

# DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

## The President's Proposal:

- Expands homeownership opportunities, especially for minority families, with new financing options and funding for buyer education, down payment assistance, and self-help programs;
- Reforms low-income housing assistance by creating a state block grant for the voucher program to deliver more flexible and effective program administration;
- Helps reduce chronic homelessness with a new Samaritan grant that supports promising local strategies; and
- Reduces erroneous payments, reduces financial risks, and increases program effectiveness through improved management.

## The Department's Major Challenges:

- Reforming housing and community development programs to improve performance by devolving administration, targeting needs, and giving families more housing choices;
- Strengthening financial controls and information systems to reduce waste, including \$2 billion of annual rent subsidy overpayments; and
- Eliminating fraud from Federal Housing Administration loan guarantee programs by enforcing the rules and barring lenders and others who abuse the program.

## Department of Housing and Urban Development

Mel Martinez, Secretary

[www.hud.gov](http://www.hud.gov) 202-708-1112

**Number of Employees:** 10,500

**2003 Spending:** \$38.0 billion

**Organization:** Six Major Offices—Community Planning and Development; Public and Indian Housing; Federal Housing Administration/Office of Housing; Government National Mortgage Association; Fair Housing and Equal Opportunity; and Policy Development and Research.

The Department of Housing and Urban Development (HUD) subsidizes housing costs for approximately five million low-income households through rental assistance, construction grants, and loans. It also helps revitalize over 4,000 localities through community development programs and offers housing and services to help families and homeless persons toward self-sufficiency. HUD also encourages homeownership by providing mortgage insurance for six million homeowners, many of whom otherwise might not qualify for loans, and by managing

billions of dollars in both guarantees of mortgages and mortgage-backed securities.

## Overview

The President's Budget offers new strategies to: 1) meet aggressive goals for increasing homeownership and ending chronic homelessness; 2) strengthen housing assistance and community development programs; and 3) continue the effort to improve HUD's performance and provide better stewardship of funds.



President Bush and Secretary Martinez at a Habitat for Humanity building site in Waco, Texas.

The Administration has a multi-part strategy to expand homeownership with a special focus on increasing opportunities for minority households. This strategy includes new financing options, increased funding to educate borrowers, down payment assistance, and support of self-help programs.

The budget converts funding for housing vouchers to a block grant, giving states the flexibility to administer the program while continuing to help the same number of low-income families as are currently assisted. Greater flexibility will allow states to increase the benefits of this assistance.

The 2004 Budget continues and strengthens the Administration's commitment to end chronic homelessness by proposing a new competitive grant as part of a broader Samaritan Initiative. As part of this initiative, HUD will work with the Departments of Health and Human Services, Veterans Affairs, and others to support innovative local strategies to end chronic homelessness.

The Administration will review the impact of the 2000 Census on the Community Development Block Grant to states and localities and will develop proposals for a revised formula, if appropriate. Any proposals will include factors of need and distress.

## Expand Homeownership Opportunity

The overall homeownership rate for American households has reached an all-time high of 68 percent. However, while far more households now share in the benefits of homeownership, minority households continue to share at substantially lower rates. The rate among white households is 74 percent compared to 49 percent for all minority households. The President has issued America's Homeownership Challenge to increase minority homeownership by 5.5 million through 2010 and continue high overall homeownership rates. The strategy calls on public and private partners to help achieve this goal. The Administration is fully committed to ensuring equal protection of the law in housing.

HUD is responding to the President's Challenge in several ways:

*Offering Financing Options.* The budget proposes a new Federal Housing Administration (FHA) mortgage product that initially charges borrowers a higher premium rate, but rewards good behavior by reducing borrower mortgage insurance premiums after 24 consecutive on-time payments. The proposal will create new homeownership opportunities for more families with poor credit records who are served at a higher cost in the subprime market or not served at all.

*Providing Assistance with Down Payment and Closing Costs.* The budget fully funds the President's Down Payment Assistance Initiative, providing \$200 million to help approximately 40,000 low-income families with the down payment on their first home. The budget continues to strengthen the

ability of public housing authorities to use Section 8 Housing Voucher funds as down payment assistance for families seeking to make the transition from renting to owning.

*Simplifying the Buying Process and Increasing Competition.* The mortgage origination process is too complicated, too costly, and too much of a mystery for many borrowers. The Administration is reforming real estate settlement procedures to make the home-buying process more consumer friendly by making settlement agreements and paperwork easier to understand. Buyers also will be able to shop for settlement services at the best package price. This competition is expected to reduce the initial cost of buying a home by an average of \$700.

*Educating Homeowners.* The budget increases Housing Counseling by \$10 million, providing \$45 million to help families manage their finances and improve poor credit ratings in order to achieve homeownership. This service will allow families to learn about the loan products and services available to them and how to identify and avoid predatory lending practices.

*Increasing the Supply of Affordable Housing.* The budget provides a five-percent increase in HOME formula funding. On average, state and local grantees use 25 percent of their HOME funds to assist homebuyers by financing the costs of land acquisition, new construction, rehabilitation, or down payments. Minority households represent over half of the 200,000 homebuyers assisted under the program. The budget also provides \$65 million in seed money to non-profit organizations, such as Habitat for Humanity, that reduce the costs of homeownership for low-income families through self-help and volunteer labor.

*Providing a Single-Family Homeownership Tax Credit.* To promote the development of affordable single-family homes for low-income homebuyers, a tax credit of up to 50 percent of the cost of constructing a new home or rehabilitating an existing home would be provided. To qualify, eligible homebuyers must have incomes that do not exceed 80 percent of their area median.

The budget proposes an increase for the Neighborhood Reinvestment Corporation of \$10 million, for a total of \$115 million. The Corporation, a public nonprofit organization chartered by Congress in 1978 and independent of HUD, is another partner in the President's goal to expand first-time minority homeownership. The Corporation is pledging to provide direct assistance to over 160,000 families through affordable mortgage and rehabilitation products, comprehensive homebuyer education and counseling services, and other services to expand affordable housing opportunities and strengthen communities. The Corporation expects to generate \$2.1 billion in direct housing and community development investment from 2004 activity.

## **Reform Low-Income Housing Assistance**

### **Convert Housing Voucher Program to State Block Grant**

The Section 8 housing choice voucher program and the Section 8 project-based housing subsidy program are two of HUD's major rental housing programs, helping three million low-income households pay the rent on privately owned apartments. The budget proposes converting the voucher program to a state-run block grant called Housing Assistance for Needy Families. Project-based assistance would continue to be administered by HUD. Administration by states would better assist low-income households to locate decent, safe, and affordable housing because states could tailor programs to the needs of particular communities. For example, in states that have large cities with expensive rental housing, a higher rent ceiling could be allowed in those areas.

States would be required to serve at least the same number of families as they currently serve, but would have much more flexibility to set the terms of assistance. Coordination by states with Temporary Assistance for Needy Families programs would be encouraged, to better reach families transitioning from welfare to work. As states tailor program administration to their needs, the result will be better utilization of funds to help more low-income households secure housing. A block grant will also improve financial management and increase use of funds. Last year, more than \$1.7 billion in available federal aid was not used by the PHAs. This additional assistance could have housed 200,000 families.

**State-Wide Effort Better Serves Families and Increases Efficiency**

Massachusetts has established a state-wide collaboration to help low-income families more easily obtain rental assistance while cutting administrative burdens and costs.

Families in search of a voucher have been placing their names on a number of waiting lists at local public housing authorities (PHAs), consuming valuable time and energy, as well as duplicating efforts of PHA staff. Beginning in 2003, over 40 of the 125 PHAs across the state will initiate a centralized on-line waiting list, simplifying the application process for both applicants and housing authority staff. While waiting lists were rarely open in the past, this consolidated system will always be open to new applicants, and families will more readily receive the assistance they need.

The Administration's block grant proposal will facilitate more such creative solutions to housing needs.

**How Do the Current and Proposed Housing Voucher Programs Compare**

What remains the same?	What will change?
<ul style="list-style-type: none"> <li>• Households shop for and choose the housing that best meets their needs; they can move when needs change and retain assistance.</li> <li>• Assistance remains targeted to those with low incomes and greater needs.</li> <li>• At least the same number of households will be assisted in each state.</li> </ul>	<ul style="list-style-type: none"> <li>• States can streamline and set rules to meet market conditions or support their own policy goals.</li> <li>• Consolidated administration over wider areas will promote efficiency and facilitate moves for households who wish to relocate.</li> <li>• States can better coordinate housing assistance with other aid to low-income households.</li> <li>• Federal oversight will focus on outcomes and reward superior performance.</li> </ul>

**Increase Funding for High Performing HOME Program**

The 2004 Budget increases HOME funding by \$113 million above the 2003 request—providing \$2.2 billion to 600 state and local affordable housing programs. Flexible design and strong management enable HOME to address affordable housing problems under widely varying local market conditions, warranting this increase. These findings reflect the performance evaluation further described in the Performance Evaluations of Select Programs section. Communities fund a variety of activities to assist renters, new homebuyers, or existing homeowners. HOME dollars have leveraged over \$20 billion in other funds and create no long-term federal liability. Grantees are required to work with community-based nonprofits in providing affordable housing.

## **Expand Efforts to Combat Lead-Based Paint Poisoning in Children**

Lead-based paint poisoning disproportionately affects young children from low-income families living in older housing units. Over the years, the federal government has pursued a strategy to contain existing lead-based paint hazards with the goal of eventually ending the danger. The Administration continues to pursue these goals aggressively through various programs, including grants through HUD's Office of Healthy Homes and Lead Hazard Control for lead-based paint reduction, which the budget is proposing to increase from \$126 million in 2003 to \$136 million in 2004, an eight-percent increase.

In addition to continuing these worthwhile containment efforts, the Administration proposes that \$25 million of HOME funds be used to provide competitive grants to localities to administer innovative lead reduction initiatives. Research indicates, for example, that a major contributor to lead hazard in many homes is the presence of older, leaky windows that accelerate the deterioration of paint containing lead. Under this initiative, communities would be able to develop a program, such as a window-replacement program, to address such specific local problems. Grants would be leveraged by local funds and non-governmental sources. The Administration expects that this initiative will enable communities with a pronounced problem of lead-based paint in older homes to use these resources, in conjunction with the private sector, to eliminate this major source of lead hazard in many homes.

## **Strengthen Public Housing**

The budget proposes to reform the public housing subsidy system in a manner similar to the President's 2003 Budget proposal. The Public Housing Reinvestment Initiative would give public housing authorities a new ability to leverage private capital. Instead of funding public housing capital repairs through the current obsolete formula, in 2004 approximately 10 percent of public housing units are expected to voluntarily change to a new funding system that relies on mortgage refinancing. Borrowing would be underwritten against individual projects and rely on the financial

### **Remember the HUD you saw on "The Sopranos"? Fact or Fiction?**

A recent episode of "The Sopranos" treated a HUD mortgage insurance program as a fraud opportunity for the mob. Unfortunately, this dramatization had its roots in reality—an actual scam involving New York City brownstones.

In the recent past, families receiving FHA financing have been victimized by "property flipping", which used inflated appraisals to make distressed properties appear as good homes to buy. When the homes' low values became apparent, homebuyers were left with homes in poor condition, and FHA was left holding the bag for the cost of over-valued mortgages. Over the years, the General Accounting Office and others identified many weaknesses in HUD programs that invited such scandals and wasted dollars.

Today's HUD is out to end this troubled history. HUD's current leadership is reforming programs, tightening up on administration, and enforcing the rules to prevent this kind of abuse. FHA has issued new rules to prevent property flipping and catch inflated appraisals. Dozens of lenders who used to underwrite FHA loans have been dropped under these rules. Owners of 1,200 FHA-insured multifamily properties recently were referred for possible enforcement action because buildings simply were not kept up. HUD also is making a series of changes to eliminate \$1 billion annually of erroneous rent subsidy overpayments within two years. If all these funds were recaptured and put to additional housing assistance, they could fund over 150,000 low-income vouchers.

It will take more time and a lot more hard work to repair a generation's worth of problems. But the reality is changing.

viability of individual properties. This approach focuses attention on asset management and would strengthen financial discipline.

The Administration's proposal also promotes public housing resident choice and mobility. Following mortgage-based refinancing, funding for recapitalized units would be consolidated into portable, project-based vouchers. With vouchers, assisted households would be empowered with the choice to move after at least one year of occupancy. The approach has received endorsement by two of the three public housing industry groups and by the Millennial Housing Commission.

## HOPE VI

In 1992, Congress established the Revitalization of Severely Distressed Public Housing program (HOPE VI) to address the nation's most severely distressed public housing. Since its inception, HOPE VI has granted 377 awards to 146 Housing Authorities in 37 states, the District of Columbia, Puerto Rico, and the Virgin Islands at a cost of almost \$5 billion. HOPE VI awards from 1993 to 2001 have funded the demolition of over 115,000 severely distressed public housing units and construction of an eventual 60,000 revitalized dwellings.

Authorization for HOPE VI expired September 30, 2002. The budget proposes not to extend the program, which has served its purpose of demolishing 100,000 of the most severely distressed public housing units. Instead, this budget addresses affordable housing needs by enlarging the HOME block grant, refinancing viable public housing, and reforming other low-income housing programs so that resources go farther.

## Comparing the Cost of Low-Income Rental Housing Assistance

The federal government operates a range of programs that deliver rental housing assistance. The accompanying table uses historical data to estimate the cost of providing, under common conditions, assistance to one household for 30 years. The voucher program, which provides assistance directly to the household to rent in the private rental market, is more cost-effective than the other programs listed, which rely on subsidized construction. This comparison was one motive for reforming Housing for Persons with Disabilities (see later discussion). While cost is important, these programs may produce different levels of benefits as housing will vary in physical and neighborhood quality. For example, the cost of Housing for Persons with Disabilities is increased by the need to provide accessibility features. Also, housing conditions in local markets can make some programs easier to use than others. To reflect differences between urban and rural housing markets, separate estimates are shown based on national averages and non-metropolitan (including rural) areas only.

<b>Cost per Household for 30 Years of Low-Income Assistance<sup>1</sup></b>	
National Average:	
Housing Vouchers.....	\$106,367
Elderly Housing (Section 202) .....	\$128,361
Housing for Persons with Disabilities (Section 811).....	\$132,017
Low-Income Housing Tax Credit Plus Vouchers .....	\$132,460
Non-Metropolitan Average:	
Housing Vouchers.....	\$43,921
Rural Multifamily Housing Loans and Grants (Department of Agriculture).....	\$81,649

<sup>1</sup> Costs are present value (today's dollars) calculations of providing assistance to a low-income household in a one-bedroom apartment for 30 years. Characteristics such as household income have been standardized in order to make the programs more comparable.

## **Reform Housing for Persons with Disabilities with Local Needs in Mind**

The President's Budget proposes reforming Housing for Persons with Disabilities to provide faith-based and other nonprofit sponsors more flexibility in using grant funds to respond to local needs. The funding made available under the existing program allows for the development of relatively few housing units for very low-income persons with disabilities. Units take a long time to construct and are costly when compared to non-development programs. (See the Performance Evaluation of Select Programs section of this chapter.) The new program would give priority to projects that are part of a local strategy to house those people with disabilities most at risk of homelessness, as part of the Administration's Samaritan Initiative to end chronic homelessness.

### **End Chronic Homelessness: The Samaritan Initiative**

The Administration continues the commitment made in 2003 to end chronic homelessness within a decade through a new Samaritan Initiative. The chronically homeless are a sub-population of perhaps 150,000 who often have an addiction or suffer from a disabling physical or mental condition. They are homeless for extended periods of time or experience multiple episodes of homelessness. Research indicates that although these individuals comprise roughly 10 percent of the homeless population, they consume more than one-half of all homeless services because their needs are not comprehensively addressed. Thus, they remain in the homeless system or on the street.

The Samaritan Initiative includes a proposed new comprehensive competitive grant, to be jointly administered by HUD, and the Departments of Health and Human Services (HHS) and Veterans Affairs (VA). Grants will support the most promising local strategies to move chronically homeless persons from the streets to safe permanent housing with supportive services. In 2004, HUD will provide \$50 million for the housing component of the initiative. To complement this grant for housing, VA and HHS will each provide \$10 million for services such as substance abuse treatment and primary health care. Priority in the competition for these grants will be given to comprehensive state and local efforts that promote access by chronically homeless persons to federal mainstream programs that can benefit them.

By focusing on the chronically homeless, who are heavy users of emergency shelters and other services, savings can be achieved over time. Such savings can be made available in the future to address the needs of other segments of the homeless population—including families—who, with the right assistance, could return to self-sufficiency with far less trouble.

The Samaritan Initiative is a performance-based idea. The expected outcome will be a reduction and then an end to homelessness on the streets of our country. In addition to this initiative, the budget proposes consolidation of HUD's three competitive grant programs to increase efficiency in the delivery of homeless assistance to communities.

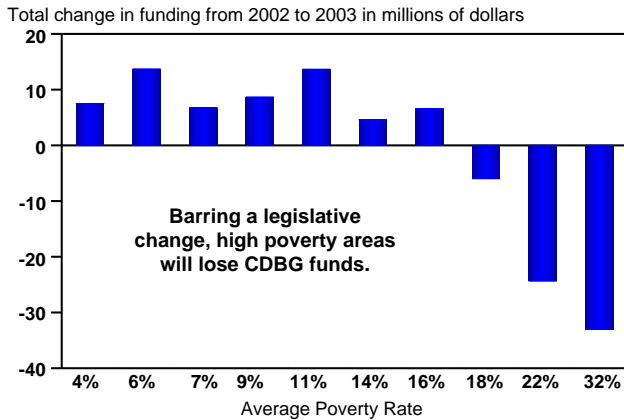
## **Reform the Community Development Block Grant Formula**

The Community Development Block Grant (CDBG) provides annual grants totaling \$4.4 billion to over 1,000 eligible cities, counties, and states to fund a broad set of activities aimed at the "development of viable urban communities" including housing rehabilitation, public facilities, economic development, administration, and planning.

### **A Tale of Four Cities**

Although El Paso, Memphis, and Fresno each have about the same number of persons in poverty as Cleveland, they would have to combine their CDBG grants to match Cleveland's \$30 million annual grant.

**Including 2000 Census Data Shifts CDBG Funding from High to Low Poverty Areas**



In 2003, as new Census data are incorporated in the CDBG formula, funding for grantees will shift. If the formula is not changed, funds will shift from poorer to wealthier communities; almost 90 percent of CDBG funding lost would come from communities with poverty rates above the national average.

To continue the commitment in the 2003 Budget to “develop proposals for a new CDBG allocation formula and a process to allocate more to those who need these funds and will use them effectively,” the Administration is reviewing the impact of the 2000 Census on CDBG. Measures of need and fiscal capacity will be considered in guiding revised formula allocations.

As part of its Consolidated Plan Improvement Initiative, HUD will develop reform proposals to improve the formula program’s effectiveness including incentives to reward states and communities that commit to a results-oriented, outcome-based performance plan focusing on long-term change for neighborhoods or low-income persons.

**Performance Evaluation of Select Programs**











A mix of approaches aimed at finding housing for at-risk persons produced a range of results for HUD programs subjected to the new Program Assessment Rating Tool (PART). PART ratings for four programs designed to assist the housing needs of vulnerable populations are presented in the following table. For further details on these and other evaluations, see the HUD chapter in the *Performance and Management Assessments* volume.

Program	Rating	Explanation	Recommendation
Housing Vouchers	Moderately Effective	This program has a strong public purpose and provides cost-effective, market-based assistance. It also compares favorably to alternative forms of housing assistance in cost and in offering low-income families more choice in housing and neighborhoods.	To improve administration and offer more flexibility, convert program to a state block grant.
Project-Based Rental Assistance	Ineffective	This program has a poor focus on program outcomes and compares unfavorably to vouchers in cost and opportunities for choice.	Make management changes, including stepped-up enforcement, to improve performance.







Program	Rating	Explanation	Recommendation
HOME Investment Partnerships	Moderately Effective	This program has a clear purpose, strong management, and flexible design to meet local affordable housing needs. It does not create escalating financial demands and has shown progress toward performance goals.	Increase funding and develop outcome measures to further sharpen focus on performance.
Housing for Persons with Disabilities	Results Not Demonstrated	Development delays and cost increases are common. More focus on cost-effectiveness, efficiency in delivery of assistance, and measured outcomes is needed.	Amend authorization to streamline the delivery of new housing assistance; refocus on those most at risk of chronic homelessness.

### Update on the President’s Management Agenda

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
<b>Status</b>					
<b>Progress</b>					

HUD made progress in addressing the five government-wide initiatives in the President’s Management Agenda. It implemented new internal controls and mandatory training for those who approve spending, which should result in better stewardship of taxpayer funds and avoid the unauthorized overspending that occurred in the 1990s. The first phase of a new financial accounting system for the FHA was implemented on time and within budget. Oversight and cost control of information technology investments improved. The 2004 Budget used outcomes rather than outputs in selected cases to guide policy and funding choices. A new performance-based budget format provided a better way to integrate performance into budgeting. While progress is encouraging, HUD has a long way to go in many areas. Status remains red until improvements reach the targeted levels.

Initiative	Status	Progress
HUD Management and Performance		
Faith-Based and Community Initiative		

*Arrow indicates change in status since baseline evaluation on June 30, 2002.*

**HUD Management and Performance.** HUD has achieved consistent progress in overhauling its management and performance. Housing provided to HUD-assisted tenants is better today than it was a year ago; more units comply with HUD's physical standards. Some large, long-troubled public housing authorities are turning around. HUD has a plan to reduce overpaid rent subsidies and assure eligibility for housing assistance. FHA has lowered the risks of its loan guarantees by eliminating firms with inflated appraisals and by improving the way it manages defaulted properties.

**Faith-Based and Community Initiative.** HUD has made significant progress in building the means to reach out to faith-based and community organizations. HUD now has a coordinated outreach and technical assistance plan to increase the quality of grant applications from such grassroots organizations. HUD has revised rules for eight major programs to help increase participation. Further steps are planned to level the playing field for these organizations. These include streamlining of the grant application process to match the capabilities of small and first-time grant applicants and establishing pilot programs for these organizations.

### Department of Housing and Urban Development

(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
<b>Spending</b>			
Discretionary Budget Authority:			
Community Development Block Grant .....	5,000	4,732	4,732
HOME Investment Partnerships .....	1,796	2,084	2,197
Homeless Assistance Grants .....	1,123	1,130	1,325
Samaritan Housing Grant.....	—	—	50
Housing Opportunities for Persons with AIDS.....	277	292	297
Housing Certificate Fund.....	13,931	16,427	—
Housing Assistance for Needy Families (Housing Vouchers).....	—	—	12,535
Project-Based Rental Assistance .....	—	—	4,523
Public Housing .....	6,338	5,956	6,215
Revitalization of Severely Distressed Public Housing (HOPE VI) .....	574	574	—
Housing for the Elderly .....	783	773	773
Housing for Persons with Disabilities .....	241	251	251
Federal Housing Administration (FHA).....	-2,880	-3,226	-3,378
Fair Housing and Equal Opportunity .....	46	46	50
Lead Hazard Reduction.....	110	126	136
New York Disaster Recovery Assistance (CDBG).....	2,783	—	—
All other programs .....	1,306	1,736	1,595
Total, Discretionary budget authority <sup>1</sup> .....	31,428	30,901	31,301
Total, Mandatory outlays .....	-3,671	194	-1,953
<b>Credit activity</b>			
Direct Loan Disbursements:			
FHA .....	—	51	54
All other programs .....	9	—	—
Total, Direct loan disbursements.....	9	51	54
Guaranteed Loans:			
FHA .....	156,982	157,226	164,042
Community Development Loan Guarantees .....	309	261	304
All other programs .....	57	29	117
Total, Guaranteed loans.....	157,348	157,516	164,463

<sup>1</sup> Includes \$2.8 billion in 2002 supplemental funding.