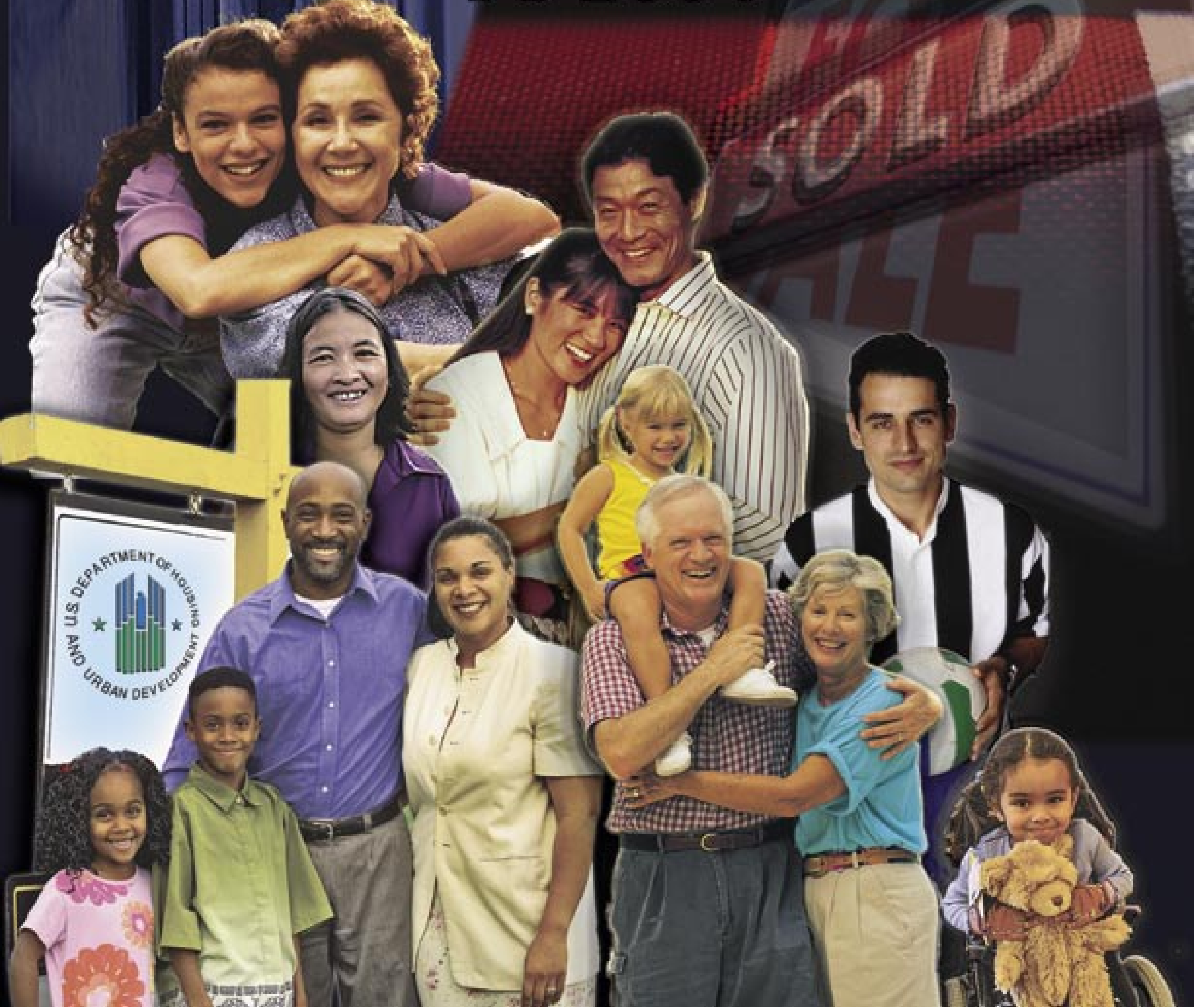
U.S. Department of Housing and Urban Development

Performance and Accountability Report

FY 2004



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Message from Secretary Jackson

November 15, 2004

I am pleased to present the FY 2004 *Performance and Accountability Report* for the U.S. Department of Housing and Urban Development. I proudly take this opportunity to shine a light on the Department's program results, management stewardship, and financial condition for the year ended September 30, 2004. HUD has a great story to tell!

The Department's mission is to increase homeownership, support community development, and increase access to affordable housing free from discrimination. Working with our many community and housing industry partners, and the United States Congress, HUD continues to improve the efficiency and effectiveness of the delivery of its essential programs and services to the American people.

Today, a record 69 percent of American households live in homes they own, and – for the first time ever – more than half of all minority households own homes in their communities. Homeownership provides a source of tremendous strength for our nation. Homeownership offers children a stable living environment that influences their development in positive, measurable ways. The children of homeowners score an average of 9 percent higher in math and 7 percent higher in reading ability. They are 25 percent more likely to graduate high school, and they have a 116 percent better chance of graduating college. The housing sector also has a direct, positive impact on the nation's economy. For every 1,000 single family homes built, 2,500 jobs are created, $75 million in wages are earned, and $37 million in tax revenues are generated.

Despite this success story, there remains a "homeownership gap" in this country, and minority families are still far less likely to own a home. President Bush believes that homeownership should be accessible to everyone. Two years ago, he took a bold step and challenged the nation to close the homeownership gap and create 5.5 million new minority homeowners by the end of this decade. I am pleased to report that the Department is making tremendous progress, and HUD and its housing industry partners are on pace to meet that challenge. Since the President issued his homeownership challenge, there has been a net increase of 1.9 million minority homeowners.

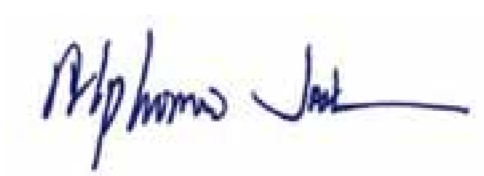
We cannot meet today's housing challenges through homeownership alone, and there are millions of families in need of quality affordable rental housing. Nearly three-quarters of HUD's $30 billion budget goes towards assisting low-income families in need by increasing the supply of quality affordable rental housing and providing rental housing assistance to over 4.8 million households nationwide. HUD's many programs include specially targeted programs to provide housing and other essential support to populations with special needs, including the elderly, persons with disabilities, and individuals with HIV/AIDS.

Under the President's Management Agenda, HUD continued to strengthen management controls over its administrative resources and core program delivery systems, with positive results. For example, since FY 2000, the percentage of public and assisted housing projects meeting HUD's physical condition standards has risen from 83 to 92 percent for public housing and from 87 to 95 percent for multifamily housing, with continuing aggressive action to eliminate remaining substandard conditions. HUD has also substantially reduced the level of improper payments in its rental housing assistance programs and reduced the risk of predatory lending and fraud in FHA single family housing mortgage insurance programs. The Department has met the accelerated timelines for issuing interim and annual financial statements and has continued to improve financial management systems.

Thus I am able to certify with reasonable assurance that, except for the material management control weakness and financial management system non-conformance specifically identified in the Financial Management Accountability section of this report, the Department is in compliance with the provisions of Section 2 and Section 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982.

HUD is further committed to providing complete and reliable performance and financial data to those who rely on such data for decision-making. In general, the performance and financial data in this report are complete and reliable, with any exceptions noted in Sections 2 and 3 of this report, covering Performance Information and Financial Information. Section 2 discusses the reliability and completeness of the data associated with each performance indicator included in HUD's Annual Performance Plan for FY 2004. Under the President's Management Agenda, HUD is continuing efforts to provide more timely and useful performance and financial data, with better integration of performance and financial information to demonstrate the cost-benefit, efficiency, and effectiveness of program activities.

HUD is the nation's housing and community development agency committed to increasing homeownership; creating affordable housing opportunities for low-income Americans; supporting the homeless; ensuring equal opportunity in housing markets; and improving communities. I am passionate about the mission of the Department and proud of its accomplishments. Whether it is a young family buying its first home with an FHA-insured mortgage, a homeless person climbing the ladder to self-sufficiency, a single mother moving up and out of public housing into her own home, a senior citizen living in dignity in retirement, or a child playing safely in a home free of toxic lead, the Department has been and remains a forceful advocate for those who turn to HUD for a helping hand. I thank the Department's staff for its dedicated service to HUD's critically important mission.



Alphonso Jackson
Secretary

An Overview of the Performance and Accountability Report

The Department of Housing and Urban Development's Performance and Accountability Report for Fiscal Year (FY) 2004 provides performance and financial information to the Congress, the President, and the American people. The report allows readers to assess HUD's performance relative to its mission, strategic goals and objectives, and stewardship of the resources entrusted to the Department.

The report is divided into three sections:

Part 1 – Management Discussion and Analysis. This section provides a summary of HUD's FY 2004 results, including actions taken under the President's Management Agenda to address HUD's management challenges and high-risk programs, and provides background and other information on HUD's:

- Organization and major programs,
- Performance results highlights for FY 2004,
- Risks, trends, and factors affecting FY 2004 and future goals, and
- Analysis of financial condition and results for FY 2004.

The management discussion and analysis is supported and supplemented by detailed information contained in the Performance Information Section and the Financial Information Section, and in the Appendices.

Part 2 – Performance Information. This section provides detailed information on HUD's progress toward achieving each of the Agency's strategic goals and objectives in support of its mission for FY 2004. This includes detailed explanations and future plans for the goals and objectives that HUD did and did not achieve.

HUD's mission is to increase homeownership, support community development, and increase access to affordable housing free from discrimination. The Department pursues this mission by detailing, in a six-year Strategic Plan and Annual Performance Plan, the following strategic goals and objectives HUD seeks to achieve through its funded programs:

- Increase homeownership opportunities,
- Promote decent affordable housing,
- Strengthen communities,
- Ensure equal opportunity in housing,
- Embrace high standards of ethics, management and accountability, and
- Promote participation of faith-based and community organizations.

Part 3 – Financial Information. This section presents HUD's consolidated financial statements for FY 2004, along with the independent auditor's report on those financial statements. This section also contains supplementary stewardship information and the HUD Inspector General's independent assessment of the Department's major management and performance challenges and progress in addressing those challenges.

The Performance and Accountability Report satisfies the reporting requirements of the following legislation:

- Federal Managers' Financial Integrity Act of 1982,
- Chief Financial Officers Act of 1990,
- Government Performance and Results Act of 1993,
- Government Management Reform Act of 1994,
- Federal Financial Management Improvement Act of 1996,
- Reports Consolidation Act of 2000, and
- Improper Payments Information Act of 2002.

MAJOR PROGRAM AREAS

HUD's major program areas fall into four categories:

1. The Federal Housing Administration (FHA),
2. The Government National Mortgage Association (Ginnie Mae),
3. HUD's Grant, Subsidy, and Loan Programs, and
4. Other Mission Support Activities.

1. Federal Housing Administration

The Federal Housing Administration, generally known as FHA, provides mortgage insurance on loans made by FHA-approved lenders throughout the United States and its territories. FHA insures mortgages on single family and multifamily homes, including manufactured homes and hospitals. It is the largest insurer of mortgages in the world, and has, since its inception 70 years ago, provided mortgage insurance to 33 million single family households and 47,205 multifamily projects containing 5.4 million units of housing.

FHA provides a huge economic stimulation to the country in the form of home and community development, which benefits local communities in the form of increased jobs, building suppliers, tax bases, schools, and other forms of revenue. FHA currently has 4.8 million insured single family mortgages and 13,108 insured multifamily projects in its portfolio.

FHA Insurance Funds. FHA operates its programs through four funds supported by premium and fee income, interest income, congressional appropriations, borrowings from the U.S. Treasury, and other miscellaneous sources. The four funds are:

1. *The Mutual Mortgage Insurance Fund.* The Mutual Mortgage Insurance Fund is a self-sustaining fund, which supports FHA's basic single family homeownership program. At the end of FY 2004, the Fund comprised 81.76 percent of the FHA Insurance Fund.
2. *The General Insurance Fund.* The General Insurance Fund supports a wide variety of housing programs including rental apartments, cooperatives, condominiums, nursing homes, hospitals, property improvements, manufactured housing (Title I), and disaster assistance. At the end of FY 2004, the Fund comprised 17.34 percent of the FHA Insurance Fund.
3. *The Special Risk Insurance Fund.* The Special Risk Insurance Fund supports higher-risk single family and multifamily insured mortgages. At the end of FY 2004, the Fund comprised 0.84 percent of the FHA Insurance Fund.
4. *The Cooperative Management Housing Insurance Fund*. The Cooperative Management Housing Insurance Fund supports insured loans on market-rate cooperatives. Historically this fund has been self-sustaining. At the end of FY 2004, the Fund comprised 0.06 percent of the FHA Insurance Fund.

At the end of FY 2004, the total mortgage insurance-in-force (i.e., the remaining principal balance outstanding on active FHA-insured mortgages) in the FHA Insurance Fund was $468.8 billion. This is a decrease of $21.3 billion, or 4.35 percent, compared to FY 2003. Specifically, the Mutual Mortgage Insurance Fund decreased by $20.97 billion, the General Insurance Fund increased by $195 million, the Special Risk Insurance Fund decreased by $567 million and the Cooperative Management Housing Insurance Fund, the smallest of the four, increased by $12 million. FHA's insurance-in-force declines when interest rates decline and house price appreciation is high, as many FHA borrowers are able to refinance into conventional mortgages to eliminate the mortgage insurance premium they had been paying to FHA.

For the last 70 years, FHA has successfully supported the availability of capital for single family and multifamily homeownership and for the development of affordable rental housing, stabilizing the housing markets and providing homeownership opportunities. FHA continues to serve families and markets that are not well served by the conventional mortgage markets.

2. Government National Mortgage Association (Ginnie Mae)

Ginnie Mae facilitates the financing of residential mortgage loans insured or guaranteed by the Federal Housing Administration, the Department of Veterans Affairs, and the Rural Housing Service through its mortgage-backed securities. Under the terms of its Mortgage-backed Securities program, Ginnie Mae guarantees the timely payment of principal and interest on pools of mortgage loans.

Ginnie Mae's Mortgage-backed Securities program has been a significant contributor to the growth of the mortgage-backed securities market in the United States, as well as to the expansion of homeownership opportunities for American families by channeling global capital into the nation's housing markets. Over the past three and a half decades, Ginnie Mae has guaranteed more than $2.3 trillion in mortgage-backed securities – enabling more than 31 million Americans to realize their dream of homeownership.

The total amount of Ginnie Mae securities outstanding at the end of FY 2004 was approximately $453.4 billion.

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

The most significant of these in terms of expenses are:

Grant, Subsidy, and Loan Program Gross Expenses for FY 2004

Section 8 Lower Income Rental Assistance	$22.465 billion	53.76%
Community Development Block Grants (CDBG)	$5.457 billion	13.06%
Public and Indian Housing (PIH) Grants and Loans	$3.899 billion	9.33%
Operating Subsidies for Public Housing Agencies	$3.465 billion	8.29%
HOME Investment Partnerships	$1.625 billion	3.89%
Housing for the Elderly and Disabled	$1.299 billion	3.11%
All Other Programs	$3.577 billion	8.56%
Total	$41.787 billion	100%

Expenses during FY 2004 for grant, subsidy, and loan programs were $41.787 billion compared to $40.803 billion in FY 2003. The following is a description of these programs.

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

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

Section 202/811 Capital Grant. HUD provides interest-free capital advances to finance the construction, rehabilitation or acquisition of affordable housing with supportive services for the elderly (Section 202) and persons with disabilities (Section 811). The program also provides rental assistance funding to cover the difference between the HUD-approved rent and the tenant's contribution (usually 30 percent of adjusted income). Recipients do not have to repay the grants as long as the housing remains available for very low-income elderly and persons with disabilities for a period of 40 years.

Other Housing Programs. Housing also issues manufactured housing construction and safety standards, administers the Real Estate Settlement Procedures Act, and regulates interstate land sales.

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

Section 8 Tenant-Based Rental Assistance allows low-income families to obtain decent, safe and sanitary housing in privately owned housing units. Using HUD funds, local Public Housing Authorities (PHAs) issue housing choice vouchers to low-income families, who are then free to choose any housing that meets program requirements.

Public Housing Operating Subsidies are provided directly to PHAs to help cover the cost of operating and maintaining public housing units. Currently there are approximately 3,160 housing authorities managing approximately 1.2 million units.

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

Indian Housing Block Grants and Home Loan Guarantees fund housing development on tribal lands, provide housing assistance to eligible families, and help promote homeownership for Native Americans by providing loan guarantees to private lenders to increase the availability of mortgages and other financing for housing.

Supportive Services to Families and Individuals are grants to housing authorities to administer programs, such as job placement and child-care, that assist families living in public housing.

The Office of Community Planning and Development administers the Department's major economic and community development grant programs, several housing programs, and HUD's homeless assistance programs. CPD's programs support decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons. The following are the largest:

Community Development. HUD provides Community Development Block Grants to state and local governments, which use the funding to address a wide range of local housing and economic development needs. All activities funded by Community Development Block Grants must meet one of the following national objectives: (1) benefit low- and moderate-income persons, (2) work toward the prevention or elimination of slums or blight, or (3) meet urgent community needs because of a serious and immediate threat to the health or welfare of the community.

Affordable Housing Programs. HUD provides HOME Investment Partnership Grants to state and local governments to build, buy or rehabilitate affordable housing for rent or purchase, and also to provide housing assistance for low-income residents. Grant recipients have the flexibility to use funds in the manner best suited to local needs, such as grants, direct loans, loan guarantees, or rental assistance. The Housing Opportunities for Persons with AIDS provides affordable housing and supportive services to persons with HIV/AIDS.

Homeless Programs. HUD provides grants to public and private entities to establish comprehensive systems for meeting the needs of homeless people, including rental assistance, supportive services, and emergency shelter.

The Office of Fair Housing and Equal Opportunity strives to create equal housing opportunities by administering laws that prohibit discrimination in housing on the basis of race, color, religion, sex, national origin, disability, familial status and age. The Office of Fair Housing and Equal Opportunity is responsible for implementing and enforcing the Fair Housing Act and other civil rights laws to ensure equal access to housing for all in the United States.

Fair Housing Assistance Program (FHAP) provides grants to state and local agencies that administer fair housing laws that are substantially equivalent to the Fair Housing Act. FHAP grants support complaint processing, administrative costs, training and other projects that assist the agency in carrying out its fair housing mission.

Fair Housing Initiatives Program (FHIP) provides funds competitively to private and public organizations dedicated to the principles of fair housing. These groups provide assistance to victims of discrimination, conduct testing and enforcement related to fair housing laws, and educate the public and housing providers on the rights and requirements contained in the Fair Housing Act.

4. Other Mission Support Activities

The HUD Center for Faith-Based and Community Initiatives is one of seven such centers in Cabinet-level agencies established by the President to implement his vision of government and faith-based and community organizations working together to more effectively help the needy. One of the key principles in this Presidential initiative is that all groups, whether religious or secular, should compete on a level playing field when applying for federal funds. As a result, an important part of the Center's work is empowering faith-based groups to apply for HUD grants. The Center does not make decisions on awarding grants, nor is there any preference for faith-based organizations, but the Center works to remove unnecessary barriers in order to fully engage these organizations as partners in fulfilling HUD's mission.

The Office of Healthy Homes and Lead Hazard Control provides funds to state and local governments to develop cost effective ways to reduce lead-based paint hazards. In addition, the office develops and enforces HUD's lead-based paint regulations, and also provides public outreach and technical assistance to help protect children and their families from health and safety hazards in the home.

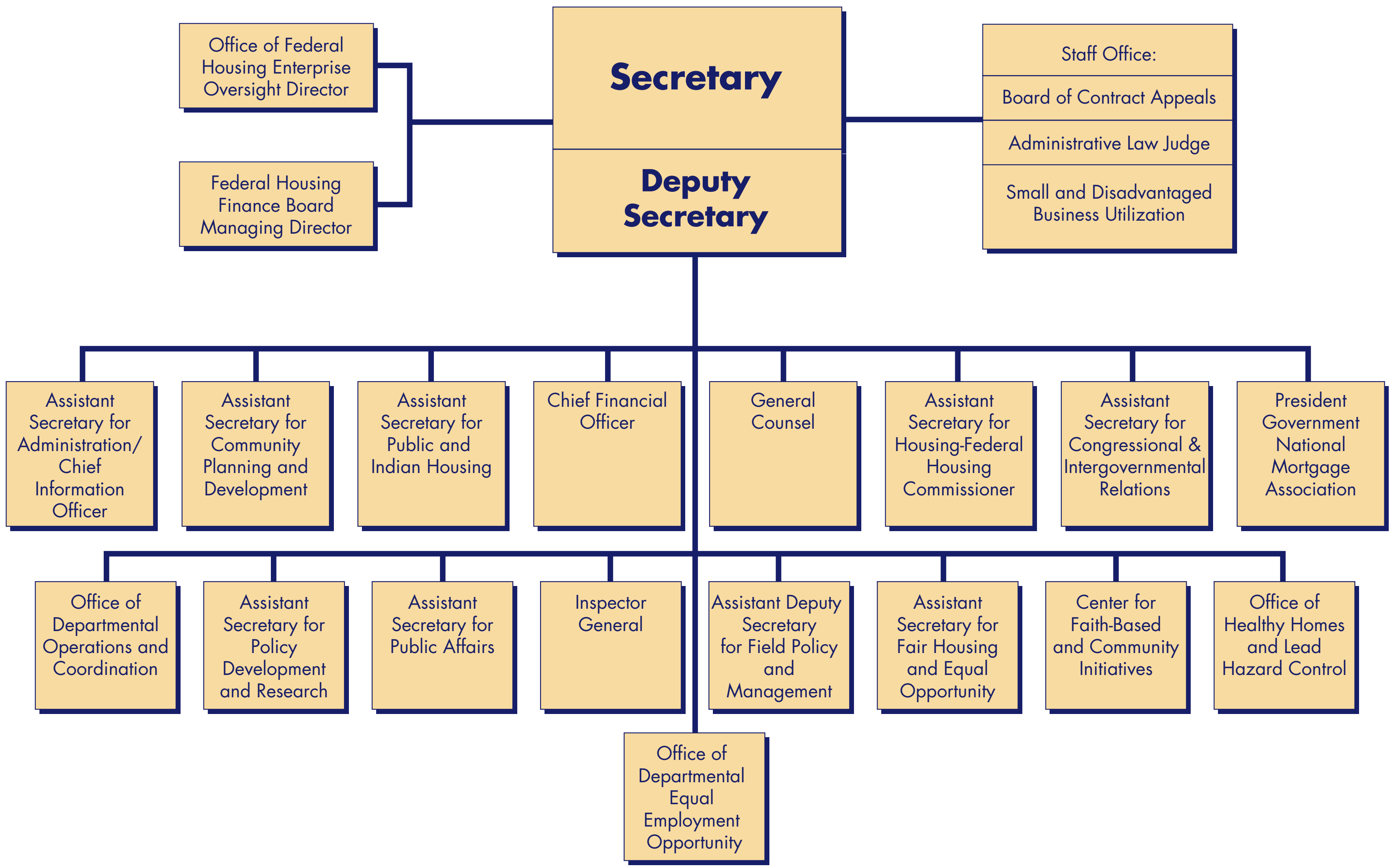
The Office of Federal Housing Enterprise Oversight is an independent office within HUD that ensures the capital adequacy and the financial safety and soundness of the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae). The Office of Federal Housing Enterprise Oversight is funded through assessments of Fannie Mae and Freddie Mac. The Office of Federal Housing Enterprise Oversight's operations represent no direct cost to the taxpayer.

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

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

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

HUD ORGANIZATION



Departmental Performance Highlights in Fiscal Year 2004

During FY 2004, HUD programs continued to enable millions of American families to realize the dream of homeownership or to obtain decent, affordable rental housing, and provided funding and assistance to enable local targeting of other community and economic needs across the country. The following captioned sections highlight some of HUD's more significant accomplishments this year, including a focus on internal management actions designed to improve HUD's overall program delivery and results. A more detailed discussion and analysis of performance against each of HUD's FY 2004 strategic goals and objectives is provided in Section 2 of this report on "Performance Information."

Increased Homeownership

To enable greater numbers of Americans to realize the dream of homeownership, HUD serves to provide a regulatory role over the nation's housing industry and has a number of programs that supplement the conventional mortgage market to reach underserved populations and areas, including first-time homebuyers, low-income families, minorities and central cities.

Homeownership is advantageous because it contributes to personal asset development, better neighborhoods and schools, stability of tenure, and wider choice of housing types. Holding other factors equal, homeownership improves outcomes for children on a number of dimensions, including higher school achievement and lower dropout rates. Yet, homeownership is a tenuous proposition when personal incomes or knowledge are insufficient to gain access to the housing market or to properly maintain housing ownership. There is substantial evidence that lower income and minority neighborhoods are less well served by the conventional mortgage market than are more affluent and non-minority neighborhoods. HUD's policy and program intervention efforts have a greater effect on increasing homeownership rates among renters who are marginally creditworthy, discouraged by discrimination, or unaware of the economic benefits of homeownership.

The National Homeownership Picture continued to change in a positive direction in FY 2004, with increases in overall homeownership and in HUD-targeted populations of first-time, minority, low-income and central city homebuyers.

- The homeownership rate reached a new quarterly record high of 69.0 percent, an increase of 0.6 percentage points from the homeownership rate at the end of FY 2003.
- The nation gained an estimated 1,594,000 new homeowners, attaining a new high of 73.7 million homeowners.
- The minority homeownership rate climbed to a record 50.9 percent, an increase of 1.6 percentage points representing 870,000 additional minority homeowners compared with FY 2003.
- The homeownership rate among households with incomes below the national median increased to 52.7 percent, an increase of 0.6 percentage points from the FY 2003 level.
- The homeownership rate in central cities increased to a record 53.2 percent in 2004, an increase of 0.9 percentage points from the same period in FY 2003.

The gains in minority homeownership this year kept HUD and the rest of the housing industry on pace to meet the President's long-term goal for 5.5 million additional minority households to become homeowners by 2010.

HUD's Homeownership Program Results made a significant contribution to the improving national homeownership picture in FY 2004, as follows:

- FHA endorsed 997,344 single family mortgages for insurance, consisting of both home purchase mortgage endorsements and refinanced mortgages.
- 72.8 percent of the FHA home purchase endorsements were made to first-time homebuyers, enabling 453,449 families to purchase their first home this year.

- 158,616 of FHA's first-time homebuyer mortgage endorsements were made to minority homebuyers, contributing to the President's long-term goal that 5.5 million additional minority households will become homeowners by 2010.
- 394,232 of the FHA endorsed single family mortgages were in underserved communities, exceeding FHA's goal of 390,000 mortgages in these neighborhoods.
- 42,472 HUD-owned single family properties were sold to owner occupants to further contribute to homeownership goals.
- Participating jurisdictions used HUD's HOME program grant funds to complete 28,517 new homebuyer units and committed funds for 19,525 additional future homebuyer units.
- Participating jurisdictions assisted 2,263 households in the purchase of their first homes through HUD's new American Dream Downpayment Initiative.
- 1,735 housing units were completed by HUD's Self-Help Homeownership Opportunity Program grant recipients, and another 2,200 units were under development.
- 2,052 low-income households used the homeownership option under the Housing Choice Voucher Program to become first time homeowners.
- In FY 2004, the Section 32 Rule and resulting homeownership program replaced the Section 5(h) Rule and homeownership program. HUD approved 594 units for sale to public housing residents and other low-income individuals under Section 32. Twenty-eight units were sold to public housing residents, previously approved under Section 5(h).
- 622 new loan certificates were issued for $64 million in mortgage guarantees for Native American homeowners under the Section 184 program.
- Ginnie Mae increased the availability of mortgage capital by placing over 87 percent of all Veterans Affairs and FHA single family housing loans into Ginnie Mae securities, exceeding its goal of 85 percent by offering superior up-front pricing and flexibility in determining servicing spreads, and continued success in reducing issuer's back-end processing costs.
- Fannie Mae and Freddie Mac both surpassed HUD's target of 50 percent of mortgages purchased or guaranteed to serve low- and moderate-income families, with Fannie Mae achieving 52.3 percent and Freddie Mac 51.2 percent, representing a combined 7 million dwelling units that qualified toward the goal.

Other HUD Activities Promoting Homeownership in FY 2004 included increased housing counseling and loss mitigation efforts on FHA-insured mortgages:

- The Department continued to place an increased emphasis on housing counseling for households preparing to purchase a home, purchasing a home, or working to remain in their home. Based on a total housing counseling appropriation of $39.740 million for FY 2003, an estimated 739,589 homebuyers and homeowners were expected to receive housing counseling services in FY 2004, an anticipated increase of 81.9 percent over the 406,659 clients counseled during FY 2003. During FY 2004, $39.764 million was appropriated for housing counseling and HUD reserved $3.75 million for training and development of housing counseling resources, with the balance toward providing an estimated 709,147 homebuyers and homeowners with housing counseling in FY 2005. Results for clients counseled during FY 2004 cannot yet be fully assessed, but among the borrowers who were at risk of foreclosure and who received default-specific counseling during FY 2003, 47.1 percent had successfully avoided foreclosure through the end of the year.
- FHA loan servicers continued to successfully implement statutorily required loss-mitigation techniques when borrowers experience financial difficulties and default on their FHA mortgages. Increased loss mitigation helps to increase the overall homeownership rate by enabling borrowers who default on their mortgages to keep their current homes or to buy another home sooner. Better loss-mitigation efforts, such as enhanced borrower counseling, assist a borrower to resolve a default in

several ways short of foreclosure, for example, by paying down the delinquency (cure), by a pre-foreclosure sale with FHA perhaps paying an insurance claim in the amount of the shortfall, or by surrendering a deed in lieu of foreclosure. Avoidance of foreclosure also reduces FHA's insurance losses, making FHA more financially sound and enabling it to help more borrowers. FHA mortgage defaults resolved through loss mitigation alternatives as a share of total claims increased from 34.1 percent in FY 2000 to 54.2 percent for FY 2004, which exceeded the 40 percent target set for this goal.

HUD will continue to promote higher homeownership rates among underserved populations through improved partnering, marketing, and outreach in the single family FHA programs, and the efforts of Ginnie Mae, Fannie Mae, and Freddie Mac. Homeownership vouchers and the homeownership downpayment assistance initiative will play a growing future role in achieving this goal. HUD's block grant programs, CDBG and HOME, will remain pivotal in providing homeownership assistance of various types to target local needs and preferences, particularly to groups with incomes below the median income level.

Access to Decent, Affordable Rental Housing

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

Increased Production of Affordable Rental Housing was supported by a number of HUD programs this year. HUD and its many housing partners used available budgetary resources to meet or exceed the FY 2004 goals established for the production of additional critically needed rental housing units:

- FHA endorsed 1,305 insured multifamily housing loans, valued at $6.63 billion, which financed nearly 157,200 housing units or beds in multifamily housing properties, nursing homes and assisted living facilities. In addition, FHA shared the risk with state housing finance agencies for an additional 192 loans totaling nearly $923.5 million and approximately 21,600 units. The combined 1,497 new FHA-insured multifamily loans exceeded the FY 2004 performance goal by nearly 50 percent. Thirty-four percent of these new loans supported 516 multifamily properties with over 62,000 units in underserved areas.
- HUD reached initial closing on 303 Section 202 and Section 811 projects this year, resulting in an additional 6,360 elderly housing units and 1,666 units for persons with disabilities. This exceeded the closings goal by 21 percent.
- The HOME Program contributes over twenty thousand affordable rental units to the housing stock each year, with 23,392 produced in FY 2004. Regulations allow HOME-assisted rental developments to admit households with incomes up to 80 percent of area median, but 90 percent of residents must have incomes below 60 percent of median. HOME performance consistently exceeds this statutory requirement.
- The HOPE VI "Revitalization of Severely Distressed Public Housing Program" is HUD's primary program for eliminating the worst public housing by demolishing unsustainable developments and rebuilding communities in accordance with community-sensitive principles. Based on data available for the first three quarters of FY 2004, the HOPE VI program relocated 4,618 households, demolished 4,919 units to permit redevelopment, and completed 4,132 new or rehabilitated units.
- Ginnie Mae securitized 92 percent of eligible FHA multifamily mortgages to increase the supply of mortgage capital. The multifamily portfolio had record growth for the second year in a row. Multifamily issuances increased from $9.3 billion in FY 2003 to $10.5 billion in FY 2004, representing an increase of 12.9 percent. The remaining multifamily principal balance increased from $28.9 billion in FY 2003 to $32.7 billion as of September 30, 2004, an increase of 13.1 percent. This reflected the increased interest of investors in multifamily government guaranteed loans.
- Fannie Mae and Freddie Mac both exceeded their goals for providing capital for special affordable multifamily housing in calendar year 2003, with Fannie Mae purchasing $12.23 billion of qualifying multifamily mortgages to far exceed the goal of

$2.85 billion, and Freddie Mac purchasing $8.79 billion to exceed its goal of $2.11 billion.

Rental Housing Assistance Program Improvements continued to be a primary focus for HUD and its housing partners in FY 2004. HUD's major rental housing assistance programs – Public Housing, Housing Choice Vouchers, and Multifamily Project-Based Assistance – constitute HUD's largest appropriated funding activity, with $24 billion of expenditures to provide housing to over 4.8 million households in FY 2004. Under these programs, assisted households typically pay 30 percent of their income for housing with HUD funding covering the balance of the stipulated rent or remaining operating costs, in accordance with program regulations. The table in Appendix 2 of this report shows how many units of housing assistance are available under the major HUD rental assistance programs and certain other HUD housing assistance programs.

HUD's rental housing assistance programs are administered by third party intermediaries, including private for-profit and non-project owners and Public Housing Agencies (PHAs). Given the significance of the resources and responsibilities entrusted to the PHAs administering the Public Housing and Housing Choice Voucher Programs, HUD has established comprehensive remote monitoring systems to determine the extent of performance and the need to target on-site monitoring, technical assistance or other intervention actions to improve performance. As indicated by the most recent assessment systems scoring results, most PHAs are performing acceptably:

- The Public Housing Assessment System (PHAS) assesses the performance of Public Housing Agencies, which can receive a maximum score of 100 based on their physical and financial condition and their management quality (30 points each), as well as resident satisfaction (10 points). As of the end of FY 2004, the unit-weighted average PHAS score was 86.9, a decrease of 0.4 percent from the FY 2003 baseline.
- Section Eight Management Assessment Program (SEMAP) scores are designed to track the capability of a housing authority's administration of the Housing Choice Voucher Program. A baseline was established using the first year's final scores under SEMAP. Out of the 2,093 PHAs that received SEMAP ratings for the four quarters ending March 2003 through December 2003, the average weighted SEMAP score was 89.2 percent, an increase of 6.7 percent over the comparable period of 2002.

PHAs that do not perform acceptably are placed in "troubled" status and are subjected to a remediation period to correct performance or the PHA's management will be replaced with an acceptable performer. During FY 2004, the number of public housing units managed by PHAs designated as "troubled" was reduced by 44 percent, from 43,932 units to 24,806 units.

To improve the monitoring of the multifamily housing assistance portfolio of 18,300 properties with 1.3 million Section 8 Program units managed by private owners and agents, HUD has outsourced much of its monitoring to state agencies under performance-based contract administrator agreements. The performance-based contract administrators are responsible for reviewing all vouchers prior to payment and performing annual management and occupancy reviews on all assigned properties to assure owners and management agents comply with physical inspection and financial requirements, and are properly applying the occupancy guidelines and income verification processes.

A major goal for HUD is to assure that its rental assistance is providing decent, safe and sanitary housing in accordance with HUD's physical condition standards. Working with its program partners at privately owned and public housing, HUD continued to improve the quality of housing supported by its multifamily housing mortgage insurance, project-based assistance, and public housing programs in FY 2004.

The results of the most recent physical inspections conducted on the multifamily housing portfolio provide the following profile on 30,319 insured and assisted properties with approximately 2.4 million housing units. Currently, 95 percent of projects meet or exceed HUD's physical condition standards, compared to a baseline of 87 percent.

Multifamily Housing Project Inspection Profiles

Project Conditions (100 point scale)	Baseline Profile (28,038 projects)	Cycle II Profile (28,647 projects)	Cycle III Profile (28,898 projects)	Cycle IV Profile (29,705 projects)	Current Profile (30,319 projects)
Exemplary (90-100)	37%	55%	54%	55%	55%
Above Standard (80-89)	24%	25%	25%	25%	25%
Standard (60-79)	26%	14%	15%	15%	15%
Sub-Standard (31-59)	11%	5%	5%	4%	4%
Troubled (0-30)	2%	1%	1%	1%	1%

(Current profile [FY 2004] reflects results of new inspections conducted between 10/1/2003 and 9/30/2004. For comparable unit-weighted data, see Performance Indicator A.2.3).

The Office of Multifamily Housing implemented a new protocol on physical inspection referrals to the Departmental Enforcement Center during FY 2003. The new protocol streamlined procedures and placed an increased focus on enforcing corrective action at properties scoring in the sub-standard range. This increased enforcement activity continued in FY 2004 and contributed to the reduction in the number of troubled multifamily housing properties from 198 to 177, and a reduction of substandard properties from 1,360 to 1,184.

Individual PHA project inspection results indicate a PHA's compliance with HUD's physical condition standards. The results of project inspections as of September 30, 2004, associated with the current (fifth) cycle of PHA inspection scores, are shown in the following chart.

Public Housing Project Inspection Profiles

Project Conditions	Cycle I Profile (13,569 projects)	Cycle II Profile (14,011 projects)	Cycle III Profile (14,021 projects)	Cycle IV Profile (14,142 projects)	Current Profile (14,316 projects)
Above Standard	22%	33%	38%	38%	38%
Standard	61%	58%	55%	55%	54%
Sub-Standard	17%	9%	7%	7%	8%

Currently, 91.6 percent of PHA projects meet or exceed HUD's housing quality standards, compared to a baseline of only 83 percent four years ago. During FY 2004, 90 percent of public housing residents surveyed were satisfied or very satisfied with their "overall living conditions."

HUD revised its physical inspection process during FY 2003, to establish more stringent requirements for defining and reporting on exigent or life threatening health and safety deficiencies. When such deficiencies are detected during HUD's on-site physical inspections, citations are issued to project owners and agents requiring corrective action and a response to HUD within three business days. In FY 2004, 98 percent of the detected multifamily housing deficiencies were corrected or mitigated nationwide.

As of the end of FY 2004, 92.8 percent of public housing units and 93.4 percent of assisted multifamily units had functioning smoke detectors and were in buildings with functioning smoke detection systems. These data represent a 1.0 percentage point increase for public housing and a 1.6 percentage point increase for assisted multifamily housing. These results show that the share of HUD-assisted households who are adequately protected with smoke detectors exceeds the three-quarter share of all U.S. households that are protected.

Strengthening Communities

HUD's various community grant and loan programs are important vehicles for improving the community's quality of life and economic vitality, with a focus on benefits to low- and moderate-income residents, including activities that: reduce homelessness; create and retain jobs; promote self-sufficiency; and maintain healthy homes.

Benefits to Low- and Moderate-Income Residents are a mandated goal for Community Development Block Grant (CDBG) Entitlement Communities and states, who are required to expend at least 70 percent of grant funds for housing and community and economic development activities that benefit low- and moderate-income residents. During FY 2004:

- Entitlement communities used 94.9 percent of their CDBG funds for activities that benefit low- and moderate-income persons. The level exceeds the goal of 92.0 percent and is a slight increase over the FY 2003 level of 94.8 percent.
- State grantees used 96.4 percent of their CDBG funds for activities that benefit low- and moderate-income persons. That level exceeds the goal of 96.0 percent, and is consistent with the FY 2003 level of 96.7 percent.

Addressing Homelessness is a major focus of several HUD grant programs to communities, and Annual Progress Report data reflects the following significant results in FY 2004:

- An estimated 162,450 homeless persons moved into HUD-funded transitional housing. Although this falls short of the goal of 180,000, it represents an increase from last year's number of 158,824. In part, the goal was not reached because of HUD's emphasis on creating permanent housing units rather than transitional units. Nonetheless, HUD continues to increase the number of HUD-funded transitional housing beds. HUD also continues to provide the supportive services necessary to move homeless persons from transitional housing to permanent housing. This creates vacancies for other homeless persons in need of transitional housing and accompanying supportive services.
- 85,935 homeless adults moved into HUD-funded permanent housing, exceeding the goal of 80,000. This is a direct result of HUD's emphasis on creating permanent housing units for the homeless, which is a major part of the Administration's bold strategic objective of eliminating chronic homelessness in ten years.
- 45,066 homeless persons became employed while in HUD's homeless assistance projects, exceeding the goal of 45,000.

A long-range HUD goal is to reduce the number of chronically homeless individuals by up to 50 percent over five years. While there was previously no method to directly measure the number of chronically homeless individuals, HUD is working with other federal agencies and communities to develop definitions, methods and systems for measuring the extent of chronic homelessness. HUD continued to work with communities to establish adequate Homeless Management Information Systems to provide data and support analysis regarding the extent of homelessness and the effectiveness of program efforts to address homelessness. Based on the applications received under the 2004 Continuum of Care competition, 284 Continuums of Care, or 60 percent of the applicants, have implemented Homeless Management Information Systems.

Job Creation and Retention was a continuing focus of community recipients of HUD grant and loan funds in FY 2004, with the following activity reported:

- 78,828 full-time-equivalent jobs were created or retained with CDBG funds.
- The aggregate total number of jobs to be created or retained through approved applications for Section 108 Loan Guarantee assistance was 10,250.
- Based on applications funded under the Brownfields Economic Development Initiative program, the number of additional sites projected to be cleaned up and redeveloped is 17, and the number of jobs projected to be created is 6,856, exceeding the goal of 5,000.

Moving People to Self-Sufficiency is also a benefit of HUD's community-oriented programs, including the following FY 2004 activities:

- Through the Family Self-Sufficiency program, public housing residents and Housing Choice Voucher program families develop skills that enable them to increase their income and build assets. In FY 2004, there were 20,543 families with accumulated escrow account assets, an increase of more than 21 percent above the FY 2003 level of 16,870. In addition, the average escrow disbursement in FY 2004 was $5,487, an increase of more than 15 percent above the FY 2003 average escrow disbursement of $4,741. The number of program graduates also increased from 802 in FY 2003, to 1,172 in FY 2004.
- The Youthbuild Program offers 16 to 24 year old high school dropouts general academic and construction skills training resulting in housing construction or rehabilitation. The actual number of youths trained in FY 2004 was 3,896, or 4.5 percent above the goal of 3,728. The number of participants who achieved their high school general equivalency diplomas during this period was 1,375.
- Included in the programs that help families make progress toward self-sufficiency is Neighborhood Networks, which encourages multifamily housing property owners and managers to establish multi-service community technology centers on their property. These centers bring digital opportunity and lifelong learning to low- and moderate-income residents living in multifamily insured and/or assisted housing. The centers help residents gain knowledge and skills through the use of computer technology to prepare them for the job market and attain self-sufficiency. HUD continued to support the voluntary Neighborhood Networks efforts of private multifamily property owners by allowing them to use funds from their reserves for replacement account or residual receipts account for up to three years. Multifamily partners established 138 new Neighborhood Networks centers during FY 2004. In addition, HUD staff provided technical assistance to 25 percent of the existing centers to help them improve their operations and provide quality training and services to center users to increase their chances of becoming self-sufficient.
- Service Coordinator grants funded service coordinators for 14,126 additional units in assisted multifamily housing projects for the elderly. The new grants increased the total number of units in elderly developments with service coordinators by 11 percent to over 125,000. Service coordinators may provide personal assistance with daily activities, provide transportation to medical appointments or shopping, establish health and wellness programs in the community, and make physical improvements to provide space for support services. Frail elderly residents report higher quality of life and increased independence in developments that have service coordinators on staff.

Assuring Healthy Homes is the focus of HUD's Office of Healthy Homes and Lead Hazard Control, which provides grants to state and local government agencies to control lead and housing-related hazards in privately owned low-income housing, with the following results through the end of FY 2004:

- Under the Healthy Homes Grant Program to date, 5,500 units have been assessed and 2,000 interventions (homes treated for hazards) have been completed. Over 542,000 individuals have been reached through Healthy Homes Projects and over 8,300 individuals have been trained in the assessment and mitigation of healthy homes hazards.
- The Lead Hazard Control Grant Program completed 8,811 lead-safe units (homes), 5 percent more than the goal of 8,390 for FY 2004.

Ensuring Equal Opportunity in Housing

HUD ensures equal housing opportunity in the United States by enforcing the Federal Fair Housing Act (Title VIII) provisions for the private and HUD funded housing market, and provisions of Title VI of the Civil Rights Act of 1964, Section 504 of the Rehabilitation Act of 1973, Section 109 of Title I of the Housing and Community Development Act of 1974, and the Age Discrimination Act of 1975 for HUD-funded programs, through actions that:

- Promote awareness of fair housing laws,
- Resolve discrimination complaints in a timely manner, and
- Improve housing accessibility for persons with disabilities.

Measuring the Problem and Public Awareness. HUD conducts studies of the nature and extent of housing discrimination and public awareness of fair housing laws to enable HUD's Office of Fair Housing and Equal Opportunity to target activities to increase awareness and reduce discrimination. As reported in the most recent HUD-sponsored Housing Discrimination Studies:

- African Americans and Hispanics received adverse treatment relative to non-Hispanic whites in over 20 percent of initial rental search inquiries and over 15 percent of initial home purchase inquiries. This represents a large decrease between 1989 and 2000 in the level of discrimination experienced by Hispanics and African Americans seeking to a buy a home. There has also been a modest decrease in discrimination toward African Americans seeking to rent a unit. This downward trend, however, has not been seen for Hispanic renters who now are more likely to experience discrimination in their housing search than African American renters.
- Whites are consistently favored over Asians and Pacific Islanders in approximately one in every five rental or sales transactions.
- Whites were consistently favored over American Indians an average of 28.5 percent across the three states studied.

Increased public awareness of fair housing law reduces discriminatory actions. However, prior to a study begun in FY 2000, no nationally available data existed to estimate the extent of awareness. The findings of the study support the conclusion that the public has relatively widespread knowledge of certain fair housing protections and prohibitions, while other areas of the law such as protections for families with children are not well known. During FY 2004, HUD issued a contract to conduct a follow-up survey to determine whether public awareness has increased since 2000. The survey will take place during the first or second quarter of FY 2005.

Investigation and Enforcement Activity. HUD investigates and resolves complaints of alleged housing discrimination filed by private citizens and interest groups throughout the nation. Through vigilant enforcement efforts, HUD is transmitting the message that fair housing laws are a key priority and must be obeyed. In FY 2004, HUD's Office of Fair Housing and Equal Opportunity:

- Reduced the percentage of non-complex cases aged over 100 days to 17 percent of open cases, compared to 23 percent at the end of FY 2003.
- Completed 1,057 conciliation or settlement agreements, a decrease from the FY 2003 level of 1,060. Through the new National Fair Housing Training Academy, investigative staff will receive extensive training to help develop their investigative and writing skills. This should result in an increase in the number of conciliation or settlement agreements.

HUD also provides Fair Housing Assistance Program (FHAP) grants to "substantially equivalent" fair housing agencies to support fair housing enforcement. FHAP agencies are those that enforce state fair housing laws or local ordinances that are substantially equivalent to the Fair Housing Act. This enforcement is comparable to HUD's enforcement of Title VIII. During FY 2004, HUD increased the number of FHAP agencies that are certified by three, from 98 to 101.

During FY 2004, FHAP agencies conciliated or settled 2,126 cases, a 13 percent increase from the FY 2003 level of 1,876. FHAP grantees' cases aged over 100 days were 27 percent of open cases, compared to 43 percent in FY 2003. In FY 2005, HUD will continue to assist FHAP organizations in reducing their aged case backlog. To accomplish this HUD will provide the FHAP agencies with monitoring, training, and technical assistance. Moreover, FHAP investigators will receive training at the National Fair Housing Training Academy. This training will provide FHAP investigate staff extensive training to help develop their investigative and writing skills, which will result in improved enforcement of fair housing laws. This effort will ensure that if a complaint is filed, timely action will be taken. HUD is committed to vigorous enforcement of the fair housing laws so that all households will have equal access to rental housing and homeownership opportunities.

Many communities do not have strong state or local legal protections from housing discrimination. HUD's Fair Housing Initiatives Program (FHIP) provides grant funding to address this shortfall by helping independent fair housing groups to educate, to reach out, and to ensure compliance with the Fair Housing Act, state and local laws prohibiting housing discrimination.

The Fair Housing Act requires common areas and some apartments in newly constructed multifamily housing to be accessible to persons with disabilities. In FY 2003, HUD launched the Fair Housing Accessibility FIRST (Fair Housing Instruction, Resources, Support, and Technical Guidance) program to provide training and technical guidance to architects, builders and others on how to design and construct accessible multifamily housing in accordance with the requirements of the Fair Housing Act. Following a needs assessment, development of the training curriculum, and establishment of a technical guidance clearinghouse, the program provided 55 training sessions with a total attendance to date of 3,560. In FY 2004, HUD allocated $1.4 million for the Fair Housing Accessibility FIRST program.

Ensuring HUD Programs are Free of Discrimination. The Office of Fair Housing and Equal Opportunity monitors and reviews recipients of HUD federal financial assistance to ensure that their housing and non-housing programs and activities comply with the non-discrimination requirements of Title VI of the Civil Rights Act of 1964 and Section 109 of Title I of the Housing and Community Development Act of 1974. This effort helps ensure that the over $30 billion in annual HUD program assistance is administered in a nondiscriminatory manner. Title VI prohibits discrimination based on race, color, or national origin, whereas Section 109 also forbids discrimination on the basis of race, color, national origin, sex, or religion. If HUD finds that an agency is not in compliance, it normally resolves the matter with voluntary compliance agreements. During FY 2004, HUD issued 93 reviews, far exceeding the goal of 53.

The Office of Fair Housing and Equal Opportunity also reviews recipients of HUD federal financial assistance to ensure that their housing and non-housing programs and activities comply with the non-discrimination requirements of Section 504 of the Rehabilitation Act of 1973, which prohibits discrimination based on disability. During FY 2004, HUD issued a Letter of Findings in 113 Section 504 compliance reviews, exceeding the goal of 100 by 13 percent.

Meeting Management Challenges to Improve Program Delivery

HUD management, the U.S. Government Accountability Office and the HUD Office of Inspector General agree that HUD needs to improve the management of human capital, financial reporting, information systems and service acquisition to support enhanced delivery of its mission, particularly in the high-risk rental housing assistance and single family mortgage insurance programs. The President's Management Agenda is addressing HUD's management challenges and high-risk programs through five government-wide initiatives to improve government performance, two HUD-specific initiatives to correct long-standing management control weaknesses and improper payment issues, and an eighth initiative to improve HUD's program delivery by enabling increased participation by faith-based and community organizations. A discussion of the nature and results of each of these initiatives follows:

Strategic Management of Human Capital. This President's Management Agenda initiative is directed at improving HUD's most important asset, its "human capital." A five-year Human Capital Management Strategy was developed with implementation plans to ensure that: 1) HUD's organizational structure is optimized; 2) succession strategies are in place to provide a continuously updated talent pool; 3) performance appraisal plans for all managers and staff ensure accountability for results and a link to HUD's mission goals and objectives; 4) diversity hiring strategies are in place to address under representation; 5) skills gaps are assessed and corrected; and 6) human capital management accountability systems are in place to support effective management of HUD's human capital. In FY 2004, HUD continued to implement its Strategic Human Capital Management Plan, with the following results:

- Established a workforce analysis and planning process to identify and address staffing skill gaps and support effective succession planning.
- Completed comprehensive workforce analyses and plans to begin addressing staffing and skill gaps for the four core business program offices: 1) Housing, 2) Public and Indian Housing, 3) Community Planning and Development, and 4) Fair Housing and Equal Opportunity.
- Completed the Draft Departmental Workforce Plan.
- Aligned employee performance plans with HUD's Strategic Plan goals to hold all managers and staff accountable for desired results.
- Provided Leadership and Management Training to 380 managers and supervisors.
- Formed the HUD Training Academy Board of Governors to address critical staff development and training needs on a limited budget, through activities that included:
    - Enhancing the HUD Virtual University,
    - Increasing Supervisory and Management Training and Development Programs, and
    - Increasing In-house Knowledge Transfer and Mentoring Programs, including the "Operation Brain Trust" and Emerging Leaders Programs, which trained 527 employees by allowing experienced HUD professionals who are nearing retirement to pass on their critical knowledge to new or less experienced employees.
- Established web-based systems tools to better manage HUD's authorized full-time equivalent staffing levels and provided training nationwide on full-time equivalent management to prepare HUD program organizations to manage their own full-time equivalent staffing within authorized limits in FY 2005.
- Developed a new Human Capital Accountability System Plan and entered into an Interagency Agreement with the Department of Treasury to use their HR-Connect System, as an alternative to an in-house development effort, to strengthen and improve HUD's future management of its human capital.

Competitive Sourcing. This President's Management Agenda initiative promotes the increased use of public-private cost comparison studies or competitions as a resource management tool to realize more cost-efficient operations and improved service delivery. However, HUD is already heavily reliant on outsourced services and needs to carefully consider the impact of any further outsourcing on program risk. To reduce costs and improve services, HUD's competitive sourcing plan also allows for consideration of "in-sourcing" studies in areas where functions were previously outsourced without the benefit of a competitive public-private cost comparison or competition. Prior to this initiative, HUD had no capacity to conduct public-private competitions as a means of improving performance and realizing cost-efficiency savings under the Office of Management and Budget Circular No. A-76. Under the President's Management Agenda to date, HUD has:

- Hired several competitive sourcing staff to begin developing capacity to support competitive sourcing efforts, and contracted with five qualified small business vendors that can provide necessary advisory and assistance services for the performance work statement and most efficient organization/in-house bid phases of HUD competitions.
- Provided management briefings on the nature of the A-76 process and conducted outreach to solicit ideas on possible competition candidates.
- Analyzed the feasibility and potential benefits of initial suggestions for competitive sourcing and targeted areas for further consideration.
- Announced HUD's first competition, to be completed by September 30, 2005, as a means to address material management control weaknesses and improve performance in the administration and

monitoring of 4,000 rental assistance contracts that pay out an estimated $2 billion a year under the Section 202, Section 811, Rent Supplement, and Rental Assistance Programs.

- Integrated the consideration of competitive sourcing with HUD's workforce planning process, as a possible means of addressing existing or anticipated staffing and skill gaps in HUD's workforce.

HUD plans to announce and complete four to five additional competitions in FY 2005, in areas where competition can be used to realize cost-efficiencies and improved performance results.

Improved Financial Performance. This President's Management Agenda initiative is directed at: improving and accelerating financial reporting and audit results; resolving material weaknesses and improving internal controls; and strengthening funds control and financial systems compliance. HUD's significant accomplishments under this initiative through the end of the FY 2004 reporting period included:

- Progressive acceleration of the issuance of HUD's annual Performance and Accountability Report on March 29, 2001, for FY 2000; February 28, 2002, for FY 2001; January 31, 2003, for FY 2002; December 19, 2003, for FY 2003; and November 15, 2004, for FY 2004,
- Receipt of an unqualified audit opinion on the Department's consolidated annual financial statements for four consecutive fiscal years (2000-2003), with receipt of unqualified audit opinions on the financial statements for the FHA, Ginnie Mae, and the Office of Federal Housing Enterprise Oversight components of HUD for FY 2004. (The Office of the Inspector General was unable to complete the audit of HUD's consolidated FY 2004 financial statements by the accelerated deadline of November 15, 2004, and issued a disclaimer of opinion.),
- Reduced the number of auditor-reported material weakness and reportable condition issues by 7 since FY 2001,
- Reduced the number of non-compliant financial management systems from 17 to 4, with implementation of a new FHA general ledger system and plans for full systems compliance by the end of 2006,
- Timely completion of monthly reconciliation of the funds balance with Treasury and production of quarterly consolidated financial statements within 21 days after the end of each quarter,
- Issuance of updated funds control policies and procedures, with an increased emphasis on funds control training for HUD staff, documentation and testing of funds control processes for all accounts and activities, and proper processing and action on possible violations of the Antideficiency Act,
- Reduction of HUD travel card delinquencies to among the lowest levels in the federal government, with improved controls over purchase card activity,
- Initiation of corrective actions on the decades-old accounting deficiencies in the Section 236 Program, including full reconciliation of accounting records and source documents and improvements to the accounting and funding estimation processes,
- Improvements to FHA's annual actuarial review methodology for the Mutual Mortgage Insurance Fund, and
- Completion of the first phase of the HUD Integrated Financial Management Improvement Project to develop a next-generation core financial management system for the Department, with provision of resources for project management and completion of the requirements phase in FY 2005.

Additional information on HUD efforts to strengthen management controls and financial management systems is provided in the Financial Management Accountability section of this report.

Expanded Electronic Government. While HUD is pursuing increased electronic commerce and actively participating in government-wide "eGovernment" projects, this President's Management Agenda initiative also focuses on more fundamental HUD needs to: 1) improve the information technology capital planning process; 2) complete a systems modernization blueprint or enterprise architecture to guide future systems development; 3) convert to performance-based information technology service contracts and strengthen information technology project management to produce better results; and 4) provide a secure systems environment for all platforms and applications.

HUD budgets an estimated $300 million annually to support an Information Technology systems portfolio comprised of 197 systems. Under the President's Management Agenda, HUD has made or initiated a number of improvements to the management of its information technology portfolio, including: 1) enterprise architecture; 2) Information Technology capital planning; 3) project management; 4) data quality improvement; and 5) eGovernment. Details of these efforts are as follows:

- Enterprise Architecture - The Enterprise Architecture Practice is guiding HUD's short- and long-term investment decisions and defines HUD's Information Technology Lifecycle Framework. HUD's enterprise architecture is already paying dividends by revealing systems redundancies and performance gaps. As a result, HUD is eliminating redundant and obsolete systems. HUD's Enterprise Architecture Program has completed the final blueprints (target architectures) for Rental Housing Assistance, Single Family Housing, Enterprise Architecture Information Management, and Grants Management. HUD is actively participating on the Grants, Human Resource, and Financial Management Lines of Business task forces, which are using enterprise architecture-based principles and best practices to identify common solutions for business processes and/or technology-based shared services to be made available to government agencies. HUD is ensuring that its information technology investments align with these government-wide improvement efforts.
- Information Technology Capital Planning - In December 2003, HUD achieved Information Technology Investment Management Maturity Level 3 (developing a complete investment portfolio). This achievement contributed to all of HUD's FY 2005 business cases (submitted in September 2003) being acceptable to the Office of Management and Budget. The FY 2006 Information Technology Select process fully incorporated evaluation of: 1) the target enterprise architecture; 2) information technology security; 3) cost and schedule; and, 4) project management, as prerequisites and key decision and success factors for information technology investments. This represents steps toward achieving a stable and mature Stage 2 investment management process.
- Project Management - Thirty-four out of HUD's 35 major information technology systems projects are within 30 percent of their cost, schedule and performance objectives, and 89 percent of these projects are within 10 percent of the objectives. In December 2003, HUD completed the rollout of Microsoft Office Project 2002 which allowed for the requirement that project managers report project status information using Microsoft Project. Additionally, each IT Project business case identified the qualifications and competency of the individual serving as Project Manager using the Office of Management and Budget definition. HUD is taking steps to establish a central Information Technology Project Management Office, to provide system sponsors with centralized project management guidance and support.
- Data Quality Improvement – HUD has fully implemented the Data Quality Improvement Program and defined short- and long-term approaches to identify, assess, report, and continually improve the overall quality of HUD's data. Eight additional data quality assessments and certifications were completed. Cumulatively, 21 systems have been assessed and 19 certified through the end of FY 2004. Currently, 38 HUD systems support reporting for 73 HUD Annual Performance Plan performance indicators.
- E-Government - HUD has improved business processes that directly support its mission and as a result, citizens and HUD business partners can easily transact on-line or obtain current information, including:
  - Searching for HUD homes on-line,
  - Determining eligibility/status for an FHA refund,
  - Locating local, privately-owned subsidized apartments,

- Originating and servicing FHA loans,
- Obtaining Income Limits and Section 8 Fair Market Rents information,
- Submitting Fair Housing discrimination claims and obtaining housing and mortgage lending discrimination information,
- Obtaining information for individual public housing agencies, and
- Identifying HUD-approved lenders, appraisers, and housing counselors.

HUD's eGovernment Program focuses on delivering higher standards of performance that drive the development and implementation of new innovations, business processes, and professional skills. All eGovernment initiatives must have sound performance measures that are specific, quantifiable, and linked to the business area programs they support. In FY 2004, HUD made significant progress establishing baselines and performance measure targets for its eGovernment applications. All 15 major eGovernment applications, or 100 percent, have one or more performance measures established. HUD's participation on the President's eGovernment initiatives is providing the following results:

- E-loans – HUD's Credit Alert Interactive Voice Response System provides the centralized sharing of default data across agencies to improve risk management for federal credit programs.
- Grants.gov - Grants.gov makes it easier for local government entities, non-profits, and faith-based organizations to find and apply for HUD grants.
- Online Rulemaking - HUD staff can now quickly receive public comments electronically using the Environmental Protection Agency's EDOCKETS system.
- USA Services - Citizen inquiries about HUD programs are responded to and handled more quickly and effectively.
- GovBenefits - GovBenefits now makes it easier for citizens to locate HUD's benefit programs.

Budget and Performance Integration. This President's Management Agenda initiative is directed at reducing and better focusing performance measures, establishing program efficiency measures, and better integrating budget and performance information for use by program decision makers. This initiative has heightened awareness of the need for clear, measurable program goals and indicators to make budget and resource allocation decisions based on performance results. To date, HUD has:

- Streamlined strategic goals and performance indicators to better focus on the Department's core mission and to better align budgeted resources with those strategic goals.
- Continued to bridge Strategic and Annual Plan goals with HUD operations through an annual Management Plan process which tracks the implementation of discrete plans of action and milestones needed to achieve those goals.
- Completed the application of the Program Assessment Rating Tool (PART) on 12 programs representing over 75 percent of HUD's budget, and embarked on improvement actions to strengthen performance and efficiency measures in specific areas where "results were not demonstrated" or ratings were low.
- Initiated application of the PART to seven additional program areas in conjunction with the FY 2006 budget formulation.

HUD continues to work with the Office of Management and Budget to develop major, long-range goals for its affordable housing and community development programs, which will be integrated and supported in HUD's pending FY 2006 budget justifications.

Elimination of Improper Payments. The President's Management Agenda originally had a HUD-specific goal to reduce the estimated $2 billion in net annual overpayments in the Department's $24 billion per year rental housing assistance programs. Interim reduction goals were established at 15 percent for FY 2003, 30 percent for FY 2004 and 50 percent for FY 2005. In conjunction with implementing the new requirements of the Improper Payments Information Act of 2002, this goal became part of a separate new President's Management Agenda initiative on the Elimination of Improper Payments at 15 federal agencies, inclusive of HUD. The objectives of this new initiative are to: 1) establish an annual agency-wide risk assessment process that identifies all programs that are at risk of significant improper payments; 2) provide for annual estimates of improper payment levels in at-risk programs; 3) analyze the causes of improper payments in at-risk programs to serve as the basis for setting reduction goals and corrective action plans to meet those goals; and 4) provide annual reporting of progress and results in attaining improper payment reduction goals.

In FY 2004, HUD surpassed all interim reduction goals for the estimated $2 billion in net annual rental assistance overpayments, with a reduction of 71 percent. This goal was established based on FY 2000 estimates of improper payments attributed to both housing administrator errors in subsidy determinations and tenant underreporting of income upon which benefits are based. An update of the measure of these two error components in FY 2003 found the following reductions in improper payments compared to the FY 2000 baseline:

Reduction in Improper Payments Due to Subsidy Determination and Income Reporting Errors

Errors*	Over Payments	Under Payments	Net Over Payments	Gross Improper (Payments
2000	2,594	622	1,972	3,216
2003	1,087	519	568	1,606
Change	1,507	103	1,404	1,610
Reduction	58%	17%	71%	50%

* Amounts shown in dollars in millions

The reductions in subsidy determination errors resulted from HUD efforts to work with its housing industry partners at public housing agencies and multifamily housing projects through enhanced program guidance, training, oversight, and enforcement. The reduction of erroneous payments due to tenant under-reporting of income were due to: improved income verification efforts by housing program administrators; increased voluntary compliance by tenants due to promotion of the issue; HUD's initiation of improved computer matching processes for upfront verification of tenant income; and an improved methodology for reviewing income discrepancies identified through computer matching to better determine actual cases of under-reported income impacting subsidy levels.

In FY 2004, HUD developed and began implementation of the Upfront Income Verification System to share state wage data matching information with public housing agencies for use in verifying annual re-certifications of tenant income and subsidy levels. In FY 2004, HUD received statutory authority to work with the Department of Health and Human Services to pursue enhanced computer matching capability using other federal income data sources. HUD plans to expand the Upfront Income Verification System to include these new sources for PHA use in FY 2005. In FY 2006, HUD will migrate the Upfront Income Verification System to an Enterprise Income Verification System that will include all available income match data sources for controlled use by program administrators in all HUD rental housing assistance programs. This increased computer matching capability has the potential to eliminate the majority of the remaining estimated improper rental housing assistance payments.

Regarding HUD's implementation of the new Improper Payments Information Act requirements in FY 2004, HUD completed its first annual improper payments risk assessment covering $52.9 billion in payments made for 222 different activities in FY 2003. The assessment concluded that the $23.5 billion in payments associated with the various rental housing assistance programs were still at risk of significant improper payment levels and that the corrective action plans for reducing risk in this area were appropriate. An additional seven areas, with $6.6 billion in FY 2003 payments, were assessed as potentially at risk of improper payment levels in excess of the $10 million threshold established by the Improper Payments Information Act. Five of those activities are HUD grant programs and two pertain to FHA's property management and disposition activity in the single family and multifamily housing mortgage insurance programs.

Statistical samples of the FY 2003 payment activity were completed for the two FHA activities to determine the level, rate and nature of improper payments in those activities. Only the single family property management and disposition activity, with $385 million in payments in FY 2003, was found to be at risk of significant improper payments, with an estimated annual improper payment amount of $26.08 million. The reasons for the improper payments were: 1) missing supporting documentation (75 percent); 2) missing approval signature (10 percent); 3) duplicate payment (1 percent); and 4) other errors (14 percent). FHA has initiated corrective actions to address these causes to reduce the future risk and level of improper payments in this area.

The statistical sampling of the five grant programs is still in process. Further details on HUD's efforts to comply with the Improper Payments Information Act and meet the goals of this initiative are provided in the Required Supplementary Information section of this report.

Improved HUD Management and Performance. This four-part HUD-specific initiative is focused on addressing HUD's high risk program and material weakness issues that are not covered by the above six President's Management Agenda initiatives, including:

Improved Housing Intermediary Performance - The third party intermediaries that administer HUD programs for public and multifamily housing are responsible for providing housing that meets HUD's physical condition standards. While HUD had made great strides in establishing a physical inspection program to better assure that HUD-funded housing units are in projects that meet acceptable housing quality standards, the baseline inspections reported in FY 2000 showed that only 70 percent of public housing units and 85 percent of assisted multifamily housing units were in projects that met HUD's physical condition standards. Under the President's Management Agenda, goals were set to respectively increase those percentages to 84 percent for public housing and 92 percent for multifamily housing by the end of FY 2005.

Through enhanced monitoring, assistance and enforcement actions, HUD and its housing intermediary partners have already exceeded those goals. At the end of FY 2004, the percentage of units in projects meeting physical condition standards was 85 percent for public housing and 94.4 percent for multifamily housing. HUD also has improved its related processes for the identification and correction of exigent health and safety defects at HUD-funded housing projects, and is showing a favorable downward trend in the occurrence of such defects.

Improved FHA Risk Management - The FHA's Single Family Mortgage Insurance Programs enable millions of first-time, minority, low-income, elderly, and other underserved households to realize the dream and benefits of homeownership, but the populations served by FHA are particularly vulnerable to predatory lending practices that are harmful to those homebuyers and the self-sustaining FHA fund. HUD has taken a number of significant actions to reduce risks to homebuyers and the FHA fund, including the following:

- Doubled funding for housing counseling from $20 million to $40 million over the past three years, with further increases proposed for FY 2005, as an informed consumer is the best frontline protection against predatory lending.
- Banned the predatory lending practice of "property flipping" in FHA programs and established an automated systems control to preclude the practice on FHA-insured loans. (Property flipping occurs in real estate transactions when a recently acquired property is resold for a considerable profit with an artificially inflated value. Unsuspecting homebuyers become the victim of property flipping when lenders, sellers, and appraisers work together to inflate the sale price of the property far above the fair market value.)
- Issued a new "Appraiser Qualifications Rule" to establish stronger professional credentials for FHA-approved appraisers who play a key role in validating the values of FHA-insured mortgages.
- Established a new "Appraiser Watch" process, wherein appraisers with poor performance records are automatically targeted for monitoring and disqualification from program participation if they have violated FHA standards.

- Established the Technology Open To Approved Lenders Scorecard, an automated credit risk analysis tool used in conjunction with an automated underwriting system. The Technology Open To Approved Lenders Scorecard will increase lenders' underwriting efficiency and decrease losses to the FHA fund through more consistent, objective evaluations of the credit worthiness of borrowers, and provide better integration of automated underwriting systems usage with FHA's existing processes and workflow. As of May 1, 2004, all FHA-approved lenders were required to incorporate the Technology Open To Approved Lenders Scorecard into their automated underwriting procedures.
- Improved the risk-based targeting of FHA's compliance monitoring of lenders and established a measure of the effectiveness of that monitoring. Based on monitoring reviews over the past three years, HUD's Mortgagee Review Board took action against 137 lenders, withdrawing 36 from the program and assessing $9.59 million in civil monetary penalties. Also, 8,980 indemnification agreements were executed on improperly insured loans for a total potential savings of $209 million. In addition, HUD made over 1,100 referrals to the Inspector General for further investigation, and debarred 407 individuals and entities from participating in FHA's single family programs.

At the end of FY 2004, HUD had nine additional rule changes pending that will further strengthen program requirements and accountability to minimize the risks and enhance the results of FHA's single family housing mortgage insurance programs.

HUD also continues to improve the management of its Real Estate Owned properties inventory of housing acquired through mortgage defaults and foreclosures. Over the past fiscal year there was a steady decrease in inventory with only 25,307 properties in the HUD-held portfolio at year-end. This represents the lowest Real Estate Owned properties inventory since January 1997, in part because properties remained in the HUD portfolio an average of 149 days as opposed to 162 days in 2003. In addition, the average sale price of Real Estate Owned properties was just over $79,000 and the net return from sale was $67,272, a 70.3 percent recovery against claim.

<u>Consolidated Plan Improvement Initiative</u> -
Formula grantees, states and units of local government, participating in the Community Development Block Grant (CDBG), HOME, Emergency Shelter, and Housing Opportunities for Persons with AIDS grant programs are required to develop Consolidated Plans to guide their use of billions of dollars of annual funding. The President's Management Agenda identified this planning process to be streamlined and made more results-oriented. Under the Consolidated Plan Improvement Initiative, HUD has worked closely with grantees, program stakeholders, and public interest groups to develop techniques for streamlining the Consolidated Plan process and making it useful to communities in assessing their own progress toward addressing their identified problems.

As part of the improvement initiative, 3 states, 10 counties, and 11 cities were selected to carry out 8 pilots designed to test ideas developed by 6 stakeholder working groups. The results of those pilot efforts have been used to improve guidance and tools in support of FY 2005 Consolidated Plan submissions. The guidance, tools and lessons learned from the pilots have been published on the HUD Consolidated Plan website.

Of particular interest is the Consolidated Plan Management Process tool, a computer-based tool using Excel and Word that helps grantees prepare the strategic plan, each annual plan for up to five years, and the Consolidated Annual Performance and Evaluation Report for each of those years. This tool was developed entirely by CPD staff with grantee input and is an outstanding example of innovative and creative thinking. HUD is also pursuing seven regulatory and two statutory changes in FY 2005 to further streamline the process.

<u>Improved Acquisition Management</u> -
HUD acquires over $1 billion in contracted services and goods each year, and the Government Accountability Office has reported that HUD needs to improve its acquisitions information systems and

workforce for more effective acquisitions management. Under the President's Management Agenda, HUD has pursued an overall strategy to improve its acquisition management information, including actions to ensure that:

- HUD's centralized contracting management information system contains reliable data on the number of active contracts, the expected cost of the contracts, and the types of goods and services acquired, and
- HUD's financial management information systems provide complete and reliable obligation and expenditure information on HUD's contracting activities.

To date, HUD has:

- Upgraded the HUD Procurement System with new data verification edits and initiated training for program staff on the use of the HUD Procurement System for contract management and oversight.
- Issued policies and procedures on the use of the National Institutes of Health's Contractor Performance System and trained 117 headquarters and field contracting and program staff on the use of the system to strengthen HUD's contract administration.
- Developed contract obligation and expenditure reports for all contracts maintained in HUD Central Accounting and Program System through the Financial Data Mart, with electronic dissemination of those reports to contract oversight staff and managers.
- Used performance-based contract techniques during FY 2004 on contracts totaling $535.1 million, or 328 percent, of the goal, significantly exceeding HUD's FY 2004 Annual Performance Plan goal of $125 million. This will result in services that are more timely, cost-effective, and producing the desired results.
- Implemented corrective actions to address audit recommendations to improve contract monitoring and acquisition staff skills.
- Established HUD's Acquisition Workforce Council, comprised of senior officials in HUD's major program areas, to set annual training plans for contract oversight staff and ensure training meets federal requirements. In FY 2004, HUD set aside $100,000 for training as part of HUD's Acquisition Career Management Program, enabling 35 acquisition professionals to receive 1,224 hours of training in FY 2004.

Other aspects of HUD's acquisitions management improvement strategy are being addressed through the human capital strategic implementation plan, which incorporates actions to enhance HUD's procurement staff capacity and improve guidance and training for HUD's acquisition workforce.

Increased Faith-Based and Community Organization Participation. The goals of this President's Management Agenda initiative include: identifying and eliminating barriers to equal treatment in federal funding processes for faith-based and community organizations; increasing outreach and technical assistance to enhance opportunities for the participation of faith-based and community organizations; targeting pilot program efforts where faith-based and community organizations stand to make a substantive contribution to an agency's mission; and collecting data and evaluating faith-based and community organizations' participation and results.

HUD has been a leader in the federal government on this initiative, with the following results to date:

- Established and trained a network of Faith-Based and Community Initiative Liaisons in HUD's 81 regional and field offices.
- Compiled an outreach list of approximately 8,000 faith-based and community organizations.
- Completed a data collection design for the Faith-Based Initiative.
- Issued a final rule that revises HUD regulations to remove barriers to the full participation of faith-based and community organizations in major grant programs.

- Conducted grant writing workshops for faith-based and community organizations.
- Initiated plans to increase faith-based and community organization participation in the HUD Super Notice of Funding Availability and as sub-recipients of block grant programs.
- Presented the strategic goals and objectives of the President's faith-based initiative at over 92 national, regional, and local conferences and workshops.
- Finalized the concept for the "Reaching the Dream" homeownership pilot, and completed actions such as conducting a five-city technical assistance initiative to train faith-based and community organizations in homeownership counseling, and recruiting 598 faith-based and community organizations interested in becoming HUD-approved housing counseling agencies.
- Increased the number of competitively awarded grants to faith-based and community organizations in HUD's last funding cycle from 659 to 765, an increase of 16 percent.

These and other efforts are continuing to further HUD's mission through increased participation by faith-based and community organizations.

Risks, Trends, and Factors Affecting Goals

Homeownership and Rental Housing Programs

National and regional economic conditions, as well as the actions of many private and public players, exert a critical influence on increasing homeownership and achieving any of HUD's specific performance targets that measure progress toward that objective. Higher interest rates can reduce the number of first-time homebuyers, thus reducing the number of homes insured by FHA. But lower interest rates do not necessarily mean that the number of first-time homebuyers will increase, because lower interest rates can also accompany economic downturns. Lower interest rates do usually increase the number of refinancings, thus reducing the share of new loans going to first-time buyers, even if their numbers rise.

During FY 2004, interest rates increased by about 50 basis points from the record low rates that prevailed in FY 2003. As a result, the volume of FHA single family mortgage endorsements decreased by about 25 percent for FY 2004, with decreases in both refinancing activity and home purchasers, including first-time homebuyers.

During a period of low interest rates, increased refinancing of mortgages can detract from home purchase mortgage business and HUD's homeownership goals. Refinancing transactions are less costly and less time-consuming than purchase transactions where deed and titles must be recorded, so lenders may choose to concentrate on this business. In addition, FHA has a streamlined refinancing program that requires no new appraisal and further encourages refinancing activity. FHA balances this support for refinancing with efforts to reach potential first-time homebuyers through participation in conferences, seminars and other outreach events.

Economic weakness and rising unemployment traditionally lead to fewer persons applying for FHA loans and higher loan default rates. During FY 2004, FHA continued to increase the proportion of mortgagors with troubled mortgages who were able to resolve their mortgage defaults rather than going through foreclosure. Through loss mitigation techniques, such as home retention tools, pre-foreclosure sales and deeds-in-lieu, more defaults were resolved and fewer homeowners lost their homes. Housing counseling is also proving effective in reducing the incidence of defaults. While greatly influenced by external factors, both FHA and the housing industry overall have maintained a high level of performance, even during weakened economic conditions.

HUD's establishment of housing goals for the government-sponsored enterprises, Fannie Mae and Freddie Mac, is occurring in a context of challenges to their accounting, safety and soundness by their financial regulator, the Office of Federal Housing Enterprise Oversight. HUD published new housing goals for government-sponsored enterprises in November 2004. HUD's future oversight of government-sponsored enterprises' policy performance will necessarily be tailored to sustain their public purpose while ensuring their ongoing financial stability in the financial markets.

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

The availability of federal resources for subsidy payments also affects HUD's ability to provide access to affordable housing. Substantial increases in voucher costs and utilization have strained HUD's Section 8 program resources. Changes in unemployment rates, in the cost of developing and maintaining housing or in personal income – factors over which HUD has little control – all affect housing affordability. Tenant-paid rents are established as a percentage of income in HUD's rental assistance programs, so lower incomes necessitate greater subsidies just as higher rents do.

Following completion of a Harvard study of the operating costs of public housing and subsequent negotiation with housing authorities, HUD is implementing regulatory changes to the operating subsidy program. These changes include a project-based subsidy calculation and the adoption of a more efficient management style that is modeled after normal management practices used in the private and multifamily work of real estate management. This model stresses property management and provides better incentives than the current regulation. It is expected to increase both the quantity and quality of services provided, which outweigh the budget increase needed to support this effort.

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

Internal factors such as improving management practices and business process streamlining also made an impact on HUD's ability to provide access to affordable housing and FHA's ability to increase homeownership and the supply of affordable rental housing. Through improved management of its portfolio, insurance premiums, and more stringent measures to ensure data integrity, FHA again increased the capital ratio of its Mutual Mortgage Insurance Fund during FY 2004. The capital ratio has a direct influence on FHA's ability to provide insurance coverage to homeowners. The emphasis that HUD has placed on risk reduction and automation of its business processes and procedures has been manifested in FHA's current business practices and initiatives.

Equal Opportunity to Housing

Although fair housing law prohibits housing discrimination and provides victims with a system for obtaining legal recourse, recent research has revealed several barriers to achieving full equal opportunity in housing.

A recent HUD-commissioned study, "How Much Do We Know," found a widespread lack of knowledge of some aspects of fair housing law. For example, the study found that 62 percent of persons did not know that it was illegal to limit the housing choices of families with children. A lack of awareness among the public of what constitutes housing discrimination greatly hinders HUD's ability to enforce fair housing law.

Although the study found widespread knowledge of and support for the prohibition of discrimination based on race, other recent HUD studies have found persistent discrimination against African Americans, Hispanics, Asians, and Pacific Islanders in the residential sales and rental markets. HUD's Housing Discrimination Study 2000 showed that African-American homebuyers experienced consistent adverse treatment in 17 percent of transactions, and Hispanic homebuyers experienced consistent adverse treatment in 20 percent of transactions. In the rental market, African Americans and Hispanics experienced consistent adverse treatment in 22 percent and 25 percent of transactions respectively.

HUD also examined discrimination experienced by Asians and Pacific Islanders when they look for housing. The study found that Asian and Pacific Islander prospective renters experienced consistent adverse treatment relative to comparable whites in 22 percent of tests. Asian and Pacific Islander homebuyers experienced consistent adverse treatment 20 percent of the time.

In addition to estimating the level of housing discrimination, these studies demonstrate how housing discrimination can often go undetected. When testing for discrimination, two testers are assigned similar personal characteristics and housing needs. The testers differ only on race. The testers separately inquire about an advertised housing unit and independently record their experience. Any disparities in treatment between testers of different races are often only revealed when analysts compare the results of the tests. For example, when inquiring about an advertised housing units a tester may be told that a unit is no longer available to rent or may be shown only one available unit. This would be considered adverse treatment if another tester, differing only on race, inquires about the same unit within a short period of time and is told that the unit is available or shown multiple available units.

Obviously, if the victim does not detect discrimination it will not be redressed. Although we cannot measure to what extent this occurs, it is clear that this accounts for part of the gap between the number of housing discrimination complaints filed with HUD and its state and local partners and the frequency with which African Americans, Hispanics, Asians, and Pacific Islanders experience adverse treatment according to HUD's Housing Discrimination Study 2000.

Other factors also contribute to the underreporting of housing discrimination, such as a lack of awareness of how to file a complaint and a feeling that nothing would come of complaining. The study "How Much Do We Know" found that 83 percent of persons who felt they had experienced housing discrimination did nothing about it; only one percent reported that they filed a complaint with a government agency.

HUD also ensures non-discrimination in its own programs. The FHA, which insures mortgages for low- and moderate-income borrowers, has worked to ensure equal housing opportunities through targeted marketing and outreach activities to unserved and underserved markets. FHA also has taken substantial steps to reduce the predatory lending activity that has had disproportionate impact on minority households and neighborhoods.

Local policies, including land use controls and accessible building code enforcement, will continue to influence levels of discrimination. The private sector likewise plays a central role in achieving fair housing outcomes.

Strengthening Communities

The country's economic growth has produced millions of new jobs, including many in central cities and other older communities. Reversals of macroeconomic trends, however, can overcome recent successes as well as HUD's partnership efforts. In addition, there are sizable imbalances in the job market, with many jobs requiring high skill levels, while many persons seeking employment are looking for low-skill jobs.

Local shortages of low-skilled jobs are compounded by mismatches between the locations of available jobs and the residences of the unemployed. Many older communities' tax rates exceed rates in newer communities because they struggle to provide quality services despite declining tax bases.

Rural communities often face additional challenges because of the changing structure of the farming industry, under-investment, weak infrastructure, limited services, and few community institutions. Rural labor forces are more narrowly based and are more dispersed. Both urban and rural communities are further affected by the extent to which their states provide financial assistance to overcome these obstacles. While ultimately job creation is dependent upon the investment decisions of the private sector, the coordinated efforts of all levels of government, along with the private sector, are needed to address these challenges.

Another factor that must be considered is that communities have a great deal of flexibility when using HUD funds to address their economic conditions and community needs. Many programs – particularly Community Development Block Grants – may be used for a wide variety of eligible activities at the discretion of the grantee. When communities do choose to address job growth for low-income individuals, there are a wide variety of approaches that are difficult to measure. Some communities may support infrastructure to increase business development in certain areas, while others may directly apply CDBG funds toward preparing individuals for employment. Thus the ability of communities to respond with discretion to local conditions also establishes constraints on setting goals and assessing results at a national level. HUD is working closely with state and local partners to enhance local accountability for results without restricting the flexibility provided by HUD's programs.

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

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

Economic downturns can increase unemployment and hamper self-sufficiency efforts. Recessions tend to affect homeless people and other low-income people disproportionately, because they are usually among the first to be laid off, and generally have few marketable skills. An economic rebound will make it easier for many low-skilled or inexperienced workers to enter the workforce in the coming years. However, economic realignment may cause shifts of job opportunities between occupational sectors, for example as manufacturing employment has been lagging and housing starts are booming.

Opportunities for better paying jobs continue to be concentrated in technical fields for which many recipients of HUD assistance are not prepared. Jobs continue to grow faster in suburban areas, while families making the transition from welfare are more likely to live in inner-city or rural areas. Many of the educational, training, and service programs available to help families make the transition to self-sufficiency are operated by local recipients of federal funds from agencies other than HUD and efforts are increasing the integration of these resources. Such factors can constrain the Department's ability to achieve marked success in promoting self-sufficiency and homeownership of assisted renters.

External factors also affect the supply of affordable rental housing for the elderly and persons with disabilities. The share of the population who are elderly (65 and older) is projected to increase from 12 percent of the population in 2000 to 20 percent by 2030, with rapid growth beginning around 2010. Other factors include local rental markets, building codes and land use regulations, state and local program decisions, and the actions of HUD's partners.

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

HUD Management Challenges

Improving the efficiency and effectiveness of HUD's program delivery requires the Department to both sustain operational consistency in completed reforms and implement corrective actions on remaining material management control weaknesses and other concerns discussed in the "Management Challenges" and "Financial Management Accountability" sections of this report.

To better ensure operational consistency, it is essential that HUD execute its Strategic Five-Year Human Capital Management Plan to address needs identified by recently completed workforce studies and assure mission-critical functions are adequately staffed and performed. Succession planning is critical, since HUD has an aging workforce where over 40 percent of the employees are eligible to retire.

It is also essential that HUD continue to refine use of risk-based techniques in monitoring HUD programs to more effectively use limited staff and resources. When significant performance and compliance problems are identified, HUD must act appropriately to address those problems to minimize the risk, and further program objectives.

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

In the area of information systems, the Office of the Chief Information Officer has instituted process improvements to better support the planning, development and maintenance of HUD's infrastructure and investments, and verify mission-critical data. As part of its annual Information Technology security review, required by the Federal Information Security Management Act (FISMA), HUD identified four significant deficiencies and initiated corrective actions on each. HUD plans to appoint a Senior Chief Information Security Officer in early 2005; has developed and published departmental security polices; completed a FISMA gap analysis with the National Institute of Standards and Technology; completed a thorough review and re-baseline of its Plan of Action and Milestones for identifying and tracking security weaknesses to closure; completed over one third of the Certification and Accreditation process of HUD's information systems, with the remaining systems scheduled for completion by the end of December 2004; and conducted more comprehensive security awareness training for HUD employees and contractors. Finally, HUD hired MITRE Corporation in September 2004 to develop a five-year strategic computer security program, and a two-year tactical computer security plan. Adequate funding of HUD's Information Technology portfolio is a concern, as the conversion to fixed-price performance-based contracts and contract protest issues have presented challenges to HUD's management of available funding for Information Technology. It is also essential that HUD program managers assume a stronger systems ownership role in assuring that systems requirements and controls over data quality and security are properly established. These efforts will result in improved program delivery and better support for HUD's mission.

Finally, it is also important that HUD improve its acquisitions workforce to assure timely award and proper administration of the heavy volume of contract actions for information technology and other essential administrative and program services that HUD has outsourced.

Analysis of Financial Condition and Results

This section covers:

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

Summarized Financial Data

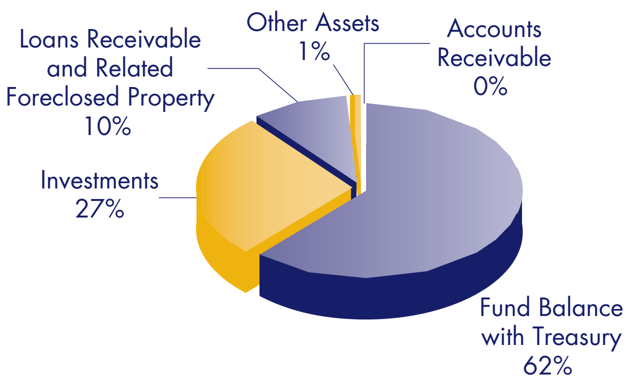
(Dollars in Millions)

	2004	2003
Total Assets at End of FY	$113,194	$120,763
Total Liabilities at End of FY	$24,802	$30,134
Net Position at End of FY	$88,392	$90,629
FHA Insurance-In-Force	$468,795	$490,125
Ginnie Mae Mortgage-Backed Securities Guarantees	$453,422	$473,908
Non-FHA/Ginnie Mae Commitments	$71,164	$76,581

Analysis of Financial Position

Composition of HUD Assets

HUD's FY 2004 Assets as reported in the Consolidated Balance Sheet are displayed below.



Total Assets of $113.2 billion are predominately comprised of Fund Balance with Treasury of $69.6 billion, or 62 percent, and Investments of $31.2 billion, or 27 percent.

Fund Balance with Treasury represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities.

Investments consist primarily of investments by FHA's Mutual Mortgage Insurance/Cooperative Management Housing Insurance Fund and by Ginnie Mae, in non-marketable market-based Treasury interest-bearing obligations (i.e., investments not sold in public markets).

Loans Receivable and Related Foreclosed Property of $11.2 billion, or 10 percent, are generated by HUD's support of construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 Programs, and FHA credit programs receivables.

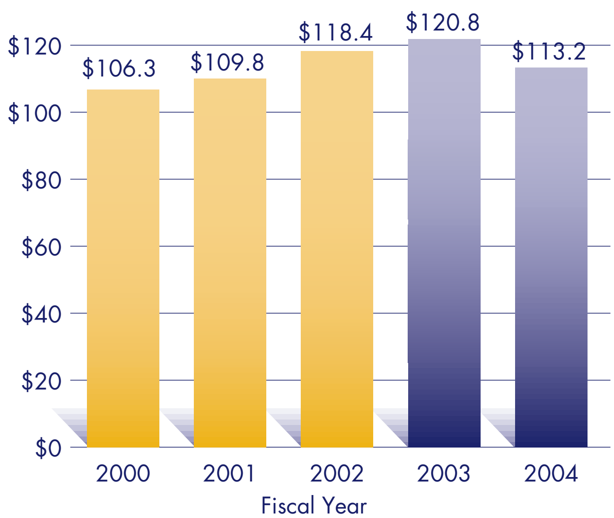
Accounts Receivable of $491 million, or 0.4 percent, primarily consist of claims to cash from the public and state and local authorities for bond refunding, Section 8 year-end settlements, sustained audit findings, FHA insurance premiums, and foreclosed property proceeds. A 100 percent allowance for loss is established for all delinquent debt 90 days and over.

The remaining assets of $668 million, or 0.6 percent, includes Property, Plant, & Equipment and Other Assets.

Trends in Assets

Total Assets decreased $7.6 billion, or 6 percent, from $120.8 billion at September 30, 2003, to $113.2 billion at September 30, 2004. The following table presents HUD's total assets for FY 2004 and the four preceding years.

Total Assets Trend
(Dollars in Billions)

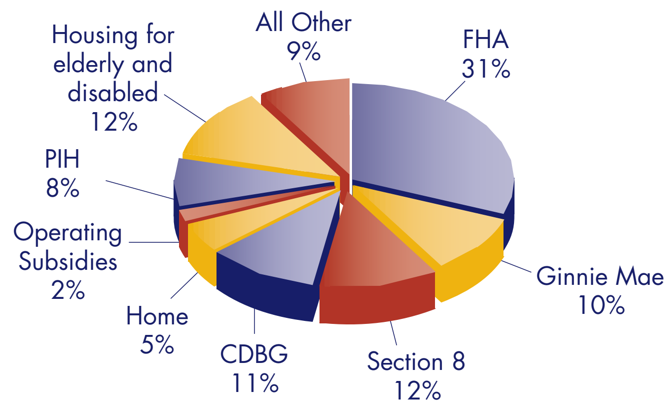


The net decrease was due primarily to a decrease of $6.8 billion, or 9 percent, in Fund Balance with Treasury from $76.5 billion at September 30, 2003, to $69.6 billion at September 30, 2004.

HUD's Fund Balance with Treasury decrease was due to fund balance decreases in the following programs: Section 8, $5.967 billion; Housing for Elderly and Disabled, $683 million; CDBG, $481 million; PIH, $321 million; All Other, $290 million; and FHA, $36 million. The HUD programs that did experience a fund balance increase were Ginnie Mae, $423 million; HOME, $398 million; and Operating Subsidies, $145 million. The net decrease was primarily attributable to increased program expenditures that consumed both new appropriations and portions of pre-existing funding during FY 2004.

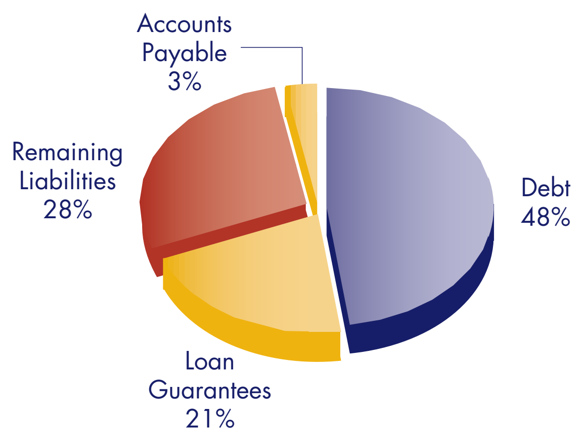
The following chart presents HUD's total assets for FY 2004 by responsibility segment.

Assets by Responsibility Segments



Composition of HUD Liabilities

HUD's FY 2004 Liabilities as reported in the Consolidated Balance Sheet are displayed below.



HUD's Total Liabilities of $24.8 billion consists of $12 billion, or 48 percent, in debt; $5.2 billion, or 21 percent, in loan guarantee liabilities; $0.8 billion, or 3 percent, in accounts payable; and $7 billion, or 28 percent, in remaining liabilities.

HUD's debt includes intra-governmental debt of $10.1 billion and debt held by the public of $1.9 billion. The intra-governmental debt consists of loans from the Treasury, Public Housing Authorities, Tribally Designated Housing Entities, Federal Financing Bank, and debentures issued by FHA in lieu of cash disbursements to pay claims. HUD's debt held by the public consists of new housing authority bonds and FHA debentures issued to the public at par.

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

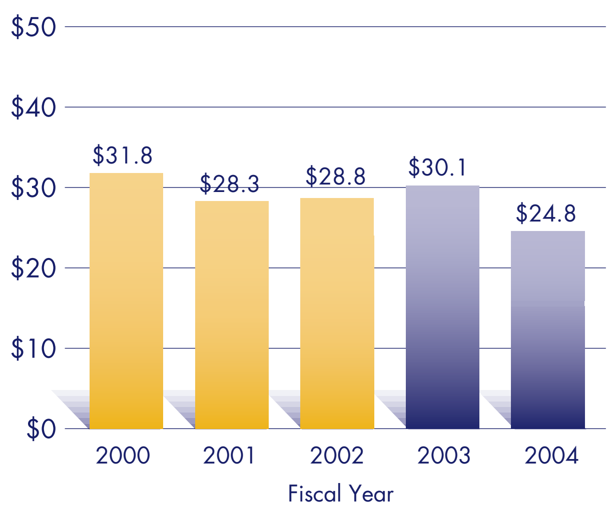
The Loan Guarantee Liability consists of the Liability for Loan Guarantees related to Credit Reform loans made after October 1, 1991, and the Loan Loss Reserve related to guaranteed loans made before October 1, 1991. The Liability for Loan Guarantees and the Loan Loss Reserve are both comprised of the present value of anticipated cash outflows for defaults such as claim payments, premium refunds, property expense for on-hand properties, and sales expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from property sales, and principal interest on Secretary-held notes.

The remaining liabilities consist primarily of Insurance Liabilities, Federal Employee and Veteran Benefits, and Other Liabilities.

Trends in Liabilities

Total Liabilities decreased $5.3 billion, or 18 percent, from $30.1 billion at September 30, 2003, to $24.8 billion at September 30, 2004. The table below presents HUD's total liabilities for FY 2004 and the four preceding years.

Liability Trend
(Dollars in Billions)

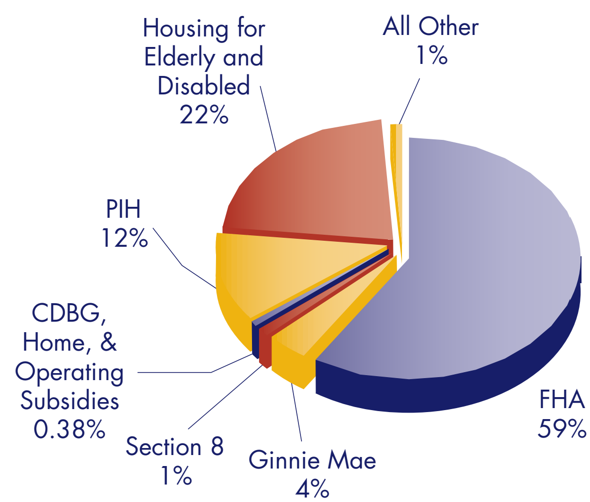


The decrease was due to a decrease of $3.0 billion in Debt; $1.1 billion in Loan Guarantees; $0.3 billion in Accounts Payable; and $0.9 billion in Remaining Liabilities.

The decrease in HUD debt (repayments exceed new borrowings) was primarily due to decreases in the following programs: FHA, $1.2 billion; Housing for Elderly and Disabled, $1.5 billion; and PIH, $0.3 billion. The decrease in loan guarantees was primarily due to an overall decrease in loan guarantees for FHA programs.

The chart below presents HUD's total liabilities for FY 2004 by responsibility segment.

Liabilities by Responsibility Segments



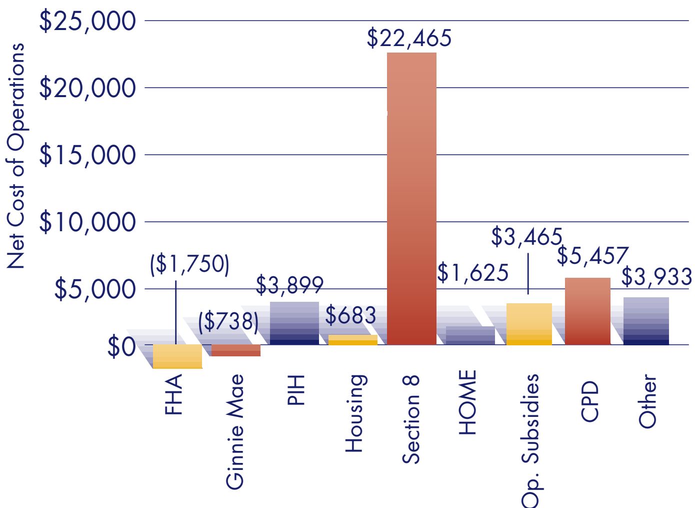
Net Position

HUD's Net Cost of Operations, Financing Sources, and Change in Unexpended Appropriations combine to determine the Net Position at the end of the year. HUD's FY 2004 Net Position of $88.4 billion represents a $2.2 billion, or 2 percent, decrease compared to FY 2003. This decrease is attributable to a $6.6 billion decrease in Unexpended Appropriations offset by a $4.4 billion increase in Cumulative Results of Operations (Financing Sources in excess of Net Cost of Operations).

Net Cost of Operations

HUD's Net Cost of Operations as reported in the Consolidating Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Consolidated Statement of Financing consists of total costs, including direct and indirect program costs, as well as general Department costs, offset by program exchange revenues (in exchange for HUD services provided). The chart below presents HUD's Total Net Cost for FY 2004 by reporting segment.

Net Cost by Reporting Segment
(Dollars in Millions)



HUD's Total Net Cost for FY 2004 was $39.0 billion. Of this amount, $22.5 billion, or 58 percent, was spent in support of the Section 8 program (administered jointly by the Housing, Community Planning and Development, and PIH programs). Total HUD Net Costs include FHA net costs of $(1.7) billion, attributable to FHA's downward re-estimate of the anticipated long-term costs of its insurance programs.

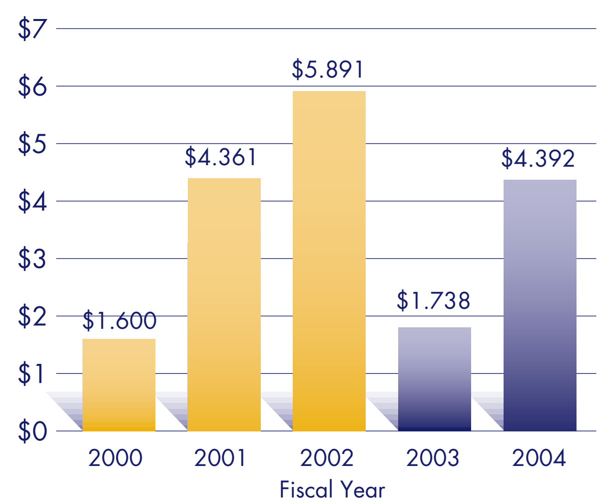
Financing Sources

As shown in HUD's Statement of Changes in Net Position, HUD's financing sources (other than exchange revenues contributing to Net Cost) for FY 2004 totaled $43.4 billion. This amount is comprised primarily of $43.9 billion in Appropriations Used, offset by approximately $490 million in net transfers out. The transfers out consist of new FHA subsidy endorsements, credit subsidy downward re-estimates and the sweep of the General Insurance/Special Risk Insurance liquidating account's unobligated budgetary resources.

Net Results of Operations

The combined effect of HUD's Net Cost of Operations and Financing Sources resulted in a 153 percent increase in Net Results of Operations of $4.4 billion during FY 2004. The significant year-to-year fluctuation shown in Table 3 is due primarily to the annual re-estimation of long-term credit program costs, which can be impacted by both program performance and economic forecasts. The following table presents HUD's Net Cost of Operations for FY 2004 and the four preceding years.

Net Results of Operations
(Dollars in Billions)



Unexpended Appropriations

HUD's unexpended appropriations, which decreased 10 percent from $64.7 billion in FY 2003 to $58.1 billion in FY 2004, represents the accumulation of appropriated funds not yet disbursed, and can change as the Fund Balance with Treasury changes. A significant portion of these unexpended funds is attributable to long-term commitments as discussed in the following section.

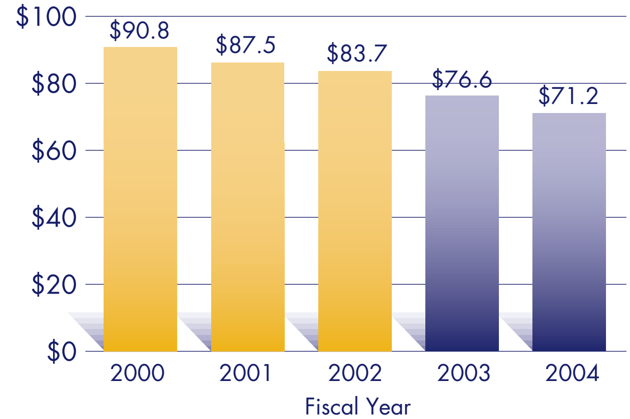
Analysis of Off-Balance-Sheet Risk

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

Contractual and Administrative Commitments

HUD's contractual commitments of $71.2 billion in FY 2004 represents HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. Administrative Commitments (reservations) of $3.0 billion relate to specific projects for which funds will be provided upon execution of the related contract. The following table presents HUD's Contractual Commitments for FY 2004 and the four preceding years.

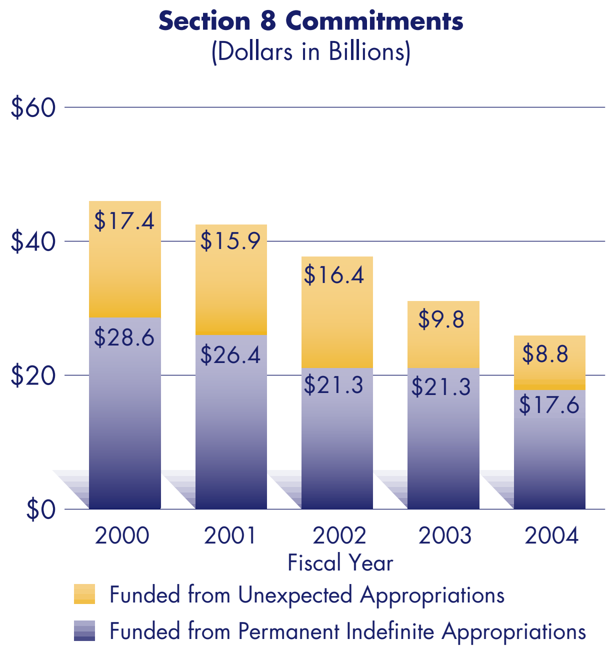
Commitments Under HUD's Grants, Subsidy, and Loan Programs
(Dollars in Billions)

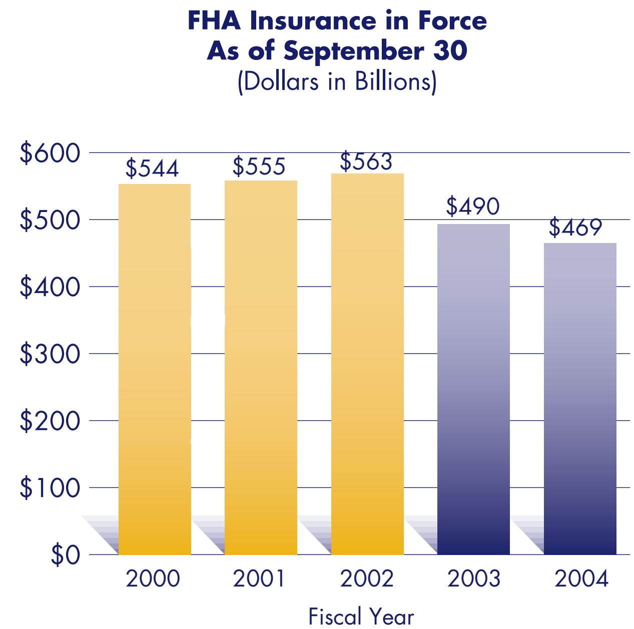


These commitments are primarily funded by a combination of unexpended appropriations and permanent indefinite appropriations, depending on the inception date of the contract. HUD draws on permanent indefinite budget authority to fund the current year's portion of contracts entered into prior to FY 1988.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

Total commitments (administrative and contractual) decreased $6.3 billion, or 8 percent, during FY 2004. The change is attributable to a decrease of $5.0 billion in Section 8 commitments (comprised of $0.3 billion in administrative and $4.7 billion in contractual commitments), a decrease of $1.9 billion in CDBG, PIH, Section 202, and All Other commitments combined, partially offset by a $0.6 billion increase in HOME and Operating Subsidies commitments.

The following table presents HUD's Section 8 Contractual Commitments for FY 2004 and the four preceding years.





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

FHA Insurance in Force

FHA's total insurance-in-force decreased $21.3 billion, or 4.35 percent, from $490 billion in FY 2003 to $468.8 billion in FY 2004. The decrease in FHA's insurance-in-force was primarily due to FHA borrowers refinancing their mortgages and converting them to conventional mortgages. The volume of such refinancing was high in FY 2004 due to the decline in interest rates and house price appreciations. Most of this decrease, $20.97 billion, was in the Mutual Mortgage Insurance fund, which comprises 81.76 percent of FHA's total insurance-in-force.

The following table presents FHA's Insurance in Force for FY 2004 and the four preceding years.

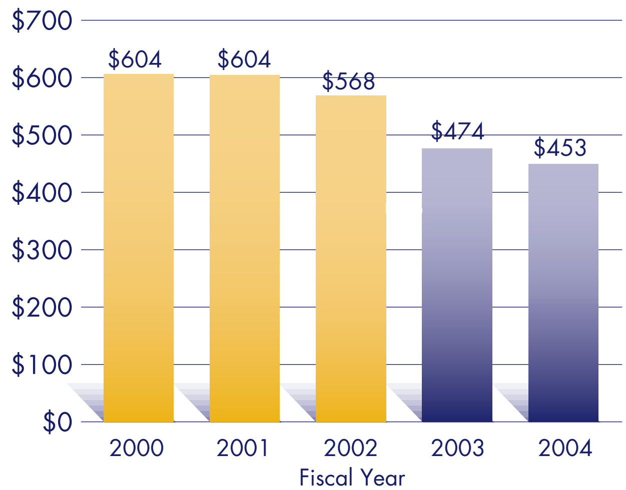
Ginnie Mae Guarantees

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of Mortgage-Backed Securities and commitments to guaranty. The securities are backed by pools of FHA-insured, Rural Housing Service-insured, and Veterans Affairs-guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2004 and 2003, was approximately $453 billion and $474 billion, respectively. However, Ginnie Mae's potential loss is considerably less because the FHA and Rural Housing Service insurance and Veterans Affairs guaranty serve to indemnify Ginnie Mae for most losses. Also, as a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty Mortgage-Backed Securities. The commitment ends when the Mortgage-Backed Securities are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of Mortgage-Backed Securities. Outstanding commitments as of September 30, 2004 and 2003 were $43 billion and $46 billion, respectively.

The table below presents Ginnie Mae Mortgage-Backed Securities for FY 2004 and the four preceding years.

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



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

In FY 2004 and 2003, Ginnie Mae issued a total of $81 billion and $106 billion respectively in its multi-class securities program. The estimated outstanding balance at September 30, 2004 and 2003, were $189 billion and $183 billion, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the Mortgage-Backed Securities program.

2. Performance Information

Overview: Strategic Framework and Performance Data Reliability

Reporting on Progress Toward Strategic Goals

The second part of HUD's FY 2004 Performance and Accountability Report gauges actual performance relating to the program indicators and targets published in the Department's FY 2004 Annual Performance Plan.[1] These performance indicators reflect short-term progress toward the Department's Strategic Goals and Objectives outlined in the Department's six-year Strategic Plan published in March 2003. Significant performance results have been highlighted in the Management Discussion and Analysis section of this report.

This year's Performance Section continues general improvement efforts of recent years. The data discussions contained in this section provide more detailed accounts of the quality, validity, and source of data for virtually all performance indicators. A summary report card preceding each strategic goal section indicates, in a transparent way, whether each target has been substantially met (i.e., at least 95 percent achieved)

Organization of Strategic Goals and Objectives

The strategic framework in place during HUD's FY 2004 performance period was the following six-goal structure established by the *HUD Strategic Plan FY 2003–FY 2008.*[2]

Budget Resources by Strategic Goal

Following the Strategic Framework is a breakout of HUD's FY 2004 and FY 2005 requested net discretionary budget resources and Full Time Equivalent positions by Strategic Goal.

[1] Appendix A of HUD's FY 2005 Annual Performance Plan identifies revisions to a limited number of performance indicators or targets.

[2] Available at www.hud.gov/offices/cfo/reports/03strategic.pdf

FY 2004 HUD's Strategic Framework

***Mission:* Increase homeownership, support community development, and increase access to affordable housing free from discrimination.**

Programmatic Strategic Goals

Increase homeownership opportunities

- Expand national homeownership opportunities.
- Increase minority homeownership.
- Make the homebuying process less complicated and less expensive.
- Fight practices that permit predatory lending.
- Help HUD-assisted renters become homeowners.
- Keep existing homeowners from losing their homes.

Promote decent affordable housing

- Expand access to affordable rental housing.
- Improve the physical quality and management accountability of public and assisted housing.
- Increase housing opportunities for the elderly and persons with disabilities.
- Help HUD-assisted renters make progress toward self-sufficiency.

Strengthen communities

- Provide capital and resources to improve economic conditions in distressed communities.
- Help organizations access the resources they need to make their communities more livable.
- End chronic homelessness and move homeless families and individuals to permanent housing.
- Mitigate housing conditions that threaten health.

Cross-Cutting Strategic Goals

Ensure equal opportunity in housing

- Resolve discrimination complaints on a timely basis.
- Promote public awareness of fair housing laws.
- Improve housing accessibility for persons with disabilities.

Embrace high standards of ethics, management and accountability

- Rebuild HUD's human capital and further diversify its workforce.
- Improve HUD's management, internal controls and systems and resolve audit issues.
- Improve accountability, service delivery and customer service of HUD and its partners.
- Ensure program compliance.
- Improve internal communications and employee involvement.

Promote participation of faith-based and community organizations

- Reduce regulatory barriers to participation by faith-based and community organizations.
- Conduct outreach to inform potential partners of HUD opportunities.
- Expand technical assistance resources deployed to faith-based and community organizations.
- Encourage partnerships between faith-based/community organizations and HUD's traditional grantees.

Discussion of Performance Indicators

The discussion section for each indicator contains a background explanation of the program being assessed, the measure used to gauge performance, the time period being reported, and results when measurable.

As results are presented, a clear statement has been included indicating whether the performance goal has been substantially met (i.e., at least 95 percent achieved). The accompanying analysis explains the results and outcomes, including discussion of external factors as appropriate and feasible. The Department has made a focused effort to make these discussions understandable to the reader. In instances in which HUD failed to achieve a performance goal, a strategy for improvement is presented.

Reliability of Performance Data

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

HUD can assess outcomes of a number of programs only in limited ways because of statutory provisions, potential reporting burdens, and privacy concerns. The Community Development Block Grant program (CDBG) is a prime example. CDBG allows grantees discretion to conduct a broad variety of activities, and there is a necessary balance between assessing their impacts on final customers and creating reporting burdens for our partners. In such cases, the Department is consulting with partners and conducting research on ways to use available data more effectively, including data from external sources such as the U.S. Census Bureau. In point of fact, a focused effort is being conducted to develop superior performance measurement of the CDBG program over the next several years. There are other key areas where improved measurement efforts are underway or being researched. In other cases, performance measures that use survey-sampling techniques are being developed. Some of these survey results are reported this year, and others are forthcoming.

External data also come with availability problems because the cost of data collection keeps survey-based data from being produced on an annual basis for areas or small populations of interest to HUD, such as neighborhood surveys. Timeliness is also a weakness of external data sources. This Performance and Accountability Report and the FY 2004 and 2005 Annual Performance Plans reflect the Department's continuing attempts to help the reader assess data reliability with greater confidence, including efforts to report statistical confidence intervals for measures that rely on sampling. This Performance and Accountability Report has been produced on an accelerated basis and that has presented new challenges in obtaining timely and accurate data.

Data completeness is a problem for several program data systems. Although the Department has tried to use available data to its fullest effect, incomplete data create the potential for bias in the reported results. Therefore, incomplete and preliminary data are identified.

Use of Evaluations to Improve Strategies

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

To address the attribution problem, the Department also relies on program evaluations and is expanding efforts in this area. Evaluations are studies that assess program impacts, sometimes by using control groups, random assignment, econometric modeling, and other methodologies to exclude the effects of external forces.

Evaluation results are used to improve the Department's strategies, programs and policies. For example, a major experimental evaluation conducted in the 1970s was used to develop the Section 8 tenant-based program, a major innovation relative to previous "bricks and mortar" approaches to affordable housing. As a result, the Housing Choice Voucher program now relies on the private market to house more families than public housing does.

In a similar way, current program evaluations are used both to attribute results and to improve program strategies and operations. The ongoing "quality control" studies of rent determination errors in HUD's housing programs have led the Department to undertake the Rental Housing Integrity Improvement Project to reduce the impact of rent errors and fraud within the federal budget.

The Performance and Accountability Report also continues to include an appendix that systematically summarizes FY 2004 research efforts and findings.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
ESTIMATE OF FISCAL YEARS 2004-2005
BUDGET RESOURCES BY STRATEGIC GOAL

	2004 Estimate	2005 Estimate
Strategic Goal H: Increase homeownership opportunities		
Discretionary Budget Authority	$2,519,970	$2,579,608
Full-Time Equivalent	1,002	1,076
Salary and Expense Cost	$99,659	$107,059
Strategic Goal A: Promote decent affordable housing		
Discretionary Budget Authority	$26,141,922	$24,689,930
Full-Time Equivalent	3,254	3,358
Salary and Expense Cost	$328,743	$341,921
Strategic Goal FC: Promote participation of faith-based and community organizations		
Discretionary Budget Authority	$141,723	$143,661
Full-Time Equivalent	69	74
Salary and Expense Cost	$8,048	$8,555
Strategic Goal EM: Embrace high standards of ethics, management, and accountability		
Discretionary Budget Authority	$2,275,549	$2,347,235
Full-Time Equivalent	3,175	3,433
Salary and Expense Cost	$529,178	$576,331
Strategic Goal FH: Ensure equal opportunity in housing		
Discretionary Budget Authority	$79,254	$84,296
Full-Time Equivalent	699	643
Salary and Expense Cost	$67,790	$62,211
Strategic Goal C: Strengthen communities		
Discretionary Budget Authority	$5,529,147	$5,391,878
Full-Time Equivalent	843	821
Salary and Expense Cost	$83,086	$82,923
Total		
Discretionary Budget Authority	**$36,687,565**	**$35,236,608**

Discretionary Budget Authority Adjustments	2004 Estimate	2005 Estimate
Housing Certificate Fund:		
Rescission of Section 8 Balances	-$2,844,000	-$1,557,000
Rescission of Drug Elimination Grants	...	-$5,000
Title VI Federal Guarantees for Tribal Housing Activities:		
Rescission of credit subsidy carryover	...	-$21,000
Indian Housing Loan Guarantee Fund:		
Rescission of credit subsidy carryover	...	-$33,000
Urban Development Action Grants	-$30,000	...
Community Development Loan Guarantees:		
Credit Subsidy and Administrative Costs	$7,000	...
Current year Offsetting Receipts	-$755,000	-$628,000
Receipts to Mutual Mortgage Insurance Capital Reserve Account	-$3,545,000	-$2,627,000
Total Adjustments	**-$7,167,000**	**-$4,871,000**
Subtotal Discretionary Budget Authority	**$29,520,565**	**$30,365,608**
Management and Administration	**$895,000**	**$898,000**
Revised Discretionary Budget Authority	**$30,415,565**	**$31,263,608**
Full-Time Equivalent	**9,042**	**9,405**
Salary and Expense Cost	**$1,116,504**	**$1,179,000**
Funds Control	**$15,873**	...
Grand Total Salary and Expense Cost	**$1,132,377**	**$1,179,000**

1. Goal H: Increase Homeownership Opportunities

Strategic Objectives

H.1 Expand national homeownership opportunities.

H.2 Increase minority homeownership.

H.3 Make the homebuying process less complicated and less expensive.

H.4 Fight practices that permit predatory lending.

H.5 Help HUD-assisted renters become homeowners.

H.6 Keep existing homeowners from losing their homes.

Performance Report Card - Goal H

	Performance Indicators	2001	2002	2003	2004	2004 Target	Substantially Met	Notes
H.1.1	Improve National homeownership opportunities	68.1%	68.0%	68.4%	69.0%	N/A	N/A	b, c
H.1.2	The share of all homebuyers who are first-time homebuyers.	41.3%	N/A	39.1%	N/A	N/A	N/A	b, d
H.1.3	The number of FHA single family mortgage insurance endorsements nationwide.	1,067	1,288	1,338	997	N/A	N/A	b
H.1.4	The share of first-time homebuyers among FHA-insured home-purchase mortgages.	79.8%	78.0%	77.1%	72.8%	N/A	N/A	b
H.1.5	The homeownership Downpayment Assistance Initiative will be fully implemented and assist 1,000 new homebuyers.	N/A	N/A	N/A	2,263	1,000	Yes	
H.1.6	Ginnie Mae securitizes at least 85 percent of single family FHA and VA loans.	97.9%	87.5%	92.4%	87.3%	85%	Yes	
H.1.7	Housing counseling is provided to 418,377 homebuyers and homeowners in FY 2005 using FY 2004 funds.	187	226	407	740	418	Yes	k, l
H.1.8	The number of homeowners who have been assisted with HOME is maximized.	42,256	46,552	47,886	22,701	47,190	No	m
H.1.9	The number of homeowners who have used sweat equity to earn assistance with Self-help Homeownership Opportunity Program funding is maximized.	1,655	2,063	2,157	1,735	2,140	No	
H.1.10	The FHA Mutual Mortgage Insurance Fund meets Congressionally mandated capital reserve targets.	3.75%	4.52%	5.21%	5.53%	2%	Yes	
H.1.11	The share of Real Estate Owned properties that are sold to owner-occupants will be maintained at 64.0 percent.	54.2%	62.2%	61.5%	54.6%	64%	No	

	Performance Indicators	2001	2002	2003	2004	2004 Target	Substantially Met	Notes
H.1.13	HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for low- and moderate-income mortgage purchases.	49.5% 49.9%	51.5% 53.2%	51.8% 50.5%	52.3% 51.2%	50% 50%	Yes Yes	e e
H.2.1	The minority homeownership rate.	49.2%	48.9%	49.3%	50.9%	N/A	N/A	b, c
H.2.2	The ratio of homeownership rates of minority and non-minority low and moderate-income families with children increases by 0.4 percentage points by 2005.	72.4%	N/A	73.9%	N/A	N/A	Yes	b, d
H.2.3	The share of minority homebuyers among FHA home purchase-endorsements. Revised reporting methods.	36.5% 39.8%	36.0% 39.2%	35.0% 37.6%	32.3% 37.2%	N/A N/A	N/A N/A	b h
H.2.5	HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for special affordable mortgage purchases.	19.2% 20.7%	21.6% 22.6%	21.4% 20.4%	21.2% 21.4%	20% 20%	Yes Yes	e e
H.2.6	Housing Counseling is provided to 353,183 minority clients in FY 2005 to support the Department's goal of increasing minority homeownership.	156.2	191.2	171.9	483.9	284.9	Yes	k, l
H.2.7	The number of minority households assisted in becoming homeowners through the HOME program increases.	N/A	N/A	N/A	10,934	19,068	No	
H.2.8	Section 184 mortgage financing is guaranteed for 200 Native American homeowners during FY 2004.	89	188	271	622	1000	No	
H.2.9	The homeownership rate among households with incomes less than median family income.	52.6%	51.9%	52.1%	52.7%	N/A	N/A	b, c
H.2.10	The homeownership rate in central cities.	52.3%	52.1%	52.3%	53.2%	N/A	N/A	b, c
H.2.11	The mortgage disapproval rates of minority applicants.	16.8	15.7%	13.7%	15.4	N/A	N/A	b, e
H.3.1	Receive 1,000 Real Estate Settlement Procedures Act complaints per year.	570	901	1,000	1,244	1,000	Yes	
H.5.1	The number of households who have used Housing Choice Voucher to become homeowners increases by 20 percent.	0	531	1,500	2,052	1,674	Yes	
H.6.1	Loss mitigation claims are at least 40 percent of total claims on FHA-insured single family mortgages.	46.1%	49.7%	50.0%	54.2%	40%	Yes	
H.6.2	More than 62 percent of total mortgagors receiving default counseling will successfully avoid foreclosure.	91.6%	91.9%	47.1%	47.1%	62%	N/A	k

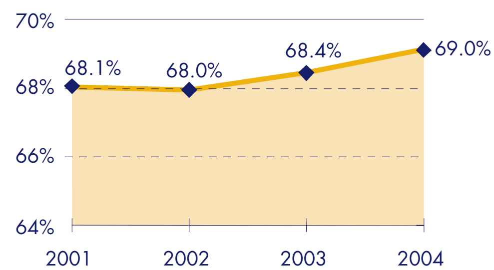
a Data not available.
b No performance goal for this fiscal year.
c Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).
d Calendar year beginning during the fiscal year shown.
e Calendar year ending during the fiscal year shown.
f Other reporting period.
g Result too complex to summarize. See indicator.
h Baseline newly established.
i Authorizing legislation under consideration by Congress.
j Overall goal established rather than subgoals.
k Result is estimated.
l Number is in thousands.
m Indicator met combined FY 2003 and FY 2004 goals.
n Number reported in billions.

Objective H.1: Expand national homeownership opportunities.

H.1.1: Improve National homeownership opportunities.

Background. The overall homeownership rate represents the share of the nation's households that have achieved the "American dream" of homeownership. Providing expanded opportunities for homeownership to all Americans, with an emphasis on minority families and other disadvantaged groups, is a Presidential priority. Homeownership is widely believed to encourage commitment to communities and good citizenship. A significant number of HUD's programs support increases in the homeownership rate. However, a FY 2004 performance target was not established for this tracking indicator because of the substantial limits in HUD's span of control relative to economic factors.

Overall Homeownership Rate (3rd quarter)



Results and analysis. During the third quarter of 2004, the homeownership rate was 69.0 percent, down 0.2 percentage point from the record set in the second quarter of 2004. Although a performance goal was not established, the result reflects an increase of 0.6 percentage points from the homeownership rate in the same quarter of 2003.

The nation gained an estimated 1,594,000 homeowners in the preceding 12 months, attaining a new high of 73.8 million homeowners. An important cause of the advance during FY 2004 was that interest rates remained near the lowest levels in decades. These low rates made mortgage payments more affordable and complemented the increased access provided by FHA single-family mortgage insurance programs to make homeownership feasible for many new homeowners (see indicator H.1.3). FHA mortgage insurance helps families who have little cash become homeowners because it has low downpayment requirements, liberal income qualification guidelines and flexible credit standards. The majority of FHA endorsements for home purchases benefit first-time homebuyers (H.1.4). Communities have also used CDBG and HOME block grants (A.1.2) and Self-help Homeownership Opportunity Program competitive grants (H.1.9) to promote homeownership.

Data discussion. The measure is based on averages of monthly Current Population Survey data for the third quarter (the last quarter of the fiscal year). The Current Population Survey data are free of limitations affecting the measure's reliability. Changes in estimated rates that exceed 0.25 percentage point are statistically significant with 90 percent confidence.

H.1.2: The share of all homebuyers who are first-time homebuyers.

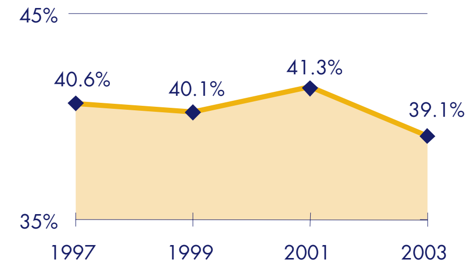
Background. Increasing the proportion of homebuyers who are purchasing a home for the first time is a key to higher homeownership rates. This is a tracking indicator with no numeric target for FY 2004, reflecting the dominant impact of the macro-economy compared with HUD's limited span of control over the outcome.

Results and analysis. The percentage of homebuyers who were first-time homebuyers decreased by 2.2 percentage points from 2001 levels to 39.1 percent in calendar year 2003. (For each year shown, the results represent households who reported purchasing their home in the previous year.)

The result reflects tougher economic conditions for some potential first-time homebuyers in 2002, following the highest proportion of first-time buyers observed in a decade during 2000.

Partial-year data for those who purchased homes in early 2003 suggest a strong rebound for first-time buyers. Such growth would be consistent with strong advances in homeownership rates overall and among minority households in particular. The continued low rates of mortgage interest during 2003 put homeownership within reach of a number of renters. FHA mortgage insurance also makes homebuying feasible for numerous households each year whom lenders otherwise would deem uncreditworthy.

Share of Homebuyers who are First-Time Homebuyers



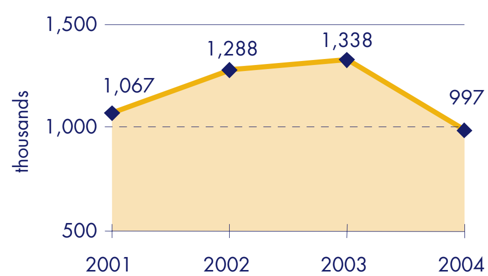
Data discussion. This measure uses data from the biennial American Housing Survey. The data represent homeowners who reported, during the (odd) years shown, that they moved during the previous (even) years. This offset allows the data to represent a complete year and avoids seasonal distortions, because odd-year homebuyers who moved after they were surveyed would not be represented. Information on first-time status was missing for 4.4 percent of homebuyers surveyed in 2003, so those households are excluded. During 2002, HUD contractors completed a study that verified and validated the American Housing Survey for purposes of mortgage market and housing finance analysis. Researchers assessed the replicability, internal consistency and reliability of American Housing Survey estimates, and found the data generally reliable.

H.1.3: The number of FHA single family mortgage insurance endorsements nationwide.

Background. This is a tracking indicator. FHA insures mortgages issued by private lenders, increasing access to mortgage capital so homeownership opportunities increase. This indicator tracks FHA's contribution to the homeownership rate through the annual volume of FHA-insured loans. While the number of FHA mortgage endorsements is a key measure of HUD's contribution to homeownership, the actual rate achieved during FY 2004 was dramatically affected by market forces outside of HUD's control, especially interest rates. Balancing the importance of reporting this key measure of HUD activity with an appreciation of the huge effect the market plays in the final result, the Department decided to track the number of endorsements, but not establish a numeric goal for FY 2004.

Results and analysis. During FY 2004, FHA endorsed 997,344 single family mortgages for insurance. Although no goal had been established for FY 2004, this result represents a decrease from the volume of endorsement activity that took place during FY 2003 (1,337,728). The decrease in single-family endorsement volume from FY 2003 to FY 2004 was largely attributable to a lower number of mortgage re-financings, which comprised a large share of FHA business during FY 2003. Recent interest rate increases may explain the lower volume of mortgage re-financings and its effect on overall single family endorsement activity during FY 2004.

FHA Single Family Mortgage Endorsements



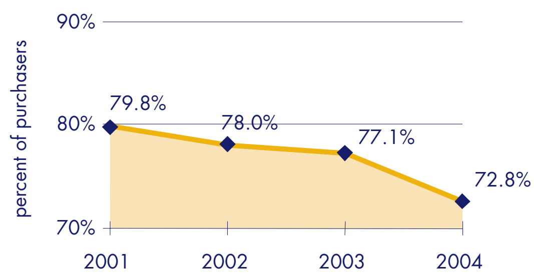
Data discussion. Data for this indicator are drawn from FHA's Single Family Data Warehouse, based on the F17 Computerized Home Underwriting Management System. There are no data deficiencies affecting this measure. FHA data are entered by direct-endorsement lenders into the Computerized Home Underwriting Management System with monitoring by FHA.

H.1.4: The share of first-time homebuyers among FHA-insured home-purchase mortgages.

Background. FHA is a major source of mortgage financing for first-time buyers as well as for minority and lower income buyers. HUD will help increase the overall homeownership rate, as well as reduce the homeownership gap between whites and minorities, by increasing FHA endorsements for first-time homebuyers. This indicator tracks the share of first-time homebuyers among FHA endorsements for home purchases – thus excluding loans made for home improvements. This performance measure is strongly influenced by macroeconomic factors beyond FHA control including, but not limited to, interest rate changes and choices made by lenders concerning the type of mortgage transactions on which they focus their business. Beginning in FY 2004 therefore, FHA has elected to track the progress of this performance measure without establishing a numeric target.

Results and analysis. During FY 2004, 72.8 percent of home purchase endorsements were made to first-time homebuyers. By comparison, FHA endorsed 79.8 percent of FHA home purchase mortgages to first-time homebuyers in FY 2001 and 78.0 percent in FY 2002.

Percent of FHA Home Purchase Endorsements for First-Time Homebuyers



The decline in the share of first-time homebuyers among FHA home purchase endorsements between FY 2003 and FY 2004 is due to home purchase transactions involving first-time homebuyers decreasing more significantly than the overall number of purchase transactions made. Relative to home purchase activity, the effect that recent interest rate increases and housing price appreciation had on the overall housing market may have contributed to shift lenders' business operations toward home purchase transactions involving repeat homebuyers, thereby reducing the number of endorsements made to first-time homebuyers. FHA will continue its efforts to reach potential first-time homebuyers through participation in conferences, seminars and other outreach events, and by working with other organizations in HUD to support the use of CDBG and HOME block grant funding for homeownership activities.

Data discussion. Data for this performance indicator are drawn from FHA's Single Family Data Warehouse, based on the F17 Computerized Home Underwriting Management System. FHA data on first-time buyers are more accurate than estimates of first-time buyers in the conventional market. FHA data are entered by direct-endorsement lenders with monitoring by FHA.

H.1.5: The Homeownership Downpayment Assistance Initiative will be fully implemented and assist 1,000 new homebuyers.

Background. This indicator tracks the number of first-time homebuyers who have been assisted with American Dream Downpayment Initiative funds during FY 2004. The output tracked by this indicator shows the contribution toward increasing the national homeownership rate and the number of minority homeowners, two key Presidential and Secretarial priorities.

Congress passed the American Dream Downpayment Act and the President signed it into law on December 16, 2003. The program regulations were published in the Federal Register on March 30, 2004, and were effective 30 days later. The first allocations to eligible HOME Program participating jurisdictions were made in the fourth quarter of FY 2004. There were 427 HOME participating jurisdictions, out of a total of 630, eligible to receive American Dream Initiative funds.

Results and analysis. During FY 2004, the first year of funding under the Initiative that included both the FY 2003 and FY 2004 allocations, eligible HOME participating jurisdictions assisted 2,263 households in the purchase of their first homes, thus exceeding the 2004 goal of 1,000. Forty-nine percent of these households were minority. Achievement of the goal was aided by an intensive informational campaign that included the development of a special web-site dedicated to the Initiative, meetings convened across the country, and the wide distribution of printed materials and brochures.

Data discussion. Results were affected by the fact that American Dream Downpayment funds were only made available beginning in the fourth quarter of FY 2004 and not all eligible HOME participating jurisdictions had received their initial American Dream funding by the end of the fiscal year. American Dream Downpayment Initiative accomplishments are tracked through the IDIS in the same way that HOME Program accomplishments are currently recorded.

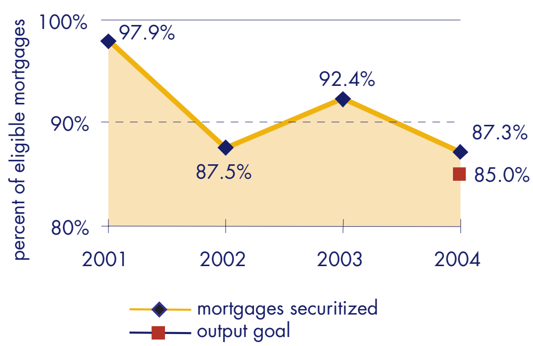
H.1.6: Ginnie Mae securitizes at least 85 percent of single family FHA and Veterans Affairs loans.

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

Ginnie Mae's Mortgage Backed Securities program has been a significant contributor to the growth of the mortgage backed securities market in the United States as well as to the expansion of homeownership opportunities for American families. This participation by Ginnie Mae in the capital markets of our nation has helped to provide an efficient link between Wall Street and homebuyers. By making Ginnie Mae securities attractive to investors, Ginnie Mae ensures that a continuous flow of capital is available throughout the country. Ginnie Mae has been instrumental in nearly eliminating regional differences in the availability of mortgage credit for American families. Under the terms of its mortgage-backed securities program, Ginnie Mae guarantees the timely payment of principal and interest on pools of mortgage loans. Ginnie Mae's obligations are backed by the full faith and credit of the United States.

When Ginnie Mae was established in 1968, it was given primary responsibility for facilitating an efficient secondary mortgage market for FHA, Veterans Affairs, and Rural Housing Service insured mortgages, all of which serve low- and moderate-income homebuyers. Ginnie Mae provides financial incentives for lenders to increase loan volumes in traditionally underserved areas through its Targeted Lending Initiative. The program was established in October 1996 to help raise homeownership levels in central city areas and was later expanded to include Rural Empowerment Zones, Rural Enterprise Communities, and Indian lands.

FHA/VA Single Family Mortgages Securitized by Ginnie Mae



Results and analysis. Ginnie Mae's FY 2004 goal was to securitize at least 85 percent of FHA and Veterans Affairs single family insured or guaranteed loans. Actual figures indicate that 87 percent of all Veterans Affairs and FHA loans were placed into Ginnie Mae securities, a significant accomplishment in light of existing competition for the product. Ginnie Mae was able to exceed its goal by offering superior up-front pricing and flexibility in determining servicing spreads. Most important was Ginnie Mae's continued success in reducing issuers' back-end processing costs. The amount of single-family issuances at the end of FY 2004 was $420.4 billion, compared with $444.6 billion at the end of the previous year. This decline was primarily because repayments exceeded new issuances.

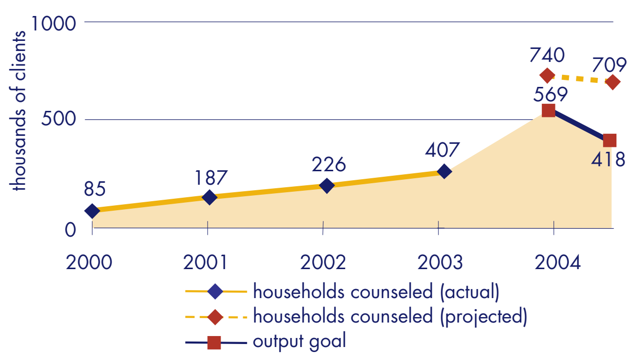
Data discussion. The data source used was Ginnie Mae's database of FHA and Veterans Affairs loans. Ginnie Mae's data systems are audited each year by the Office of the Inspector General, and Ginnie Mae obtains a clean opinion.

H.1.7: Housing counseling is provided to 418,377 homebuyers and homeowners in FY 2005 using FY 2004 funds.

Background. The Department is placing more emphasis on housing counseling, including it as a requirement for several programs such as the Housing Choice Voucher (formerly Section 8) homeownership program. Clients tracked through this indicator include those receiving housing counseling for homebuyer education (including group education sessions), pre-purchase, reverse mortgage (Home Equity Conversion Mortgage), and loss mitigation and default, along with clients who are preparing to purchase a home, purchasing a home or working to remain in their home. Housing counseling appropriations for FY 2004 ($39.764 million) increased slightly over FY 2003 ($39.740 million), although the amount competed for award was not as great. During FY 2004 Single Family Housing reserved $3.75 million of its $39.764 million appropriation to provide training for housing counselors. Competed amounts for FY 2002 and FY 2003 were $19 million and $37.560 million, respectively. Due to the spend-out rate of new counseling funds, funding for FY 2004 will not become evident programmatically until FY 2005. This indicator therefore will measure the number of homebuyers and homeowners counseled in FY 2005 using FY 2004 funds.

Results and analysis. Although actual results are not yet available, HUD expects 739,589 homebuyers and homeowners to receive housing counseling services during FY 2004 based on the $37.560 million competed and awarded to housing counseling agencies in FY 2003. This would exceed the FY 2003 goal of a 40 percent increase above FY 2003 results in FY 2004.

Homebuyers and Homeowners Counseled



HUD expects 709,147 homebuyers and homeowners to receive housing counseling services in FY 2005, based on a total housing counseling awards of $36.014 million for FY 2004. HUD expects slightly fewer homebuyers and homeowners to be counseled in FY 2005 than in FY 2004 due to the fact that the Department committed more funding to provide training for housing counselors and, consequently, less funding was available for the housing counseling awards. During FY 2003, 406,659 homebuyers and homeowners received housing counseling based on an FY 2002 appropriation of $20 million.

Data discussion. FHA collects data on homebuyers and homeowners counseled through Housing Counseling Agency Fiscal Year Activity Reports (form HUD-9902). Projected results for FY 2005 are based on actual housing counseling data collected for the grant period 10/1/2002-9/30/2003. The actual number of homebuyers and homeowners served in FY 2005 will not be able to be determined until early FY 2006, when final housing counseling activity data for FY 2005 becomes available.

HUD-approved housing counseling agencies are given 90 days after the end of a fiscal year to report the results of counseling activity for that fiscal year and to submit requests to HUD for reimbursement for counseling services provided. FHA monitors HUD-approved housing counseling agencies through site visits to assure quality-counseling practices.

H.1.8: The number of homeowners who have been assisted with HOME is maximized.

Background. This indicator tracks the number of commitments made by participating jurisdictions to provide HOME Program assistance for homebuyers and existing homeowners during FY 2004. The output tracked by this indicator shows the potential contribution to be made by the HOME Program toward increasing the national homeownership rate and the number of minority homeowners, two key Presidential and Secretarial priorities. The HOME Investment Partnerships Program gives states and local communities flexibility to meet their housing needs in a variety of ways. Many participating jurisdictions choose to use their funds to promote homeownership, both by helping low- and moderate-income families to purchase their homes and by rehabilitating existing owner-occupied units, ensuring that existing homeowners do not lose their homes.

Results and analysis. During FY 2004, participating jurisdictions committed funds to 3,176 existing homeowner rehabilitation units and 19,525 new homebuyer units, for a total of 22,701 units. The number of commitments for new homebuyers (19,525) represents 57 percent of the 2004 target of 34,050 units. These results represent a decrease in commitments compared with FY 2003 results of 79 percent (12,005 units) for existing homeowner rehabilitation units and a decrease of 39 percent (12,474 units) for new homebuyer units. The HOME Program office completed long awaited improvements in FY 2004 to the Integrated Disbursement and Information System (IDIS) that have purged inaccurate data, including a large number of "phantom" units that were set up over the years as commitments in the system but were never completed. These reductions were taken for the tenure types: rental, homebuyer, and existing homeowner rehabilitation; and these reductions were the main reason for the shortfall in the number of committed units recorded in IDIS this fiscal year. In the future, it is the intention of HUD to eliminate entirely "commitments" as a measure of program performance for HOME and focus on "completions," which is a more accurate and reliable indicator for accomplishments.

The applicability of Uniform Relocation Act requirements to the purchase of single family homes occupied by tenants even where HOME funds are used only for downpayment assistance is also believed to have had a "chilling effect" on communities that would otherwise have undertaken homebuyer projects but were concerned over the large relocation costs that could be incurred. While activities funded through the new American Dream Downpayment Initiative (see Indicator H.1.5.) are exempted from Uniform Relocation Act requirements, HOME and Community Development Block Grant funding for identical activities remain subject to the Uniform Relocation Act.

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

Participating jurisdictions committed a total of $181 million to existing homeowner rehabilitation units and $447 million to new homebuyer units during FY 2004. The per-unit HOME cost of producing a homeowner rehabilitation unit ($16,847) or homebuyer unit ($12,200) increased only modestly compared to FY 2003 by $868 and $732, respectively.

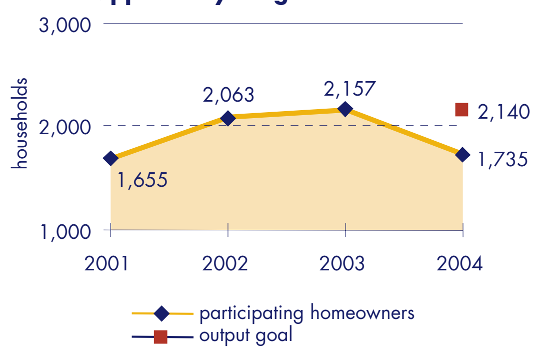
Data discussion. Data entered by participating jurisdictions in HUD's IDIS are used to track performance. The HOME Program office completed improvements in FY 2004 to IDIS that have purged inaccurate data and reduced the need for ongoing data cleanup efforts. (The impact of having eliminated these units on the results reported for FY 2004 is discussed above.) Screen designs and terminology were simplified. More checks (edits) were added to reduce potential entry errors. The report functions were improved and a search feature added so that users can now easily find information on activities by grantee and by date range.

H.1.9: The number of homeowners who have used sweat equity to earn assistance with Self-Help Homeownership Opportunity Program funding is maximized.

Background. This indicator tracks the number of housing units completed during the period July 1, 2003, to June 30, 2004, (accomplishments for the 4th quarter of FY 2004 will not be available in time for publication of this PAR) by national and regional nonprofit organizations and consortia receiving Self-Help Homeownership Opportunity Program funds. The output tracked by this indicator also contributes toward increasing the national homeownership rate and the number of minority homeowners, two key Presidential and Secretarial priorities. The President has requested a significant expansion of this successful program from $28 million appropriated in FY 2004 to $65 million requested in FY 2005.

Results and analysis. During the one-year period ending June 30, 2004, the Self-Help Homeownership Opportunity Program grantees completed 1,735 housing units, short of the FY 2004 program goal of 2,140 completed units and 20 percent below the 2,157 units produced in FY 2003. Another 2,200 Self-Help Homeownership Opportunity Program units were under development at the close of the period. Self-Help Homeownership Opportunity Program grantees in FY 2004 were Habitat for Humanity, the Housing Assistance Council, Northwest Regional Facilitators, ACORN Housing Corporation, Wisconsin Association of Self-Help Executive Directors and PPEP Microbusiness and Housing Development Corp.

Homeowners Who Combined Sweat Equity with Self-Help Homeownership Opportunity Program Assistance



The results for the period were significantly impacted by the introduction of new reporting procedures in late FY 2003. As a result of this conversion, Habitat for Humanity, the largest recipient of Self-Help Homeownership Opportunity Program funding, discovered that some affiliates had duplication errors in their records. The elimination of the duplicate records was largely responsible for the shortfall in the number of units reported as completed during the period.

The achievement of this output indicator is also directly affected by several external factors: the cost and availability of land, the level of Self-Help Homeownership Opportunity Program appropriations, the "pass-through" nature of program funds to local affiliates, the level of sophistication of local Self-Help Homeownership Opportunity Program organizations in developing and managing self-help housing, and the varying skill levels of the homebuyers and volunteers who work on the construction of the homes. During FY 2004, HUD continued to provide technical assistance upon request to Self-Help Homeownership Opportunity Program grantees to improve the efficiency and capacity of the program.

As a result of escalating land costs, grantees have been unable to acquire the number of properties projected initially. Although too late for properties acquired in FY 2004, HUD responded to grantees' needs by increasing the average Self-Help Homeownership Opportunity Program investment from $10,000 to $15,000 in the FY 2004 Notice of Funding Availability for which applications were due September 17, 2004. This should also result in a decrease in the number of properties to be acquired in FY 2005.

Based on the new reporting procedures and increased land costs, the Self-Help Homeownership Opportunity Program commitment goal should be reduced.

Data discussion. Reports compiled by Self-Help Homeownership Opportunity Program grantees are used to track performance under this indicator. New uniform reporting procedures were implemented late in FY 2003 to ensure consistent and accurate reporting of Self-Help Homeownership Opportunity Program accomplishments by grantees and affiliates. The changes include the use of standardized definitions for "units completed" and "under development" in the reports. This conversion had an impact on the reported results as described above.

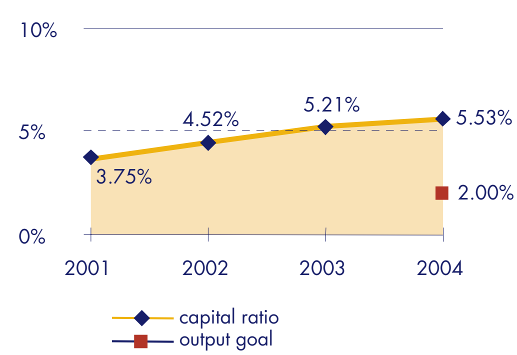
H.1.10: The FHA Mutual Mortgage Insurance Fund meets Congressionally mandated capital reserve targets.

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

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

Results and analysis. The Mutual Mortgage Insurance Fund Fund's capital ratio was 5.53 percent for FY 2004. The ratio exceeded the FY 2003 result of 5.21 percent by 0.32 percentage points. The congressionally mandated goal of 2 percent was surpassed, as it has been since FY 1995. FHA was able to achieve this performance level through improved management of its portfolio and insurance premiums and improved controls on data integrity.

Capital Ratio for FHA Mutual Mortgage Insurance Fund

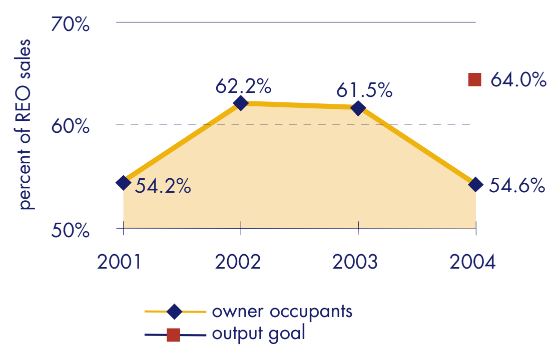


H.1.11: The share of real estate owned properties that are sold to owner-occupants will be maintained at 64.0 percent.

Background. Real estate owned properties are homes acquired by HUD as a result of mortgage foreclosures and insurance claim conveyance payments made to lenders. The real estate owned properties held in HUD's inventory are Department assets and provide a resource for increasing the availability of affordable homes to potential homebuyers. This indicator tracks one measure of the Department's success in expanding homeownership opportunities and helping stabilize neighborhoods. HUD intends to increase sales of its real estate owned homes directly to families who will occupy them rather than to investors. The FY 2004 goal was to ensure that the share of real estate owned properties that are sold to owner occupants is 64 percent. This goal reflects a projected decline in total real estate owned sales during FY 2004 resulting from the Section 601 program, which will result in more single family insurance claims being sold as notes before HUD takes ownership of the properties.

Results and analysis. During FY 2004, 54.6 percent (42,472 out of 77,775) of real estate owned single family properties sold were to owner occupants, compared with 61.5 percent (43,840 out of 71,302) during FY 2003. By comparison, the percentage of real estate owned sales to owner occupants during FY 2001 and FY 2002 was 54.2 and 62.2 percent, respectively.

Real Estate Owned Property Sold to Owner Occupants



The decline in the share of real estate owned property sales to owner occupants may be explained by a deterioration in the physical condition of properties that were conveyed to HUD in FY 2004. Because of strong house price appreciation in the market, delinquent borrowers with homes in good condition were more likely to be able to sell them, thus avoiding foreclosure. However, many of the properties conveyed to HUD failed to meet FHA minimum property standards, making them ineligible for FHA-insured financing. Difficulty in obtaining financing and high front-end repair costs make HUD homes less desirable to owner occupants. Another factor in the decrease in sales to owner occupants was the slow re-start of the Asset Control Area program, which meant that fewer properties were sold to non-profit organizations in FY 2004. Property sales to non-profits are counted in the owner-occupant performance calculation since all of these properties will eventually be sold to owner-occupants following rehabilitation. Sales to Asset Control Area program participants are increasing, which should favorably impact this performance measure in the future.

In an effort to better evaluate the expansion of homeownership opportunities to prospective owner-occupant purchasers, FHA will likely revise this performance measure in FY 2005 to consider only sales of properties currently in a physical condition acceptable to qualify for FHA mortgage insurance. FHA has also included a performance goal related to sales to owner occupants in its new Management and Marketing contracts which is also expected to increase sales of real estate owned properties to owner occupants and expand homeownership opportunities.

Data discussion. The data for this indicator are from FHA's Single Family Acquired Asset Management System. The data will be used as a part of the overall monitoring of FHA's portfolio and as a component of the internal controls of FHA. Real estate owned data are covered by the Inspector General audit.

H.1.12: The share of FHA loan applications processed through Automated Underwriting Systems increases by 10 percentage points.

Background. HUD has developed a mortgage scorecard, FHA Technology Open to All Lenders (TOTAL) Scorecard, for use by the mortgage industry. The TOTAL Scorecard is not an automated underwriting system; rather, it is a mathematical equation intended to be used within an automated underwriting system. The FHA TOTAL Scorecard assesses the credit worthiness of FHA borrowers in an objective, consistent manner by evaluating certain mortgage application and borrower credit information that has been statistically proven to accurately predict the likelihood of borrower default. The scorecard was developed for a number of reasons, which include improving underwriting efficiencies by lenders, decreasing losses to FHA's insurance fund, and integrating the use of automated underwriting systems into FHA's existing processes and workflow including mortgage insurance endorsement processing. This indicator was deleted to reflect that the automated underwriting systems have been established in the FHA business processes and that the indicator is more process-oriented than outcome-oriented.

H.1.13: HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for low- and moderate-income mortgage purchases.

Background. Congress mandated that, as Government-Sponsored Enterprises, Fannie Mae and Freddie Mac must achieve a number of public purpose goals, one of which is to expand homeownership opportunities for persons of low- and moderate-income. To ensure that this public purpose is achieved, HUD regulations establish an annual performance standard – the Low- and Moderate-Income Goal – for mortgages purchased or guaranteed by the Government Sponsored Enterprises that serve low- and moderate-income families. These are families earning incomes at or below area medians. Beginning in 2001, HUD substantially increased the Low- and Moderate-Income Goal from 42 percent to 50 percent. HUD also implemented new scoring rules. The Department is establishing new goals for 2005–2008.

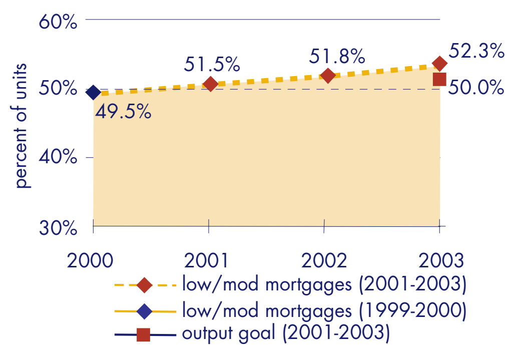
Results and analysis. In calendar year 2003, both Fannie Mae and Freddie Mac surpassed HUD's target of 50 percent. Fannie Mae achieved 52.3 percent and Freddie Mac achieved 51.2 percent, representing a combined 7 million dwelling units that qualified as low- and moderate-income purchases.

These performance figures include bonus point incentives that each Government Sponsored Enterprise can earn for acquiring loans serving specific underserved markets. For example, each Government Sponsored Enterprise can earn double credit towards HUD-defined targets by purchasing loans secured by small, 5-50 unit multifamily properties and two-to-four unit owner-occupied properties. Incentives were designed to encourage purchases of mortgages that disproportionately serve lower income families. Congress also determined that Freddie Mac should receive a multifamily parity adjustment of 35 percent for purchasing mortgages that fund properties with more than 50 units. The bonus points and the parity adjustment expired at the end of 2003.

Although the Government Sponsored Enterprises may count both multifamily and single family purchases towards the Low- and Moderate-Income target, both Government Sponsored Enterprises achieve the bulk of their performance through the purchase of loans on single family owner-occupied housing.

The bonus points and Freddie Mac multifamily parity adjustment made it possible for the Government Sponsored Enterprises to achieve the Low- and Moderate-Income target in 2003. Absent these incentives in the scoring system, Fannie Mae's performance would have been 48.7 percent and Freddie Mac's performance would have been 45.0 percent in 2003.[3]

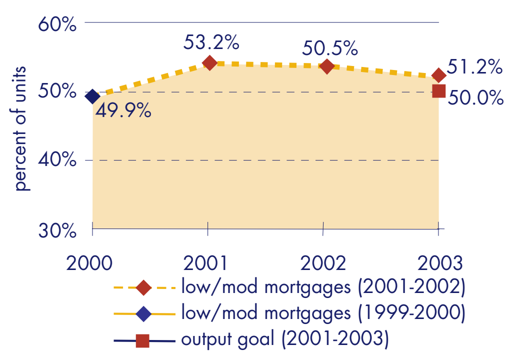
Fannie Mae Performance Relative to Low/Mod Target



An analysis of the composition of units qualifying as low- and moderate-income purchases in 2003 shows that 3.1 million dwelling units, which equates to 68.4 percent of the units that qualified towards Fannie Mae's performance, served low-income families (that is, families earning 80 percent or less of area median income). Similarly, Freddie Mac purchased mortgages for 1.7 million low-income dwelling units, which equated to 68.3 percent of Freddie Mac's qualifying purchases serving this market.

With regard to the minority composition of the Government Sponsored Enterprises' low- and moderate-income performance, 10.7 percent of single family housing units that qualified towards Freddie Mac's performance served African-American and Hispanic borrowers, while 17.6 percent of Fannie Mae's purchases served these borrowers. This compares with 10.1 percent in 2002 for Freddie Mac and 15.8 percent in 2002 for Fannie Mae. The percentage of Freddie Mac's purchases that served all minority borrowers fell slightly from 18.9 percent in 2002 to 18.3 percent in 2003, while Fannie Mae's percentage rose from 24.9 percent to 25.3 percent.

Freddie Mac Performance Relative to Low/Mod Target



Data discussion. The data reported under this goal are based on calendar-year performance. There is a one-year reporting lag because the Government Sponsored Enterprises report to HUD in the year following the performance year. To ensure the reliability of data, the Government Sponsored Enterprises apply various quality control measures to data elements provided to HUD. HUD verifies the data through comparison with independent data sources, replication of Government Sponsored Enterprise goal performance reports, and reviews of Government Sponsored Enterprise data quality procedures. Government Sponsored Enterprise financial reports are verified by independent audits.

[3] In the accompanying graphs, the dotted lines from 2000 to 2003 reflect the changes in HUD's scoring rules that became effective in 2001. The square shows the level of the housing goal beginning in 2001.

The 2002 Freddie Mac performance percentage reported here is adjusted from the corresponding figure in HUD's 2003 Performance and Accountability Report based on recent HUD analysis which identified some mortgages that had been counted toward the housing goals in both 2001 and 2002 in violation of rules against double-counting and some mortgages purchased by Freddie Mac in 2002 that required correction of data coding errors.

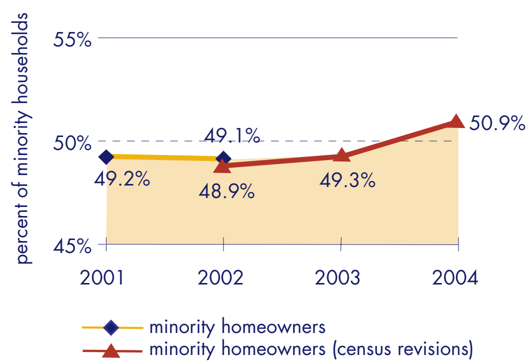
Objective H.2: Increase minority homeownership.

H.2.1: The minority homeownership rate.

Background. HUD's Strategic Plan reflects the President's long-term goal that 5.5 million additional minority households will become homeowners by 2010. Many of HUD's programs improve homeownership by targeting underserved populations including minorities. This tracking indicator helps monitor progress toward the long-term goal, but a FY 2004 goal was not established because of the substantial limits in HUD's span of control relative to economic factors.

Results and analysis. A majority of minority households now are homeowners, as the minority homeownership rate increased by a striking 1.6 percentage points from 2003 levels to 50.9 percent during 2004.

Minority Homeownership Rate (3rd quarter)



The increase represents 870,000 additional minority homeowners compared with the third quarter of 2003, for a total of 15,217,000 minority homeowners. This represents an increase of 1.898 million net new minority homeowners added since the mid-2002 baseline. Thus 35 percent of the President's goal has been completed while only 28 percent of the 2002-2010 performance period has elapsed.

Each of the major minority categories experienced homeownership gains, including 0.3 percentage points by Black (alone) non-Hispanic households (to 49.0 percent), 2.7 points by Other race (alone) non-Hispanic households (to 59.1 percent), and 2.6 percentage points among Hispanic households (to 48.7 percent). These detailed results partially reflect redefinition of minority status required by new OMB-Census definitions (see Data discussion).

FHA assisted a substantial share of these families by insuring about 997,000 mortgages for minority home purchasers during FY 2004. As with the overall homeownership picture, low interest rates likewise played a major role in supporting minority homebuying. During the performance period HUD has implemented strategies to increase minority homeownership that include increased outreach and continued enforcement of equal opportunity in housing, and increased funding for the Housing Counseling program. New counseling resources will help more members of minority and other underserved groups build the knowledge to become homeowners and to sustain their new tenure by meeting the ongoing responsibilities of homeownership. FHA also began deploying the TOTAL Scorecard to evaluate mortgage applications and credit information in an objective, consistent manner to assess the credit worthiness of FHA borrowers.

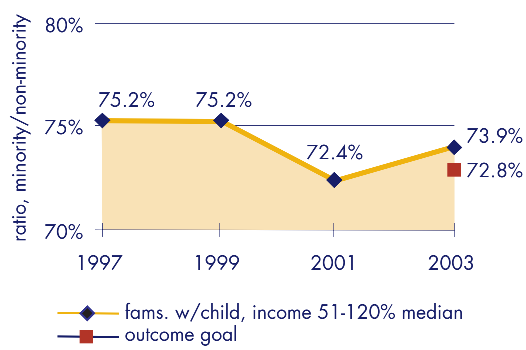
Data discussion. The indicator is based on averages of monthly Current Population Survey data for the third quarter (the last quarter of the fiscal year). The Current Population Survey data are free of limitations affecting the measure's reliability. Changes in the estimated minority homeownership rate exceeding 0.53 percentage points are statistically significant with 90 percent confidence. Revised estimates provided for 2002 and estimates for 2003 and beyond reflect Census 2000 population information and housing unit controls. The 2003–2004 values also reflect new survey procedures that allow respondents to select more than one race. As a result, the "Black" category now means, "Black alone, non-Hispanic." "Other" now means "Other alone, non-Hispanic," including American Indians and Alaska Natives, Asians, Native Hawaiians and Other Pacific Islanders. A new category of "Two-or-more races, non-Hispanic" has been established and is reflected in the overall minority rate. The Hispanic category is unchanged.

H.2.2: The ratio of homeownership rates of minority and nonminority low- and moderate-income families with children increases by 0.4 percentage points by 2005.

Background. This indicator measures progress in reducing barriers to homeownership among racial and ethnic minorities, as measured by the ratio of minority homeownership rates to homeownership of non-Hispanic whites. The effects of income and household type are controlled by comparing homeownership rates for low- and moderate-income families with children (those with incomes of 51 to 120 percent of area median income). The FY 2004-2005 goal is to increase the ratio by 0.4 percentage points from calendar year 2003 levels by 2005. This goal builds on the FY 2002-2003 goal of a 0.4 point increase between 2001 and 2003, which can be reported for the first time.

Results and analysis. The most recent data show that between calendar years 2001 and 2003, the ratio of minority to non-minority homeownership rates among low- and moderate-income households with children increased by 1.5 percentage points to 73.9 percent. The result exceeds the FY 2002-2003 goal of a 0.4 point increase.

Ratio of Minority/Non-Minority Homeownership Rates



Among minority households with children in this income group, 56.4 percent reported that they were homeowners, compared with 76.3 percent of comparable non-minority households. The 56.4 percent homeownership rate among this subset of minority households is higher than the overall minority homeownership rate of 50.9 percent reported in the previous indicator (and based on different data). An increase in homeownership rates among families with children is a positive event, as evidence is growing that owner-occupied housing improves outcomes for children.

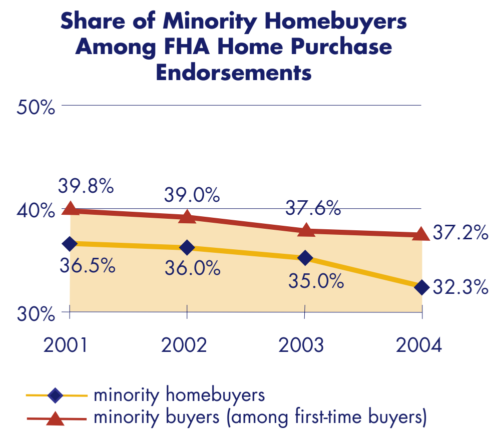
The 2003 data also reflect a redefinition of "non-minority" to mean "white (only) non-Hispanic," with no other reported race. This is parallel to a redefinition used in other analyses of Census data. Use of the new definition doubles, to 5.1 million, the number of "minority" households who are low- and moderate-income households with children. The effect on this indicator is minor and the result of 74.4 percent using the old methodology likewise would exceed the performance goal.

Data discussion. This indicator uses biennial data from the American Housing Survey. Calendar year 2005 data will become available to report against the FY 2004-2005 goal during 2006. Because this indicator is based on a ratio of ratios, it is subject to substantial variance. The U.S. Census Bureau has quality control procedures in place for the American Housing Survey, including re-interviews of small sub-samples for quality assurance. HUD verifies American Housing Survey estimates by comparison with earlier surveys and by intermittent structured comparisons with Survey of Income and Program Participation, Current Population Survey, or Census data.

H.2.3: The share of minority homebuyers among FHA home purchase-endorsements.

Background. FHA is a major source of mortgage financing for minority as well as low-income buyers. Increasing the number of FHA endorsements for minority homebuyers will help reduce the homeownership gap between whites and minorities as well as increase the overall homeownership rate. This performance indicator helps to track homeownership activities in support of the President's commitment to add 5.5 million minority homebuyers by 2010. In an effort to better evaluate the Department's success in implementing the President's minority homeownership initiative, during FY 2004 FHA revised its methodology for this performance measure to consider only first-time minority homebuyers and exclude borrowers whose race is unknown. During the mid-year revision for the FY 2005 Annual Performance Plan, FHA will update the caption for this performance indicator to specify the revised measure's focus on first-time minority homebuyers. FHA has elected to track the progress of this performance measure without establishing a numeric target, due to its limited control regarding minority participation.

Results and analysis. During FY 2004, 37.2 percent of FHA home purchase endorsements made to first-time homebuyers were for minorities. By comparison, minorities accounted for 37.6 percent of home purchase endorsements to first-time homebuyers during FY 2003.



The slight decline from the FY 2003 level is attributable to a decrease in the overall number of first-time home purchase endorsements. Relative to home purchase activity, the effect that recent interest rate increases and home price appreciation had on the overall housing market may have contributed to shift lenders' business operations toward home purchase transactions involving repeat homebuyers, thereby reducing the number of endorsements made to first time homebuyers. During FY 2001 and FY 2002 the share of minorities among FHA home purchase endorsements to first-time homebuyers was 39.8 percent and 39.0 percent respectively. On the basis of the new baseline data FHA will monitor its progress in improving minority homeownership opportunities and will continue to pursue the President's commitment to reaching minorities and increasing the minority homeownership rate through housing counseling program outreach.

Data discussion. The data source for this performance indicator is FHA's Single Family Data Warehouse, based on data submitted by direct-endorsement lenders to the F17 Computerized Home Underwriting Management System. The data are judged to be reliable for this measure. FHA data are entered by direct-endorsement lenders with monitoring by FHA.

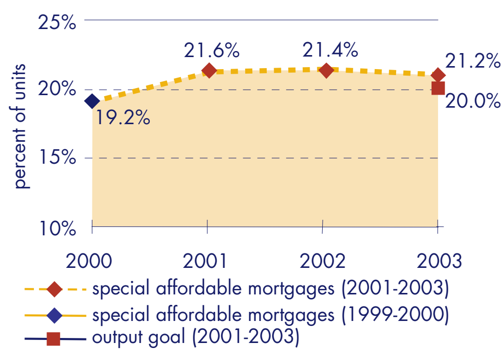
H.2.4: The share of minority endorsements processed by the FHA TOTAL Scorecard increases by 1 percentage point.

Background. HUD has developed a mortgage scorecard, FHA TOTAL Scorecard, for use by the mortgage industry. The TOTAL Scorecard is not an automated underwriting system; rather, it is a mathematical equation intended to be used within an automated underwriting system. The FHA TOTAL Scorecard assesses the credit worthiness of FHA borrowers in an objective, consistent manner by evaluating certain mortgage application and borrower credit information that has been statistically proven to accurately predict the likelihood of borrower default. FHA believes the objectivity and the broad availability of the TOTAL Scorecard will increase homeownership opportunities for minorities. The scorecard was developed for a number of reasons, which include improving underwriting efficiencies by lenders, decreasing losses to FHA's insurance fund, and integrating the use of automated underwriting systems into FHA's existing processes and workflow including mortgage insurance endorsement processing. This indicator was deleted to reflect FHA's limited control regarding rates of minority participation.

H.2.5: HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for special affordable mortgage purchases.

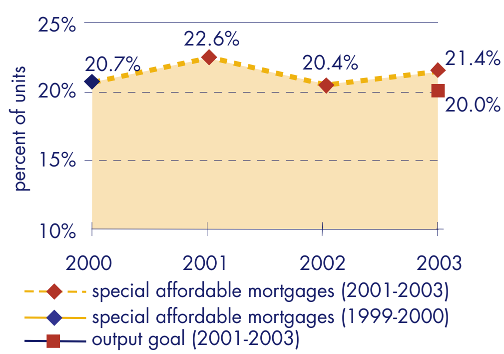
Background. HUD defines performance targets for Fannie Mae and Freddie Mac (two housing Government-Sponsored Enterprises in several areas, including special affordable mortgage purchases. This target is intended to achieve increased purchases by the Government Sponsored Enterprises of mortgages on rental housing and owner-occupied housing that address the unmet needs of very low- and low-income families. As such, the special affordable housing goal supports HUD's national objectives for expanding both affordable homeownership and the availability of affordable rental housing. Mortgages qualify as special affordable if they support dwelling units either for very low-income families (those earning no more than 60 percent of area median income) or for low-income families (those earning no more than 80 percent of area median income) located in low-income areas. Low-income areas are defined as (1) metropolitan census tracts where the median income does not exceed 80 percent of area median income and (2) non-metropolitan census tracts where median income does not exceed 80 percent of the county median income or the statewide metropolitan median income, whichever is greater. Beginning in 2001, HUD substantially increased the Special Affordable Housing Goal from 14 percent to 20 percent. HUD also implemented new scoring rules. The Department is establishing new goal targets for 2005–2008.

Fannie Mae Performance Relative to Special Affordable Target



Results and analysis. In calendar year 2003, Fannie Mae and Freddie Mac both surpassed the 20 percent target. Fannie Mae achieved 21.2 percent and Freddie Mac achieved 21.4 percent. Bonus points for acquisitions made in certain underserved markets and a temporary adjustment factor for Freddie Mac's multifamily purchases made it possible for the Government Sponsored Enterprises to meet the target goal. Absent these incentives in the scoring system, Fannie Mae's performance would have been 19.3 percent and Freddie Mac's performance would have been 17.8 percent in 2003.[4] The bonus points and Freddie Mac's temporary adjustment expired at the end of 2003.

Freddie Mac Performance Relative to Special Affordable Target



An analysis of mortgages counted towards the Special Affordable target indicates that, as a result of substantial refinance volume during this period, the composition of

[4] In the accompanying graphs, the dotted lines from 2000 to 2003 reflect the changes in HUD's scoring rules that became effective in 2001. The square shows the level of the housing goal beginning in 2001.
The 2002 Freddie Mac performance percentage reported here is adjusted from the corresponding figure in HUD's 2003 Performance and Accountability Report based on recent HUD analysis which identified some mortgages that had been counted toward the housing goals in both 2001 and 2002 in violation of rules against double-counting and some mortgages purchased by Freddie Mac in 2002 that required correction of data coding errors.

qualifying units changed in 2003. For example, Fannie Mae's special affordable mortgage purchases for one-unit, single family, owner-occupied properties increased 64.4 percent, or 431,360 units, from 2002 to 2003. Freddie Mac's purchases also increased but by a lesser margin. In 2003, Freddie Mac purchased 67,845 more qualifying units than in 2002, representing a 14.5 percent increase over 2002 performance.

Similarly, purchases of owner-occupied, two-to-four unit properties counted towards the Special Affordable target also rose in 2003. Fannie Mae posted a 52 percent increase in the number of qualifying housing units over its 2002 performance, while Freddie Mac's performance dropped by 7.4 percent.

Data discussion. The data reported under this goal are based on calendar year performance. There is a one-year reporting lag because the Government Sponsored Enterprises report to HUD in the year following the performance year. To ensure the reliability of data, the Government Sponsored Enterprises apply various quality control measures to data elements provided to HUD. HUD verifies the data through comparison with independent data sources, replication of Government Sponsored Enterprise goal performance reports, and reviews of Government Sponsored Enterprise data quality procedures. Government Sponsored Enterprise financial reports are verified by independent audits.

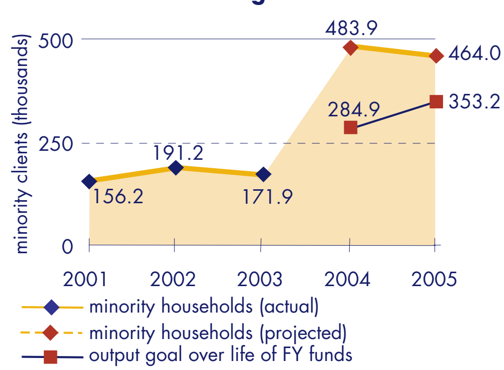
H.2.6: Housing counseling is provided to 353,183 minority clients in FY 2005 to support the Department's goal of increasing minority homeownership.

Background. The housing counseling program is an integral part of helping increase the minority homeownership rate. In order to specifically target and increase the overall amount of funding benefiting the minority community, the Department is setting aside housing counseling appropriations specifically for counseling in conjunction with the Housing Choice Voucher program, agencies serving colonias, and predatory lending. Clients tracked through this indicator include those receiving various forms of housing counseling – from homebuyer education, pre-purchase, and loss mitigation/default counseling to rental, fair housing, and homeless counseling. This indicator measures the number of total housing counseling clients who are minorities. The FY 2005 performance goal is to provide housing counseling to 353,183 minority clients using FY 2004 funds.

Results and analysis. Although actual results are not yet available, HUD expects 483,912 minority clients to receive housing counseling services during FY 2004, based on the $37.560 million competed and awarded to housing counseling agencies in FY 2003. This result would exceed the FY 2003 goal of counseling 113,000 more minority clients in FY 2004 using FY 2003 funds.

HUD expects 463,994 minority clients to receive housing counseling services in FY 2005, based on total housing counseling awards of $36.014 million for FY 2004. HUD expects slightly fewer minority clients to be counseled in FY 2005 than in FY 2004 due to the fact that the Department committed more funding to provide training for housing counselors and consequently, less funding was available for the housing counseling awards. During FY 2003, 171,923 minority clients received housing counseling, based on a FY 2002 appropriation of $20 million.

Number of Minority Housing Counseling Clients



Data discussion. The data source for this performance indicator is the Housing Counseling Agency Fiscal Year Activity Reports (form HUD-9902). A major limitation of the revised data collection instrument, implemented in revised form during October 2002, is that using the standard federal categories for reporting Race and Ethnicity, aggregated at the agency level, persons self-identifying as "White" and "Hispanic" are subsumed into the single category "White," preventing HUD from obtaining an accurate total of all persons who self identify as "Hispanic" and those who would otherwise identify as "white, non-Hispanic." As a result, the Department's ability to accurately assess the total share of minority clients receiving HUD-funded counseling is limited. The type of cross analysis needed to accurately determine clients' racial and ethnic identity cannot be performed without client-level data collection, which is costly, time-consuming, and burdensome for the housing counseling agencies. The above FY 2005 projection is based on actual housing counseling data collected for the grant period October 1, 2002, through September 30, 2003. The actual number of minority housing counseling clients will not be able to be determined until early FY 2006, when final housing counseling activity data for FY 2005 becomes available. FHA monitors HUD-approved housing counseling agencies through site visits to assure quality counseling practices.

H.2.7: The number of minority households assisted in becoming homeowners through the HOME Program increases.

Background. This indicator, appearing for the first time this year, tracks the number of commitments made by participating jurisdictions to provide HOME program assistance to new minority homebuyers during FY 2004. The output tracked by this indicator shows the potential contribution to be made by the HOME Program toward increasing the national homeownership rate and the number of minority homeowners, two key Presidential and Secretarial priorities. The HOME Investment Partnerships Program gives states and local communities flexibility to meet their housing needs in a variety of ways. Many participating jurisdictions choose to use their HOME funds to promote homeownership. Since 1992, over 55 percent of the homebuyer commitments have been made to minority households. The FY 2004 goal was based on a continuing minority share of 56 percent of the total homebuyer commitments made by participating jurisdictions during this period.

Results and analysis. During FY 2004, participating jurisdictions committed to make funds available to 10,934 minority households for the purpose of providing homeownership opportunities. This number of commitments represents 57 percent of the 2004 target of 19,068 commitments. The shortfall was a direct consequence of the reduced number of overall homebuyer commitments registered in HUD's electronic reporting system.

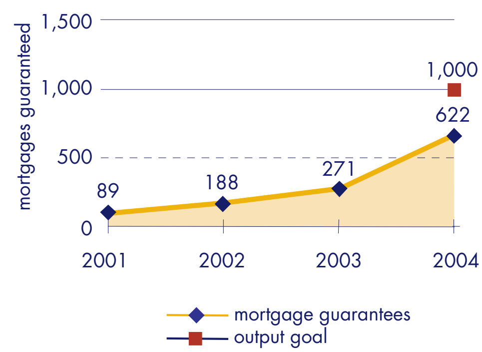
The HOME program office completed long awaited improvements to the IDIS during FY 2004. The work purged inaccurate data, including a large number of "phantom" units that were set up over the years as commitments in the system but never completed. These reductions were taken for the tenure types: rental, homebuyer, and existing homeowner rehabilitation; and this was the main reason for the shortfall in the number of committed units reported this fiscal year. In the future, it is the intention of HUD to eliminate entirely "commitments" as a measure of program performance for HOME and focus on "completions" which is a more accurate and reliable indicator for accomplishments.

Data discussion. Data entered by participating jurisdictions in HUD's IDIS are used to track performance. The HOME program office completed improvements in FY 2004 to the IDIS that has purged inaccurate data and reduced the need for ongoing data cleanup efforts. (The impact of having eliminated these units on the results reported for FY 2004 is discussed above.) Screen designs and terminology were simplified. More checks (edits) were added to reduce potential entry errors. The report functions were improved and a search feature added so that users can now easily find information on activities by grantee and by date range.

H.2.8: Section 184 mortgage financing is guaranteed for 1,000 Native American homeowners during FY 2004.

Background. This indicator tracks the annual number of homeownership loans for Native Americans guaranteed under the Section 184 program. Because this program is directed toward the President's goal of increasing homeownership, the Department ambitiously increased its output goal for FY 2004 from 200 to 1,000 Native American homeowners. Currently, the homeownership rate for Native Americans is 55 percent, 13 percent below the national rate, according to July 2002 census data. Homeownership rates on reservations are historically low because lenders have been hesitant to assume the risk of providing mortgage financing for tribal land that cannot be used as collateral. The Section 184 Program provides alternative financing for Native Americans wishing to live in Indian Country so they can more readily purchase a home.

Section 184 Home Mortgages Guaranteed for Native Americans



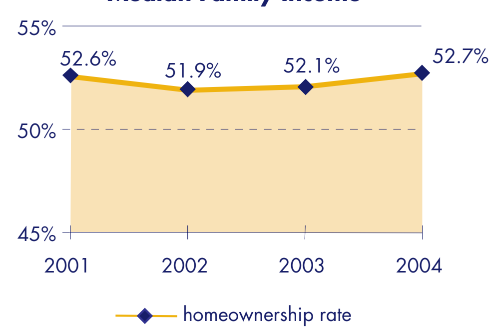
Results and analysis. During FY 2004, 622 new loan certificates were issued totaling $64.0 million in mortgage guarantees. Although this was a 130 percent increase over the FY 2003 level of 271 certificates, and a 135 percent increase over the FY 2003 dollar amount of $27.2 million, it still fell short of the ambitious goal of 1,000 new loans.

Data discussion. The Office of Loan Guarantee compiles data on the number of loan guarantee certificates issued. The Director of the Office of Loan Guarantee validates the data on a monthly basis. The Public and Indian Housing Budget office verifies this count.

H.2.9: The homeownership rate among households with incomes less than median family income.

Background. Homeownership is advantageous because it contributes to asset development, better neighborhoods and schools, stability of tenure, and wider choice of housing types. Holding other factors equal, homeownership improves outcomes for children on a number of dimensions, including school achievement and dropout rates. This indicator tracks national progress in increasing homeownership among households with incomes below the national median family income. No FY 2004 goal has been established for this tracking indicator, reflecting limits in HUD's span of control.

Homeownership Rate for Households with Income Less than Median Family Income



Results and analysis. In 2004, the homeownership rate among households with incomes below the national median increased by 0.6 percentage points from 2003 levels to 52.7 percent in the third quarter. The gain establishes a new record rate of homeownership for households with incomes less than the median family income.

An important contributing factor during FY 2004 was low interest rates (discussed under Indicator H.1.1). Low interest rates make a more substantial difference in housing affordability for families whose disposable incomes are lower. HUD will continue to promote higher homeownership rates among low-income households through improved partnering, marketing, and outreach in the single family FHA programs. Homeownership vouchers and the homeownership downpayment assistance initiative will play a growing role in achieving this goal. HUD's block grant programs, CDBG and HOME, also provide homeownership assistance of various types, depending on local needs and preferences. Both of these programs are targeted primarily to groups with incomes below median.

Data discussion. The measure uses Current Population Survey data from the third quarter of the calendar year, corresponding to the end of HUD's fiscal year. The Current Population Survey data are free of limitations affecting the measure's reliability. Changes in estimated rates that exceed 0.43 percentage points are statistically significant with 90 percent confidence.

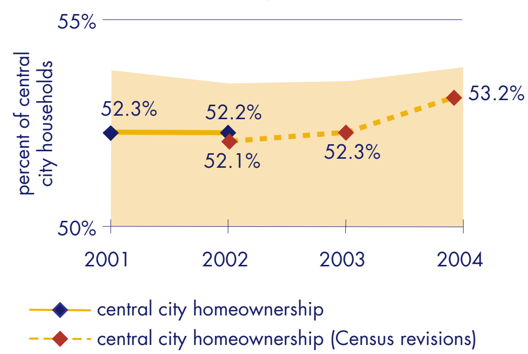
H.2.10: The homeownership rate in central cities.

Background. Central cities have below-average rates of homeownership, in part because of higher density development and multifamily housing, but also because of losses of middle-class families in past decades. Low homeownership can contribute to neighborhood decline because absentee landlords and their tenants put forth less maintenance effort than homeowners. In such cases, low homeownership often leads to a shrinking municipal tax base. The central-city homeownership rate reflects the progress in reestablishing central cities as desirable places for long-term individual investment. A FY 2004 performance target was not established for this tracking indicator because of the substantial limits in HUD's span of control relative to economic factors.

Results and analysis. The homeownership rate in central cities increased from 52.3 percent in 2003 to 53.2 percent in 2004. The result establishes a new record for homeownership in central cities.

A number of HUD's programs contribute to homeownership in central cities. FHA single family mortgage insurance serves many central city households. Community Development Block Grant and HOME block grants are among the Department's largest programs, and each has a sizable homeownership component. Nearly half of households who receive HOME assistance receive homebuyer assistance, or roughly 29,000 homebuyers annually.

Central City Homeownership Rate (3rd quarter)



HUD is increasing marketing and outreach efforts to promote central city homeownership, including targeted sales of HUD-owned properties. The Department's geographically-targeted goals for the housing Government Sponsored Enterprises include central city criteria to help ensure that mortgage capital is available. HUD's Good Neighbor initiative allows police officers, teachers, nonprofits, and local governments to purchase HUD-owned homes at significant discounts, thus strengthening distressed urban communities while providing homeownership opportunities for public service professionals. Cities also are making efforts to increase homeownership rates, as grantees increasingly use HOME funds to promote homeownership.

Data discussion. The measure uses Current Population Survey data from the third quarter of the calendar year, corresponding to the end of HUD's fiscal year. The Current Population Survey data are free of limitations affecting the measure's reliability. Rebenchmarked estimates are provided for 2002 and 2003 to reflect Census 2000 population information and housing unit controls.

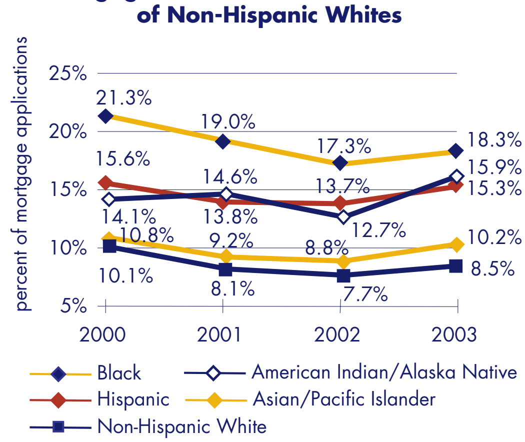
H.2.11: The mortgage disapproval rates of minority applicants.

Background. This is a tracking indicator for minority mortgage disapproval rates, an important early indicator of trends in minority homeownership. Equal access to home loans is critical for decreasing disparities in homeownership. This measure tracks home purchase mortgage disapproval rates of minorities that have had limited access to traditional housing markets—African Americans, Hispanics, Native Americans, and other minorities. A FY 2004 performance goal was not established because of limitations in HUD's span of control relative to external factors.

Results and analysis. The most recent available data show that mortgage denial rates edged upward in 2003 for all racial and ethnic groups tracked for this indicator, as they also did for non-minority households. Disapprovals for minority households overall increased from 13.7 percent in 2002 to 15.3 percent in 2003. Among non-Asian minorities, denials increased from 14.7 percent to 16.3 percent (denial rates for Asians and Pacific Islanders are substantially lower than those of other minority groups, though still higher than those of non-Hispanic whites).

The lower success rate for minority mortgage applications occurred during a year when low interest rates stimulated a record volume of home purchase applications. As a result, the higher denial rate conceals the fact that these data show 1.30 million minority home purchase applications were approved in 2003, a substantial increase from 1.12 million in 2002.

Mortgage Denial Rates of Minorities and of Non-Hispanic Whites



Along with the effect of the large volume, increased denials among all groups also may reflect a general tightening of mortgage credit or subtle changes in the applicant pool as the homeownership boom matures. Further, increases from 2002 levels are affected by the fact that the 2002 denial rates were the lowest in over six years.

HUD is striving to achieve the President's goal of increasing minority homeownership. The Department and enforcement partners investigate complaints of discrimination in the mortgage process. FHA is improving the chances of minority applicants by endorsing more mortgages for minority households, by improving the fairness and efficiency of FHA mortgage lending through greater use of the standardized Technology Open To Approved Lenders mortgage scorecard, and by expanding and improving homeownership counseling. HUD's goals for the Government Sponsored Enterprises also encourage increased lending to minorities.

The Department currently is not able to quantify the impact of these efforts on denial rates. A substantial portion of the ongoing difference in denial rates between minority and non-minority applicants – but not all of the difference – can be explained by finance- and credit-related attributes of the applicants. The state of the economy thus affects relative denial rates strongly by causing differential changes in financial stability and homeownership opportunities for various groups.

Data discussion. This indicator uses Home Mortgage Disclosure Act data collected from lenders on a calendar-year basis. Calendar-year 2004 data are not yet available. The mortgage applications counted are conforming loans or loans insured by FHA, Veterans Affairs, or Rural Housing Service, and are limited to owner-occupied single family home purchases in metropolitan areas. Refinance loans, manufactured housing loans, and loans by subprime lenders or manufactured home loan specialists are excluded. The race categories used for this indicator are not the same as the Census-derived categories reflecting single and multiple races that are used for other measures beginning in 2003. The 2003 data are based on 2000 metropolitan area definitions rather than the 1990 definitions used for previous estimates.

HUD assessed the impact of several technical factors on the reported results. First, tests showed that rounding the "conforming" loan limit for Government Sponsored Enterprise mortgage purchases up to the nearest $1,000 would decrease the 2002 denial rate by 0.1 percentage point. The 2003 estimate reflects this decision rule. Second, a change in OMB geography definitions from "metropolitan areas" to "Core-Based Statistical Areas" (which include micropolitan areas) would cause a negligible increase of 0.01 percentage points in the 2003 result. The Core-Based Statistical Areas definition will be used in future reporting of this indicator. Finally, a recent trend of rising incidence of missing race/ethnicity data for applications improved significantly with a reduction from 13.7 percent missing in 2002 to 11.3 percent missing in 2003.

Objective H.3: Make the home-buying process less complicated and less expensive.

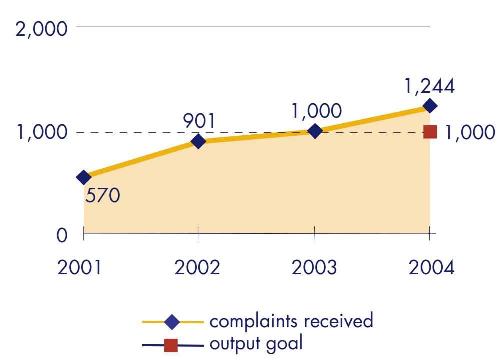
H.3.1: Receive 1,000 Real Estate Settlement Procedures Act complaints per year.

Background. The Real Estate Settlement Procedures Act (RESPA) is a consumer protection statute enforced by HUD. RESPA helps consumers be better shoppers in the home buying and mortgage loan process by requiring that consumers receive disclosures at various times in the transaction and by prohibiting practices, such as paying kickbacks, that increase the cost of settlement services. In addition, RESPA provides consumers with protections relating to the servicing of their loans, including proper escrow account management. The Department currently receives RESPA questions and complaints from consumers, industry and other state and federal regulatory agencies by mail, telephone and e-mail.

HUD's Office of RESPA and Interstate Land Sales tracks inquiries regarding the home buying and mortgage process, as well as complaints from consumers, industry, and regulatory agencies regarding practices that violate RESPA. The FY 2004 goal was to receive 1,000 RESPA complaints. This goal was set in early FY 2003, and was based on the average of 660 complaints received during FY 2000, FY 2001, and FY 2002. The Office of RESPA and Interstate Land Sales anticipated that by increasing public awareness of RESPA enforcement, an increasing number of consumers, industry and other regulatory agencies would file complaints alleging violation of RESPA. This has helped bring additional violations of RESPA to the attention of the Department, and enabled the Department to provide greater assistance to the public, particularly consumers.

Results and analysis. The Office of RESPA and Interstate Land Sales received 1,244 complaints during FY 2004. This number exceeded the goal by 24 percent. The complaints received give the Department an indication of specific violations and the types of violations occurring, which assists enforcement. However, the number of complaints received does not by itself support definitive conclusions about the compliance of industry with RESPA.

RESPA Complaints Received



Data discussion. The data were compiled from the Office of RESPA's Case Tracking System, which has maintained an electronic record of all complaints received by the Department since 1999.

Objective H.4: Fight practices that permit predatory lending.

The Department accomplished in 2003 the expected actions necessary to fulfill this objective.

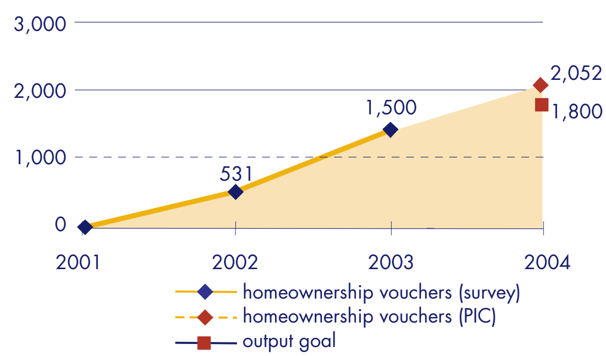
Objective H.5: Help HUD-assisted renters become homeowners.

H.5.1: The number of households who have used Housing Choice Vouchers to become homeowners increases by 20 percent.

Background. Increasing homeownership among low-income and minority households is one of the Department's most important initiatives. The homeownership option under the Housing Choice Voucher program helps accomplish this objective by allowing PHAs to provide voucher assistance to low-income first time homebuyers for monthly homeownership expenses rather than for monthly rental payments, the most typical use of voucher assistance.

Results and analysis. For FY 2004, the Department surpassed its goal of a 20 percent increase. According to data recorded in the Public and Indian Housing Information Center a cumulative total of 2,052 homeowners were assisted with vouchers in FY 2004. This is an increase of 552 homeowners, or a 37 percent increase over the previous fiscal year.

Households Becoming Homeowners with Homeownership Vouchers



Data discussion. At the end of federal fiscal years 2002 and 2003, homeownership closings under the voucher program were established based on telephone surveys of HUD field offices since it was determined that the data in the Public and Indian Housing Information Center was inadequate. In FY 2004, HUD conducted a web-based voucher homeownership survey of all PHAs. The survey indicated that at the end of FY 2004, there were 2,214 cumulative homeownership closings since the inception of the program. This survey ended on September 30, 2004, with 750 PHAs not reporting or submitting incomplete surveys. Once those 750 PHAs are assessed, it is estimated that there will be approximately 150 additional homeownership closings for a total of 2,364. However, only those closings recorded in the Public and Indian Housing Information Center were used to assess this goal. Although the Public and Indian Housing Information Center data does not currently match these survey results, the Department is committed to increase its efforts to ensure that all homeownership closings are recorded in the Public and Indian Housing Information Center. Furthermore, any bonus dollars or counseling funds for the voucher homeownership program will be based on data in the Public and Indian Housing Information Center only.

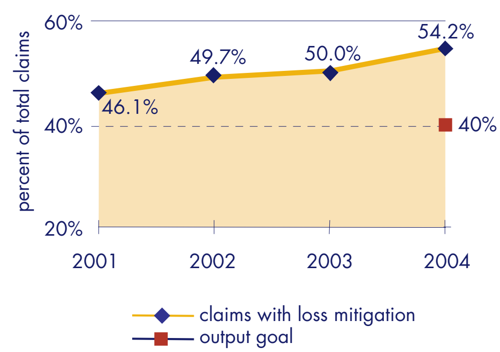
Objective H.6: Keep existing homeowners from losing their homes.

H.6.1: Loss mitigation claims are at least 40 percent of total claims on FHA-insured single family mortgages.

Background. This indicator measures the success of FHA loan servicers in implementing statutorily required loss-mitigation techniques when borrowers default on their FHA mortgages. A borrower can resolve a default (90-day delinquency) in several ways short of foreclosure: for example, by paying down the delinquency (cure), by a pre-foreclosure sale with FHA perhaps paying an insurance claim in the amount of the shortfall, or by surrendering a deed in lieu of foreclosure. Better loss-mitigation efforts, such as enhanced borrower counseling, help borrowers keep their current homes or permit them to buy another home sooner. Avoidance of foreclosure also reduces FHA's insurance losses, making FHA financially sounder and enabling it to help more borrowers. For both reasons, by achieving this goal HUD will help increase the overall homeownership rate. The FY 2004 goal is to ensure that at least 40 percent of the total number of claims is resolved through loss mitigation.

Results and analysis. During FY 2004, 54.2 percent of FHA mortgage defaults were resolved through loss mitigation alternatives to foreclosure, exceeding the goal of 40 percent and the performance level of 50.0 percent achieved in FY 2003. By comparison, 46.1 percent of FHA mortgage defaults were resolved through loss mitigation alternatives to foreclosure in FY 2001 and 49.7 percent in FY 2002. The result represents a continuation of the trend of increases.

FHA Single Family Mortgage Claims Resolved without Foreclosure



Loss mitigation actions do not permanently stabilize many borrowers' financial status. However, about 60 percent of borrowers who receive the benefits of loss mitigation remain current on their mortgage for at least a 12-month period. This reduction in foreclosure claim expenses is a key component of Departmental budget estimates for FY 2005. Our programmatic objective is to sustain the high level of participation in loss mitigation even as the Office of Housing tightens programmatic requirements designed to increase the ultimate success rate of loss mitigation in helping borrowers avoid foreclosure.

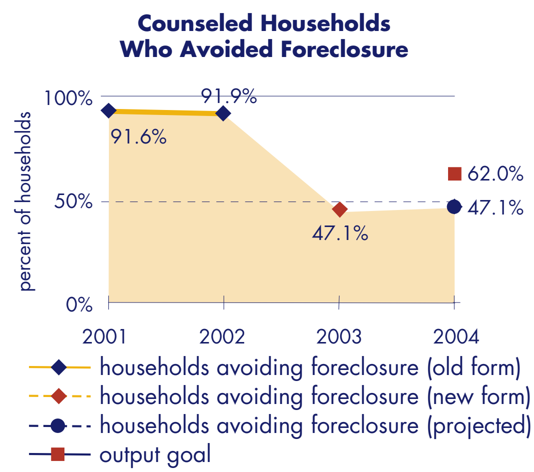
Data discussion. FHA's Single Family Data Warehouse, Loss Mitigation table is the data source for this performance indicator. The resolutions that are counted as loss mitigation are: forbearance agreements, loan modifications, partial claims, pre-foreclosure sales, and deeds-in-lieu of foreclosure. A small and decreasing number of "other" resolutions that were previously counted are excluded beginning in FY 2003. Total claims comprise loss mitigation claims plus conveyance claims. No data limitations are known to affect this indicator. FHA data are entered by the loan servicers with monitoring by FHA. The results reported for this performance indicator are consistent with those reported in the FHA Management Report for FY 2004.

H.6.2: More than 62 percent of total mortgagors receiving default counseling will successfully avoid foreclosure.

Background. Clients tracked through this indicator include homeowners with mortgages who are at risk of default, or have already defaulted, and are seeking assistance in order to remain in their home and meet the responsibilities of homeownership. By limiting delinquency and foreclosure, default counseling is a cost-effective way to reduce FHA's exposure to risk while contributing to the growth and stability of families and communities across the country. Moreover, default counseling is increasingly important during periods of economic downturn, when job losses and low wages make it difficult for families to meet their financial obligations, and default rates rise. This indicator measures the share of total mortgagors who, after receiving default counseling, have successfully avoided foreclosure. The FY 2004 goal for this performance indicator was to ensure that more than 62 percent of total mortgagors receiving default counseling successfully avoid foreclosure. During FY 2003, a revised form HUD-9902 was implemented that facilitates the identification of the client's specific counseling needs and improves tracking of outcomes, such as mortgage delinquency resolution, among other updates. Using FY 2003 data collected with this revised instrument, FHA established a new housing counseling baseline during the second quarter of FY 2004. On the basis of the revised baseline and improvements to the data collection instrument FHA will be able to more accurately assess the share of mortgagors receiving default counseling that successfully avoid foreclosure.

Results and analysis. While results for clients counseled during FY 2004 cannot be fully assessed, HUD anticipated that approximately 47.1 percent of total mortgagors receiving default counseling would successfully avoid foreclosure. Data are now available to report that during FY 2003, 47.1 percent of mortgagors receiving default counseling were able to avoid foreclosure.

Although lower than previous data figures reported for this performance indicator, FY 2003 actual data and FY 2004 projections are judged to be more reliable than data shown for previous fiscal years due to the revised data collection instrument's ability to capture information about the specific types of counseling provided to each client. Due to weaknesses in the old data collection instrument, HUD was forced to rely on proxy data, thereby resulting in an unreliable baseline.



Data discussion. The goal of 62 percent established for FY 2003 was based on a trend analysis conducted by FHA's Office of Evaluation using data drawn from the Single Family Data Warehouse loss mitigation table. Based on an analysis of default rate data for the previous five years it was determined that approximately 38 percent of loans in default result in foreclosure. During the mid-year revision period for the FY 2005 Annual Performance Plan it is anticipated that FHA will revise the goal for this performance indicator to more closely comport with housing counseling data collected under the revised form HUD-9902 and the more recent results of FHA's loss mitigation efforts.

Data used for this measure are collected from grantees through the form HUD-9902. HUD-approved housing counseling agencies have 90 days after the end of the fiscal year to collect and report the results of housing counseling activity during the previous grant period. A revised instrument was implemented during FY 2003. FHA analyzed FY 2003 data collected using this instrument and a new housing counseling baseline was established during the second quarter of FY 2004.

2. Goal A: Promote Decent Affordable Housing

Strategic Objectives

A.1 ***Expand access to affordable rental housing.***

A.2 ***Improve the physical quality and management accountability of public and assisted housing.***

A.3 ***Increase housing opportunities for the elderly and persons with disabilities.***

A.4 ***Help HUD-assisted renters make progress toward self-sufficiency.***

Performance Report Card - Goal A

	Performance Indicators	2001	2002	2003	2004	2004 Target	Substantially Met	Notes
A.1.1	The number of households with worst case housing needs among families with children, the elderly, and person with disabilities.	N/A	N/A	N/A	N/A	N/A	N/A	a
A.1.2	The number of households receiving housing assistance with CDBG, HOME, Housing Opportunities for Persons With AIDS, Self-help Housing Opportunity Program, Indian Housing Block Grant and Native Hawaiian Homeland Block Grant.	327,685	400,461	451,407	464,432	410,699	Yes	j
A.1.3	The number of HOME production units that are completed within the fiscal year will be maximized.	55,148	52,344	62,549	62,021	60,778	Yes	
A.1.4	The utilization of Housing Choice Voucher/Housing Certificate Fund Vouchers is maintained at the FY 2003 level of 97 percent.	N/A	94%	97.4%	98.5%	97%	Yes	f
A.1.5	The share of the Housing Choice Voucher program administered by housing agencies with substandard utilization rates decreases by 5 percent.	42.8%	33.1%	18.3%	16.4%	17.4%	Yes	f
A.1.6	FHA endorses at least 1000 multifamily mortgages.	758	1,105	1,331	1,497	1,000	Yes	
A.1.7	Ginnie Mae securitizes at least 80 percent of eligible FHA multifamily mortgages.	100%	100%	91%	92%	80%	Yes	
A.1.9	HUD will complete 80 percent of the initial FY 2004 Mark-to-Market pipeline during the fiscal year, reducing rents and restructuring mortgages where appropriate.	76%	66%	75%	72%	80%	No	
A.1.10	HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for special affordable multifamily mortgage purchases.	\$3.79 \$2.40	\$7.36 \$4.65	\$7.57 \$5.22	\$12.23 \$8.79	\$2.85 \$2.11	Yes Yes	e,n e,n
A.1.11	The number of clients receiving rental and homeless counseling.	N/A	N/A	115	209	N/A	N/A	k
A.1.12	Fully implement actions included in the Departmental Energy Action Plan by FY 2005.	N/A	N/A	N/A	7	11	No	

	Performance Indicators	2001	2002	2003	2004	2004 Target	Substantially Met	Notes
A.2.1	The average satisfaction of assisted renters and public housing tenants with their overall living conditions remains at least 90 percent in public housing and increases by 1 percentage point in multifamily housing.	N/A 84%	89% 87%	90% N/A	90% N/A	90% 89%	Yes N/A	 a
A.2.2	The share of public housing units that meet HUD-established physical standards increases by 1.5 percentage points.	82.4%	87.1%	85.9%	85.0%	87.4%	No	
A.2.3	The share of assisted and insured privately-owned multifamily properties that meet HUD established physical standards are maintained at no less than 94.7 percent.	93.3%	94.4	N/A	95.5%	94.7%	Yes	
A.2.4	The unit-weighted average PHAS score remains at least 87.3 percent.	80.2	85.3	87.3	86.9%	87.3%	No	
A.2.5	The household-weighted average SEMAP score increases by 1 percentage point.	N/A	83.4%	82.5%	89.2	83.5	Yes	f
A.2.6	The average FASS score for all PHAs designated by FASS as "troubled" will increase by 3 percent.	N/A	3.34	5.57	9.52	5.74	Yes	
A.2.7	For households living in assisted and insured privately-owned multifamily properties, the share of properties that meets HUD's financial management compliance is maintained at no less than 95 percent.	94%	95%	95%	98%	95%	Yes	
A.2.8	As part of the effort to eliminate 100,000 units of the worst public housing, demolish 10,000 units during FY 2004.	14,144	15,065	22,119	5,504	10,000	No	m
A.2.9 (a)	The HOPE VI Revitalization Development program for public housing relocates 3,300 families.	6,923	4,986	6,859	4,618	3,300	Yes	
A.2.9 (b)	The HOPE VI Revitalization Development program demolishes 4,000 units.	12,375	8,787	7,468	4,919	4,000	Yes	
A.2.9 (c)	The HOPE VI Revitalization Development program completes 6,900 new and rehabilitated units.	4,044	6,583	8,611	4,132	6,900	N/A	c
A.2.9. (d)	The HOPE VI Revitalization Development program occupies 6,200 units.	3,579	6,123	7,512	4,210	6,200	N/A	c
A.2.10	The percent of units under management of troubled housing agencies at the beginning of FY 2004 decreases by 15 percent by the end of the fiscal year.	N/A	23.1%	71.8%	43.5%	15%	Yes	
A.2.11	Maintain the share of Housing Choice Voucher units managed by troubled housing agencies at the FY 2003 level.	N/A	6.4%	7.9%	4.0%	7.9%	Yes	
A.3.1	Increase the availability of affordable housing for the elderly and persons with disabilities by bringing 250 projects to initial closing under Sections 202 and 811.	301	307	334	303	250	Yes	
A.3.3	The number of assisted-living units that HUD supports through Assisted Living Conversion program increases by completing conversion of 10 Section 202 properties.	12	N/A	12	7	10	No	
A.3.4	The number of elderly households living in private assisted housing developments served by a service coordinator for the elderly increases by 10 percent.	63	88	111.2	125.3	122.3	Yes	l
A.4.1	By FY 2008, increase the proportion of those entering HUD's housing assistance programs who "graduate" from assistance within five years (or receive continuing assistance as homeowners) because their income is sufficient to pay for adequate housing.	N/A	N/A	N/A	N/A	N/A	N/A	h

	Performance Indicators	2001	2002	2003	2004	2004 Target	Substantially Met	Notes
A.4.2.	Average earnings increase by 5 percent from year to year among non-elderly non-disabled households in the public housing and Housing Choice Voucher programs.	N/A	N/A	N/A	1.2% vouchers -3.8% PH	5% 5%	No No	
A.4.3	Among non-elderly non-disabled public housing households with dependents, the share that derive more than 50 percent of their income from work increases by 1 percentage point.	48.8%	48.4%	46.4%	46.1%	47.4%	No	
A.4.4	The number of public housing and Housing Choice Voucher households that have accumulated assets through the Family Self-Sufficiency (FSS) program increases by 5 percent and the average escrow amount for FSS graduates increases.	19.6 $4,482	11.8 $4,876	16.9 $4,741	20.5 $5,487	17.7 $4,741	Yes Yes	l

Notes:

- a Data not available.
- b No performance goal for this fiscal year.
- c Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).
- d Calendar year beginning during the fiscal year shown.
- e Calendar year ending during the fiscal year shown.
- f Other reporting period.
- g Result too complex to summarize. See indicator.
- h Baseline newly established.
- i Authorizing legislation under consideration by Congress.
- j Overall goal established rather than subgoals.
- k Result is estimated.
- l Number is in thousands.
- m Indicator met combined FY 2003 and FY 2004 goals.
- n Number reported in billions.

Objective A.1: Expand access to affordable rental housing.

A.1.1: The number of households with worst case housing needs among families with children, the elderly and persons with disabilities.

Background. This performance measure provides a central indication of whether HUD and the nation are advancing or losing ground in the fight to ensure decent, safe, and affordable housing for America's families. Because the elderly, disabled persons, and families with children are particularly susceptible to housing problems and targeted by HUD housing programs, they are the focus of this indicator. Worst case needs are defined as unassisted renters with very low incomes and a priority housing problem: either severely inadequate housing or, more commonly, housing costs exceeding 50 percent of monthly income.

The calendar year 2003 data from the American Housing Survey, needed to report against the FY 2003 goal, became available during FY 2004. However, HUD is not releasing the housing needs estimates pending completion of HUD's report to Congress on worst case needs during 2003. In preparing this report, the Office of Policy Development and Research continues to review independent recommendations for strengthening the definition and reporting of worst case needs, and also is exploring ways to validate the American Housing Survey data with the Survey of Income and Program Participation and other data. The results, including the results for this indicator, are expected to be released early in FY 2005.

A.1.2: The number of households receiving housing assistance with CDBG, HOME, Housing Opportunities for Persons With AIDS, Native American Housing Block Grant and Native Hawaiian Housing Block Grant.

Background. This indicator tracks the number of households that receive housing assistance through the identified programs in FY 2004. The outputs tracked by this indicator show the contribution of important HUD programs toward increasing the national homeownership rate and the number of minority homeowners, two key Presidential and Secretarial priorities. These programs also help reduce the number of households with worst-case housing needs (very low-income households who pay more than half of their incomes for housing or who live in substandard housing).

The HOME Investment Partnerships program is one of HUD's major affordable housing production programs. The HOME program's block grant structure enables participating state and local governments to build or rehabilitate housing for rent or ownership, provide home purchase or rehabilitation financing assistance to existing homeowners and new homebuyers, and provide tenant-based rental assistance to assist low- and moderate-income households. The American Dream Downpayment Initiative component of HUD provides downpayment assistance to expand homeownership.

The Community Development Block Grant program is another tool for providing housing assistance, although it is only one of several eligible activities from which Community Development Block Grant grantees may choose.

The Self-help Homeownership Opportunities program provides funding to qualified national and regional nonprofit organizations to facilitate and encourage innovative homeownership opportunities through self-help housing where the homebuyer contributes a significant amount of sweat-equity toward the construction of the new dwelling. Self-help Homeownership Opportunities Program funds may be used to pay for the land acquisition and infrastructure improvements associated with the development of the self-help housing.

The Housing Opportunities for Persons With AIDS program supports the goals of increasing the availability of decent, safe, and affordable housing in American communities by providing permanent housing with coordinated supportive services to low-income persons living with HIV/AIDS and their families. Housing Opportunities for Persons With AIDS funds provide permanent housing and related supportive services through short-term rent, mortgage or utility payments which help maintain the current residence of beneficiaries; on-going rental assistance; and support for facilities that provide residential care and other needed support.

The Rural and Housing Economic Development program, created in FY 1999, builds capacity at the state and local levels for rural housing and economic development, innovative housing and economic development activities in rural areas.

The Native American Housing Block Grant and the Native Hawaiian Housing Block Grant programs provide housing block grants to tribes, or their tribally designated housing entities, and to the Department of Hawaiian Home Lands to meet locally-determined low-income housing needs, maintain existing units (if applicable), provide housing services, and/or develop new homeownership and rental units. Grant recipients receive funds on the basis of an annual formula allocation in the case of the Native American Housing Block Grant Program. The Department of Hawaiian Home Lands is the only grant recipient of the Native Hawaiian Housing Block Grant program funds.

The Native American Housing Assistance Self-Determination Act Title VI program provides loan guarantees for Native American Housing Block Grant program recipients in need of additional funding for housing activities. The program provides grant recipients with the ability to obtain additional funding by pledging future block grants as collateral.

Households Assisted by HUD Programs

	2001 Act	2002 Act.	2003 Act.	2004 Act.	2004 Goal
CDBG households	172,445	187,380	184,611	159,703	178,852
HOME tenant-based assistance	11,756	10,239	10,731	15,479	10,504
HOME rental units committed	27,456	27,243	41,092	13,111	27,875
HOME new homebuyers committed	26,690	32,490	31,999	19,525	34,050
HOME existing homeowners committed	12,566	14,082	15,181	3,176	13,598
HOME total households	81,468	84,054	99,003	51,291	86,027
Self-help Homeownership Opportunity Program new homebuyers completed	1,655	2,063	2,157	1,735 [a]	2,140
Housing Opportunities for Persons with AIDS Households	72,117	74,964 [b]	78,467 [b]	78,000	74,250
Rural Housing & Economic Development	1,047	3,928	6,065	N/A	3,338
Native American Housing Block Grant households	N/A	52,000	87,169	173,703	69,430
Title VI Federal Guarantees program (number of loans)	N/A	N/A	17	21	20
Native Hawaiian Homeland Block Grant households	N/A	N/A	188	Included in Native American Housing Block Grant above	To be determined

a Results for Self-help Homeownership Opportunity Program are for the period July 1, 2003, to June 30, 2004, since accomplishments for the 4th quarter of FY 2004 will not be available in time for publication of the Performance and Accountability Report.

b Data for FY 2002 & FY 2003 are updated as a result of additional reports filed and database verification conducted.

Results and analysis. During FY 2004, the total number of households receiving housing assistance through these programs was 464,453 households. HOME's tenant-based assistance, Housing Opportunities for Persons With AIDS, Native American Housing Block Grant and the Title VI Federal Guarantees programs all exceeded their goals. However, CDBG, HOME's overall total, and Self-Help Homeownership Opportunity Program each missed their goals.

CDBG. For FY 2004, the number of households receiving housing assistance with CDBG was 159,703 households, 10.7 percent less than the FY 2004 projected goal of 178,852 assisted households. This is also a 13.40 percent decline from the FY 2003 actual accomplishment of 184,611 households assisted. During FY 2004, total expenditures for housing activities tracked for this indicator increased 3.7 percent compared to the same period in FY 2003. HUD can identify three reasons for the decline in the number of households assisted. First, per household costs increased from the FY 2003 level of $4,400 per household to $5,300 in FY 2004. Contributing factors for this per household increase are varied and include increased construction costs attributable to materials price increases and demand for contractors. For example, the Department of Labor's Producer Price Index indicates a 10.4 percent year-to-year increase (September 2003 to September 2004) for construction materials and components.

Second, two categories of expenditures within this indicator showed substantial increases from FY 2003 levels to FY 2004 levels. Those categories are homeownership assistance and rehabilitation of other publicly-owned housing (not public housing). Increases in those categories from FY 2003 to FY 2004 were 24 percent and 45 percent, respectively. There would be some expectation that expenditures for these activities would have a higher cost per household than some of the categories that declined.

Third, the Department is engaged in a two-pronged effort to improve the quality of this data. One portion of this effort has been an extensive data clean-up exercise over the past two years, particularly with regard to activity accomplishment data. Approximately 75 percent of this work has been completed and has eliminated duplicate entries and incorrect entries that in the past may have provided somewhat inflated counts. The second prong is the deployment of substantial data entry edits in the last quarter of FY 2004 in IDIS that should result in further improvements to data quality. HUD has scheduled future improvements of IDIS over the next several years that should continue to improve data quality, streamline data entry, extend the scope of output data as well as introduce outcome performance measures. In summary, HUD believes that FY 2004 was a transitional year with regard to reporting and would expect continued improvement going forward.

HOME. HUD's FY 2004 goals for HOME commitments are based on past experience of the number of HOME units entered as committed into the IDIS by participating jurisdictions. Commitments occur when participating jurisdictions enter into written agreements with individuals or entities to undertake a HOME-funded project. In FY 2004, CPD completed long-awaited improvements to the IDIS that purged inaccurate data, including a large number of units that were set up over the years as commitments, which did not actually exist. These reductions occurred in all tenure types – rental, homebuyer, and existing homeowner rehabilitation.

Prior to the improvements made to IDIS in FY 2004, when an IDIS activity was completed and the cost and beneficiary data was entered, IDIS did not automatically correct differences between the number of units planned at the commitment phase and the number of units that were actually completed. These and similar system problems resulted in the number of HOME commitments, which were the basis for HUD's commitment goals, to be greatly inflated.

With the IDIS improvements, inaccurate data that had been entered over the past decade were purged or corrected. Consequently, the number of units reported as committed in FY 2004 was substantially lower than in previous years. (Annual actuals reflect the change in cumulative commitments from one fiscal year to the next.) Because HUD based its FY 2004 commitment goals upon its past experience, actual commitments fell far short of the goal HUD set for the year. However, the fact that this year's completions exceeded the FY 2004 goal and equaled completions for FY 2003 demonstrates that the decreased commitments were caused by the system change and that the HOME Program's actual production of units has not declined.

This situation has caused HUD to reconsider the usefulness of commitments as a production goal. Even with the recent improvements to IDIS, commitments entered into the system measure only the intent of participating jurisdictions to undertake certain activities, not actual performance. In the future, it is our intention to eliminate entirely "commitments" as a measure of program performance for HOME and focus on "completions" which are a more accurate and reliable indicator for accomplishments.

The Self-Help Homeownership Opportunity Program. Results for the Self-Help Homeownership Opportunity Program are for the period July 1, 2003, to June 30, 2004, since accomplishments for the 4th quarter of FY 2004 will not be available in time for publication of this report. During the period covered, Self-Help Homeownership Opportunity Program grantees completed 1,735 housing units, falling short of the program goal of 2,140 completed units by 405 units (19 percent) and representing a 20 percent decrease from the number of units produced in FY 2003 (2,157). Another 2,200 the Self-Help Homeownership Opportunity Program units were under development at the close of the period. The Self-Help Homeownership Opportunity Program grantees in FY 2004 were Habitat for Humanity International, the Housing Assistance Council, Northwest Regional Facilitators, ACORN Housing Corporation, Wisconsin Association of Self-Help Executive Directors, Inc., and PPEP Microbusiness and Housing Development Corporation.

At the beginning of FY 2004, a new reporting system was implemented for the Self-Help Homeownership Opportunity Program grantees. The results for the period were significantly impacted by the introduction of new reporting procedures in late FY 2003. As a result of this conversion, the grantee receiving the greatest amount of the Self-Help Homeownership Opportunity Program funding discovered that some affiliates had duplication errors in their records. In addition, other grantees were reporting properties as being completed when they were only "under roof." The elimination of the duplicate records and the correction of actual completions were largely responsible for the shortfall in the number of units reported as completed during the period.

In addition, the results for this output indicator were affected by several external factors: the cost and availability of land, the level of Self-Help Homeownership Opportunity Program appropriations, the pass-through nature of program funding to hundreds of local affiliates, the level of sophistication of local Self-Help Homeownership Opportunity Program organizations in developing and managing self-help housing, and the varying skill levels of the homebuyers and volunteers who work on the construction of the homes.

During FY 2004, HUD staff continued to provide technical assistance upon request to the Self-Help Homeownership Opportunity Program grantees to improve the efficiency and capacity of those organization, but were limited by the fact that no technical assistance funds have been provided by Congress for this program.

As a result of escalating land costs, grantees have been unable to acquire the number of properties projected initially. Although too late for properties acquired in FY 2004, HUD responded to grantees' needs by increasing the average Self-Help Homeownership Opportunity Program investment from $10,000 to $15,000 in the FY 2004 Notice of Funding Availability for which applications were due September 17, 2004. This should also result in a decrease in the number of properties to be acquired in FY 2005.

Based on the new reporting procedures and increased land costs, the Self-Help Homeownership Opportunity Program commitment goal should be reduced.

Housing Opportunities for Persons With AIDS. Actual financial data and grant experience support HUD's estimate that the 2004 performance will show that 78,000 households were supported with Housing Opportunities for Persons With AIDS funded housing efforts, five percent above the goal of 74,250. Once all reports are filed for the 2003-2004 reporting year, data verification will also be undertaken along with additional technical training. As reported in HUD's financial accounting systems, the Housing Opportunities for Persons With AIDS program outlays totaled $255.7 million in FY 2004. This amount represents a small increase over the outlay amount recorded in FY 2003 of $252.2 million in recorded withdrawals and $18.1 million in pending actions.

The following per unit costs were obtained from data collected and verified for the most recently completed grantee performance year, 2002-2003. The average per unit program cost for all types of housing assistance is $1,892. However, by type of assistance, the average per unit cost of the three main types of the Housing Opportunities for Persons With AIDS housing assistance are: rental assistance at $2,575 per household per year; short term rent, mortgage and utility payments to prevent the homelessness of the household at $781 per household per year; and for persons residing in housing facilities, such as community residences or Single Room Occupancy dwellings, the direct costs for these development and operation costs was $7,401, but this amount does not include the other state, local or private resources used to maintain these housing facilities. The Housing Opportunities for Persons With AIDS formula grantees reported that for their housing programs, an additional $2.05 for housing program support was leveraged from other sources to develop or operate these projects. The formula leveraging effort did not request information on the related supportive service costs, which could be significantly higher for services enriched housing efforts. In the competitive grants, the 2003 new projects leveraged an average of $2.86 for each Housing Opportunities for Persons With AIDS dollar awarded to their project, which would include the direct housing and service costs for these projects.

Rural Housing and Economic Development. Data reported for Rural Housing and Economic Development covers FY 2003 since FY 2004 data will not be available until 2005. During FY 2003, grantees reported constructing 3,070 housing units and rehabilitating 2,995 units, for a total of 6,065 units made available. This total exceeds the FY 2003 Rural Housing and Economic Development grantees' projection of 3,338 units (2,816 constructed and 522 rehabilitated). With the grant period for the Rural Housing and Economic Development program being 36 months, it is difficult to accurately project when projects will be completed.

Native American Housing Block Grant and the Native Hawaiian Homeland Block Grant program. The Department significantly exceeded its goal by assisting 173,703 households during FY 2004. This includes households assisted through both the Indian Housing Block Grant program and the Native Hawaiian Homeland Block Grant program. The FY 2004 total is a 100 percent increase from FY 2003, and 150 percent more than the goal, which was underestimated using the baseline of 52,000 families that were served in 2002. Since that time, the Department has improved its system for measuring program accomplishments. This new tracking system provides a more accurate measure of program performance. Based on this new system, the Department intends to establish a more appropriate goal for FY 2005. The number of Native Hawaiian households assisted through this program in FY 2004 is included in the 173,703 households served through the Native American Housing Block Grant program and is not separable.

Title VI Federal Guarantees. The goal of 20 cumulative Title VI loan guarantees for FY 2004 was exceeded. The Department guaranteed a total of 21 loans, an increase of 25 percent from the 17 cumulative Title VI loan guarantees in FY 2003.

Data discussion. Data for CDBG, HOME, and Housing Opportunities for Persons with AIDS are reported in the IDIS. During the last quarter of FY 2004, the Department deployed substantial data entry edits in the IDIS that should result in further improvements to data quality. HUD has scheduled future improvements of the IDIS over the next few years that should continue to improve data quality, streamline data entry, extend the scope of output data as well as introduce outcome performance measures.

CDBG figures are based upon actual drawdown of funds from each grantee's line of credit and balances remaining. HUD uses the IDIS to develop monthly timeliness reports showing which grantees are not currently timely.

CPD completed improvements to the IDIS in FY 2004 that purged inaccurate data and reduced the need for ongoing data cleanup efforts. (The impact of eliminating these units on the results reported for FY 2004 is discussed above.) Screen designs and terminology were simplified; more checks (edits) were added to reduce potential entry errors; report functions were improved; and a search feature was added so that users can now easily find information on activities by grantee and by date range.

Reports compiled by the Self-Help Homeownership Opportunity Program grantees are used to track performance under this indicator. New uniform reporting procedures were implemented late in FY 2003 to ensure consistent and accurate reporting of Self-Help Homeownership Opportunity Program accomplishments by grantees and affiliates. The changes include the use of standardized definitions for "units completed" and "under development" in the reports. This conversion had an impact on the reported results as described above.

Housing Opportunities for Persons With AIDS Program accomplishments are extracted from performance information reported initially in the Consolidated Annual Performance and Evaluation Report for formula grantees, the Annual Performance Report for competitive grantees, as well as data collected through the IDIS. These annual reports are submitted by formula and competitive grantees and are due to HUD field offices 90 days after the close of the grantee's operating year. Once the designated field office reviews and approves these reports, the data is provided to CPD headquarters. Housing Opportunities for Persons With AIDS technical support is undertaken to verify data with grantees following the end of the program year and a comprehensive data clean up effort was conducted in 2004 along with related training efforts. The new verification effort may result in an adjustment to the estimated number of 78,000 households projected to be assisted during this recent period. HUD will also be initiating the use of new Annual Performance Report and the Consolidated Annual Performance and Evaluation Report forms in 2005 that will seek to capture information on client outcomes in achieving stable housing that reduces their risks of homelessness and improves their access to health-care and other support. The client outcome efforts implement the Program Assessment Rating Tool recommendations for this program.

Native American Housing Block Grant data for FY 2004 were derived from a combination of manual counts and the new Performance Tracking System. This new database application has been developed for the entry, storage, and retrieval of tribal data on the Native American Housing Block Grant program, and includes the Native Hawaiian Homeland Block Grant program. The application has been installed in all Office of Native American Program Area Offices to improve future reporting and accountability.

The Office of Loan Guarantee compiles data on the number of Title VI loan guarantees issued. The Director of the Office of Loan Guarantee validates the data on a monthly basis. The Public and Indian Housing Budget office verifies this count.

A.1.3: The number of HOME production units that are completed within the fiscal year will be maximized.

Background. This indicator tracks the number of HOME-assisted units of all tenure types (i.e., rental, homebuyer, homeowner rehabilitation) that have been completed and put into service in FY 2004. The HUD strategic goals of increasing homeownership opportunities and promoting decent affordable housing are directly supported through this indicator.

Results and analysis. During FY 2004, participating jurisdictions completed 62,021 HOME-assisted production units, 2 percent more than the goal of 60,778 units. Of this total, 23,392 units were rental housing, 28,517 units were homebuyer housing and 10,112 units were existing homeowner rehabilitation housing. The number of completed units in FY 2004 was 528 less than the number in FY 2003, a decrease of less than one percent. Participating jurisdictions disbursed $1.348 billion in HOME funds to projects during FY 2004.

	FY2001 Actual	FY2002 Actual	FY2003 Actual	FY2004 Actual	FY2004 Goal
HOME rental units produced	20,453	19,076	25,977	23,392	*
HOME new homebuyers	24,757	23,241	25,867	28,517	*
HOME existing homeowners	9,938	10,027	10,705	10,112	*
HOME total households assisted	55,148	52,344	62,549	62,021	60,778*

* As grantees have discretion about which housing activities to fund, HUD has established an overall goal for completions rather than subgoals for specific activities.

Contributing to the accomplishments this year were HUD's continuing efforts to provide training and technical assistance, including web-based assistance, to participating jurisdictions to improve their HOME program performance. For example, six new model guides were issued, including *Fitting the Pieces Together*, which describes how public and private funds may be combined to finance homebuyer programs; six new web-based training modules were developed, including a multifamily underwriting template to help housing providers assess the financial viability of potential HOME-assisted projects; eight "bookmarks" and six information cards containing important program information in an easy-reference format were rolled out; and a new demand/response system for scheduling and delivering the twelve HOME training courses and eight seminars throughout the country, with approximately 30 deliveries planned in the coming eighteen months, has been established.

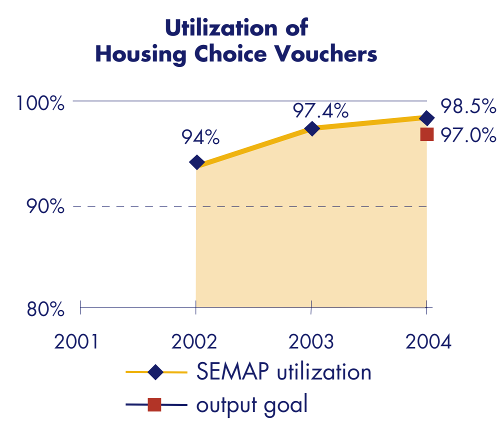
HUD also issued monthly production reports, which were posted on the web, and aggressively followed-up with participating jurisdictions that were not meeting production goals. Finally, the HOME Program Performance SNAPSHOT continued to be given broad public distribution, including its own web-site. The SNAPSHOTs compare the performance of HOME participating jurisdictions to each other for eight factors and assign a performance ranking. The SNAPSHOTs have served to focus attention on production and played an important role in the improved performance of HOME as measured by this indicator.

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

Data discussion. Data entered by participating jurisdictions in HUD's IDIS are used to track quarterly performance. The HOME Program office completed improvements in FY 2004, to the IDIS that has eliminated inaccurate data, mostly related to "commitments" as opposed to actual "completions," and reduced the need for ongoing data cleanup efforts. Screen designs and terminology were simplified. More checks (edits) were added to reduce potential entry errors. The report functions were improved and a search feature added so that users can now easily find information on activities by grantee and by date range.

A.1.4: The utilization of Housing Choice Voucher/Housing Certificate Fund Vouchers is maintained at the FY 2003 level of 97 percent.

Background. The Housing Choice Voucher program provides low-income participants with the ability to seek rental housing of their choice, within certain rent parameters, and has a portability feature that enables families to take their vouchers to other rental markets in pursuit of available jobs and other economic opportunities. While most Housing Choice Vouchers are currently being used to assist low-income families, some PHAs are not fully utilizing all allocated vouchers. Increasing PHAs' utilization of voucher funds remains a key priority for the Department. This measure tracks the extent to which Housing Choice Voucher units and funding are being utilized by PHAs in support of the strategic objective of improving management accountability for public and assisted housing. As a result of a change in funding methodology, the indicator now only takes unit utilization into consideration. Budget authority for PHAs is almost always fully utilized under the new methodology and therefore does not necessarily reflect improved PHAs performance.



Results and analysis. By increasing the utilization rate of Housing Choice Vouchers by 1.1 percent, the Department exceeded its goal. For the four quarters commencing July 1, 2003, and ending June 30, 2004, utilization of Housing Choice Vouchers was 98.5 percent. This is compared to the FY 2003 utilization rate of 97.4 percent for the four quarters commencing July 1, 2002, and ending June 30, 2003.

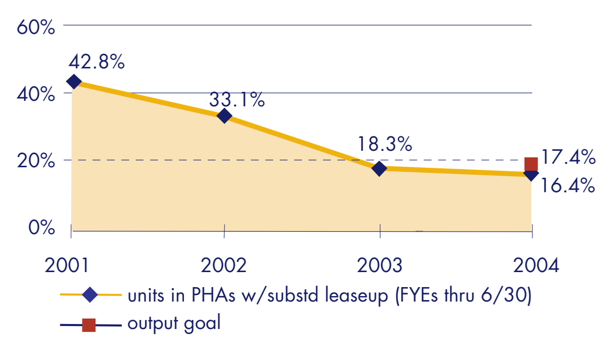
Data discussion. Leasing data came from the year-end settlement table in the HUD Central Accounting Program System. Utilization was measured according to the definition under SEMAP. Accordingly, the rate of utilization for each public housing authority was based on the higher of available budget authority expended or available units leased.

A.1.5: The share of the Housing Choice Voucher program administered by housing agencies with substandard utilization rates decreases by 5 percent.

Background. The Housing Choice Voucher program provides low-income participants with the ability to seek rental housing of their choice and has a portability feature that enables families to take their vouchers to other rental markets in pursuit of available jobs and other economic opportunities. While most Housing Choice Vouchers are currently being used to assist low-income families, some Public Housing Authorities are not fully utilizing all allocated vouchers. This indicator tracks the number of PHAs that have substandard utilization rates and the share of the voucher program that they represent. As a result of the change in funding methodology, the indicator now only takes unit utilization into consideration. Budget authority for PHAs is almost always fully utilized under the new methodology and therefore does not necessarily reflect PHA performance.

Results and analysis. The Department exceeded its goal with a 10.4 percent decrease in the share of Housing Choice Vouchers administered by housing agencies with substandard utilization rates. For the four quarters from July 1, 2003, through June 30, 2004, the number of PHAs with substandard utilization rates was 503, representing 268,580 vouchers and 16.4 percent of the inventory. This is compared with the 347,208 vouchers, or 18.3 percent of the inventory, administered by 513 PHAs with substandard utilization rates for the four quarters from July 1, 2002, through June 30, 2003.

Vouchers Managed by Housing Agencies with Substandard Leaseup

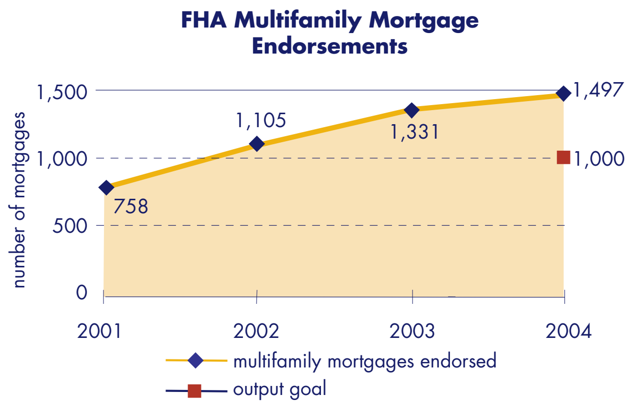


Data discussion. Leasing data came from the year-end settlement table in the HUD Central Accounting Program System. Utilization was measured according to the definition under SEMAP. Accordingly, the rate of utilization for each PHA was based on the higher of available budget authority expended or available units leased.

Excluded from the calculation are units under an Annual Contributions Contract for less than one year or reserved for litigation. Substandard utilization is defined as a rate below 94.5 percent.

A.1.6: FHA endorses at least 1000 multifamily mortgages.

Background. FHA multifamily mortgage insurance is vitally important to a number of higher risk segments in the housing industry, including small builders, buyers or owners of aging inner-city properties, and nonprofit sponsors. FHA offers many unique and valuable products in the market and brings stability to the market. FHA also retains a leadership position in the market for high loan-to-value and long-term fully-amortizing multifamily loans, which can help in the provision of affordable rental housing. The FY 2004 goal was 1000 multifamily mortgage initial endorsements.



Results and analysis. For FY 2004, FHA endorsed 1,497 FHA-insured loans for multifamily properties, exceeding the performance goal by nearly 50 percent. This compares with 1,331 loans in FY 2003 and the 1,105 loans made in FY 2002.

HUD's 51 Multifamily Hubs and Program Centers initially endorsed 1,305 loans equal to $6.63 billion, which financed nearly 157,200 housing units in multifamily housing properties. This includes over 35,500 units and beds financed under Section 232 for health care facilities such as nursing homes and assisted living facilities. In addition, FHA shared the risk with state housing finance agencies for an additional 192 loans totaling $923.5 million for nearly 21,600 units.

The continued high level of FHA mortgage insurance in FY 2004 was due largely to low mortgage interest rates and the widespread use by lenders of Multifamily Accelerated Processing. Multifamily Accelerated Processing was introduced in the summer of the year 2000 as a national program, and replaced a variety of "fast track" processing programs then in use.

Multifamily Accelerated Processing places responsibility on the lenders for underwriting the loan and responsibility for the review of their work and final approval for mortgage insurance to HUD. In FY 2002, the Department created a Lender Qualification and Monitoring Division. The Division reviews the underwriting and regulatory compliance on Multifamily Accelerated Processing transactions in accordance with recommendations from the Government Accountability Office.

Data discussion. This measure is based on data from FHA's Real Estate Management System, based on lender-submitted data from the F47 system. The data, which are based on a straightforward and easily verifiable count of endorsements completed, are judged to be reliable for this measure. FHA monitors the quality of data submitted by lenders. A data quality assessment completed for the Real Estate Management System in FY 2001 identified no problems that compromise this measure.

A.1.7: Ginnie Mae securitizes at least 80 percent of eligible FHA multifamily mortgages.

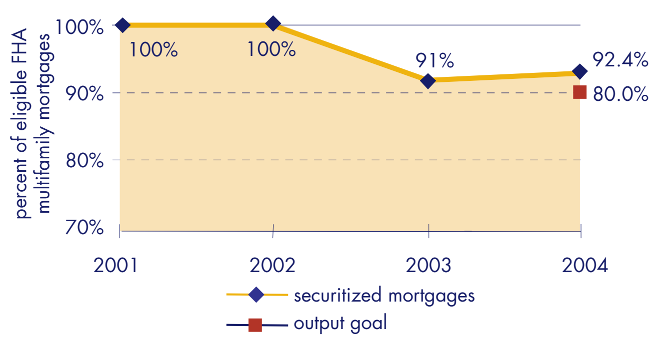
Background. Ginnie Mae is a wholly owned instrumentality of the United States government located within HUD. Section 306(g) of the National Housing Act authorizes Ginnie Mae to facilitate the financing of residential mortgage loans insured or guaranteed by the Federal Housing Administration, the Department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

Ginnie Mae's Mortgage Backed Securities program has been a significant contributor to the growth of the Mortgage Backed Securities market in the United States as well as to the expansion of homeownership opportunities for American families. This participation by Ginnie Mae in the capital markets of our nation has helped to provide an efficient link between Wall Street and homebuyers. By making Ginnie Mae securities attractive to investors, Ginnie Mae ensures that a continuous flow of capital is available throughout the country. Ginnie Mae has been instrumental in nearly eliminating regional differences in the availability of mortgage credit for American families. Under the terms of its Mortgage Backed Securities program Ginnie Mae guarantees the timely payment of principal and interest on pools of mortgage loans. Ginnie Mae's obligations are backed by the full faith and credit of the United States.

When Ginnie Mae was established in 1968, it was given primary responsibility for facilitating an efficient secondary mortgage market for FHA, Veterans Affairs and Rural Housing Service insured mortgages, all of which serve low- and moderate-income homebuyers. Ginnie Mae provides financial incentives for lenders to increase loan volumes in traditionally underserved areas through its Targeted Lending Initiative. The program was established in October 1996 to help raise homeownership levels in central city areas and was later expanded to include Rural Empowerment Zones, Rural Enterprise Communities, and Indian lands.

Results and analysis. During a record year of growth in its multifamily portfolio, Ginnie Mae securitized 92 percent of eligible FHA multifamily mortgages during FY 2004. The performance exceeded the goal of 80 percent market share.

Eligible FHA Multifamily Mortgages Securitized by Ginnie Mae



During FY 2004, Ginnie Mae continued its thrust to streamline business requirements for the multifamily program, which enhanced its efficiency as a securitization vehicle and its attractiveness to investors. As a result, multifamily issuances increased from $9.3 billion in FY 2003 to $10.5 billion in FY 2004, representing an increase of 12.9 percent. The multifamily remaining principal balance increased by 13.1 percent from $28.9 billion to $32.7 billion. This reflected the increased interest of investors in multifamily government guaranteed loans.

Data discussion. This measure is based on a Ginnie Mae database of multifamily loan securities compared with a FHA multifamily database with ineligible projects excluded. Ginnie Mae and FHA data are subject to audits. Ginnie Mae's data systems are audited each year by the Office of the Inspector General, and Ginnie Mae obtains a clean opinion.

A.1.8: Ginnie Mae credit enhancements on multi-class securities increase to $147 billion in FY 2004.

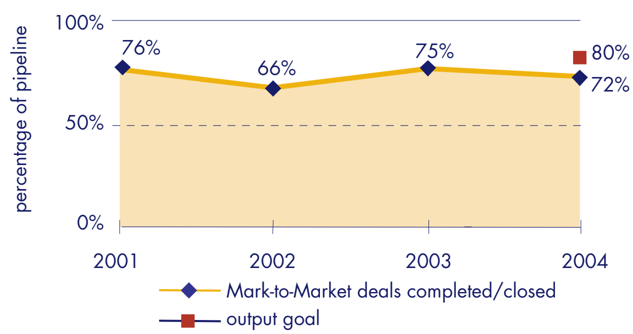
Background. Ginnie Mae's multi-class products include Real Estate Mortgage Investment Conduits and Ginnie Mae Platinum securities. Real Estate Mortgage Investment Conduits securities pool mortgages or mortgage-backed securities for sale as multiple-class securities. By spreading investor risk among the various security classes (tranches), Real Estate Mortgage Investment Conduits increase the secondary mortgage market's liquidity, which can reduce the cost of capital for borrowers. The Platinum product provides customers the ability to trade a group of small pools for one large pool. This indicator tracks the extent of Ginnie Mae's contribution toward increasing the availability and decreasing the cost of multifamily mortgages through Real Estate Mortgage Investment Conduits securities. This indicator was discontinued as part of HUD's joint effort with OMB to develop a more focused portfolio of outcome-oriented performance indicators.

A.1.9: HUD will complete 80 percent of the initial FY 2004 Mark-to-Market pipeline during the fiscal year, reducing rents and restructuring mortgages where appropriate.

Background. The Mark-to-Market program seeks to preserve affordable housing stock by maintaining the long-term physical and financial integrity of such housing and to reduce the Section 8 rental assistance costs and the cost of FHA insurance claims. Under the Mark-to-Market program, the Office of Multifamily Housing Assistance Restructuring analyzes FHA-insured multifamily properties for which Section 8 rents exceed comparable market rents, and reduces Section 8 rents to bring them in line with comparable market rents or levels that preserve financial viability. Properties also are eligible for full debt restructuring that involves a write-down of the existing mortgage in conjunction with the reduced rent levels. This indicator measures completions and closings as a percentage of projects in the pipeline at the beginning of the fiscal year.

Results and analysis. During FY 2004, the Office of Multifamily Housing Assistance Restructuring completed/closed 491 properties under the Mark-to-Market program, resulting in annual Section 8 savings (non-incurrence of cost) of over $50 million. The total was 72 percent of the 680 properties in the pipeline at the end of FY 2003, compared with a goal of 80 percent of the pipeline.

Mark-to-Market Deals Completed as Percentage of FY Pipeline



The Office of Multifamily Housing had to place over 80 properties (13 percent of the pipeline) in the program's pipeline "On Hold" pending an eligibility decision by the Office of General Counsel. The issue under consideration pertained to whether projects that had been previously renewed at or below market were eligible for the Mark-to-Market program. The Office of General Counsel made its decision in August 2004 allowing these properties to complete the Mark-to-Market process.

Throughout FY 2004, the Office of Multifamily Housing Assistance Restructuring continued efforts to reach out and improve communication and coordination with HUD staff, Performance Based Contract Administrators, owners, and industry groups. The purpose was to educate owners, HUD staff, and other stakeholders about the Mark to Market program. As a result, 232 new referrals were received into the Mark-to-Market program, or 55 percent more than were estimated for the fiscal year. In addition, 77 properties re-entered the Mark-to-Market program, for a total of 309 referrals for the fiscal year. (Under the "Once Eligible, Always Eligible" provision in the statute, any property that was initially eligible for the Mark-to-Market program but failed to close as a full debt restructuring remains eligible to re-enter the program.) The Office of Multifamily Housing Assistance Restructuring continues its efforts under the Mark-to-Market program to preserve the affordability and availability of low-income rental housing and reducing long-term project-based Section 8 rental assistance costs. Overall, an average of 41 projects per month were completed/closed and an average of 19 new referrals were received per month. Over 2,400 properties, resulting in Section 8 savings (non-incurrence of cost) of approximately $190 million per year, have been completed/closed under the Mark-to-Market program since FY 2000.

Data discussion. This measure uses data from the Mark-to-Market Management Information System. Results are reported on a fiscal year basis. Values reflect status as of September 2004, including revisions to previously-reported results caused by properties re-entering the Mark-to-Market program under the "Once Eligible, Always Eligible" provision. The Office of Multifamily Housing Assistance Restructuring has put into place various data quality checks to ensure that the information stored in the Mark-to-Market Management Information System is reliable and complete. Bi-weekly data integrity meetings are held between the Office of Multifamily Housing Assistance Restructuring's system manager and its Production Office staff. These meetings focus on timeliness in updating the system as the various milestones of the properties are completed and reviewing system reports to be sure dates and data are within established parameters. During the audits of Participating Administrative Entities the performance dates are reviewed against three sources: dates entered into the Mark-to-Market Management Information System, dates recorded in the final files, and dates shown on supporting documents such as the date the appraisal was completed. For those properties that received a full debt restructuring, staff also examine three separate data sources to be sure all entered data are consistent. The sources include data entered into the Mark-to-Market underwriting model, information reported in the closing dockets, and data entered into the Mark-to-Market Management Information System. Internal reports are generated to assist staff in their reviews.

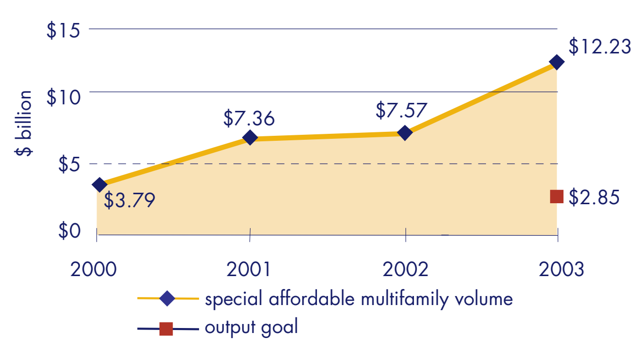
A.1.10: HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for special affordable multifamily mortgage purchases.

Background. This indicator tracks the performance of Fannie Mae and Freddie Mac (two housing Government-Sponsored Enterprises) in providing capital for special affordable multifamily housing. The Special Affordable Multifamily Housing Goal supports HUD's mission of promoting the creation of new affordable housing units by ensuring that both Government-Sponsored Enterprises provide market liquidity through multifamily purchase programs targeted to the housing needs of low-income and very low-income families. The Government-Sponsored Enterprises purchase, guarantee, or acquire interests in multifamily mortgages secured by residential properties that contain at least five dwelling units. When a Government-Sponsored Enterprise acquires a multifamily mortgage, or an interest in such mortgages, it is entitled to count the dwelling units towards the calculation of the Special Affordable Multifamily target to the extent that the units meet HUD eligibility requirements. "Qualifying" multifamily mortgages are those that fund dwelling units affordable to (1) families earning incomes not exceeding 60 percent of the area median income, or (2) families earning incomes not exceeding 80 percent of the area median income and who are also living in low-income areas. Beginning in 2001, HUD substantially increased the Special Affordable Multifamily Housing Goal from $0.99 billion to $2.11 billion for Freddie Mac and from $1.29 billion to $2.85 billion for Fannie Mae. The Department is establishing new goal targets for 2005–2008.

Results and analysis. In calendar year 2003, Fannie Mae purchased $12.23 billion of qualifying multifamily mortgages, far exceeding the goal of $2.85 billion. Freddie Mac purchased $8.79 billion; also well above its goal of $2.11 billion.

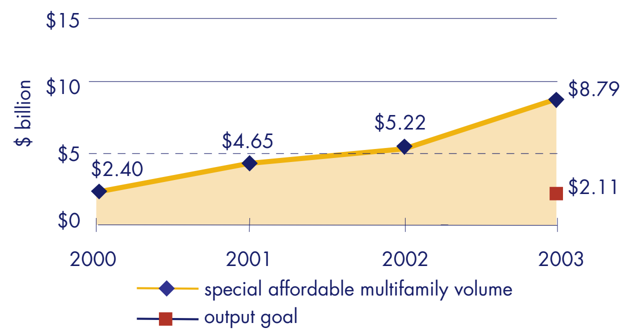
HUD implemented new scoring rules in 2001 that included bonus point incentives for the acquisition of small (5-50 unit) multifamily properties that typically serve lower-income families. Although these bonus points are not applied to the dollar volumes both Government-Sponsored Enterprises counted towards the Special Affordable Multifamily target in 2003, they provide an incentive for the Government-

Fannie Mae Performance Relative to Special Affordable Multifamily Target



Sponsored Enterprises to increase their purchases of small multifamily properties. Because qualifying multifamily loans counted toward other HUD-defined targets may also be counted towards the affordable multifamily target, these purchases contributed to the strong results achieved under the multifamily target in 2003. For example, Fannie Mae's acquisition of units in small multifamily properties that qualified under the special affordable multifamily target increased from approximately 30,000 units in 2002 to 90,000 units in 2003. Units financed by Freddie Mac increased significantly during this period from 28,000 units in 2002 to 95,000 units in 2003. This follows the historic trend whereby Fannie Mae's purchases have been at least twice its minimum subgoal in every year since 1997 and Freddie Mac's have been at least twice its minimum subgoal in every year since 1998. The bonus points and the temporary adjustment for Freddie Mac expired at the end of 2003.

Freddie Mac Performance Relative to Special Affordable Multifamily Target



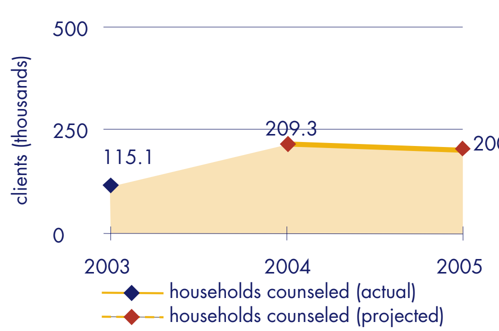
Data discussion. The data reported under this goal are based on calendar year performance. There is a one-year reporting lag because the Government-Sponsored Enterprises report to HUD in the year following the performance year. To ensure the reliability of data, the Government-Sponsored Enterprises apply various quality control measures to data elements provided to HUD. HUD verifies the data through comparison with independent data sources, replication of Government-Sponsored Enterprises goal performance reports, and reviews of Government-Sponsored Enterprises data quality procedures. Government-Sponsored Enterprises financial reports are verified by independent audits.

A.1.11: The number of clients receiving rental and homeless counseling.

Background. The Department is placing more emphasis on housing counseling, including counseling for homeless clients and families seeking affordable rental housing. This indicator will track the number of clients counseled to receive decent, safe and sanitary rental housing or temporary shelter. Due to the spend-out rate of new counseling funds, funding for FY 2004 will not become evident programmatically until FY 2005. This indicator therefore will track the number of renters and homeless clients counseled in FY 2005 using FY 2004 funds. At the time of the mid-year revision for the FY 2004 Annual Performance Plan FHA had not yet analyzed the new baseline data collected with the revised HUD-Form 9902. FHA was therefore unable to calculate a numeric target for this performance indicator for FY 2004. Allowing time for analysis of the baseline data collected FHA will establish a numeric target for this performance indicator during the mid-year revision period for the FY 2005 Annual Performance Plan.

Results and analysis. Although actual results are not yet available, HUD expects 209,259 renters and homeless clients to receive housing counseling services during FY 2004, based on the $37.560 million competed and awarded to housing counseling agencies in FY 2003. HUD expects 200,646 renters

Number of Rental and Homeless Housing Counseling Clients



and homeless clients to receive housing counseling services in FY 2005, based on total housing counseling awards of $36.014 million for FY 2004. HUD expects slightly fewer renters and homeless clients to be counseled in FY 2005 than in FY 2004 due to the fact that the Department committed more funding to provide training for housing counselors and consequently, less funding was available for the housing counseling awards. During FY 2003, 115,060 renters and homeless clients received housing counseling, based on a FY 2002 appropriation of $20 million.

Data discussion. FHA collects data on renters and homeless clients counseled through Housing Counseling Agency Fiscal Year Activity Reports (form HUD-9902). The data include the total number of clients, the type of counseling received and the results of the counseling. For the purposes of the FY 2004 Performance and Accountability Report, the Office of Single Family Housing will only be able to report projections for the anticipated number of renters and homeless clients served in FY 2004 and FY 2005. Projections are based on actual housing counseling data collected for the grant period October 1, 2002 – September 30, 2003. The actual number of renters and homeless clients served in FY 2005 will not be able to be determined until early FY 2006, when final housing counseling activity data for FY 2005 becomes available. FHA monitors HUD-approved housing counseling agencies through site visits to assure quality-counseling practices.

A.1.12: Fully implement actions included in the Departmental Energy Action Plan by FY 2005.

Background. In FY 2002, HUD adopted a 21-point, Departmentwide Energy Action Plan in support of the President's National Energy Policy. The policy states that "the Federal government can promote energy efficiency and conservation by including the dissemination of timely and accurate information regarding the energy use of consumer purchases, setting standards for more energy efficient products, and encouraging industry to develop more efficient products. The federal government can also promote energy efficiency and conservation through programs like the Energy Star program, and search for more innovative technologies that improve efficiency and conservation through research and development."

In July 2001, Secretary Jackson established a Departmentwide Task Force to identify measures that HUD could take to support these goals. The Department spends some $4 billion each year on energy, primarily through utility allowances to renters, housing assistance payments to provide building owners, and operating grants to PHAs. Energy efficiency could yield significant cost savings to the federal government, to property owners, and to building residents. Reducing HUD's energy bills by just five percent could yield savings of $2 billion over the next ten years.

Co-chaired by the Office of Policy Development and Research and the Office of Community Planning and Development, the Task Force included every program area with a current or potential role in supporting energy efficiency.

The strategy for supporting the President's National Energy Policy through the Energy Action Plan is primarily operational, aimed at upgrading the energy efficiency of existing housing using an established inventory of proven energy-efficient products and appliances that can be put to work immediately through existing programs. This will be accomplished through consumer education and outreach, interagency cooperation, market-based incentives, and public-private partnerships. Some research in and development of new or emerging energy-efficient technologies may also be needed, especially in HUD-financed new construction projects.

Results and analysis. Of the 21 actions included in the Energy Action Plan, progress was made on 20 items in FY 2004. Seven actions were completed or substantially completed – four were completed (Actions 10, 14, 15, 17) and three were substantially completed (Actions 1, 3, 11). In addition, moderate to significant progress was made on eleven actions (Actions 4, 6, 8, 9, 12, 13, 16, 18, 19, 20, 21) while limited or no progress was made on three actions (Actions 2, 5, 7). Only one item has not made progress, and the Office of Policy Development and Research is reviewing the feasibility of that action with the relevant program office.

Note that the Office of Policy Development and Research acts as co-chair of the Department-wide Energy Task Force charged with implementing the Energy Action Plan, and that full implementation of the specific actions is a function of participation and cooperation from individual program offices. Significant progress was made in FY 2004 in three key areas that will contribute to full implementation of the Action Plan in FY 2005:

1. Awarding two contracts that will facilitate implementation of key activities called for in the Energy Action Plan in FY 2005: (a) a Policy Development and Research contract to promote and market the plan to HUD customers and grantees and to develop informational materials for HUD program offices; and (b) a PIH contract to initiate benchmarking of energy use in public housing.
2. Including detailed performance measures on energy efficiency in the FY 2005 Management Plan, and including a policy priority point for energy efficiency in the FY 2005 Super Notice of Funds Availability. These steps will ensure that energy efficiency is addressed in program and field office activities.
3. Creating a team of Regional Energy Representatives to help implement the Energy Action Plan in the field, and a headquarters Energy Leadership Team that met weekly to review progress.

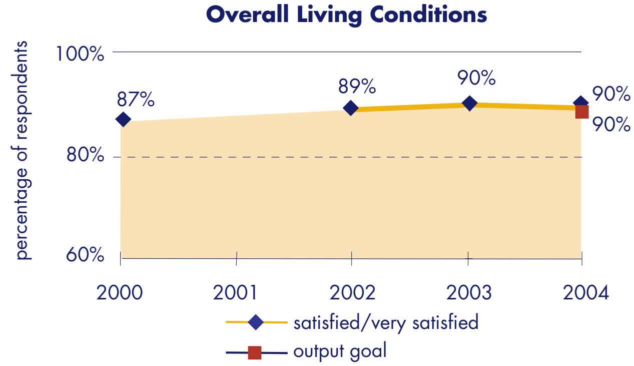
Data discussion. Program offices record actions and accomplishments adopted in the Management Plan in the HUD Integrated Performance Reporting System. The Office of Departmental Operations and Coordination, working with the Offices of Policy Development and Research and Community Planning and Development, verify and report whether actions are fully implemented.

Objective A.2: Improve the physical quality and management accountability of public and assisted housing

A.2.1: The average satisfaction of assisted renters and public housing tenants with their overall living conditions remains at least 90 percent in public housing and increases by 1 percentage point in multifamily housing.

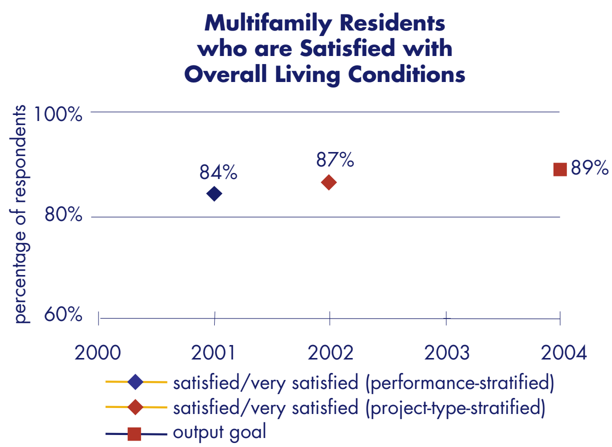
Background. The recipients of HUD housing assistance form one of HUD's largest groups of customers. Resident satisfaction is influenced by the quality of management by housing agencies and private multifamily development managers. In FY 2004, the goal for this indicator was to increase resident satisfaction by 1 percentage point per year in multifamily housing and to maintain at least 90 percent satisfaction in public housing.

Public Housing Residents who are Satisfied with Overall Living Conditions



Results and analysis. The average satisfaction of public housing residents with their "overall living conditions" was 90 percent and met the performance goal for FY 2004. This result included the most recent assessment for the exempted small PHAs, and represents the full universe of public housing.

A survey of assisted multifamily renters was not conducted during FY 2004. The satisfaction level in FY 2002 was 87 percent. Some resources were made available late in FY 2003 for a resident survey that will be combined with FY 2004 resources for a new resident survey of FHA-insured properties that will be actually conducted in FY 2005.



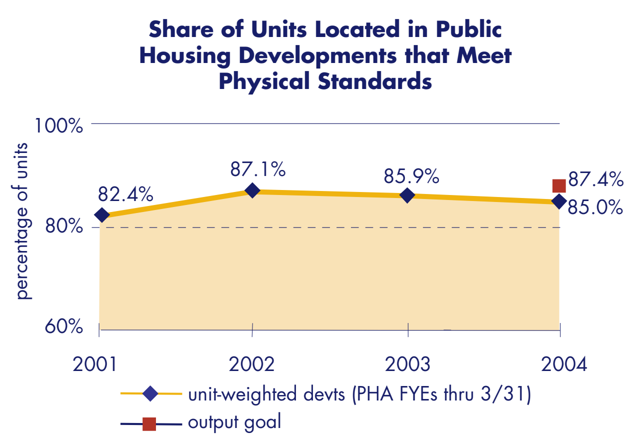
Data discussion. Data for this indicator are from the REAC's Resident Assessment Subsystem. This satisfaction metric was determined by calculating the average number of "Satisfied" or "Very Satisfied" responses to survey question 1B, which asks, "How satisfied are you with your development/building?" This calculation was performed by dividing the total count of residents responding "Very Satisfied" or "Satisfied" by the total count of residents responding "Very Satisfied," "Satisfied," "Unsatisfied," or "Very Unsatisfied." The FY 2004 result for public housing represents PHAs with fiscal years ending between September 30, 2003, and June 30, 2004.

In addition, Multifamily Housing employs stratified sampling, so national representations cannot be drawn from the multifamily survey results. Because sampling strata vary from year to year, annual multifamily survey results are not directly comparable.

A.2.2: The share of public housing units that meet HUD-established physical standards increases by 1.5 percentage points.

Background. HUD requires housing agencies to inspect and maintain public housing to ensure compliance with HUD-established standards for physical condition, or with local codes if they are more stringent. Private owners of assisted housing also have a contractual obligation to meet physical standards.

This indicator tracks the proportion of units in public housing facilities that meet these physical standards, helping the department to monitor its success in improving the physical conditions in public and assisted housing. Housing agencies must obtain a score of at least 60 points in the Physical Assessment Subsystem in order to pass HUD's physical condition standards.



Results and analysis. In FY 2004, 85.0 percent of units in public housing were located in properties with acceptable physical quality, representing a decrease of 0.9 percentage point from the previous year. This result failed to meet the goal of a 1.5 percentage point increase. Much of this decrease is due to new inspection standards and improved data quality. Additionally, two major PHAs that had not been reviewed in three years were part of the FY 2004 sample and contributed to the decrease in the units meeting physical standards because they had not been previously reviewed under the new, more stringent standards. As baseline inspection standards and data quality become more uniform, the Department expects the share of public housing units that meet HUD's physical standards to increase.

According to the REAC, physical inspection scores are analyzed and reported at both the property and unit levels. The REAC database shows that 91.6 percent of public housing projects met or exceeded HUD's physical condition standards in FY 2004, and 8.4 percent of public housing properties failed to meet HUD's physical condition standards. These 8.4 percent of properties represent 15 percent of total units that fail physical condition standards. This means that many of the PHA projects failing to meet HUD's physical condition standards are larger projects.

Data discussion. Data for this indicator are from the REAC Physical Assessment Subsystem. Inspections at PHAs are conducted by contractors and scored by the PIH-REAC system at the project level. The results of project inspections are then aggregated at the PHA level into a PHAS Physical Indicator score and reported as one of four components of the PHAS rule scoring process.

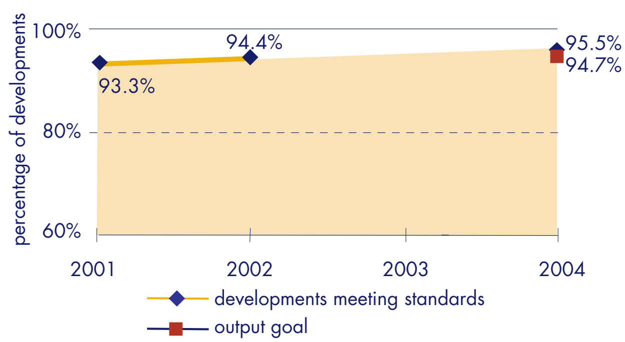
A.2.3: The share of assisted and insured privately-owned multifamily properties that meet HUD established physical standards are maintained at no less than 94.7 percent.

Background. The President's Management Agenda has established this performance indicator as a priority for the Department. Housing agencies are required to inspect and maintain HUD involved housing to ensure compliance with HUD-established standards, or with local codes if they are more stringent. Private owners of HUD involved multifamily housing have a contractual obligation to meet physical standards. For FY 2004, the target has been set at maintaining the proportion of properties that meet acceptable physical condition standards.

Results and analysis. In multifamily housing, 28,958 of 30,319 properties in multifamily's portfolio (95.5 percent) were found to have acceptable physical condition upon inspection, exceeding the target of 94.7 percent. These properties contain 94.4 percent of the multifamily units.

The multifamily program is on a "3-2-1" inspection schedule, so that the higher-performing properties are not reinspected every year like troubled properties; their scores carry forward until a new inspection is conducted.

Assisted Multifamily Developments that Meet Physical Standards



For properties that fail to meet physical condition standards, Multifamily Housing has implemented a stringent program to bring them into compliance through certain, consistent, timely follow-up enforcement action with consequences for failure. Properties scoring below 60 receive immediate attention. Upon the first inspection score below 60, the owner's history of performance, the property's physical condition and severity of the deficiencies are reviewed to decide whether the responsible program participants should be flagged for non-compliance/ performance in HUD's Active Partners Performance System and/or referred to the Departmental Enforcement Center. If referred to the Departmental Enforcement Center, the Center issues a Notice of Violation, or Notice of Default, and meets with the owner to put the owner on notice that failure to correct the deficiencies will result in an enforcement action. The owner is given 60 days in which to make necessary repairs to bring the property into compliance. If upon reinspection, the property again fails to meet standards, enforcement actions are taken. For those properties that the owner either cannot or will not bring into compliance, the alternatives are to force a change in ownership that can bring the property up to standard, or to sever HUD's association with the property.

Between June 1, 2002, and September 30, 2004, HUD identified approximately 400 properties nationally, slightly more than 1 percent of its portfolio, that continued to be substandard by twice failing a REAC physical inspection. Of these, 144 have either been brought up to standard condition or removed from HUD's portfolio, and an additional 100 properties have Compliance Disposition Enforcement Plans active. Another 155 properties are under review and face pending actions. Some are in litigation, bankruptcy, have third inspections pending or are awaiting other actions.

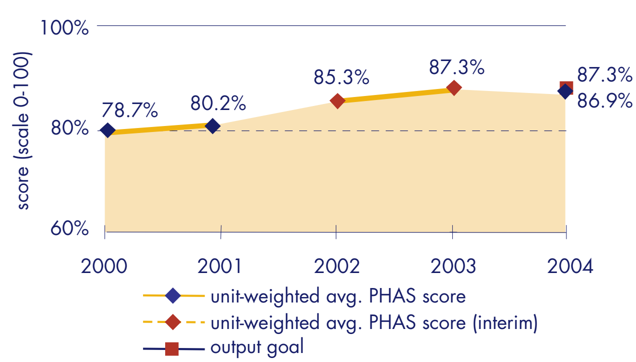
Data discussion. Data for this indicator are from REAC Physical Assessment Subsystem. For private multifamily properties, results for FY 2004 reflect the most recent inspections available as of September 30, 2004. Under the inspection protocols, a substantial share of properties are not scheduled to receive a new inspection during FY 2004, so earlier scores were carried forward.

A.2.4: The unit-weighted average PHAS score remains at least 87.3 percent.

Background. This indicator tracks HUD's progress toward increasing the capability and accountability of PHA partners and increasing the satisfaction of residents. The PHAS assesses the performance of PHAs based on their physical and financial condition and their management quality (30 points each), as well as on resident satisfaction (10 points), for a total score of up to 100 points. PHAS scores provide an indication of the quality of the housing stock and the management conditions within which each public housing resident lives.

Results and analysis. As of the end of FY 2004, the unit-weighted average PHAS score was 86.9 – falling short of the Department's goal.

Average Rating of Public Housing under PHAS



The slight decrease in the unit-weighted average PHAS score was caused principally by two factors that occurred in FY 2004. These are the expiration of the interim scoring, and the deregulation of small PHAs. The expiration of interim scoring resulted in approximately a one-point decrease in the Financial Condition and Physical Condition indicator scores that create the PHAS score since the REAC no longer carried forth scores under the previous, less restrictive standard where scores generally are higher. The deregulation of small PHAs influenced the overall unit-weighted PHAS score by waiving physical inspection for small, high-scoring agencies. These policies may lead to the slight decrease in the overall unit-weighted PHAS average for the reporting period from 87.3 to 86.6. By including the most recent score for all PHAs exempted from PHAS assessment due to the deregulation for small PHAs, the unit weighted PHAS score increases to 86.9 (representing the full universe of all PHAs).

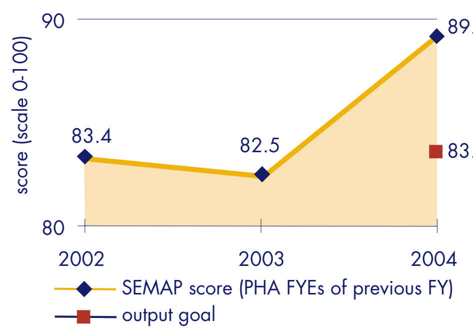
Data discussion. This measure is developed by multiplying the PHAS scores for each PHA by the number of units managed by each agency and dividing by 1,045,704 (the total units in the public housing program). The FY 2004 estimate of 86.9 is based on 3,100 most recent PHAS scores released by the REAC. Forty three PHAs were excluded. These consisted of agencies designated as "Moving to Work" (2), "Invalidated" (12), and "Advisory" (29).

A.2.5: The household-weighted average SEMAP score increases by one percentage point.

Background. The SEMAP scores PHAs' performance on a broad range of indicators to assess the management of the Housing Choice Voucher program administration. These indicators include, but are not limited to, waiting list management, rent reasonableness determinations, adjusted income verification, housing quality standards inspections and enforcement, expanding housing opportunities, lease-up rates, FSS program participation, and correct tenant rent calculations. This indicator uses SEMAP scores to track HUD's progress toward increasing the capability and accountability of housing agency partners in support of the strategic goal of improving the quality of public and assisted housing.

Results and analysis. The average SEMAP rating from March 2003 through December 2003 was 89.2 (a 6.7 percentage point increase over the previous year). The Department exceeded its goal of a one-percentage point increase.

Average Rating of Voucher Program Under SEMAP



Data discussion. Public housing agencies submit their SEMAP certifications into the Public and Indian Housing Information Center for their assessed fiscal year no later than 60 days from the PHA fiscal year end date. Since there is another two-month period between the submission deadline and HUD field office scoring, with additional time required by headquarters to ensure data completeness, HUD assesses its SEMAP-related performance goals based on certifications scored for the most recently completed calendar year. Data are verified through independent public accountant audits and on-site file reviews performed by the field office, or a contracted vendor, based on the field office's Management Plan.

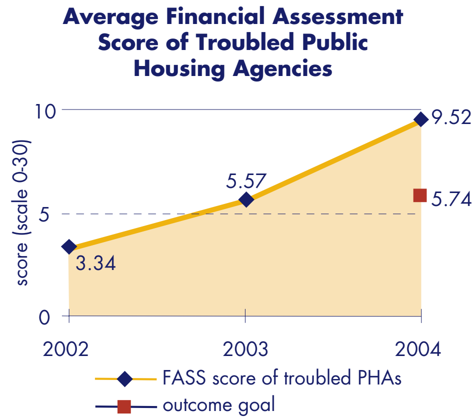
It should be noted that there were 392 small PHAs (with less than 250 voucher units) excluded from SEMAP scoring under deregulation in calendar year 2003. Of the 2,427 PHAs rated with SEMAP scoring for the four quarters from March 2002 through December 2002, only 2,030 PHAs received ratings for the four quarters from March 2003 through December 2003. These PHAs represented a decrease of 42,775 units, or 2 percent, from the 1,970,437 units scored under SEMAP last year.

A.2.6: The average Financial Assessment Subsystem score for all Public Housing Agencies designated by Financial Assessment Subsystem as "troubled" will increase by 3 percent.

Background. REAC is evaluating the financial management of PHAs based on generally accepted accounting principles. REAC plans a similar assessment of tribal properties. The REAC Financial Assessment Subsystem uses Internet-based submission of audited financial information in a standardized format. Data are validated, reviewed, and scored, resulting in standard and substandard designations. This indicator tracks the average Financial Assessment Subsystem scores for troubled agencies each fiscal year to ensure that troubled PHAs improve their financial management and condition.

Results and analysis. The Department exceeded its goal to improve Financial Assessment Subsystem scores for troubled PHAs. According to the REAC database, the average Financial Assessment Subsystem score increased by

71 percent--substantially higher than the 3 percent target. These scores increased from an average of 5.57 points, (out of a possible 30) in FY 2003, to 9.52 points in FY 2004.



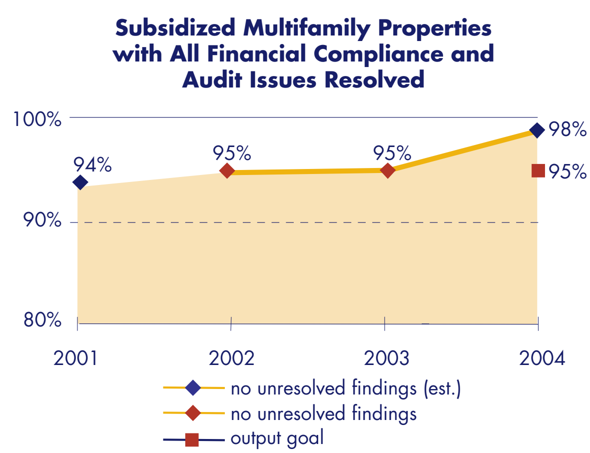
Data discussion. The data source is the REAC Financial Assessment Subsystem. The financial assessment is a process validated by the American Institute of Certified Public Accountants. Further refinements may be necessary as the assessment process matures. The REAC performs Quality Assurance Reviews of the audited financial statements submitted by independent public accountants of PHAs. The Quality Assurance Reviews provide assurance that the audited statements are accurate and reliable and that audits are conducted in accordance with government and professional standards. The Financial Assessment Subsystem incorporates extensive data checks and both targeted and random review by independent auditors.

A.2.7: For households living in assisted and insured privately-owned multifamily properties, the share that meets HUD's financial management compliance is maintained at no less than 95 percent.

Background. REAC evaluates the financial management of HUD-involved, privately-owned multifamily properties. Through the REAC's Financial Assessment Subsystem, multifamily owners electronically submit financial information. Data are validated, reviewed, and compliance checks performed. REAC financial analysts review the compliance flags and may make referrals to the Departmental Enforcement Center or to Multifamily Housing on compliance issues.

Results and analysis. For the reporting period in 2004, the share of properties that had no financial compliance findings was 56.2 percent. The preponderance of compliance findings are quickly resolved by HUD's multifamily project managers in the field offices. For FY 2004, Multifamily field offices brought 98 percent of the properties they financially reviewed into compliance, exceeding the goal of 95 percent.

The Financial Assessment Subsystem also scores financial statements for every HUD-involved property – meaning properties that have Section 8 contracts or other subsidies, and/or mortgage insurance. The Financial Assessment Subsystem score is used as only one criterion in the ranking of a field office's or a project manager's portfolio. The ranking is done as triage to focus attention on the weaker properties or properties that have a higher degree of risk.



In addition, owners not submitting their audited financial statements timely are referred to the Departmental Enforcement Center. The management plan goal for multifamily housing is to have 95 percent of the properties submitting financial statements either have no compliance issues or have such issues corrected, or to have the owner referred to the Departmental Enforcement Center.

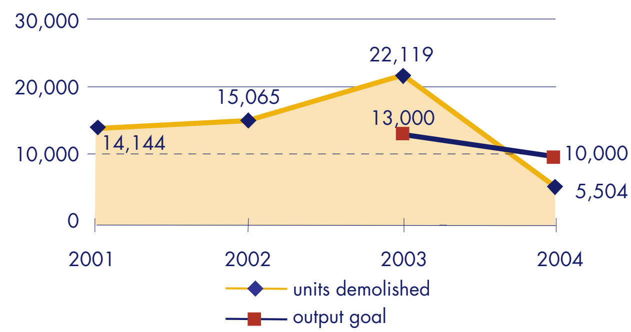
Data discussion. Initial compliance findings are identified by the REAC's Financial Assessment Subsystem. The Real Estate Management System is used for tracking Multifamily's corrective actions. The Financial Assessment Subsystem financial assessment is a process validated by the American Institute of Certified Public Accountants. REAC performs Quality Assurance Reviews of the audited financial statements submitted by independent public accountants. The Quality Assurance Review provides assurance that the audited statements are accurate and reliable and that audits are conducted in accordance with government and professional standards. Financial Assessment Subsystem incorporates extensive data checks and both targeted and random review by independent auditors.

A.2.8: As part of the effort to eliminate 100,000 units of the worst public housing, demolish 10,000 units during FY 2004.

Background. HUD has continued its commitment of removing severely distressed housing from the public housing stock. Often demolishing distressed housing serves as a prerequisite for reconstruction and the relocation of families to safer and more humane environments. Otherwise, families may occupy troubled stock that is physically uninhabitable with severe maintenance problems. Additionally, these distressed developments attract crime and drain valuable housing authority resources because of costly operations and modernizations.

Results and analysis. During FY 2004, PHAs demolished 5,504 units, falling short of the goal of 10,000 demolitions. Data also are available to report on the FY 2003 goal for the first time: 22,119 units demolished, substantially exceeding the goal of 13,000 units. Thus, HUD also exceeded the combined FY 2003–2004 goal of 23,000 demolitions with a two-year total of 27,623. Most importantly, the long-standing cumulative goal of 100,000 demolitions through FY 2003 also was exceeded with a cumulative total of 111,041 units at the end of FY 2003. Furthermore, through FY 2004, HUD had approved for demolition a cumulative total of 165,155 units and PHAs had completed demolition of 116,545 total units.

Public Housing Units Demolished Annually



Although the FY 2004 goal of 10,000 demolitions was not met, it is important to note that the combined FY 2003 and FY 2004 goal of 23,000 was surpassed. The FY 2004 goal was established before the FY 2003 cumulative demolitions were known. Thus, some of the 22,119 demolitions completed in FY 2003 were actually anticipated for 2004. Because of the time between PHA demolition completion and HUD approval, it is difficult to estimate precisely how many units will be demolished in a given year.

As reflected in indicator A.2.9, demolitions completed in relation to HOPE VI projects account for a sizable fraction of total demolitions, numbering 63,082 at the end of FY 2003 and 68,001 as of June 30, 2004 (the most recent HOPE VI data available).

Data discussion. Until the end of FY 2002, data were collected in the Public and Indian Housing Integrated Business System. Field staff verified that units were demolished. The Integrated Business System was taken out of production during FY 2003 for a number of reasons including incompatibility with upgrades being implemented by the Department. Field offices were instructed to stop inputting demolition data into the Integrated Business System at the end of FY 2002.

The transition to the tracking system that is replacing the Integrated Business System has taken longer than planned due to unforeseen contracting delays as well as the imposition of more extensive validation of the data than was required in conjunction with the Integrated Business System process. At this point, the new system has been installed (the Demolition/Disposition module in the Public and Indian Housing Information Center system) and used to collect FY 2003 and FY 2004 figures. Internal validation on the transfer of Integrated Business System data into the new system has been completed, and the transfer itself has been completed. The last piece, the reconciliation/validation process of the data, is almost complete. Completion of this final process may reveal some additional unit demolitions completed in FY 2004.

A.2.9: The HOPE VI Revitalization Development program for public housing relocates 3,300 households, demolishes 4,000 units, completes 6,900 new and rehabilitated units, and occupies 6,200 units.

Background. HOPE VI has been HUD's primary program for redeveloping the worst public housing by demolishing unsustainable developments and rebuilding communities in accordance with community-sensitive principles. This indicator tracks the implementation of HOPE VI redevelopment plans in terms of four key outputs: households relocated to permit redevelopment, units demolished, new and rehabilitated units completed, and units occupied. The annual goals reflect planned achievements based on HOPE VI plans submitted to HUD by PHAs.

Results and analysis. As of June 30, 2004, the HOPE VI Revitalization program had exceeded its redevelopment plans in two of the four key outputs. Grantees relocated 4,618 households to permit redevelopment, 40 percent above the goal of 3,300 relocations. The HOPE VI program demolished 4,919 units, 23 percent more than the goal of 4,000. Completions of new or rehabilitated units totaled 4,132, achieving 60 percent of the 6,900-unit goal. Families occupied 4,210 units, reaching 68 percent of the goal of 6,200 occupied units. Because only three quarters of data were available at the time of submission, it is not possible to determine conclusively whether all unit completion and occupancy goals for FY 2004 have been met.

Based on the 54-month implementation period for HOPE VI grants, since program inception a cumulative total of 56,221 households had been relocated, achieving 99.5 percent of the 56,486 standard; 68,001 units had been demolished, 20 percent less than the standard of 84,656; 33,765 units (new and rehabilitated) had been completed, 61 percent less than the 87,389-unit standard; and 31,464 completed units had been occupied, 64 percent below the standard of 86,567.

The HOPE VI program office continues to emphasize timeliness and accountability in the implementation of HOPE VI grants in order to achieve its goals. The primary tool for achieving these objectives include vigilant management and monitoring of grants by grant managers, holding PHAs accountable to following their program schedule, extensive use of the quarterly progress reporting system in all aspects of the HOPE VI program, risk assessment of grantees, and a range of programs and policy guidance.

Data discussion. The data are submitted quarterly to HUD by PHAs via PIH's HOPE VI quarterly progress reporting system. In addition to the grant management tools mentioned above, field staff verifies reports of redevelopment progress through site visits. The system has been subject to routine integrity checks by the system administrator. Though the Inspector General and the Government Accountability Office have not audited the system itself, they have used its data in their reviews of the HOPE VI program.

Supplemental Information

Cumulative Achievements for HOPE VI

	FY 2001	FY 2002	FY 2003	FY 2004*	Achievement Standard**
Households relocated	39,758	44,744	51,603	56,221	56,486
Units demolished	46,827	55,614	63,082	68,001	84,656
Units completed	14,439	21,022	29,633	33,765	87,389
Units occupied	13,619	19,742	27,254	31,464	86,567

* To accommodate the accelerated deadline, FY 2004 only includes figures from the first three quarters.

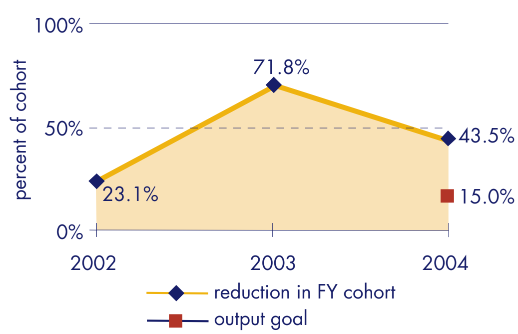
** The Achievement Standard is based on grantees' planned achievements, taking into consideration Grant Agreement deadlines and factors influencing performance. Standards are: Relocation and demolition should be 100% complete for FY 1993-2001 grantees, and 50% complete for FY 2002 grantees. Unit completion and occupancy should be 100% complete for FY 1993-1997 grantees, and partially complete, based on decreasing percentages, for FY 1998-2002 grantees.

A.2.10: The percent of public housing units under management of troubled housing agencies at the beginning of FY 2004 decreases by 15 percent by the end of the fiscal year.

Background. PIH and REAC use PHAS to evaluate the performance of PHAs based on four categories: physical condition, management operations, financial condition, and resident satisfaction. Housing agencies with composite scores below 60 percent, or scores below 18 percent in any one component, are classified as "substandard" or "troubled." This indicator tracks the change in the number of units managed by "troubled" agencies at the beginning of the fiscal year that successfully return to "standard" status by the end of the fiscal year due to intervention by the Department.

Results and analysis. During FY 2004, the number of units managed by "troubled" housing authorities was reduced by 44 percent, exceeding the 15 percent target. On October 1, 2003, 94 PHAs, containing 43,932 low-rent units, were assigned to the Department's Troubled Agency Recovery Centers. By September 30, 2004, 19,126 of those units were no longer "troubled" after receiving assistance from the PIH field office's and the Recovery and Prevention Corp. The Department credits its success in this area to new efforts to reduce troubled housing agencies. These efforts include careful monitoring of the field offices' troubled portfolio along with quick intervention and new training techniques to recover troubled PHAs.

Percent of Units in Troubled PHAs that are Returned to Standard Status during Fiscal Year



Data discussion. To calculate the percent of troubled housing units that are no longer managed by troubled agencies, the Department collects and analyzes the October 2003 and September 2004 troubled lists. The Troubled list is a monthly document that reports the status of troubled PHAs. Public housing agencies will remain on the Troubled list until the housing authority receives a passing PHAS score—i.e. recovered. For purposes of this analysis the Department only examines data related to low-rent units.

To identify changes to the number of low rent units under the management of troubled PHAs, the October 2003 Troubled list served as the control group for measuring variation in the Troubled portfolio. Because PHAS scores are released on a daily basis it is necessary to establish a control group to assess changes in the scores/designations. To determine the rate at which field offices were recovering troubled agencies for FY 2004, the Department tracked the number of PHAs that were added or removed from the troubled list. The Department then compared the number of PHAs that were listed on the October 2003 report to the number of PHAs that are shown on the September 30, 2004, list. Those PHAs that were not reported on the September 30 list are considered recovered. The number of units managed by the recovered PHAs was used to calculate the percentage decrease in units managed by troubled agencies.

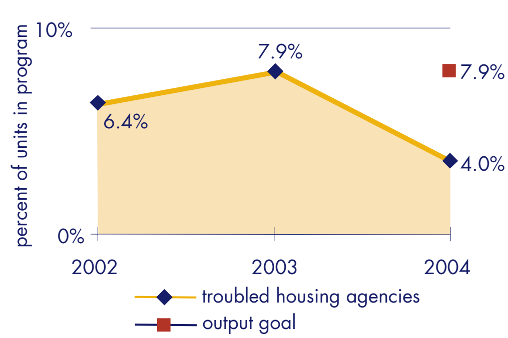
The analysis only represents a “snap-shot” of the Department’s ability to assist troubled PHAs. Because of reporting delays, appeals, or quality assurance reviews, PHA scores are not always released in a timely fashion. Because of these fluctuations in the release or changes to the scores, this analysis only reflects variations between scores and units of the control group (October 2004 Troubled List) and the PHAs that were deemed troubled as of September 30, 2004.

A.2.11: Maintain the share of Housing Choice Voucher units managed by troubled housing agencies at the FY 2003 level.

Background. By maintaining a low share of vouchers managed by troubled housing agencies, the Department hopes to insure that all vouchers are used effectively. This indicator tracks the share of assistance under the Housing Choice Voucher program that is vulnerable to mismanagement by troubled housing agencies. Using SEMAP, HUD rates PHAs based on, but not limited to, waiting list management, rent reasonableness determinations, adjusted income verification, housing quality standards inspections and enforcement, expanding housing opportunities, lease-up rates, Family Self-Sufficiency program participation, and correct tenant rent calculations. PHAs are designated as troubled when they receive less than 60 percent of the maximum points they can achieve.

Results and analysis. The share of housing vouchers managed by troubled housing agencies decreased by 50 percent, exceeding the Department’s goal. Out of the 2,030 PHAs that received SEMAP ratings for the four quarters from March 2003 to March 2004, 142 were declared troubled. This represented 76,299 units out of 1,927,662, or a share of assistance of 3.96 percent. For the four quarters from March 2002 to March 2003, 7.93 percent of vouchers were managed by troubled housing agencies. In addition, the Department was successful in reducing the total number of vouchers managed by troubled PHAs. There were 79,946 fewer units managed by troubled PHAs in 2003, representing a significant decrease of 51 percent from the 156,245 units managed by troubled PHAs in 2002.

Vouchers Managed by Troubled Housing Agencies



Data discussion. PHAs submit their SEMAP certifications into the Public and Indian Housing Information Center for their assessed fiscal year no later than 60 days from the PHA fiscal year end date. Since there is another two-month period between the submission deadline and HUD field office scoring, with additional time required by headquarters to ensure data completeness, HUD assesses its SEMAP-related performance goals based on certifications scored for the most recently completed calendar year. Data are verified through Independent Public

Accountant audits and on-site file reviews performed by the field office or a contracted vendor, based on the field office's Management Plan.

It should be noted that there were 392 small PHAs with less than 250 voucher units that were excluded from SEMAP scoring under deregulation in calendar year 2003. Of the 2,427 PHAs rated with SEMAP scoring for the four quarters from March 2002 through December 2002, only 2,030 PHAs received ratings for the four quarters from March 2003 through December 2003. These PHAs represented a decrease of 42,775 units, or 2 percent, from the 1,970,437 units scored under SEMAP last year.

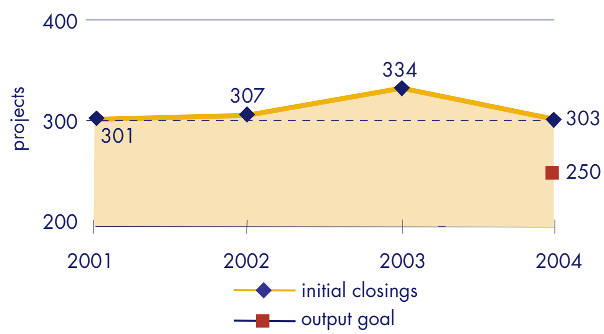
Objective A.3: Increase housing opportunities for the elderly and persons with disabilities.

A.3.1: Increase the availability of affordable housing for the elderly and persons with disabilities by bringing 250 projects to initial closing under Sections 202 and 811.

Background. HUD provides a substantial number of housing units for populations with special needs each year. Project sponsors can receive grants for multifamily development under the Supportive Housing for the Elderly (Section 202) program and the Supportive Housing for the Disabled (Section 811) program. This indicator tracks the number of projects each year that reach the closing stage (when the project design has been approved and all of the local community requirements have been met).

Results and analysis. During FY 2004, HUD reached initial closing on 303 Section 202 and 811 projects resulting in an additional 6,360 Section 202 units and 1,666 units for persons with disabilities. The performance exceeded the closing goal by 21 percent.

Initial Closings of Developments Under Sections 202 and 811



In recent years HUD has increased the emphasis on timely closings. Section 202 and 811 projects can be difficult to bring to closing because sponsors usually must find other sources of funding to supplement the Section 202 or Section 811 capital advances. Some project features are not fundable by the program but are necessary to meet the needs of the population. Sponsors may experience cost increases between the time of application and the projected time for construction. Other delays are encountered because neighborhoods sometimes oppose the developments. As a result of recent progress, the pipeline of fund reservations for Section 202 projects over four years old has been declining, going from 124 projects in FY 2001 to 9 projects by the end of FY 2004.

To address these issues, strategies have been implemented to expedite processing. One strategy was to delegate more authority to field staff. Another was to conduct classroom training of field staff for the first time in over a decade to reinforce the requirements of Notice 96-103, which streamlined the processing for 202/811 projects.

Another strategy addresses the issue of external sources of funding. Beginning in FY 2001, non-profit owners of Section 202 and Section 811 developments could indicate their intention to form limited partnerships with for-profit entities. The partnerships will help them compete for low-income housing tax credits for the purpose of increasing the number of affordable housing units available to meet the needs of the elderly and persons with disabilities. Additionally, in FY 2004, HUD began a study of the costs of developing Section 202 and Section 811 projects. This should result in a revision of the development cost limits in FY 2005 to reflect more accurately the actual cost of developing these projects.

Data discussion. This measure uses data from the Development Applications Processing system. The Development Applications Processing data also are used to track management plan goals and accomplishments, which helps to ensure that data are accurate. Field offices regularly review data to assure their accomplishments are accurately reflected.

A.3.2: Section 202/811 tenants' satisfaction shall be compared to similar survey data for the low-income elderly as reported in the American Housing Survey.

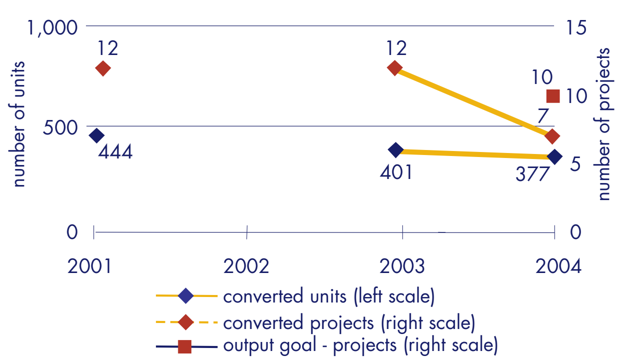
Background. This indicator was developed to expand understanding of the quality of life that elderly households and persons with disabilities experience when they live in supportive housing funded by Section 202/811 direct loans. This indicator was discontinued as part of HUD's joint effort with OMB to develop a more focused portfolio of outcome-oriented performance indicators.

A.3.3: The number of assisted-living units that HUD supports through Assisted Living Conversion program increases by completing conversion of 10 Section 202 properties.

Background. HUD's FY 2002 appropriations included funds to convert Section 202 multifamily projects for the elderly to assisted living. The conversions may involve entire projects or a subset of their units. This funding responds to the projected increase in demand for assisted living accommodations caused by the aging of the baby boom generation. Initial closings of conversions will be subject to state licensing requirements, creating potentially lengthy conversion timetables. This indicator tracks the number of Section 202 developments that complete their modifications under the Section 202 conversion program within a reasonable period. The goal was to convert by the end of FY 2004 another 10 developments to assisted living.

Results and analysis. During FY 2004, HUD and the owners of seven properties completed the conversion process under the Section 202 Program, providing an additional 377 units of assisted living. Although HUD missed its target, a number of additional projects started construction in FY 2004 that should enable HUD to meet its goal of 10 properties in FY 2005. These properties are difficult to complete because construction is often delayed by unanticipated construction changes, getting building permits, and the need to get additional funds to pay for changes required by the locality and/or increased construction costs.

Section 202 Elderly Projects Converted to Assisted Living



Data discussion. This measure is based on the Section 202 conversion grant database, consisting of annual progress reports submitted by grantees. The Office of Housing verifies grantee reports by monitoring.

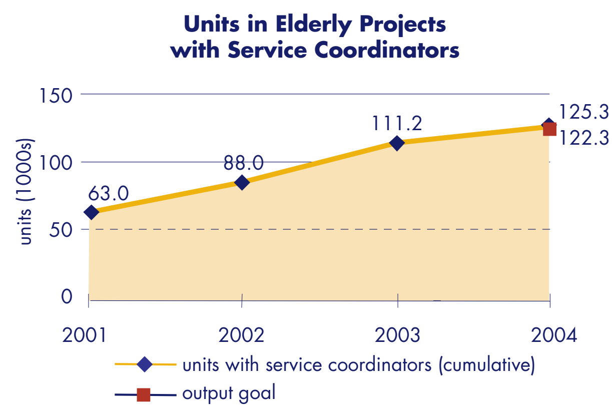
A.3.4: The number of elderly households living in private assisted housing development that is served by a service coordinator for the elderly increases by 10 percent.

Background. Service coordinators improve the quality of life of elders by helping them remain as active and independent as their health permits. Service coordinators for assisted housing projects are funded: through grants made by the Office of Housing, and from assisted housing project budgets and reserves.

HUD received a significant increase in funding for service coordinators in assisted multifamily housing, from $13 million in FY 1999 to $50 million in FY 2000, to help meet the needs of a growing population that is aging in place. The Service Coordinator program was funded at $50 million again in FY 2001, FY 2002, and FY 2003. For FY 2004, $30 million was appropriated.

Results and analysis. During FY 2004, Service Coordinator grants funded service coordinators for 14,126 additional units in elderly projects. The new grants increased the total number of units in elderly developments with service coordinators by 11 percent, to over 125,000, exceeding the 10 percent target.

The total includes currently-funded developments that were first funded in FY 1998 and following years. A small additional number of units in developments funded prior to FY 1998 have not been determined. Elderly households are defined as families or individuals with a head or spouse aged 62 or older.



Of the $30 million appropriation for FY 2004, $19 million, plus some carry over funds from prior years, was used for 124 grants to fund service coordinators in new properties. The balance was used to renew existing properties. The number of units with service coordinators is dependent on appropriation levels and the quality of applications submitted. To increase the number of service-enhanced units, HUD will continue to encourage owners to use residual receipts to leverage federal resources. The Department also will enhance the Service Coordinator program as appropriate on the basis of ongoing program reviews, grantee operations and Notice of Funding Availability responses. The Department also encourages service coordinators to assist low-income elderly families living near, as well as those residing in, Section 202 projects.

Data discussion. This measure uses data for elderly private multifamily projects with service coordinators from the Office of Housing service coordinator grants database. Data validation is ongoing with the field offices active in using the program.

Objective A.4: Help HUD-assisted renters make progress toward self-sufficiency.

A.4.1: By FY 2008, increase the proportion of those entering HUD's housing assistance programs who "graduate" from assistance within five years (or receive continuing assistance as homeowners) because their income is sufficient to pay for adequate housing.

Background. HUD's public and assisted housing programs provide low-income families with housing stability that offers an opportunity for families to gain self-sufficiency. This indicator, adopted in HUD's FY 2003-2008 Strategic Plan, measures the proportion of those families that have been assisted for five years or fewer that are leaving federally assisted housing with income sufficient to pay for adequate housing on their own. The transition of families to adequate shelter of their own allows HUD to serve more families in need of housing assistance. This measure excludes the elderly but includes disabled persons who can work.

Results and analysis. HUD is continuing to test methodologies for reporting this outcome.[5] In the interim, HUD has established a baseline for a proxy measure of tenant progress toward self-sufficiency. This measure shows that among non-elderly non-disabled households admitted to the public housing program in the past five years, 1.15 percent, or 3,883 households, left the program and had incomes sufficient to afford market-rate housing. In the voucher program (see below), a comparable figure is 0.72 percent, or 6,757 households. As of June 30, another 1,510 households, including elderly and disabled households, were active participants of the Homeownership Voucher program and thus were using voucher assistance to purchase homes.

These results show that among assisted households for whom age or disability is not a barrier to self-sufficiency, the baseline proportion that achieves self-sufficiency within five years is small. For comparative purposes, during FY 2004, 4.7 percent of all non-elderly non-disabled households in public housing could afford market rents, while only 0.8 percent of non-elderly non-disabled voucher holders could. The higher level in public housing may reflect the efforts of housing agencies to promote mixed-income residency in their projects using flat rents.

The results also reflect a substantial level of turnover in public and assisted housing. FY 2004 records represent 529,000 non-elderly non-disabled households in public housing, of which 64 percent entered the program during the past five years. Among 1,254,000 non-elderly non-disabled voucher holders, 75 percent have been participating for five years or less. The majority of households exit the programs within five years without achieving sufficient incomes to afford fair market rents, yet many of these choices presumably allow households to take advantage of better opportunities.

Data discussion. The proxy estimates reported here are based on administrative data in the Public and Indian Housing Information Center household reports (Form 50058). The results represent non-elderly non-disabled households who entered public housing or Section 8 tenant-based programs in the five years preceding June 30, 2004, and also had a 50058 record during the 12 months preceding June 30. The incomes of those who ended program

[5] During FY 2004, Policy Development and Research completed a pilot study that tested the feasibility of "passive tracking" of long-term outcomes of a random sample of households who leave public and assisted housing ("Where Are They Now? A Study to Identify, Locate and Survey Former Residents of Subsidized Housing"). The study demonstrated that passive tracking is not feasible, cost-effective or results in a representative sample. As a result, plans for a larger study using passive tracking have been discontinued. The alternative, actively tracking leavers, is difficult and costly. HUD is exploring the feasibility of cooperating with the Department of Labor to link Public and Indian Housing Information Center data with the Administrative Data Research and Evaluation Alliance, which could provide access to household outcome data from nine states representing 43 percent of the nation's workforce.

participation in the 12 months preceding June 30 are compared with Fair Market Rents to determine whether market rents are affordable to them at 30 percent of income. The Section 8 voucher results include Housing Choice Voucher and Certificate programs as well as a small number of residents of Moderate Rehabilitation projects funded through Section 8 housing agencies.

The data have minimal sampling error because they represent a census of assisted households. High reporting rates limit non-response error. The proxy measure also excludes households who ended participation before July 1, 2003 – even if their stays were shorter than five years – thus ensuring that comparable estimates can be reported in future years without double-counting.

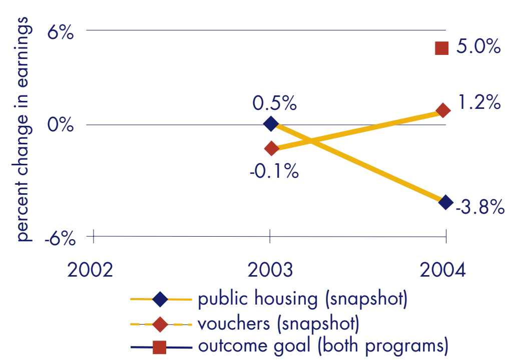
Two factors suggest that actual self-sufficiency outcomes may be higher than indicated by this measure. First, because starting and ending dates are not subtracted for individual households, the proxy methodology excludes households who entered before June 30, 1999, and completed up to five years of participation during the 12 months ending June 30. Thus, a small proportion of those who may be more likely to have successfully achieved self-sufficiency are excluded from this sample. Second, HUD's quality control studies have demonstrated a significant level of underreported income in these programs, which indicates that income-based estimates of self-sufficiency such as these reflect a downward bias. HUD's ongoing rental integrity effort is substantially reducing the impact of this factor.

A.4.2: Average earnings increase by 5 percent from year to year among non-elderly non-disabled households in the public housing and Housing Choice Voucher programs.

Background. Housing agencies help voucher recipients and public housing residents make progress towards self-sufficiency by providing affordable housing, income disregards and some Family Self-Sufficiency programs. This indicator tracks how earnings change among assisted households from year to year. Elderly and disabled households are excluded, as are those who enter the programs during the fiscal year.

Results and analysis. Average earnings of non-elderly, non-disabled households in the public housing program during FY 2004 decreased by 3.8 percent on average from their levels the previous year. Average earnings among voucher households increased by 1.2 percent. Performance for both programs fell short of the goal of a 5 percent increase in average earnings. The likely cause of this result is the impact of quotas imposed by law through the Quality Housing and Work Responsibility Act of 1998, where all new vouchers must be primarily distributed so that 75 percent of all new vouchers must go to families with incomes below 30 percent of median income.

Average Change in Earnings from Previous Year Among Assisted Households



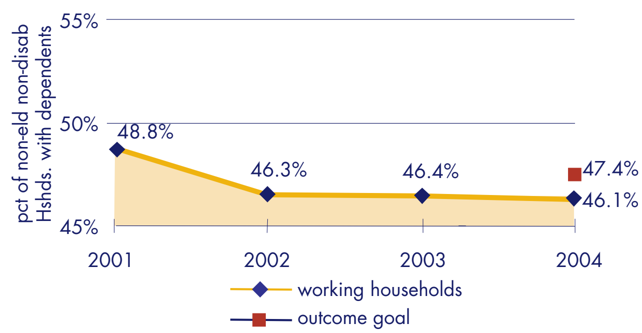
Data discussion. Earned income data for the public housing and voucher programs come from the Public and Indian Housing Information Center household reports (Form 50058). Measures for the public housing and voucher programs are based on 12-month periods ending June 30 to accommodate accelerated reporting. The voucher program includes Housing Choice Voucher, Certificate, and Moderate Rehabilitation programs.

A.4.3: Among non-elderly non-disabled public housing households with dependents, the share that derive more than 50 percent of their income from work increases by 1 percentage point.

Background. This indicator tracks the success of housing agencies in attracting working families and in promoting work participation among existing residents. It focuses on public housing and reflects changes in income composition among residents resulting from public admissions policies, as well as self-sufficiency policies. To promote some mix of incomes in housing, the Quality Housing and Work Responsibility Act of 1998 authorized PHAs to adopt admissions policies that provide up to 60 percent of newly available public housing units to families with incomes as high as 80 percent of the area median. The Act also gave public housing tenants the option of paying flat rents that do not increase as income increases, which can be an incentive for families to work by allowing them to earn additional income from work without the penalty of increased rents. The Family Self-Sufficiency and Resident Opportunities for Self-Sufficiency programs likewise may help agencies promote and support work among public housing families.

Results and analysis. The Department fell short of its 47.4 percent target. However, the total number of families receiving a majority of their income from earnings increased from 149,343 to 154,997. Performance data for FY 2004, from July 1, 2003, to June 30, 2004 (latest available data), show that 46.1 percent of non-elderly, non-disabled families with dependents in the Public Housing program received a majority of their income from earnings, a decrease from 46.4 percent observed for the previous year.

Public Housing Households with Dependents Earning More than Half of Income by Working



It should be noted that recent efforts by assisted households to increase their work earnings are not reflected in this analysis. By allowing residents to increase their short-term income without concern of rent increases, HUD encourages residents to increase income from working through the Earned Income Disregard. The Earned Income Disregard lowers residents' total annual income reported by excluding 100 percent of increases in income for the first 24 months and 50 percent for the second 24 month period of the eligible resident's employment. The Earned Income Disregard affects the percentage of residents earning more than 50 percent of their income from work because disregarded income is not included in the resident's total annual income.

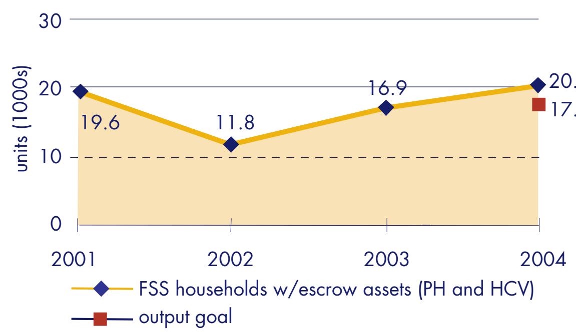
Data discussion. Data came from the Public and Indian Housing Information Center Form 50058 report module, consisting of household data submitted electronically by housing agencies. As indicated above, the reporting period is July 1, 2003, to June 30, 2004, due to the accelerated reporting deadline. The Public and Indian Housing Information Center verifies the accuracy of tenant data by performing automated checks on data ranges and internal consistency.

A.4.4: The number of public housing and Housing Choice Voucher households that have accumulated assets through FSS Program increases by 5 percent and the average escrow amount for FSS graduates increases.

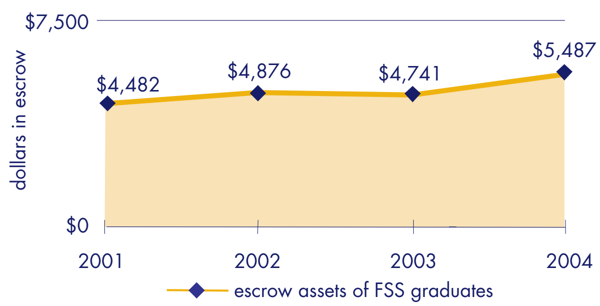
Background. The FSS program supports HUD's strategic objective of helping assisted families progress toward economic self-sufficiency. Through the FSS program, public housing residents and housing choice voucher program families develop skills that enable them to increase their income and build assets. This indicator measures increases in earnings by counting the number of FSS program participants with positive escrow balances, and the average escrow amount disbursed to graduates during the fiscal year.

Housing agencies and their communities develop and implement local strategies that provide FSS families with opportunities for education, job training, counseling, job search assistance and other services. Families that enroll in the FSS program enter into five-year FSS contracts with housing agencies. When an FSS participant's earned income increases, the family's rental payments increase, but a portion of the increased rent is deposited in an interest-bearing escrow account by the PHA administering the FSS program. A family receives its escrow funds upon successful completion of its FSS contract. At the time of contract completion, no family member can be receiving welfare assistance.

Households with FSS Escrow Assets



Average Escrow Balance of FSS Graduates



Results and analysis. In FY 2004, the number of FSS families in HUD's Public and Indian Housing Information Center database with positive escrow balances significantly exceeded the FY 2004 goal of a five percent increase and the average escrow account balances disbursed to graduates increased above the FY 2003 level. In FY 2004, there were 20,543 families with accumulated escrow account assets, an increase of more than 21 percent above the FY 2003 level of 16,870. Some of this increase is due to accounting improvements in the Public and Indian Housing Information Center database.

In addition, the average escrow disbursement in FY 2004 was $5,487, an increase of more than 15 percent above the FY 2003 average escrow disbursement of $4,741. The number of graduates also increased from 802 in FY 2003, to 1,172 in FY 2004.

Data discussion. Data on public housing and housing choice voucher FSS families come from HUD's Public and Indian Housing Information Center 50058 data system. PHAs submit FSS program enrollment, progress and exit reports for each participating family using the Form HUD-50058. The enrollment report shows the status of the family when it enters the FSS program. Progress reports are prepared and submitted in connection with income recertification of program participants. The percentage of families with positive escrow account balances is calculated for families with progress reports, because a family can have no escrow credits prior to its first FSS progress report.

As in previous years, data for this indicator covers a 12-month period. For FY 2004, the period from July 1, 2003, through June 30, 2004, was used to accommodate accelerated performance reporting requirements. Data for FY 2003 was for the 12-month period from July 1, 2002, through June 30, 2003. Accuracy of Public and Indian Housing Information Center data is verified by performing automated checks on data ranges and internal consistency.

3. Goal C: Strengthen Communities

Strategic Objectives

C.1 ***Provide capital and resources to improve economic conditions in distressed communities.***

C.2 ***Help organizations access the resources they need to make their communities more livable.***

C.3 ***End chronic homelessness and move homeless families and individuals to permanent housing.***

C.4 ***Mitigate housing conditions that threaten health.***

Performance Report Card - Goal C

	Performance Indicators	2001	2002	2003	2004	2004 Target	Substantially Met	Notes
C.1.1	A total of 84,000 jobs will be created or retained through CDBG.		90.3	108.7	78.8	84	No	l
C.1.2	Renewal Communities, EZ and EC areas achieve community renewal goals in four areas – new or rehabilitated affordable housing units completed, homeless persons assisted, and residents finding or retaining a new or existing job. Cumulative goals.	25,721 44,358 154,517	32,514 50,487 169,935	34,835 47,657 189,416	39,226 60,591 236,308	35,872 53,000 207,745	Yes Yes Yes	
C.1.3	A total of 3,728 at-risk youths are trained in construction trades through Youthbuild.	3,762	3,729	4,123	3,896	3,728	Yes	
C.1.4	Brownfields Economic Development Grants will support the creation of 5,000 jobs.	N/A	N/A	N/A	6,856	5,000	Yes	
C.2.1	Streamline the Consolidated Plan.						Yes	g
C.2.2	Evaluate results from the Consolidated Plan Improvement Initiative to determine needed changes to grant management system requirements to support local setting and tracking of performance relative to national program goals by September 30, 2004.						Yes	g
C.2.3	The share of CDBG entitlement funds for activities that principally benefit low- and moderate-income persons remains at or exceeds 92 percent.	94.9%	94.4%	94.8%	94.9%	92%	Yes	
C.2.4	The share of State CDBG funds for activities that principally benefit low- and moderate-income persons remains at or exceeds 96 percent.	96.4%	96.4%	96.7%	96.4%	96%	Yes	
C.2.5	Endorse FHA single family mortgages in underserved communities.	412	492	464	394	390	Yes	l
C.2.6	The number of multifamily properties in underserved areas insured by FHA is maintained at 25 percent of initial endorsements.	24.8%	33.7%		34%	25%	Yes	

	Performance Indicators	2001	2002	2003	2004	2004 Target	Substantially Met	Notes
C.2.7	HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined geographic targets for mortgage purchases in underserved areas.	31.0% 29.2	32.6% 31.7%	32.8% 31.0%	32.1% 32.7%	31% 31%	Yes Yes	e e
C.3.1	At least 360 functioning Continuum of Care Communities or 90 percent of our continuums will have a Homeless Management Information Systems	12	24	75	284	360	No	
C.3.2	The number of chronically homeless individuals declines by up to 50 percent by FY 2008.	N/A	N/A	N/A	N/A	N/A	No	b
C.3.3	The Samaritan Housing Initiative will be fully implemented and the number of chronically homeless who are assisted will be maximized.	N/A	N/A	N/A	N/A	N/A	N/A	i
C.3.4	HUD's homeless programs will help at least 80,000 homeless persons move into permanent housing.				85,935	80,000	Yes	
C.3.5	At least 180,000 homeless people become housed in HUD-funded transitional housing with supportive services.	N/A	192,392	158,824	162,450	180,000	No	
C.3.6	At least 45,000 homeless persons become employed while in HUD's homeless assistance projects.				45,066	45,000	Yes	
C.3.8	Overcrowded households in Indian country shall be reduced by one percent.				2,115	472	Yes	
C.4.1	The average number of observed exigent deficiencies per property does not exceed 3.41 for public housing and 2.10 for multifamily housing.	2.09 1.81	1.50 1.46	1.52 1.41	1.85 1.40	3.41 2.10	Yes Yes	
C.4.3	The share of units that have functioning smoke detectors and are in building with functioning smoke detectors increases by 0.5 percentage points for public housing and by 0.7 percentage points for assisted multifamily housing.	89.8% 91.5%	91.4% 92.4%	91.8% 91.8%	92.8% 93.4%	92.3% 92.5%	Yes Yes	
C.4.4	The number of children under the age of 6 who have elevated blood lead levels will be less than 260,000 by 2004, down from 890,000.			434	N/A	260	N/A	a, l
C.4.5	As part of a ten-year effort to eradicate lead hazards, the Lead Hazard Control Grant program will make 8,390 units lead safe in FY 2004.	8,212	8,040	9,098	8,811	8,390	Yes	
C.4.6	$25 million Innovative Lead Hazard Reduction Program.					N/A	N/A	b
C.4.7	Seven new Healthy Homes Initiative grants will be executed in 2004.	12	15	6	11	7	Yes	
C.4.8	Through the Administering Organization, HUD will support the Manufactured Housing Consensus Committee in meeting the milestones provided in the Manufactured Housing Improvement Act of 2000						Yes	g

a Data not available.
b No performance goal for this fiscal year.
c Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).
d Calendar year beginning during the fiscal year shown.
e Calendar year ending during the fiscal year shown.
f Other reporting period.
g Result too complex to summarize. See indicator.
h Baseline newly established.
i Authorizing legislation under consideration by Congress.
j Overall goal established rather than subgoals.
k Result is estimated.
l Number is in thousands.
m Indicator met combined FY 2003 and FY 2004 goals.
n Number reported in billions.

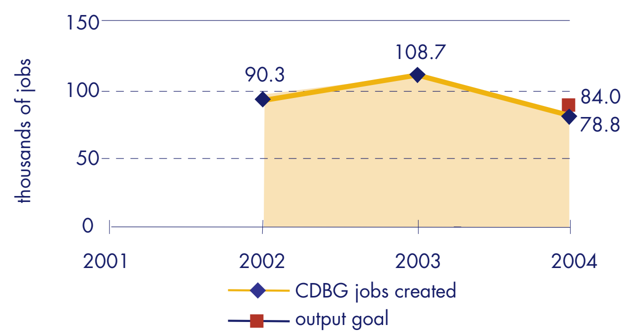
Objective C.1: Provide capital and resources to improve economic conditions in distressed communities.

C.1.1. A total of 84,000 jobs will be created or retained through CDBG.

Background. This measure tracks the number of jobs that grantees report as created or retained through CDBG. This indicator parallels one of the means cited by the CDBG legislation, expanding economic opportunities, to achieve the program's primary objective of developing viable urban communities. Creating or retaining jobs and other activities related to expanding economic opportunities for persons who are of low or moderate income are critical to achieve and maintain viable urban neighborhoods. Job creation and retention provide long-term benefits to individuals, households, neighborhoods and communities.

Results and analysis. For FY 2004, CDBG grantees reported that 78,828 full-time-equivalent jobs were created or retained with CDBG funds during the fiscal year. This is a shortfall of 6.16 percent from the projected goal and a decline of 27.5 percent from the FY 2003 actual of 108,684 Full-Time Equivalents.

Number of Jobs Created or Retained through CDBG



The total amounts expended for activity categories that create or retain jobs increased slightly, by 1.97 percent, from $341.3 million in FY 2003 to $348.1 million in FY 2004. However, within these categories used for this measure, there was a 58.53 percent decline in expenditures from FY 2003 to FY 2004 for the category of activity "Commercial/Industrial Land Acquisition/Disposition." Typically, such activity generates a high number of jobs per dollar of CDBG funds expended because land costs are a relatively small proportion of the total cost of an economic development project, as compared with economic development assistance to for-profit businesses, for which CDBG is often used to pay for all or most of the development costs of a project.

Another factor is that in the last two years the Department has carried out an extensive data clean-up effort, particularly with regard to activity accomplishment data, to eliminate duplicate or incorrect entries that in the past may have provided somewhat inflated counts. Additionally, the applications for Section 108 Loan Guarantee assistance that were approved in FY 2004 reported that the number of jobs that would be created or retained would total 10,250. This represents a 12.6 percent decrease from the 11,730 jobs reported in FY 2003. Because the Section 108 Loan Guarantee program is a demand-driven program, the number of loan guarantee requests, the amount of the assistance requested, and the types of activities (e.g., economic development, public infrastructure, housing rehabilitation) are dependent upon the demand from public entities.

The FY 2004 cost per job created or retained was approximately $4,416 per job. The FY 2003 cost per job was approximately $3,140 per job created or retained. This cost per job is not a life cycle cost in that it does not consider program income generated by an activity as the result of a loan to a business nor does the figure consider business failures that might occur.

During FY 2003, the Department completed a significant evaluation of CDBG funded economic development, entitled "Public Sector Loans to Private-Sector Business." This report is available at: **http://www.huduser.org/publications/econdev/pubsec_loans.html.** The report blended information from five distinct sources covering CDBG funds from 1996 through 1999 and Section 108 lending originated between 1994 and 1999. The highlights cited below are not directly comparable to the annual figures cited above but give additional depth to the understanding of CDBG and Section 108 assisted economic development.

Some of the highlights of the study are:

- The survival rate of businesses funded with CDBG and Section 108 in poor neighborhoods is about the same rate as the national average for all businesses. Upwards of 80 percent of borrowers of CDBG funds and 75 percent of Section 108 borrowers were still in business three years or more after loan origination.
- Each dollar of CDBG funds loans leveraged an additional $2.69 in private funding and $0.77 of other public funding and each Section 108 dollar loaned leveraged $1.54 in private funding. In both programs, investor equity averaged 10 percent or more.
- Each job created or retained as a result of CDBG-funded loans costs the program an average of $2,673 per job (the full life cycle cost), highly comparable with the range for other federal economic development programs that range from $936 to $6,250 per job created or retained. The Section 108-funded loan guarantee program costs approximately $7,865 in private, federal-guaranteed funds – the subsidy value, when compared to market rate financing. The average Section 108 Loan Guarantee program Federal credit subsidy costs for the programs and projects reviewed was approximately $873 per job created or retained.

Data discussion. The data used for CDBG come from the IDIS. During FY 2002, FY 2003, and FY 2004, the Department undertook a major data clean-up effort to improve the quality of data reported and eliminate duplicate or erroneous entries. Extensive follow-up with grantees to obtain corrections was part of the effort. Increased reporting from states may be a result of the passage of an additional year of participation in the IDIS. States began participating in the IDIS, on average, two years later than entitlement grantees, generally the period from 1998–1999.

During the last quarter of FY 2004, the Department deployed substantial data entry edits in the IDIS that should result in further improvements to data quality. HUD has scheduled future improvements of the IDIS over the next several years that should continue to improve data quality, streamline data entry, extend the scope of output data as well as introduce outcome performance measures.

C.1.2: Renewal Community, Empowerment Zone (EZ) and Enterprise Community (EC) areas achieve community renewal goals in four areas.

Background. Renewal Communities, EZs and ECs are distressed geographic areas designated by the Secretary to receive certain federal benefits, including tax incentives. By tracking residents that find gainful employment, HUD has evidence that the capital and program resources improved economic conditions. Tracking of affordable housing construction and homeless services provides evidence of the movement of individuals to permanent housing. This is a simpler and improved way to look at the data from previous Annual Performance Plan reporting years, which looked at the percentage of EZ/ECs that achieved goals in completed projects and programs. New and rehabilitated affordable housing units have been combined for simplicity. EZ/ECs have done similarly well on those two. Reporting on three of the indicators from FY 2003, residents served by homeownership programs, public safety and social services, has been discontinued after instructions from OMB to focus on outcome-oriented activities.

RC, EZ and EC areas achieve Community Renewal goals

Goals Identified in Implementation Plans	FY 2001 (Actual)	FY 2002 (Actual)	FY 2003 (Actual*)	FY 2004 (Cum.Goal)	FY 2004 (Cum. Actual**)	FY 2004 (Per Annum Goal)	FY 2004 (Per Annum Actual)
New or rehabilitated affordable housing units completed	25,721	32,514	34,835	35,872	39,226	2,512	4,391
Homeless persons assisted	44,358	50,487	47,657	53,000	60,591	2,000	12,934
Residents finding or retaining a new or existing job	154,517	169,935	189,416	207,745	236,308	18,843	46,892

* Results exclude data from 10 EZ/EC reports not yet submitted.
** Results exclude data from 39 reports not yet submitted.

Results and analysis. CPD exceeded all three remaining targets being reported, as shown by the chart. The results in housing, homeless and jobs surpassed those of previous years.

CPD set its targets based on past performance. This year, EZ/ECs dramatically exceeded past performance. One reason is the end of the 10-year designation of the Round I EZ/ECs that reflected the completion of long-term projects and programs. Also, Round III EZ data has had a greater expect on results than anticipated. Round II EZ projects and programs are also reaching maturity.

HUD area designations bring tax incentives, grants and technical assistance to focus local efforts. For example, HUD provides Round II EZ grants, which are described by EZs as "rainmaker" dollars that can make quick deals possible like no other funding source. The EZ facility bond attracts large investments from companies such as Kimberly Clark and other investors to create hundreds of jobs at each site. HUD's interagency efforts direct many federal resources to the target areas and train local governments how to combine them efficiently and effectively.

Data discussion. Community Planning and Development's online Performance Measurement System allows EZ/ECs to submit annual progress reports. HUD aggregates the data to calculate the indicator results. The data represent the actual number of reported cumulative accomplishments and are subtracted from the previous year to give the progress for the year. EZ/EC has a July 1 – June 30 reporting year.

To date, 50 of 79 EZs and ECs have reported. Full reporting is expected by December 31. However, HUD designated Round I ECs for a ten-year period that will end at the close of 2004, eliminating eligibility for certain federal tax incentives and initiating close out for the Health and Human Services' Social Services Block Grant. Some Round I ECs had closed out early and have no further activities to report.

In order to verify accuracy of information in the Performance Measurement System, HUD field staff review a sample of all EZ/EC reported implementation plans in a given year. CPD is finalizing a Round II EZ guidebook and developing new procedures to account for Round III EZs. HUD agreed to the Government Accountability Office's March 2004 recommendation to consult with interagency partners to develop a way to collect data on the utilization of the tax incentives. HUD would include such a measure in the Annual Performance Plan if these efforts come to fruition.

C.1.3 A total of 3,728 at-risk youths are trained in construction trades through Youthbuild.

Background. The Youthbuild Program offers 16 to 24 year old high school dropouts general academic and construction skills training resulting in housing construction or rehabilitation. For FY 2004, 3,728 youths were projected to be trained based on the number of applications granted and the projections of each.

Results and analysis. Between October 1, 2003, and September 30, 2004, the actual number of youths who were trained and obtained general equivalency diplomas is 3,896, 4.5 percent above the goal. As the awarding of Youthbuild funding is decided through an annual competition, it is difficult to accurately project how many youths will be trained each year since HUD has no control over the number of applications, which could be fewer than could be funded. Additionally, applicants requesting funding as new applicants are restricted to programs with no more than 20 students. The Office of Economic Development, which is responsible for administering the Youthbuild program, has implemented a data collection process to review all active projects each fiscal year. The process allows for a more accurate analysis of the program to determine the performance and impact of the local projects.

Accomplishments of Youthbuild

	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2004 Goal
Persons trained	2,897	3,762	3,729	4,123	3,896	3,728
General Equivalency Diplomas	N/A	N/A	N/A	1,260	1,375	N/A *
Housing units constructed	N/A	N/A	N/A	346	373	460
Housing units rehabilitated	N/A	N/A	N/A	1,409	1,069	746
Literacy & numeracy goals	N/A	N/A	N/A	1,755	1,327	587

*No specific target established for general equivalency diplomas.

In addition to the number of youths trained through the Youthbuild program, HUD is able to collect data on other successes. Between October 1, 2003, and September 30, 2004, 1,375 participants achieved high school general equivalency diplomas. Approximately, 373 units of housing were constructed along with the rehabilitation of 1,069 units. Overall, the number of housing units made available for habitation exceeded the total of 1,206 units projected by 19 percent; however, the mix of actual units rehabilitated or newly constructed differed from the goals because they were based on projections provided by applicants. Once projects were underway, plans changed, resulting in a different mix of units rehabilitated or newly constructed. Youthbuild grantees reported 1,327 youths increased their literacy or numeracy skills during FY 2004, more than twice as many as projected.

Data discussion. Grantees submit semi-annual reports of accomplishments to CPD field offices. Grantees are monitored by their respective field offices for performance and compliance with HUD guidelines.

C.1.4: Brownfields Economic Development Initiative grants will support the creation of 5,000 jobs.

Background. The redevelopment of brownfields is a top priority of local governments and presents an important opportunity to reclaim currently unusable real property (land and buildings) and provide new economic development, job and housing opportunities to improve neighborhoods and add to the economic health of our nation's communities. The Brownfields Economic Development Initiative grant program was created to stimulate economic and community development activities under Section 108(q) of the Housing and Community Development Act of 1974, as amended. Established in 1998, the Brownfields Economic Development Initiative grant funds are intended to spur the redevelopment of brownfields sites, which are defined as abandoned, idled or underutilized former industrial or commercial facilities where expansion or redevelopment is complicated by the presence or potential presence of environmental contamination. Accordingly, the Brownfields Economic Development Initiative funds are used for development projects that increase economic opportunity for low-and moderate-income persons or that stimulate or retain businesses or jobs. The Brownfields Economic Development Initiative appropriation for FY 2004 was $25 million.

Results and analysis. Based on estimates contained in this year's applications for funding, a total of 6,856 jobs were projected to be created or retained, representing 137 percent of the goal of 5,000. Through the Brownfields Economic Development Initiative program, communities are returning environmentally contaminated land and properties back to productive economic use. The number of sites projected to be cleaned up and redeveloped for FY 2004 is 17, and the number of jobs projected to be created is 6,856.

One explanation why the number of jobs projected by applicants was greater this year is that HUD has continued its concentrated efforts to emphasize its intent on selecting those projects for funding that are ready to produce near-term results and demonstrable economic benefits. As part of this effort, prospective applicants and their partners were encouraged to read this year's Notice of Funding Availability carefully for changes in the program goals and related scoring requirements. For the second consecutive year, HUD discouraged the submission of "site preparation-only" proposals, while instead encouraging economic development projects that could be commenced and completed within three to five years. The result was that in the FY 2004 competition the applications submitted continued the trend of being stronger overall and appeared to demonstrate a better understanding of the need to produce measurable results over a shorter time period than before.

Data discussion. Community Planning and Development put into departmental clearance this year a request for an annual reporting system for the Brownfields Economic Development Initiative that would delineate specific activities separately from the Consolidated Annual Performance and Evaluation Report and the Integrated Disbursement and Information System. Instructions for the Annual Performance Report also require that, in addition to the performance benchmarks and indicators mentioned above, grantees respond to specific questions in those instances where grant funds have not yet been fully expended or where assisted projects are not yet completed (thereby capturing data not found in the Consolidated Annual Performance and Evaluation Report, which only tracks expenditures of grant funds and are not received in HUD headquarters). CPD has also obligated funds for this year to develop a common reporting system for three of its economic development programs, of which Brownfields Economic Development Initiative is one. The system has the working name EDSYS, and a prototype is in development for delivery in FY 2006 or 2007. As part of the long-term effort to track several other performance measures besides jobs, including the number of housing units completed, amount of infrastructure, commercial and industrial space completed, and other public and private sector investment leveraged by Brownfields Economic Development Initiative funds, HUD followed the recent CPD guidance on CDBG performance measurement by offering applicants in this year's Notice of Funding Availability a menu of common indicators that can be used to measure performance, from which applicant/grantees may choose. Grantees under this year's Super Notice of Funding Availability are also required to submit a completed Logic Model annually that indicates progress achieved against the proposed output and outcome goals submitted as part of the application.

Objective C.2: Help organizations access the resources they need to make their communities more livable.

C.2.1: Streamline the Consolidated Plan.

Background. The President's Management Agenda directed HUD to work with local stakeholders to streamline the consolidated plan, making it more results-oriented and useful to communities in assessing their own progress towards addressing the problems of low-income areas. CPD sought to implement this requirement through the Consolidated Plan Improvement Initiative that encouraged the use of the plan as a management tool for tracking results.

The Department carefully considered ideas generated by several stakeholder-working groups that were established to explore alternative planning requirements and suggestions for improving the consolidated plan process.

During FY 2004, CPD worked with approximately 25 communities to complete and evaluate pilots of ideas proposed by stakeholder working groups. These pilots involved streamlining the plan, making the plan more results-oriented or more outcome-based, making it more useful in assessing progress toward addressing problems of low-income areas, and improving performance measurement and reporting. An analysis of the pilots helped HUD determine how the consolidated planning process and regulatory requirements might be made more streamlined, results-oriented, and ultimately more useful to communities in addressing the needs of their low-income residents and areas.

Results and analysis. Based on an analysis of the pilots, CPD placed a proposed rule into Departmental clearance on May 4, 2004. The rule would amend the consolidated plan regulations to make clarifying and streamlining changes that are expected to make the consolidated plan a more effective management tool for tracking results and thereby achieve the President's Management Agenda goal. The Office of Management and Budget approved the proposed rule for publication on October 7, 2004. CPD also issued updated guidance and a summary of lessons learned from the pilots conducted as part of the Consolidated Plan Improvement Initiative on July 29, 2004.

C.2.2: Evaluate results from the Consolidated Plan Improvement Initiative to determine needed changes to grant management system requirements to support local setting and tracking of performance relative to national program goals by September 30, 2004.

Background. The President's Management Agenda directed HUD to work with local stakeholders to streamline the Consolidated Plan, making it more results-oriented or outcome-based, thus making it more useful to communities in assessing their own progress toward addressing the problems of low-income areas. CPD sought to implement this requirement through the Consolidated Plan Improvement Initiative that encouraged the use of the plan as a management tool for tracking results and developed a tool that was designed to make better use of technology, ultimately integrating the IDIS and the Consolidated Plan and making the process less burdensome.

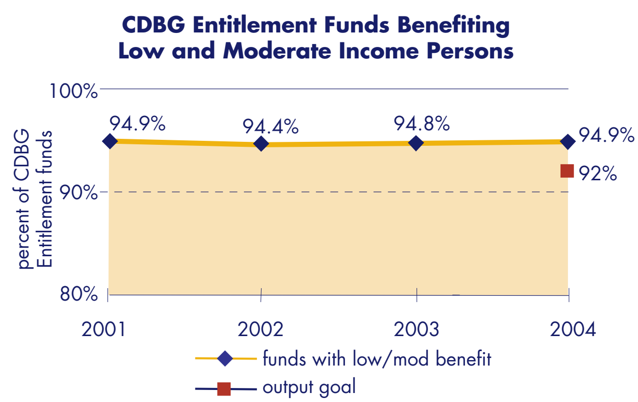
Results and analysis. The changes needed to grant management system requirements to support local setting and tracking of performance relative to national program goals were included in the Consolidated Plan Management Process Tool that was released on August 26, 2004. The Consolidated Plan Management Process Tool is a set of Word and Excel templates that streamlines the submission process and allows CDBG, HOME, Housing Opportunities for Persons With AIDS, and Emergency Shelter Grants formula grantees to create a Consolidated Plan and track results for up to five Annual Action Plans and Consolidated Annual Performance and Evaluation Reports. The Consolidated Plan Improvement Initiative Technology Working Group began working on this project on June 28, 2002, and initial pilot versions of the tool were tested by several communities in 2003. The results of the pilot were evaluated and the changes needed were included in the new release.

C.2.3: The share of CDBG entitlement funds that benefit low- and moderate-income persons remains at or exceeds 92 percent.

Background. Entitlement communities are required to use CDBG funds for housing, community and economic development activities of which at least 70 percent of the funds expended must benefit low- and moderate-income residents. CDBG grantees historically have exceeded this requirement, and HUD has an interest in encouraging grantees' continued strong performance in this area so that the greatest local needs are met.

HUD has no direct control over the percentage of CDBG funds that communities use for activities that benefit low- and moderate-income residents, other than to enforce the statutory minimum of 70 percent. However, HUD field office staff continually review and advise grantees to encourage the use of funds for the most needy residents.

Results and analysis. During FY 2004, entitlement communities used 94.9 percent of their CDBG funds for activities that benefit low- and moderate-income persons. The level exceeds the goal of 92 percent and is a slight increase over the FY 2003 level of 94.84.



Data discussion. The data come from the IDIS. During FY 2002 and FY 2003, the Department undertook a major data clean-up effort to improve the quality of data reported and eliminate duplicate or erroneous entries. Extensive follow-up with grantees to obtain corrections was part of the effort, which continued into FY 2004.

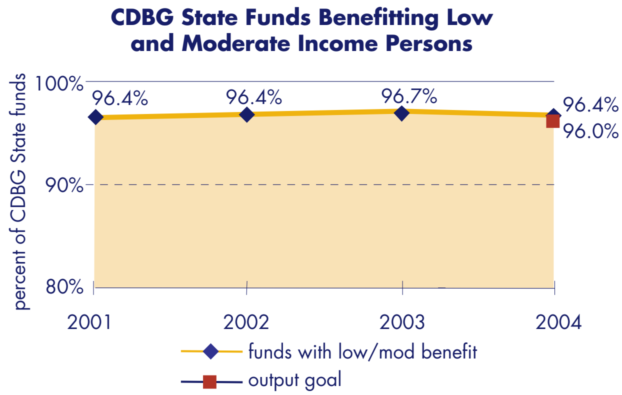
Future improvements in data quality are likely to occur as HUD improves IDIS to include more edits as well as improved data entry methods. Additional improvements to the IDIS are scheduled over the next several years.

C.2.4: The share of state CDBG funds that benefit low- and moderate-income persons remains at or exceeds 96 percent.

Background. States are required to use CDBG funds for housing and community and economic development activities of which at least 70 percent of the funds expended must benefit low- and moderate-income persons. State CDBG grantees historically have exceeded this requirement, and HUD has an interest in encouraging state grantees' continued strong performance in this area so that the greatest local needs are met.

HUD has no direct control over the percentage of CDBG funds that states and communities use for activities that benefits low- and moderate-income residents, other than to enforce the statutory minimum of 70 percent. However, HUD field office staff continually review and advise state grantees to encourage the use of funds for the most needy residents.

Results and analysis. During FY 2004, state grantees used 96.4 percent of their CDBG funds for activities that benefit low- and moderate-income persons. The goal was met and usage was consistent with the FY 2003 level of 96.72 and the FY 2002 level of 96.4 percent.



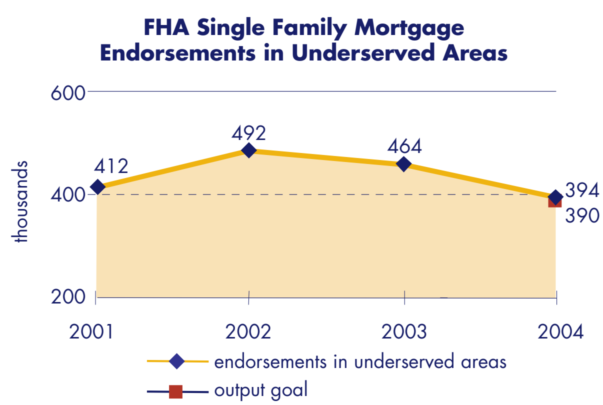
Data discussion. The data come from IDIS. During FY 2002 and FY 2003, the Department undertook a major data clean-up effort to improve the quality of data reported and eliminate duplicate or erroneous entries. Extensive follow-up with grantees to obtain corrections was part of the effort. The data clean-up effort continued into FY 2004. Increased reporting from states may be a result of the passage of an additional year of participation in IDIS system. States began participating in IDIS, on average, two years later than entitlement grantees, 1998-1999. During FY 2004, the Department undertook a major data clean-up effort to improve the quality of data reported and eliminate duplicate or erroneous entries. While this effort focused on entitlement grantees, many states also took the initiative to improve their data entries.

C.2.5: Endorse FHA single family mortgages in underserved communities.

Background. FHA's role in the mortgage market is to extend homeownership to families who otherwise might not achieve homeownership. There is substantial evidence that the conventional mortgage market does not serve lower income and minority neighborhoods as well as more affluent and non-minority neighborhoods. FHA lending in disadvantaged neighborhoods increases the homeownership rate.

While it is extremely important that FHA loans be available in underserved communities for those who otherwise might not become homeowners, it is also important that FHA be a complement to, and not a substitute for, conventional lending. A healthy housing market requires the availability of conventional mortgages as well. A goal for increasing FHA lending in such neighborhoods should not involve an increased FHA share of the total mortgage market in these communities, but should be accompanied by increased conventional lending as well. This performance indicator measures the number of single family mortgage endorsements in underserved areas during FY 2004.

Results and analysis. During FY 2004, FHA endorsed 394,232 single family mortgages in underserved communities. The result exceeded the target of 390,000 endorsements, maintaining FHA's success in expanding home ownership opportunities. Although the goal was met during FY 2004, the volume of single family endorsements made in underserved areas declined slightly from FY 2003 levels (464,272) as a result of the effect that recent mortgage interest rate increases had on the overall national housing market, and as a result of overall single family endorsement volume decreasing from the previous fiscal year. FHA will continue its efforts to reach underserved communities through participation in conferences, seminars and other outreach events.



Data discussion. This measure uses data from FHA's Consolidated Single Family Statistical System. This measure may fluctuate when the census tracts constituting underserved areas are redefined using the latest census data. The fluctuations are not expected to substantially reduce the reliability of this national summary measure. HUD verifies FHA data for underserved communities by comparison with Home Mortgage Disclosure Act data. An underserved area is defined as census tracts with below average income and/or above average shares of minority households. These neighborhoods historically have been underserved by the mortgage market, as shown by high mortgage denial rates and low mortgage origination rates.

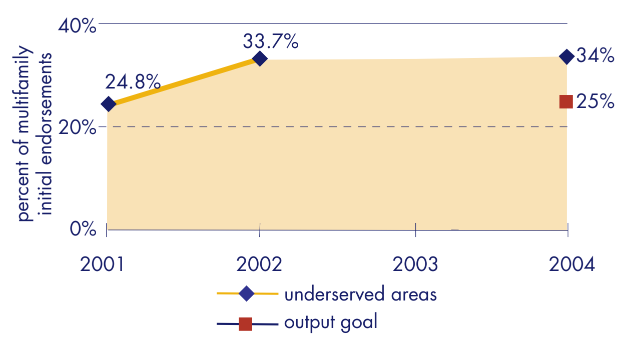
C.2.6: The number of multifamily properties in underserved areas insured by FHA is maintained at 25 percent of initial endorsements.

Background. FHA insures loans for new construction and substantial rehabilitation of multifamily rental units under a variety of programs (Sections 220, 221(d)(3), 221(d)(4), and risk-sharing under 542(b) and (c)). FHA also insures mortgages to refinance or purchase existing multifamily properties (Section 223(f)). These programs improve the quality and affordability of rental housing, and increasing their availability in underserved neighborhoods will promote revitalization of those neighborhoods.

This measure counts the number of properties within underserved neighborhoods that are newly endorsed by FHA. Grants under Section 202 and Section 811 are excluded from this measure. The measure was revised in the FY 2003 Annual Performance Plan to include refinancing activity, which creates similar benefits for underserved areas. Refinanced loans include those restructured under the Mark-to-Market program as well as refinancing in support of repair and rehabilitation. Underserved neighborhoods are defined in metropolitan areas as census tracts either with a minority population of 30 percent and median family income below 120 percent of the metropolitan area median, or with median family income at or below 90 percent of area median (regardless of minority population percentage). A similar definition of underserved applies to non-metropolitan areas, using counties rather than tracts.

Results and analysis. During FY 2004, 516 multifamily properties with over 62,000 units in underserved areas benefited from new FHA mortgage endorsements totaling $2.3 billion. This amounted to 34 percent of HUD's total level of initial endorsements in such areas. This is approximately the same level of activity as FY 2003 and exceeds the Department's goal.

Multifamily Units Endorsed in Underserved Areas by FHA



In large part, this accomplishment reflects FHA's outreach to underserved areas, both for new construction and substantial rehabilitation as well as refinancing, to contribute to the stock of decent, safe, and sanitary affordable housing. The level of activity in FY 2004 also reflects the strong refinancing market generated by low interest rates. Most refinancing results in rehabilitation and upgrading of properties.

Data discussion. The unit project locations and unit counts used to determine this measure are from FHA's Real Estate Management System. FHA performs computerized checks of data quality, and FHA staff verify multifamily mortgage transactions. Census data are used to establish underserved areas.

C.2.7: HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's meeting or surpassing HUD-defined geographic targets for mortgage purchases in underserved areas.

Background. One of the four defined targets that HUD sets for Fannie Mae and Freddie Mac (two housing Government-Sponsored Enterprises) is intended to increase the Government-Sponsored Enterprises' purchases of mortgages on housing located in central cities, rural areas, and other areas underserved in terms of mortgage credit. This indicator helps support HUD's goal of expanding homeownership opportunities, especially for minority home purchasers.

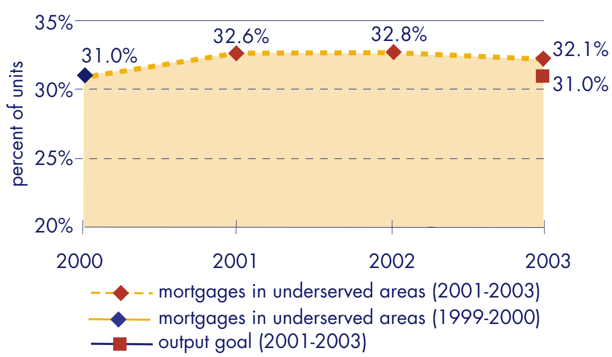
HUD research has shown that such areas have high mortgage denial rates and low mortgage origination rates, suggesting difficulty in obtaining access to mortgage credit. Beginning in 2001, HUD substantially increased the Underserved Areas Goal from 24 percent to 31 percent. HUD also implemented new scoring rules. The Department is establishing new goal targets for 2005 – 2008.

Mortgage purchases qualify toward this target as follows: For metropolitan areas, dwelling units count if they are located in census tracts with (1) tract median family income less than or equal to 90 percent of area median income or (2) minority composition of at least 30 percent and tract median family income less than or equal to 120 percent of area median income. Dwelling units in non-metropolitan areas count if (1) median family income is less than or equal to 95 percent of the greater of state or national non-metro median income or if (2) minority concentration of the county is at least 30 percent and county median family income is less than or equal to 120 percent of the greater of state or national non-metro median income.

Results and analysis. In calendar year 2003, Fannie Mae and Freddie Mac both surpassed HUD's target of 31 percent for mortgage purchases in underserved areas. Fannie Mae achieved 32.1 percent and Freddie Mac achieved 32.7 percent.

Bonus points to both Government-Sponsored Enterprises and a temporary adjustment factor for certain Freddie Mac multifamily mortgage purchases enabled the Government-Sponsored Enterprises to achieve their goal. Absent these incentives in the scoring system, Fannie Mae's performance would have been 29.2 percent, and Freddie Mac's performance would have been 27.7 percent in 2003.[6] The bonus points and the temporary adjustment for Freddie Mac expired at the end of 2003.

Fannie Mae Performance Relative to Geographic Target



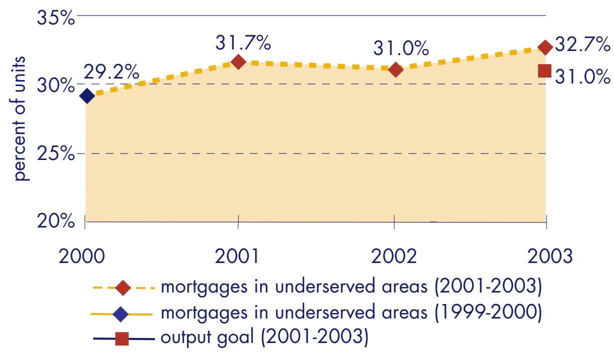
The overall qualifying purchases for both Government-Sponsored Enterprises increased significantly. However, they had mixed results regarding their purchases of mortgages from high-minority tracts (30 percent or greater minority population). Fannie Mae increased high-minority tract purchases by 81.7 percent (from approximately

[6] In the accompanying graphs, the dotted lines from 2000 to 2003 reflect the changes in HUD's scoring rules that became effective in 2001. The square shows the level of the housing goal beginning in 2001.
The 2002 Freddie Mac performance percentage reported here is adjusted from the corresponding figure in HUD's 2003 Performance and Accountability Report based on recent HUD analysis which identified some mortgages that had been counted toward the housing goals in both 2001 and 2002 in violation of rules against double-counting. As a result of this adjustment, Freddie Mac fell short of the 31 percent target for the Underserved Areas goal in 2002 by 90 units or 0.002 percent.

957,000 units to 1,740,000 units) while Freddie Mac posted a decrease of 13.5 percent (from approximately 603,000 units to 522,000 units) over the previous year.

With regard to the percentage of units qualifying for the underserved areas goal that were affordable to low-income families (that is, those earning 80 percent or less of area median income), both Government-Sponsored Enterprises' performance fell from 2002 to 2003. Freddie Mac's purchases decreased from 44.6 percent in 2002 to 44.1 percent in 2003, while Fannie Mae's purchases decreased from 44.2 percent in 2002 to 42.6 percent in 2003.

Freddie Mac Performance Relative to Geographic Target



The number of Fannie Mae's small multifamily units that qualified for the underserved areas goal fell from 153,000 units in 2002 to 115,000 units in 2003. However, Freddie Mac's financing of such units increased substantially from 2002 to 2003, rising from 41,000 units to 158,000 units.

Data discussion. The data reported under this goal are based on calendar year performance. There is a one-year reporting lag because the Government-Sponsored Enterprises report to HUD in the year following the performance year. To ensure the reliability of data, the Government-Sponsored Enterprises apply various quality control measures to data elements provided to HUD. HUD verifies the data through comparison with independent data sources, replication of Government-Sponsored Enterprises goal performance reports, and reviews of data quality procedures. Government-Sponsored Enterprises' financial reports are verified by independent audits.

Objective C.3: End chronic homelessness and move homeless families and individuals to permanent housing.

C.3.1: At least 360 functioning Continuum of Care Communities or 90 percent of our continuums will have a Homeless Management Information System.

Background. Congress has directed HUD on the need for data and analysis regarding the extent of homelessness and the effectiveness of the McKinney Act Programs. This directive includes developing unduplicated counts of clients served at the local level; analyzing patterns of use of people entering and exiting the homeless assistance system; and evaluating the effectiveness of these systems. To assist communities in reaching this goal, HUD has undertaken an extensive in-depth training and technical assistance initiative. In addition to providing Continuum of Care communities with the tools necessary to generate data, Homeless Management Information Systems assist with informed policy decisions and resource allocation. These systems allow communities to provide important community-level, aggregate information to HUD to further understand the nature and extent of homelessness at the national level.

HUD has selected 80 communities throughout the country to participate in the first Annual Homeless Assessment Report to Congress, due in 2005. These 80 communities have been prioritized for targeted technical assistance on the Homeless Management Information Systems to move them further along in their implementation efforts, with the goal of including more than 75 percent of their shelter and transitional housing beds in the first Annual Homeless Assessment Report. HUD is also in the process of identifying additional communities that meet the threshold criteria for inclusion of homeless services data in the Annual Homeless Assessment Report.

Results and analysis. Based on the applications received under the 2004 Continuum of Care competition, 284 Continuums of Care, or 60 percent of the applicants, have implemented HMIS, missing the target of 360 functioning Homeless Management Information Systems. An additional 168 Continuums, or 36 percent, were in the process of selecting software. Implementation is defined as software deployment. HUD is working toward capturing more standardized bed coverage information. The number of communities in the software selection process decreased accordingly between 2003 and 2004, which clearly illustrates that communities are moving from planning to actual implementation over the course of the year.

Data discussion. Rated questions on the FY 2004 McKinney-Vento community homeless application ask for information about Homeless Management Information Systems. This is the third time HUD has collected data on local systems for Homeless Management Information Systems, and the second time points have been awarded based on Homeless Management Information Systems progress. In addition to homeless application reporting, HUD deployed a Status Assessment and Evaluation process to assess the progress of each implementing community throughout the country with the goal of identifying best practices and barriers to implementation. These Status Assessments and Evaluations are being conducted either on-site with the community or through phone discussions with the core Homeless Management Information Systems staff or lead agency. Between June and October 2004, HUD conducted Status Assessment and Evaluations on approximately half of the Continuums of Care in the country. HUD's goal is to complete this assessment process with every Continuum of Care by December 31, 2004.

C.3.2: The number of chronically homeless individuals declines by up to 50 percent by FY 2008.

Background. While there is currently no direct measurement of the number of chronically homeless individuals, HUD is working with other federal agencies and communities to develop definitions and methods for measuring the extent of chronic homelessness. Last year, agreement was reached with other federal agencies on the definition for chronic homelessness.

HUD is working with communities to develop Homeless Management Information Systems. This year, with 284 communities implementing operational Homeless Management Information Systems, HUD will collect data from the systems to track this indicator. The capacity to measure this indicator will have to be developed over the next several years. Preliminary analyses indicate that there will be challenges with respect to the percentage of facilities within communities that are covered by management systems and differences in definitions of chronic homelessness across communities. This year, communities were provided with national technical assistance on collecting data related to chronically homeless persons.

Results and analysis. In 2003, homeless assistance applicants were required to report on their number of chronically homeless persons. These 2003 baseline numbers provided in the applications will be verified through the 2004 homeless assistance application and through Homeless Management Information System data. With the baseline in place and verified, incremental goals will be established to meet the reduction of up to fifty percent of chronic homeless by FY 2008. The establishment of the baseline and the incremental goals will provide the information necessary to track our progress from 2004 to 2008. At this point in time, it is too early in the process to give an accurate assessment of whether the goal will be reached by 2008.

Data discussion. *See* Background discussion above.

C.3.3: The Samaritan Housing Initiative will be fully implemented and the number of chronically homeless who are assisted will be maximized.

Background. In FY 2004, the Samaritan Housing Initiative was intended to provide funds for permanent housing for the chronically homeless. This Initiative seeks to create a collaborative and comprehensive approach to addressing the problems of homelessness for our most vulnerable citizens. This collaboration between HUD and other agencies (including Health and Human Services and Veterans Affairs) would offer funding through a consolidated application. The goal of these funds will be to move the chronically homeless from the street and emergency shelter into stable permanent housing with the supportive services needed to maintain self-sufficiency.

Results and analysis. The Congress did not provide funding for this program in FY 2004. The Department requested $50 million for this Initiative in the President's FY 2005 budget. Legislation for this program was developed and introduced on March 30, 2004, and on April 20, 2004, it was referred to the House Subcommittee on Housing and Community Opportunity. Legislation was also introduced in the Senate and referred to the Senate Committee on Banking, Housing and Urban Affairs on September 22, 2004.

C.3.4: HUD's homeless programs will help at least 80,000 homeless persons move into permanent housing.

Background. The ultimate goal of homeless assistance is to help homeless families and individuals achieve permanent housing and self-sufficiency. This measure tracks the number of formerly homeless persons who move into permanent housing funded by HUD under the McKinney-Vento Homeless Assistance Act. The residents of permanent housing include those who are chronically homeless individuals. One of HUD's programs, Shelter Plus Care, uses funding to support housing related expenses. Communities secure an equal level of funding for a variety of supportive services. This combination ensures that residents receive the housing and services they need to maintain stable permanent housing and make progress towards self-sufficiency. Other HUD programs that provide permanent housing, including the Supportive Housing Program and the Moderate Rehabilitation/Single Room Occupancy program, help meet other needs related to homelessness, including the development or rehabilitation of permanent housing and the preservation of Single Room Occupancies, which have traditionally served as the housing of last resort for homeless individuals. Many communities are increasing their permanent housing stock as a direct result of the statutory requirement that 30 percent of HUD's homeless assistance funding be allocated to permanent housing.

Results and analysis. According to HUD's Annual Progress Report data, 85,935 homeless persons moved into permanent housing. This significant number, exceeding the goal of 80,000, can be attributed to HUD's emphasis on increasing the number of permanent housing units available for people who are homeless. HUD emphasizes the goal of reaching permanent housing in national broadcasts, the Notice of Funding Availability, and the homeless assistance application. The creation of a growing inventory of homeless permanent housing units is a top priority for meeting the bold strategic objective of eliminating chronic homelessness in ten years. This indicator has been changed for FY 2005 to "The percentage of formerly homeless individuals who remained housed in HUD permanent housing for at least 6 months will be 70 percent." This change will allow Continuum of Care communities to better measure their progress on HUD's goal at a Continuum level, instead of contributing to the national level.

Data discussion. Data for this indicator are collected from HUD's Annual Progress Report. The Annual Progress Report is submitted by the grantee to HUD as a means of reporting on their HUD-funded homeless assistance projects. The Annual Progress Report is submitted yearly for each homeless assistance project at the end of the operating year. Because projects begin annual operations at different times, the data reflects projects that ended their operational year during the calendar year 2004. Due to the varied operation dates for projects, the Annual

Progress Report data for all Annual Progress Report-based indicators represent 30 percent of all projects operating in 2004. The 30 percent includes all data collected by September 30, 2004. Because the Annual Progress Reports are submitted from grantees across the country, this represents a statistically valid sampling as verified by previous years' Annual Progress Report database reviews.

C.3.5: At least 180,000 homeless people become housed in HUD-funded transitional housing with supportive services.

Background. An important steppingstone toward permanent housing for many homeless persons is the availability of transitional housing with supportive services to stabilize their lives. Beginning in 2002, this indicator tracked the number of persons who move into transitional housing funded through HUD's Homeless Assistance Grants. The measure includes persons who move into HUD McKinney-Vento funded transitional housing during 2004. These projects are funded with several prior years' appropriations.

Results and analysis. In 2004, an estimated 162,450 homeless persons moved into HUD-funded transitional housing. Although this falls short of the goal of 180,000, it far exceeds the previous year's goal of 115,000 and shows an increase from last year's actual number served of 158,824. With HUD's emphasis on increasing permanent housing units, fewer transitional housing units are being developed by Continuum of Care communities. The actual number shows an increase in the number of HUD-funded transitional housing beds from previous years. HUD also continues to provide the supportive services necessary to move people who are homeless from transitional housing to permanent housing, allowing more vacancies for homeless persons in need of transitional housing and accompanying supportive services.

This indicator has been changed for FY 2005 to "The percent of homeless persons who have moved from HUD transitional housing to housing will be 60 percent." This change will allow Continuum of Care communities to better measure their progress on HUD's goal at the Continuum level, instead of contributing to an aggregated national level.

Data discussion. Data for this indicator are collected from HUD's Annual Progress Report. Due to the varied operation dates for projects, the Annual Progress Report data for all Annual Progress Report-based indicators represent 30 percent of all projects operating in 2004. The 30 percent includes all data collected by September 30, 2004. Because Annual Progress Reports are submitted from grantees across the country, this represents a statistically valid sampling as verified by previous years' Annual Progress Report database reviews.

C.3.6: At least 45,000 homeless persons become employed while in HUD's homeless assistance projects.

Background. Stable employment is a critical step for homeless persons to achieve greater self-sufficiency. HUD encourages communities to provide comprehensive housing and services to homeless individuals and families. Clients receiving HUD's McKinney-Vento assistance receive support, which can include employment training and job search assistance, to help them achieve greater self-sufficiency. This indicator tracks the number of adult clients who become employed while in HUD-funded homeless assistance projects. The measure is defined as the difference between the number of employed adults who left a HUD-assisted project during a program year and the number of those adults who were not employed when entering the project. One of the eligible activities under the Supportive Housing Program includes employment assistance. This category, combined with case management, has allowed many communities to focus their services efforts on employment activities.

Results and analysis. In 2004, the number of homeless persons who became employed while in HUD's homeless assistance projects was 45,066, exceeding the goal of 45,000. This goal was met because of HUD's emphasis on increasing the income of people who are homeless. This will continue to be one of the performance areas reviewed on the Annual Progress Report. This indicator has been changed for FY 2005 to "The employment rate of persons exiting HUD homeless assistance projects will be 10 percentage points greater than the employment rate of those entering." This change will allow Continuum of Care communities to better measure their progress on HUD's goal at the Continuum level, instead of contributing to an aggregated national level.

Data discussion. Data for this indicator are collected from HUD's Annual Progress Report. Due to the varied operation dates for projects, the Annual Progress Report data for all APR-based indicators represent 30 percent of all projects operating in 2004. The 30 percent includes all data collected by September 30, 2004. Because the Annual Progress Reports are submitted from grantees across the country, this represents a statistically valid sampling as verified by previous years' Annual Progress Report database reviews.

C.3.7: Housing Counseling provided to clients receiving homeless counseling increases by 7,000.

This indicator was deleted because of consolidation with revised performance indicator A.1.11.

C.3.8: Overcrowded households in Indian Country shall be reduced by one percent.

Background. The Department has identified overcrowding in American Indian and Alaska Native households as a concern. During FY 2003, the Office of Native American Programs and several participating tribes developed baseline estimates of the extent of overcrowding in Indian Country based on census data. They concluded that an estimated 47,169 households were overcrowded in FY 2003. The goal for FY 2004 was to reduce this level of overcrowding by one percent – a 472 household reduction.

Results and analysis. This goal was achieved through two efforts. The first was the Indian Housing Block Grant program, which provided funds for 2,115 new homeownership and rental housing units. Although Indian Housing Block Grant grantees are given flexibility to design and administer their own unique housing programs, the Department encourages grantees to focus on areas of need such as overcrowding. Assuming all of these new units were built for overcrowded households, the reduction in overcrowding was 4.5 percent. The second effort was the development and implementation of an action plan to reduce overcrowding at five separate tribal areas in each of the six Office of Native American Programs regions. There are a total of 30 tribes that have chosen to participate in this effort.

Data discussion. Because a precise measurement tool has not been identified, and it is too cost prohibitive to conduct a new census, the exact number of the new units built that specifically went toward reduction of the overcrowded household percentage can not be determined. However, over the coming year a better method of tracking the reduction of overcrowded household situations will be developed using the grant recipients program intake records, which identifies whether participants' former housing situations are overcrowded. The Office of Native American Programs is currently working with the 30 participating tribes to exchange ideas and to monitor the progress and accomplishments of each action plan. Through review of the tribes' annual Indian Housing Plans and Annual Performance Reports, the Office of Native American Programs will be able to track any activity as a future performance measure for the Department.

Objective C.4: Mitigate housing conditions that threaten health.

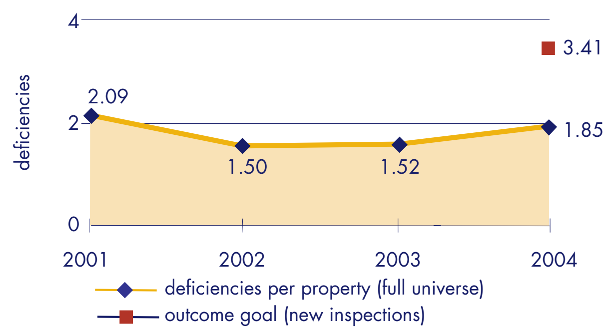
C.4.1: The average number of observed exigent deficiencies per property does not exceed 3.41 for public housing and 2.10 for multifamily housing.

Background. REAC conducts physical inspections that identify Exigent Health and Safety or Fire Safety Deficiencies. Exigent health and safety hazards include but are not limited to (1) air quality, gas leaks; (2) electrical hazards, exposed wires/open panels; (3) water leaks on or near electrical equipment; (4) emergency/fire exits/blocked/unusable fire escapes; (5) blocked egress/ladders; and (6) carbon monoxide hazards. Fire safety hazards include (1) window security bars preventing egress; and (2) fire extinguishers expired. (Smoke detectors are excluded from Exigent Health and Safety or Fire Safety Deficiencies for this measure because they are covered in Indicator C.4.3.)

This indicator measures the reductions in Exigent Health and Safety or Fire Safety Deficiencies nationwide as HUD applies its physical inspection protocol, Uniform Property Condition Standards, to properties inspected. The use of physical inspections by REAC has effected a reduction in exigent health and safety hazards. This trend is likely to continue. However, this indicator is based on identification of such conditions when inspected.

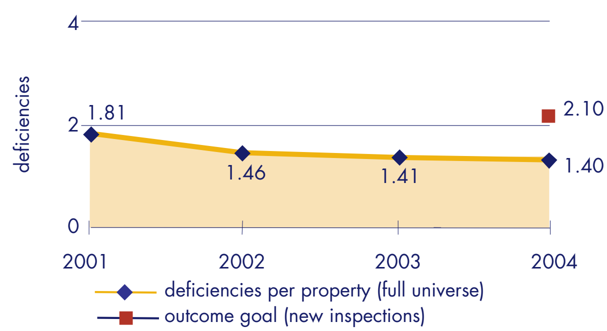
Results and analysis. During FY 2004, the average number of exigent deficiencies observed on new inspections of public housing properties was 3.01 per property versus a goal of 3.41. For multifamily properties, which are privately owned, the average number of Exigent Health and Safety or Fire Safety defects was 2.09 versus a goal of 2.10. Accordingly, the goal was met in both segments.

Average Number of EHS/FS Observed per Public Housing Property



The FY 2004 goals were set based upon: (1) anticipated impacts of inspection process changes; and (2) new inspection results for the first quarter of FY 2004, which included two major PHAs that had not been inspected in three years and for which the level of Exigent Health and Safety or Fire Safety was anticipated to be significantly higher than the portfolio average. The average number of Exigent Health and Safety or Fire Safety Deficiencies observed for the entire portfolio, based on the most recent completed inspection as of the end of FY 2004, was 1.85 for public housing and 1.40 for multifamily properties.

Average Number of EHS/FS Observed per Multifamily Property



HUD continues to refine the inspection process. Data definitions have been expanded to address increased types of deficiencies. Under the "3-2-1" protocol for inspection scheduling, lower scoring projects are inspected and acted on every year to motivate greater improvement in physical conditions. HUD is currently in discussions with OMB on appropriate goals for each portfolio for FY 2005 and subsequent years.

When life threatening health and safety deficiencies are detected during HUD's on-site physical inspections, citations are issued to project owners and agents requiring corrective action and response to HUD within three business days. In FY 2004, nationwide, HUD's field staff continued to assure that 98 percent of these multifamily deficiencies were corrected or mitigated. Many types of defects covered by the process may be attributable to tenant behavior or local risk decisions rather than maintenance issues.

Data discussion. Data for this indicator are from REAC's Physical Assessment Subsystem, based on the inspection protocol DCD v.2.3 only. The data represent inspections conducted through September 30 of each year. A number of properties do not receive new inspections every year if their scores pass the thresholds under the "2-1" inspection schedule for public housing and the "3-2-1" schedule for multifamily properties.

C.4.2: The share of public housing properties observed with Exigent Health and Safety or Fire Safety Deficiencies decreases by 1.0 percentage point.

This indicator was deleted because it has been incorporated into the revised C.4.1 (The average number of observed exigent deficiencies per property does not exceed 3.41 for public housing and 2.10 for multifamily housing.)

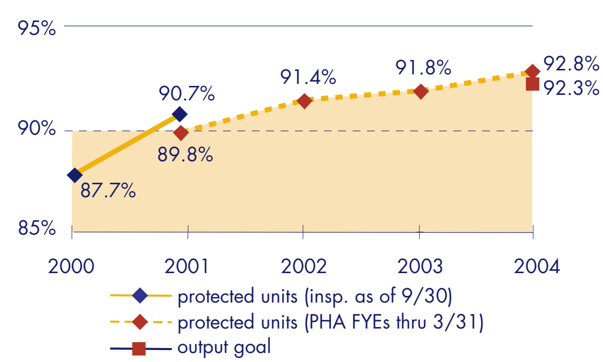
C.4.3: The share of units that have functioning smoke detectors and are in buildings with functioning smoke detectors increases annually by 0.5 percentage points for public housing and by 0.7 percentage points for assisted multifamily housing.

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

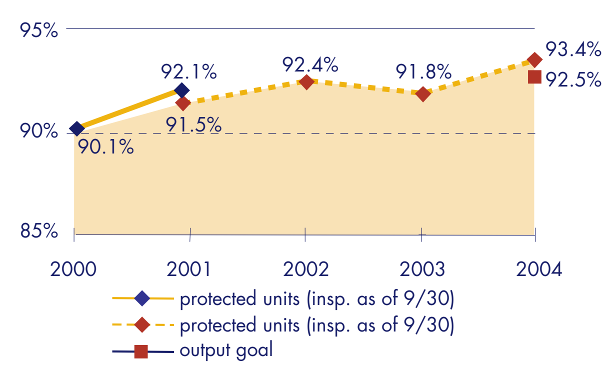
Results and analysis. The Department was successful in meeting its goal to increase the share of units with functional smoke detection systems in public housing and assisted multifamily housing. As of the end of FY 2004, 92.8 percent of public housing units and 93.4 percent of assisted multifamily units had functioning smoke detectors and were in buildings with functioning smoke detection systems. These data represent a 1.0 percentage point increase for public housing and a 1.6 point increase for assisted multifamily housing.

These results show that the share of HUD-assisted households who are adequately protected with smoke detectors exceeds the three-quarter share of all U.S.

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



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



households that are protected. The Department's increased attention to physical conditions in the housing stock is believed to have motivated improvements in management by housing providers.

Data discussion. Data for this indicator are from REAC's Physical Assessment Subsystem, based on a sample of units from each project, and weighted to represent the entire stock. For private multifamily properties, results for FY 2004 reflect the most recent inspections available as of September 30, 2004. Properties are inspected at intervals of one, two or three years, depending on the results of the previous inspection, so a substantial share of properties do not receive a new inspection annually.

C.4.4: The number of children under the age of 6 who have elevated blood lead levels will be less than 260,000 by 2004, down from 890,000.

Background. Approximately 890,000 children under the age of six were estimated to have elevated blood lead levels in the period from 1991-1994. In FY 2003, the Centers for Disease Control and Prevention reported that this number had declined to 434,000 children during 1999-2000, its most recent reporting period, which is principally due to improvements in the nation's housing (see http://www.cdc.gov/nceh/lead/research/kidsBLL.htm). These children, especially those less than three years old, are vulnerable to permanent developmental problems because of the well-understood effect of lead on developing nervous systems. Other local data from 19 states showed that the proportion of children under the age of six who tested with EBL decreased from 10.5 percent in 1996 to 7.6 percent in 1998, according to Centers for Disease Control's most recent published report on state surveillance data.[7] For this indicator, elevated blood lead level is defined as at or above 10 micrograms per deciliter (mg/dL). Elevated blood lead levels are more common among low-income children, urban children, and those living in older housing. In addition to HUD's lead-based paint abatement grant program and regulations concerning federal housing, other factors causing the decreased number of children with elevated blood lead levels are demolition, substantial rehabilitation, enforcement of lead safety laws and ongoing public education.

Results and analysis. The Centers for Disease Control and Prevention is conducting the next National Health and Nutrition Examination Survey, with additional data projected to be available in the 4th quarter of calendar year 2004.

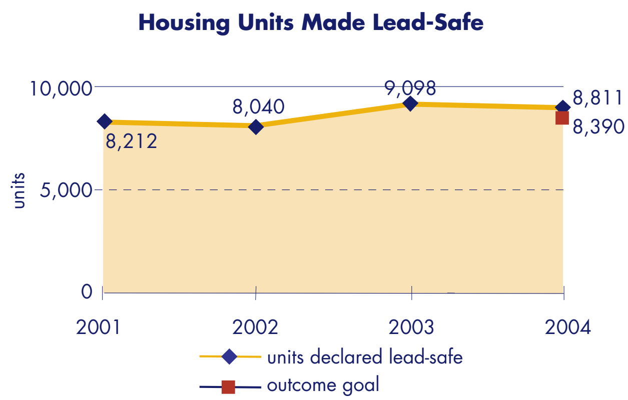
Data discussion. The National Health and Nutrition Examination Survey is costly because it uses actual physical examinations of a nationally representative sample of children to determine blood-lead levels, among other things. The survey cannot identify the source of elevated blood lead levels. HUD does not verify the survey results independently. The National Health and Nutrition Examination Survey is regarded as providing the best national estimate of a number of health outcomes, and incorporates a variety of quality control and verification procedures. The National Health and Nutrition Examination Survey, conducted by the Centers for Disease Control and Prevention, showed a 25 percent reduction in children's blood lead levels for the period 1996-1999.

C.4.5: As part of a ten-year effort to eradicate lead hazards, the Lead Hazard Control Grant program will make 8,390 units lead safe in FY 2004.

Background. The HUD Office of Healthy Homes and Lead Hazard Control provides grants to state and local government agencies to control lead and housing-related hazards in privately owned low-income housing. The Lead Hazard Control program requires grantees to employ certified personnel to collect clearance (quality control)

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

lead-dust samples in housing to confirm that it has been made lead-safe because lead dust is the major pathway by which children are exposed to lead-based paint.



Results and analysis. For FY 2004, the Lead Hazard Control Grant Program completed 8,811 lead-safe units (homes), exceeding the goal of 8,390 units. This result continues the program's trend of increasing the production of lead-safe housing since the Annual Performance Plan was initiated. Annual appropriations for the program have increased since FY 1999, and the President's FY 2005 budget requests a further increase over the amount requested in FY 2004 to continue to expand the effort to eliminate this preventable disease.

This performance level and a sustained increase in funding levels are reflections of the maturation and success of the program, both in terms of a growing infrastructure of trained and certified contractors and the capacity of state and local governments to manage the program more effectively as a result of their increased experience and knowledge. The HUD outlay under the Lead Hazard Control Grant Program in FY 2004 was $80 million, which directly supported the completion of at least 8,811 lead-safe homes. Per-unit hazard control costs plus associated property repair have declined by approximately 30 percent since the start of the program in FY 1993, reflecting a maturing lead hazard control industry and increased competition.

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

Related program evaluations. The National Center for Healthy Housing and the University of Cincinnati conducted a series of program evaluations. The data show that dust lead levels in treated homes decline by 50–85 percent and generally remain well within applicable HUD/Environmental Protection Agency hazard standards up to six years, the period studied, after the treatments have been completed.

Several other studies have shown that the Lead Hazard Control Program has been responsible for stimulating substantial activity in both the public and private sector to make housing lead-safe. In addition to the Centers for Disease Control data, HUD's National Survey of Lead in Housing shows that the number of units with lead paint declined from 64 million in 1990 to 38 million in 2000. Both of these reductions are due in part to the HUD Lead Hazard Control Program because lead-based paint hazards in housing constitute the principal source of exposure for most children today. Other contributing factors to these reductions include housing demolition; substantial rehabilitation, increased regulation and enforcement of federal, state, and local lead safety laws, and improved measurement technologies.

C.4.6: $25 million Innovative Lead Hazard Reduction Program.

Background. HUD expected to award five to ten grants to local governments or non-profit organizations that could demonstrate innovative local approaches to addressing lead-based paint hazards in housing units that either currently are or could be occupied by families with children under three years of age, including housing units into which children are born. Grantees would have had the discretion to develop and implement such approaches. All grantees would have been required to include a strong evaluation component to the program. Performance measures for this program were to be developed based upon the innovative approaches proposed by grantees. For example, one measure may have included the number of replacement windows or other building components that have lead-based paint hazards.

Results and analysis. Congress did not provide funding for this program. The Department determined that the majority of activities could be accomplished through the regular Lead Hazard grant program.

C.4.7: Seven new Healthy Homes Initiative grants will be executed in 2004.

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

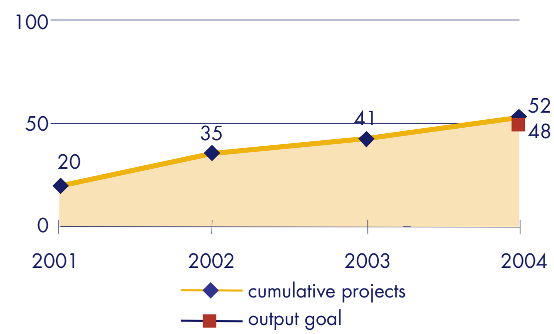
Principal outcomes of the projects in FY 2004 were public education, training to build capacity for "high performance" (energy efficient, durable, sustainable, and healthy and safe for occupants) housing construction/rehabilitation, training, assessment tools and specifications to facilitate repair of distressed housing, demonstration of new technologies, and development of good practice guidance and protocols for interventions.

This indicator measures only the number of procurement actions (i.e., grants and interagency agreements) that have been initiated. The first actions were awarded in the latter part of FY 1999 and did not become operational until FY 2000, following HUD's submission of a congressionally required report on the plan for the Healthy Homes Initiative. Since most of the agreements are for three years, peer reviewed findings on the results of these projects and the impact of the Healthy Homes Initiative have not yet been published. Output indicators that address the number of units either constructed or rehabilitated using healthy homes activities have been developed to assess the performance relative to Healthy Homes Initiative goals and objectives stated in the Notice of Funding Availability.

Results and analysis. In FY 2004, the Healthy Homes program exceeded its goal of awarding 7 Healthy Homes grants by awarding a total of 11 grants – 7 Healthy Homes Demonstration Grants and 4 Healthy Homes Technical Studies grants. These grants were announced in September 2004. Additionally, the program monitored one-third of the grant portfolio, developed an Office of Healthy Homes and Lead Hazard Control Program Guide, delivered a National Tri-Agency Grantee Conference to over 1,000 HUD, Centers for Disease Control, and the Environmental Protection Agency grantees, developed eight Healthy Homes issue papers for distribution to the Office of Healthy Homes and Lead Hazard Control grantees, trainers, and the general public, and developed supporting documentation for HUD program office compliance with the Lead Safe Housing Rule.

Healthy Homes grant activities continue to identify ways to prevent or reduce the severity of childhood health problems, such as asthma, lead poisoning, and unintentional injuries, related to substandard housing conditions. Healthy Homes demonstration projects develop protocols (e.g., visual assessment, cleaning, interventions), develop instrumental methods, provide educational materials for children and adults, produce websites, and build capacity (training community health workers, interns, residents, and grantee staff) to carry out healthy homes assessments and interventions.

Healthy Homes Grants and Interagency Agreements made Operational



Healthy Homes grantees are successfully performing assessments and interventions, as well as providing Healthy Homes information to residents, property owners and construction professionals. To date, 5,500 units have been assessed and over 2,000 units have received interventions (treated for healthy homes hazards). Over 542,000 individuals have been reached through Healthy Homes projects and over 8,300 individuals have been trained in the assessment and mitigation of healthy homes hazards.

Data discussion. The Office of Healthy Homes and Lead Hazard Control produced the data from funds reservations forms, cooperative agreement award forms, and interagency agreement award forms. The Grants Management Officer validates and verifies these forms, and conducts internal audits.

C.4.8: Through the Administering Organization, HUD will support the Manufactured Housing Consensus Committee in meeting the milestones provided in the Manufactured Housing Improvement Act of 2000.

Background. The Manufactured Housing Improvement Act of 2000 establishes responsibilities and procedures for the Federal Manufactured Housing Program. These responsibilities and procedures include procuring the services of an Administering Organization, and monitoring the performance of the Manufactured Housing Consensus Committee established under the Act. Monitoring the performance of the Consensus Committee helps make the Committee accountable for the performance of its statutory responsibilities. These include the development of standards for installing manufactured housing, and the review and updating of current design and construction standards for manufactured housing – a primary source of homeownership for first-time homebuyers. As mandated by the Act, HUD procured the services of an Administering Organization. The Department also monitors the performance of this organization in supporting the Manufactured Housing Consensus Committee.

At least once in each two-year period, the Consensus Committee must consider revisions to the Federal Manufactured Home Construction and Safety Standards. The Department, through the Administering Organization, will assist in this process as necessary. The Act requires the Department to publish, within five years of the date of the Act, standards and regulations for the installation of manufactured homes following receipt of proposals from the Consensus Committee, and regulations for dispute resolution. In FY 2004, the Consensus Committee was required to submit to HUD proposed regulations and standards for the development of these two initiatives. HUD's FY 2004 performance goal was to ensure that these milestones were achieved. While the Department works closely with the Administering Organization and the Consensus Committee to monitor and assist their progress, these partner organizations operate largely outside HUD's control.

Results and analysis. HUD's FY 2004 performance goal was to support the Consensus Committee in its efforts to develop proposed regulations for installation standards and other proposed new standards or regulations, and changes to the program's standards and regulations approved by Consensus Committee vote.

The Department met this goal by assisting the Consensus Committee to complete the development of its proposal for the Model Manufactured Home Installation Standards. The Department prepared a proposed rule for publication based upon the Manufactured Housing Consensus Committee's proposal. This effort included several in person meetings and conference calls, including three conference calls in which the Consensus Committee provided comments on a draft of the proposed rule that the Department incorporated into the proposed rule. The Manufactured Housing Consensus Committee also provided the Department recommendations regarding the Dispute Resolution Program that the Department is using to prepare a proposed rule for publication, as well as on other proposed rules.

The efforts of the Department have provided the Consensus Committee with increased opportunities to review and comment on rules of the Department. This has resulted in the Department receiving valuable recommendations and information from the Committee, and increased the cooperation and understanding of all parties regarding actions and rules of the Department.

Data discussion. Accomplishments are assessed through periodic progress reports submitted by the Administrating Organization to HUD's Office of Manufactured Housing and Construction Standards, and the Department's participation in the Manufactured Housing Consensus Committee and subcommittee meeting.

4. Goal FH: Ensure Equal Opportunity In Housing

Strategic Objectives

FH.1 *Resolve discrimination complaints on a timely basis.*

FH.2 *Promote public awareness of fair housing laws.*

FH.3 *Improve housing accessibility for persons with disabilities.*

Performance Report Card - Goal FH

	Performance Indicators	2001	2002	2003	2004	2004 Target	Substantially Met	Notes
FH.1.1	The percentage of fair housing complaints aged over 100 days will decrease by 2 percentage points from the FY 2003 level of the HUD inventory.	37%	29%	23%	17%	21%	Yes	
FH.1.2	The percentage of fair housing complaints aged over 100 days will decrease by 2 percentage points from the FY 2003 level of the inventory of substantially equivalent agencies	69.3%	45%	43%	27%	41%	Yes	
FH.1.3	FHAP grantees increase access to sale and rental housing by completing at least 2,150 Fair Housing conciliation/settlement agreements in FY 2004.	1,390	1,635	1,876	2,126	2,150	Yes	
FH.1.4	The number of enforcement agencies rated as substantially equivalent under the Fair Housing Act increases by one to total 99 agencies.	94	96	98	101	99	Yes	
FH.1.5	Provide protected classes under the Federal Fair Housing Act with increased access to sale and rental housing without discrimination by completing at least 1,200 fair housing conciliation/settlement agreements in FY 2004.	859	1,010	1,060	1,057	1,200	No	
FH.2.1	The share of the population with adequate awareness of fair housing law increases from the 2003 baseline by 2006.						N/A	a, g
FH.2.2	At least two new fair housing groups are funded by FHIP through collaborative efforts between fair housing and community or faith–based organizations.			2	3	2	Yes	
FH.2.3	The number of fair housing complaints identified by FHIP partners in the Southwest border region increases by 5 percent.			206	61	161	No	
FH.3.1	HUD will conduct 100 Section 504 disability compliance reviews of HUD recipients.	68	80	75	113	100	Yes	

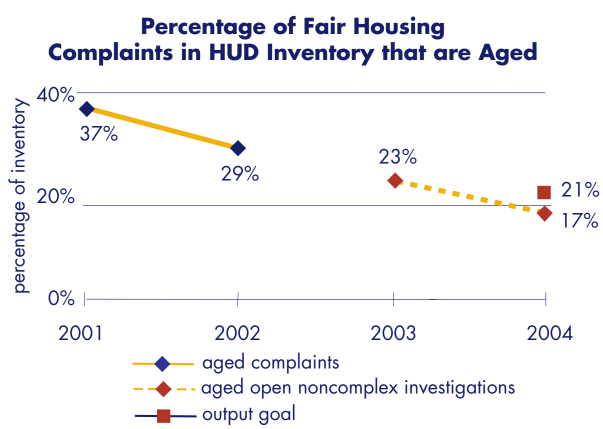
a Data not available.
b No performance goal for this fiscal year.
c Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).
d Calendar year beginning during the fiscal year shown.
e Calendar year ending during the fiscal year shown.
f Other reporting period.
g Result too complex to summarize. See indicator.
h Baseline newly established.
i Authorizing legislation under consideration by Congress.
j Overall goal established rather than subgoals.
k Result is estimated.
l Number is in thousands.
m Indicator met combined FY 2003 and FY 2004 goals.
n Number reported in billions.

Objective FH.1: Resolve discrimination complaints on a timely basis.

FH.1.1: The percentage of fair housing complaints aged over 100 days will decrease by 2 percentage points from the FY 2003 level of the HUD inventory.

Background. The efficiency of enforcement processing is an important dimension of the fair housing performance of HUD and of substantially equivalent agencies. Speedy processing encourages victims of discrimination to file complaints and increases the likelihood that violators will be punished. This indicator tracks the percentage of HUD's open non-complex cases that are aged as the fiscal year closes, and thus will already be aged as the next fiscal year begins. Complex complaints are those that contain the following issues: discriminatory financing, discriminatory brokerage service, refusal to provide insurance, redlining, steering, non-compliance with design and construction requirements, and failure to permit a reasonable accommodation.

Results and analysis. At the end of FY 2004, aged noncomplex cases constituted 17 percent of HUD's open cases, compared with 23 percent at the end of FY 2003, exceeding the goal for FY 2004 by 4 percentage points.



Beginning with FY 2003, HUD is excluding complex cases from this measure of aged cases, reflecting the more intricate and complicated processes involved in such cases. The percentage of HUD's inventory that is considered aged is calculated by dividing the number of aged noncomplex cases that are open on the last day of the fiscal year by the total number of all cases (complex and noncomplex) that are open on the last day of the fiscal year. The calculations for FY 2003 and FY 2004 reflect this. The Office of Fair Housing and Equal Opportunity staff will continue to work diligently to complete these cases while ensuring fair and impartial judgment to parties involved. The result of this accomplishment played a key role in reassuring the public that if a complaint is filed action will be taken.

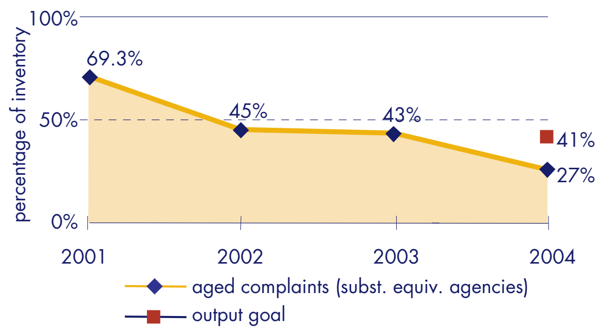
Data discussion. Data are maintained in the Title VIII Automated Paperless Office and Tracking System. These data represent a "snapshot" of the fair housing case inventory carried by HUD as of the last date of each fiscal year. The year-end snapshot measures overall efficiency in handling noncomplex complaints, without being affected by complex or far-reaching cases requiring investigative periods extending far beyond 100 days.

FH.1.2: The percentage of fair housing complaints aged over 100 days will decrease by 2 percentage points from the FY 2003 level of the inventory of substantially equivalent agencies.

Background. Efficient enforcement processing by FHAP grantees is an important dimension of fair housing enforcement. Speedy processing encourages victims of discrimination to file complaints and increases the likelihood that violators will be punished. This indicator tracks the percentage of complaints in the FHAP inventory that will already be aged at the beginning of the following fiscal year.

Results and analysis. At the end of FY 2004, 27 percent of fair housing complaints in the inventory of substantially equivalent agencies were aged over 100 days, compared with 43 percent at the end of FY 2003. HUD exceeded the goal of a 2 percentage point reduction with a 16 percentage point reduction. HUD will continue to assist FHAP organizations through monitoring, extensive training and technical assistance.

Percentage of Fair Housing Complaints in FHAP Inventory that are Aged



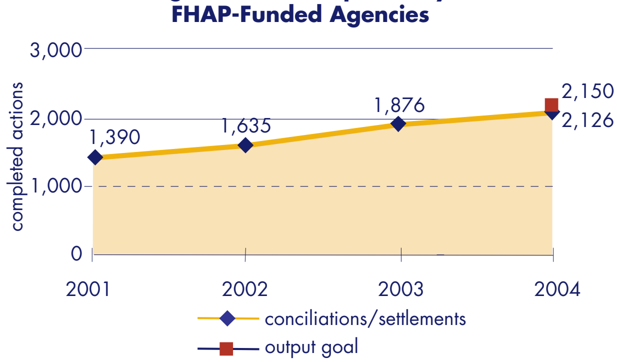
Data discussion. The data are maintained in the Title Eight Automated Paperless Office and Tracking System. The Title Eight Automated Paperless Office and Tracking System incorporates controls to ensure data quality.

FH.1.3: FHAP grantees increase access to sale and rental housing by completing at least 2,150 Fair Housing conciliation/settlement agreements in FY 2004.

Background. Increasing the number of conciliation/settlement agreements processed by fair housing agencies boosts the visibility of fair housing laws, forces potential violators to stop discriminating, and reduces HUD's enforcement workload. This indicator tracks the number of substantially equivalent FHAP grantees that post significant increases in enforcement activity.

Results and analysis. During FY 2004, FHAP grantees completed 2,126 conciliation or settlement agreements, an increase of 13 percent from the FY 2003 level of 1,876. At 98.8 percent of the projected goal of 2,150, the results substantially achieved the goal and reflect strong continuing progress and success in this area. During FY 2005, HUD will continue to assist FHAP organizations in reducing their aged case backlog. This will be accomplished through monitoring, training, and technical assistance that HUD will provide to the substantially equivalent agencies. This effort will reassure the public that when a complaint is filed action will be taken.

Fair Housing Conciliation/Settlement Agreements Completed by FHAP-Funded Agencies



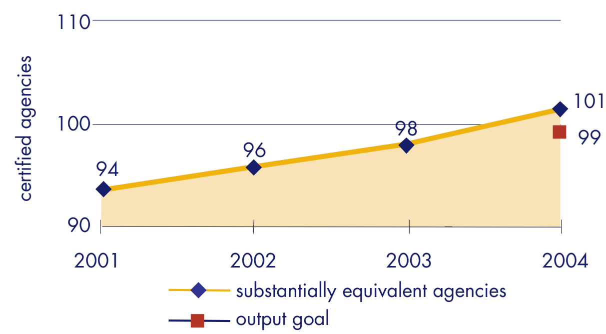
Data discussion. Although the data are self-reported by FHAP agencies, Title VIII Automated Paperless Office and Tracking System controls quality by tracking the progress of cases from receipt through closure.

FH.1.4: The number of enforcement agencies rated as substantially equivalent under the Fair Housing Act increases by one to total 99 agencies.

Background. HUD provides FHAP grants to "substantially equivalent" fair housing agencies to support fair housing enforcement. Substantially equivalent agencies are those that enforce state fair housing laws or local ordinances that are substantially equivalent to the Fair Housing Act. This indicator tracks the number of enforcement agencies that have been certified as substantially equivalent.

Results and analysis. During FY 2004, the number of agencies that are certified increased by three, from 98 to 101, exceeding the goal of one new equivalent agency. Working with state and local partners as well as the private sector, the Department is involved in a cooperative effort to increase access to the nation's housing stock by reducing housing discrimination. This effort supports the strategic goal of expanding national homeownership and minority homeownership. The newly certified agencies – State of New Jersey Division on Civil Rights, Fairfax County (Virginia) Human Rights Commission and Broward County (Florida) Office of Equal Opportunity – represent an increase in the nation's capacity to provide coordinated enforcement of fair housing laws.

Number of Substantially Equivalent Fair Housing Enforcement Agencies

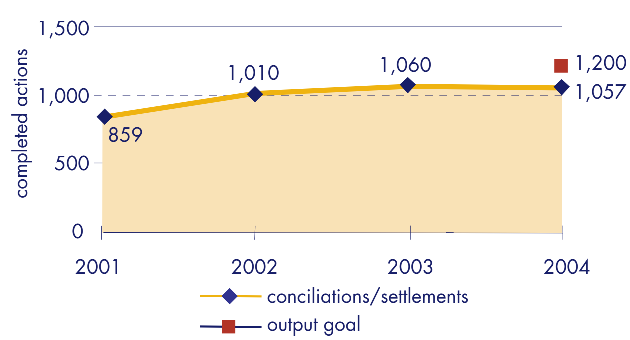


Data discussion. FHAP administrative data are maintained in the Office of Fair Housing and Equal Opportunity Title Eight Automated Paperless Office Tracking System. This indicator uses a straightforward and easily verifiable count of FHAP agencies. Determinations of substantial equivalency are made by the Assistant Secretary for Fair Housing and Equal Opportunity in accordance with the regulations at 24 CFR Part 115.

FH.1.5: Provide protected classes under the Federal Fair Housing Act with increased access to sale and rental housing without discrimination by completing at least 1,200 fair housing conciliation/settlement agreements in FY 2004.

Background. HUD investigates and resolves complaints of alleged housing discrimination from private citizens and interest groups throughout the nation. HUD has worked diligently to increase public awareness of laws prohibiting discrimination in order to ensure that persons victimized by discrimination know how and where to file fair housing complaints. It is the Department's goal to motivate citizens who experience this kind of harm to act in order that discrimination can be identified and eliminated. In addition, HUD and its partners have worked to increase capacity to effectively investigate a wide variety of civil rights complaints and to enforce the Federal Fair Housing Act and equivalent laws.

Fair Housing Conciliation/Settlement Agreements Completed by HUD Staff



Results and analysis. In FY 2004, HUD's Office of Fair Housing and Equal Opportunity completed 1,057 conciliation or settlement agreements, near the FY 2003 level of 1,060 but missing the target of 1,200. Through the Fair Housing Training Academy, investigative staff will receive extensive training to help develop their investigative and writing skills. This should result in an increase in the number of conciliation or settlement agreements.

Data discussion. Resolutions of each complaint are recorded in the Office of Fair Housing and Equal Opportunity's Title Eight Automated Paperless Office and Tracking System. The number of conciliation/settlement agreements completed by the Department is a valid measure of Office of Fair Housing and Equal Opportunity's success in reaching members of the public who have experienced discrimination and effectively processing their cases.

Objective FH.2: Promote public awareness of fair housing laws.

FH.2.1: The share of the population with adequate awareness of fair housing law increases from the 2003 baseline by 2006.

Background. Public awareness of fair housing reduces discriminatory actions. In FY 2002, HUD published a study that measured public awareness of fair housing laws and developed a baseline for this indicator. Prior to this study, no national data existed to estimate the extent of awareness. The findings of that study support the conclusion that there is relatively widespread knowledge of some core fair housing protections and prohibitions, yet the public understands some areas of the law less well than others.

The survey was designed to represent all adults in the nation. The survey's questionnaire includes 10 brief scenarios describing decisions or actions taken by landlords, home sellers, real estate agents, or mortgage lenders – eight of which involved conduct that is illegal under federal fair housing law. One-half (51 percent) of the general public correctly identified as unlawful six or more of the eight scenarios describing illegal conduct. Conversely, less than one-sixth (16 percent) knew the law in only two or fewer of the eight cases. Looked at on a scenario-by-scenario basis, a majority of the public could accurately identify illegal conduct in seven of the eight scenarios.

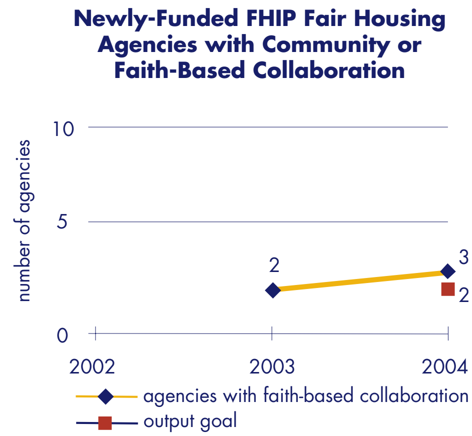
Using this information as a baseline, HUD will perform a similar survey in FY 2005 to ascertain whether public awareness has increased. This indicator tracks the effect of fair housing enforcement activities and of public information campaigns conducted by FHAP agencies, FHIP organizations and HUD on the public's understanding of their rights and responsibilities under the law.

Results and analysis. During FY 2004, HUD issued a contract for the follow-up survey to "How Much Do We Know?" The survey will be conducted during the first or second quarter of FY 2005. The Department will analyze the results within the same fiscal year.

Data discussion. Policy Development and Research survey, "How Much Do We Know? Public Awareness of the Nation's Fair Housing Laws," completed Fall 2001. Data from this survey will be used to establish a baseline for a follow-up survey during 2005.

FH.2.2: At least two new fair housing groups are funded by FHIP through collaborative efforts between fair housing and community or faith–based organizations in rural and underserved areas.

Background. Many communities do not have local fair housing organizations to inform them about fair housing and enforce their rights. HUD's FHIP addresses this shortfall by helping fair housing organizations to provide the public with fair housing education, outreach and enforcement. HUD encourages the establishment of new fair housing organizations in underserved areas by promoting partnerships between existing FHIP-funded fair housing organizations and community organizations or faith-based organizations. This supports the Administration's faith-based outreach as well as HUD's fair housing mission.



Results and analysis. During FY 2004, the Office of Fair Housing and Equal Opportunity surpassed its goal by funding three new fair housing groups through collaborative efforts between fair housing and community or faith-based organizations. The three newly funded grantees represent an increase in the nation's capacity to provide coordinated enforcement of fair housing laws. The three newly funded groups are the Fair Housing Council of Suburban Philadelphia, Discrimination Center of Metro New York, and the HELP USA.

Data discussion. The Office of Fair Housing and Equal Opportunity staff independently verifies the status of new agencies.

FH.2.3: The number of fair housing complaints identified by FHIP partners in the Southwest border region increases by 5 percent.

Background. The poorly developed towns known as "colonias" along the nation's border with Mexico are vulnerable to both common and unique forms of housing discrimination. Local organizations that receive FHIP grants investigate and build enforceable fair housing cases and submit the claims to HUD for investigation.

This developmental indicator is included as one indication of the Department's direction and strategies developed through the efforts of an internal Southwest border region task force. For purposes of this measure, the Southwest border region is defined as those counties bordering Mexico.

Results and analysis. The "colonias" information available was from the states of Texas, Arizona and California. During FY 2003 Texas FHIPs referred 52 fair housing complaints that were accepted for processing by substantially equivalent FHAP agencies, Arizona FHIPs referred 102 and California FHIPs referred 52. The combined total was 206. The goal for FY 2004 was 161. During FY 2004, Texas' number of complaints received was 6, Arizona complaints received was 40 and California complaints received was 15. The combined total of 61 complaints in FY 2004 was 71 percent less than the FY 2003 total. There are no FHIPs in New Mexico that could report the FHIP data in terms of complaint filings.

HUD has taken steps towards improving the opportunity to meet the future goal regarding the intake of "colonias" complaints. The Arizona FHIP has been placed on a Performance Improvement Plan. Also, the Department will reevaluate its outreach program to address methods to reach potential victims of housing discrimination.

Data discussion. Data come from FHIP grantee enforcement logs. The available data from the logs provide information on discrimination patterns that are assessed by staff for reliability and validated for their suitability for obtaining results for this measure.

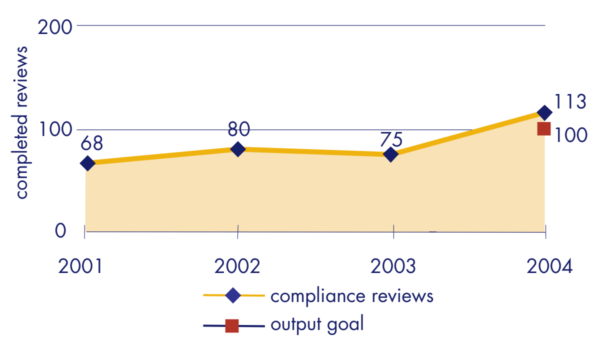
Objective FH.3: Improve housing accessibility for persons with disabilities.

FH.3.1: HUD will conduct 100 Section 504 disability compliance reviews of HUD recipients.

Background. Fair Housing and Equal Opportunity reviews PHAs, providers of HUD-assisted housing, and other HUD grantees to ensure that their developments comply with accessibility standards under Section 504 of the Rehabilitation Act of 1973. This law prohibits discrimination based on disability in federally assisted programs and activities. Section 504 requires that programs and activities be accessible to persons with disabilities. Thus the reviews will examine whether the agency complies with Section 504 and the Uniform Federal Accessibility Standards.

Results and analysis. During FY 2004, HUD issued letters of findings in 113 Section 504 compliance reviews, exceeding the goal of 100 by 13 percent. In FY 2004, the Office of Fair Housing and Equal Opportunity intensified its effort to ensure that persons with disabilities are given the opportunity to fully participate in housing and non-housing programs.

Section 504 Fair Housing Compliance Reviews Completed by FHEO



Data discussion. This measure uses data from the Title VIII Automated Paperless Office and Tracking System and HUD's Integrated Performance Reporting System. The database counts the various compliance reviews conducted, but does not track the various stages or provide qualitative information about results of the reviews. Managers provide quality assurance by reviewing the results on an intermittent basis.

5. Goal EM: Embrace High Standards of Ethics, Management, And Accountability

Strategic Objectives

EM.1 Rebuild HUD's human capital and further diversify its workforce.

EM.2 Improve HUD's management, internal controls, and systems and resolve audit issues.

EM.3 Improve accountability, service delivery, and customer service of HUD and its partners.

EM.4 Ensure program compliance.

EM.5 Improve internal communications and employee involvement.

Performance Report Card - Goal EM

	Performance Indicators	2001	2002	2003	2004	2004 Target	Substantially Met	Notes
EM.1.1	The Resource Estimation and Allocation Process and Total Estimation and Allocation Mechanism will continue to be utilized for managing resource requirements and prioritizing staffing allocations by program and office.	N/A	Yes	Yes	Yes	Updated Baseline	Yes	
EM.1.2	HUD will complete a Comprehensive Workforce Analysis and produce a Departmental Workforce Plan.	N/A	N/A	N/A	Yes No	Analysis Plan	Yes No	
EM 1.3	HUD will implement training and development initiatives for mission-critical positions.			380 N/A	380 527	300 managers 200 employees	Yes Yes	
EM.2.1	FHA will continue to address financial management and system deficiencies through the phased implementation of an integrated financial system to support FHA functions to be completed by December 2006.			Yes	Yes	Phase II	Yes	g
EM.2.2	HUD is proceeding with plans to reduce the number of non-compliant financial management systems.	17	17	4	4	Less than 4	No	
EM.2.3	HUD financial statements receive unqualified audit opinions, and the preparation and audit of HUD's financial statements is accelerated.	Yes	Yes	Yes	Yes No	Accelerate Unqualified opinion	Yes No	
EM.2.4	Ensure timely management decisions and final actions on audit . recommendations by the HUD Office of Inspector General.	0% 122	0% 107	0% 120	0% 33	0% management 60 recommendations	Yes Yes	
EM 2.5	HUD will assess eight additional major systems for data quality.		N/A	N/A	8	8	Yes	
EM 2.6	HUD will achieve SA-CMM Level 2 for five additional mission critical systems.				6	5	Yes	
EM.2.7	HUD will achieve Information Technology Investment Management Maturity Stage 3.				Yes	ITIM Stage 3	Yes	g

	Performance Indicators	2001	2002	2003	2004	2004 Target	Substantially Met	Notes
EM.2.8	HUD will complete Design Architecture Blueprints for eight core and crosscutting business functions.				4	8	No	
EM.2.9	Exceed the rate of net recovery received on the sale of property through the Accelerated Claim Program Demonstration (Section 601).				76.9%		Yes	g
EM.2.10	HUD will conduct training on and exercise the Continuity of Operations Program.				100% 80% 18%	95% test rate 80%participation 10% relocation	Yes Yes Yes	
EM.3.1	HUD partners become more satisfied with the Department's performance, operations, and programs.					Survey	No	a
EM.3.3	The percentage of existing eGovernment applications that achieve their performance goals increases by 5 percent from the FY 2003 baseline.	N/A	N/A	36%	80%	38%	Yes	
EM.3.5	Reduce the undisbursed balances in the Indian Housing Block Grant program by 50 percent for Fiscal Years 1998, 1999, 2000 and 2001.			56%	48%	50%	Yes	
EM.3.6	HUD will increase total obligations for performance-based service contracts to $125 million.	$75.3 million	$80.4 million	$112.1 million	$535.1 million	$125 million	Yes	
EM.3.7	HUD will implement the Contractor Performance System and training initiatives to strengthen acquisition management.					Implement CPS Implement PMTF 50% Profess.Training 50% Staff training	Yes No Yes No	
EM.3.8	At least 80 percent of key users (including researchers, State and local governments, and private industry) rate Policy Development and Research's work products as valuable.	81%	N/A	N/A	N/A	80%	No	a
EM.3.9	More than 2.5 million files related to housing and community development topics will be downloaded from Policy Development and Research's website.	3.1 million	4 million	5.0 million	5.3 million	2.5 million	Yes	
EM 3.10	HUD will ensure that all individuals with access to HUD sensitive systems have background investigations.				4 100%	4 reconciliations 100% SCATS	Yes Yes	
EM.4.1	The high incidence of program errors and improper payments in HUD's rental housing assistance programs will be reduced.			15%	30%	71%	Yes	
EM.4.2	The national average PIH Information Center on-time reporting rates for public housing and Housing Choice Voucher households will be 85 percent or better.	N/A	N/A	89% 98%	88% 99%	85% public housing 85% voucher	Yes Yes	
EM.4.3	The share of completed CDBG activities for which grantees satisfactorily report accomplishments increases to 90 percent.	87.5%	88.7%	93.0%	95.0%	90%	Yes	
EM.4.4	A minimum of 25 percent of active CPD program grantees will be monitored on-site or remotely for compliance with statutory and regulatory requirements.				30%	25%	Yes	
EM.4.5	The share of HOME-assisted rental units for which occupancy information is reported shall be maintained at a level of 90 percent.	82%	88%	90%	91%	90%	Yes	
EM.4.6	The Departmental Enforcement Center will complete three enforcement milestones to improve management practices of multifamily housing partners and reduce fraud, waste and abuse.			91%	93% 87% 88.9%	80% 75% 75%	Yes Yes Yes	
EM.4.7	Increase the number of Title VI and/or Section 109 compliance reviews conducted of HUD recipients by 5 percent.	24	58	50	93	53	Yes	
EM.4.8	HUD will conduct monitoring and compliance reviews or provide technical assistance under Section 3 to 35 housing authorities.	N/A	25	46	66	35	Yes	

	Performance Indicators	2001	2002	2003	2004	2004 Target	Substantially Met	Notes
EM.4.9	By the end of the fiscal year, no more than 25 percent of the Section 3 complaints will be aged.	48%	57%	24%	37%	25%	No	
EM.4.10	Ensure Program Compliance among FHIP and FHAP grantees.				145 100	195 100	No Yes	
EM.5.1	HUD will implement the Organizational Assessment Survey Action Team recommendations.	N/A	N/A	N/A	12	16	No	

a Data not available.
b No performance goal for this fiscal year.
c Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).
d Calendar year beginning during the fiscal year shown.
e Calendar year ending during the fiscal year shown.
f Other reporting period.
g Result too complex to summarize. See indicator.
h Baseline newly established.
i Authorizing legislation under consideration by Congress.
j Overall goal established rather than subgoals.
k Result is estimated.
l Number is in thousands.
m Indicator met combined FY 2003 and FY 2004 goals.
n Number reported in billions.

Objective EM.1: Rebuild HUD's human capital and further diversify its workforce.

EM.1.1: The Resource Estimation and Allocation Process and Total Estimation and Allocation Mechanism will continue to be utilized for managing resource requirements and prioritizing staffing allocations by program and office.

Background. HUD has implemented a Departmental resource management process called Resource Estimation and Allocation Process (REAP). REAP is a priority investment that allows HUD to allocate resources in a highly effective and efficient manner to improve performance and also coordinate policy, performance and staffing-related budget resources. The REAP methodology was developed in conjunction with the National Academy of Public Administration. The REAP process allows the Department to estimate, allocate, and validate resources for effective and efficient program administration and management. REAP is being used as a key tool in managing staffing resources and workload.

Results and analysis. The Department met its goal to use the REAP/TEAM process during FY 2004. REAP was a key tool in developing the FY 2005 President's Budget Request. REAP was used in the budget formulation process to match policy choices and staffing related budget resources to maximize efficiency and performance results. REAP analyses provide a baseline for estimating staffing requirements throughout the Department. The data from the studies have served since 2001 in the Departmental staffing plans requested by the Congress. As required by the National Academy of Public Administration methodology, a refresh of the REAP data was completed in FY 2004.

The Department has also implemented TEAM. TEAM is an automated information system designed to validate REAP baseline data or pinpoint areas for re-evaluation. The primary purpose of TEAM is to validate REAP data by capturing actual information on workload accomplishments and time usage by HUD employees. TEAM will accumulate information in a central database and provide managers and staff with the capability to query and analyze the stored data. In FY 2004, the development of the TEAM Allocation Module was completed. The Allocation Module is designed to allow the Department to allocate staff resources down to the field office level.

Data discussion. REAP/TEAM data are maintained by the CFO's Office of Budget. TEAM data are based on random sampling of time usage and actual workload accomplishments.

EM.1.2: HUD will complete a Comprehensive Workforce Analysis and produce a Departmental Workforce Plan.

Background. In response to the Government Accountability Office's July 2002 report that suggested HUD engage in comprehensive workforce planning, the Department's goal was to complete a comprehensive workforce analysis in FY 2004. This effort is a critical component of HUD's Strategic Human Capital Management Plan FY 2003 – FY 2008, issued in March 2003. The completed comprehensive workforce analysis will:

- Identify mission-critical positions, and assessing current and future workload and processes for HUD's core business program offices,
- Confirm existing staff skills and determining future staffing requirements,
- Identify knowledge/skill gaps and imbalances,
- Suggest proposals improving staff training and development, and
- Propose specific recruitment and retention strategies addressing individual program needs.

The comprehensive workforce analysis conducted in FY 2004 will result in workforce plans for each of HUD's core business program offices: Housing; Public and Indian Housing; Fair Housing and Equal Opportunity; and Community Planning and Development. These individual program office workforce plans will be strategic and consider e-Government, competitive sourcing, changes in mission/goals, products and services, and delivery services; and they will form the basis for the comprehensive, five-year Departmental Workforce Plan.

Results and analysis. In FY 2004, HUD successfully met the goal of conducting a comprehensive workforce analysis for each of its core business program offices that include 65 percent of the agency's workforce. This workforce analysis resulted in strategic workforce plans for FY 2004 to FY 2008 covering each of the four core business program offices. These four strategic workforce plans identify skill gaps, full-time equivalent gaps, and workforce planning strategies to address these gaps. In addition, HUD completed a draft departmental strategic workforce plan in September 2004 that contains workforce analysis finding and recommendations, which will serve as a major element for completing the FY 2005 indicator of having a comprehensive strategic Departmental Workforce Plan.

During FY 2004, a work group was established to integrate the workforce analysis results with the Resource Estimation and Allocation Process to support better human capital management. Recommendations and an implementation plan will be completed by the end of the year.

Data discussion. Data was gathered from the National Finance Center payroll/personnel system, Comprehensive Workforce Analysis, REAP/TEAM, HUD eGovernment Strategic Plan, and the HUD Strategic Plan to complete the four strategic workforce analysis and plans.

EM.1.3: HUD will implement training and development initiatives for mission-critical positions.

Background. Government Accountability Office evaluators identified succession planning as a Government-wide high-risk area. The impending retirement of over half of HUD's workforce over the next three to five years poses a significant threat to HUD's operations. If not addressed, this will result in the loss of institutional program knowledge. Nineteen mission-critical occupational series will be significantly impacted by the projected retirements of 2,500 employees. In FY 2003, HUD identified the core competencies and training curriculum for these mission-critical occupations.

The Department will implement training and development strategies to meet the needs of HUD's core business functions, and develop talented leadership from within the organization. In FY 2004, HUD's goal was to provide training based on the core business competencies to employees where skill gaps were identified. As of March 15, 2003, there were approximately 1,250 managers and supervisors, of which 203 were trained on core leadership competencies. In FY 2003, HUD trained 200 managers and supervisors. In FY 2004, HUD planned to train an additional 300 managers and supervisors.

Operation Brain Trust is HUD's knowledge transfer program designed to capture the knowledge and experience of HUD professionals and leaders and transfer it to other HUD employees. To date the faculty has designed 25 program technical course proposals. The first training session was designed and developed in distance learning format and delivered on April 3, 2003. Plans were to train at least 200 HUD employees in the program-specific mission-critical positions by the end of FY 2004.

Results and analysis. In FY 2004, HUD exceeded its goals for implementing training and development initiatives for identified mission-critical positions. During FY 2004, HUD trained 380 managers and supervisors using three core-training programs, and 527 employees using the Operation Brain Trust and Emerging Leaders programs.

In addition, HUD completed core competency models for mission-critical positions in the four major program areas, implemented training and development strategies to meet the needs of HUD's core business functions, and is developing talented leadership from within the organization through the Emerging Leaders Program.

During FY 2004 HUD trained 380 managers and supervisors using the following three programs: Supervisory Survival Skills, Development Strategies for New Supervisors, and Senior Executive Service Forums.

In FY 2004, HUD instituted a core competency initiative that studied 32 of the Department's mission-critical jobs in the four major program areas. For each of these jobs, the knowledge, skills, and abilities required for the position was documented are posted on-line and available to all HUD employees. In addition, HUD created a comprehensive training curriculum using the HUD Virtual University to satisfy each of the "cross-cutting" competencies identified in the core competency initiative. (The HUD Virtual University is a Departmental electronic learning initiative that gives HUD employees on-line access to over 2,500 courses.)

During FY 2004 HUD exceeded its target of training at least 200 employees through its Emerging Leaders and Operation Brain Trust Program. Thirty employees were selected for the Emerging Leaders program (including 15 headquarters and 15 field office participants) and participated in five training sessions. Also, 497 employees were trained using the Operation Brain Trust Program that captures the critical knowledge of experienced HUD professionals before they retire and transfers it to new or less experienced employees. This year, Operation Brain Trust training sessions covered broad based subjects including the budgeting process, Fair Housing and Equal Opportunity Programs, Homeownership, and Web-based technologies. As a result of the program's success, Operation Brain Trust is being benchmarked by other federal agencies (e.g., Department of Defense and Department of Health and Human Services) and international governmental entities (e.g., Edmonton, Canada).

Data discussion. The workforce analysis validated HUD critical skills and the skill gap analysis. Data on the number of Operation Brain Trust and Leadership and Management participants was collected by HUD Training Academy based on registrations and sign-in sheets collected for each event.

EM.1.4: Monitor and report improvements in the representation of under represented groups in the Department.

Background. This was a tracking indicator. It is the policy of HUD to prohibit discrimination in employment because of race, color, religion, sex, national origin, age, and disability, and to promote the full realization of equal opportunity through a continuing Affirmative Employment Program. This program involves increasing the diversity of the applicant pool for job openings. HUD's affirmative employment efforts do not include any hiring preference based on race or gender. This indicator was deleted because the Department is involved in ongoing litigation and will be unable to report on it.

Objective EM.2: Improve HUD's management, internal controls and systems and resolve audit issues.

EM.2.1: FHA will continue to address financial management and system deficiencies through the phased implementation of an integrated financial system to support FHA functions to be completed by December 2006.

Background. The FHA Comptroller developed a Blueprint for Financial Management that provides for a phased implementation of an integrated core financial management system to address financial management and system deficiencies documented by HUD's Inspector General, FHA and HUD financial statement auditors, OMB examiners and Government Accountability Office auditors.

Implementation of the new core FHA financial management system is included in the President's Management Agenda for HUD to strengthen program controls through improved information systems. Implementing this new system is one of the Secretary's strategic actions to address material weaknesses and reportable conditions identified in FHA's annual financial statement audits and reports to the Congress. The Blueprint for Financial Management also provides corrective action for 14 different FHA systems that were previously non-compliant with federal financial systems requirements established in OMB Circular A-127.

The FHA Blueprint for an Integrated Financial Management System has the following key objectives:

- Implement U.S. Standard General Ledger and credit reform accounts in the FHA general ledger,
- Implement automated funds control processes using the FHA general ledger,
- Automate FHA's interface with HUD's departmental general ledger,
- Produce FHA financial statements and regulatory reports directly from the FHA general ledger,
- Enhance FHA cash accounting and Treasury reconciliation with automated support from the integrated financial management system,

- Enhance FHA contract accounting with automated support from the integrated financial management system, and
- Eliminate manual accounting processes and improve integration of FHA financial and program systems, including daily or real-time funds control for insurance operations.

This systems project has a phased implementation. In Phase I, FHA identified its financial management requirements, defined and built translation software to produce financial transactions in a common format from 19 different automated sources, and acquired a Joint Financial Management Improvement Program-compliant, "commercial off-the-shelf" product to serve as its new core financial system. In September 2000, FHA selected the financial software offered by PeopleSoft, and named the new system the FHA Subsidiary Ledger.

In Phase II, FHA implemented the new PeopleSoft financial software to perform central accounting functions of the FHA Comptroller's office, such as general ledger operations and cash management. FHA accomplished the first major milestone of Phase II in October 2002 by implementing the general ledger module of the FHA Subsidiary Ledger system. With this step, FHA acquired the capability for the first time to record and track budgetary resources using the U.S. Standard General Ledger at the transaction level, to control expenditures against available resources (on a monthly basis), and to produce financial statement reports directly from the general ledger. In October 2003, FHA upgraded the software for web operation to improve critical accounting processes such as funds control.

Results and analysis. FHA completed parallel operations for the final Phase II milestones in June 2004, implementing accounts payable, accounts receivable, procurement, and projects modules to perform the following central accounting functions:

- Certification of Treasury payments and cash reconciliation of payments and collections,
- Accounting and funds control for certain FHA contracts and grants,
- Funds control for all FHA disbursements on a daily basis,
- Credit subsidy accounting, and
- Tracking total liability for new insurance against annual limits.

In Phase III, FHA will complete the integration of insurance operations with the new core financial system. The first milestones of Phase III include integration of Single Family premium refunds, Multifamily premium billing and collection, and Multifamily claims operations. Phase III of the project is expected to be completed by December 2006.

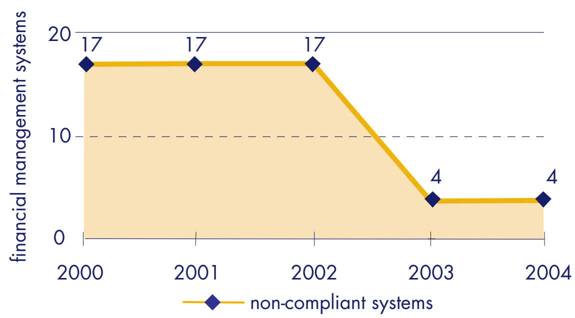
Data discussion. Successful performance will be measured by HUD's Inspector General and reported in the annual audit of FHA's financial statements. The performance measures for the project are subject to independent assessment and depend on readily verifiable information such as number of findings (material weaknesses and other reportable conditions) eliminated from the auditor's annual opinion and number of legacy systems replaced. The project will identify new annual milestones as work on each phase is completed.

EM.2.2: HUD is proceeding with plans to reduce the number of non-compliant financial management systems.

Background. The Federal Financial Management Improvement Act of 1996 requires federal agencies to implement and maintain financial management systems that comply with federal reporting requirements and accounting standards, and to support the U.S. Government Standard General Ledger at the transaction level. At the end of FY 2000, HUD had 67 financial management systems, of which 17 failed criteria for compliance with federal requirements. By the end of 2003, the total number of financial systems dropped to 46, and the Department achieved a significant reduction in the number of non-compliant financial systems from 17 to 4.

Results and analysis. At the end of FY 2004, HUD continues to report four non-compliant financial management systems and did progress against the target. One non-compliant system (Loan Accounting System) belongs to the Chief Financial Officer. A review is underway to select a replacement package for the Loan Accounting System. The estimated completion date for implementation of a compliant replacement system is October 2005. The other three non-compliant systems (Single Family Mortgage Notes Servicing; Single Family Acquired Asset Management; and Multifamily Insurance) are Federal Housing Administration systems determined to be non-compliant based on independent compliance reviews conducted at the end of FY 2003. FHA's FY 2004 Self Assessment and Certification reviews reported these three systems as compliant based on corrective actions completed in FY 2004. Although similar FHA systems functionality was independently found to be compliant in other FHA systems in FY 2004, HUD will continue to report these three FHA systems as non-compliant, pending independent verification of compliance in FY 2005. Pending such verification, and absent any new issues raised by other independent assessments, HUD's overall financial management systems environment could be deemed substantially compliant with FFMIA and no longer a material risk for HUD in FY 2005.

HUD Financial Management Systems that are Non-Compliant with FFMIA



Data discussion. The Office of the CFO maintains the financial management systems inventory, with input from systems sponsors and cyclical compliance reviews of systems. The data are reliable for this measure. HUD contracts for independent financial management systems compliance reviews on a three-year cycle, or in conjunction with major systems changes, and the Inspector General also verifies compliance of HUD financial systems through audits.

EM.2.3: HUD financial statements receive unqualified audit opinions, and the preparation and audit of HUD's financial statements is accelerated.

Background. The OIG conducts an annual audit of the Department's financial statements in order to determine whether the statements fairly present HUD's financial position. On December 19, 2003, the Inspector General issued an unqualified audit opinion on HUD's FY 2003 financial statements. The Department has received an unqualified audit opinion for four consecutive fiscal years (2000-2003) – an indicator of financial management discipline and stability. The issuance of HUD's audited financial statements was accelerated by approximately one month for FY 2003, to 80 days after the end of the fiscal year. For FY 2004 and thereafter, HUD plans to further accelerate the issuance of its audited financial statements to November 15, in keeping with an Office of Management and Budget mandate that all agencies issue their audited financial statements within 45 days of the end of the fiscal year.

The receipt of an unqualified audit opinion sends a strong message to the Office of Management and Budget, Congress and the public about the accuracy of HUD's consolidated financial statements and the reliability of the underlying financial management systems and controls over financial reporting. An unqualified audit opinion is important for these external stakeholders to have confidence in HUD's financial operations and reporting. At the same time, HUD recognizes that establishing and maintaining this trust requires a long-term commitment to financial integrity, including progress toward eliminating the material weaknesses and reportable conditions identified in the financial statement audit. HUD ended FY 2003 with two auditor reported material weakness and seven reportable conditions, a reduction of one material weakness and three reportable conditions from the previous year.

To provide more timely financial management information and support for the accelerated audit process, HUD is also required to prepare quarterly financial statements within 45 days after the end of the quarter, with the goal of accelerating the issuance of the quarterly statements to within 21 days after the end of the quarter beginning with the second quarter of FY 2004.

Results and analysis. The FHA, Ginnie Mae and Office of Federal Housing Enterprise Oversight components of the Department each received an unqualified audit opinion on their FY 2004 financial statements. However, the Office of the Inspector General was unable to complete the necessary work to express an audit opinion on HUD's consolidated financial statements by the November 15, 2004, deadline established by the Office of Management and Budget, and therefore issued a disclaimer of opinion on HUD's consolidated statements. HUD received an unqualified audit opinion on its consolidated financial statements for the four previous fiscal years 2000 through 2003. HUD's management is unaware of any issues that would have precluded the Department from receiving an unqualified audit opinion on its FY 2004 consolidated statements, had the audit been completed. HUD is assessing ways to expedite the audit process to meet the accelerated audit issuance goal next year.

HUD's efforts to strengthen internal controls led to the elimination of another reportable condition issue in FY 2004, but the auditors reported a new material weakness issue and a new reportable condition. HUD ended FY 2004 with three material weaknesses and 7 reportable conditions.

HUD met its goal for accelerating the production of the quarterly financial statements to within 21 days after the end of the quarter, and continued to provide timely financial data for managers to use in making program decisions. HUD intends to continue producing quarterly financial statements within 21 days after the end of each quarter in FY 2005 and beyond.

Data discussion. The OIG, along with contracted personnel under their direction, conducts the annual financial statement audit. This audit examines the adequacy of HUD's financial management systems, the effectiveness of internal controls over financial reporting, and compliance with laws and regulations that could have a material effect on the financial statements. The OIG also identifies material weaknesses and reportable conditions, and recommends appropriate corrective actions. OIG audits are independent of HUD management, are performed in accordance with Government Accountability Office auditing standards, and adhere to the OMB and other guidelines and standards governing the preparation and audit of agency financial statements.

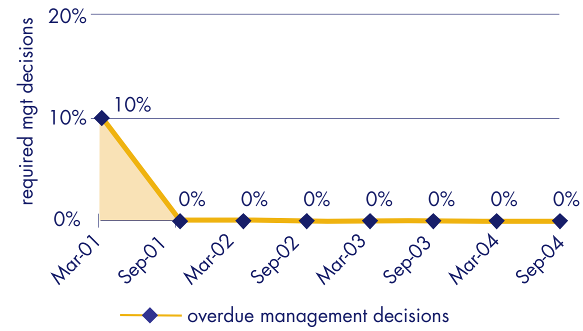
EM.2.4: Ensure timely management decisions and final actions on audit recommendations by the HUD OIG.

Background. The large body of internal and external audit work conducted by the HUD OIG results in a significant volume of recommendations involving recovery of disallowed and questioned costs, opportunities to put funds to better use, and improvements to management controls to reduce the risk of fraud, waste and abuse, and improve program performance. The Inspector General Act of 1978, as amended, establishes requirements for the timely resolution and reporting on Office of Inspector General audit recommendations by agency managers. By statute, agency managers have six months from the date of issuance of an audit report to reach acceptable management decisions with OIG on all audit recommendations. HUD's goal is to have "no" overdue management decisions every six-month reporting period. As part of an approved management decision on an audit recommendation a target date is established for completing final action on that recommendation. HUD management tracks the status of final actions and established a FY 2003 and FY 2004 goal for a 50 percent reduction in final actions more than 12 months overdue.

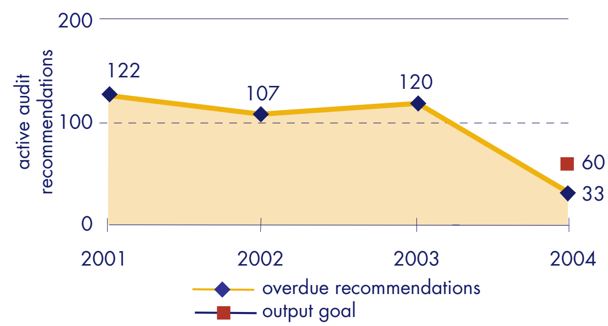
Results and analysis. For the semiannual reporting periods ending March 31, 2004, and September 30, 2004, HUD made timely management decisions on 828 OIG audit recommendations and met 100 percent of its goal of no overdue management decisions for the sixth and seventh consecutive periods.

HUD also met its goal for reducing overdue final actions. The Department began the year with an inventory of 803 management decisions requiring final action, with 120 actions more than 12 months overdue. During the year, 828 action plans were added to the inventory and the Department completed final action on a total of 760, leaving a balance of 872 audit recommendations with final actions pending. Of these 872 audit recommendations, only 33 were more than 12 months overdue and the Department achieved 145 percent of its FY 2004 goal, placing the Department well on track to completing its related FY 2005 goal as well.

Percent of HUD Management Decisions that are Overdue



Final Actions on OIG Audit Recommendations that are Overdue More than 12 Months



Data discussion. HUD's new Audit Resolution and Corrective Action Tracking System was implemented in FY 2003 as the data source for this indicator. The data are reliable for these measures. The HUD Inspector General and the Departmental Audit Liaison in the Office of the CFO reconcile and confirm the accuracy of the data.

EM.2.5: HUD will assess eight additional major systems for data quality.

Background. The Department's growing concern with the quality of its program data, and the Secretary's desire to accurately report where and how HUD dollars are being spent to revitalize the communities across America, led the Department to establish an Enterprise Data Management Practice. The Enterprise Data Management Practice provides HUD the ability to: manage data as a strategic resource to improve the effectiveness of all HUD initiatives; measure HUD's performance in achieving its mission; and demonstrate the Department's effectiveness and impact on America's communities. In 2000, HUD launched the Data Quality Improvement Program, to ensure that the quality of Annual Performance Plan performance indicator data in HUD Information Technology systems is enhanced. Data Quality Improvement Program includes a three-step process: 1) independent assessment; 2) data quality cleanup and improvement; and 3) certification. For the HUD systems used for APP reporting that are assessed, they are required to get an independent assessment. Based on the results of its independent assessment, HUD staff provides findings and recommendations to the system owners, who are accountable for Step 2 – data quality cleanup and improvement. When implemented, Step 2 actions correct deficiencies and ensure data quality.

When data quality is corrected and improvements are completed, the Office of the Chief Information Officer will then perform an independent certification. Step 3 – certification repeats Step 1 by verifying that intended improvements were made and are working.

Results and analysis. In FY 2004, HUD staff assessed eight systems and, based on positive findings, the systems were immediately certified for data quality for reporting their performance indicators. Therefore, HUD met its goal of assessing eight systems during the fiscal year.

Over the last three years, HUD staff completed 23 data quality assessments. However, only 21 of the systems assessed were used during FY 2004 to report on Annual Performance Plan performance indicators.

In addition, during FY 2004, there were 38 systems that provide the data for reporting 73 APP performance indicators. Of those 38 Information Technology systems, 19 (or 50 percent) are certified.

The following chart includes the 23 systems that have been assessed and the 19 certified over the last three years.

System Acronym	System Name	Certification Status
LOCCS	Line of Credit Control System	Certified 2001
PAS	Program Accounting System	Certified 2001
SAMS	Single Family Asset Management System	Certified 2002
MTCS	Multifamily Tenant Characteristics System (see NOTE)	Certified 2002
HUDCAPS	HUD Central Accounting Payment System	Certified 2003
REMS	Real Estate Management System	Certified 2003
TRACS	Tenant Rental Assistance Certification System (see NOTE)	Certified 2004*
RASS	Residential Assessment Subsystem	Certified 2003
NASS	Integrated Assessment Subsystem	Certified 2003
PASS	Physical Assessment Subsystem	Certified 2003
FASS	Financial Assessment Subsystem	Certified 2003
MFIS	Multifamily Insurance System	Certified 2003
IDIS-HOME	Integrated Disbursement and Information System (HOME)	Certified 2003
IDIS-CDBG	Integrated Disbursement and Information System (CDBG)	Assessed 2003
CHUMS	Computerized Home Underwriting Management System	Assessed 2003
PIC-SEMAP	SEMAP Module of the PIH Information Center	Certified 2004*
PIC-50058	50058 Module of the PIH Information Center (see NOTE)	Certified 2004*
DAP	Development Application Processing System	Certified 2004*
TEAPOTS	Title VIII Automated Paperless Office Tracking System	Certified 2004*
CPD/APR	CPD Administrative Database (APR)	Certified 2004*
CSFSS	Consolidated Single Family Statistical System	Certified 2004*
CLAIMS	Single Family Insurance System-Claims Subsystem	Certified 2004*
TRACS	Tenant Rental Assistance Certification System (see NOTE)	Certified 2004*

NOTE: Multifamily Tenant Characteristics System was re-platformed creating a new data management environment (Public and Indian Housing Information Center-50058). Therefore, a new assessment was completed in FY 2004. The Tenant Rental Assistance Certification System was reassessed in FY 2004 in order to focus on data that supports Annual Performance Plan reporting.

*Denotes systems that were both assessed and certified in FY 2004.

Data discussion. Each fiscal year, the Department-wide Data Control Board selects the eight systems to be assessed and approves the selection of mission-critical data proposed by each system's program area project team. The Enterprise Data Management Practice recommends the systems to be selected based on: (a) number and relative importance of Annual Performance Plan performance indicators supported by the system; (b) determination of whether or not the system has been the subject of recent Government Accountability Office, OMB, or OIG audits; and (c) percentage of performance indicators in the current Annual Performance Plan supported by the system that have been repeated from the previous Annual Performance Plan. Program area projects teams review assessment reports and provide feedback to the Enterprise Date Management Practice on two occasions before the Final Report is published. Once finalized, HUD makes assessment and certification reports available on its intranet. Reports include, in spreadsheet format, the exact data elements assessed, standards against which the data elements were assessed, and the assessment results. Reports also document and evaluate the system data management environment and the value chain by which APP reporting information is extracted from supporting systems and provided for Annual Performance Plan reporting.

EM.2.6: HUD will achieve Software Acquisition-Capability Maturity Model Level 2 for five additional mission critical systems.

Background. During FY 2004, HUD built upon the work performed under the Software Acquisition-Capability Maturity Model to expand the program by transitioning to Capability Maturity Model Integration, which is represented by products that include a set of models, an appraisal method, and a training program. Capability Maturity Model Integration will be the basis for the HUD Software Process Improvement Program that will implement and manage key processes that include the software engineering model, systems engineering and software engineering model, integrated product and process development model, and the supplier-sourcing model. All of these are important in supporting the acquisition, design, development and maintenance of HUD systems.

In addition to its impact on the software acquisition process, Capability Maturity Model Integration under the Software Process Improvement Program will impact positively the total cost of ownership of HUD's Information Technology systems as a business practice. The Software Process Improvement Program will move the total process from ad hoc, less effective processes to mature, disciplined processes, while instituting exemplary practices found in a disciplined software and systems processes. Implementing Capability Maturity Model Integration as the foundation for Software Process Improvement Program, while insuring that all systems are at Level 2 of Capability Maturity Model Integration (including security and safety), will provide the following benefits and characteristics:

- Established policies, procedures, and practices that commit the Department to implementing and performing consistently.
- Best practices are defined to transfer across program areas and project boundaries, and provide some standardization.
- Variations in performing best practices are reduced. Quantitative objectives are established for tasks; measures are established, taken, and maintained to form a baseline making assessments possible.
- Practices are continuously improved to enhance capabilities.
- Systems cost will be reduced because of increased software development quality, reduced rework and fixes, and reduced support and manpower requirements.

The Software Acquisition-Capability Maturity Model Level 2 (repeatable) maturity is primarily focused on projects. At this level, repeatable software acquisition project management is established, software acquisition project management processes are documented and followed, organizational policies guide the projects in establishing management processes, and successful practices developed on earlier projects can be repeated.

Results and analysis. During FY 2004, the Department achieved Software Acquisition-Capability Maturity Model Level 2 for six mission-critical systems, exceeding its goal of five by 20 percent. During FY 2004, a significant number of HUD personnel were trained on Capability Maturity Model and the potential impact on their systems. Additionally HUD established an interagency workgroup including the Federal Aviation Administration and other federal agencies to share cost, work to institutionalize the Capability Maturity Model process, and identify and drive future Capability Maturity Model policies and standards.

In addition, during FY 2005, HUD will work to achieve Level 3 maturity (standard, consistent processes) for the six projects that achieved Software Acquisition-Capability Maturity Model Level 2 implementation.

Data discussion. Chief Information Officer administrative database, consisting of system performance metadata reported by program owners of data systems, OMB-300, Exhibit 53 for HUD, Legacy System study, and the Business Case for Software Process Improvement. This methodology has been utilized in the private industry and Government agencies for process improvement. Authorized independent assessors and evaluators provided data that proved the methods are of substantial benefits to organizations involved in acquisition or supporting information technology. Implementation will be verified by independent audit by third party and the OIG.

EM.2.7: HUD will achieve Information Technology Investment Management Maturity Stage 3.

Background. In FY 2004, HUD obligated almost $400 million on an Information Technology portfolio of 140 projects. These projects primarily involve maintaining legacy systems and small to major modifications. These systems are designed, developed, and managed so HUD can address changing business needs, emerging departmental requirements (e.g., legislation, regulations, guidance, court orders), and project performance considerations timely.

HUD's Capital Planning and Investment Control process, required by the Clinger-Cohen Act, lays the foundation for a mature approach to Information Technology Investment Management. In 2000, HUD began following the Government Accountability Office Information Technology Investment Management Maturity Framework to improve its Capital Planning and Investment Control process, because a mature process will reduce project cost overruns, schedule slippages, and unproductive systems. The Maturity Framework improves the selection and management of HUD's Information Technology portfolio by addressing business strategies and workforce needs. HUD also established controls over investments to minimize project failure or excessive cost and schedule overruns.

There are five levels of maturity to the Government Accountability Office Information Technology Investment Management Maturity framework:

Stage 1 – Creating investment awareness;

Stage 2 – Building an investment foundation;

Stage 3 – Developing a complete investment portfolio;

Stage 4 – Improving the investment process;

Stage 5 – Leveraging Information Technology for strategic outcomes.

In 2002, HUD achieved Stage 2. HUD implemented an investment review board to select and manage Information Technology projects, and a process that verifies business needs and tracks and oversees projects and systems. HUD will improve its Information Technology management practices by achieving Stage 3 during FY 2004.

Results and analysis. HUD successfully achieved this goal. Achieving Stage 3 required HUD staff to: (1) improve the alignment of the authority of HUD investment boards; (2) define selection criteria for the portfolio; (3) improve investment analyses; (4) develop a portfolio; and (5) provide oversight of the portfolio to improve the selection and management of Information Technology assets.

An outside consultant (Synthesis Technologies, Inc.) conducted an independent assessment of HUD's Information Technology Investment Management process from September through mid-December 2003. The assessment report, dated December 31, 2003, verified that HUD achieved Stage 3. This represents a successful step to achieving a stable, mature Information Technology investment management process.

(Note: In March 2004, the Government Accountability Office released version 1.1 of the Information Technology Investment Management Maturity Framework that provides more clarity of the requirements, and moved the critical process for post-implementation review and feedback from Stage 4 to Stage 3. In 2005, HUD will be ensuring that its Information Technology Investment Management process meets all of the new requirements for Stage 3, and will continue making progress toward its goal of achieving Information Technology Investment Management Maturity Stage 4 by the end of FY 2006.)

Data discussion. The independent assessment was conducted by an outside consultant (Synthesis Technologies, Inc.) using the 2000 version of the Government Accountability Office Information Technology Investment Management Maturity Framework from September through mid-December 2003. The assessment included the review of HUD's current Information Technology Investment Management policies, procedures and practices; interviews with key HUD stakeholders; and analysis of historical documents and data.

EM.2.8: HUD will complete Design Architecture Blueprints for eight core and cross cutting business functions.

Background. In 2000, HUD established an enterprise architecture program to promote sound business and Information Technology decisions through comprehensive understanding of HUD's complex computing environment. The primary purpose of enterprise architecture is to inform, guide, and govern the decisions at the enterprise level, especially those related to Information Technology investments. The enterprise architecture describes the current and planned design of the Department's business, information and technology. With enterprise architecture, HUD identifies its needs and defines the technology needed to support those needs. Across the Department, enterprise architecture: (1) illustrates the implications of business and Information Technolody decisions; (2) ensures the acquiring technologies to adequately support business and information needs; (3) facilitates information sharing among the program offices; (4) promotes a reduction in duplicative system functionality; and (5) highlights opportunities for building greater flexibility into applications.

HUD's FY 2004 goal was to complete its target enterprise architectures with integrated segment architectures for eight core and cross-cutting business functions: (1) Single Family Housing; (2) Financial Resource Management; (3) PIH Rental Assistance; (4) Grants Management; (5) Human Resources Management; (6) Enterprise Workflow Management; (7) Information Management; and (8) Multifamily Mortgage Insurance Management.

Results and analysis. During FY 2004, HUD completed four (or 50 percent) of the eight planned target enterprise architectures. The four target architectures completed for FY 2004 were: (1) Rental Housing Assistance; (2) Single Family Housing; (3) Enterprise Architecture Information Management; and (4) Grants Management.

HUD did not meet this goal due to funding cuts for contracts supporting enterprise architecture programs. HUD currently has an enterprise architecture support contract in place that was awarded September 30, 2004, to get back on track in FY 2005 to ensure additional core and cross cutting enterprise architecture blueprints are completed. Work is currently underway to complete the Financial Resource Management target architecture. The Human Resources Management target architecture will be completed during the first quarter of FY 2005. Target architectures for Enterprise Workflow Multifamily Mortgage Insurance Management, and two additional – Facilities Management and Acquisition Management – are to be completed in FY 2005.

Data discussion. Enterprise architecture activities are included in HUD's Information Technology Strategic Plan for FY 2003 – FY 2008. Status reports provide accurate tracking information on planned activities. Program managers regularly review the status reports to ensure that planned actions occur. Additionally, these activities are reported in the President's Management Agenda. HUD's Chief Architect regularly reviews the President's Management Agenda status reports to ensure that planned actions occur and are reported in the President's Management Agenda process.

EM.2.9: Exceed the rate of net recovery received on the sale of property through the Accelerated Claim Program Demonstration (Section 601).

Background. A key element to FHA's business is the payment of claims on defaulted insured loans. Title VI, Section 601 of the Veterans Administration, HUD, and Independent Agencies Appropriations Act (1999) reformed the single family claims and property disposition process. The legislation enables HUD/FHA to: (1) pay claims upon assignment of mortgages rather than upon conveyance of the properties; (2) take assignment of notes and transfer them to private parties for servicing, foreclosure avoidance, foreclosure, property management and asset disposition; and (3) participate as an equity partner with private entities in asset disposition.

The overall goal of the Accelerated Claim Program Demonstration is to accelerate claim disposition and increase the value of the single family assets, and therefore the recovery to FHA, while ensuring that FHA's public policy issues are addressed. If this methodology proves successful, FHA can resolve a substantial percent of defaulted mortgages by transferring mortgages to private partners rather than acquiring properties. Currently, FHA plans to make the Accelerated Claim Program Demonstration a permanent program in FY 2005. This indicator tracks the rate of recovery in FY 2003 and FY 2004.

Results and analysis. Recoveries as of August 31, 2004, for the two Single Family Sales Initiatives:

	Recoveries Adjusted for Claim Cost as of 8/31/04
Single Family—Sale 1 October 2002 (FY 2003)	70.2%
Single Family—Sale 2 September 2003 (FY 2004)	76.9%

Currently, the net recoveries received through the Accelerated Claim Program is exceeding the recoveries received from the sale of property. Additional recoveries will be realized as the remaining assets of the portfolios are sold.

Data discussion. As the Accelerated Claim Program matures and final disposition outcomes are made, the Department anticipates that the recoveries from the Accelerated Claim Disposition Demonstration will exceed the Conveyance Recoveries. For example, the results of the third Joint Venture Sale have improved over the first and second sale. The 2004 Single Family Joint Venture Partner winning bid percentage was higher than the Single

Family Joint Venture Partner 2003 bid percentage, which was higher than the Single Family Joint Venture Partner 2002 bid percentage. Now that the market is established we expect continued improvement.

EM.2.10: HUD will conduct training on and exercise the Continuity of Operations Program.

Background. It is the U.S. Government's policy to have a comprehensive and effective program to ensure continuity of federal functions under all situations.[8] The baseline for potential emergency preparedness is a viable Continuity of Operations capability that ensures essential functions can be performed during any emergency or situation that might disrupt normal operations.

In FY 2004, HUD will:

1. Perform quarterly notification testing of all office Continuity of Operations notification procedures: achieve a 95 percent quarterly testing rate for all HUD offices (307 tests out of 324.);
2. Conduct annual training of the headquarters Continuity of Operations Emergency Relocation Group members: achieve 80 percent participation (96 out of about 120 headquarters Continuity of Operations Emergency Group members); and
3. Exercise the activation of emergency relocation sites and deployment of the Continuity of Operations Emergency Relocation Group: 10 percent participation by HUD's offices (9 out of 81 offices).

Results and analysis. In FY 2004, HUD met all three Continuity of Operations goals. First, HUD exceeded its 95 percent quarterly testing goal, achieving a 100 percent test rate for each quarter with all members participating. The tests ensure that the Continuity of Operations notification procedures function as designed and that all Continuity of Operations Emergency Relocation Group members are contacted and notified of the ongoing test.

Second, HUD staff conducted annual training of the headquarters Relocation Group with over 80 percent of the Continuity of Operations Emergency Relocation Group members attending. HUD participated in the Homeland Security Exercise "Forward Challenge 04." On May 11 and 12, 2004, Continuity of Operations Plan training for headquarters Continuity of Operations Emergency Relocation Group was held in Richmond, Virginia. All aspects of HUD's Continuity of Operations plan was tested during the exercise in Richmond. Additionally, the Office of Security and Emergency Planning held its second annual Continuity of Operations Conference in September 2004 with over 130 Continuity of Operations Emergency Relocation Group members receiving three days of Continuity of Operations Plan training.

Third, HUD exercised emergency relocation procedures at 15 of 81 (or 18 percent) field offices in response to actual events or during Continuity of Operations Plan testing, exceeding its FY 2004 goal by 80 percent.

Data discussion. The Office of Security and Emergency Planning is responsible for planning, developing, and implementing programs and plans that respond to a wide variety of disasters, emergencies, critical situation management, safety, and personnel security. The Department's Continuity of Operations Plan was developed and is managed by the Office of Security and Emergency Planning. The Office of Security and Emergency Planning is also responsible for implementing HUD's mission under the Federal Response Plan that ensures effective delivery of federal assistance to areas affected by major disasters or emergencies declared under The Robert T. Stafford

[8] The authority for the Continuity of Operations program is Presidential Decision Directive (PDD) 67, dated October 21, 1998, and Federal Preparedness Circulars 65 and 66.

Disaster Relief and Emergency Assistance Act. Managing the Department's Continuity of Operations Plan program requires continuous testing of all facets of the plan. The FY 2004 hurricane season tested the viability of the field office Continuity of Operations Plan plans in the southeastern part of the country. Other events throughout the country provided situations for field offices to activate their Continuity of Operations Plans and/or necessitated additional testing and a higher state of readiness. In FY 2004, HUD established a data reporting mechanism to ensure required results of testing and relocation activations are captured for subsequent evaluation of data quality. The Office of Security and Emergency Planning will perform initial evaluations of the data quality. The Government Accountability Office and the OIG will perform independent assessments and validations of the data.

Objective EM.3: Improve accountability, service delivery, and customer service of HUD and its partners.

EM.3.1: HUD partners become more satisfied with the Department's performance, operations, and programs.

Background. HUD partners are critical to the Department's overall performance. These partners, that include government, non-profit, and for-profit entities, provide service delivery for a majority of HUD programs. Increasing their satisfaction with HUD makes them more willing to support HUD and achieve common objectives. During FY 2001, eight partner groups were surveyed to assess both partner satisfactions with the Department generally and perceptions of the recent management changes at HUD. The partner groups included community development directors, PHA directors, Fair Housing Assistance Program directors, mayors, multifamily owners, and non-profit providers. Overall satisfaction by partners varied greatly, with mayors and Fair Housing Assistance Program directors highly satisfied, and PHA directors and multifamily owners less satisfied.

Results and analysis. During FY 2004, HUD contracted a second stakeholder survey. Results are expected during FY 2005.

Data discussion. The survey instrument used in the FY 2001 survey was pretested to determine appropriate validation and verification procedures.

EM.3.2: HUD will continue to implement procedures to hold single family lenders accountable for the selection and performance of appraisers for FHA-insured mortgages.

Background. Single family homes that are being financed with FHA-insured loans need accurate appraisals of property to prevent undue risk to the FHA fund. HUD's monitoring and oversight of these appraisals have been considered a material weakness of the Department. As part of FHA's single-family appraisal reform efforts, FHA's Office of Single Family Housing will create new protocols for the monitoring of lenders' appraisers. This indicator was deleted due to the implementation of the Appraiser Watch system during FY 2003.

EM.3.3: The percentage of existing eGovernment applications that achieve their performance goals increases by 5 percent from the FY 2003 baseline.

Background. Electronic government (eGovernment) projects support HUD's strategic goals and the President's Management Agenda eGovernment objective of simplifying service delivery to citizens, enabling more efficient business processes, and reducing costly system redundancies. Fundamental objectives of this Administration are to expand the use of the Internet and emerging technologies within and across Government agencies to achieve agency missions and program performance goals, and provide citizen-centric Government information and services at lower costs. HUD's commitment to transform the way we do business using eGovernment technology is demonstrated by linking HUD's eGovernment program and information technology management process. All eGovernment projects are required to have sound performance measures that are: 1) specific, quantifiable, and linked to the business area programs they support; and 2) result in substantial performance goals that can be maintained and measured annually.

HUD has identified 15 major eGovernment projects to measure against identified performance goals. In FY 2003, HUD made significant progress by identifying performance measures for each of the 15 eGovernment projects, and identifying specific, quantifiable performance goals for 11 of these 15 eGovernment projects. In FY 2003, four of 11 (or 36 percent) of eGovernment projects met or exceeded performance goals. The FY 2004 goal was to achieve a 5 percent increase over the FY 2003 number of projects that met or exceeded their performance measures.

Results and analysis. In FY 2004, HUD exceeded this eGovernment strategic goal as evidenced by 12 of the total 15 (or 80 percent) projects meeting or exceeding their performance measures, an increase of 44 percentage points over the FY 2003 baseline of 36 percent.

In FY 2003, there were 11 applications with performance goals and in FY 2004 this number increased to 14 (or a 27 percent increase over FY 2003). Performance goals and baseline information is being established for the remaining eGovernment project (HUD Integrated Human Resources and Training System), that was implemented in December 2003.

To ensure they reach their performance targets, HUD will continue quarterly monitoring and evaluation of the major eGovernment projects. For the two eGovernment projects that did not meet their established performance measures, staff is developing corrective action plans and the projects will be re-evaluated for alignment with HUD's overall Strategic Plan.

Data discussion. The data source is the FY 2005 OMB Exhibit 300 information developed for each eGovernment project. The OMB Exhibit 300 data originated in the various program offices through their efforts to report on their eGovernment projects' progress through the information technology capital planning process. All eGovernment projects are selected, controlled, and evaluated through HUD's information technology capital planning process. Each program area is responsible for tracking and reporting the performance of eGovernment projects during the information technology budget process. Validation of data primarily occurs through the information technology capital planning control reviews.

EM.3.4: Process 200,000 mortgage insurance applications through Technology Open to All Lenders (TOTAL) Scorecard.

Background. HUD has developed a mortgage scorecard, FHA TOTAL Scorecard, for use by the mortgage industry. The TOTAL Scorecard is not an automated underwriting system; rather, it is a mathematical equation intended to be used within an automated underwriting system. The FHA TOTAL Scorecard assesses the credit worthiness of FHA borrowers in an objective, consistent manner by evaluating certain mortgage application and borrower credit information that has been statistically proven to accurately predict the likelihood of borrower default. FHA believes the objectivity and the broad availability of the TOTAL Scorecard will increase homeownership opportunities for minorities. The scorecard was developed for a number of reasons, which include improving underwriting efficiencies by lenders, decreasing losses to FHA's insurance fund, and integrating the use of automated underwriting systems into FHA's existing processes and workflow including mortgage insurance endorsement processing. This indicator was deleted from the FY 2004 Annual Performance Plan, but will be tracked and reviewed within the Department's FY 2004 Management Plan, reflecting the indicator's focus on process rather than an outcome.

EM.3.5: Reduce the undisbursed balances of grants in the Indian Housing Block Grant program by 50 percent for FYs 1998, 1999, 2000, and 2001.

Background. This indicator measures the amount of undisbursed Indian Housing Block Grant funds remaining as of September 30, 2004, from the total amount allocated beginning with FY 1998 through 2001. The reduction is measured as a comparison to the undisbursed balance as of September 30, 2003. The undisbursed balances represent funds that have not been drawn-down by grant recipients. By decreasing these balances, the Department hopes to improve efficiency in program delivery and provide more timely assistance to those served.

Results and analysis. As of September 30, 2004, the aggregate reduction to the undisbursed balance from the September 30, 2003, level was slightly above 48 percent, substantially meeting the target. The stated goal was a 50 percent reduction. The Department's focus on reduction of the undisbursed fund balance has increased the effort by the grant recipients to accomplish the goal. This effort is evident in the 71 percent total reduction in undisbursed balance, from $437.5 million to $128.5 million, over the previous two fiscal years. It is anticipated that the effort to reduce the remaining balance will largely be completed by the end of FY 2005.

Data discussion. The Public and Indian Housing Office of Administration and Budget derive the data on undisbursed funds from the Line of Credit Control System data provided.

EM.3.6: HUD will increase total obligations for performance based service contracts to $125 million.

Background. The procurement of services is essential to the accomplishment of HUD's mission. As recommended by the Inspector General and the Government Accountability Office, HUD has made improvements to its procurement procedures to ensure that contracts for services are timely, cost-effective, produce specified results, and place a financial incentive on the achievement of desired outcomes. These objectives are at the heart of performance-based contracting, an initiative sponsored by OMB's Office of Federal Procurement Policy for application throughout the Executive branch. Performance-based contracting is designed to ensure that contractors are given the freedom to determine how to meet the government's performance objectives, while ensuring that appropriate levels of quality are achieved and that payment is made only for services that meet these levels. During FY 2003, HUD increased total obligations for contracts with performance-based features to $112.1 million.

Progress in this area has steadily increased over the years, as demonstrated by the chart below:

Fiscal Year	Total PBSC Obligations (in millions)
1998	$3.4
1999	$19.3
2000	$48.7
2001	$75.3
2002	$80.4
2003	$112.1
2004	$535.1

The FY 2004 goal was revised to increase the goal from $112 million to $125 million of funds for new service contracts obligated using performance-based contracting. This measure excludes small contracts under $25,000.

Results and analysis. In FY 2004, $535.1 million or 43.8 percent of total contract dollars were awarded using performance-based contracting, significantly exceeding the target of $125 million. By doing this, HUD exceeded its goal by more than $410 million or 328 percent, and exceeded FY 2003 performance-based contracting awards by $423 million. This increase is primarily attributable to the award of 22 single family property management and marketing contracts worth $332.8 million that were converted to performance-based contracting. If the management and marketing contracts are excluded from the total, the remaining $202.3 million in performance-based contracting awards exceeds, by itself, the FY 2004 goal by $77.3 million or 62 percent. Achievement of this goal is a function of: cooperation between program and procurement offices in redefining HUD's contract needs in performance-based terms; senior management emphasis and support; active outreach; and training.

Data discussion. All data are drawn from the HUD Procurement System, a software application containing information about all procurement contracts awarded by the Department. HUD Procurement System data are collected in real time as procurement transactions are completed. Data are entered by procurement personnel and validated by management during the review and approval of contract documents. Data validity is further checked by system edits and by staff analysts during report production.

EM.3.7: HUD will implement the Contractor Performance System and training initiatives to strengthen acquisition management.

Background. In the 1990s, HUD dramatically downsized its staff while programmatic responsibilities increased significantly. To perform our mission-critical work, the Department has to rely on contractors and needs to hold its contractors accountable for results. In FY 2003, HUD established a Project Management Task Force co-chaired by the Chief Procurement Officer and the Chief Technology Officer to complete an implementation plan requiring specific improvements to occur over the next two years. The Project Management Task Force would develop a comprehensive training plan in FY 2003 including specific curricula and a schedule for acquisition management courses for HUD staff assigned to contract planning, award, oversight and administration. The following were planned actions for FY 2004:

- Implement Contract Performance System to streamline the collection of contractor performance data and use that data in the source selection process. The Contract Performance System will provide an effective tool for acquisition management staff to monitor and evaluate contractor performance. The Contract Performance System is a web-based system created and maintained by the National Institutes of Health to collect, store, and disseminate contractor performance information. HUD's goals for FY 2004 are to fully implement Contract Performance System for contracts over $100,000 and ensure that all system users are trained.

- Implement Project Management Task Force recommendations to improve contract management.
- Provide 40 hours of required acquisition management training to 50 percent of HUD's acquisition professionals; and provide 24 hours of required training to 50 percent of HUD's program acquisition staff (personnel with contract oversight responsibilities).

Results and analysis. *Implement Contractor Performance System.* In FY 2004, HUD achieved its goal of fully implementing the Contract Performance System to automate and improve the evaluation of contractor performance, and ensure that all system users are trained. As a result, the total number of contractor performance evaluations reached 188 in FY 2004 (101 were completed, and 87 were being processed), representing an increase of 283 percent above FY 2003 activity.

Implement Project Management Task Force Recommendations. The Project Management Task Force recommendations were not implemented and are being reassessed by the new Chief Procurement Officer. That reassessment will be a factor in the Chief Procurement Officer's determination of which improvements to HUD's acquisition organization, processes, and procedures to implement during FY 2005.

Provide Acquisition Training. In FY 2004, HUD achieved its goal to provide required training to 50 percent of its acquisition professionals. An average of 39 hours of training was provided to 35 of 50 (or 70 percent) headquarters acquisition staff; and 43 of 52-field acquisition staff (or 83 percent) received on-site and on-line training. The Department was unable to meet part of the goal that 50 percent of HUD's program acquisition staff received 24 hours of training because training funds were not provided until the fourth quarter of the fiscal year. In addition, 95 members of the program acquisition staff received on-site training in such topics as performance-based statement of work development and contract administration.

Data Discussion. Contract Performance System is a web-based system created and maintained by the National Institutes of Health. Data are entered into the web-based system by HUD acquisition management staff (procurement, technical and program personnel) and contractors. Analysts verify that contract performance information is accurately recorded. The number of personnel trained and hours of training received is maintained by the Office of the Chief Procurement Officer Acquisition Career Program Coordinator.

EM.3.8: At least 80 percent of key users (including researchers, state and local governments, and private industry) rate Policy Development and Research's work products as valuable.

Background. The Office of Policy Development and Research is charged with providing data on housing and urban conditions to support program operations and external research, evaluating HUD programs, and preparing studies on housing conditions, policy, and technology. A FY 2001 baseline survey of stakeholders and research users found that 81 percent rated research products as "valuable." The stakeholders and users interviewed included academics, nonprofit researchers, building professionals, trade and manufacturing associations, financial institutions, and housing advocacy groups.

Results and analysis. The FY 2001 baseline survey findings remain the most recent data available for this measure. The Office of Policy Development and Research is assessing the baseline results and recommendations for opportunities to improve service. Work on a web-based survey of the clients of HUD USER, the Office of Policy Development and Research web site, was begun in FY 2004. Components of this study include a customer satisfaction survey of members of the HUD USER listserv and a survey of individuals who visit the website over a period of approximately six weeks. The results will become available during the third quarter of FY 2005.

Data discussion. The user survey component of the 2001 survey was based on informal discussions with a convenience sample of 75 individuals who are either key users or users at the state and local levels. In the new surveys, all listserv members and website users are asked to complete a survey during a six-week period. The surveys include features designed to boost response rates.

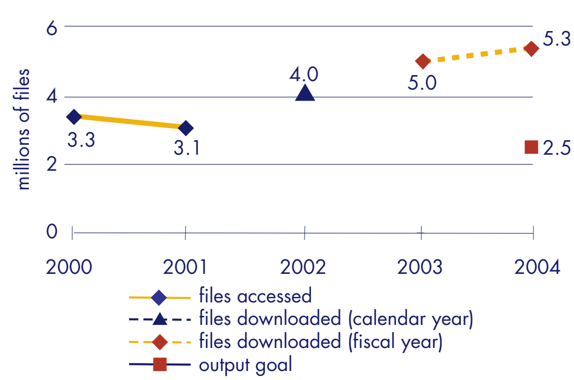
EM.3.9: More than 2.5 million files related to housing and community development topics will be downloaded from Policy Development and Research's website.

Background. In 1978, the Office of Policy Development and Research established HUD USER, an information resource for housing and community development researchers and policymakers. HUD USER is one of the principal sources for federal government reports and information on housing policy and programs, building technology, economic development, urban planning, and other housing-related topics. HUD USER also creates and distributes a wide variety of useful information products and services and provides research support in the form of an email- and phone-based Help Desk. Substantial HUD USER activity is an indication of the value of the Office of Policy Development and Research's work, and of HUD USER's coordination and outreach activities on behalf of HUD's customers.

Results and analysis. During FY 2004, users of the HUD USER research clearinghouse downloaded 5.3 million electronic files, surpassing the goal of 2.5 million downloads. The volume exceeded the 5.0 million files downloaded during FY 2003, and is on track to exceed 5.3 million for calendar year 2004. The number of downloads varies from month to month, reflecting the timing and popularity of new reports and information.

Data discussion. The data are gathered in monthly reports from Sage Computing, HUD's web hosting and content management provider for HUD USER. Beginning in mid-2003, the counts have been generated with WebTrends software, a standard analytical application in the web hosting industry, so HUD is now able to report fiscal year results in timely fashion. No counting errors are expected. However, users may download multiple files while obtaining the information they were seeking, and a single user may download the same product more than once.

Housing and Community Development Information Obtained from the HUD USER Website



EM.3.10: HUD will ensure that all individuals with access to HUD sensitive systems have background investigations.

Background. Owners of information systems determine the access level of staff positions. Determining the access level of a position is the first step toward proper screening of personnel. Position sensitivity considers duties, responsibilities, and access to sensitive data and relates these areas to the risk and magnitude of potential harm. System owners and immediate supervisors determine the sensitivity level for HUD employees. Government Technical Representatives and system owners determine the sensitivity level of contractor staff. The sensitivity level is initially determined when the position is created. The type of investigation required depends on the sensitivity rating assigned to the duties of the position. Sensitivity levels of public trust positions range from level 1, the least sensitive rating, to level 6, the most sensitive rating.

Background investigations for HUD's federal employees and contractors are conducted by the Office of Personnel Management. In accordance with 5 CFR Title 5, Code of Federal Regulations, background investigations are not undertaken unless a formal request is forwarded to HUD's Office of Security and Emergency Planning, which then forwards the request to the Office of Personnel Management.

During FY 2004, HUD grants were to conduct four 100 percent reconciliations of employees and contractors with access to sensitive information, and achieve a 100 percent level of compliance in the Security Control and Tracking System database for having received background investigations. Access will be immediately terminated for individuals identified with discrepancies until background investigation action is completed.

Results and analysis. In FY 2004, HUD achieved this goal by completing four quarterly reconciliations resulting in a 100 percent match of Office of the Chief Information Officer and Office of Security and Emergency Planning databases of employees and contractors requesting greater than read access to sensitive information systems. Additionally, Office of Security and Emergency Planning achieved 100 percent compliance in the Security Control and Tracking System database. Also, in FY 2004, HUD conducted 608 background investigations in response to requests for greater than read access to sensitive information systems.

Data discussion. The Office of the Chief Information Officer provides quarterly listings to Office of Security and Emergency Planning of HUD employees and contractors with greater than read-only access to sensitive information systems. The Office of the Chief Information Officer maintains a system (HUD Online User Registration System) as the source for employees and contractors with greater than read-access to sensitive information systems. Office of Security and Emergency Planning maintains the Security Control and Tracking System, the source that records all HUD employees and contractors with background investigations. Performing quarterly reconciliations between the HUD Online User Registration System and Security Control and Tracking System databases ensures that all employees and contractors granted greater than read access to sensitive information systems have had the necessary background investigations. The Office of the Chief Information Officer and the Office of Security and Emergency Planning are separately responsible for the accuracy of their respective data systems. The Office of Security and Emergency Planning and the OIG periodically audit the reconciliation process.

Objective EM.4: Ensure program compliance.

EM.4.1: The high incidence of program errors and improper payments in HUD's rental housing assistance programs will be reduced.

Background. The rental housing assistance programs (public housing, Housing Choice Vouchers and project-based assistance programs) constitute HUD's largest appropriated activity, with over $24 billion in annual expenditures. In FY 2000, HUD estimated that 60 percent of all subsidized rent calculations were done in error, and that there were approximately $2 billion in net annual subsidy overpayments attributed to the combination of these program administration errors and tenant underreporting of income upon which the subsidy is based.

In conjunction with OMB, HUD established a goal for a 50 percent reduction in both the frequency of subsidy component and processing errors, and the corresponding portion of the $2 billion in estimated net annual subsidy overpayments, by 2005. HUD set interim error reduction goals of 15 percent for FY 2003 and 30 percent for FY 2004. However, the reduction of errors and improper payments is not expected to have a significant impact on budget outlays, as HUD's experience has been that its efforts will cause many higher income tenants and tenants who have been underreporting their incomes to leave subsidized housing and be replaced with lower income tenants requiring increased rent subsidies. To the extent there are any significant outlay savings resulting from HUD's program integrity improvement efforts, HUD plans to work with OMB and the Congress to explore mechanisms for recapture and use of the funds to assist additional households in need.

Prior to 2001, HUD's corrective action focus was limited to developing and implementing an after-the-fact use of a large-scale computer matching program with federal tax data bases to address the unreported tenant income issue. This process proved to be ineffective. In 2001, a multi-organizational HUD Working Group developed a more comprehensive corrective action plan that provides for:

- Statutory and regulatory simplification of the program,
- Structured forms, training, and automated tools needed to determine rents and subsidies correctly,
- Education on program processes and benefits,
- Increased use of automated sources of income data during rent and subsidy determinations,
- Increased monitoring of program processing by HUD's intermediaries, using risk-based targeting indicators,
- Automated billing verifications,
- Stronger performance incentives and sanctions for HUD's intermediaries and tenants, and
- An on-going quality control program.

HUD developed a comprehensive plan for reducing the estimated $2 billion in net annual subsidy overpayments. Approval of the legislative proposal for increased computer matching and data-sharing authority to allow upfront verification of tenant income in all rental assistance programs has the potential to reduce the estimated payment error by over one-half. Establishing an adequate field monitoring capacity, with provisions for improved guidance, training, staffing, and action on monitoring results, is a key component of the strategy. Key actions to date include the Office of Public and Indian Housing's Rental Integrity Monitoring reviews and implementation of the Upfront Income Verification System, and the Office of Multifamily Housing's increased monitoring through the expanded use of Performance-Based Contract Administrators.

Results and analysis. In FY 2004, HUD surpassed its 30 percent reduction goal for the estimated $2.013 billion in net annual rental assistance overpayments, achieving a reduction of 71 percent. This goal was established based on FY 2000 estimates of improper payments attributed to both housing administrator errors in subsidy determinations and tenant underreporting of income upon which benefits are based. An update of the measure of these two error components in FY 2003 found the following reductions in improper payments compared to the FY 2000 baseline:

Reduction in Improper Payments Due to Subsidy Determination and Income Reporting Errors

Errors*	Over Payments	Under Payments	Net Over-Payments	Gross Improper Payments
2000	2,594	622	1,972	3,216
2003	1,087	519	568	1,606
Change	1,507	103	1,404	1,610
Reduction	58%	17%	71%	50%

* Amounts shown in dollars in millions

The reductions in subsidy determination errors resulted from HUD efforts to work with its housing industry partners at PHAs and multifamily housing projects through enhanced program guidance, training, oversight, and enforcement. The reduction of erroneous payments due to tenant under-reporting of income was due to:

- Improved income verification efforts by housing program administrators;
- Increased voluntary compliance by tenants due to promotion of the issue;
- HUD's initiation of improved computer matching processes for upfront verification of tenant income, and
- Improved methodology for reviewing income discrepancies identified through computer matching to better determine actual cases of underreported income impacting subsidy levels.

In FY 2004, HUD developed and began implementation of the Upfront Income Verification System to share state wage data matching information with PHAs for use in verifying annual re-certifications of tenant income and subsidy levels. In FY 2004, HUD received statutory authority to work with the Department of Health and Human Services to pursue enhanced computer matching capability using other federal income data sources. HUD plans to expand the Upfront Income Verification System to include these new sources for PHA use in FY 2005. In FY 2006, HUD will migrate the Upfront Income Verification System to an Enterprise Income Verification System that will include all available income match data sources for controlled use by program administrators in all HUD rental housing assistance programs. This increased computer matching capability has the potential to eliminate the majority of the remaining estimated improper rental housing assistance payments.

In FY 2004, HUD established a baseline estimate of $138 million in erroneous payments due to billing and payment errors in the project-based assistance programs. A study of billing errors in the public and tenant-based assistance programs is due to be completed in the second quarter of FY 2005. The reduction of errors associated with this third error component of the rental housing assistance programs – billing errors – will be added to this goal in the future.

Data discussion. Periodic error measurement studies directed by the Office of Policy Development and Research provide the basis for measuring this indicator. The data are reliable for this measure, assuming availability of funding to cover the cost of the study. The independent HUD OIG reviews the error measurement methodology and support, as well as management controls over the related program activity, as part of its audit of HUD's annual financial statements.

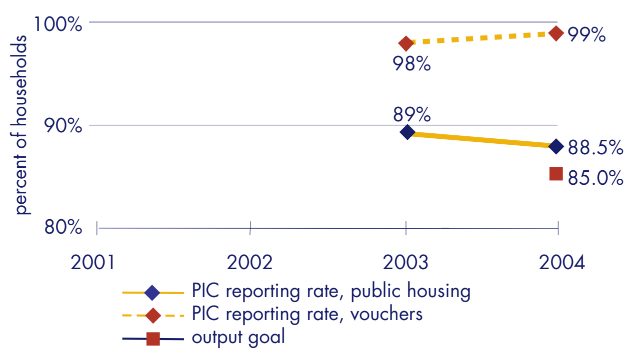
EM.4.2: The national average Public and Indian Housing Information Center reporting rates for public housing and Housing Choice Voucher households will be 85 percent or better.

Background. Accurate and complete information about the households participating in HUD housing programs is necessary to allow HUD to monitor the effectiveness of the programs, assess agency compliance with regulations, and analyze the impacts of proposed program changes. Several outcome indicators in the Performance and Accountability Report use data about public housing or voucher households that housing agencies submit to the Public and Indian Housing Information Center system through electronic Form 50058 submissions.

The Public and Indian Housing Information Center provides the primary source of data on participation in these programs, and field staff use the data to monitor housing agencies. 24 CFR 908.101 requires that housing agencies submit the Form HUD-50058 Family Report electronically to HUD. PIH uses Form 50058 reporting rates to evaluate housing agencies and as a criterion in the Section 8 Management Assessment Program.

This goal of 85 percent is based on the minimum reporting rate that was set for PHAs in the late 1990s. At that time the reporting rate was much lower than it is now, and PHAs with reporting rates lower than 85 percent were subject to sanctions.

PIC Reporting Rate Achieved by Housing Agencies



Results and analysis. Performance data for FY 2004 show that the reporting rate was 88 percent for households in the Public Housing program and 99 percent for households in the voucher programs (Housing Choice Voucher, Certificate, and Moderate Rehabilitation programs). Thus, both the public housing and voucher programs exceeded the goal of 85 percent reporting rate. These results are based on data as of June 30, 2004, and exclude participants in the demonstration program, Moving to Work. The Office of Public and Indian Housing will continue to carefully track this measure, provide training and technical assistance to Public and Indian Housing Information Center coaches, and will continue to maintain an 85 percent reporting rate or better.

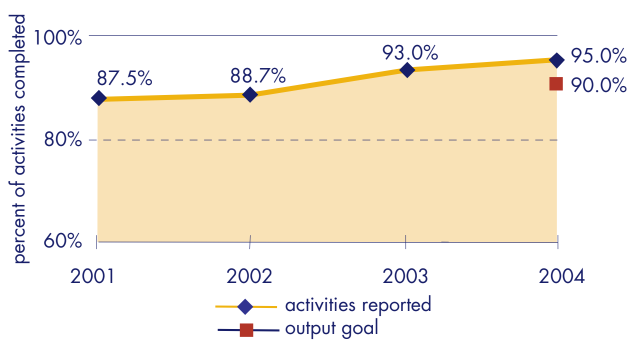
Data discussion. Late reporting is identified by automated Public and Indian Housing Information Center Form 50058 module reports that specify late re-certifications for each housing agency and flag poor reporters. The tenant data and summary statistics are electronically available to housing agencies and field offices for verification, validation, analysis and monitoring purposes. The reporting rate was calculated as of June 30, 2004, to accommodate the accelerated deadline for this report.

EM.4.3: The share of completed CDBG activities for which grantees satisfactorily report accomplishments increases to 90 percent.

Background. This indicator tracks the level of reporting of CDBG activity accomplishments in the IDIS. IDIS collects data for HUD's formula grant programs that serve local jurisdictions. The CDBG reporting rate is measured by the proportion of completed activities for which grantees have provided accomplishment data for activities that qualify under three of the criteria for the national objective of principally benefiting persons of low- and moderate-incomes: jobs, housing, and limited clientele. To meet the threshold for satisfactory reporting, each grantee must report accomplishments for at least 90 percent of its activities funded under these criteria after an activity's reported completion. Typical accomplishments reported for the three areas are numbers of jobs created, housing units assisted, and persons or households served. Activities under the remaining national objective categories are not included in this indicator. This indicator is important because it reflects a benchmark of the overall quality of the information grantees provide in IDIS.

Results and analysis. During FY 2004, grantees reported accomplishments for 95 percent of all covered activities that were reported as completed. This exceeds the goal by 5 percentage points. During FY 2004, CDBG grantees reported 40,650 completed activities covered by this indicator. Of these, approximately 38,652 had reported accomplishments. For FY 2003, grantees reported 39,281 completed activities, of which 36,520 had reported accomplishments or a reporting rate of approximately 93 percent. Thus, the FY 2004 actual reporting rate was a 2 percentage point improvement over the FY 2003 rate. Likewise when the FY 2004 reporting rate of 95 percent is viewed against the FY 2002 reporting rate of 89 percent, there is a significant two-year improvement of over 6 percentage points.

Reporting Rate for Completed CDBG Activities



Data discussion. These improved reporting rates are due largely to CPD's data clean-up efforts over the last two fiscal years. Data clean-up efforts will continue during the first quarter of FY 2005. In the last quarter of FY 2004, HUD implemented changes to IDIS to include a series of edits to require greater consistency in the data entered and to require that grantees cannot show an activity as completed without also showing appropriate accomplishments.

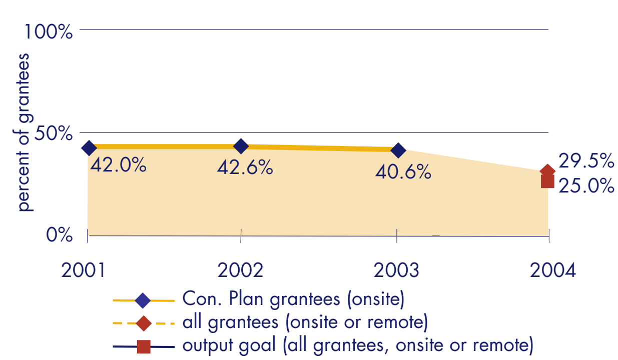
Continued improvement scheduled for IDIS in FY 2005 and later should continue to improve the quality of reporting while at the same time improving the ease of data entry.

EM.4.4: A minimum of 25 percent of active CPD program grantees will be monitored on-site or remotely for compliance with statutory and regulatory requirements.

Background. CPD grantees are recipients of formula and competitive grants designed to assist communities to build viable neighborhoods, expand homeownership and affordable housing, and provide economic opportunities. Specific goals and beneficiaries are identified for consolidated plans and competitive grant applications.

This indicator tracks the extent of monitoring activity by HUD field staff to ensure that grantees are appropriately carrying out HUD CPD programs, helping low- and moderate-income families and developing distressed neighborhoods. HUD monitors both active formula and competitive CPD program grantees for compliance. Grantees are monitored on-site and remotely.

Grantees Monitored by CPD Staff



Results and analysis. Community Planning and Development field staff monitored 369 formula grantees and 606 competitive grantees on-site and 250 grantees remotely during FY 2004. The total of 1,225 grantees monitored represent 30 percent of the estimated 4,150 active grantees, exceeding the target of 25 percent. Monitoring conforms to both sound quality assurance practices and risk-based principles that focus on weak performers.

Data discussion. CPD field offices report how many grantees were reviewed in the Department's internal tracking system, HUD Integrated Performance Reporting System. Remote monitoring activities are carried out in compliance with guidelines established in the HUD Monitoring Desk Guide (Training Edition). Field supervisors review monitoring activity and reporting by field staff.

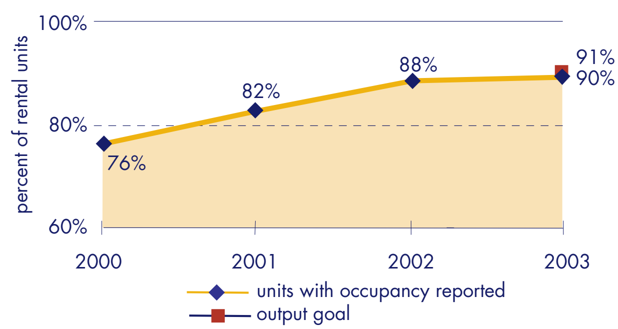
EM.4.5: The share of HOME-assisted rental units for which occupancy information is reported shall be maintained at a level of 90 percent.

Background. This indicator tracks the reporting by HOME participating jurisdictions into HUD's IDIS of data describing the households who occupy HOME-assisted rental units. This information helps HUD assess compliance with HOME-assisted tenant income limits, as well as determine who is benefiting from the HOME program.

Results and analysis. During FY 2004, 91 percent of rental units had occupancy information reported in the IDIS. This is a 1 percentage point increase over the FY 2003 level of 90 percent, and met the FY 2004 goal for maintaining the percentage of rental units for which occupancy information is reported at a minimum of 90 percent.

HUD relies on HOME participating jurisdictions to enter data into the IDIS. HUD will continue to use ongoing data clean-up, intensive follow-up with participating jurisdictions, and the individualized participating jurisdictions performance "SNAPSHOT" discussed under indicator A.1.2 to improve grantee accountability and encourage more complete data entry.

HOME-Assisted Rental Units with Occupancy Information Reported



Data discussion. Data entered by participating jurisdictions in HUD's IDIS are used to track performance. Future annual performance plans will continue to track the share of HOME-assisted rental units for which occupancy information is reported.

EM.4.6: The Departmental Enforcement Center will complete three enforcement milestones to improve management practices of multifamily housing partners and reduce fraud, waste, and abuse.

Background. The Departmental Enforcement Center, under the direction of the General Counsel and in coordination with HUD Program Offices, has central responsibility for taking enforcement action against troubled multifamily properties that fail to fully comply with all HUD regulatory and business agreements. The Departmental Enforcement Center, working with legal support from the Office of General Counsel Office of Program Enforcement, also processes suspensions and debarments and refers civil cases to the Department of Justice and criminal cases to HUD's Inspector General. The sum of these actions brings resolution to the most egregious non-compliance issues among recipients of HUD program resources and ensures compliance with legal requirements to preserve decent, safe and sanitary housing for low- and moderate-income households.

As in FY 2003, physical referrals continued to be the priority for the Departmental Enforcement Center during FY 2004. Because of past successes working with the Office of Multifamily Housing to reduce the number of physically troubled properties in HUD's inventory, the Departmental Enforcement Center received fewer of these referrals during FY 2004. In the area of administrative sanctions, the Departmental Enforcement Center processed over 1,000 notices of proposed suspensions, debarments or final determinations. This represents an increase of 21 percent over FY 2003.

Results and analysis. The Departmental Enforcement Center and HUD's Mortgagee Review Board in the Office of Housing far exceeded their goals thus supporting HUD's objective to improve the management practices of HUD's partners as included in the President's Management Agenda. These goals reflect two focuses: (1) working with owners to achieve compliance with requirements, and (2) employing administrative sanctions to purge poor practices. By working efficiently to obtain compliance with legal requirements, the Departmental Enforcement Center has been successful in helping the Department preserve decent, safe and sanitary housing for low- and moderate-income households. Additionally, the risk to the Department has been reduced through the Departmental Enforcement Center's efforts to sanction program participants who violate HUD's requirements.

In the first goal, the Departmental Enforcement Center planned to reduce the number of Multifamily Housing physical referrals in the Departmental Enforcement Center as of September 30, 2003, by 80 percent. The Departmental Enforcement Center began the fiscal year with 395 physical cases. By September 30, 2004, the Departmental Enforcement Center closed 369 of the 395 physical referrals for a completion rate of 93 percent, exceeding the 80 percent goal. As noted above, the Departmental Enforcement Center received fewer physical referrals during 2004 than it did in 2003, however attainment of this goal was challenging do to an unintentional change in the delegations of authority that were intended to streamline processing but had the opposite effect until they could be corrected at the mid-year point.

The Departmental Enforcement Center's second goal was to complete actions in 75 percent of the cases referred for administrative sanctions. Of the 501 cases identified, the Departmental Enforcement Center completed 438 or 87 percent, exceeding the 75 percent goal. The Departmental Enforcement Center processes referrals for suspensions and debarments from HUD's program offices and the OIG to ensure that the Government conducts business with responsible participants.

The Office of General Counsel and the Departmental Enforcement Center also successfully completed a realignment during the year which resulted in the return of HUD's Mortgagee Review Board to the Office of Housing, realignment of attorneys in the Departmental Enforcement Center satellite offices under the respective Regional Counsel Offices in the field, and merging of administrative and information technology divisions under their counterpart divisions within the Office of General Counsel. These changes have reduced inefficiencies inherent in performing duplicative functions. It should be noted that while the Mortgagee Review Board was realigned under the Office of Housing, HUD's General Counsel and the Director of the Departmental Enforcement Center continue to serve as members of the Board in order to support HUD's efforts to ensure FHA-approved lenders comply with HUD regulations and those lenders with egregious violations are withdrawn from the FHA program.

The third goal was to close 75 percent of all Mortgagee Review Board cases that have reached the "Dispatch of 30-day letter" stage pending in the Departmental Enforcement Center on October 1, 2003. As of October 1, 2004, the Mortgagee Review Board closed 88.9 percent of outstanding that Mortgagee Review Board cases, mailing Notice of Violation letters to 16 out of 18 mortgagees cases pending in Departmental Enforcement Center.

Data discussion. The Departmental Enforcement Center's data source for the first goal is the Real Estate Management System. The Real Estate Management System is a database system that maintains data on properties in the Multifamily Housing inventory. The Departmental Enforcement Center Management System is the Departmental Enforcement Center's system by which standardized reports are generated using data in the Real Estate Management System. These reports reflect the goal accomplishments on a fiscal year-to-date basis. Most of the data is manually entered into the Real Estate Management System and thus is subject to human error. Monthly reviews of the goal accomplishments by headquarters staff provide some quality control, as does the closeout process within each field office.

In FY 2004, the Departmental Enforcement Center implemented a new process whereby the number of employees authorized to close referrals in the system was reduced in order to ensure greater internal controls and data integrity. When headquarters performs a Quality Management Review of the field office, the Real Estate Management System data entries are checked and compared with the paper files.

The Departmental Enforcement Center uses the Compliance Tracking System to track progress on its second goal. The Compliance Tracking System is also a database created to track the status of referrals to the Departmental Enforcement Center for administrative sanctions. This system is crosschecked manually against paper files and against reports submitted by offices making referrals to the Departmental Enforcement Center. Revisions to the system are in process in order to merge the data with the systems used by legal counsel. This will allow for integrated reports that will assist users in obtaining up-to-date status reports on referrals.

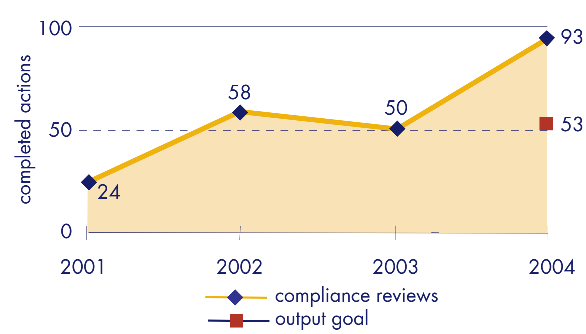
EM.4.7: Increase the number of Title VI and or Section 109 compliance reviews conducted of HUD recipients by 5 percent.

Background. The Office of Fair Housing Equal Opportunity reviews PHAs, providers of HUD-assisted housing, and other HUD recipients to ensure that their developments comply with the non-discrimination provisions of Title VI of the Civil Rights Act of 1964 and Section 109 of Title I of the Housing and Community Development Act of 1974. This law prohibits discrimination based on race, color, sex , religion or national origin in federally assisted programs and activities. The reviews examine whether the agencies comply with the non-discrimination provisions of these Acts.

Results and analysis. During FY 2004, 93 compliance reviews resulted in a letter of findings, compared with 50 in FY 2003. The goal was to complete 53 compliance reviews. The Office of Fair Housing Equal Opportunity exceeded this goal by 40 reviews. This increase responds to the identified need to further address enforcement and compliance issues discussed in the National Council on Disability Report issued November 6, 2001.

Data discussion. The data are maintained in the Title VIII Automated Paperless Office and Tracking System. It provides qualitative information about results of the reviews as well as quantitative data. Managers provide quality assurance by reviewing the results on an intermittent basis.

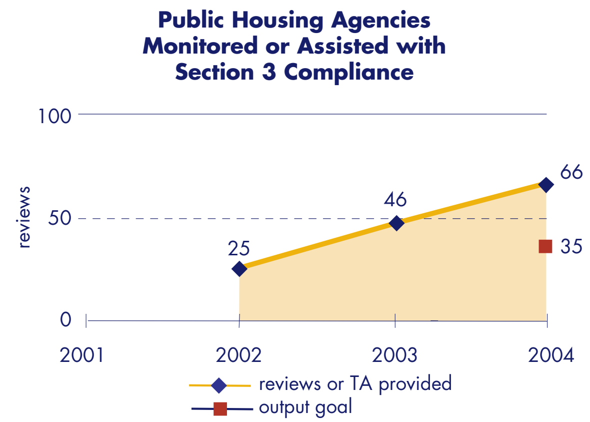
Title VI & Section 109 Fair Housing Compliance Reviews Completed by FHEO



EM.4.8: HUD will conduct monitoring and compliance reviews or provide technical assistance under Section 3 to 35 housing authorities.

Background. Under Section 3 of the Housing and Urban Development Act of 1968, HUD requires PHAs and their contractors to use their best efforts to provide training and employment opportunities to low- and very-low-income persons. The PHAs must report the number of Section 3 residents receiving employment, training and contract opportunities every year. Analyses of the reports submitted for 25 HOPE VI projects indicated that these housing authorities may not be in compliance with the requirements of Section 3. Consequently, HUD initiated monitoring or compliance reviews for those 25 agencies. The goal for FY 2004 was to identify 35 additional agencies for monitoring or compliance reviews and technical assistance.

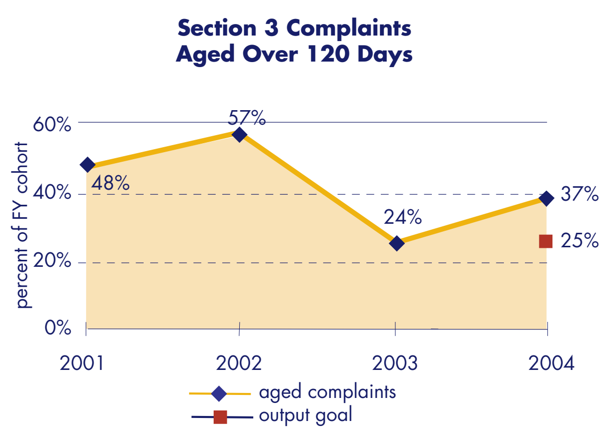
Results and analysis. During FY 2004, the Office of Economic Opportunity exceeded the goal of 35 by conducting 66 monitoring or compliance reviews and technical assistance visits. The result surpassed the goal by 89 percent. The impact of meeting and exceeding this goal should result in more training, employment and contracting opportunities for Section 3 residents. The results will be produced after analyzing the Form HUD 60002. Recipients are required to provide data for training, employment and contracting of Section 3 residents on the Form HUD 60002 or electronically at the Section 3 website.



Data discussion. The data are based on The Office of Fair Housing Equal Opportunity administrative records.

EM.4.9: By the end of the fiscal year, no more than 25 percent of the Section 3 complaints will be aged.

Background. Under Section 3 of the Housing and Urban Development Act of 1968, Public Housing Authorities and Agencies that provide housing and community development assistance and their contractors are required to use their best efforts to provide training, employment and contracting opportunities to low- and very-low-income persons. In instances of alleged noncompliance, a Section 3 resident, a Section 3 business concern or a representative of either may file a formal complaint. A complaint must be received not later than 180 days from the date of the alleged noncompliance unless extended for good cause. The Office of Economic Development, Monitoring and Compliance had a total of 25 complaints within its inventory in FY 2001. Twelve of these cases (48 percent) exceed the 120-day time limit that is allowed for the Final Investigative Report to be submitted to headquarters. Headquarters has 30 days after submission to make a final determination and notify both the complainant and the recipient.



Results and analysis. The FY 2004 inventory of aged cases was 54. With the assistance of the Young Implementation team, 34 of these aged cases were closed, leaving an existing inventory of 37 percent or 20 aged cases.

Although the target was not met this year, the results show that the office judiciously worked towards eliminating the inventory of aged complaint. However, the office's outreach efforts resulted in a significant increase in the filing of Section 3 complaints. Additionally, during the year the office experienced a loss of four staff members. The FY 2005 efforts include the continued assistance of the Young Implementation team, timely processing of incoming complaints and providing complete training for current staff.

Data discussion. The indicator is based on a manual count of administrative records. This method is reliable because of the small number of records involved.

EM.4.10: Ensure Program Compliance among FHIP and FHAP grantees.

Background. The FHIP and FHAP grantees provide services to all segments of society in support of equal opportunity in housing. FHIP and FHAP constitute The Office of Fair Housing Equal Opportunity's only grant programs. These programs will be assigned approximately $50 million dollars and as such must be appropriately monitored. The Office of Fair Housing Equal Opportunity will review the work of the awardees. HUD will monitor the program compliance of all grantees; however, in-depth agency specific monitoring will be conducted on all high-risk grantees. To the extent there are significant issues, concerns, or findings identified during monitoring and technical assistance, HUD will develop and require corrective action of the grantee.

Results and analysis. In FY 2004, the Office of Fair Housing Equal Opportunity's Management Plan goal was to conduct monitoring reviews of the 195 FHIP grantees and 100 FHAP grantees. Reviews were completed for 145 FHIP grantees. The FHIP goal was missed by 26 percent. During FY 2004, all 100 FHAP grantees were monitored and determined to be in full compliance with statutory requirements. The Office of Fair Housing Equal Opportunity fully met the goal for FY 2004.

Data discussion. The ten Office of Fair Housing Equal Opportunity Hubs are assigned annual goals based on the number of FHIP and FHAP grantees located in their region. Upon completion of each monitoring review, the regions report the information in HUD's Integrated Performance Reporting System.

Objective EM.5: Improve internal communications and employee involvement.

EM.5.1: HUD will implement the Organizational Assessment Survey Action Team recommendations.

Background. In March 2002, an Organizational Assessment Survey was conducted to determine employee satisfaction with the Department's work environment. A complete report on the results was issued in June 2002, and is available to HUD managers and staff online with confidentiality protections. Based on the Organizational Assessment Survey results and in comparison to other federal and private companies, HUD's strengths include: (1) diversity; (2) customer orientation; (3) work and family/personal life programs; (4) teamwork; and (5) work environment/quality of life. The Organizational Assessment Survey results disclosed that HUD challenges include: (1) use of resources; (2) communications; (3) rewards and recognition; and (4) training and career development.

In October 2003, employee action teams were established across the country to review the results in each of the four challenges and develop recommendations for actions to improve employee satisfaction in these areas. On January 14, 2004, the four action teams presented recommendations to the Executive Steering Committee for Human Capital Management. Of the 66 recommendations presented to the top manager on this Committee, 16 were selected for immediate implementation. Success will be measured by successfully implementing actions to address the recommendations, making appropriate policy changes where warranted, and communicating these actions to HUD employees via the HUD intranet. The recommendations will be implemented in FY 2004 and the first three quarters of FY 2005. HUD employees will be surveyed again during the latter part of FY 2005. Implementation of the actions recommended by these employee action teams should result in increased employee satisfaction overall, including the four areas identified, and should ultimately result in overall improvement in departmental operations and performance.

Results and analysis. The Department did not fully meet its target for FY 2004. Of the 16 recommendations selected for immediate implementation, 12 (or 75 percent) are completed. The additional four will be completed by the second quarter of FY 2005. Examples of recommended actions implemented during FY 2004 include: a new employee orientation program using monthly satellite broadcasts; written pocket and resource guides that are available on-line; a HUD Mentoring Program that includes over 180 mentees and mentors and provides on-going training to participants; training to over 380 managers and supervisors on supervisory and leadership training; and posting performance, special act and spot awards on the HUD intranet.

For the four recommendations that were not fully implemented in FY 2004, substantial progress has already taken place. The remaining recommendations which will be completed early next fiscal year include: establishing a position description library to accurately reflect the duties of the positions; simplifying the language in the vacancy announcements to eliminate bureaucratic language; and improving the awards program by creating an incentive awards handbook and issuing new policy protocols for the use of awards and recognition. In FY 2005, HUD will also administer a follow-up employee survey and has targeted a 10 percent improvement in employee satisfaction within the four areas that will be measured against the baseline established in the FY 2002 survey and against other federal and private organizations.

Data discussion. Office of Administration staff and representatives of the Organizational Assessment Survey Action Teams will verify that actions taken adequately address the recommendations made. The Personnel Resources and Development Center of the Office of Personnel Management administers the Organizational Assessment Survey. The Department will conduct another Organizational Assessment Survey in FY 2005.

6. Goal FC: Promote Participation of Faith-Based and Community Organizations

Strategic Objectives

***FC.1** Reduce regulatory barriers to participation by faith-based and community organizations.*

***FC.2** Conduct outreach to inform potential partners of HUD opportunities.*

***FC.3** Expand technical assistance resources deployed to faith-based and community organizations.*

***FC.4** Encourage partnerships between faith-based/community organizations and HUD's traditional grantees.*

Performance Report Card - Goal 6

	Performance Indicators	2001	2002	2003	2004	2004 Target	Substantially Met	Notes
FC.1.1	HUD will issue clear guidance that addresses regulatory and other barriers to participation by faith-based and community organizations in HUD's programs.						Yes	g
FC.2.1	The Center will conduct comprehensive outreach to inform potential partners of HUD opportunities.						Yes	g
FC.3.1	The Center for Faith-Based and Community Initiatives has a comprehensive technical assistance program that includes pilot projects, enhancing its web site, the wide dissemination of materials, research and assistance provided through its outreach activities.						Yes	g
FC.4.1	Establish a baseline number of applications by faith- and community-based grantees and a target for increased participation by FY 2004 and create recording mechanisms for analyzing competitive grant applications by faith-based groups by FY 2004.						No	g

a Data not available.
b No performance goal for this fiscal year.
c Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).
d Calendar year beginning during the fiscal year shown.
e Calendar year ending during the fiscal year shown.
f Other reporting period.
g Result too complex to summarize. See indicator.
h Baseline newly established.
i Authorizing legislation under consideration by Congress.
j Overall goal established rather than subgoals.
k Result is estimated.
l Number is in thousands.
m Indicator met combined FY 2003 and FY 2004 goals.
n Number reported in billions.
k Result is estimated.

Objective FC.1: Reduce regulatory barriers to participation by faith-based and community organizations.

FC.1.1: Issue clear guidance that addresses regulatory and other barriers to participation by faith-based and community organizations in HUD's programs.

Background. In December 2002, President Bush issued Executive Order 13279, which requires equal treatment of faith-based organizations in all federal programs. Historically, faith-based organizations have faced regulatory and other policy-based barriers that have limited their access to federal funds. HUD has been actively implementing the Executive Order. In 2003, HUD's Center for Faith Based and Community Initiatives completed an audit of programs that identified numerous regulatory barriers, and lead to the September 2003 issuance of a final rule requiring equal treatment of faith-based organizations in eight CPD programs, including the major homeless assistance programs, block grant programs, and major AIDS program. The Center continued to work with HUD's Office of General Counsel to further amend HUD's regulations to ensure that all HUD programs clearly implement the equal treatment principles of Executive Order 13279.

In addition, the Center has worked with the Office of General Counsel and the program offices to ensure that programmatic policy in HUD programs is consistent with the equal treatment provisions of the amended regulations.

Results and analysis. In FY 2004, HUD substantially met the goal of issuing clear guidance that addresses regulatory and other barriers to participation by faith based and community organizations in HUD programs. The Center and the Office of General Counsel developed a general rule on the equal treatment of faith-based organizations that extends the terms and conditions of the September 2003 rule (which applied only to eight CPD programs) to all of HUD's programs. HUD proposed the rule in March 2004 and published the final rule in July 2004. In addition, the Center and Office of General Counsel worked with PIH to draft a rule that would bring regulatory language on religious organizations in HUD's Indian programs into compliance with Executive Order 13279 and the two previous rules (September 2003 and July 2004). After the required tribal consultation, HUD proposed the rule in June 2004 and published the final rule in October.

Also in 2004, the Center and CPD drafted a policy directive to assist all HUD grantees, field offices, and other personnel in implementing the September 2003 final rule on the equal treatment of faith-based organizations. The policy notice was published in September 2004, and provides detailed guidance on how the rule is to be implemented in light of the specific requirements of the affected CPD programs. In addition to the directive, HUD program offices reviewed their non-regulatory guidance documents, such as handbooks and funding notices, to ensure that all were compliant with Executive Order 13279 and the new, final rules. Most offices reported that, in most instances, the language on the equal treatment of faith-based organizations in the program Notice of Funding Availability sufficed to bring their programs into compliance, and in several instances handbooks were modified to ensure that references to faith-based organizations were consistent with HUD's new policy.

Data discussion. Accomplishments will be assessed and documented by HUD's Center for Faith-Based and Community Initiatives. The Center catalogues each alteration that is executed or finalized in official documentation (such as final rules, modified guidance books, etc.) All new rules are published in the Federal Register.

Objective FC.2: Conduct outreach to inform potential partners of HUD opportunities.

FC.2.1: The Center will conduct comprehensive outreach to inform potential partners of HUD opportunities.

Background. To help nonprofit organizations meet the challenges of securing resources, it is important to educate faith-based and community organizations about the government programs that are available from HUD. This targeted effort reflects the knowledge that such organizations are often unaware of grants and other opportunities that may be available to support their work. In FY 2001, the Center for Faith Based and Community Initiatives, in conjunction with field policy management, furthered the goal of outreach by appointing Faith Based and Community Initiatives liaisons in each of HUD's regional and field offices. Liaisons were charged with educating faith-based organizations and community-based organizations in their community on the Initiative and HUD opportunities. The Center also continued the use of various media, such as mass mailings and webcasts, to share information, and the development of a database envisioned to contain more than 5,000 faith-based and community-based organizations. In addition, Center staff and Faith Based and Community Initiatives liaisons participated in national, regional, and state conferences across the country, resulting in outreach to many of the nation's largest and most effective social service providers.

Results and analysis. In FY 2004, the Center built on the effective activities of FY 2003 and successfully met the goal of conducting comprehensive outreach to inform potential partners of HUD opportunities. The effort in 2004 utilized the HUD regional and field offices, targeted media, and presentations at national and regional conferences.

<u>HUD regional and field offices</u>: The Center continued its outreach plan, by utilizing the services of the Faith Based and Community Initiatives liaisons in each of HUD's 10 regional and 71 field offices.

<u>Targeted Media</u>: The Center and Faith Based and Community Initiatives Liaisons used mass mailings, blast faxes, emails and webcasts to inform faith-based and community organizations about the Initiative and HUD programs. The Center and faith-based and community organizations Liaisons completed and maintain an exhaustive database of more than 7,000 faith-based and community organizations, far exceeding the FY 2004 target of 5,000 organizations.

<u>Conferences:</u> The Center staff and the Faith Based and Community Initiatives Liaisons gave presentations on the Initiative and HUD programs at major national, regional, state, and local conferences across the country, resulting in outreach to not only newly formed grassroots organizations, but also many of the nation's largest and most effective social service providers. Faith Based and Community Initiatives liaisons attended and/or participated in 291 conferences across the country in various roles of workshop leader and/or speaker. This represents a huge increase from 2003 (the initial year of the liaison program) when liaisons attended 80 outreach related events. Conference involvement by Center staff and Faith Based and Community Initiatives liaisons was highlighted by their participation in eight White House Faith-Based and Community Initiative Conferences across the country. Faith Based and Community Initiatives liaisons identified several successful practitioners to participate in panel discussions at each White House conference.

In addition, each of the ten regions in conjunction with their various field offices, conducted a faith-based and community regional conference that informed organizations about HUD's programs and opportunities, resources, support and partners available to strengthen their communities. Many offices brought in other federal agencies to discuss their programs as well. Over 3,000 individuals representing approximately 488 groups attended these conferences.

Data Discussion. The Center tracks the participation of all Faith Based and Community Initiatives Liaisons at conferences and public events by requiring the liaisons to submit event-scheduling forms. Numbers for conference attendance are generated by registration forms, which may be adjusted based on other measures of actual attendance.

Objective FC.3: Expand technical assistance resources deployed to faith-based and community organizations.

FC.3.1: The Center has a comprehensive technical assistance program that includes pilot projects, enhancing its website, the wide dissemination of materials, research and assistance provided through its activities.

Background. Since its inception, the Center has aimed to design and identify demonstration and pilot projects that promote best practices in community revitalization and development and to build organizational capacity in faith-based and community groups to increase their ability to compete with larger, more experienced grantees. In 2004 the Center designed and implemented a number of efforts to publicize HUD programs and to encourage faith-based organizations and community-based organizations to access them. During FY 2003, the Center embarked on a new strategy to accomplish this objective that included pilot program development, capacity building research and development, HUD network expansion, and enhanced access to HUD programs.

Results and analysis. In 2004, the Center successfully achieved the goal of developing a comprehensive technical assistance program, and progressed significantly with many other technical assistance efforts begun in FY 2003.

- *Pilot Projects:* The Center has developed two pilot initiatives to demonstrate the efficacy of faith-based and community organizations in assisting residents of public housing attain self-sufficiency and in encouraging and facilitating homeownership.
- *Public Housing Authority Pilot:* Together with the Office of Public and Indian Housing, the Center developed a concept to enable PHAs to enlist the services of local faith-based and community organizations in helping public housing residents transition into independent housing. The concept would allow PHAs to remunerate faith-based and community organizations on a per capita, fee-for-service basis each time a faith-based and community organizations mentors a public housing resident toward an agreed-upon benchmark. The concept is being developed into a small pilot Notice of Funding Availability to be released in FY 2005.
- *Reaching the Dream Homeownership Pilot:* The Center rolled out its Reaching the Dream program, which encourages and equips faith-based and community organizations to identify candidates for homeownership, provide them with homebuyer education, and help them find attractive homeownership opportunities. Reaching the Dream consists of a technical assistance project and a national housing counseling outreach effort.
- *Technical Assistance Project:* In FY 2004, the Center provided technical assistance to 113 faith-based and community organizations in six cities. The Center trained the faith-based and community organizations in: (1) how to identify candidates for homeownership, (2) how to set up and run effective homebuyer education courses, (3) how to make use of HUD and other housing finance resources, and (4) how to develop partnerships with lenders and other organizations and to use those relationships to tailor mortgages and other products to the needs of their clients.
- *National Housing Counseling Outreach:* In FY 2004, the Center set a goal of recruiting 250 nonprofits to begin the process of becoming a HUD-Approved Housing Counseling Agency. This program encourages faith-based and community organizations and Community-Based Organizations to take advantage of the

increased funding to HUD's Housing Counseling program, which has grown to $40 million. By the end of FY 2004, more than 700 nonprofit organizations had enlisted to begin the process, nearly three times the Center's original goal.

- *Grant-Writing Workshops:* The Center's staff conducted approximately 169 free grant-writing training sessions throughout the country; successfully training over 15,400 individuals on the "Art & Science of Grant Writing." The intensive, two-day training session included nine modules: Overview of HUD; Legal Do's & Don'ts; Organizational Development; HUD Programs; Factors for Awards; Performance Measurement; Budgeting, Logic Model; How to put the Proposal Together. At the conclusion of the training Certificates of Completion are given.
- *Web site:* The Center has enhanced its website with useful information for faith-based and community organizations that are interested in participating in HUD programs. Topics that include: strategic planning, organizational management, resources, becoming a registered nonprofit organization, community building, tool kit, and more are discussed. In addition, the Center's publications "10 Things Your Faith Community Can Do To Encourage Homeownership" and "5 Steps to Becoming a HUD-Approved Housing Counseling Agency" are available to be downloaded in a PDF file.
- *Research:* In FY 2004, the Center produced a summary of its 2003 summit, *Building the Capacity of Faith-based and Community Organizations*. This event brought together a cross-section of faith-based and community development leaders, intermediaries, funders, and academics to deliberate for two days on the best way to build and maintain capacity among both emerging and mature faith-based and community organizations. The summary documented the discourse initiated at the conference, including the main points made by the panelists and participants, as well as key recommendations for HUD and others. The summary was distributed to all participants and attendees of the summit and has been distributed at major conferences around the country.

In addition, Policy Development and Research produced a separate compendium of papers written by experienced scholars and practitioners in the field about various topics highlighted at the summit. The papers discuss the history of faith-based and community organizations, the challenges for building capacity; leadership, capacity, and performance issues; the role of intermediaries; and the funders perspective on capacity building. These papers provide an important contribution to building the limited literature on capacity building in faith-based and community organizations.

The Center also partnered with Policy Development and Research to survey participants who attended the Grant Writing Training Sessions. Data from the training was conducted from the registration, sign-in sheets, surveys and evaluation forms collected by the Faith Based and Community Initiatives liaison at the time of training. Based on this data, Policy Development and Research conducted a random survey of 2,800 organizations in attendance. The results provided the following information:

- 36 percent of the organizations are three years old or less; the median age was 8 years old.
- 60 percent were 501(c)(3) non-profits.
- 31 percent were faith-based organizations.
- 28 percent have a current budget of less than $50,000.
- 38 percent had zero full-time staff persons.
- 68 percent have received funding in the past. Of those, 62 percent had received both public and private funding, 22 percent had received public funds only and 16 percent had received private funds only.

- 46 percent report applying for a federal grant in the past.
- 69 percent report partnering or collaborating with other organizations.

Data discussion. Accomplishments were assessed and documented by HUD's Center for Faith-Based and Community Initiatives. Attendances of all training sessions are documented through registration, sign-in sheets, organizational surveys, and evaluation sheets.

Objective FC.4: Encourage partnerships between faith-based/community organizations and HUD's traditional grantees.

FC.4.1: Establish a baseline number of applications by faith- and community-based grantees and a target for increased participation by FY 2004 and create recording mechanisms for analyzing grant applications by faith-based groups by 2004.

Background. The Center worked with the White House Office of Faith-based & Community Initiatives, the Office of General Counsel, and the Office of Departmental Grants Management and Oversight to secure OMB approval for a "Survey on Ensuring Equal Opportunity for Applicants" to be included in the General Section of the FY 2003 and 2004 Super Notice of Funding Availability. This survey allowed grant applicants to self-identify themselves as faith-based or community-based organizations and requested other information on the nature, size and budget of the organization. In addition, the survey inquired whether the organization is a prior recipient of a government grant contract.

Results and analysis. Through further discussion with OMB and the White House Office of Faith-based & Community Initiatives, a decision was reached not to establish targets for increased participation. Since the survey forms are voluntary, the return rate is too low to establish any statistically sound baseline for increased participation. For FY 2003, HUD's program offices received 633 surveys. Eight percent of respondents identified themselves as faith-based and 76 percent as community-based. Thirteen percent had budgets less than $300,000 per year and 10 percent had fewer than 6 full-time employees. The surveys for FY 2004 Super Notice of Funding Availability programs are still being collected, and thus no current figures are available for them.

At the request of the White House Office of Faith-based & Community Initiatives, the Center also worked with HUD's program offices in FY 2004 to identify the approximate number of faith-based grantees in HUD's FY 2003 Super Notice of Funding Availability programs, compared to FY 2002's data. Through this effort, the Center found that HUD awarded 765 grants to faith-based organizations in 2003, an increase of 16 percent from 2002. The total number of grant funds going to faith-based organizations rose 11 percent, from $479 million in 2002 to $532 million in 2003.

Data discussion. The Center responded to the low response rate for the 2003 Super Notice of Funding Availability survey by expanding marketing of the instrument. It is hoped this effort will generate data sufficient to support the establishment of a numeric baseline for applications from faith based and community organizations.

3. Financial Information

The Chief Financial Officer's Message

The accelerated issuance of HUD's FY 2004 Performance and Accountability Report within 45 days after the end of the fiscal year was a major accomplishment for the Department. I want to thank the many HUD staff that contributed to this success. This is the fourth consecutive year that HUD has accelerated issuance of this report to provide the President, the Congress and the public with more timely information on the effectiveness of HUD's use of public funds.

Included in this section of the report are the Department's unaudited consolidated financial statements for FY 2004. The Office of the Inspector General was unable to complete the necessary work to express an audit opinion on HUD's consolidated financial statements by the November 15, 2004, deadline established by the Office of Management and Budget, and therefore have issued a disclaimer of opinion on HUD's consolidated statements. HUD received an unqualified audit opinion on its consolidated financial statements for the four previous FYs 2000 through 2003. HUD's management is unaware of any issues that would have precluded the Department from receiving an unqualified audit opinion on its FY 2004 consolidated statements, had the audit been completed.

It is a challenge for HUD to meet the mandated completion of the audit of the Department's consolidated financial statements within 45 days of the end of the fiscal year, because HUD must first complete the separate financial statement audit requirements of the FHA, Government National Mortgage Association, and Office of Federal Housing Enterprise Oversight components of the Department. Each of those components received an unqualified audit opinion on their FY 2004 financial statements.

As discussed in the Financial Management Accountability Section of this report, the Department continued to strengthen internal controls over its program delivery systems in FY 2004, and is poised to eliminate its two remaining longstanding material weakness issues – controls over rental housing subsidies and financial management systems' compliance – in the next two years. Improved internal controls and error measurement processes resulted in a 50 percent reduction in the $3.2 billion baseline estimate of gross erroneous rental housing assistance payments established in FY 2000. Implementation of the accounts payable, accounts receivable, procurement, and projects modules of the FHA Subsidiary Ledger Project strengthened systems support for budget execution and funds control and credit reform accounting.

Building on the success of the FHA Subsidiary Ledger Project, the Department completed actions in FY 2004 to lay the groundwork for a HUD Integrated Financial Management Improvement Project that will develop and implement a modern, integrated financial management system by FY 2007.

I look forward to working with HUD's leadership team and staff to provide the budget, accounting, financial management systems, and performance management services necessary to effectively support the delivery of HUD's critically needed housing and community development program resources for the benefit of the American people.

Very respectfully,

Carin M. Barth
Chief Financial Officer

Introduction

The principal financial statements have been prepared to report the financial position and results of operations of HUD, pursuant to the requirements of the Chief Financial Officers Act of 1990 (31 U.S.C. 3515(b)). While the financial statements have been prepared from HUD's books and records in accordance with formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The principal financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication is that liabilities reported in the financial statements cannot be liquidated without legislation that provides resources to do so.

The financial statements included in this annual report are as follows:

- Consolidated Balance Sheet,
- Consolidating Statement of Net Cost,
- Consolidating Statement of Changes in Net Position,
- Combined Statement of Budgetary Resources,
- Consolidated Statement of Financing.

These financial statements include all of HUD's activities, including those of the Federal Housing Administration and the Government National Mortgage Association. These financial statements cover all of HUD's budget authority.

Consolidated Balance Sheet
As of September 30, 2004 and 2003

(Dollars in Millions)

	2004	2003
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$69,647	$76,458
Investments (Note 5)	31,029	31,260
Accounts Receivable (Note 7)		
Other Assets (Note 8)	21	4
Total Intragovernmental Assets (Note 6)	$100,697	$107,722
Investments (Net) (Note 5)	122	123
Accounts Receivable (Net) (Note 7)	491	569
Credit Program Receivables and Related		
Foreclosed Property (Net) (Note 9)	11,238	12,022
General Property Plant and Equipment (Net) (Note 10)	96	84
Other Assets (Note 8)	550	243
TOTAL ASSETS (Note 6)	$113,194	$120,763
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable		
Debt (Note 12)	10,102	12,814
Other Intragovernmental Liabilities (Note 13)	5,056	6,029
Total Intragovernmental Liabilities (Note 11)	$15,158	$18,843
Accounts Payable	818	1,120
Loan Guarantees Liabilities (Note 9)	5,172	6,313
Debt Held by the Public (Note 12)	1,858	2,210
Federal Employee and Veterans Benefits (Note 2)	79	85
Debentures Issued to Claimants (Note 12)		
Loss Reserves (Note 14)	519	519
Other Governmental Liabilities (Note 13)	1,198	1,044
TOTAL LIABILITIES (Note 11)	$24,802	$30,134
NET POSITION		
Unexpended Appropriations	$58,131	$64,753
Cumulative Results of Operations	30,261	25,876
TOTAL NET POSITION	88,392	90,629
TOTAL LIABILITIES AND NET POSITION	$113,194	$120,763

The accompanying notes are an integral part of these statements.

Consolidating Statement of Net Cost
For the Period Ended September 30, 2004 and 2003

(Dollars in Millions)

	2004 Consolidated	2003 Consolidated
COSTS:		
Federal Housing Administration		
Intragovernmental	$719	$645
Intragovernmental Earned Revenues	($1,552)	($1,418)
Intragovernmental Net Costs	($832)	($774)
With the Public	($667)	$2,738
Earned Revenue With the Public	($250)	($950)
Net Costs With the Public	($917)	$1,788
Net Program Costs	($1,750)	$1,013
Government National Mortgage Association		
Intragovernmental		
Intragovernmental Earned Revenues	($443)	($388)
Intragovernmental Net Costs	($443)	($388)
With the Public	$78	$68
Earned Revenues	($373)	($411)
Net Costs With the Public	($295)	($343)
Net Program Costs	($738)	($731)
Section 8 Rental Assistance		
Intragovernmental	$64	$48
Intragovernmental Earned Revenues		
Intragovernmental Net Costs	$64	$48
With the Public	$22,401	$20,988
Earned Revenues		
Net Costs With the Public	$22,401	$20,988
Net Program Costs	$22,465	$21,036
Low Rent Public and Indian Housing Loans and Grants		
Intragovernmental	$189	$160
Intragovernmental Earned Revenues		
Intragovernmental Net Costs	$189	$160
With the Public	$3,711	$3,936
Earned Revenues		
Net Costs With the Public	$3,711	$3,936
Net Program Costs	$3,900	$4,096
Operating Subsidies		
Intragovernmental	$16	$44
Intragovernmental Earned Revenues		
Intragovernmental Net Costs	$16	$44
With the Public	$3,449	$3,462
Earned Revenues		
Net Costs With the Public	$3,449	$3,462
Net Program Costs	$3,465	$3,506

COSTS: (Continued)	2004 Consolidated	2003 Consolidated
Housing for the Elderly and Disabled		
Intragovernmental	$183	$228
Intragovernmental Earned Revenues		
Intragovernmental Net Costs	$183	$228
With the Public	$1,116	$1,026
Earned Revenues	($616)	($637)
Net Costs With the Public	$500	$389
Net Program Costs	$683	$617
Community Development Block Grants		
Intragovernmental	$38	$33
Intragovernmental Earned Revenues		
Intragovernmental Net Costs	$38	$33
With the Public	$5,419	$5,582
Earned Revenues		
Net Costs With the Public	$5,419	$5,582
Net Program Costs	$5,457	$5,615
HOME		
Intragovernmental	$13	$14
Intragovernmental Earned Revenues		
Intragovernmental Net Costs	$13	$14
With the Public	$1,612	$1,625
Earned Revenues		
Net Costs With the Public	$1,612	$1,625
Net Program Costs	$1,625	$1,639
Other		
Intragovernmental	$163	$223
Intragovernmental Earned Revenues	($5)	($8)
Intragovernmental Net Costs	$158	$215
With the Public	$3,415	$3,431
Earned Revenues	($32)	($28)
Net Costs With the Public	$3,383	$3,403
Net Program Costs	$3,541	$3,618
Costs Not Assigned to Programs	$392	$420
Net Cost of Operations	**$39,040**	**$40,830**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position
For the Period Ending September 2004 and 2003

(Dollars in Millions)

	2004		2003	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Net Position-Beginning of Period	($25,876)	($64,753)	($24,136)	($65,407)
Prior Period Adjustments (Note 19)	5		(2)	
Beginning Balances, As Adjusted	($25,871)	($64,753)	($24,138)	($65,407)
BUDGETARY FINANCING SOURCES				
Appropriations Received		(40,569)		(44,674)
Transfers In/Out		85		240
Other Adjustments (Recissions, etc)		3,281	24	1,889
Appropriations Used	(43,859)	43,825	(43,164)	43,199
Transfers In/Out Without Reimbursement	282		482	
Other Budgetary Financing Sources	(2)		20	
OTHER FINANCING SOURCES				
Donations and Forfeitures of Property				
Transfers In/Out Without Reimbursement	209		138	
Imputed Financing From Costs				
Absorbed From Others	(62)		(72)	
Other	2		4	
TOTAL FINANCING SOURCES	($43,430)	$6,622	($42,568)	$654
Net Cost of Operations	39,040		40,830	
ENDING BALANCES	($30,261)	($58,131)	($25,876)	($64,753)

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources
For the Period Ended September 2004 and 2003

(Dollars in Millions)

	2004		2003	
	Budgetary	NonBudgetary Credit Program Financing Accounts	Budgetary	NonBudgetary Credit Program Financing Accounts
BUDGETARY RESOURCES:				
Budget Authority	$41,223	$3,400	$44,900	$2,890
Net Transfers, Current Year Authority	(1)		7	
Unobligated Balance-Beginning of Year	49,889	1,144	45,287	3,092
Net Transfers, Actual, Prior Year Balance				
Spending Authority from Offsetting Collections	7,215	17,466	8,072	12,405
Adjustments				
Recoveries of Prior Year Obligations	2,096	12	3,313	77
Permanently not available				
Cancellations-Expired and No Year Accts	(51)		(72)	
Enacted Recissions	(3,094)		(1,608)	
Capital Trans & Debt Redemption	(1,865)	(4,559)	(954)	(1,649)
Other Authority Withdrawn	(1,319)		(7,912)	
TOTAL BUDGETARY RESOURCES	$94,093	$17,463	$91,033	$16,815
STATUS OF BUDGETARY RESOURCES:				
Obligations Incurred (Note 20)	$49,362	$12,740	$41,144	$15,671
Unobligated Balances Available	7,707	2,589	10,726	814
Unobligated Balances Not Available	37,024	2,134	39,163	330
TOTAL STATUS OF BUDGETARY RESOURCES	$94,093	$17,463	$91,033	$16,815
Obligated Balance, Net-Beg of Period	$80,663	$921	$89,706	($98)
Obligated Balance Transferred, Net				
Obligated Balance, Net - End of Period	75,198	1,108	80,663	921
OUTLAYS				
Disbursements	52,760	12,420	46,880	14,733
Collections	(7,244)	(17,345)	(8,078)	(12,562)
Subtotal	$45,516	($4,925)	$38,802	$2,171
Less: Offsetting Receipts	(428)		(1,382)	
NET OUTLAYS	$45,088	($4,925)	$37,420	$2,171

The accompanying notes are an integral part of these statements.

Consolidated Statement of Financing
For the Year Ended September 2004 and 2003

(Dollars in Millions)

	2004	2003
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated		
Obligations Incurred	$62,102	$56,815
Less: Spending Authority from Offsetting Collections & Recoveries	(26,789)	(23,866)
Obligations Net of Offsetting Collections	$35,313	$32,949
Less: Offsetting Receipts	(428)	(1,381)
Net Obligations	$34,885	$31,568
Other Resources		
Transfers In/Out Without Reimbursement	(209)	(139)
Imputed Financing from Costs Absorbed by Others	63	72
Other Resources	(11)	(31)
Net Other Resources Used to Finance Activites	($157)	($98)
Total Resources Used to Finance Activities	$34,728	$31,470
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods Services/Benefits Ordered but not yet Provided	$4,921	$8,157
Resources That Fund Expenses from Prior Periods	(7,548)	(3,556)
Budgetary Offsetting Collections and Receipts Not Affecting Net Cost of Operations	21,203	19,871
Resources Financing Acquistion of Assets	(12,595)	(15,652)
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	71	(701)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$6,052	$8,119
Total Resources Used to Finance the Net Cost of Operations	$40,780	$39,589
COMPONENTS OF NET COST OF OPERATIONS NOT REQUIRING/ GENERATING RESOURCES IN THE CURRENT PERIOD:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability (Note 22)	$3	
Reestimates of Credit Subsidy Expense	2,859	$7,407
Exchange Revenue Receivable from the Public	(615)	(6,410)
Other	(5)	3
Total Requiring/Generating Resources in Future Periods	$2,242	$1,000
Components Not Requiring/Generating Resources		
Depreciation and Amortization	$14	$10
Revaluation of Assets or Liabilities	(1,433)	522
Other	(2,563)	(291)
Total Components of Net Cost of Operation Not Requiring/Generating Resources	($3,982)	$241
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	($1,740)	$1,241
NET COST OF OPERATIONS	**$39,040**	**$40,830**

The accompanying notes are an integral part of these statements.

Notes to Financial Statements
September 30, 2004 and 2003

NOTE 1 - Entity and Mission

The U.S. Department of Housing and Urban Development (HUD) was created in 1965 to (1) provide housing subsidies for low- and moderate-income families, (2) provide grants to states and communities for community development activities, (3) provide direct loans and capital advances for construction and rehabilitation of housing projects for the elderly and persons with disabilities, and (4) promote and enforce fair housing and equal housing opportunity. In addition, HUD insures mortgages for single family and multifamily dwellings; insures loans for home improvements and manufactured homes; and facilitates financing for the purchase or refinancing of millions of American homes.

HUD's major programs are as follows:

The **Federal Housing Administration** (FHA) was created as a government corporation within HUD and administers active mortgage insurance programs that are designed to make mortgage financing more accessible to the homebuying public and thereby to develop affordable housing. FHA insures private lenders against loss on mortgages that finance single family homes, multifamily projects, health care facilities, property improvements, and manufactured homes.

The **Government National Mortgage Association** (Ginnie Mae) was created as a government corporation within HUD to administer mortgage support programs that could not be carried out in the private market. Ginnie Mae guarantees the timely payment of principal and interest on mortgage-backed securities issued by approved private mortgage institutions and backed by pools of mortgages insured or guaranteed by FHA, the Rural Housing Service, the Department of Veterans Affairs, and the HUD Office of Public and Indian Housing (PIH).

The **Section 8 Rental Assistance** programs assist low- and very low-income families in obtaining decent and safe rental housing. HUD makes up the difference between what a low- and very low-income family can afford and the approved rent for an adequate housing unit.

Operating Subsidies are provided to Public Housing Authorities and Tribally Designated Housing Entities to help finance the operations and maintenance costs of their housing projects.

The **Community Development Block Grant** (CDBG) programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, and improved community facilities and services. The United States Congress appropriated $2 billion in FY 2002 and $783 million in emergency supplemental appropriations in FY 2001 for "Community Development Fund" for emergency expenses to respond to the September 11, 2001, terrorist attacks on the United States. Of the amounts appropriated, $517 million was expensed in FY 2004 and $649 million was expensed in FY 2003. Any remaining un-obligated balances shall remain available until expended.

The **Low Rent Public Housing Grants** program provides grants to Public Housing Authorities and Tribally Designated Housing Entities for construction and rehabilitation of low-rent housing. This program is a continuation of the Low Rent Public Housing Loan program that pays principal and interest on long-term loans made to Public Housing Authorities and Tribally Designated Housing Entities for construction and rehabilitation of low-rent housing.

The **Section 202/811 Supportive Housing for the Elderly and Persons with Disabilities** programs, prior to FY 1992, provided 40-year loans to nonprofit organizations sponsoring rental housing for the elderly or disabled. During FY 1992, the program was converted to a grant program. The grant program provides long-term supportive housing for the elderly (Section 202) and disabled (Section 811).

The **HOME Investments Partnerships** program provides grants to states, local governments, and Indian tribes to implement local housing strategies designed to increase home ownership and affordable housing opportunities for low- and very low-income Americans.

Other Programs not included above consist of other smaller programs which provide grant, subsidy funding, and direct loans to support other HUD objectives such as fair housing and equal opportunity, energy conservation, assistance for the homeless, rehabilitation of housing units, and home ownership. These programs comprise approximately 8.8 percent of HUD's consolidated assets and 9.1 percent of HUD's consolidated revenues and financing sources for FY 2004 and 8.6 percent of HUD's consolidated assets and 8.4 percent of HUD's consolidated revenues and financing sources for FY 2003.

NOTE 2 - Summary of Significant Accounting Policies

A. Basis of Consolidation

The financial statements include all funds and programs for which HUD is responsible. All significant intra-fund balances and transactions have been eliminated in consolidation. Transfer appropriations are consolidated into the financial statements based on an evaluation of their relationship with HUD.

B. Basis of Accounting

The financial statements include the accounts and transactions of the Ginnie Mae, FHA, and HUD's Grant, Subsidy and Loan programs.

The financial statements are presented in accordance with OMB Bulletin 01-09, Form and Content of Agency Financial Statements, and in conformance with the Federal Accounting Standards Advisory Board's Statements of Federal Financial Accounting Standards.

The financial statements are presented on the accrual basis of accounting. Under this method, HUD recognizes revenues when earned, and expenses when a liability is incurred, without regard to receipt or payment of cash. Generally, procedures for HUD's major grant and subsidy programs require recipients to request periodic disbursement concurrent with incurring eligible costs.

The department's disbursement policy permits grantees/recipients to request funds to meet immediate cash needs to reimburse themselves for eligible incurred expenses and eligible expenses expected to be received and paid within three days. HUD's disbursement of funds for these purposes are not considered advance payments, but are viewed as good cash management between the department and the grantees. In the event it is determined that the grantee/recipient did not disburse the funds within the 3-day time frame, interest earned must be returned to HUD and deposited into one of Treasury's miscellaneous receipt accounts.

C. Operating Revenue and Financing Sources

HUD finances operations principally through appropriations, collection of premiums and fees on its FHA and Ginnie Mae programs, and interest income on its mortgage notes, loans, and investments portfolio.

Appropriations for Grant and Subsidy Programs

HUD receives both annual and multi-year appropriations, and recognizes those appropriations as revenue when related program expenses are incurred. Accordingly, HUD recognizes grant-related revenue and related expenses as recipients perform under the contracts. HUD recognizes subsidy-related revenue and related expenses when the underlying assistance (e.g., provision of a Section 8 rental unit by a housing owner) is provided.

FHA Unearned Premiums

Premiums charged by FHA for single family mortgage insurance provided by its Mutual Mortgage Insurance Fund and Cooperative Management Housing Insurance Fund include up-front and annual risk based premiums. Pre-credit reform up-front risk based premiums are recorded as unearned revenue upon collection and are recognized as revenue over the period in which losses and insurance costs are expected to occur. Annual risk-based premiums are recognized as revenue on a straight-line basis throughout the year. FHA's other activities charge periodic insurance premiums over the mortgage insurance term. Premiums on annual installment policies are recognized for the liquidating accounts on a straight-line basis throughout the year.

Premiums associated with Credit Reform loan guarantees are included in the calculation of the liability for loan guarantees and not included in the unearned premium amount reported on the Balance Sheet, since the liability for loan guarantees represents the net present value of future cash flows associated with those insurance portfolios.

Ginnie Mae Fees

Fees received for Ginnie Mae’s guaranty of mortgage-backed securities are recognized as earned on an accrual basis. Commitment fees represent income that Ginnie Mae earns for providing approved issuers with authority to pool mortgages into Ginnie Mae mortgage-backed securities. The authority Ginnie Mae provides issuers expires 12 months from issuance for single family issuers and 24 months from issuance for multifamily issuers. Ginnie Mae receives Commitment Fees as issuers request Commitment Authority and recognizes the Commitment Fees as earned as issuers use their Commitment Authority, with the balance deferred until earned or expired, whichever occurs first. Fees from expired Commitment Authority are not returned to issuers.

D. Appropriations and Monies Received from Other HUD Programs

The National Housing Act of 1990, as amended, provides for appropriations from Congress to finance the operations of General Insurance and Special Risk Insurance funds. For Credit Reform loan guarantees, appropriations to the General Insurance and Special Risk Insurance funds are provided at the beginning of each fiscal year to cover estimated losses on insured loans during the year. For pre-Credit Reform loan guarantees, FHA has permanent indefinite appropriation authority to finance any shortages of resources needed for operations.

Monies received from other HUD programs, such as interest subsidies and rent supplements, are recorded as revenue for the liquidating accounts when services are rendered. Monies received for the financing accounts are recorded as additions to the liability for loan guarantees or the Allowance for Subsidy when collected.

E. Investments

HUD limits its investments, principally comprised of investments by FHA's Mutual Mortgage Insurance /Cooperative Management Housing Insurance Fund and by Ginnie Mae, to non-marketable market-based Treasury interest-bearing obligations (i.e., investments not sold in public markets). The market value and interest rates established for such investments are the same as those for similar Treasury issues, which are publicly marketed.

HUD's investment decisions are limited by Treasury policy which (1) only allows investment in Treasury notes, bills, and bonds, and (2) prohibits HUD from engaging in practices that result in "windfall" gains and profits, such as security trading and full scale restructuring of portfolios in order to take advantage of interest rate fluctuations.

FHA's normal policy is to hold investments in U.S. Government securities to maturity. However, in certain circumstances, FHA may have to liquidate its U.S. Government securities before maturity to finance claim payments.

HUD reports investments in U.S. Government securities at amortized cost. Premiums or discounts are amortized into interest income over the term of the investment. HUD intends to hold investments to maturity, unless needed for operations. No provision is made to record unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

The Departments of Veterans Affairs and Housing and Urban Development Appropriations Act of 1999 and Section 601 of the Independent Agencies Act of 1999 provide FHA with new flexibility in reforming its single family claims and property disposition activities. In accordance with these Acts, FHA implemented the Accelerated Claims Disposition Demonstration program (the 601 program) to shorten the claim filing process, obtain higher recoveries from its defaulted guaranteed loans, and support the Office of Housing's mission of keeping homeowners in their home. To achieve these objectives, FHA transfers assigned mortgage notes to private-sector entities in exchange for cash and equity interest. The servicing and disposition of the mortgage notes are performed by the private-sector entities whose primary mission is dedicated to these types of activity.

With the transfer of assigned mortgage notes under the 601 Program, FHA obtains ownership interest in the private-sector entities. This level of ownership interest enables FHA to exercise significant influence over the operating and financial policies of the entities. Accordingly, to comply with the requirement of Opinion No. 18 issued by the Accounting Principles Board, FHA uses the equity method of accounting to measure the value of its investments in these entities. The equity method of accounting requires FHA to record its investments in the entities at cost initially. Periodically, the carrying amount of the investments is adjusted for cash distributions to FHA and for FHA's share of the entities' earnings or losses.

F. Credit Program Receivables and Related Foreclosed Property

HUD finances mortgages and provides loans to support construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 Program. Prior to April 1996, mortgages were also assigned to HUD through FHA claims settlement (i.e., mortgage notes assigned). Single family mortgages were assigned to FHA when the mortgagor defaulted due to certain "temporary hardship" conditions beyond the control of the mortgagor, and when, in management's judgment, it is likely that the mortgage could be brought current in the future. During FY 2004, FHA continued to take single family assignments on those defaulted notes that were in process at the time the assignment program was terminated. In addition, multifamily mortgages are assigned to FHA when lenders file mortgage insurance claims for defaulted notes.

Multifamily and single family performing notes insured pursuant to Section 221(g)(4) of the National Housing Act may be assigned automatically to FHA at a pre-determined point.

Credit program receivables for direct loan programs and defaulted guaranteed loans assigned for direct collection are valued differently based on the direct loan obligation or loan guarantee commitment date. These valuations are in accordance with the Federal Credit Reform Act of 1990 and Statement of Federal Financial Accounting Standards No. 2, "Accounting for Direct Loans and Loan Guarantees," as amended by Statement of Federal Financial Accounting Standards No. 18. Those obligated or committed on or after October 1, 1991 (post-Credit Reform) are valued at the net present value of expected cash flows from the related receivables.

Credit program receivables resulting from obligations or commitments prior to October 1, 1991 (pre-Credit Reform) are recorded at the lower of cost or fair value (net realizable value). Fair value is estimated based on the prevailing market interest rates at the date of mortgage assignment. When fair value is less than cost, discounts are recorded and amortized to interest income over the remaining terms of the mortgages or upon sale of the mortgages. Interest is recognized as income when earned. However, when full collection of principal is considered doubtful, the accrual of interest income is suspended and receipts (both interest and principal) are recorded as collections of principal. Pre-Credit Reform loans are reported net of allowance for loss and any unamortized discount. The estimate for the allowance on credit program receivables is based on historical loss rates and recovery rates resulting from asset sales and property recovery rates, net of cost of sales.

Foreclosed property acquired as a result of defaults of loans obligated or loan guarantees committed on or after October 1, 1991, is valued at the net present value of the projected cash flows associated with the property. Foreclosed property acquired as a result in defaulted loans obligated or loan guarantees committed prior to 1992 is valued at net realizable value. The estimate for the allowance for loss related to the net realizable value of foreclosed property is based on historical loss rates and recovery rates resulting from property sales, net of cost of sales.

G. Liability for Loan Guarantees

The potential future losses related to FHA's central business of providing mortgage insurance are accounted for as Loan Guarantee Liability in the consolidated balance sheets. As required by Statement of Federal Financial Accounting Standards No. 2, the Loan Guarantee Liability includes the Credit Reform-related Liabilities for Loan Guarantees and the pre-Credit Reform Loan Loss Reserve.

The Liabilities for Loan Guarantees and Loan Loss Reserve are calculated as the present value of anticipated cash outflows for defaults, such as claim payments, premium refunds, property expense for on-hand properties and sale expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from asset sales and principal and interest on Secretary-held notes, as described above.

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

H. Full Cost Reporting

Beginning in FY 1998, Statement of Federal Financial Accounting Standards No. 4 required that full costing of program outputs be included in federal agency financial statements. Full cost reporting includes direct, indirect, and inter-entity costs. For purposes of the consolidated department financial statements, HUD identified each responsible segment's share of the program costs or resources provided by HUD or other federal agencies. These costs are treated as imputed cost for the Statement of Net Cost, and imputed financing for the Statement of Changes in Net Position and the Statement of Financing.

I. Accrued Unfunded Leave and Federal Employees' Compensation Act Liabilities

Annual leave and compensatory time are accrued as earned and the liability is reduced as leave is taken. The liability at year-end reflects cumulative leave earned but not taken, priced at current wage rates. Earned leave deferred to future periods is to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources in the Net Position section of its Consolidated Balance Sheet. Sick leave and other types of leave are expensed as taken.

HUD also accrues the portion of the estimated liability for disability benefits assigned to the agency under the Federal Employees' Compensation Act, administered and determined by the Department of Labor. The liability, based on the net present value of estimated future payments based on a study conducted by the Department of Labor, was $79 million as of September 30, 2004, and $85 million as of September 30, 2003. Future payments on this liability are to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources.

J. Loss Reserves

HUD records loss reserves for its mortgage insurance programs operated through FHA and its financial guaranty programs operated by Ginnie Mae. FHA loss reserves are recorded for the net present value of estimated future cash flows associated with FHA-insured mortgage loans endorsed before FY 1992. Ginnie Mae establishes reserves for actual and probable defaults of issuers of Ginnie Mae-guaranteed mortgage-backed securities. Such reserves are based on management's judgment about historical claim and loss information and current and projected economic factors.

K. Retirement Plans

The majority of HUD's employees participate in either the Civil Service Retirement System or the Federal Employees Retirement System. The Federal Employees Retirement System went into effect pursuant to Public Law 99-335 on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by the Federal Employees Retirement System and Social Security. Employees hired before January 1, 1984, can elect to either join the Federal Employees Retirement System and Social Security or remain in the Civil Service Retirement System. HUD expenses its contributions to the retirement plans.

A primary feature of the Federal Employees Retirement System is that it offers a savings plan whereby HUD automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. Under the Civil Service Retirement System, employees can contribute up to nine percent of their pay to the savings plan, but there is no corresponding matching by HUD. Although HUD funds a portion of the benefits under the Federal Employees Retirement System relating to its employees and makes the necessary withholdings from them, it has no liability for future payments to employees under these plans, nor does it report the Civil Service Retirement System, the Federal Employees Retirement System, or Federal Employees' Compensation Act assets, accumulated plan benefits, or unfunded liabilities applicable to its employees retirement plans. These amounts are reported by the Office of Personnel Management and are not allocated to the individual employers. HUD's matching contribution to these retirement plans during FYs 2004 and 2003 was $77 million and $68 million, respectively.

L. Federal Employee and Veterans Benefit

The Department's Federal Employee and Veterans benefit expenses totaled approximately $137 million for FY 2004; this amount includes $27 million to be funded by the Office of Personnel Management. Federal Employee and Veterans benefit expenses totaled approximately $136 million for FY 2003; this amount includes $41 million to be funded by the Office of Personnel Management. Amounts funded by the Office of Personnel Management are charged to expense with a corresponding amount considered as an imputed financing source in the statement of changes in net position.

M. Financial Accounting Standards Board Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees

The Financial Accounting Standards Board issued Financial Accounting Standards Board Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, an interpretation of Financial Accounting Standards Board Statements No. 5, 57, and 107, and Rescission of Financial Accounting Standards Board Interpretation No. 34, in November 2002. FIN 45 clarifies the requirements of Financial Accounting Standards Board Statement No. 5, *Accounting for Contingencies*, relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. FIN 45 requires that upon issuance of a guarantee, the entity (i.e., the guarantor) must recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of FIN 45 are effective for financial statements that end after December 15, 2002. FIN 45's provisions for initial recognition and measurement are to be applied on a prospective basis only to guarantees issued or modified after December 31, 2002. The guarantor's previous accounting for guarantees that were issued before the date of FIN 45's initial application may not be revised or restated to reflect the effect of the recognition and measurement provisions of FIN 45. Ginnie Mae has completed an evaluation of its guarantees for disclosures required by FIN 45, and have disclosed an asset and liability of $385.2 million (i.e., Other Assets and Other Liabilities). There is no impact of adopting FIN 45 on the net financial position.

N. Federal Credit Reform Act of 1990

The primary purpose of the Federal Credit Reform Act of 1990, which became effective on October 1, 1991, is to more accurately measure the cost of Federal credit programs and to place the cost of such credit programs on a basis equivalent with other Federal spending. Office of Management and Budget Circular A-11, Preparation, Submission and Execution of the Budget, Part 5, defines Loan Guarantee as any guarantee, insurance or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower (Issuer) to a non-Federal lender (Investor). In the opinion of Ginnie Mae management, and HUD's General Counsel, the Federal Credit Reform Act does not apply to Ginnie Mae. Nevertheless, in consultation with the Office of Management and Budget, Ginnie Mae has adopted certain credit reform practices.

NOTE 3 - Fund Balance with the U.S. Treasury

The U.S. Treasury, which in effect maintains HUD's bank accounts, processes substantially all of HUD's receipts and disbursements. HUD's fund balances with the U.S. Treasury as of September 30, 2004 and 2003, were as follows (dollars in millions):

Description	2004	2003
Revolving Funds	$ 10,782	$ 8,012
Appropriated Funds	58,140	64,647
Trust Funds	5	6
Other	720	3,793
TOTAL - FUND BALANCE	$ 69,647	$ 76,458

HUD's fund balances with the U.S. Treasury as reflected in the entity's general ledger as of September 30, 2004, were as follows:

	Unobligated				
Description	Available	Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Total Fund Balance
FHA	$ 2,738	$ 2,905	$2,255	–	$ 7,898
GNMA	–	3,355	–	–	3,355
Section 8 Rental Assistance	1,563	691	10,635	–	12,889
CDBG	1,307	39	10,694	–	12,040
HOME	444	12	5,247	–	5,703
Operating Subsidies	2	1	2,007	–	2,010
Low Rent Public Housing Loans and Grants	390	8	8,391	–	8,789
Section 202/811	1,618	46	5,496	–	7,160
All Other	2,192	303	7,340	32	9,803
TOTAL	$ 10,254	$ 7,360	$ 52,065	$ 32	$ 69,647

HUD's fund balances with U.S. Treasury as reflected in the entity's general ledger as of September 30, 2003, were as follows:

	Unobligated				
Description	Available	Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Total Fund Balance
FHA	$ 1,039	$ 4,723	$2,171	–	$ 7,933
GNMA	–	2,932	–	–	2,932
Section 8 Rental Assistance	3,454	30	15,373	–	18,857
CDBG	1,118	29	11,375	–	12,522
HOME	378	9	4,917	–	5,304
Operating Subsidies	–	2	1,863	–	1,865
Low Rent Public Housing Loans and Grants	830	12	8,268	–	9,110
Section 202/811	1,943	562	5,338	–	7,843
All Other	2,730	263	7,146	47	10,092
TOTAL	$ 11,492	$ 8,562	$ 56,451	$ 47	$ 76,458

An immaterial difference exists between HUD's recorded Fund Balances with the U.S. Treasury and the U.S. Department of Treasury's records. It is the Department's practice to adjust its records to agree with Treasury's balances at the end of the fiscal year. The adjustments are reversed at the beginning of the following fiscal year.

NOTE 4 - Commitments Under HUD's Grant, Subsidy, and Loan Programs

A. Contractual Commitments

HUD has entered into extensive long-term contractual commitments under its various grant, subsidy and loan programs. These commitments consist of legally binding agreements the Department has entered into to provide grants, subsidies, or loans. Commitments become liabilities when all actions required for payment under an agreement have occurred. The mechanism for funding subsidy commitments generally differs depending on whether the agreements were entered into before or after 1988.

Prior to FY 1988, HUD's subsidy programs, primarily the Section 8 program and the Section 235/236 programs, operated under contract authority. Each year, Congress provided HUD the authority to enter into multiyear contracts within annual and total contract limitation ceilings. HUD then drew on and continues to draw on permanent indefinite appropriations to fund the current year's portion of those multiyear contracts. Because of the duration of these contracts (up to 40 years), significant authority exists to draw on the permanent indefinite appropriations. Beginning in fiscal 1988, the Section 8 and the Section 235/236 programs began operating under multiyear budget authority whereby the Congress appropriates the funds "up-front" for the entire contract term in the initial year.

As shown below, appropriations to fund a substantial portion of these commitments will be provided through permanent indefinite authority. These commitments relate primarily to the Section 8 program, and the Section 235/236 rental assistance and interest reduction programs, and are explained in greater detail below.

HUD's commitment balances are based on the amount of unliquidated obligations recorded in HUD's accounting records with no provision for changes in future eligibility, and thus are equal to the maximum amounts available under existing agreements and contracts. Unexpended appropriations and cumulative results of operations shown in the Consolidated Balance Sheet comprise funds in the U.S. Treasury available to fund existing commitments that were provided through "up-front" appropriations, and also include permanent indefinite appropriations received in excess of amounts used to fund the pre-1988 subsidy contracts and offsetting collections.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2004 (dollars in millions):

	Commitments Funded Through			
Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collection	Total Contractual Commitments
Section 8 Rental Assistance	$ 8,775	$ 17,596	–	$ 26,371
Community Development Block Grants	10,671	–	–	10,671
HOME Partnership Investment Program	5,237	–		5,237
Operating Subsidies	1,873	–	–	1,873
Low Rent Public Housing Grants and Loans	8,215	–	–	8,215
Housing for Elderly and Disabled	5,411	–	–	5,411
Section 235/236	342	6,123	–	6,465
All Other	6,786	27	108	6,921
TOTAL	$ 47,310	$ 23,746	$ 108	$ 71,164

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2004, $20.7 billion relates to project-based commitments, and $5.6 billion relates to tenant-based commitments.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2003 (dollars in millions):

Programs	Commitments Funded Through			
	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collection	Total Contractual Commitments
Section 8 Rental Assistance	$ 9,840	$ 21,256	–	$ 31,096
Community Development Block Grants	11,355	–	–	11,355
HOME Partnership Investment Program	4,909	–		4,909
Operating Subsidies	1,743	–	–	1,743
Low Rent Public Housing Grants and Loans	8,811	–	–	8,811
Housing for Elderly and Disabled	5,224	–	–	5,224
Section 235/236	297	6,398	–	6,695
All Other	6,582	37	129	6,748
TOTAL	$ 48,761	$ 27,691	$ 129	$ 76,581

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2003, $25.1 billion relates to project-based commitments, and $5.9 billion relates to tenant-based commitments. With the exception of the Housing for the Elderly and Disabled and Low Rent Public Housing Loan Programs (which have been converted to grant programs), Section 235/236, and a portion of "all other" programs, HUD management expects all of the above programs to continue to incur new commitments under authority granted by Congress in future years. However, estimated future commitments under such new authority are not included in the amounts above.

B. Administrative Commitments

In addition to the above contractual commitments, HUD has entered into administrative commitments which are reservations of funds for specific projects (including those for which a contract has not yet been executed) to obligate all or part of those funds. Administrative commitments become contractual commitments upon contract execution.

The following shows HUD's administrative commitments as of September 30, 2004 (dollars in millions):

Programs	Administrative Commitments Funded Through			
	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collection	Total Reservations
Section 8 Rental Assistance Project-Based	$ 113	–	–	$ 113
Section 8 Rental Assistance Tenant-Based	24	–	–	24
Community Development Block Grants	1,108	–	–	1,108
HOME Partnership Investment Program	416	–	–	416
Low Rent Public Housing Grants and Loans	148	–	–	148
Housing for Elderly and Disabled	618	–	–	618
All Other	507	$ 24	$ 6	537
TOTAL	$ 2,934	$ 24	$ 6	$ 2,964

The following shows HUD's administrative commitments as of September 30, 2003 (dollars in millions):

Programs	Administrative Commitments Funded Through			
	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collection	Total Reservations
FHA	$ -	$ -	$ -	$ -
Section 8 Rental Assistance Project-Based	326	–	–	326
Section 8 Rental Assistance Tenant-Based	53	–	–	53
Community Development Block Grants	720	–	–	720
HOME Partnership Investment Program	257	–	–	257
Low Rent Public Housing Grants and Loans	144	–	–	144
Housing for Elderly and Disabled	1,680	–	–	1,680
All Other	584	$ 48	$ 3	635
TOTAL	$ 3,764	$ 48	$ 3	$ 3,815

NOTE 5 - Investments

The U.S. Government securities are non-marketable intra-governmental securities. Interest rates are established by the U.S. Treasury and during fiscal year 2004 ranged from 1.28 percent to 12.84 percent. During FY 2003 interest rates ranged from 0.95 percent to 13.88 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2004 and 2003, were as follows (dollars in millions):

	Cost	Par Value	Unamortized Premium (Discount)	Accrued Interest	Net Investments	Unamortized Gain	Market Value
FY 2004	$ 30,669	$ 30,887	$ (165)	$ 307	$ 31,029	$ 1,150	$ 32,179
FY 2003	$ 30,857	$ 31,064	$ (143)	$ 339	$ 31,260	$ 1,639	$ 32,899

Investments in Private-Sector Entities

These investments in private-sector entities are the result of FHA's participation in the Accelerated Claims Disposition Demonstration program in FYs 2004 and 2003 as discussed in Note 2. The following table presents financial data on FHA's investments in private-sector entities as of September 30 (dollars in millions):

	Beginning Balance	New Acquisitions	Share of Earnings or Losses	Return of Investments	Other Adjustments	Ending Balance
FY 2004	$ 123	$ 123	$ 62	$ (185)	$ (1)	$ 122
FY 2003	$ –	$ 133	$ 4	$ (14)	$ –	$ 123

The condensed, audited financial information related to these private-sector entities as of June 30, 2004, and for the period from inception to June 30, 2003, is summarized below (dollars in millions):

	2004	2003
Total assets, primarily mortgage loans	$ 349	$ 323
Liabilities	$ 2	$ –
Partners' capital	$ 347	$ 323
TOTAL LIABILITIES AND PARTNERS' CAPITAL	$ 349	$ 323
Revenues	$ 62	$ 24
Expenses	(11)	(2)
NET INCOME	$ 51	$ 22

NOTE 6 – Entity and Non-Entity Assets

The following shows HUD's assets as of September 30, 2004 and 2003, were as follows (dollars in millions):

	2004			2003		
Description	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Intragovernmental						
Fund Balance with Treasury	$ 68,793	$ 854	$ 69,647	$ 74,736	$ 1,722	$ 76,458
Investments	31,025	4	31,029	31,256	4	31,260
Accounts Receivable	–	–	–	–	–	–
Other Assets	21	–	21	4	–	4
TOTAL INTRAGOVERNMENTAL ASSETS	$ 99,839	$ 858	$ 100,697	$ 105,996	$ 1,726	$ 107,722
Investments	122	–	122	123	–	123
Accounts Receivable (net)	380	111	491	435	134	569
Loan Receivables and Related Foreclosed Property (net)	11,238	–	11,238	12,022	–	12,022
General Property Plant and Equipment (net)	96	–	96	84	–	84
Other Assets	435	115	550	120	123	243
TOTAL ASSETS	$ 112,110	$ 1,084	$ 113,194	$ 118,780	$ 1,983	$ 120,763

NOTE 7 - Accounts Receivable

The Department's accounts receivable represents Section 8 year-end settlements, claims to cash from the public and state and local authorities for bond refundings, sustained audit findings, FHA insurance premiums and foreclosed property proceeds. A 100 percent allowance for loss is established for all delinquent accounts 90 days and over.

Section 8 Settlements

Section 8 subsidies disbursed during the year under annual contribution contracts are based on estimated amounts due under the contracts by PHAs. At the end of each year the actual amount due under the contracts is determined. The excess of subsidies paid to PHAs during the year over the actual amount due is reflected as accounts receivable in the balance sheet. These amounts are "collected" by offsetting such amounts with subsidies due to PHAs in subsequent periods. As of September 30, 2004 and 2003 this amount totaled $120 million and $253 million, respectively.

Bond Refundings

Many of the Section 8 projects constructed in the late 1970s and early 1980s were financed with tax exempt bonds with maturities ranging from 20 to 40 years. The related Section 8 contracts provided that the subsidies would be based on the difference between what tenants could pay pursuant to a formula, and the total operating costs of the Section 8 project, including debt service. The high interest rates during the construction period resulted in high subsidies. When interest rates came down in the 1980s, HUD was interested in getting the bonds refunded. One method used to account for the savings when bonds are refunded (PHA's sell a new series of bonds at a lower interest rate, to liquidate the original bonds), is to continue to pay the original amount of the bond debt service to a trustee. The amounts paid in excess of the lower "refunded" debt service and any related financing costs, are considered savings. One-half of these savings are provided to the PHA, the remaining half is returned to HUD. As of September 30, 2004 and 2003, HUD was due $108 million and $133 million, respectively.

Other Receivables

Other receivables include sustained audit findings, refunds of overpayment, FHA insurance premiums and foreclosed property proceeds due from the public.

The following shows accounts receivable as reflected in the Balance Sheet as of September 30, 2004 and 2003, as follows (dollars in millions):

	FY 2004			FY 2003		
Description	Gross Accounts Receivable	Allowance for Loss	Total	Gross Accounts Receivable	Allowance for Loss	Total
Section 8 Settlements	$ 120	–	$ 120	$ 253	–	$ 253
Bond Refundings	119	$ (11)	108	144	$ (11)	133
Other Receivables:						
FHA Premiums	50	–	50	27	–	27
Other Receivables	296	(83)	213	250	(94)	156
TOTAL	$ 585	$ (94)	$ 491	$ 674	$ (105)	$ 569

NOTE 8 - Other Assets

The following shows HUD's Other Assets as of September 30, 2004 (dollars in millions):

Description	FHA	Ginnie Mae	Section 8 Rental Assistance	All Other	Total
Intragovernmental Assets:					
Receivables from unapplied disbursements	–	–	–	–	–
Sec. 312 Rehabilitation Loan Program Receivables	–	–	–	–	–
Mortgagor Reserves for Replacement - Investment	–	–	–	–	–
Other Assets	–	–	–	$ 21	$ 21
TOTAL INTRAGOVERNMENTAL ASSETS	–	–	–	$ 21	$ 21
Receivables Related to Asset Sales	–	–	–	–	–
Receivables Related to Credit Program Assets	–	–	–	–	–
Equity Interest in Multifamily Mortgage Trust 1996	–	–	–	–	–
GNMA Real Estate Owned Property and Hole Mortgages	–	–	–	–	–
Mortgagor Reserves for Replacement - Cash	$ 115	–	–	–	$ 115
Advances from the Public	–	–	–	$ 2	2
Other Assets	5	$ 428	–	–	433
TOTAL	$ 120	$ 428	$ –	$ 23	$ 571

The following shows HUD's Other Assets as of September 30, 2003 (dollars in millions):

Description	FHA	Ginnie Mae	Section 8 Rental Assistance	All Other	Total
Intragovernmental Assets:					
Receivables from unapplied disbursements	–	–	–	–	–
Sec. 312 Rehabilitation Loan Program Receivables	–	–	–	–	–
Mortgagor Reserves for Replacement - Investment	–	–	–	–	–
Other Assets	$ 4	–	–	–	$ 4
TOTAL INTRAGOVERNMENTAL ASSETS	$ 4	–	–	–	$ 4
Receivables Related to Asset Sales	–	–	–	–	–
Receivables Related to Credit Program Assets	–	–	–	–	–
Equity Interest in Multifamily Mortgage Trust 1996	–	–	–	–	–
GNMA Real Estate Owned Property and Hole Mortgages	–	–	–	–	–
Mortgagor Reserves for Replacement - Cash	$ 123	–	–	–	$ 123
Advances from the Public	–	–	–	$ 1	1
Other Assets	7	$ 110	–	2	119
TOTAL	$ 134	$ 110	$ –	$ 3	$ 247

NOTE 9 - Direct Loans and Loan Guarantees, Non-Federal Borrowers

HUD reports direct loan obligations or loan guarantee commitments made prior to FY 1992 and the resulting direct loans or defaulted guaranteed loans, net of allowance for estimated uncollectible loans or estimated losses.

Direct loan obligations or loan guarantee commitments made after FY 1991, and the resulting direct loans or defaulted guaranteed loans, are governed by the Federal Credit Reform Act of 1990 and are recorded as the net present value of the associated cash flows (i.e. interest rate differential, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows). The following is an analysis of loan receivables, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees for FYs 2004 and 2003:

A. List of HUD's Direct Loan and/or Loan Guarantee Programs:

1. FHA
2. Housing for the Elderly and Disabled
3. Low Rent Public Housing Loan Fund
4. All Other
    a) Revolving Fund
    b) Flexible Subsidy
    c) CDBG, Section 108(b)
    d) Indian Housing Loan Guarantee Fund
    e) Loan Guarantee Recovery Fund
    f) Native Hawaiian Housing Loan Guarantee Fund
    g) Title VI Indian Housing Loan Guarantee Fund

B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) (dollars in millions):

	2004				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	$ 22	$ 3	$ (12)	–	$ 13
Housing for Elderly and Disabled	6,991	78	(18)	$ 31	7,082
Low Rent Public Housing Loans	1	1	–	–	2
All Other	714	7	(516)	1	206
TOTAL	$ 7,728	$ 89	$ (546)	$ 32	$ 7,303

	2003				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	$ 22	$ 1	$ (8)	–	$ 15
Housing for Elderly and Disabled	7,449	79	(19)	$ 8	7,517
Low Rent Public Housing Loans	1	1	–	–	2
All Other	727	7	(525)	2	211
TOTAL	$ 8,199	$ 88	$ (552)	$ 10	$ 7,745

C. Direct Loans Obligated After FY 1991 (dollars in millions):

Direct Loan Programs	2004 Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	–	–	$ (3)	–	$ (3)

Direct Loan Programs	2003 Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	–	–	$ (3)	–	$ (3)

D. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method) (dollars in millions):

Direct Loan Programs	2004 Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA	$ 2,760	$ 135	$ (905)	$ 15	$ 2,005

Direct Loan Programs	2003 Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA	$ 2,429	$ 160	$ (882)	$ 43	$ 1,750

E. Defaulted Guaranteed Loans From Post-FY 1991 Guarantees (dollars in millions):

Direct Loan Programs	2004 Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA	$ 1,044	$ 74	$ (1,675)	$ 2,490	$ 1,933

Direct Loan Programs	2003 Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA	$ 816	$ 48	$ (1,527)	$ 3,193	$ 2,530

	2004	**2003**
Total Credit Program Receivables and Related Foreclosed Property, Net	**$ 11,238**	**$ 12,022**

F. Guaranteed Loans Outstanding (dollars in millions):

Guaranteed Loans Outstanding:

	2004	
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$ 507,115	$ 468,796
All Other	2,548	2,548
TOTAL	$ 509,663	$ 471,344

	2003	
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$ 535,199	$ 490,125
All Other	2,384	2,384
TOTAL	$ 537,583	$ 492,509

New Guaranteed Loans Disbursed (Current Reporting Year)

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$ 117,381	$ 116,139
All Other	403	403
TOTAL	$ 117,784	$ 116,542

New Guaranteed Loans Disbursed (Prior Reporting Years)

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$ 163,231	$ 146,757
All Other	370	370
TOTAL	$ 163,601	$ 147,127

G. Liability for Loan Guarantees (Estimated Future Default Claims, Pre-1992) (dollars in millions):

	2004		
Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	Total Liabilities For Loan Guarantees
FHA Programs	$ 2,349	$ 2,725	$ 5,074
All Other	–	97	97
TOTAL	$ 2,349	$ 2,822	$ 5,171

	2003		
Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	Total Liabilities For Loan Guarantees
FHA Programs	$ 3,434	$ 2,817	$ 6,251
All Other	–	62	62
TOTAL	$ 3,434	$ 2,879	$ 6,313

H. Subsidy Expense for Post-FY 1991 Loan Guarantees:

Subsidy Expense for Current Year Loan Guarantees (dollars in millions)

	2004			
Loan Guarantee Programs	Default Component	Fees Component	Other Component	Subsidy Amount
FHA	$ 2,252	$ (5,578)	$ 388	$ (2,938)
All Other	10	–	–	10
TOTAL	$ 2,262	$ (5,578)	$ 388	$ (2,928)

	2003			
Loan Guarantee Programs	Default Component	Fees Component	Other Component	Subsidy Amount
FHA	$ 2,762	$ (7,092)	$ 479	$ (3,851)
All Other	10	–	–	10
TOTAL	$ 2,772	$ (7,092)	$ 479	$ (3,841)

Modification and Re-estimates (dollars in millions)

	2004			
Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
FHA	–	–	$ 2,494	$ 2,494
All Other	–	–	26	26
Total	–	–	$ 2,520	$ 2,520

	2003			
Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
FHA	–	–	$ 6,298	$ 6,298
All Other	–	–	–	–
Total	–	–	$ 6,298	$ 6,298

Total Loan Guarantee Subsidy Expense (dollars in millions)

Loan Guarantee Programs	Current Year	Prior Year
FHA	$ (444)	$ 2,447
All Other	36	10
TOTAL	$ (408)	$ 2,457

I. Subsidy Rates for Loan Guarantees by Programs and Component:

Budget Subsidy Rates for Loans Guarantee for FY 2004

Loan Guarantee Program	Default	Fees and Other Collections	Other	Total
FHA				
FHA	1.35%	-4.18%	0.36%	-2.47%
FHA- Other	3.19%	-4.27%		-1.08%
ALL OTHER				
CDBG, Section 108 (b)	2.30%			2.30%
Loan Guarantee Recovery	50.00%			50.00%
Indian Housing	2.73%			2.73%
Native Hawaiian Housing	2.73%			2.73%
Title VI Indian Housing	10.56%			10.56%

The subsidy rates above pertain only to FY 2004 cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohort. The subsidy expense reported in the current year also includes modifications re-estimates.

J. Schedule for Reconciling Loan Guarantee Liability Balances (post 1991 Loan Guarantees): (dollars in millions)

Beginning Balance, Changes, and Ending Balance	FY 2004	FY 2003
Beginning balance of the loan guarantee liability	$ 6,313	$ 3,814
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	–	–
(b) Default costs (net of recoveries)	2,289	2,770
(c) Fees and other collections	(5,577)	(7,092)
(d) Other subsidy costs	387	479
Total of the above subsidy expense components	$ (2,901)	$ (3,843)
Adjustments:		
(a) Loan guarantee modifications	–	–
(b) Fees Received	2,914	3,085
(c) Interest supplemental paid	–	–
(d) Foreclosed property and loans acquired	6,367	6,526
(e) Claim payments to lenders	(9,116)	(8,933)
(f) Interest accumulation on the liability balance	(223)	(323)
(g) Other	44	235
Ending balance of the subsidy cost allowance before reestimates	$ 3,398	$ 561
Add or Subtract subsidy reestimates by component:		
(a) Interest rate reestimate	–	–
(b) Technical/default reestimate	1,774	5,752
Total of the above reestimate components	1,774	5,752
ENDING BALANCE OF THE SUBSIDY COST ALLOWANCE	$ 5,172	$ 6,313

K. Administrative Expense (dollars in millions):

Loan Guarantee Program	FY 2004	FY 2003
FHA	$ 425	$ 447
All Other	1	1
TOTAL	$ 426	$ 448

NOTE 10 – General Property Plant and Equipment

General property plant and equipment consists of furniture, fixtures, equipment, and data processing software used in providing goods and services that have an estimated useful life of two or more years. Purchases of $100,000 or more are recorded as assets and depreciated over their estimated useful life on a straightline basis with no salvage value. Capitalized replacement and improvement costs are depreciated over the remaining useful life of the replaced or improved asset. Generally, the department's assets are depreciated over a 4-year period, unless it can be demonstrated that the estimated useful life is significantly greater than 4 years.

The following shows general property plant and equipment as of September 30, 2004 and 2003 (dollars in millions):

	FY 2004			FY 2003		
Description	Cost	Accumulated Depreciation and Amortization	Book Value	Cost	Accumulated Depreciation and Amortization	Book Value
Equipment	$ 31	$ (27)	$ 4	$ 46	$ (20)	$ 26
Leasehold Improvements	4	(2)	$ 2	–	–	–
Internal Use Software	76	(39)	37	71	(15)	56
Internal Use Software in Development	53	–	53	6	(4)	2
TOTAL ASSETS	$ 164	$ (68)	$ 96	$ 123	$ (39)	$ 84

NOTE 11 – Liabilities Covered and Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2004 and 2003 (dollars in millions):

	2004			2003		
Description	Covered	Not-Covered	Total	Covered	Not-Covered	Total
Intragovernmental						
Accounts Payable	$ –	$ –	$ –	$ –	$ –	$ –
Debt	9,048	$ 1,054	10,102	11,681	$ 1,133	12,814
Other Intragovernmental Liabilities	768	4,288	5,056	1,738	4,291	6,029
TOTAL INTRAGOVERNMENTAL LIABILITIES	$ 9,816	$ 5,342	$ 15,158	$ 13,419	$ 5,424	$ 18,843
Accounts Payable	818	–	818	1,120	–	1,120
Liabilities for Loan Guarantees	5,172	–	5,172	6,313	–	6,313
Debt	209	1,649	1,858	294	1,916	2,210
Federal Employee and Veterans' Benefits	–	79	79	–	85	85
Loss Reserves	519	–	519	519	–	519
Other Liabilities	1,127	71	1,198	977	67	1,044
TOTAL LIABILITIES	$ 17,661	$ 7,141	$ 24,802	$ 22,642	$ 7,492	$ 30,134

NOTE 12 - Debt

Several HUD programs have the authority to borrow funds from the U.S. Treasury for program operations. Additionally, the National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to pay claims. Also, Public Housing Agencies and Tribally Designated Housing Entities borrowed funds from the private sector and from the Federal Financing Bank to finance construction and rehabilitation of low rent housing. HUD is repaying these borrowings on behalf of the Public Housing Agencies and Tribally Designated Housing Entities.

The following shows HUD borrowings, and borrowings by Public Housing Agencies/Tribally Designated Housing Entities for which HUD is responsible for repayment, as of September 30, 2004 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$ 1,270	$ (87)	$ 1,183
Held by the Public	2,210	(352)	1,858
Total Agency Debt	$ 3,480	$ (439)	$ 3,041
Other Debt:			
Debt to the U.S. Treasury	$ 11,542	$ (2,623)	$ 8,919
Debt to the Federal Financing Bank	2	(2)	–
Total Other Debt	$ 11,544	$ (2,625)	$ 8,919
TOTAL DEBT	$ 15,024	$ (3,064)	$ 11,960
Classification of Debt:			
Intragovernmental Debt			$ 10,102
Debt held by the Public			1,858
Debentures Issued to Claimants			–
TOTAL DEBT			$ 11,960

The following shows HUD borrowings, and borrowings by Public Housing Agencies/Tribally Designated Housing Entities for which HUD is responsible for repayment, as of September 30, 2003 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$ 1,354	$ (84)	$ 1,270
Held by the Public	2,508	(298)	2,210
Total Agency Debt	$ 3,862	$ (382)	$ 3,480
Other Debt:			
Debt to the U.S. Treasury	$ 10,318	$ 1,224	$ 11,542
Debt to the Federal Financing Bank	5	(3)	2
Total Other Debt	$ 10,323	$ 1,221	$ 11,544
TOTAL DEBT	$ 14,185	$ 839	$ 15,024
Classification of Debt:			
Intragovernmental Debt			$ 12,814
Debt held by the Public			2,210
Debentures Issued to Claimants			–
TOTAL DEBT			$ 15,024

Interest paid on borrowings during the year ended September 30, 2004 and 2003, was $1.1 billion. The purpose of these borrowings is discussed in the following paragraphs.

Borrowings from the U.S. Treasury

HUD is authorized to borrow from the U.S. Treasury to finance Housing for Elderly and Disabled loans. The Treasury borrowings typically have a 15-year term, but may be repaid prior to maturity at HUD's discretion. However, such borrowings must be repaid in the sequence in which they were borrowed from Treasury. The interest rates on the borrowings are based on Treasury's 30-year bond yield at the time the notes are issued. Interest is payable on April 30 and October 31. Interest rates ranged from 7.44 percent to 8.80 percent during FY 2004 and 7.44 percent to 9.17 percent for FY 2003.

In FYs 2004 and 2003, FHA borrowed $3.4 billion and $2.9 billion respectively from the U.S. Treasury. The borrowings were needed when FHA initially determined negative credit subsidy amounts related to new loan disbursements or to existing loan modifications. In some instances, borrowings were needed where available cash was less than claim payments due or downward subsidy-estimates. All borrowings were made by FHA's financing accounts. Negative subsidies were generated primarily by the Mutual Mortgage Insurance/Cooperative Management Housing Insurance Fund financing account; downward re-estimates have occurred from activity of the FHA's loan guarantee financing accounts. These borrowings carried interest rates ranging from 3.71 percent to 7.34 percent during FY 2004 and from 4.76 percent to 7.36 percent during FY 2003.

Borrowings from the Federal Financing Bank and the Public

During the 1960s, 1970s, and 1980s, Public Housing Agencies obtained loans from the private sector and from the Federal Financing Bank to finance development and rehabilitation of low rent housing projects. HUD is repaying these borrowings on behalf of the Public Housing Agencies, through the Low Rent Public Housing program. For borrowings from the Public, interest is payable throughout the year. Interest rates range from 3.25 percent to 6.0 percent during FY 2004 and from 3.25 percent to 6.0 percent during FY 2003. The borrowings from the Federal Financing Bank and the private sector have terms up to 40 years. Federal Financial Bank interest is payable annually on November 1. Interest rates range from 10.67 percent to 16.18 percent during both FY 2004 and 2003.

Before July 1, 1986, the Federal Financing Band purchased notes issued by units of general local government and guaranteed by HUD under Section 108. These notes had various maturities and carried interest rates that were one-eighth of one percent above rates on comparable Treasury obligations. The Federal Financing Bank still holds substantially all outstanding notes, and no note purchased by the Federal Financing Bank has ever been declared in default.

Debentures Issued To Claimants

The National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to settle claims. FHA-issued debentures bear interest at rates established by the U.S. Treasury. Interest rates related to the outstanding debentures ranged from 4.00 percent to 12.88 percent during FY 2004 and from 4.00 percent to 13.38 percent during FY 2003. Debentures may be redeemed by lenders prior to maturity to pay mortgage insurance premiums to FHA, or they may be called with the approval of the Secretary of the U.S. Treasury.

NOTE 13 - Other Liabilities

The following shows HUD's Other Liabilities as of September 30, 2004 (dollars in millions):

Description	Non-Current	Current
Intragovernmental Liabilities		
FHA Payable from Unapplied Receipts Recorded by Treasury	–	–
Special Receipt Account Liability	–	$ 627
HUD-Section 312 Rehabilitation Program Payable	–	–
Unfunded Federal Employees Compensation Act Liability	–	18
Resource Payable to Treasury	$ 4,266	–
Miscellaneous Receipts Payable to Treasury	141	–
Deposit Funds	–	–
Other Liabilities	–	4
TOTAL INTRAGOVERNMENTAL LIABILITIES	$ 4,407	$ 649
Other Liabilities		
FHA Other Liabilities	–	$ 229
FHA Escrow Funds Related to Mortgage Notes	–	189
FHA Unearned Premiums	137	35
Ginnie Mae Deferred Income	–	75
Deferred Credits	–	–
Deposit Funds	12	28
Accrued Unfunded Annual Leave	71	–
Accrued Funded Payroll Benefits	37	–
Other	–	385
TOTAL OTHER LIABILITIES	$ 4,664	$ 1,590

Special Receipt Account Liability

The special receipt account liability is created from negative subsidy endorsements and downward credit subsidy in the General/Special Risk Insurance special receipt account.

The following shows HUD's Other Liabilities as of September 30, 2003 (dollars in millions):

Description	Non-Current	Current
Intragovernmental Liabilities		
FHA Payable from Unapplied Receipts Recorded by Treasury	–	–
Special Receipt Account Liability	–	$ 1,510
HUD-Section 312 Rehabilitation Program Payable	–	–
Unfunded Federal Employees Comnpensation Act Liability	–	17
Resource Payable to Treasury	$ 4,291	–
Miscellaneous Receipts Payable to Treasury	209	–
Other Liabilities	–	2
TOTAL INTRAGOVERNMENTAL LIABILITIES	$ 4,500	$ 1,529
Other Liabilities		
FHA Other Liabilities	–	$ 218
FHA Escrow Funds Related to Mortgage Notes	–	240
FHA Unearned Premiums	–	–
Ginnie Mae Deferred Income	–	150
Deferred Credits	232	50
Deposit Funds	32	27
Accrued Unfunded Annual Leave	67	–
Accrued Funded Payroll Benefits	28	–
Other	–	–
TOTAL OTHER LIABILITIES	$ 4,859	$ 2,214

NOTE 14 - Loss Reserves

For FY 2004 and 2003, Ginnie Mae established loss reserves of $519 million that represents probable defaults by issuers of mortgage-backed securities, through a provision charged to operations. The reserve is relieved as losses are realized from the disposal of the defaulted issuers' portfolios. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios and the sale of servicing rights that transfers to Ginnie Mae upon the default of the issuer. Ginnie Mae management believes that its reserve is adequate to cover probable losses from defaults by issuers of Ginnie Mae guaranteed mortgage-backed securities.

Ginnie Mae incurs losses when insurance and guarantees do not cover expenses that result from issuer defaults. Such expenses include: (1) unrecoverable losses on individual mortgage defaults because of coverage limitations on mortgage insurance or guarantees, (2) ineligible mortgages included in defaulted Ginnie Mae pools, (3) improper use of proceeds by an issuer, and (4) non-reimbursable administrative expenses and costs incurred to service and liquidate portfolios of defaulted issuers.

NOTE 15 - Financial Instruments with Off-Balance Sheet Risk

Some of HUD's programs, principally those operated through FHA and Ginnie Mae, enter into financial arrangements with off-balance sheet risk in the normal course of their operations.

A. FHA Mortgage Insurance

Unamortized insurance-in-force outstanding for FHA's mortgage insurance programs as of September 30, 2004 and 2003, was $507 billion and $535 billion, respectively and is discussed in Note 9F.

B. Ginnie Mae Mortgage-Backed Securities

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of Mortgage-Backed Securities and commitments to guaranty Mortgage-Backed Securities. The securities are backed by pools of FHA-insured, Rural Housing Service insured, and the Veteran Administration guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2004 and 2003, was approximately $453.4 billion and $473.9 billion, respectively. However, Ginnie Mae's potential loss is considerably less because the FHA and Rural Housing Service insurance and the Veterans Administration guaranty serve to indemnify Ginnie Mae for most losses. Also, as a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty Mortgage-Backed Securities. The commitment ends when the Mortgage–Backed Securities are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of Mortgage-Backed Securities. Outstanding commitments as of September 30, 2004 and 2003, were $42.9 billion and $46.4 billion, respectively. Generally, Ginnie Mae's Mortgage-Backed Securities pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers.

In FYs 2004 and 2003, Ginnie Mae issued a total of $81.4 billion and $106.1 billion respectively in its multi-class securities program. The estimated outstanding balance at September 30, 2004 and 2003, were $189.1 billion and $182.9 billion, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the Mortgage-Backed Security program.

C. Section 108 Loan Guarantees

Under HUD's Section 108 Loan Guarantee program, recipients of CDBG Entitlement Grant program funds may pledge future grant funds as collateral for loans guaranteed by HUD (these loans were provided from private lenders since July 1, 1986). This Loan Guarantee Program provides entitlement communities with a source of financing for projects that are too large to be financed from annual grants. The amount of loan guarantees outstanding as of September 30, 2004 and 2003, were $2.3 billion and $2.2 billion, respectively. HUD's management believes its exposure in providing these loan guarantees is limited, since loan repayments can be offset from future CDBG Entitlement Program Funds and, if necessary, other funds provided to the recipient by HUD. HUD has never had a loss under this program since its inception in 1974.

NOTE 16 - Contingencies

The Department is subject to various claims and contingencies related to lawsuits incidental to its operations either brought by it or against it. For FY 2004 the Department was party to a number of suits with total claimed amounts of approximately $489.4 million, plus other suits with unspecified damages; however, the Department has no single case or aggregate cases where payment has been deemed probable with an estimable amount. Consequently, no liabilities were reported on an accrual basis in the financial statements as of September 30, 2004. In addition, it is reasonably possible that the Department may lose two suits with a potential combined liability of $35 million and acknowledges that there are other suits with reasonable possibility of losses where the potential liabilities cannot be estimated.

In the opinion of management and general counsel, the ultimate resolution of pending litigation will not have a material effect on the Department's financial statements. The Department's materiality threshold for this determination was $10 million per case or $20 million in aggregate related cases.

NOTE 17 – Rental Housing Subsidy Payment Errors

HUD's rental housing assistance programs – which include public housing and various tenant-based and project-based rental housing assistance programs – are administered on HUD's behalf by third party program administrators including public housing agencies, private housing owners and contracted management agents. Under these programs, eligible tenants generally are required to pay 30 percent of their income towards rent, with HUD providing the balance of the rental payment. New applicants provide certain information on household characteristics, income, assets and expense activities used in determining the proper amount of rent they are to pay. Existing tenants are required to recertify this information on an annual basis and in certain other circumstances when there are significant changes in household income. Applicant or tenant failure to correctly report their income, or the failure of the responsible program administrator to correctly process, calculate and bill the tenant's rental assistance, may result in the Department's overpayment or underpayment of housing assistance.

In 2000, HUD began to establish a baseline error measurement to cover the three components of rental housing assistance payment errors, consisting of errors in: 1) program administrator income, rent and subsidy determinations; 2) tenant reporting of income; and 3) processing of program administrator billings for assistance payments. The 2000 baseline estimates of erroneous payments attributed to program administrator rent calculation and processing errors were based on a HUD Office of Policy Development and Research study of "Quality Control for Rental Assistance Subsidies Determinations," which was published as a final report in June 2001. The methodology for this study provided for interviewing a representative sample of tenants, verifying and validating tenant income reporting, and recalculating rents for comparison to program administrator determinations for the purpose of identifying errors. The 2000 study verified rent and subsidy calculations for a representative sample of 2,403 households receiving assistance at 600 projects. The members of the households in this sample were matched against various federal income database sources to determine any unreported income affecting program benefit levels. Studies covering FY 2003 program activity were used to update the 2000 baseline measurement of errors in program administrator determinations and tenant reporting of income. The 2003 studies to update the prior estimates used the same general methodologies, sampling procedures, and sample sizes as were used in 2000. A new baseline estimate of project-based assistance billing error was also established in FY 2003. The 2003 study results are provided below.

Combined Rental Assistance Error Impacts

The combined effect of the most recent accepted estimates of error for the three error components is summarized in the following chart:

Payment Error (Period of Estimate)	*Public Housing Assistance	*Vouchers & Mod - Rehab Assistance	*Project-Based Assistance	*Total All Rental Assistance Programs
Gross Error In Administrator Subsidy Determinations (2003)	$ 316	$ 731	$ 369	$ 1,416
Error Due To Tenant Underreporting Of Income (2003)	$ 40	$ 109	$ 42	$ 191
Gross Billing Error (2003)	**	**	$ 100	$ 100
Total Gross Erroneous Payments	$ 356	$ 840	$ 511	$ 1,707
FY 2003 Program Expense ***	$ 3,435	$ 13,409	$ 7,737	$ 24,581
Percent of Erroneous Payments	10.4	6.3	6.6	6.9

* *All dollar values are presented in millions.*
** *The baseline estimate is in process, with completion scheduled in the second quarter of FY 2005.*
*** *Program expense is shown on an accrual rather than a cash basis to better match the error study methodology.*

For the two error components for which there is comparative data, the total FY 2003 gross erroneous payment estimate of $1.607 billion represents a 50 percent reduction from the $3.216 billion baseline estimate established in FY 2000. (The previous base of $3.281 billion for these two components was reduced by placing some public housing programs under a block grant approach, which removed them from consideration for error estimates.) The reductions in the erroneous payment estimates are attributed to:

1. *Program Administrator Subsidy Determinations* - HUD efforts to work with its housing industry partners at public housing agencies and multifamily housing projects through enhanced program guidance, training, oversight, and enforcement.

2. *Tenant Reporting of Income* - Improved income verification efforts by housing program administrators; increased voluntary compliance by tenants due to promotion of the issue; HUD's initiation of improved computer matching processes with state wage data for upfront verification of tenant income; and an improved methodology for reviewing income discrepancies identified through computer matching to better determine actual cases of underreported income impacting subsidy levels.

HUD is analyzing the causes of the new baseline estimate of project-based assistance billing error to establish corrective action plans and reduction goals. The baseline estimate of billing errors in the public housing and tenant-based voucher programs will be completed and acted on in FY 2005.

Corrective Actions

HUD continues to take aggressive steps to address the causes of all types of erroneous rental housing assistance payments, including underpayments as well as overpayments. In addition to the above cited corrective actions, HUD is also instituting additional controls, such as validating tenant reported income against other federal sources of income data, to better assure that payments are made in the correct amounts, in accordance with program statutory and regulatory requirements. HUD will also continue to work with the Congress and other program stakeholders to consider program simplification options as a means of reducing error. Additional information on HUD's improper payment estimates and corrective actions is provided in the Required Supplementary Information section of this report.

It should be noted that the reduction of errors and improper payments is unlikely to have an equivalent impact on budget outlays. HUD's experience indicates that its program integrity improvement efforts are likely to result in some higher income tenants leaving assisted housing and being replaced with lower income tenants requiring increased outlays. Nevertheless, HUD's goal remains to ensure that the right benefits go to the right people.

NOTE 18 - Total Cost and Earned Revenue by Budget Functional Classification

The following shows HUD's total cost and earned revenue by budget functional classification for FY 2004 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 892	$ 1,994	$ (1,102)
Community and Regional Development	44	4	40
Income Security	448	1	447
Administration of Justice	–	–	–
Miscellaneous	–	–	–
TOTAL INTRAGOVERNMENTAL	$ 1,384	$ 1,999	$ (615)
With the Public:			
Commerce and Housing Credit	$ (533)	$ 1,248	$ (1,781)
Community and Regional Development	5,842	7	5,835
Income Security	35,571	16	35,555
Administration of Justice	46	–	46
Miscellaneous	–	–	–
TOTAL WITH THE PUBLIC	$ 40,926	$ 1,271	$ 39,655
TOTAL:			
Commerce and Housing Credit	$ 359	$ 3,242	$ (2,883)
Community and Regional Development	5,886	11	5,875
Income Security	36,019	17	36,002
Administration of Justice	46	–	46
Miscellaneous	–	–	–
TOTAL:	$ 42,310	$ 3,270	$ 39,040

The following shows HUD's total cost and earned revenue by budget functional classification for FY 2003 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 866	$ 1,808	$ (942)
Community and Regional Development	308	3	305
Income Security	221	4	217
Administration of Justice	–	–	–
Miscellaneous	–	–	–
TOTAL INTRAGOVERNMENTAL	$ 1,395	$ 1,815	$ (420)
With the Public:			
Commerce and Housing Credit	$ 2,859	$ 2,007	$ 852
Community and Regional Development	5,858	1	5,857
Income Security	34,509	17	34,492
Administration of Justice	50	–	50
Miscellaneous	–	–	–
TOTAL WITH THE PUBLIC	$ 43,276	$ 2,025	$ 41,251
TOTAL:			
Commerce and Housing Credit	$ 3,725	$ 3,816	$ (91)
Community and Regional Development	6,166	4	6,162
Income Security	34,730	21	34,709
Administration of Justice	50	–	50
Miscellaneous	–	–	–
TOTAL:	$ 44,671	$ 3,841	$ 40,830

NOTE 19 – Net Costs Of HUD's Cross-Cutting Programs

This footnote provides a categorization of net costs for two of HUD's major program areas whose costs were incurred across multiple programs. Section 8 costs are incurred to assist low- and very low-income families in obtaining decent and safe rental housing. In addition, costs incurred under the Other major programs represent HUD's smaller programs. These programs provide assistance to support other HUD objectives such as fair housing and equal opportunity, energy conversation, homeless assistance, rehabilitation of housing units, and home ownership.

The following shows the cross-cutting of HUD's major program areas that incur costs across multiple program areas:

FISCAL YEAR 2004

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Financial Statement Eliminations	Consolidated
Section 8:						
Intragovernmental Gross Costs	$39	$25	–	–	–	$64
Intragovernmental Earned Revenues	–	–	–	–	–	–
Intragovernmental Net Costs	$39	$25	–	–	–	$64
Gross Costs With the Public	$14,673	$7,715	$13	–	–	$22,401
Earned Revenues	–	–	–	–	–	–
Net Costs With the Public	$14,673	$7,715	$13	–	–	$22,401
Net Program Costs	$14,712	$7,740	$13	–	–	$22,465
Other						
Intragovernmental Gross Costs	$33	$28	$37	$65	–	$163
Intragovernmental Earned Revenues	(1)	–	(4)	–	–	(5)
Intragovernmental Net Costs	$32	$28	$33	$65	–	$158
Gross Costs With the Public	$666	$651	$1,640	$459	–	$3,416
Earned Revenue With the Public	–	(25)	(7)	–	–	(32)
Net Costs With the Public	$666	$626	$1,633	$459	–	$3,384
Net Program Costs	$698	$654	$1,666	$524	–	$3,542

FISCAL YEAR 2003

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Financial Statement Eliminations	Consolidated
Section 8:						
Intragovernmental Gross Costs	$13	$35	–	–	–	$48
Intragovernmental Earned Revenues	–	–	–	–	–	–
Intragovernmental Net Costs	$13	$35	–	–	–	$48
Gross Costs With the Public	$13,423	$7,562	$3	–	–	$20,988
Earned Revenues	–	–	–	–	–	–
Net Costs With the Public	$13,423	$7,562	$3	–	–	$20,988
Net Program Costs	$13,436	$7,597	$3	–	–	$21,036
Other						
Intragovernmental Gross Costs	$32	$18	$33	$140	–	$223
Intragovernmental Earned Revenues	(2)	(2)	(3)	(72)	$ 71	(8)
Intragovernmental Net Costs	$30	$16	$30	$68	$ 71	$215
Gross Costs With the Public	$800	$709	$1,536	$386	–	$3,431
Earned Revenue With the Public	–	(27)	(1)	–	–	(28)
Net Costs With the Public	$800	$682	$1,535	$386	–	$3,403
Net Program Costs	$830	$698	$1,565	$454	$ 71	$3,618

NOTE 20 – FHA Net Costs

FHA organizes its operations into two overall program types – Mutual Mortgage/Cooperative Management Housing Insurance and General/Special Risk Insurance. These program types are composed of four major funds. The Mutual Mortgage Insurance fund, FHA's largest fund, provides basic single family mortgage insurance and is a mutual insurance fund, whereby mortgagors, upon non-claim termination of their mortgages, share surplus premiums paid into the Mutual Mortgage Insurance fund that are not required for operating expenses and losses or to build equity. The Cooperative Management Housing Insurance fund, another mutual fund, provides mortgage insurance for management-type cooperatives. The General Insurance fund provides a large number of specialized mortgage insurance activities, including insurance of loans for property improvements, cooperatives, condominiums, housing for the elderly, land development, group practice medical facilities and nonprofit hospitals. The Special Risk Insurance fund provides mortgage insurance on behalf of mortgagors eligible for interest reduction payments who otherwise would not be eligible for mortgage insurance.

The following table shows Net Costs detail for the Federal Housing Administration.

	FY 2004			FY 2003		
	General/ Special Risk Insurance Program	Mutual Mortgage Cooperative Management Housing Insurance Program	Total	General/ Special Risk Insurance Program	Mutual Mortgage Cooperative Management Housing Insurance Program	Total
Costs						
Intragovernmental Gross Costs	$ 88	$ 631	$ 719	$ 131	$ 583	$ 714
Revenues	(92)	(1,459)	(1,551)	(105)	(1,312)	(1,417)
Intragovernment Net Costs	$ (4)	$ (828)	$ (832)	$ 26	$ (729)	$ (703)
Gross Costs With the Public	(231)	(436)	(667)	(941)	3,679	$ 2,738
Earned Revenues	(186)	(64)	(250)	(505)	(445)	(950)
Net Costs With the Public	$ (417)	$ (500)	$ (917)	$ (1,446)	$ 3,234	$ 1,788
NET PROGRAM COSTS	$ (421)	$ (1,328)	$ (1,749)	$ (1,420)	$ 2,505	$ 1,085

In prior financial statements, the Mutual Mortgage/Cooperative Management Housing Insurance Programs were identified under the heading Unsubsidized Program and the General/Special Risk Insurance Programs were identified as the Subsidized Program.

NOTE 21 – Prior Period Adjustments

Miscellaneous audit adjustments for the Office of Federal Housing Enterprise Oversight totaling $5.5 million FYs 2002 and 2003 were not reflected in the financial statements that were consolidated with HUD.

NOTE 22 – Apportionment Categories of Obligations Incurred

Budgetary resources are usually distributed in an account or fund by specific time periods, activities, projects, objects, or a combination of these categories. Resources apportioned by fiscal quarters are classified as Category A apportionments. Apportionments by any other category would be classified as Category B apportionments. HUD's categories of obligations incurred were as follows (dollars in millions):

Fiscal Year	Category A	Category B	Exempt From Apportionment	Total
FY 2004	$1,250	$60,852	$ –	$62,102
FY 2003	$1,186	$55,629	$ –	$56,815

NOTE 23 – Explanation Of Differences Between The Statement Of Budgetary Resources And The Budget Of The United States Government

The President's Budget is not yet available for comparison to the Statement of Budgetary Resources.

NOTE 24 – Explanation Of The Relationship Between Liabilities Not Covered By Budgetary Resources On The Balance Sheet And The Changes In Components Requiring Or Generating Resources In Future Periods

In FY 2004, the Department reported a net increase in unfunded annual leave liability of $2.9 million in the Consolidated Statement of Financing. This unfunded leave liability is not covered by budgetary resources at the balance sheet date, as explained in Note 11.

Consolidating Balance Sheet As of September 2004

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
ASSETS				
Intragovernmental				
Fund Balance with Treasury (Note 3)	$7,898	$3,355	$12,889	$12,040
Investments (Note 5)	23,430	7,599		
Accounts Receivable (Note 7)	0		0	
Other Assets (Note 8)	64	0	4	9
Total Intragovernmental Assets (Note 6)	$31,392	$10,954	$12,893	$12,049
Investments (Net) (Note 5)	122			
Accounts Receivable (Net) (Note 7)	234	25	229	0
Credit Program Receivables and Related				
Foreclosed Property (Net) (Note 9)	3,947			0
General Property Plant and Equipment (Net) (Note 10)		4		
Other Assets (Note 8)	120	428	0	0
TOTAL ASSETS (Note 6)	$35,815	$11,411	$13,122	$12,049
LIABILITIES				
Intragovernmental Liabilities				
Accounts Payable	$0	$0	$0	$5
Debt (Note 12)	7,635			
Other Intragovernmental Liabilities (Note 13)	627		$132	1
Total Intragovernmental Liabilities (Note 11)	$8,262	$0	$132	$6
Accounts Payable	533	40	15	19
Loan Guarantees Liabilities (Note 9)	5,074			
Debt Held by the Public (Note 12)	187			0
Federal Employee and Veterans' Benefits (Note 2)			8	7
Debentures Issued to Claimants (Note 12)				
Loss Reserves (Note 14)		519		
Other Governmental Liabilities (Note 13)	590	465	9	6
TOTAL LIABILITIES (Note 11)	$14,646	$1,024	$164	$38
NET POSITION				
Unexpended Appropriations	$699		$12,958	$12,011
Cumulative Results of Operations	20,470	$10,388	0	0
TOTAL NET POSITION	$21,169	$10,388	$12,958	$12,011
TOTAL LIABILITIES AND NET POSITION	$35,815	$11,411	$13,122	$12,049

Figures may not add to totals because of rounding.

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Others	Financial Statement Eliminations	Consolidating
$5,703	$2,010	$8,789	$7,160	$9,803		$69,647
				0	0	31,029
	0	0	0	0	0	03
2	9	30	1	(100)	0	21
$5,706	$2,019	$8,819	$7,162	$9,704	$0	$100,697
						122
0	0	0	0	4	0	491
		2	7,082	206	0	11,238
				91		96
0	0	0	0	2	0	550
$5,706	$2,019	$8,822	$14,244	$10,007	$0	$113,194
$0	$0	$0	$0	($5)	$0	$0
		$1,183	$1,284	0		10,102
0	1	0	4,266	28	0	5,056
$0	$1	$1,183	$5,550	$24	$0	$15,158
10	135	28	4	34	0	818
				97	0	5,172
		1,670	0		0	1,858
3	5	2	2	53		79
						519
3	6	2	20	96	0	1,198
$16	$147	$2,885	$5,577	$305	$0	$24,802
$5,689	$1,872	$8,647	$7,060	$9,195	$0	$58,131
0	0	(2,711)	1,607	507	0	30,261
$5,689	$1,872	$5,936	$8,667	$9,702	$0	$88,392
$5,706	$2,019	$8,822	$14,244	$10,007	$0	$113,194

Consolidating Balance Sheet As of September 2003

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
ASSETS				
IntragovernmentaL				
Fund Balance with Treasury (Note 3)	$7,934	$2,932	$18,856	$12,521
Investments (Note 5)	23,982	7,278		
Accounts Receivable (Note 7)	0		0	0
Other Assets (Note 8)	57	0	0	0
Total Intragovernmental Assets (Note 6)	$31,973	$10,210	$18,856	$12,521
Investments (Net) (Note 5)	123			
Accounts Receivable (Net) (Note 7)	152	26	387	0
Credit Program Receivables and Related				
Foreclosed Property (Net) (Note 9)	4,291			0
General Property Plant and Equipment (Net) (Note 10)		8		
Other Assets (Note 8)	130	110	0	0
TOTAL ASSETS (Note 6)	$36,669	$10,354	$19,243	$12,521
LIABILITIES				
Intragovernmental Liabilities				
Accounts Payable	$ 0	$ 0	$ 0	$6
Debt (Note 12)	8,794			
Other Intragovernmental Liabilities (Note 13)	1,510		$177	1
Total Intragovernmental Liabilities (Note 11)	$10,305	$ 0	$177	$7
Accounts Payable	869	35	11	14
Loan Guarantees Liabilities (Note 9)	6,251			
Debt Held by the Public (Note 12)	270			0
Federal Employee and Veterans' Benefits (Note 2)			8	7
Debentures Issued to Claimants (Note 12)	0			
Loss Reserves (Note 14)		519		
Other Governmental Liabilities (Note 13)	739	150	9	6
TOTAL LIABILITIES (Note 11)	$18,434	$704	$204	$34
NET POSITION				
Unexpended Appropriations	$576	$ 0	$19,039	$12,488
Cumulative Results of Operations	17,659	$9,650	0	0
TOTAL NET POSITION	$18,235	$9,650	$19,039	$12,488
TOTAL LIABILITIES AND NET POSITION	$36,669	$10,354	$19,243	$12,521

Figures may not add to totals because of rounding.

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Others	Financial Statement Eliminations	Consolidating
$5,305	$1,865	$9,110	$7,843	$10,093	0	$76,458
				0	0	31,260
	0	0		6	(6)	0
0	0	0	0	(53)	0	4
$5,305	$1,865	$9,110	$7,843	$10,046	($6)	$107,722
						123
0	0	0	0	3		569
		2	7,517	211		12,022
				75		84
0	0	0	0	3	0	243
$5,305	$1,865	$9,112	$15,360	$10,339	($6)	$120,763
0	0	0	0	0	($6)	0
		$1,270	$2,748	2		12,814
1	1	1	4,291	47	0	6,029
$1	$1	$1,271	$7,039	$49	($6)	$18,843
7	119	26	6	32		1,120
				62		6,313
		1,940	0		0	2,210
3	5	2	2	60		85
						0
						519
3	6	2	19	112	0	1,044
$13	$131	$3,240	$7,066	$315	($6)	$30,134
$5,291	$1,734	$8,928	$7,132	$9,564	0	$64,753
0	0	(3,056)	1,162	459	0	25,876
$5,291	$1,734	$5,872	$8,294	$10,024	$0	$90,629
$5,305	$1,865	$9,112	$15,360	$10,339	($6)	$120,763

Consolidating Statement of Net Cost
For the Period Ended September 2004 and 2003 (Dollars in Millions)

2004	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
PROGRAM COSTS				
Intragovernmental Gross Costs	$719	$0	$64	$38
Less: Intragovernmental Earned Revenue	(1,552)	($443)		
Intragovernmental Net Costs	($832)	($443)	$64	$38
Gross Costs With the Public	($667)	$78	$22,401	$5,419
Less: Earned Revenues	(250)	(373)		
Net Costs With the Public	($917)	($295)	$22,401	$5,419
TOTAL NET COSTS	($1,750)	($738)	$22,465	$5,457
Costs Not Assigned to Programs				
NET COST OF OPERATIONS	($1,750)	($738)	$22,465	$5,457

2003	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
PROGRAM COSTS				
Intragovernmental Gross Costs	$715	$0	$48	$33
Less: Intragovernmental Earned Revenue	(1,418)	($388)		
Intragovernmental Net Costs	($703)	($388)	$48	$33
Gross Costs With the Public	$2,738	$68	$20,988	$5,582
Less: Earned Revenues	(950)	(411)		
Net Costs With the Public	$1,788	($343)	$20,988	$5,582
TOTAL NET COSTS	$1,085	($731)	$21,036	$5,615
Costs Not Assigned to Programs			0	0
NET COST OF OPERATIONS	$1,085	($731)	$21,036	$5,615

Figures may not add to totals because of rounding.

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Others	Financial Statement Eliminations	Consolidating
$13	$16	$189	$183	$163	$0	$1,384
		(0)	0	(5)	0	(1,999)
$13	$16	$189	$183	$158	$0	($615)
$1,612	$3,449	$3,711	$1,116	$3,415	0	$40,534
		(0)	(616)	(32)	0	(1,271)
$1,621	$3,449	$3,711	$500	$3,383	$0	$39,263
$1,625	$3,465	$3,900	$683	$3,541	$0	$38,648
				392		392
$1,625	$3,465	$3,900	$683	$3,933	$0	$39,040

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
$14	$44	$160	$228	$223	($71)	$1,395
			0	(79)	71	(1,815)
$14	$44	$160	$228	$144	$0	($420)
$1,625	$3,462	$3,936	$1,026	$3,431	0	$42,856
		(0)	(637)	(28)		(2,026)
$1,625	$3,462	$3,936	$389	$3,403	$0	$40,830
$1639	$3,506	$4,096	$617	$3,547	$0	$40,410
0	0	0	0	420		420
$1,639	$3,506	$4,096	$617	$3,967	$0	$40,830

Consolidating Statement of Changes in Net Position
For the period Ended September 2004 (Dollars in Millions)

Cumulative Results of Operations	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Net Position-Beginning of Period	($17,659)	($9,650)	$0	$0
Prior Period Adjustments (Note 19)	0	0		
Beginning Balances, As Adjusted	($17,659)	($9,650)	$0	$0
BUDGETARY FINANCING SOURCES				
Other Adjustments (Recissions, etc)				
Appropriations Used	($1,812)		($22,362)	($5,394)
Transfers In/Out Without Reimbursement	555			
Other Budgetary Financing Sources			(103)	(63)
OTHER FINANCING SOURCES				
Donations and Forfeitures of Property				
Transfers In/Out Without Reimbursement	208			
Imputed Financing From Costs Absorbed From Others	(14)			
Other	2	0		
TOTAL FINANCING SOURCES	($1,061)	$0	($22,465)	($5,457)
Net Cost of Operations	(1,750)	(738)	22,465	5,457
ENDING BALANCES	($20,470)	($10,388)	$0	$0

Unexpended Appropriations	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Net Postion-Beginning of Period	($576)		($19,040)	($12,488)
Prior Period Adjustments				
Beginning Balances, As Adjusted	($576)		($19,040)	($12,488)
BUDGETARY FINANCING SOURCES				
Appropriations Received	($2,023)		($19,371)	($4,964)
Transfers In/Out	84		0	2
Other Adjustment (Recissions, etc)	5		3,095	50
Appropriations Used	1,812		22,358	5,388
TOTAL FINANCING SOURCES	($122)		$6,082	$477
ENDING BALANCES	($699)		($12,958)	($12,011)

Figures may not add to totals because of rounding.

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Others	Financial Statement Eliminations	Consolidating
$0	$0	$3,056	($1,162)	($459)	$0	($25,876)
				5		5
$0	$0	$3,056	($1,162)	($454)	$0	($25,871)
				0		0
($1,607)	($3,439)	($4,185)	($1,095)	($3,966)		($43,859)
				(273)	0	282
(18)	(26)	(60)	(33)	301		(2)
				1		209
				(48)		(62)
						2
($1,625)	($3,465)	($4,245)	($1,127)	($3,987)	$0	($43,430)
1,625	3,465	3,900	683	3,933	0	39,040
$0	$0	$2,711	($1,607)	($507)	$0	($30,261)

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
($5,291)	($1,734)	($8,928)	($7,132)	($9,564)		($64,753)
				0		0
($5,291)	($1,734)	($8,928)	($7,132)	($9,564)		($64,753)
($2,018)	($3,600)	($3,894)	($1,029)	($3,670)		($40,569)
0		0	0	(1)		85
20	21	22	6	63	0	3,281
1,600	3,441	4,154	1,095	3,977		43,825
($398)	($138)	$281	$72	$369	$0	$6,622
($5,689)	($1,872)	($8,647)	($7,060)	($9,195)	$0	($58,131)

Consolidating Statement of Changes in Net Position
For the period Ended September 2003 (Dollars in Millions)

Cumulative Results of Operations	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Net Position-Beginning of Period	($17,366)	($8,918)	$ 0	$ 0
Prior Period Adjustments	0	0		
Beginning Balances, As Adjusted	($17,366)	($8,918)	$ 0	$ 0
BUDGETARY FINANCING SOURCES				
Appropriations Used	($2,258)	$ 0	($20,954)	($5,558)
Other Adjustments (Recissions, etc)				
Transfers In/Out Without Reimbursement	755			
Other Budgetary Financing Sources	0		(82)	(58)
OTHER FINANCING SOURCES				
Transfers In/Out Without Reimbursement	138	0		
Imputed Financing From Costs Absorbed From Others	(16)			
Other	3	0	0	0
TOTAL FINANCING SOURCES	($1,378)	$ 0	($21,037)	($5,616)
Net Cost of Operations	1,084	(731)	21,037	5,616
ENDING BALANCES	($17,659)	($9,650)	$0	$0

Unexpended Appropriations	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Net Postion-Beginning of Period	($761)		($18,554)	($13,175)
Prior Period Adjustments				
Beginning Balances, As Adjusted	($761)		($18,554)	($13,175)
BUDGETARY FINANCING SOURCES				
Appropriations Received	($2,402)		($22,724)	($4,937)
Transfers In/Out	319	0	(11)	(3)
Other Adjustment (Recissions, etc)	10		1,289	62
Appropriations Used	2,258	0	20,960	5,565
TOTAL FINANCING SOURCES	$185	$0	($485)	$688
ENDING BALANCES	($576)	$0	($19,039)	($12,488)

Figures may not add to totals because of rounding.

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Others	Financial Statement Eliminations	Consolidating
		$3,403	($758)	($497)		($24,136)
$ 0	$ 0			(2)		(2)
$ 0	$ 0	$3,403	($758)	($499)		($24,138)
($1,615)	($3,447)	($4,424)	($1,000)	($3,909)	$ 0	($43,164)
				24		24
				(273)	0	482
(25)	(59)	(18)	(21)	284	0	20
				0		138
				(56)		(72)
0	0	0	0	1		4
($1,640)	($3,506)	($4,442)	($1,021)	($3,928)	$0	($42,568)
1,640	3,506	4,096	616	3,967	0	40,830
$0	$0	$3,056	($1,162)	($459)	$0	($25,876)

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
($4,925)	($1,616)	($9,533)	($7,109)	($9,734)		($65,407)
				0		0
($4,925)	($1,616)	($9,533)	($7,109)	($9,734)		($65,407)
($2,000)	($3,600)	($3,877)	($1,034)	($4,101)		($44,674)
(6)	0	(3)	0	(56)	0	240
17	35	29	11	435	0	1,889
1,623	3,447	4,456	1,000	3,890	0	43,199
($366)	($118)	$605	($23)	$168	$0	$654
($5,291)	($1,734)	($8,928)	($7,132)	($9,566)	$0	($64,753)

Combining Statement of Budgetary Resources
For the Period Ended September 2004 (Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies
BUDGETARY RESOURCES						
Budget Authority	$2,153	$0	$19,371	$4,964	$2,018	$3,600
Net Transfers, Current Year Authority			0	(2)	0	0
Unobligated Balance-Beginning of Year	27,111	$10,106	3,483	1,146	388	2
Net Transfers, Actual, Prior Year Balance				700		
Spending Authority from Offsetting Collections	4,403	858	0	0	0	0
Adjustments						
Recoveries of Prior Year Obligations	37		1,655	20	16	1
Permanently not available						
Cancellation-Expired and No Year Accts	0			(14)		
Enacted Recissions	0		(2,958)	(29)	(12)	(21)
Capital Trans & Debt Redemption	(294)					
Other Authority Withdrawn	(5)	0	(5)	0	0	0
TOTAL BUDGETARY RESOURCES	$33,405	$10,964	$21,547	$6,084	$2,409	$3,582
STATUS OF BUDGETARY RESOURCES:						
Obligations Incurred (Note 20)	$9,427	$123	$19,293	$4,738	$1,953	$3,579
Unobligated Balances Available	152	0	1,563	1,307	444	2
Unobligated Balances Not Available	23,826	10,841	691	39	12	1
TOTAL STATUS OF BUDGETARY RESOURCES	$33,405	$10,964	$21,547	$6,084	$2,409	$3,582
Obligated Balance, Net-Beg of Period	$938	$27	$31,108	$11,375	$4,917	$1,863
Obligated BalanceTransferred, Net				0	0	0
Obligated Balance, Net-End of Period	743	36	26,383	10,694	5,247	2,007
OUTLAYS						
Disbursements	9,615	114	22,362	5,400	1,607	3,434
Collections	(4,432)	(858)		0		
Subtotal	$5,183	($744)	$22,362	$5,400	$1,607	$3,434
Less: Offsetting Receipts	(419)	0	0	0	0	0
NET OUTLAYS	($4,764)	($744)	$22,362	$5,400	$1,607	$3,434

Figures may not add to totals because of rounding.

Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	Financial Statement Eliminations	All Others	2004 Budgetary Total	Federal Housing Administration Non Budgetary	Other Non Budgetary Credit Program Accounts	2004 Total Non Budgetary Credit Program Financing Accounts	Total
$3,914	$1,029	$0	$4,174	$41,223	$3,400	$0	$3,400	$44,623
0	0		1	(1)		0	0	(1)
842	2,505		4,304	49,889	1,061	$83	1,144	51,033
78	1,044	6	826	7,215	17,427	39	17,466	24,681
36	24		308	2,096	12	0	12	2,108
			(37)	(51)	0	0	0	(51)
(20)	(6)		(48)	(3,094)	0	0	0	(3,094)
(97)	(1,462)		(12)	(1,865)	(4,559)	0	(4,559)	(6,424)
(551)	0	0	(758)	(1,319)	0	0	0	(1,319)
$4,203	$3,133	$6	$8,760	$94,093	$17,341	$122	$17,463	$111,556
$3,805	$1,469	$6	$4,969	$49,362	$12,732	$8	$12,740	$62,102
390	1,618	0	2,230	7,707	2,587	2	2,589	10,296
8	46	0	1,561	37,024	2,022	112	2,134	39,158
$4,203	$3,133	$6	$8,760	$94,093	$17,341	$122	$17,463	$111,556
$11,595	$5,338	$13	$13,490	$80,663	$941	($20)	$921	$81,584
			0	0		0	0	0
11,139	5,496	0	13,453	75,198	1,125	(17)	1,108	76,306
4,225	1,287	13	4,703	52,760	12,412	8	12,420	65,180
(78)	(1,044)		(831)	(7,244)	(17,303)	(43)	(17,345)	(24,589)
$4,147	$243	$13	$3,872	$45,516	($4,891)	($35)	($4,925)	$40,591
0	0	0	(9)	(428)	0	0	0	(428)
$4,147	$243	$13	$3,863	$45,088	($4,891)	($35)	($4,925)	$40,163

Combining Statement of Budgetary Resources
For the Period Ended September 2003 (Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies
BUDGETARY RESOURCES						
Budget Authority	$2,607	$0	$22,724	$4,937	$2,000	$3,600
Net Transfers, Current Yr Authority			0	0	0	0
Unobligated Balance-Beginning of Yr	23,834	9,415	1,947	1,785	256	26
Spending Authority from Offsetting Collections	6,576	849	0	0	0	0
Adjustments						
Recoveries of Prior Year Obligations	510		1,616	15	13	18
Permanently not available						
Cancellation-Expired and No Year Accts	(1)		(10)	(21)		
Enacted Recissions			(1,174)	(0)		0
Capital Trans & Debt Redemption	(755)					
Other Authority Withdrawn	(5)	0	(5,617)	(32)	(13)	(23)
TOTAL BUDGETARY RESOURCES	$32,767	$10,264	$19,486	$6,684	$2,257	$3,621
Status of Budgetary Resources:						
Obligations Incurred (Note 20)	$5,656	$158	$16,003	$5,537	$1,869	$3,618
Unobligated Balances Available	225	0	3,454	1,118	378	0
Unobligated Balances Not Available	26,886	10,106	30	29	9	2
TOTAL STATUS OF BUDGETARY RESOURCES	$32,767	$10,264	$19,486	$6,684	$2,257	$3,621
Obligated Balance, Net-Beg of Period	$1,707	$6	$37,664	$11,409	$4,667	$1,658
Obligated Balance Transferred, Net			0	0	0	
Obligated Balance, Net-End of Period	938	27	31,108	11,375	4,917	1,863
OUTLAYS						
Disbursements	5,907	137	20,944	5,557	1,606	3,395
Collections	(6,569)	(849)		0		
Subtotal	($662)	($712)	$20,944	$5,557	$1,606	$3,395
Less: Offsetting Receipts	(1,372)	0	0	0	0	0
NET OUTLAYS	($2,034)	($712)	$20,944	$5,557	$1,606	$3,395

Figures may not add to totals because of rounding.

Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	Financial Statement Eliminations	All Others	2003 Budgetary Total	Federal Housing Administration Non Budgetary	Other Non Budgetary Credit Program Accounts	2003 Total Non Budgetary Credit Program	Total
$3,902	$1,034	$0	$4,097	$44,900	$2,890	$0	$2,890	$47,790
0	0		7	7		0	0	7
889	2,543		4,591	45,287	3,021	72	3,092	48,379
1	829	($6)	(176)	8,072	12,391	13	12,405	20,476
20	10		1,110	3,313	77	0	77	3,390
			(39)	(72)	0	0	0	(72)
0	0		(434)	(1,608)		0	0	(1,608)
(96)	(90)		(13)	(954)	(1,649)	0	(1,649)	(2,603)
(529)	(7)	0	(1,687)	(7,912)	0	0	0	(7,913)
$4,186	$4,320	($6)	$7,455	$91,033	$16,730	$85	$16,815	$107,848
$3,344	$1,814	($6)	$3,151	$41,144	$15,669	$2	$15,671	$56,815
831	1,943	0	2,777	10,726	814	0	814	11,540
12	562	$0	1,527	39,163	247	83	330	39,493
$4,186	$4,320	($6)	$7,455	$91,033	$16,730	$85	$16,815	$107,848
$12,609	$4,762		$15,224	$89,706	($79)	($19)	($98)	$89,608
	0		0	0		0	0	0
11,595	5,338	$13	13,490	80,663	941	(20)	921	81,584
4,337	1,228	($13)	3,781	46,880	14,731	2	14,733	61,613
(1)	(829)		170	(8,078)	(12,549)	(12)	(12,562)	(20,639)
$4,337	$400	($13)	$3,951	$38,802	$2,182	($10)	$2,171	$40,973
0	0		(10)	(1,382)	0	0	0	(1,382)
$4,337	$400	($13)	$3,941	$37,420	$2,182	($10)	$2,171	$39,592

Consolidating Statement of Financing
For the Year Ended September 2004 (Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
RESOURCES USED TO FINANCE ACTIVITIES:				
Budgetary Resources Obligated				
Obligations Incurred	$22,159	$123	$19,293	$4,738
Less: Spending Authority from Offsetting Collections & Recoveries	(21,878)	(858)	(1,655)	(19)
Obligations Net of Offsetting Collections	$281	($735)	$17,637	$4,719
Less: Offsetting Receipts	(419)	0	0	0
Net Obligations	($138)	($735)	$17,637	$4,719
Other Resources				
Donations & Forfeitures of Property				
Transfers In/Out Without Reimbursement	($208)			
Imputed Financing from Costs Absorbed by Others	14			
Other Resources	(2)	(3)		
Net Other Resources Used to Finance Activities	($196)	($3)		
TOTAL RESOURCES USED TO FINANCE ACTIVITIES	($334)	($738)	$17,637	$4,719
Resources Used to Finance Items Not Part of the Net Cost of Operations				
Change in Budgetary Resources Obligated for Goods Services/Benefits Ordered but not yet Provided	($340)		$4,725	$675
Resources That Fund Expenses from Prior Periods	(7,546)		0	0
Budgetary Offsetting Collections and Receipts Not Affecting Net Cost of Operations	20,097	0	0	0
Resources Financing Acquisition of Assets	(12,630)			
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	138		103	63
TOTAL RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS	($281)	$0	$4,828	$738
TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS	($615)	($738)	$22,465	$5,457
COMPONENTS OF NET COST OF OPERATIONS NOT REQUIRING/GENERATING RESOURCES IN THE CURRENT PERIOD:				
Components Requiring or Generating Resources in Future Periods				
Increase in Annual Leave Liability (Note 22)			0	
Increase in Environmental/Disposal Liability			0	0
Reestimates of Credit Subsidy Expense	2,866			
Exchange Revenue Receivable from the Public	0		0	0
Other	0	0	0	0
TOTAL REQUIRING/GENERATING RESOURCES IN FUTURE PERIODS	$2,866	$0	$0	$0
Components Not Requiring/Generating Resources				
Depreciation and Amortization				
Revaluation of Assets or Liabilities	($1,433)	0	0	0
Other	(2,569)	0	0	
TOTAL COMPONENTS OF NET COST OF OPERATION NOT REQUIRING/GENERATING RESOURCES	($4,002)	$0	$0	$0
TOTAL COMPONENTS OF NET COST OF OPERATION NOT REQUIRING/GENERATING RESOURCES IN THE CURRENT PERIOD:	($1,135)	$0	$0	$0
NET COST OF OPERATIONS	($1,750)	($738)	$22,465	$5,457

Figures may not add to totals because of rounding.

	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Others	Financial Statement Eliminations	Consolidating
	$1,953	$3,579	$3,805	$1,469	$4,977	$6	$62,102
	(16)	(1)	(114)	(1,067)	(1,173)	(6)	(26,789)
	$1,937	$3,579	$3,691	$402	$3,803	$0	$35,313
	0	0	0	0	(9)	0	(428)
	$1,937	$3,579	$3,691	$402	$3,794	$0	$34,885
				0	0		0
					($1)		($209)
					49		63
			0	0	(6)	0	(11)
			$0	$0	$41	$0	($157)
	$1,937	$3,579	$3,691	$402	$3,835	$0	$34,728
	($330)	($139)	$416	($188)	$102	$0	$4,921
	0	0	0	0	(1)	0	(7,548)
	0	0	0	1,041	65	0	21,203
			78		(43)		(12,595)
	18	26	(286)	33	(25)	0	71
	($312)	($114)	$209	$886	$98	$0	$6,052
	$1,625	$3,465	$3,899	$1,287	$3,933	$0	$40,780
					3		3
	0	0	0	0	0	0	0
			0		(7)		2,859
			0	(605)	(10)		(615)
	0	0	0	0	(5)	0	(5)
	$0	$0	$0	($605)	($20)	$0	$2,242
					$14		$14
	0	0	0	0	0	0	(1,433)
				0	6		(2,563)
	$0	$0	$0	$0	$20	$0	($3,982)
	$0	$0	$0	($605)	$0	$0	($1,740)
	$1,625	$3,465	$3,899	$683	$3,933	$0	$39,040

Consolidating Statement of Financing
For the Year Ended September 2003 (Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
RESOURCES USED TO FINANCE ACTIVITIES:				
Budgetary Resources Obligated				
Obligations Incurred	$21,325	$158	$16,003	$5,537
Less: Spending Authority from Offsetting Collections & Recoveries	(19,554)	(849)	(1,616)	(15)
Obligations Net of Offsetting Collections	$1,771	($691)	$14,387	$5,523
Less: Offsetting Receipts	(1,372)	0	0	0
Net Obligations	$399	($691)	$14,387	$5,523
Other Resources				
Donations & Forfeitures of Property				
Transfers In/Out Without Reimbursement	($138)	0		
Imputed Financing from Costs Absorbed by Others	16			
Other Resources	(3)	($40)		
Net Other Resources Used to Finance Activities	($125)	($40)		
TOTAL RESOURCES USED TO FINANCE ACTIVITIES	$273	($731)	$14,387	$5,523
Resources Used to Finance Items Not Part of the Net Cost of Operations				
Change in Budgetary Resources Obligated for Goods Services/Benefits Ordered but not yet Provided	($116)		$6,567	$35
Resources That Fund Expenses from Prior Periods	(3,557)		0	0
Budgetary Offsetting Collections and Receipts Not Affecting Net Cost of Operations	19,010	0	0	0
Resources Financing Acquisition of Assets	(15,731)			
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	(607)		82	58
TOTAL RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS	($1,001)	$0	$6,650	$93
TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS	($728)	($731)	$21,037	$5,616
COMPONENTS OF NET COST OF OPERATIONS NOT REQUIRING/GENERATING RESOURCES IN THE CURRENT PERIOD:				
Components Requiring or Generating Resources in Future Periods				
Increase in Annual Leave Liability (Note 22)			$0	
Increase in Environmental/Disposal Liability			0	0
Reestimates of Credit Subsidy Expense	7,408			
Exchange Revenue Receivable from the Public	(5,767)		0	0
Other	0	0	0	0
TOTAL REQUIRING/GENERATING RESOURCES IN FUTURE PERIODS	$1,641	$0	$0	$0
Components Not Requiring/Generating Resources				
Depreciation and Amortization				
Revaluation of Assets or Liabilities	$522	0	0	0
Other	(352)	0		
TOTAL COMPONENTS OF NET COST OF OPERATION NOT REQUIRING/GENERATING RESOURCES	$171	$0	$0	$0
TOTAL COMPONENTS OF NET COST OF OPERATION NOT REQUIRING/GENERATING RESOURCES IN THE CURRENT PERIOD:	$1,812	$0	$0	$0
NET COST OF OPERATIONS	$1,084	($731)	$21,037	$5,616

Figures may not add to totals because of rounding.

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Others	Financial Statement Eliminations	Consolidating
$1,869	$3,618	$3,344	$1,814	$3,153	($6)	$56,815
(13)	(18)	(21)	(839)	(947)	6	(23,866)
$1,856	$3,600	$3,323	$975	$2,206	$0	$32,949
0	0	0	0	(10)	0	(1,381)
$1,856	$3,600	$3,323	$975	$2,196	$0	$31,568
			0	0		0
				0		($139)
				56		72
			0	12	0	(31)
			$0	$68	$0	($98)
$1,856	$3,600	$3,323	$975	$2,264	$0	$31,470
($241)	($153)	$1,026	($588)	$1,626	$0	$8,157
0	0	0	0	1	0	(3,556)
0	0	0	829	34	0	19,871
		74	17	(13)		(15,652)
25	59	(330)	20	(9)	0	(701)
($216)	($95)	$771	$278	$1,639	$0	$8,119
$1,640	$3,506	$4,094	$1,254	$3,903	$0	$39,589
	$0			$0		$0
0	0	0	0	0	0	0
		0		(1)		7,407
		0	(637)	(6)		(6,410)
0	0	0	0	3	0	3
$0	$0	$0	($637)	($5)	$0	$1,000
				$10		$10
0	0	0	0	0	0	522
		$2	0	59		(291)
$0	$0	$2	$0	$69	$0	$241
$0	$0	$2	($637)	$64	$0	$1,241
$1,640	$3,506	$4,096	$616	$3,967	$0	$40,830

Required Supplementary Stewardship Information (Unaudited)
For the Year Ended September 30, 2004

- **Investment in Non-Federal Physical Property**
- **Investment in Human Capital**
- **Investment in Research and Development**

This section provides information on certain resources entrusted to HUD. These resources do not meet the criteria for information required to be reported or audited in HUD's financial statements but are, nonetheless, important to understand HUD's operations and financial conditions. The stewardship objective requires that HUD report on the broad outcomes of its actions. Such reporting will provide information that will help report users assess the impact of HUD's operations and activities. HUD's stewardship reporting responsibilities extend to the investments made by a number of HUD programs in Non-Federal Physical Property, Human Capital, and Research and Development. Due to the relative immateriality of the calculations and in the application of the related administrative costs, most of the amounts reported below reflect direct program costs only. The investments addressed in this section are attributable to programs administered through HUD's Offices of Community Planning and Development (CPD), Public and Indian Housing (PIH), Policy Development and Research, and Healthy Homes and Lead Hazard Control.

Community Planning and Development seeks to develop viable communities by promoting integrated approaches that provide decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons. HUD makes stewardship investments through the following CPD programs:

- **Community Development Block Grants (CDBG)** are provided to state and local communities, which use these funds to support a wide variety of community development activities within their jurisdiction. These activities are designed to benefit low- and moderate-income persons, aid in the prevention of slums and blight, and meet other urgent community development needs. State and local communities use the funds as they deem necessary, as long as the use of these funds meets at least one of these objectives. A portion of the funds supports the acquisition or rehabilitation of property owned by state and local governments, while other funds help to provide employment and job training to low- and moderate-income persons.
- **Disaster Grants** help state and local governments recover from major natural disasters. A portion of these funds can be used to acquire, rehabilitate or demolish physical property.
- **Housing Investment Partnership (HOME)** provides formula grants to states and localities (used often in partnership with local nonprofit groups) to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for low-income persons.
- **Youthbuild** grants assist young individuals to obtain education, employment skills, and meaningful work experience in construction trades, enabling them to become more productive and self-sufficient.

Public and Indian Housing ensures safe, decent, and affordable housing, creates opportunities for residents' self-sufficiency and economic independence, and assures the fiscal integrity of all program participants. HUD makes stewardship investments through the following PIH programs:

- **The Public Housing Capital Fund** provides grants to Public Housing Agencies (PHAs) to improve the physical conditions and to upgrade the management and operation of existing public housing.
- **Revitalization of Severely Distressed Public Housing (HOPE VI)** grants are provided to PHAs to support the improvement of the living environment of public housing residents in distressed public housing units. Some investments support the acquisition or rehabilitation of PHA-owned property, while others help to provide education and job training to residents of the communities targeted for rehabilitation.
- **Indian Housing Block Grants** provide funds needed to allow tribal housing organizations to maintain existing units and to begin development of new units to meet their critical long-term housing needs.
- **Indian Community Development Block Grants** provide funds to Indian organizations to develop viable communities, including decent housing, a suitable living environment, and economic opportunities, principally for low- and moderate-income recipients.
- **The Public Housing Drug Elimination Program** seeks to eliminate drug-related crime and activities in Public and Indian housing communities. A portion of these funds is used to improve properties owned by the Public Housing Agencies and thus increase security and prevent crime at the properties. Congress terminated funding for this program after FY 2001.

Policy Development and Research. Stewardship responsibilities include maintaining current information to monitor housing needs and housing market conditions, and to support and conduct research on priority housing and community development issues.

HUD makes stewardship investments through the following programs:

- **Community Development Work Study.** Colleges and universities throughout the United States use this program to offer financial aid and work experience to students enrolled in a full-time graduate program in community development or a closely related field such as urban planning, public policy, or public administration.
- **Partnership for Advancing Technology in Housing** is a public/private sector initiative that seeks to expand the development and utilization of new technologies in order to make American homes stronger, safer, and more durable; more energy efficient and environmental friendly; easier to maintain and less costly to operate; and more comfortable and exciting to live in. The Partnership for Advancing Technology in Housing links key agencies in the federal government with leaders from the home building, product manufacturing, insurance, financial, and regulatory communities in a unique partnership focused on technological innovation in the American housing industry.

Office of Healthy Homes and Lead Hazard Control seeks to eliminate childhood lead poisoning caused by lead-based paint hazards and to address other children's disease and injuries, such as asthma, unintentional injury, and carbon monoxide poisoning, caused by substandard housing conditions.

- **Lead Technical Assistance Division**, in support of the Departmental lead hazard control program, establishes and coordinates lead-based paint regulations and policy, and supports compliance assistance and enforcement. These programs also support technical assistance and the conduct of technical studies and demonstrations to identify innovative methods to create lead-safe housing at reduced cost. In addition, these programs support parents, building owners, and professionals in lead hazard removal, housing, and public health to increase awareness of lead-based paint and related housing-based health issues.

Non-Federal Physical Property

Non-Federal physical property investments support the purchase, construction, or major renovation of physical property owned by state and local governments. These investments support HUD's strategic goals: increase the availability of decent, safe, and affordable housing in American communities; improve community quality of life and economic vitality; and ensure public trust in HUD. The following table summarizes material HUD Non-Federal Physical Property investment by program. Additional information regarding the following programs' contribution to HUD's goals may be found in Section 2 of this report.

HUD Investments in Non-Federal Physical Property, FY 2000-2004

(Dollars in Millions)

Program	2000	2001	2002	2003	2004
CPD					
CDBG	$1,237	$1,189	$1,298	$1,206	$1,193
Disaster Grants (1)	$198	$56	$29	$7	$114
HOME	$34	$24	$8	$33	$26
PIH					
Public Housing Capital Fund	$2,046	$1,863	$2,036	$1,949	$1,758
HOPE VI (2)	$291	$495	$367	$427	$411
Indian Housing Block Grant (3)	$176	N/A	$292	$296	$176
Indian Community Development Block Grant (4)	$63	$53	$51	N/A	$58
Public Housing Drug Elimination Program (5)	$6	$4	N/A	N/A	N/A
TOTAL	$4,051	$3,684	$4,081	$3,918	$3,736

(1) $2M of the $114M reported in FY 2004 is for 1997-1999 disaster grants and represents 9 months of data.
(2) The HOPE VI FY 2004, 4th quarter investment amounts and results of investments were estimated based on the percentage change between prior years 3rd quarter and 4th quarter data.
(3) FY 2001 investment data was unavailable due to the transition in contractor support.
(4) No grants were awarded in this program during FY 2003 due to the delay in the appropriation.
(5) Congress terminated funding for the Public Housing Drug Elimination Program after FY 2001.

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HOME's FY 2004 investment in Non-Federal Physical Property produced 805 standard housing units.

Human Capital

Human Capital investments support education and training programs that are intended to increase or maintain national economic productive capacity. These investments support HUD's strategic goals: promote self-sufficiency and asset development of families and individuals; improve community quality of life and economic vitality; and ensure public trust in HUD. The following table summarizes material HUD Human Capital investments by program. Additional information regarding the following programs' contribution to HUD's goals may be found in Section 2 of this report.

HUD Investments in Human Capital, FY 2000-2004

(Dollars in Millions)

Program	2000	2001	2002	2003	2004
CPD					
CDBG	$22	$25	$29	$23	$26
Youthbuild	$13	$15	$14	$19	$21
PIH					
HOPE VI (2)	$29	$55	$51	$56	$53
Policy Development and Research					
Community Development Work Study	$4	$3	$3	$3	$3
Office of Healthy Homes and Lead Hazard Control					
Lead Technical Assistance	$1	$2	$7	$1	$0
TOTAL	$69	$100	$104	$102	$103

The following table presents the output (number of people trained) generated by human capital investments by HUD's CPD, Policy Development and Research, and Office of Healthy Homes and Lead Hazard Control programs.

Number of People Trained, FY 2000-2004

Program	2000	2001	2002	2003	2004
CPD					
CDBG	252,800	127,565	149,502	172,416	131,653
Youthbuild	3,000	3,614	2,717	4,123	3,508
Policy Development and Research					
Community Development Work Study	101	98	99	95	99
Office of Healthy Homes and Lead Hazard Control					
Lead Technical Assistance (6)	6,834	19,579	23,501	N/A	N/A
TOTAL	262,735	150,856	175,819	176,634	135,260

(6) Beginning in FY 2003 the investment strategy was for training of home supply store lead safety trainers (vs. end-users as was the case until FY 2002), and for curriculum development.

The following table presents key HOPE VI performance information for FY 2003 and FY 2004, as well as cumulative data since the program's inception (FY 1993).

HOPE VI Service	2004 (2) Enrolled	2004 (2) Completed	Percent Completed	2003 Enrolled	2003 Completed	Percent Completed
Employment Preparation, Placement, & Retention	77,146			30,560		
Job Skills Training Programs	32,154	17,123	53%	13,320	7,194	54%
High School Equivalent Education	18,749	5,956	32%	7,896	2,745	35%
Entrepreneurship Training	2,536	1,094	43%	1,926	868	45%
Homeownership Counseling	8,361	3,354	40%	5,681	2,412	42%

Entrepreneurship training contributed to the creation of around 500 new businesses, employing more than 600 HOPE VI property residents.

Research and Development

Investment in Research and Development supports the search for new knowledge and the application of such knowledge to develop new or improved products or processes intended to increase economic productive capacity or yield other future benefits. These investments support HUD's strategic goals: increase the availability of decent, safe, and affordable housing in America communities; and ensure public trust in HUD. The following table summarizes HUD's Research and Development investments. Additional information regarding the following programs' contribution to HUD's goal may be found in Section 2 of this report.

HUD Investments in Research and Development, FY 2000-2004

(Dollars in Millions)

Program	2000	2001	2002	2003	2004
Policy Development and Research					
Partnership for Advancing Technology in Housing	$7	$9	$10	$8	$8
Office of Healthy Homes and Lead Hazard Control					
Lead Technical Assistance	$9	$6	$3	$9	$6
TOTAL	$16	$15	$13	$17	$14

During FY 2004, Partnership for Advancing Technology in Housing investments generated more than 170 technology listings. In addition, Partnership for Advancing Technology in Housing awarded 5 university-based applied research projects, 16 technology development projects, and 8 technology policy/planning research projects.

The studies under the Lead Technical Assistance program, in support of the departmental Lead Hazard Control program, have contributed to an overall reduction in the per-housing unit cost of the Office of Healthy Homes and Lead Hazard Control's Lead Hazard Control Grant Program, as indicated in the following table. These studies also led to the identification of the prevalence of related hazards.

Per-Housing Unit Cost of Lead Hazard Evaluation and Control, FY 2000-2004

Program	2000	2001	2002	2003	2004
Office of Healthy Homes and Lead Hazard Control					
Lead Technical Assistance (7)	$5,881	$4,639	$5,411	$4,827	$4,577
TOTAL	$5,881	$4,639	$5,411	$4,827	$4,577

(7) The FY 2004 4th quarter per-housing unit cost is based on an extrapolation of FY 2004, 1st – 3rd quarter data

Required Supplementary Information (Unaudited)
Intragovernmental Balances

HUD's Intragovernmental amounts represent transactions with other federal entities included in the government's annual report. These transactions include assets, liabilities and earned revenues as follows:

September 30, 2004

(Dollars in Millions):

Intragovernmental Assets:

Trading Partner	Fund Balance	Accounts Receivable	Investments	Other	Total
Department of Treasury	$ 69,647	$ –	$ 31,029	$ –	$ 100,676
Department of Commerce	–	–	–	12	12
Department of Justice	–	–	–	9	9
Total	$ 69,647	$ –	$ 31,029	$ 21	$ 100,697

Intragovernmental Liabilities:

Trading Partner	Accounts Payable	Debt	Other	Total
Department of Treasury	$ –	$ 10,102	$ 5,039	$ 15,141
Other Agencies	–	–	17	17
Total	–	$ 10,102	$ 5,056	$ 15,158

Intragovernmental Earned Revenues and Related Costs:

Trading Partner	Earned Revenue
Department of Treasury	$ 1,998
Other Agencies	1
Total	$ 1,999

Budget Functional Classification	Gross Cost to Generate Revenue
Commerce and Housing Credit	$ –
Community and Regional Dev	–
Income Security	–
Total	$ –

September 30, 2003

(Dollars in Millions):

Intragovernmental Assets:

Trading Partner	Fund Balance	Accounts Receivable	Investments	Other	Total
Department of Treasury	$ 76,458	$ –	$ 31,260	$ –	$ 107,718
Other Agencies	–	–	–	4	4
Total	$ 76,458	$ –	$ 31,260	$ 4	$ 107,722

Intragovernmental Liabilities:

Trading Partner	Accounts Payable	Debt	Other	Total
Department of Treasury	$ –	$ 12,814	$ 6,010	$ 18,824
Other Agencies	–	–	19	19
Total	–	$ 12,814	$ 6,029	$ 18,843

Intragovernmental Earned Revenues and Related Costs:

Trading Partner	Earned Revenue
Department of Treasury	$ 1,814
Other Agencies	1
Total	$ 1,815

Budget Functional Classification	Gross Cost to Generate Revenue
Commerce and Housing Credit	$ –
Community and Regional Dev	–
Income Security	–
Total	$ –

Required Supplementary Information
Improper Payments Reduction Activity

HUD is committed to reducing the risk of improper or erroneous payments in its program and administrative activity, as described below.

The Requirements

Under the Improper Payments Information Act of 2002, Public Law 107-300 and the Office of Management and Budget's (OMB's) implementing guidance, Memo No. M-03-13, agencies are to annually review all programs and activities they administer and identify those that may be susceptible to significant erroneous payments. Where the risk of erroneous payments is significant, agencies are required to estimate the annual amount of erroneous payments and report the estimates along with plans to reduce erroneous payments to the President and the Congress. A "significant" level of erroneous payments is defined by the statute as annual erroneous payments exceeding a $10 million dollar threshold.

An "erroneous payment" is defined as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirement. Incorrect amounts are overpayments and underpayments. An erroneous payment includes any payment that was made to an ineligible recipient or for an ineligible service. Erroneous payments are also duplicate payments, payments for services not received, and payments that do not account for credit for applicable discounts. In addition to identifying substantive errors that might warrant repayment, HUD's statistical sampling of support for payments also considered "process" errors that increase the risk of substantive payment errors, and process errors are included in HUD's erroneous payment estimates.

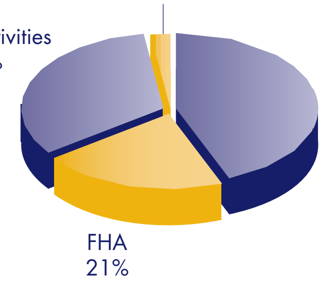
HUD's Commitment

The Secretary designated the Chief Financial Officer as the lead official for directing and overseeing HUD actions to address erroneous payment issues and bring HUD into compliance with the requirements of the Improper Payments and Information Act of 2002 and OMB Memo No. M-03-13. The Office of the Chief Financial Officer developed a plan for implementing the new requirements, and after necessary contract support services were put in place by the Chief Financial Officer and FHA, HUD began to execute the plan in FY 2004. HUD's plans, goals and results for identifying and reducing erroneous payments are tracked under the President's Management Agenda.

HUD's First Annual Risk Assessment

HUD's risk assessment was conducted on payment and other relevant activity that occurred during the completed FY 2003 accounting cycle. An inventory of 222 distinct program and administrative payment activities was identified from HUD's financial management systems, with total payments of $52.9 billion distributed as follows:

HUDs P ayment Universe



HUD initiated a four-pronged approach for completing its first annual risk assessment of this payment universe, as follows:

1. HUD's various rental housing assistance programs – public housing, tenant-based assistance and project-based assistance – had previously been assessed as being at high risk of significant erroneous payment levels, and would continue to be reported as such, with corresponding error measurement methodologies, corrective action plans, and error reduction goals described below. These programs constituted $23.5 billion or 44 percent of HUD's total payments in FY 2003.
2. HUD's administrative contracting and other activities with payments under $40 million were surveyed and determined not to be at risk of erroneous payments exceeding the $10 million threshold. These 140 activities constituted $1.2 billion or 2 percent of HUD's total payments in FY 2003.
3. A more detailed risk assessment of HUD's 32 other activities with payments over $40 million was completed, and 5 grant program areas were determined to be at potential risk of significant erroneous payments, subject to completion of statistical sampling to determine if they exceed the $10 million statutory threshold for further action and reporting. The 32 activities covered by the risk assessment constituted $17.3 billion or 33 percent of HUD's total FY 2003 payments. The 5 potentially high-risk areas represent $6.1 billion or 12 percent of HUD's total FY 2003 payments. Statistical samples were selected for each of the five potentially at-risk programs and the error measurement process will be completed for these five grant programs early in FY 2005.
4. FHA has various programs that require consideration under the new requirements, and they surveyed the risk of erroneous payment issues in 14 activities as follows:
   - Five activities that are collection systems for FHA,
   - One activity that is for endorsement or loan guarantee commitments,
   - Three payment activities with annual disbursements less than the $40 million threshold, and
   - Five other payment activities with annual disbursements greater than the $40 million threshold.

   It was determined that only the following five payment systems activities with annual payments greater than $40 million warranted a more detailed risk assessment:

   1. Single family Acquired Asset Management System (SAMS)
   2. Single Family Insurance Claims
   3. Multifamily Property Management System
   4. Multifamily Insurance Claims
   5. Single Family Distributive Shares and Refunds System.

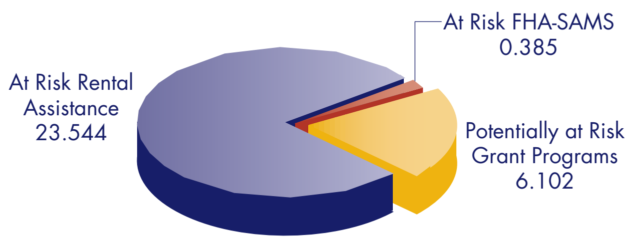
   To assess whether or not each of these five activities are susceptible to significant erroneous payments, FHA:

   - Conducted a review of the business process,
   - Reviewed Government Accountability Office, Inspector General and other past program review reports, and
   - Analyzed FY 2002 or FY 2003 activity payment data.

Based on the aggregate results of these risk assessments, FHA concluded that two payment activities, SAMS and Multifamily Property Management System, were potentially susceptible to significant levels of erroneous payments. As a result, FHA proceeded to develop a statistically valid estimate of the annual erroneous payment amount for each of these two activities. The results of the statistical sampling found that only SAMS exceeded the $10 million threshold for significant annual erroneous payment levels. Details on the error estimate, corrective actions and reduction goals for SAMS are provided below.

Overall Risk Assessment Result - In summary, $23.9 billion, or 45 percent, of HUD's total payment activity was determined to be at risk of significant erroneous payment levels and another $6.1 billion, or 12 percent, is potentially at risk, pending completion of statistical sample estimates of erroneous payment levels in 5 grant programs.

Risk Assessment Results (Dollars in Billions)



HUD actions to measure and reduce erroneous payment levels in its 2 at risk program areas are described in the following sections.

Erroneous Payment Reduction Activity – Rental Housing Assistance Programs.

Prior to enactment of the Improper Payment Information Act of 2002, HUD had already established an erroneous payments reduction program for its various rental housing assistance programs – including Public Housing, Section 8 Tenant-Based Assistance and Multifamily Housing Project-Based Assistance. These programs are administered by over 26,000 public housing agencies and multifamily housing owners or management agents on HUD's behalf. In general, the program benefits paid represent the difference between 30 percent of an eligible household's adjusted income and the balance of the housing operating costs or an established rent level. There are three major components of potential errors in these complex programs, including: 1) the program administrator's failure to properly apply income exclusions and deductions and correctly determine income, rent and subsidy levels, 2) the tenant beneficiary's failure to properly disclose all income sources, and 3) errors in the billing and payment of subsidies between third party program administrators and HUD.

FY 2000 Baseline Error Estimates - A baseline measurement of erroneous payments due to program administrator subsidy determinations and tenant underreporting of income levels was established by two studies completed in FY 2000. The FY 2000 studies verified subsidy calculations and income for a representative sample of 2,403 households receiving assistance at 600 projects. For all 3 major program types, the combined FY 2000 baseline estimates reported for both types of error were $3.281 billion in gross erroneous payments and $2.013 billion in net subsidy overpayments. The FY 2000 baseline estimates were later adjusted to $3.216 billion in gross erroneous payments and $1.972 billion in net subsidy overpayments to eliminate the impact of those public housing programs that had been placed under a block grant approach under the Moving To Work Program, which effectively removed them from consideration for error estimates. HUD set goals for reducing the net subsidy overpayments for these two components by 15 percent in FY 2003, 30 percent in FY 2004 and 50 percent in FY 2005.

Summary of Error Estimate Updates and Reductions - In FY 2004, HUD completed studies of FY 2003 program activity to update the FY 2000 estimates on the program administrator and tenant income reporting error components, using the same general methodology, sampling procedures, and sample sizes. The combined results of the FY 2003 error estimate updates for those two components showed a 50 percent reduction in gross erroneous payments and a 71 percent reduction in net annual overpayments, well exceeding HUD's interim reduction goals through FY 2005. Details on the FY 2003 rental assistance error measurement updates follow:

Program Administrator Error - HUD's update of the measure of program administrator income, rent and subsidy determination errors in FY 2003 found a 36.7 percent reduction in this erroneous payment component, as shown in the following chart:

Rental Assistance Programs	**FY 2003 Full Year Estimates of Error in Program Administrator Income, Rent & Subsidy Determinations**				**FY 2000 Estimate of Error***	**Percent Reduction In Gross Erroneous Payments**
	Assistance Over payments $1,000's	Assistance Under payments $1,000's	Net Erroneous Payments	Gross Erroneous Payments	Gross Erroneous Payments	
Public Housing	$198,828	$117,288	$81,540	$316,116	$602,557	*47.5%
Tenant-based Vouchers & Mod Rehab	$447,432	$283,524	$163,908	$730,956	$1,096,535	33.3%
Total PHA Administered	$646,260	$400,812	$245,448	$1,047,072	$1,699,092	38.4%
Multifamily Project-based Assistance	$250,236	$118,560	$131,736	$368,796	$539,160	31.6%
Total 2003**	$896,484 (+/-$91,000)	$519,360 (+/-$123,000)	$377,124 (+/-$141,000)	$1,415,844 (+/-$163,000)	$2,238,252 (+/-$271,000)	36.7%

* *Baseline numbers reported in prior years have been reduced to eliminate data associated with PHAs participating in the Moving To Work Program. Those PHAs were excluded from the FY 2003 updated study because they don't follow the same program rules.*

** *Estimates are provided at a 95 percent confidence level.*

The significant reduction in this error component is attributed to HUD efforts to work with its housing industry partners at PHAs and multifamily housing projects through enhanced program guidance, training, oversight, and enforcement. Reduction of erroneous payments in HUD's rental housing assistance programs is the primary goal of the Rental Housing Integrity Improvement Project (RHIIP) established by the Secretary in FY 2001. RHIIP is directed by the responsible HUD program offices, with Chief Financial Officer oversight and statistical sampling support from the Office of Policy Development and Research.

Under RHIIP, the Office of Public and Indian Housing initiated on-site Rental Integrity Monitoring reviews focused on the 490 largest PHAs that receive 80 percent of HUD's public housing and tenant-based voucher program funds. Technical assistance was provided to PHAs with the most significant program deficiencies and follow-up Rental Integrity Monitoring reviews were conducted to assess program improvements and the need for enforcement action. The Office of Multifamily Housing has placed nearly all Section 8 Program project-based assistance under Performance-Based Contract Administrators who review 100 percent of monthly vouchers and perform annual on-site management and occupancy reviews at all projects. Twenty percent of the remaining project-based assistance contracts still administered by HUD staff or traditional contract administrators also received on-site monitoring reviews in FY 2004. These same contracts are the subject of an on-going public-private competitive sourcing effort under OMB Circular No. A-76 in an attempt to further improve the monitoring of those contracts.

Tenant Income Reporting Error - HUD's FY 2003 update of the FY 2000 tenant income reporting error estimate of $978 million in overpayments resulted in an 80 percent reduction of the estimate to $191 million as follows.

Rental Assistance Programs	FY 2003 Over payment Estimate*	FY 2000 Over payment Estimate	Percent Reduction
Public Housing	$40	$294	86%
Tenant-based Vouchers & Mod Rehab Assistance	$109	$418	74%
Project-based Assistance	$42	$266	84%
Total - All Programs	**$191	$978	80%

* *Dollar estimates in millions*

** *The number of cases in error was too small to provide statistically meaningful estimation confidence intervals. Similarly, the program totals shown were estimated but should be considered as indicating a very low level of error rather than a statistically accurate estimation of error. Of the 2,401 cases examined, 30 (1.25 percent) were found to have verifiable unreported sources of income in excess of $1,000 a year.*

The reduction is partially attributed to an improved methodology for reviewing income discrepancies identified through computer matching to better determine actual cases of underreported income impacting subsidy levels. The reduction is also attributed to: improved income verification efforts by housing program administrators; increased voluntary compliance due to promotion of the issue; and HUD's initiation of improved computer matching processes for upfront verification of tenant income.

In FY 2004, HUD developed and began implementation of the Upfront Income Verification System to share state wage data matching information with public housing agencies for use in verifying annual re-certifications of tenant income and subsidy levels. HUD's Office of Inspector General began pursuing egregious cases of false income certifications using data from the Upfront Income Verification System. HUD also received statutory authority from the Congress to work with the Department of Health and Human Services to pursue enhanced computer matching capability using other federal income data sources. HUD plans to expand the Upfront Income Verification System to include these new sources for PHA use in FY 2005. In FY 2006, HUD will migrate the Upfront Income Verification System to an Enterprise Income Verification System that will include all available income match data sources for controlled use by program administrators in all HUD rental housing assistance programs, including multifamily housing. This increased computer matching capability has the potential to eliminate the majority of the remaining estimated erroneous rental housing assistance payments.

Billing Cycle Error - HUD also initiated a baseline error measure for the final error component of the rental housing assistance programs in FY 2004 – the billing cycle. The study of multifamily housing project-based assistance program billing error was just completed in October 2004, with the following result:

Type of Project-Based Assistance Billing Error	Subsidy Overpayments*	Subsidy Underpayments*	Net Erroneous Payments*	Gross Erroneous Payments*
Tenant-Level Subsidy Errors	$30	($7)	$23	$37
Tenant-Level Utility Errors	$7	($1)	$6	$8
Project Level Accounting Discrepancies	$19	($36)	($17)	$55
Total - All Errors	$56	($44)	$12	**$100

* *Dollar estimates in millions*

** *The relatively small sample size of 150 projects and the concentration of most error in a small number of projects resulted in standard errors much larger than the error estimation values. These estimates should be thought of as indicating a low level of error and an indication of the relative magnitude of those errors rather than as a statistically accurate estimation of error. The sample sizes used were consistent with OMB guidance on exploratory error measurement, but we now are able to estimate that the sample would need to be more than six times larger to obtain normally accepted levels of estimation accuracy.*

The tenant-level errors consisted primarily of situations where: 1) the subsidy determination supported by the program administrator's tenant file disagreed with the amount billed to HUD, or 2) tenant utility allowances properly billed to and paid by HUD where not properly remitted to the tenant. The project-level accounting discrepancies include differences between amounts billed to and paid by HUD and cash receipts shown in project bank statements and accounting records. HUD needs to further analyze these discrepancies to determine the actual program impact to HUD. The study also found pre-payment billing adjustments by HUD's Performance Based Contract Administrators that avoid erroneous payments, and the gross annual impact of those adjustments was estimated at $38 million.

The baseline study of public housing and tenant-based assistance billing errors will be completed in the second quarter of FY 2005. Upon completion and analysis of these estimates, HUD will be in a position to establish necessary corrective actions and error reduction goals for this component.

Combined Rental Assistance Error Impacts – The combined effect of the most recent accepted estimates of error for the three error components is summarized in the following chart:

Type of Payment Error (Period)	*Public Housing Assistance	*Vouchers & Mod Rehab Assistance	*Project-based Assistance	*Total All Rental Assistance Programs
Gross Error in Administrator Subsidy Determinations (2003)	$316	$731	$369	$1,416
Error Due to Tenant Underreporting of Income (2003)	$40	$109	$42	$191
Gross Billing Error (Baseline estimate in 2003)	**	**	$100	$100
Total Gross Errors	$356	$840	$511	$1,707
FY 2003 Program Expense ***	$3,435	$13,409	$7,737	$24,581
Percent of Erroneous Payments	10.4	6.3	6.6	6.9

* *All dollar values are presented in millions.*

** *The baseline estimate is in process, with completion scheduled in the second quarter of FY 2005.*

*** *Program expense is shown on an accrual rather than a cash basis to better match the error study methodology.*

HUD will continue to take aggressive steps to address the causes of erroneous rental assistance payments, to ensure that the right benefits go to the right people. Based on the results for the FY 2003 statistical analysis, plans to address known causes and levels of erroneous payments, and plans to complete the baseline error measurement of billing error in FY 2005, HUD provides the statistical results for FY 2003 and the outlook for improper payment percentages on a combined program basis from FY 2004 – FY 2007, as follows:

Rental Assistance Improper Payment Reduction Outlook FY 2003 – FY 2007

(Dollars in Millions)

Activity	FY 03 Payments	FY 03 IP$	FY 03 IP%	FY 04 IP%	FY 05 IP%	FY 06 IP%	FY 07 IP%
Rental Assistance	$24.581	$1.707	6.9%	6.9%	6.0%	5.0%	3.0%

Upon completion of the baseline billing error estimates in FY 2005, HUD will break-out separate error reduction goals for each of the 3 rental assistance program categories. Further information on HUD's efforts to reduce erroneous rental housing assistance payments is provided in Footnote 17 to HUD's consolidated FY 2004 financial statements and Indicator EM.4.1 in the Performance Information Section of this report.

Erroneous Payment Reduction – FHA Single Family Property Management Activity.

SAMS is used to process property management expenses for single family properties whose owners have defaulted on their FHA insured mortgage loans, and whose lenders have filed an insurance claim against FHA and/or initiated foreclosure of the mortgage. The disbursements include invoice payments for property management activities, taxes, and Management and Marketing fees. Possible erroneous payments include duplicate payments, overpayments or payments without adequate supporting documentation or proper approval to verify the validity and accuracy of the payments.

Information from a Government Accountability Office report[1], a feasibility sample, and management's prior knowledge led FHA to conclude that the risk of improper payments for some subsets of SAMS payments differ significantly. Based on this conclusion, two data elements were used to produce a stratified random sample of SAMS payments. The first element used for stratification was payment type: Low Invoice, Medium Invoice, High Invoice[2], Taxes, and Management and Marketing Bills. The second element was Homeownership Center: Atlanta, Denver, Philadelphia and Santa Ana. For SAMS, FHA completed a stratified statistical sample on 1,083 FY 2003 disbursements and concluded that:

1. An estimated 8.41 percent of SAMS payment transactions in FY 2003 were improper, with a 90 percent confidence interval of plus or minus 1.66 percent around the estimate of the percentage of erroneous payment transactions; and
2. An estimated $26.08 million of SAMS payments in FY 2003 were improper, with a 90 percent confidence interval between $10.33 million and $41.82 million. The $26.08 million estimate equates to 6.8 percent of the total $385.3 million in payments made through SAMS in FY 2003.

The reasons for the erroneous SAMS payments were: 1) missing supporting documentation (75 percent); 2) missing approval signature (10 percent); 3) duplicate payment (1 percent); and 4) other errors (14 percent). To address the risk of improper payments, FHA:

1. Awarded new Management and Marketing contracts that allow HUD more ability to monitor work,
2. Contracted for monitoring services to oversee property management,
3. Trained field staff to provide more specific guidance on policies and procedures, and
4. Researched the implementation of data mining procedures to identify and prevent improper payments.

While FHA has made significant progress, FHA plans to continue to do more to identify opportunities to improve its business and disbursement processes and the work of related outside contractors to reduce the risk of improper payments. New systems, internal controls, and stronger contractor oversight should improve FHA's ability to reduce the incidence of improper payments. FHA plans to continue its work to reduce the risk of improper payments in all activities. FHA has a long-term goal of establishing a data mining functionality in its disbursement processes. This functionality will help identify payments with a high likelihood of error before the payment occurs as well as identify errors after the payment is made.

Based on the results for the FY 2003 statistical analysis and the plans to strengthen its control processes, FHA provides the statistical results for FY 2003 and the outlook for improper payments percentages from FY 2004 – FY 2007.

FHA-SAMS Improper Payment Reduction Outlook FY 2003 – FY 2007

(Dollars in Millions)

Activity	FY 03 Payments	FY 03 Improper Payments $	FY 03 Improper Payments %	FY 04 Improper Payments %	FY 05 Improper Payments %	FY 06 Improper Payments %	FY 07 Improper Payment %
FHA-SAMS	$385.3	$26.08	6.8%	4.0%	2.5%	1.5%	0.5%

Recovery Auditing Activity

In addition to the requirements of the Improper Payment Information Act of 2002, Section 831 of the Defense Authorization Act of 2002, and OMB Memo No. M-03-07, require agencies that enter into contracts with a total value in excess of $500 million in a fiscal year to carry out a cost-effective program for identifying errors made in paying contractors and for recovering amounts erroneously paid to contractors. HUD acquired the services of an outside recovery-audit service provider to assist in: surveying HUD's procurement and contract payment environment for vulnerabilities and opportunities for recovery-auditing; applying recovery-auditing techniques to the universe of HUD contracts completed subsequent to October 1, 2001; and assessing the causes of any recovery opportunities identified, with recommendations for improved controls to avoid improper payments.

The universe of contract activity covered by HUD's recovery auditing project included 568 contracts with a value of $2,271,446,224. Sixteen of the larger more vulnerable contracts with a value of $206,565,484 were subjected to a more detailed review. The project identified potential recovery opportunities with respect to three contracts, with total potential recoveries of $226,923, subject to validation by the contracting office or Government Technical Representative. With respect to the overall volume of contract transactions and dollar amount disbursed by HUD annually, the results of the project indicated the procedures and systems in place at HUD provide strong controls for processing accurate contract payment transactions. HUD is assessing the contractor's final draft report to determine next steps.

[1] *"HUD Single Family and Multifamily Property Programs: Inadequate Controls Resulted in Questionable Payments and Potential Fraud," GAO-04-390, March 2004.*

[2] *Low, Medium, and High Invoices refers to the dollar amount associated with the invoice.*

Independent Auditor's Report[1]

To the Secretary,
U.S. Department of Housing and Urban Development:

In accordance with the Chief Financial Officers (CFO) Act of 1990, the Department has prepared the accompanying consolidated balance sheets of the Department of Housing and Urban Development (HUD) as of September 30, 2004 and 2003 and the related consolidated statements of net cost, changes in net position, and financing and the combined statement of budgetary resources for the fiscal years then ended. We are required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994 and implemented by Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*, to audit HUD's principal financial statements or select an independent auditor to do so. The objective of our audit was to express an opinion on the fair presentation of these principal financial statements. With respect to the fiscal year 2003 financial statements, we did not audit the financial statements of the Federal Housing Administration (FHA) or the Government National Mortgage Association (Ginnie Mae) whose combined statements reflected total assets constituting 39 percent of the related consolidated totals. Another auditor, whose reports have been furnished to us, audited those statements and our opinion on the fiscal year 2003 financial statements, insofar as it relates to the amounts included for FHA and Ginnie Mae, is based solely on the reports of the other auditor. In connection with our audit, we also considered HUD's internal control over financial reporting and tested HUD's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on its principal financial statements.

Pursuant to the Chief Financial Officers Act of 1990, as amended by the Reports Consolidation Act of 2000 and implemented by OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, HUD is required to issue a Performance and Accountability Report that includes, among other information, HUD's annual audited financial statements. For fiscal year 2004, OMB has directed agencies to complete their Performance and Accountability Reports and submit them to the President, OMB and the U.S. Congress by November 15, 2004, thereby requiring that we complete our work by that date. OMB has communicated that delayed reporting beyond November 15, 2004 would not be acceptable, even if the Department could improve on its opinion status by having us continue with audit testing until we were able to complete the audit and render an opinion. We are unable to express an opinion on the fiscal year 2004 principal financial statements referred to in the preceding paragraph for the following reasons:

- Final consolidated financial statements, reflecting all material proposed adjustments and related disclosures were not presented to us in time to allow us to apply all the procedures necessary to render an opinion in time to meet the OMB required reporting date.
- We were unable to obtain sufficient competent evidential matter in a timely manner to satisfy ourselves that HUD's obligation transactions and balances were supported by appropriate source documents. Department officials were unable to timely retrieve documents supporting significant project-based Section 8 obligations. In addition, we experienced delays in obtaining underlying support for significant balances pertaining to the Section 236, Interest Reduction Program.

[1] *This report is a condensed version of a separate report being issued by HUD-OIG to provide a more detailed discussion of the internal control and compliance issues included in this report and to provide specific recommendations to HUD management. The report is available at HUD, OIG Internet site at http://www.hud.gov/oig/oigindex.html.*

- We were unable to obtain sufficient competent evidential matter in a timely manner to satisfy ourselves that estimates included in Note 17 on Rental Housing Subsidy Payment Errors were supported by appropriate source documents. In addition, the Department missed interim milestone dates to complete the supporting studies and enable us to apply the necessary procedures to assess the reasonableness of those estimates.
- Interim milestone dates associated with the accounting firm of KPMG LLP's audit of FHA's financial statements were missed because of (1) the late receipt of the Mutual Mortgage Insurance Fund actuarial study, which is critical to completion of audit work relating to the Single Family Liability for Loan Guarantees and (2) material errors found in the calculation and reporting of the FHA Multifamily Liability for Loan Guarantees and Loan Loss Reserve for its Mark-To-Market loan portfolio. FHA missed interim milestone dates to complete final FHA financial statements (i.e., inclusive of all adjustments) and this contributed to the Department missing agreed upon milestone dates associated with consolidating FHA's financial statements with the remainder of the Department.

Opinion on the Fiscal Year 2003 Financial Statements

In our opinion, based on our audit and the reports of other auditors, the accompanying fiscal year 2003 principal financial statements present fairly, in all material respects, the financial position of HUD as of September 30, 2003 and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit also disclosed:

- Material weaknesses in internal controls in fiscal year 2004 related to the need to:
  - comply with Federal financial management system requirements, including the need to enhance FHA information technology systems to more effectively support FHA's business and budget processes;
  - improve oversight and monitoring of subsidy calculations and intermediaries' program performance; and
  - improve FHA's management review over the Credit Reform estimation process.
- Reportable conditions in internal controls in fiscal year 2004 related to the need to:
  - improve quality control over performance measures data reliability;
  - strengthen controls over HUD's computing environment;
  - improve personnel security practices for access to the Department's critical financial systems;
  - improve processes for reviewing obligation balances;
  - improve controls for developing estimates of budget authority required for the Section 236 Interest Reduction Program;
  - more effectively manage controls over the FHA systems' portfolio; and
  - place more emphasis on monitoring FHA lender underwriting, continue to improve early warning processes, and establish effective loan portfolio risk assessment tools for the single-family insured mortgages.

Most of these internal control weaknesses were reported in prior efforts to audit HUD's financial statements and represent long-standing problems. Our findings also include the following instance of non-compliance with applicable laws, regulations, and provisions of contracts and grant agreements that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

– HUD did not substantially comply with the Federal Financial Management Improvement Act. In this regard, HUD's financial management systems did not substantially comply with (1) Federal Financial Management Systems Requirements, and (2) applicable accounting standards.

Consolidating Financial Information

We conducted our audit for the purpose of forming an opinion on the consolidated principal financial statements taken as a whole. HUD has presented consolidating balance sheets and related consolidating statements of net costs and changes in net position, and combining statements of budgetary resources and financing as supplementary information in its *Fiscal Year 2004 Performance and Accountability Report*. The consolidating and combining financial information is presented for purposes of additional analysis of the financial statements rather than to present the financial position, changes in net position, budgetary resources, and net costs of HUD's major activities. The consolidating and combining financial information is not a required part of the principal financial statements. The fiscal year 2003 financial information has been subjected to the auditing procedures applied to the principal financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole. With respect to the fiscal year 2004 financial information, for the same reasons we did not express an opinion on the principal financial statements, we are unable to, and do not, express an opinion on whether the financial information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Required Supplementary Information

In its *Fiscal Year 2004 Performance and Accountability Report*, HUD presents "Required Supplemental Stewardship Information," specifically, information on investments in non-Federal physical property and human capital. In addition, HUD presents a Management Discussion and Analysis of Operations and information on intragovernmental balances. This information is not a required part of the basic financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board and OMB Bulletin 01-09. We did not audit and do not express an opinion on this information, however, with respect to the fiscal year 2003 required supplementary information, we applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. In accordance with OMB Bulletin 01-09, the Department, through confirmations, reconciled their fiscal year 2003 intragovernmental transactions with their trading partners with immaterial differences.

Additional details on our findings regarding HUD's internal control environment, housing assistance program delivery, and system and accounting issues are summarized below and were provided in a separate report to HUD management. These additional details also augment the discussions of the instances in which HUD had not complied with applicable laws and regulations; the information regarding our audit objectives, scope, and methodology; and recommendations to HUD management resulting from our audit. Had we completed our audit, we might have found additional matters we would have reported.

Issues with HUD's Internal Control Environment

HUD has been taking actions to address the material weaknesses and reportable conditions and in some instances has made progress in correcting them. For the most part, progress has been at a slow pace because HUD needs to address issues that fundamentally impact its internal control environment. These issues are Department-wide in scope and must be addressed for HUD to more effectively manage its programs. As discussed below, HUD's ability to address its problems will substantially improve if it completes the efforts to:

- deploy a reliable financial management system that meets its program and financial management needs and complies with Federal requirements, and
- identify staffing resource requirements with the proper skill mix.

The most critical need faced by HUD in improving its control environment is to complete development of adequate systems, particularly those supporting FHA's business and budget processes. The lack of an integrated financial system in compliance with Federal financial system requirements has been reported as a material weakness since fiscal year 1991. To correct financial management deficiencies in a Department-wide manner, HUD initiated a project to design and implement an integrated financial system consisting of both financial and mixed systems.

In addition to improving its financial systems, HUD will need to more effectively manage its limited staff resources. Many of the weaknesses discussed in this report, particularly those concerning HUD's oversight of program recipients, are exacerbated by HUD's resource management shortcomings. Accordingly, we consider it critical for the Department to address these shortcomings through the successful completion of ongoing plans.

In our separate report, we elaborate on the need for improved systems and resource management. In addition, we discuss the need for HUD to improve quality controls over performance measures data reliability.

Housing Assistance Program Delivery

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners and housing authorities. These intermediaries, in-turn, provide housing assistance to benefit primarily low-income households. HUD spent about $24.6 billion in fiscal year 2004 to provide rent and operating subsidies that benefited over 4.8 million households. Weaknesses exist in HUD's control structure such that HUD cannot be assured that these funds are expended in accordance with the laws and regulations authorizing the grant and subsidy programs.

HUD relies heavily upon intermediaries to ensure that rent calculations for assisted households are based on HUD requirements. HUD's risk is significant because these intermediaries are not properly carrying out this responsibility. HUD's control structure does not adequately address this risk due to insufficient on-site monitoring and an on-going quality control program that would periodically assess the accuracy of intermediaries' rent determinations.

The estimate of erroneous payments that HUD reports in Note 17 to the financial statements relates to HUD's inability to ensure or verify the accuracy of subsidy payments being determined and paid to assisted households. This year's contracted study of HUD's three major assisted housing programs estimated that the rent determination errors made by the intermediaries resulted in HUD incorrectly paying $1.416 billion in annual housing subsidies, of which about $897 million in subsidies was overpaid on behalf of households paying too little rent, and about $519 million in subsidies was underpaid on behalf of households paying too much rent based on HUD requirements.

The estimate of erroneous payments reported this year also includes overpaid subsides from underreported and unreported income and intermediaries billings errors. For this year's estimate from underreported and unreported income, HUD conducted a new study of misreported income, which indicated a substantial reduction to an estimated $192 million in overpayments. However, we determined that the estimate could be as high as $627 million in overpayments based on our review and the fact that HUD did not adequately support or provide sufficient evidence to substantiate misreported income errors.

In addition, HUD conducted a quality control review to develop a new estimate of erroneous payments for its Office of Housing intermediary's subsidy billings errors. Based on the payment errors that were identified, we substantiated an estimated $138 million in Office of Housing billings errors, which would be in addition to the $514 million identified last year for PIH intermediary's subsidy billings errors.

The Department's initiative to reduce errors and improper payments by establishing better controls, incentives, and sanctions has resulted in some improvement. However, HUD has not completed its error measurement process for all subsidy funding or other types of funding to establish a baseline and has not established a consistent error measurement process. Therefore, it is too early to determine whether HUD will meet its fiscal year 2005 goal of reducing by 50 percent the frequency of calculation processing errors and the amount of subsidy overpayments.

System and Accounting Issues

In our earlier discussion of concerns we have with HUD's internal control environment, we stressed the need for HUD to complete on-going efforts to improve its financial systems. Because of the large volume of financial transactions, HUD relies heavily on automated information systems. In prior years, we reported on security weaknesses in both HUD's general processing and specific applications such that HUD could not be reasonably assured that assets are adequately safeguarded against waste, loss, and unauthorized use or misappropriation. Progress in improving these controls has been slow. The weaknesses noted in our current audit relate to the need to improve:

- controls over the computing environment; and
- administration of personnel security operations.

We also noted the need for HUD to improve (1) the processes for reviewing outstanding obligations to ensure that unneeded amounts are deobligated in a timely manner and (2) its controls for developing estimates of required budget authority for the Section 236 Interest Reduction Program. A lack of integration between accounting systems and the need for accurate databases has hampered HUD's ability to evaluate unexpended obligations and required budget authority.

Results of the Audit of FHA's Financial Statements

A separate audit was performed of FHA's fiscal year 2004 and 2003 financial statements by the independent certified public accounting firm of KPMG LLP. Their report on FHA's financial statements, dated November 15, 2004[2] includes an unqualified opinion on FHA's financial statements, along with discussions of two material weakness and two reportable conditions, and one instance of potential non-compliance with laws, regulation, and provisions of contracts or grant agreements. The FHA material weaknesses follow:

- HUD/FHA's automated data processing system environment must be enhanced to more effectively support FHA's business and budget processes. HUD and FHA are conducting day-to-day business with

[2] *KPMG LLP's report on FHA entitled, "Audit of Federal Housing Administration Financial Statements for Fiscal Years 2004 and 2003" (2005-FO-0002, dated November 15, 2004) was incorporated into this report.*

legacy-based systems, limiting FHA's ability to integrate its financial processing environment and to monitor budget execution; and

- FHA management must improve its review over the Credit Reform estimation process. FHA did not adequately review the underlying data supporting model assumptions, or the cash flow model functionality, leaving material errors in FHA's Mark-to-Market Loan Loss Reserve and Liability for Loan guarantee claim projections and model calculations.

KPMG LLP also notes two reportable conditions regarding the need for FHA and HUD to: (1) more effectively manage controls over the FHA automated data processing systems portfolio, and (2) place more emphasis on monitoring lender underwriting, continue to improve early warning processes, and establish effective loan portfolio risk assessment tools for single family insured mortgages.

The office of the Chief Financial Officer is currently investigating a potential anti-deficiency act violation associated with the commitment limitation for the FHA's general insurance/special risk fund programs during a continuing resolution for fiscal year 2004. Accordingly, no final legal determination has been made at this time.

We consider the above material weaknesses and reportable conditions to be material noncompliance at the Departmental level. A more detailed discussion of these issues can be found in KPMG LLP's report on FHA's fiscal years 2004 and 2003 financial statements.

Results of the Audit of Ginnie Mae's Financial Statements

We performed a separate audit of the Ginnie Mae financial statements for fiscal year 2004. Our report on Ginnie Mae's financial statements, dated November 12, 2004,[3] includes an unqualified opinion on these financial statements. In addition, the audit results indicate that there were no material weaknesses or reportable conditions with Ginnie Mae's internal controls, or material instances of non-compliance with laws and regulations.

For informational purposes, in Note 2.N. to the financial statements, HUD makes reference to the Federal Credit Reform Act of 1990, which became effective on October 1, 1991, and notes that in the opinion of Ginnie Mae management, and HUD's General Counsel, the Federal Credit Reform Act does not apply to Ginnie Mae's guarantee programs. Nevertheless, in consultation with the OMB, Ginnie Mae has adopted certain credit reform practices. Because OMB administers the Federal Credit Reform Act and Ginnie Mae's financial position and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations could be materially impacted by the adoption of all credit reform reporting

[3] *Our report on Ginnie Mae entitled, "Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2004 and 2003" (2005-FO-0001, dated November 12, 2004) was incorporated into this report.*

practices, the Office of Inspector General has requested that OMB's General Counsel formally opine as to whether Ginnie Mae is subject to the full reporting requirements of the Federal Credit Reform Act.

Management Deficiencies Represent Long-Standing Weaknesses

Most of the issues described in this report represent long-standing weaknesses that will be difficult to resolve. HUD's management deficiencies have received much attention in recent years. For example, in January 1994, GAO designated HUD as a high-risk area, the first time such a designation was given to a cabinet level agency. Since that time, HUD has devoted considerable attention and priority to addressing the Department's management deficiencies and has made some progress. In their January 2003 update, GAO noted that HUD has made progress since 2001 in addressing identified weaknesses in its high-risk program areas. However, GAO continues to maintain the Department's single-family mortgage insurance and rental housing assistance program areas as high risk at this time.

Because of continued weaknesses in HUD's internal controls and financial management systems, HUD continues to rely on extensive ad hoc analyses and special projects to develop account balances and necessary disclosures.

Objectives, Scope and Methodology

The accompanying principal financial statements are the responsibility of HUD management. Our responsibility is to express an opinion on these principal financial statements. As part of our audit, we considered HUD's internal controls over financial reporting for the purpose of expressing our opinion on the principal financial statements and not to provide assurance on those internal controls. With respect the fiscal year 2003 financial statements, we conducted our audit in accordance with *Government Auditing Standards*, and the requirements of OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*, as amended. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the fiscal year 2003 financial statements.

With respect to our efforts to audit HUD's fiscal year 2004 financial statements, our work was performed in accordance with *Government Auditing Standards*, and the requirements of OMB Bulletin 01-02, as amended, except for the limitations on the scope of our work as described in this report.

We also tested HUD's compliance with laws, regulations, and provisions of contract and grant agreements that could have a direct and material effect on the financial statements. However, our consideration of HUD's internal controls and our testing of its compliance with laws, regulations, and provisions of contract and grant agreements were not designed to and did not provide sufficient evidence to express an opinion on such matters and would not necessarily disclose all matters that might be material weaknesses, reportable conditions or noncompliance with laws, regulations, and provisions of contract and grant agreements. Accordingly, we do not express an opinion on HUD's internal controls or on its compliance with laws, regulations, and provisions of contract and grant agreements.

Agency Comments and Our Evaluation

On November 1, 2004, we provided a draft of the internal control and compliance sections of our report to the CFO and appropriate assistant secretaries and other Departmental officials for review and comment, and requested that the CFO coordinate a Department-wide response. The CFO responded in a memorandum dated November 5, 2004, which is included in its entirety in our separate report. Remaining sections of the draft report were provided on November 12, 2004. The Department generally agreed with our presentation of findings and recommendations subject to detailed comments included in the memorandum. The Department's response was considered in preparing the final version of this report.

This report is intended for the information and use of the management of HUD, OMB, the Government Accountability Office, and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited. In addition to a separate report detailing the internal control and compliance issues included in this report and providing specific recommendations to HUD management, we noted other matters involving internal control over financial reporting and its operation that we are reporting to HUD management in a separate "management letter."

James A. Heist

James A. Heist
Assistant Inspector General for Audit

November 15, 2004

Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000, HUD's annual Performance and Accountability Report "…shall include a statement prepared by the agency's inspector general that summarizes what the inspector general considers to be the most serious management and performance challenges facing the agency and briefly assesses the agency's progress in addressing those challenges." On October 19, 2004, HUD's Inspector General provided a statement on five management challenges for inclusion in this FY 2004 Performance and Accountability Report:

1. Complete Departmentwide organizational changes.
2. Improve financial management system.
3. Assure HUD staff are adequately and sufficiently trained.
4. Improve Federal Housing Administration single family origination and real estate owned property oversight.
5. Improve the effectiveness and efficiency of public and assisted housing program administration.

The full text of the HUD Inspector General's current Management and Performance Challenges statement is presented in its entirety on the following pages of this report. HUD management agrees that the five areas identified in the Inspector General's statement are major challenges currently facing the Department. As an indicator of the importance being placed on addressing each of these challenge issues, they are all covered by HUD initiatives in the President's Management Agenda. In addition to the progress recognized in the Inspector General's statement, further information on HUD efforts to address these management challenges is provided in the Departmental Performance Highlights section of this report. A crosswalk between the Inspector General's reported challenges and HUD initiatives under the President's Management Agenda follows:

Inspector General Reported Challenge Issue		President's Management Agenda Coverage
Complete Department-wide organizational changes.	→	Initiative 1 – Management of Human Capital
Improve financial management systems.	→	Initiative 3 – Improved Financial Performance
Assure HUD staff are adequately and sufficiently trained	→	Initiative 1 – Management of Human Capital
Improve FHA single-family origination and real estate owned property oversight.	→	Initiative 7B – Improve FHA Risk Management
Improve the effectiveness and efficiency of public and assisted housing program administration.	→	Initiatives 6 and 7A – Eliminate Improper Payments and Improve the Performance of Housing Intermediaries

U.S. Department of Housing and Urban Development

Office of Inspector General

451 7th St., S.W.
Washington, D.C. 20410-4500

October 19, 2004

MEMORANDUM FOR: Alphonso Jackson, Secretary, S

FROM: Kenneth M. Donohue, Inspector General, G

SUBJECT: Management and Performance Challenges

In accordance with Section 3 of the Reports Consolidation Act of 2000, the Office of Inspector General is submitting its annual statement to you summarizing our current assessment of the most serious management and performance challenges facing the Department of Housing and Urban Development (HUD) in fiscal year 2005 and beyond. Through our audits and investigations, we work with Departmental managers in recommending actions that best address these challenges. More details on our efforts in relation to these issues can be found in our audit and investigative chapters of our Semiannual Report to the Congress.

Some of the Department's management and performance challenges have been present and reported by us for many years. These challenges are complex because of the Department's diverse mission, the thousands of program intermediaries assisting the Department in this mission, and the millions of beneficiaries of our housing programs. The management structure, size, and range of Departmental programs make it difficult to correct and overcome program weaknesses. HUD is working to address these challenges and in some instances has made progress in correcting them. The Department's management challenges we are reporting this year include the need to:

- ✓ Comp1ete Departmentwide organizational changes.
- ✓ Improve financial management systems.
- ✓ Assure adequate and sufficiently trained HUD staff.
- ✓ Improve Federal Housing Administration (FHA) single family origination and real estate owned property oversight.
- ✓ Improve the effectiveness and efficiency of public and assisted housing program administration.

The attachment provides a greater discussion of these challenges and the Office of the Inspector General's efforts to help the Department resolve these matters. We continue to appeal to the Department to simplify operations whenever feasible. Eliminating high risk and staff intensive programs would free up resources to concentrate on HUD's core mission areas.

Attachment

Attachment

HUD Management and Performance Challenges Fiscal Year 2005 and Beyond

Departmentwide Organizational Changes. For more than a decade, the Department has struggled with organizational and management changes in an effort to streamline its operations. These changes were necessary as HUD tried to manage more programs and larger budgets with fewer staff. The former HUD Administration tried to realign the Department along functional lines, separating outreach from program administration. Also, they attempted to place greater reliance on automated tools, processing centers, and contracted services. As HUD implemented these realignments, many employees were assigned new duties and responsibilities and many new employees were hired. HUD also experienced a serious "brain drain" as many experienced senior staff took buy-outs and left the Agency. While these organizational changes were well intended, some worked and others didn't. The disruptions caused by these sweeping changes further compounded problems in effectively managing HUD operations. Among the problems were unclear lines of authority, new staff with new training needs, the inability to simply relocate staff to locations where they would be most effective, and difficulty in providing supervision to remote staff.

Our past semiannual reports noted that many organizational changes were slow to be put in place, and some of those in place were ineffective. For example, they lacked delegations of authority, written policies and procedures, and training support. HUD's current management team likewise found problems with the organizational and operational changes made by the previous Administration. The current Administration made several changes to reduce organizational layers. For example, the Departmental Enforcement Center was placed under the direction of the General Counsel to consolidate legal resources in support of a strong program enforcement effort. The Real Estate Assessment Center was placed under the direction of the Assistant Secretary for Public and Indian Housing (PIH), in order to improve the Real Estate Assessment Center's working relationships with program staff and program partners. A return to the former regional and field office structure to give HUD's field operations greater operational control over the administrative budget resources they need to pursue their operating and program goals, and to strengthen the local focus on workload management to meet national performance goals.

Earlier this year, we examined the operations of the Enforcement Center. We found the intended results of the Center were not being realized. Most of the Center's operating division staff was assigned exclusively to multifamily operations. The Department's one enforcement strategy was not working. Key vacancies further burdened the Center in its ability to implement a single enforcement strategy for the Department. We made several recommendations to improve the effectiveness of Center operations.

The first goal in HUD's five year Strategic Human Capital Management Plan, developed in 2003, is to make HUD a mission focused agency. Getting the right number of employees in the right location with the right skill mix will improve the quality of HUD programs and services by addressing management challenges, reducing program risks, and improving program performance. The relationship between office functions and Department-wide goals is also reinforced through the plan implementation. HUD's plan recognizes that human resources activities must be aligned with agency goals to clearly, efficiently, and effectively support and enable HUD to achieve its mission.

Financial Management Systems. HUD needs to complete the development of its financial management systems. The lack of an integrated financial system in compliance with federal financial system requirements has been reported in our financial audit as a material weakness in internal controls since FY 1991. While progress has been made, a number of long-standing deficiencies remain.

Because of the large volume of financial transactions, HUD relies heavily on automated information systems. For the past several years our financial audits reported on security weaknesses in both HUD's general processing and specific applications such that HUD could not be reasonably assured that assets were adequately safeguarded against waste, loss, and unauthorized use or misappropriation. Progress in improving these controls has been slow. The weaknesses noted in our FY 2003 Consolidated Financial Audit relate to the need to:

- ✓ comply with Federal financial systems requirements, including the need to enhance FHA's information technology systems to more effectively support FHA's business and budget processes,
- ✓ strengthen controls over the computing environment; and
- ✓ improve administration of personnel security operations.

We also noted the need for HUD to improve the processes for reviewing outstanding obligations to ensure that unneeded amounts are deobligated in a timely manner. A lack of integration between accounting systems and the need for accurate databases has hampered HUD's ability to evaluate unexpended obligations. The audit of FHA's FY 2003 financial statements continued to report long-standing weaknesses in FHA's financial management systems environment. FHA continues to conduct many day-to-day business operations with legacy-based systems, limiting FHA's ability to integrate its financial processing environment and to monitor budget execution. During FY 2003, FHA implemented the FHA Subsidiary Ledger financial system. This system automated many previously manual processes used to: (1) consolidate the accounting data received from the various FHA operational legacy systems; and (2) prepare summary entries for posting to the FHA Subsidiary Ledger. Despite this improvement, significant weaknesses still exist.

FHA's plans to fully address this material weakness by performing reengineering efforts for the Single Family and Multifamily operational systems and related business processes and by building additional automated interfaces from the operational systems to the FHA Subsidiary Ledger. These system enhancements will also allow FHA to better monitor its budgetary execution process. FHA plans to fully complete these efforts by FY 2007.

Adequate and Sufficiently Trained Staff. For many years the Department has struggled at finding a time and workload measurement system that would make it easier to determine staff resource needs. Additionally, in the past decade, there has been a major shift in job responsibilities in the Department. HUD has moved many functions once done by HUD employees to functions now performed by contractors. Many HUD staff now find themselves in a contract oversight function.

HUD's current Administration has embraced standards of management accountability. However, HUD needs to more effectively manage its limited staff resources. Many of the weaknesses facing HUD, particularly those concerning HUD's oversight of program recipients, are exacerbated by HUD's resource management shortcomings. Accordingly, we consider it critical for the Department to address these shortcomings through the successful completion of ongoing plans. To operate properly and hold individuals responsible for performance, HUD needs to know that it has the right number of staff with the proper skills.

HUD is working to complete a comprehensive strategic workforce plan. The plan will include the following elements:

- kind of work to be done now and in the future;
- knowledge, skills, and ability needed to perform the work;
- knowledge, skills, and ability of existing staff to do this work;

- training and development needed to improve the capabilities of existing staff;
- strategies for identifying and filling skills gaps; and
- proposals for appropriate changes in staff deployment across organizations to better support accomplishment of the Department's mission in the future.

To address staffing imbalances and other human capital challenges, the Department has implemented the Resource Estimation and Allocation Process (REAP). The last phase of REAP (a baseline for staffing requirements) was completed in January 2002. The Department is now involved in the implementation of the Total Estimation and Allocation Mechanism (TEAM). TEAM is the validation component of REAP and will collect actual workload accomplishments and staff usage data for comparison against the REAP baseline. TEAM implementation began in the spring of 2002. Our audit of the TEAM process found the Department has made significant progress in developing and implementing the key components of its human resource management system. The next step is to apply these principles as decisions are made to hire new staff.

The workforce plan must include the core business program offices and address projected retirements in these offices; consider the advance of e-government and competitive sourcing; and recommend staffing levels in accordance with the outcome of the workforce analysis and the REAP/TEAM data. In addition, the workforce plan will include a further review of any programs and service delivery issues to eliminate high-risk areas with strategies for more effective human capital management.

HUD has submitted a Comprehensive Sourcing Plan to OMB for approval. A number of actions were scheduled for completion at the end of FY 2004. Those program areas undergoing workforce analysis include the Office of Public and Indian Housing, the Office of Community Planning and Development, the Office of Housing/Federal Housing Administration and the Office of Fair Housing and Equal Opportunity. Upon completion of the workforce analysis, program managers will assess opportunities to fill identified existing or anticipated staffing or skill gaps through competitive sourcing. A Departmental workforce plan will be developed using the combined input of four analyses, with the objective of comparing priority needs across HUD and making workforce management decisions that best serve the Department's mission.

FHA Single Family Origination and Real Estate Owned Oversight. Procedures and practices in HUD's Single Family Loan Origination Program have undergone considerable change, particularly in the last 5 years. The changes have been both programmatic and organizational, including significant changes in loan underwriting requirements and the transfer of virtually all aspects of Single Family production and program monitoring from HUD staff to lenders and contractors under the oversight of HUD's Homeownership Centers.

Consistent with the Government Accountability Office's identification of single family mortgage insurance programs as a high-risk area, the President's Management Agenda has committed HUD to tackling long-standing management problems that expose FHA homebuyers to fraudulent practices. HUD is taking steps to protect homebuyers from a fraudulent practice known as property flipping, changes are underway to strengthen the property appraisal process, and other actions are being proposed to better disclose FHA closing costs.

The audit of FHA's fiscal year 2003 financial statements reported a need to place more emphasis on monitoring lender underwriting and continuing to improve single family early warning and loss prevention. Recommendations were made to increase targeting of high-risk lenders to include the addition of 30 and 60-day delinquencies to the Default Monitoring System. A series of other recommendations were made to target lenders that would benefit from early intervention. FHA needs to increase its use and analysis of other data now available to improve lender monitoring. Timely identification of lenders with unacceptable early default rates is a key element of FHA's efforts to target monitoring and enforcement resources to single family insured mortgages and lenders that represent the greatest financial risks to FHA. Potential problem lenders must be identified before FHA can institute loss mitigation techniques and lender enforcement measures that can reduce eventual claims.

In fiscal year 2004, we have completed 22 lender audits based on a targeting strategy that identified lenders with poor performing FHA portfolios. Results from these audits have noted significant lender underwriting deficiencies and irregularities involving monetary benefits exceeding $528 million dollars. Additionally, our investigative workload in the single family area has grown dramatically over the past five years. Last fiscal year, more than 400 persons were indicted for single family mortgage fraud. Our work in process indicates we will have a continued growth in investigative activity this fiscal year.

Public and Assisted Housing Program Administration. HUD provides housing assistance funds under various grant and subsidy programs to Public Housing Authorities (PHAs) and multifamily project owners (both nonprofits and for profit). These intermediaries, in-turn, provide housing assistance to benefit primarily low-income households. The Office of Public and Indian Housing and the Office of Housing administer a variety of assisted housing programs.

Material weaknesses in the monitoring of PHAs and assisted multifamily projects were first reported in our financial audit in 1991 and continue to challenge HUD. Material monitoring weaknesses seriously impact HUD's ability to ensure that its intermediaries are correctly calculating housing subsidies. A 2000 HUD study found that 60 percent of all rent and subsidy calculations performed by administrative intermediaries contained overpayment or underpayment errors. The Administration has set a goal for a 50 percent reduction in the frequency of calculation processing errors and the amount of subsidy overpayments by 2005. To achieve this goal, HUD hopes to reduce errors and improper payments by 1) simplifying the payment process, 2) enhancing administrative capacity, 3) establishing an annual error measurement process and rental integrity monitoring and (4) establishing better controls, incentives, and sanctions.

Paralleling this effort, our investigative and audit focus are concentrating on fraudulent practices in the Section 8 program. In those States where HUD has entered into memorandums of understanding with State wage based agencies, the respective State PHAs are conducting up front income verifications. Discrepancies found through these matches are now reported to the Office of the Inspector General for investigation.

HUD continues to implement its performance oriented, risk based strategy for carrying out its PHA oversight responsibilities. In FY 2004, HUD supplemented this strategy conducting rental integrity monitoring and utilizing current performance information to better direct its field office monitoring efforts. However, as noted in previous financial audits, further improvements need to be made in the field office monitoring of PHAs in other key areas. For example, interface problems have prevented PHAs from entering tenant data. Also, HUD has not effectively used the Public Housing Assessment System data to target performance problems, or been able to establish an effective organizational structure and obtain relevant and reliable data to complete the monitoring process. Finally, HUD has been slow to implement additional strategies needed to improve the quality control over the rental assistance subsidy determinations.

Financial Management Accountability

This section covers:

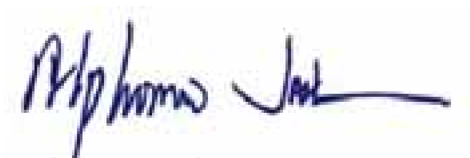
Federal Managers' Financial Integrity Act Reporting

Secretary's Audit Resolution Report to Congress

Delinquent Debt Collection

FMFIA Assurance Statement

I am able to certify with reasonable assurance that, except for the material management control weakness and financial management system non-conformance specifically identified in this section of the FY 2004 Performance and Accountability Report, the Department is in compliance with the provisions of Section 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982.



Alphonso Jackson
Secretary of Housing and Urban Development

Material Weakness and Systems Non-Conformance

Material weaknesses are deficiencies that preclude reasonable assurance that obligations and costs are in accordance with applicable laws; that assets are safeguarded; and that accountability is maintained. Section 2 of FMFIA requires the annual reporting of material management control weaknesses and of plans to correct any such weakness. Section 4 of FMFIA requires the reporting of any material non-conformance with financial management systems requirements prescribed in OMB Circular A-127, together with corresponding remediation plans.

HUD continues to successfully implement its multi-year corrective action strategies to address the remaining material management control weakness and systems non-conformance issues reported in last year's FMFIA assurance statement, and is nearing elimination of those two remaining issues. HUD's progress in addressing these issues is independently verified by the Office of the Inspector General in annual audits of the Department's Financial Statements.

Material Weakness
FY 2003 Carry Over Issue and FY 2004 Status

First Reported	Material Weakness	Status at End of FY 2004
1996	Controls Over Rental Housing Subsidies[5]	Open

Status of Remaining Material Weakness

The Department has a comprehensive strategy underway to address weakness in its management controls over subsidy determinations and payments in its rental housing assistance programs. These programs, which include Public Housing, Section 8 Tenant-Based Assistance and Multifamily Housing Project-Based Assistance, continue to be collectively designated as a "high risk" area by the U.S. Government Accountability Office. HUD's Office of Inspector General also reports a material management control weakness in this area. HUD has made substantial reductions in erroneous housing subsidy determinations and payments through enhanced program guidance, training, oversight, and enforcement. Upon full implementation of a planned system for upfront verification of tenant income in FY 2005, HUD expects to resolve this material weakness issue and to be able to justify elimination of the high-risk program designation for rental housing assistance in FY 2006. Specific information on completed and planned corrective actions is provided in the Management and Performance Challenges section of this report (under the initiative to eliminate improper payments) and in the Required Supplementary Information section on Improper Payments.

Material Non-Conformances
FY 2003 Carry Over Issues and FY 2004 Status

First Reported	Material Non-Conformances	Status at End of FY 2004
1989	Departmental Financial Management Systems	Open[6]

Status of Remaining Material Systems Non-Conformance

The Department has a multi-year corrective action plan underway to eliminate this long-standing material non-conformance and ensure overall compliance with the Federal Financial Management Improvement Act and the related Office of Management and Budget Circular A-127. Office of Management and Budget guidelines specify that agencies are substantially compliant with the Federal Financial Management Improvement Act if they can:

- Prepare financial statements and other required financial and budget reports using information generated by the financial management system(s),
- Provide reliable and timely financial information for managing current operations,
- Account for their assets reliably, so that they can be properly protected from loss, misappropriation, or destruction, and
- Do all of the above in a way that is consistent with federal accounting standards and the U.S. Standard General Ledger.

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

[6] *The FHA Accounting and Management Systems material non-conformance, previously shown separately, was combined as a part of the Departmental Financial Management Systems non-conformance in FY 2003.*

HUD's core financial management systems were deemed to be substantially compliant with the Federal Financial Management Improvement Act in FY 2001, with the exception of FHA systems, where there was a need to convert from a commercial accounting system to a system that complied with federal requirements, including accounting for budget execution, funds control, and credit reform. FHA designed and initiated the multi-year, phased FHA Subsidiary Ledger Project to better address FHA's business needs and comply with federal financial management systems requirements. To date, the project has shown the following significant progress:

- In October 2002, FHA implemented the general ledger module of the FHA Subsidiary Ledger system to provide the capability to record and track budgetary resources using the U.S. Standard General Ledger at the transaction level; control expenditures against available resources (on a monthly basis); and produce timely financial statement reports directly from the general ledger.
- In June 2004, FHA completed implementation of the accounts payable, accounts receivable, procurement, and projects modules to perform the following central accounting functions:
  - Certification of Treasury payments and cash reconciliation of payments and collections,
  - Accounting and funds control for certain FHA contracts and grants,
  - Funds control for all FHA disbursements on a daily basis,
  - Credit subsidy accounting, and
  - Tracking total liability for new insurance against annual limits.

At the beginning of FY 2004, HUD reported 4 of its 46 financial management and mixed financial-program systems as non-compliant, a reduction from 17 non-compliant systems reported at the beginning of FY 2003. Three of those four non-compliant systems were FHA systems determined to be non-compliant based on independent compliance reviews conducted at the end of FY 2003. FHA's FY 2004 self-assessment and certification reported those three systems as compliant based on corrective action completed in FY 2004. Although the functionality of similar FHA systems was independently found to be compliant in FY 2004, HUD will continue to report these 3 FHA systems as non-compliant, pending independent verification of compliance in FY 2005. Pending such verification and absent any new issues raised on other independent systems assessments, HUD's overall financial management systems environment could be deemed substantially compliant with the Federal Financial Management Improvement Act and no longer a material risk for the Department in FY 2005. A complete listing of HUD's 46 financial management and mixed financial-program systems, as well as their compliance status, is provided in Appendix 3.

In the final remaining phase of the FHA Subsidiary Ledger Project, scheduled for completion by December 2006, FHA will complete the enhanced integration of mortgage insurance program operations with the new FHA general ledger system. Building on the success of the FHA Subsidiary Ledger Project, HUD initiated the HUD Integrated Financial Management Improvement Project with the goal of providing a modern, integrated financial management system for all HUD program activity, including FHA and Ginnie Mae. Using a common systems architecture approach, HUD will complete the FHA Subsidiary Ledger Project; replace Ginnie Mae's legacy general ledger system with a modern subsidiary ledger system; and complete the replacement of the Chief Financial Officer's core financial management systems to provide a modern, integrated financial management system for the Department. HUD completed the feasibility, risk analysis, and cost-benefit analysis for the HUD Integrated Financial Management Improvement Project in FY 2004, and put resources in place for the requirements analysis and project management in FY 2005 and beyond. HUD's goal is to complete the HUD Integrated Financial Management Improvement Project implementation in FY 2007.

Management Concerns

Management concerns are areas that warrant actions to strengthen management controls, although the level of risk is assessed as within an acceptable materiality threshold. At the beginning of FY 2004, HUD had 11 open management concerns. Actions taken during the year in the areas of FHA Loss Prevention and Administrative Control of Funds were sufficient to warrant closure of those concerns, leaving a total of 9 open management concerns at the end of FY 2004. Information on actions taken to strengthen internal controls over FHA's Loss Prevention is provided under the President's Management Agenda section of this report. FY 2004 accomplishments and remaining plans on the other management concerns are provided in the table following this summary chart:

Management Concerns
FY 2003 Carry-Over Issues and FY 2004 Status

Carry Over Issues	Management Concern	Status at End of FY 2004
MC1	Performance Measures*	Open
MC3	PHA Monitoring	Open
MC4	HUD's Computing Environment*	Open
MC5	Personnel Security Over Systems*	Open
MC7	Obligation Balances*	Open
MC8	FHA Loss Prevention*	Closed
MC12	FHA Systems Controls*	Open
MC13	Resource Management	Open
MC14	Management Controls	Open
MC16	Single Audit Act Coverage	Open
MC17	Administrative Funds Control	Closed

**Reportable Conditions in the Office of Inspector General's FY 2003 Financial Statement Audit*

Status of Remaining Management Concern

Management Concern/ Problem Statement	FY 2004 Accomplishments	Planned Actions
Performance Measures HUD needs to improve quality controls over performance measure data to ensure data: 1) accuracy, 2) timeliness, 3) estimation, and 4) availability.	• Fully implemented the Data Quality Improvement Program and defined short and long-term approaches to identify, assess, report, and continually improve the overall quality of HUD's data. • Performed data quality assessments and certifications on eight additional HUD information systems. • Provided training session to HUD staff and the grantees and other agencies on HUD's Logic Model. • Evaluated 20 percent of the Logic Model responses submitted under the 2003 grant application process to improve outcome and outcome performance measures of applicants and grantees. • Established mandatory reporting using the Logic Model for discretionary programs in the 2004 Notice of Funding Availability process.	• Complete eight additional data quality assessments and certifications of HUD information systems used to support Annual Performance Plan reporting • Assess the quality of 20 percent of the Logic Models submitted with the FY 2003 funding applications. • Provide reports to show the assessment results and the discrepancies between the activities being performed versus the eligible activities, budget line items, and approved project activities as shown in the Logic Models. • Develop a baseline for creating performance metrics for each HUD funded program. • Assist program areas and grantees in improving the quality of the Logic Models.
PHA Monitoring Continued efforts are needed to improve housing authority monitoring to ensure that program funds are expended in compliance with laws and regulations.	• Conducted extensive training on PHA recovery efforts. • Conducted Compliance and Monitoring Initiative training for managers and supervisors responsible for monitoring. • Assessed the adequacy of field office monitoring during Quality Management Reviews.	• Continue delivery of the Compliance and Monitoring Initiative training to field office staff. • Continue the Quality Management Reviews. • Upgrade Public and Indian Housing Information Center System to provide automation support of field office monitoring.
HUD's Computing Environment Controls over HUD's computing environment can be further strengthened to reduce the risks associated with safeguarding funds, property, and assets from unauthorized use or misappropriation.	• Developed and published a Security Policy in compliance with the Federal Information Security Management Act requirements. • Completed security awareness training for HUD's employees and contractors. • Performed risk assessments of the Network and the two data centers. • Awarded contract to support HUD's security certification and accreditation program. • Satisfied the Office of Inspector General recommendation to analyze audit logs and incident reports on a regular basis. • Completed the installation of Windows XP to 99.8 percent of employees' personal computer desktops. • Installed Intrusion Detection Software on critical points in the network.	• Complete HUD's security certification and accreditation program • Complete the implementation of the new Microsoft Windows XP operating system for all employees' desktop personal computers. • Standardize Windows XP Configuration to the National Institute of Standards and Technology standards where practical. • Oversee the HUD Information Technology Service contract under which the following will be carried out: determination and/or revision of any contingency requirements; compliance with the Continuity of Operations Plan; and compliance with the National Institute of Standards and Technology guidelines. • Complete the contingency plan in accordance with the National Institute of Standards and Technology 800-34 publication.
Personnel Security Over Systems HUD's personnel security practices need to be strengthened to reduce the risks of unauthorized access to the Department's critical financial systems.	• Performed 100 percent of the FY 2004 quarterly reviews, comparing access security data with data residing in the personnel security's database. • Implemented Phase I of the HUD On-line User Registration System, an electronic provisioning system that will provide administrative workflow, multilevel approvals, self-registration, and reporting. • Continued to identify and remove users with greater than read access who failed to submit the appropriate background investigation documents, or who were terminated or no longer authorized to access information resources.	• Continue the quarterly comparison of access security data with data residing in the personnel security's database. • Fully implement the enterprise-wide automated central repository access control database. • Instill discipline in the personnel security authorization and review process by tying activity to the performance evaluations of responsible managers and systems sponsors.

Management Concern/ Problem Statement	FY 2004 Accomplishments	Planned Actions
Obligation Balances HUD needs to improve controls over the monitoring of obligated balances to determine whether they remain needed and legally valid as of the end of the fiscal year.	• Completed an effort to review the portfolio of non-insured Section 236 Interest Reduction Payment cases to determine the appropriate start and end dates to use in determining the valid obligation balances. • Prepared a statement of work to obtain contract support to validate the subsidy estimates for the entire Section 236 Interest Reduction Payment portfolio. • Created status reports that summarize progress made by program areas in deobligating the identified balances. • Made system enhancements to the Automated Renewal and Amendment Management System which integrates data between Program Accounting System and Tenant Rental Assistance Certification System.	• Complete the records clean-up and reconciliation of all Section 236 Program activity and strengthen the accounting for the remaining portfolio. • Continue to make improvements in the processes used to manage obligation reviews.
FHA Systems Controls Continued improvement is needed in the area of ADP application security, system support, and preparation and maintenance of system documentation.	• Implemented a web-enabled release of the FHA Subsidiary Ledger to replace the stand-alone Credit Subsidy Control System in performing FHA's automated credit subsidy control processes. • Completed adjustments and refinements of operational roles and procedures aimed at processing data into the FHA Subsidiary Ledger more efficiently. • Initiated a Business Process Re-engineering of Multifamily Housing's Tenant Rental Assistance Certification System functions as part of a consolidated rental housing Business Process Reengineering effort involving both Multifamily and Public and Indian Housing. • Awarded the Single Family Modernization Project Management and Planning contract.	• Complete the Single Family and Multifamily business process re-engineering effort to, among other things, ensure ADP systems supporting key FHA financial and business processes are adequately supported and included in HUD's enterprise architecture and ADP systems portfolio. • Complete the certification and accreditation of all major FHA information technology applications in accordance with National Institute of Standards and Technology guidelines. .
Resource Management HUD needs to develop a comprehensive strategy to manage its resources and better estimate staffing needs and support its staffing requests.	• Completed comprehensive workforce analyses and plans for the four core business program offices: Housing, Public and Indian Housing, Community Planning and Development, and Fair Housing and Equal Opportunity. • Completed the draft Departmental Workforce Plan. • Aligned employee performance plans with HUD's Strategic Plan goals to hold staff accountable for desired results. • Developed and conducted Budget Formulation/ Departmental Staff Ceiling Control training course as a part of HUD's Corrective Action Plan to establish better monitoring and control over the Department's staff ceiling. • Provided Leadership and Management Training to 440 managers and supervisors. • Trained 527 employees through "Operation Brain Trust" and the Emerging Leaders Program, capturing the knowledge of experienced HUD professionals and leaders.	• Establish Workforce Analysis Planning Committees for HUD's core business programs and begin implementing short and long-term strategies to reduce skill gaps. • Complete workforce analyses and plans of the remaining HUD program offices and support areas. • Complete a Departmental Succession Planning Strategy that links to the Departmental Workforce Plan and Strategic Human Capital Management Plan. • Implement a new multilevel performance appraisal program for the Senior Executive Service and managers. • Reduce the time to hire critical vacancies. • Develop a comprehensive training budget request for the FY 2007 Departmental budget submission to address skill gaps identified in workforce plans. • Implement the HUD Integrated Human Resources and Training System, through an Interagency Agreement to use Treasury's HR-Connect System, to make human resources information readily available to managers and supervisors for strategic planning and employee development.

Management Concern/ Problem Statement	FY 2004 Accomplishments	Planned Actions
Management Controls Weaknesses in the Department's control environment impact HUD's ability to effectively manage its programs.	• Drafted revisions to Chapter 8 of the Departmental Management Control Handbook 1840.1 Rev-3, to streamline the Front End Risk Assessment process. • Further refined the Quality Management Review Program, which provides the opportunity to detect emerging problems and give immediate technical assistance to the field. Ten Quality Management Reviews were completed in FY 2004. • Continued delivery of the Compliance and Monitoring Course designed specifically for managers and supervisors. • Achieved management decisions on all audit recommendations within the statutorily required timeframe for the seventh consecutive semiannual period.	• Issue the revised Departmental Management Control Handbook 1840.1 Rev-3, to reflect current policies and procedures and streamline the Front End Risk Assessment process. • Continue the completion of actions to eliminate or mitigate material weaknesses and other deficiencies.
Single Audit Act Coverage HUD needs to improve its oversight of program participant compliance with the Single Audit Act requirements and consider central oversight of single audit results.	• Provided Department-wide access to the Federal Audit Clearinghouse's Image Management System, allowing registered users to obtain Single Audit reports and make data inquiries for monitoring purposes. • Continued testing during HUD's Quality Management Reviews to determine the adequacy of single audit follow up by field office staff. • Added features and made other improvements to HUD's A-133 webpage.	• Develop and implement a central single audit resolution tracking system for HUD program areas that do not have a centralized tracking system. • Issue HUD-wide guidance on the processing and use of single audits.
Administrative Funds Control HUD must continue to strengthen its policies and procedures for the administrative control of funds to avoid future Anti-Deficiency Act Violations similar to the two that occurred in FY 2000.	• Completed the organization and staffing of a Funds Control Assurance Division with responsibility for investigating possible violations of the Antideficiency Act. • Continued to provide principles of appropriations law training to key funds control officials. • Provided satellite broadcast training on funds control concepts for all HUD staff. • Flowcharted and improved documentation of funds control processes for HUD's FY 2004 appropriations. • Completed the first year of a three-year cycle for testing compliance with funds control processes for all HUD funded activity. • Tested recovery auditing techniques on HUD's contracting activity. • Completed HUD's first annual improper payments risk assessment and initiated statistical sampling of payments in programs identified as potentially at risk of exceeding the improper payment threshold established in the Improper Payments Information Act of 2002.	• Based on corrective actions completed in FY 2004 to strengthen HUD's on-going administrative control of funds, this issue is no longer a Management Concern and is closed.

Secretary's Audit Resolution Report To Congress

This information on the Department of Housing and Urban Development's audit resolution and follow-up activity covers the period October 1, 2003, through September 30, 2004. It is required by Section 106 of the Inspector General Act Amendments (P.L. 100-504) and provides information on the status of audit recommendations without management decisions and recommendations with management decisions but no final action. The report also furnishes statistics on the total number of audit reports and dollar value of disallowed costs for FY 2004, and statistics on the total number of audit reports and dollar value of recommendations that funds be put to better use.

Audit Resolution Highlights

For the seventh consecutive semiannual period, the Department ended FY 2004 with no overdue management decisions. This three and one-half year success record is an unprecedented event and was due to the high degree of collaboration between HUD's managers and the Inspector General's auditors. In addition, part of our success is attributable to the new automated system, the Audit Resolution and Corrective Action Tracking System, which was implemented in May 2003. The Audit Resolution and Corrective Action Tracking System has made it easier to track progress in reaching management decisions and the implementation of corrective actions.

Recommendations Without Management Decisions

The Department is statutorily required to provide a management decision (an action plan with milestones) for each audit recommendation within six months of report issuance by the Inspector General.

FY 2004 began with a total of 222 recommendations without a management decision. During the year, 860 recommendations requiring management decisions were added to our active workload and management decisions were made on a total of 828 recommendations. FY 2004 ended with 254 recommendations without management decisions, all within the statutory period of six months.

Summary Of Recommendations Without Management Decisions October 1, 2003 - September 30, 2004

Opening Inventory	222
New Audit Recommendations Requiring Decision	860
Management Decisions Made	(828)
Audit Recommendations Awaiting Management Decisions	254
Audit Recommendations Beyond Statutory Period	0

Recommendations With Management Decision But No Final Action Taken

The Department began the year with an inventory of 803 management decisions requiring final action. During the year, 828 additional management decisions were made, and the Department completed final action on a total of 760 recommendations, with one recommendation reopened. The total number of audit recommendations with management decisions but final actions not yet completed at the end of the year was 872. Of these 872, 44 are under active multi-year repayment plans that will remain open until the collection activities are completed. At the beginning of FY 2004, the Department established an annual performance goal for each program office within HUD to reduce the opening balance of final actions that were more than 12 months overdue by 50 percent. At the beginning of FY 2004, there were 120 final actions more than 12 months overdue. During the fiscal year, 87 of these final actions were closed (145 percent of the goal) and all program offices met their internal goal of at least a 50 percent reduction.

Summary Of Recommendations
With Management Decisions And No Final Action
October 1, 2003 - September 30, 2004

Opening Inventory	803[1]
Management Decisions Made During FY 2004	828
Sub-Total No Final Action at End of Period	1,631
Final Action Taken	(760)
Audit Recommendation Reopened During Period (Without Final Action)	1
Total Audit Recommendations Requiring Final Actions	872[2]

[1] *Last year's closing inventory (810) was off by seven recommendations due to a software programming error that has now been corrected.*

[2] *The Department has 44 recommendations under current repayment plans. These recommendations are considered open and count in the audit inventory, until final repayment is made.*

Status Of Audits With Disallowed Costs

As of October 1, 2003, there were 149 audits with management decisions on which final action had not been taken, with a dollar value of disallowed costs totaling $160 million. During FY 2004, management decisions were made for 69 audits with disallowed costs totaling approximately $111.9 million. The Department had 63 audits in which final action was taken during the fiscal year, with approximately $15 million in recoveries and $11 million in write-offs. As of September 30, 2004, there were 155 audit reports with recommendations on disallowed costs awaiting final action, with an associated value of approximately $245 million.

Note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total disallowed costs in the report are reported as open until all recommendations in a report are closed. When reporting is done at the more detailed recommendation level, the $245 million of disallowed costs awaiting final action are reduced by $41 million (See footnote 5).

Management Report on Final Actions On Audits With Disallowed Costs
For the Fiscal Year Ended 9/30/04

Classification	Number of Audit Reports	Disallowed Costs
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period.	149	$160,114,781[1]
B. Audit reports on which management decisions were made during the period	69	$111,991,871
C. Total audit reports pending final action during period	218	$272,106,652
D. Audit reports on which final action was taken during the period		
1. Recoveries	51[2]	$15,329,973
(a) Collections and offsets	48	$12,844,902
(b) Property	1	$2,064,588
(c) Other	5	$420,483
2. Write-offs	33	$11,172,937
3. Total of 1 and 2	63[3]	$26,502,910
E. Audit reports needing final action at the end of the period (subtract D3 from C)	155[4]	$245,603,742
	[330][5]	[$204,882,685]

[1] The opening inventory is off by $209,855 due to a software programming error that has now been corrected.
[2] Audit reports are duplicated in D.1.(a) and D.1.(c), thus the total is reduced by 3.
[3] Audit reports are duplicated in both D.1 and D.2; thus, the total is reduced by 21.
[4] Litigation, legislation, or investigation is pending for 23 audit reports with costs totaling $54,057,436.
[5] The figures in brackets represent data at the recommendation level as compared to the report level.

Status Of Audits With Recommendations That Funds Be Put To Better Use

At the beginning of FY 2004, there were 21 audits with management decisions on which final action had not been taken with recommendations to put funds to better use (i.e., used more efficiently), with a dollar value of approximately $1.2 billion. During FY 2004, management decisions were made for 39 audits with funds put to better use costs totaling approximately $2.4 billion. The Department had nine recommendations for which final action was taken during the fiscal year with a dollar value of $168.8 million, and four recommendations totaling $1.1 million that management concluded should not or could not be implemented. At the end of the year, there were 47 audits with recommendations to put funds to better use awaiting final action with an associated value of approximately $3.5 billion.

Note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total funds put to better use in the report are reported as open until all recommendations in a report are closed. When reporting is done at the more detailed recommendation level, the $3.5 billion of funds put to better use costs awaiting final action are reduced by $2.7 billion (See footnote 2).

Management Report on Final Action On Audits With Recommendations That Funds Be Put to Better Use For The Fiscal Year Ended 9/30/04

Classification	Number of Audit Reports	Disallowed Costs
A. Audit reports with management decisions on which final action has not been taken at the beginning of the period.	21	$1,274,373,266
B. Audit reports on which management decisions were made during the period	39	$2,418,333,829
C. Total audit reports pending final action during period (Total of A and B)	60	$3,692,707,095
D. Audit reports on which final action was taken during the period		
1.Value of recommendations implemented (completed)	9	$168,857,282
2. Value of recommendations that management concluded should not or could not be implemented	4	$1,151,412
3. Total of 1 and 2	13	$170,008,694
E. Audit reports needing final action at the end of the period (subtract D3 from C)	47[1]	$3,522,698,401
	[41][2]	[$767,481,151]

[1] *Litigation, legislation, or investigation is pending for 4 audit reports with costs totaling $20,365,917.*
[2] *The figures in brackets represent data at the recommendation level as compared to the report level*

Delinquent Debt Collection

Fiscal Year	Total Debt (In millions)	Delinquent Debt (In millions)	Delinquent Debt Collections (In millions)
2004	$13,026	$770	$645

The above totals reflect FY 2004 data from the 3rd Quarter Treasury Report on Receivables Due from the Public. The Treasury Report on Receivables for the 4th Quarter is not scheduled to be completed in time for incorporation in this report. For the period reported:

- Notices of Intent letters were sent to 4,098 delinquent debtors advising them that their debts were past due. These notices provide the debtor with the right to establish a repayment plan or appeal the enforceability of the debt through HUD Board of Contract Appeals or an Administrative Law Judge (federal employees). Debtors who fail to make payment arrangements or do not successfully appeal the enforceability of the debt are referred to Treasury where they are subjected to aggressive collection efforts, including offset of federal payments, referral to private collection agencies and administrative wage garnishment.
- HUD submitted over 24,000 delinquent debts to Treasury for potential offset via the Treasury Offset Program. HUD also sent over 2,300 new debts to Treasury for cross-servicing during the year. Treasury Offset Program offset collections during FY 2004 totaled $12.3 million and cross-servicing collections on debts referred totaled over $6 million. Direct collections by HUD's Financial Operations Center exceeded $53 million during FY 2004.

- HUD began using the On-line Solution for Complete and Accurate Reporting System in January 2004, to respond electronically to consumer disputes regarding HUD's credit reporting of delinquent debts. The Consumer Data Industry Association makes its On-line Solution for Complete and Accurate Reporting System available to consumer reporting agencies, mortgage reporting companies, and data furnishers to facilitate the resolution of disputes as required by the Fair Credit Reporting Act. To date, HUD has responded to 1,100 disputes using the On-line Solution for Complete and Accurate Reporting System. In addition, there are plans to convert from the current credit reporting structure to the new industry standard during FY 2005.

Among federal agencies, HUD continues to spearhead use of the administrative wage garnishment via the Treasury Cross-Servicing Program. At Treasury's Debt Management Services annual "Debt Collection Conference" held in May 2004, Treasury acknowledged that HUD remains the only major creditor agency that is participating in its Administrative Wage Garnishment Program. Treasury reported $1.4 million in administrative wage garnishment collections during FY 2004.

The Department remains committed to maximizing collections using all available resources and will continue to work closely with systems contractors and Treasury to achieve systems and process improvements necessary to maintain compliance with the Debt Collection Improvement Act.

Appendices

1. Glossary of Acronyms

2. HUD Assisted Housing Units by Program

3. Compliance Status of Financial Management Systems

4. Role of Program Evaluations and Research Studies in Assessing Program Performance

Appendix 1. Glossary of Acronyms

Acronym	Definition
CDBG	Community Development Block Grant
CFO	Chief Financial Officer
CPD	The Office of Community Planning and Development
EC	Enterprise Community
EZ	Empowerment Zone
Fannie Mae	Federal National Mortgage Association
FHA	Federal Housing Administration
FHAP	Fair Housing Assistance Program
FHIP	Fair Housing Initiative Program
FMFIA	Financial Managers' Financial Integrity Act of 1982
Freddie Mac	Federal Home Loan Mortgage Corporation
FSS	Family Self-Sufficiency
FY	Fiscal Year
GAO	Government Accountability Office
Ginnie Mae	Government National Mortgage Association
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
HOME	Housing Investment Partnership
HUD	Department of Housing and Urban Development
IDIS	Integrated Disbursement and Information System
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PHA	Public Housing Authority
PHAS	Public Housing Assessment System
PIH	The Office of Public and Indian Housing
REAC	Real Estate Assessment Center
REAP	Resource Estimation and Allocation Process
RESPA	Real Estate Settlement Procedures Act
RHIIP	Rental Housing Integrity Improvement Project
SAMS	Single Family Acquired Asset Management System
SEMAP	Section Eight Management Assessment Program
TEAM	Total Estimation and Allocation Mechanism
TOTAL	Technology Open to All Lenders

Appendix 2. HUD Assisted Housing Units by Program

PROGRAM (UNITS)	2001	2002	2003	2004
Section 8 Low Income Rental Assistance Program:				
Tenant-based Assistance	1,966,171	1,997,733	2,051,967 a/	2,087,344 a/
Project-based Assistance	1,343,574	1,328,532	1,319,632	1,309,427
Sub-Total, Section 8	3,309,745	3,326,265	3,371,599 a/	3,396,771 a/
PUBLIC HOUSING PROGRAM	1,219,239	1,208,730	1,206,721	1,188,649
Sub-total	4,528,984	4,534,995	4,578,320	4,585,420
Housing for the Elderly (Section 202)	NA	62,694	70,026	75,227
Housing for the Disabled (Section 811)	NA	18,649	20,379	21,646
Tenant-based 811	NA	13,061	14,447	14,447
Sub-total		94,404	104,852	111,320
OTHER ASSISTANCE PROGRAMS				
Homeownership Assistance Program (Section 235)	17,746	13,043	10,195	8,447
Rental Housing Assistance Program (Section 236)	414,576	392,233	368,900	346,802
Rent Supplement	20,161	18,600	18,107	17,290
Sub-total	452,483	423,876	397,202	372,539
Less estimated number of households receiving more than one form of assistance (double count)	(190,140)	(190,140)	(217,250)	(217,250)
TOTAL (Net) Units Under Payment a/	4,791,327	4,863,135	4,863,124	4,852,029
HOME Tenant-Based Assistance	11,756	10,239	10,731	15,479
HOME Rental Units Committed	27,456	27,243	41,092	13,111
HOME New Homebuyers Committed	26,690	32,490	31,999	19,525
HOME Existing Homeowners Committed	12,566	14,082	15,181	3,176
HOME Total Households	81,468	84,054	99,003	51,291
CDBG Households	172,445	187,380	184,611	159,703
Self Help Homeownership Opportunity Program New Homebuyers	1,655	2,063	2,157	1,735 b/
Housing Opportunities for Persons With AIDS Households	72,117	74,964 c/	78,467 c/	78,000
Indian Housing Block Grant Households	NA	52,000	87,169	173,703
Rural Housing & Economic Development	3,945	3,928	6,065	NA
Title VI Federal Guaranteed Loans	NA	NA	17	21
Native Hawaiian Homeland Block Grant Households	NA	NA	188	NA d/
Total HOME, CDBG, Self Help Homeownership Opportunity Program, Housing Opportunities for Persons With AIDS, Indian Housing Block Grant, Rural, Title VI, Native Hawaiian Homeland Block Grant, Households Served	331,630	404,389 c/	457,677 c/	464,453 b/

a/ In FY 2003, the methodology for funding the Section 8 Tenant-Based program was changed. The program is now funded based on the number of units leased rather than contracted number of units. The unit numbers provided here are contracted number of units.

b/ Results for Self Help Homeownership Opportunity Program are for the period July 1, 2003, to June 30, 2004 since accomplishments for the 4th quarter of FY 2004 will not be available in time for publication of this report.

c/ Data for FY 2002 & FY 2003 are updated as a result of additional reports filed and database verification conducted.

d/ Data included with Indian Housing Block Grant.

NA Not Available.

Appendix 3. Compliance Status of Financial Management Systems as of September 30, 2004

HUD maintained an inventory of 46 financial management and mixed financial–program systems at the end of FY 2004. During FY 2004, the Check Record Issuance System (B15) was eliminated and the Enterprise Income Verification System (P181) added to the inventory. HUD independently verifies its financial management systems' compliance with the federal requirements of FFMIA and Office of Management and Budget Circular No. A-127, at the individual system level. Of the four non-compliant systems reported at the end of FY 2004, the Loan Accounting System is under a remediation plan scheduled for completion in FY 2005. The other three non-compliant systems are FHA systems determined to be non-compliant based on independent compliance reviews conducted at the end of FY 2003. FHA's FY 2004 self-assessment and certification reported those three systems (A80N, A80S, and F47) as compliant based on corrective actions completed in FY 2004. Although other similar FHA systems functionality was independently found to be compliant in FY 2004, HUD will continue to report these three FHA systems as non-compliant, pending independent verification of compliance in FY 2005. Pending such verification, and absent any new issues, HUD's overall financial management systems environment could be deemed substantially compliant with FFMIA, and no longer a material risk for the Department, in FY 2005.

TOTAL: 46

Total Non-compliant: 4

Office of Administration (3)

D67A	Facilities Integrated Resources Management System
A35	HUD Procurement System
P035	Small Purchase System

Office of Chief Financial Officer (15)

A21	Loan Accounting System *
A39	Hyperion
A44D	Low Rent Housing Security Ledger
A65A	Section 235 Automated Validation and Editing
A67	Line of Credit Control System
A75	HUD Central Accounting and Processing System/Family Self-Sufficiency
A91	Consolidated Cost and Full-Time Equivalent Files
A96	Program Accounting System
D08	Bond Payment
D21	Departmental Accounts Receivable/Collection
D61	Budget Formulation System
D65A	Section 8 Outlay Forecasting
D91A	Total Estimation and Allocation Mechanism
H18	Integrated Automated Travel System
P001	HUD Travel Management System

Community Planning and Development (3)

C04	Integrated Disbursement & Information System
C38	Special Needs Assistance Program System
C39	Empowerment Zone/Economic Dev. (EZ/EC)

Office of Housing /FHA (20)

A43	Single Family Insurance System
A43C	Single Family Insurance Claims Subsystem
A80D	Distributive Shares and Refund Subsystem
A80B	SF Premium Collection Sys-Periodic**
A80N	SF Mortgage Notes Servicing *
A80R	SF Upfront Premium Collection System**
A80S	SF Acquired Asset Management *
D64A	SF Housing Enterprise Data Warehouse
F12	Home Equity Conversion Mortgages
F17	Computerized Home Underwriting Mgmt System
F31	Cash, Control, Accounting, Reporting System ***
F42D	SF Default Monitoring Subsystem
F47	Multifamily Insurance *
F51	Institution Master File
F71	Title I Notes Servicing
F72	Title I Insurance and Claims
F75	Multifamily Insurance and Claims System
F87	Tenant Rental Assistance Certification System
P013	FHA Subsidiary Ledger
P057	Multifamily Default and Delinquency Reporting

Government National Mortgage Association (2)

B09	Default Management System
B16	Macola Accounting Software System

Public and Indian Housing (3)

P113	PIH Information Center System
P106	Tenant Assessment Subsystem
P181	Enterprise Income Verification

* Non-compliant
** Compliant, pending independent verification
*** Functionality Subsumed by P013 and Parallel Operations of F31 are Scheduled to be Discontinued

Appendix 4. Role of Program Evaluations and Research Studies in Assessing Program Performance

Each year, HUD completes a number of program evaluations and research studies relating to significant policy issues. These studies provide a level of detail and confidence about programmatic impacts that performance measures alone cannot capture. The Department uses the findings of this research to make informed decisions on HUD policies, programs, budget and legislative proposals.

This Appendix presents the primary findings of selected research reports completed since the beginning of FY 2004. Most of the reports are available from the Office of Policy Development and Research clearinghouse, HUD USER (http://www.huduser.org).

Strategic Goal 1: Increase Homeownership Opportunities

The following is a selected list of evaluation and research efforts relevant to Strategic Goal 1 that were completed since the beginning of FY 2004. HUD also publishes *U.S. Housing Market Conditions* (quarterly), the *American Housing Survey* for specific metro areas (annually), and the *American Housing Survey for the United States* (biennially) to provide data and analysis about housing markets.

- **Study of Homebuyer Activity through the HOME Investment Partnerships Program.** This study was designed to examine the choices local governments are making and how these choices are promoting long-term affordable homeownership. The final report is a comprehensive description of this research and its findings. The findings indicate that HOME is having a substantial and positive impact on homebuyer opportunities for low- and moderate-income households. HOME homebuyer activities benefit a higher percentage of minority families than any other type of HOME activity (rental housing, homeowner rehabilitation and tenant-based rental assistance). New buyers tend to move into neighborhoods with higher home values, higher median incomes and higher homeownership rates than their previous neighborhoods. The majority of localities are also using their homebuyer programs to further their neighborhood revitalization goals. The findings offer valuable insights for all policy-makers and local jurisdictions that are working to help families achieve their dream.
- **Analysis of Housing Finance Issues Using the American Housing Survey.** This report examines the suitability and barriers of using the American Housing Survey to analyze issues of housing finance, along with more prevalent uses dealing with the nation's housing conditions and occupant characteristics. The report finds that the wealth of mortgage-related variables in the American Housing Survey, combined with the occupant demographic and property location information, could be a very powerful resource for answering many housing finance research and policy questions. The report describes: 1) what types of mortgage market analysis can be supported by the American Housing Survey; 2) what areas of the American Housing Survey are problematic for mortgage research; and 3) what analysis techniques or changes in the survey could potentially compensate for the problems.
- **Summary of Components of Inventory Change: 1985 – 1995.** This report measures changes in the characteristics of the housing stock of the United States. Using data collected from the national American Housing Survey, the characteristics of individual housing units are compared across time. This comparison allows researchers to see not only changes in the characteristics of housing units, but also in the characteristics of occupants. Information is provided on the characteristics of units added and removed from the housing stock.

Strategic Goal 2: Promote Decent, Affordable Housing

- **Where Are They Now? A Study to Identify, Locate, and Survey Former Residents of Subsidized Housing.** Both researchers and policymakers are interested in the role housing assistance plays in helping individuals become self-sufficient. Without understanding how housing assistance has affected the socioeconomic well being of former residents, it is very difficult to assess the impact of additional efforts by HUD or local housing authorities to promote self-sufficiency. This study is a test of a method to locate residents who have left assisted housing in order to provide detailed information about their current self-sufficiency outcomes. The report describes the methodology developed to identify, locate, and survey households that have stopped receiving housing assistance. The report has described the administrative data sources used to identify the households and noted several critical problems with the data files. The study team found that reliance on passive tracking to locate households that have left subsidized housing is not effective in generating a sufficient sample size to conduct a full-scale survey. Finally, this report describes the survey design and highlights a few concerns about asking respondents to self-report their housing assistance status. Based on these findings, the most critical need is to design an alternative sampling strategy to obtain better contact information on former residents of subsidized housing.

- **Trends in Worst Case Needs for Housing, 1978 – 1999: A report to Congress on Worst Case Housing Needs – Plus Update on Worst Case Needs in 2001.** After having increased by one-fifth over the previous 10 years, between 1997 and 1999 the number of U.S. households with worst case needs for rental assistance fell significantly, by at least 8 percent, to 4.86 million. This reduction in worst case needs resulted from increases in income among very low-income renters, but not from increases in the number of rental units affordable to them. Instead, the trend of decline in the number of rental units affordable to extremely-low-income households accelerated between 1997 and 1999. Continuing decline in affordable units contributed to a statistically insignificant increase in households with worst case needs to 5.07 million households in 2001.

  This report describes real, significant drops in numbers of households with severe rent burdens. The reduction decreased the share of U.S. households with worst case needs to 4.7 percent in 1999, a record low for the past two decades. This marked improvement shows that progress can be made in addressing the nation's most serious housing problems, although the underlying gap between demand and supply continues.

  This report also describes trends over the past two decades in housing problems among both owners and renters at all income levels. The most notable changes are increases in affordability problems among low-income owners. The number of very low-income owners with affordability problems has risen rapidly during this period. However, severe affordability problems remain more common among very low-income renters than among other renters or owners at any income level.

- **Targeting Housing Production Subsidies.** This report examines the current literature on rental housing markets and on housing policies for low-income renters to answer the fundamental question of what constitutes the most effective use of government subsidies that are made available for the production of rental housing. This discussion is not intended to be a continuation of the debate over whether demand or supply-side subsidies generally represent a better policy. Rather it starts from the premise that production subsidies are relatively better used in some circumstances than in others. The objective is to identify those circumstances more precisely, so that government policy-makers and others can make good decisions about how to use the resources of housing production programs for low-income renters.

  The report concludes that where no shortage of rental housing exists, vouchers are an effective utilization of subsidy dollars; however, in tight housing markets, production subsidies such as the Low Income Housing Tax Credit, incentive and inclusionary zoning, affordable housing preservation and other strategies should be targeted to the development of housing resources. Additionally, the report suggests that such production subsidies be part of a formal metropolitan-wide strategy targeted to create opportunities across a broad range of neighborhoods, as well as target hard-to-house groups such as large families, elderly and the disabled. It is critical that these resources be spent in areas where the funds will successfully add to community revitalization efforts, and are not poured into highly distressed neighborhoods that currently lack the social, cultural and economic capacity to support change.

- **Moving to Opportunity for Fair Housing Demonstration: Interim Impacts Evaluation.** This study provides insights into what benefits can be achieved by improving the neighborhoods of poor families. The Moving to Opportunity program provided thousands of poor adults and children an opportunity to use HUD vouchers to move out of public housing in high poverty neighborhoods to lower poverty neighborhoods. Using rigorous scientific methods, this study looks at the impact these moves have had on housing, health, employment, education, mobility, welfare receipt, and delinquency.

  The results presented in this report show the impacts of moving to lower poverty neighborhoods approximately five years after the move. Within this relatively short timeframe, moving to lower poverty neighborhoods has had significant positive impacts on personal safety, housing quality, mental health and obesity among adults, and mental health, staying in school, delinquency, and risky behavior among teenage girls. There are, however, some negative effects on boys' behavior, and no statistically significant effects on employment outcomes for adults or educational achievement for children. Only marginal improvements were found in the quality of schools attended.

- **Housing Choice Voucher Location Patterns: Implications For Participant And Neighborhood Welfare.** The purpose of this study was to describe where Housing Choice Voucher assistance is being used and whether program participants have access to a broad range of affordable housing. The study examines some of the Housing Choice Voucher program's possible impacts on program participants and the neighborhoods in which they live. The information gathered in this study indicates that the Housing Choice Voucher program has allowed participants to exercise a fair amount of housing choice while avoiding poverty concentrations. The program has also had a generally benign effect on neighborhoods. But it is clear that there are areas where more could be done to foster housing choice, to support self-sufficiency, and to promote neighborhood viability.

- **Housing Assistance and the Effects of Welfare Reform – Evidence from Connecticut and Minnesota.** This study explores the relationship between housing status and the effectiveness of welfare policies adding important findings to the small body of literature on the relationship between the effectiveness of welfare reform and housing assistance. On balance, the evidence from a series of analyses based on welfare reform experiments suggests that housing status matters – and, in some cases, it can matter a lot – to the effectiveness of welfare reform.

  The impacts of welfare reform on employment and earnings were consistently larger for recipients with housing assistance than for those with no assistance. Although this pattern of findings suggests that welfare innovations are more effective when combined with housing subsidies, it does not mean that welfare reforms cannot work for unassisted populations. Still, the growing evidence about the relationship between housing assistance and the effectiveness of welfare reform is striking. What is less clear is what accounts for these results. Several explanations were explored in this report.

- **Evaluation of the Welfare to Work Voucher Program – Report to Congress.** The report presents interim findings as to the impact of the Welfare to Work Voucher program on the quality of a family's residential location, on employment and earnings, and on receipt of public assistance. The Welfare to Work Voucher program was initiated in FY 1999 when Congress appropriated $283 million for tenant-based housing vouchers to help families make the transition from welfare to work. This appropriation (P.L. 105-276) funded 50,000 new vouchers. HUD evaluated the program using a rigorous experimental design that controls for external factors. While the report shows that the families that received vouchers experienced slight but statistically significant improvements in their neighborhoods, the interim results also indicate that, over a three-year period, those receiving housing choice vouchers experienced small, but statistically significant, reductions in both their rates of employment and amounts of earnings. A final study, which will assess longer-term results of Welfare to Work vouchers, will explore in part whether these families invested in education, training, childcare, or other activities in the short-term to set them on the road to long-term economic stability.

- **Housing Choice Voucher Tenant Accessibility Study: 2001 – 2002.** This study evaluates the feasibility of conducting a nationwide survey of persons with physical disabilities in the Housing Choice Voucher Program. The proposed national survey would collect data on the experiences of persons with physical disabilities in finding assisted housing that meets their accessibility requirements. Such a survey can offer valuable insight into how well the Housing Choice Voucher Program, through its participating public housing authorities and landlords, is responding to the needs of persons with disabilities and is meeting its statutory obligations under certain federal civil rights laws. It can also identify ways to improve program delivery to Housing Choice Voucher tenants with physical disabilities.

  The report concluded that a nationwide mail survey of persons with physical disabilities is practical. During the pretest, the survey instrument generally performed well, and only a couple of questions needed revision. Additionally, the pretest achieved a response rate of 69 percent. Most survey respondents were either somewhat or very satisfied with their landlords, homes and neighborhoods, as well as PHA support in locating accessible housing. However, some tenants in the focus groups experienced some difficulties in the search process and lacked some of the accessibility features they would like. Discussions with PHAs and landlords suggested low-cost ways that PHAs can assist persons with physical disabilities in their housing search, as well as strategies PHAs could adopt to encourage more landlords to join the Housing Choice Voucher Program and rent accessible housing to persons with physical disabilities.

- **The Diffusion of Innovation in the Residential Building Industry.** The results of this study will directly assist the Partnership for Advancing Technology in Housing and any other organizations promoting innovation in determining the most effective and viable solutions for promoting technological change. The report addresses how to provide adequate and timely information to early adopters, how to foster the development of technology advocates within all home building enterprises, and how to educate homebuyers about the value and performance of homes. The survey reveals that single-family production builders are the least likely to be early adopters of new products, practices and materials in housing construction. These builders are generally viewed as land developers, emphasize market and profitability, and cite support for "tried and true" methods from homebuyers and employees as significant impediments to adoption of new technologies. Conversely, custom builders, modular or multi-family builders, and regional and national builders are more likely to be early adopters, often have a technology advocate on staff, use union labor, have access to technology transfer programs like Partnership for Advancing Technology in Housing, and have clients who support innovation.

- **Steel Framing Prototype Development: Final Report.** This study is part of HUD's ongoing efforts to identify regulatory barriers to the construction, rehabilitation or occupancy of affordable housing. The research effort described in this report explores the potential of steel framing for the construction of factory built homes, with improvements in home durability, quality, affordability, resistance to natural disaster damage, and environmental impact. Earlier research (2002) demonstrated that steel is an acceptable framing material under the performance-based HUD standards. The Phase II research advanced the viability of steel framing as a technology that supports goals of the Partnership for Advancing Technology in Housing.

Strategic Goal 3: Strengthen Communities

- **Strategies for Reducing Chronic Street Homelessness.** This project was developed to identify and describe successful community-wide approaches to ending homelessness and achieving stable housing for difficult-to-serve populations. The study team concluded that successful communities shared five essential elements, the most critical of which is a paradigm shift wherein new approaches are developed and new resources mobilized to end chronic homelessness. The other four essential elements support the paradigm shift to turn its promise into reality. These include: 1) clear goals to reduce chronic homelessness, 2) a community wide level of organization, 3) leadership and effective organizational structure, and 4) significant resources from mainstream public agencies that go beyond homeless-specific funding sources. Frequently this paradigm shift was precipitated by a significant triggering event, such as the redevelopment of a downtown district. Strategies typical of the paradigm shift include a "housing first" approach, which waives the requirement to accept services before receiving housing, increased outreach, and discharge planning for persons in jails and mental health institutions. This report provides in-depth examples and analysis of seven cities, and provides insight into applications to policy, practice and additional research.
- **Officer Next Door and Teachers Next Door Program Evaluation.** The Officer Next Door and Teacher Next Door programs were created to strengthen America's communities by encouraging law enforcement officers and teachers to live in low- and moderate-income neighborhoods that have been designated as Revitalization Zones by HUD. The study team found that the approximately 27,000 revitalization areas were too numerous to concentrate the effect of the program to create a significant impact. As a result, the numbers of revitalization areas included in the program was reduced to approximately 10,000. In an evaluative comparison of two communities, the researchers concluded that a significant concentration of participants effectively reduced crime, or slowed the rate of growth. The results of this study will inform the fine-tuning of the program for more effective results.
- **Evaluation of the Youthbuild Program.** This study compares the effectiveness of Youthbuild to three other federal youth job training programs. The study found that relative to other programs, Youthbuild is more costly, and does not significantly increase educational or employment outcomes beyond that of the control group. The study acknowledges that the Youthbuild program has not been as thoroughly studied as the other three programs, and that there are indications that Youthbuild serves a very difficult-to-reach population. While Youthbuild projects do add to the supply of affordable housing, this impact is likely small, as many grantees report completion goals of one to five units during grant periods of up to 30 months. Additionally, for many of the units built, Youthbuild supplies only a small portion of the labor.

Strategic Goal 4: Ensure Equal Opportunity in Housing

- **Discrimination in Metropolitan Housing Markets: National Results from Phase 3 of the Housing Discrimination Study 2000.** Housing Discrimination Study 2000 represents the most ambitious effort to date to measure the extent of housing discrimination in the United States against persons because of their race or ethnicity. Phase 1 of the report provided national estimates of discrimination faced by African Americans and Hispanics in 2000 – 2001 as they searched for housing in the sales and rental markets. Phase 2 of the study provided the first ever estimate of the level of discrimination experienced by Asians and Pacific Islanders.

  Phase 3 of the study provides estimates of the level of housing discrimination experienced by Native Americans when they search for housing in the metropolitan areas of Minnesota, Montana, and New Mexico. Across all three states, Native Americans receive consistently unfavorable treatment relative to whites in 28.5 percent of rental tests. Systematic discrimination is most observable on measures of availability. That is, whites are told the advertised unit is available, told about similar units, and told about more units than similarly qualified Native

American testers. The level of consistent adverse treatment and systematic discrimination experienced by Native Americans in the metropolitan rental markets of the three states is greater than the national levels shown for African Americans, Hispanics, and Asians.

Strategic Goal 5: Embrace High Standards of Ethics, Management and Accountability

- **Quality Control for Rental Assistance Subsidies Determinations – Final Report for FY 2003.** The Housing Choice Voucher Program assists low-income families in obtaining housing in the private market. The HUD Quality Control for Rental Assistance Subsidies Determinations studies provide national estimates of the extent, severity, costs, and sources of rent errors for the Public Housing, Section 8 Housing Choice Voucher, Section 8 project-based, and Section 202 and Section 811 programs. These so-called "deep subsidy" programs account for nearly all of HUD's current housing assistance outlays administered by the Offices of Housing and Public and Indian Housing, as well as the large majority of units assisted by HUD. This study was designed to measure the extent of administrative error by housing providers. The errors found affect the rent contributions tenants should have been charged. These findings show that efforts made by HUD and program sponsors have had a significant impact on reducing program errors since the last Quality Control study in 2000. The most appropriate use of this study is as a tool for strengthening HUD's procedures for ensuring administrative compliance with regulations. The findings of the Quality Control study are detailed elsewhere in this Performance and Accountability Report.

Strategic Goal 6: Promote Participation of Faith-Based and Community Organizations

- **Building the Organizations That Build Communities.** This publication gathers papers that address the key issues in expanding the capacity of Faith-Based and Community Organizations. The report document current thinking on the issue of organizational capacity and research gaps facing faith-based and community development organizations.