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HOUSING AND URBAN DEVELOPMENT

Limited Progress Made on HUD Reforms

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss management and budget problems facing the U.S. Department of Housing and Urban Development (HUD), efforts over the last year to address these problems, and the work that remains. When we appeared before this Subcommittee just over a year ago,[1] we noted that current housing policies for which HUD is responsible drive huge loan commitments and discretionary spending and that controlling that spending would mean reexamining these policies and HUD's mission to carry out these policies.

Today, despite the promise of reform, reinvention, and transformation initiatives aimed at solving HUD's problems, much more remains to be done. HUD is very much an agency in limbo: Few of the proposals in HUD's reinvention blueprint have been adopted.

My statement today is based on our ongoing work, our reports and testimonies over the past 4 years, and our observations on recent congressional and departmental initiatives to address HUD's problems. My statement will focus on HUD's problems and progress to date in addressing (1) its long-standing management deficiencies; (2) its portfolio of multi- and single-family housing insured by the Federal Housing Administration (FHA); (3) budget and management problems plaguing the public housing program; (4) the spiraling cost of assisted housing programs; and (5) the need for consensus on HUD reforms.

In summary:

- Four long-standing Department-wide management deficiencies led to our designation of HUD as a high-risk area in January 1994. These deficiencies were weak internal controls, an ineffective organizational structure, an insufficient mix of staff with the proper skills, and inadequate information and financial management systems. Despite some progress, problems persist today. We believe that, for the foreseeable future, the agency will be high-risk in terms of its programs' being vulnerable to waste, fraud, and abuse.
- Other vexing programmatic and budget problems face HUD and the Congress. These problems include how to (1) reduce excessive housing subsidies and address the physical inadequacies of insured multifamily properties; (2) maintain the improved financial health of the single-family

[1] Housing and Urban Development: Major Management and Budget Issues (GAO/T-RCED-95-89, Jan. 24, 1995).

insurance fund; (3) address the social, management, and budget problems that exist in public housing; and (4) deal with the spiraling costs of renewing housing subsidy contracts that assist lower-income families. Overall, during the last 15 months, limited progress has been made.

- The Congress and HUD have made a start at reexamining housing and community development policy, but reaching consensus on what the policy goals should be, how assistance should be provided, and how much the nation should spend on these activities will take some time. Finally, correcting management deficiencies at HUD will take years to complete. As HUD continues to downsize, that downsizing will likely affect its ability to limit financial exposure, carry out its mission, and correct Department-wide management and information system problems.

HUD's Programs and Budget

HUD is the principal federal agency responsible for programs dealing with housing and community development and fair housing opportunities. Its missions reflect a broad range of statutory mandates, ranging from making housing affordable by insuring loans for multifamily projects and providing assistance on behalf of about 4.5 million lower-income tenants, to helping revitalize over 4,000 communities through community development programs, to encouraging homeownership by providing mortgage insurance to about 7 million homeowners who might not have been able to qualify for conventional loans.

The diversity of HUD's missions has resulted in a department that is intricately woven into the financial and social framework of the nation and that interacts with a diverse number of constituencies. For example, thousands of public housing authorities (PHA) and many more private housing owners are key players in administering HUD's public housing and Section 8 rental housing programs and depend on subsidies from the Department to operate. HUD's programs also operate through other governmental entities, such as state housing finance agencies, nonprofit groups, and state and local governments.

In carrying out its missions, HUD is responsible for a significant amount of tax dollars: The discretionary budget outlays for HUD's programs were estimated to be close to $31.8 billion in fiscal year 1995, over three-quarters of which was for public and assisted housing programs. In addition, HUD is currently one of the nation's largest financial institutions, with significant commitments, obligations, and exposure: It has management responsibility and potential liability for more than $400 billion of mortgage insurance, an additional $485 billion in outstanding securities, and over $200 billion in prior years' budget authority for which it has future financial commitments.

HUD's Management Deficiencies

In February 1995, we reported that HUD's top management had begun to focus attention on overhauling the Department's operations to correct its long-standing management deficiencies—an ineffective organizational structure, an insufficient mix of staff with the proper skills, weak internal controls, and inadequate information and financial management systems.[2] The agency had formulated a new management approach and philosophy that included balancing risks with results, had begun implementing a substantial reorganization of field offices, and had initiated a number of other actions that would address the four management deficiencies.

Over the past year, HUD has continued many of these efforts, but problems remain. For example, in September 1995, HUD completed its field reorganization, which eliminated 10 regional offices and transferred direct authority for staff and resources to the Assistant Secretaries. In January 1996, HUD announced additional efforts to empower the field office personnel and continue the Secretary's efforts to implement the "community first" philosophy by streamlining headquarters and reducing headquarters' staffing by 40 percent over 2 years. Many of the headquarters staff will be transferred to the field to enhance the agency's efforts to be more responsive to local communities. According to the HUD Inspector General's (IG) most recent semiannual report, while field staff endorsed the elimination of the regional management layer, they reported that communication and cooperation among the program offices had suffered badly and that the promised empowerment of field staff had not materialized.[3]

In the area of internal controls, the Department's new management control program was fully implemented over the past year, according to HUD officials. This program is intended to tie planning with risk-abatement strategies. Under the program, managers, as they develop annual management plans, are to identify and prioritize the major risks in each of their programs and then describe how these risks will be abated. According to HUD officials, all of the program offices' fiscal year 1996 annual management plans contained management control elements, including risk-abatement strategies.

[2] High-Risk Series: Department of Housing and Urban Development (GAO/HR-95-11, Feb. 1995).

[3] Semiannual Report to the Congress as of September 30, 1995, HUD, Office of Inspector General.

Despite improvements, internal controls continue to be a problem. On June 30, 1995, outside auditors issued a disclaimer of opinion on HUD's fiscal year 1994 consolidated financial statements because weaknesses in internal control and "nonconformances" in systems remained uncorrected.[4] HUD's most serious internal control weaknesses pertain to its approximately $13 billion grant and subsidy payments to public and Indian housing authorities, including $9.5 billion of its operating subsidies and Section 8 rental assistance. The auditors noted that the existing internal controls and financial systems do not provide adequate assurance that the amounts paid under these programs are valid and correctly calculated, considering tenants' income and contract rents. As a result, HUD lacks sufficient information to ensure that federally subsidized housing units are occupied by needy lower-income families and that those living in such units are paying the correct rents.

In 1995, the Department continued to make progress toward its goals of integrating financial systems, but much remains to be done. During the year, HUD implemented its new administrative accounting system and integrated the system for Public, Indian, and Section 8 housing. In addition, all of the program offices have completed Information Strategy Plans, which identify business and information needs. Despite these efforts, as of September 1995, HUD had 88 systems in operation or under development, 60 of which are generally not in compliance with the provisions of Office of Management and Budget (OMB) Circular A-127.[5] HUD's financial systems continue to be identified as high-risk by OMB.

GAO's Assessment of HUD's Actions

The Department deserves credit for its continued emphasis on addressing its long-standing management deficiencies, including a fundamental restructuring of the agency. However, departmental restructuring is still far from being accomplished. HUD's challenge will be to continue to sustain its focus and commitment to addressing the agency's long-standing deficiencies while at the same time downsizing the agency, devolving authority to field offices, and providing greater program flexibility to communities.

[4]"System non-conformances" essentially reflect that HUD does not have an efficient, effective, and integrated financial management system that can be relied upon to provide timely, accurate, and relevant financial information and reports to management.

[5]OMB Circular A-127 prescribes policies and procedures to be followed by executive departments and agencies in developing, integrating, operating, evaluating, and reporting on financial management systems.

As HUD and the Congress continue to look at ways to reform the Department, they will face the challenge of finding the proper balance between local flexibility and authority and proper accountability for federal funds. Furthermore, until the Department completes its goal of integrating financial management systems, which remains years away, the lack of good information will plague the Department in many areas and limit its capacity to adequately monitor funds. Substantially restructuring programs and providing greater local flexibility to communities will in all likelihood also require new systems.

Need to Continue High-Risk Designation

While HUD has formulated approaches and initiated actions to address its department-wide deficiencies, these plans are far from reaching fruition and problems continue. In addition, we believe that until the agency and the Congress are successful in working through the proposals for a major restructuring of the agency, which include consolidating hundreds of program activities, HUD has only a limited capacity to eliminate the Department-wide deficiencies that led us to designate it as high-risk. Accordingly, we believe that both now and for the foreseeable future, the agency's programs will be high-risk in terms of their vulnerability to waste, fraud, and abuse.

HUD's Multifamily Housing Portfolio: Status and Problems

As of September 30, 1995, FHA's portfolio of insured multifamily loans consisted of 15,785 mortgages with unpaid principal balances of $47.7 billion. About $38.5 billion of the insurance supports more than 14,000 multifamily apartment properties. The remainder of the insurance supports hospitals ($4.9 billion) and nursing homes ($4.3 billion). In addition to mortgage insurance, most of the FHA-insured properties receive some form of direct assistance or subsidy, such as below-market interest rates or Section 8 project-based rental assistance.[6] HUD also provides Section 8 project-based assistance for properties that are not insured by FHA. According to HUD's data, the Department has 6,391 Section 8 contracts with projects not insured by FHA containing about 375,000 units receiving project-based assistance.[7]

[6]Project-based subsidies are attached to specific property units, in contrast to tenant-based subsidies, which are portable.

[7]HUD's data also identify 5,206 Section 8 contracts for approximately 239,000 units of housing for the elderly and the disabled (under HUD's Section 202 program).

Long-Standing Problems Continue

The fundamental problems that HUD faces in overseeing the multifamily housing portfolio, which we discussed before this Subcommittee last year, continue. Specifically, for a large proportion of this housing, the government is paying more to house lower-income families than what is needed to provide them decent, affordable housing. The insured multifamily properties also expose the federal government to substantial current and future financial liabilities from default claims. A 1993 study of multifamily rental properties with HUD-insured or HUD-held mortgages found that almost one-fourth of the properties reviewed were "distressed." Properties were considered distressed if they failed to provide sound housing and lacked the resources to correct deficiencies or if they were likely to fail financially.

The reasons for these problems are varied, including design flaws in programs; the Department's dual role as assistance provider and insurer; and long-standing deficiencies in staffing, data systems, and management controls. Program design flaws have resulted in HUD's subsidizing rents at many properties that are far above market rents. In particular, this problem occurs under HUD's Section 8 new construction and substantial rehabilitation programs, in which the Department paid for the initial costs of development by establishing rents above the market levels and continued to raise the rents regularly. HUD's dual role as assistance provider and insurer has contributed to inadequate enforcement of the Department's standards for the condition of properties and decisions by the agency to increase subsidies in order to avoid claims stemming from loan defaults. In addition, as noted in our June 1995 report on default prevention, inadequate management has resulted in poor living conditions for families with low incomes in a number of insured multifamily properties and contributed to a large number of past and anticipated defaults on FHA-insured loans.[8]

HUD's Recent Attempts to Address Problems With the Multifamily Housing Portfolio

During this past year, HUD has attempted to address these problems through a legislative proposal known as "mark to market." The proposal was applicable to about 8,500 properties that both have FHA insurance and receive Section 8 project-based assistance. According to HUD's data, project-based assistance is provided for approximately 700,000 of the 855,000 apartment units covered. The proposal was aimed at ending the interdependence of subsidies and insurance claims, eliminating the excess

[8] HUD Management: FHA's Multifamily Loan Loss Reserves and Default Prevention Efforts (GAO/RCED/AIMD-95-100, June 5, 1995).

Section 8 subsidy costs, and improving the physical condition of properties in poor condition—generally older properties with low rents.

Under the mark-to-market proposal, Section 8 project-based assistance was to be eliminated or phased out for insured properties as the contracts expire. The proposal applied whether or not the subsidized rents were above the market levels. Residents living in units that receive project-based assistance were then to receive tenant-based assistance. Owners would set the rents at market levels, which in many cases would reduce the rental income and lead to defaults on the FHA-insured mortgages. To address this, HUD proposed reducing the projects' mortgages if such action was needed for the properties to be able to compete in the commercial marketplace without project-based assistance. HUD's goal was to replace the FHA-insured loans with ones not insured by FHA. Hearings were held on HUD's mark-to-market proposal last year, but neither the House nor the Senate acted on the proposal.[9]

In the President's fiscal year 1997 budget, HUD announced several planned revisions to its mark-to-market proposal. Most notably, the Department has indicated that the proposal will initially focus on a smaller segment of the multifamily housing portfolio—those properties with expiring contracts whose current rents are above the market levels. In addition, HUD states that localities will decide whether the housing subsidies should be tenant-based or project-based. The extent to which this proposal will reduce project-based assistance in favor of tenant-based is not clear.

During this past year, HUD has also been undertaking a number of initiatives designed to strengthen its ability to manage its multifamily housing portfolio and address outstanding management deficiencies in its staffing, data systems, and management controls. As we reported in June 1995, the initiatives that HUD intended to carry out included (1) using contractors to collect more complete and current information on the physical and financial condition of insured multifamily properties and developing an "early warning system" to more quickly identify troubled properties and (2) deploying Special Workout Assistance Teams (SWAT) to help field offices deal with troubled insured multifamily properties, including the enforcement of HUD's housing quality standards there.

However, progress continues to be slow in implementing these improvements. For example, the early warning system is not yet

[9]Legislation is also being considered that would authorize HUD to conduct a mark-to-market demonstration program.

operational nor is the initiative to contract for periodic physical inspections. The current plans are to contract for these inspections beginning in fiscal year 1997. Also, while the SWAT initiative is regarded by HUD management and HUD's IG as effectively addressing problems, it is limited in scope and cannot be relied upon to address the Department's problems across the portfolio. For example, resource limitations preclude expanding this effort as a standard management tool—nor does this effort address the problem of excess subsidy costs.

Management Issues Facing Other Multifamily Properties—Nursing Homes and Hospitals

Our recent studies of HUD's nursing home and hospital programs also identified management deficiencies.[10] We found that HUD does not have data that show how the programs support the Department's mission. For example, HUD does not collect and analyze information on whom the nursing home program is serving or measure the extent to which the hospital program accomplishes the Department's goals. In addition, our reports discuss the default risk of these multifamily programs. We found that the accumulation of more than $4 billion of insured hospital projects and the large loan amounts in New York pose risks to the future stability of the program. Furthermore, trends in health care and changes in state and federal health care policies that reduce hospitals' revenues could threaten the solvency of insured hospitals. We also noted that the nursing home program had recently been expanded to include assisted living facilities for the elderly, which may result in the program's growth and in potentially riskier loans, especially if HUD is unable to effectively underwrite insurance for the loans and monitor their performance.

Maintaining the Financial Health of FHA's Single-Family Insurance

The financial situation for FHA's single-family mortgage insurance program is very different than that for its multifamily program. The economic net worth of FHA's single-family Mutual Mortgage Insurance Fund (Fund) continued to improve in fiscal year 1994. We estimate under our conservative baseline scenario that the Fund's economic net worth was $6.1 billion, as of September 30, 1994. At that time, the Fund had capital resources of about $10.7 billion, which were sufficient to cover the $4.6 billion in expenses that we estimate the Fund will incur in excess of the anticipated revenues over the life of the loans outstanding at that time. The remaining $6.1 billion is the Fund's economic net worth, or capital—an improvement of about $8.8 billion from the lowest level reached by the Fund at the end of fiscal year 1990. Legislative and other

[10] HUD Management: Greater Oversight Needed of FHA's Nursing Home Insurance Program (GAO/RCED-95-214, Aug. 25, 1995) and FHA Hospital Mortgage Insurance Program: Health Care Trends and Portfolio Concentration Could Affect Program Stability (GAO/HEHS-96-29, Feb. 27, 1996).

changes to FHA's single-family mortgage insurance program have helped restore the Fund's financial health, but favorable prevailing and forecasted economic conditions were primarily responsible for this improvement.

Our estimate of the Fund's economic net worth represents a capital reserve ratio of 2.02 percent of the Fund's $305 billion in amortized insurance-in-force. Consequently, we estimate that the Fund surpassed the legislative target for reserves (a 2-percent capital ratio by Nov. 2000) during fiscal year 1994.

One area in which the Congress could make changes that would have a positive effect on the Fund's financial health is in HUD's mortgage assignment program. The assignment program, created in 1959, is intended to help mortgagors who have defaulted on HUD-insured loans to avoid foreclosure and retain their homes by providing these mortgagors with financial relief by reducing or suspending their mortgage payments for up to 36 months until they can resume making payments. Our recent review of FHA's assignment program revealed that the program operates at a high cost to the Fund and has not been very successful helping borrowers avoid foreclosure in the long run.[11] We estimated that about 52 percent of the borrowers who entered the program since fiscal year 1989 will eventually lose their homes through foreclosure. We forecast that the remaining borrowers (48 percent) will pay off their loans following the sale or refinancing of their homes, often after remaining in the program for long periods of time. The costs incurred by HUD to achieve this result exceed the costs that would have been incurred if all assigned loans had gone immediately to foreclosure without assignment. We estimated that, for borrowers accepted into the assignment program since fiscal year 1989, FHA will incur losses of about $1.5 billion more than would be incurred in the absence of the program. While FHA borrowers' premiums pay for these costs, not the U.S. Treasury, the program's costs make it more difficult for the Fund to maintain financial self-sufficiency.

We reported that the Congress may wish to consider alternatives to reduce the additional losses incurred by the program. The alternatives we suggested focused on making changes to the program. Legislation is now pending that would eliminate the current program and replace it with an alternative that will, according to the Congressional Budget Office (CBO), result in an estimated savings of $2.8 billion over 7 years.

[11] Homeownership: Mixed Results and High Costs Raise Concerns About HUD's Mortgage Assignment Program (GAO/RCED-96-2, Oct. 18, 1995).

Public Housing Management and Budget Problems

The nation's 3,300 PHAS do not all have severe management problems nor do they share the same problems. Much of the public housing stock is in good condition and provides adequate housing for most of the over 3 million low-income residents. However, some PHAS we have visited are deeply troubled in many dimensions. These housing authorities' problems include an unmet need for capital improvements, physical deterioration of the housing stock, high vacancy rates, and high concentrations of poor and unemployed people. Moreover, before 1995, HUD's limited oversight of the most troubled housing authorities had allowed some authorities to provide substandard services to their residents for years. Some of our ongoing work deals directly with several of these interrelated problems that can lead to serious management and budget considerations for HUD.

Facing Budget Realities, Housing Authorities Must Help Themselves

Housing authorities are caught in a very difficult position. At a time when they need larger operating subsidies to replace declining rent revenues, they also face appropriation realities brought on by the need to balance the federal budget and meet the needs of other low-income housing programs.

Declining rent revenue is a direct result of targeting housing assistance to those with very low incomes. For instance, incomes of residents in public housing have dropped nearly half—from 33 percent of the area median in 1981 to about 17 percent today—thereby decreasing the availability of rental income to offset operating costs. In addition, the average vacancy rate increased from 5.8 percent in 1984 to 8 percent in 1995, further reducing the rental income available to PHAS. Making it more difficult to make ends meet, annual appropriations have not covered PHAS' operating subsidy needs for several years. The pending fiscal year 1996 appropriations bill that was vetoed by the President would have provided only 89.7 percent of their operating needs.

In a survey of 21 judgmentally selected housing authorities, we found that one of the first responses to insufficient operating funds is to reduce spending on maintenance.[12] This compounds PHAS' problems by perpetuating the cycle of decreased maintenance, increased vacancies, and decreased rental income.

Can this cycle be broken? We believe that provisions in pending legislation, various proposals from HUD, and other programs could act

[12]Housing and Urban Development: Public and Assisted Housing Reform (GAO/T-RCED-96-25, Oct. 13, 1995).

together to alleviate some of the pressures on housing authorities. Both the proposed legislation and HUD's latest transformation plan, known as "Blueprint II," would foster admitting and retaining a higher proportion of working families and thus raising the total rental income.[13] However, policymakers need to recognize that in some cities, this policy change could cause some people with very low incomes to wait longer to receive housing assistance.

We believe that these legislative and regulatory changes will help maintain PHAS' financial health. However, HUD and the Congress need the cooperation of the public housing authority industry. Many housing authorities have told us that the current system is too cumbersome and is detrimental to promoting their fiscal health. Like organizations in the private sector, we believe PHAS are realizing that they must take the initiative and seek out management practices that can improve performance and efficiency. We are currently finding that many PHAS are initiating innovative practices to cut costs and increase revenues. These practices include privatization, consolidation, and partnerships. We will report later in the year on the use and applicability of these practices for all PHAS.

HUD's Oversight Has Become More Active

We have concluded in the past that HUD's program for assisting troubled housing authorities should take a more active role in addressing their performance. We also reported last year that HUD had made limited use of its legal authority to declare troubled housing authorities in breach of their contracts with the Department.[14] Moreover, the overall results of HUD's focused technical assistance program that targeted the large, troubled authorities have been inconsistent. During the past year, 4 troubled authorities have come off the original list of 17, and 4 others have made substantial improvements in their performance scores. However, the other nine authorities—accounting for over 70 percent of all housing units managed by troubled authorities—have not shown appreciable improvement. Furthermore, the performance of four of the nine declined this past year, despite HUD's intervention and technical assistance.

HUD appears to be taking a more active role in this area. In addition to having some success with several large housing authorities, three times in

[13]Renewing America's Communities from the Ground Up: The Plan to Continue the Transformation of HUD, HUD (1996).

[14]Housing and Urban Development: Public and Assisted Housing Reform (GAO/T-RCED-96-25, Oct. 13, 1995).

the last 10 months—in Chicago, New Orleans, and San Francisco—HUD has made use of its authority to either declare an authority in breach of its contract or to take control upon the resignation of the authority's board of commissioners.

However, taking over troubled housing authorities has not come without a price. HUD's top policymakers in public housing are simultaneously engaged in the everyday problems of managing HUD and overseeing several problem housing authorities. For example, HUD's Acting Assistant Secretary for Public and Indian Housing functions as the New Orleans Housing Authority's Board of Commissioners and leads HUD's takeover team in San Francisco. Approximately 11 local and headquarters HUD staff are at the New Orleans Housing Authority, and a similar staff will be placed at the San Francisco Housing Authority. In addition, the potential for other emergency takeovers looms in the future as reduced funding puts pressure on public housing managers to do more with less. Additional takeovers will considerably strain HUD's already-stretched management team at a time when a major reform of low-income housing may also require its attention.

High Cost of Public and Assisted Housing Programs

Last year, when we appeared before this Subcommittee, we discussed a CBO report that detailed how the number of assisted families almost doubled from 1977 through 1994, rising from about 2.4 million to about 4.7 million.[15] According to CBO, the annual real outlays (in 1994 dollars) more than tripled during this period, rising from about $6.6 billion to about $22 billion.

Difficult budget choices persist, most notably for renewing assistance under HUD's Section 8 programs. According to HUD's recently released plan to continue its reinvention, over the next 7 years the Department will face a significant challenge to its budget as Section 8 contracts providing affordable housing to hundreds of thousands of families expire and require renewal. HUD estimates that while outlays will remain relatively flat, the needed budget authority will balloon from $2 billion in fiscal year 1995 to $20 billion in fiscal year 2002 (assuming 1-year renewals). HUD notes that while contract renewals do not contribute significantly to the budget deficit, the demand for ever-increasing levels of budget authority cannot be met at a time of extremely tight fiscal constraints unless fundamental policy and procedural changes are made.

[15] The Challenges Facing Federal Rental Assistance Programs, CBO (Dec. 1994). These programs include public housing, Section 8 tenant-based and project-based assistance, and Section 236 assistance (generally, subsidized interest payments to help produce rental housing).

HUD's plan states that, to date, decisionmakers have met this challenge, in part by shortening the terms of contract renewals from 5 years in the early 1990s to 4 years in fiscal year 1994, 3 years in 1995, and now 2 years in 1996. Shorter terms substantially reduce the amount of budget authority needed to renew a Section 8 contract.[16] However, HUD concluded that even shortening contract renewal terms to 1 year may not be sufficient to cover the budget authority needs resulting from the cascade of expiring contracts in the next half decade. HUD noted that a very real danger exists for its budget allocation to be sharply reduced because of the deep reductions in the discretionary budget caps that are now under consideration. If these reductions occur, according to HUD, the budget authority available for the Department's other discretionary programs, such as community development block grants, programs for the homeless, and public housing, could be drastically reduced or even eliminated.

We agree that these large figures present difficult choices for policymakers who must consider competing needs. These choices become even more difficult because they come at a time when, according to HUD, the "worst case" needs for housing have not been met for a record 5.3 million households.[17]

Future Federal Housing and Community Development Policy

HUD's serious management and budget problems have greatly hampered its ability to carry out its wide-ranging responsibilities. Both houses of Congress and HUD have proposed major but different reforms, including the ultimate reform—the complete dismantling of HUD. With the high stakes involved—the tens of billions of dollars that HUD spends each year, the millions of vulnerable families (including millions of households that do not receive assistance from HUD because of budget constraints), and the overwhelming needs of distressed communities—it is not unexpected that deciding the future direction of housing and community development policy and of HUD will take some time. Balancing business, budget, and social goals is a Herculean task.

[16] Moreover, the report states that the Department has proposed a series of reforms to reduce outlays from Section 8 programs. These reforms include increasing the number of working families served (thus reducing the subsidy needed per household), reducing the administrative fee, and marking the oversubsidized project-based inventory to market rent levels as a means of reducing HUD's subsidy costs over the long term.

[17] Rental Housing Assistance at a Crossroads: A Report to Congress on Worst Case Housing Needs, HUD (March 1996). Households with "worst case" needs for housing pay over 50 percent of their income for rent or live in severely inadequate housing.

Legislation to reform HUD has been introduced in both houses of Congress. HUD has continued to refine its vision for a reformed agency through successive versions of its “blueprint.” What is needed now is for the Congress and the administration to agree on the future direction of housing and community development policy. This agreement should weigh the inherent trade-offs involved in

- understanding the magnitude of the needs of poor families and individuals, communities, first-time home buyers, and others that HUD currently serves;
- deciding who it is that federal housing and community development policy will serve and the priority of competing needs;
- deciding the mechanisms for delivering services (e.g., block grants) to meet those needs, and the federal, state, and local roles in service delivery; and
- determining how much to spend.

Mr. Chairman, this concludes our prepared remarks. We will be pleased to respond to any questions that you and other Members of the Subcommittee may have. We in GAO look forward to working with the Congress to help address the issues before it.

Selected GAO Products

FHA Hospital Mortgage Insurance Program: Health Care Trends and Portfolio Concentration Could Affect Program Stability (GAO/HEHS-96-29, Feb. 27, 1996).

Homeownership: Mixed Results and High Costs Raise Concerns About HUD's Mortgage Assignment Program (GAO/RCED-96-2, Oct. 18, 1995).

Multifamily Housing: Issues and Options to Consider in Revising HUD's Low-Income Housing Preservation Program (GAO/T-RCED-96-29, Oct. 17, 1995).

Housing and Urban Development: Public and Assisted Housing Reform (GAO/T-RCED-96-25, Oct. 13, 1995).

Housing and Urban Development: Public and Assisted Housing Reform (GAO/T-RCED-96-22, Oct. 13, 1995).

Block Grants: Issues in Designing Accountability Provisions (GAO/AIMD-95-226, Sept. 1, 1995).

HUD Management: Greater Oversight Needed of FHA's Nursing Home Insurance Program (GAO/RCED-95-214, Aug. 25, 1995).

Property Disposition: Information on HUD's Acquisition and Disposition of Single-Family Properties (GAO/RCED-95-144FS, July 24, 1995).

Housing and Urban Development: HUD's Reinvention Blueprint Raises Budget Issues and Opportunities (GAO/T-RCED-95-196, July 13, 1995).

Public Housing: Converting to Housing Certificates Raises Major Questions About Cost (GAO/RCED-95-195, June 20, 1995).

Purpose of, Funding for, and Views on Certain HUD Programs (GAO/RCED-95-189R, June 20, 1995).

Multifamily Housing: HUD's Mark-to-Market Proposal (GAO/T-RCED-95-230, June 15, 1995).

Multifamily Housing: HUD's Proposal to Restructure Its Portfolio (GAO/T-RCED-95-226, June 13, 1995).

Government Restructuring: Identifying Potential Duplication in Federal Missions and Approaches (GAO/T-AIMD-95-161, June 7, 1995).

HUD Management: FHA's Multifamily Loan Loss Reserves and Default Prevention Efforts (GAO/RCED/AIMD-95-100, June 5, 1995).

Program Consolidation: Budgetary Implications and Other Issues (GAO/T-AIMD-95-145, May 23, 1995).

Government Reorganization: Issues and Principles (GAO/T-GGD/AIMD-95-166, May 17, 1995).

Multifamily Housing: Better Direction and Oversight by HUD Needed for Properties Sold With Rent Restrictions (GAO/RCED-95-72, Mar. 22, 1995).

Housing and Urban Development: Reform and Reinvention Issues (GAO/T-RCED-95-129, Mar. 14, 1995).

Housing and Urban Development: Reforms at HUD and Issues for Its Future (GAO/T-RCED-95-108, Feb. 22, 1995).

Housing and Urban Development: Reinvention and Budget Issues (GAO/T-RCED-95-112, Feb. 22, 1995).

High-Risk Series: Department of Housing and Urban Development (GAO/HR-95-11, Feb. 1995).

Housing and Urban Development: Major Management and Budget Issues (GAO/T-RCED-95-86, Jan. 19, 1995, and GAO/T-RCED-95-89, Jan. 24, 1995).

Reengineering Organizations: Results of a GAO Symposium (GAO/NSIAD-95-34, Dec. 13, 1994).

Federally Assisted Housing: Expanding HUD's Options for Dealing With Physically Distressed Properties (GAO/T-RCED-95-38, Oct. 6, 1994).

Rural Development: Patchwork of Federal Programs Needs to Be Reappraised (GAO/RCED-94-165, July 28, 1994).

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