

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Since 2001, the Administration:

- Set a goal in June 2002 to achieve 5.5 million new minority homeowners by 2010. Since the President announced this goal, over one million new minority families have become homeowners. The Congress' recent approval of the President's American Dream Down Payment Initiative will help expand homeownership opportunities to 40,000 low-income, first-time homebuyers each year;
- Established policies that helped achieve record high homeownership rates and the highest level of single-family housing affordability in 30 years;
- Established a goal to end chronic homelessness by 2012 by encouraging collaborations at the local level, and awarded grants to support innovative strategies in 16 communities. Already 41 States have created interagency councils to combat homelessness and 80 cities and counties have agreed to develop 10-year plans; and
- Developed a comprehensive proposal to simplify the home buying process, make it easier to shop for the best-priced mortgage, and reduce closing costs.

The President's Budget:

- Increases minority homeownership through the American Dream Down Payment Fund, Self-Help Homeownership Opportunities Program, a single-family homeownership housing tax credit, and new mortgage products;
- Continues and strengthens the commitment to end chronic homelessness by proposing the Samaritan Initiative, a competitive grant program; and
- Strengthens housing assistance by permitting more flexibility to tailor assistance to local needs, and better coordinates and leverages community development programs.

Department of Housing and Urban Development

Alphonso Jackson, Acting Secretary

www.hud.gov 202-708-1112

Number of Employees: 10,600

2005 Discretionary Budget Authority:
\$31.3 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.



President Bush thanks HUD employees across America with former HUD Secretary Mel Martinez and Acting Secretary Alphonso Jackson.

OVERVIEW



The Ingram family, first-time homeowners, in front of their home purchased with downpayment and housing counseling assistance provided by their local Neighborhood Reinvestment Corporation affiliate.

The Department of Housing and Urban Development (HUD) subsidizes housing costs for approximately five million low-income households through various forms of rental assistance and construction grants. It also helps revitalize over 4,000 localities through community development programs and offers housing and services to help families and homeless persons move toward self-sufficiency. HUD also encourages homeownership by providing mortgage insurance for five 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.

The President's 2005 Budget offers new strategies to: 1) meet aggressive goals for increasing minority homeownership; 2) end chronic homelessness; 3) strengthen housing assistance; 4) pilot improved community development programs, and 5) continue to improve HUD's performance and provide better stewardship of funds.

The Administration has a multi-part strategy to expand homeownership with a special focus on increasing opportunities for minority households. The strategy combines homebuying simplification, new lending options, targeted assistance, a single-family homeownership tax credit, and education.

The 2005 Budget continues and strengthens the Administration's commitment to end chronic homelessness by proposing the Samaritan Initiative, a competitive grant program. As part of this initiative, HUD will work with the Departments of Health and Human Services (HHS), Veterans Affairs (VA), and others to support innovative local strategies to end chronic homelessness.

The Budget proposes funding for housing choice vouchers in a form that offers communities greater predictability and flexibility to administer the program to address local needs while continuing to help the same number of low-income families as are currently assisted.

This year, a Program Assessment Rating Tool (PART) found that the Community Development Block Grant (CDBG) program had several areas of weakness. The program is limited by an unclear mission, loose targeting requirements, and lack of focus on results. To address this, the Administration has laid out several components needed for a successful local CDBG program. The Budget also proposes \$10 million to test ways to better coordinate, target, and leverage existing Federal community and economic development programs in a few communities.

HUD has made several improvements in management: it continues to make progress in developing clean financial audit results and more efficient management systems; it provided more rigorous oversight of low-income housing assistance; and it took regulatory and enforcement steps to combat deceptive or fraudulent home lending.

America's "Social Entrepreneurs"

I say 'social entrepreneurs' because, in many of our faith institutions, we find people who are willing to reach out in the neighborhood in which they exist to help those who hurt and those who are in need.

President George W. Bush
Remarks to Urban Leaders, July 2003

HUD has been working to increase the participation of faith and community-based organizations in its programs. The Memorial AME Zion Church in Rochester, New York decided to do something about the housing need of low-income families in its community. Memorial AME Zion started the Frederick Douglass Community Development Corporation and put together a housing project that used more than \$5 million in HUD funds to build the Frederick Douglass Village. These projects will allow 50 senior households to gain an affordable place to live, community meals and a medical screening program. The Village also included new single-family homes, which provided over 20 low-income families with their first homes.



HOMEOWNERSHIP

Homeownership in America is at an all-time high of 68.4 percent. HUD has an important role in promoting equal opportunity for homeownership. While minority homeownership is also now at an all time high of 49.3 percent, it still significantly lags behind the national average for all Americans. In June 2002, the President set a goal to add 5.5 million minority homeowners by 2010. Since then, over one million minority families have become homeowners, setting a pace to exceed this goal. HUD is providing financial assistance through the American Dream Down Payment Fund, Self-Help Homeownership Opportunities Program, Section 8 Homeownership Vouchers, and the Section 32 Public Housing Homeownership option. The Administration also proposes to increase affordable housing for low-income Americans by offering a tax credit for the development of single-family homes. (See the Federal Receipts chapter in *Analytical Perspectives* for an additional description.) HUD proposes new mortgage insurance products and reforms to make it easier to shop for a mortgage and real estate settlement services. HUD and the Neighborhood Reinvestment Corporation are educating and counseling potential homebuyers. These efforts, described in the accompanying diagram, are essential components to increasing homeownership opportunities for all Americans.

Supervising Government-Sponsored Enterprises' Efforts to Promote Affordable Homeownership. The Administration has proposed broad reform of the supervisory system for Government-sponsored enterprises (GSEs) in the housing market. Part of this reform includes establishing a new national home purchase goal for Fannie Mae and Freddie Mac to enhance minority and low-income homeownership. This portion of the reform is designed to ensure that Fannie Mae and Freddie Mac lead, not lag behind, the market in providing financing to low and moderate-income homebuyers, particularly first-time buyers. Other important reforms have also been proposed. (See the Department of the Treasury chapter for discussion of GSE regulation and reforms and the Credit and Insurance chapter in *Analytical Perspectives* for a background discussion.)

HUD Doesn't Want this to Happen to You

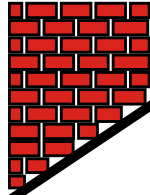
A homebuyer obtained a loan to renovate his property. A mortgage broker promised him a 30-year fixed rate at 8.625 percent with \$12,000 cash out. The Good Faith Estimate did not disclose a broker fee.

The borrower closed on the loan in April 2002, but discovered after signing that he had inadvertently agreed to a 10.89 percent interest rate on a 15-year loan with a balloon payment and a prepayment penalty for 36 months. He also learned for the first time that the mortgage broker charged him a \$3,500 "broker fee."

HUD was not able to enforce this complaint involving the Good Faith Estimate because the Real Estate Settlement Procedures Act (RESPA) provides no penalty for a substantial variance between the amounts given on the Good Faith Estimate and the actual charges at settlement. In addition, the current RESPA regulations do not require the disclosure of all pertinent mortgage loan information, such as prepayment penalties, on documentation provided to the borrower prior to settlement.

The incident described above is a particularly egregious example of behavior that the Administration seeks to curtail through regulation. HUD's proposed regulations would prohibit this type of abuse, and would facilitate guaranteed-price packaging to help borrowers shop for the cheapest loan (saving, on average, as much as \$700 per loan settlement) and be assured that the price will not change at the settlement table.

Buying a Home



The process for buying a home is too complicated and too costly for many. The Administration has proposed to reform real estate settlement procedures to make the mortgage-origination process more consumer friendly. This would simplify shopping for a mortgage and settlement services by facilitating industry packages with a guaranteed price. By empowering the consumer, this competition is expected to reduce the average initial cost of buying a home by as much as \$700.

5.5 million new minority homeowners!

Financing

The Administration proposes two new mortgage programs that remove the biggest barriers to homeownership -- the down payment and impaired credit. The Zero Down Payment mortgage allows first-time buyers with a strong credit record to finance 100 percent of the purchase price and closing costs. For borrowers with limited or weak credit histories, Payment Rewards initially charges a higher insurance premium and reduces premiums after a period of on-time payments.

Down Payment and Closing Costs

The Budget funds the President's American Dream Down Payment Fund, providing \$200 million to help approximately 40,000 low-income families with the down payment on their first home.

Homeownership Assistance

The Housing Choice Voucher and Public Housing programs have traditionally been rental assistance programs for low-income Americans. Families now have the opportunity to become homeowners through the Homeownership Voucher and Public Housing Homeownership programs. Instead of receiving a "rent" subsidy, the same subsidy helps families with their mortgage.

Single-Family Homeownership Tax Credit

To promote the development of affordable single-family homes for low-income homebuyers, the Administration proposes a tax credit of up to 50 percent of the cost of constructing or rehabilitating a home for eligible homebuyers.

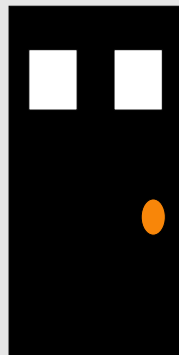


Neighborhood Reinvestment Corporation

The Budget proposes \$115 million for the Corporation, which 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.

Self-Help Homeownership Program

The Budget 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.



2005

Housing Counseling

\$45 million to help families manage their finances and improve poor credit ratings in order to achieve homeownership.

HOMELESSNESS



Secretaries Chao, Principi and Thompson, and former HUD Secretary Martinez with Philip Mangano presenting a grant award to Barbara Poppe from the Community Shelter Board of Columbus, Ohio. The grant is funded through the Collaborative Initiative on Chronic Homelessness.

HUD’s budget includes \$1.3 billion for Homeless Assistance Grants. Altogether, the Administration requests over \$3 billion in 2005 for programs directly addressing this need. Other broader housing and social programs also serve homeless individuals and families.

Ending Chronic Homelessness

The Administration continues the commitment made in 2002 to end chronic homelessness within a decade. Innovative local strategies are being funded through a variety of interagency initiatives to move chronically homeless individuals from the street to permanent supportive housing, and

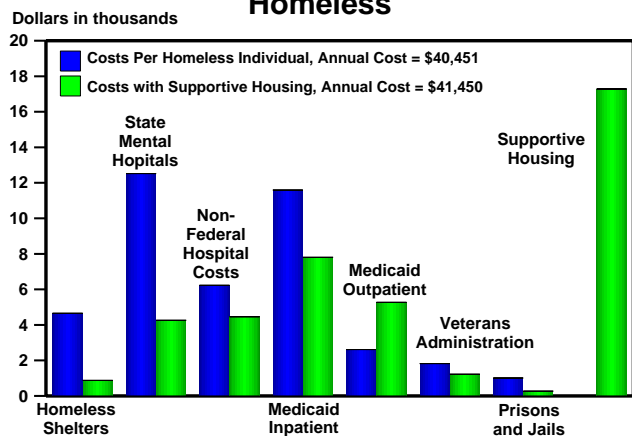
to prevent such people from falling into homelessness in the first place.

The chronically homeless are a sub-population of perhaps 150,000 individuals 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 may comprise less than 10 percent of the homeless population, they consume a disproportionately large amount of emergency homeless services because their needs are not comprehensively addressed. Thus, they remain in the homeless services system or on the street.

How Much Does it Cost to House the Homeless?

A study of nearly 5,000 homeless persons with severe mental illness in New York City found that these individuals used an average of \$40,451 per person per year in publicly funded shelters, inpatient health care, emergency rooms, and correctional services. The same study found that placement in permanent supportive housing at a cost of \$17,280 per unit per year, reduced other public costs by \$16,282 per unit per year. The overall public cost of housing these individuals was slightly more than allowing them to remain on the streets or in shelters. The Administration supports innovative local efforts to move chronically homeless individuals from streets and shelters to permanent supportive housing.

Costs of Providing Housing to the Homeless



Source: “The Impact of Supportative Housing for Homeless Persons with Severe Mental Illness on the Utilization of the Public Health, Corrections and Emergency Shelter Systems: The New York-New York Initiative” by Dennis P. Culhane, Stephen Metraux and Trevor Hadley, Housing Policy Debate, Volume 13, Issue 1, 2002.

To help realize the Administration's goal, the U.S. Interagency Council on Homelessness has been working closely with communities across the country to create local plans. Already, 41 States have created State interagency councils to combat homelessness, and 80 cities and counties have agreed to develop 10-year plans.

The Administration proposes the Samaritan Initiative to advance its goal of ending chronic homelessness. It will be jointly administered by HUD, HHS and VA. Grants will support the most promising local collaborative strategies to move chronically homeless persons from the streets to safe, permanent housing with supportive services. 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.

REFORM LOW-INCOME HOUSING ASSISTANCE

Housing Choice Voucher Program—Dollar-Based versus Unit-Based Approach

The Housing Choice Voucher program provides two million low-income families with subsidies to help them afford a decent place to live. They contribute 30 percent of their income towards their rent; the Government pays the rest. In the past, funds have been appropriated for a specific number of units each year. These funds were then given to public housing agencies (PHAs) based on the number of vouchers they were awarded. HUD and the Congress are concerned that voucher costs have increased at a rate of more than double the average increase in the private rental market for the past two years. This rate of increase, combined with an extremely complex set of laws and rules that govern the program, has limited its effectiveness.

The Administration proposes to simplify the program and give more flexibility to PHAs to administer the program to better address local needs. Building on changes in the 2004 Consolidated Appropriations bill, the Administration proposes switching from a "unit-based" approach to a "dollar-based" approach. PHAs would receive a set dollar amount but would have the freedom to adjust the program to the unique and changing needs of their community, including the ability to set their own subsidy levels based on local market conditions rather than having people in Washington trying to predict and set these for every market in the Nation. These changes would provide a more efficient and effective program by eliminating large balances of unused resources (a concern noted in the 2004 PART review) and helping low-income families more easily obtain decent, safe, and affordable housing.

COMMUNITY DEVELOPMENT BLOCK GRANTS

The Community Development Block Grant (CDBG) program provides annual grants totaling \$4.3 billion each year to over 1,000 eligible cities, counties, and States to help develop viable urban communities in our Nation's distressed areas. The primary strength of the program is the flexibility each community has to spend funds on the areas of greatest local need such as housing, economic development, and public facilities. A corresponding weakness, however, is that local governments often spread CDBG funds across many different areas, which reduces the ability to achieve the program's primary objective—revitalizing distressed neighborhoods.

This year, the Administration rated the CDBG program as needing improvement based on several areas of weakness:

- lack of clarity in the program's purpose and design;
- weak targeting of funds by the CDBG formula and by grantees to areas of greatest need;

- lack of transparent program and performance information; and
- lack of annual output and long-term outcome performance measures.

Many of these issues result from an ambiguous mission, loose targeting requirements, and local pressure to spread funds across many groups. To address this, the Administration wants to clarify that the purpose—and only meaningful measure of a successful local CDBG program—is a city’s ability to transform distressed neighborhoods. The Administration plans to work with stakeholders to identify ways to increase local accountability, improve targeting of funds, and demonstrate results, including legislative reforms.

Several cities, such as Richmond, Virginia, have begun to strategically target a few neighborhoods for revitalization. Richmond’s process highlights many of the principles CDBG communities will have to adopt to improve neighborhoods (see accompanying illustration).

Principles of a Successful CDBG Program: An example from Richmond, Virginia
 (Based on average annual investment in the target neighborhood received)

Prior to 1999—Status Quo:

- Prior to 1999, Richmond stretched \$7 million of CDBG and HOME funds over 20 neighborhoods.

1999-2002—Steps Richmond took to improve:

Select Target Neighborhoods

- The City Council worked with neighborhood associations to select six target neighborhoods, based on neighborhood condition and revitalization potential. By targeting certain areas, average neighborhood funding increased to \$880,000.

Leverage the Private Sector

- The Federal dollars leveraged investments from over 15 housing providers such as Habitat for Humanity, the Interfaith Housing Corporation, and other community development corporations. City capital improvement funds also demonstrated the city’s commitment, and average neighborhood funding was increased by \$500,000 to \$1.38 million.



Before



After



Before



After

Focus on Results:

Safe Neighborhood: 17-percent drop in crime from 2000–2002 (versus five percent for the rest of the city).

Increased Property Values: 19-percent increase in assessed real estate values from 1998 to 2002.

Safe Housing: 68-percent decrease in properties with code violations from 1999 to 2002.

Development Pilot Programs: A Challenge to Succeed











The Administration is proposing a Development Challenge Pilot to test ways to better coordinate, target, and leverage existing Federal community and economic development programs. An inter-agency group will advise on standards for awarding \$10 million in competitive capital grants to a few communities prepared to set and meet a limited number of clear, measurable community development goals. In addition, the group will work to develop a common framework of performance measures and accountability for Federal community and economic development investments.

PERFORMANCE EVALUATION OF SELECT PROGRAMS





The Budget continues to focus on improving program performance. Twelve of HUD's programs have been assessed using the Program Assessment Rating Tool (PART), which evaluated each programs' design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on HUD's performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

Program	Rating	Explanation	Recommendation
Lead Hazard Control Grants	Moderately Effective	The program has become more efficient and meets its annual targets, but it needs more aggressive production targets to successfully address its long-term outcome goals.	Seek higher production targets.
HOPE VI	Ineffective	HOPE VI has achieved its primary goal to demolish 100,000 severely distressed public housing units. However, the program is slow at completing the job and more costly than other alternatives.	Terminate the HOPE VI program in response to these findings.
Community Development Block Grants	Ineffective	The program suffers from unclear purpose, loose targeting requirements, and lack of results.	Clarify the program purpose, concentrate resources, and demonstrate change in distressed neighborhoods.
Housing Opportunities for Persons with AIDS	Results Not Demonstrated	The program demonstrates strong program purpose, design, and management, and annually measures the amount of housing assistance provided to the target population. However, the program must establish clear long-term outcome goals.	Develop long-term outcome goals and update annual grantee reporting requirements to include reporting on outcome measures.

UPDATE ON THE PRESIDENT’S MANAGEMENT AGENDA

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					

HUD’s financial performance and overall stewardship of taxpayer funds is better today than four years ago. HUD earned its fourth “clean” audit opinion this year. The auditor, after assessing HUD’s internal and other controls, eliminated one material weakness and three reportable conditions from its report. New systems enabled HUD to close its books in record time this year and more systematically than in prior years. HUD manages its staff of 10,600 employees with a reliable workload measurement system, enabling the allocation of staff where needed and away from underutilized areas. New electronic systems are re-engineering how HUD hires new employees and providing better management of the very large Federal Housing Administration insurance programs. HUD is just beginning its competitive sourcing efforts with a formal announcement of the first competition expected in early 2004.

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

HUD Management and Performance. HUD made inroads on its longstanding management problems. HUD has taken aggressive action to assure tenants are properly housed by taking over poorly managed housing authorities and correcting problems. In the Virgin Islands, for example, HUD took over a housing authority unable to account for millions in Federal funds and where many families lived in substandard conditions. HUD has also worked with the U.S. Department of Justice to enforce a prompt eviction policy for those who engage in drug activity on or near public housing properties. HUD successfully reduced erroneous payments attributed to program administrator and processing errors by roughly 30 percent from the 2000 baseline estimate of \$2.3 billion, as efforts continue to assure that the right benefits go to the right persons. HUD stepped up efforts to combat predatory lending by targeting unscrupulous lenders, increasing enforcement staff and resources and coordinating with other Federal Government agencies to fight abusive lending practices. The result was the highest number of prosecutions and convictions and settlements in the agency’s history. HUD implemented a number of new rules to address deceptive or fraudulent lending practices. Working with State and local governments, HUD is close to streamlining the requirements for consolidated community plans to make them more meaningful and useful for localities.

Faith-Based and Community Initiative. Rules to help increase participation among faith-based organizations for eight major programs took effect on September 30, 2003. HUD also developed an outreach and technical assistance plan to increase the quality of grant applications from such grassroots organizations. HUD will work to streamline the grant application process to match the capabilities of small and first-time grant applicants and establish pilot programs for these organizations. The Budget proposes \$5 million for a multi-city pilot program aimed at increasing the participation of faith-based and community organizations in the cities’ community development strategies.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

(In millions of dollars)

	Actual		Estimate	
	2001	2003	2004	2005
Spending				
Discretionary Budget Authority:				
Community Development Block Grant.....	5,113	4,905	4,934	4,618
HOME Investment Partnerships.....	1,796	1,987	2,006	2,084
<i>American Dream Down Payment Initiative</i>				
<i>(non-add)</i>	—	(75)	(87)	200
Homeless Assistance Grants.....	1,023	1,217	1,260	1,332
<i>Samaritan Housing Grant—Legislative proposal</i>				
<i>(non-add)</i>	—	—	—	(50)
Housing Opportunities for Persons with AIDS.....	257	290	295	295
Housing Certificate Fund (net of rescissions).....	11,970	15,512	16,413	16,909
Public Housing.....	6,228	6,289	6,275	6,247
Native American Housing Block Grant	649	645	650	647
Revitalization of Severely Distressed Public				
Housing (HOPE VI)	574	570	149	—
Housing for the Elderly	754	778	774	773
Housing for Persons with Disabilities	243	249	250	249
Federal Housing Administration (FHA).....	-2,349	-3,584	-3,545	-2,627
Lead Hazard Reduction	100	175	174	139
All other HUD programs.....	1,999	1,134	867	448
Total, Discretionary budget authority	28,357	30,092	30,415	31,264
Total, Discretionary outlays	33,018	37,221	39,830	40,843
Mandatory Outlays	921	253	6,347	-1,900
Total, Outlays.....	33,939	37,474	46,177	38,943
Credit activity				
Direct Loan Disbursements:				
FHA.....	2	—	53	53
All other programs.....	24	4	—	—
Total, Direct loan disbursements	26	4	53	53
Guaranteed Loan Commitments:				
FHA.....	122,687	170,655	168,310	180,512
All other programs.....	356	370	425	432
Total, Guaranteed loan commitments.....	123,043	171,025	168,735	180,944