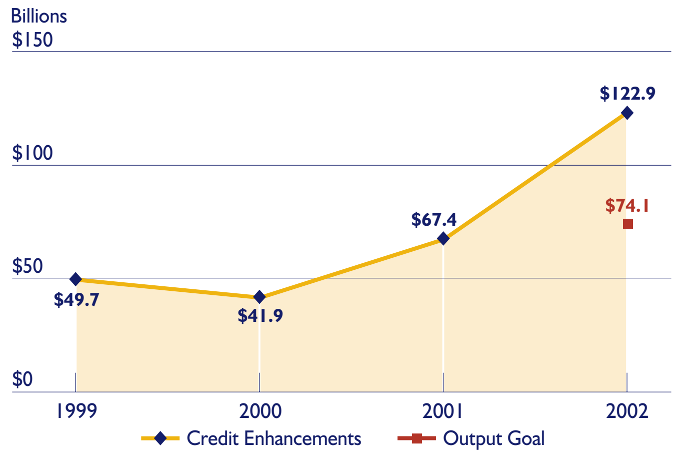
Data Discussion. This measure is based on a Ginnie Mae database of multifamily loan securities compared with a FHA multifamily database with ineligible projects excluded. Ginnie Mae and FHA data are subject to audits.

Programmatic Output Indicator 1.2.k:
Ginnie Mae credit enhancements on multi-class securities increase by 10 percent to $50.7 billion in FY 2002.

Background. The Government National Mortgage Association (Ginnie Mae) is a wholly owned instrumentality of the United States government within HUD. Section 306(g) of the National Housing Act authorizes Ginnie Mae to facilitate the financing of residential mortgage loans insured or guaranteed by the Federal Housing Administration, the Department of Veterans Affairs, and the Rural Housing Service. Multi-class securities products include Real Estate Mortgage Conduits (REMICS) and Ginnie Mae Platinum Securities.

Results and Analysis. In FY 2002, Ginnie Mae increased the volume of multi-class securities to $122.9 billion, exceeding the target by 65.9 percent, and resulting in an increase of 82 percent from FY 2001. Ginnie Mae capitalized on lower mortgage costs, increased volatility in the equity markets, and strong investor demand, which resulted in a record REMIC transaction volume 191 percent greater than FY 2001. Specifically, Ginnie Mae guaranteed 86 REMIC transactions totaling $75.1 billion, up from 55 REMIC transactions totaling $25.8 billion in FY 2001. The Ginnie Mae Platinum transactions increased 15 percent ($6.2 billion) from FY 2001 to $47.8 billion.

Issuances of Ginnie Mae Credit Enhancements on Multi-Class Securities



Data Discussion. This measure is based on the Offering Circular Supplement or a REMIC prospectus. The Platinum is based on the Ginnie Mae Integrated Pool Management System (IPMS).

Programmatic Output Indicator 1.2.L:
FHA endorses at least 800 multifamily mortgages.

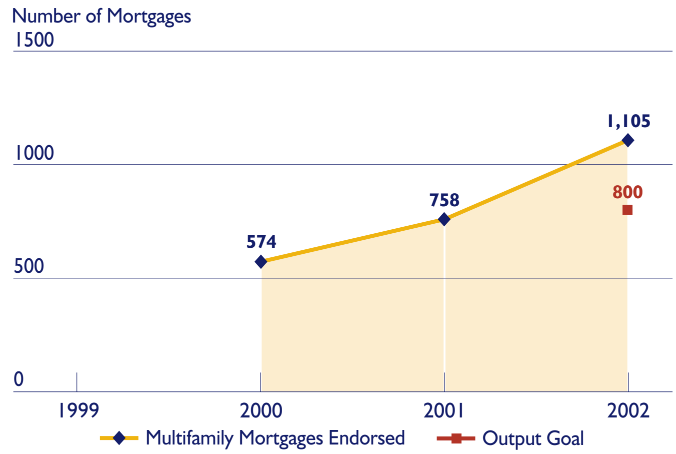
Background. FHA multifamily mortgage insurance is vitally important to a number of higher risk segments in the housing industry, including small builders, buyers or owners of aging inner-city properties, and nonprofit sponsors. The Federal Housing Administration offers many unique and valuable products in the market and brings stability to the market. FHA also retains a leadership position in the market for high loan-to-value and long-term fully-amortizing multifamily loans, which can help in the provision of affordable rental housing. The FY 2002 goal was 800 multifamily mortgage initial endorsements.

Results and Analysis. For FY 2002, FHA endorsed 1,105 FHA-insured loans, exceeding the performance goal by 38 percent. This compares with 758 loans in FY 2001 and nearly doubles the 574 loans made in FY 2000.

HUD's 51 Multifamily Hubs and Program Centers initially endorsed 1,048 loans equal to $6,054,500,000, which financed about 140,000 housing units and beds in nursing homes and assisted living facilities. In addition, FHA shared the risk with state housing finance agencies for an additional 57 loans totaling $437,500,000 and approximately 7,200 units.

The high level of FHA mortgage insurance in FY 2002 was due largely to low mortgage interest rates and the widespread use by lenders of Multifamily Accelerated Processing, abbreviated as MAP. MAP was introduced in the summer of 2000 as a national program, replacing a variety of "fast track" processing programs then used by the HUD field offices.

FHA Multifamily Mortgage Endorsements



MAP places responsibility on the lenders for underwriting the loan and incorporates a HUD review of the lender's work with a final approval by HUD. In FY 2002, the Department created a Lender Qualification and Monitoring Division. The Division has begun reviewing the underwriting and compliance with regulations by the lenders on MAP transactions in accordance with recommendations from the General Accounting Office. Warning letters and sanctions have been issued in several cases in FY 2002.

On three occasions in the last nine years, FHA was forced to temporarily shut down several of its popular construction programs because its appropriation for credit subsidy was exhausted. For FY 2002, FHA raised the mortgage insurance premium for its Section 221(d)(4) program to 80 basis points (eight tenths of one percent) in order to eliminate the requirement for credit subsidy for the program. For FY 2003, HUD examined the statistical techniques that were used to evaluate loan performance; updated and refined FHA data, considered FHA underwriting changes and incorporated the major tax law changes in the 1980s that affected the profitability of multifamily housing. As a result of the reanalysis of credit subsidy, the Department was able to make the Section 221(d)(4) program a self-sustaining program at a 57 basis point premium. The premium was reduced from 80 basis points to 57 basis points effective October 1, 2002.

Programmatic Output Indicator 1.2.m:
Among multifamily developments newly insured by FHA the share of units that are combined with Low Income Housing Tax Credits increases by 1 percentage point from FY 2001 levels.

Background. This performance indicator provides a means of measuring changes from year to year in the share of newly insured FHA multifamily properties that are affordable to lower income households. Such affordability cannot be measured directly because FHA does not collect the tenant income data and rent data are not updated once these properties become operational. However, a good proxy for measuring year-to-year changes (though not the overall volume of affordable loans) is the share of FHA-insured properties that also utilize the LIHTC or its income and rent restrictions. Under the LIHTC, at least 20 percent of the units must be available to tenants with incomes below 50 percent of local median income or 40 percent of the units available to tenants below 60 percent of median income. Rents are capped at 30 percent of either 50 percent or 60 percent of median income. The indicator also provides a direct measure of the extent to which FHA multifamily insurance is used to help facilitate the development of properties with tax credits, which often involves complicated underwriting arrangements. In recent years, there has been increasing activity in the Section 542 Risk-Sharing program, under which Housing Finance Agencies underwrite FHA insured loans and share the risk with FHA. Properties insured under Section 542 must meet the income and rent restrictions of the LIHTC and, in most cases, also receive the LIHTC. Consequently, this measure includes both LIHTC and Risk-Sharing developments.

Results and Analysis. During FY 2002, multifamily developments newly insured by FHA and which were combined with Low Income Housing Tax Credits comprised 8.3 percent of the units endorsed in FY 2002.

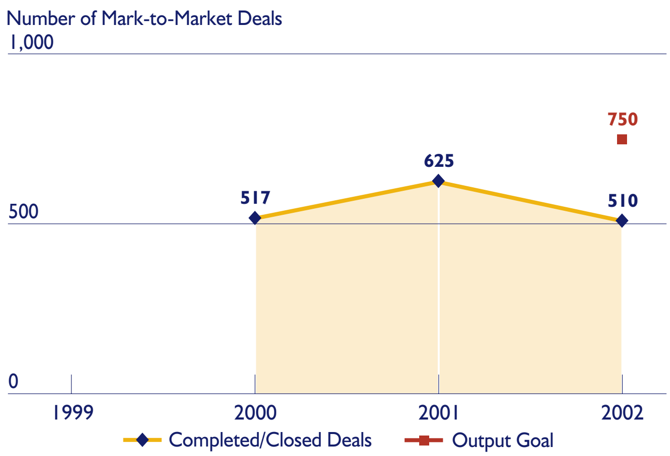
This percentage represents 12,248 units endorsed with over $679 million of insurance through new construction, rehabilitations, refinancing and risk-sharing (Sections 207, 220, 221(d)(3), 223(a)(7) and 542(c)). HUD did not develop FY 2001 data for this indicator nor will it carry this measure forward into FY 2003 due to the lack of tools the Department has for affecting the affordability of multifamily developments.

Programmatic Output Indicator 1.2.n:
Under the M2M program, HUD will reduce the rents and, where appropriate, complete a mortgage restructuring on 750 deals.

Background. Under the Mark-to-Market (M2M) program, the Office of Multifamily Housing Assistance Restructuring (OMHAR) analyzes FHA-insured multifamily properties for which Section 8 rents exceed comparable market rents, and reduces Section 8 rents to bring them in line with comparable market rents or levels that preserve financial viability. Properties also are eligible for debt restructuring that involves a write-down of the existing mortgage in conjunction with the reduced rent levels. The M2M program seeks to preserve affordable housing stock by maintaining the long-term physical and financial integrity of such housing and to reduce the Section 8 rental assistance costs and the cost of FHA insurance claims. The FY 2002 goal of 750 projects completed/closed was established in the Revised FY 2002 APP. For FY 2003, the revised target is 470 projects completed/closed, reflecting the current pipeline and performance data. The volume of properties received has been less than expected and a significantly greater portion of the pipeline has been for full debt restructurings rather than rent restructurings.

Results and Analysis. During FY 2002, OMHAR had initially projected 494 new referrals; however, only 315 properties, or 64 percent of the estimated new referrals, were actually received into the M2M program. OMHAR completed/closed 510 deals under the M2M program in FY 2002, which is 68 percent of its revised goal and is proportional to the revised lower number of projects actually referred into the program. Overall, an average of 42 deals were completed/closed and 26 new referrals were received per month. The rent reductions resulted in annual Section 8 savings (non-incurrence of cost) of $40.7 million for FY 2002, $44.3 million for FY 2001 and $23.7 million for FY 2000. Furthermore, 84 percent of the receipts were requests for Full Debt Restructurings, which take approximately 12 months to close.

Number of Mark-to-Market Deals Completed



During the latter part of FY 2002, OMHAR increased its outreach efforts by undertaking an initiative to increase communication and coordination activities with its stakeholders. The initiative is focusing on HUD Hubs, Program Centers, and Project Managers to jointly develop strategies for the most efficient and effective use of OMHAR's tools. Additionally, we are meeting with Section 8 contract administrators, project owners, FHA lenders and other industry groups to update and educate them on the M2M program. Over the last quarter of FY 2002, OMHAR representatives met nationally with 16 of the 18 HUD hubs, 39 of the 54 HUD program centers, and hundreds of owners of affordable housing. The meetings have focused on the benefits of the M2M program to the respective audiences, and the effective use of the M2M restructuring tools in the preservation of affordable housing. The results have included better public understanding of the M2M program, and a resulting increase in project referrals to OMHAR for restructuring during FY 2003.

Data Discussion. This measure uses data from the M2M Management Information System (M2M MIS).

Programmatic Output Indicator 1.2.p:
Among Consolidated Plan jurisdictions with housing agencies, the share that have included housing agency representatives in consolidated planning efforts reaches 90 percent.

Background. This indicator tracks the share of Consolidated Plans that demonstrated that States or communities include officials from housing agencies in a decision-making role. Both States and cities are required to develop Consolidated Plans to assess needs and determine strategies for allocating HUD grants. Consolidated Plans must consider the full range of community needs to be valid guidelines, and the families served by housing agencies represent an important component of area needs.

Results and Analysis. Data for this indicator are not available for FY 2002 because Consolidated Plans are updated and submitted only every five years. The Office of Community Planning and Development has undertaken a review of the Consolidated Planning and Performance Reporting process to determine how it can be streamlined, made more results-oriented and useful to communities for assessing their own progress toward addressing the problems of low-income areas. Six working groups, including representatives from HUD field offices, grantees, and interest groups have been working to identify issues and design pilots for streamlining and performance measurement. The Department's website has posted this initiative and is soliciting public comment.

Programmatic Output Indicator 1.2.q:
The share of EZ and EC projects achieving local goals is 90 percent for new affordable housing activities and 85 percent for rehabilitated affordable housing.

Background. The Empowerment Zone/Enterprise Community (EZ/EC) program is an important tool for economic and community development in distressed communities. HUD designated 79 EZ or EC communities on the basis of the quality of their locally developed strategic plans and awarded flexible grants to 15 urban Round II EZs. This indicator reflects HUD commitment to empowerment with accountability for its partners, because communities are assessed in terms of the performance relative to the benchmarks in their plans. Data for this indicator represent the number of grantees that achieved at least 95 percent of their projected outputs divided by the total number of grantees with completed affordable housing projects. The goals shown reflect the Revised FY 2002 APP. A more detailed discussion about this indicator is presented as Indicator 4.2.d.

Results and Analysis. In FY 2002, the share of EZs and ECs achieving local goals for new affordable housing activities was 79 percent, and the share that achieved local goals for rehabilitated affordable housing was 76 percent. As a result, HUD did not meet either goal. HUD has begun to employ a number of management strategies to help the communities become better at setting reachable goals; however, anecdotal evidence also suggest outside factors sometimes make it difficult for the communities to reach the projected target.

Objective 1.3: America's housing is safer, of higher quality and disaster-resistant.

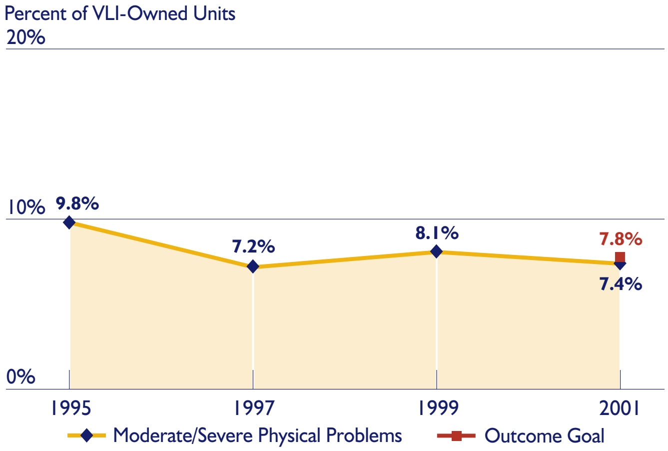
Outcome Indicator 1.3.1:
The share of very-low-income households living in units with moderate or severe physical problems decreases to 6.6 percent for owners and to 12.3 percent for renters by 2003.

Background. This indicator tracks the quality of the Nation's housing stock as experienced by households with limited resources to deal with them. Data from 2003 are not available to report against goals shown above, but calendar 2001 data are now available to report against FY 2001 goals. This indicator is not carried forward to the FY 2003 Annual Performance Plan because of the difficulty of attributing results to HUD programs.

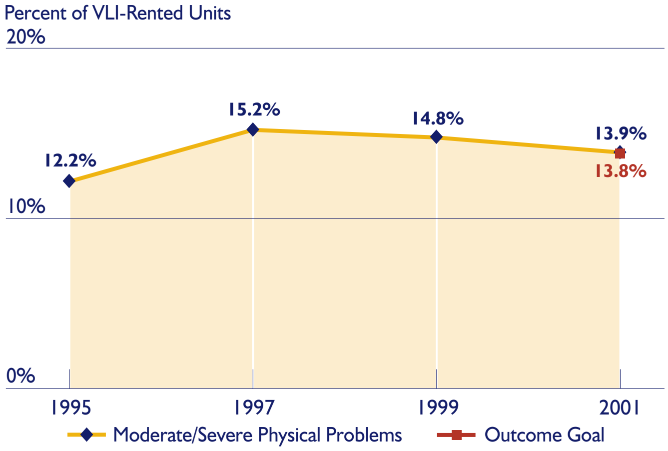
Results and Analysis. The latest available data show that in calendar 2001, 7.4 percent of very-low-income homeowners had moderate or severe physical deficiencies in their homes. This exceeded the FY 2001 goal of a 0.3 point decrease to 7.8 percent. Among very-low-income renters, 13.9 percent lived in deficient units, a reduction of 0.9 percentage points that fell slightly short of the FY 2001 goal of a 1.0 point decrease.

The reduction in housing problems reflects a variety of causes that include increases in household income among the very-low-income category. The numbers of owners and renters who had incomes below the very-low-income threshold declined by 133,000 and 195,000 between 1999 and 2001. HUD programs that address physical problems in housing include CDBG and HOME, each of which devote substantial resources to housing rehabilitation. Research conducted through the Partnership for Advancing Technology in Housing also focuses research on issues including housing durability.

Very Low-Income Owners in Units with Moderate/Severe Physical Problems



Very Low-Income Renters in Units with Moderate/Severe Physical Problems

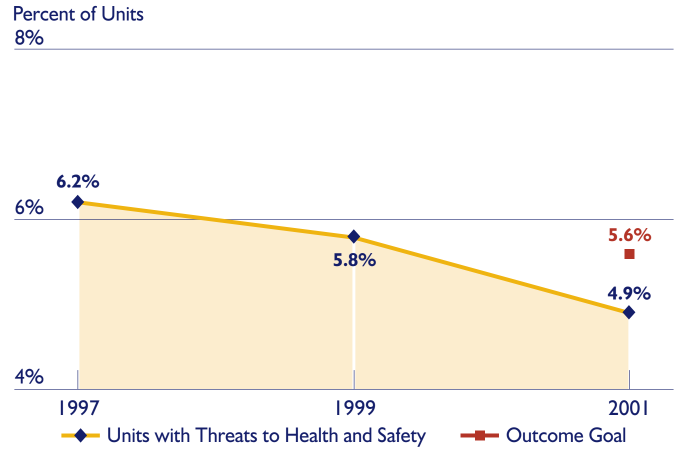


Data Discussion. This measure uses data from the biennial American Housing Survey. The Bureau of Census has quality control procedures in place for the AHS, including re-interviews of small subsamples for quality assurance.

Outcome Indicator 1.3.2:
Among units occupied by low-income households, the share containing threats to health and safety decreases by 0.2 percentage points to 5.5 percent by 2003.

Background. This indicator measures the percentage of units occupied by families with incomes below 80 percent of area median income who live in units with one or more of four hazards: exposed wiring, unvented heaters used as the main source of heat, holes in the floors, or signs of rats. The measure uses data from the American Housing Survey. The 2003 data needed to report against the FY 2002 goal are not available. The 2001 AHS data have recently become available to report against the FY 2001 goal. Beginning in FY 2003, this indicator is not included in the Annual Performance Plan because of the difficulty of attributing results to HUD programs.

Threats to Health and Safety Among Units Occupied by Low-Income Families



Results. The most recent available data show that during calendar years 2000 and 2001, the percentage of low-income households who lived in physically hazardous units decreased by 0.9 percentage points to 4.9 percent. This improvement substantially exceeded the FY 2001 goal of a 0.2 point decrease from calendar year 1999 levels.

An improvement of this magnitude represents about 400,000 households who no longer live with the four physical hazards measured by this indicator. HUD programs contributed substantively to this reduction, including housing rehabilitation funded through CDBG and HOME block grants (see Indicator 1.2.d). The marked improvements in public housing and HUD-assisted multifamily housing likely played a significant role. As measured (more broadly) by Indicator 1.3.3, the 1999-2001 gains in public housing represent about 250,000 units and the assisted multifamily improvements represent about 400,000 units. The relatively strong economy during the late 1990s also helped unassisted households and landlords pay for housing improvements.

Data Discussion. This measure uses data from the biennial American Housing Survey. The Bureau of Census has quality control procedures in place for the AHS, including re-interviews of small subsamples for quality assurance.

Programmatic Output Indicator 1.3.a:
The number of households receiving housing assistance with CDBG, HOME, HOPWA, and NAHASDA increases.

Background. This indicator is included under this objective because of its influence on housing safety and physical quality. It is discussed in more detail under Indicator 1.2.d, where it supports affordable rental housing.

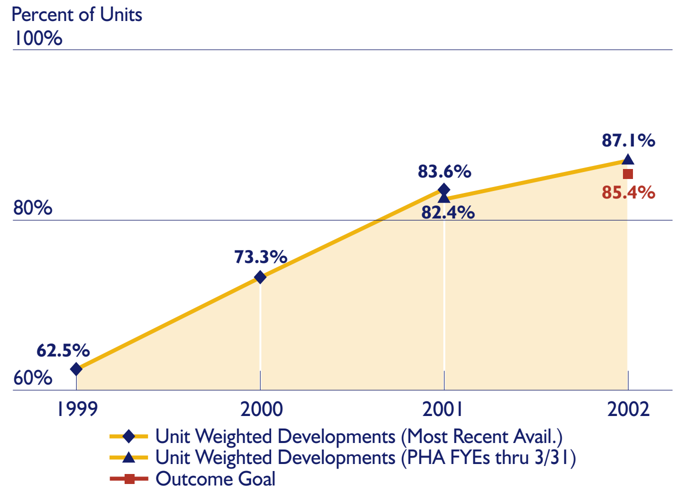
Results and Analysis. For FY 2002, CDBG, HOME, and HOPWA met or substantially met their program goals. Data is not available for FY 2002 for the NAHASDA program. The number of households receiving housing assistance with CDBG was 187,390, 2.4 percent greater than the FY2002 goal of 183,031; the number of committed new units of assisted housing through the HOME program was 84,054, substantially meeting the 2002 goal by achieving 98 percent of the target of 85,658; and the number of households receiving housing assistance thorough HOPWA was 91,065, exceeding the FY2002 goal of 68,000 units by 33 percent.

Outcome Indicator 1.3.3:
The share of units that meet HUD-established physical standards increases by 3 percentage points to 73.9 percent of public housing units and 89.5 percent of assisted multifamily units.

Background. Housing agencies are required to inspect and maintain public housing to ensure compliance with HUD-established standards, or with local codes if they are more stringent. Private owners of assisted housing also have a contractual obligation to meet physical standards. For FY 2003, the target has been set at a 1.5 percentage point increase in the proportion of units in each program that are located in properties with acceptable quality.

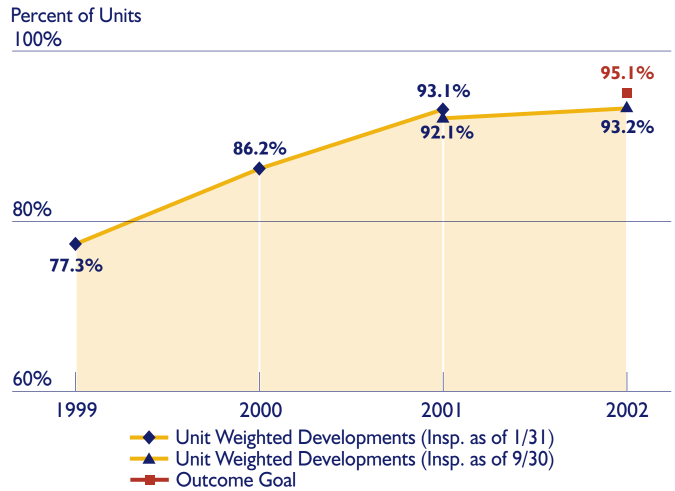
Results and Analysis. In FY 2002, both public housing properties and assisted multifamily properties continued the recent rapid improvements in physical quality. In public housing 87.1 percent of units were located in properties with acceptable physical quality. In multifamily housing, 93.2 percent of units were in found to be in properties with acceptable quality. The performance goal of a 3 point increase was achieved for public housing, but the multifamily housing stock—which had less room for improvement—fell slightly short.

Share of Units Located in Public Housing Developments That Meet Physical Standards



Along with the higher baseline, a methodological factor limited the apparent improvements for multi-family housing. The multifamily program is on a "3-2-1" inspection schedule, so that the higher-performing properties are not re-inspected every year like troubled properties, and their scores roll over from year to year. Public housing is on a "2-1" schedule. These results are discussed in detail under Objective 1.3 of the Management Discussion and Analysis section of this report.

Share of Units Located in Assisted Multifamily Developments That Meet Physical Standards



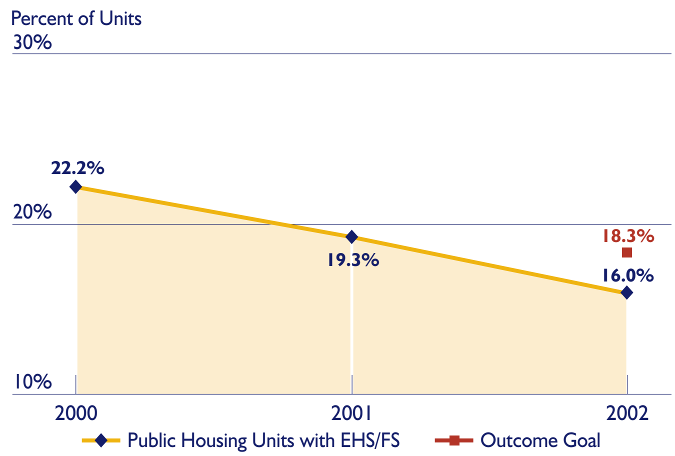
Data Discussion. Data for this indicator are from REAC Physical Assessment Subsystem, and represent a substantial improvement in the availability and reliability of information about the public and assisted stock. Because OMB advanced the reporting schedule, public housing results for FY 2002 reflect inspections completed for properties in PHAs with fiscal years ending between 6/30/2001 and 3/31/2002. For private multifamily properties, results for FY 2002 reflect the most recent inspections available as of 9/30/2002. For both programs, a substantial percentage of properties did not receive a new inspection during FY 2002 so earlier scores were carried over. For both programs, revised FY 2001 baselines are shown for comparability. Previous trend lines for both public housing and private multifamily programs represent the most recent inspections available as of February 2001.

Outcome Indicator 1.3.4:
The share of HUD-Assisted Properties observed with Exigent Health and Safety or Fire Safety Deficiencies decreases by 1.0 percentage point for public housing and by 0.6 percentage points for assisted multifamily housing.

Background. HUD Real Estate Assessment Center inspects the physical conditions of public and assisted housing and identifies life-threatening deficiencies such as exposed electrical wires, blocked exits and gas leaks. This indicator measures the proportion of unit-weighted properties with exigent health and safety or fire safety deficiencies—the most severe life-threatening deficiencies.

Results and Analysis. During FY 2002, the percentage of public housing units vulnerable to exigent deficiencies decreased by 3.3 percentage points to 16.0 percent, exceeding the goal of a 1.0 point improvement. The percentage of threatened multifamily units decreased slightly to 16.2 percent, missing the goal of a 0.6 point decline.

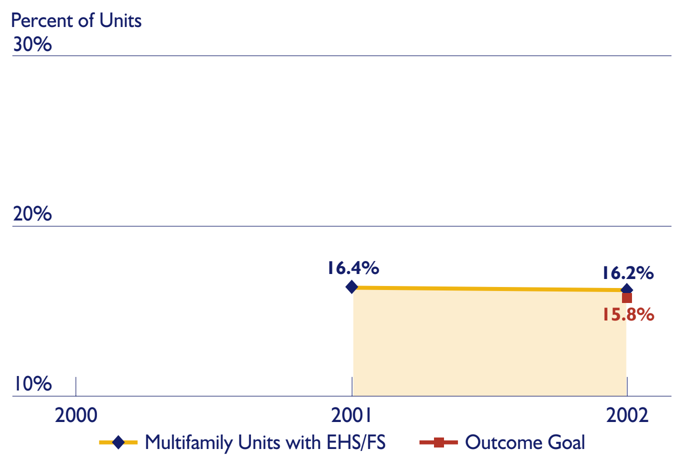
Exigent Health and Safety or Fire Safety Deficiencies in Public Housing



In FY 2002, 45.5 percent of public housing properties had exigent deficiencies, down from 48.1 percent a year earlier.

Among assisted multifamily properties, 39.1 percent had exigent deficiencies—fewer than in public housing—but more that the 36.8 percent that had exigent deficiencies the previous year. A key driver of this increase was the recent changes in the inspection protocol that added 16 specific violations to the list of potential violations. When such life-threatening health and safety deficiencies are detected during HUD on-site physical inspections, citations are issued to project owners and agents requiring corrective action and response to HUD within three business days. In FY 2002, nationwide, 98 percent of these multifamily deficiencies were corrected or mitigated.

Exigent Health and Safety or Fire Safety Deficiencies in Multifamily Housing

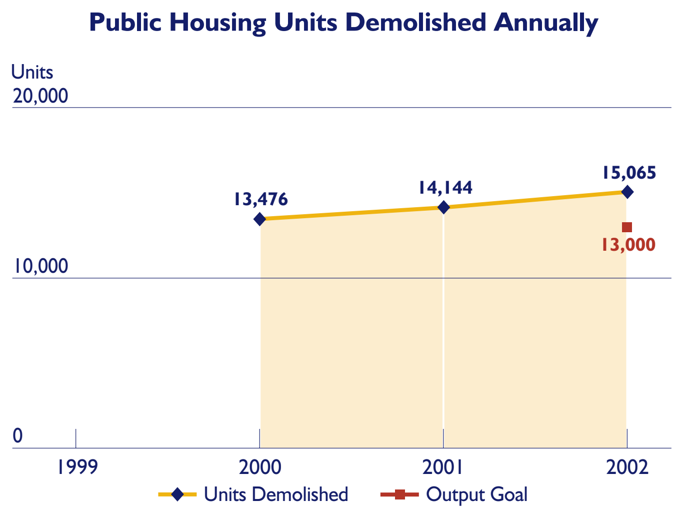


Data Discussion. Data for this indicator are from REAC Physical Assessment Subsystem. Because OMB advanced the reporting schedule, public housing results for FY 2002 reflect inspections completed for properties in PHAs with fiscal years ending between 6/30/2001 and 3/31/2002. For private multifamily properties, results for FY 2002 reflect the most recent inspections available as of 9/30/2002. For both programs, a substantial percentage of properties did not receive a new inspection during FY 2002 so earlier scores were carried over. This is because public housing is on a "2-1" inspection schedule and the multifamily program is on a "3-2-1" inspection schedule. New project scores were available for 51 percent of public housing units and 44 percent of multifamily units.

Programmatic Output Indicator 1.3.b:
As part of the effort to eliminate 100,000 units of the worst public housing, demolish 13,000 units during FY 2002.

Background. HUD intends to demolish 100,000 units of severely distressed public housing by FY 2003, including the demolition of 13,000 units in FY 2002. Often demolishing distressed stock serves as a prerequisite for reconstruction and the relocation of families to safer and more humane environments. Otherwise, families may occupy troubled stock that are physically uninhabitable with severe maintenance problems. Additionally, these ill-designed developments attract crime and drain valuable housing authority resources because of costly operations.

Results and Analysis. In FY 2002, HUD exceeded its annual goal by 16 percent by demolishing 15,065 units instead of 13,000 units. This rate represents a 6.5 percent increase from FY 2001 in which 14,144 units were demolished. Through FY 2002, a cumulative 88,922 units of the targeted 100,000 units have been demolished.



Data Discussion. Data is collected from PIH Integrated Business System (IBS). Field staff verified that units were demolished. Data for this indicator do not strictly represent the number of units demolished during the fiscal year because PHAs regularly provide updates that identify demolished units that had not been recorded previously, even from a prior fiscal year. Therefore, the data represent the change in the cumulative units that are reported as demolished as of the end of the current fiscal year. The measurement captures reporting as of October 14, 2002, for the period ending September 30, 2002.

Outcome Indicator 1.3.5:
As part of a ten-year effort to eradicate lead hazards, the Lead Hazard Control Grant Program will make 7,200 units lead safe in FY 2002.

Background. HUD is playing a central role in the interagency initiative to eliminate lead poisoning of the Nation's children by 2010. HUD intends to eliminate lead hazards in housing by expanding the Lead Hazard Control Program and leveraging other resources. The Centers for Disease Control and Prevention report that during 1991-94 nearly 1 million children ages one to five had elevated blood lead levels—amounting to about 5 percent of all children in that age group. The majority of cases involve low-income children. Exposure to lead can cause permanent damage to the nervous system and a variety of health problems, including reduced intelligence and attention span, hearing loss, stunted growth, reading and learning problems, and behavior difficulties.

The HUD Office of Healthy Homes and Lead Hazard Control (OHHLHC) provides grants to state and local government agencies to control lead hazards in privately owned low-income housing. The program requires grantees to employ certified personnel to collect clearance (quality control) lead-dust samples in housing to confirm that it has been made lead safe, because lead dust is the major pathway by which children are exposed to lead-based paint.

Results and Analysis. For FY 2002, the Lead Hazard Control Grant Program completed 8,040 lead-safe units (homes), 12 percent more than the goal of 7,200. This result continues the program's trend of consistently exceeding its goals in all years since the Annual Performance Plan was initiated. Annual appropriations for the program have increased since FY 1999, and the President's FY 2003 budget requests a 22 percent increase in funding from FY 2002 to support the effort to eliminate this preventable disease.

This performance level and increase in funding levels is a reflection of the maturation and success of the program, both in terms of a growing infrastructure of trained and certified contractors and the capacity of state and local governments to manage the program more effectively as a result of their increased experience and knowledge. The HUD outlay under the Lead Hazard Control Grant Program in FY 2002 was $69.5 million, which directly supported the completion of at least 8,040 lead-safe homes. Per-unit hazard control costs have declined from $9,440 per unit at the start of the program in FY 1993 to $4,095 for FY 1999 grantees (these grants have a three year duration).

	FY 1999	FY 2000	FY 2001	FY 2002	*FY 2002 goal*
Units made lead safe (annual)	7,471	7,969	8,212	8,040	7,200
Units made lead safe (cumulative)	20,023	27,992	36,204	44,244	–

Data Discussion. This measure uses OHHLHC administrative data derived from grant agreements, quarterly and final reports from grantees, and monitoring. The data represent actual accomplishments over the life of the multi-year grants issued in a particular year. The data do not include the substantial number of housing units made lead-safe as a result of public outreach/education programs; leveraging of other funds; federal, state and local enforcement; technical studies; and other HUD rehabilitation housing assistance covered by the HUD Lead Safe Housing Rule for assisted housing.

Related Program Evaluations. The National Center for Lead Safe Housing and the University of Cincinnati conducted a series of program evaluations. The data show that dust lead levels in treated homes decline by 50-85 percent and remain well below applicable HUD/EPA standards.

Several other studies have shown that the Lead Hazard Control Program has been responsible for stimulating substantial activity in both the public and private sector to make housing lead-safe. The National Health and Nutrition Examination Survey (NHANES), conducted by the Centers for Disease Control and Prevention (CDC), showed a 25 percent reduction in children's blood lead levels for the period 1996-99. In addition to the CDC data, HUD's National Survey of Lead in Housing shows that the number of units with lead paint declined from 64 million in 1990 to 38 million in 2000. Both of these reductions are due in part to the HUD Lead Hazard Control Program, since lead-based paint hazards in housing constitute the principal source of exposure for most children today. Other contributing factors to these reductions include housing demolition, substantial rehabilitation, increased regulation and enforcement of Federal, state, and local lead safety laws, and improved measurement technologies.

Outcome Indicator 1.3.6:
The number of children under the age of 6 who have elevated blood lead levels will be less than 260,000 by 2004, down from 890,000.

Background. Approximately 890,000 children under the age of six were estimated to have elevated blood lead levels (EBL) in the period from 1991-94. These children, especially those less than three years old, are vulnerable to permanent developmental problems because of the well-understood effect of lead on developing nervous systems. Other local data from 19 states showed that the proportion of children under the age of six who tested with EBL decreased from 10.5 percent in 1996 to 7.6 percent in 1998.[9] For this indicator, EBL is defined as blood lead levels exceeding 10 micrograms per deciliter (mg/dL). EBL is more common among low-income children, urban children, and those living in older housing. In addition to HUD's lead-based paint abatement grant program and regulations concerning Federal Housing, other factors causing the decrease in the number of children with EBL are demolition, substantial rehabilitation, and ongoing public education.

Results and Analysis. The Centers for Disease Control and Prevention are conducting the National Health and Nutrition Examination Survey (NHANES), with additional data projected to be available in 2004.

Data Discussion. The NHANES is costly because it uses actual physical examinations of a nationally representative sample of children to determine blood-lead levels, among other things. NHANES cannot identify the source of EBL.

HUD will not verify NHANES results independently. NHANES is regarded as providing the best national estimate of a number of health outcomes, and incorporates a variety of quality control and verification procedures. The CDC long-term quality control data for blood lead tests show that NHANES results can be compared with results from the Childhood Blood Lead Surveillance program, which supports state blood lead surveillance efforts.

Programmatic Output Indicator 1.3.e:
The first 21 procurement actions of the Healthy Homes Initiative become operational and an additional four agreements are awarded.

Background. Under the initiative, the Office of Healthy Homes and Lead Hazard Control (OHHLHC) awards grants to public and private organizations and makes agreements with other Federal agencies for evaluation studies and demonstration projects to address housing conditions responsible for children's diseases and injuries. HUD is working closely with its Healthy Homes grantees as well as the Centers for Disease Control and Prevention, the Environmental Protection Agency, the National Institute of Science and Technology, and the National Institute of Environmental Health Sciences to implement the Healthy Homes Initiative through funded projects and joint activities. For example, Healthy Homes identifies ways to prevent or reduce the severity of childhood health problems related in part to housing condition, such as asthma, unintentional injuries, and developmental problems.

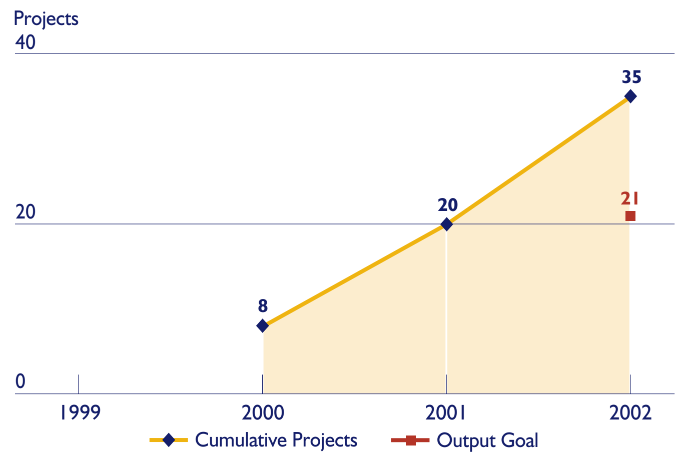
Principal outcomes of the projects in FY 2002 were public education, training to build capacity for "high performance" (energy efficient, durable, sustainable, and healthy and safe for occupants) housing construction/rehabilitation, training, assessment tools and specifications to facilitate repair of distressed housing, demonstration of new technologies, and development of good practice guidance and protocols for interventions.

[9] *State data from the Childhood Blood Lead Surveillance program, reported by the Centers for Disease Control in "Blood Lead Levels in Young Children-United States and Selected States, 1996-1999," available at* ***http://www.cdc.gov/mmwr/preview/mmwrhtml/mm4950a3.htm***

This indicator measures only the number of procurement actions (i.e., grants and interagency agreements) that have been initiated. The first actions were awarded in the latter part of FY 1999 and did not become operational until FY 2000, following HUD's submission of a ***Congressionally required*** report on the plan for the Healthy Homes Initiative. Since most of the agreements are for three years, peer reviewed findings on the results of these projects and the impact of the Healthy Homes Initiative have not yet been published. In the future, output indicators will be developed that will address the performance under these procurement actions with regard to the Healthy Homes Initiative goals and objectives stated in the NOFA.

Results and Analysis. In FY 2002, the Healthy Homes program exceeded its goal, with twenty-eight grants and seven interagency agreements becoming operational since the program's inception for a total of 35 operational actions. Of this total, thirteen new grants became operational as the result of the FY2001 Healthy Homes Notices of Funding Availability (NOFA), which received 84 applications. A total of five interagency agreements (National Institute for Standards and Technology, USDA Cooperative State Education and Extension Service, USDA Forest Products Laboratory, Occupational Safety and Healthy Administration, and the National Center for Environmental Health) were signed in FY 2002. In addition, the Office made funding decisions for 13 new grants in FY 2002. These grants were announced in October 2002, which Secretary Martinez declared "Healthy Homes Month." The program also exceeded its goals for this indicator in fiscal years 2001 and 2000.

Healthy Homes Grants and Interagency Agreements Made Operational



Healthy Homes accomplishments in the areas of technical assistance and public information and education include work with the Department of Energy and the Environmental Protection Agency. The Healthy Homes web page was launched on the HUD website, and three more websites were created. OHHLHC staff and grantees are working with state and local health departments to integrate Healthy Homes interventions into regional asthma strategies. The Healthy Homes Initiative also promotes the voluntary adoption of healthy home building and maintenance practices by state housing development and finance agencies, municipal CDBG/HOME programs, and public housing authorities. Future indicators and performance measures for these types of activities are being considered.

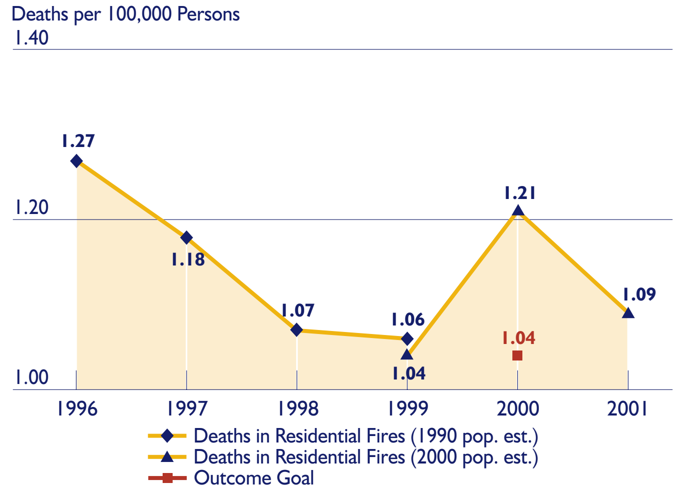
Data Discussion. The OHHLHC produced the data from funds reservations forms, cooperative agreement award forms and interagency agreement award forms. The Grants Management Officer validates and verifies these forms, and conducts internal audits.

Outcome Indicator 1.3.7: The rate of death in residential fires declines by 0.02 to 1.03 fatalities per 100,000 persons by 2000.

Background. The United States currently has the third highest overall fire death rate among industrialized countries. Residential fires are the most important cause of fire-related mortality, with 81 percent of all U.S. civilian fire deaths occurring in homes in 1999. However, this indicator was deleted for FY 2003 because HUD's span of control regarding residential fire hazards is limited. About four percent of all households, or roughly five million, are assisted by HUD. Another 7.6 million families live in manufactured housing, for which HUD regulates the design, manufacture and material specifications, with specific fire safety requirements.

Results and Analysis. During 2000, the rate of death from residential fires spiked upward to an estimated 1.21 per 100,000 persons, missing the Department's goal to decrease the rate by 0.02 deaths per 100,000. In the following year, 2001, the rate returned to levels typical of recent years, but continued to exceed the target level.

Death Rate from Residential Fires



There were 3,420 residential fire deaths in 2000, up from 2,895 in 1999, and falling to 3,110 in 2001. However, year-to-year changes are not statistically significant. Recent estimates for death rates are based on 2000 Census figures for the population.

HUD has contributed to dramatically declining fire death rates in recent decades by regulating manufactured housing, and more recently, by inspecting public and assisted housing (see indicator 1.3.f). Recent residential fire deaths total only about half the 6,015 deaths of the 1978 peak. The Department's regulation of manufactured housing has been an important factor because the population living in manufactured housing historically has been disproportionately affected by fire deaths. HUD regulatory standards have resulted in major improvements. The standards affect manufactured homes built after 1976, and deaths in manufactured home fires declined by 23 percent from 1980 to 1997.[10] External factors also interact with this measure, as many of the hazardous manufactured housing units that were put in service before HUD standards were in place have aged to the point that they are no longer in use. Behavioral factors also play an important role. Although smoke alarms cut the chances of dying in a house fire by 40-50 percent, about one-quarter of U.S. households lack working smoke alarms. The problem is more severe in manufactured housing: more than one-third of manufactured homes are found to lack functional smoke detectors when fires break out, even though homes manufactured under HUD standards are shipped with smoke detectors. Thus, an increasingly important cause of fire mortality is beyond HUD control, being behavioral rather than a function of physical design and manufacture.

[10] *John R. Hall, Jr., 1999. "Manufactured Home Fires in the U.S." Fire Analysis and Research Division, National Fire Protection Association. Quincy, Massachusetts.*

Data Discussion. Fire deaths are estimated by the National Fire Protection Association (NFPA) from surveys of fire departments. (Published in "Fire Loss in the United States during 2001," Michael J. Karter, Jr., NFPA, September 2002.) Population estimates are reported by the U.S. Census Bureau, "Time Series of National Population Estimates," Table US-2001 EST-01, and Monthly Estimates series.

Death rates for 1999-2001were estimated by HUD. The revised 1999 estimate of 1.04 is based on a 1999 population estimate weighted by the factor by which Census updated 2000 estimates. The former two-year lag in reporting was reduced to permit reporting 2001 figures this year. NFPA reports that changes in civilian fire deaths are not statistically significant. For this reason, HUD has determined that this performance measure does not have sufficient reliability to continue use.

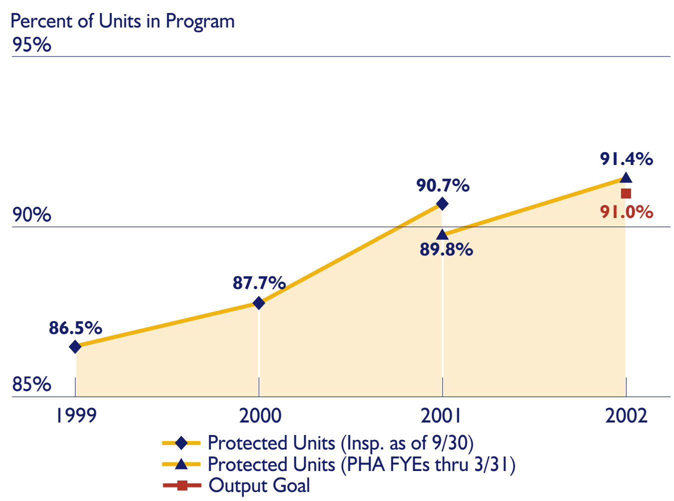
Programmatic Output Indicator 1.3.f:
The share of units that have functioning smoke detectors and are in buildings with functioning smoke detectors increases annually by 1.2 percentage points for public housing and by 0.7 percentage points for assisted multifamily housing.

Background. HUD's Real Estate Assessment Center inspects the quality of public and assisted housing, including the presence of functioning smoke detectors. This indicator tracks the share of units that both have functioning smoke detectors and are in buildings with functioning smoke detection systems, as functional smoke detection systems in common areas of a building are critical to overall fire safety.

Results and Analysis. The performance targets were surpassed for both programs. As of the end of FY 2002, 91.4 percent of public housing units and 92.4 percent of assisted multifamily units had functioning smoke detectors and were in buildings with functioning smoke detection systems. These data represent a 1.6 percentage point increase for public housing and a 0.9 point increase for assisted multifamily housing.

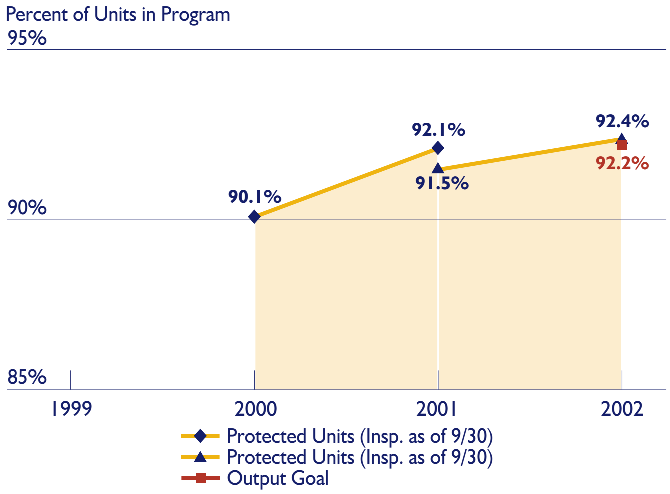
These results show that the share of HUD-assisted households who are adequately protected with smoke detectors exceeds the three-quarter share of all U.S. households who are protected. The Department's increased attention to physical conditions in the housing stock is believed to have motivated improvements in management by housing providers.

Estimated Share of Public Housing Units Fully Protected with Functional Smoke Detection Systems



Data Discussion. Data for this indicator are from REAC Physical Assessment Subsystem, based on a sample of units from each project, and weighted to represent the entire stock. Because OMB advanced the reporting schedule, public housing results for FY 2002 reflect inspections completed for properties in PHAs with fiscal years ending between 6/30/2001 and 3/31/2002. For private multifamily properties, results for FY 2002 reflect the most recent inspections available as of 9/30/2002. For both programs, revised FY 2001 baselines are shown for comparability. Properties are inspected at intervals of one, two or three years, depending on the results of the previous inspection, so a substantial fraction of properties did not receive a new inspection.

Estimated Share of Assisted Multifamily Units Fully Protected with Functional Smoke Detection Systems



Outcome Indicator 1.3.8:
The ratio of manufactured housing stock conforming to high-wind standards to total manufactured housing in coastal zones subject to hurricanes increases by 5 percentage points from 2000 levels by 2005.

Background. This indicator relies for its baseline upon data from the long-form Census 2000, which the Bureau of Census has not released in time for this report. The FY 2003 APP replaced this indicator with a new goal that corresponds more nearly to the Department's span of control. The replacement indicator addresses HUD efforts to support the Manufactured Housing Consensus Committee in meeting milestones provided in the Manufactured Housing Improvement Act of 2000.

Strategic Goal 2:
Ensure Equal Opportunity in Housing for All Americans

Strategic Objectives:

2.1 Housing discrimination is reduced.

2.2 Minorities and low-income people are not isolated geographically in America.

2.3 Disparities in homeownership rates are reduced among groups defined by race, ethnicity and disability status.

Performance Report Card – Goal 2

	Performance Indicators	1999	2000	2001	2002	2002 Target	Substantially Met	Notes
2.1.1	The rate of housing discrimination							g
2.1.3	Share of the population with adequate awareness of fair housing law			51%				b,f
2.1.4	Share of new multifamily buildings accessible to persons with disabilities							a
2.1.a	Number of fair housing enforcement actions	1,336	725	623	1,010	600	▯	
2.1.b	Number of FHIP groups funded in underserved areas	2	2	0	7	2	▯	
2.1.c	Number of agencies rated as substantially equivalent	85	89	94	96	96	▯	
2.1.d	Number of FHAP grantees increasing enforcement actions by 20 percent				28%	25%	▯	
2.1.e	Share of fair housing complaints that age in HUD inventory	73%	82%	37%	29%	32%	▯	
2.1.f	Share of fair housing complaints that age over 100 days in FHAP inventory	60.0%	68.4%	69.3%	45%	64.3%	▯	
2.1.g	Number of Title VI fair housing compliance reviews of HUD recipients			65	99	98	▯	
2.1.h	Section 504 compliance reviews of HUD recipients			68	108	94	▯	
2.2.1	Segregation of racial and ethnic minorities							g,h
2.2.3	Share of metropolitan voucher families with children who live in low-poverty tracts			62.1%	63.7%	62.4%	▯	
2.2.4	Share of public housing households living in family developments that have mixed incomes							a
2.3.1	Ratio of homeownership rates of minority and non-minority low- and moderate-income families with children		75.2%		72.4%	75.6%		b,e
2.3.2	Ratio of homeownership rates of disabled and non-disabled							a
2.3.3	The ratio of mortgage disapproval rates between minority and other applicants	172.5%	177.3%	176.4%	192.6%	175.4%	▯	d
2.3.a	Share of minority homebuyers among FHA mortgage endorsements	37.6%	41.7%	36.5%	36.0%	37.5%		
2.3.c (a)	Fannie Mae Performance Relative to Special Affordable target (percent of eligible dwelling units)	14.3%	17.6%	19.2%	21.6%	20.0%	▯	d
2.3.c (b)	Freddie Mac Performance Relative to Special Affordable target (percent of eligible dwelling units)	15.9%	17.2%	20.7%	22.6%	20.0%	▯	d

(Values represent fiscal year data unless otherwise noted.)

a – Data not available.

b – No performance goal for this fiscal year.

c – Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).

d – Calendar year ending in the current fiscal year.

e – Calendar year ending the previous fiscal year.

f – Other reporting period.

g – Result too complex to summarize. See indicator.

h – Baseline newly established.

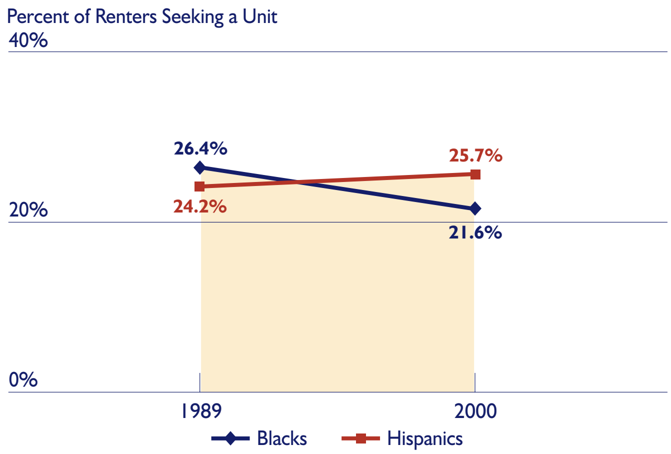
Objective 2.1: Housing discrimination is reduced.

Outcome Indicator 2.1.1:
Housing discrimination declines 2 percentage points from 1989 national levels by 2001.

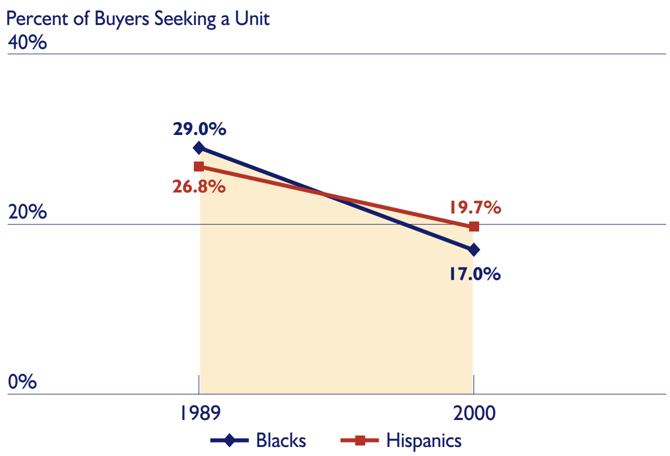
Background. Racial segregation is more relevant than ever as the share of the population that is minority continues to increase and as much of that growth comes from a large influx of diverse immigrant groups. Census data shows that between 1990 and 2000, geographical concentration of poverty and isolation of low-income households worsened. As this measure shows, discrimination against minorities seeking to buy or rent homes has improved somewhat, yet remains very common and is evolving.

Results and Analysis. Between 1989 and 2000, African-Americans and Hispanics benefited from significant reductions in unfair treatment in the housing market. HUD's performance target of a 2 point decrease was exceeded for three of the four measures shown here. These "consistency measures" are based on the share of paired tests during which minority testers were consistently treated less well for every treatment item.

Consistent Adverse Treatment of Minorities in Rental Market, 1989 and 2000



Consistent Adverse Treatment of Minorities in Sales Market, 1989 and 2000



Blacks were subject to lower rates of adverse treatment in both the rental and sales markets. The Housing Discrimination Study (HDS) shows that housing discrimination nation wide against African Americans and Hispanics looking to buy a home in down more than 25 percent since 1989. Hispanics experienced lower rates of discrimination in the sales market, but adverse treatment did not change significantly in the rental market. For those seeking to rent a unit, housing discrimination against African Americans is down 18 percent. While discrimination is down on most treatment indicators for the sales market, discrimination was found to be increasing in the areas of steering to lower percentage white neighborhoods for African Americans and in not offering assistance with financing for Hispanics.

Data Discussion. Consistency measures are reported here as the Urban Institute's best estimate of discrimination. While alternative methods exist for calculating the overall level of discrimination, the alternative methods generally show the same pattern of change. Sensitivity analysis showed that some differences in treatment are attributable to different agents. Results for multiple measures are presented in HUD's "Discrimination in Metropolitan Housing Markets: National Results from Phase I HDS 2000," conducted by the Urban Institute. The HDS 2000 was based on 4,600 paired tests conducted in 23 metropolitan areas during 2000. The research is representative of experiences of qualified homeseekers, who are basing their search on newspaper advertisements in major metropolitan markets, during their initial encounters with rental or sales agents. The report is available at ***http://www.huduser.org/publications/hsgfin/phase1.html***.

Outcome Indicator 2.1.3:
The share of the population with adequate awareness of fair housing law increases from the 2001 baseline by 2004.

Background. This indicator tracks public understanding of their rights and responsibilities under the Fair Housing Act and other laws. It gauges the effect of HUD's fair housing enforcement activities and public information campaigns funded by Fair Housing Initiatives Program (FHIP) Education and Outreach grants. The measure is based on a 2001 survey that presented ten brief scenarios describing decisions or actions taken by landlords, home sellers, real estate agents, or mortgage lenders. Eight scenarios involved conduct that is illegal under federal fair housing law. HUD plans a comparable survey in FY 2006 to determine whether public awareness has increased.

Results and Analysis. This measure relies on periodic research, so FY 2002 results cannot yet be reported. The 2001 survey showed that the average person could correctly identify five instances of unlawful conduct, and that 51 percent of the general public could correctly identify as unlawful six or more of the eight scenarios describing illegal conduct. Conversely, only 23 percent of the public knew the law in two or fewer of the eight cases. Looked at on a scenario-by-scenario basis, a majority of the public could accurately identify illegal conduct in seven of the eight scenarios.

During FY 2002, FHIP Education and Outreach grants were awarded to 49 agencies. About 32 percent of the $6.325 million obligated will fund public education and outreach activities at the national level, and 68 percent at the regional, State, local or community-based level. Some education projects focus on increasing the awareness of housing providers. This is an important task because small landlords provide the majority of rental housing. About three-fourths of rental units are owned by landlords who are either households or partnerships, rather than corporations. Public awareness is also boosted by the publicity that surrounds fair housing complaints enforced by FHEO and substantially equivalent agencies.

Data Discussion. The baseline data for this measure were released by PD&R in the study entitled "How Much Do We Know? Public Awareness of the Nation's Fair Housing Laws."

Outcome Indicator 2.1.4:
The share of newly constructed buildings that conform to selected accessibility requirements increases from the 2001 baseline.

Background. The Fair Housing Act (the Act) requires public areas and some apartments in newly constructed multifamily housing to be accessible to persons with disabilities. Congress directed HUD to develop a plan in FY 2000 to educate users and providers of multifamily housing (planners, builder, developers, sellers, renters, architects and building code officials) about the Act's design and construction requirements.

Results and Analysis. HUD has conducted a study of multifamily buildings for compliance with the design and construction requirements of the Act. HUD is sorting the data to establish the baseline measure against which future studies planned for FY 2003 and beyond will be able to measure change in compliance level. The data allow HUD to develop a percentage baseline measure of buildings that satisfy certain key design elements. While full compliance with the law requires that buildings satisfy all accessibility requirements of the Act, HUD will regularly examine the extent of compliance with this subset of key design elements as an indicator of overall compliance.

By the end of November 2002, HUD had developed a training and technical guidance program to fulfill the congressional mandate and was poised to carry 48 training sessions in all areas of the country from December 2002 to June 2004. In FY 2001 and 2002, a total of $2.5 million is committed to carry out the training and technical guidance program. HUD programs and initiatives strive to provide housing, employment and supportive services to disadvantaged Americans.

Programmatic Output Indicator 2.1.a:
Provide protected classes under the Federal Fair Housing Act with increased access to sale and rental housing without discrimination by completing at least 600 fair housing enforcement actions in FY 2002.

Background. HUD receives complaints of alleged housing discrimination from private citizens and interest groups throughout the nation. HUD investigates and resolves these complaints, or, as required by the Fair Housing Act, refers them for investigation to partner human rights agencies within State and local governments that have been judged to provide substantially equivalent protection from housing discrimination. (These agencies are participants in the Fair Housing Assistance Program (FHAP) and are known collectively as FHAP agencies.)

HUD has worked diligently to increase public awareness of laws prohibiting discrimination in order to ensure that persons victimized by discrimination know how and where to file fair housing complaints. It is the Department's goal to motivate citizens who experience this kind of harm to act in order that discrimination can be identified and eliminated. In addition, HUD and its partners have worked to increase our capacity to effectively investigate a wide variety of civil rights complaints and to enforce the Federal Fair Housing Act and equivalent laws. This indicator tracks the number of fair housing enforcement actions taken by HUD including charges filed against discriminators, voluntary compliance agreements negotiated, and referrals to the Department of Justice.

The FY 2002 goal of 600 enforcement actions reflected a management decision to emphasize the reduction in aged cases over 100 days old, and recognition of the success with and maturing of the caseload under the doubling enforcement initiative in the previous four years.

Results and Analysis. FHEO's goal of 600 enforcement actions in FY 2002 was exceeded by 410. The tracking of the number of enforcement actions taken by the Department is a valid measure of FHEO success in reaching members of the public who have experienced discrimination and effectively processing their cases. The result of these actions has helped to increase the homeownership rate between whites and some racial minorities. Homeownership helps to improve a family's asset accumulation by building equity. It also helps to strengthen and stabilize neighborhoods.

Data Discussion. This measure uses data from the Title VIII Paperless Office and Tracking System (TEAPOTS).

Programmatic Output Indicator 2.1.b:
At least two new fair housing groups funded by FHIP will serve geographic areas that are not sufficiently served by public or private fair housing enforcement organizations and that contain large concentrations of persons covered by the prohibited basis of the Fair Housing Act.

Background. A Notice of Funding Availability (NOFA) was published on March 26, 2002, which funded seven new organizations in areas not sufficiently served by public or private fair housing enforcement organizations. In addition, 36 organizations were awarded two-year Private Enforcement Initiative grants under FHIP to support the efforts of private fair housing enforcement organizations to investigate alleged violations of the Fair Housing Act or substantially equivalent State and local fair housing laws.

Many communities do not have strong State or local legal protections from housing discrimination. HUD's Fair Housing Initiatives Program (FHIP) addresses this shortfall by helping independent fair housing groups to educate, to reach out, and to ensure compliance with the Fair Housing Act and the Americans with Disabilities Act. Although the number of agencies funded depends on the level of appropriations, HUD intends to increase the impact of FHIP by developing capacity in unserved or underserved areas. Grantees demonstrate in their applications that areas with defined jurisdictional boundaries are unserved or underserved. This indicator tracks the number of FHIP grantees newly funded in areas that are unserved or underserved either by FHIP agencies or by FHAP agencies enforcing "substantially equivalent" laws.

Results and Analysis. During FY 2002, FHEO exceeded the goal of funding two new fair housing groups in unserved or underserved geographical areas by funding seven new organizations. These organizations were located in Mississippi, Florida, Ohio, Michigan, and Indiana. Meeting this goal is dependent upon the SuperNOFA schedule of activities. Awards to these new organizations were completed before the end of FY 2002.

The minority share of the population continues to increase and much of that growth comes from a large influx of diverse immigrant groups. HUD programs and initiatives strive to provide housing, employment opportunities, and supportive services to disadvantaged persons seeking a home in America.

Data Discussion. The number of new fair housing groups was determined by an in-house manual count.

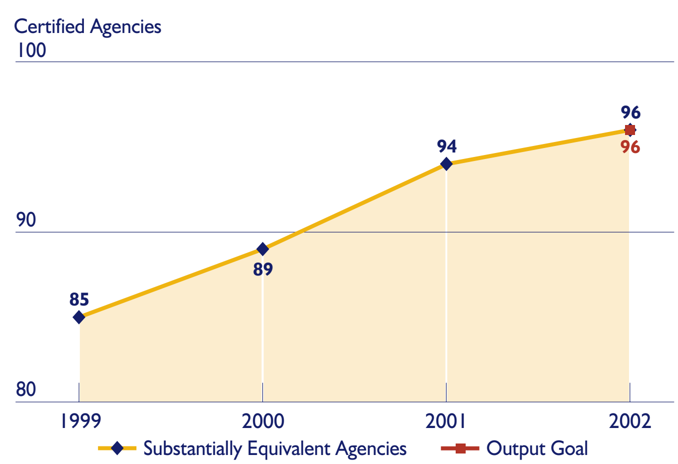
Programmatic Output Indicator 2.1.c:
The number of enforcement agencies rated as substantially equivalent under the Fair Housing Act increases by two to a total of 96 agencies.

Background. Since 1980, the Department has provided financial assistance under the FHAP to certified State and local agencies. HUD signs FHAP cooperative agreements to support fair housing enforcement. FHAP and the substantial equivalency certification process both serve to further fair housing by providing financial assistance and by encouraging State and local governments to enact and enforce legislation designed to further fair housing. HUD is continuing its efforts in this area projecting two new agencies in FY 2003.

Results and Analysis. During FY 2002, the number of agencies that are certified increased by two, from 94 to 96. The result met the FY 2002 goal of increasing the number of qualified partners by two.

Working with state and local public sector partners, as well as with the private sector, the Department is involved in a cooperative effort to increase access to the nation's housing stock so that more Americans can afford to live where they choose and can afford. The newly certified agencies, located in Sioux City, Iowa and the State of Illinois, represent a significant increase in the Nation's capacity to provide coordinated enforcement of fair housing laws.

Number of Substantially Equivalent Fair Housing Enforcement Agencies



Data Discussion. The number of newly certified agencies was determined by an in-house manual count.

Programmatic Output Indicator 2.1.d:
At least 25 percent of FHAP grantees increase enforcement actions by 20 percent above FY 2000 levels.

Background. The increase in the number of enforcement actions by fair housing agencies boosts public awareness of fair housing laws, while forcing violators to cease discriminating. Referrals to FHAPs reduce HUD's enforcement workload and allow HUD to track the number of substantially equivalent FHAPs that post significant increases in enforcement activity.

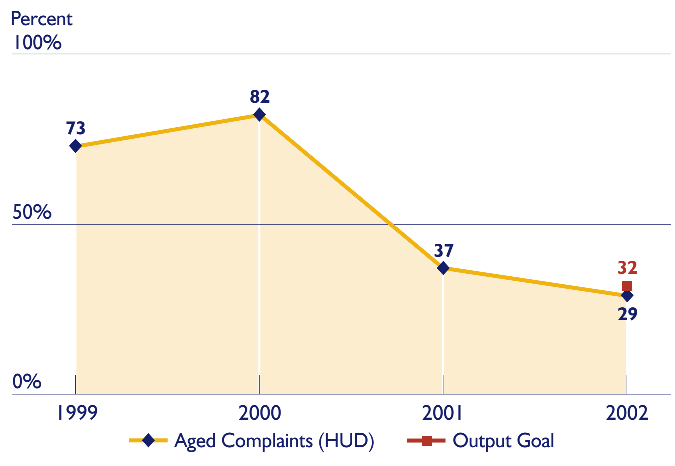
Results and Analysis. During FY 2002, 28 percent of the fair housing agencies funded by the Fair Housing Assistance Program demonstrated substantial increases in capacity, surpassing the goal for FY 2002. During FY 2002, there were 2,012 compared to 671 in 2001. The Hubs provided agencies with guidance and technical assistance necessary to meet this goal. HUD is committed to vigorous enforcement of the fair housing laws to help ensure that all households have an equal access to rental housing and homeownership opportunities. HUD also is committed to a strategy of encouraging local creativity in promoting housing choice.

Data Discussion. This measure uses data from the Title VIII Paperless Office and Tracking System (TEAPOTS).

Programmatic Output Indicator 2.1.e:
The percentage of fair housing complaints aged over 100 days will decrease by 5 percentage points from the FY 2001 level of the HUD inventory.

Background. Through the joint efforts of Headquarters and Field Offices, FHEO continues to attack housing discrimination. The efficiency of case processing is an important dimension of the fair housing performance of HUD and of substantially equivalent agencies. Speedy processing encourages victims of discrimination to file complaints and increases the likelihood that violations will be punished. This indicator tracks processing time for fair housing complaints handled by HUD, including time for determination of jurisdiction and for conducting investigations and conciliation.

Percentage of Fair Housing Complaints in HUD Inventory that are Aged



Results and Analysis. At the end of FY 2002, the percentage of HUD aged cases was 29 percent of open cases. The decrease from 37.1 percent at the end of FY 2001 exceeded the goal of a 5 percentage point reduction. FHEO staff will continue to work diligently to complete these cases while ensuring fair and impartial judgment to parties involved. The result of this accomplishment played a key role in reassuring the public that if a complaint is filed action will be taken.

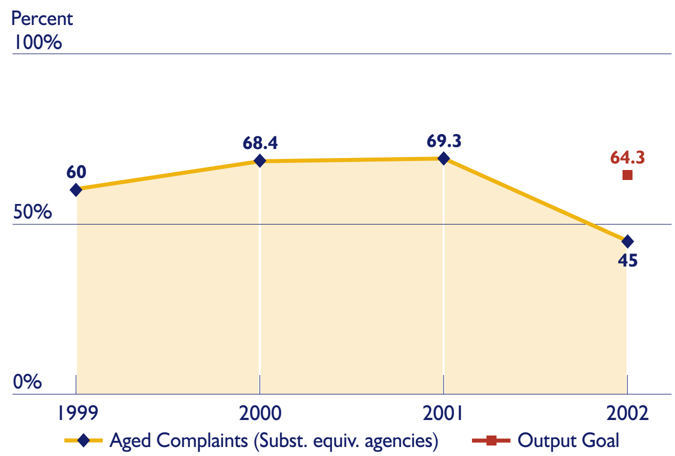
Data Discussion. This measure uses data from the Title VIII Paperless Office and Tracking System (TEAPOTS).

Programmatic Output Indicator 2.1.f:
The percentage of fair housing complaints aged over 100 days will decrease by 5 percentage points from the FY 2001 level of the inventory of substantially equivalent agencies.

Background. Efficient enforcement processing by substantially equivalent agencies is an important dimension of fair housing enforcement. This indicator tracks processing time for fair housing complaints, including time for determination of jurisdiction and for conducting investigations and conciliation.

Results and Analysis. During FY 2002, the FHAP aged cases over 100 days were 45 percent of open cases, compared with 69.3 percent in FY 2001. The decrease of 24 percentage points substantially exceeded the goal of a 5 point reduction.

Percentage of Fair Housing Complaints in FHAP Inventory that are Aged



HUD will continue to assist FHAP organizations in reducing their aged case backlog for FY 2003. This will be accomplished further through monitoring, training and technical assistance HUD will provide to the substantially equivalent agencies. This effort will reassure the public that if a complaint is filed action will be taken.

Data Discussion. The data are maintained in the Title VIII Paperless Office and Tracking System (TEAPOTS).

Programmatic Output Indicator 2.1.g:
Increase the number of Title VI compliance reviews conducted of HUD recipients by 50 percent over the number conducted in FY 2001.

Background. FHEO reviews public housing agencies and private providers of HUD-assisted housing to ensure that their developments comply with the non-discrimination provisions of Title VI of the Civil Rights Act of 1964. This law prohibits discrimination based on race, color, or national origin in federally assisted programs and activities. The reviews examine whether the developments comply with the non-discrimination provisions of Title VI.

Results and Analysis. During FY 2002, HUD completed 99 Title VI compliance reviews, compared with 65 compliance reviews in FY 2001. The increase of 52 percent exceeded the goal of a 50 percent increase. This increase responds to the identified need to further address enforcement and compliance issues as disclosed in the National Council on Disability Report (NCD) issued November 6, 2001.

Data Discussion. This measure uses data from the Title VIII Paperless Office and Tracking System (TEAPOTS).

Programmatic Output Indicator 2.1.h:
Increase the number of Section 504 disability compliance reviews conducted of HUD recipients by 38 percent over the number conducted in FY 2001.

Background. FHEO reviews public housing agencies and private providers of HUD-assisted housing to ensure that their developments comply with accessibility standards under Section 504 of the Rehabilitation Act of 1973. This law prohibits discrimination based on disability in federally assisted programs and activities. Section 504 requires that programs and activities be accessible to persons with disabilities. Thus the reviews will examine whether the developments comply with Section 504 and the Uniform Federal Accessibility Standards. This measure includes the review of assisted housing providers as well as single PHAs.

Results and Analysis. During FY 2002, HUD completed 108 compliance reviews compared to 68 compliance reviews in FY 2001. The increase of 59 percent exceeds the goal of a 38 percent increase. This increase responds to the identified need to further address enforcement and compliance issues as disclosed in the National Council on Disability Report issued November 6, 2001. HUD resources have been increased to provide adequate enforcement of housing-related civil rights laws.

Data Discussion. This measure uses data from the Title VIII Paperless Office and Tracking System (TEAPOTS).

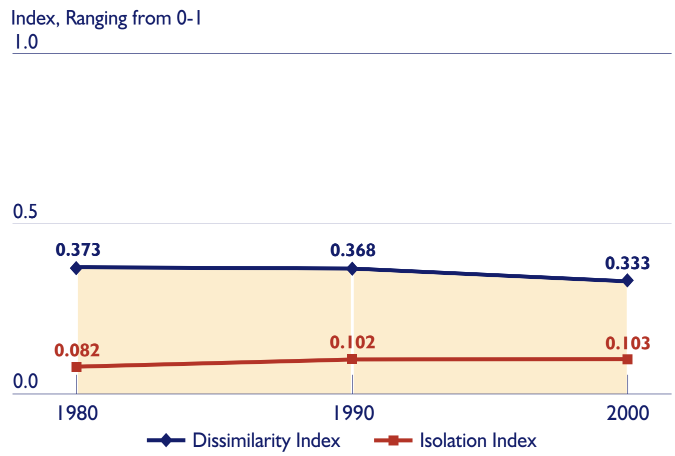
Objective 2.2: Minority and low-income people are not isolated geographically in America.

Outcome Indicator 2.2.1:
Segregation of racial and ethnic minorities will decline from 1990 levels by 2000.

Background. Despite areas of improvement, a substantial portion of the Nation continues to display deeply entrenched patterns of economic and minority segregation. Children who grow up in these segregated, economically-depressed neighborhoods enjoy fewer opportunities than those who live in mixed-income, integrated communities. By seeking to preserve project-based assisted housing in low-poverty neighborhoods and encouraging the use of Section 8 vouchers, HUD hopes to contribute to the reversal of this trend.

Two segregation indices are used to measure this performance goal, both increasing in severity as they approach one, or 100 percent. An index of dissimilarity measures the extent to which minority households are unevenly distributed among geographic areas. An isolation index focuses on the likelihood that a minority individual will be exposed to non-minorities. This indicator has not been carried forward in the FY 2003 Annual Performance Plan, reflecting the Department's minimal span of control relative to the location decisions of the Nation's households.

Segregation Index for American Indians and Alaska Natives Relative to Non-Hispanic Whites



Results and Analysis. Between 1990 and 2000, consistent decreases in segregation were observed for three of four minority groups based on the dissimilarity index. The results suggest that the performance goal of reduced segregation was partially achieved.

One minority group, African Americans, became less segregated as measured by both indices, decreasing by 3.8 percentage points on the dissimilarity index and 2.3 points on the isolation index since 1990.

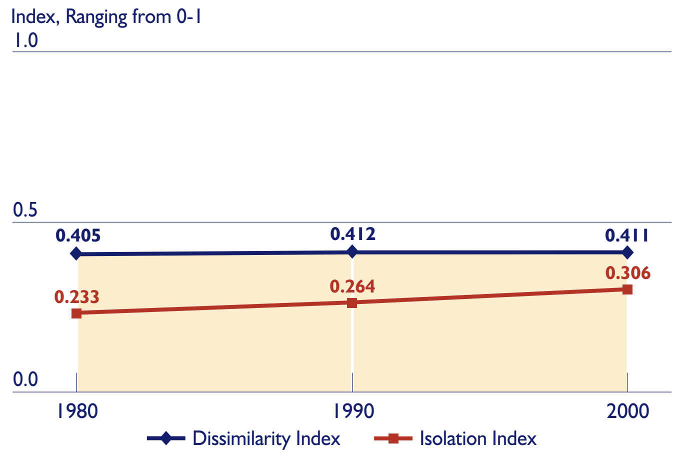
American Indians and Native Alaskans improved by 3.5 points using the dissimilarity index, but as the isolation index reveals, they remained isolated from non-minority contact. Asians and Pacific Islanders, in contrast, maintained a modest level of segregation, but increased in isolation by 4.2 percentage points.

Hispanics and Latinos became more segregated between 1990 and 2000 on the basis of both measures. They increased 0.9 percentage points on the dissimilarity index and 4.4 points on the isolation index.

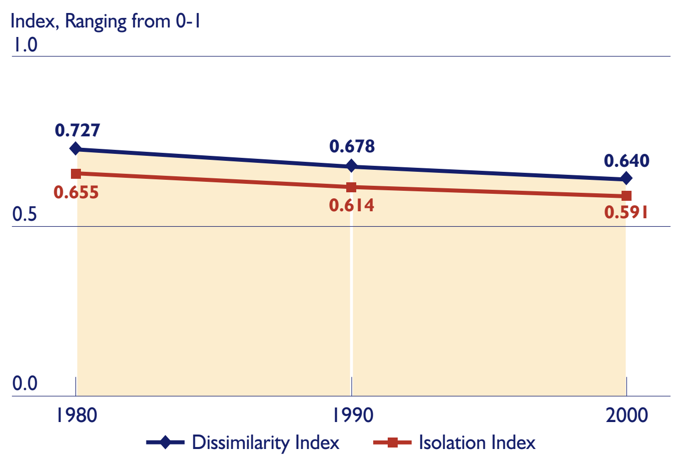
HUD promotes housing mobility through tenant-based assistance, housing counseling and development of mixed income housing that may also be racially diverse. HUD enforcement of fair housing law also expands residential opportunities for minorities. Finally, HUD may have contributed to observed improvements through the HOPE VI program and the deconcentration of public housing as required by the Quality Housing and Work Responsibility Act of 1998.

Data Discussion. The segregation measures were developed by Bureau of Census staff using long-form Census data. Census staff also validated the use of the measures reported here, although the analysis was unable to respond to the role of HUD-assisted housing in residential patterns. Estimates were verified through comparison with independent estimates using identical or similar methodology. More detailed presentations of the data are available at ***http://www.census.gov/hhes/www/housing/resseg/pdftoc.html***.

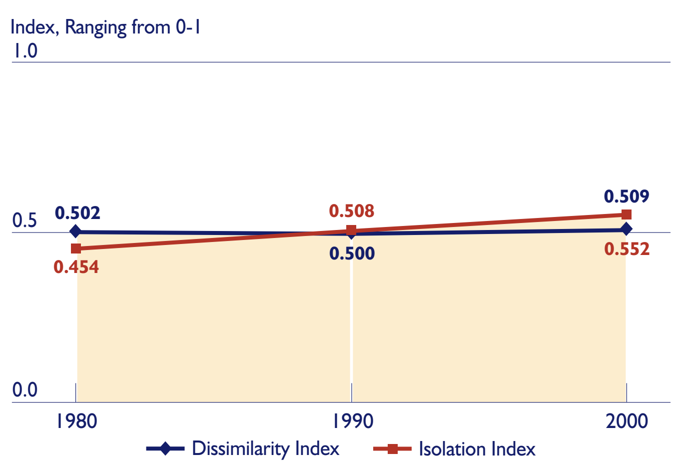
Segregation Index for Asians and Pacific Islanders Relative to Non-Hispanic Whites



Segregation Index for African Americans Relative to Non-Hispanic Whites



Segregation Index for Hispanics Relative to Non-Hispanic Whites



Outcome Indicator 2.2.2:
Segregation of low-income households will decline from 1990 levels by 2000.

Background. During FY 2001, HUD engaged the Bureau of Census to validate the use of income segregation indices for assessing HUD programs and to prepare baseline estimates and performance estimates. This indicator relies upon data from the long-form Census 2000, which are not available in time for this report. HUD is working with the Bureau to develop the baseline for reporting during FY 2003, although the methodological issues involved in this developmental research effort are complex.

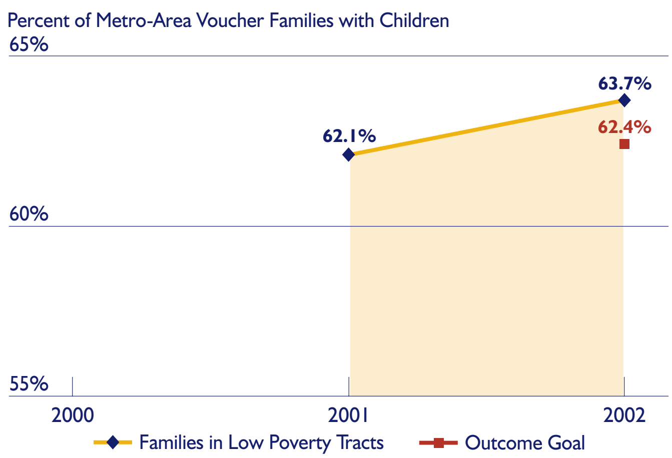
Outcome Indicator 2.2.3:
Among metropolitan families with children that receive Section 8 certificates or vouchers, the share that live in census tracts with poverty rates below 20 percent increases by 0.3 percentage points annually to 59.6 percent.

Background. Housing choice vouchers enable poor families to escape job-poor and distressed neighborhoods. This indicator measures the impact of the housing choice provided by the tenant-based Section 8 program by tracking the share of families with children that use their vouchers in census tracts with poverty rates below 20 percent. Information is provided only for families with children residing in metropolitan areas.

Results and Analysis. The percentage of metro families with children living in low-poverty tracts has increased from 62.1 percent in September 2001 to 63.7 percent in September 2002. The increase of 2.6 percentage points exceeds the goal of a 0.3 point increase.

The success may be associated with modest increases in voucher utilization during FY 2002 (see indicator 1.2.2). Easing of tight rental markets during FY 2002 could contribute both to greater utilization rates and increased leasing in low-poverty tracts. Voucher households can take greater advantage of improved market conditions when PHAs undertake effective housing counseling.

Families with Children and Vouchers Who Live in Low-Poverty Tracts



Data Discussion. This measure uses household data from the PIC 50058 system. The FY 2001 data reflect the twelve months ending September 2001 and the FY 2002 data represent the twelve months ending September 2002. The address data for each year were geocoded separately by a contractor. Reported poverty rates of tracts are based on 1990 Census definitions.

Results for FY 2001 are based on 651,431 metropolitan families, of which 386,322 are families with children. Results for FY 2002 are based on 934,400 metropolitan families, of which 547,389 are families with children. The smaller data file in FY 2001 reflects a decline in reporting between June 2001 and September 2001, during a transition from the MTCS system to the PIC system. The smaller FY 2001 file was validated by comparison with a more complete file for the year ending in May 2001.

Outcome Indicator 2.2.4:
The share of covered public housing developments that have mixed incomes increases by 1 percentage point.

Background. PHAs are required by HUD regulations to adopt admission guidelines to encourage income mixing in their developments; general occupancy family developments that are not excluded from this requirement. PHAs are excluded from this requirement if they have fewer than 100 public housing units or only one general occupancy family development; if they house only elderly persons or persons with disabilities; or for other reasons noted below. PHAs are required to adopt policies to mix incomes of admitted households when the mean household income in a covered development is less than 85 percent or more than 115 percent of the PHA mean for covered developments. The purpose of this indicator is to track the share of covered developments that fall within the 85-115 percent thresholds and thus are not subject to the deconcentration requirement.

Results and Analysis. Currently available data are not sufficiently complete to report this measure reliably. In 2002, the performance goal was to be established after a FY 2001 baseline was determined. The Department was unable to establish this baseline because the system was unavailable for data reporting from May 25, 2001 to September 25, 2001. During FY 2002, baseline data for FY 2001 were collected from PHAs. The FY 2003 performance goal will be established after a FY 2002 baseline is determined.

Data Discussion. The data come from HUD PIC-50058 reporting system consisting of household data collected and submitted by housing agencies. There have been major delays in data collection with PIC-50058 due to a technical adjustment period needed by the PHAs and the Department. Reporting also was affected by the Moving to Work program. Finally, PHAs in New York City received a reporting waiver from September 16, 2001 to June 16, 2002, due to the September 11th disaster. Although data are currently incomplete, PIC 50058 data are sufficiently accurate for this measure because the system automatically rejects electronically submitted tenant records that contain known errors or contain data of questionable validity. PIH Headquarters reviews and on-site field staff monitoring are other methods of validating and verifying the data.

Objective 2.3: Disparities in homeownership rates are reduced among groups defined by race, ethnicity and disability status.

Outcome Indicator 2.3.1:
The ratio of homeownership rates of minority and nonminority low- and moderate-income families with children increases by 0.4 percentage points to 76.0 percent by 2003.

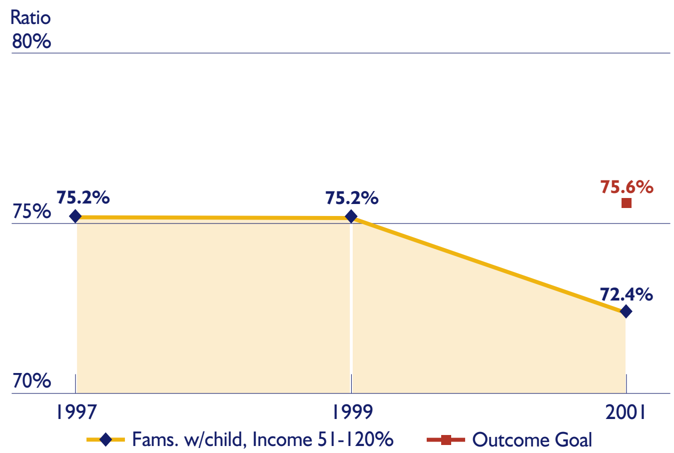
Background. One of HUD's central objectives is to remove homeownership barriers and increase homeownership among minorities. This measure compares minority families with children who have incomes between 51 and 120 percent of median income to non-minority families with similar incomes. The 2003 data will not be available to report against this FY 2002 performance goal until 2004. The 2001 data are now available to report against the FY 2001 goal, which also was an increase of 0.4 percentage point.

Results and Analysis. The most recent available data show that while important gains were made during calendar years 2000 and 2001, the FY 2001 goal was missed. The ratio between minority homeownership and nonminority homeownership decreased 2.8 percentage points to 72.4 percent.

From 1999 to 2001, there was a 13 percent increase in the *number* of these minority families who were homeowners, far exceeding the gain of only 3 percent in the number of non-minority homeowners. The decrease in the performance measure, however, was caused by an even more rapid increase in the number of minority renter households (21 percent), which decreased the minority homeownership rate from 54.8 percent in 1999 to 53.2 percent in 2001 among this universe.

Data Discussion. This measure uses data from the American Housing Survey, available biennially for odd calendar years.

Ratio of Minority/Non-Minority Homeownership Rates



Outcome Indicator 2.3.2:
The ratio of homeownership rates of persons with disabilities and other households increases by 0.2 percentage points annually from the 2001 baseline.

Background. Like other American households, persons with disabilities often seek the stability and financial benefits of homeownership. A variety of economic barriers limit their ability to achieve their housing goals, including lower disposable income related to their disability, a thinner housing market for accessible homes, and extra costs of adapting existing homes. As a result, the rate of homeownership by persons with disabilities has been estimated to be as low as 5 percent, or only 7 percent of the national homeownership rate.

Results and Analysis. It is not feasible to report on this outcome indicator. HUD worked with staff from the Bureau of Census to develop an annual measure using the Current Population Survey. The CPS collects data about whether respondents have health problems or disabilities that prevent working or limit the kind or amount of work. However, it is not possible to filter out households who are not working simply because they are temporarily ill. A measure using the composite definition sheds little light on the situation of households with permanent disabilities.

Outcome Indicator 2.3.3:
The ratio in home purchase mortgage disapproval rates between minority and other applicants decreases by 1 percentage point to 175.3 percent in 2001.

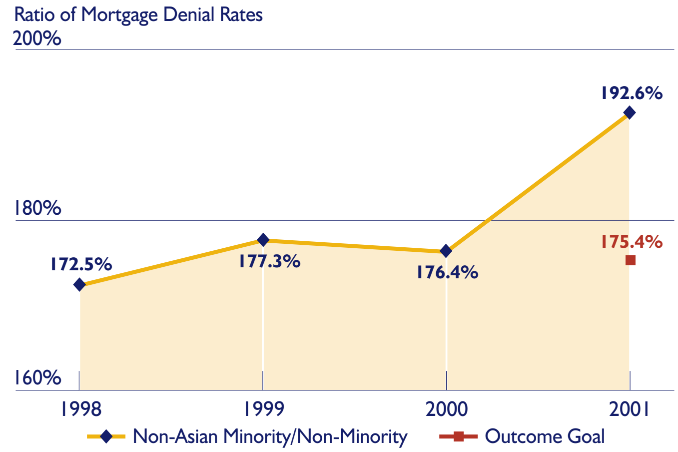
Background. This indicator tracks home purchase mortgage disapproval rates of minorities that have had limited access to traditional housing markets—African Americans, Hispanics, Native Americans, and other minorities except Asians—and compares them to disapproval rates of non-Hispanic white applicants. (Asians and Pacific Islanders are not included because as a group, their denial rates differ little from those of non-Hispanic whites.) Non-metropolitan and manufactured housing loans are excluded from the measure. This indicator has become a tracking indicator with no performance goal for FY 2003 because of limitations in the validity of the measure and HUD's limited span of control relative to individual variables and external factors.

Results and Analysis. Although the 92.6 percent disparity in denial rates missed the revised performance goal of 75.4 percent, the results under this relative measure conceal what is actually an improvement in non-Asian minority denial rates[11] to the lowest rate in over six years, from 17.8 percent of mortgage

[11] *Denial rates for Asians and Pacific Islanders also improved, from 10.8 percent in 2000 to 9.2 percent in 2001.*

applications in 2000 to 15.7 percent in 2001. The most recent data available show that during calendar year 2001, minority applicants other than Asians were denied mortgages at a rate 92.6 percent higher than the denial rate for non-minority applicants.

Minority/Non-Minority Ratio of Mortgage Denial Rates



The primary reason for the relative decline in minority outcomes was that non-Hispanic whites experienced a proportionally greater improvement in denial rates, from 10.1 percent in 2000 to 8.1 percent in 2001. If denial rates had remained constant for non-minorities, the disparity rate would have ***decreased*** by 22 percentage points to 154.9 percent.

HUD is striving to achieve the President's goal of increasing minority homeownership. FHA is improving the chances of minority applicants by endorsing more mortgages for minority households and improving the fairness and efficiency of FHA mortgage lending through greater use of the standardized TOTAL mortgage scorecard. The Department currently is not able to quantify the impact of these efforts on denial rates. A substantial portion of the ongoing difference in denial rates between minority and non-minority applicants—but not all of the difference—can be explained by finance- and credit-related attributes of the applicants. The state of the economy thus affects relative denial rates strongly by causing differential changes in financial stability and homeownership opportunities for various groups.

Data Discussion. This measure uses Home Mortgage Disclosure Act data collected from lenders on a calendar-year basis. This measure has limitations arising from the statistical variance of the numerous interacting variables used in its computation. Because of the Nation's increasingly diverse population, the data also suffer from rising incidence of missing race/ethnicity data for applications (from 9 percent in 1997 to 13 percent in 2001), a problem that is worse among denied applications (from 20 percent in 1997 to 23 percent in 2001).

Related Program Evaluations. Two studies published by HUD during FY 2002 examine the experiences of minority households in the mortgage market. "New Evidence on the Relationship Between Race and Mortgage Default: the Importance of Credit History Data" uses a model of FHA defaults to assess evidence of discrimination against black and Hispanic mortgage applications. The study finds that excluding information about borrower credit history results in bias in a model of FHA defaults. "All Other Things Being Equal: A Paired Testing Study of Mortgage Lending Institutions," assesses the effectiveness of paired testing for determining whether minority homebuyers receive the same treatment and information as whites at the pre-application phase of the mortgage lending process, and produces rigorous measures of the incidence of unequal treatment in two metropolitan areas. The report found that African American and Hispanic homebuyers in both Los Angeles and Chicago face a significant risk of unequal treatment when they visit mainstream mortgage lending institutions to make pre-application inquiries.

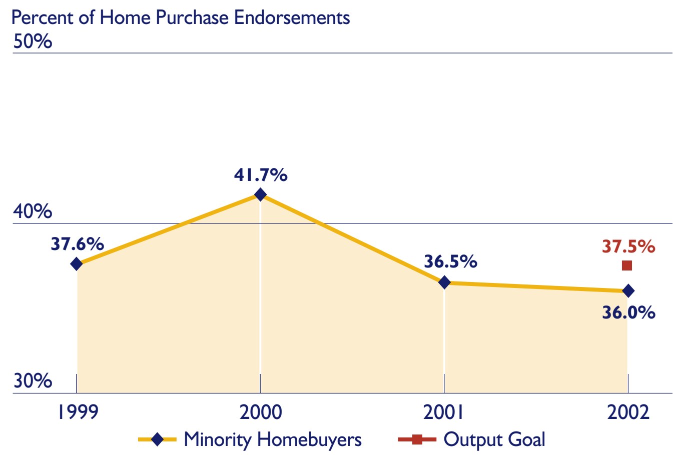
Programmatic Output Indicator 2.3.a:
The share of minority homebuyers among FHA home purchase endorsements increases by 1 percentage point to 43.8 percent.

Background. FHA is the major vehicle by which minority and lower-income families are able to secure mortgage loans for the purchase of a home. Increasing the number of FHA endorsements for minority homebuyers will help reduce the homeownership gap between whites and minorities and increase the overall homeownership rate. Because of its support for overall homeownership, this indicator also appears as Indicator 1.1.L. An additional increase of 1 percentage point is targeted for FY 2003.

Results and Analysis. During FY 2002, the share of minority homebuyers among FHA home purchase endorsements decreased to 36.0 percent, compared with 36.5 percent in FY 2001. The result missed the goal of a 1.0 point increase in the minority share. The reason for this is due to the number of non-minority homebuyers receiving home purchase endorsements being greater than anticipated in FY 2002.

The 314,709 minority home purchase endorsements actually represented an increase of approximately 6 percent over the 297,462 endorsements in FY 2001. FHA will continue to increase staff resources and efforts for appropriately targeted marketing and outreach efforts.

Share of Minority Homebuyers Among FHA Home Purchase Endorsements

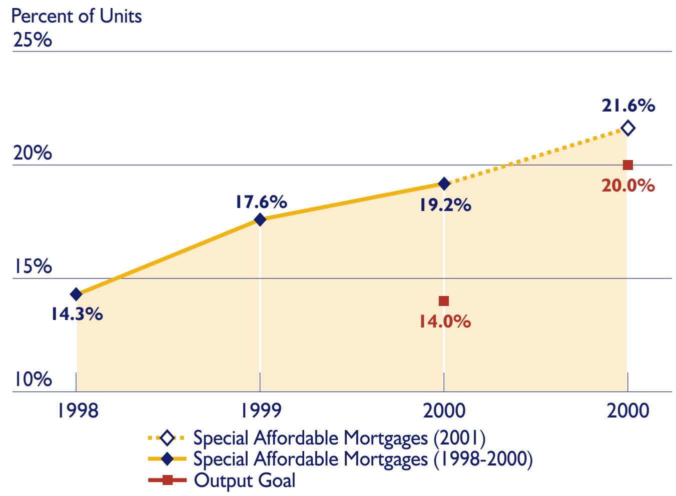


Programmatic Output Indicator 2.3.c:
Fannie Mae and Freddie Mac meet or surpass HUD-defined targets for special affordable mortgage purchases.

Background. HUD defines performance targets for Fannie Mae and Freddie Mac (two housing Government-Sponsored Enterprises or "GSEs") in several areas, including special affordable mortgage purchases. This target is intended to achieve increased purchases by the GSEs of mortgages on rental housing and owner-occupied housing that address the unmet needs of very-low and low-income families. Mortgages qualify as special affordable if they support dwelling units either for very-low-income families (with incomes up to 60 percent of area median income) or for low-income families (up to 80 percent of area median income) located in low-income areas. Low-income areas are defined as (1) metropolitan census tracts where the median income does not exceed 80 percent of area median income and (2) non-metropolitan census tracts where median income does not exceed 80 percent of the county median income or the statewide metropolitan median income, whichever is greater. HUD raised the Special Affordable target to 20 percent for 2001 and implemented new scoring rules.

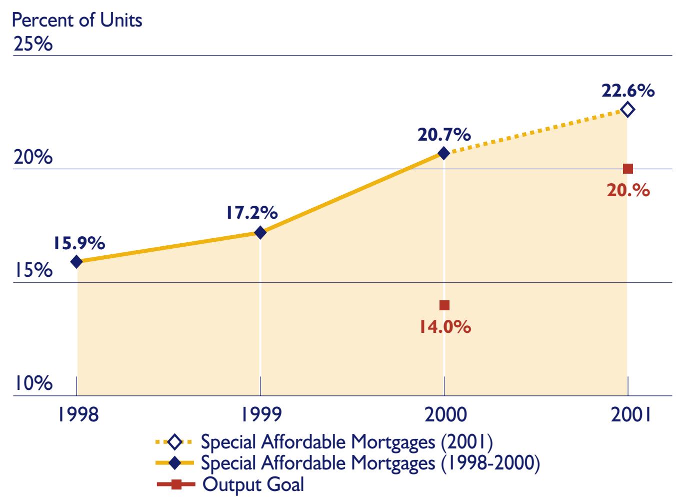
Results and Analysis. In calendar year 2001, Fannie Mae and Freddie Mac both surpassed the 20 percent target. Fannie Mae achieved 21.6 percent and Freddie Mac achieved 22.6 percent. New scoring rules, including awarding bonus points for acquisitions made in certain underserved markets and a temporary adjustment factor for Freddie Mac's multifamily purchases, made it possible for the GSEs to meet the target goal. Absent the scoring rule changes, Fannie Mae's baseline performance for 2001 was 19.6 percent, which represented an improvement over its 19.2 percent baseline performance in 2000. Freddie Mac's baseline performance fell from 20.7 percent in 2000 to 19.1 percent in 2001.[12]

Fannie Mae Performance Relative to Special Affordable Target



An analysis of mortgages counted towards the Special Affordable target indicates that, as a result of substantial refinance volume during this period, the composition of qualifying units changed in 2001. For example, as a percentage of total dwelling units qualifying under this goal, Fannie Mae's special affordable mortgage purchases for one-unit, single-family, owner-occupied properties increased by 142 percent, or 281,823 units, from 2000 to 2001. Freddie Mac's purchases also increased but by a lesser margin: In 2001, Freddie Mac purchased 149,777 more qualifying units than in 2000, representing a 79 percent increase over 2000 performance.

Freddie Mac Performance Relative to Special Affordable Target



Similarly, purchases of owner-occupied, two-to-four unit properties counted towards the Special Affordable target also rose in 2001. Fannie Mae posted a 152 percent increase in qualifying purchases over its 2000 performance while Freddie Mac improved its performance by 86 percent. Because these properties disproportionately serve lower income families, HUD's revised rule awards bonus point credit for these mortgages.

Data Discussion. The data reported under this goal are based on calendar-year performance. There is a one-year reporting lag because the GSEs report to HUD in the year following the performance year.

[12] *In the accompanying graphs, the change from a solid line to a dotted line from 2000 to 2001, and the change in shapes from a solid diamond to a hollow diamond, reflect the changes in HUD's scoring rules that became effective in 2001. The squares show the levels of the housing goals at different dates.*

Strategic Goal 3: Promote Housing Stability, Self-Sufficiency and Asset Development of Families and Individuals

Strategic Objectives:

3.1 Homeless families and individuals achieve housing stability.

3.2 Poor and disadvantaged families and individuals become self-sufficient and develop assets.

3.3 The elderly and persons with disabilities achieve maximum independence.

Performance Report Card – Goal 3

	Performance Indicators	1999	2000	2001	2002	2002 Target	Substantially Met	Notes
3.1.1	Share of homeless persons leaving HUD transitional housing for permanent housing			64%	51%	64.5%		
3.1.2	Number of formerly homeless persons who move into HUD McKinney-funded permanent housing			30,000	47,905	20,000	▯	
3.1.a	Share of the population living in Continuum communities	83%	88%	89.6%	88.9%	90.1%		
3.1.c	Number persons moving into HUD-funded transitional housing				192,392	115,000	▯	
3.1.d	Percentage of EZ/EC projects achieving goals for homeless assistance	84%	83%	89%	71%	90%		
3.1.e	Number of communities with HMIS			12	24	13	▯	
3.2.1	Percentage increase in earnings of newly employed TANF recipients over six-month period	24%	27%	25%		49%		a
3.2.2	Share of recipients of welfare-to-work vouchers holding jobs at recertification							a
3.2.3	Share of able public housing households with children deriving more than 50 percent of income from work	45.0%	48.0%	48.7%	48.4%	49.8%		
3.2.4.1	Number of FSS participants with escrow assets in public housing							Data not reliable
3.2.4.2	Average escrow balance of FSS graduates in public housing							Data not reliable
3.2.4.3	Number of FSS households with escrow assets in the voucher program							Data not reliable
3.2.4.4	Average escrow balance of FSS graduates in the voucher program							Data not reliable
3.2.a	Percentage of EZ/EC projects achieving goals for social services	80%	73%	83%	79%	85%		
3.2.b	Share of HAs scoring highly under SEMAP for FSS				44%			b,f,h,
3.2.5	Share of welfare families that move from welfare to work in public housing	23.8%		19.9%	13.1%	20.9%		
3.2.6	Share of welfare families that move from welfare to work in tenant-based Section 8	27.5%		26.0%	17.4%	28.0%		

	Performance Indicators	1999	2000	2001	2002	2002 Target	Substantially Met	Notes
3.2.7	Share of welfare families that move from welfare to work in project-based Section 8 housing			21.8%	20.6%	21.8%		
3.2.8	Unemployment rates among entry-level job seekers in central cities	18.7%	17.0%	17.6%	21.7%	17.1%		
3.2.d.1	Jobs created or retained through CDBG				90,263	124,900		
3.2.d.2	Jobs created or retained through Section 108				10,092	30,000		
3.2.e	Youth trained through Youthbuild		2,897	3,614	3,728	3,774	▯	
3.2.f	Change in employment rate of homeless persons in transitional housing (different cohorts)				87.5%	50%	▯	
3.2.f(2)	Number of on-site Section 3 monitoring reviews of PHAs				25	25	▯	
3.2.g	Percentage of Section 3 complaints aged over 120 days			47%	100%	25%		
3.3.1	Number of Section 202 projects completing conversion of units to assisted living				325			a,h
3.3.2	Number of elderly households in public or multifamily projects served by service coordinator			63,000	88,000	69,600	▯	
3.3.3	The share of elderly households in assisted multifamily housing satisfied with housing (service-enriched vs. non-service-enriched)							g
3.3.a	Number of Section 202 and 811 projects reaching initial closing	270	278	301	307	291	▯	
3.3.b	Cumulative number of Section 202 projects converted to assisted living				2			a,b
3.3.c	Number of states with assisted living facilities that house elders with vouchers and Medicaid				5	5	▯	
3.3.d	Implementation of Improving Access Initiative							Program not funded

(Values represent fiscal year data unless otherwise noted.)

a - Data not available.

b - No performance goal for this fiscal year.

c - Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).

d - Calendar year ending in the current fiscal year.

e - Calendar year ending the previous fiscal year.

f - Other reporting period.

g - Result too complex to summarize. See indicator.

h - Baseline newly established.

Objective 3.1: Homeless families and individuals achieve housing stability.

Outcome Indicator 3.1.1: The share of those homeless persons leaving HUD transitional housing who move to permanent housing increases by 0.5 percentage point.

Background. The ultimate goal of homeless assistance is to help homeless families and individuals achieve permanent housing and self-sufficiency. To coincide with this goal, HUD-funded transitional housing programs help prepare homeless people for permanent housing by offering an array of supportive services that will increase their self-sufficiency and decrease barriers for obtaining permanent housing. This outcome indicator provides a means of measuring the ability of transitional housing to move people who are homeless into permanent housing. This measure tracks the percentage of people who leave HUD-funded transitional housing and then move into any kind of permanent housing, whether it is HUD-funded or not. In FY 2003, HUD will measure the actual number—not percentage—of persons who move from HUD transitional housing to permanent housing.

Results and Analysis. According to APR data, in 2002, 51 percent of the homeless adults who left HUD's transitional housing moved into permanent housing. In 2001, approximately 64 percent of homeless adults who left HUD transitional housing moved into permanent housing. This is a decrease of 13 percent. It is not immediately known what the cause is for the decline. As indicated earlier, the 2002 results are based on an available sample of 32 percent of APRs, whereas the 2001 figure is based on a much larger sample. As such, the 51 percent figure for 2002 may change somewhat as more APRs are received. Also, it is noteworthy that at the same time there was a 13 percent reduction in the percent of transitional housing clients who move to permanent housing there was an 8 percent increase in the percent of transitional housing clients who moved to emergency shelter. The percent of exiting clients to all other destinations—such as institutions, other transitional housing, etc—were not significantly different between 2001 and 2002.

HUD is currently involved in several initiatives to help alleviate the needs of homeless persons. HUD is participating in a revitalized U.S. Interagency Council on Homelessness effort to increase the coordination of homeless services across the federal government. Secretary Mel Martinez is heading up that effort as elected Chair of the Council. Also, HUD, HHS, and VA are working on a collaborative effort to specifically target the chronically homeless through a $35 million NOFA anticipated in early 2003. HUD continues, per Congressional directive, to spend at least 30 percent of all McKinney-Vento funds on permanent housing. In the 2002 McKinney-Vento homeless assistance competition, HUD emphasized local Continuum of Care (CoC) plans addressing the needs of the chronically homeless, linking homeless persons to mainstream resources, and creating permanent supportive housing as important steps in HUD's long-term goal as identified in HUD FY 2003-FY 2008 Strategic Plan of ending chronic homelessness within 10 years—by 2011.

Data Discussion. Data for this indicator are from HUD Annual Progress Report (APR). The APR is submitted by the grantee, to HUD as a means of reporting on their HUD-funded homeless assistance project. The APR is submitted yearly for each homeless assistance project at the end of their operating year. Because projects begin annual operations at different times, the data reflects projects that ended their operational year during the calendar year 2002. Due to the varied operation dates for projects, the APR data for all APR-based indicators represents 32 percent of all projects operating in 2002. The 32 percent includes all data collected as of November 20, 2002.

Outcome Indicator 3.1.2:
At least 20,000 formerly homeless persons who move into HUD McKinney-Vento funded permanent housing.

Background. This outcome indicator underscores the importance HUD has placed on providing HUD-funded permanent housing for homeless persons. Permanent housing provides long-term stability that is essential to self-sufficiency and helps to end the cycle of homeless. Supportive services, also provided via the Continuum of Care (CoC), are necessary to address various types of problems homeless people face before and after placement into permanent housing. According to recent research, the cost of providing permanent housing for homeless individuals is actually less than the cost of maintaining the homeless in state hospitals, psychiatric facilities, jails/prisons, or on the street.

This was a new outcome indicator in 2001, at which time a baseline was set for this measure.

Results and Analysis. In 2002, approximately 47,905 formerly homeless people moved into HUD McKinney-Vento funded permanent housing. It was estimated that 30,000 homeless persons moved into HUD McKinney-Vento funded permanent housing during 2001. This is an estimated increase of 17,905 formerly homeless people who moved into HUD McKinney-Vento funded permanent housing in 2002. HUD has far exceeded the 2002 goal of 20,000 people placed into HUD-funded permanent housing in 2002 by 27,905 people.

The significant increase in the number of homeless people moving into HUD-funded permanent housing can be attributed to HUD's emphasis on increasing the number of permanent housing units available for people who are homeless. HUD encourages local communities to use HUD homeless assistance funds for permanent housing in national broadcasts, the NOFA, the application and by providing bonuses to CoCs that propose new permanent housing projects as their top priority. The results of these efforts have been realized in approximately 47,905 formerly homeless people who have moved into HUD McKinney-Vento funded permanent housing in 2002.

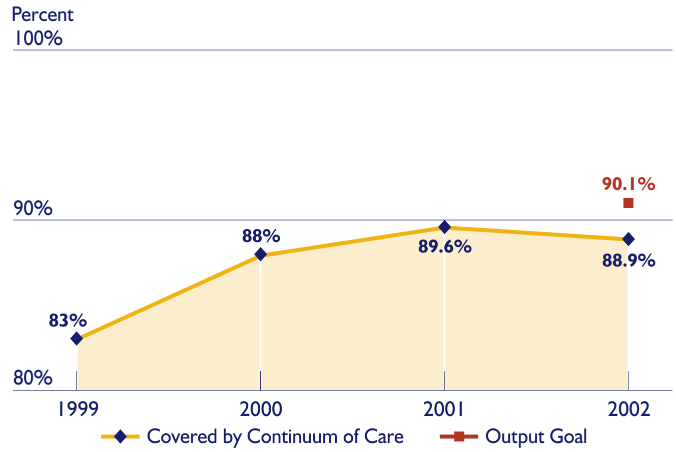
In 2002, HUD McKinney-Vento funds also helped 21,284 homeless people to move from HUD-funded transitional housing into non-HUD funded permanent housing. In total, HUD McKinney-Vento funds have assisted 69,189 formerly homeless people to move into both HUD and non-HUD funded permanent housing in 2002.

Data Discussion. Data for this indicator are from HUD Annual Progress Report (APR). Due to the varied operation dates for projects, the APR data for all APR-based indicators represents 32 percent of all projects operating in 2002. The 32 percent includes all data collected as of November 20, 2002.

Programmatic Output Indicator 3.1.a:
The share of the population living in communities with a Continuum of Care system increases by 0.5 percentage point.

Background. HUD continues to encourage homeless assistance providers in each community to work together to submit a single application describing their resources and needs. This "Continuum of Care" process helps ensure that communities take a comprehensive approach to addressing the problem of homelessness and closing their service gaps. HUD will no longer report on this measure in 2003 due to the matured success in the development of the Continuum of Care.

Population Living in Communities with Continuum of Care



Results and Analysis. In 2001, 11 additional CoCs were created, increasing the total number of CoCs nationwide from 446 in FY 2000 to 457 in FY 2001. In FY 2001, 89.6 percent of the total U.S. population lived in communities within a CoC system. In FY 2002, 14 additional CoCs were created, increasing the total number of CoCs nationwide from 457 in FY 2001 to 471 in FY 2002. In FY 2002, 88.9 percent of the total U.S. population lived in communities within a CoC system. This represents a minor 0.7 percentage point decrease from FY 2001 levels.

While 14 additional CoCs were created in FY 2002, this increase can occur without a change in the share of the population living in communities within a CoC. Some large state-wide CoCs have split into numerous smaller CoCs to allow for more local control and planning in the CoC planning process; hence increasing the number of CoCs while the share of the population living in communities within these CoCs do not increase.

The minor change in the share of the total U.S. population living in communities within a CoC system in FY 2002 could be attributed to differences in population data used in the calculation of this indicator. In FY 2001, 1999 population estimates were used, as they were the latest and most accurate data available. For FY 2002, actual 2000 population Census data were used, as they were the latest and most accurate data available.

Data Discussion. This measure is based on Continuum of Care (CoC) applications, submitted by each CoC jurisdiction for the FY 2002 homeless competition. Bureau of Census population data were used to estimate the proportion of the population covered.

Programmatic Output Indicator 3.1.c:
At least 115,000 people move into HUD-funded transitional housing.

Background. This programmatic output tracks the number of homeless people who move into HUD-funded transitional housing. An important stepping-stone toward permanent housing for homeless persons is the availability of transitional housing with supportive services to stabilize their lives. This is a new indicator for 2002 and the first time HUD has tracked the number of people served by HUD-funded transitional housing to better reflect the overall impact of transitional housing funds.

Results and Analysis. In 2002, an estimated 192,392 homeless people moved into HUD-funded transitional housing. This far exceeds the goal by an additional 77,392 people moving into transitional housing. HUD continues to increase the number of HUD-funded transitional housing beds. HUD also continues to provide the supportive services necessary to move people who are homeless from transitional housing to permanent housing, allowing more vacancies for homeless people in need of transitional housing and accompanying supportive services.

Data Discussion. Data for this indicator are from HUD Annual Progress Report (APR). Due to the varied operation dates for projects, the APR data for all APR-based indicators represents 32 percent of all projects operating in 2002. The 32 percent includes all data collected as of November 20, 2002.

Programmatic Output Indicator 3.1.d:
At least 90 percent of EZ and EC projects achieve local goals in serving homeless persons.

Background. The Empowerment Zone and Enterprise Community program is designed to promote economic and community development in distressed communities. HUD has designated 79 Empowerment Zones and Enterprise Communities (EC's). HUD measures their performance in seven areas including serving homeless persons. Data represent the sum of plans that are 95 percent completed divided by the sum of EZ/ECs that have homeless programs. A more detailed discussion of EZ/EC results is included under Indicator 4.2.d.

Results and Analysis. In FY 2002, 71 percent of EZ and EC projects met goals with respect to serving homeless persons. This level misses the target of 90 percent and represents a 20 percent decrease from the revised FY 2001 level of 89 percent. HUD has begun to employ a number of management strategies to help the communities become better at setting reachable goals; however, anecdotal evidence also suggest outside factors sometimes make it difficult for the communities to reach the projected target.

Programmatic Output Indicator 3.1.e:
The number of communities with Homeless Management Information Systems increases.

Background. This programmatic output indicator will track the number of Homeless Management Information Systems (HMIS) as they are implemented and expanded around the country. Congress directed HUD to work with local jurisdictions to collect an array of data on homelessness, including unduplicated counts, the use of services, and the effectiveness of the local homeless assistance systems. HUD has set a goal of October 2004 for the CoC jurisdictions to have operating Homeless Management Information Systems (HMIS).

This is the first time HUD has tracked the number of communities with Homeless Management Information Systems. An important part of tracking HMIS is also tracking the percent of beds/units included in HMIS of all beds/units within the community. HUD will continue to track both the number and percent of HMIS coverage as HMISs continue to expand. In 2003, the number of communities with HMIS will continue to increase to 75 communities.

Results and Analysis. Based on 2002 application data, in 2002, 45 Continuum of Care (CoC) communities have at least 50 percent of their beds/units included in HMIS and of these, 24 communities have 75 percent or more of their beds/units included in HMIS. Based on 2001 application data, in 2001, 24 Continuum of Care communities had at least 50 percent of their beds/units included in HMIS and of these, 12 communities had 75 percent or more of their beds/units included in HMIS. From 2001 to 2002, 21 new CoC communities have at least 50 percent of their beds/units included in HMIS and of these, 12 new CoC communities have 75 percent or more of their beds/units included in HMIS. This is a significant increase in the number of communities with HMIS with a 100 percent increase in the number of communities with 75 percent or more of their beds/units included in HMIS.

HUD will continue to emphasize HMIS to local communities while providing relevant technical assistance to Continuums as they implement HMIS. HUD is also developing reporting standards for an Annual Homeless Assessment Report for Congress from a national sample of HMIS data.

Data Discussion. Data from Continuum of Care (CoC) applications submitted in 2001 and 2002 homeless competitions, by each CoC jurisdiction, are the source of this indicator's data.

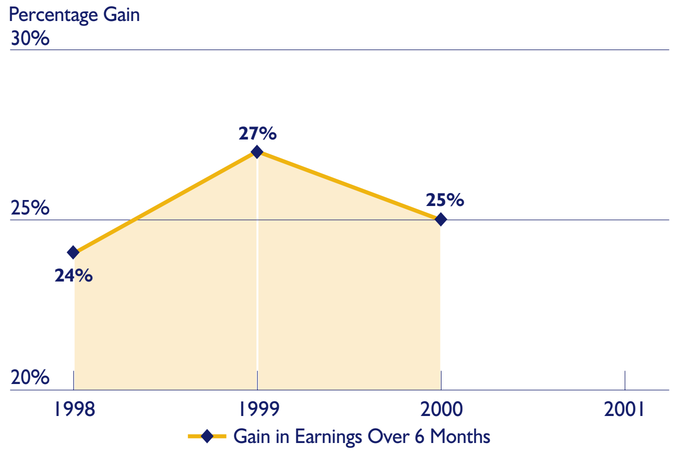
Objective 3.2: Poor and disadvantaged families and individuals become self-sufficient and develop assets.

Outcome Indicator 3.2.1:
Maintain the percentage rate of earnings gained by employed adult TANF recipients or former recipients over a six-month period.

Background. This indicator is shared with the Department of Health and Human Services (HHS). The indicator measures the change in earned income among former recipients of Temporary Assistance for Needy Families (TANF) six months after they become employed. The measure was adopted because there has been substantial historical overlap between the welfare population and residents of public and assisted housing. At the time TANF was authorized, about one-quarter of welfare households had housing assistance and about one-quarter of assisted households received welfare. For FY 2003 and future years, HUD is focusing on performance measures that have greater validity for HUD because they focus on transitions from welfare to work in assisted housing programs.

Results and Analysis. The most recently available data show that in calendar year 2000, the increase in quarterly earnings of newly employed TANF recipients was 25 percent over six months, comparing a base quarter with the second subsequent quarter. This was a slower rate of income growth than the 27 percent gains families experienced in 1999, and thus missed the performance goal of increasing earnings.

% Gain in Earnings After 6 Months for Newly Employed TANF Recipients



TANF caseloads have declined dramatically in recent years, and there is evidence that the remaining TANF population faces more obstacles to stable, high quality employment. Thus the decline may reflect a changing caseload, as well as possible economic factors. The economy had slipped into recession by March 2001, causing some former TANF recipients to lose jobs that paid higher wages. Various States have differing approaches to promote work by TANF recipients, ranging from extensive education opportunities to mandatory work participation. The evidence that is developing about which approaches are more effective is undergoing continuing Analysis. HUD continues to work with HHS to research the impacts of welfare reform and the effectiveness of various strategies to promote self-sufficiency.

Data Discussion. This measure, which represents one- and two-parent families, is tabulated from state and local administrative data by the Administration for Children and Families at HHS. HUD is unable to verify the data independently. The values for FY 1998 and FY 1999 reflect recalculation by HHS using the latest available data, and thus do not match the values reported in the FY 2000 Performance and Accountability Report.

Outcome Indicator 3.2.2:
The share of recipients of welfare-to-work vouchers who hold jobs at time of annual recertification increases.

Background. This indicator tracks the employment status of recipients of Welfare to Work (WtW) vouchers. Funding for the program was appropriated in FY 1999 and awarded in FY 2000. WtW vouchers provide rental assistance to support work efforts of families, providing stability and housing security at a critical point in the transition from welfare to employment. The WtW voucher program was a new initiative that required coordination of PHAs and welfare agencies. As is often true of new programs, startup was slow but many WtW voucher PHAs finally achieved full leasing of their WtW vouchers in FY 2001. Because changes to the form HUD-50058 that enabled the Department to track WtW vouchers in its PIC system were implemented late in FY 2001, the Department was able to establish a baseline in FY 2002 as anticipated in the Department's discussion of Outcome Indicator 3.3.2 in the FY 2001 Performance and Accountability Report. FY 2002 was the first full fiscal year that WtW voucher data was collected in HUD's PIC system. The baseline measures the percentage of families with earned income when they entered the WtW voucher program in FY 2002. Data on families that entered the program prior to FY 2002 is not available because it was not captured in PIC.

Results and Analysis. The PIC system contains reports of 2,672 families that enrolled in the WtW voucher program between October 1, 2001 and September 30, 2002. Of those families, 1,339, or 50.1 percent, had earned income at the time of entering the WtW voucher program, and 49.9 percent had no reported employment income.

Since the inception of the WtW voucher program in 1999, HUD has provided technical assistance to the public housing agencies that were awarded WtW vouchers. Although much of the technical assistance in the initial two years of the program was focused on helping PHAs to identify and select eligible families and on leasing all 50,000 WtW vouchers, the Department's technical assistance has also addressed the employment component of the program. HUD has provided information to PHAs on employment, case management, strengthening TANF/DOL partnerships and the advantages of enrolling WtW voucher families in the Family Self-Sufficiency program through activities such as national teleconferences and field office workshops. Success of the WtW vouchers in promoting self-sufficiency among welfare recipients is being evaluated by HUD's Office of Policy Development and Research (PD&R) in six large WtW voucher programs. The sites include: Atlanta and Augusta, Georgia; Fresno, California; Houston, Texas; Los Angeles, California; and Spokane, Washington. The final report target date is May 2003.

Data Discussion. Data on WtW voucher families is collected through the form HUD-50058 and the Family Self-Sufficiency/WtW voucher addendum to the HUD 50058.

Many PHAs continue to report difficulty getting their WtW voucher data into HUD's PIC 50058 data system with the result that PIC 50058 does not include complete data on WtW voucher program enrollment and progress. Reporting accuracy and completeness is expected to improve as a result of HUD efforts to identify and correct problems, but the baseline does not include the many families that enrolled in the WtW voucher program before implementation of the HUD 50058 and 50058 addendum revisions that now enable HUD to identify WtW voucher families in PIC.

PIC 50058 verifies the accuracy of data by performing automated checks on data ranges and internal consistency. Data and summary statistics are electronically available to housing agencies and HUD field offices for verification, validation, data analysis and monitoring purposes.

Programmatic Output Indicator 3.2.a:
At least 85 percent of EZ and EC projects achieve local goals in providing social services.

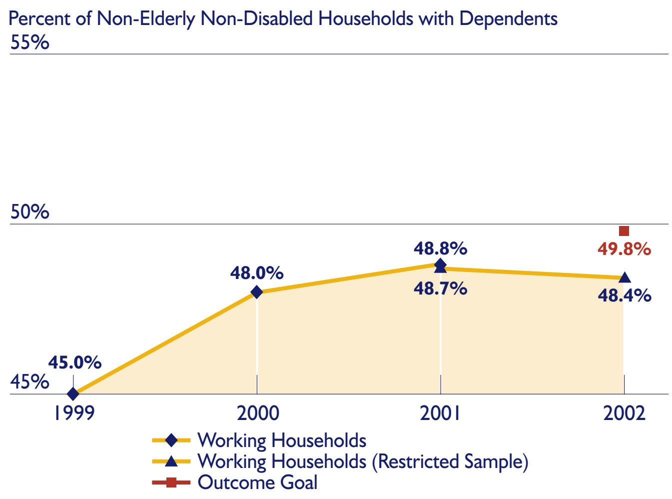
Background. HUD has designated 79 Empowerment Zones (EZs) and Enterprise Communities (ECs). HUD measures their performance in seven areas including providing social services. Data for this indicator represent the number of grantees that achieved at least 95 percent of their projected outputs divided by the total number of grantees with completed social service projects or programs. A more detailed discussion of this measure is included under Indicator 4.2.d.

Results and Analysis. In FY 2002, 79 percent of EZ and EC projects met goals with respect to providing social services. This level misses the target of 85 percent and represents a 4 percent decrease from the revised FY 2001 level of 83 percent. HUD has begun to employ a number of management strategies to help the communities become better at setting reachable goals; however, anecdotal evidence also suggest outside factors sometimes make it difficult for the communities to reach the projected target.

Outcome Indicator 3.2.3:
Among non-elderly, non-disabled public housing households with dependents, the share that derive more than 50 percent of their income from work increases by 1 percentage point.

Background. HUD's goal is to help as many residents of public and assisted housing to increase their self-sufficiency to the point that they no longer need housing assistance and/or are able to become homeowners if they choose. The Department has several efforts underway to promote work participation among existing residents and admit higher income families in public housing. The data used for this measure consist of the most recent income certification records for non-elderly, non-disabled public housing households that have been submitted by PHAs at a point in time. PHAs are required to re-certify household incomes annually. The goal for FY 2002 and FY 2003 is to increase the number by one percentage point per year.

Public Housing Households with Dependents Earning More than Half of Income by Working



Results and Analysis. Complete data are not available to report FY 2002 results. However, consistent data are available for the restricted sample of households that have records on file for both FY 2001 and FY 2002. Among this restricted sample, the proportion of non-elderly, non-disabled households that were working stood at 48.4 percent. Therefore, the one percentage point increase was not realized for FY 2002. The use of the restricted sample may have influenced this result because the estimates cannot capture any gains in work participation that occurred through admission of working households.

Throughout the FY 2002 performance period, the Department has been actively promoting work through its policies and PHA activities. These strategies included disregarding earned income when calculating rents, providing escrow accounts through the Family Self Sufficiency program, and providing employment-related supportive services through the Resident Opportunities and Self-Sufficient (ROSS) program.

Data Discussion. The data come from the PIC 50058 system, consisting of household records submitted by housing agencies. The FY 2001 values are based on records present in PIC as of 5/31/2001, and the FY 2002 values are based on the 9/30/2002 file. Household data were incompletely reported during FY 2002 as the PIC system was implemented. Therefore, the restricted sample was used to provide a reliable estimate of changes for a consistent subgroup. The restricted sample includes 208,000 non-elderly non-disabled families with dependents that have records on file in both the 5/31/2001 and the 9/30/2002 files.

Outcome Indicator 3.2.4:
The number of public housing and Section 8 voucher households that have accumulated assets through the Family Self-Sufficiency program increases by 5 percent and the average escrow amount for FSS graduates increases.

Background. The Family Self-Sufficiency (FSS) program is HUD's principal asset building tool. FSS promotes the development of local strategies for helping families obtain employment that will enable them to build assets and achieve economic independence and self-sufficiency. FSS provides participating families with opportunities for educational services, job training, counseling, and other services while they are receiving housing assistance. Both housing choice voucher holders (formerly known as Section 8 vouchers) and public housing residents are eligible to participate in FSS programs.

The essential elements of the FSS program include (1) voluntary participation of families through a five-year self-sufficiency contract; (2) case management and service coordination; (3) a Program Coordinating Committee made up of representatives of the housing agency, local government and service providers; and (4) escrow savings accounts, a significant asset-building tool. As participants' earnings increase, an amount based on their increased earned income is deposited into an interest-bearing escrow account. The family claims the escrow funds upon successful fulfillment of their self-sufficiency contract.

Results and Analysis. Data on public housing and housing choice voucher FSS families is collected through an addendum to the Form HUD-50058. In FY 2001, HUD's PIC-50058 data system contained reports of a total of 19,631 public housing and housing choice voucher families with positive escrow account balances. There are records in PIC of 433 families graduating from FSS in FY 2001; the average escrow balance amount was $4,482.37. In FY 2002, the number of public housing and housing choice voucher families in PIC with positive escrow balances declined to 11,782. The total number of FSS graduates reported in PIC for FY 2002 was only 227, but the average escrow amount for graduates increased to $4,875.52, an increase of approximately 8.8. As discussed in more detail below, because of data problems in HUD PIC 50058 data system, especially in FY 2002, it is likely that the numbers obtained from PIC seriously undercount the number of families that were participating in the FSS program as well as the escrow balances and the number of graduations from the FSS program.

Data Discussion. Data on public housing and housing choice voucher FSS families comes from HUD PIC-50058 data system. The reliability of the FSS data in both FY 2001 and FY 2002 was poor. Many PHAs reported difficulty getting their FSS data into HUD's PIC 50058 data system and some of the data that was submitted was lost as a result of a system error with the result that PIC 50058 does not accurately reflect the total public housing and housing choice voucher FSS program enrollment and escrow activities in FY 2001 and FY 2002. The Department has been able to identify many of the problems that resulted in poor FSS data reporting in FY 2001 and FY 2002 and is correcting them. Reporting accuracy and completeness are expected to improve as a result of HUD identification and correction of system problems.

Programmatic Output Indicator 3.2.b:
The share of housing agencies scoring at least 8 points under the SEMAP indicator for FSS increases by 5 percentage points.

Background. Some PHAs were required to implement FSS programs because they received funding for additional housing choice vouchers between 1990 and 1998. The PHA's mandatory FSS program size is based on the number of new vouchers received during that period and performance of PHAs with mandatory FSS programs is measured through one component of SEMAP. To score eight points, at least 60 percent of mandatory FSS slots must be filled and at least 30 percent of FSS families must have escrow account balances.

Results and Analysis. The baseline for this goal is being established for the SEMAP reporting period for the four quarters from December 31, 2000 through September 30, 2001. Of the 2,332 PHAs rated in SEMAP during that period, the FSS indicator applied to only the 1,080 PHAs with mandatory FSS programs. Of those PHAs with mandatory FSS programs, 480, or 44 percent, achieved a score of 8 points or higher. This baseline may understate the number of successful FSS programs because of problems with HUD PIC 50058 system in FY 2002.

Data Discussion. Data is from the Public and Indian Housing Information Center Section Eight Management Assessment Program (PIC SEMAP), which are based on data reported by PHAs to PIC 50058.

The reliability of the FSS data is not good and may understate actual FSS enrollment and progress. Many PHAs continued to report difficulty getting their FSS data in HUD's PIC 50058 data system during the SEMAP reporting periods used in establishing this baseline with the result that PIC 50058 does not accurately reflect FSS program enrollment and escrow activities. Reporting accuracy and completeness is expected to improve as a result of HUD's efforts to identify and correct problems.

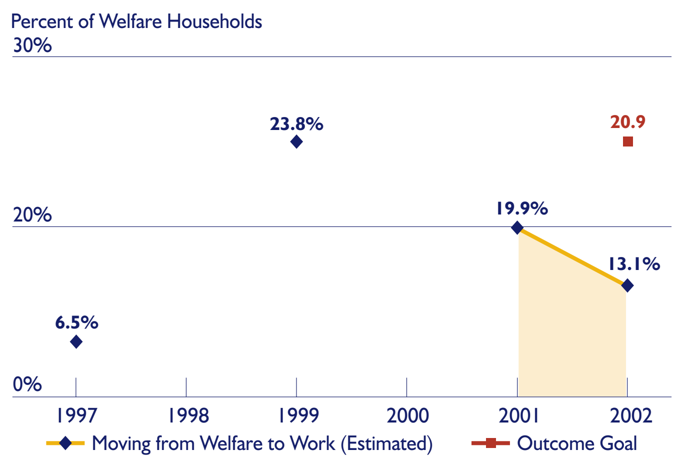
PIC 50058 verifies the accuracy of data by performing automated checks on data ranges and internal consistency. Data and summary statistics are electronically available to housing agencies and HUD field offices for verification, validation, data analysis and monitoring purposes.

Outcome Indicator 3.2.5:
The share of welfare families that move from welfare to work each year while residing in public housing increases by 1 percentage point.

Background. This indicator tracks the work participation outcomes for welfare families while they reside in public housing, as determined by primary income source. Primary income source is defined as the income source, either welfare income or wage income, that exceeds 50 percent of total income.

Results and Analysis. In FY 2002, public housing families moved from welfare to employment at an annualized rate of 13.1 percent. The figure does not include families that left public housing, so it may be missing some families who ended participation after obtaining full-time employment. The current figure misses the goal of an increase of 1 percentage point above the estimated annualized rate of 19.9 for FY 2001 and is actually a decline from that baseline.

Estimated Annual Movement from Welfare to Work in Public Housing



Although the rate of movement from welfare to employment of public housing residents continues to slow from the FY 1999 peak, the rate exceeds the estimated 6.5 percent of welfare households moving to work annually when TANF was enacted.

Data Discussion. Data on public housing income sources comes from the PIC 50058 data system, consisting of household data submitted electronically by housing agencies.

Reporting by PHAs for public housing in FY 2002 was at a rate of approximately 60 percent of occupied units. Data will improve with higher PHA public housing reporting rates. The Department is currently monitoring reporting rates and conducting an assessment of the appropriate timing for reinstating a sanctions and forbearance policy. Sanctions had been suspended because of technical adjustments to PIC affecting both the Department and local agencies as PIC was being upgraded. Reporting rates have also been affected by the number of agencies given reporting waivers as participants in the Moving to Work demonstration and the New York City Housing Authority reporting waiver that was granted after the September 11, 2001 tragedy.

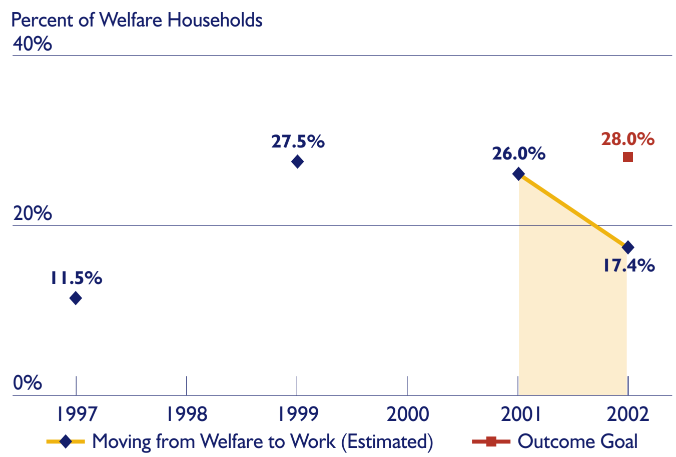
PIC 50058 has automated edits to prevent input errors, and HUD performs quality control studies to verify the accuracy of tenant income data.

Outcome Indicator 3.2.6:
The share of welfare families that move from welfare to work each year while assisted by tenant-based Section 8 increases by 2 percentage points.

Background. The housing choice voucher program, or tenant-based Section 8 rental assistance, serves as one of HUD's best tools to help families escape welfare dependency because it gives families freedom to move to neighborhoods that are close to jobs. Many housing agencies administering housing choice voucher programs have implemented Welfare-to-Work and Family Self-Sufficiency programs to help families become economically independent. This indicator tracks work participation outcomes for welfare families assisted by vouchers, as measured by the percentage of families moving from welfare as primary income source to earnings as primary income source while they are assisted. Primary income source refers to the source of income, either welfare income or wage income, that exceeds 50 percent of total income.

Results and Analysis. In FY 2002, housing choice voucher program participants moved from welfare to work at an annualized rate of 17.4 percent. The percentage does not include families that left the voucher program, so it may be missing some families who ended participation because they no longer needed assistance. This misses the goal of a 2 percentage point increase and is a decline from the estimated annualized baseline of 26 percent for FY 2001. The trend mirrors that of public housing: transitions to work are up substantially from the early days of welfare reform under TANF, but are down from FY 2001 levels. The decline is somewhat less than in public housing, suggesting that the geographic flexibility provided by the voucher program may make it more resilient to downturns, or that it may serve a different population. Similar external factors apply such as the changing distribution of needs of different cohorts of welfare households and weakening job markets doubtless play a significant role.

Estimated Annual Movement from Welfare to Work in Voucher Program



The Department has implemented a number of strategies to improve movement from welfare to work in the housing choice voucher program. Because the FSS program is such an important tool for moving families to employment, the Department made $46.4 million available in FY 2002 to pay the salaries of FSS program coordinators for voucher FSS programs. The FSS program coordinators assure that program participants are linked to the supportive services they need to achieve and maintain self-sufficiency. HUD provides no additional funding for services, and the cost for salaries of FSS program coordinators is minimal, considering the value of services and other resources that the coordinators are able to leverage for their program activities. In FY 2002, HUD continued to provide training and technical assistance to PHAs that administer Welfare-to-Work voucher and FSS programs. HUD believes that strategies such as those developed through the Welfare-to-Work voucher program and FSS will be important to strengthening the job skills and employment success of its families. As families increase employment income and need little or no rental assistance, more money will be available to help additional families make the transition to work.

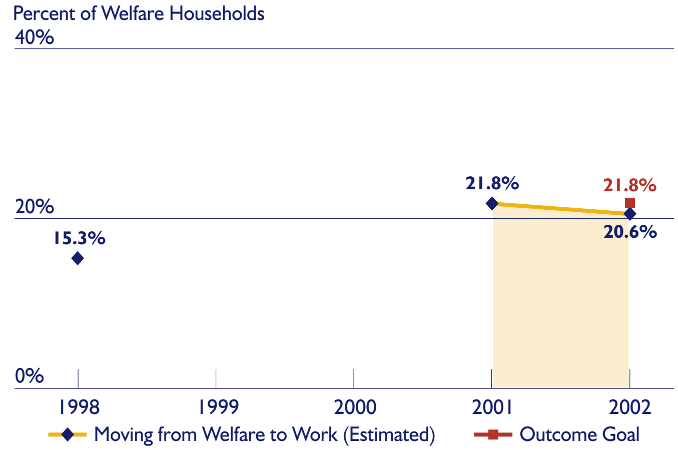
Data Discussion. The data come from the PIC 50058 data system, consisting of household records submitted electronically by housing agencies. The reporting rate for tenant-based housing choice vouchers is good. Annual recertification of tenant income may not capture short spells of work or welfare. Data on families leaving the housing choice voucher program because they no longer need rental assistance due to increased wages has not been taken into consideration in the data used to evaluate this indicator. PIC 50058 has automated edits to prevent input errors, and HUD performs quality control studies to verify the accuracy of tenant income data.

Outcome Indicator 3.2.7:
The share of welfare families that move from welfare to work each year while assisted by project-based Section 8 increases from the FY 2001 baseline.

Background. Project-based Section 8 contracts reimburse private property owners for a designated number of low-income households who cannot afford to pay the fair market rent. Roughly 9 percent of assisted multifamily households had welfare as their primary source of income during 2002. This percentage has decreased dramatically from levels observed during the late 1990's. Promoting self-sufficiency, work participation and income growth helps these families climb the housing ladder and frees up program resources to assist more needy families.

Results and Analysis. Among the welfare families who lived in assisted multifamily housing in September 2001, 21 percent had moved to work by September 2002, slightly below the 22 percent that moved to work during FY 2001. The FY 2002 percentage remains substantially above a reasonable annualized estimate of work transition of 15.3 percent derived from an earlier finding that 31.8 percent of welfare families moved to work during the 25 months between December 1995 and January 1998.

Estimated Annual Movement from Welfare to Work in Project-Based Section 8 Program



One likely reason for this slight increase is that the sharp decline in recent years in the share of households deriving their income primarily from welfare suggests those remaining may face unusually difficult problems transitioning from welfare to work. The fact that the project-based Section 8 program offers fewer options than public housing for promoting self-sufficiency of residents (because housing providers are private owners rather than public housing agencies) makes further progress relatively more difficult.

However, an important tool HUD is using to assist families are the Neighborhood Networks, which are multiservice community technology centers for low- and moderate-income residents. The centers help residents gain knowledge and skills through the use of computer learning to prepare themselves better for the job market and attain self-sufficiency. HUD supports the voluntary efforts of private project owners to establish Neighborhood Networks centers by allowing the owners to borrow funds from their "Reserve for Replacement Account" or use their "Residual Receipts Account" for up to three years. Multifamily partners established 170 new Neighborhood Networks centers during FY 2002.

Data discussion. The data come from the Tenant Rental Assistance Certification System (TRACS).

Programmatic Output Indicator 3.2.c:
Among Consolidated Plan jurisdictions with housing agencies, the share that have included housing agency representatives in consolidated planning efforts reaches 90 percent.

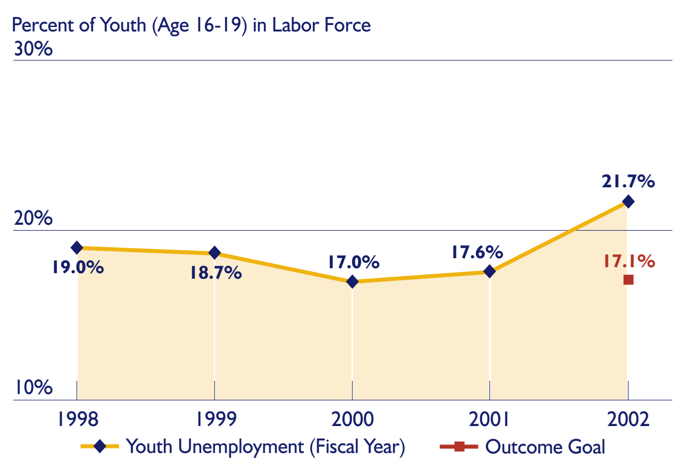
Background. This output indicator is used to track the share of consolidated plans that demonstrate States and communities involvement with housing agencies in a decision-making role. It is included under this objective because of its relation to consolidated planning efforts. It is discussed more completely as Indicator 1.2.p relating to Strategic Goal 1.

Outcome Indicator 3.2.8:
Unemployment rates among young, entry-level jobseekers in central cities decline by 0.5 percentage point.

Background. This indicator tracks the unemployment rate for the 16- to 19-year-old labor force in central cities. The unemployment rate of youth indicates the extent to which entry-level or unskilled jobseekers, including former TANF recipients, are finding employment. Youth are not a perfect proxy for all entry-level unemployed persons because they may have more computer-related skills or other differences in human capital. Youth have higher rates of unemployment than other age groups. The unemployment rate is defined as the percentage of those who want to work (the labor force) but who do not have jobs. This indicator does not appear in the FY 2003 APP because the numerous economic factors that affect the outcome place it substantially beyond HUD span of control or influence.

Results and Analysis. During FY 2002, the youth unemployment rate climbed to 21.7 percent. The increase of 4.1 percentage points missed the goal of decrease of 0.5 points from FY 2001 levels.

Unemployment Among Young Entry-Level Job Seekers



The rapidly worsening condition during FY 2002 accelerated modest losses observed for FY 2001. A number of HUD programs continued to support job creation during the difficult economic period. Community Development Block Grants, Section 108 loan guarantees, and Empowerment Zone programs are key economic development programs. Grantees reported that 90,263 jobs were created or retained with CDBG and Section 108 during FY 2002 (see Indicator 3.2.d). This activity is amenable, at grantee's discretion, to target high poverty areas in young, entry-level job seekers. HUD enforcement of Section 3 requirements helps ensure that grantees use funds in ways that create job opportunities for low-income residents.

The Department also has several programs that enhance job readiness for entry-level workers. The Youthbuild program helps youth develop construction-related skills by learning on-the-job. Neighborhood Networks technology centers, operated by multifamily housing providers, help disadvantaged residents develop the critical computer skills needed in the job market.

Data Discussion. This measure relies on annual calendar year estimates provided by the Bureau of Labor Statistics using data from the Current Population Survey and unemployment insurance programs. To support improved and more timely reporting, the measure has been converted from a calendar year to a fiscal year basis and now includes jobseekers who had never before held jobs.

Programmatic Output Indicator 3.2.d: A total of 124,900 jobs will be created or retained through CDBG and 30,000 through Section 108.

Background. Many communities choose to use a substantial fraction of their CDBG grants and Section 108 guaranteed loans to improve the local economy and help their citizens find productive work. This measure tracks the number of jobs that grantees report as created or retained through CDBG and Section 108.

Results and Analysis. For FY 2002, grantees reported that 90,263 full-time-equivalent jobs were created or retained with CDBG funds during the fiscal year. An evaluation of the reported data showed that a number of grantees had included both actual and planned jobs created or retained. The figure of 90,263 reported here includes only the "actual" jobs component. An additional 24,926 were "planned" jobs to be created or retained. Since this is only the second year for which performance figures were available, HUD was unaware that planned jobs were being included in grantee reports. Future goals will be adjusted to account for actual jobs created or retained.

Another category of funded activity that supports job creation and retention is the use of CDBG funds to develop public facilities, such as streets and water and sewer projects that serve businesses and allow for new business creation or expansion. Job figures for this category have not been included in this reporting cycle for FY 2001. While grantees have reported job accomplishments for activities under this category, it is not clear from the data provided whether grantees are reporting the total number of persons served by such public facilities, or the actual jobs created or retained. Further refinement and verification of this data is needed before it can be included in performance reporting.

The Section 108 Loan Guarantee program's measure of jobs created or retained is based upon data gathered at the time an of application for a Section 108 Loan Guarantee commitment is submitted. The goal for FY 2002 was 30,000 jobs created or retained from Section 108. Applicants reported that the aggregate total number of jobs that would be created or retained would be 10,092.

In FY 2002, the average cost per job was $30,814 per job, which was significantly higher than in FY 2001 when the average cost per job was $9,659. An analysis showed that Section 108 Guaranteed Loans totaling $169 million were approved for 46 projects funded in FY 2001, and $151.8 million for 34 projects funded in FY 2002. The analysis also showed that the median number of jobs per project in FY 2001 was 275 jobs created/retained. In FY 2002 the median number of jobs per project was 100 jobs created/retained. There were also a greater number of projects in FY 2001 with a number of large, single projects with large job totals, with the largest being 6,500 jobs. In FY 2002, the largest single project job total was 2,700 jobs.

External factors that may affect the level of accomplishments in the future are the level of CDBG annual appropriations, the choices grantees make among their community, housing and economic development needs, and the level of availability of other resources, notably local and state funds that are used in conjunction with CDBG assisted housing.

Other factors include a lack of CDBG technical assistance funds and resources to improve the program data system, hampering the CDBG program's ability to provide CDBG grantee training, technical assistance, and improve data quality.

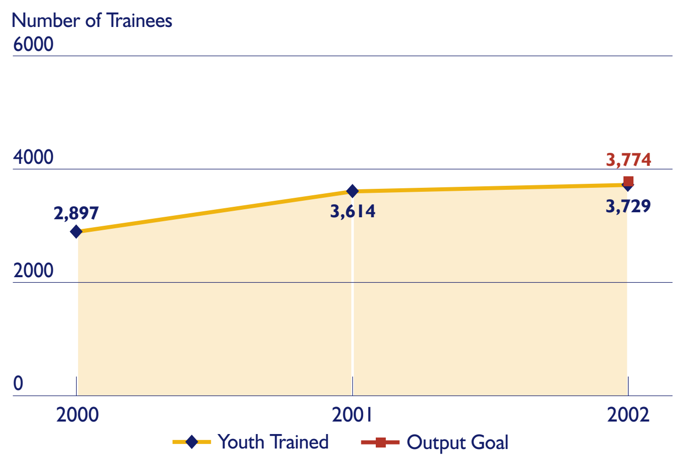
Data Discussion. The data come from the Integrated Disbursement Information System (IDIS). During FY 2002, the Department undertook a major data clean-up effort to improve the quality of data reported and eliminate duplicate or erroneous entries. Extensive follow-up with grantees to obtain corrections was part of the effort. The data clean-up effort is continuing into FY 2003. Increased reporting from states may be a result of the passage of an additional year of participation in the IDIS system. States began participating in IDIS, on average, two years later than entitlement grantees. FY 2002 represents probably the most extensive year of reporting accomplishments from states. In addition, while the data clean-up focused primarily on entitlement grantees, many states also responded to the requests to improve data quality.

Programmatic Output Indicator 3.2.e:
A total of 3,774 youths are trained in construction trades through Youthbuild.

Background. The Youthbuild Program offers 16 to 24 year old high school dropouts general academic and skills training, as well as apprenticeships in housing construction and rehabilitation. For FY 2002, 3,774 youths were projected to be trained based on the number of applications granted and the projections of each.

Results and Analysis. Between October 1, 2001 and September 20, 2002, the ***actual*** number of youths trained is 3,729—achieving 98.8 percent of the goal. Since the awarding of Youthbuild funding is decided through an annual competition, it is difficult to accurately project how many youths will be trained each year. HUD has no control over the number of fundable applications and the number of youths to be trained as projected in the applications. Additionally, each applicant cannot request funding in two specific categories (rural/underserved and new applicants) for more than 20 potential students. However, the Office of Rural Housing and Economic Development, which is responsible for administering the Youthbuild program, has implemented a data collection process to review all active projects each fiscal year. The process allows for a more accurate analysis of the program to determine the performance and impact of the local projects.

Youth Trained in Construction Trades with Youthbuild



In addition to the number of youths trained through the Youthbuild program, HUD is able to collect data on other successes. Between October 1, 2001 and September 20, 2002, over 1,300 participants were placed in jobs or higher education upon graduation. Approximately 460 new units of housing were constructed along with the rehabilitation of 746 units. In addition to providing Youthbuild participants with job skills, these trainees were also given life skills by improving their reading and math skills. Through the Youthbuild program 587 participants became literate and became more proficient in math.

Programmatic Output Indicator 3.2.f:
Employment of persons while in HUD transitional housing increases by 50 percent.

Background. This programmatic output tracks the rate of employment among adults who leave McKinney-Vento funded transitional housing compared with those who enter. Because homeless persons often have limited marketable job skills and employment history, they are disproportionately affected by economic cycles and are often in need of the supportive services provided in transitional housing to obtain and maintain employment. The employment of homeless persons while in HUD-funded transitional housing is vital as homeless people work toward self-sufficiency and permanent housing. This is a new indicator and is the first time HUD has tracked the increase of employment among adults in HUD-funded transitional housing.

Results and Analysis. In 2002, the number of persons who became employed while in HUD transitional housing increased by 87.5 percent. Approximately 16,520 people who left transitional housing during 2002 obtained employment while in HUD-funded transitional housing. This far exceeds the goal of a 50 percent increase in employment while in transitional housing by 37.5 percent. Increasing income of people who are homeless will continue to be a focus of HUD homeless assistance programs as it is vital for persons who are homeless to move to self-sufficiency.

Data Discussion. Data for this indicator are from HUD Annual Progress Report (APR). Due to the varied operation dates for projects, the APR data for all APR-based indicators represents 32 percent of all projects operating in 2002. The 32 percent includes all data collected as of November 20, 2002.

Programmatic Output Indicator 3.2.f (2):
Conduct 25 Section 3 on-site monitoring reviews of Public Housing Authorities.

Background. Section 3 of the HUD Act of 1968 ensures that HUD-funded construction, rehabilitation, or other public construction expands employment and training opportunities for low-income residents. Public housing agencies are subject to Section 3 requirements when they receive capital grants. Current sanctions that may be imposed on grantees that fail to comply with the regulations include debarment, suspension, and limited denial of participation in HUD programs.

Results and Analysis. In an effort to expand employment and training opportunities for low-income residents, HUD is responsible for enforcing Section 3 regulations by investigating Section 3 complaints and monitoring Public Housing Authorities for compliance. During FY 2002, HUD conducted 25 Section 3 on-site monitoring reviews. This goal was met.

Programmatic Output Indicator 3.2.g:
By the end of fiscal year, no more than 25 percent of the Section 3 complaints will be aged.

Background. Section 3 of the HUD Act of 1968 ensures that HUD-funded construction, rehabilitation, or other public construction expands employment and training opportunities for low-income residents. In order to provide residents with fair and adequate treatment when seeking opportunities, HUD must process complaints in a timely manner. Current sanctions that may be imposed on recipients that fail to comply with the regulations include debarment, suspension, and limited denial of participation in HUD programs.

Results and Analysis. At the end of FY 2002, the total number of aged Section 3 complaints was eight, or 100 percent of the eight cases in the inventory. In comparison, seven cases were aged at the end of FY 2001, representing 47 percent of the 15 cases in the inventory. The goal of reducing the proportion of aged cases to 25 percent was missed. HUD expanded enforcement of Section 3 cases during the year, successfully reducing the total inventory.

Data Discussion. This measure uses FHEO administrative data.

Objective 3.3: The elderly and persons with disabilities achieve maximum independence.

Outcome Indicator 3.3.1:
The number of assisted-living units that HUD supports through FHA insurance and conversion of Section 202 elderly units increases from the FY 2001 baseline.

Background. HUD has several programs that increase the availability of housing that includes assistance for health needs or daily living for frail or disabled persons. FHA's mortgage insurance under Section 232 ensures that capital funding is available for assisted-living developments. HUD also funds the conversion of units in Section 202 properties (multifamily housing for the elderly) to assisted living units, which include basic medical care. HUD also is developing a third category of support for assisted living: the provision of Section 8 rental assistance vouchers that can be used to pay for the housing component of assisted living, and that can be linked with Medicaid funding for health services to create a completely affordable assisted living package.

Results and Analysis. For FY 2002, HUD reviewed its data to determine the number of units it has insured under Section 232 for assisted living developments. Its current "best estimate" is that 325 insured properties contain slightly over 18,000 "units" and "beds."

Data Discussion. The effort to derive this estimate surfaced several data quality issues. A key problem identified is inconsistency across field offices and across pertinent databases in how the terms "unit" and "bed" are defined and/or applied to data collection. Therefore, it is very difficult at this point to assess the reliability of the above estimate. Over the next year, HUD will continue to probe these data quality issues, including potentially re-specifying this measure in a manner that enhances data reliability while still capturing its substantive intent.

Outcome Indicator 3.3.2:
The number of elderly households living in a public or assisted housing development that is served by a service coordinator for the elderly increases by 10 percent for private assisted housing.

Background. Service coordinators improve the quality of life of elders by helping them remain as active and independent as their health permits. Service coordinators for public housing and assisted housing projects are funded in a number of ways: through grants made by the Office of Housing, from assisted housing project budgets and reserves, from public housing Operating and Capital Funds, and from other resources raised in the community. The Resident Opportunity and Supportive Services program renews expired elderly coordinator grants for public housing developments.

HUD received a significant increase in funding for service coordinators in assisted multifamily housing, from $13 million in FY 1999 to $50 million in FY 2000, to help meet the needs of a growing population that is aging in place. The Service Coordinator program was funded at $50 million again in FY 2001 and FY 2002.

Results and Analysis. During FY 2002, Service Coordinator grants funded service coordinators for 25,012 additional units in elderly projects. The new grants increased the total number of units in elderly developments with service coordinators by 40 percent to over 88,000. This total includes currently funded developments that were first funded in FY 1998 and following years. A small additional number of units in developments funded prior to FY 1998 has not been determined. The increase substantially exceeded the 10 percent target. Elderly households are defined as families or individuals with a head or spouse aged 62 or older.

Of the $50 million appropriation for 2002, $30 million was used for 223 grants to fund service coordinators in new properties. The balance was used to renew existing properties. The number of units with service coordinators is dependent on appropriation levels and the quality of applications submitted. To increase the number of service-enhanced units, HUD will continue to encourage owners to use residual receipts to leverage federal resources. The Department also will enhance the Service Coordinator program as appropriate on the basis of ongoing program reviews, grantee operations and NOFA responses. The Department also encourages service coordinators to assist low-income elderly families living near, as well as those residing in, Section 202 projects.

Data Discussion. This measure uses data for elderly private multifamily projects with service coordinators from the Office of Housing service coordinator grants database.

Outcome Indicator 3.3.3:
Service-enriched housing increases the satisfaction of elderly families and individuals with their units, developments, and neighborhoods.

Background. The Service Coordinator program funds service coordinators in assisted multifamily housing developments. Service coordinators may provide personal assistance with daily activities, provide transportation to medical appointments or shopping, establish health and wellness programs in the community, and make physical improvements to provide space for support services. Frail elderly residents report higher quality of life and increased independence in developments that have service coordinators on staff, as shown by two demonstration programs, the HOPE for Elderly Independence Demonstration and the Congregate Housing Services Program, and an evaluation of the Service Coordinator program. Even elderly persons who are not “frail”—defined as needing help with three activities of daily living—will have greater ability to age in place when service coordinators provide appropriate support for independent living.

This indicator tracks the satisfaction of elderly residents (62 and older) in privately-owned assisted housing, comparing the satisfaction of elderly households in developments with and without service coordinators.

Results and Analysis. In order to develop a baseline in FY 2001, HUD compared resident survey results for 114 elderly projects that had service coordinator grants with 1,210 elderly projects that did not have a coordinator. The preliminary results showed that during Spring 2001 residents in service coordinator projects were slightly more satisfied overall. Of residents in service coordinator projects, 86.0 percent expressed overall satisfaction, compared with 85.1 percent in unfunded elderly projects. However, the difference was not statistically significant.

HUD currently is conducting a similar survey and will be reporting its results in FY 2003.

During the balance of FY 2003, HUD will evaluate how best to ensure, given existing resource constraints, that REAC survey results are available early enough in the fiscal year to permit their incorporation into the PAR.

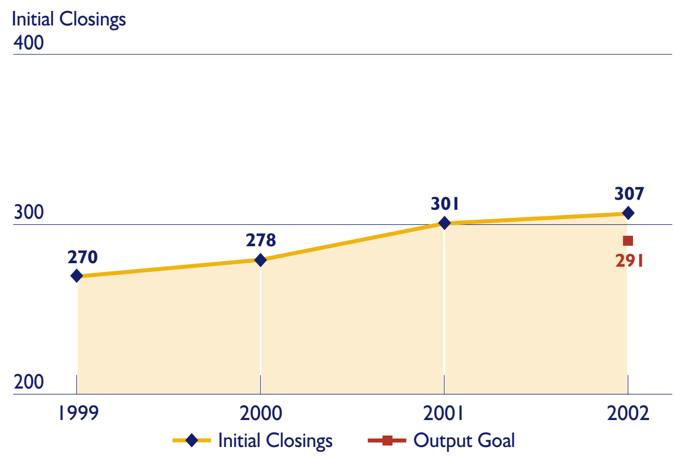
Data Discussion. Resident satisfaction is measured using a survey conducted by the Real Estate Assessment Center (REAC). The data are linked with administrative data from the Service Coordinator program.

Programmatic Output Indicator 3.3.a:
Increase the availability of affordable housing for the elderly and persons with disabilities by bringing 291 projects to initial closing under Sections 202 and 811.

Background. HUD provides a substantial number of housing units for populations with special needs each year. Project sponsors can receive direct loans for multifamily development under the Supportive Housing for the Elderly (Section 202) program and the Supportive Housing for the Disabled (Section 811) program. This indicator tracks the number of projects each year that reach the closing stage (when the project design has been approved and all of the local community requirements have been met).

Results and Analysis. During FY 2002, HUD reached initial closing on 307 Section 202 and 811 projects. The performance exceeded the closings goal by 5 percent.

Initial Closings of Developments Under Sections 202 and 811



In recent years, HUD has increased the emphasis on timely closings. Section 202 and 811 projects can be difficult to bring to closing because sponsors usually must find other sources of funding. Some project features are not fundable by the program but are necessary to meet the needs of the population. Sponsors may experience cost increases between the time of application and the projected time for construction. Other delays are encountered because neighborhoods sometimes oppose the developments. As a result of recent progress, the pipeline of fund reservations over two years old has been declining.

To address this issue, regulations are being developed to expedite processing and more authority is being delegated to field staff. Other strategies are addressing the issue of external sources of funding. In FY 2001, HUD implemented a policy to allow non-profit owners of Section 202 and Section 811 developments to form limited partnerships with for-profit entities. The partnerships will help them compete for low-income housing tax credits for the purpose of increasing the number of affordable housing units available to meet the needs of the elderly and persons with disabilities. Also, in 1999 the Department signed a Memorandum of Understanding with the Federal Housing Finance Board. The memorandum established a policy for how the Federal Home Loan Banks could use Affordable Housing Program funds for subordinate financing of Section 202 and Section 811 projects. The policy streamlined the approval process and decreased the time it takes to finance these projects.

Data Discussion. This measure uses data from the Development Applications Processing (DAP) system. HUD central office receives copies of the closing documents that are used to verify data system entries. DAP data also are used to track management plan goals and accomplishments, which helps ensure that data are accurate.

Programmatic Output Indicator 3.3.b:
At least 10 Section 202 developments will complete conversion of units to assisted living by FY 2003.

Background. HUD FY 2002 appropriations included funds to convert Section 202 multifamily projects for the elderly to assisted living. The conversions may involve entire projects or a subset of their units. This funding responds to the projected increase in demand for assisted living accommodations caused by the aging of the baby boom generation. Initial closings of conversions will be subject to state licensing requirements, creating potentially lengthy conversion timetables. This indicator tracks the number of Section 202 developments that complete their modifications under the Section 202 conversion program within a reasonable period. The goal is to convert, by the end of FY 2003, ten developments to assisted living.

Results and Analysis. Through the end of FY 2002, HUD has succeeded in converting two developments to assisted living and fully expects to have an additional eight completed by the end of FY 2003.

Programmatic Output Indicator 3.3.c:
By FY 2002, assisted-living facilities in at least five States will house elders using housing vouchers combined with Medicaid or other third-party funding for services.

Background. In FY 2000, HUD was given authorization to allow housing agencies to use housing vouchers in assisted-living developments. This indicator tracks the number of states that implement this important policy to make assisted living affordable.

Results and Analysis. HUD accomplished its goal of ensuring assisted-living facilities in five states would house elders housing vouchers and public housing in combination with Medicaid or other third-party funding. The five states were Alabama, Florida, Massachusetts, Pennsylvania, and Texas.

Data Discussion. An independent survey conducted by PIH staff. Information from the survey was confirmed with the respective housing agencies and Field offices. Cross checking and verification was conducted with PIH programs for HOPE VI and Capital Fund.

Outcome Indicator 3.3.4:
The ratio of homeownership rates between persons with disabilities and other households increases by 0.2 percentage points annually from the 2001 baseline.

Background. This outcome indicator is used to provide persons with disabilities the stability and financial benefits of homeownership. It is included under this objective because of its relation to providing equal opportunity to persons with disabilities. It is discussed more completely as Indicator 2.3.2.

Outcome Indicator 3.3.5:
The share of newly constructed buildings that conform to selected accessibility requirements increases from the 2001 baseline.

Background. This outcome indicator is used to implement the Fair Housing Act by increasing accessibility to constructed multifamily housing for persons with disabilities. It is included under this objective because of its relation to housing stability for persons with disabilities. It is discussed more completely as Indicator 2.1.4 because it also serves as an indicator under Strategic Goal 2.

Programmatic Output Indicator 3.3.d:
The Improving Access Initiative will fund ADA-exempt civic and religious organizations to make their facilities accessible to persons with disabilities.

Background. In FY 2002, HUD proposed the Improving Access Initiative to provide funding for certain organizations (such as civic and religiously-affiliated organizations) that are exempt from the Americans with Disabilities Act (ADA) to make their facilities accessible to persons with disabilities. This performance indicator is inactive because Congress did not appropriate funds for the Improving Access Initiative in FY 2002. Funding was not requested in FY 2003.

Strategic Goal 4: Improve Community Quality of Life and Economic Vitality

Strategic Objectives:

4.1 The number, quality, and accessibility of jobs increase in urban and rural communities.

4.2 Economic conditions in distressed communities improve.

4.3 Communities become more livable.

Performance Report Card – Goal 4

	Performance Indicators	1999	2000	2001	2002	2002 Target	Substantially Met	Notes
4.1.1	Ratio of city job growth to city population growth (three-year average)							a
4.1.2	Change in unemployment rate in cities where rate was twice the average						□	g
4.1.a	Percentage of EZ/EC projects achieving goals							
	for resident employment	82%	69%	61%	63%	75%		
4.1.4	Poverty rate of persons in working families		8.3%	7.6%	7.0%	7.3%	□	a,d
4.1.5	Redundant measure appears elsewhere (PD&R-reported)							See 3.2.8
4.1.d	Redundant measure appears elsewhere (PD&R-reported)							See 4.2.f
4.1.e	Redundant measure appears elsewhere (PD&R-reported)							See 3.2.d
4.2.1	Number of doubly-burdened cities	74	69	75	66	73	□	f
4.2.2	Ratio of average income in doubly burdened cities and nationally	0.79						a
4.2.3	The homeownership rate in underserved neighborhoods							a,b
4.2.4	Percentage of impoverished persons in extreme-poverty neighborhoods			10.0%	9.7%			d
4.2.5	Change in conditions in neighborhoods with substantial CDBG investment							a
4.2.6	Change in conditions in neighborhoods with HOPE VI investment							a
4.2.a	Number of FHA single-family mortgage endorsements in underserved areas (1000s)	449	357	412	492	433	□	
4.2.b (a)	Fannie Mae surpasses HUD-defined geographic targets for mortgage purchases in underserved areas (% of eligible dwelling units)	27.0%	26.8%	31.0%	32.6%	31.0%	□	d
4.2.b (b)	Freddie Mac surpasses HUD-defined geographic targets for mortgage purchases in underserved areas (% of eligible dwelling units).	26.1%	27.5%	29.2%	31.7%	31.0%	□	d
4.2.c	Redundant measure appears elsewhere.							
4.2.d	Redundant measure appears elsewhere.							
4.2.e	Implementation of Technology Centers Initiative (# of networks)							b; not funded
4.2.f	Number of jobs created through BEDI/108				4,968	5,400		

	Performance Indicators	1999	2000	2001	2002	2002 Target	Substantially Met	Notes
4.3.1	Share of low/mod residents with a poor or fair opinion of their neighborhoods in cities, suburbs, non-metro areas							e,g
4.3.2	Share of central city households reporting accumulations of trash, litter or junk on the streets	15.3%		14.9%		14.9%	▯	e
4.3.3	Ratio of urban land growth to population growth							a,f
4.3.a	Share of Consolidated Plans with measurable performance goals for housing activities and community development activities				100%		▯	b
4.3.b	Share of Entitlement CDBG funds benefiting low/mod persons	94.1%	93.7%	94.9%	94.4%	92.0%	▯	
4.3.c	Share of State CDBG funds benefiting low/ mod persons		97.4%	96.4%	96.4%	98.0%	▯	
4.3.d	Share of CDBG direct beneficiary funds benefiting low-income persons		62.7%	51.0%	43.9%	62.0%		
4.3.e	Ratio of funds leveraged by COPC grantees ▯ above planned amount	32%	26%	36%	31%	20%	▯	
4.3.4	The capital available to rehabilitate housing in distressed neighborhoods ($ billions)	5.737	6.078	5.862	6.167	6.038	▯	
4.3.f	The properties rehabilitated with Sec.203(k)		10,612	8,660	7,370	8,660		
4.3.g	Number of MF units in underserved areas newly insured by FHA				13,903	10,002	▯	
4.3.5	Percentage of surveyed public housing residents who report they feel “safe or very safe” in units, buildings, parking areas							g
4.3.h	Percentage of EZ/EC projects achieving goals for public safety	74%	91%	84%	86%	85%	▯	

(Values represent fiscal year data unless otherwise noted.)

a – Data not available.

b – No performance goal for this fiscal year.

c – Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).

d – Calendar year ending in the current fiscal year.

e – Calendar year ending the previous fiscal year.

f – Other reporting period.

g – Result too complex to summarize. See indicator.

h – Baseline newly established.

Objective 4.1: The number, quality, and accessibility of jobs increase in urban and rural communities.

Outcome Indicator 4.1.1:
Maintain or increase the number of jobs accessible to city residents by keeping the three-year average ratio of city job growth to city population growth at least 100 percent.

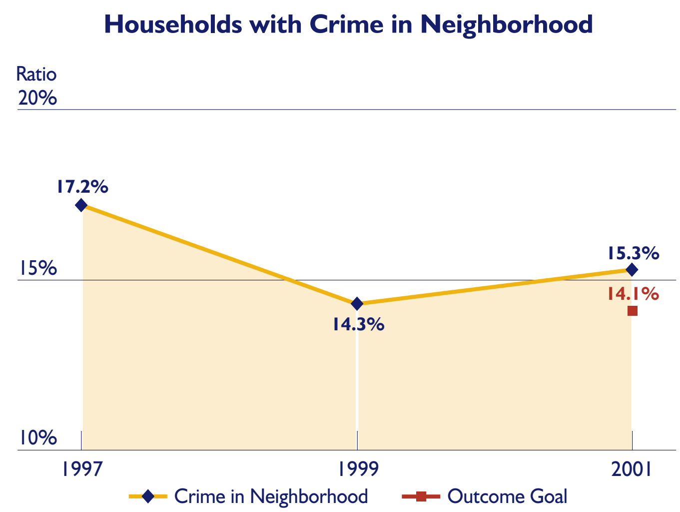
Background. This indicator uses a measure of the capacity of cities to provide jobs for their citizens. The measure relies on population estimates from the Bureau of Census as well as special tabulations of the Bureau's County Business Patterns data for 114 central cities, which are available annually with a three-year lag. HUD has determined that the population estimates available from the Bureau of Census are not reliable for use in this measure, so results will no longer be reported. This indicator was discontinued in the FY 2003 APP because numerous economic factors make the outcomes substantially beyond HUD's span of control or influence.

Unreported FY 2001 Outcome Indicator:
The share of households reporting "crime in neighborhood" declines by 0.2 percentage points to 16.8 percent in 2001.

Background. This indicator measures the percentage of households who report that there is crime in their neighborhoods in response to the American Housing Survey. The calendar year 2001 data have recently become available to report on this FY 2001 goal. This indicator was discontinued in the FY 2003 Annual Performance Plan because of the difficulty of attributing results to HUD programs.

Results and Analysis. The most recent available data show that in calendar year 2001, 15.3 percent of households reported that there was crime in their neighborhoods. This was an increase of 1.0 percentage points, missing the FY 2001 goal of a decrease of 0.2 points.

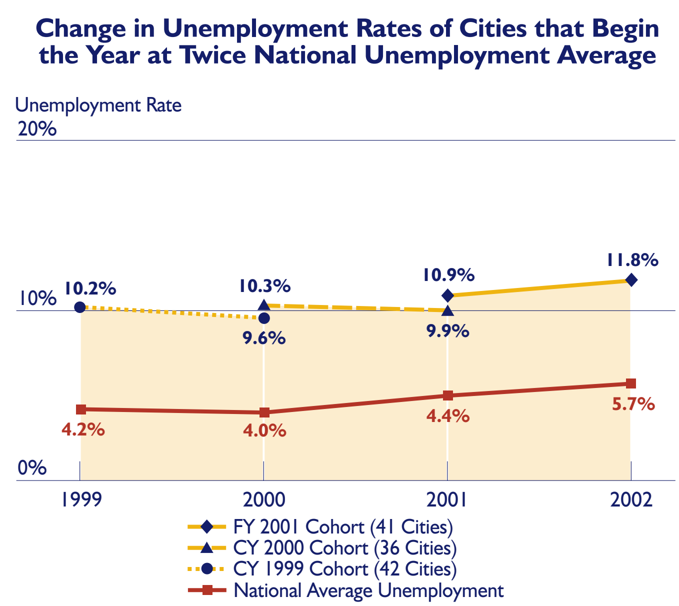
The decrease may be related to the decline of the economy from peak levels during the late 1990s. Losses of well-paying jobs affect the relative attractiveness of criminal opportunities for certain populations. Some urban policy experts and criminologists also argue the "broken window" hypothesis, which suggests that crime rates are affected by neighborhood conditions. Creating jobs and improving neighborhood conditions are both important components of several HUD programs.



Outcome Indicator 4.1.2:
Among jurisdictions where unemployment is twice the national rate, the average unemployment rate decreases over a 12-month period.

Background. This indicator established a goal of improving unemployment conditions in those jurisdictions where the problem is significantly more severe than that faced by the nation as a whole. The FY 2002 goal was to improve unemployment rates in jurisdictions with more than twice the national unemployment rate (as identified using 2001 data) by 0.2 percentage points more than the change in national unemployment rates. This indicator was discontinued in the FY 2003 Annual Performance Plan.

Results and Analysis. During calendar year 2002, unemployment rates in the cities that began the year at twice the national unemployment levels worsened by 0.9 percentage points, from 10.9 percent to 11.8 percent. However, national unemployment worsened by 1.3 percentage points during the same period, from 4.4 percent to 5.7 percent. Because the increase in unemployment among high-unemployment cities was not as great as the increase in the national average, the relative goal was substantially achieved—although the absolute improvement goal was missed.



The FY 2002 result reverses a trend of improvements in high-unemployment cities observed for the 1999 and 2000 cohorts. National and local economic conditions are the primary determinants of unemployment rates. A number of HUD programs support lower concentrations of unemployment, including programs that create jobs in poor communities, promote job mobility, and develop self-sufficiency. For example, the CDBG program provided $4.9 billion of outlays to grantees in FY 2001. The benefits from CDBG activities flowed primarily to low- and moderate-income residents or neighborhoods. Urban Empowerment Zones, with their EZ grants and associated tax incentives, contribute to reductions in unemployment disparities.

Data Discussion. The measure is based on monthly statistical estimates by the Bureau of Labor Statistics (BLS) using data from the Current Population Survey (CPS). The baseline cohorts shown for 2000 and 2001 use calendar year estimates, but fiscal year estimates were used for 2002 to support timely reporting. The national values are based on calendar years for 1999 and 2000, but fiscal year estimates for 2001 and 2002. BLS does not publish data for central cities that had 1990 populations below 25,000 or for the area defined as the central city of the Honolulu, Hawaii metropolitan area. BLS employs rigorous data quality standards, and it is not feasible for HUD to verify CPS data independently.

Programmatic Output Indicator 4.1.a:
At least 75 percent of EZ and EC projects achieve local goals in helping residents find jobs.

Background. HUD has designated 79 Empowerment Zones (EZs) and Enterprise Communities (ECs). HUD measures their performance in seven areas including providing social services. Data represent the sum of outputs taken from plans that are 95 percent completed divided by the sum of projected outputs for all plans. A more detailed discussion of this measure is included under Indicator 4.2.d.

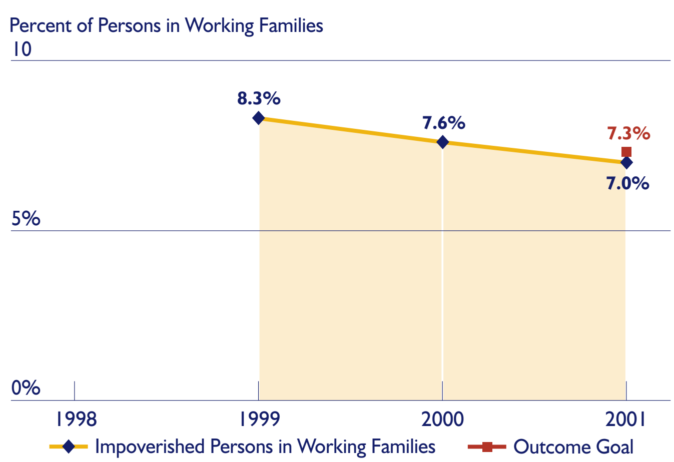
Results and Analysis. In FY 2002, 63 percent of EZ and EC projects met goals with respect to helping residents find jobs. This level misses the revised target of 75 percent but represents a 2 percent increase from the revised FY 2001 level of 61 percent. HUD has begun to employ a number of management strategies to help the communities become better at setting reachable goals; however, anecdotal evidence also suggest outside factors sometimes make it difficult for the communities to reach the projected target.

Outcome Indicator 4.1.4:
Among persons in families with one or more workers, the share who are in poverty decreases by 0.3 percentage point annually to 7.7 percent in 2001.

Background. As workers are encouraged and assisted to become self-sufficient, it is critical that they are able to escape poverty by working. This measure tracks the share of working households who are in poverty. This indicator was not carried forward in the FY 2003 APP.

Results and Analysis. The latest available data show that in calendar year 2001, 7.0 percent of persons in working families had incomes below the poverty line. The decline of 0.6 percentage points from 2000 levels surpassed the performance goal of a 0.3 point decrease.

Poverty Rate of Persons in Working Families



The continued decline represents good news in the ongoing effort to make work pay. The improvement occurred despite the recessionary period that began in March 2001.

The Community Development Block Grant program is one of HUD's primary tools for fighting poverty. Public housing agencies also help reduce poverty by supporting the self-sufficiency efforts of assisted households who are able to work. The Family Self-Sufficiency program contributes directly to these efforts for about 55,000 households (see Indicator 3.2.4). Rules for excluding increases in earned income when PHAs determine rents also help make work pay. HUD enforcement of Section 3 rules means that the economic benefits of HUD grants provide job opportunities rather than passing by low-income residents.

Data Discussion. The data come from Table 11 of the Current Population Survey Annual Demographic Survey 2001.

Outcome Indicator 4.1.5:
Unemployment rates among young, entry-level jobseekers in central cities decline by 0.5 percentage point to 15.4 percent.

Background. This outcome indicator is used to track unemployment rates for the 16 to 19 year-old labor force in central cities. It is included under this objective because of its relation to entry- level job seekers. It is discussed more completely as Indicator 3.2.8.

Programmatic Output Indicator 4.1.d:
Brownfields Economic Development Initiative grants combined with Section 108 loan guarantees will support the creation of 5,400 jobs.

Background. This programmatic indicator was created to stimulate economic and community development activities as provided in Section 108(q) of the Housing and Community Development act of 1974. It is included under this objective because of its relation to improving the quality of life within communities that are difficult to redevelop because of real or perceived environmental contamination. It is discussed more completely as Indicator 4.2.f, which focuses on improving economic conditions in distressed communities.

Programmatic Output Indicator 4.1.e:
A total of 124,900 jobs will be created or retained through CDBG and 30,000 through Section 108.

Background. This programmatic output indicator is used to measure the number of CDBG jobs that were created or retained during the 2002 fiscal year. It is included under this objective because of its relation to jobs created through CDBG. It is discussed more completely as Indicator 3.2.d.

Objective 4.2: Economic conditions in distressed communities improve.

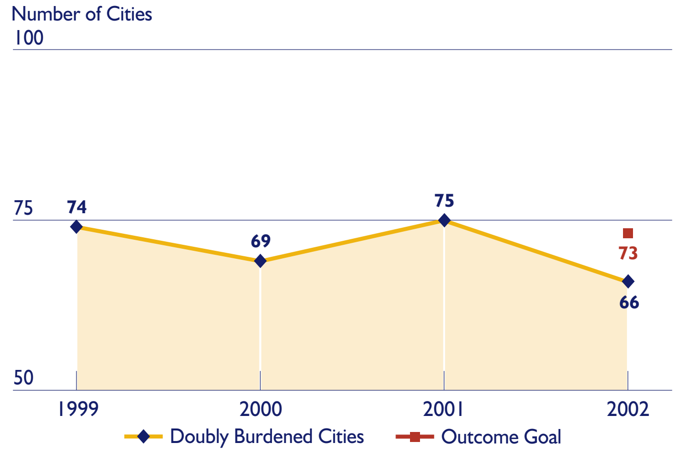
Outcome Indicator 4.2.1:
The number of central cities that are doubly burdened with high unemployment and either a significant population loss or high poverty is reduced by 2 cities.

Background. HUD developed the concept of "double burdens" as an index of distress in central cities. Doubly burdened cities are defined as those that have unemployment rates 50 percent higher than the national average, combined with either a population loss of 5 percent since 1980 or poverty rates of 20 percent or higher. This measure has not been carried forward in the FY 2003 Annual Performance Plan.

Results and Analysis. The result surpassed the goal of a reduction of two cities. The most recent available data show that in 2002, 66 of 513 central cities met HUD criteria for being doubly burdened, down from 75 in 2001.

The national economy and local economic conditions are the primary factors affecting this measure. However, several HUD programs contribute to the outcome. Grantees use a sizable proportion of CDBG funds for economic development purposes. Empowerment zones also contribute to job creation and poverty reduction in doubly burdened cities, as do HUD efforts toward increasing family self-sufficiency.

Number of Doubly Burdened Cities



Data Discussion. The value for 2002 is based on poverty rate data from the 1999 Current Population Survey, local unemployment statistics for 2001 from the Bureau of Labor Statistics, and population change from 1980 to 2000 from the decennial Census. Earlier values reflect comparable lags in poverty data and unemployment data. The 2000 value has been updated from the 67 cities reported in the FY 2002 APP. The quality of the source data are maintained according to the data quality standards of the agencies that provide them.

Outcome Indicator 4.2.2:
The average income in doubly burdened cities increases relative to the national average.

Background. This indicator tracks the average incomes of families in distressed cities to determine if their economic prospects are improving. The indicator defines a distressed city as a city that is "doubly-burdened" in the sense that it has unemployment rates 50 percent higher than the national average, combined with either a population loss of 5 percent since 1980 or poverty rates of 20 percent or higher. Because the incomes of families in distressed cities are affected by numerous factors over which HUD has little or no control, this measure has not been carried forward in the FY 2003 Annual Performance Plan.

Results, Analysis, and Data Discussion. Had this indicator been carried forward, it would have been measured through the American Community Survey (ACS). Because ACS data are not yet available at the city level, and because the existing Current Population Survey does not support analysis of income at the city level, results could not be determined for 2002.

Outcome Indicator 4.2.3:
The homeownership rate in underserved neighborhoods ceases to decline by 2005.

Background. This indicator relies upon data from the long-form Census 2000, which was not available in time for this report. This indicator has been discontinued for FY 2003 and future years because the outcome is substantially beyond the Department's span of control.

Outcome Indicator 4.2.4:
The share of impoverished persons who live in neighborhoods with extreme poverty decreases by 2 percentage points from 2000 levels by 2005.

Background. This indicator tracks progress in helping poor residents live in neighborhoods with greater income diversity and in reducing the number of neighborhoods with extreme poverty rates exceeding 40 percent. This measure has been discontinued for FY 2003 and future years because the outcome is substantially beyond the Department's span of control.

Results and Analysis. The most recent available data show that in calendar year 2001, 9.7 percent of poor persons lived in neighborhoods with extreme poverty. This was an improvement from the 2000 baseline level of 10.0 percent. The decrease of 0.3 percentage points is on track to achieve the long-term goal of a 2-point decrease by 2005.

HUD programs contribute to this goal, as grantees use the Department's funds to promote mixed-income housing, and demolish high-rise public housing developments that concentrated poor families. Among neighborhoods that slightly exceed the 40-percent threshold, job-creation, self-sufficiency, and poverty reduction strategies can eliminate entire neighborhoods from extreme-poverty status.

Data Discussion. The data are from Table 5 of the Current Population Survey (2000 Annual Survey and 2001 Annual Survey).

Outcome Indicator 4.2.5:
Neighborhoods with substantial levels of CDBG investment will show improvements in such dimensions as household income, employment, business activity, homeownership and housing investment.

Background. A study conducted by the Urban Institute examined whether readily available data sources could be used to track the outcomes of activities funded with CDBG and whether such indicators could be used as proxies for improvements in quality of life improvements in neighborhood receiving different levels of CDBG investment. The study involved an extensive analysis of information on neighborhood characteristics and CDBG spending from 17 CDBG entitlement cities.

The study concluded that two readily available data elements—median home loan amount and the number of businesses—hold some promise as tools for helping local communities measure the effects of concentrated CDBG expenditures. Generally, the larger the amount of CDBG spending per capita in a neighborhood, the greater the resulting change in these two data elements, and that these indicators could be used as a proxy for quality of life improvements in the areas of CDBG investment. However, the study also concluded that additional research is needed to verify the utility and clarify the limitations of this methodology.

The study concluded that the analysis is a good first step in identifying a relationship between CDBG spending and measurable improvements in neighborhood quality, but this initial work does not support the use of this methodology as the basis for a national performance measure applicable to all CDBG programs.

Outcome Indicator 4.2.6:
Neighborhoods with substantial levels of HOPE VI investment will show improvements in such dimensions as household income, employment, homeownership and housing investment.

Background. The HOPE VI program assists public housing agencies improve the living environment for public housing residents in severely distressed public housing properties through the demolition, rehabilitation, reconfiguration or replacement of obsolete properties. This indicator was intended to track the neighborhood impacts of HOPE VI, building on the methodology being developed for tracking the impacts of CDBG investments.

This indicator has not been carried forward in the FY 2003 or FY 2004 APP. Instead, the Office of Public and Indian Housing has commissioned a study of the neighborhood impacts of HOPE VI by the Housing Research Foundation. In addition, the Department's Office of Policy Development and Research is producing a study that includes information on the program's impact on neighborhoods. Both studies are expected to provide a more thorough examination of the topic than would have been possible with this indicator. Results are expected to be available in 2003.

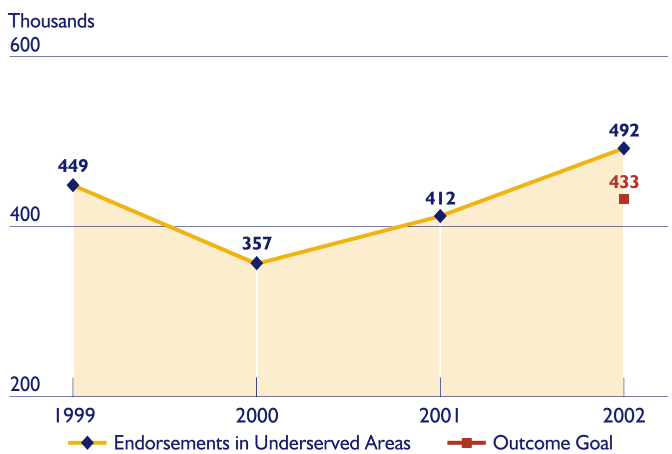
Programmatic Output Indicator 4.2.a:
Increase FHA single-family mortgage lending in underserved communities by 5 percent.

Background. FHA's role in the mortgage market is to extend homeownership to families that otherwise might not achieve homeownership. There is substantial evidence that lower income and minority neighborhoods are less well served by the conventional mortgage market than are more affluent and nonminority neighborhoods.

While it is extremely important that FHA loans be available in underserved communities for those who otherwise might not become homeowners, it is also important that FHA be a complement to, and not a substitute for, conventional lending. A healthy housing market requires the availability of conventional mortgages as well. A goal for increasing FHA lending in such neighborhoods should not involve an increased FHA share of the total mortgage market in these communities, but should be accompanied by increased conventional lending as well. For FY 2003, the indicator has a numeric target of 421,000.

Results and Analysis. During FY 2002, FHA endorsed 491,592 single-family mortgages in underserved communities, up from approximately 412,000 endorsements made in FY 2001. The increase of 19.3 percent substantially exceeds the goal of a 5.0 percent increase.

FHA Single Family Mortgage Endorsements in Underserved Areas



The increase is partially the result of changes in the real estate market that affected most FHA single-family programs, including lower interest rates. There was a general increase in FHA single-family activity in FY 2002. As a percentage of all single-family lending, the number of endorsements in underserved areas was relatively stable. Although improvements are evident in the increased number of endorsements being made, underserved communities tend to be disproportionately affected during economic downturns. FHA endorsements are largely demand driven and substantially affected by overall economic conditions including interest rates. Appropriate emphasis will continue to be given to increasing lending in underserved communities through targeted marketing and outreach events.

Data Discussion. Data for this indicator are from FHA Consolidated Single Family Statistical System (CSFSS, F42).

Output Indicator 4.2.b:
Fannie Mae and Freddie Mac meet or surpass HUD-defined geographic targets for mortgage purchases in underserved areas.

Background. One of the four defined targets that HUD sets for Fannie Mae and Freddie Mac (two housing Government-Sponsored Enterprises or "GSEs") is intended to increase the GSEs' purchases of mortgages on housing located in central cities, rural areas, and other areas underserved in terms of mortgage credit. Mortgage purchases qualify towards this target as follows: For metropolitan areas, dwelling units count if they are located in census tracts with (1) tract median family income less than or equal to 90 percent of area median income (AMI) or (2) minority composition of at least 30 percent and tract median family income less than or equal to 120 percent of AMI. Dwelling units in non-metropolitan areas count if (1) median family income is less than or equal to 95 percent of the greater of state or national non-metro median income or if (2) minority concentration of the county is at least 30 percent and county median family income is less than or equal to 120 percent of the greater of state or national non-metro median income.

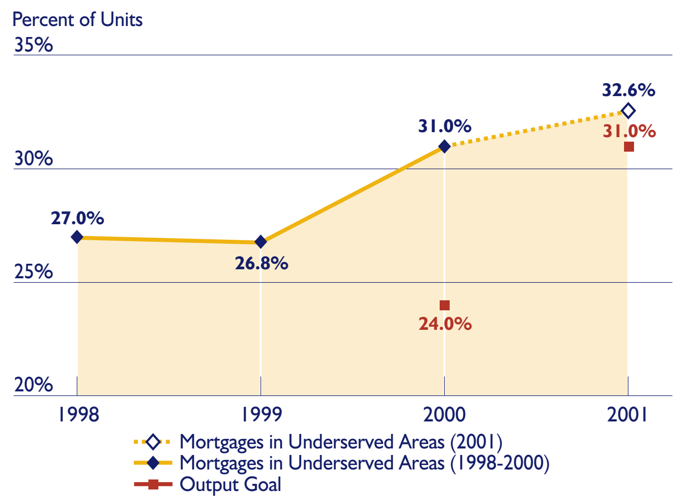
HUD research has shown that such areas have high mortgage denial rates and low mortgage origination rates, suggesting difficulty in obtaining access to mortgage credit. Beginning with calendar year 2001, HUD increased the targeted goal to 31 percent for each GSE and implemented new scoring rules.

Results and Analysis. In calendar year 2001, Fannie Mae and Freddie Mac both surpassed HUD's target of 31 percent for mortgage purchases in underserved areas. Fannie Mae achieved 32.6 percent and Freddie Mac achieved 31.7 percent.

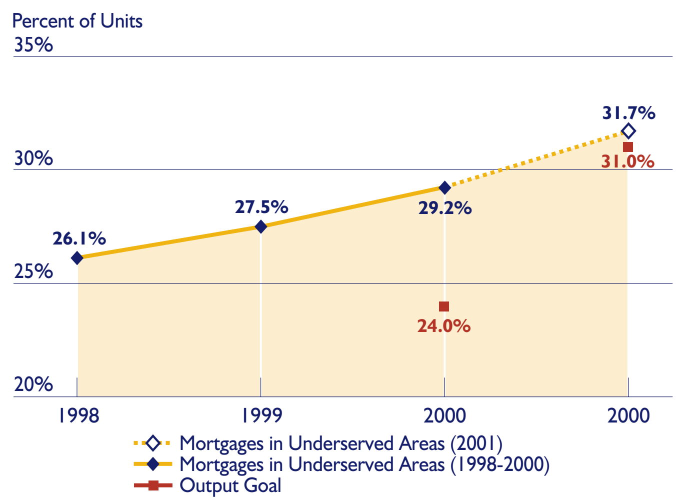
New counting rules effective for 2001, which include awarding bonus points to both GSEs and a temporary adjustment factor for certain Freddie Mac multifamily mortgage purchases, enabled the GSEs to achieve their goal. However, actual performance without the bonus points—the baseline performance—declined in 2001 from the previous year. Fannie Mae's baseline performance decreased from 31 percent in 2000 to 30.4 percent in 2001. Freddie Mac's baseline performance fell from 29.2 percent to 28.2 percent.[13]

Despite some decline in overall qualifying purchases, both GSEs improved the affordability composition of their qualifying purchases from the previous year by significantly increasing their purchases of mortgages

Fannie Mae Performance Relative to Geographic Target



Freddie Mac Performance Relative to Geographic Target



[13] *In the accompanying graphs, the change from a solid line to a dotted line from 2000 to 2001, and the change in shapes from a solid diamond to a hollow diamond, reflect the changes in HUD scoring rules that became effective in 2001. The squares show the levels of the housing goals at different dates.*

from high-minority tracts (30 percent or greater minority population). Fannie Mae increased high-minority tract purchases by 107 percent (from 360,154 units to 745,875 units) while Freddie Mac posted an increase of 94 percent (from 228,483 units to 442,312 units) over the previous year. With regard to number of qualifying dwelling units that were affordable to families earning 80 percent or less of area median income, both GSEs' purchases were fairly consistent from the previous year. In 2001, 45.4 percent of underserved area mortgages purchased by Fannie Mae and 47.2 percent of mortgages purchased by Freddie Mac were affordable at this level. This represents an increase of just over one-half percent from 2000 for Fannie Mae and a decrease of about one percent for Freddie Mac.

Data Discussion. The data reported under this goal are based on calendar-year performance. There is a one-year reporting lag because the GSEs report to HUD in the year following the performance year.

Programmatic Output Indicator 4.2.c:
The HOPE VI Revitalization Development program for public housing relocates 4,749 families, demolishes 11,550 units, completes 5,485 new and rehabilitated units, and occupies 4,987 units.

Background. This programmatic output indicator is used to track the implementation of HOPE VI redevelopment plans. It is included under this objective because of its support for community development. It is discussed more completely as Indicator 1.2.b, where it appears because of its contribution to affordable rental housing.

Programmatic Output Indicator 4.2.d:
EZ and EC projects achieve local goals in seven activities.

Background. In 1994, HUD designated 72 distressed urban communities across the country as eight Round I Empowerment Zones (EZs) and 65 Enterprise Communities (ECs). Cleveland had an overlapping EC and EZ and reports accomplishments together. In 1998, an additional 15 Round II urban EZs were designated. Some of the ECs that became EZs transferred their programs over to the new designation and report in PERMS together. On December 31, 2001, the Secretary designated eight Round III EZs and 40 Renewal Communities (RC) as authorized by the Community Renewal Tax Relief Act. By law, 16 urban EC and the Atlanta EZ, conversion sites, lost their original designations when they became RCs this year. Although Atlanta will not be reporting because such functions have been transferred to HHS, the 16 urban ECs that became Renewal Communities have been included in this year's performance data. The total number reporting is 79. Round III EZs and Renewal Communities will report in FY 2003. HUD's input into the program involves the selection of the census tract-based designations based on the quality of the community's strategic planning process, and in the case of Round II EZ actual grant money.

EZs and ECs develop and implement projects and programs with quantified local goals in seven categories. Once a project is completed, the community reports to HUD on whether their goals were achieved. Data for this indicator represent the number of grantees that achieved at least 95 percent of their projected outputs divided by the total number of grantees with applicable completed projects.

Additional funding for Round II EZs was not requested in FY 2004. The office will have a revised set of indicators in FY 2004 in part to emphasize economic development aspects of the program. Some existing indicators may continue with new language or clearer methodology. New indicators will be outcome oriented as recommended by the President's Management Agenda.

Percent of EZ/EC Communities Achieving Planned Goals

	1999 actual	2000 actual	2001 actual[a]	2002 actual	*2002 goal*
Residents receiving homeownership assistance	80%	81%	88%	76%	90%
New affordable housing completed	93%	91%	88%	79%	90%[b]
Rehabilitated affordable housing completed	71%	88%	86%	76%	85%[b]
Homeless residents served by homeless assistance programs	84%	83%	89%	71%	90%
Residents served by social service programs	80%	73%	83%	79%	85%
Residents find gainful employment	82%	69%	61%	63%	75%[b]
Residents served by public safety and crime prevention programs	74%	91%	84%	86%	85%[b]

[a] *Corrected with all EZ/ECs reporting.*

[b] *Goal shown was revised in FY 2003 APP*

Results and Analysis. Preliminary 2002 data show that EZ/EC performance relative to locally defined goals exceeded HUD's performance targets in one of the seven categories, "residents served by public safety and crime prevention programs." Performance improved from 2001 results in two categories, and went down in five others. The program improved in public safety and gainful employment.

Poor goal setting is the primary reason EZ/ECs continue to complete projects below expectations. EZ/ECs do not generally revise targets midstream. Anecdotal evidence also suggests that local administrative capacity, contractual disputes, shortfalls in leveraged funding and obtaining necessary permits and clearances may reduce expected results.

The program office has employed many management strategies to improve performance. This year, CPD used existing IT resources to modify the data system, PERMS, to make it more user friendly and collect amounts under contract to a third party for the Round II EZs. This was to encourage timely project planning. A follow-up satellite broadcast training session discussed the changes. HUD emphasized performance measurement in a technical assistance workshop last May for all RC/EZs. In line with the President's Management Agenda to make performance measurement more transparent, the office will make performance reports publicly available on the Internet. This will allow grantees to generate reports on the data they input and compare themselves to other EZ/ECs.

HUD finished monitoring all Round II EZs and the HUD OIG audited a sample of EZs. The recommendations of these reports will improve performance in FY 2003. The following HUD products will also be available in FY 2003 to improve performance: a policy desk guide, Dunn and Bradstreet data on businesses, a tax incentive marketing guide and a new best practices manual. Additional technical assistance workshops are also proposed.

Data Discussion. The data come from HUD's Performance Management System (PERMS), into which EZ/ECs annually report accomplishments as of June 30. PERMS tracks over 120 performance indicators, like jobs created or retained, brownfields remediated, and progress towards milestones. HUD monitors a sample of all reported implementation plans each year to verify accuracy. All 79 grantees have reported FY 2002 data.

Related Program Evaluations. GAO conducted evaluations on EZ/ECs in 1996, 1997, 1998 and 1999. They focused on the use of tax incentives in 1998 and 1999. In 2001, Abt Associates completed an internal impact evaluation of Round I Empowerment Zones using time series analysis of unemployment in EZ in comparison to control census tracts. They also did an analysis of PERMS and PERMS data. Despite intrinsic methodological barriers, the researchers concluded that the majority of EZ/ECs had significant impact in job growth and increased minority businesses. The full report is available at ***www.huduser.org***.

Programmatic Output Indicator 4.2.e:
HUD will implement the Technology Centers initiative and track the number of centers developed and people served.

Background. The FY 2002 Budget proposed an $80 million Community Technology Centers Initiative (CTC). The initiative would enhance the existing Department of Education's CTC program and expand HUD's Neighborhood Networks effort by providing competitive grants to create or expand community technology centers in high poverty urban communities and provide technical assistance to those centers.

In FY 2002, HUD continued to create or expand Neighborhood Networks multiservice community technology centers in low income communities and provide technical assistance to those centers. Neighborhood Networks provide computer access, after-school programs, adult and family literacy, and career and small business development. Computer technology is a critical element of success in today's business world and job market, but many people in low income communities do not have access to adequate computer training or facilities. Technology centers will narrow the gap. At Neighborhood Networks centers, residents of HUD multifamily housing will have opportunities to become employable by acquiring or improving their skills, making them better prepared to aggressively compete for jobs in the marketplace. This indicator was not carried forward for FY 2003 because the funding request was not renewed.

Results and Analysis. The Technology Centers Initiative was not funded in FY 2002 and was not requested for FY 2003 and so there are no direct results to be reported on for this indicator. However, HUD continues the related Neighborhood Networks activity. The Department established a Management Plan goal to create 136 Neighborhood Networks during FY 2002. The actual number of Neighborhood Networks created was 170, exceeding the goal by 25 percent.

Neighborhood Networks conducted extensive outreach to provide technical assistance to emerging centers. Regional technical assistance workshops in Washington D.C., Chicago, and Los Angeles helped centers increase their ability to serve their communities. The National Conference was an opportunity for Neighborhood Networks centers to meet with housing industry experts and discover innovative approaches to community development. These activities heightened the visibility of Neighborhood Networks and assisted in the creation of new centers.

Programmatic Output Indicator 4.2.f:
Brownfields Economic Development Initiative grants combined with Section 108 loan guarantees will support the creation of 5,400 jobs.

Background. The Brownfields Economic Development Initiative (BEDI) grant program was created to stimulate economic and community development activities under Section 108(q) of the Housing and Community Development Act of 1974, as amended. Established in 1998, BEDI grant funds are intended principally for the redevelopment of brownfields sites, which are defined as difficult to redevelop because of real or perceived environmental contamination. Accordingly, BEDI funds combined with Section 108 loan guarantees are used for economic development projects that increase economic opportunity for low-and moderate-income persons or that stimulate or retain businesses or jobs. The BEDI appropriation for FY 2002 was $25 million.

Results and Analysis. HUD achieved 92 percent of the goal of jobs created, falling short by just over 400 jobs. Through the BEDI program communities are experiencing environmental redevelopment and increased job creation. The actual number of communities awarded brownfield grants for FY 2002 was 23, and the actual number of projected jobs to be created was 4,968. However, the number of committed brownfield sites approved under this program increased from the 19 sites funded in last fiscal year's competition.

The reason the number for job creation projected for grantees was less this year is that HUD took a shorter term view of what will be accomplished by grantees than what had been used before, discounting jobs estimated to occur over ten or more years. Although HUD is interested in awarding brownfield funds to as many distressed communities as possible, our goal is for HUD to finance projects and activities that will provide near-term results and demonstrable economic benefits.

Data Discussion. HUD has begun a two-pronged effort to gather data regarding actual program outcomes: we have asked our field offices to report on the number of jobs produced in the BEDI and 108 programs, and will follow that up with a more extensive effort to track several other performance measures besides jobs, including the number of housing units completed, amount of infrastructure, commercial and industrial space completed, and other public and private sector investment leveraged by the BEDI program. The latter effort should begin producing data by the beginning of the new calendar year.

Objective 4.3: Communities become more livable.

Unreported FY 2001 Outcome Indicator:
The share of households reporting "crime in neighborhood" declines by 0.2 percentage points to 16.8 percent in 2001.

Background. This indicator relies upon data from the 2001 American Housing Survey, which will be completed in time to report in 2003. This indicator will not be reported in FY 2003 and beyond because of the difficulty of attributing results to HUD programs.

Outcome Indicator 4.3.1:
Among low- and moderate-income residents, the share with a good opinion of their neighborhood increases in cities, suburbs, and nonmetropolitan areas.

Background. This indicator assesses whether the Nation's neighborhoods are good places to live. Neighborhood satisfaction of low- and moderate-income residents (incomes less than 80 percent of median) is especially significant to HUD because of the statutory targeting of block grants. "Good opinion of neighborhood" is defined as a response of 7 through 10 on a 10-point scale assessing "overall opinion of neighborhood." The 2003 American Housing Survey data used to assess FY 2002 performance are not yet available, but calendar 2001 data have become available to report against the FY 2001 goals (as presented in the FY 2002 APP). Beginning in FY 2003, this indicator will not be reported because of the difficulty with attributing results to HUD programs.

Results and Analysis. Between calendar years 1999 and 2001, the satisfaction of low- and moderate-income residents with their neighborhoods improved in cities (0.2 percentage points) and non-metropolitan areas (0.5 percentage points). Good opinions of suburban

The Share of Low- and Moderate-Income Residents with a Good Opinion of their Neighborhood

	1997	1999	2001	***2001 (goal)***
Cities	66.3%	70.2%	70.4%	71.2%
Suburbs	81.1%	83.0%	82.5%	83.4%
Non-metropolitan areas	83.2%	82.3%	82.8%	82.5%

neighborhoods decreased by 0.5 percentage points. Only in non-metropolitan areas was the FY 2001 performance goal attained.

A majority of low- and moderate-income residents express satisfaction with their neighborhoods, regardless of location, but satisfaction is somewhat lower in city neighborhoods. A substantial proportion of CDBG grantees use their grants for activities intended to improve neighborhood conditions and services and these grants may be one of many factors that influence resident satisfaction within their neighborhood.

Data Discussion. This measure used data from the American Housing Survey (AHS). The Bureau of Census has quality control procedures in place for the AHS.

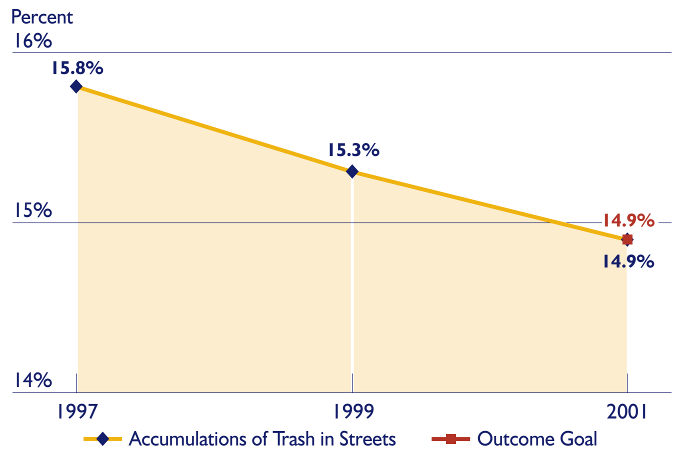
Outcome Indicator 4.3.2:
The share of central city households reporting accumulations of trash, litter, or junk on the streets decreases by 0.4 percentage points by 2003.

Background. This indicator relies upon data from the 2001 American Housing Survey, which will be completed in time to report in 2003. This indicator will not be reported in FY 2003 and beyond because of the difficulty of attributing results to HUD programs.

Results and Analysis. The latest available data show that in calendar year 2001, the percentage of households who live in central cities and report accumulations of trash on their streets declined by 0.4 percentage points to 14.9 percent, meeting the revised FY 2001 performance goal published in the FY 2002 APP.

This positive outcome is due to numerous factors, primarily external to HUD. However, communities have flexibility to use CDBG funds for neighborhood improvement. Indirect benefits may occur when neighborhood improvements, such as rehabilitation of vacant structures with CDBG or HOME, motivate neighbors to improve their own properties or to take action against illegal dumping.

Central City Households Living with Accumulations of Trash in Streets



Data Discussion. This measure used biennial data from the American Housing Survey. Respondents are questioned about accumulations of trash, litter, or junk within a 300-foot radius of their homes. The Bureau of Census has quality control procedures in place for the AHS, including re-interviews of small sub-samples for quality assurance.

Outcome Indicator 4.3.3:
The rate of growth in urban land per decade or per year decreases to be equal to, or less than, the rate of growth in U.S. population between 2000 and 2005.

Background. This indicator relies upon data from the Census 2000 for the baseline and from future American Community Surveys to track change in one measure of the extent of "sprawl." This indicator is not carried forward in the FY 2003 or FY 2004 APP because the outcome is substantially beyond the Department's span of control.

Results, Analysis, and Data Discussion. Relevant ACS data will not be available until 2005.

Programmatic Output Indicator 4.3.a:
The share of Consolidated Plans that contain measurable performance goals for housing activities and for community development activities increases.

Background. Communities develop five-year Consolidated Plans to guide their use of CDBG, HOME, Emergency Shelter, and HOPWA grants. Grantees are able to choose from a wide array of activities, so the quality of planning for self-defined objectives is critical. Housing and community development activities were among the highest activities undertaken by the grantees. The last group of Consolidated Plans was received in FY 2000. The next set of plans will be received in FY 2005. This measure also appears as Indicator 5.1.e.

Results and Analysis. Field offices have examined numerous results from standardized assessments of Consolidated/Action Plans received in FY 2000 and FY 2001. A goal of reviewing 956 Consolidated Plans for measurable performance goals for housing and community activities was established at the beginning of FY 2002. By the end of the fiscal year, the CPD Field Offices had reviewed over 1,000 Consolidated Plans, all of which were found to have contained measurable goals.

The Office of Community Planning and Development has undertaken a review of the Consolidated Planning and Performance Reporting process to determine how it can be streamlined, made more results-oriented and useful to communities for assessing their own progress toward addressing the problems of low-income areas. Six working groups, including representatives from HUD field offices, grantees, and interest groups have been working to identify issues and design pilots for streamlining and performance measurement. The Department's website has posted this initiative and is soliciting public comment.

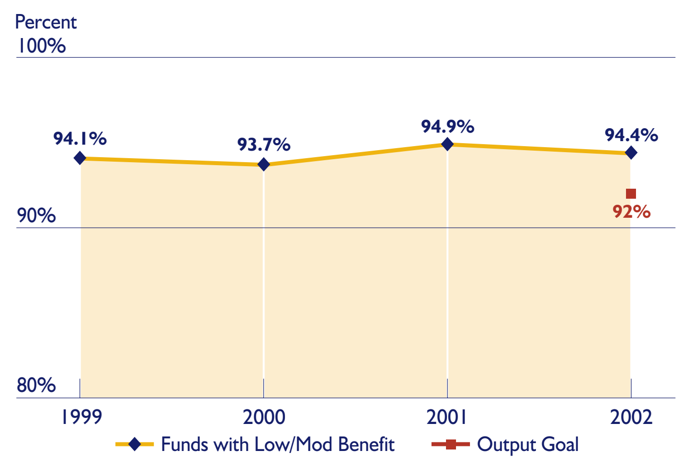
Programmatic Output Indicator 4.3.b:
The share of CDBG entitlement funds that benefit low-and moderate-income persons remains at or exceeds 92 percent.

Background. Entitlement communities are required to use CDBG funds for housing, community and economic development activities of which at least 70 percent benefit low- and moderate-income residents. CDBG grantees historically have exceeded this requirement, and HUD has an interest in encouraging grantees continued strong performance in this area so that the greatest local needs are met.

Results and Analysis. During FY 2002, entitlement communities used 94.4 percent of their CDBG funds for activities that benefit low- and moderate-income persons. The level exceeds the goal of 92 percent, though down slightly from the 2001 level of performance of 94.9 percent.

During FY 2002, the Department undertook a major data clean-up effort to improve the quality of data reported and eliminate duplicate or erroneous entries. Extensive follow-up with grantees to obtain corrections was part of the effort. The data clean-up effort is continuing into FY 2003. Improved data quality may account for the slight decline in the percentage of low- and moderate-income benefit reported.

CDBG Entitlement Funds Benefitting Low and Moderate Income Persons



HUD has no direct control over the percentage of CDBG funds that communities use for activities that benefit low- and moderate-income residents, other than to enforce the statutory minimum of 70 percent. However, HUD field office staff continually review and advise grantees to encourage the use of funds for the most needy residents.

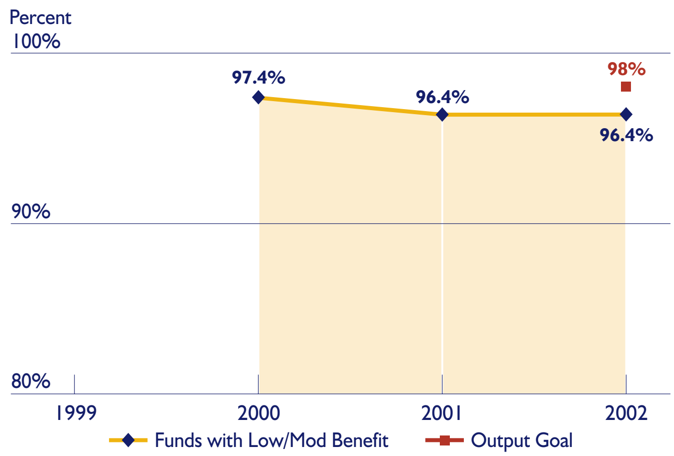
In addition to local factors affecting grantees' program choices, external factors may also include the decline in the economy as a whole that may also result in the reduction of other non-federal funding sources traditionally used in conjunction with CDBG funds to carryout program activities. Other factors also include a lack of CDBG technical assistance funds and resources to improve the Integrated Disbursement and Information System (IDIS) hampers the CDBG program's ability to provide CDBG grantee training, technical assistance, and improve the quality of program data collection.

Programmatic Output Indicator 4.3.c:
The share of State CDBG funds that benefit low- and moderate-income persons remains at or exceeds 98 percent.

Background. States are required to use CDBG funds for housing and community and economic development activities of which at least 70 percent benefit low- and moderate-income persons. State CDBG grantees historically have exceeded this requirement, and HUD has an interest in encouraging state grantees continued strong performance in this area so that the greatest local needs are met.

Results and Analysis. During FY 2002, State grantees used 96.4 percent of their CDBG funds for activities that benefit low- and moderate-income persons. That level is slightly below the goal of 98 percent, though this level of benefit is the same level achieved during FY 2001, which was also 96.4 percent of all expenditures.

CDBG State Funds Benefitting Low and Moderate Income Persons



During FY 2002, the Department undertook a major data clean-up effort to improve the quality of data reported and eliminate duplicate or erroneous entries. While this effort focused on entitlement grantees, many states also took the initiative to improve their data entries. Improved data quality may be a reflection that the actual results of 96.4 percent is a more realistic level of achievement than the 98 percent goal stated. The 98 percent goal had been established under a less rigorous data collection, paper based, reporting method. Future results and their evaluations will continue to examine whether the 98 percent goal should be retained as a realistic goal or amended accordingly.

HUD has no direct control over the percentage of CDBG funds that states and communities use for low- and moderate-income residents, other than to enforce the statutory minimum of 70 percent. However, HUD field office staff continually review and advise state grantees to encourage the use of funds for the most needy residents.

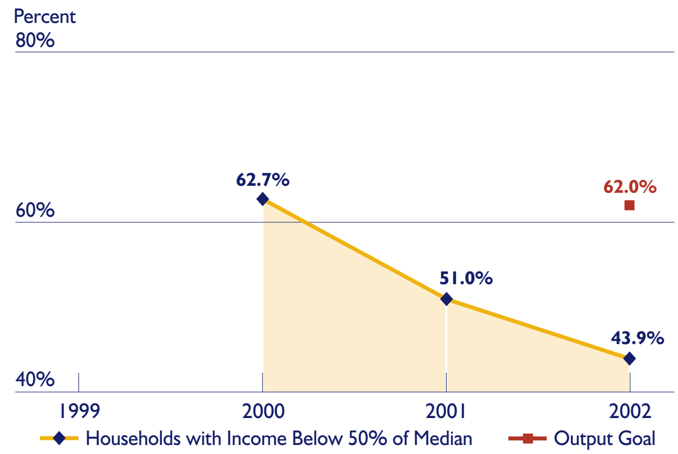
In addition to local factors affecting grantees' program choices, external factors may also include the decline in the economy as a whole that results in the reduction of other non-federal funding sources used in conjunction with CDBG funds to carryout program activities. Other factors include a lack of CDBG technical assistance funds and resources to improve the Integrated Disbursement and Information System (IDIS) hampers the CDBG program's ability to provide CDBG grantee training, technical assistance, and improve the quality of program data collection.

Programmatic Output Indicator 4.3.d:
Among all CDBG direct beneficiaries identified, the share that have low incomes remains at or exceeds 62 percent.

Background. States and entitlement grantees are required to use CDBG funds for activities of which at least 70 percent benefit low- and moderate-income persons. Some CDBG activities serve residents of geographic areas, for example, a water or sewer project, a street, or a neighborhood facility. Other types of CDBG funded activities serve persons directly. These activities are those that benefit low- and moderate-income persons directly rather serving a geographic area. Direct benefit activities include "limited clientele" activities that serve a group that is demonstrated or reasonably presumed to be at least 51 percent low- and moderate-income persons, job creation and retention, and housing rehabilitation activities.

CDBG grantees target CDBG benefits to low-income persons at a level greater than their proportion of the population. Approximately one-third of all households in CDBG cities would qualify as low income (below 50 percent of median). There is no statutory requirement to target direct beneficiary activities to low-income persons. Achievement of this goal depends, in part, on decisions made by over 1,000 CDBG grantees, as well as the incomes of the persons applying for CDBG funded activities.

Share of Low-Income Persons Among CDBG Direct Beneficiaries



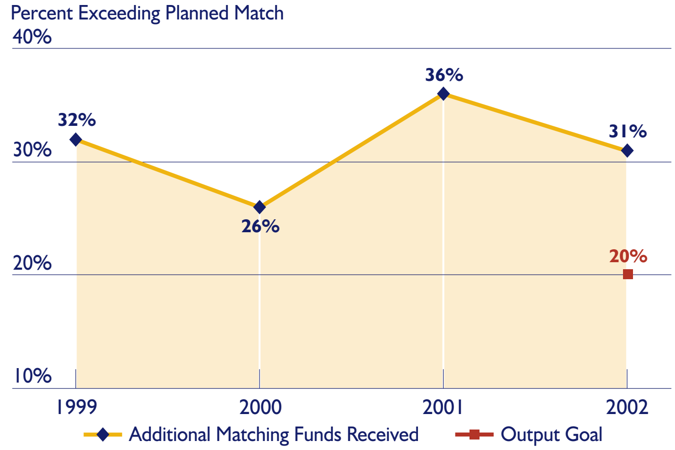
Results and Analysis. During FY 2002, only 43.9 percent of the direct beneficiaries had low incomes. This misses the target of 62 percent of direct beneficiaries that had incomes equal to or less than 50 percent of median. HUD has no direct control over the percentage of CDBG funds that communities use for these purposes. However, the reason for the reported low percentage of low-income beneficiaries appears to be one of under-reporting by grantees who do not successfully complete the data fields required for this information, rather than a lack of benefit to low-income beneficiaries. During the coming fiscal year, HUD will explore potential remedies to address this issue.

Programmatic Output Indicator 4.3.e:
COPC grantees will receive an extra 20 percent in non-federal funds above the match amount originally claimed in their application between the times they start and complete their projects.

Background. The Community Outreach Partnership Centers (COPC) program provides funds to colleges and universities for a wide variety of technical assistance and applied research activities. The underlying purpose is to institutionalize the commitment of colleges and universities to their communities and local organizations, build the capacity of community-based organizations, and promote dialog and disseminate information about community/university partnerships. This indicator demonstrates the satisfaction that community-based organizations, local governments, foundations, private businesses, and the schools themselves have with COPC-funded activities by measuring new financial commitments to continue, expand, and in some cases institutionalize, the work.

Results and Analysis. For the 3 COPC grants that were completed between January and September of 2002, the average amount of non-federal match funds secured during the life of the grant was at least 31 percent more than originally claimed in the grant application. This result exceeds the goal of a 20 percent increase from original estimates.

COPC Matching Funds Received Above the Planned Match



The grantees secured $1,404,289 in match funds, compared with $1,072,318 of matching funds anticipated in their grant applications. The continued success of COPC grantees in attracting other funds demonstrates the value that the contributors perceive in the program activities.

Data Discussion. The COPC program data used for this measure come from grantee performance reports. Results represent the percentage by which matching funds exceeded match commitments for those COPC grantees whose grants closed by the end of HUD's fiscal year. Grants closing during a calendar-year reporting period were reported for FY 2001 and prior years. The change was motivated by OMB's accelerated reporting requirements. During FY 2002, the interim report format was revised to improve retrieval and accuracy of cumulative totals of nonfederal funds raised by grantees.

Related Program Evaluations. A COPC evaluation report, "Lessons from the Community Outreach Partnership Center Program," was completed during FY 2002. The report analyzes the experiences of 25 COPC grantees and their partners concerning community engagement, types of partnerships, and the extent to which grantees were able to institutionalize community outreach to make it "self-maintaining." Community outreach was found to be institutionalized to a moderate or high degree in 16 universities. Three additional case studies are completed or forthcoming in FY 2003, and several grantees are evaluating their own outreach programs.

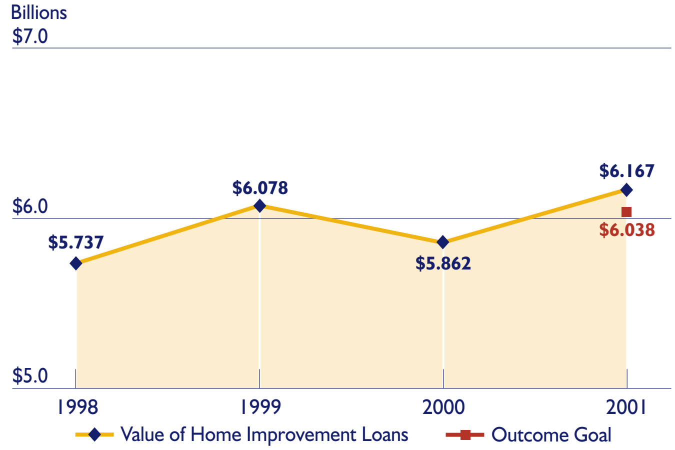
Outcome Indicator 4.3.4:
The capital used to rehabilitate housing in underserved neighborhoods increases by 3 percent.

Background. This indicator tracks the volume of private lending in "underserved" neighborhoods, defined in metropolitan areas as census tracts either with a minority population of 30 percent and median family income below 120 percent of the metropolitan area median, or with median family income at or below 90 percent of area median (irrespective of minority population percentage). A similar definition of underserved applies to non-metropolitan areas, using counties rather than tracts. This indicator is being retired for FY 2003 and future years APP because of HUD's limited span of control on private mortgage lending.

Results and Analysis. The most recent available data show that in calendar year 2001, lenders originated home improvement loans in underserved areas totaling $6.167 billion, an increase of 5 percent from 2000 levels. The result surpassed the goal of a 3 percent increase.

Low interest rates and a strong housing market in 2001 made rehabilitation activity more feasible and a good investment for homeowners. FHA Section 203(k) program provides mortgage insurance to finance the purchase and rehabilitation of single-family properties. The program improves the availability of construction financing for rehabilitation loans, thereby supporting housing rehabilitation in underserved areas. FHA Section 203(k) program had commitment authority to insure $1.339 billion of rehabilitation loans in FY 2001, and endorsed 8,668 loan guarantees. FHA wrote $167 million of insurance under Title I programs during FY 2001. The majority of Title I loans support property improvements. HUD also supports housing rehabilitation in underserved areas through CDBG and HOME, which communities often administer in ways that stimulate private lending.

Volume of Home Improvement Loans in Underserved Areas



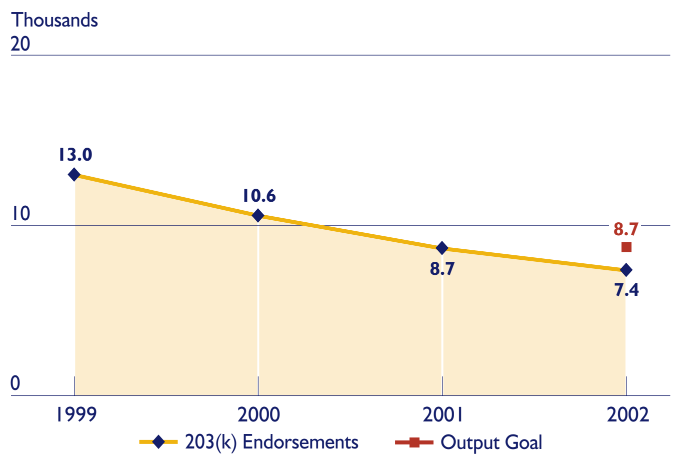
Data Discussion. The Home Mortgage Disclosure Act data used for this measure are believed to understate total volume, but are judged to be sufficiently reliable for performance measurement purposes. HMDA data are submitted by depository institutions and for-profit non-depository institutions (e.g., mortgage companies) to their regulators. The data are not adjusted for inflation, and are known to under-represent total market activity because lending institutions are exempt from reporting if their assets fall below threshold levels, if they are located in rural areas or if they meet certain other criteria that have little impact on this measure. Some loans that are originated by mortgage brokers in the name of affiliated institutions may be excluded if brokers wrongly categorize them as a loan purchases rather than originations. Approximately 3 percent of total loan volume in 2001 did not have adequate geographic data to be included, an improvement from 4 percent in 1999.

Programmatic Output Indicator 4.3.f:
Maintain the number of single-family properties rehabilitated under Section 203(k).

Background. The Section 203(k) program has undergone and will continue to undergo significant changes in response to fraudulent activity several years ago. Reconsideration is being given for this indicator for next year with the goal of reducing the number of defaults and foreclosures within the 203(k) program.

Results and Analysis. Section 203(k) endorsements fell from 10,612 in FY 2000 to 8,660 in FY 2001 to 7,370 during FY 2002. The decline in endorsements is due in part to the FHA FY 2000 decision to limit the number of 203(k) properties held in inventory by participating non-profit organizations to ten. This policy change was established to address higher-than-average defaults for non-profits using

FHA Endorsements of Single-Family Home Rehabilitation Loans



the 203(k) product. In addition, a number of non-profit organizations that participated extensively in the program and experienced high default rates are no longer in the program. It is expected that the drop in 203(k) endorsements will continue for the near future.

Programmatic Output Indicator 4.3.g:
The number of multifamily rental units in underserved areas newly insured by FHA increases by 5 percent.

Background. FHA insures loans for new construction and substantial rehabilitation of multifamily rental units under a variety of programs (Sections 220, 221(d)(3), 221(d)(4), and risk-sharing under 542(b) and (c)). FHA also insures mortgages to refinance or purchase existing multifamily properties (Section 223(f)). These programs improve the quality and affordability of rental housing, and increasing their availability in underserved neighborhoods will promote revitalization of those neighborhoods.

For FY 2002, this measure counts the number of units in properties within underserved neighborhoods that are newly endorsed by FHA. Grants under Section 202 and Section 811 are excluded from this measure. The measure has been revised in the FY 2003 APP to include refinancing activity, which creates similar benefits for underserved areas. Refinanced loans include those restructured under the Mark-to-Market program as well as refinancing in support of repair and rehabilitation. Underserved neighborhoods are defined in metropolitan areas as census tracts either with a minority population of 30 percent and median family income below 120 percent of the metropolitan area median, or with median family income at or below 90 percent of area median (irrespective of minority population percentage). A similar definition of underserved applies to non-metropolitan areas, using counties rather than tracts.

Results and Analysis. During FY 2002, 13,903 multifamily units in underserved areas benefited from new FHA mortgage endorsements. This was a 39 percent increase over the FY 2002 goal of 10,002 units.

Outcome Indicator 4.3.5:
The share of public housing residents who feel safe or very safe increases by 1 percentage point.

Indicator Background and Context. Public housing agencies and resident management councils conduct a variety of activities to reduce crime. This indicator tracks the level of security perceived by residents of public housing, measured as the share of those who report they feel "safe or very safe" in their unit, their building, and their parking area. A similar goal of a 1 percentage point increase has been established for FY 2003.

Residents who feel safe or very safe in:	FY 2000	FY 2001	FY 2002 prelim.	*FY 2002 goal*
their units	72.3%	73.3%	72.5%	74.3%
their building	67.7%	69.3%	67.1%	70.3%
the parking area	59.6%	62.1%	60.4%	63.1%

Results and Analysis. Preliminary data for the first half of FY 2002, which includes December 31, 2001 and March 31, 2002 FYEs, suggest that perceptions of security by public housing residents may have retreated from the gains observed in FY 2001. Compared with FY 2001 results, preliminary FY 2002 survey results suggest a decline of 0.8 percentage points in the proportion who reported that they felt safe or very safe in regards to their units, a decrease of 2.2 points in regards to their buildings and a decrease of 1.7 points in regards to parking areas. Because preliminary results are only representative of 47 percent of the total PHA population, it is too early to assess the extent to which HUD has reached its goal of a 1.0 point increase.

The preliminary sample is not representative of residents from all PHAs. However, the results show that a substantial majority of public housing residents continue to feel safe in their units, their buildings, and to a lesser extent, in their parking areas. The results are consistent with the 70.4 percent of low- and moderate-income city residents who report satisfaction with their neighborhoods (indicator 4.3.1). Resident perceptions of security may vary based on PHA-funded security activities as well as local police activity.

Data Discussion. The data represented herein are from REAC's Resident Satisfaction Assessment Sub-System (RASS), based on surveys of a nationally representative random sample of public housing households. Data for FY 2000 and FY 2001 are based on surveys of PHAs with fiscal years ending during HUD's fiscal year. The preliminary FY 2002 data are based on PHAs with fiscal years ending on December 31, 2001 and March 31, 2002, the most recent six months of scores that are currently available. Full FY 2002 will be available in February 2003.

A PD&R study that pre-tested and validated resident satisfaction surveys of Section 8 households showed that responses were reliable with respect to physical conditions, supporting the validity of surveys for assessing public safety of residents.

Programmatic Output Indicator 4.3.h:
At least 85 percent of EZ and EC projects achieve local goals in serving residents with public safety and crime prevention programs.

Background. HUD has designated 79 Empowerment Zones (EZs) and Enterprise Communities (ECs). HUD measures their performance in seven areas including public safety and crime prevention programs. Data for this indicator represent the number of grantees that achieved at least 95 percent of their projected outputs divided by the total number of grantees with completed public safety projects or programs. A more detailed discussion of this measure is included under Indicator 4.2.d.

Results and Analysis. In FY 2002, 86 percent of EZ and EC projects met goals with respect to serving residents with public safety and crime prevention programs. This level exceeds the target of 85 percent and represents a 2 percent increase from the revised FY 2001 level of 84 percent.

Strategic Goal 5:
Ensure Public Trust in HUD

Strategic Objectives:

5.1 HUD and HUD's partners effectively deliver results to customers.

5.2 HUD leads housing and urban research and policy development nationwide.

Performance Report Card – Goal 5

	Performance Indicators	1999	2000	2001	2002	2002 Target	Substantially Met	Notes
5.1.1	Level of empowerment, capability and results focus reported by HUD employees				59%			b
5.1.a	REAP implementation				Yes	Yes	✓	
5.1.b	Increase representation of Hispanics in HUD workforce.	6.8%	7.0%	7.0%	7.1%	7.3%		
5.1.b	Increase representation of white females in HUD workforce.	27.7%	27.0%	26.6%	26.0%	26.9%		
5.1.c	Obligations through performance-based contracts				17.8%	20.0%		
5.1.d	Achievement of unqualified audit opinion.	No	Yes	Yes	Yes	Yes	✓	
5.1.2	Level of empowerment, capability and performance focus reported by HUD partners.							b,g
5.1.e								See 4.3.a
5.1.f	Percent of Consolidated Plan grantees reviewed onsite for compliance.				42.6%	35%	✓	
5.1.g	Number of CDBG entitlement grantees who fail regulatory standards for 1.5 timely expenditure.	273	181	152	58	137	✓	
5.1.g	Number of CDBG entitlement grantees who fail regulatory standards for 2.0 timely expenditure		64	44	7	37	✓	
5.1.3	Average satisfaction of assisted renters and public housing tenants		87%		89%	88%	✓	f
5.1.4	Share of public housing units managed by troubled HAs				23%	15%	✓	
5.1.5	Percentage of all vouchers that are managed by troubled HAs				6.37%			f,h
5.1.6 (a)	Percentage of households in public housing developments with substandard financial management			8.8%	4.0%	3.8%	✓	
5.1.6 (b)	Percentage of households in subsidized multifamily developments with substandard financial management		28.6%	30.4%	49%	25%		
5.1.h	The unit-weighted average PHAS score		78.7	80.2	85.3	84.2	✓	
5.1.i	The household-weighted average SEMAP score				83.4%			f,h
5.1.j	Share of vouchers managed by HAs that score highly for income verification				86.77%			f,h
5.1.k	Share of vouchers managed by HAs that score highly for determination of rent reasonableness				80.58%			f,h
5.1.L	Share of households for which rent determinations are correct in public housing and project-based Section 8							g
5.1.m	Closure of multifamily cases referred to DEC						✓	g
5.1.9	Automated data systems are rated more highly for usefulness, ease of use and reliability							a

	Performance Indicators	1999	2000	2001	2002	2002 Target	Substantially Met	Notes
5.1.n	Number of mission critical data systems with data quality certifications (cumulative)			2	2	8		
5.1.o	Share of HOME-assisted rental units with occupancy data reported	70%	76%	80%	88%	85%	✓	
5.1.p	Share of completed CDBG activities for which grantees report accomplishments			87.5%	88.74%	90%	✓	
5.1.q	Share of HAs with poor MTCS reporting from which action plans required or forbearance granted							a
5.1.r	Share of single-family appraisals that are acceptable							a
5.2.1	PD&R work products are rated more highly for usefulness, ease of use, reliability, objectivity and influence			81%				a
5.2.a	The number of citations of PD&R work products in the policy literature.	100	48	137				a

(Values represent fiscal year data unless otherwise noted.)

a - Data not available.

b - No performance goal for this fiscal year.

c - Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).

d - Calendar year ending in the current fiscal year.

e - Calendar year ending the previous fiscal year.

f - Other reporting period.

g - Result too complex to summarize. See indicator.

h - Baseline newly established.

Objective 5.1: HUD and HUD's partners effectively deliver results to customers.

Outcome Indicator 5.1.1:
HUD employees become more satisfied with the Department's performance and work environment.

Background. HUD has increasingly been moving its organizational focus from process to customer-driven results. Research has shown a strong correlation between employee satisfaction and customer satisfaction. Periodic employee surveys will help assess the Department's performance orientation and ensure that staff are satisfied with their work environment and receive the training and support necessary to accomplish their jobs.

Results and Analysis.[14] During a 2002 survey of HUD employees, 59 percent of respondents reported that "considering everything" they were satisfied with their jobs. Future surveys, planned for three-year intervals, will measure improvement from this baseline. While the majority of employees are satisfied, the level of satisfaction among HUD employees lags behind the private sector benchmark (using the same core survey) of 67 percent.

As a result of the survey and the follow-up focus groups, the Department is increasing attention to improving communication and opportunities for training and skills development. HUD also has empowered field staff with authority to make decisions about programs, which increases their satisfaction while improving their ability to be responsive to the needs of local partners.

[14]This measure is based on the Organizational Assessment Survey (OAS) of HUD employees, administered by the Personnel Resources and Development Center of the Office of Personnel Management during July 2002. The online survey had a 37 percent response rate.

Related Program Evaluation. During FY 2001, the General Accounting Office (GAO) completed a related survey of HUD managers.[15] GAO reported: "The Department of Housing and Urban Development (HUD) was above the rest of the government in aspects of agency climate, performance measurement, and particularly, in the use of performance information. The agency was statistically significantly higher than the rest of the government in the percentages of managers who reported that employees received positive recognition for helping the agency achieve its strategic goals; managers are held accountable for results; they have output and outcome measures; and they use performance information to set program priorities, allocate resources, coordinate program efforts, and set job expectations. Of the 28 agencies surveyed, HUD had the second greatest number of total items for which the agency was significantly higher than the rest of the government after the General Services Administration and the Small Business Administration, both of which had 1 more. In all other areas, HUD was not significantly different from the rest of the agencies we surveyed." (p.112).

Programmatic Output Indicator 5.1.a:
The Resource Estimation and Allocation Process initiative will be fully implemented and will establish a baseline for estimating resource requirements and prioritizing staffing allocations by program and office.

Background. The Department is currently implementing a Departmental resource management process called Resource Estimation and Allocation Process (REAP). The REAP methodology was developed in conjunction with the National Academy of Public Administration. The REAP process will allow the Department to estimate, allocate, and validate resources for effective and efficient program administration and management. REAP will be a key tool in managing staffing resources and workload. REAP also will provide a foundation as the Department develops a comprehensive Strategic Workforce Plan.

Results and Analysis. In FY 2000, the Department began an 18-month effort to perform REAP or work measurement studies on every HUD program area and program. These studies were completed in FY 2002 and provide a baseline for estimating staffing requirements throughout the Department. The results of these studies have been used in the FYs 2003 and 2004 budget processes. The data from the studies has served as input into the FYs 2001 and 2002 Departmental staffing plans requested by the Congress.

In FY 2002, the Department also implemented the Total Estimation and Allocation Mechanism (TEAM). TEAM is an automated information system designed to support REAP. The primary purpose of TEAM is to validate REAP data by capturing actual information on workload accomplishments and time usage by HUD employees. TEAM will accumulate information centrally in a database and provide managers and staff with the capability to query and analyze the stored data.

Programmatic Output Indicator 5.1.b:
HUD continues to improve the workforce to reflect the nation's diversity by increasing the representation of under-represented groups by 0.3 percentage point.

Background. It is HUD policy to prohibit discrimination in employment because of race, color, religion, sex, national origin, age and disability, and to promote the full realization of equal opportunity. HUD Hispanic representation of 7.1 percent has consistently remained below the Hispanic Civilian Labor Force (CLF) representation of 8.1 percent for the last several years. Similarly, the representation of white females has been declining, and is well below the CLF level of 35.5 percent.

[15] *General Accounting Office, May 2001. "Managing for Results: Federal Managers' Views on Key Management Issues Vary Widely Across Agencies." (GAO-01-592).*

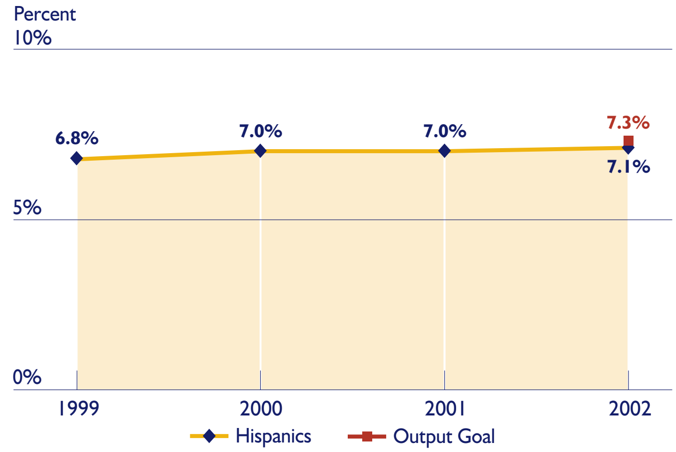
Results and Analysis. At the end of FY 2002, Hispanic representation among HUD employees was 7.1 percent, approximately the level of FY 2000 and FY 2001. Representation of white females declined from 26.6 percent to 26.0 percent. Both of these levels fell short of the goal of a 0.3 point increase.

In FY 2002, HUD experienced a higher rate of hiring and this level of hiring overwhelmed HUD efforts to increase the diversity of the applicant pool through a targeted information campaign to make HUD employment opportunities more widely known.

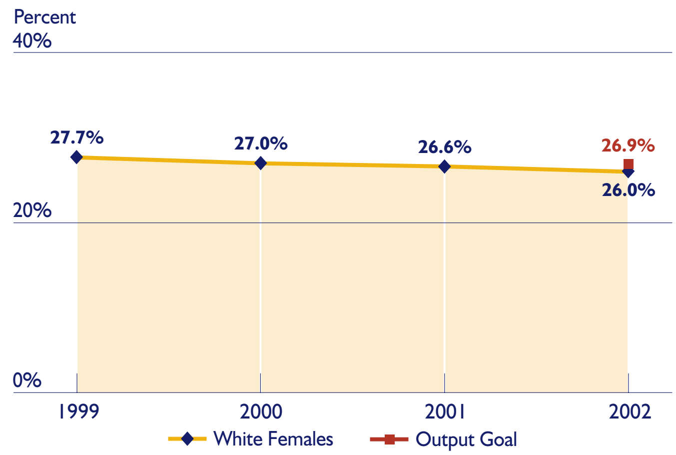
To improve performance in this area, HUD is continuing the Affirmative Employment Program, which involves increasing the diversity of the applicant pool for job openings. When an opening is posted, HUD sends notices to organizations that represent women and minorities and educational institutions with a high rate of female and minority representation. HUD efforts do not include any hiring preference based on race or gender.

Data Discussion. This indicator uses HUD employment data tabulated in the Equal Employment Opportunity Management Analysis System.

Representation of Hispanics Among HUD Employees



Representation of White Females Among HUD Employees



Programmatic Output Indicator 5.1.c:
Ensure that contractors produce results by obligating not less than 20 percent of total eligible service contract dollars using outcome or performance-based service contracting techniques (for new contracts over $25,000).

Background. Performance-based contracts are designed to ensure that contractors are given the freedom to determine how to meet the Government's performance objectives and that appropriate levels of quality are achieved, and that payment is made only for services that meet these levels. As part of its Government-wide initiative to increase the use of performance-based contracting, OMB established this performance-based contracting (PBC) goal for FY 2002. It applied to all federal contracting activities. The FY 2002 goal differs from previous PBC goals. From FY 1998 through FY 2001, HUD measured all PBC obligations as a percentage of all contract obligations. The FY 2002 OMB goal measures only PBC obligations for new contract actions as a percentage of all obligations made for new contract actions for services. This goal continues in the FY 2003 APP.

Results and Analysis. In FY 2002, the Office of the Chief Procurement Officer (OCPO) obligated a total of $257,922,981 for new service contracts. Of that total, $45,943,591, or 17.8 percent, was for new performance-based contracts (PBCs) over $25,000, below the target of 20 percent.

A significant amount ($34.5 million) of the FY 2002 obligations were for modifications and options to existing PBCs that could not be counted toward the goal as OMB redefined it for 2002. Nevertheless, when those obligations are included, OCPO obligated $80.4 million for PBCs, which is an actual increase of $5.1 million over FY 2001.

Meeting this goal depends heavily upon cooperation by program offices in redefining their new procurement needs in performance-based terms. While many contracting requirements have been converted to the PBC method, others have not yet moved in this direction. OCPO continues to assist its program office clients in converting their requirements to PBC. In addition, as more contracting requirements are converted and new awards made, the pool of available PBC obligations diminishes, since subsequent modifications and options to those contracts may not be counted.

Programmatic Output Indicator 5.1.d:
HUD financial statements receive unqualified audit opinions.

Background. The receipt of an unqualified (or clean) audit opinion on HUD FY 2000 and FY 2001 consolidated financial statements was important in restoring confidence in the Department's financial statements for OMB, Congressional and public users. HUD is mindful of the financial management discipline and vigilance required to maintain that confidence, and of the need for continued progress in resolving remaining material management control weaknesses and reportable conditions still associated with HUD's underlying financial management systems and operations.

Results and Analysis. In 2003, HUD received an unqualified audit opinion on its FY 2002 financial statements, achieving the goal. This is the third consecutive year the Department has received an unqualified audit opinion. The result reflects growing financial management stability and the collaboration of program and administrative offices to prepare auditable financial statements in timely fashion.

Outcome Indicator 5.1.2:
HUD partners become more satisfied with the Department's performance, operations and programs.

Background. This indicator uses the widely-utilized method of customer satisfaction surveys in another context, to assess the quality of the relationship between HUD and the intermediary organizations that partner with the Department to deliver results to the final customers. HUD partners, including government, non-profit and for-profit entities, provide service delivery for a majority of HUD programs. Eight partner groups were surveyed: community development directors, public housing agency directors, Fair Housing Assistance Program directors, mayors, multifamily owners (insured, assisted or Section 202/811), and non-profit housing providers.

Results and Analysis.[16] The 2001 survey establishes the baseline for future performance goals, and revealed that overall satisfaction by partners varied greatly. FHAP directors and mayors were highly satisfied and public housing agency directors and multifamily owners were less satisfied. An important finding was that partner groups—or individuals within partner groups—were substantially more likely to hold unfavorable opinions if they perceived the Department's role as "mainly regulating" rather than "mainly support" or "equally providing support and regulating." Nevertheless, majorities within nearly every partner group expressed satisfaction both with the Department's programs and with the way they are run. The exception was PHA officials, many of whom were dissatisfied with the way HUD was running their programs. The most likely cause of PHA dissatisfaction was the controversy that surrounded development of the Public Housing Assessment System.

FY 2001 Baseline Results of HUD Partner Survey

	Percent satisfied or very satisfied with "the HUD program you currently deal with"	Percent satisfied or very satisfied with "the way HUD currently runs those programs."
Community Development Department partners	87%	73%
Mayoral partners	88%	79%
Public Housing Agency partners	59%	39%
FHAP Agency partners	85%	68%
HUD-Insured Multifamily Housing partners	69%	60%
HUD-Assisted Multifamily Housing partners	62%	53%
Section 202/811 Multifamily Housing partners	88%	78%
Non-profit Housing partners	62%	52%

Partner satisfaction was generally high for the overall quality of service received from HUD staff, as well as for staff responsiveness and competence. The survey also covered the quality and timeliness of information received from HUD and the quality and consistency of guidance the Department provides.

Programmatic Output Indicator 5.1.e:
The share of Consolidated Plans that contain measurable performance goals for housing activities and for community development activities increases.

Background. Communities develop 5-year Consolidated Plans to guide their use of CDBG, HOME, Emergency Shelter, and HOPWA grants. Grantees are able to choose from a wide array of activities, so the quality of planning for self-defined objectives is critical. This indicator is discussed in greater detail as Indicator 4.3.a, where it appears because of its support of greater livability in the Nation's communities.

Programmatic Output Indicator 5.1.f:
HUD reviews 35 percent of Consolidated Plan Grantees and 10 percent of grants on site for compliance with their plans.

Background. Communities develop five-year Consolidated Plans to guide their use of CDBG, HOME, Emergency Shelter, and HOPWA formula grants. This indicator was modified from FY 2001 to increase the share of grantees that are reviewed onsite and the share of grants administered by those grantees that are reviewed onsite.

Results, Analysis, and Data Discussion. Of the 1,090 Consolidated Plan grantees, 464, or 42.6 percent, were monitored on site, thus exceeding the target by almost 8 percentage points. The CPD field offices also set additional goals in the Management Plan for other categories of grantees. The field offices anticipated monitoring 161 non-homeless grantees but ended the year having monitored 178 non-homeless grantees, 11 percent more than planned. Additionally, the field offices planned to monitor 454 Continuum of Care

[16] *The survey data were collected under PD&R contract between December 2000 and June 2001. Results are presented in the report, "How's HUD Doing? Agency Performance As Judged By Its Partners," available at* ***www.huduser.org***

(CoC) projects and, like the other two measures, exceeded the targets by 18 percent, having monitored 533 CoCs. Data issues prevent current year reporting related to on-site grant reviews, although HUD staff did review multiple grants that had been awarded to grantees by looking at quality control areas such as finance.

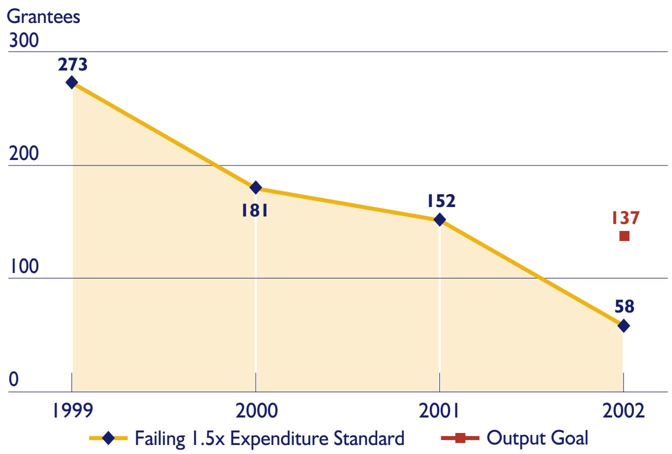
Programmatic Output Indicator 5.1.g:

The number of CDBG entitlement grantees that fail to meet regulatory standards for timeliness of expenditure decreases by 10 percent to 147, and the number that carry balances above 2.0 times their most recent grant decreases by 15 percent.

Background. Entitlement communities have extensive flexibility to use CDBG funds for locally defined purposes. However, they must use funds for national objectives and implement their activities in fiscally responsible ways. To meet timeliness standards, grantees may not have funds in their line of credit exceeding 1.5 times the value of the most recent grant, as measured 60 days before the next subsequent grant.

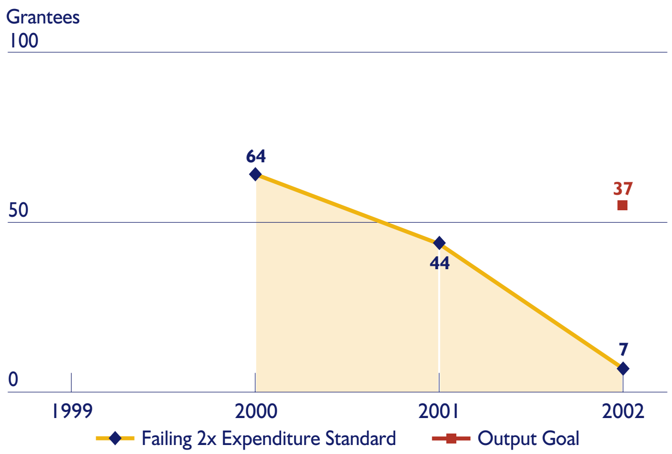
Results and Analysis. The goal for FY 2002 was to reduce the number of untimely grantees by 10 percent. At the beginning of FY 2002, the number of untimely entitlement grantees was 152. By the end of FY 2002, the number of untimely entitlement grantees had been reduced to 58, significantly surpassing the goal.

CDBG Grantees Failing the 1.5 Timeliness Standard



In November 2001, Assistant Secretary Roy A. Bernardi established an aggressive policy in dealing with untimely grantees. Simply stated, an untimely grantee that failed to make substantial progress in its rate of expenditure by its next measure in FY 2002 (or FY 2003 for January – March grantees) would have their CDBG entitlement grant reduced by a proportion of the amount exceeding the 1.5 threshold. Further, beginning with FY 2003, any grantee that exceeded the 1.5 ratio for a second year in a row would have its grant reduced down to the 1.5 ratio (or FY 2004 for January – March grantees). The policy also established that any grantee that was not previously untimely, but became untimely during the fiscal year, would have until the next measure to become timely or face a grant reduction down to the 1.5 level. The policy has had a direct bearing on the achievement of the goals.

CDBG Grantees Failing the 2.0 Timeliness Standard



The FY 2002 goal for the number of grantees that exceeded a 2.0 level of untimeliness was to reduce the number by 15 percent from the FY 2001 baseline. This goal was also surpassed. In FY 2001 there were 48 entitlement grantees whose drawdown ratios exceeded 2.0. As of October 2, 2002, that number was 7 grantees, or an 85 percent reduction. Under the current policy that number should be reduced to zero.

HUD expects that all grantees, except those that become newly untimely, will be in compliance by the end of FY 2003.

Data Discussion. This measure uses data provided by the Integrated Disbursement Information System (IDIS). HUD also began, in FY 2002, to track the number of grantees with undrawn funds of more than 2.0 times the value of the most recent grant.

Outcome Indicator 5.1.3:
The average satisfaction of assisted renters and public housing tenants with their overall living conditions increases by 1 percentage point.

Background. The recipients of HUD housing assistance form one of HUD's largest groups of customers. Resident satisfaction is influenced by the quality of management by housing agencies and private multi-family development managers. In FY 2002 and 2003, the goal for this indicator is to increase resident satisfaction by 1 percentage point per year.

Results and Analysis. The most recent available data show that during FY 2002, 89 percent of public housing residents were satisfied or very satisfied with their "overall living conditions." The baseline satisfaction level for public housing during FY 2000 was 87 percent. The increase of 2 percentage points in the level of resident satisfaction exceeds the goal of a 1 point increase.

HUD currently is conducting a similar survey for multifamily housing and originally intended to report the results in this Performance and Accountability Report. However, in parallel, the Department needed to advance significantly the timeline for producing the PAR. This action created a conflict with Multifamily's schedule for REAC to conduct the survey, as a result, final FY 2002 data are not available for this Report. The data will be made publicly available when complete.

During the balance of FY 2003, HUD will evaluate how best to ensure, given existing resource constraints, that REAC survey results are available early enough in the fiscal year to permit their incorporation into the PAR.

Data Discussion. Data for this indicator are from the Real Estate Assessment Center's Resident Assessment Subsystem (RASS). The FY 2002 result for public housing represents public housing agencies with fiscal years ending between June 30, 2001 and March 31, 2002.

Outcome Indicator 5.1.4:
The number of public housing units managed by troubled housing agencies that are assigned to a TARC as of October 1, 2001 decreases by 15 percent by September 30, 2002.

Background. Public housing agencies (PHAs) with composite PHAS (Public Housing Assessment System) scores below 60, or scores below 18 in any one component, are classified as substandard or troubled. Prior to FY 2002, at which time PHAS scoring was fully implemented, PHAs were declared troubled based solely on the management operations indicator (MASS) because the other component indicator scores were considered "advisory" pursuant to congressional intent. This indicator tracks the change in the number of units managed by "troubled" agencies that have successfully returned to "standard" status by the end of the fiscal year due to intervention by Troubled Agency Recovery Centers (TARCs).

Results and Analysis. During FY 2002, the number of units managed by "troubled" agencies was reduced by 23 percent, exceeding the 15 percent target. On October 1, 2001, 55 PHAs, which contained 31,549 low rent units, were assigned to TARCs. By September 30, 2002, 16 of these PHAs representing 7,289 units had been returned to their HUBS after TARCs recovery assistance, reducing the number of units to 24,260.

Data Discussion. The TARC portfolio system captures the date a PHA is transferred to the TARC because of PHAS scores. PHAS comprises scores determined by the Physical, Management, Financial, and Resident satisfaction Assessment Subsystems (PASS, MASS, FASS, and RASS). PASS and RASS are statistically representative of public housing projects and households, respectively. PASS scores are based on independent inspections of the PHAs' properties by HUD, and are verified through HUD's Quality Assurance Program. MASS and FASS submissions are subject to verification by independent audit. PHAs having a fiscal year end prior to September 30, 2001, were declared troubled on the basis of the management operations indicator (MASS) with the other components scored as "advisory" only.

Outcome Indicator *5.1.5*:
The share of tenant-based Section 8 units managed by troubled housing agencies decreases by 5 percentage points.

Background. Similar to Outcome Indicator 5.1.4, this indicator tracks the share of assistance under the housing choice voucher program that is vulnerable to mismanagement by troubled housing agencies. Using the Section Eight Management Assessment Program (SEMAP), HUD rates housing agencies based on tenant selection, rent reasonableness determinations, income determination, housing quality standards inspections and enforcement, expanding housing opportunities, deconcentration, lease-up rates, FSS participation, and correct rent calculations.

Results and Analysis. For this goal, a baseline had to be established based on the first year's worth of scores under SEMAP. Out of 2,420 PHAs with final SEMAP ratings for the four quarters from December 2000 through September 2001, 274 scored under 60 points and were declared troubled. This is the baseline and represents 114,850 units out of 1,801,668, or 6.37 percent of assisted units.

Data Discussion. The data come from the Public and Indian Housing Information Center (PIC) system. Ratings for this SEMAP indicator are based on SEMAP certifications submitted by PHAs into PIC for the assessed fiscal year no later than 60 days from the fiscal year end date. PHA-certified data are verified through Independent Public Accountant audits and on-site file reviews performed by the Field Office, or a contracted vendor, based on the Field Office's Management Plan.

Outcome Indicator *5.1.6*:
Among households living in public housing and subsidized multifamily properties, the share living in developments that have substandard financial management decreases by 5 percentage points.

Background. HUD evaluates the financial management of both public housing agencies and privately owned multifamily properties on the basis of generally accepted accounting principles. For FY 2003, the target was reduced to a 2.5 percentage point increase.

Results and Analysis. At the end of FY 2002, 7 percent of PHAs representing 4.0 percent of public housing units were rated as financially substandard based on both advisory and interim scores. The proportion of public housing units managed by financially substandard agencies decreased by 2.3 percentage points from the FY 2001 baseline of 8.8 percent, falling short of the goal of a 5 point decrease.

The decrease of 1.8 percentage points in public housing is explained primarily by a change in scoring methodology, as peer-group comparisons are no longer used. The proportion of PHAs rated as substandard decreased from 8.8 percent to 7 percent. In addition, new scores were not available for all PHAs. The FY 2002 goal was aggressively large in proportion to the baseline because it had been established in advance. For FY 2003, the goal was reduced to a 2.5 percentage point improvement.

For assisted multifamily housing properties, 49 percent experienced financial compliance deficiencies that resulted in referral to either the Departmental Enforcement Center (DEC) or to the Multifamily Program Office (MFH) for investigation. The comparable figure for FY 2001 was 30 percent.

The increase among multifamily properties was driven by much more aggressive efforts to measure/enforce financial compliance. For example, in February 2001, MFH introduced a number of new automated system compliance checks that substantially increased referrals. These compliance checks included measures related to acquisition of liabilities, residual receipts deposits, unauthorized distribution of project funds and unauthorized loans from project funds. Also, in September 2001, the Department increased its capability to identify overdue Annual Financial Statements quickly and systematically and began referring all such cases to DEC for investigation. This resulted in a further significant increase in referrals.

Despite the sharply increased number of referrals, both the DEC and MFH improved their follow-up performance. For DEC, the percentage of open cases decreased from 39 percent to 33 percent, while the percentage of MFH open referral cases decreased from 16 percent to 4 percent.

Data Discussion. The data for this measure come from the Financial Assessment Subsystem (FASS). The public housing data represent housing agencies that submitted their annual reports between October 1, 2001 and September 30, 2002. The results reflect only financially substandard PHAs, not those rated as troubled overall. The multifamily scores represent projects with fiscal years that ended between December 31, 2001 and December 30, 2002. The FASS scores are unit-weighted to better reflect the entire program.

Outcome Indicator 5.1.7:
The share of units that meet HUD-established physical standards increases by 3 percentage points to 73.9 percent of public housing units and 89.5 percent of assisted multifamily units.

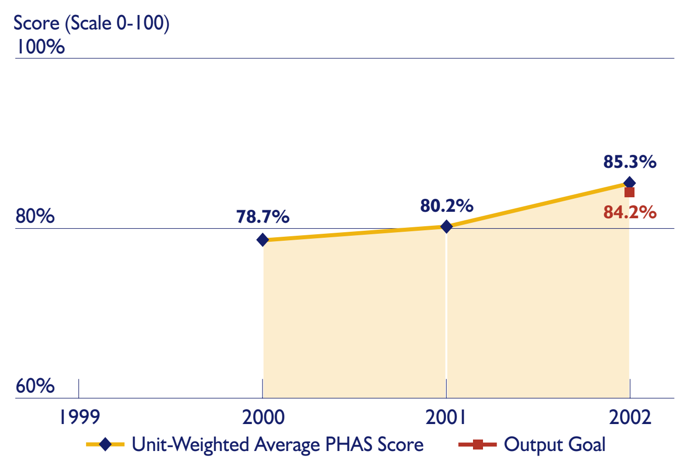
Background. HUD inspects units of public housing and assisted multifamily housing to determine their physical condition. Because compliance with physical standards reflects the ability of HUD partners to effectively deliver results to customers, the indicator has been included under this objective. The measure, the data source and programmatic issues are discussed in greater detail as Indicator 1.3.3 and under the Management Discussion and Analysis section, where it supports Objective 1.3: America's housing is safe and disaster resistant.

Programmatic Output Indicator 5.1.h:
The unit-weighted average PHAS score increases by 5 percent.

Background. The Public Housing Assessment System (PHAS) assesses the performance of Public Housing Agencies, which can receive scores up to 100 based on their physical and financial condition and their management quality (30 points each), as well as resident satisfaction (10 points). In FY 2003, HUD will maintain a target of a 5 percent increase in PHAS scores.

Results and Analysis. As of the end of FY 2002, the unit-weighted average PHAS score was 85.3, an increase of 6.4 percent from the FY 2001 baseline. The result exceeded the performance goal of a 5 percent increase.

Average Rating of Public Housing Under PHAS



The increase builds on similar progress observed in FY 2001, and reflects the value of PHAS in stimulating management action by housing agencies. A more complete discussion of PHAS scores is included under Goal 5 of the Management Discussion and Analysis section of this report.

Data Discussion. This measure is developed by multiplying the PHAS scores for each public housing agency by the number of units managed by each agency and dividing by 1,072,145 units in the public housing program. The FY 2002 estimate is based on 3,092 PHAS scores released by REAC between October 1, 2001 and September 30, 2002. Agencies with multiple scores during the period were excluded, totaling 204 agencies.

Programmatic Output Indicator 5.1.i:
The household-weighted average SEMAP score increases.

Background. Similar to PHAS scores, Section Eight Management Assessment Program (SEMAP) scores are meant to track the capability and accountability of housing authority partners.

Results and Analysis. For this goal, a baseline had to be established based on the first year's final scores under SEMAP. Of the 2,420 PHAs with final ratings for the four quarters from December 2000 through September 2001, the average weighted SEMAP score was 83.4 percent. This will serve as the baseline for future performance measurement.

Data Discussion. Data come from the Public and Indian Housing Information Center system. Ratings for this SEMAP indicator are based on PHA submitted SEMAP certifications into the PIC for the assessed fiscal year no later than 60 days from the fiscal year end date. PHA-certified data are verified through Independent Public Accountant audits and on-site file reviews performed by the Field Office, or a contracted vendor, based on the Field Office's Management Plan.

Programmatic Output Indicator 5.1.j:
The share of tenant-based Section 8 units managed by housing agencies that score highly for income verification increases.

Background. Tenant income verification is a critical tool that housing authorities have to control the costs of providing tenant-based assistance. The income verification component of SEMAP awards a maximum high score of 20 points when the incomes of 90 percent of households have been verified by third party and income and utility allowances are calculated correctly.

Results and Analysis. For this goal, a baseline had to be established based on the first year's worth of scores under SEMAP. Out of 2,420 PHAs with final SEMAP ratings for the four quarters from December 2000 through September 2001, 2,053 scored 20 points under the Determination of Adjusted Income indicator. This represents 1,563,349 units out of 1,801,668, or a share of assistance of 86.77 percent. This will serve as the baseline for future performance measurement.

Data Discussion. Ratings for this SEMAP indicator are based on PHA-submitted SEMAP certifications into the Public and Indian Housing Information Center. PHAs submit their SEMAP certifications into PIC no later than 60 days from the fiscal year end date. PHA-certified data are verified through Independent Public Accountant audits and on-site file reviews performed by the Field Office, or a contracted vendor, based on the Field Office's Management Plan.

Programmatic Output Indicator 5.1.k:
The share of tenant-based Section 8 units managed by housing agencies that score highly for determination of rent reasonableness increases.

Background. Determination of whether rents are reasonable is another tool that housing agencies have to control costs in the housing choice voucher program. Through the rent reasonableness component of SEMAP, HUD awards a maximum score of 20 points when 98 percent or more of randomly selected tenant files have documented determinations that the rent for the unit is reasonable in accordance with the PHA's written methodology in its Administrative Plan.

Results and Analysis. For this goal, a baseline had to be established based on the first year's worth of scores under SEMAP. Out of 2,420 PHAs with final SEMAP ratings for the four quarters from December 2000 through September 2001, 1,879 scored 20 points under the rent reasonableness indicator. This represents 1,451,698 units out of 1,801,668 or a share of assistance of 80.58 percent. This will serve as the baseline for future performance measurement.

Data Discussion. Ratings for this SEMAP indicator are based on PHA-submitted SEMAP certifications into the Public and Indian Housing Information Center. PHAs submit their SEMAP certifications into PIC no later than 60 days from the fiscal year end date. PHA-certified data are verified through Independent Public Accountant audits and on-site file reviews performed by the Field Office, or a contracted vendor, based on the Field Office's Management Plan.

Programmatic Output Indicator 5.1.L:
The share of households for which rent determinations are correct increases by 15 percent from FY 2000 levels for public housing, project-based section 8 and tenant-based section 8 by FY 2003.

Background. Housing agencies and assisted multifamily managers determine tenant incomes and allowable deductions and calculate appropriate rents. Because rents are typically determined as a percentage of income, tenants have an incentive to underreport income and assets, which directly increases subsidy costs. Program sponsors have incentives to simplify the treatment of income and deductions from income, or may do so because of lack of knowledge of HUD requirements.

HUD undertakes periodic quality control studies to measure the accuracy of income and rent determination procedures, which complement efforts to measure income determination errors resulting from tenant fraud. This indicator tracks the results of these rent verification studies for public housing, assisted private multifamily programs, and tenant-based (voucher) programs. Rents are considered to be correct if they are within $5 of the quality control rent. Tenants who choose to pay flat rents rather than a percentage of income are excluded from this measure.

To accomplish the goal, the Department is implementing the Rental Housing Integrity Improvement Program (RHIIP), a comprehensive initiative for addressing rental subsidy errors. Core components of this multi-faceted strategy include more aggressive monitoring and quality control; education, guidance, and training for HUD field staff and POAs (Public Housing Agencies, Owners, and Agents); facilitating state wage matches and other up-front verification initiatives to obtain accurate independent verification of all tenant income; and simplifying program requirements, where feasible.

Results and Analysis. HUD estimates of erroneous payments attributed to POA rent calculation and processing errors were based on a HUD Office of Policy Development and Research (PD&R) study of "Quality Control for Rental Assistance Subsidies Determinations," which was published as a final report in June 2001. This PD&R study verified rent calculations for a representative sample of 2,403 households receiving assistance in 2000. The study found that 60 percent of the calculations had some type of administrative or calculation component error contributing to a subsidy overpayment or underpayment situation. Errors were considered if they exceeded a $5 impact threshold on monthly subsidy payment amounts. The study projected, with 95 percent confidence, annual subsidy overpayments of $1.669 billion plus or minus $251 million and annual subsidy underpayments of $634 million plus or minus $151 million, due to errors attributable to program administration by POAs.

In developing the estimates of subsidy overpayments attributed to tenant underreporting of income, the Department used the same PD&R sample of 2,403 households assisted in 2000, and compared earned and unearned household income reported to the POAs to income data from Social Security Administration (SSA) and Internal Revenue Service (IRS) databases. The estimated payment error attributed to tenant underreporting of income considered the impacts of underreported income amounts over a $1,000 threshold to better reflect program requirements. Identified cases of possible undisclosed income sources exceeding this threshold were verified with employers and further examined to determine if the income discrepancies would affect the computation of the correct HUD rental subsidy amount, or if the income discrepancies were attributed to other causes not affecting the subsidy amount, such as: data entry errors in any of the systems involved in the matching process, timing differences in the income data being considered, or tenant income excluded by program regulation. Validated income discrepancies were further assessed against the original POA error estimates for these sample cases to eliminate any duplication. Based on the results of this review, the Department projected, with 95 percent confidence, that the amount of subsidy overpayments attributed to tenant underreporting of income was $978 plus or minus $247 million.

The combined effect of the estimated $1.669 billion of overpayments and $634 million of underpayments attributed to POA program processing errors, plus the $978 million of overpayments attributed to tenant underreporting of income yielded a gross payment error estimate of $3.281 billion. Offsetting the overpayment and underpayment error estimates yielded a net annual subsidy overpayment estimate of $2.013 billion, which represented approximately 10.7 percent of the $18.883 billion in total rental subsidies paid by HUD in FY 2000.

Utilizing research results from this study, a subsidy-billing component has been developed for testing and HUD intends to makes this part of the footnote disclosures as soon as the methodology is validated. Starting in FY 2003, HUD intends to include the billing error component if it is determined to be valid and significant.

This goal supports FY 2003 Departmental implementation of the President's Management Agenda objective to reduce the error rate by 50 percent by FY 2005.

Data Discussion. Assisted housing quality control studies. Base tenant interview and file data are collected periodically by contractors under PD&R management. Income matching and billing study work have been primarily done by HUD Real Estate Assessment Center staff with assistance from PD&R. No studies were undertaken for FY 2002. The next study is planned for FY 2003.

The quality control study is based on a nationally representative sample of developments in public housing, Section 236, and Section 8 programs. The study will retain an income-matching component to obtain a more comprehensive measure of error and to determine if fraud-prone households can be better identified. In addition an error measurement for POA billing for subsidy payments is under review.

The quality control study provides statistically valid verification of rent calculations by housing agencies and multifamily managers. It represents a complete replication of the income and rent determination process for tenants in the sample, and thus provides a sound basis for evaluating the accuracy of the process other than for problems resulting from tenant fraud.

Programmatic Output Indicator 5.1.m:
The DEC will improve management by multifamily housing partners by reducing the multifamily cases in the DEC as of September 30, 2001 by 80 percent, by closing 75 percent of all cases received in FY 2002 that have been in the DEC for 180 days, and by completing all cases received in FY 2002 and closed in FY 2002 in an average of 180 days.

Background. In FY 2002 the Office of the General Counsel, Departmental Enforcement Center (EC) played a vital role in helping the Department accomplish its two-fold mission of assuring decent and affordable housing and assuring program accountability through the enforcement of HUD FHA Single family and Multifamily Housing regulatory and statutory requirements. The EC aggressively pursued enforcement actions against owners of multifamily housing for physical and financial deficiencies.

During the fiscal year, Multifamily Housing requested that the EC focus its enforcement efforts on owners of multifamily projects who had failed to file required Annual Financial Statements (AFS). HUD reviews owners' financial statements to determine whether project income is used properly. Timely audited AFS are necessary to protect the HUD insurance fund. Risks to the fund can arise when there are unauthorized distributions and misuse of project funds by HUD insured mortgagors. Abuses can lead to significant loss to the taxpayers in the event of defaults. AFS help to assure the financial health of the project, thereby protecting residents from defaults and unnecessary rent increases. AFS provide an independent, professional opinion on the reliability of the project's financial statements as an accurate reflection of the project's condition and performance.

Results and Analysis. This fiscal year, the EC received more than four times the number of referrals received in the previous three years combined. This is due primarily to the addition of cases such as non-filers and late filers of annual financial statements. The EC received 393 physical referrals, 8,199 financial referrals and 7,291 AFS non-filers and late-filers for a total of 15,883 referrals. Despite the changes in the numbers and nature of referrals, the EC met or exceeded all of its performance goals. The Departmental Enforcement Center achieved its goal to reduce Multifamily cases received as of September 30, 2001 by closing 1,296 cases out of 1,597 open referrals (81percent). The EC also met its goal for closing referrals received in FY 2002 that had been in the EC for at least 180 days. There were a total of 3,323 such referrals and, of these, 2,639 (79 percent) were closed before the end of the fiscal year. The EC also met its goal for closing referrals received and closed in FY 2002 in less than an average of 180 days. There was a total of 3,998 referrals received and closed in FY 2002; these referrals were completed in an average of less than 63 days. In addition to the initial referrals for review, the EC received 536 referrals (478 subjects and 58 affiliates) for administrative sanctions during FY 2002. These referrals resulted in 252 suspensions, 290 proposed debarments and 218 debarments.

Data Discussion. In FY 2002, Multifamily Housing requested the Enforcement Center's assistance in addressing referrals of properties with substandard Real Estate Assessment Center (REAC) physical inspection scores. Under the previous protocol, REAC automatically referred properties scoring under 30 to the EC.

However, HUD has committed to the General Accounting Office and the Office of Management and Budget that it will not continue to subsidize tenants in properties scoring less than 60. During FY 2001, approximately 1200 properties scored between 31-59. As a result, the EC will have an even greater workload in FY 03. This coupled with the emphasis on non- and late-filers of financial statements will necessitate a modification of this indicator.

Outcome Indicator 5.1.9:
HUD automated data systems are rated highly for usefulness, ease of use, and reliability.

Background. While HUD workload has grown (about 30 percent over 15 years), its workforce has shrunk severely (about 39 percent over 11 years). HUD would not be able to perform its mission at current staffing levels without automated data systems. These systems are designed, developed, and managed to ensure that the Department is able to address changing business needs, emerging departmental requirements (legislation, regulations, guidance, etc.), and project performance considerations in a timely manner. Additionally, HUD business applications depend continually upon the availability of its mainframe, servers and network to effectively deliver results to customers and business partners. This indicator assesses the quality of these critical assets.

In 1999, HUD began implementing a comprehensive Capital Planning and Investment Control (CPIC) process to ensure that the Department's portfolio of IT projects adequately addresses HUD business and workforce needs. In addition to selecting an optimal portfolio of IT projects or investments, HUD monitors and controls its investments to ensure success. Control mechanisms have been established to minimize the likelihood of project failure or excessive cost and schedule overruns.

The Office of the Chief Information Officer conducts Control Reviews of its IT Portfolio four times a year. During these reviews, every project's cost, schedule and technical performance is tracked against an established baseline. IT projects are evaluated with a focus on mission performance and organizational benefit, either through a post-implementation review or a project performance review conducted by the Project Management Review Board (PMRB) comprised of senior management.

Results and Analysis. In 2002, HUD initiated a new IT Performance Measurement program, establishing a new structure for mission impact performance metrics for the major systems in the information technology portfolio. The impacts on HUD's mission consist of one or more of the following: efficiency, cycle time, and accuracy of HUD processes. This approach, which is different from the original appraisal process identified in the FY 2002 APP, provides a better means of ensuring that all major systems meet user and mission needs across-the-board, in addition to usefulness, levels of user satisfaction, and reliability.

- For the past two years, HUD obtained cost and schedule performance data on IT systems that enabled the evaluation of the attainment of major milestones.

- Program Area goals are now supported by IT application impact metrics, such as increased timeliness, reduced processing time, improved data, and reduced processing costs.

- HUD included performance metrics in the Exhibit 300 IT business cases that are now the IT portion of HUD's FY 2004 budget submission. These metrics now allow HUD to better evaluate the effectiveness of automated data systems.

- This approach also included the five mission-critical systems identified in the FY 2002 APP and was expanded to include all of the major IT systems.

HUD automated data systems are highly dependable. HUD routinely evaluates the dependability of its automated data systems by tracking the availability of its major systems. In 2002, HUD mainframe systems were available on average 99.8 percent or better during prime time (7 a.m. to 8 p.m. ET, Monday through Friday). HUD uses mainframe systems to support the business applications that serve HUD partners and employees as well as to develop and test enhancements to these business applications. HUD internal nationwide network was available on average 99.9 percent of the time (24 hours a day, 365 days a year). The performance of HUD automated systems is constantly monitored by program management and support staff through system and network monitoring tools. Metrics on system reliability, availability, and performance are tracked and compiled weekly for review by senior IT leadership.

In September 2002, the Giga Corporation, a noted global information technology consulting firm, assessed the usability of HUD's website. "Usability" refers to the ease with which the target audiences can find what they want on the website. As a whole, HUD's website scored 81 out of 91. In the area of "knowing our audience," HUD's website scored 10 out of 10. For "purpose of the site"—writing and organizing the site so that its purpose is clear—HUD, again, scored 10 out of 10. The front page scored 80 out of 100; this score compares very favorably with other Federal sites that typically have received scores in the 60s. HUD received the 2001 eCitizen Service Award for Federal agencies, presented by the Massachusetts Institute of Technology and was named by Brown University as one of the top ten (4th out of 58) Federal sites for citizens in its annual E-Gov Report, issued September 2001.

Programmatic Output Indicator 5.1.n:
During FY 2002, eight mission-critical data systems will be assessed and those systems will be certified by the end of FY 2003.

Background. The Department's growing concern with the quality of its program data, along with the Secretary's desire to accurately report where and how HUD dollars are being spent to revitalize the communities across America, led the Department to authorize the establishment of an Enterprise Data Management (EDM) Practice. The EDM Practice provides HUD the ability to manage data as a strategic resource to improve the effectiveness of all HUD initiatives, to measure HUD performance in the execution of its mission, and to demonstrate the Department's effectiveness and impact on America's communities.

Results, Analysis, and Data Discussion. No assessments or certifications were completed in FY 2002. Delays in awarding the contract necessary to complete the work, in addition to the departure of the project manager, resulted in no new assessments and certifications completed during the fiscal year. A new project manager has now been hired, and a contract was awarded on June 21, 2002. HUD remains committed to a Department-wide data management practice that enables the quality, availability, and integration of Departmental data. The Departmental Data Quality Control Board is now reconstituted and is meeting regularly. The Data Quality Improvement project is fully funded in FY 2003. During FY 2003, it is expected that eight mission critical systems will be assessed, and five mission critical systems will be certified.

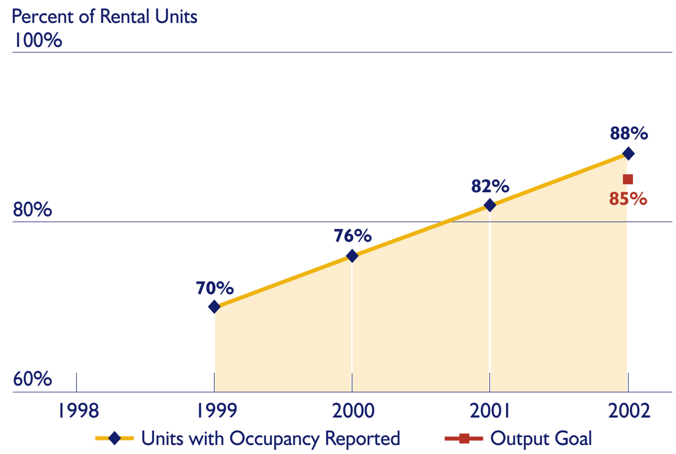
Programmatic Output Indicator 5.1.o:
The share of HOME-assisted rental units for which occupancy information is reported increases by 3 percentage points.

Background. This indicator tracks the reporting by Participating Jurisdictions into the HUD Integrated Disbursement and Information System (IDIS) of data describing the households who occupy HOME-assisted rental units. This information helps HUD assess compliance with HOME-assisted tenant income limits, as well as determine who is benefiting from the HOME program.

Results and Analysis. During FY 2002, 88 percent of rental units had occupancy information reported in IDIS. This is a 6 percentage point increase over the FY 2001 level of 82 percent, and exceeds the goal of a 3 point increase.

Data Discussion. HUD relies on Participating Jurisdictions to enter data into IDIS, which are used to track quarterly performance. Ongoing HUD-sponsored IDIS training, data clean-up efforts, and innovations such as the individualized performance "report card" tool for participating jurisdictions are used to consistently improve data quality and reliability. Future annual performance plans will continue to track the share of HOME-assisted rental units for which occupancy information is reported.

HOME-Assisted Rental Units with Occupancy Information Reported



Programmatic Output Indicator 5.1.p:
The share of completed CDBG activities for which grantees satisfactorily report accomplishments increases to 90 percent.

Background. This indicator tracks the level of reporting of CDBG grant activities into the Integrated Disbursement Information System, which collects data for HUD's block grant programs that serve local jurisdictions. The CDBG reporting rate is measured by the proportion of completed activities for which grantees have provided accomplishment data for activities that qualify under the three national objectives that serve persons with low- and moderate-incomes: jobs (LM), housing (LMH) and limited clientele (LMC). To meet the threshold for satisfactory reporting, each grantee must report accomplishments for at least 90 percent of activities funded under these objectives within three months after a project's completion. Typical accomplishments reported for the three objectives are numbers of jobs created, units constructed, and persons or households served. Activities under the remaining national objectives qualifying categories are not included in this indicator.

Results and Analysis. During FY 2002, CDBG grantees reported 44,476 completed activities and reported accomplishments for 39,470 of these activities or a reporting rate of 88.74 percent. While this is slightly below the goal of 90 percent, it is up slightly above the 87.5 percent rate for FY 2001. The FY 2002 reporting rate of accomplishment is approximately 1.25 percent below the proposed goal.

CPD efforts through data clean-up have improved the reporting rates over last fiscal year. The data clean-up efforts will continue during FY 2003.

Additional improvements to the 90 percent level or above may be contingent upon funding to improve the Integrated Disbursement and Information System (IDIS) to provide for error handling software as well as improved data entry methods. Without such resources, there may be limits to the level of reporting completion and accuracy achievable with the system.

Programmatic Output Indicator 5.1.q:
Sanctions are taken or forbearance is granted for cause for every PHA that reports less than 85 percent of its program recipients into the MTCS according to MTCS standards.

Background. HUD PIC-50058 reporting system collects data on residents in public housing and the housing choice voucher program. The data is used in number progress indicators in the Annual Performance Plan. An 85 percent reporting rate has been set as the standard for adequate reporting for housing agencies. Over the last two years, reporting rates have continued to rise.

Results and Analysis. In 2001, HUD PIC-50058 reporting system was scheduled to undergo a major upgrade to improve the structure and content of information available from the system, improve customer satisfaction, and functionality and integration with other HUD businesses systems. In order to facilitate the upgrade, the system was unavailable to receive new tenant records for about a 5-month period. PHAs were still charged with the responsibility of storing forms, which were to be sent when systems came back on line. The sanctions and forbearance policy was suspended, during this period when the system was unavailable to receive electronic submissions and for a grace period afterward. The Department is currently monitoring reporting rates and conducting an assessment of the appropriate timing for reinstating the sanctions and forbearance policy considering technical adjustments affecting both the Department and its business partners (local agencies) relating to the migration to the upgraded system.

In addition, the overall reporting rate in HUD PIC-50058 reporting system has been affected by the number of agencies given reporting waivers as participants in the Moving to Work program and by the reporting waiver given to the New York City Housing Authority because of the September 11, 2001, tragedy. During FY 2002, data for this indicator were collected from PHAs.

Data Discussion. HUD PIC-50058 reporting system contains automated reports that calculate reporting rates for each PHA. The system is capable of providing reporting rates for all individual agencies submitting tenants' records across the nation. Reporting rates can be affected by the baseline used as a denominator and the reporting period. HUD PIC-50058 reporting system has a number of upfront and internal validation checks. In addition, PHAs may access their reporting deficiency reports online, and other various communication methods such as a hotline and electronic forum provide a means of feedback on the measure. Field Office monitoring is another method of validation and verification.

Programmatic Output Indicator 5.1.r:
The share of FHA single-family appraisals determined to be unacceptable is reduced.

Background. In response to widespread concerns that faulty appraisals are facilitating predatory lending, FHA is developing a system to monitor individual appraisers and the rate of early defaults and claims on mortgages. This system, termed Appraiser Watch, will rely on statistical analysis of default and claim rates to identify appraisers whose appraisals were performed on properties securing loans with early defaults and claims. FHA recognizes that appraisers do not perform the underwriting of a mortgage or make the decision to lend. However, when considering the performance of all loans for which an individual appraiser performed the appraisal, FHA has found that the default and claim rates for some of these loans are far in excess of the default and claim rates for the area in which the appraiser operated. Under Appraiser Watch, appraisals performed by appraisers associated with these loans will be examined, and the associated appraisers will be considered for removal from participation in FHA single-family programs.

The Department has issued an Advance Notice of Proposed Rulemaking for Appraiser Watch and has received comments, preparatory to issuing a proposed rule. Meanwhile, FHA is using the statistical analysis to identify appraisers for field reviews. The Department intends to issue a rule establishing Appraiser Watch during FY 2004.

Results and Analysis. The number of poor appraisers removed from the FHA Roster in FY 2002 was 97. This figure compares with a removal number of 23 for FY 2001, under the old SASS system. Given that the new system generated a figure that is significantly higher than the FY 2001 number, another year of data collection is needed to establish a solid baseline. The Department will implement new protocols by September 30, 2004.

Objective 5.2: HUD leads housing and urban research and policy development nationwide.

Outcome Indicator 5.2.1:
PD&R work products are rated more highly for usefulness, ease of use, reliability, objectivity, and influence.

Background. The Office of Policy Development and Research (PD&R) is charged with making available housing and urban conditions data to support program operations and external research, evaluating HUD programs, and preparing studies on housing conditions, policy and technology. In FY 2001, PD&R surveyed stakeholders and research users to determine whether they found PD&R research products relevant, useful, and well-prepared. The stakeholders and users interviewed included academics, nonprofit researchers, building professionals, trade and manufacturing associations, financial institutions, and housing advocacy groups. Reflecting the validation provided through this baseline research, this indicator has been revised in the FY 2003 APP to measure the proportion of users who rate research products as “valuable.” Because this measure is based on a survey, new results will not be available annually.

Results and Analysis. The FY 2001 baseline survey findings indicate that HUD research was rated highly, with 81 percent of respondents rating the products as “valuable.” The research was based on a sample of the most intensive users. Therefore, results may not be representative of all users, especially of infrequent users. Future surveys will include Congressional and other Federal users and stakeholders.

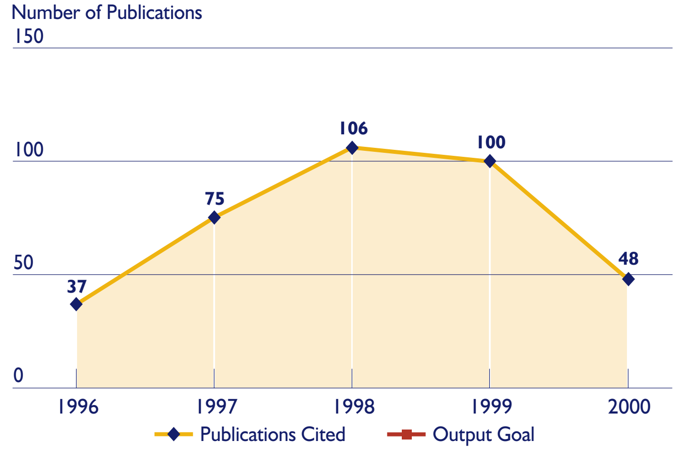
Data Discussion. The data were collected through a survey sponsored by HUD Office of Policy Development and Research. The report is titled “Assessment of the Usefulness of the Products of the Office of Policy Development and Research,” and is available at www.huduser.org.

Programmatic Output Indicator 5.2.a:
HUD research products are used more widely, as measured by the number of citations in the policy literature.

Background. The academic community frequently uses the number of citations of a publication in the research literature as an indication of their credibility and usefulness. This indicator tracks the citations of published HUD reports in the policy literature. In FY 2002, PD&R prepared 70 research publications and made them available both to specific research and policy audiences and to the public at large. The primary means of distribution is PD&R’s clearinghouse, HUD USER, which currently serves about 17,600 active customers and 1,500 new users each year. The implementation of the HUD USER web site and marketing efforts through a new listserv contributed to a 60 percent increase in the circulation of top PD&R documents. This indicator was replaced in the FY 2003 APP by measures of publications disseminated and downloadable files accessed through HUD USER. The revised measures provide a more valid representation of PD&R products in an increasingly digital environment.

Results and Analysis. FY 2002 data are not available to report this measure. A baseline study of PD&R research completed during FY 2001 (see Indicator 5.2.1) found that 137 publications were cited in 57 journals during the period from calendar years 1995-2000. During the last full year covered, 1999, there were 100 PD&R publications cited. A total of 48 publications were cited during the ten-month period ending October 31, 2000, suggesting that the number of citations throughout 2000 would have been lower than in 1999.

PD&R Publications Cited by Journal Year



Data Discussion. The data were compiled through an automated search of the Institute for Scientific Information's Social Science Citation Index, supplemented by a manual search of major housing, planning and urban development journals not included in the database. The value cited for 2000 does not include the full calendar year.

3. Financial Information

The Chief Financial Officer's Message

Fiscal Year (FY) 2002 was an exciting time to be HUD's Chief Financial Officer, working with the Secretary and Deputy Secretary as part of the leadership team to provide the budget, accounting, financial management systems, and performance management support necessary to carry out an aggressive housing and community development program agenda for the benefit of the American people. Under the President's Management Agenda, our collective efforts to address HUD's significant management challenges have both benefited this year's performance and laid the foundation for future improvements to HUD's program delivery, oversight and outcomes. Some of the more significant financial management activities of the past year included:

- Accelerated issuance of this annual Performance and Accountability Report by two months to provide the Congress and the public more timely and useful information on the effectiveness of HUD's use of public funds in pursuit of its critically important mission;
- Receipt of an unqualified or clean audit opinion on the Department's consolidated financial statements for the third consecutive year—a strong indicator of financial management stability;
- Completion of a new general ledger system for the Federal Housing Administration (FHA), as part of a multi-year FHA Subsidiary Ledger Project that will replace FHA's commercial accounting system and provide integration to 19 program feeder systems to correct material weaknesses and bring HUD's overall integrated financial management system into substantial compliance with federal financial management systems requirements by 2006;
- Continued implementation of corrective actions to address material weaknesses in HUD's rental housing assistance programs oversight;
- Revision of the Department's accounting policies and procedures to strengthen the administrative control of funds; and
- Further integration of performance information in HUD's budget justifications to increase accountability for results and improve decision making on resource allocations.

The Independent Auditor's Report expresses an unqualified opinion that the Department's principal financial statements present fairly, in all material respects, the financial position of HUD as of September 30, 2002. However, the report identifies three material management control weaknesses and ten reportable conditions associated with HUD's underlying financial management operations. Continued progress in resolving these control issues is a top priority for HUD management. Further information on HUD's plans and progress to correct these weaknesses and conditions is provided in the Financial Management Accountability section of this report.

I look forward to continuing a productive working relationship with HUD's management team, OMB, and the Congress to address HUD's financial management challenges and improve program performance.

Very respectfully,

Angela M. Antonelli

Angela M. Antonelli
Chief Financial Officer

Financial Statements

Introduction

The principal financial statements have been prepared to report the financial position and results of operations of the Department of Housing and Urban Development (HUD), pursuant to the requirements of the Chief Financial Officers Act of 1990 (31 U.S.C. 3515 (b)). While the financial statements have been prepared from HUD's books and records in accordance with formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The principal financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication is that liabilities reported in the financial statements cannot be liquidated without legislation that provides resources to do so.

The financial statements included in this annual report are as follows:

- Consolidated Balance Sheet;
- Consolidating Statement of Net Cost;
- Consolidating Statement of Changes in Net Position;
- Combined Statement of Budgetary Resources; and
- Consolidated Statement of Financing.

These financial statements include all of HUD's activities, including those of the Federal Housing Administration and the Government National Mortgage Association. These financial statements cover all of HUD's budget authority.

Department of Housing and Urban Development
Consolidated Balance Sheet
As of September 30, 2002 and 2001
(Dollars in Millions)

	2002	2001
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$77,632	$73,948
Investments (Note 5)	28,342	23,979
Accounts Receivable (Net) (Note 7)	3	6
Other Assets (Note 8)		43
Total Intragovernmental Assets	$105,977	$97,976
Investments (Note 5)		
Accounts Receivable (Note 7)	782	679
Credit Program Receivables and Related		
Foreclosed Property (Note 9)	11,379	10,949
General Property Plant and Equipment (Note 10)	87	73
Other Assets (Note 8)	152	140
TOTAL ASSETS	$118,377	$109,817
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable	$3,096	$2,046
Debt (Note 12)	11,677	9,235
Other Intragovernmental Liabilities (Note 13)	4,674	4,941
Total Intragovernmental Liabilities	$19,447	$16,222
Accounts Payable	1,398	1,443
Loan Guarantees Liabilities (Note 9)	3,814	6,090
Debt Held by the Public (Note 12)	2,220	2,496
Federal Employee and Veterans' Benefits (Note 2)	81	86
Debentures Issued to Claimants (Note 12)	288	224
Loss Reserves (Note 14)	539	536
Other Governmental Liabilities (Note 13)	1,047	1,165
TOTAL LIABILITIES	$28,834	$28,262
NET POSITION		
Unexpended Appropriations	$65,407	$63,305
Cumulative Results of Operations	24,136	18,250
TOTAL NET POSITION	89,543	81,555
TOTAL LIABILITIES AND NET POSITION	$118,377	$109,817

The accompanying notes are an integral part of these statements

Department of Housing and Urban Development
Consolidating Statement of Net Cost
For the Year Ended September 2002

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
COSTS:							
Unsubsidized Program							
Intragovernmental Gross Cost	$516						$516
Intragovernmental Earned Revenue	(1,354)						(1,354)
Intragovernmental Net Costs	($838)	$0	$0	$0	$0	$0	($838)
Gross Costs With the Public	($1,084)						($1,084)
Earned Revenue With the Public	(678)						(678)
Net Costs With the Public	($1,762)	$0	$0	$0	$0	$0	($1,762)
Net Program Costs	($2,600)						($2,600)
Subsidized Program							
Intragovernmental Gross Cost	$125						$125
Intragovernmental Earned Revenue	(107)						(107)
Intragovernmental Net Costs	$18	$0	$0	$0	$0	$0	$18
Gross Costs With the Public	($987)						($987)
Earned Revenue With the Public	(366)						(366)
Net Costs With the Public	($1,353)	$0	$0	$0	$0	$0	($1,353)
Net Program Costs	($1,335)						($1,335)
Government National Mortgage Association							
Intragovernmental Gross Cost							$0
Intragovernmental Earned Revenues		(399)					(399)
Intragovernmental Net Costs	$0	($399)	$0	$0	$0	$0	($399)
Gross Cost With the Public		$57					$57
Earned Revenues		(452)					(452)
Net Costs With the Public	$0	($395)	$0	$0	$0	$0	($395)
Net Program Costs		($794)					($794)
Section 8:							
Intragovernmental Gross Cost			$27	$26	$0		$53
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs	$0	$0	$27	$26	$0	$0	$53
Gross Cost With the Public			$11,385	$7,019	$17		$18,421
Earned Revenues			(175)	175			0
Net Costs With the Public	$0	$0	$11,210	$7,194	$17	$0	$18,421
Net Program Costs			$11,237	$7,220	$17		$18,474
Low Rent Public Housing Loans and Grants							
Intragovernmental Gross Cost			$214				$214
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs	$0	$0	$214	$0	$0	$0	$214
Gross Cost With the Public			$4,038				$4,038
Earned Revenues							0
Net Costs With the Public	$0	$0	$4,038	$0	$0	$0	$4,038
Net Program Costs			$4,252				$4,252

The accompanying notes are an integral part of these statements

Department of Housing and Urban Development
Consolidating Statement of Net Cost
For the Year Ended September 2002

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
COSTS (Continued):							
Operating Subsidies:							
Intragovernmental Gross Cost			$33				$33
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs	$0	$0	$33	$0	$0	$0	$33
Gross Cost With the Public			$3,666				$3,666
Earned Revenues							0
Net Costs With the Public	$0	$0	$3,666	$0	$0	$0	$3,666
Net Program Costs			$3,699				$3,699
Housing for the Elderly and Disabled							
Intragovernmental Gross Cost				$264			$264
Intragovernmental Earned Revenues				0			0
Intragovernmental Net Costs	$0	$0	$0	$264	$0	$0	$264
Gross Cost With the Public				$898			$898
Earned Revenues				(646)			(646)
Net Costs With the Public	$0	$0	$0	$252	$0	$0	$252
Net Program Costs				$516			$516
Community Development Block Grants:							
Intragovernmental Gross Cost					$26		$26
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs	$0	$0	$0	$0	$26	$0	$26
Gross Cost With the Public					$5,417		$5,417
Earned Revenues							0
Net Costs With the Public	$0	$0	$0	$0	$5,417	$0	$5,417
Net Program Costs					$5,443		$5,443
HOME:							
Intragovernmental Gross Cost					$14		$14
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs	$0	$0	$0	$0	$14	$0	$14
Gross Cost With the Public					$1,537		$1,537
Earned Revenues							0
Net Costs With the Public	$0	$0	$0	$0	$1,537	$0	$1,537
Net Program Costs					$1,551		$1,551
Other:							
Intragovernmental Gross Cost			$39	$17	$54	$103	$213
Intragovernmental Earned Revenues			(1)	(4)	(2)		(7)
Intragovernmental Net Costs	$0	$0	$38	$13	$52	$103	$206
Gross Cost With the Public			$810	$687	$1,495	$232	$3,224
Earned Revenues				(27)	(2)		(29)
Net Costs With the Public	$0	$0	$810	$660	$1,493	$232	$3,195
Net Program Costs			$848	$673	$1,545	$335	$3,401
Costs Not Assigned to Programs			$208	$64	$130	$1	$403
NET COST OF OPERATIONS	($3,935)	($794)	$20,244	$8,473	$8,686	$337	$33,010

The accompanying notes are an integral part of these statements

Department of Housing and Urban Development
Consolidating Statement of Net Cost
For the Year Ended September 2001

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
COSTS:							
Unsubsidized Program							
Intragovernmental	$503						$503
Intragovernmental Earned Revenues	(1,482)						(1,482)
Intragovernmental Net Costs	($979)						($979)
With the Public	($1,234)						($1,234)
Earned Revenue With the Public	(313)						(313)
Net Costs With the Public	($1,547)						($1,547)
Net Program Costs	($2,526)						($2,526)
Subsidized Program							
Intragovernmental	$122						$122
Intragovernmental Earned Revenues	(127)						(127)
Intragovernmental Net Costs	($5)						($5)
With the Public	($469)						($469)
Earned Revenue With the Public	(143)						(143)
Net Costs With the Public	($612)						($612)
Net Program Costs	($617)						($617)
Government National Mortgage Association							
Intragovernmental							$0
Intragovernmental Earned Revenues		($430)					(430)
Intragovernmental Net Costs		($430)					($430)
With the Public		$73					$73
Earned Revenues		(448)					(448)
Net Costs With the Public		($375)					($375)
Net Program Costs		($805)					($805)
Section 8:							
Intragovernmental			$7	$24			$31
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs			$7	$24	$0		$31
With the Public			$9,543	$7,059	$11		$16,613
Earned Revenues				150			150
Net Costs With the Public			$9,543	$7,209	$11		$16,763
Net Program Costs			$9,550	$7,233	$11		$16,794
Low Rent Public Housing Loans and Grants							
Intragovernmental			$204				$204
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs			$204				$204
With the Public			$3,851				$3,851
Earned Revenues							0
Net Costs With the Public			$3,851				$3,851
Net Program Costs			$4,055				$4,055

The accompanying notes are an integral part of these statements

Department of Housing and Urban Development
Consolidating Statement of Net Cost
For the Year Ended September 2001

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
COSTS (Continued):							
Operating Subsidies:							
Intragovernmental			$35				$35
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs			$35				$35
With the Public			$3,112				$3,112
Earned Revenues							0
Net Costs With the Public			$3,112				$3,112
Net Program Costs			$3,147				$3,147
Housing for the Elderly and Disabled							
Intragovernmental				$314			$314
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs				$314			$314
With the Public				$784			$784
Earned Revenues				(665)			(665)
Net Costs With the Public				$119			$119
Net Program Costs				$433			$433
Community Development Block Grants:							
Intragovernmental					$33		$33
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs					$33		$33
With the Public					$4,947		$4,947
Earned Revenues							0
Net Costs With the Public					$4,947		$4,947
Net Program Costs					$4,980		$4,980
HOME:							
Intragovernmental					$11		$11
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs					$11		$11
With the Public					$1,425		$1,425
Earned Revenues							0
Net Costs With the Public					$1,425		$1,425
Net Program Costs					$1,436		$1,436
Other:							
Intragovernmental			$51	$29	$45	$43	$168
Intragovernmental Earned Revenues			(1)	(10)	(2)	(1)	(14)
Intragovernmental Net Costs			$50	$19	$43	$42	$154
With the Public			$800	$548	$1,477	$217	$3,042
Earned Revenues				(26)	(5)		(31)
Net Costs With the Public			$800	$522	$1,472	$217	$3,011
Net Program Costs			$850	$541	$1,515	$259	$3,165
Costs Not Assigned to Programs			$153	$141	$87	$1	$382
NET COST OF OPERATIONS	($3,143)	($805)	$17,755	$8,348	$8,029	$260	$30,444

The accompanying notes are an integral part of these statements

Department of Housing and Urban Development
Consolidated Statement of Changes in Net Position
For the Period Ending September 2002 and 2001

(Dollars in Millions)

	2002		2001	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Net Position-Beginning of Period	($18,250)	($63,305)	($13,889)	($60,870)
Prior Period Adjustments (Note 19)	5	(5)		
Beginning Balances, As Adjusted	($18,245)	($63,310)	($13,889)	($60,870)
BUDGETARY FINANCING SOURCES				
Appropriations Received		(45,630)		(42,508)
Transfers In/Out		1,280		1,239
Other Adjustments (Recissions, etc)		1,717		2,601
Appropriations Used	(40,542)	40,536	(36,233)	36,233
Transfers In/Out Without Reimbursement	839		318	
Other Budgetary Financing Sources	8		(7)	
Other Financing Sources				
Donations and Forfeitures of Property				
Transfers In/Out Without Reimbursement	865		1,180	
Imputed Financing From Costs				
Absorbed From Others	(73)		(70)	
Other	2		7	
TOTAL FINANCING SOURCES	($38,901)	($2,097)	($34,805)	($2,435)
Net Cost of Operations	33,010		30,444	
ENDING BALANCES	($24,136)	($65,407)	($18,250)	($63,305)

The accompanying notes are an integral part of these statements

Department of Housing and Urban Development
Consolidated Statement of Budgetary Resources
For the Period Ending September 2002 and 2001

(Dollars in Millions)

	2002		2001	
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts
BUDGETARY RESOURCES:				
Budget Authority	$45,809	$3,925	$46,694	$900
Net Transfers, Current Year Authority	6		6	
Unobligated Balance-Beginning of Year	39,641	4,537	39,691	4,503
Net Transfers, Actual, Prior Year Balance	700			
Spending Authority from Offsetting Collections	10,281	10,237	8,337	12,333
Adjustments				
Recoveries of Prior Year Adjustments	3,695	50	3,275	4
Permanently not available				
Cancellations – Expired and No Year Accts	(45)		(56)	
Enacted Recissions	(1,958)		(2,534)	
Capital Trans & Debt Redemption	(2,796)	(916)	(2,252)	(3,511)
Other Authority Withdrawn	(6,559)		(6,863)	
TOTAL BUDGETARY RESOURCES	$88,774	$17,833	$86,298	$14,229
STATUS OF BUDGETARY RESOURCES:				
Obligations Incurred (Note 20)	$43,487	$14,740	$46,656	$9,692
Unobligated Balances Available	9,362	1,467	10,433	2,195
Unobligated Balances Not Available	35,925	$1,626	29,209	2,342
TOTAL STATUS OF BUDGETARY RESOURCES	$88,774	$17,833	$86,298	$14,229
Obligated Balance, Net-Beg of Period	$94,000	($119)	$97,502	$212
Obligated Balance Transferred, Net				
Obligated Balance, Net – End of Period	89,706	(98)	94,000	(119)
OUTLAYS:				
Disbursements	$44,216	$14,658	$47,152	$9,953
Collections	(10,410)	(10,226)	(8,606)	(12,267)
Subtotal	$33,806	$4,432	$38,546	($2,314)
Less: Offsetting Receipts	(2,001)		(626)	
NET OUTLAYS	$31,805	$4,432	$37,920	($2,314)

The accompanying notes are an integral part of these statements

Department of Housing and Urban Development
Consolidated Statement of Financing
For the Year Ended September 2002 and 2001

(Dollars in Millions)

	2002	2001
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated		
Obligations Incurred	$58,227	$56,348
Less: Spending Authority from Offsetting Collections & Recoveries	(24,263)	(23,949)
Obligations Net of Offsetting Collections	$33,964	$32,399
Less: Offsetting Receipts	(2,001)	(626)
Net Obligations	$31,963	$31,773
Other Resources		
Transfers In/Out Without Reimbursement	(865)	(1,180)
Imputed Financing from Costs Absorbed by Others	73	70
Other Resources	6	(63)
Net Other Resources Used to Finance Activites	($786)	($1,173)
Total Resources Used to Finance Activities	$31,177	$30,600
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods Services/Benefits Ordered but not yet Provided	$4,199	$3,957
Resources That Fund Expenses from Prior Periods	(6,261)	(9,481)
Budgetary Offsetting Collections and Receipts Not Affecting Net Cost of Operations	19,488	18,081
Resources Financing Acquistion of Assets	(10,335)	(8,550)
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	4	(603)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$7,095	$3,404
Total Resources Used to Finance the Net Cost of Operations	$38,272	$34,004
COMPONENTS OF NET COST OF OPERATIONS NOT REQUIRING/ GENERATING RESOURCES IN THE CURRENT PERIOD:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability (Note 22)	$2	$1
Reestimates of Credit Subsidy Expense	1,149	559
Exchange Revenue Receivable from the Public	(657)	(677)
Other		33
Total Requiring/Generating Resources in Future Periods	$494	($84)
Components Not Requiring/Generating Resources		
Depreciation and Amortization	$13	$4
Revaluation of Assets or Liabilities	(1,275)	(1,124)
Other	(4,494)	(2,356)
Total Components of Net Cost of Operation Not Requiring/Generating Resources	($5,756)	($3,476)
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	($5,262)	($3,560)
NET COST OF OPERATIONS	$33,010	$30,444

The accompanying notes are an integral part of these statements

Notes to Financial Statements
September 30, 2002 and 2001

Note 1 – Entity And Mission

The U.S. Department of Housing and Urban Development (HUD) was created in 1965 to (1) provide housing subsidies for low and moderate income families, (2) provide grants to states and communities for community development activities, (3) provide direct loans and capital advances for construction and rehabilitation of housing projects for the elderly and persons with disabilities, and (4) promote and enforce fair housing and equal housing opportunity. In addition, HUD insures mortgages for single family and multifamily dwellings; insures loans for home improvements and manufactured homes; and facilitates financing for the purchase or refinancing of millions of American homes.

HUD's major programs are as follows:

The **Federal Housing Administration** (FHA) was created as a Government corporation within HUD and administers active mortgage insurance programs which are designed to make mortgage financing more accessible to the home-buying public and thereby to develop affordable housing. FHA insures private lenders against loss on mortgages which finance single family homes, multifamily projects, health care facilities, property improvements, and manufactured homes.

The **Government National Mortgage Association** (Ginnie Mae) was created as a Government corporation within HUD to administer mortgage support programs that could not be carried out in the private market. Ginnie Mae guarantees the timely payment of principal and interest on mortgage-backed securities issued by approved private mortgage institutions and backed by pools of mortgages insured or guaranteed by FHA, the Rural Housing Service (RHS), the Department of Veterans Affairs (VA) and the HUD Office of Public and Indian Housing (PIH).

The **Section 8 Rental Assistance** programs assist low- and very low-income families in obtaining decent and safe rental housing. HUD makes up the difference between what a low- and very low-income family can afford and the approved rent for an adequate housing unit.

Operating Subsidies are provided to Public Housing Authorities (PHAs) and Tribally Designated Housing Entities (TDHEs) to help finance the operations and maintenance costs of their housing projects.

The **Community Development Block Grant** (CDBG) programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, and improved community facilities and services. The United States Congress appropriated $2 billion in FY 2002 and $783 million in emergency supplemental appropriations in FY 2001 for "Community Development Fund" for emergency expenses to respond to the September 11, 2001 terrorist attacks on the United States. Of the amounts appropriated, $312.5 million was expensed in FY 2002. Any remaining un-obligated balances shall remain available until expended.

The **Low Rent Public Housing Grants** program provides grants to PHAs and TDHEs for construction and rehabilitation of low-rent housing. This program is a continuation of the Low Rent Public Housing Loan program which pays principal and interest on long-term loans made to PHAs and TDHEs for construction and rehabilitation of low-rent housing.

The **Section 202/811 Supportive Housing for the Elderly and Persons with Disabilities** programs, prior to fiscal 1992, provided 40 year loans to nonprofit organizations sponsoring rental housing for the elderly or disabled. During fiscal 1992, the program was converted to a grant program. The grant program provides long-term supportive housing for the elderly (Section 202) and disabled (Section 811).

The **Home Investments Partnerships** program provides grants to States, local Governments, and Indian tribes to implement local housing strategies designed to increase home ownership and affordable housing opportunities for low- and very low-income Americans.

Other Programs not included above consist of other smaller programs which provide grant, subsidy funding, and direct loans to support other HUD objectives such as fair housing and equal opportunity, energy conservation, assistance for the homeless, rehabilitation of housing units, and home ownership. These programs comprise approximately 9.1 percent of HUD's consolidated assets and 8.2 percent of HUD's consolidated revenues and financing sources for fiscal 2002 and 9.9 percent of HUD's consolidated assets and 9.1 percent of HUD's consolidated revenues and financing sources for fiscal 2001.

Note 2 – Summary of Significant Accounting Policies

A. Basis of Consolidation

The financial statements include all funds and programs for which HUD is responsible. All significant intra-fund balances and transactions have been eliminated in consolidation. Transfer appropriations are consolidated into the financial statements based on an evaluation of their relationship with HUD.

B. Basis of Accounting

The financial statements include the accounts and transactions of the Ginnie Mae, FHA, and HUD's Grant, Subsidy and Loan programs.

The financial statements are presented in accordance with the Office of Management and Budget (OMB) Bulletin 01-09, Form and Content of Agency Financial Statements, and in conformance with the Federal Accounting Standards Advisory Board's (FASAB) Statements of Federal Financial Accounting Standards (SFFAS).

The financial statements are presented on the accrual basis of accounting. Under this method, HUD recognizes revenues when earned, and expenses when a liability is incurred, without regard to receipt or payment of cash. Generally, procedures for HUD's major grant and subsidy programs require recipients to request periodic disbursement concurrent with incurring eligible costs.

The department's disbursement policy permits grantees/recipients to request funds to meet immediate cash needs to reimburse themselves for eligible incurred expenses and eligible expenses expected to be received and paid within three days. HUD's disbursement of funds for these purposes are not considered advance payments, but are viewed as good cash management between the department and the grantees. In the event it is determined that the grantee/recipient did not disburse the funds within the three days time frame, interest earned must be returned to HUD and deposited into one of Treasury's miscellaneous receipt accounts.

C. Operating Revenue and Financing Sources

HUD finances operations principally through appropriations, collection of premiums and fees on its FHA and Ginnie Mae programs, and interest income on its mortgage notes, loans, and investments portfolio.

Appropriations for Grant and Subsidy Programs

HUD receives both annual and multi-year appropriations, and recognizes those appropriations as revenue when related program expenses are incurred. Accordingly, HUD recognizes grant-related revenue and related expenses as recipients perform under the contracts. HUD recognizes subsidy-related revenue and related expenses when the underlying assistance (e.g., provision of a Section 8 rental unit by a housing owner) is provided.

FHA Unearned Premiums

Premiums charged by FHA for single family mortgage insurance provided by its Mutual Mortgage Insurance (MMI) Fund and Cooperative Management Housing Insurance (CMHI) Fund include up-front and annual risk based premiums. Pre-credit reform up-front risk based premiums are recorded as unearned revenue upon collection and are recognized as revenue over the period in which losses and insurance costs are expected to occur. Annual risk-based premiums are recognized as revenue on a straight-line basis throughout the year. FHA's other activities charge periodic insurance premiums over the mortgage insurance term. Premiums on annual installment policies are recognized for the liquidating accounts on a straight-line basis throughout the year.

Premiums associated with Credit Reform loan guarantees are included in the calculation of the liability for loan guarantees (LLG) and not included in the unearned premium amount reported on the Balance Sheet, since the LLG represents the net present value of future cash flows associated with those insurance portfolios.

Ginnie Mae Fees

Fees received for Ginnie Mae's guaranty of mortgage-backed securities are recognized as earned on an accrual basis. Fees received for commitments to subsequently guarantee mortgage-backed securities and commitments to fund mortgage loans are recognized when commitments are granted.

D. Appropriations and Monies Received from Other HUD Programs

The National Housing Act of 1990, as amended, provides for appropriations from Congress to finance the operations of General Insurance (GI) and Special Risk Insurance (SRI) funds. For Credit Reform loan guarantees, appropriations to the GI and SRI funds are provided at the beginning of each fiscal year to cover estimated losses on insured loans during the year. For pre-Credit Reform loan guarantees, FHA has permanent indefinite appropriation authority to finance any shortages of resources needed for operations.

Monies received from other HUD programs, such as interest subsidies and rent supplements, are recorded as revenue for the liquidating accounts when services are rendered. Monies received for the financing accounts are recorded as additions to the LLG or the Allowance for Subsidy when collected.

E. Investments

HUD limits its investments, principally comprised of investments by FHA's MMI/CMHI Fund and by Ginnie Mae, to non-marketable market-based Treasury interest-bearing obligations (i.e., investments not sold in public markets). The market value and interest rates established for such investments are the same as those for similar Treasury issues, which are publicly marketed.

HUD's investment decisions are limited by Treasury policy which: (1) only allows investment in Treasury notes, bills, and bonds; and (2) prohibits HUD from engaging in practices that result in "windfall" gains and profits, such as security trading and full scale restructuring of portfolios, in order to take advantage of interest rate fluctuations.

FHA's normal policy is to hold investments in U.S. Government securities to maturity. However, as a result of Credit Reform, cash collected on insurance endorsed on or after October 1, 1991, is no longer available to invest in U.S. Government securities, and may only be used to finance claims arising from insurance endorsed during or after fiscal 1992. FHA may have to liquidate its U.S. Government securities before maturity to finance claim payments from pre-fiscal year 1992 insurance endorsements. However, management does not expect early liquidation of any U.S. Government Securities and believes it has the ability to hold these securities to maturity.

HUD reports investments in U.S. Government securities at amortized cost. Premiums or discounts are amortized into interest income over the term of the investment. HUD intends to hold investments to maturity, unless needed for operations. No provision is made to record unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

F. Credit Program Receivables and Related Foreclosed Property

HUD finances mortgages and provides loans to support construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program. Prior to April 1996, mortgages were also assigned to HUD through FHA claims settlement (i.e., mortgage notes assigned (MNAs)). Single family mortgages were assigned to FHA when the mortgagor defaulted due to certain "temporary hardship" conditions beyond the control of the mortgagor, and when, in management's judgment, it is likely that the mortgage could be brought current in the future. During fiscal 2002, FHA continued to take single family assignments on those defaulted notes that were in process at the time the assignment program was terminated. In addition, multifamily mortgages are assigned to FHA when lenders file mortgage insurance claims for defaulted notes.

Multifamily and single family performing notes insured pursuant to Section 221(g)(4) of the National Housing Act may be assigned automatically to FHA at a pre-determined point.

Credit program receivables for direct loan programs and defaulted guaranteed loans assigned for direct collection are valued differently based on the direct loan obligation or loan guarantee commitment date. These valuations are in accordance with the Federal Credit Reform Act of 1990 and SFFAS No. 2, "Accounting for Direct Loans and Loan Guarantees," as amended by SFFAS No. 18. Those obligated or committed on or after October 1, 1991 (post-Credit Reform) are valued at the net present value of expected cash flows from the related receivables.

Credit program receivables resulting from obligations or commitments prior to October 1, 1991 (pre-Credit Reform) are recorded at the lower of cost or fair value (net realizable value). Fair value is estimated based on the prevailing market interest rates at the date of mortgage assignment. When fair value is less than cost, discounts are recorded and amortized to interest income over the remaining terms of the mortgages or upon sale of the mortgages. Interest is recognized as income when earned. However, when full collection of principal is considered doubtful, the accrual of interest income is suspended and receipts (both interest and principal) are recorded as collections of principal. Pre-Credit Reform loans are reported net of allowance for loss and any unamortized discount. The estimate for the allowance on credit program receivables is based on historical loss rates and recovery rates resulting from asset sales and property recovery rates, net of cost of sales.

Foreclosed property acquired as a result of defaults of loans obligated or loan guarantees committed on or after October 1, 1991, is valued at the net present value of the projected cash flows associated with the property. Foreclosed property acquired as a result in defaulted loans obligated or loan guarantees committed prior to 1992 is valued at net realizable value. The estimate for the allowance for loss related to the net realizable value of foreclosed property is based on historical loss rates and recovery rates resulting from property sales, net of cost of sales.

G. Liability for Loan Guarantees

The liability for loan guarantees (LLG) related to Credit Reform loans (made after October 1, 1991) is comprised of the present value of anticipated cash outflows for defaults such as claim payments, premium refunds, property expense for on-hand properties, and sales expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from property sales, and principal interest on Secretary-held notes.

The pre-Credit Reform LLG is computed using the net realizable value method. The LLG for pre-Credit Reform single family insured mortgages includes estimates for defaults that have taken place, but where claims have not yet been filed with FHA. In addition, the LLG for pre-Credit Reform multifamily insured mortgages includes estimates for defaults which are considered probable but have not been reported to FHA.

H. Full Cost Reporting

Beginning in fiscal 1998, SFFAS No. 4 required that full costing of program outputs be included in Federal agency financial statements. Full cost reporting includes direct, indirect, and inter-entity costs. For purposes of the consolidated department financial statements, HUD identified each responsible segment's share of the program costs or resources provided by HUD or other Federal agencies. These costs are treated as imputed cost for the Statement of Net Cost, and imputed financing for the Statement of Changes in Net Position and the Statement of Financing.

I. Accrued Unfunded Leave and Federal Employees Compensation Act (FECA) Liabilities

Annual leave and compensatory time are accrued as earned and the liability is reduced as leave is taken. The liability at year-end reflects cumulative leave earned but not taken, priced at current wage rates. Earned leave deferred to future periods is to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources in the Net Position section of its Consolidated Balance Sheet. Sick leave and other types of leave are expensed as taken.

HUD also accrues the portion of the estimated liability for disability benefits assigned to the agency under the FECA, administered and determined by the Department of Labor. The liability, based on the net present value of estimated future payments based on a study conducted by the Department of Labor, was $81 million as of September 30, 2002 and $86 million as of September 30, 2001. Future payments on this liability are to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources.

J. Loss Reserves

HUD records loss reserves for its mortgage insurance programs operated through FHA and its financial guaranty programs operated by Ginnie Mae. FHA loss reserves are recorded for actual or probable defaults of FHA-insured mortgage loans. Ginnie Mae establishes reserves for actual and probable defaults of issuers of Ginnie Mae-guaranteed mortgage-backed securities. Such reserves are based on management's judgment about historical claim and loss information and current economic factors.

K. Retirement Plans

The majority of HUD's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS went into effect pursuant to Public Law 99-335 on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired before January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. HUD expenses its contributions to the retirement plans.

A primary feature of FERS is that it offers a savings plan whereby HUD automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. Under CSRS, employees can contribute up to 7 percent of their pay to the savings plan, but there is no corresponding matching by HUD. Although HUD funds a portion of the benefits under FERS relating to its employees and makes the necessary withholdings from them, it has no liability for future payments to employees under these plans, nor does it report CSRS, FERS, or FECA assets, accumulated plan benefits, or unfunded liabilities applicable to its employees retirement plans. These amounts are reported by the Office of Personnel Management (OPM) and are not allocated to the individual employers. HUD's matching contribution to these retirement plans during fiscal 2002 and 2001 was $71 million and $66 million, respectively.

L. Federal Employee and Veterans' Benefit

The Department's Federal Employee and Veterans' benefit expenses totaled approximately $125 million for fiscal 2002; this amount includes $31 million to be funded by the OPM. Federal Employee and Veterans' benefit expenses totaled approximately $122 million for fiscal 2001; this amount includes $32 million to be funded by the OPM. Amounts funded by the OPM are charged to expense with a corresponding amount considered as an imputed financing source in the statement of changes in net position.

M. Reclassifications

Starting in fiscal year 2002, HUD prepared its financial statements in the format provided by OMB Bulletin 01-09, Form and Content of Agency Financial Statements. Certain prior-year financial statement line items have, therefore, been reclassified to conform to the fiscal year 2002 presentation format. Included in these reclassifications is the addition of the general fund receipt account. The general fund receipt account of FHA's GI and SRI funds is used to accumulate resources related to negative credit subsidy from new endorsements and downward credit subsidy reestimates. At the beginning of the following fiscal year, these accumulated resources are transferred to the U.S. Treasury's general fund. This fund was not originally presented in the fiscal year 2001 financial statements, but it is included in these comparative statements. The addition of the general fund receipt account increased FHA's fund balances with U.S. Treasury and the payable to the U.S. Treasury by $620 million. These changes in classification have no effect on previously reported net position.

Note 3 – Fund Balance with the U.S. Treasury

The U.S. Treasury, which, in effect, maintains HUD's bank accounts, processes substantially all of HUD's receipts and disbursements. HUD's fund balances with the U.S. Treasury as of September 30, 2002 and 2001, were as follows (dollars in millions):

Description	2002	2001
Revolving Funds	$11,187	$11,819
Appropriated Funds	64,359	61,454
Trust Funds	8	4
Other	2,078	671
TOTAL – FUND BALANCE	$77,632	$ 73,948

HUD's fund balances with U.S. Treasury as reflected in the entity's general ledger as of September 30, 2002 were as follows:

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Total Fund Balance
FHA	$2,091	$5,434	$2,072	$9,597
GNMA	–	2,509	–	2,509
Section 8 Rental Assistance	1,737	10	16,632	18,379
CDBG	1,756	30	11,413	13,199
HOME	257	–	4,669	4,926
Operating Subsidies	–	26	1,660	1,686
Low Rent Public Housing Loans and Grants	866	23	8,811	9,700
Section 202/811	2,501	42	4,764	7,307
All Other	2,633	519	7,177	10,329
TOTAL	$11,841	$8,593	$57,198	$77,632

HUD's fund balances with U.S. Treasury as reflected in the entity's general ledger as of September 30, 2001 were as follows:

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Total Fund Balance
FHA	$3,759	$3,662	$2,021	$9,442
GNMA	–	2,043	–	2,043
Section 8 Rental Assistance	1,675	10	16,356	18,041
CDBG	1,029	25	9,095	10,149
HOME	284	–	4,385	4,669
Operating Subsidies	141	–	1,688	1,829
Low Rent Public Housing Loans and Grants	882	–	9,389	10,271
Section 202/811	2,848	–	4,217	7,065
All Other	3,015	115	7,309	10,439
TOTAL	$13,633	$5,855	$54,460	$73,948

An immaterial difference exists between HUD's recorded Fund Balances with the U.S. Treasury and the U.S. Department of Treasury's records. It is the Department's practice to adjust its records to agree with Treasury's balances at the end of the fiscal year. The adjustments are reversed at the beginning of the following fiscal year.

Note 4 – Commitments Under HUD's Grant, Subsidy, and Loan Programs

A. Contractual Commitments

HUD has entered into extensive long-term contractual commitments under its various grant, subsidy and loan programs. These commitments consist of legally binding agreements the Department has entered into to provide grants, subsidies, or loans. Commitments become liabilities when all actions required for payment under an agreement have occurred. The mechanism for funding subsidy commitments generally differs depending on whether the agreements were entered into before or after 1988.

Prior to fiscal 1988, HUD's subsidy programs, primarily the Section 8 program and the Section 235/236 programs, operated under contract authority. Each year, Congress provided HUD the authority to enter into multiyear contracts within annual and total contract limitation ceilings. HUD then drew on and continues to draw on permanent indefinite appropriations to fund the current year's portion of those multiyear contracts. Because of the duration of these contracts (up to 40 years), significant authority exists to draw on the permanent indefinite appropriations. Beginning in fiscal 1988, the Section 8 and the Section 235/236 programs began operating under multiyear budget authority whereby the Congress appropriates the funds "up-front" for the entire contract term in the initial year.

As shown below, appropriations to fund a substantial portion of these commitments will be provided through permanent indefinite authority. These commitments relate primarily to the Section 8 program, and the Section 235/236 rental assistance and interest reduction programs, and are explained in greater detail below.

HUD's commitment balances are based on the amount of unliquidated obligations recorded in HUD's accounting records with no provision for changes in future eligibility, and thus are equal to the maximum amounts available under existing agreements and contracts. Unexpended appropriations and cumulative results of operations shown in the Consolidated Balance Sheet comprise funds in the U.S. Treasury available to fund existing commitments that were provided through "up-front" appropriations, and also include permanent indefinite appropriations received in excess of amounts used to fund the pre-1988 subsidy contracts and offsetting collections.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2002 (dollars in millions):

	Commitments Funded Through			
Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collection	Total Contractual Commitments
Section 8 Rental Assistance	$16,371	$21,290	–	$37,661
Community Development Block Grants	11,382	–	–	11,382
HOME Partnership Investment Program	4,660	–	–	4,660
Operating Subsidies	1,590	–	–	1,590
Low Rent Public Housing Grants and Loans	8,600	–	–	8,600
Housing for Elderly and Disabled	4,636	–	–	4,636
Section 235/236	215	8,012	–	8,227
All Other	6,770	48	$128	6,946
TOTAL	$54,224	$29,350	$128	$83,702

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2002, $28.9 billion relates to project-based commitments, and $8.7 billion relates to tenant-based commitments.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2001 (dollars in millions):

	Commitments Funded Through			
Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collection	Total Contractual Commitments
Section 8 Rental Assistance	$15,975	$26,412	–	$42,387
Community Development Block Grants	9,048	–	–	9,048
HOME Partnership Investment Program	4,370	–	–	4,370
Operating Subsidies	1,652	–	–	1,652
Low Rent Public Housing Grants and Loans	9,165	–	–	9,165
Housing for Elderly and Disabled	4,056	–	–	4,056
Section 235/236	138	9,517	–	9,655
All Other	6,993	64	$110	7,167
TOTAL	$51,397	$35,993	$110	$87,500

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2001, $32.7 billion relates to project-based commitments, and $9.7 billion relates to tenant-based commitments. With the exception of the Housing for the Elderly and Disabled and Low Rent Public Housing Loan Programs (which have been converted to grant programs), Section 235/236, and a portion of "all other" programs, HUD management expects all of the above programs to continue to incur new commitments under authority granted by Congress in future years. However, estimated future commitments under such new authority are not included in the amounts above.

B. Administrative Commitments

In addition to the above contractual commitments, HUD has entered into administrative commitments which are reservations of funds for specific projects (including those for which a contract has not yet been executed) to obligate all or part of those funds. Administrative commitments become contractual commitments upon contract execution.

The following shows HUD's administrative commitments as of September 30, 2002 (dollars in millions):

Programs	Administrative Commitments Funded Through: Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance Project-Based	$278	–	–	$278
Section 8 Rental Assistance Tenant-Based	3	–	–	3
Community Development Block Grants	1,484	–	–	1,484
HOME Partnership Investment Program	229	–	–	229
Low Rent Public Housing Grants and Loans	747	–	–	747
Housing for Elderly and Disabled	2,310	–	–	2,310
All Other	554	$11	$3	568
TOTAL	$5,605	$11	$3	$5,619

The following shows HUD's administrative commitments as of September 30, 2001 (dollars in millions):

Programs	Administrative Commitments Funded Through: Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance Project-Based	$152	–	–	$152
Section 8 Rental Assistance Tenant-Based	4	–	–	4
Community Development Block Grants	771	–	–	771
HOME Partnership Investment Program	254	–	–	254
Low Rent Public Housing Grants and Loans	819	–	–	819
Housing for Elderly and Disabled	2,586	$73	–	2,659
All Other	1,180	15	$5	1,200
TOTAL	$5,766	$88	$5	$5,859

Note 5 – Investments

The U.S. Government securities are non-marketable intra-governmental securities. Interest rates are established by the U.S. Treasury and during fiscal year 2002 ranged from 3 percent to 13.88 percent. During fiscal year 2001 interest rates ranged from 2.49 percent to 13.89 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2002 and 2001, were as follows (dollars in millions):

Fiscal Year	Cost	Par Value	Un-amortized Premium (Discount)	Accrued Interest	Net Investments	Unrealized Gain	Market Value
FY 2002	$27,845	$28,209	$(194)	$327	$28,342	$2,208	$30,550
FY 2001	$23,524	$23,864	$(195)	$310	$23,979	$1,641	$25,620

Note 6 – Entity and Non-Entity Assets

The following shows HUD's assets as of September 30, 2002 and 2001, were as follows (dollars in millions):

	2002			2001		
Description	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Intragovernmental						
Fund Balance with Treasury	$75,477	$2,155	$77,632	$72,946	$1,002	$73,948
Investments	28,340	2	28,342	23,972	7	23,979
Accounts Receivable	–	3	3	6	–	6
Other Assets	–	–	–	43	–	43
TOTAL INTRAGOVERNMENTAL ASSETS	$103,817	$2,160	$105,977	$96,967	$1,009	$97,976
Accounts Receivable	592	190	782	435	244	679
Loan Receivables and Related Foreclosed Property	11,372	7	11,379	10,942	7	10,949
General Property Plant and Equipment	86	–	86	73	–	73
Other Assets	29	123	152	30	110	140
TOTAL ASSETS	$115,896	$2,480	$118,376	$108,447	$1,370	$109,817

Note 7 – Accounts Receivable

The department's accounts receivable represents claims to cash from the public and state and local authorities for bond refundings, Section 8-year end settlements, sustained audit findings, FHA insurance premiums and foreclosed property proceeds. A 100 percent allowance for loss is established for all delinquent debt 90 days and over.

Section 8 Settlements

Section 8 subsidies disbursed during the year under annual contribution contracts are based on estimated amounts due under the contracts by PHAs. At the end of each year the actual amount due under the contracts is determined. The excess of subsidies paid to PHAs during the year over the actual amount due is reflected as accounts receivable in the balance sheet. These amounts are "collected" by offsetting such amounts with subsidies due to PHAs in subsequent periods. As of September 30, 2002 and 2001 this amount totaled $229 million and $150 million, respectively.

Bond Refundings

Many of the Section 8 projects constructed in the late 1970s and early 1980s were financed with tax exempt bonds with maturities ranging from 20 to 40 years. The related Section 8 contracts provided that the subsidies would be based on the difference between what tenants could pay pursuant to a formula, and the total operating costs of the Section 8 project, including debt service. The high interest rates during the construction period resulted in high subsidies. When interest rates came down in the 1980s, HUD was interested in getting the bonds refunded. One method used to account for the savings when bonds are refunded (PHA's sell a new series of bonds at a lower interest rate, to liquidate the original bonds), is to continue to pay the original amount of the bond debt service to a trustee. The amounts paid in excess of the lower "refunded" debt service and any related financing costs, are considered savings. One-half of these savings are provided to the PHA, the remaining half is returned to HUD. As of September 30, 2002 and 2001, HUD was due $189 million and $240 million, respectively.

Other Receivables

Other receivables include sustained audit findings, refunds of overpayment, FHA insurance premiums and foreclosed property proceeds due from the public.

The following shows accounts receivable as reflected in the Balance Sheet as of September 30, 2002 and 2001, as follows (dollars in millions):

	2002			2001		
Description	Gross Accounts Receivable	Allowance for Loss	Total	Gross Accounts Entity	Allowance for Loss	Total
Section 8 Settlements	$229	–	$229	$150	–	$150
Bond Refundings	200	$(11)	189	252	$(12)	240
Other Receivables:						
FHA Premiums	207	–	207	247	(34)	213
Other Receivables	243	(83)	160	146	(64)	82
TOTAL	$879	$(94)	$785	$795	$(110)	$685

Note 8 – Other Assets

The following shows HUD's Other Assets as of September 30, 2002 (dollars in millions):

Description	FHA	Ginnie Mae	Section 8 Rental Assistance	All Other	Total
Intragovernmental Assets:					
Receivables from unapplied disbursements	–	–	–	–	–
Section 312 Rehabilitation Loan Program Receivables	–	–	–	–	–
Mortgagor Reserves for Replacement – Investment	–	–	–	–	–
Other Assets	–	–	–	–	–
TOTAL INTRAGOVERNMENTAL ASSETS	–	–	–	–	–
Receivables Related to Asset Sales	–	–	–	–	–
Receivables Related to Credit Program Assets	–	–	–	–	–
Equity Interest in Multifamily Mortgage Trust 1996	–	–	–	–	–
GNMA Real Estate Owned Property and Hole Mortgages	–	$10	–	–	$10
Mortgagor Reserves for Replacement – Cash	$123	–	–	–	123
Advances from the Public	–	–	–	$4	4
Other Assets	15	–	–	–	15
TOTAL	$138	$10	–	$4	$152

The following shows HUD's Other Assets as of September 30, 2001 (dollars in millions):

Description	FHA	Ginnie Mae	Section 8 Rental Assistance	All Other	Total
Intragovernmental Assets:					
Receivables from unapplied disbursements	$43	–	–	–	$ 43
Section 312 Rehabilitation Loan Program Receivables	–	–	–	–	–
Mortgagor Reserves for Replacement – Investment	–	–	–	–	–
Other Assets	–	–	–	–	–
TOTAL INTRAGOVERNMENTAL ASSETS	$43	–	–	–	$43
Receivables Related to Asset Sales	–	–	–	–	–
Receivables Related to Credit Program Assets	–	–	–	–	–
GNMA Real Estate Owned Property and Hole Mortgages	–	$14	–	–	14
Equity Interest in Multifamily Mortgage Trust 1996	–	–	–	–	–
Premiums Receivable	–	–	–	–	–
Mortgagor Reserves for Replacement – Cash	110	–	–	–	110
Other Assets	15	–	–	$1	16
TOTAL	$168	$14	–	$1	$183

Receivable from Unapplied Disbursements

The initial allocations of the confirmed Fund Balances with Treasury among the U.S. Treasury accounts that make up FHA are based on estimates. At the end of the fiscal year, these estimates resulted in the establishment of the receivables and payables that reflect the differences between the Fund Balance with Treasury and the estimates recorded in FHA's general ledger.

Before fiscal year 2001, the receivable and payables were classified as receivable from and payable to the U.S. Treasury. In fiscal year 2001, these receivables and payables were classified as receivables and payables between different FHA accounts to more appropriately reflect the nature of the differences. As a result, in the process of preparing the FHA consolidated statements, these intra-FHA receivables and payables are eliminated. The remaining receivable and/or payable is classified to a receivable or payable with other U.S. government agencies.

Note 9 – Direct Loans and Loan Guarantees, Non-Federal Borrowers

HUD reports direct loan obligations or loan guarantee commitments made prior to fiscal 1992 and the resulting direct loans or defaulted guaranteed loans, net of allowance for estimated uncollectable loans or estimated losses.

Direct loan obligations or loan guarantee commitments made after fiscal 1991, and the resulting direct loans or defaulted guaranteed loans, are governed by the Federal Credit Reform Act of 1990 and are recorded as the net present value of the associated cash flows (i.e. interest rate differential, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows). The following is an analysis of loan receivables, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees for fiscal 2002 and 2001 were as follows:

A. List of HUD's Direct Loan and/or Loan Guarantee Programs:

1. FHA
2. Ginnie Mae
3. Housing for the Elderly and Disabled
4. Low Rent Public Housing Loan Fund
5. All Other
   a) Revolving Fund
   b) Flexible Subsidy
   c) CDBG, Section 108(b)
   d) Public and Indian Loan Guarantee
   e) Loan Guarantee Recovery Fund
   f) Public and Indian Housing Loan Fund
   g) Hawaiian Home Guarantee Loan Fund
   h) Title VI Indian Housing Loan Guarantee

B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)
(dollars in millions):

	2002				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	$27	–	$(9)	–	$18
Housing for Elderly and Disabled	7,646	$88	(19)	$9	7,724
Low Rent Public Housing Loans	2	2	–	–	4
All Other	811	54	(588)	2	279
TOTAL	$8,486	$144	$(616)	$11	$8,025

	2001				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	$42	–	$(23)	–	$19
Housing for Elderly and Disabled	7,804	$98	(20)	$9	7,891
Low Rent Public Housing Loans	3	2	–	–	5
All Other	807	54	(583)	2	280
TOTAL	$8,656	$154	$(626)	$11	$8,195

C. Direct Loans Obligated After FY 1991 (dollars in millions):

	2002				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	–	–	$(3)	–	$(3)

	2001				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	$1	–	$(2)	–	$(1)

D. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method) (dollars in millions):

	2002				
Direct Loan Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA	$2,301	$107	$(984)	$203	$1,627

	2001				
Direct Loan Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA	$2,057	$12	$(1,131)	$264	$1,202

E. Defaulted Guaranteed Loans From Post-FY 1991 Guarantees (dollars in millions):

	2002				
Direct Loan Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA	$817	$23	$(1,455)	$2,344	$1,729
All Other	–	–	–	1	1
TOTAL	$817	$23	$(1,455)	$2,345	$1,730

	2001				
Direct Loan Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA	$793	$82	$(1,367)	$2,045	$1,553

	2002	**2001**
Total Credit Program Receivables and Related Foreclosed Property, Net	**$11,379**	**$10,949**

F. Guaranteed Loans Outstanding (dollars in millions):

Guaranteed Loans Outstanding:

	2002	
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$608,889	$555,463
All Other	2,232	2,232
TOTAL	$611,121	$557,695

	2001	
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$601,715	$555,463
All Other	2,049	2,049
TOTAL	$603,764	$557,512

New Guaranteed Loans Disbursed (Current Reporting Year)

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$168,865	$159,550
All Other	149	149
TOTAL	$169,014	$159,699

New Guaranteed Loans Disbursed (Prior Reporting Years)

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$150,656	$142,910
All Other	231	231
TOTAL	$150,887	$143,141

G. Liability for Loan Guarantees (Estimated Future Default Claims, Pre-1992)(dollars in millions):

Loan Guarantee Programs	2002 Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	Total Liabilities for Loan Guarantees
FHA Programs	$5,088	$(1,327)	$3,761
All Other	–	53	53
TOTAL	$5,088	$(1,274)	$3,814

Loan Guarantee Programs	2001 Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	Total Liabilities for Loan Guarantees
FHA Programs	$6,364	$(311)	$6,053
All Other	–	37	37
TOTAL	$6,364	$(274)	$6,090

H. Subsidy Expense for Post-FY 1991 Loan Guarantees:

Subsidy Expense for Current Year Loan Guarantees (dollars in millions)

Loan Guarantee Programs	2002 Endorsement Amount	Default Component	Fee Component	Other Component	Subsidy Amount
FHA	–	$2,517	$(5,964)	$258	$(3,189)
All Other	–	14	–	–	14
TOTAL	–	$2,531	$(5,964)	$258	$(3,175)

Loan Guarantee Programs	2001 Endorsement Amount	Default Component	Fee Component	Other Component	Subsidy Amount
FHA	–	$1,933	$(4,555)	$334	$(2,288)
All Other	–	8	–	–	8
TOTAL	–	$1,941	$(4,555)	$334	$(2,280)

Modification and Re-estimates (dollars in millions)

	2002			
Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
FHA	–	–	$951	$951
TOTAL	–	–	$951	$951

	2001			
Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
FHA	–	–	$873	$873
TOTAL	–	–	$873	$873

Total Loan Guarantee Subsidy Expense (dollars in millions)

Loan Guarantee Programs	Current Year	Prior Year
FHA	$(2,238)	$(1,415)
All Other	15	8
TOTAL	$(2,223)	$(1,407)

I. Subsidy Rates for Loan Guarantees by Programs and Component:

Budget Subsidy Rates for Loans Guarantee for FY 2002

Loan Guarantee Program	Default	Fees and Other Collections	Other	Total
FHA				
FHA	1.54%	-3.77%	0.16%	-2.07%
FHA – Other	2.88%	-4.48%		-1.60%
ALL OTHER				
Section 108 (b)	2.30%			2.30%
Indian Housing	2.47%			2.47%
Hawaiian Home	2.47%			2.47%
Title VI Indian Housing	11.07%			11.07%

The subsidy rates above pertain only to FY 2002 cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohort. The subsidy expense reported in the current year also includes modifications re-estimates.

J. Schedule for Reconciling Loan Guarantee Liability Balances (post 1991 Loan Guarantees): (dollars in millions):

Beginning Balance, Changes, and Ending Balance	2002	2001
Beginning balance of the loan guarantee liability	$6,090	$7,554
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	–	–
(b) Default costs (net of recoveries)	2,530	1,943
(c) Fees and other collections	(5,964)	(4,555)
(d) Other subsidy costs	258	333
Total of the above subsidy expense components	$(3,176)	$ (2,279)
Adjustments:		
(a) Loan guarantee modifications	–	–
(b) Fees Received	2,946	3,313
(c) Interest supplemental paid	–	–
(d) Foreclosed property and loans acquired	3,314	2,228
(e) Claim payments to lenders	(5,890)	(5,423)
(f) Interest accumulation on the liability balance	(150)	(64)
(g) Other	(134)	2,557
Ending balance of the subsidy cost allowance before reestimates	$3,000	$7,886
Add or Subtract subsidy reestimates by component:		
(a) Interest rate reestimate	–	–
(b) Technical/default reestimate	814	(1,796)
Total of the above reestimate components	814	(1,796)
Ending balance of the subsidy cost allowance	$3,814	$6,090

K. Administrative Expense (dollars in millions):

Loan Guarantee Programs	2002	2001
FHA	$ 511	$ 553
All Other	1	1
TOTAL	$512	$554

Note 10 – General Property Plant and Equipment

General property plant and equipment consists of furniture, fixtures, equipment and data processing software used in providing goods and services that have an estimated useful life of two or more years. Purchases of $100,000 or more are recorded as an asset and depreciated over their estimated useful life on a straightline basis with no salvage value. Capitalized replacement and improvement costs are depreciated over the remaining useful life of the replaced or improved asset. Generally, all the department's assets are depreciated over a 4-year period, unless it can be demonstrated that the estimated useful life is significantly greater than 4 years.

The following shows general property plant and equipment as of September 30, 2002 and 2001, (dollars in millions):

	2002			2001		
Description	Cost	Accumulated Depreciation and Amortization	Book Value	Cost	Accumulated Depreciation and Amortization	Book Value
Furniture, Fixtures, and Equipment	$61	$(44)	$17	$55	$(32)	$23
Data Processing Software	6	(2)	4	–	–	–
Internal Use Software in development	72	(9)	63	58	(8)	50
Other Property Plant and Equipment	2	–	2	–	–	–
TOTAL ASSETS	$141	$(55)	$86	$113	$(40)	$73

Note 11 – Liabilities Covered and Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2002 and 2001 (dollars in millions):

	2002			2001		
Description	Covered	Not-Covered	Total	Covered	Not-Covered	Total
Intragovernmental						
Accounts Payable	$3,096	–	$3,096	$2,046	–	$2,046
Debt	10,465	$1,212	11,677	7,948	$1,287	9,235
Other Intragovernmental Liabilities	276	4,398	4,674	517	4,424	4,941
TOTAL INTRAGOVERNMENTAL LIABILITIES	$13,837	$5,610	$19,447	$10,511	$5,711	$16,222
Accounts Payable	1,398	–	1,398	1,443	–	1,443
Liabilities for Loan Guarantees	3,814	–	3,814	6,090	–	6,090
Debentures Issued to Claimants	288	–	288	224	–	224
Loss Reserves	539	–	539	536	–	536
Debt	30	2,190	2,220	31	2,465	2,496
Federal Employee and Veterans' Benefits	–	81	81	–	86	86
Other Liabilities	983	64	1,047	1,103	62	1,165
TOTAL LIABILITIES	$20,889	$7,945	$28,834	$19,938	$8,324	$28,262

Note 12 – Debt

Several HUD programs have the authority to borrow funds from the U.S. Treasury for program operations. Additionally, the National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to pay claims. Also, PHAs and TDHEs borrowed funds from the private sector and from the Federal Financing Bank (FFB) to finance construction and rehabilitation of low rent housing. HUD is repaying these borrowings on behalf of the PHAs and TDHEs.

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2002 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$1,430	$(76)	$1,354
Held by the Public	2,720	(212)	2,508
Total Agency Debt	$4,150	$(288)	$3,862
Other Debt:			
Debt to the U.S. Treasury	$7,797	$2,521	$10,318
Debt to the Federal Financing Bank	8	(3)	5
Total Other Debt	$7,805	$2,518	$10,323
TOTAL DEBT	$11,955	$2,230	14,185
Classification of Debt:			
Intragovernmental Debt			$11,677
Debt held by the Public			2,220
Debentures Issued to Claimants			288
TOTAL DEBT			$14,185

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2001 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$1,431	$(1)	$1,430
Held by the Public	3,037	(317)	2,720
Total Agency Debt	$4,468	$(318)	$4,150
Other Debt:			
Debt to the U.S. Treasury	$10,979	$(3,182)	$7,797
Debt to the Federal Financing Bank	11	(3)	8
Total Other Debt	$10,990	$(3,185)	$7,805
TOTAL DEBT	$15,458	$(3,503)	$11,955
Classification of Debt			
Intragovernmental Debt			$9,235
Debt held by the Public			2,496
Debentures Issued to Claimants			224
TOTAL DEBT			$11,955

Interest paid on borrowings during the year ended September 30, 2002 and 2001, were $1 billion and $1.2 billion, respectively. The purpose of these borrowings is discussed in the following paragraphs.

Borrowings from the U.S. Treasury

HUD is authorized to borrow from the U.S. Treasury to finance Housing for Elderly and Disabled loans. The Treasury borrowings typically have a 15-year term, but may be repaid prior to maturity at HUD's discretion. However, such borrowings must be repaid in the sequence in which they were borrowed from Treasury. The interest rates on the borrowings are based on Treasury's 30-year bond yield at the time the notes are issued. Interest is payable on April 30 and October 31. Interest rates ranged from 8.69 percent to 9.17 percent during fiscal year 2002 and 7.44 percent to 9.2 percent for fiscal year 2001.

In fiscal 2002 and 2001, FHA borrowed $4.2 billion and $1 billion respectively from the U.S. Treasury. The borrowings were needed when FHA initially determined negative credit subsidy amounts related to new loan disbursements or to existing loan modifications. In some instances, borrowings were needed where available cash was less than claim payments due or downward subsidy-estimates. All borrowings were made by FHA's financing accounts. Negative subsidies were generated primarily by the MMI/CMHI Fund financing account; downward re-estimates have occurred from activity of the FHA's loan guarantee financing accounts. These borrowings carried interest rates ranging from 5.47 percent to 7.59 percent during fiscal 2002 and 2001.

Borrowings from the Federal Financing Bank (FFB) and the Public

During the 1960s, 1970s, and 1980s, PHAs obtained loans from the private sector and from the FFB to finance development and rehabilitation of low rent housing projects. HUD is repaying these borrowings on behalf of the PHAs, through the Low Rent Public Housing program. For borrowings from the Public, interest is payable throughout the year. Interest rates range from 2.25 percent to 12.88 percent for both fiscal 2002 and 2001. The borrowings from the FFB and the private sector have terms up to 40 years. FFB interest is payable annually on November 1. Interest rates range from 9.15 percent to 16.18 percent for both fiscal year 2002 and 2001.

Before July 1, 1986, the FFB purchased notes issued by units of general local government and guaranteed by HUD under Section 108. These notes had various maturities and carried interest rates that were one-eighth of one percent above rates on comparable Treasury obligations. The FFB still holds substantially all outstanding notes, and no note purchased by the FFB has ever been declared in default.

Debentures Issued To Claimants

The National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to settle claims. FHA-issued debentures bear interest at rates established by the U.S. Treasury. Interest rates related to the outstanding debentures ranged from 4 percent to 12.88 percent for fiscal 2002 and 2001. Debentures may be redeemed by lenders prior to maturity to pay mortgage insurance premiums to FHA, or they may be called with the approval of the Secretary of the U. S. Treasury.

Note 13 – Other Liabilities

The following shows HUD's Other Liabilities as of September 30, 2002 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Payable from Unapplied Receipts Recorded by Treasury	–	–	–
HUD-Section 312 Rehabilitation Program Payable	–	–	–
Unfunded FECA Liability	–	$17	$17
Resource Payable to Treasury	$ 4,381	–	4,381
Miscellaneous Receipts Payable to Treasury	273	–	273
Deposit Funds	–	–	–
Other Liabilities	–	3	3
TOTAL INTRAGOVERNMENTAL LIABILITIES	$4,654	$20	$ 4,674
Other Liabilities			
FHA Other Liabilities	$11	$189	$200
FHA Escrow Funds Related to Mortgage Notes	–	269	269
FHA Unearned Premiums	381	–	381
Ginnie Mae Deferred Income	–	65	65
Deferred Credits	–	1	1
Deposit Funds	12	31	43
Accrued Unfunded Annual Leave	64	–	64
Accrued Funded Payroll Benefits	24	–	24
Other	–	–	–
TOTAL OTHER LIABILITIES	$5,146	$575	$5,721

The following shows HUD's Other Liabilities as of September 30, 2001 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Payable from Unapplied Receipts Recorded by Treasury	–	–	–
HUD-Section 312 Rehabilitation Program Payable	–	–	–
Unfunded FECA Liability	–	$17	$17
Resource Payable to Treasury	$4,407	–	4,407
Miscellaneous Receipts Payable to Treasury	511	–	511
Other Liabilities	–	6	6
TOTAL INTRAGOVERNMENTAL LIABILITIES	$4,918	$23	$4,941
Other Liabilities			
FHA Other Liabilities	$12	$158	$170
FHA Escrow Funds Related to Mortgage Notes	–	163	163
FHA Unearned Premiums	556	–	556
Ginnie Mae Deferred Income	–	50	50
Deferred Credits	–	4	4
Deposit Funds	34	75	109
Accrued Unfunded Annual Leave	62	1	63
Accrued Funded Payroll Benefits	49	–	49
Other	–	1	1
TOTAL OTHER LIABILITIES	$5,631	$475	$6,106

Note 14 – Loss Reserves

For fiscal years 2002 and 2001, Ginnie Mae established loss reserves of $539 million and $536 million, respectively, which represents probable defaults by issuers of mortgage-backed securities, through a provision charged to operations. The reserve is relieved as losses are realized from the disposal of the defaulted issuers' portfolios. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios and the sale of servicing rights which transfers to Ginnie Mae upon the default of the issuer. Ginnie Mae management believes that its reserve is adequate to cover probable losses from defaults by issuers of Ginnie Mae guaranteed mortgage-backed securities.

Ginnie Mae incurs losses when insurance and guarantees do not cover expenses that result from issuer defaults. Such expenses include: (1) unrecoverable losses on individual mortgage defaults because of coverage limitations on mortgage insurance or guarantees, (2) ineligible mortgages included in defaulted Ginnie Mae pools, (3) improper use of proceeds by an issuer, and (4) non-reimbursable administrative expenses and costs incurred to service and liquidate portfolios of defaulted issuers.

Note 15 – Financial Instruments with Off-Balance Sheet Risk

Some of HUD's programs, principally those operated through FHA and Ginnie Mae, enter into financial arrangements with off-balance sheet risk in the normal course of their operations.

A. FHA Mortgage Insurance

Unamortized insurance in force outstanding for FHA's mortgage insurance programs as of September 30, 2002 and 2001, was $608 billion and $602 billion, respectively and is discussed in Note 9F.

B. Ginnie Mae Mortgage-Backed Securities

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of Mortgage-Backed Securities (MBS) and commitments to guaranty MBS. The securities are backed by pools of FHA-insured, RHS-insured, and VA-guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2002 and 2001, was approximately $568 billion and $604 billion, respectively. However, Ginnie Mae's potential loss is considerably less because the FHA and RHS insurance and VA guaranty serve to indemnify Ginnie Mae for most losses. Also, as a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2002 and 2001, were $43.2 billion and $42.8 billion, respectively. Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas.

No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers.

In fiscal 2002 and 2001, Ginnie Mae issued a total of $122.2 billion and $67.4 billion respectively in its multi-class securities program. The estimated outstanding balance at September 30, 2002 and 2001, were $214.4 billion and $165.6 billion, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

C. Section 108 Loan Guarantees

Under HUD's Section 108 Loan Guarantee program, recipients of CDBG Entitlement Grant program funds may pledge future grant funds as collateral for loans guaranteed by HUD (these loans were provided from private lenders since July 1, 1986). This Loan Guarantee Program provides entitlement communities with a source of financing for projects that are too large to be financed from annual grants. The amount of loan guarantees outstanding as of September 30, 2002 and 2001, were $2 billion and $1.9 billion, respectively. HUD's management believes its exposure in providing these loan guarantees is limited, since loan repayments can be offset from future CDBG Entitlement Program Funds and, if necessary, other funds provided to the recipient by HUD. HUD has never had a loss under this program since its inception in 1974.

Note 16 – Contingencies

Lawsuits and Other

HUD is party in various legal actions and claims brought against it. In the opinion of HUD's management and General Counsel, the ultimate resolution of these legal actions and claims will not materially affect HUD's financial position or results of operations for the fiscal year ended September 30, 2002 and 2001. Payments made out of the Claims, Judgments and Relief Acts Fund in settlement of the legal proceedings are subject to the Department of Justice's approval.

A case was filed by owners of 43 multifamily housing projects alleging that the United States effected breaches of contract by enacting the Emergency Low-Income Housing Preservation Act of 1987 (ELIHPA) and the Low-Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPRHA). The plaintiffs claim that these acts prevented them from prepaying their mortgages 20 years after mortgage-insurance endorsement, or alternatively, that LIHPRHA effected regulatory takings of their properties. The Court of Federal Claims ruled that the project owners' mortgage contracts had in fact been breached by implementation of ELIHPA and LIHPRHA, and held a trial in November 1996 to determine damages, if any, with respect to that claim. The court awarded $3,061,107 in damages to the Plaintiffs for four "test" properties jointly selected by the parties. The United States appealed this judgment. On December 7, 1998, the United States Court of Appeals for the Federal Circuit reversed the judgment of the Court of Federal Claims, holding that ELIHPA and LIHPRHA did not breach contract between the plaintiffs and HUD. The Federal Circuit remanded the action to the Court of Federal Claims for consideration of the plaintiffs' takings claim. On March 11, 1999, the Federal Circuit denied rehearing and declined rehearing en banc. On October 4, 1999, the United States Supreme Court denied certiorari.

In April 2000, the Court of Federal Claims held that because plaintiffs had chosen not to pursue their prepayment options through the statutorily required process, their takings claims were not ripe for review. HUD's motion for summary judgment was granted as to both the takings claims and the breach of contract claim; and the complaint was dismissed. On June 23, 2000, plaintiffs in this case filed a notice to appeal to the Federal Circuit. On September 18, 2001, the United States Court of Appeals for the Federal Circuit reversed the Court of Federal Claims decision which had held that plaintiff's taking claims were not ripe for review. The Federal Circuit remanded the case to the Court of Federal Claims to adjudicate the takings claims of the four model plaintiffs and of the owners of the 39 other plaintiff project owners so that, if the factual circumstances of any or all of the remaining owners present a similarly compelling case of administrative futility, the trial court should adjudicate their takings claims, as well.

On December 5, 2001, in the related case, the court granted the Government's motion for summary judgment with respect to plaintiff's taking claims and dismissed the complaint. The Court concluded that the prepayment rights contained in the mortgage loan notes between plaintiffs and their private lending institutions are not properly protected by the Fifth Amendment's Just Compensation Clause.

On January 8, 2002, the Court of Federal Claims dismissed the complaint, holding that LIHPRHA had not effected regulatory takings. The plaintiffs' appeal of this ruling was held on December 4, 2002.

In two-dozen similar ELIPHA/LIHPRHA cases, involving almost 800 project owners nationwide, which were brought between 1987 and 1996, more than a dozen have been dismissed, and the dismissal affirmed or not appealed. As of January 2003, only 9 other cases (involving 199 projects) were still pending.

The United States intends to continue to defend the remaining LIHPRHA cases vigorously. HUD is unable at this time to form a judgment about the likelihood of an unfavorable outcome.

In the second case, two corporations allege breach of contract stemming from a repayment agreement executed by HUD in 1994. The plaintiffs allege that HUD was contractually bound to process Section 241(f) "equity loans," which were part of an incentive offered to multifamily project owners under LIHPRHA. The plaintiffs further assert that HUD's 1997 Appropriation Act effectively modified the repayment agreement, because it repealed the authorization to provide Section 241(f) loans, and instead earmarked a $75 million appropriation for capital (direct) loans. According to the plaintiffs, HUD breached its contractual obligation by failing to provide these direct loans for twenty of the twenty-six properties identified in the repayment agreement. No amount of damages is specified in the complaint. HUD intends to contest this case vigorously.

A third case involves a claim filed under the Federal Tort Claims Act by an individual who claims personal injury from mold spores ("black mold") while inspecting a HUD single-family property for possible purchase. The plaintiff alleges that HUD and its agents failed to maintain the property, and he seeks damages in the amount of $5 million.

HUD has responded to the complaint by denying the claim and asserting its defenses in the case. It will also file a motion to dismiss, or for summary judgment.

In the fourth case, a contractor alleges that HUD committed breach of contract in regard to an annual financial statements contract that the company held between 1990 and 1994. The Court of Federal Claims dismissed the contractor's initial lawsuit for $63 million because the company had failed to comply with the Contract Disputes Act by not presenting its claims to the contracting officer before filing the suit.

The contractor then submitted three claims for intellectual property, totaling $62.5 million, to a HUD Contracting Officer. The Contracting Officer denied all three claims on March 19, 2001. In response, the contractor filed suit once again in the Court of Federal Claims. The parties are filing cross-motions for summary judgment on January 31, 2003. HUD continues to vigorously defend this action.

In the fifth case, the plaintiffs claim that their $14 million bid at a nonjudicial foreclosure sale was wrongfully rejected as invalid because it was below the minimum upset price (over $37 million). They seek either specific performance or $25 million in monetary relief. HUD intends to contest the case vigorously.

In all five of the above cases, HUD is unable at this time to make an estimate of the amount or range of potential loss if the plaintiffs should prevail. However, any adverse judgment would be paid out of the permanent indefinite appropriation established by 31 U.S.C. Section 1304 (the Government's Judgment Fund).

Note 17 – Rental Housing Subsidy Payment Errors

HUD's rental housing assistance programs—which include public housing and various tenant-based and project-based rental housing assistance programs—are administered on HUD's behalf by third party intermediaries including public housing agencies, private housing owners and contracted management agents. Under these programs, eligible tenants generally are required to pay 30 percent of their income towards rent, with HUD providing the balance of the rental payment. New applicants provide certain information on household characteristics, income, assets and expense activities used in determining the proper amount of rent they are to pay. Existing tenants are required to recertify this information on an annual basis, and in certain other circumstances when there are significant changes in household income. Applicant or tenant failure to correctly estimate their income, or the failure of the responsible program administrator to correctly process, calculate and bill the tenant's rental assistance, may result in the Department's overpayment or underpayment of housing assistance.

In 2000, HUD began to establish a baseline error measurement to cover the three types of rental housing assistance payment errors, including: 1) program administrator income and rent determinations, 2) tenant reporting of income, and 3) program administrator billings for assistance payments. Error estimates for each of these three components are provided in the captioned sections below, based on year 2000 activity. The baseline estimates for the first two components were completed last year and the preliminary estimates for the third component, billing error, were completed this year. Starting in 2003, HUD intends to perform a single annual measurement of all error components to assess the impact of corrective actions to reduce error.

Program Administrator Income and Rent Determinations

HUD estimates of erroneous payments attributed to program administrator rent calculation and processing errors were based on a HUD Office of Policy Development and Research (PD&R) study of "Quality Control for Rental Assistance Subsidies Determinations," which was published as a final report in June 2001. PD&R's methodology provided for interviewing a representative sample of tenants, verifying and validating tenant income reporting, and recalculating rents for comparison to program administrator determinations for the purpose of identifying errors. The study verified rent calculations for a representative sample of 2,403 households receiving assistance at 600 projects in 2000. The study found that 60 percent of the calculations had some type of administrative or calculation component error contributing to an assistance overpayment or underpayment situation. Errors were considered if they exceeded a $5 impact threshold on monthly assistance payment amounts. The study projected, with 95 percent confidence, annual assistance overpayments of $1.669 billion ± $251 million and annual assistance underpayments of $634 million ± $151 million, due to errors attributable to program administration.

Tenant Reporting of Income

In developing the estimate of assistance overpayments attributed to tenant underreporting of income, the Department used the same PD&R sample of 2,403 households assisted in 2000. These tenants had all been asked detailed questions about all sources of income. These responses were compared with earned and unearned household income from Social Security Administration (SSA) and Internal Revenue Service (IRS) databases. Identified cases of possible undisclosed income sources were verified with employers. The additional sources of income were also examined to determine if the additional income found would affect the computation of the correct HUD rental assistance amount, or if the income discrepancies were attributed to other causes not affecting the assistance amount (e.g., data entry errors in any of the systems involved in the matching process, timing differences in the income data being considered, or tenant income excluded by program regulation). Validated income discrepancies were further assessed against the original program administrator error estimates for these sample cases to eliminate any duplication. Based on the results of this review, the Department projects, with 95 percent confidence, that the amount of assistance overpayments attributed to tenant underreporting of income was $978 million ± $247 million.

Program Administrator Billings

As part of HUD's continuing efforts to improve management of its rental housing assistance programs, two reviews of billing errors were conducted during 2002. One review related to Office of Housing project-based Section 8 assistance, and the other to the Office of Public and Indian Housing's voucher program. The purpose of these reviews was to determine, on a sample basis, whether HUD assistance was disbursed in accordance with HUD policies and regulations. Data for a randomly selected sample of 50 projects was collected for each program area. Fiscal year 2000 records were selected to permit use of reconciled statements and bills, which also served to maintain consistency with HUD's other 2000 baseline error estimates. The distribution of the sampled projects matched well with that of the respective program universe. Ten (10) tenant files were selected for each project in the sample. The below results for each program area are considered preliminary, pending further review and verification of cases for which all required supporting documentation for billings was not readily available to determine the amount of any actual valid assistance payment error. For Public and Indian Housing data, specifically, there is concern about the completeness of the data collected and the validity of the conclusions reached, and additional information is being sought to provide corroboration of the initial review results.

Office of Housing: Based on the 95 percent of sampled cases with all required supporting documentation, estimated assistance underpayments totaled $14.7 million and assistance overpayments totaled $22.8 million, for a net assistance overpayment estimate of $8.1 million attributed to billing errors. The relatively small size of these errors resulted in a relatively large 95 percent estimate confidence interval of plus/minus $0.9 million for the net error estimate. Regarding the 5 percent of sampled cases with missing tenant assistance determinations or billing records, the full value of the projected assistance associated with such cases is estimated at $72 million. This estimate has a 95 percent confidence interval of plus/minus $0.6 million. While the full amount of this estimate is in question because the required supporting documentation was not readily available for review, further review is necessary to determine how much, if any, of this estimate actually represents a valid payment error versus a program administration or record keeping deficiency.

Office of Public and Indian Housing: Assistance underpayments totaled an estimated $120.9 million and assistance overpayments totaled an estimated $98.7 million, for a net assistance underpayment estimate of $22.2 million attributed to billing errors. The 95 percent confidence interval for these estimates was in the plus/minus $7 million range. These estimates apply to the 76 percent of sampled cases with all required supporting documentation available. The extent of actual error on the remaining 24 percent of sampled cases cannot be substantiated due to documentation issues. These unsupported cases represent an estimated $1,267 million of assistance. Further review is being undertaken to determine the extent to which these unsupported cases represent any valid payment error versus a valid program administration or record keeping deficiency. It is likely that any actual valid errors associated with these unsupported cases follow the pattern of cases where all documentation was available.

In addition to the discrepancies noted above, on net there appeared to be significant net underpayment to participating private landlords by HUD's program administrators. While this amounted to only about 1 percent of all documented eligible payments, the projected estimates amounted to a total of $83 million given the program's large size. HUD plans to further review, verify and appropriately address cases of apparent under billing or underpayment.

Combined Error Impacts

The combined effect of the estimated $1.669 billion of overpayments and $634 million of underpayments attributed to program administrator processing errors, plus the $978 million of overpayments attributed to tenant underreporting of income, yields a gross payment error estimate of $3.281 billion. Offsetting the overpayment and underpayment error estimates yields a net annual subsidy overpayment estimate of $2.013 billion, which represents approximately 10.7 percent of the $18.883 billion in total rental subsidies paid by HUD in FY 2000. Given the preliminary nature of the billing error estimates, HUD has not combined them in the total error estimate at this time. However, HUD plans to provide a single updated combined annual error estimate beginning with 2003 program activity.

Corrective Actions

HUD is taking actions to address the causes of erroneous assistance payments, and is instituting necessary controls to better assure that payments are made in the correct amounts, in accordance with program statutory and regulatory requirements. HUD's goal is to reduce processing errors and resulting erroneous payments 50 percent by 2005. It should be noted that the reduction of errors and improper payments is unlikely to have an equivalent impact on budget outlays. HUD's experience indicates that its program integrity improvement efforts are likely to result in some higher income tenants leaving assisted housing and being replaced with lower income tenants requiring increased outlays. This type of secondary impact is desirable, since it better targets assisted housing resources, but reduces potential savings.

Note 18 – Total Cost and Earned Revenue by Budget Functional Classification

The following shows HUD's total cost and earned revenue by budget functional classification for fiscal 2002 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$896	$1,860	$(964)
Community and Regional Development	63	2	61
Income Security	500	4	496
Administration of Justice	–	–	–
Miscellaneous	–	–	–
TOTAL INTRAGOVERNMENTAL	$1,459	$1,866	$(407)
With the Public:			
Commerce and Housing Credit	$(1,984)	$2,151	$(4,135)
Community and Regional Development	5,660	2	5,658
Income Security	31,868	19	31,849
Administration of Justice	43	–	43
Miscellaneous	–	–	–
TOTAL WITH THE PUBLIC	$35,587	$2,172	$ 33,415
TOTAL:			
Commerce and Housing Credit	$(1,088)	$4,011	$(5,099)
Community and Regional Development	5,723	4	5,719
Income Security	32,368	23	32,345
Administration of Justice	44	–	44
Miscellaneous	–	–	–
TOTAL:	$37,047	$4,038	$33,009

The following shows HUD's total cost and earned revenue by budget functional classification for fiscal 2001 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$928	$2,040	$(1,112)
Community and Regional Development	70	2	68
Income Security	423	12	411
Administration of Justice	–	–	–
Miscellaneous	–	–	–
TOTAL INTRAGOVERNMENTAL	$1,421	$2,054	$(633)
With the Public:			
Commerce and Housing Credit	$(1,607)	$1,575	$(3,182)
Community and Regional Development	5,354	5	5,349
Income Security	28,743	(130)	28,873
Administration of Justice	37	–	37
Miscellaneous	–	–	–
TOTAL WITH THE PUBLIC	$32,527	$1,450	$31,077
TOTAL:			
Commerce and Housing Credit	$(679)	$3,615	$(4,294)
Community and Regional Development	5,424	7	5,417
Income Security	29,166	(118)	29,284
Administration of Justice	37	–	37
Miscellaneous	–	–	–
TOTAL:	$33,948	$3,504	$30,444

Note 19 – Prior Period Adjustments

For fiscal year 2002, HUD recorded $4.8 million in prior period adjustments for Community Planning and Development programs. This adjustment resulted from the liquidation of obligations for fiscal year 2001 expenditures used to cover Section 108(b) Loan Guarantee repayments.

Note 20 – Apportionment Categories of Obligations Incurred

HUD's categories of obligations incurred were as follows (dollars in millions):

Fiscal Year	Category A	Category B	Exempt from Apportionment	Total
FY 2002	$1,227	$56,686	$314	$58,227
FY 2001	$1,194	$54,814	$340	$56,348

Note 21 – Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

At the end of FY 2002, the Statement of Budgetary Resources for FHA reported $3 million less for obligations incurred than the amount reported in the Budget of the U.S. Government. This difference is due to adjustments relating to claims and contingent liabilities recorded as part of HUD's year-end closing process. At the end of FY 2002, the Statement of Budgetary Resources for the Section 8 Housing Certificate Program reported an additional $200 million more in recoveries of prior year obligations than the amount reported in the Budget of the U.S. Government. This difference is due to audit adjustments proposed by the OIG related to their review of the Department's unexpended balances as of September 30, 2002. An OCFO analysis of the subsidiary records for this program further reduced the balance of the Department's accounts payable balance by $105 million as of September 30, 2002. The one time adjustment is reported on HUD's Statement of Budgetary Resources as an offsetting collection, but is reported as a non-cash adjustment in the United States' Budget. Other HUD grant and loan programs also reported $150.8 million in expired unobligated balances in the Statement of Budgetary Resources but not in the Budget of the U.S. Government.

For fiscal year 2001, there were differences between the Statement of Budgetary Resources and the Budget of the U.S. Government. These timing differences were related to audit adjustments made subsequent to the 2001 Budget of the U.S. Government submission. These adjustments were included in the 2001 Statement of Budgetary Resources. In addition, other HUD grant and loan programs reported $144 million in expired un-obligated balances in the Statement of Budgetary Resources and the Report on Budget Execution (SF-133) but not in the Budget of the U.S. Government.

Note 22 – Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Changes In Components Requiring or Generating Resources In Future Periods

In FY 2002 and FY 2001, the department reported a net increase in unfunded annual leave liability, in the consolidated Statement of Financing, of $2.4 million and $1.4 million, respectively. This unfunded leave liability is not covered by budgetary resources at the balance sheet date, as explained in note 11.

Consolidating Financial Statements

(By Major Program Area)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CONSOLIDATING BALANCE SHEET AS OF SEPTEMBER 2002

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
ASSETS				
Intragovernmental				
Fund Balance with Treasury (Note 3)	$9,597	$2,509	$18,379	$13,199
Investments (Note 5)	21,346	6,996		
Accounts Receivable (Net) (Note 7)				
Other Assets (Note 8)	88		6	9
Total Intragovernmental Assets	$31,031	$9,505	$18,385	$13,208
Investments (Note 5)				
Accounts Receivable (Note 7)	331	31	419	
Credit Program Receivables and Related Foreclosed Property (Note 9)	3,371			
General Property Plant and Equipment (Note 10)		9		
Other Assets (Note 8)	137	10		
TOTAL ASSETS	$34,870	$9,555	$18,804	$13,208
LIABILITIES				
Intragovernmental Liabilities				
Accounts Payable	$3,096			$5
Debt (Note 12)	7,552			
Other Intragovernmental Liabilities (Note 13)			$239	
Total Intragovernmental Liabilities	$10,648	$0	$239	$6
Accounts Payable	1,196	33	7	24
Loan Guarantees Liabilities (Note 9)	3,761			
Debt Held by the Public (Note 12)				
Federal Employee and Veterans' Benefits(Note 2)				
Debentures Issued to Claimants (Note 12)	288			
Loss Reserves (Note 14)		539		
Other Governmental Liabilities (Note 13)	850	65	4	3
TOTAL LIABILITIES	$16,743	$637	$250	$33
NET POSITION				
Unexpended Appropriations	$761		$18,554	$13,175
Cumulative Results of Operations	17,366	$8,918		
TOTAL NET POSITION	$18,127	$8,918	$18,554	$13,175
TOTAL LIABILITIES AND NET POSITION	$34,870	$9,555	$18,804	$13,208

Figures may not add to totals because of rounding.

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
$4,926	$1,686	$9,700	$7,307	$10,329		$77,632
						28,342
				9	(6)	3
8		35	1	52	(199)	
$4,934	$1,686	$9,735	$7,308	$10,390	($205)	$105,977
				1		782
		4	7,724	280		11,379
				78		87
				5		152
$4,934	$1,686	$9,739	$15,032	$10,754	($205)	$118,377
					($6)	$3,096
		$1,354	$2,766	5		11,677
			4,381	253	(199)	4,674
$0	$0	$1,354	$7,147	$258	($205)	$19,447
8	69	29	2	30		1,398
				53		3,814
		2,220				2,220
				81		81
						288
						539
1	1	6	16	101		1,047
$9	$70	$3,609	$7,165	$523	($205)	$28,834
$4,925	$1,616	$9,533	$7,109	$9,734		$65,407
		(3,403)	758	497		24,136
$4,925	$1,616	$6,130	$7,867	$10,231		$89,543
$4,934	$1,686	$9,739	$15,032	$10,754	($205)	$118,377

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CONSOLIDATING BALANCE SHEET AS OF SEPTEMBER 2001

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
ASSETS				
Intragovernmental				
Fund Balance with Treasury (Note 3)	$9,443	$2,043	$18,041	$10,149
Investments (Note 5)	17,338	6,641		
Accounts Receivable (Net) (Note 7)	6			
Other Assets (Note 8)	79		3	5
TOTAL INTRAGOVERNMENTAL ASSETS	$26,866	$8,684	$18,044	$10,154
Investments (Note 5)				
Accounts Receivable (Note 7)	250	33	391	
Credit Program Receivables and Related Foreclosed Property (Note 9)	2,773			
General Property Plant and Equipment (Note 10)		8		
Other Assets (Note 8)	125	14		
TOTAL ASSETS	$30,014	$8,739	$18,435	$10,154
LIABILITIES				
Intragovernmental Liabilities				
Accounts Payable	$2,046			$5
Debt (Note 12)	4,544			
Other Intragovernmental Liabilities (Note 13)			$510	
Total Intragovernmental Liabilities	$6,590	$0	$510	$5
Accounts Payable	1,143	29	105	39
Loan Guarantees Liabilities (Note 9)	6,053			
Debt Held by the Public (Note 12)				
Federal Employee and Veterans' Benefits (Note 2)				
Debentures Issued to Claimants (Note 12)	224			
Loss Reserves (Note 14)		536		
Other Governmental Liabilities (Note 13)	889	50	7	4
TOTAL LIABILITIES	$14,899	$615	$622	$48
NET POSITION				
Unexpended Appropriations	$2,129		$17,813	$10,106
Cumulative Results of Operations	12,986	$8,124		
TOTAL NET POSITION	$15,115	$8,124	$17,813	$10,106
TOTAL LIABILITIES AND NET POSITION	$30,014	$8,739	$18,435	$10,154

Figures may not add to totals because of rounding.

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
$4,669	$1,829	$10,270	$7,065	$10,439		$73,948
						23,979
				8	(8)	6
6		11		30	(91)	43
$4,675	$1,829	$10,281	$7,065	$10,477	($100)	$97,976
				5		679
		5	7,891	280		10,949
				65		73
				1		140
$4,675	$1,829	$10,286	$14,956	$10,828	($99)	$109,817
				$3	($8)	$2,046
		$1,430	$3,253	8		9,235
			4,406	116	(91)	4,941
$0	$0	$1,430	$7,659	$127	($99)	$16,222
14	32	35	9	37		1,443
				37		6,090
		2,496				2,496
				86		86
						224
						536
1	4	6	24	180		1,165
$15	$36	$3,967	$7,692	$467	($99)	$28,262
$4,660	$1,793	$10,068	$6,899	$9,837		$63,305
		(3,749)	365	524		18,250
$4,660	$1,793	$6,319	$7,264	$10,361	$0	$81,555
$4,675	$1,829	$10,286	$14,956	$10,828	($99)	$109,817

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CONSOLIDATING STATEMENT OF NET COST
FOR THE PERIOD ENDED SEPTEMBER 2002

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
PROGRAM COSTS				
Intragovernmental Gross Costs	$641		$53	$26
Less: Intragovernmental Earned Revenue	(1,461)	($399)		
Intragovernmental Net Costs	($820)	($399)	$53	$26
Gross Costs With the Public	($2,071)	$57	$18,421	$5,417
Less: Earned Revenues	(1,044)	(452)		
Net Costs With the Public	($3,115)	($395)	$18,421	$5,417
TOTAL NET COSTS	($3,935)	($794)	$18,474	$5,443
Costs Not Assigned to Programs				
NET COST OF OPERATIONS	($3,935)	($794)	$18,474	$5,443

Figures may not add to totals because of rounding.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CONSOLIDATING STATEMENT OF NET COST
FOR THE PERIOD ENDED SEPTEMBER 2001

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
PROGRAM COSTS				
Intragovernmental Gross Costs	$625		$31	$33
Less: Intragovernmental Earned Revenue	(1,609)	($430)		
Intragovernmental Net Costs	($984)	($430)	$31	$33
Gross Costs With the Public	($1,703)	$73	$16,613	$4,947
Less: Earned Revenues	(456)	(448)	150	
Net Costs With the Public	($2,159)	($375)	$16,763	$4,947
TOTAL NET COSTS	($3,143)	($805)	$16,794	$4,980
Costs Not Assigned to Programs				
NET COST OF OPERATIONS	($3,143)	($805)	$16,794	$4,980

Figures may not add to totals because of rounding.

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
$14	$33	$214	$264	$213		$1,458
				(7)		(1,867)
$14	$33	$214	$264	$206	$0	($409)
$1,537	$3,666	$4,038	$898	$3,224		$35,187
			(646)	(29)		(2,171)
$1,537	$3,666	$4,038	$252	$3,195	$0	$33,016
$1,551	$3,699	$4,252	$516	$3,401	$0	$32,607
				403		403
$1,551	$3,699	$4,252	$516	$3,804	$0	$33,010

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
$11	$35	$204	$314	$168		$1,421
				(14)		(2,053)
$11	$35	$204	$314	$154	$0	($632)
$1,425	$3,112	$3,851	$784	$3,042		$32,144
			(665)	(31)		(1,450)
$1,425	$3,112	$3,851	$119	$3,011	($0)	$30,694
$1,436	$3,147	$4,055	$433	$3,165		$30,062
				382		382
$1,436	$3,147	$4,055	$433	$3,547	$0	$30,444

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
FOR THE PERIOD ENDED SEPTEMBER 2002

(Dollars in Millions)

Cumulative Results of Operations	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Net Position-Beginning of Period	($12,986)	($8,124)		
Prior Period Adjustments (Note 19)				5
Beginning Balances, As Adjusted	($12,986)	($8,124)	$0	$5
BUDGETARY FINANCING SOURCES				
Other Adjustments (Recissions, etc)				
Appropriations Used	($2,381)		($18,391)	($5,405)
Transfers In/Out Without Reimbursement	839			
Other Budgetary Financing Sources			(83)	(38)
OTHER FINANCING SOURCES				
Donations and Forfeitures of Property				
Transfers In/Out Without Reimbursement	1,102			
Imputed Financing From Costs Absorbed From Others	(14)			
Other	9			(5)
TOTAL FINANCING SOURCES	($445)		($18,474)	($5,448)
Net Cost of Operations	(3,935)	(794)	18,474	5,443
ENDING BALANCES	($17,366)	($8,918)	$0	$0

Unexpended Appropriations	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Net Position-Beginning of Period	($2,129)		($17,813)	($10,106)
Prior Period Adjustments				(5)
Beginning Balances, As Adjusted	($2,129)		($17,813)	($10,111)
BUDGETARY FINANCING SOURCES				
Appropriations Received	($2,982)		($20,746)	($7,783)
Transfers In/Out	1,986			(700)
Other Adjustments (Recissions, etc)	(17)		1,614	14
Appropriations Used	2,381		18,391	5,405
TOTAL FINANCING SOURCES	$1,368		($741)	($3,064)
ENDING BALANCES	($761)		($18,554)	($13,175)

Figures may not add to totals because of rounding.

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
		$3,749	($365)	($524)		($18,250)
						5
$0	$0	$3,749	($365)	($524)	$0	($18,245)
($1,531)	($3,672)	($4,527)	($887)	($3,748)		($40,542)
						839
(20)	(27)	(71)	(22)	269		8
				(237)		865
				(59)		(73)
				(2)		2
($1,551)	($3,699)	($4,598)	($909)	($3,777)	$0	($38,901)
1,551	3,699	4,252	516	3,804		33,010
$0	$0	$3,403	($758)	($497)	$0	($24,136)

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
($4,660)	($1,793)	($10,068)	($6,899)	($9,837)		($63,305)
						(5)
($4,660)	($1,793)	($10,068)	($6,899)	($9,837)		($63,310)
($1,846)	($3,495)	($3,986)	($1,097)	($3,695)		($45,630)
				(6)		1,280
50				56		1,717
1,531	3,672	4,521	887	3,748		40,536
($265)	$177	$535	($210)	$103		($2,097)
($4,925)	($1,616)	($9,533)	($7,109)	($9,734)		($65,407)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
FOR THE PERIOD ENDED SEPTEMBER 2001

(Dollars in Millions)

Cumulative Results of Operations	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Net Position-Beginning of Period	($10,166)	($7,319)		
Prior Period Adjustments				
Beginning Balances, As Adjusted	($10,166)	($7,319)	$0	$0
BUDGETARY FINANCING SOURCES				
Appropriations Used	($1,371)		($16,743)	($4,925)
Transfers In/Out Without Reimbursement	318			
Other Budgetary Financing Sources			(51)	(55)
OTHER FINANCING SOURCES				
Transfers In/Out Without Reimbursement	1,384			
Imputed Financing From Costs Absorbed From Others	(15)			
Other	7			
TOTAL FINANCING SOURCES	$323	$0	($16,794)	($4,980)
Net Cost of Operations	(3,143)	(805)	16,794	4,980
ENDING BALANCES	($12,986)	($8,124)	$0	$0

Unexpended Appropriations	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Net Position-Beginning of Period	($1,152)		($17,600)	($9,925)
Prior Period Adjustments				
Beginning Balances, As Adjusted	($1,152)		($17,600)	($9,925)
BUDGETARY FINANCING SOURCES				
Appropriations Received	($3,580)		($18,941)	($5,602)
Transfers In/Out	1,245			
Other Adjustments (Recissions, etc)	(13)		1,985	496
Appropriations Used	1,371		16,743	4,925
TOTAL FINANCING SOURCES	($977)		($213)	($181)
ENDING BALANCES	($2,129)		($17,813)	($10,106)

Figures may not add to totals because of rounding.

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
		$4,090		($494)		($13,889)
$0	$0	$4,090	$0	($494)		($13,889)
($1,418)	($3,088)	($4,338)	($772)	($3,578)		($36,233)
						318
(18)	(59)	(58)	(26)	260		(7)
				(204)		1,180
				(56)		(70)
						7
($1,436)	($3,147)	($4,396)	($798)	($3,577)	$0	($34,805)
1,436	3,147	4,055	433	3,547	0	30,444
$0	$0	$3,749	($365)	($524)	$0	($18,250)

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
($4,282)	($1,647)	($10,263)	($6,661)	($9,340)		($60,870)
($4,282)	($1,647)	($10,263)	($6,661)	($9,340)		($60,870)
($1,800)	($3,242)	($4,144)	($1,083)	($4,116)		($42,508)
				(6)		1,239
4	8	1	73	47		2,601
1,418	3,088	4,338	772	3,578		36,233
($378)	($146)	$195	($238)	($497)		($2,435)
($4,660)	($1,793)	($10,068)	($6,899)	($9,837)		($63,305)

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
FOR THE PERIOD ENDED SEPTEMBER 2002

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME
BUDGETARY RESOURCES:					
Budget Authority	$3,231		$20,641	$7,783	$1,846
Net Transfers, Current Year Authority					
Unobligated Balance-Beginning of Year	19,894	$8,605	1,685	1,054	284
Net Transfers, Actual, Prior Year Balance				700	
Spending Authority from Offsetting Collections	7,423	931	105		
Adjustments					
Recoveries of Prior Year Adjustments	25		2,634	9	3
Permanently not available					
Cancellations-Expired and No Year Accts	(4)			(4)	
Enacted Recissions			(1,588)		(50)
Capital Trans & Debt Redemption	(2,199)				
Other Authority Withdrawn			(5,122)		
TOTAL BUDGETARY RESOURCES	$28,370	$9,536	$18,355	$9,542	$2,083
STATUS OF BUDGETARY RESOURCES:					
Obligations Incurred (Note 20)	$4,536	$121	$16,408	$7,756	$1,827
Unobligated Balances Available	625		665	1,756	256
Unobligated Balances Not Available	23,209	9,415	1,282	30	
TOTAL STATUS OF BUDGETARY RESOURCES	$28,370	$9,536	$18,355	$9,542	$2,083
Obligated Balance, Net – Beginning of Period	$1,576	($39)	$42,494	$9,091	$4,383
Obligated Balance Transferred, Net					
Obligated Balance, Net – End of Period	1,707	6	37,664	11,409	4,667
OUTLAYS					
Disbursements	4,492	76	18,604	5,429	1,540
Collections	(7,535)	(931)	(105)		
Subtotal	($3,043)	($855)	$18,499	$5,429	$1,540
Less: Offsetting Receipts	(1,993)				
NET OUTLAYS	($5,036)	($855)	$18,499	$5,429	$1,540

Figures may not add to totals because of rounding.

Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	2002 Budgetary Total	Federal Housing Administration Non Budgetary	Other Non Budgetary Credit Program Accounts	2002 Total Non Budgetary Credit Program Financing Accounts	Total
$3,495	$4,011	$1,097	$3,705	$45,809	$3,925		$3,925	$49,734
			6	6				6
141	882	2,922	4,174	39,641	4,478	$59	4,537	44,178
				700				700
	72	807	943	10,280	10,223	14	10,237	20,518
26	42	14	942	3,695	50		50	3,745
			(37)	(45)				(45)
			(320)	(1,958)				(1,958)
	(90)	(489)	(18)	(2,796)	(916)		(916)	(3,712)
	(522)	(73)	(842)	(6,559)				(6,559)
$3,662	$4,395	$4,278	$8,553	$88,774	$17,760	$73	$17,833	$106,607
$3,636	$3,506	$1,735	$3,962	$43,487	$14,739	$1	$14,740	$58,227
	867	2,501	2,692	9,362	1,467		1,467	10,829
26	22	42	1,899	35,925	1,554	72	1,626	37,551
$3,662	$4,395	$4,278	$8,553	$88,774	$17,760	$73	$17,833	$106,607
$1,683	$13,711	$4,215	$16,886	$94,000	($98)	($21)	($119)	$93,881
1,658	12,609	4,762	15,224	89,706	(79)	(19)	(98)	89,608
3,635	4,566	1,174	4,700	44,216	14,657	1	14,658	58,874
	(72)	(807)	(960)	(10,410)	(10,211)	(15)	(10,226)	(20,636)
$3,635	$4,494	$367	$3,740	$33,806	$4,446	($14)	$4,432	$38,238
			(8)	(2,001)				(2,001)
$3,635	$4,494	$367	$3,732	$31,805	$4,446	($14)	$4,432	$36,237

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
FOR THE PERIOD ENDED SEPTEMBER 2001

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME
BUDGETARY RESOURCES:					
Budget Authority	$7,734		$18,941	$5,602	$1,800
Net Transfers, Current Year Authority					
Unobligated Balance-Beginning of Year	19,004	$7,839	2,958	903	189
Spending Authority from Offsetting Collections	5,542	918	(27)		(4)
Adjustments					
Recoveries of Prior Year Adjustments	17		2,583	14	9
Permanently not available					
Cancellations-Expired and No Year Accts			(8)	(5)	
Enacted Recissions	(2)		(1,971)	(490)	(4)
Capital Trans & Debt Redemption	(1,369)				
Other Authority Withdrawn			(5,149)		
TOTAL BUDGETARY RESOURCES	$30,926	$8,757	$17,327	$6,024	$1,990
STATUS OF BUDGETARY RESOURCES:					
Obligations Incurred (Note 20)	$11,032	$151	$15,642	$4,970	$1,706
Unobligated Balances Available	1,566		739	1,027	284
Unobligated Balances Not Available	18,328	8,606	946	27	
TOTAL STATUS OF BUDGETARY RESOURCES	$30,926	$8,757	$17,327	$6,024	$1,990
Obligated Balance, Net – Beginning of Period	$1,233	($63)	$46,129	$9,074	$4,107
Obligated Balance Transferred, Net					
Obligated Balance, Net – End of Period	1,575	(39)	42,495	9,091	4,383
OUTLAYS					
Disbursements	10,882	128	16,693	4,939	1,420
Collections	(5,751)	(918)	27		4
Subtotal	$5,131	($790)	$16,720	$4,939	$1,424
Less: Offsetting Receipts	(620)				
NET OUTLAYS	$4,511	($790)	$16,720	$4,939	$1,424

Figures may not add to totals because of rounding.

Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	2001 Budgetary Total	Federal Housing Administration Non Budgetary	Other Non Budgetary Credit Program Accounts	2001 Total Non Budgetary Credit Program Financing Accounts	Total
$3,242	$4,169	$1,083	$4,123	$46,694	$900		$900	$47,594
			6	6				6
57	1,714	2,876	4,151	39,691	4,471	$32	4,503	44,194
(1)	76	793	1,040	8,337	12,300	33	12,333	20,670
3	55	59	535	3,275	4		4	3,279
(1)			(42)	(56)				(56)
(7)	(48)	(2)	(10)	(2,534)				(2,534)
	(94)	(666)	(123)	(2,252)	(3,511)		(3,511)	(5,763)
	(584)		(1,130)	(6,863)				(6,863)
$3,293	$5,288	$4,143	$8,550	$86,298	$14,164	$65	$14,229	$100,527
$3,152	$4,406	$1,221	$4,376	$46,656	$9,686	$6	$9,692	$56,348
138	866	2,846	2,967	10,433	2,194	1	2,195	12,628
3	16	76	1,207	29,209	2,284	58	2,342	31,551
$3,293	$5,288	$4,143	$8,550	$86,298	$14,164	$65	$14,229	$100,527
$1,671	$13,690	$4,157	$17,504	$97,502	$212		$212	$97,714
1,683	13,711	4,215	16,886	94,000	(98)	($21)	(119)	93,881
3,136	4,331	1,105	4,518	47,152	9,947	6	9,953	57,105
1	(77)	(793)	(1,099)	(8,606)	(12,255)	(12)	(12,267)	(20,873)
$3,137	$4,254	$312	$3,419	$38,546	($2,308)	($6)	($2,314)	$36,232
			(6)	(626)				(626)
$3,137	$4,254	$312	$3,413	$37,920	($2,308)	($6)	($2,314)	$35,606

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CONSOLIDATING STATEMENT OF FINANCING FOR THE YEAR ENDED SEPTEMBER 2002

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
RESOURCES USED TO FINANCE ACTIVITIES:				
Budgetary Resources Obligated				
Obligations Incurred	$19,275	$121	$16,408	$7,756
Less: Spending Authority from Offsetting Collections & Recoveries	(17,721)	(931)	(2,739)	(9)
Obligations Net of Offsetting Collections	$1,554	($810)	$13,669	$7,747
Less: Offsetting Receipts	(1,993)			
Net Obligations	($439)	($810)	$13,669	$7,747
Other Resources				
Donations & Forfeitures of Property				
Transfers In/Out Without Reimbursement	($1,102)			
Imputed Financing from Costs Absorbed by Others	14			
Other Resources	(9)	$16		
Net Other Resources Used to Finance Activities	($1,097)	$16		
TOTAL RESOURCES USED TO FINANCE ACTIVITIES	($1,536)	($794)	$13,669	$7,747
Resources Used to Finance Items Not Part of the Net Cost of Operations				
Change in Budgetary Resources Obligated for Goods Services/Benefits Ordered but not yet Provided	($154)		$4,722	($2,337)
Resources That Fund Expenses from Prior Periods	(6,258)			
Budgetary Offsetting Collections and Receipts Not Affecting Net Cost of Operations	18,656			
Resources Financing Acquistion of Assets	(10,355)			
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	357		83	33
TOTAL RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS	$2,246	$0	$4,805	($2,304)
TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS	$710	($794)	$18,474	$5,443
COMPONENTS OF NET COST OF OPERATIONS NOT REQUIRING/ GENERATING RESOURCES IN THE CURRENT PERIOD:				
Components Requiring or Generating Resources in Future Periods				
Increase in Annual Leave Liability (Note 22)				
Increase in Environmental/Disposal Liability				
Reestimates of Credit Subsidy Expense	1,149			
Exchange Revenue Receivable from the Public				
Other				
TOTAL REQUIRING/GENERATING RESOURCES IN FUTURE PERIODS	$1,149	$0	$0	$0
Components Not Requiring/Generating Resources				
Depreciation and Amortization				
Revaluation of Loss or Liabilities	($1,275)			
Other	(4,519)			
TOTAL COMPONENTS OF NET COST OF OPERATION NOT REQUIRING/GENERATING RESOURCES	($5,794)	$0	$0	$0
TOTAL COMPONENTS OF NET COST OF OPERATIONS NOT REQUIRING/GENERATING RESOURCES IN THE CURRENT PERIOD	($4,645)	$0	$0	$0
NET COST OF OPERATIONS	($3,935)	($794)	$18,474	$5,443

Figures may not add to totals because of rounding.

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
$1,827	$3,636	$3,506	$1,735	$3,963		$58,227
(3)	(26)	(114)	(821)	(1,899)		(24,263)
$1,824	$3,610	$3,392	$914	$2,064		$33,964
				(8)		(2,001)
$1,824	$3,610	$3,392	$914	$2,056	$0	$31,963
				$237		($865)
				59		73
				(1)		6
				$295		$ (786)
$1,824	$3,610	$3,392	$914	$2,351	$0	$31,177
($293)	$62	$1,063	($580)	$1,716		$4,199
				(3)		(6,261)
			806	26		19,488
		72		(52)		(10,335)
20	27	(275)	22	(263)		4
$273	$89	$860	$248	$1,424	$0	$7,095
$1,551	$3,699	$4,252	$1,162	$3,775	$0	$38,272
				2		2
						1,149
			(646)	(11)		(657)
$0	$0	$0	($646)	($9)	$0	$494
				$13		$13
						(1,275)
				25		(4,494)
$0	$0	$0	$0	$38	$0	($5,756)
$0	$0	$0	($646)	$29	$0	($5,262)
$1,551	$3,699	$4,252	$516	$3,804	$0	$33,010

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CONSOLIDATING STATEMENT OF FINANCING FOR THE YEAR ENDED SEPTEMBER 2001

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
RESOURCES USED TO FINANCE ACTIVITIES:				
Budgetary Resources Obligated				
Obligations Incurred	$20,718	$151	$15,642	$4,970
Less: Spending Authority from Offsetting Collections & Recoveries	(17,863)	(918)	(2,556)	(14)
Obligations Net of Offsetting Collections	$2,855	($767)	$13,086	$4,956
Less: Offsetting Receipts	(620)			
Net Obligations	$2,235	($767)	$13,086	$4,956
Other Resources				
Donations & Forfeitures of Property				
Transfers In/Out Without Reimbursement	($1,384)			
Imputed Financing from Costs Absorbed by Others	14			
Other Resources	(7)	($62)	$51	$55
Net Other Resources Used to Finance Activities	($1,377)	($62)	$51	$55
TOTAL RESOURCES USED TO FINANCE ACTIVITIES	$858	($829)	$13,138	$5,011
Resources Used to Finance Items Not Part of the Net Cost of Operations				
Change in Budgetary Resources Obligated for Goods Services/Benefits Ordered but not yet Provided	$81		$3,654	($36)
Resources That Fund Expenses from Prior Periods	(9,492)			5
Budgetary Offsetting Collections and Receipts Not Affecting Net Cost of Operations	17,178			
Resources Financing Acquistion of Assets	(8,565)			
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	(260)			
TOTAL RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS	($1,058)	$0	$3,654	($31)
TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS	($200)	($829)	$16,791	$4,980
COMPONENTS OF NET COST OF OPERATIONS NOT REQUIRING/ GENERATING RESOURCES IN THE CURRENT PERIOD:				
Components Requiring or Generating Resources in Future Periods				
Increase in Annual Leave Liability (Note 22)				
Increase in Environmental/Disposal Liability				
Reestimates of Credit Subsidy Expense	$564			
Exchange Revenue Receivable from the Public				
Other		$24		
TOTAL REQUIRING/GENERATING RESOURCES IN FUTURE PERIODS	$564	$24	$0	$0
Components Not Requiring/Generating Resources				
Depreciation and Amortization				
Revaluation of Assets or Liabilities	($1,124)			
Other	(2,383)		$3	
TOTAL COMPONENTS OF NET COST OF OPERATION NOT REQUIRING/GENERATING RESOURCES	($3,507)	$0	$3	$0
TOTAL COMPONENTS OF NET COST OF OPERATIONS NOT REQUIRING/GENERATING RESOURCES IN THE CURRENT PERIOD	($2,943)	$24	$3	$0
NET COST OF OPERATIONS	($3,143)	($805)	$16,794	$4,980

Figures may not add to totals because of rounding.

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
$1,706	$3,152	$4,406	$1,221	$4,382		$56,348
(5)	(2)	(131)	(852)	(1,608)		(23,949)
$1,701	$3,150	$4,275	$369	$2,774		$32,399
				(6)		(626)
$1,701	$3,150	$4,275	$369	$2,768	$0	$31,773
				$204		($1,180)
				56		70
$18	$59	$58	$26	(261)		(63)
$18	$59	$58	$26	$1		(1,173)
$1,719	$3,209	$4,333	$395	$2,767	$0	$30,600
($283)	($62)	($18)	($75)	$696		$3,957
		6				(9,481)
			785	118		18,081
		76		(61)		(8,550)
		(344)		1		(603)
($283)	($62)	($280)	$710	$754	$0	$3,404
$1,436	$3,147	$4,053	$1,105	$3,521	$0	$34,004
				$1		$1
				(5)		559
			($672)	(5)		(677)
				9		33
$0	$0	$0	($672)	$0	$0	($84)
				$4		$4
						(1,124)
		$2		22		(2,356)
$0	$0	$2	$0	$26	$0	($3,476)
$0	$0	$2	($672)	$26	$0	($3,560)
$1,436	$3,147	$4,055	$433	$3,547	$0	$30,444

Required Supplementary Stewardship Information (Unaudited)

- **Investment in Non-Federal Physical Property**
- **Investment in Human Capital**
- **Investment in Research and Development**

This section provides information on certain resources entrusted to HUD. These resources do not meet the criteria for information required to be reported or audited in HUD's financial statements but are, nonetheless, important to understand HUD's operations and financial condition. The stewardship objective requires that HUD "report on the broad outcomes of its actions." Such reporting provides information that can help report users assess the impact of HUD's operations and activities. HUD's stewardship reporting responsibilities extend to investments made by a number of HUD programs in Non-Federal Physical Property, Human Capital, and Research and Development. Due to the relative immateriality of the calculation and in the application of the related administrative costs, the amounts reported below reflect direct program costs only. The investments addressed in this section reflect activity of programs administered through HUD's Offices of Community Planning and Development (CPD), Public and Indian Housing (PIH), Policy Development and Research (PD&R), and Office of Healthy Homes and Lead Hazard Control (OHHLHC).

CPD seeks to develop viable communities by promoting integrated approaches that provide decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons. HUD makes stewardship investments through the following CPD programs:

- **Community Development Block Grants (CDBG)** are provided to State and local communities, which use these funds to support a wide variety of community development activities. These activities are designed to benefit low- and moderate-income persons, aid in the prevention of slums and blight, and meet other urgent community development needs. State and local communities may use the funds as they deem necessary, as long as their use meets at least one of the program's objectives. A portion of the funds supports the acquisition or rehabilitation of property owned by State and local governments, while other funds help to provide employment and job training to low and moderate-income persons.

- **Disaster Grants** help State and local governments recover from major natural disasters. A portion of these funds can be used to acquire, rehabilitate or demolish physical property.

- **HOME** provides formula grants to States and localities (used often in partnership with local nonprofit groups) to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for low-income persons.

- **YouthBuild** grants are designed to assist younger individuals to obtain education, employment skills and meaningful work experience in a construction trade, enabling them to become more productive and self-sufficient.

PIH ensures safe, decent, and affordable housing, creates opportunities for residents' self-sufficiency and economic independence, and assures the fiscal integrity of all program participants. HUD made stewardship investments through the following PIH programs:

- **The Public Housing (PH) Capital Fund** provides grants to PHAs to improve the physical condition and to upgrade the management and operation of existing public housing.

- **HOPE VI** grants are provided to public housing agencies (PHAs) to support the improvement of the living environment of public housing residents in distressed public housing units. Some investments supported the acquisition or rehabilitation of PHA-owned property, while others helped to provide education and job training to residents of the communities targeted for rehabilitation.

- **Indian Housing Block Grants (IHBG)** provides funds needed to allow tribal housing organizations to maintain existing units and to begin development of new units to meet their critical long-term housing needs.

- **Indian Community Development Block Grants (ICDBG)** provides funds to Indian organizations to develop viable communities, including decent housing, a suitable living environment and economic opportunities, principally for low and moderate-income recipients.

- **The Public Housing Drug Elimination Program (PHDEP)** seeks to eliminate drug-related crime and activities in Public and Indian housing communities. A portion of these funds is used to improve property owned by the PHAs and thus increase security and prevent crime at the properties. Congress has terminated funding for this program after FY 2001.

PD&R: stewardship responsibilities include maintaining current information to monitor housing needs and housing market conditions, and to support and conduct research on priority housing and community development issues. HUD made stewardship investments through the following PD&R programs:

- **Community Development Work Study (CDWS):** Colleges and universities throughout the United States use this program to offer financial aid and work experience to students enrolled in a full-time graduate program in community development or a closely related field such as urban planning, public policy, or public administration.

- **Partnership for Advancing Technology in Housing (PATH)** is a public/private sector initiative which seeks to expand the development and utilization of new technologies in order to make American homes stronger, safer, and more durable; more energy efficient and environmentally friendly; easier to maintain and less costly to operate; and more comfortable and exciting to live in. PATH links key agencies in the federal government with leaders from the home building, product manufacturing, insurance, financial, and regulatory communities in a unique partnership focused on technological innovation in the American Housing industry.

OHHLHC: seeks to eliminate childhood lead poisoning caused by lead-based paint hazards and to address other children's diseases and injuries, such as asthma, unintentional injury, and carbon monoxide poisoning, caused by substandard housing conditions.

- **Lead Technical Assistance Division,** in support of the Departmental lead hazard control program, establishes and coordinates lead-based paint regulations and policy, and supports compliance assistance and enforcement. These programs also support technical assistance and the conduct of technical studies and demonstrations to identify innovative methods to create lead-safe housing at reduced cost. In addition, these programs support training for maintenance and rehabilitation workers to work with lead safely; for individuals to become certified lead professionals; for parents, building owners, housing and public health professionals, and others to increase awareness on lead-based paint and related housing-based health issues.

Non-Federal Physical Property

Investments in Non-Federal Physical Property support the purchase, construction, or major renovation of physical property owned by state and local governments. These investments support HUD's strategic goal 1, Increase the Availability of Decent, Safe, and Affordable Housing in American Communities; goal 4, Improve Community Quality of Life and Economic Vitality; and goal 5, Ensure Public Trust in HUD. The following table summarizes material HUD Non-Federal Physical Property investments by program. Additional information about the following programs' contributions to HUD's goals may be found in Section II of this report.

HUD Investments in Non-Federal Physical Property, FY 1998-2002

(dollars in millions)

Program	1998	1999	2000	2001	2002
CPD					
CDBG	$761	$603	$1,237	$1,189	$1,298
Disaster Grants	39	29	198	56	29
HOME	–	–	34	24	8
PIH					
PH Capital Fund	$2,178	$2,414	$2,046	$1,863	$2,036
HOPE VI	169	236	291	495	367
IHBG[1]	319	182	176	n/a	292
ICDBG	47	52	63	53	51
PHDEP[2]	11	10	6	4	n/a
TOTAL	$3,524	$3,526	$4,051	$3,684	$4,081

[1] 2001 investment data was unavailable for FY 2001 due to transition in contractor support providing data.

[2] Congress terminated funding for the PHDEP program for FY 2002.

Human Capital

Investments in Human Capital support education and training programs intended to increase or maintain national economic productive capacity. These investments support HUD's strategic goal 3, Promote Self-Sufficiency and Asset Development of Families and Individuals; goal 4, Improve Community Quality of Life and Economic Vitality; and goal 5, Ensure Public Trust in HUD. The following table summarizes material HUD's Human Capital investments by program. Additional information about the following programs' contributions to HUD's goals may be found in Section II of this report.

HUD Investments in Human Capital, FY 1998-2002

(dollars in millions)

Program	1998	1999	2000	2001	2002
CPD:					
CDBG	$16	$21	$22	$25	$29
Youthbuild	$9	$12	$13	$15	$14
PIH:					
HOPE VI	$27	$22	$29	$55	$51
PDR:					
CDWS	$4	$5	$4	$3	$3
HHLHC:					
Lead Technical Assistance[1]	–	$0	$1	$2	$7
TOTAL	$56	$60	$69	$100	$104

[1] *Amounts reflect payments made for training contracts.*

The following table presents the output (number of people trained) generated by human capital investments by HUD's CPD, PD&R, and HHLHC programs:

Number of People Trained, FY 1998-2002

Program	1998	1999	2000	2001	2002
CPD:					
CDBG	120,037	131,000	252,800	127,565	149,502
Youthbuild	2,264	2,752	3,000	3,614	2,717
PD&R:					
CDWS	110	97	101	98	99
HHLHC:					
Lead Technical Assistance[1]	–	–	6,834	19,579	23,501
TOTAL	122,411	133,849	262,735	150,856	175,819

[1] *People trained in FY 00 are estimates based on FY 00 investment in human capital.*

The following table presents key HOPE VI cumulative performance information for FY 2001 and FY 2002 since the program's inception (FY 1993).

	2001			2002		
HOPE VI Service	Cumulative Enrolled	Cumulative Completed	Percent Completed	Cumulative Enrolled	Cumulative Completed	Percent Completed
Employment Preparation, Placement, & Retention	9,508	not applicable	not applicable	18,638	not applicable	not applicable
Job Skills Training Programs	5,767	3,583	62%	9,333	5,565	60%
High School Equivalent Education	2,987	1,793	60%	5,180	2,028	39%
Entrepreneurship Training	897	530	59%	1,182	631	53%
Homeownership Counseling	3,017	1,196	40%	3,646	1,580	43%

In addition, dating back to the program's inception, nearly 15,000 program participants are currently employed, with nearly 12,000 employed six months or more. Entrepreneurship training contributed to the creation of nearly 250 new businesses, employing nearly 350 HOPE VI property residents.

Research and Development

Investments in Research and Development support the search for new or refined knowledge and ideas and of the application of such knowledge to develop new or improved products or processes intended to increase economic productive capacity or yield other future benefits. These investments support HUD's strategic goal 1, Increase the Availability of Decent, Safe, and Affordable Housing In American Communities; and goal 5, Ensure Public Trust in HUD. The following table summarizes HUD's material Research and Development Investments since FY 1998. Additional information on the following programs' contributions to HUD's goals may be found in Section II of this report.

HUD Investments in Research and Development FY 1998-2002
(dollars in millions)

Program	1998	1999	2000	2001	2002
PD&R:					
PATH	n/a	$3	$7	$9	$10
HHLHC:					
Lead Technical Assistance[1]	$2	$12	$9	$6	$3
TOTAL	$2	$15	$16	$15	$13

[1] *Amounts represent budgeted obligations.*

PD&R revised its performance goals for the PATH program starting in FY 2001. During FY 2001, PATH investments generated more than 160 technology listings, which exceeded program listing target levels. In addition, PATH awarded 11 university-based applied research projects, 16 technology development projects, and 6 technology policy/planning research projects. Though FY 2002 investments have not been completed, PATH has maintained over 190 technology listings, awarded 6 major university-based research projects, 5 technology development projects (with 8 more going through contract processes), and 5 technology policy/planning research projects, one of which includes the new measures for PATH's evaluation against the goals established in 2001. These measures will be completed in January 2003.

The studies under the Lead Technical Assistance program, in support of the Departmental lead hazard control program, have contributed to an overall reduction in the per-housing unit cost of the OHHLHC's Lead Hazard Control Grant Program, as indicated in the following table. These studies also lead to the identification of the prevalence of related hazards.

Per-Housing Unit Cost of Lead Hazard Evaluation and Control FY 1998-2002

Program	1998	1999	2000	2001	2002
HHLHC:					
Lead Technical Assistance	$6,999	$5,532	$5,881	$4,639	$5,411

Required Supplementary Information (Unaudited)

• Intragovernmental Balances

HUD's Intragovernmental amounts represent transactions with other federal entities included in the government's annual report. These transactions include assets, liabilities and earned revenues as follows:

September 30, 2002
(Dollars in Millions)

Intragovernmental Assets:

Trading Partner	Fund Balance	Accounts Receivable	Investments	Other	Total
Department of Treasury	$77,632	$3	$28,342	–	$105,977
Other Agencies	–	–	–	–	–
Total	$77,632	$3	$28,342	–	$105,977

Intragovernmental Liabilities:

Trading Partner	Accounts Payable	Debt	Other	Total
Department of Treasury	$3,096	$11,677	$4,654	$19,427
Other Agencies	–	–	20	20
Total	$3,096	$11,677	$4,674	$19,447

Intragovernmental Earned Revenues and Related Costs:

Trading Partner	Earned Revenue
Department of Treasury	$1,867
Other Agencies	–
Total	$ 1,867

Budget Functional Classification	Gross Cost to Generate Revenue
Commerce and Housing Credit	–
Community and Regional Dev	–
Income Security	–
Total	–

September 30, 2001

(Dollars in Millions)

Intragovernmental Assets:

Trading Partner	Fund Balance	Accounts Receivable	Investments	Other	Total
Department of Treasury	$73,948	–	$23,979	–	$97,927
Other Agencies	–	$ 6	–	$ 43	49
Total	$73,948	$6	$23,979	$43	$97,976

Intragovernmental Liabilities:

Trading Partner	Accounts Payable	Debt	Other	Total
Department of Treasury	$2,039	$9,235	$4,918	$16,192
Other Agencies	7	–	23	30
Total	$2,046	$9,235	$4,941	$16,222

Intragovernmental Earned Revenues and Related Costs:

Trading Partner	Earned Revenue
Department of Treasury	$2,053
Other Agencies	–
Total	$2,053

Budget Functional Classification	Gross Cost to Generate Revenue
Commerce and Housing Credit	–
Community and Regional Dev	–
Income Security	–
Total	–

Independent Auditor's Report on the Financial Statements

To the Secretary,
U.S. Department of Housing and Urban Development:

In accordance with the Chief Financial Officers (CFO) Act of 1990, we have audited the accompanying consolidated balance sheets of the Department of Housing and Urban Development (HUD) as of September 30, 2002 and 2001, and the related consolidated statements of net cost, changes in net position, and financing and the combined statement of budgetary resources for the fiscal years then ended. The objective of our audit was to express an opinion on the fair presentation of these principal financial statements. We did not audit the financial statements of the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae), whose combined statements reflect total assets constituting 38 percent of the related consolidated totals. Other auditors, whose reports have been furnished to us, audited those statements and our opinion, insofar as it relates to the amounts included for FHA and Ginnie Mae, is based solely on the reports of the other auditors. In connection with our audit, we also considered HUD's internal control over financial reporting and tested HUD's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its principal financial statements.[1]

Opinion on the Financial Statements

In our opinion, based on our audit and the reports of other auditors, the accompanying principal financial statements present fairly, in all material respects, the financial position of HUD as of September 30, 2002 and 2001 and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit also disclosed:

- Material weaknesses in internal controls in fiscal year 2002 related to the need to:
  - comply with Federal financial management system requirements, including the need to enhance FHA information technology systems to more effectively support FHA's business processes;
  - improve oversight and monitoring of subsidy calculations and intermediaries program performance; and
  - improve FHA's controls over budget execution and funds control.

- Reportable conditions in internal controls in fiscal year 2002 related to the need to:
  - improve quality control over performance measures data;
  - improve controls over project-based subsidy payments;
  - strengthen controls over HUD's computing environment;
  - improve personnel security practices for access to the Department's systems;
  - improve funds controls over public housing operating funds;
  - improve processes for reviewing obligation balances;
  - more effectively manage controls over the FHA systems' portfolio;
  - place more emphasis on monitoring lender underwriting and improving early warning and loss prevention for FHA single family insured mortgages;
  - sufficiently monitor FHA's single family property inventory; and
  - improve FHA's controls over the credit subsidy adjustment process.

[1] *This report is a condensed version of a more detailed report issued separately on January 31, 2003 by HUD, OIG entitled, "Audit of U.S. Department of Housing and Urban Development Financial Statements for Fiscal Years 2002 and 2001" (2003-FO-0004). The report is available at HUD, OIG Internet site at* ***http://www.hud.gov/oig/oigindex.html****.*

Most of these control weaknesses were reported in prior efforts to audit HUD's financial statements and represent long-standing problems. It should be noted, we have combined two material weaknesses reported in prior years relating to the need to "improve oversight and monitoring of housing subsidy determinations" and "ensure that subsidies are based on correct tenant income." Those material weaknesses are now reported as "Improvements needed in oversight and monitoring of subsidy calculations and intermediaries program performance."

In this *Fiscal Year 2002 Performance and Accountability Report*, HUD reports that it complied with Section 2 of the Federal Managers' Financial Integrity Act (FMFIA), with the exception of the material weaknesses and nonconformances specifically identified in that report. Section 2 and related guidance require that: (1) an agency's internal accounting and administrative controls provide reasonable assurance that obligations and costs are in compliance with applicable laws; (2) funds, property and assets are adequately safeguarded; and (3) revenues and expenditures are properly and reliably accounted for and reported. HUD was unable to report compliance with Section 4, which requires that accounting systems conform to applicable accounting principles and standards. For fiscal year 2001 and prior years, we disagreed with the Department's statement of overall assurance in the Department's *Accountability Reports*. HUD's compliance determinations did not fully consider the magnitude of the problems HUD acknowledges in its own FMFIA process. As permitted by the Reports Consolidation Act of 2000 (PL 106-531), HUD did not prepare a separate FMFIA report for fiscal year 2002, but will be addressing those reporting requirements in this *Fiscal Year 2002 Performance and Accountability Report*. Given the magnitude of the problems that still remain, we continue to believe that an FMFIA statement of noncompliance would be appropriate for HUD.

Our findings also include the following instance of non-compliance with applicable laws and regulations:

- HUD did not substantially comply with the Federal Financial Management Improvement Act (FFMIA). In this regard, HUD's financial management systems did not substantially comply with (1) Federal Financial Management Systems Requirements, (2) applicable accounting standards, and (3) the U.S. Standard General Ledger (SGL) at the transaction level.

Consolidating Financial Information

We conducted our audit for the purpose of forming an opinion on the fiscal years 2002 and 2001 principal financial statements taken as a whole. HUD is presenting consolidating balance sheets and related consolidating statements of net costs, changes in net position, and financing and combining statements of budgetary resources as supplementary information in this *Fiscal Year 2002 Performance and Accountability Report*. The consolidating and combining financial information is presented for purposes of additional analysis of the financial statements rather than to present the financial position, changes in net position, budgetary resources, and net costs of HUD's major activities. The consolidating and combining financial information is not a required part of the principal financial statements. The financial information has been subjected to the auditing procedures applied to the principal financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Required Supplementary Information

In this *Fiscal Year 2002 Performance and Accountability Report*, HUD presents "Required Supplemental Stewardship Information," specifically, information on investments in non-federal physical property and human capital. In addition, HUD presents a (Management's) "Discussion and Analysis of Operations" and information on intra-governmental balances. This information is not a required part of the basic financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board and Office of Management and Budget (OMB) Bulletin 01-09, *Form and Content of Agency Financial Statements*. We did not audit and do not express an opinion on this information, however, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. In accordance with OMB Bulletin 01-09, the Department, through confirmations, reconciled their intragovernmental transactions with their trading partners with immaterial differences.

Additional details on our findings regarding HUD's internal control environment, housing assistance program delivery, and system and accounting issues are summarized below and were provided in a separate report to HUD management. These additional details also augment the discussions of instances in which HUD had not complied with applicable laws and regulations; the information regarding our audit objectives, scope, and methodology; and recommendations to HUD management resulting from our audit.

Issues with HUD's Internal Control Environment

Most of the material weaknesses and reportable conditions discussed in this report relate to issues discussed in prior years' reports on HUD's financial statements. HUD has been taking actions to address the weaknesses and in some instances has made progress in correcting them. For the most part, progress has been at a slow pace because HUD needs to address issues that fundamentally impact its internal control environment. These issues are Department-wide in scope and must be addressed for HUD to more effectively manage its programs. We have reported for the past several years that HUD has made progress toward overhauling its operations and addressing its management problems through these efforts, but challenges remain. As discussed below, HUD's ability to address its problems will substantially improve if it completes the efforts to:

- deploy a reliable financial management system that meets its program and financial management needs and complies with federal requirements, and

- continue with the implementation of its process to identify and justify its staff resource requirements.

The most critical need faced by HUD in improving its control environment is to complete development of adequate systems. The lack of an integrated financial system in compliance with federal financial system requirements has been reported as a material weakness since fiscal year 1991. To correct financial management deficiencies in a Department-wide manner, HUD initiated a project to design and implement an integrated financial system consisting of both financial and mixed systems. Over the years, the Department's plans have experienced significant schedule delays, changes in direction and cost overruns.

In addition to improving its financial systems, HUD will need to more effectively manage its limited staff resources. Many of the weaknesses discussed in this report, particularly those concerning HUD's oversight of program recipients, are exacerbated by HUD's resource management shortcomings. Accordingly, we consider it critical for the Department to address these shortcomings through the successful completion of ongoing plans.

In our separate report, we elaborate on the need for improved systems and resource management. In addition, we discuss the need for HUD to improve quality controls over performance measure data.

Housing Assistance Program Delivery

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofits and for profit) and HAs. These intermediaries, in-turn, provide housing assistance to benefit primarily low-income households. HUD spent about $23 billion in fiscal year 2002 to provide rent and operating subsidies that benefited over 4 million households. Weaknesses exist in HUD's control structure such that HUD cannot be assured that these funds are expended in accordance with the laws and regulations authorizing the grant and subsidy programs.

Legislation authorizing HUD's housing assistance programs includes specific criteria concerning tenant eligibility and providing assistance for housing that meets acceptable physical standards. Moreover, legislation authorizing HUD's programs also establishes minimum performance levels to be achieved. For example, subsidized housing must comply with HUD's housing quality standards.

HUD relies heavily upon intermediaries to ensure that rent calculations for assisted households are based on HUD requirements. Ultimately, these rent calculations determine the amount of subsidy HUD pays on behalf of the assisted household. Under project-based programs administered by the Office of Housing, the individual project owners or agents carry out this responsibility. Under public housing and tenant-based Section 8 programs, the HAs determine eligibility and rent amounts for eligible households residing in public housing or at approved housing provided by private landlords. In prior reports on HUD's financial statements, we have expressed concerns about the significant risk to HUD that these intermediaries are not properly carrying out this responsibility. HUD's control structure does not adequately address this risk due to insufficient on-site monitoring along with the absence of an on-going quality control program that would periodically assess the accuracy of intermediaries' rent determinations.

In November 2000, a contracted study of rent determinations under HUD's major housing assistance programs showed that estimated errors made by project owners and HAs resulted in substantial subsidy overpayments and underpayments. The purpose of the study was to provide national estimates of the extent, severity, costs, and sources of errors occurring in the certification and recertification procedures used by HAs and owners in calculating tenant rents. The study projected that annually, about $1.7 billion in subsidies was overpaid on behalf of households paying too little rent and about $600 million in subsidies was underpaid on behalf of households paying too much rent based on HUD requirements. In FY 2001, HUD used the information from the study to determine the estimated errors due to unreported tenant income. Tenants often do not report income or under report income which, if not detected, causes HUD to make excessive subsidy payments. As a result of the 2001 assessment, HUD identified an additional $ 978 million in overpaid rental subsidies.

In fiscal year 2002, HUD again added to the study by determining an estimate for errors resulting from incorrect intermediaries' billings for Section 8 rental subsidies. HUD estimated an additional $257.1 million in erroneous payments due to intermediaries' billings. This represents $121.5 million in overpayments and $135.6 million in underpayments. HUD plans to provide a single updated annual error estimate combining all three measurements beginning in fiscal year 2003.

In fiscal year 2001, HUD initiated the Rental Housing Integrity Improvement Project (RHIIP). This Secretarial initiative is designed to reduce errors and improper payments by (1) simplifying the payment process, (2) enhancing administrative capacity, and (3) establishing better controls, incentives, and sanctions. These improvements will be implemented over the next several years with a fiscal year 2005 goal of reducing by 50 percent the frequency of calculation processing errors and the amount of subsidy overpayments.

System and Accounting Issues

In our earlier discussion of concerns we have with HUD's internal control environment, we stressed the need for HUD to complete on-going efforts to improve its financial systems. Because of the large volume of financial transactions, HUD relies heavily on automated information systems. In prior years, we reported on security weaknesses in both HUD's general processing and specific applications such that HUD could not be reasonably assured that assets are adequately safeguarded against waste, loss, and unauthorized use or misappropriation. Progress in improving these controls has been slow. The weaknesses noted in our current audit relate to the need to improve:

- controls over the computing environment; and
- administration of personnel security operations.

We also noted the need for HUD to improve funds controls over public housing operating funds and processes for reviewing outstanding obligations to ensure that unneeded amounts are deobligated in a timely manner. Major deficiencies include:

- PIH did not have an operational, information system for monitoring operating subsidy eligibility requirements and obligations during six months of fiscal year 2002.
- A lack of integration between accounting systems and the need for accurate databases has hampered HUD's ability to evaluate unexpended obligations.

Results of the Audit of FHA's Financial Statements

A separate audit was performed of FHA's fiscal year 2002 and 2001 financial statements by the independent certified public accounting firm of KPMG LLP. Their report on FHA's financial statements, dated January 21, 2003,[2] includes an unqualified opinion on FHA's financial statements, along with discussions of two material weaknesses and four reportable conditions. The FHA material weaknesses are as follows:

- HUD/FHA's ADP system environment must be enhanced to more effectively support FHA's business processes. HUD and FHA are conducting day-to-day business with legacy-based systems. Several systems directly impact FHA's financial activity and necessitate financial transactions to be processed through non-integrated systems, requiring manual analysis and summary entries to be posted to FHA's general ledger. FHA's and HUD's inability to implement modern information technology adversely affects the internal controls related to accounting and reporting financial activities.
- Controls over budget execution and funds control must be improved. FHA does not have a collection of ADP financial systems that are capable of fully monitoring and controlling budgetary resources in an ADP integrated process. Lack of efficient integration between these systems requires the use of manual analysis and reconciliation and use of additional databases to collect and summarize funds control information, which subjects the process to the risk of errors resulting from reliance on manual processes.

[2] *KPMG LLP's report on FHA entitled, "Audit of Federal Housing Administration Financial Statements for Fiscal Years 2002 and 2001" (2003-FO-0002, dated January 21, 2003) was incorporated in our report.*

- KPMG LLP also notes four reportable conditions regarding the need for FHA and HUD to: (1) more effectively manage controls over the FHA ADP systems portfolio, (2) place more emphasis on monitoring lender underwriting and improving early warning and loss prevention for single family insured mortgages, (3) sufficiently monitor its single family property inventory, and (4) improve the controls over credit subsidy adjustment process.

We consider the above issues to be material weaknesses and reportable conditions at the Departmental level. A more detailed discussion of these issues can be found in KPMG LLP's report on FHA's fiscal years 2002 and 2001 financial statements.

Results of the Audit of Ginnie Mae's Financial Statements

A separate audit was performed of the Ginnie Mae's financial statements for fiscal years 2002 and 2001 by KPMG LLP. Their report on Ginnie Mae's financial statements, dated January 30, 2003,[3] includes an unqualified opinion on these financial statements. In addition, the audit results indicate that there were no material weaknesses or reportable conditions with Ginnie Mae's internal controls, or material instances of non-compliance with laws and regulations.

HUD Has Made Progress in Addressing Management Deficiencies, but More Progress is Needed

Most of the issues described in this report represent long-standing weaknesses that will be difficult to resolve. HUD's management deficiencies have received much attention in recent years. For example, in January 1994, GAO designated HUD as a high-risk area, the first time such a designation was given to a cabinet level agency. Since that time, HUD has devoted considerable attention and priority to addressing the Department's management deficiencies and has made some progress. In their January 2001 update, GAO redefined and reduced the number of programs deemed to be high-risk. Specifically, because of the actions taken by HUD in response to GAO's recommendations to improve its management controls over its Community Planning and Development programs, GAO concluded that this program area is no longer high risk. However, GAO concluded that significant weaknesses still persist in two of HUD's major program areas: (1) single-family mortgage insurance and (2) rental housing assistance. In addition, HUD needs to continue addressing management challenges in two other areas: (1) information and financial management systems and (2) human capital. GAO plans to release their 2003 Performance and Accountability and High Risk Series on January 30, 2003, which will update their January 2001 assessment of HUD.

With respect to fiscal years 2002 and 2001, we were able to conclude that HUD's consolidated financial statements were reliable in all material respects. However, because of continued weaknesses in HUD's internal controls and financial management systems, HUD continues to rely on

[3] *KPMG LLP's report on Ginnie Mae entitled, "Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2002 and 2001" (2003-FO-0003, dated January 30, 2003) was incorporated in our report.*

extensive ad hoc analyses and special projects to develop account balances and necessary disclosures.

Objectives, Scope and Methodology

The accompanying principal financial statements are the responsibility of HUD management. Our responsibility is to express an opinion on these principal financial statements based on our audit. As part of our audit, we considered HUD's internal controls over financial reporting for the purpose of expressing our opinion on the principal financial statements and not to provide assurance on those internal controls. We conducted our audit in accordance with *Government Auditing Standards*, and the requirements of OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*, as amended. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

We also tested HUD's compliance with laws and regulations that could have a direct and material effect on the financial statements. However, our consideration of HUD's internal controls and our testing of its compliance with laws and regulations were not designed to and did not provide sufficient evidence to express an opinion on such matters and would not necessarily disclose all matters that might be material weaknesses, reportable conditions or noncompliance with laws and regulations. Accordingly, we do not express an opinion on HUD's internal controls or on its compliance with laws and regulations.

Agency Comments and Our Evaluation

On January 3, 2003, we provided a draft of the internal control and compliance sections of our report to the CFO and appropriate assistant secretaries and other Departmental officials for review and comment, and requested that the CFO coordinate a Department-wide response. The CFO responded in a memorandum dated January 10, 2003. Remaining sections of the draft report were provided on January 17, 2003. The Department generally agreed with our presentation of findings and recommendations subject to detailed comments included in the memorandum and attachments. The Department's response was considered in preparing the final version of this report

James A. Heist

James A. Heist
Assistant Inspector General for Audit

January 27, 2003

Management and Performance Challenges and Progress

In accordance with the Reports Consolidation Act of 2000, HUD's Annual Performance and Accountability Report "…shall include a statement prepared by the agency's inspector general that summarizes what the inspector general considers to be the most serious management and performance challenges facing the agency and briefly assesses the agency's progress in addressing those challenges." On December 23, 2002, HUD's Inspector General provided a statement on five management challenges for inclusion in this FY 2002 Performance and Accountability Report.

1. Complete Department-wide organizational changes.
2. Improve financial management systems.
3. Assure adequate and sufficiently trained HUD staff.
4. Improve Federal Housing Administration (FHA) single-family origination and real estate owned property oversight.
5. Improve the effectiveness and efficiency of public and assisted housing program administration.

The full text of the HUD Inspector General's FY 2002 Management and Performance Challenges statement is presented in its entirety in the section that immediately follows. HUD management agrees that the five areas identified in the Inspector General's statement are major challenges currently facing the Department. As an indicator of the importance being placed on addressing each of these challenge issues, they are all covered by HUD initiatives in the President's Management Agenda. In addition to the progress recognized in the Inspector General's statement, further information on HUD efforts to address these challenges is provided in President's Management Agenda section of the Management Discussion and Analysis part of this report. The following chart presents a crosswalk between the Inspector General's reported challenges and HUD initiatives under the President's Management Agenda.

Inspector General Reported Challenge Issue		President's Management Agenda (PMA) Coverage
1. Complete Department-wide organizational changes.	→	PMA Initiative 1 – Management of Human Capital
2. Improve financial management systems.	→	PMA Initiative 3 – Improved Financial Performance
3. Assure adequate and sufficiently trained HUD staff.	→	PMA Initiative 1 – Management of Human Capital
4. Improve Federal Housing Administration (FHA) single-family origination and real estate owned property oversight.	→	PMA Initiative 8 – Improve FHA Risk Management
5. Improve the effectiveness and efficiency of public and assisted housing program administration.	→	PMA Initiatives 5 and 7 – Improve the Performance of Housing Intermediaries and Reduce Overpaid Rent Subsidies

U.S. Department of Housing and Urban Development
Office of Inspector General
451 7th St., S.W.
Washington, D.C. 20410-4500

December 23, 2002

MEMORANDUM FOR: Mel Martinez, Secretary, S

FROM: Kenneth M. Donohue, Inspector General, G

SUBJECT: Management and Performance Challenges

In accordance with Section 3 of the Reports Consolidation Act of 2000, the Office of Inspector General is submitting a statement to you summarizing our current assessment of the most serious management and performance challenges facing the Department of Housing and Urban Development (HUD) in Fiscal Year 2003 and beyond. These issues have been the focus of much of our audit and investigative effort. Our Semiannual Reports to the Congress provide more specific details.

The management and performance challenges facing HUD have been present for many years. The management structure, size, and complexity of HUD's major programs make it difficult to correct and overcome program weaknesses. HUD is working to address these challenges and in some instances has made progress in correcting them. The Department's management challenges reported this year include the need to:

- Complete Department-wide organizational changes.
- Improve financial management systems.
- Assure adequate and sufficiently trained HUD staff.
- Improve Federal Housing Administration (FHA) single-family origination and real estate owned property oversight.
- Improve the effectiveness and efficiency of public and assisted housing program administration.

The attachment provides a greater discussion of these challenges and the OIG's efforts to help the Department resolve these matters. We continue our appeal that HUD makes every effort to eliminate high risk and staff intensive programs, and focus sufficient resources on HUD's core mission areas.

Attachment

HUD Management and Performance Challenges Fiscal Year 2003 and Beyond

Department-wide Organizational Changes

For nearly 10 years, the Department has struggled with organizational and management changes in an effort to streamline operations. These changes were inevitable as HUD struggled to manage more programs and larger budgets with fewer staff. The past Administration made an effort to realign the Department along functional lines, separating outreach from program administration. Also, they attempted to place greater reliance on automated tools, processing centers, and contracted services. As HUD implemented these changes, many employees were assigned new duties and responsibilities and many new employees were hired. While organizational changes were intended to increase the efficiency and effectiveness of HUD's delivery systems, disruptions caused by these sweeping changes further compounded problems in effectively managing HUD operations. Among the problems were unclear lines of authority, many staff in the wrong location, and difficulty in providing supervision to remote staff.

Our past semiannual reports noted that many organizational changes were slow to be put in place, and those in place were not working effectively. For example, they lacked delegations of authority, written policies and procedures, and training support. HUD's current management team likewise found problems with the organizational and operational changes made by the previous Administration. They found some of the organizational and staffing realignments, such as the Community Builder function, an ineffective use of HUD's human capital. As a result, earlier this year, decisions were made and actions taken to pursue separate realignments of headquarters and field activities to better use existing resources. Changes this year include:

- The Departmental Enforcement Center (DEC) was placed under the direction of the General Counsel to consolidate legal resources in support of a strong program enforcement effort. HUD's program enforcement efforts were previously under the Office of General Counsel prior to the creation of a separate DEC.

- The Real Estate Assessment Center (REAC) was placed under the direction of the Assistant Secretary for Public and Indian Housing (PIH), in order to improve REAC's working relationships with program staff and program partners and strengthen accountability for resource use and results.

- The Office of the Chief Procurement Officer (OCPO) and Office of the Chief Information Officer (OCIO) were placed under the direction of the Assistant Secretary for Administration/Chief Information Officer, to streamline HUD's organizational structure and improve service delivery to HUD's program and administrative components.

- The Office of Field Policy and Management (FPM) was established as an independent office reporting to the Deputy Secretary, with responsibility for oversight of HUD's field management and assistance to program Assistant Secretaries in meeting program goals at the field office level.

- Substantial numbers of staff in the outreach function were redeployed to understaffed program delivery and oversight functions, where there is a critical need.

- New regional management positions were created to give HUD's field operations greater operational control over the administrative budget resources they need to pursue their operating and program goals, and to strengthen the local focus on workload management to meet national performance goals.

These operational changes delegate additional authority to the field. We see these as positive steps in bringing operational activities and authority closer to the customers HUD serves. We continue to see this as a management challenge as HUD is still working to formalize lines of authority and set these changes in place.

Financial Management Systems

HUD needs to complete the development of its financial management systems. The lack of an integrated financial system in compliance with federal financial system requirements has been reported as a material weakness in internal controls since Fiscal Year 1991. While progress has been made in improving the Department's general ledger system, a number of long-standing deficiencies remain.

Our annual financial audits continue to report systems integration problems. For example, there is a lack of an automated interface between the Departmental general ledger and the FHA subsidiary ledger, which necessitates extensive manual analyses, reprocessing, and additional entries. FHA's funds control process is also largely manual, even to the point of requiring the handcarrying of documents. Other serious deficiencies include the inability to timely identify excess funds on expired Section 8 projects and inadequate assurance about the propriety of Section 8 rental assistance payments.

To correct financial management deficiencies in a Department-wide manner, HUD initiated a project to design and implement an integrated financial system consisting of both financial and mixed systems. Over the years, the Department's plans have experienced significant schedule delays, changes in direction, and cost overruns. Because of the many concerns we have raised in our audits, the Department is proceeding cautiously. The Department is planning to contract for a feasibility study and cost benefit and risk analyses to help it identify the best platform for its integrated financial system.

HUD's security program and practices is another issue critical to HUD's financial systems. In accordance with the requirements of the Government Information Security Reform Act, the OIG performed its annual evaluation of HUD's security program and practices and found that the security monitoring program still needs strengthening, the information security program lacks executive level leadership and direction, and previously reported weaknesses in management, operational, and technical controls remain uncorrected

HUD has a draft plan for establishing and maintaining an effective, comprehensive information technology security program at HUD. Our review found improvements in information security. Also, during Fiscal Year 2002, HUD initiated the planning and program development for an entity-wide security awareness and training program. Despite these improvements, greater emphasis on information security is needed.

Adequate and Sufficiently Trained Staff

For many years the Department has lacked a system for measuring work and reporting time, thereby making it a difficult task to determine staff resource needs. HUD worked with the National Academy of Public Administration (NAPA) to develop a methodology or approach for resource management that would allow the Department to identify and justify its resource requirements for effective and efficient program administration and management.

HUD needs to more effectively manage its limited staff resources. Many of the weaknesses facing HUD, particularly those concerning HUD's oversight of program recipients, are exacerbated by HUD's resource management shortcomings. Accordingly, we consider it critical for the Department to address these shortcomings through the successful completion of ongoing plans. To operate properly and hold individuals responsible for performance, HUD needs to know that it has the right number of staff with the proper skills.

To address staffing imbalances and other human capital challenges, the Department has implemented the Resource Estimation and Allocation Process (REAP). The last phase of REAP (a baseline for staffing requirements) was completed in January 2002. The next step in development of the Department's resource management strategy is the implementation of the Total Estimation and Allocation Mechanism (TEAM). TEAM is the validation component of REAP and will collect actual workload accomplishments and staff usage data for comparison against the REAP baseline. TEAM implementation began this spring and the second cycle began in August. Our audit of the TEAM process found the Department has made significant progress in developing and implementing the key components of its human resource management system since September 2000. The Department anticipates the allocation module of TEAM will be implemented in the first quarter of Fiscal Year 2003. The Department now needs to develop a comprehensive strategic workforce plan that includes elements as to how the data from the REAP studies and TEAM system will be used to plan and allocate its human resources among its various operating components.

HUD developed a 5-year Human Capital Strategic Plan, which was submitted to OMB earlier this year. An Executive Steering Committee is further refining this plan. HUD's human capital management challenges consist of:

- Linking and aligning staff with mission, goals, and organizational objectives through strategic Human Capital Planning;
- Correcting staff shortages and skills gaps resulting from downsizing initiatives during the 1990s;
- Meeting long range staff needs due to a maturing workforce, with about half of the workforce eligible for retirement over the next 5 years; and
- Increasing the use of technology to support organizational improvements and the accomplishment of goals and objectives.

FHA Single Family Origination and Real Estate Owned (REO) Oversight

Procedures and practices pertaining to HUD's Single Family Loan Origination Program have undergone considerable change, particularly in the last 5 years. The changes have been both programmatic and organizational, including significant changes in loan underwriting requirements and the transfer of virtually all aspects of Single Family production and program monitoring from HUD staff to lenders and contractors under the oversight of HUD's Homeownership Centers.

Consistent with the GAO's identification of single-family mortgage insurance programs as a high-risk area, the President's Management Agenda has committed HUD to tackling long-standing management problems that expose FHA homebuyers to fraudulent practices. HUD is taking steps to protect homebuyers from a fraudulent practice known as property flipping, changes are underway to strengthen the property appraisal process and other actions are being proposed to better disclose FHA closing costs.

Prior audits of FHA's financial statements have reported on the need for improvement in early warning and loss prevention for FHA single family insured mortgages. FHA continues to make progress in improving its ability to monitor its insured portfolio. However, FHA needs to fully implement initiatives to effectively identify and manage risks in its single family insured portfolio. FHA needs to increase its use and analysis of other data now available to continue improvements in lender monitoring. Timely identification of lenders with above average early default rates is a key element of FHA's efforts to target monitoring and enforcement resources to single family insured mortgages and lenders that represent the greatest financial risks to FHA. Potentially problem lenders must be identified before FHA can institute loss mitigation techniques and lender enforcement measures that can reduce eventual claims.

Our most recent semiannual report to Congress discussed two single-family program audits. The first audit examined the priority-bidding period for owner occupants that were purchasing HUD owned properties. The audit found that as many as 29 percent of the buyers that purchased properties, as owner occupants, never lived in the property. Consequently, where HUD intended to give sales priority to first time homebuyers, many investors circumvented the rules during the initial 10-day priority-bidding period. The second audit examined the down payment assistance programs operated by several non-profit entities. Because of HUD system problems, the audit could not conclusively identify the extent to which down payment assistance loans have a higher default rates. However, we did find this activity increasing and some evidence that these loans pose a greater than average risk to the FHA program

Several steps are in process to improve FHA risk management. An accurate appraisal is critical in protecting FHA's insurance risk. An appraiser watch initiative was proposed in July 2002 that would permit HUD to take action against appraisers that are associated with a significant number of defaulted properties. Action on that proposal is expected in the next few months. Other actions are in process to strengthen appraiser oversight. Additionally the Department is attempting to put controls in place to deter the flipping of properties. Most property flips are at inflated values. The proposal under consideration would prohibit FHA from insuring properties where the last sale is less than 90 days old. Additionally, properties resold between 90 days and a year would receive tighter scrutiny. Properties that have been resold in the first year at excessive profit would require an additional appraisal to assure the proper valuation.

Public and Assisted Housing Program Administration

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofits and for profit) and Housing Authorities (HAs). These intermediaries, in-turn, provide housing assistance to benefit primarily low-income households. HUD spent about $21 billion in Fiscal Year 2002 to provide rent and operating subsidies that benefited over 4 million households. In 2000, a HUD study found that 60 percent of all rent and subsidy calculations performed by administrative intermediaries contained some type of error. Weaknesses exist in HUD's control structure such that HUD cannot be assured that these funds are expended in accordance with the laws and regulations authorizing the grant and subsidy programs.

The Office of Public and Indian Housing (PIH) provides funding for rent subsidies through its public housing operating subsidies and tenant-based Section 8 rental assistance programs. These programs are administered by HAs who are to provide housing to low-income families or make assistance payments to private owners who lease their rental units to assisted families. The Office of Housing administers a variety of assisted housing programs including parts of the Section 8 program and the Section 202/811 programs. These subsidies are called "project-based" subsidies because they are tied to particular properties, therefore tenants who move from such properties may lose their rental assistance. This is a significant responsibility because of the sizable number of project owners HUD must monitor.

For many years we have reported on material weaknesses with the monitoring of HAs and multifamily projects. These monitoring weaknesses seriously impact HUD's ability to ensure that its intermediaries are correctly calculating housing subsidies. This material weakness was first reported in our financial audit in 1991 and it has been reported in every audit thereafter. The Secretary has made the reduction of subsidy overpayments a top priority of his Administration.

In conjunction with OMB, HUD has established a goal for a 50 percent reduction in both the frequency of calculation processing errors and the amount of subsidy overpayments by 2005. The Rental Housing Improvement Project is a Secretarial initiative designed to reduce errors and improper payments by 1) simplifying the payment process, 2) enhancing administrative capacity, and 3) establishing better controls, incentives, and sanction. These improvements will be implemented through a series of actions over the next 2 years.

HUD continues to implement its performance oriented, risk based strategy for carrying out its HA oversight responsibilities. As noted in previous financial audits, further improvements need to be made in the field offices' monitoring of its HAs in key areas. As in previous years, we could not fully assess HUD's measures aimed at improving oversight of HAs since the Department's plans to monitor and improve performance are not yet fully developed and continue to experience delays. Finally, HUD has been slow to implement additional strategies needed to improve the quality control over the rental assistance subsidy determinations.

In prior years we have also reported on long-standing weaknesses with the processing of subsidy payment requests under the project-based programs administered by the Office of Housing. Historically, this process has been hampered by the need for improved information systems to eliminate manually intensive review procedures that HUD has been unable to adequately perform.

Housing staff or their Contract Administrators (CAs) are to perform management reviews to monitor tenant eligibility and ensure accurate rents are charged at multifamily projects. The primary tool is to conduct on-site reviews that assess the owners' compliance with HUD's occupancy requirements. HUD's continued implementation of the CA initiative resulted in a substantial increase in the total number of management reviews. However, a comprehensive plan needs to be developed that would result in an increase of on-site reviews that would assess and ensure that all owners of assisted multifamily projects comply with HUD's occupancy requirements.

HUD's plans include a variety of continuing efforts. Principle among these are: continued implementation of the CA initiative; increased enforcement efforts; implementation of more targeted risk management of re-inspections of properties; better use of mortgagee inspectors; increased frequency of management/occupancy reviews for assisted projects; and development of an integrated risk reporting system. We support these efforts.

Appendices

1. Systems Not In Compliance With Federal Financial Management Systems Requirements

2. Glossary of Acronyms

3. Role of Program Evaluations and Research Studies in Assessing Program Performance

Appendix 1. Systems Not in Compliance with Federal Financial Management Systems Requirements

The following HUD Financial Management Systems are reported as not in compliance with Federal Financial Management Systems Requirements as of fiscal year end 2002. These are the same 17 financial management systems that were reported as non-compliant systems at fiscal year end 2001. The October, 2002 implementation of the FHA Subsidiary General Ledger will eliminate A56, Mortgage Insurance Accounting, from this list in future years.

System Number	System Name
A21	Loan Accounting System
A43	Single Family Insurance System
A43C	Single Family Insurance Claims Subsystem
A56	Mortgage Insurance General Accounting
A80D	Distributive Shares and Refund Subsystem
A80B	Single Family Premium Collection Sys-Periodic
A80N	Single Family Mortgage Notes Servicing
A80R	Single Family Premium Collection Sys-Upfront
A80S	Single Family Acquired Asset Management
F12	Home Equity Conversion Mortgages
F31	Cash, Control, Accounting, Reporting System (CCARS)
F47	Multifamily Insurance
F71	Title I Notes Servicing
F72	Title I Insurance and Claims
F75	Multifamily Insurance and Claims System
F87	Tenant Rental Assistance Certification System (TRACS)
N07	Regional Operating Budget and Obligation Tracking

Appendix 2. Glossary of Acronyms

Acronym	Definition
ABA	Architectural Barriers Act
ACA	Asset Control Area
ACC	Annual Contributions Contract
ACSI	American Customer Satisfaction Index
AHS	American Housing Survey
APP	Annual Performance Plan
ARCATS	Audit Resolution Corrective Action Tracking System
BFC	Budget Functional Classification
CA	Contract Administrator
CBO	Community-Based Organization
CCARS	Cash, Control, Accounting and Reporting System
CDBG	Community Development Block Grant
CFBCI	Center for Faith-Based and Community Initiatives
CFO	Chief Financial Officer
CoC	Continuum of Care
COTS	Commercial Off-the-Shelf
CPD	Community Planning and Development
CM	Configuration Management
CMHI	Cooperative Management Housing Insurance
CSRS	Civil Service Retirement System
D&A	Discussion and Analysis
DEC	Departmental Enforcement Center
DIL	Deed in Lieu
DOJ	Department of Justice
DQIP	Data Quality Improvement Program
EA	Enterprise Architecture
EAMS	Enterprise Architecture Management System
eGov	Electronic Government
ELIHPA	Emergency Low-Income Housing Preservation Act of 1987
FASAB	Federal Accounting Standards Advisory Board
FASS	Financial Assessment Subsystem
FBO	Faith-Based Organization
FEAF	Federal Enterprise Architecture Framework
FECA	Federal Employee Compensation Act
FERS	Federal Employee Retirement System
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act
FHA	Federal Housing Administration
FHAP	Fair Housing Assistance Program
FHIP	Fair Housing Initiatives Program
FHEO	Fair Housing and Equal Opportunity
FMC	Financial Management Center
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
FSS	Family Self-Sufficiency
GAO	General Accounting Office
GPEA	Government Paperwork Elimination Act

Acronym	Definition
Ginnie Mae	Government National Mortgage Association
GIS	Geographic Information System
GPRA	Government Performance and Results Act
GSE	Government-Sponsored Enterprises
HA	Housing Agency (or Authority)
HECM	Home Equity Conversion Mortgage
HOME	Housing Investment Partnership
HOPWA	Housing Opportunities for Persons With AIDS
HTMS	HUD Travel Management System
HUDCAPS	HUD Central Accounting System
ICDBG	Indian Community Development Block Grants
IDIS	Integrated Disbursement and Information System
IHBG	Indian Housing Block Grants
IRS	Internal Revenue Service
IT	Information Technology
I-TIPS	Information Technology Investment Portfolio
LEAP	Lead Elimination Action Program
LIHPRHA	Low-Income Housing Preservation and Resident Homeownership Act of 1990
LIHTC	Low Income Housing Tax Credit
LLG	Liabilities for Loan Guarantees
MASS	Management Assessment Subsystem
MAP	Multifamily Accelerated Processing
MBS	Mortgage Backed Security
MC	Management Concern
MD&A	Management Discussion and Analysis
MF	Multifamily
MFH	Multifamily Housing
M&M	Management and Marketing
MMI	Mutual Mortgage Insurance
MNA	Mortgages Notes Assigned
MTO	Moving to Opportunity
NAHASDA	Native American Housing Assistance and Self-Determination Act
NOFA	Notice of Funding Availability
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMHAR	Office of Multifamily Housing Assistance Restructuring

Acronym	Definition
PAR	Performance and Accountability Report
PASS	Physical Assessment Subsystem
PD&R	Policy Development & Research
PH	Public Housing
PHA	Public Housing Authority (or Agency)
PHAS	Public Housing Assessment System
PHMAP	Public Housing Management Assessment Program
PIC	Public and Indian Housing Information Center
PIH	Public and Indian Housing
POA	Public Housing Authorities, Owners and Agents
QMR	Quality and Management Review Program
RASS	Resident Assessment Subsystem
REAC	Real Estate Assessment Center
REAP	Resource Estimation and Allocation Process
REO	Real Estate Owned Properties
RESPA	Real Estate Settlement Procedures Act
RHIIP	Rental Housing Integrity Improvement Project
RHS	Rural Housing Service (U.S. Department of Agriculture)
SAMS	Single Family Acquired Asset Management System
SEMAP	Section 8 Management Assessment Program
SFH	Single Family Housing
SFFAS	Statement of Federal Financial Accounting Standards
SFPCS-U	Single Family Premium Collection Subsystem
SRI	Special Risk Insurance
SSI	Supplemental Security Income
SSA	Social Security Administration
TARC	Troubled Agency Recovery Centers
TDHE	Tribally Designated Housing Entity
TEAM	Time Estimation and Allocation Mechanism
TOTAL	Technology Open to All Lenders
TRACS	Tenant Rental Assistance Characteristics System
VA	Department of Veterans Affairs
VCA	Voluntary Compliance Agreement
WCF	Working Capital Fund
WtW	Welfare to Work

Appendix 3. The Role of Program Evaluations and Research Studies in Assessing Program Performance

Each year, the Department of Housing and Urban Development completes a number of program evaluations and research studies of significant policy topics. These studies provide a level of detail and confidence about programmatic impacts that performance measures alone cannot capture. The Department uses the findings of this research to shape program management and policy direction.

This Appendix presents the primary findings of selected research reports completed since the beginning of FY 2002. Unless otherwise noted, most these documents are available from HUD USER,[1] which is sponsored by HUD's Office of Policy Development and Research.

Goal 1: Increase the availability of decent, safe, and affordable housing in American communities.

The following is a selected list of evaluation and research efforts relevant to Strategic Goal 1 that were completed since the beginning of FY 2002. HUD also publicizes a periodical, U.S. Housing Market Conditions, which provides data and analysis about housing markets, every quarter.

Housing Finance

- **Economic Benefits of Increasing Minority Homeownership**, October 2002. This report was released by Secretary Martinez at the October 15 White House Conference on Increasing Minority Homeownership. The report estimated that achievement of President Bush's goal of expanding minority homeowners by 5.5 million families would stimulate an additional $256 billion in benefits to the housing sector and lead to significant social benefits.

- **Subprime Markets, the Role of GSEs, and Risk-Based Pricing**, March 2002. This report expands what is known about lending practices in the subprime mortgage market and the current and potential role of Fannie Mac and Freddie Mac, the two large government sponsored enterprises (GSEs) that provide a secondary market for conventional home mortgages. The report is based on a review of relevant literature and a series of interviews with subprime and prime lenders and representatives of consumer groups, regulators, investment banks and trade associations. Despite the recent growth in the subprime mortgage market, little is known about subprime borrowers, their default experience, or subprime lenders' underwriting practices. The report's main findings are that 1) automatic underwriting has allowed lenders to focus more of their underwriting resources on less creditworthy clients; 2) use of automated underwriting has not done away with manual underwriting; and 3) automated underwriting has allowed some lenders to increase business volume.

[1] *Documents can be ordered, and in many cases downloaded, at **http://www.huduser.org**.*

- **An Analysis of the Effects of the GSE Affordable Goals on Low- and Moderate-Income Families**, May 2002. This study provides a conceptual framework for the impacts of the GSE affordable goals. Since 1993 Fannie Mae and Freddie Mac have been subject to quantitative goals for the portion of their business that represents mortgages on housing for lower income families and families in underserved areas. The GSEs have more-or-less steadily increased their performance under the goals.

- **Housing Finance Working Paper: Goal Performance and Characteristics of Mortgages Purchased by Fannie Mae and Freddie Mac, 1998-2000**, May 2002. This paper analyzes the performance of Fannie Mae and Freddie Mac in meeting the housing goals established by HUD for 1998-2000. It also presents information on detailed borrower, locational, and loan characteristics of single-family mortgages purchased by the GSEs in this period. The report is based on the loan-level data that the GSEs submit annually to the Department. The paper finds that the GSEs passed all of their housing goals in 1998-2000 and generally achieved the highest levels of performance on the housing goals to date in 2000. It also finds that in most areas, by 2000 Freddie Mac had eliminated the performance gap with Fannie Mae that had existed in previous years.

- **Modeling the Performance of FHA-Insured Loans: Borrower Heterogeneity and the Exercise of Mortgage Default and Prepayment Options**, May 2002. This paper assesses the two risks of mortgage default and prepayment. In so doing, the analysis seeks to assess the differential default and prepayment probabilities among higher credit risk FHA mortgage borrowers. Although mortgage loans to lower-income and higher credit risk borrowers are characterized by elevated default probabilities, those risks may be mitigated by their slower prepayment speeds. Loans to higher credit risk borrowers may be prepaid more slowly owing to difficulties in borrower access to mortgage credit, problems of mortgage qualification, limited borrower knowledge of mortgage refinance options, or dampened residential mobility. Because the prepayment risk premium is substantial, the differentially slower prepayment speeds of loans to higher risk borrowers may have important implications for loan profitability and for efforts to expand homeownership among those groups. Results of this analysis strongly support the predictions of option theory in explaining the default and prepayment options among mortgage borrowers.

Rental Housing Subsidies

- **Study of Section 8 Voucher Success Rates, Vol.1 and Vol.2**, November 2001. The success rate is the proportion of families issued a voucher who are able to use it to lease a suitable apartment or house within the timeframe provided. (The success rate differs from the utilization rate, which is the share of allocated vouchers or voucher funding that an agency is using; a forthcoming study will examine voucher utilization.). The national success rate within metropolitan areas in 2000 was found to be 69 percent. This is lower than the success rate during the early 1990s, but about the same as rates in the 1980s. Success rates were found to vary with local market conditions. However, some housing agencies had relatively high success rates even in tight markets. Importantly, success rates did not differ by such characteristics as the race, ethnicity, gender, or disability status of the head of household. This suggests that the voucher program works well for many different types of households, with only a few exceptions.

A companion volume—a qualitative study of success rates in rural areas—found that voucher success rates vary widely across the five sites that were examined. The report concludes that waiting times for a voucher are shorter in rural areas than in cities or suburbs. The report also finds, contrary to conventional wisdom, that the rental housing stock in rural areas appears to be of acceptable quality.

- **Voucher Location Patterns Study**, (forthcoming). This study provides detailed information on the locations in which households in the Housing Choice Voucher program succeed in renting housing. Among other topics examined in the study are the extent to which voucher-holders access low-poverty neighborhoods and the extent to which voucher-holders are dispersed or clustered in particular metropolitan areas.

- Numerous studies were released in FY 2001 on rental housing subsidies, including: Assessment of the Loss of Housing for Non-Elderly People with Disabilities; National Evaluation of the Housing Opportunities for Persons with AIDS Program (HOPWA); Quality Control for Rental Assistance Subsidies Determinations; Tools and Strategies for Improving Community Relations in the Housing Choice Voucher Program; Study of the Ongoing Affordability of HOME Program Rents; The Uses of Discretionary Authority in the Tenant-Based Section 8 Program; and, Report on Worst Case Housing Needs in 1999 (executive summary).

Housing Technology and Safety

- **PATH Technology Roadmap: Energy Efficiency in Existing Homes**, June 2002. Through the Partnership for Advancing Housing Technology (PATH) program, HUD completed four major technology roadmaps that will set the agenda for both industry and government on new research to address PATH goals. These include new roadmaps on: (1) Energy in Existing Buildings; (2) Information Technology; (3) Whole House Building Systems; and (4) Panelized Construction. These roadmaps will help assure the expanded availability of affordable housing by helping develop new technologies that are less costly, more durable, and more disaster resistant.

  This document focuses specifically on improving energy efficiency in existing housing. It describes the challenges, and outlines activities and accomplishments that will lead to the achievement of the vision of more energy efficient homes. These include promoting new technologies, evaluating products and processes for retrofit, building capabilities among trade contractors, and identifying potential consumer incentives.

- **PATH Technology Roadmap: Information Technology to Accelerate and Streamline Home Building**, June 2002. This report examines how information technology can greatly improve the speed and efficiency of the entire home building process. The report explores how computers, software, and communications (especially wireless technology and the Internet) can improve speed, efficiency, and quality in home building.

- **PATH Technology Roadmap: Whole-House and Building-Process Redesign**, June 2002. This report sets the strategic R&D planning process for PATH and the industry as a whole for whole house design. Whole house design takes a systems-oriented view of housing construction, which could yield methods of building faster, at lower cost, and with higher quality.

- **PATH Technology Roadmap: Advanced Panelized Construction**, June 2002. Panelized-type systems are factory-built homes in which panels-a whole wall with windows, doors, wiring and outside siding-are transported to the site and assembled. The homes must meet state or local building codes where they are sited. Shifting away from "construction in place" with respect to labor skills, quality control, standardization, and economical engineering, shows great promise. This technology roadmap sets the strategic R&D planning process for PATH and the industry as a whole for advanced panelized construction.

- **Electronic Permitting Systems and How to Implement Them**, April 2002. This publication is designed to help America's communities understand the process of selecting and implementing an electronic permitting system. Electronic construction permitting is changing the way communities across the nation do business, speeding the building permit process for the people more involved—builders, inspectors, and plan reviewers—and providing better and more timely information to decision makers, managers, and staff throughout city hall. Benefiting from the experiences of others, communities can implement electronic permitting systems with better results and at lower cost. By implementing electronic permit systems, communities may streamline the permit process and reduce the time necessary to issue permits. As a result, the overall cost of housing is reduced—making affordable housing a more achievable reality.

- **Durability by Design: A Guide for Residential Builders and Designers**, May 2002. This manual is intended to raise the awareness and understanding of building durability as a design consideration in housing. The Guide covers basic concepts of durability and presents recommended practices—including numerous construction details and design data—for matters such as moisture management, ultraviolet (UV) protection, insects, decay, corrosion, and natural hazards.

Goal 2: Ensure equal opportunity in housing for all Americans.

The following is a selected list of evaluation and research efforts relevant to Strategic Goal 2 that were completed since the beginning of FY 2002.

- **Housing Discrimination Study 2000**, November 2002. The Housing Discrimination Study 2000 represents the most ambitious effort to date to measure the extent of housing discrimination in the United States against persons because of their race or color. It is the third nationwide effort sponsored by HUD to measure the amount of discrimination faced by minority home seekers. The previous studies were conducted in 1977 and 1989. The report shows large decreases between 1989 and 2000 in the level of discrimination experienced by Hispanics and African Americans seeking to a buy a home. There has also been a modest decrease in discrimination toward African Americans seeking to rent a unit. This downward trend, however, has not been seen for Hispanic renters. Hispanic renters now are more likely to experience discrimination in their housing search than do African American renters. As a result of this study, HUD can more effectively pursue its fair housing efforts.

- **How Much Do We Know?** April 2002. This study assesses public awareness of and support for fair housing law and individuals' perceptions concerning whether they had ever experienced housing discrimination. The study provides national estimates of the extent to which Blacks and Hispanics are treated differently from whites when they seek to buy or rent housing. The study also provides reliable information on how these levels of discrimination have changed since this type of study was last done in 1989. The findings show that there is widespread knowledge of and support for most fair housing protection and prohibitions. However, the public understands and supports some areas of the law more than others. The report provides HUD with reason for encouragement in its continued efforts to combat housing discrimination and identifies specific areas in which public information and attention needs to be directed.

- **All Other Things Being Equal: A Paired Testing Study of Mortgage Lending Institutions**, April 2002. This report on the findings of the Homeownership Testing Program is a valuable resource for the mortgage lending industry and others working on the issue of discrimination in the home mortgage lending process. The study developed testing methodologies to analyze the nature, level, and extent of lending discrimination at two test sites, Los Angeles and Chicago. The report found that African American and Hispanic homebuyers in both Los Angeles and Chicago face a significant risk of unequal treatment when they visit mainstream mortgage lending institutions to make pre-application inquiries. The result forms the basis for further action, which may include Secretary Initiated Investigations, further testing on certain mortgage lenders, and training for mortgage loan providers and their regulators.

- **New Evidence on the Relationship Between Race and Mortgage Default: the Importance of Credit History Data**, May 2002. This study addresses evidence of discrimination against black and Hispanic mortgage applications using a model of FHA defaults. The limited twofold purpose of this study is to report the findings obtained by including a measure of borrower credit history in a model of FHA defaults that is similar to previous default models and to demonstrate the bias attributable to omitting such data.

- ***Fair Housing Act Design Manual.*** *First published in 1996, the Fair Housing Act Design Manual: A Manual to Assist Designers and Builders in Meeting the Accessibility Requirements of The Fair Housing Act* provides clear and helpful guidance about ways to design and construct housing that complies with the Fair Housing Act. The manual provides direct information about the accessibility requirements of the Act, which must be incorporated into the design, and about construction of multifamily housing covered by the Act.

Goal 3: Promote stability, self-sufficiency and asset development of families and individuals.

The following is a selected list of evaluation and research efforts relevant to Strategic Goal 3 that were completed since the beginning of FY 2002.

- **Evaluation of Continuums of Care for Homeless People: Final Report**, May 2002. This study provides a rich array of information on the activities of high-performing Continuums of Care and documents the extent of progress of the studied communities along many dimensions of a comprehensive approach to homelessness prevention and remediation. On balance, the report concludes that for the high-performing communities studied, HUD's implementation of the Continuum of Care funding process stimulated increased communication within local communities in their response to homelessness.

- **Families in Transition: A Qualitative Analysis of the MTO Experience**, May 2002. This report is part of the Moving to Opportunity for Fair Housing Demonstration Program (MTO) interim evaluation. The MTO demonstration provided housing subsidies (vouchers) to public housing families, to assist them in moving out of extremely poor neighborhoods. One group of program participants received additional help so they could move to areas with much less poverty. The MTO evaluation provides a unique opportunity to test the premise that changing an individual's neighborhood environment can change his or her life chances. Ultimately, MTO will test the extent to which providing families with assistance to move to lower-poverty areas leads to concrete benefits for them and their children. This qualitative analysis is based on in-depth interviews conducted in early 2001 with adults and children in each of the five cities where MTO operated.

Goal 4: Improve community quality of life and economic vitality.

The following is a selected list of evaluation and research efforts relevant to Strategic Goal 4 that were completed since the beginning of FY 2002.

- **Lessons Learned From the Community Outreach Partnership Centers Program**, March 2002. This report, based on the experience of the 25 Community Outreach Partnership Center (COPC) grantees and their partners, presents the results of that review and analysis. COPC is one of HUD's primary vehicles for engaging colleges and universities in community development. HUD commissioned Lessons Learned From the Community Outreach Partnership Centers Program to review the experience of a sample of early COPC grantees in order to distill lessons about the challenges and contributions of campus-community partnerships and about how community outreach efforts like those supported by COPC are being institutionalized by colleges and universities.

Goal 5: Ensure Public Trust in HUD.

The following is a selected list of evaluation and research efforts relevant to Strategic Goal 5 that were completed since the beginning of FY 2002.

- **Employee Satisfaction Survey**. HUD engaged the Office of Personnel Management to measure HUD employee's satisfaction with their workplace. The survey results are now available on HUD's internal Intranet. Now that the Department's strengths have been identified and areas where we need to make improvements have been pointed out, the Department can create plans that focus on the areas where we can achieve the greatest progress in the upcoming years. For example, employees wanted more and better training opportunities and, as a result, HUD held its first National Training Awareness Week.

If you have any questions or comments, please call James Martin, Assistant Chief Financial Officer for Financial Management at 202.708.0638 or email him at *James_M._Martin@hud.gov*

For additional copies of this report, please call the CFO's Office of Financial Management at 202.708.0638 extension 3842 or email *Helen_Jackson@hud.gov*

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