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United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-277207

July 21, 1997

The Honorable Rick A. Lazio
Chairman, Subcommittee on Housing
and Community Opportunity
Committee on Banking and Financial Services
House of Representatives

Subject: The Department of Housing and Urban Development: Information on
Its Role, Programs, and Issues

7/28

Dear Mr. Chairman:

This report transmits a briefing that presents information on (1) the role, organization, and resources of the Department of Housing and Urban Development (HUD); (2) HUD's major programs, their condition, and related issues; (3) critical issues facing HUD; and (4) tools to help the Congress and the administration address these and other issues. With the change in congressional leadership 2 years ago, we presented to your staff a video overview of HUD's programs and the issues facing the Department. This year, we prepared an updated and expanded video presentation. As requested by your office, that information is reproduced here with accompanying notes for you and Members of the Subcommittee.

Created in 1965, HUD carries out the federal government's missions, policies, and programs for housing and community development. Through its multiple social and financial roles, HUD directly or indirectly affects most Americans. Its functions fall into four categories—housing assistance, housing finance, community development, and regulation. The Department faces a number of critical issues, including the demands that renewing Section 8 contracts places on its budget and the designation of its programs as being at high risk of waste, fraud, and mismanagement.

B-277207

The information presented in this report is based on reports we have issued and testimony we have given, as well as on HUD's program and budget information. We hope that this information will assist you in your work on reforming HUD's programs and in your consultations with the Department on the missions and performance of HUD's programs. If you or your staff have any questions, please contact me on (202) 512-7631.

Sincerely yours,

A handwritten signature in cursive script, reading "Judy A. England-Joseph".

Judy A. England-Joseph
Director, Housing and Community
Development Issues

Enclosure

OVERVIEW OF THE DEPARTMENT
OF HOUSING AND URBAN DEVELOPMENT

GAO **Housing and Community
Development Programs and Issues**

The Department of Housing and Urban
Development (HUD):
Information on its Role, Programs, and
Issues

GAO Contents of Briefing

-
- HUD's role, organization, and resources
 - Program description, condition, and related issues
 - Critical issues for the Department
 - Tools to help the Congress and the administration

GAO HUD's Role

- Congressional interest in housing and community development has been long-standing.
- Housing Act of 1949 declared a goal of a "decent home and a suitable living environment for every American family."
- In 1965, HUD was created, incorporating major housing programs.

When HUD was created, the following programs and agencies were incorporated into the new Department:

- The Federal Housing Administration (FHA), created in 1934.
- Public housing programs, established by the Housing Act of 1937.
- The Urban Redevelopment Program, established in 1949.

GAO HUD's Role

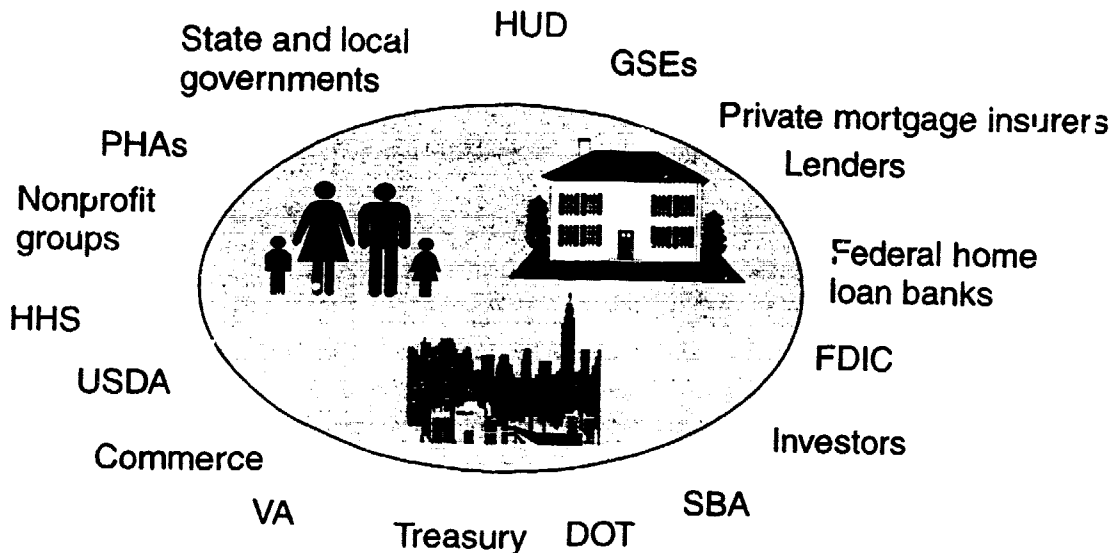
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- Today, HUD encompasses programs for homeowners, renters, and communities, as well as protections for families.

Since HUD's creation, the following programs and responsibilities have been added:

- The Government National Mortgage Association (Ginnie Mae), in 1968.
- Responsibility for fair housing and equal opportunity, in 1968.
- The Community Development Block Grant (CDBG) Program, in 1974.

HUD also directs a variety of social service programs that assist special groups, such as the homeless and the elderly, and establishes and enforces regulations protecting the interests of home buyers and renters.

GAO HUD's Role HUD Is One of Many Players



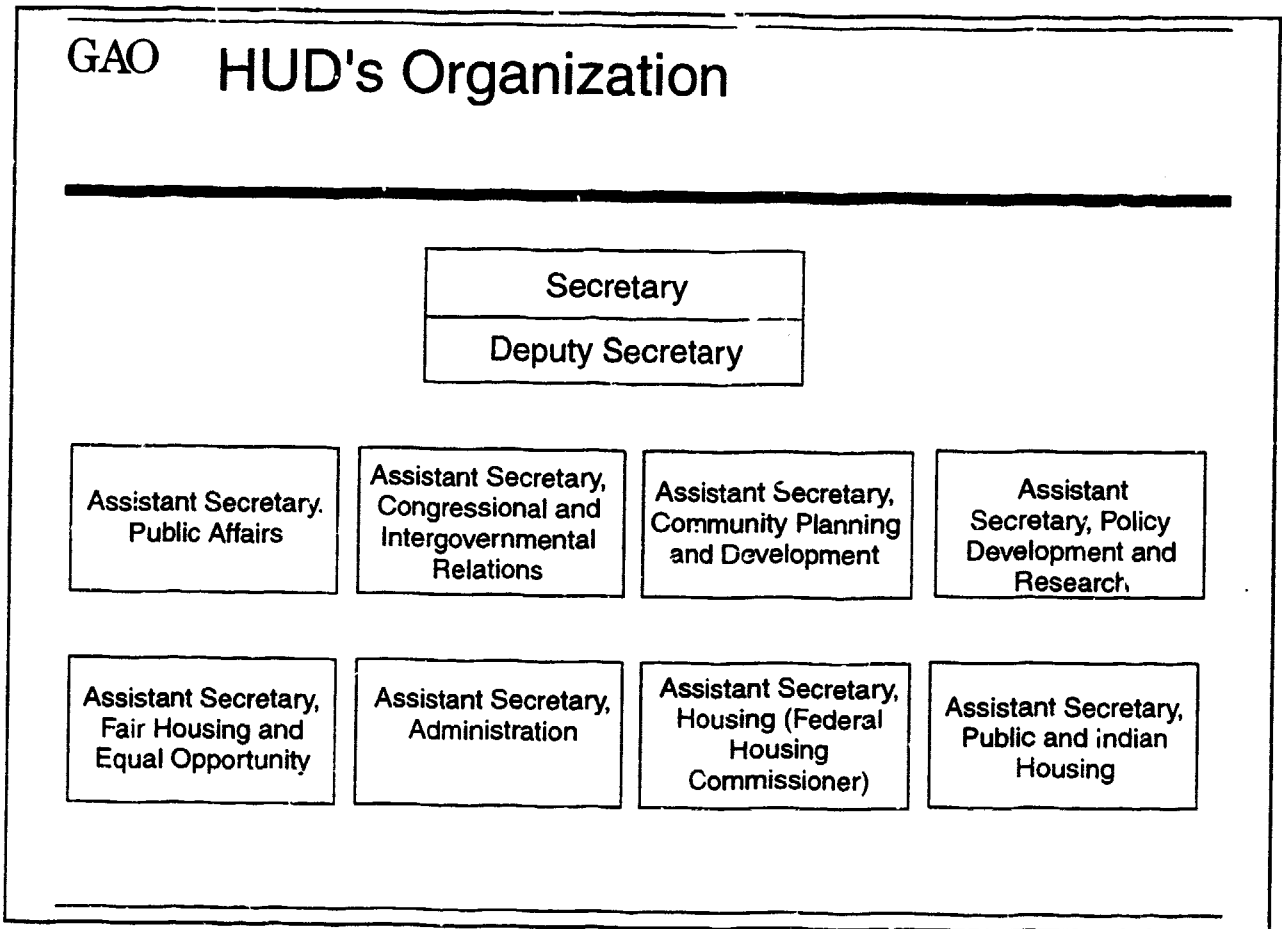
Many entities help meet our nation's housing and community development needs.

Much of the tenant income for the various income groups served by HUD comes in the form of welfare and Supplemental Security Income—programs that are administered primarily through the Department of Health and Human Services (HHS).

Other federal programs that contribute to meeting housing needs include those of the Departments of Agriculture (USDA), Commerce, Transportation (DOT), the Treasury, and Veterans Affairs (VA), as well as those of the Small Business Administration (SBA) and the Federal Deposit Insurance Corporation (FDIC).

Other important contributors include three government-sponsored enterprises (GSEs)—Fannie Mae, Freddie Mac, and the Federal Home Loan Banks—and private investors, public housing authorities (PHAs), and nonprofit groups.

GAO HUD's Organization

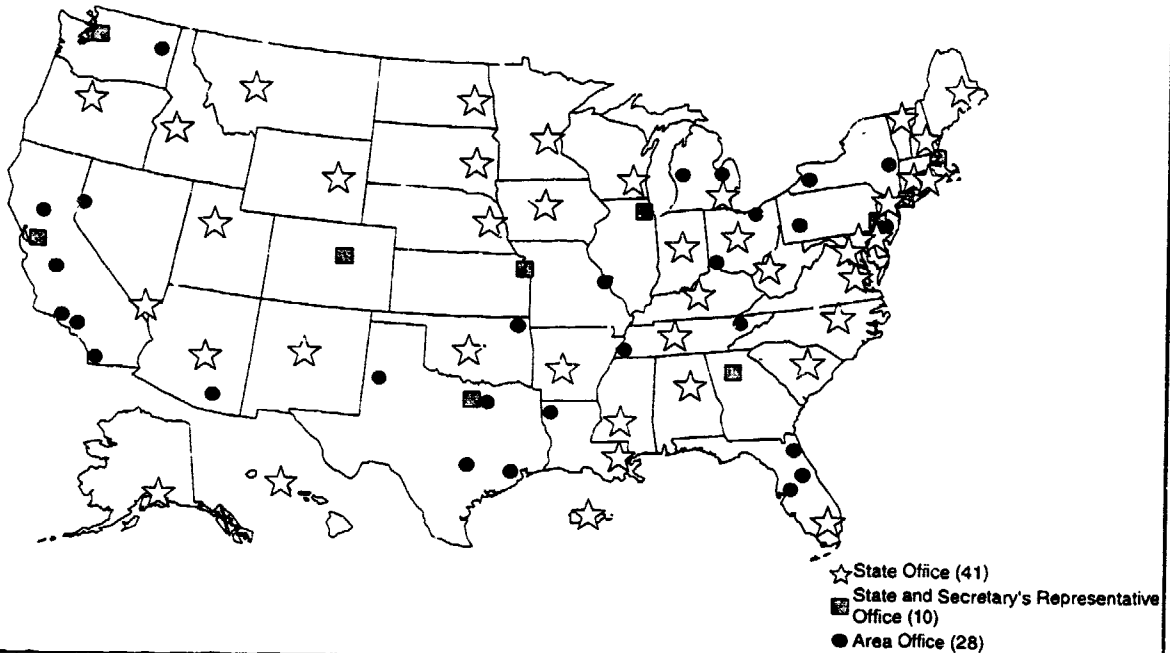


HUD is the second smallest Cabinet Department.

In fiscal year 1996, HUD had 11,400 full-time equivalents (FTEs) reporting to eight assistant secretaries.

In addition to Ginnie Mae, HUD has the following six offices: Office of Chief Financial Officer, Office of Inspector General, Office of Federal Housing Enterprise Oversight, Office of Departmental Equal Employment Opportunity, Office of General Counsel, and Office of Lead-Based Paint Abatement and Poisoning Prevention.

GAO HUD's Organization HUD's State and Area Offices

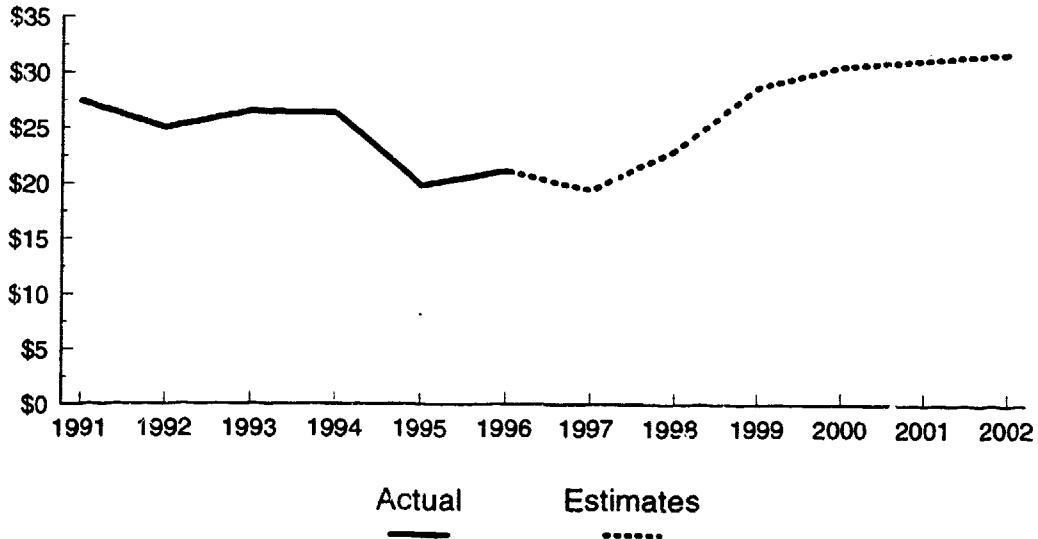


In 1995, HUD's field office structure was reorganized to eliminate a layer of review by eliminating regional offices and requiring field office staff to report to the appropriate program assistant secretaries at headquarters.

In fiscal year 1996, 8,240 FTEs (about 72 percent of HUD's FTEs) were in field locations, which comprised 51 state offices (10 of which are both State and Secretary's Representative offices) and 28 area offices. The 10 Secretary's Representatives perform as the "eyes and ears" of the Secretary. They are responsible for coordinating HUD's programs within state and area offices.

GAO HUD's Resources HUD Budget Authority, FY 1991-2002

Dollars in billions

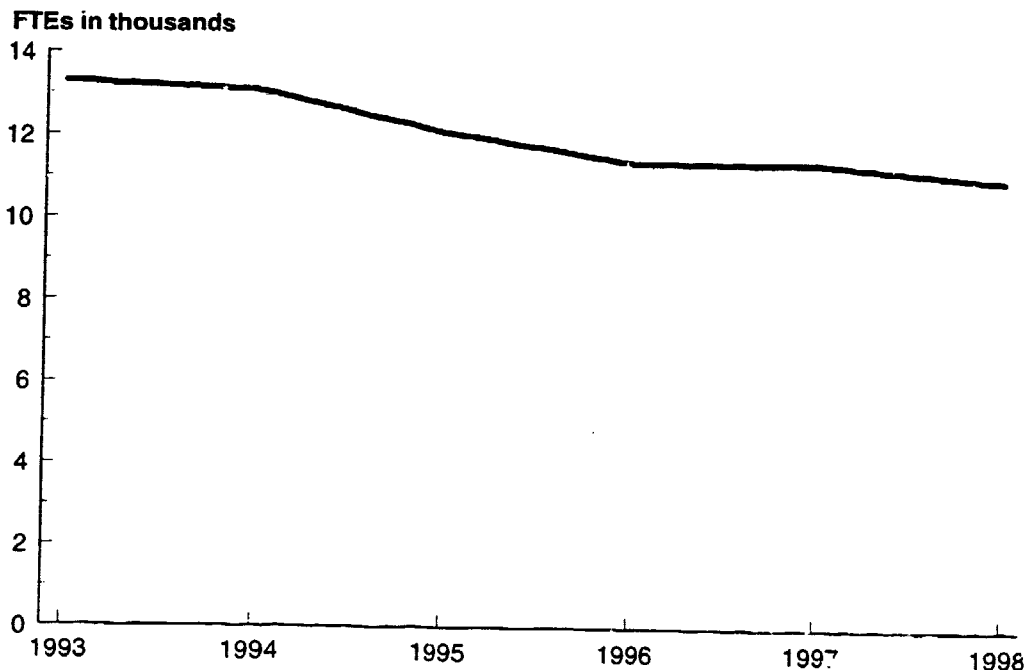


Note: Budget authority for fiscal years 1997 through 2002 are estimates. FY = fiscal year.

Source: Historical Tables: Budget of the United States Government, Fiscal Year 1998.

From fiscal year 1991 through fiscal 1997, HUD's budget authority declined from about \$27.6 billion to less than \$20 billion. However, the President's budget proposes increases for fiscal years 1998 through 2002.

GAO HUD's Resources HUD's Staff, FY 1993-98



Note: The number of FTEs for fiscal years 1997 and 1998 are estimates. FY = fiscal year.
Source: Budget of the United States Government, Fiscal Year 1998.

HUD's staffing—as measured by FTEs—has declined over the past 3 years from about 13,300 in fiscal year 1993 to about 11,400 in fiscal 1996 and is projected to decline to about 11,000 by fiscal 1998.

In terms of the number of employees, HUD also expects a decline in the next few years. While HUD currently has about 10,500 employees, it expects the number of employees to decline to about 7,500 by 2000.

GAO Program Description, Condition, and Related Issues

**Assisted
Housing**

**Housing
Finance**

**Community
Development**

Regulatory

HUD's programs may be categorized into four broad areas—assisted housing, housing finance, community development, and regulatory.

GAO Assisted Housing**Project-based housing**

- Public housing
- Privately-owned housing

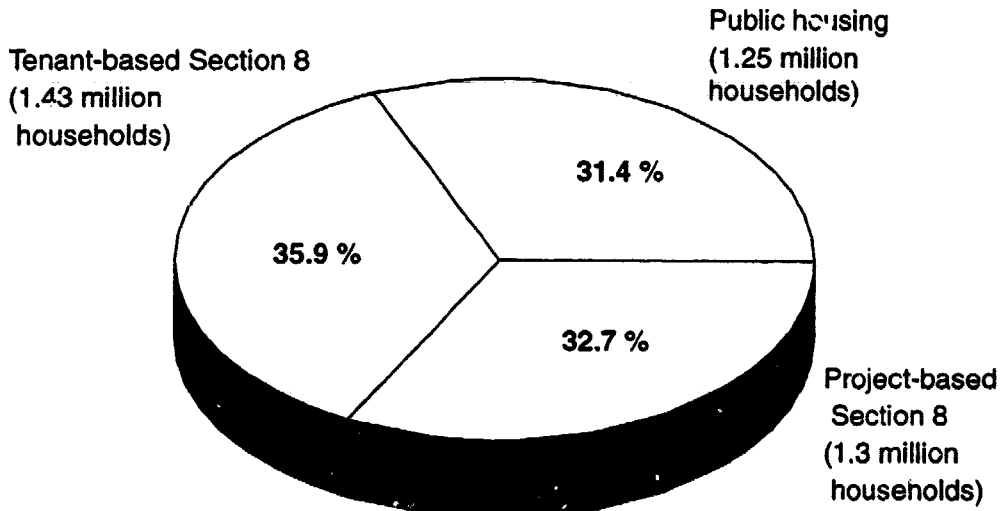
Tenant-based housing

- Section 8 certificates
- Section 8 vouchers

HUD helps provide assisted housing in two ways.

- Project-based assistance requires residents to live in specific housing units to receive housing assistance. This includes public housing, which is owned and operated by public housing authorities, and privately owned housing, which is owned by private landlords. HUD's major program for privately owned housing is called the Section 8 project-based program.
- Tenant-based assistance allows residents greater choice in selecting a housing unit. HUD provides tenant-based assistance through the Section 8 certificate and voucher programs, through which HUD pays a portion of residents' rent.

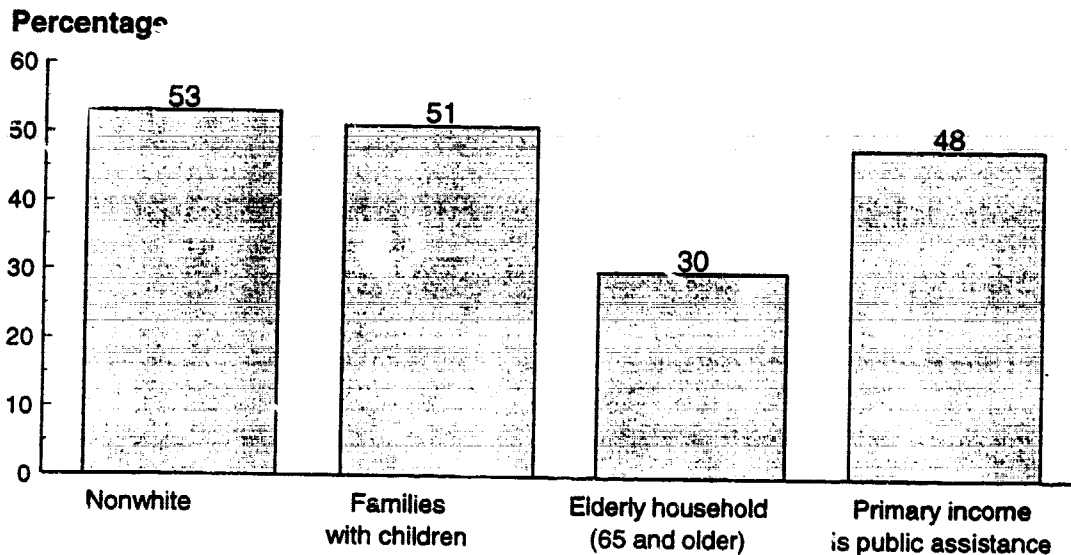
GAO Assisted Housing Number of Households Served



Source: HUD's Office of Policy Development and Research, Mar. 1995.

HUD's three major rental assistance housing programs—public housing, Section 8 project-based assistance, and Section 8 tenant-based assistance—together serve about 4 million households.

GAO Assisted Housing Renters Served, FY 1995



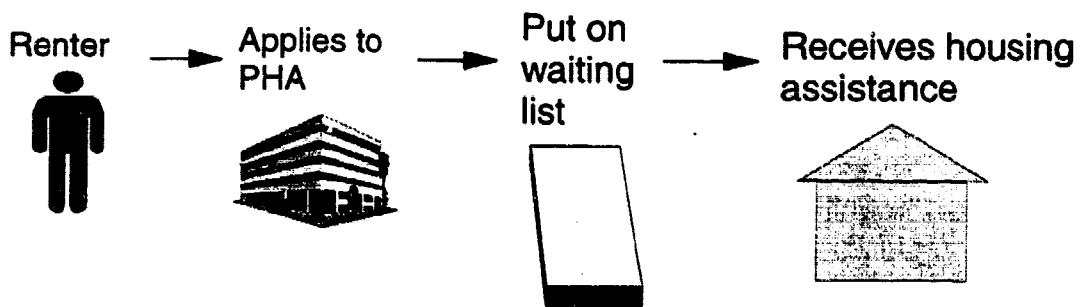
Note: "Assisted housing renters served" is HUD's estimate of the number of renters in public housing and Section 8 housing--both project- and tenant-based. Groups overlap. "Families with children" includes families with children and certain other dependents, regardless of the age or disability status of the head of household. FY = fiscal year. Source: GAO's analysis of HUD's data.

Of the households served by HUD's three major rental assistance programs in 1995,

- minorities account for more than half;
- families with children account for over half;
- elderly households without children account for 30 percent, and the disabled account for about an additional 11 percent; and
- almost half list public assistance as their primary source of income; about another 11 percent cite the Social Security pension as their primary source of income; and about another 35 percent cite wages as their primary source of income.

GAO Assisted Housing

Application process for public housing and Section 8 certificates and vouchers



Applicants for any of HUD's three major rental assistance programs participate in a similar process that begins with an application to the local PHA.

The renter may be put on a waiting list if no units are available. In 1993, the Council of Large Public Housing Authorities—an association comprising large housing authorities—estimated that nearly 1 million people were on waiting lists for housing assistance. A PHA may close its waiting list when it has more families on the list than can be assisted in the near future.

Once a unit is available, it is offered to the renter.

GAO **Assisted Housing
Public Housing**

- Localities operate PHAs under state charter.
- PHAs contract with HUD to provide housing and abide by federal regulations in return for federal funds.
- Residents generally pay 30 percent of their income in rent.

PHAs operate under state and local laws that cover such items as the PHA's organization and structure. In many cities, the mayor appoints a governing body or board of commissioners that hires the executive director, who oversees day-to-day operations.

PHAs and HUD enter into an annual contributions contract (ACC) under which a PHA agrees to abide by federal regulations to, among other things, operate with economy and efficiency. In return, HUD agrees to provide the PHA with federal funds to operate and maintain housing.

GAO **Assisted Housing**
Major Federal Public Housing Funds

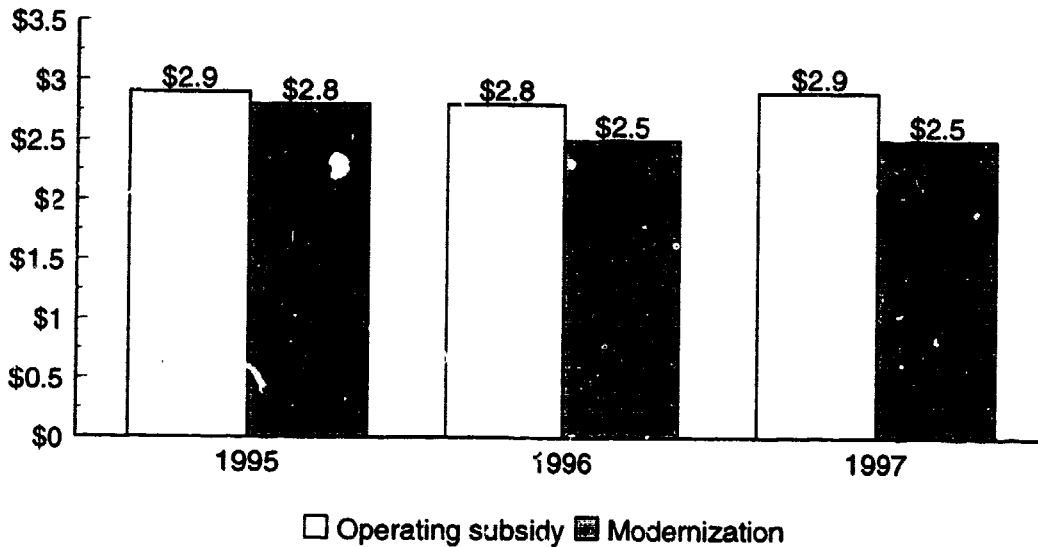
- **Operating subsidy--to cover percentage of gap between PHAs' operating expenses and income**
- **Modernization--for repairs**
- **Drug elimination--to combat drug crime**
- **HOPE VI--to revitalize distressed communities**

HUD provides PHAs with funds for operations, improvements, and other purposes.

- **An operating subsidy covers a percentage of the difference between PHAs' expenses and the income they receive from the residents' payment toward rent.**
- **Modernization funds are used for repairs and the rehabilitation of housing units and to upgrade management and operations. While PHAs with 250 or more units get these funds according to a formula, smaller PHAs must compete for funds.**
- **PHAs compete for drug elimination funds that can be used for such things as security personnel and investigators, physical improvements to enhance security, and drug use reduction programs.**
- **PHAs compete for HOPE VI funds to revitalize or demolish severely distressed housing and provide community and supportive services.**

GAO Assisted Housing--Public Housing Funds, Fiscal Years 1995-97

Dollars in billions



HUD provides two major sources of funds for PHAs; the operating subsidy, which has remained relatively stable; and modernization funds, which have declined in recent years.

According to HUD, the amount of operating subsidies that PHAs received in fiscal year 1996 was 10 percent less than what they needed.

While an estimated backlog of an additional \$10 billion to \$20 billion in modernization funding is needed to repair the nation's public housing, some PHAs have large amounts of unspent modernization funds.

GAO **Assisted Housing
Project-Based Housing Programs**

Privately owned project-based housing

- **Section 8 project-based housing assistance**
- **Other programs**
 - **Elderly housing (Section 202)**
 - **Special needs (Section 811)**
 - **Existing multifamily loans**

HUD's Section 8 project-based program (HUD's major project-based privately owned housing program) pays a portion of residents' rent to live in housing owned by private landlords. Residents live in housing that is designated as assisted housing for them. With each landlord, HUD enters into a contract to guarantee rent payments for a time period, the terms of which can be as short as 1 year.

Other project-based programs include the Section 202 program for elderly persons and the Section 811 program for persons with disabilities.

In multifamily housing, HUD insures lenders against losses on loans made to landlords.

GAO **Assisted Housing
Tenant-Based Housing Programs**

- Certificates and vouchers are used.
- Residents live in their choice of privately-owned housing.
- PHAs operate Section 8 tenant-based programs.
- HUD has annual contracts with PHAs.

HUD enters into annual contracts with PHAs to operate its two major tenant-based programs—the Section 8 certificate program and voucher program. PHAs then execute contracts with owners of private housing and guarantee rent payments on behalf of low-income residents.

Under the certificate program, residents generally pay 30 percent of their income toward rent and utilities. The PHA pays the difference between the rent charged and each resident's payment. Under the voucher program, the PHA pays the difference between the local payment standard and 30 percent of the resident's monthly income. Voucher residents must pay more than 30 percent of their income for rent and utilities if the unit rent is greater than the payment standard. The resident would pay less than 30 percent of his/her income if the unit rent is less than the payment standard.

GAO **Assisted Housing
Condition**

Most PHAs are run satisfactorily, but some are very troubled.

Many Section 8 project-based units have above-market rents, and some units are in very poor condition.

High cost of providing Section 8 housing creates severe budget pressures.

About 65 PHAs (2 percent) are rated as "troubled" by HUD because they have scored less than 60 out of 100 points in a set of performance indicators called the Public Housing Management Assessment Program (PHMAP). These troubled PHAs manage about 14 percent of the nation's public housing units.

Some Section 8 housing units are also in poor condition, and many have above-market rents.

The high cost of providing Section 8 units has created pressures on HUD's budget. When the contracts between HUD and owners of private housing expire, they must be renewed or those units will be lost. The budget authority needed to maintain Section 8 units—including those under contract—will account for a major portion of HUD's budget authority in the next few years.

GAO Assisted Housing Condition

- Many eligible households do not receive assistance.
- Some Section 8 recipients do not find housing.
- Cost of public housing and certificates varies by location.

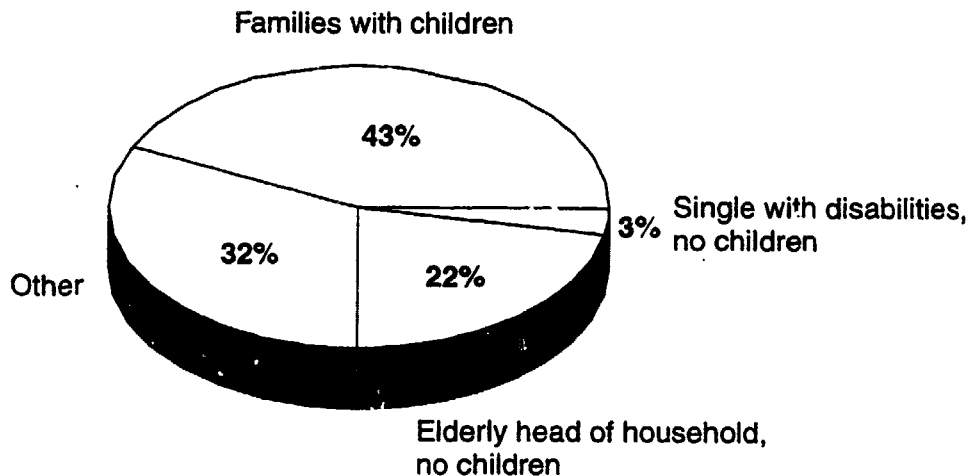
Many households that are eligible for assisted housing programs do not receive assistance. According to a 1992 HUD report, about 13.8 million households were eligible for assisted housing programs in 1989, but less than one-third of these households received assistance. (HUD considers households with a reported income below 80 percent of an area's median income eligible for assistance.)

Some Section 8 recipients do not find housing. According to a 1994 HUD-funded study, about 13 percent of a sample of recipients of Section 8 certificates or vouchers did not find housing using Section 8 rental assistance.

GAO Assisted Housing Condition

Unassisted Households With Worst Case Housing Needs in 1993

Total 5.3 million households (12.8 million people)



Note: These households are renters without assistance from HUD with incomes below 50 percent of the median area income. They pay over half their income in rent and utilities or live in substandard housing.

Source: *Rental Housing Assistance at a Crossroads: A Report to Congress on Worst Case Housing Needs*, HUD, PD&R, Mar. 1996

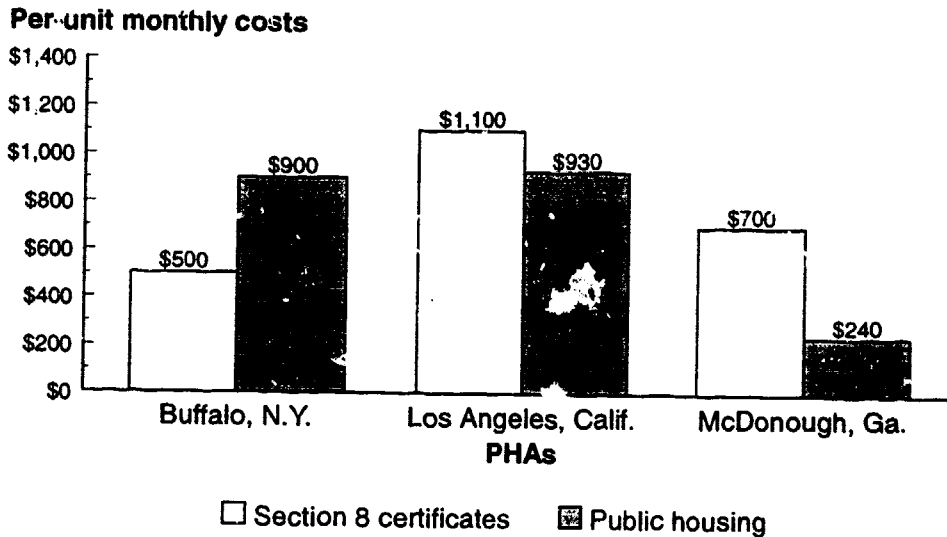
According to HUD, 5.3 million households (comprising about 12.8 million people) had worst case housing needs in 1993. HUD defines these households as renters who have a very low income (below 50 percent of median area income), do not receive federal housing assistance, and either

- pay over half of their income in rent and utilities or
- live in substandard housing.

The "other" category in this figure includes such households as nonelderly singles and childless couples.

GAO Assisted Housing Condition

Public Housing Can Cost Less or More Than Section 8 Certificates



Source: GAO/RCED-95-195, June 20, 1995.

Among PHAs, per unit monthly costs for Section 8 certificates vary as compared with those of public housing.

- In Buffalo, New York, the monthly unit cost of Section 8 certificates averages \$400 less than the cost to provide public housing.
- In Los Angeles, California, and McDonough, Georgia, the average monthly unit cost of Section 8 certificates was \$170 more and \$460 more, respectively, than the average cost to provide public housing.

Wide variations in the cost of public housing and Section 8 certificates also exist among individual housing developments. Analyses of the costs of tenant- and project-based approaches on a development-by-development basis may allow PHAs to determine which approach is more cost-effective.

GAO Assisted Housing Issues

- Whom to serve and how
- What share of the eligible and at what level of subsidy
- Approach to providing assistance--tenant and/or project based

The basic assisted-housing issue facing the Congress and the administration is which households to assist and how to best accomplish this effectively and economically.

HUD's housing assistance programs reach only a portion of eligible households. In a time of limited resources, should the federal government assist all those who are currently eligible, which would lower the level of subsidy per household, or provide higher subsidies to just the neediest households?

Because the cost to provide public housing and certificates varies by location, limiting federal assistance to only public housing or certificates may not be cost effective for all communities. Moreover, while tenant-based assistance is intended to provide a household with more housing choices than public housing, finding a Section 8 unit depends on the availability of affordable housing in a specific area.

**GAO Assisted Housing
Issues**

- Resolving long-term funding commitments
- State and local capacity to operate programs if federal role decreases
- Impact of welfare reform on rent subsidies

Legal commitments involving Section 8 contracts and FHA-insured mortgages are long-term financial commitments to the government. Since the 1970s, HUD has provided PHAs with an operating subsidy to supplement rent paid by residents under the Performance Funding System.

The ability of state and local governments to take a greater role in housing programs will be affected by these governments' financial capacity and willingness to assume this responsibility. Some state and local officials believe that their governments can administer these programs if they receive the proper resources, such as funding and staff. Yet, very low-income and homeless populations may receive less assistance, according to some studies and housing advocacy associations.

About half of all households in assisted housing list public assistance as their primary source of income, and any change in residents' incomes due to welfare reform will affect their rental payments and, thus, the amount of subsidies that HUD needs to provide.

GAO Housing Finance

FHA provides

- **Single-family and multifamily mortgage insurance**
- **Property disposition**
- **Counseling to home buyers**

Ginnie Mae securitizes government-insured and government-guaranteed loans

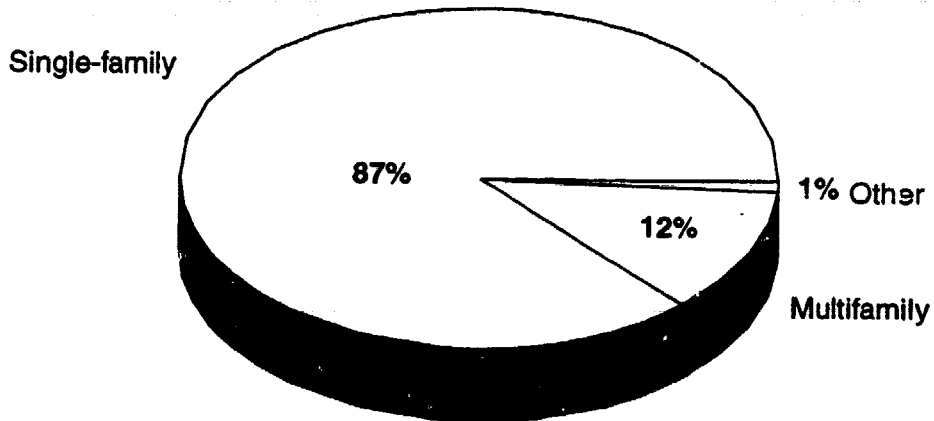
Although FHA does not make loans or build housing, it

- **insures single-family and multifamily mortgages,**
- **disposes of properties that it acquires from lenders, and**
- **offers home buyers counseling and other programs.**

Ginnie Mae guarantees the timely payment of principal and interest on mortgage-backed securities.

GAO Housing Finance FHA's Insurance Portfolio

Unpaid principal balance = \$418 billion as of July 1996



Source: The Commissioner's Executive Reports, July 1996.

FHA covers nearly 100 percent of lenders' losses on FHA-insured single-family and multifamily mortgages. FHA is liable for about \$418 billion in outstanding insurance on

- single-family mortgages worth \$364 billion,
- multifamily mortgages worth \$48 billion, and
- property improvement and manufactured housing loans worth \$6 billion.

GAO **Housing Finance**
FHA's Single-Family Housing

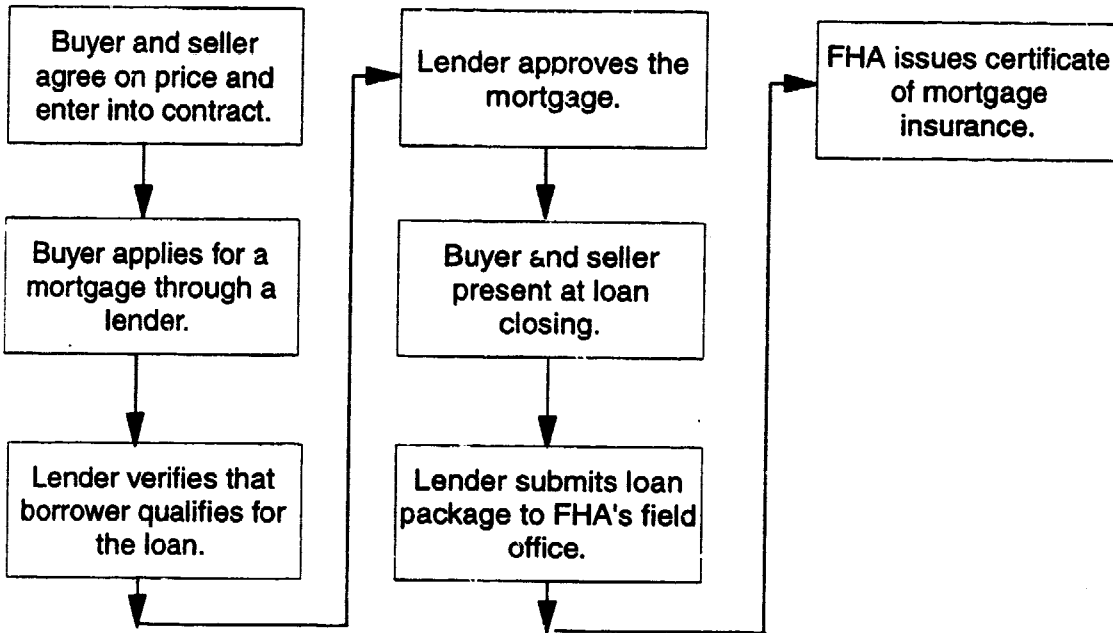
- Although FHA's share of the entire mortgage market has fluctuated and is now at about 9 percent, FHA is an important player in certain market segments.
- Economic value was about \$9.4 billion as of September 30, 1996.
- Losses average \$24,000 per foreclosed property.

FHA's share of all single-family mortgages has fluctuated in recent years. For example, FHA's share was about 9 percent for the first three quarters of 1996, 12 percent in 1994, and 6 percent in 1992. In certain markets, FHA is an important player; nationwide, FHA's share of the insured market was about 30 percent in the first three quarters of 1996.

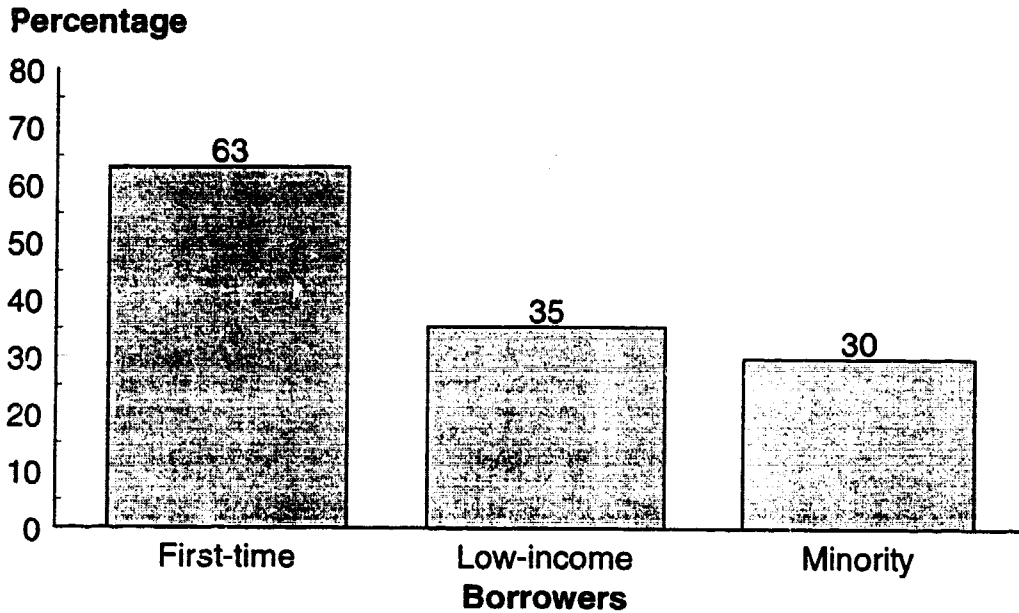
FHA's single-family insurance program is self-sufficient and has not cost taxpayers any money. Although it experienced substantial losses in the 1980s, this program's financial condition has improved substantially. According to Price Waterhouse's 1997 actuarial study, the Mutual Mortgage Insurance Fund—the insurance fund supporting FHA's principal single-family insurance program—had an economic value/reserves of about \$9.4 billion as of September 30, 1996.

Losses on foreclosed properties during the 19-year period ending September 30, 1993, averaged \$24,000 in 1994 dollars but are offset by insurance premiums paid to FHA by borrowers, not by the U.S. Treasury.

GAO Housing Finance FHA's Loan Approval Process



GAO Housing Finance FHA's Single-Family Borrowers, 1995



Total = 568,845

Note: Groups overlap.

Source: GAO's analysis of HUD's data.

FHA's single-family insurance serves many different populations by insuring loans to purchase or refinance home mortgages. For example, low-income borrowers—those with incomes not exceeding 80 percent of the area's median income—represented over 35 percent of the single-family mortgages that FHA insured in 1995.

GAO Housing Finance
FHA's Multifamily Housing

- Market share has decreased from 30 percent in early 1980s to 2.2 percent in 1992.
- During 1992-95, volume doubled for new construction.
- Potential claims could reach \$6 billion to \$7 billion.
- Many properties are in poor financial and physical condition.

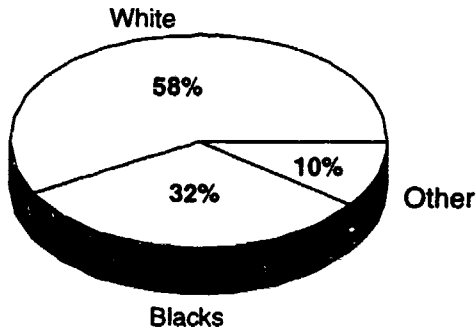
While FHA's share of the multifamily mortgage market declined substantially from the early 1980s to 1992, some of FHA's multifamily insurance programs have grown dramatically. Since 1992, loans for new construction and group housing have more than doubled in volume, and the financing of existing units has increased by half.

According to the accounting firm Ernst & Young, over the next 10 years, FHA's multifamily loan portfolio will have potential claims of \$6 billion to \$7 billion that may result from restructuring loans on projects that receive Section 8 project-based assistance.

Many properties are in poor financial and physical condition. Ernst & Young estimated that the nation's insured Section 8 housing portfolio needed over \$7.7 billion for immediate and deferred maintenance and repairs.

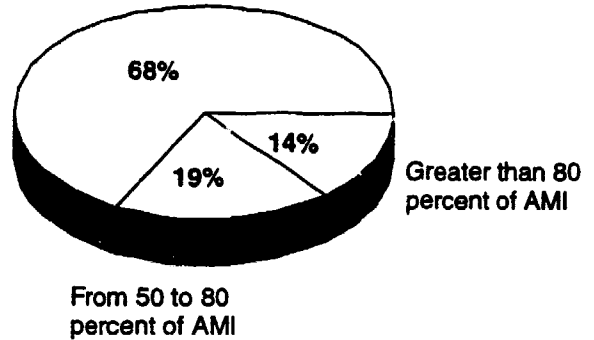
GAO Housing Finance FHA's Multifamily Renters

Race/Ethnicity



Household Income

Below 50 percent of area median income (AMI)



Note: Income distribution does not equal 100 percent due to rounding.
Source: 1993 Abt Associates Study.

Of the residents living in FHA-insured multifamily housing, two-thirds have very low income and over 40 percent are minorities.

GAO Housing Finance

Ginnie Mae

- Guarantees timely payment of principal and interest on mortgage-backed securities.
- Provides liquidity to lenders.
- Nearly all FHA-insured, VA-guaranteed, and Rural Housing Service-guaranteed loans are in Ginnie Mae pools.

Ginnie Mae does not purchase loans. Rather, it guarantees (with the full faith and credit of the U.S. government) that investors who purchase securities issued by approved lenders will receive the timely payment of principal and interest on them.

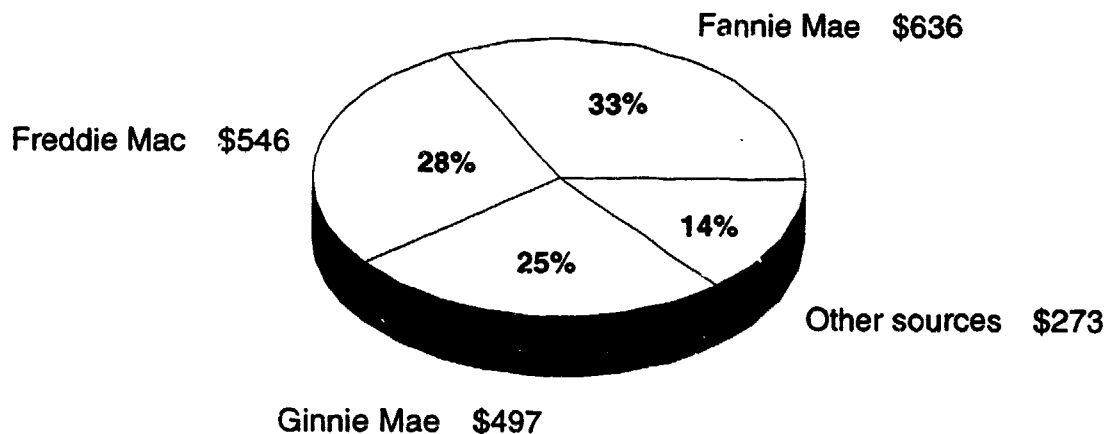
By pooling mortgages and selling securities backed by these mortgages, lenders convert a nonliquid asset—a loan—into a liquid asset—cash. About 70 percent of the funds used to purchase Ginnie Mae-guaranteed securities come from nontraditional mortgage investors, including pension and retirement funds, life insurance companies, and individuals.

Nearly all FHA-insured loans and those guaranteed by VA and the Rural Housing Service (RHS) are in Ginnie Mae pools. Lenders may retain higher servicing fees by using Ginnie Mae's services than if they were to sell their loans to Fannie Mae and Freddie Mac.

GAO Housing Finance

**Share of Single-Family and Multifamily
Mortgage-Backed Securities, September 30, 1996**

Dollars in billions



Note: Other includes Rural Housing Service. Excludes mortgages on nonresidential nonfarm properties and farm properties.

Source: Federal Reserve Bulletin, May 1997.

Lenders who wish to sell or convert mortgages into securities may use Ginnie Mae, Fannie Mae, Freddie Mac, or other sources.

Of all of these sources of liquidity, Ginnie Mae represented about 25 percent of the mortgage-backed securities outstanding at the end of September 1996. Together, Fannie Mae and Freddie Mac accounted for over 60 percent of the mortgages held in pools.

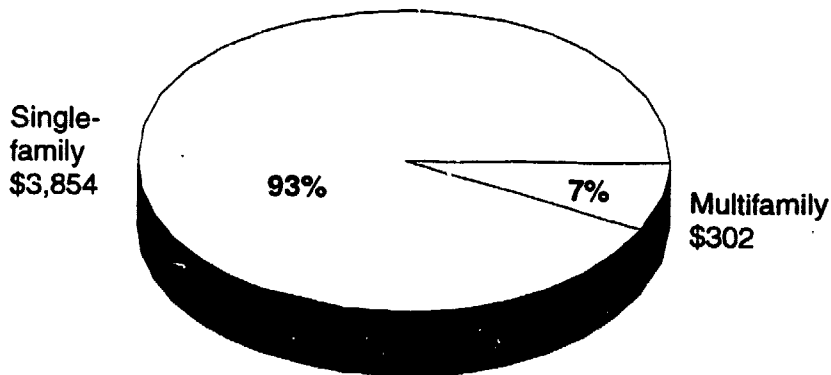
As of September 30, 1996, outstanding mortgage-backed securities totaled nearly \$2 trillion nationwide.

GAO
**Housing Finance
Condition**

Mortgage Debt Outstanding

September 30, 1996

Dollars in billions



Note: Excludes mortgages on nonresidential nonfarm properties and farm properties.

Source: Federal Reserve Bulletin, May 1997.

As of September 1996, all outstanding nonfarm residential mortgages in the United States totaled over \$4 trillion.

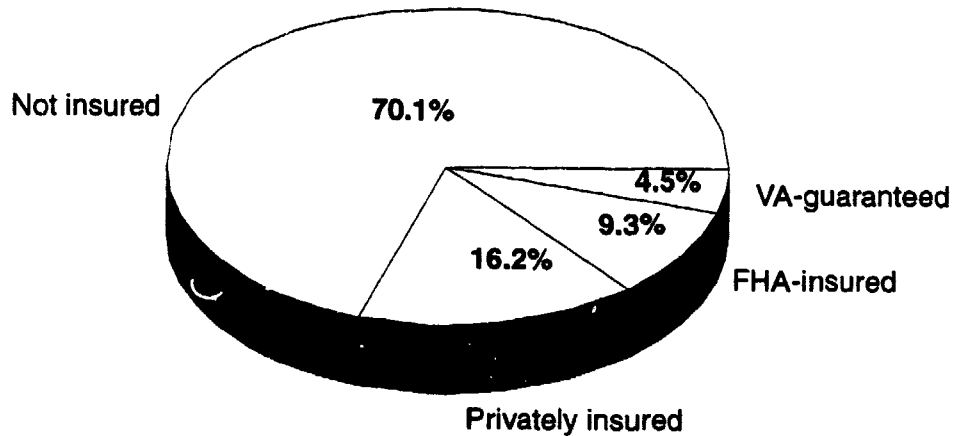
Nearly all outstanding mortgage debt is for single-family mortgages.

In general, the single-family mortgage market is well developed, and the multifamily mortgage market is less well developed.

GAO
**Housing Finance
 Condition**

Single-Family Mortgages Made During 1996

(Total = \$785 billion)



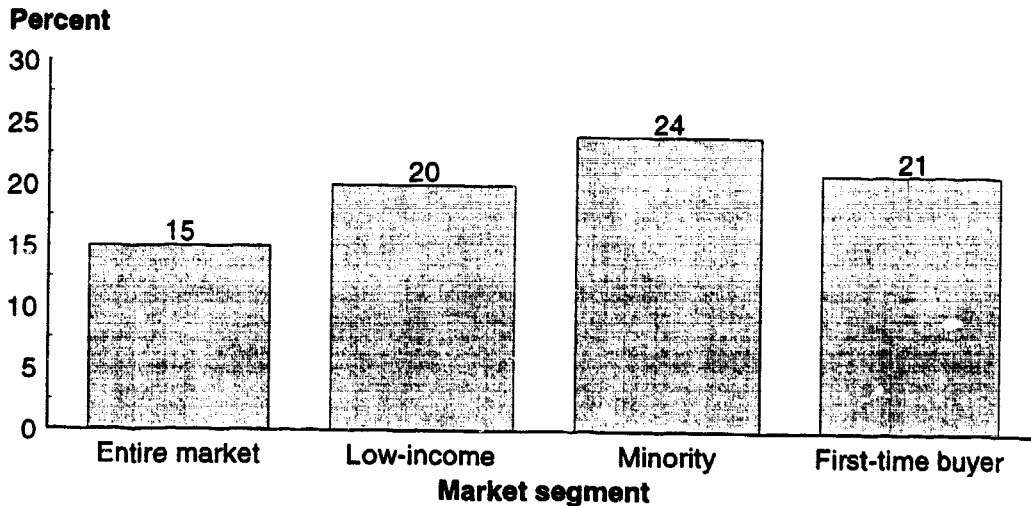
Note: Not insured include Rural Housing Service-guaranteed loans. Does not equal 100 percent due to rounding.
 Source: U.S. Housing Market Conditions, HUD, May 1997.

While FHA insured about 9 percent of all mortgages made during 1996, this amount represents about 31 percent of all insured mortgages.

In 1996, private mortgage insurance companies insured slightly more mortgages than did the federal government.

GAO Housing Finance Condition

FHA's Share of Single-Family Home Purchase Mortgages for Entire Market and Three Market Segments, 1994

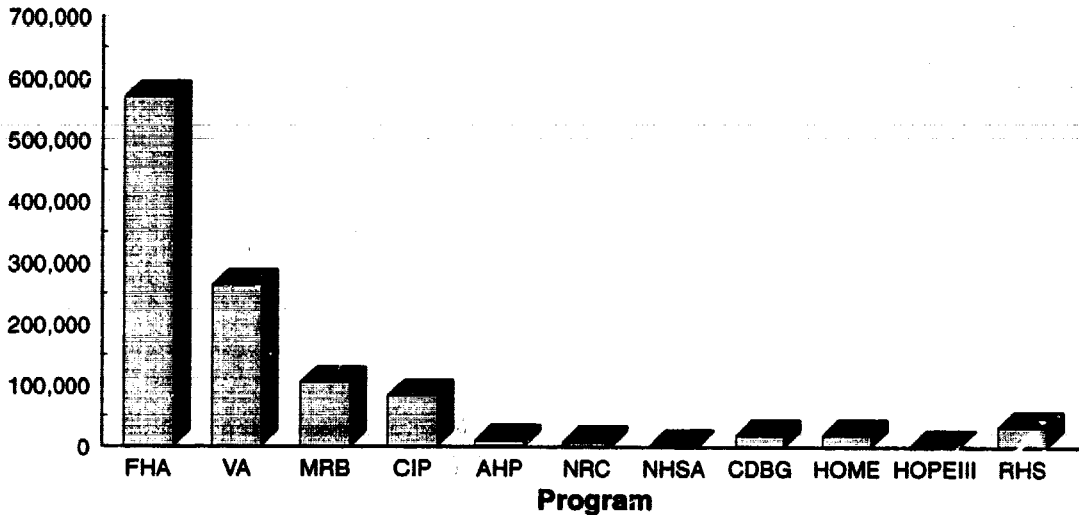


Source: GAO/RCED-96-123, Aug. 13, 1996.

While FHA insured about 15 percent of all mortgages used to finance the purchase of a house in 1994, it insured a greater percentage of mortgages for low-income, minority, and first-time home buyers.

GAO Housing Finance Condition

Number of homeowners assisted in 1995



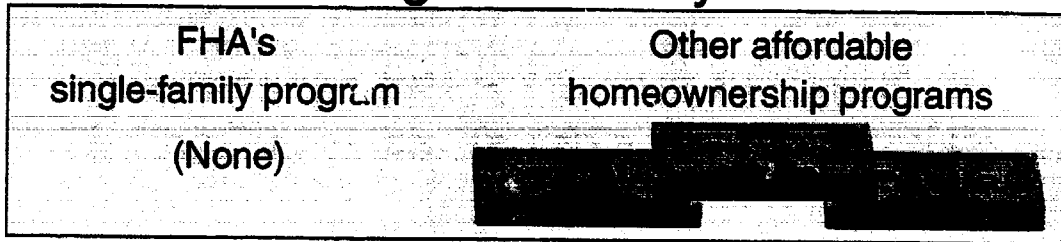
Note: MRB represents state Mortgage Revenue Bond programs. CIP is the Community Investment Program. AHP is the Affordable Housing Program. NRC is Neighborhood Reinvestment Corporation. NHSA is Neighborhood Housing Services of America. HOME is the Home Investment Partnership Program. HOPEIII is the homeownership program of the Housing Opportunities for People Everywhere program. Data are for fiscal or calendar year 1995, except for the MRB and CDBG programs, for which the data are for 1994 and 1992, respectively.

Source: GAO/RCED-96-123, Aug. 13, 1996.

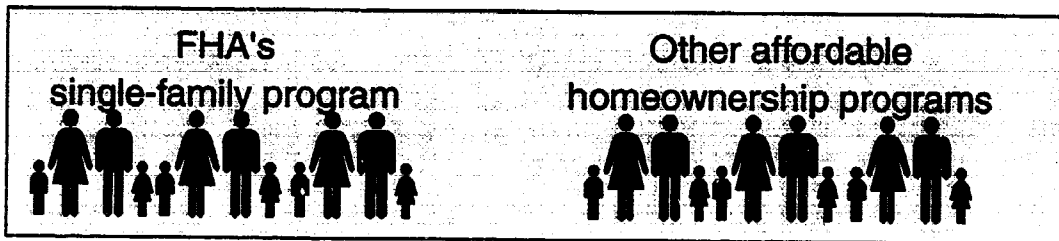
FHA has served more homeowners than all other federal programs aimed at affordable home ownership combined. In 1995, FHA assisted about 570,000 homeowners, while the remaining programs that are shown in this figure assisted about 540,000. VA's program to promote affordable home ownership, the next largest program, served over 260,000 home buyers.

GAO Housing Finance Condition

Budget authority



Number of homeowners assisted



Overall, FHA's single-family loan program, which costs the government nothing, reaches the same number of home buyers as all the other affordable home ownership programs. However, most of the other government programs need federal funding, and with the exception of VA, CIP, and NHSA—for which income data were not available—these programs assist borrowers with relatively lower incomes than FHA's borrowers. The U.S. tax code has provided broad support for homeownership, regardless of income.

The Community Reinvestment Act (CRA) and goals placed on Fannie Mae and Freddie Mac to purchase mortgages in underserved markets are tools for encouraging the private sector to reach underserved market segments, but their effect is not yet clear.

GAO Housing Finance Issues

- Whom to serve and how
 - Homeownership rate
 - Extent of unmet capital needs
 - Effect of other approaches--tax incentives, bank system support, CRA
- Financial solvency
- State and local capacity

Whom to serve and how to serve them is the basic issue with federal support for financing single- and multifamily housing.

- At what rate of homeownership does cost outweigh benefit?
- What are the unmet capital needs for the nation's multifamily housing?
- How effective are various methods of supporting mortgage financing?

Changes to FHA's role may affect the solvency of its funds. For example, loans to riskier borrowers could require federal subsidies and/or increased premiums for borrowers.

Increased reliance on state and local governments to provide services similar to FHA's may be affected by the fiscal capacity and experience of these governments. Some states have a long history of helping to finance housing--others do not.

GAO Community Development

- CDBG Program
- Home Investment Partnership Program (HOME)
- Empowerment Zones and Enterprise Communities (EZ/EC) Program
- Homelessness (McKinney Act) Programs

GAO Community Development

CDBG program

- \$4.5 billion outlays in fiscal year 1996
- Formula-based grants
- 70/30 split between entitlement communities and small cities
- Broad range of eligible uses

The CDBG program, established by the Housing and Community Development Act of 1974, was intended to primarily benefit low- and moderate-income people. The program provides annual grants—principally to state and local governments—for aid in community development (CD).

- Grant amounts are based on a formula that considers demographic and economic conditions.
- In general, entitlement communities (mostly large cities) are allocated 70 percent of funds, and states are allocated 30 percent for small cities.
- Grantees have broad discretion in how to spend funds, as long as they benefit low- and moderate-income people, prevent or eliminate slums or blight, or meet other urgent CD needs. Grantees must spend at least 70 percent of their funds on activities benefitting low- and moderate-income people.

GAO Community Development

Economic Development Loan Fund

Economic Development Initiative grant program

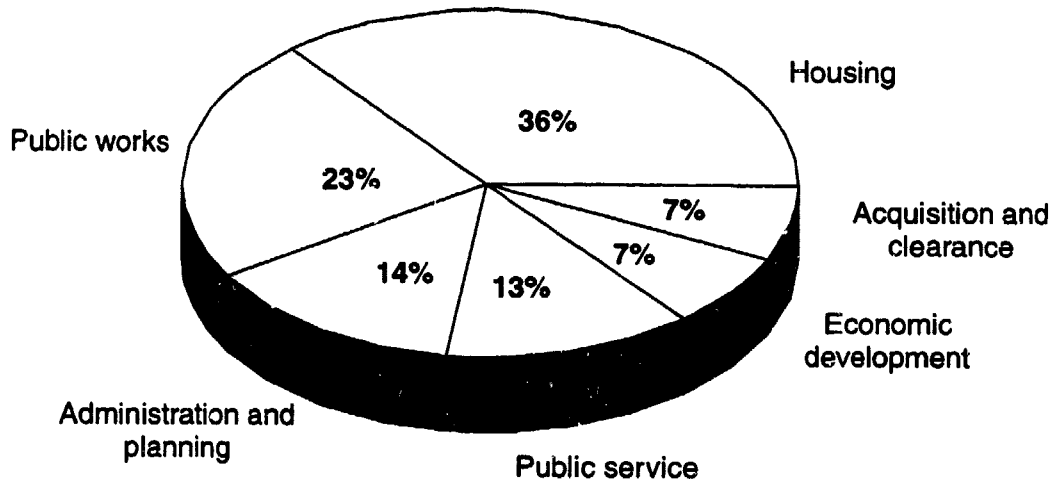
The Economic Development Loan Fund, also known as the Section 108 Loan Guarantee program, allows CDBG grantees to pledge future CDBG funds as principal collateral for loans that are guaranteed by HUD.

- Loans for up to five times the annual CDBG grant for large economic development projects are financed through public offerings on the private sector capital market and are guaranteed by HUD.
- As of September 30, 1996, HUD had approved 930 loans totaling \$4.4 billion.

Economic Development Initiative (EDI) grants supplement community development programs and provide equity grants for large-impact projects.

GAO Community Development

CDBG Entitlement Communities Program Expenditures by Type of Activity, Fiscal Year 1993



Source: Renewing Government, 1996 Consolidated Annual Report for HUD's Community Development Programs, HUD.

The most prevalent use of CDBG funds by entitlement communities was for housing activities (36 percent), which was mostly for rehabilitating affordable housing.

The next most prevalent use—public works (23 percent)—include such items as street and sidewalk repair.

**GAO Community Development
HOME Program**

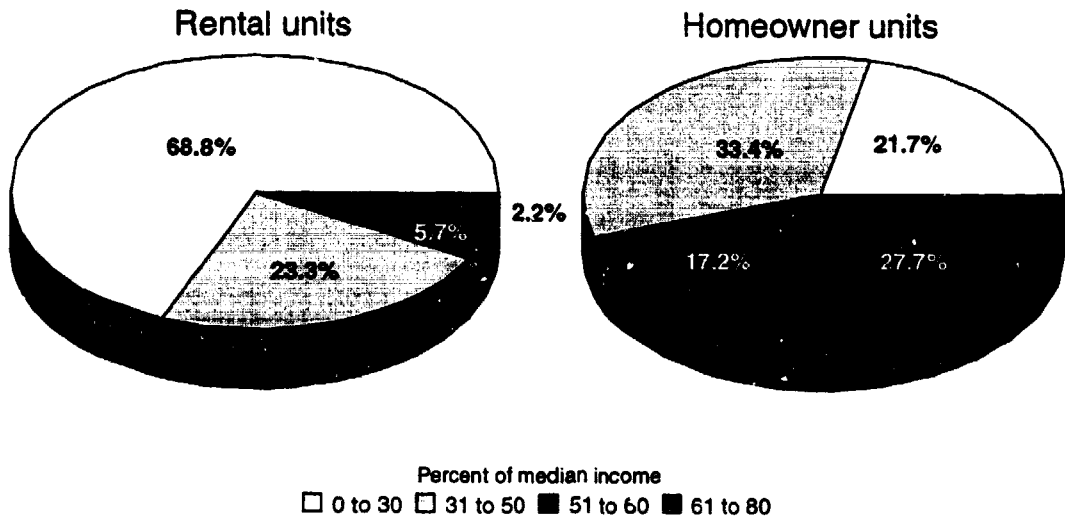
- **\$1.2 billion of outlays in fiscal year 1996**
- **Grants to participating local and state governments on a formula basis**
- **60/40 split between large communities and states**
- **Affordable housing (rental and owned)**
- **Funds from nonfederal sources of at least 25 percent of federal funds**

Projects supported by the Home Investment Partnership (HOME) program are limited to serving persons with incomes at or below 80 percent of an area's median income.

Funds are used to increase homeownership and provide affordable housing opportunities for low- and very low-income people.

GAO Community Development HOME Program

Distribution of Occupant Income as a Percentage of the Median Area Income, Fiscal Year 1995



Source: HUD.

For the HOME program, actual performance shows that almost 70 percent of the tenants had incomes that were at or below 30 percent of an area's median income, and over half of homeowners had incomes that were at or below 50 percent of an area's median income.

**GAO Community Development
EZ/EC Program**

- Grants and incentives
- Economic development and social services
- One-time allocation
- Social service block grants from HHS
- Financial benefits for zones

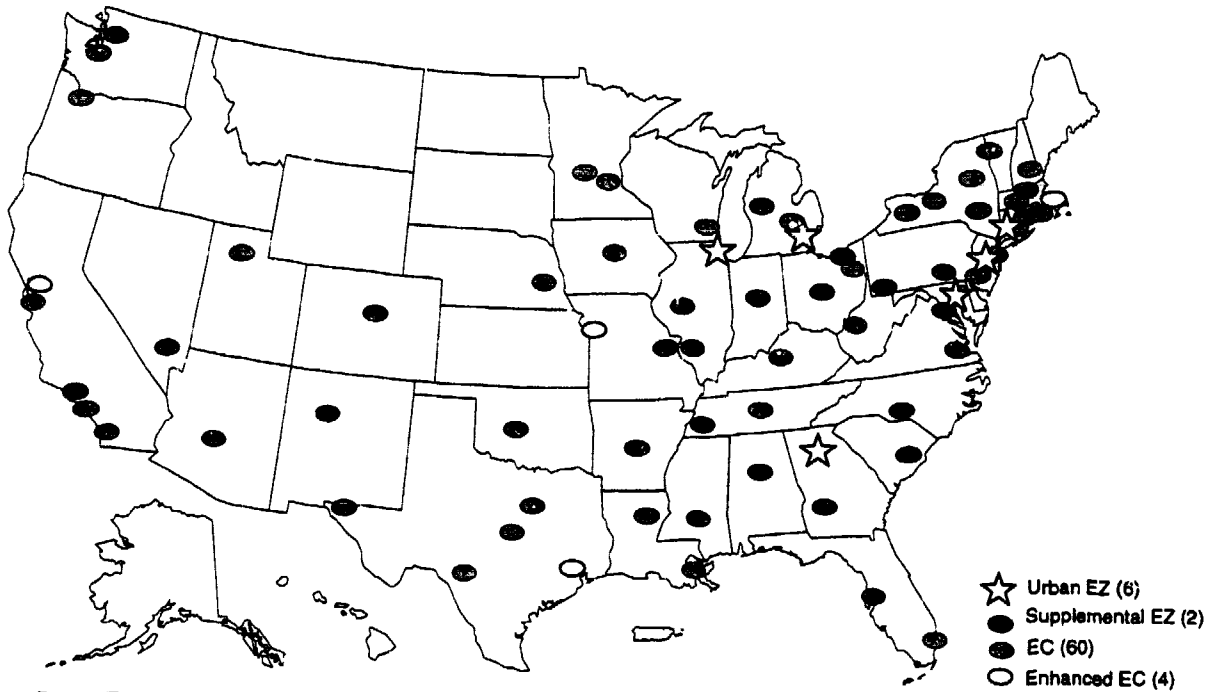
The Omnibus Budget and Reconciliation Act of 1993 authorized the Secretaries of HUD and Agriculture to designate empowerment zones (EZs) and enterprise communities (ECs) to receive significant tax incentives and block grants.

Together, EZs and ECs received about \$800 million in HHS' Social Services Block Grants (via states) and tax-exempt bond financing.

Businesses located within EZs may take advantage of an increased depreciation write-off (\$37,500 versus \$17,500) and wage-tax credits of up to \$3,000 per employee, per year.

Supplemental EZs and Enhanced ECs were later named and funded with \$300 million in EDI grants.

GAO Community Development EZ/EC Locations



Source: *Building Communities: Together. Urban Empowerment Zones and Enterprise Communities*, July 1995, HUD.

Six urban EZs (Atlanta, Baltimore, Chicago, Detroit, New York, and Philadelphia/Camden) each received \$100 million in Social Services Block Grants (SSBGs) and authority to use tax-exempt bond financing. Businesses located in EZs may use wage-tax credits and accelerated depreciation. Two Supplemental EZs received EDI grants—Los Angeles received \$125 million, and Cleveland received \$87 million. Cleveland also received an additional \$3 million in SSBGs and authority to use tax-exempt bond financing. Sixty ECs each received \$3 million in SSBGs and authority to use tax-exempt bond financing. Four Enhanced ECs each received \$22 million in EDI grants, \$3 million in SSBGs, and authority to use tax-exempt bond financing.

**GAO Community Development
Homelessness Program**

- Formula and competitive grants
- "Continuum of care"
 - Immediate (emergency) shelter
 - Transitional housing with supportive services
 - Permanent housing or permanent supportive housing arrangements

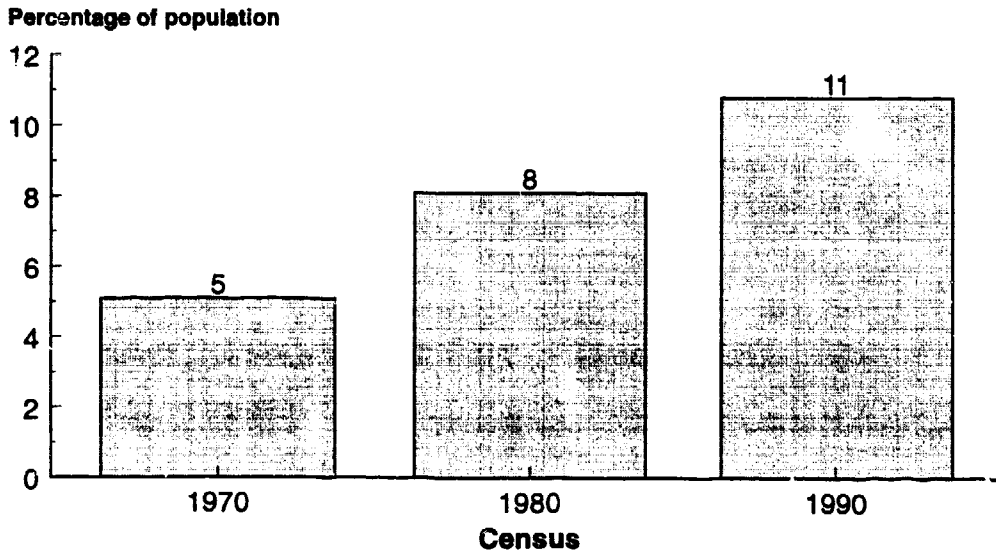
Homelessness programs (under the McKinney Act) include Emergency Shelter Grants, Supportive Housing Program, Shelter Plus Care, and the Section 8 single-room occupancy program.

Although each program is small, as a group they provide an important source of funds for assisting the homeless (\$823 million in budget authority in fiscal year 1996).

HUD emphasizes a continuum of care, dependent on need, to provide emergency housing as well as transitional and permanent housing and supportive services for homeless individuals and families.

GAO Community Development Condition

Percentage of Population Living in Census Tracts With More Than 40 Percent Poverty

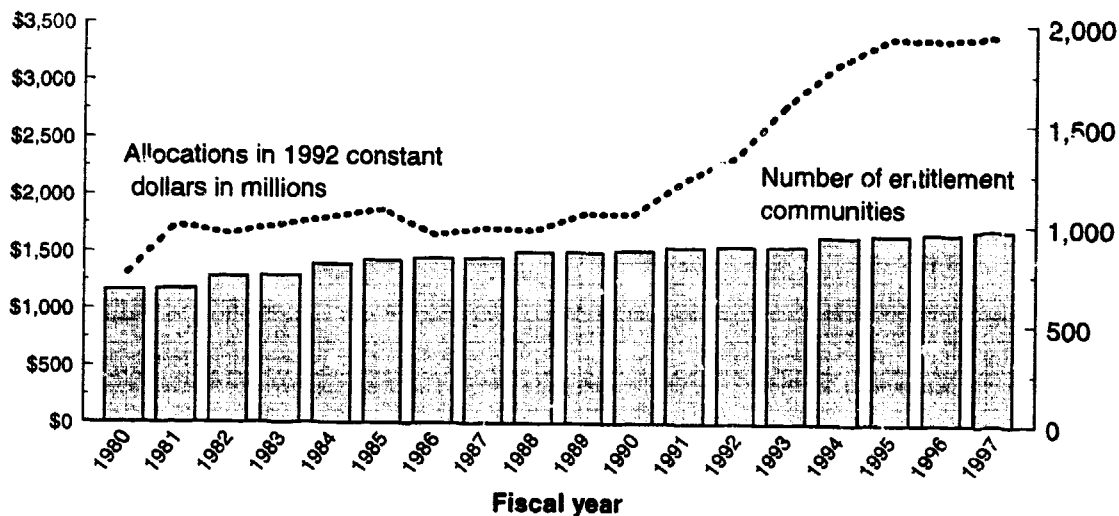


Source: Budget of the United States Government, fiscal year 1998.

The concentration of poverty is increasing. Over 10 percent of the nation's population is now living in census tracts that have a poverty rate of more than 40 percent.

GAO Community Development Condition

CDBG Entitlement Communities and Allocations, Fiscal Years 1980-97



Source: Federal Funds, Local Choices: An Evaluation of the Community Development Block Grant Program, HUD, May 1995, and HUD program data.

The number of entitlement communities has been increasing, and CDBG allocations for entitlement communities have also risen.

From 1980 through 1997, the number of entitlement communities rose from 663 to 975.

In constant 1992 dollars, the allocation for entitlement communities has risen, except during fiscal years 1982, 1986, 1988, 1990, and 1996.

In nominal dollars, from 1981 through 1995, the allocation for entitlement communities went from a peak of \$2.667 billion to \$3.14 billion. Its lowest amount was \$1.972 billion in 1990.

GAO Community Development Issues

- Whom to serve and how
 - Targeted or flexible use of funds
 - Comprehensive approach
 - Appropriateness of formula for today
- Accountability and results
 - Ensuring intended use of funds
 - Measuring outcomes

The broad issue in community development is whom to serve and how.

- How can the federal government best ensure viable urban communities?
- Use of a comprehensive approach—one that is targeted to a specific geographic area, includes residents' input, addresses both physical and social needs, and uses public and private resources—enhances the chances of improving conditions in distressed neighborhoods.
- Is the formula that HUD uses to allocate CDBG adequately targeting funds to the most needy communities?

In exchange for added local flexibility, state and local governments now establish specific benchmarks and performance measures.

GAO Regulatory Functions

- Fair housing
- Interstate land sales
- Real estate settlement procedures
- National manufactured housing
- Lead-based paint
- Home mortgage disclosure
- Fannie Mae and Freddie Mac

GAO Regulatory Functions Fair Housing

- HUD resolves housing discrimination disputes through conciliation and administrative hearings and provides state and local fair housing agencies with financial and technical support.
- Justice litigates cases if conciliation fails and either party chooses to have the case heard in a federal court.

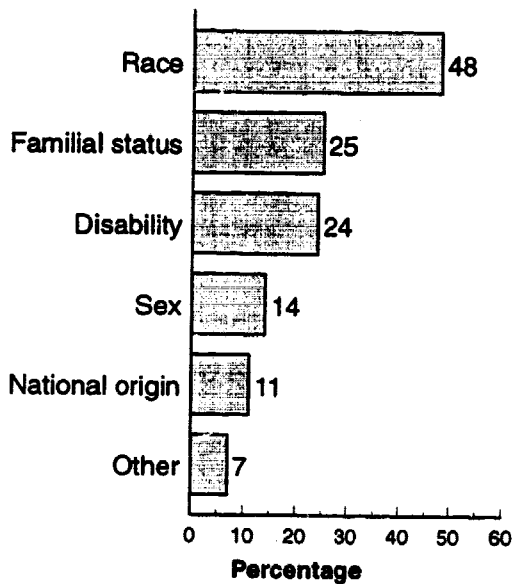
HUD's Fair Housing regulatory responsibilities are to investigate complaints and ensure compliance with fair housing practices.

- HUD's Fair Housing Assistance Program (FHAP) provides state and local agencies with financial and technical support. The agencies must be certified by HUD to be eligible to receive federal funds (32 states).
- HUD's Fair Housing Initiatives Program (FHIP) provides grants for state and local governments, nonprofits, and other public or private entities that enforce fair housing issues or educate people about them.

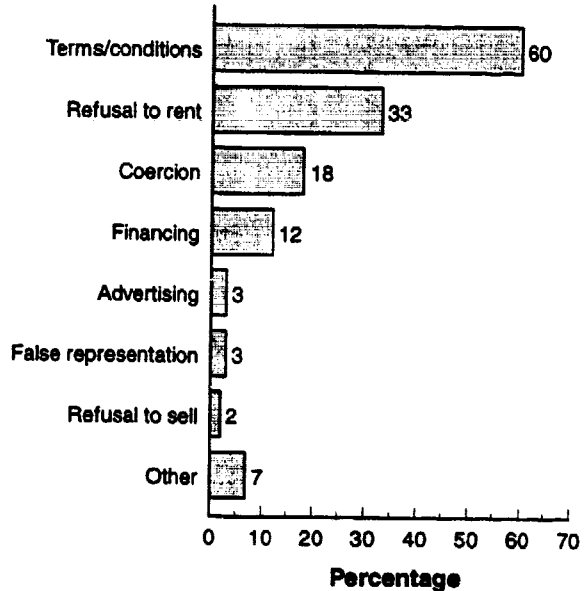
The Department of Justice litigates (1) cases formally charged by HUD after conciliation fails and either party chooses to have the case heard in federal court and (2) cases involving a pattern or practice of housing discrimination of major national significance.

GAO Regulatory Functions Fair Housing Complaints

Bases of complaints, fiscal year 1994
Total complaints to HUD and FHAP = 9,670



Major issues in complaints, fiscal year 1994
Total complaints to HUD = 4,884



Source: 1994 Annual Report to Congress on Fair Housing Programs, HUD, June 1996.

In fiscal year 1994, HUD received 4,884 fair housing complaints, and FHAP received 4,786 complaints. While almost half of these complaints were based on race; a fourth were based on familial status and nearly a fourth on disability.

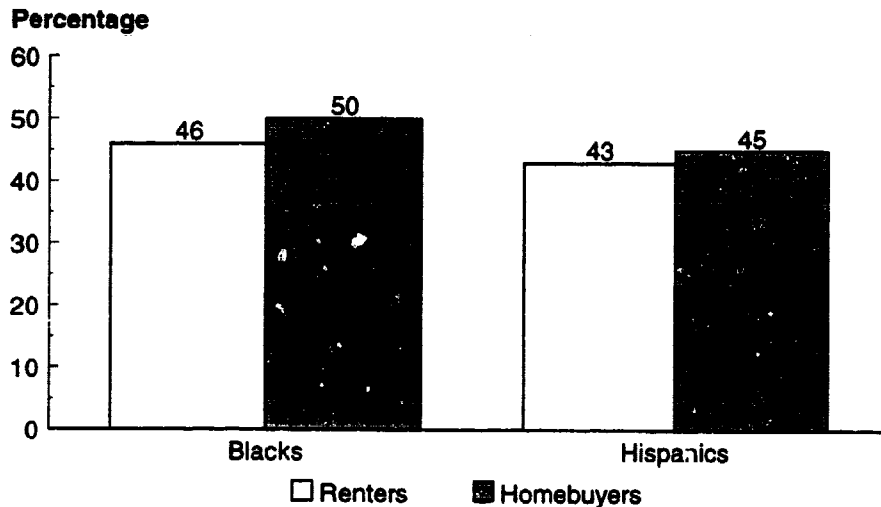
The major issues involved

- imposing disparate terms or conditions on the sale or rental of housing (60 percent);
- a refusal to rent (33 percent); and
- an attempt to use coercion, threats, or intimidation to interfere with fair housing rights (18 percent).

GAO Regulatory Functions

Fair Housing

Percentage of Time Blacks and Hispanics Receive Less Favorable Treatment Than Nonminorities When Visiting a Housing Agent



Source: Housing Discrimination Study: Incidence and Severity of Unfavorable Treatment, HUD, Oct. 1991.

According to a 1991 study, HUD estimates that almost half of the time that either black or Hispanic renters and homebuyers visit a housing agent, they receive less favorable treatment than nonminority renters and homebuyers. Less favorable treatment included such actions as being excluded from information about available housing and being quoted higher rents for advertised units than nonminority counterparts.

GAO **Regulatory Functions**
Interstate Land Sales

- **Certain developers of subdivisions must provide to prospective purchasers property reports which contain information required by HUD.**
- **HUD is authorized to investigate alleged violations of the Interstate Land Sales Full Disclosure Act and to bring suit against the violators.**

GAO **Regulatory Functions**
Real Estate Settlement Procedures

- HUD requires lenders to provide all home mortgage applicants with timely good-faith estimates of the closing costs they will pay at settlement.
- Procedures are intended to prevent the payment of unearned mortgage settlement fees.

GAO **Regulatory Functions**
National Manufactured Housing

- HUD establishes a national building code and enforces it for dwellings that are not built on-site.
- HUD provides standards to research, test, and evaluate fire safety, body and frame construction, and major systems such as heating.
- HUD's standards are mandatory and preemptive of state laws.

GAO **Regulatory Functions**
Lead-Based Paint Abatement

HUD

- operates a grant program to state and local governments to develop abatement methods;
- develops regulations to reduce lead paint in federal housing; and
- provides technical assistance on abatement to housing providers, governments, developers, and others.

GAO **Regulatory Functions**
Home Mortgage Disclosure

HUD

- **compiles data from mortgage companies on mortgage applications and loans made or purchased and**
- **provides the public with information to determine whether financial institutions are serving a community's needs for housing finance.**

GAO **Regulatory Functions**
Fannie Mae & Freddie Mac Oversight

The Office of Federal Housing Enterprise Oversight (OFHEO) ensures the financial safety and soundness of Fannie Mae and Freddie Mac.

The Assistant Secretary for Housing has responsibility to ensure that goals for the purchase of loans in underserved markets are met.

GAO Critical Issues Facing the Department

- Budget squeeze
- Portfolio reengineering
- HUD as a high-risk agency

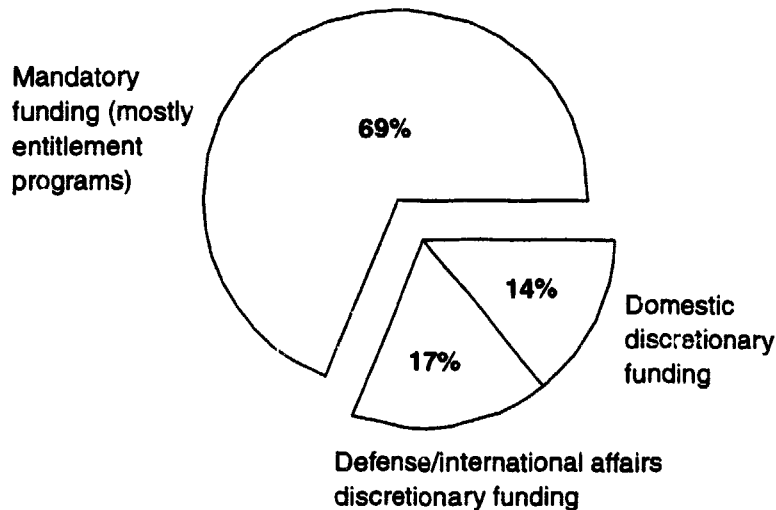
HUD must compete with other nondefense Departments and agencies for domestic discretionary funding. Within HUD, renewals of Section 8 contracts represent an increasing demand on resources.

Although HUD has made significant progress in addressing material management weaknesses, it remains a "high-risk" agency.

Recent legislative measures to reform federal management have provided tools that could help the Congress and the administration deal with HUD's most pressing issues. These tools include the Government Performance and Results Act (GPRA), the Chief Financial Officers (CFO) Act, and the Clinger-Cohen Act.

GAO **Critical Issues Facing the Department
Budget Squeeze**

Estimated U.S. Budget Authority for Fiscal Year 1998

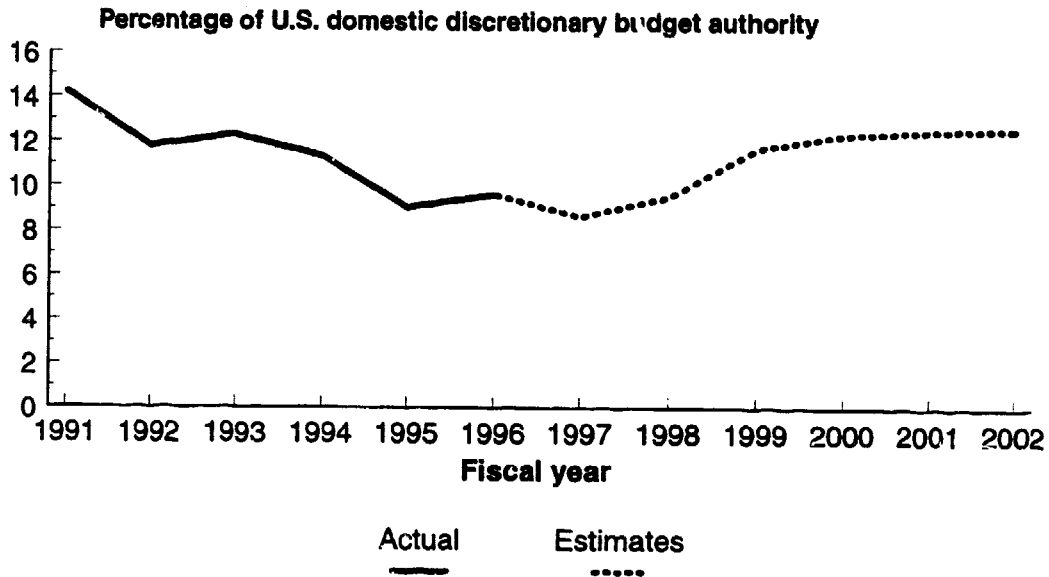


Source: GAO's analysis of data from Historical Tables: Budget of the United States Government, fiscal year 1998.

For the estimated 1998 federal budget, mandatory spending represents almost 70 percent of the total budget authority, and discretionary spending represents a little over 30 percent.

GAO Critical Issues Facing the Department Budget Squeeze

HUD's Budget, Fiscal Years 1991-2002



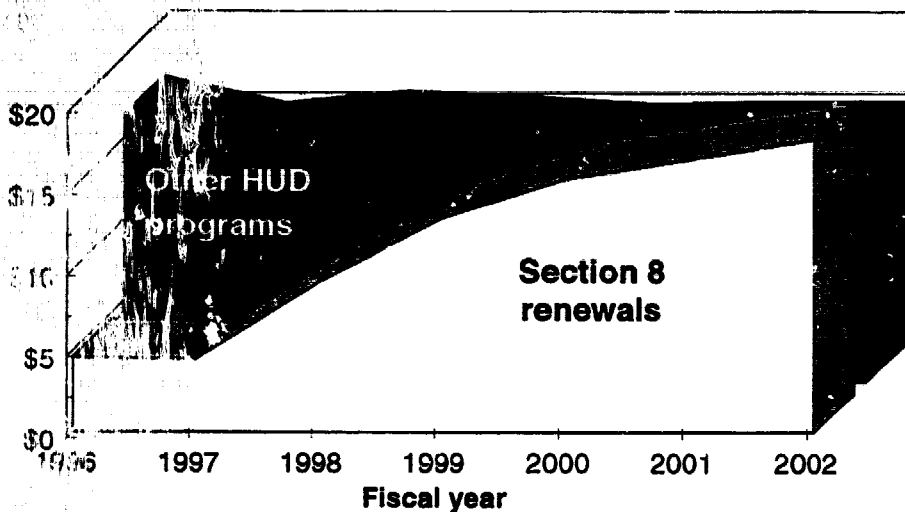
Note: Data for fiscal year 1996 are actual, and for fiscal years 1997 to 2002 are estimated.
 Source: GAO's analysis of data from Historical Tables: Budget of the United States Government, fiscal year 1998.

The estimates for HUD's share of domestic discretionary spending reflect dramatic increases in fiscal years 1998 and 1999 and more modest increases in subsequent years to the point where HUD's budget is estimated to represent about 12.5 percent of all domestic discretionary spending.

GAO Critical Issues Facing the Department Budget Squeeze

Growth of Section 8 Renewals in Discretionary Budget Authority

Dollars in billions



Note: Data for 1996 are actual, for 1997 are enacted, and for 1998 to 2002 are estimated.

Source: GAO's analysis of data from HUD's congressional justification for fiscal year 1998 budget.

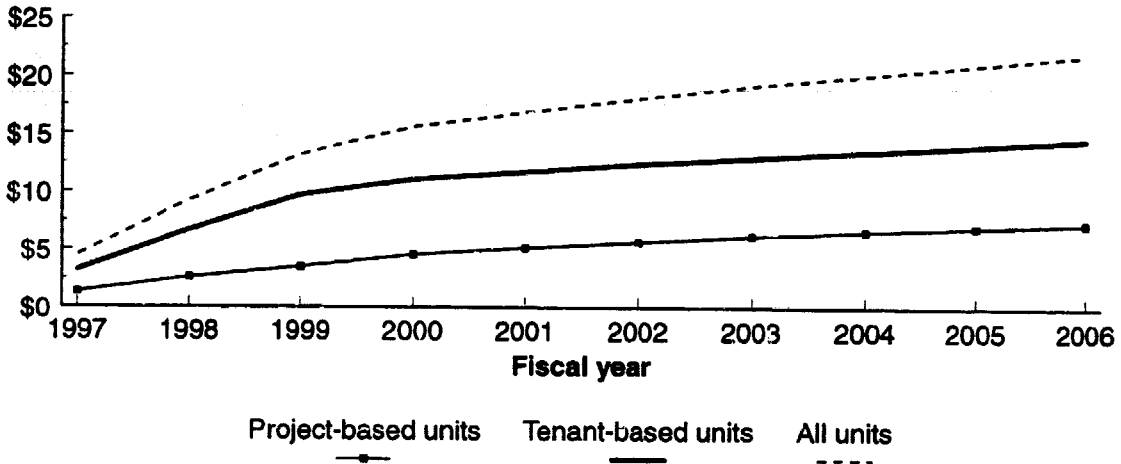
In the future, renewals of Section 8 contracts will take a growing share of HUD's discretionary budget authority. For fiscal year 1998, renewals will account for almost 40 percent of the Department's budget authority, by the century mark, they will account for half of its budget authority. Beginning in 2000, the estimated budget authority for renewing Section 8 contracts will exceed the estimated budget authority for all remaining HUD programs.

In terms of outlays, providing housing assistance payments under Section 8 contracts is already responsible for a large percentage of HUD's total outlays. In fiscal year 1996, outlays for Section 8 assisted housing totaled just over \$20 billion, or about 80 percent of the nearly \$26 billion in HUD's total outlays.

GAO Critical Issues Facing the Department Budget Squeeze

Budget Authority for Section 8, Fiscal Years 1997-2006

Dollars in billions



Source: GAO's analysis of data from HUD's congressional justification for its fiscal year 1998 budget.

According to HUD, budget authority for Section 8 contract renewals on both project- and tenant-based units will continue to increase.

The projected increase in contract renewals also reflects a shift toward increased tenant-based assistance through 1999.

GAO Critical Issues Facing the Department Portfolio Reengineering

- HUD provides project-based Section 8 assistance for over 20,000 properties.
- Over 8,600 Section 8 properties also have mortgages insured by FHA.
- Impact of portfolio reengineering on FHA's insurance fund could increase claims by \$6 billion to \$7 billion.

"Portfolio reengineering" is an attempt to resolve long-standing problems with properties that receive project-based Section 8 rental subsidies and have FHA-insured mortgages. The basic problems with the insured Section 8 portfolio are high subsidy costs, high exposure to insurance losses, and the poor condition of many properties.

As of April 1996, HUD provided about 20,400 properties with project-based Section 8 rental subsidies; 8,636 of these properties also had FHA-insured mortgages (excluding 167 properties that were insured under FHA's moderate rehabilitation program).

Writing-down FHA-insured mortgages could result in claims against FHA that Ernst & Young estimates could total from \$6 billion to \$7 billion.

GAO Critical Issues Facing the Department Portfolio Reengineering

- Even if debt were forgiven, 11-15 percent of the FHA-insured projects would cover operating expenses only; another 11-15 percent would not even cover their operating expenses.

From 22 to 30 percent of the properties that receive project based Section 8 rental subsidies and have FHA-insured mortgages would be unable to compete in the private market even if their mortgages were forgiven entirely.

GAO Critical Issues Facing the Department High Risk

- HUD is considered a "high-risk" agency due to long-standing, Department-wide deficiencies in
 - internal controls,
 - information and financial management systems,
 - organizational structure, and
 - mix of staff and skills.

In 1994, we designated HUD as a high-risk agency because of four long-standing, Department-wide management deficiencies that have made it vulnerable to waste, fraud, abuse, and mismanagement. These deficiencies include

- weak internal controls, such as a lack of necessary data and management processes;
- poorly integrated, ineffective, and generally unreliable information and financial management systems;
- organizational problems, such as overlapping and ill-defined responsibilities and authorities between HUD's headquarters and field organizations, and a lack of management accountability and responsibility; and
- an insufficient mix of staff with proper skills.

**GAO Critical Issues Facing the Department
High Risk--Actions Taken**

HUD has

- implemented a management planning and control program,
- begun to operate portions of major new information and management systems,
- reorganized and consolidated its field structure, and
- increased training and begun an assessment of future training needs.

HUD has begun to address these deficiencies, but many corrective actions are far from complete.

Although HUD has fully implemented its new management planning and control program to identify, rank, and abate the major risks in each program, HUD's Inspector General has questioned the program's effectiveness.

While portions of HUD's information and financial management systems are operating, some major improvements will not be completed before 2000, and 93 systems do not comply with the Federal Managers' Financial Integrity Act (FMFIA).

HUD has additional plans to empower field personnel and streamline headquarters. Although HUD has increased staff training and begun to assess future training needs, HUD continues to have staff resource problems in its major programs.

GAO Critical Issues Facing the Department High Risk--Status

- Remaining material weaknesses are significant and long-standing.
- HUD's Offices of Housing and Public and Indian Housing rely primarily on financial audits and other IG audits to identify new material weaknesses.
- 93 information systems still do not comply with requirements.
- Staffing and training remain insufficient.

Although the number of open material weaknesses decreased from 51 in fiscal year 1991 to 9 in fiscal year 1995, those 9 are long-standing and involve large sums of money. In addition, we remain concerned that

- HUD's management planning and control program may not be effective in assessing risks and developing strategies to abate them;
- the 93 information and financial management systems that do not meet FMFIA's requirements may not provide timely, accurate, and reliable financial information and reports; and
- many program directors reported that while the overall quality of training and skills of their staff had improved, HUD's training remained only fair or poor.

**GAO Critical Issues Facing the Department
High Risk--Further Actions Needed**

- Move toward eliminating major internal control weaknesses.
- Complete plans to improve information and financial management systems.
- Complete plans for reorganizing headquarters and field offices.
- Complete efforts to assess staff skills; develop appropriate training to address skills needed for job responsibilities.

While HUD deserves credit for its progress in addressing management deficiencies, many actions are far from completed. HUD needs to

- eliminate major internal control weaknesses, fully implement its management planning and control program, and ensure the proper balance between program delivery and program monitoring;
- complete integration of its major information and financial management systems, make all of them comply with FMFIA, and improve their usefulness to managers;
- complete its current plans for reorganizing headquarters and field offices; and
- complete its efforts to assess its employees' skills, develop training, and increase the number of staff receiving training.

**GAO Critical Issues Facing the Department
High Risk**

HUD's programs will remain high-risk until

- **the Department completes more of its planned corrective actions, principally those related to internal controls and information systems and**
- **the administration and the Congress agree on HUD's mission, structure, and approaches to programs.**

GAO Tools to Help the Congress and the Administration

- The Government Performance and Results Act.
- The Chief Financial Officers Act.
- Information technology reforms.

GPRA requires agencies to clarify their mission and develop meaningful measures of results.

The CFO Act, as amended, provides managers—for the first time—with audited financial statements for nearly all federal agencies.

The Paperwork Reduction Act of 1995 and the Clinger-Cohen Act of 1996 reform the management of information technology to help ensure that managers have useful information.

The reforms embodied in these acts provide a foundation of work for the federal government to apply the best management practices that have been successfully used by the private sector and state and local governments.

GAO Tools to Help the Congress and the Administration--GPRA

As a tool for the Congress to help ensure agency performance, GPRA

- makes agencies focus on attaining measurable outcomes,
- requires agencies to consult with the Congress on plans and goals, and
- requires strategic plans that include mission statements and outcome-related strategic goals.

GPRA requires that each federal agency, in consultation with the Congress, prepare a strategic plan by September 1997. The plan must include a comprehensive mission statement, the agency's long-term strategic goals, and a description of how the agency intends to achieve those goals.

GPRA should provide decisionmakers with the information they need to assess the results of federal programs.

GAO Tools to Help the Congress and the Administration--CFO Act

The CFO Act of 1990 requires that the 24 largest federal Departments and agencies appoint CFOs.

The Government Management Reform Act of 1994 expanded the CFO Act to require that these Departments and agencies prepare and have audited financial statements for their entire operations beginning in fiscal year 1996.

The CFO Act sets expectations for federal agencies on deploying modern financial and information systems, developing better performance and cost measures, and designing results-oriented reports on their financial conditions and operating performance.

For the first time, all major government agencies--covering virtually the entire federal budget--will have to exercise this more stringent financial reporting and control discipline.

Better financial management is central to providing much needed accountability and addressing high-risk problems. It gives decisionmakers an opportunity to ensure that agencies promptly and thoroughly correct problems identified in audits.

GAO Tools to Help the Congress and the Administration--IT Reform

The Clinger-Cohen Act of 1996 and the Paperwork Reduction Act of 1995 are aimed at better managing investments in information technology (IT) and maximizing the benefits from investments in technology while controlling the risks of system development efforts.

The information technology reforms represented by the Clinger-Cohen Act of 1996 and the Paperwork Reduction Act of 1995

- require major agencies to appoint Chief Information Officers, who report to agency heads;
- tighten controls over investments in technology;
- redesign inefficient work processes; and
- use performance measurements to assess technology's contribution to achieving mission results.

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