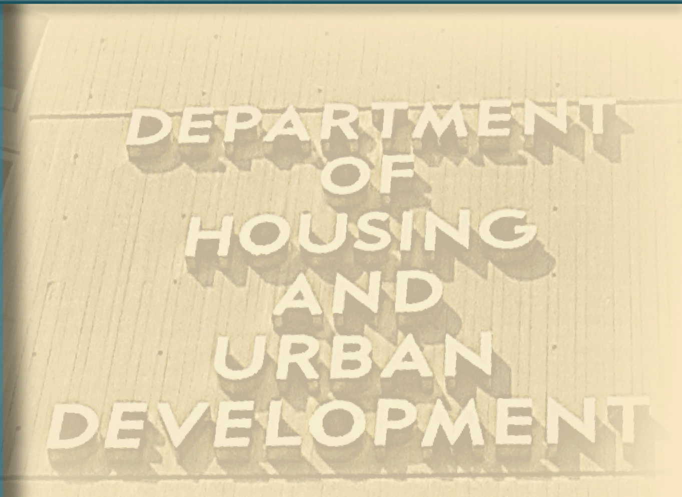
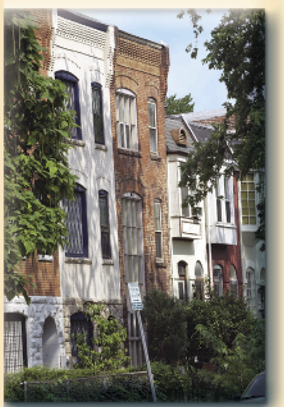
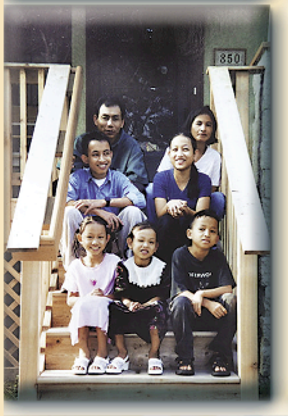


Performance and Accountability Report

Fiscal Year 2003





US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

The FY 2003 Performance and Accountability Report consists of four major parts:

- Part 1, Management Discussion and Analysis
- Part 2, Performance Information
- Part 3, Financial Information
- Appendices.

Each page has a header that indicates which Part (1, 2, or 3) of the Report you are in.The page numbering at the bottom of each page also corresponds to the Part of the report you are in.The page numbering consists of an Arabic number (which indicates which Major Part of the Report you are in) followed by a dash followed by sequential Arabic numbers starting with 1.

- The Management Discussion and Analysis is numbered 1-1, 1-2, 1-3 etc.
- Performance Information is numbered 2-1, 2-2, 2-3, etc.
- Financial Information is numbered 3-1, 3-2, 3-3, etc.
- The Appendices are numbered A-1, A-2, A-3, etc.

This report is available on the web at:
www.hud.gov

Prior year reports are available on the web at:
www.hud.gov/offices/cfo/reports/cforept.cfm

The following is a list of direct web links to the major HUD program offices:

Community Planning and Development	**www.hud.gov/offices/cpd/**
Fair Housing and Equal Opportunity	**www.hud.gov/offices/fheo/**
Federal Housing Administration	**www.hud.gov/offices/hsg/hsgabout.cfm**
Field Policy and Management	**www.hud.gov/offices/fpm/**
Government National Mortgage Association	**www.ginniemae.gov/**
Government Sponsored Enterprises	**www.hud.gov/offices/hsg/gse/gse.cfm**
Healthy Homes/Lead Hazard Control	**www.hud.gov/offices/lead/**
Multifamily Housing	**www.hud.gov/offices/hsg/hsgmulti.cfm**
Single Family Housing	**www.hud.gov/offices/hsg/sfh/hsgsingle.cfm**
Public and Indian Housing	**www.hud.gov/offices/pih/**
Policy Development and Research	**www.huduser.org/**

TABLE OF CONTENTS

1. Management Discussion and Analysis

Message from Secretary Martinez

December 11, 2003

I am pleased to present the FY 2003 *Performance and Accountability Report* for the U.S. Department of Housing and Urban Development. 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. This report highlights HUD's significant program results, management stewardship, and financial condition for the year ended September 30, 2003.

This year, the national homeownership rate reached a record level of 68.4 percent, with a total of 72.2 million American homeowners. Homeownership is a stabilizing factor for American communities and families, and I am proud of HUD's significant contributions to increasing homeownership among underserved populations and areas. Last year, President Bush issued a bold challenge to create 5.5 million new minority homeowners by the end of the decade, and HUD and its housing industry partners are on pace to meet that challenge. HUD's various housing programs raise and target mortgage capital for low- and moderate-income families, enable mortgage financing for underserved populations, promote homeownership through housing counseling and loss mitigation, and combat housing discrimination through training, outreach and enforcement of fair housing laws. Through HUD's housing regulatory role, we continue to pursue actions to make the homebuying process simpler, less expensive and better able to protect consumers from predatory lending practices.

While HUD continues to promote and fulfill the American dream of homeownership for millions of families, there are millions more in need of quality affordable rental housing. The majority of HUD's program dollars go towards assisting low-income families in need by increasing the supply of quality affordable rental housing and providing rental housing assistance. This past year, HUD expended over $24 billion in rental housing assistance in support of 4.8 million low-income households. 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.

HUD programs also provide funding and flexibility to enable American communities to meet local community and economic development needs. A group of HUD programs are targeted to assist communities in addressing the problem of homelessness by providing funding for transitional housing, supportive services, and permanent housing solutions. In FY 2003, an estimated 158,000 homeless persons moved into HUD-funded transitional housing and tens of thousands more made the move to permanent housing with assistance from HUD and its community partners. These and other efforts of the Interagency Council on Homelessness, comprising 18 federal agencies, are serving to meet the President's challenge of ending chronic homelessness within ten years.

Under the President's Management Agenda, HUD continued to strengthen management controls over its administrative resources and core program delivery systems, with positive results. Of particular note are the successful efforts to reduce risk in the FHA single family housing mortgage insurance programs, improve the quality of HUD-supported rental housing, and reduce overpaid rental housing assistance.

I certify with reasonable assurance that, except for the one material weakness and one non-conformance issue specifically identified in the Financial Management Accountability section of this report, the Department is in compliance with the internal control provisions of Section 2 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. While I am not yet able to certify that HUD fully meets the financial management systems requirements of Section 4 of FMFIA, this report evidences HUD's plans and progress that will finally enable HUD to certify compliance with Section 4 by the end of 2006, or sooner. HUD has not been able to report full compliance with federal financial management systems requirements since FMFIA was enacted in 1982. However, HUD is getting closer to full compliance through successful efforts, such as the Federal Housing Administration's implementation of a new integrated general ledger system in FY 2003.

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 Parts 2 and 3 of this report, which cover Performance Information and Financial Information. Part 2 discusses the source, reliability, and completeness of the data associated with each performance indicator included in HUD's Annual Performance Plan for FY 2003. Under the President's Management Agenda, HUD is continuing efforts to provide more timely, useful, and integrated performance and financial data to demonstrate the cost-benefit, efficiency, and effectiveness of program activities.

Working with the Congress and our many community and housing industry partners, HUD continues to improve the delivery and results of its critically needed housing and community development programs for the benefit of the American people we serve.

Mel Martinez
Secretary

An Overview of the Performance and Accountability Report

HUD's Performance and Accountability Report for Fiscal Year (FY) 2003 provides the Congress and the American people with an accounting for the results of the expenditure of public funds towards the mission and strategic goals and objectives of the Department for this year. The Department pursues its mission by specifying in a six-year Strategic Plan and Annual Performance Plans the strategic goals and objectives HUD seeks to achieve through its funded programs.

The *Management Discussion and Analysis* section of this report provides summary information on HUD's:

- organization and major programs,
- performance highlights in FY 2003,
- risks, trends and factors affecting FY 2003 and future goals, and
- analysis of financial conditions and results for FY 2003.

The *Performance Information* section of this report provides detailed data and analysis on specific performance indicators under each HUD strategic goal and objective for FY 2003. HUD's mission is to: "increase homeownership, support community development, and increase access to affordable housing free from discrimination." HUD updated its Strategic Plan during FY 2003 to better focus strategic goals on the Department's core housing and community development programs. While the updated Strategic Plan reduced the number of strategic goals from eight to six, this section of the report addresses HUD's performance on the eight strategic goals in effect during FY 2003.

HUD's eight strategic goals in FY 2003 were to:

1. Make the homebuying process less complicated, the paperwork less demanding and the mortgage process less expensive,
2. Help families move from rental housing to homeownership,
3. Improve the quality of public and assisted housing and provide more choices for its residents,
4. Strengthen and expand faith-based and community partnerships and enhance communities,
5. Effectively address the challenge of homelessness,
6. Embrace high standards of ethics, management and accountability,
7. Ensure equal opportunity and access to housing, and
8. Support community and economic development efforts.

The *Financial Information* section of the report provides the Department's consolidated financial statements for FY 2003, along with the independent auditor's report on those financial statements. This section also contains the HUD Inspector General's independent assessment of the Department's major management and performance challenges and progress in addressing those challenges.

The FY 2003 Performance and Accountability Report satisfies the reporting requirements of the:

- 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, and
- Reports Consolidation Act of 2000.

MAJOR PROGRAM AREAS

HUD's major program areas fall into three categories:

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

1. Federal Housing Administration

FHA programs provide insurance on mortgages originated by private lenders relating to one to four family residences, multifamily rental housing, condominiums, nursing homes, assisted living facilities, hospitals, manufactured housing, property improvement, and "special risk" units. FHA's total insurance-in-force exceeded $490 billion at the end of FY 2003.

FHA has been an innovator in housing finance from its introduction of mortgage insurance in the 1930s to reverse annuity mortgages for seniors in the 1980s. For nearly 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.

FHA Funds. FHA's activities are financed by the FHA Funds, which are supported through premium and fee income, interest income, congressional appropriations, borrowings from the U.S. Treasury and other sources. There are four FHA Funds:

1. The Mutual Mortgage Insurance Fund, a historically self-sustaining fund that supports FHA's basic single family homeownership program. At the end of FY 2003, the Fund comprised 82.48 percent of the FHA Insurance Fund.
2. The General Insurance Fund, which supports a wide variety of multifamily and single family insured loan programs for rental apartments, cooperatives, condominiums, housing for the elderly, nursing homes, hospitals, property improvement, manufactured housing (Title I) and disaster assistance. At the end of FY 2003, the General Insurance Fund comprised 16.55 percent of the FHA Insurance Fund.
3. The Special Risk Insurance Fund, which supports multifamily rental projects and loans to high-risk borrowers. At the end of FY 2003, the Fund comprised 0.92 percent of the FHA Insurance Fund.
4. The Cooperative Management Housing Insurance Fund, a historically self-sustaining fund that supports insurance on market-rate cooperative apartment projects. This fund is no longer active, except for refinancing. At the end of FY 2003, the Fund comprised 0.05 percent of the FHA Insurance Fund.

2. Government National Mortgage Association (Ginnie Mae)

Ginnie Mae, through its Mortgage-Backed Securities program, facilitates the financing of residential mortgage loans by guaranteeing the timely payment of principal and interest to investors of privately issued securities backed by pools of mortgages insured or guaranteed by FHA, the Department of Veterans Affairs, and the Rural Housing Service. The Ginnie Mae guarantee gives lenders access to the capital market to originate new loans. The total amount of Ginnie Mae securities outstanding at the end of FY 2003 was approximately $474 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 2002

Section 8 Lower Income Rental Assistance	$21.062 billion	51.6%
Community Development Block Grants (CDBG)	$5.635 billion	13.8%
Public and Indian Housing (PIH) Grants and Loans	$4.134 billion	10.1%
Operating Subsidies for Public Housing Agencies	$3.517 billion	8.6%
HOME Investment Partnerships	$1.652 billion	4.1%
Housing for the Elderly and Disabled	$1.258 billion	3.1%
All Other Programs	$3.545 billion	8.7%
Total	$40.803 billion	100%

Expenses during FY 2003 for grant, subsidy, and loan program expenses were $40.803 billion compared to $38.019 billion in FY 2002. 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 with rental assistance tied to specific units under an assistance contract with the project owner.

Section 202/811 Capital Grants: Capital grants are provided for the construction and long-term support of housing for the elderly (Section 202) and persons with disabilities (Section 811). Advances are interest-free and do not have to be repaid providing the housing remains available for low-income persons for at least 40 years. Prior to the Section 202 Capital Grant program, Section 202 loans were made to finance housing for low-income elderly persons.

Other Housing Programs: Housing also maintains 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 is provided to low-income families to enable them to obtain decent, safe and sanitary housing in privately owned housing units. This tenant-based-rent subsidies program is administered by State and local housing authorities.

Public Housing Operating Subsidies are financial assistance provided for project operations to approximately 3,160 housing authorities managing approximately 1.2 million units.

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

Native American Housing Block Grants and Home Loan Guarantees assist Native Americans in building or purchasing homes on Trust Land; obtaining affordable housing; implementing local housing strategies to promote homeownership; and developing communities.

Supportive Services to Families and Individuals are grants to housing authorities to administer programs that help to stabilize the lives of 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. The following are the largest:

Community Development: Community Development Block Grants are provided to units of local government and States for the funding of local community development programs that address housing and economic development needs, primarily for low- and moderate-income persons.

Affordable Housing Programs: HOME Investment Partnership Grants provide assistance to renters, existing home-owners, and first-time homebuyers, build state and local capacity to carry out affordable housing programs, and expand the capacity of nonprofit community housing organizations to develop and manage housing. The Housing Opportunities for Persons with AIDS provides affordable housing and related assistance to persons with HIV/AIDS.

Homeless Programs: This consists primarily of grants to public and private entitles to establish comprehensive systems for meeting the needs of homeless people.

The Office of Fair Housing and Equal Opportunity enforces the Federal Fair Housing Act and other civil rights laws in its effort to ensure equal housing opportunity. The Federal Fair Housing Act prohibits discrimination based on race, color, religion, sex, national origin, disability, or familial status. The Office of Fair Housing and Equal Opportunity also endeavors to direct jobs, training, and economic opportunities to low-income residents in communities receiving housing and community development assistance.

Fair Housing Assistance Program (FHAP) provides grants to State and local agencies that administer fair housing laws that are substantially equivalent to the Federal Fair Housing Act.

Fair Housing Initiatives Program (FHIP) provides funds competitively to private and public entities to carry out local, regional and national programs that assist in eliminating discriminatory housing practices and educate the public and housing providers on their fair housing rights and responsibilities.

The HUD Center for Faith and Community-Based Initiatives is one of five Cabinet department centers formed by the President to implement his vision of government and faith-based and community-based organizations working together to accomplish the shared objective of more effectively helping the needy. The Center's goal is simple: More organizations providing more services to help more people.

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 and other housing related health risks.

The Office of Federal Housing Enterprise Oversight is an independent office within HUD that provides oversight with respect to the financial safety and soundness of the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae).

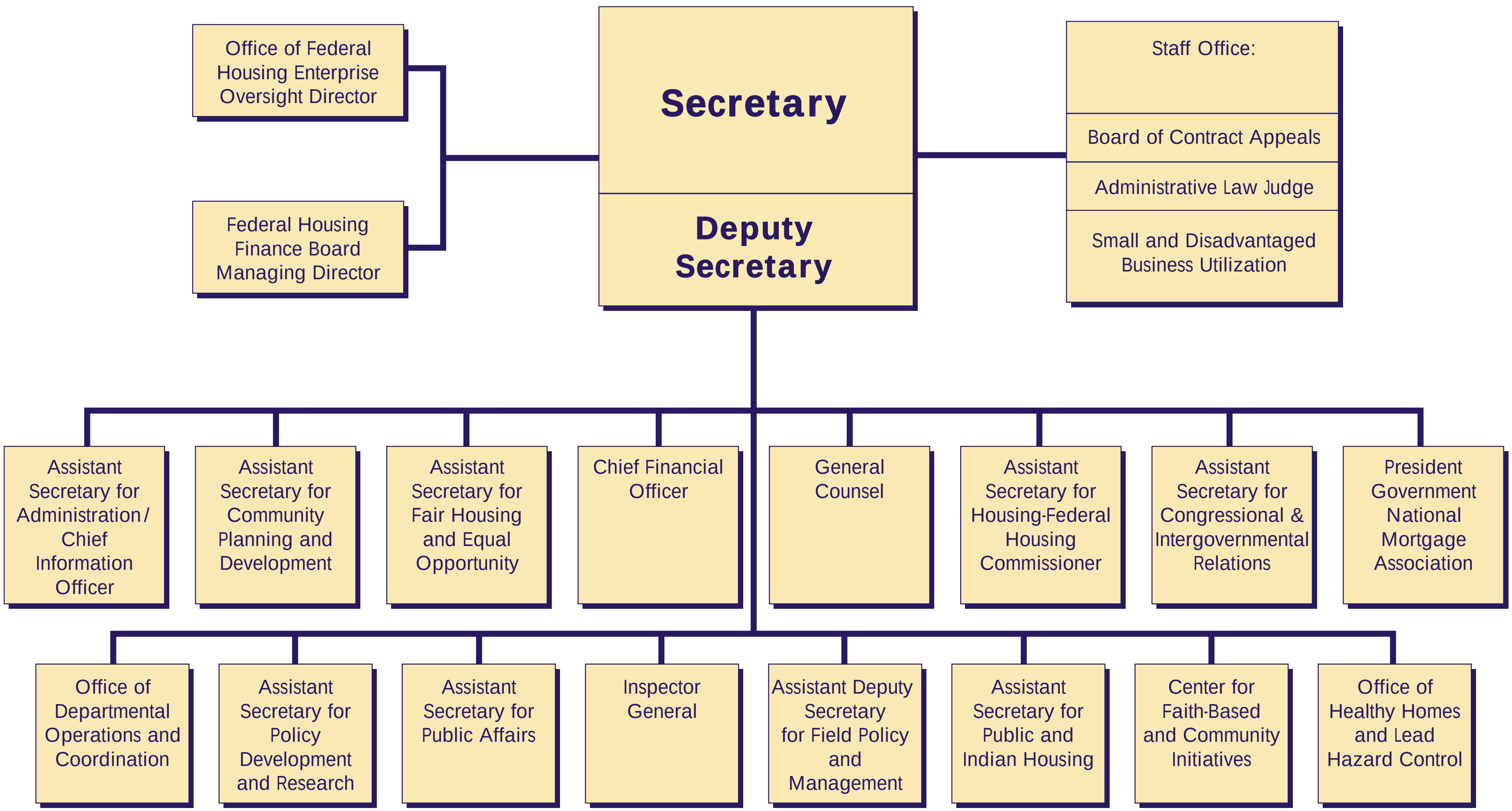
Support Organizations

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

- Administration/Chief Information Officer
- Chief Financial Officer
- Congressional and Intergovernmental Relation
- 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 2003

During FY 2003, 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 2003 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 2003, with slight increases in overall homeownership and in HUD-targeted populations of first-time, minority, low-income and central city homebuyers. Based on data available at the end of the fiscal year:

- The Homeownership rate reached a new quarterly record high of 68.4 percent, an increase of 0.4 percentage points from the homeownership rate at the end of FY 2002.
- The Nation gained an estimated 713,000 new homeowners, attaining a new high of 72.2 million homeowners.
- The minority homeownership rate climbed to 49.3 percent, an increase of 0.4 percentage points representing 681,000 additional minority homeowners compared with FY 2002.
- The homeownership rate among households with incomes below the national median increased to 52.1 percent, a slight increase of 0.2 percentage points from the FY 2002 level.
- The homeownership rate in central cities increased to 52.3 percent in 2003, a slight increase of 0.2 percentage points from the same period in FY 2002.

HUD's Homeownership Program Results made a significant contribution to the improving national homeownership picture. In FY 2003, HUD devoted an estimated $1.08 billion and 999 staff to the delivery and oversight of program activities designed to increase homeownership opportunities, with the following results:

- FHA endorsed 1,337,728 single-family mortgages for insurance, consisting of a high volume of refinanced mortgages and 677,000 home purchase mortgage endorsements, bringing the FHA-insured single-family housing portfolio to 5.3 million mortgages at year-end.
- 77.1 percent of the FHA home purchase endorsements were made to first-time homebuyers, enabling

521,937 families to purchase their first home this year.

- 35 percent of FHA's home purchase 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.
- 464,272 of the FHA endorsed single family mortgages were in underserved communities.
- 43,840 HUD-owned single-family properties were sold to owner occupants during FY 2003, compared to 39,214 during FY 2002, an increase of nearly 12 percent.
- Participating jurisdictions used HUD's HOME program grant funds to complete 25,867 new homebuyer units and committed an additional $382,813,000 in funds for 31,999 additional future homebuyer units.
- Ginnie Mae increased the availability of mortgage capital by placing over 92 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 51.8 percent and Freddie Mac 51.4 percent, representing a combined 4.8 million dwelling units that qualified towards the goal. (HUD's target goal and Government Sponsored Enterprise performance data are measured on a calendar year basis as of year-end 2002)

Other HUD Activities Promoting Homeownership in FY 2003 included increased housing counseling and loss mitigation efforts on FHA-insured mortgages:

- The Department placed more emphasis on housing counseling for homebuyer education, pre-purchase 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. Based on a total housing counseling appropriation of $20 million for FY 2002, an estimated 238,356 homebuyers or homeowners were expected to receive housing counseling services in FY 2003, an anticipated increase of 5.3 percent over the 226,438 clients counseled during FY 2002. During FY 2003, $39.7 million was appropriated for housing counseling and 483,749 homebuyers or homeowners are expected to receive housing counseling in FY 2004. Results for clients counseled during FY 2003 cannot yet be fully assessed, but among the 27,857 borrowers who received default-specific counseling during FY 2002, 91.9 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 50 percent for FY 2003, 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 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 2003 goals established for the production of additional critically needed rental housing units:

- FHA endorsed 1,257 insured multifamily housing loans, valued at $6.85 billion, which financed nearly 168,000 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 74 loans totaling nearly $514 million and approximately 10,000 units. The combined 1,331 in new FHA-insured multifamily loans exceeded the FY 2003 performance goal by 64 percent. Moreover, 53,220 of these multifamily units were in underserved areas, a four-fold increase over the FY 2002 accomplishment.
- HUD reached initial closing on 334 Section 202 and Section 811 projects this year, resulting in an additional 7,500 elderly housing units and 1,721 units for persons with disabilities. This exceeded the closings goal by 33 percent.
- 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. In FY 2003, the HOPE VI program relocated 6,859 households, demolished 7,468 units to permit redevelopment, and completed 8,611 new or rehabilitated units, achieving 26 percent greater than the 6,821 unit goal.
- The HOME Program contributes over twenty thousand affordable rental units to the housing stock each year, with 25,977 produced in FY 2003. 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. Although HOME rental developments are not required to serve families with incomes below 30 percent of the area median, 41.4 percent of all households in the 243,404 completed HOME-assisted rental units developed since program inception in 1992 have had incomes below 30 percent of the area median (i.e., extremely low-income) at initial occupancy.
- Ginnie Mae securitized 90 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 $7.9 billion in FY 2002 to $9.3 billion in FY 2003, representing an increase of 17.7 percent. The remaining multifamily principal balance increased from $25.4 billion in FY 2002 to $28.9 billion as of September 30, 2003, an increase of 13.8 percent. For the first time, in FY 2003, multifamily construction loans were used as a new type of collateral for multifamily Real Estate Mortgage Conduits. This reflected the increased interest of investors in multifamily government guaranteed loans.

Rental Housing Assistance Program Improvements continued to be a primary focus for HUD and its housing partners in FY 2003. 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 over $24 billion of expenditures to provide housing to 4.8 million households in FY 2003. 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-profit multifamily housing 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 2003, the unit-weighted average PHAS score was 87.3, an increase of 2.4 percent from the FY 2002 baseline.
- Similar to PHAS scores, Section Eight Management Assessment Program (SEMAP) scores are designed to track the capability and accountability of a housing authority partner's administration of the Housing Choice Voucher Program. A baseline was established using the first year's final scores under SEMAP. Of the 2,420 PHAs with final ratings for the four quarters from December 2000 through September 2001, the average weighted SEMAP score was 83.4 percent. Out of the 2,427 PHAs that received SEMAP ratings for the four quarters from March 2002 through December 2002, the average weighted SEMAP score was 82.5 percent. The average weighted SEMAP score fell by approximately one percentage point. Although the change is slight, it can be attributed to the lowering of scores due to HUD's focus on the need for housing authorities to improve tenant income verification in correctly calculating subsidies.

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 2003, the number of public housing units managed by PHAs designated as "troubled" was reduced by 72 percent, from 57,433 units to 16,188 units. HUD also initiated two PHA management takeover actions during the year, bringing the total number of PHAs under an administrative or court appointed receivership to 10.

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 is outsourcing much of its monitoring to state agencies under performance-based contract administrator agreements. In FY 2003, performance-based contract administrator agreements monitored the assistance to 10,000 properties with 670,000 units in all but nine States. The performance-based contract administrator agreements are responsible for reviewing all vouchers prior to payment and performing annual 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 2003:

- The results of the most recent physical inspections conducted on the multifamily housing portfolio provide the following profile on 29,705 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)	Current Profile (29,705 projects)
Exemplary (90-100)	37%	55%	54%	55%
Above Standard (80-89)	24%	25%	25%	25%
Standard (60-79)	26%	14%	15%	15%
Sub-Standard (31-59)	11%	5%	5%	4%
Troubled (0-30)	2%	1%	1%	1%

(Current profile [FY 2003] reflects new inspections conducted between 10/1/2002 and 9/30/2003. For comparable unit-weighted data, see Performance Indicator 3.3.1).

During FY 2003, the Office of Multifamily Housing implemented a new protocol on physical inspection referrals to the Departmental Enforcement Center. The new protocol streamlined procedures and placed an increased focus on enforcing corrective action at properties scoring in the sub-standard range. As a result, the Departmental Enforcement Center received almost 1000 physical inspection referrals or 2.5 times the number of referrals made during FY 2002. Of these, nearly 200 were properties scoring in the "troubled" range (less than 30 points out of a possible 100 points) with the other 800 referred properties scoring in the sub-standard range (between 31-59 points). This increased enforcement activity contributed to the one percent reduction in the percentage of substandard properties in the HUD-supported multifamily housing portfolio.

- 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, 2003, associated with the current (fourth) cycle of PHAS 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)
Above Standard	22%	33%	38%	38%
Standard	61%	58%	55%	55%
Sub-Standard	17%	9%	7%	7%

Currently, 93 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 2003, 90 percent of public housing residents surveyed were satisfied or very satisfied with their "overall living conditions."

During FY 2003, HUD revised its physical inspection process 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 response to HUD within three business days. In FY 2003, 98 percent of the detected multifamily housing deficiencies were corrected or mitigated, nationwide.

As of the end of FY 2003, 91.8 percent of public housing units and 92.8 percent of assisted multifamily units had functioning smoke detectors and were in buildings with functioning smoke detection systems. These data represent a 0.4 percentage point increase for both public housing and 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 who 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 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 2003:

- Entitlement communities used 94.8 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 2002 level of 94.4 percent.
- State grantees used 96.7 percent of their CDBG funds for activities that benefit low- and moderate-income persons. That level is slightly below the goal of 98.0 percent, though this level of benefit is up from FY 2002's level of 96.4 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 2003:

- An estimated 158,824 homeless persons moved into HUD-funded transitional housing, far exceeding the goal of 115,000. 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.
- 50,192 homeless persons became employed while in HUD's homeless assistance projects, exceeding the goal of 19,000.
- 34,307 homeless adults moved into HUD-funded permanent housing.
- 45,217 homeless adults left HUD's transitional housing and moved into other permanent housing, exceeding the goal of 29,000.
- Approximately 94,442 homeless persons receiving HUD-funded supportive services moved into permanent housing. This goal was met as a result of HUD's emphasis on permanent housing and by encouraging local communities to use HUD funds to move homeless persons to permanent housing.

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 way 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. The collection of baseline data initiated in FY 2003 will be completed and verified in FY 2004.

Job Creation and Retention was a continuing focus of community recipients of HUD grant and loan funds in FY 2003, with the following activity reported:

- 108,684 full-time-equivalent jobs were created or retained with CDBG funds during the fiscal year.
- The aggregate total number of jobs to be created or retained through approved applications for Section 108 Loan Guarantee assistance in FY 2003 was 11,730.
- 22 communities that were awarded Brownfields Economic Development Initiative grants in FY 2003 projected the grants would result in the creation of 7,000 jobs.

Moving People to Self-Sufficiency is also a benefit of HUD's community-oriented programs, including the following FY 2003 activities:

- 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 178 new Neighborhood Networks centers during FY 2003. 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 23,180 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 26 percent to over 111,000. 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 2003:

- Under the Healthy Homes Grant Program, thirty-nine grants and two interagency agreements have become operational since the program's inception. To date: 37,781 clients have been served by Healthy Homes grant programs; 4,203 units have been assessed; and 1,176 interventions (homes treated for hazards) have been completed. Over 424,000 individuals have been reached through Healthy Homes projects and over 2,600 individuals have been trained in the assessment and mitigation of healthy homes hazards.
- The Lead Hazard Control Grant Program completed 9,098 lead-safe units (homes), 20 percent more than the goal of 7,600 for FY 2003.

Ensuring Equal Opportunity to Housing

HUD ensures equal opportunity in housing for Americans by enforcing the Fair Housing Act (Title VIII) provisions for the private housing market, and provisions of Title VI and Section 504 of the Rehabilitation Act for HUD-administered 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 in 33 percent of rental transactions.

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 there is relatively widespread, if not universal, knowledge of certain fair housing protections and prohibitions, yet the public understands some areas of the law such as protections for families with children much less well than others. Using this information as a baseline, HUD will perform a similar survey in FY 2004 to ascertain whether public awareness has increased since 2000.

Investigation and Enforcement Activity HUD investigates and resolves complaints of alleged housing discrimination from 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 2003, HUD's Office of Fair Housing and Equal Opportunity:

- Completed 1,060 enforcement actions, an increase from the FY 2002 level of 1,010 and exceeding the goal of 1,000 enforcement actions.
- Reduced the percentage of aged cases over 100 days to 19 percent of open cases, compared to 29 percent at the end of FY 2002.

HUD also provides Fair Housing Assistance Program (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.

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 and the Americans with Disabilities Act. During FY 2003, FHIP grants served to increase the number of FHAP agencies that are certified by two, from 96 to 98.

During FY 2003, the FHAP grantees' aged cases over 100 days were 43 percent of open cases, compared to 45 percent in FY 2002. In FY 2004, HUD will continue to assist FHAP organizations in reducing their aged case backlog. This will be accomplished through the further monitoring, training and technical assistance HUD will provide to the substantially equivalent agencies. This effort will reassure the public that if a complaint is filed action will be taken. HUD is committed to vigorous enforcement of the fair housing laws to help ensure that all households have equal access to rental housing and homeownership opportunities.

The Fair Housing Act requires public areas and some apartments in newly constructed multifamily housing to be accessible to persons with disabilities. HUD launched Fair Housing Accessibility FIRST 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 six months of training in 25 locations with a total attendance to date of 1,555. To date all training sessions have been full and the interest level housing organizations have shown for future training events evidence a strong need and growing demand for this training. In FY 2003, a total of $1.5 million was committed to carry out the training and technical guidance program.

Assuring HUD Programs are Free of Discrimination Fair Housing and Equal Opportunity 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 manner that prevents discrimination. Title VI prohibits discrimination based on race, color, or national origin, whereas Section 109 also forbids discrimination on the basis of sex and religion. If non-compliance is found, it is resolved through voluntary compliance agreements. During FY 2003, 50 reviews were completed to meet HUD's goal.

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 2003, HUD completed 75 compliance reviews. This is five less than was projected, due to a reduction in travel resources during the last quarter of FY 2003.

Meeting Management Challenges to Improve Program Delivery

HUD management, the U.S. General Accounting Office and the HUD Office of Inspector General agree that HUD needs to improve the management of human capital, information systems and service acquisition to support enhanced delivery of it's 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, a sixth HUD-specific initiative to correct long-standing Department-wide weaknesses, and a seventh initiative to improve HUD's program delivery by enabling increased participation by faith-based and community organizations. A discussion of each of these initiatives follows:

Strategic Management of Human Capital. This initiative is directed at improving HUD's most important asset, its "human capital." Significant steps were taken to better use HUD's existing staff capacity and to obtain, develop, and maintain the capacity necessary to adequately support HUD's future mission-critical program delivery. 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 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 2003, HUD:

- Issued a five-year Strategic Human Capital Management Plan, and initiated a comprehensive workforce analysis that will produce a workforce plan for the core program business offices.
- Continued successful implementation of its intern programs to maintain a constant flow of promising, talented individuals to support and ensure a productive workforce now and into the future. At the end of FY 2003, HUD retained 257 of the 268 interns on-board at the beginning of the year, or over 95 percent. In addition, more than 30 interns were hired or converted to full time positions.
- Delivered the first course in the "Operation Brain-Trust" Program. This course, covering HUD's mission and major programs, was attended by approximately 700 employees nationwide. The Operation Brain Trust Program is designed to capture the critical knowledge of experienced HUD professionals and deliver that knowledge to new-less experienced employees before experienced employees retire.
- Developed the Emerging Leaders Program to select thirty candidates who will begin a series of classes in FY 2004 to prepare them to replace HUD's current leadership ranks that are eligible and will retire in the next five years.

Competitive Sourcing. This initiative promotes the increased use of competitive public-private cost comparison studies 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 initial approved 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 study. Given that HUD has no existing experience or capacity to support the competitive sourcing process, FY 2003 was devoted to:

- Identifying initial potential study areas;
- Establishing a minimum staff capacity to direct HUD's competitive sourcing activity;
- Obtaining the contract assistance necessary to support the future conduct of studies at HUD; and
- Completing feasibility analyses on the 22 initial study candidates to identify the one or two most beneficial candidates for announcement and conduct of a competition in FY 2004.

Improved Financial Performance. This initiative is directed at: improving and accelerating financial reporting and audit results; resolving material weaknesses and improving internal controls; strengthening funds control and financial systems compliance; and reducing erroneous payments. HUD's significant FY 2003 accomplishments included:

- Accelerated issuance of the audited FY 2003 financial statements for FHA, Ginnie Mae and the Department;
- Receipt of an unqualified audit opinion on the HUD consolidated FY 2003 financial statements for the fourth consecutive year;
- A reduction of auditor-identified material weakness issues from three to two, and a reduction in reportable conditions from ten to seven.
- Issuance of the first update of the Administrative Control of Funds Handbook in 20 years, with provision of funds control training, development of funds control plans for all allotments, and plans for cyclical testing of funds control plans.
- Completion of the general ledger phase of the FHA Subsidiary Ledger Project on schedule in October 2002, with other phases of the project progressing to provide funds control and improve management reporting and integration with program systems.
- Initiation of the HUD Integrated Financial Management Improvement Project by the Chief Financial Officer, to plan for the next generation core financial management system to modernize or replace the existing core systems, including the HUD Central Accounting and Program System.
- A 30 percent reduction in the $2.3 billion in estimated gross annual erroneous payments of rental housing assistance attributed to program administrator errors in tenant income and rent determinations (see Footnote 17 to HUD's Financial Statements).
- Reduction in travel card delinquencies to lead the government, with improvement of controls over purchase card use.
- Initiation of the first Department-wide erroneous payments risk assessment, in accordance with the Improper Payments Information Act of 2002 (see Appendix 5 on Erroneous Payment Reduction Activities).

Expanded Electronic Government. While HUD is pursuing increased electronic commerce and actively participating in government-wide "eGovernment" projects, this initiative also focuses on more fundamental, HUD-specific needs to: improve the information technology capital planning process; complete a systems modernization blueprint or enterprise architecture to guide future systems development; convert to performance-based information technology service contracts and strengthen information technology project management to produce better results; and provide a secure systems environment for all platforms and applications. FY 2003 accomplishments included:

- HUD established measures for tracking its participation and performance on 15 major eGovernment projects that support the President's Management Agenda objectives to simplify the delivery of services to citizens, enable the agency's business processes to be more efficient, and reduce costs through integration and elimination of redundant systems

- All of HUD's 35 major information technology projects were within 30 percent of their cost, schedule and performance objectives, with nearly half (46%) of these projects within 10 percent of their cost, schedule and performance objectives, based on the most recent quarterly review.
- Regarding systems security, HUD: 1) completed and verified the list of sensitive systems; 2) conducted an external penetration test; and 3) completed and submitted its Annual Report under the Federal Information Systems Management Act. In addition, actions were initiated to complete entity-wide security training and a systems security accreditation and certification process in FY 2004.
- HUD's Data Quality Improvement Program met its goal of certifying an additional eight systems. Cumulatively, 15 systems have been assessed and 12 certified through the end of FY 2003, with a focus on systems that produce data for this annual performance report.

Budget and Performance Integration. This 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. During FY 2003, HUD accomplished the following:

- Updated the HUD Strategic Plan in the spring of 2003, in consultation with the Congress and other stakeholders, to better focus on HUD's core mission.
- Subjected 12 HUD programs to the Office of Management and Budget's Program Assessment Rating Tool process, with initiation of plans to improve scores on several program areas.
- Developed HUD's FY 2004 budget submission in both the traditional and a performance-based format.
- Continued to pursue ways to improve the integration of performance with the budget in developing the FY 2005 budget.

HUD continues to work with the Office of Management and Budget to develop efficiency measures for major programs and to reduce and focus performance measures covering the Department's core Strategic Plan goals and objectives.

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

Improved Housing Intermediary Performance. HUD and its housing partners have already achieved the original housing quality improvement goals through FY 2005 and have raised the bar with new goals. The percentage of assisted multifamily housing projects meeting HUD's housing quality standards has risen from 87 percent to 95 percent, while the percentage of public housing projects has improved from 83 percent to 93 percent. Improvements continue to be made to the PHAS, SEMAP, and multifamily management oversight processes for assessing and acting on program administrator performance and compliance.

Reduced Rent Subsidy Overpayments. HUD has developed a comprehensive plan for reducing the originally estimated $2 billion in net annual rental housing assistance overpayments attributed to program administrator processing error and tenant underreporting of income. Congressional approval of HUD's 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. Significant actions to date include: the Office of Public and Indian Housing's conduct of over 700 Rental Integrity Monitoring reviews at PHAs managing over 80 percent of Public and Indian Housing's funding; Public and Indian Housing's implementation of the Upfront Income Verification System using State wage data; and the Office of Multifamily Housing's increased monitoring through the expanded use of Performance-Based Contract Administrators.

Based on a study of program activity in the first half of FY 2003, it is estimated that the gross error by program administrators has been reduced by over 30 percent, from $2.2 billion to $1.5 billion. HUD is also taking action to measure and reduce the extent of billing error in these programs.

Improved FHA Risk Management. Several new risk management rules have been proposed or completed to protect both the FHA fund and homebuyers from predatory lending practices like property flipping. Under the new "Appraiser Watch" process, appraisers with poor performance records are automatically targeted for monitoring. Appraisers violating FHA standards will be disqualified from program participation. FHA is also implementing a measure of the effectiveness of its targeted compliance monitoring efforts. FHA's new automated underwriting system, the Technology Open To Approved Lenders Scorecard, will be made available to all lenders for implementation by the end of December 2003. The Scorecard will improve the automated underwriting process to increase lender efficiency and decrease losses to the FHA fund through more consistent, objective evaluations of the credit worthiness of borrowers, and better integration of the automated underwriting systems usage into FHA's existing processes and workflow. FHA also believes that the objectivity and broad availability of the Scorecard will increase homeownership opportunities for underserved borrowers.

Fewer Meaningless Compliance Burdens. HUD is closely working with local program stakeholders to make the Consolidated Plan requirement more results-oriented and useful to communities in assessing their own progress toward addressing the problems of low-income areas. Pilot efforts are being tested in communities and will be evaluated as inputs to the development of legislative and/or regulatory change proposals that will provide a results-oriented planning and reporting system nationally for major grant programs.

Improved Acquisition Management. HUD acquires over $1 billion in contracted services and goods each year. As part of an overall strategy to improve HUD's acquisition management, actions are being taken 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 that its financial management information systems provide complete and reliable obligation and expenditure information on HUD's contracting activities. 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 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 Faith-Based and Community Organization participation; targeting pilot program efforts where Faith-Based and Community Organizations stand to make a substantive contribution; and collecting data and evaluating Faith-Based and Community Organization participation and results. To date, HUD has:

- Established and trained a network of Faith-Based and Community Initiative Liaisons in its 81 regional and field offices;
- Compiled an outreach list of approximately 8,000 Faith-Based and Community Organizations;
- Completed a data collection design;
- 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;
- Scheduled grant writing workshops for Faith-Based and Community Organizations;
- Initiated plans to increase Faith-Based and Community Organization participation in the HUD SuperNOFA (Notice of Funding Availability) and as sub-recipients of block grant programs;

Risks, Trends, and Factors Affecting HUD Goals

- Presented the strategic goals and objectives of this presidential initiative at over 92 national regional, and local conferences and workshops; and
- Finalized the concept for the "Reaching the Dream" homeownership pilot.

These and other efforts are continuing to further HUD's mission through increased participation by Faith-Based and Community Organizations.

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 or 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 signal a weakening of the economy. Lower interest rates do usually increase the number of re-financings, thus reducing the *share* of new loans going to first-time buyers, even if their numbers rise. Record low interest rates during FY 2003 caused an unusually high number of homeowners to refinance their mortgages. While FHA exceeded its expected business volume for total single-family mortgage insurance endorsements in 2003, it fell short of its goal for endorsing home-purchase mortgages for first-time homebuyers. Refinancing transactions are less costly and less time-consuming than purchase transactions where deed and titles must be recorded, so lenders may have concentrated on this business. In addition, FHA has a streamlined refinancing program that requires no new appraisal, and further encourages an increased volume of refinancing activity. The number of mortgages processed and submitted for insurance to FHA was thus much greater for re-financed mortgages than for home purchase mortgages. FHA will continue its 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 2003, FHA was able to help increasing numbers of homeowners experiencing financial difficulties to resolve their mortgage defaults instead of foreclosing. 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. 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.

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 at least 5 years, local rental markets vary 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. 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. Since tenant-paid rents are established as a percent of income in HUD's rental assistance programs, lower incomes necessitate greater subsidies. With the number of renters with worst case housing needs far exceeding the available funds, and with the pressure of welfare reform, the success of HUD's efforts in this area will be highly dependent on the ability of the economy to continue to generate jobs with decent wages.

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 have 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 2003, a direct influence on its 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

Social, cultural and economic conditions influence the acceptance of minorities, persons with disabilities and other protected classes. In addition, disparities in wealth and income levels among groups contribute to the inability of some persons to purchase a home, obtain affordable and/or accessible rental housing, and realize economic opportunity.

HUD depends upon the Department of Justice as well as state and local government partners to assist in furthering fair housing. State legislation that is substantially equivalent to the Federal Fair Housing Act is critical to increase the Nation's capacity to effectively enforce fair housing laws. State regulation of finance, insurance and real estate also affects fair housing and homeownership within specific populations or neighborhoods. FHA has worked to ensure equal housing opportunities through targeted marketing and outreach activities to un-served and underserved markets.

Local policies, including land use controls and accessible building code enforcement, will continue to influence levels of discrimination, income isolation, and disparities in homeownership rates. The private sector likewise plays a central role in achieving fair housing outcomes. Businesses which adopt fair housing policies and practices go far to promote justice. Finally, some individuals continue to discriminate because they lack awareness of their fair housing responsibilities. HUD continues its education and outreach efforts to increase awareness of and compliance with fair housing laws.

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 most jobs requiring high skill levels, while many persons seeking employment are looking for low-skill jobs. The changing structure of the global economy has made it challenging for communities to compete when capital is highly mobile, markets for goods and services are widely dispersed, and wages for low-skilled employment are much lower in many locations abroad.

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. Job development is complicated by large concentrations of poor residents. School systems struggle to provide the education and job skills essential for their students, but in many cases, have fewer resources as tax bases decline and capital maintenance costs increase. Crime, whether real or perceived, deters businesses from locating in these communities. The extent to which residents of areas of concentrated poverty are increasingly minorities may add barriers of racial discrimination to the mix. Rural communities 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, including the Community Development Block Grants (CDBGs), 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. While HUD and communities have improved the timely use of available funding, Congressional delays in issuing annual appropriations of funding for HUD programs affect the timing of the award and use of those funds.

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.

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.

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.

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 13 percent to 20 percent of the population 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 will be moving into communities at a time when affordable housing is increasingly scarce.

HUD Management Challenges

Improving the efficiency and effectiveness of HUD's important program delivery requires that HUD both ensure operational consistency in reforms it has already instituted, and complete effective 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 complete the comprehensive workforce analysis and execute its Strategic Five-Year Human Capital Management Plan to assure mission critical functions are adequately staffed and performed. Succession planning is critical, in light of the fact that HUD has an aging workforce where over 40 percent of the employees are eligible to retire.

It is also essential that HUD continue 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, and to provide increased 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 Information Technology investments. However, it is 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 mission. It is also important that HUD increase and 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 have been outsourced at HUD.

Analysis of Financial Condition and Results

This section covers:

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

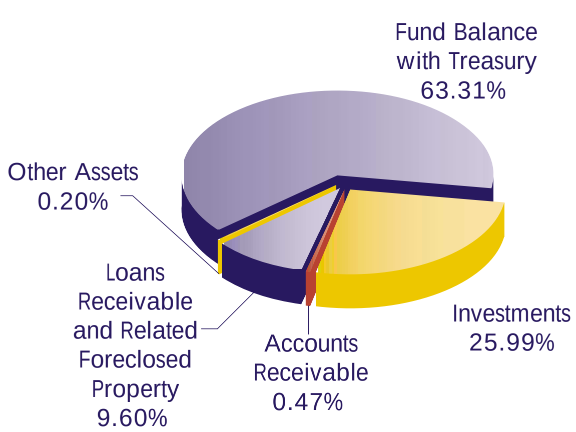
Summarized Financial Data

(Dollars in Millions)

	2003	2002
Total Assets at End of FY	$120,763	$118,377
Total Liabilities at End of FY	$30,134	$28,834
Net Position at End of FY	$90,629	$89,543
FHA Insurance-In-Force	$490,125	$563,379
Ginnie Mae Mortgage-Backed Securities Guarantees	$473,908	$568,351
Non-FHA / Ginnie Mae Commitments	$77,489	$83,702

Analysis of Financial Position

Composition of HUD Assets



HUD's FY 2003 total assets of $120.8 billion are predominantly comprised of its fund balance with Treasury ($76.5 billion) and Investments ($31.1 billion). The fund balance represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities.

The Investments of $31.3 billion 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).

Accounts Receivable of $569 million 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.

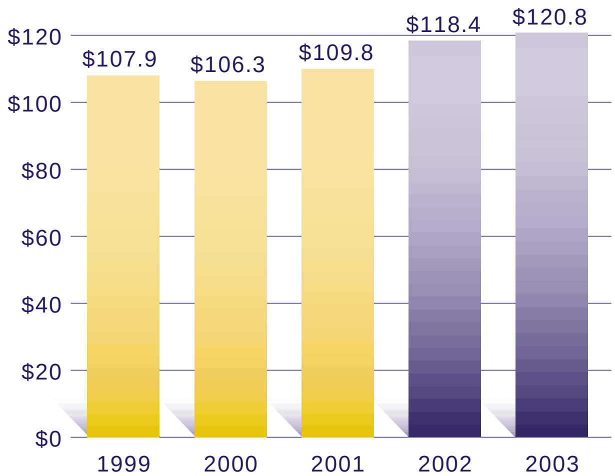
Loans Receivable and Related Foreclosed Property of $12.0 billion are generated by HUD's support of construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program, and FHA credit program receivables.

Remaining assets of $331 million include Cash; Other Monetary Assets; Property, Plant, & Equipment; and Other Assets.

Trends in Assets

Total Assets increased 2.02 percent ($2.4 billion) from $118.4 billion at September 30, 2002 to $120.8 billion at September 30, 2003.

Total Assets Trend
(Dollars in Billions)

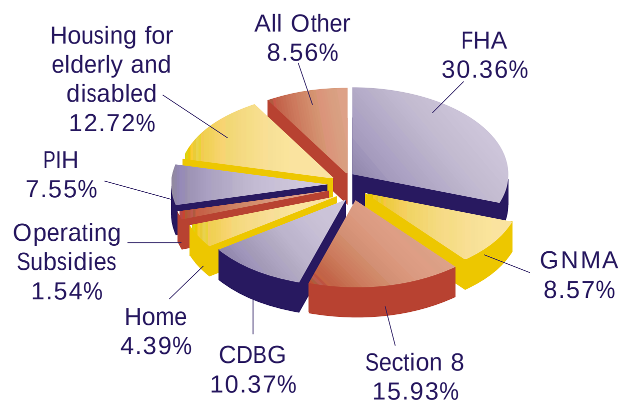


The net increase was due primarily to an increase of 10.3 percent ($2.9 billion) in investments from $28.3 billion at September 30, 2002 to $31.2 billion at September 30, 2003 and a decrease of 1.5 percent ($1.1 billion) in fund balance with Treasury from $77.6 billion at September 30, 2002 to $76.5 billion at September 30, 2003.

Assets by Responsibility Segments

HUD's $1.2 billion fund balance decrease was due to fund balance decreases in the following programs: FHA ($1,664 million), Community Development Block Grant (CDBG) ($677 million), Public and Indian Housing (PIH) ($590 million), and All Other ($237 million). The HUD programs that did experience a fund balance increase were Government National Mortgage Association (GNMA) ($423 million), Section 8 ($478 million), HOME ($378 million) Operating Subsidies, ($179 million), and Housing for Elderly and Disabled ($536 million). The decrease was primarily attributable to increased program expenditures that consumed both new appropriations and portions of pre-existing funding during FY 2003.

Assets by Responsibility Segments



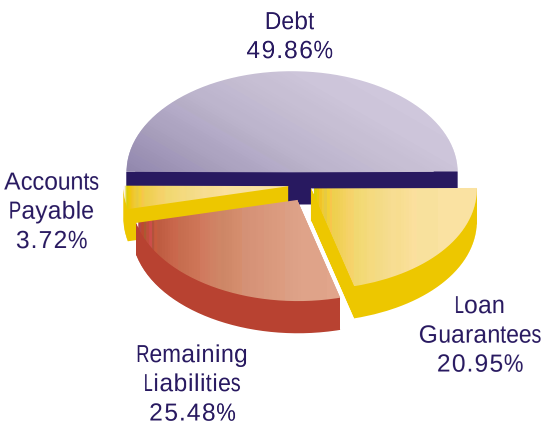
HUD's $2.9 billion investments increase was due to investments increases in the following programs: FHA ($2,636 million) and GNMA ($282 million).

Composition of HUD Liabilities

HUD's Total Liabilities of $30.1 billion consists of $15.0 billion in debt, $6.3 billion in loan guarantee liabilities, $1.1 billion in accounts payable, and $7.7 billion in other liabilities. HUD's debt in the chart above includes intra-governmental debt of $12.8 billion and debt held by the public of $2.2 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.

Composition of HUD Liabilities



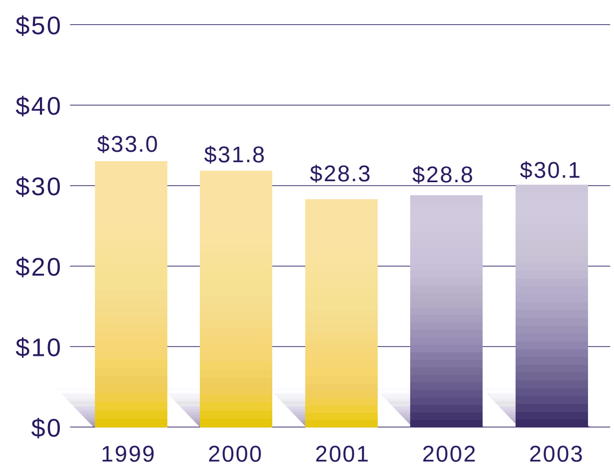
The Loan Guarantee Liability consists of the Liability for Loan Guarantees related to Credit Reform loans made after October 1, 1991 and the Loan Loss Reserve related to guaranteed loans made before October 1, 1991. The Liability for Loan Guarantees and the Loan Loss Reserve are both comprised of the 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.

Remaining Liabilities of $7.7 billion consist primarily of Insurance Liabilities, Federal Employee and Veteran Benefits, and Other Liabilities.

Trends in Liabilities

Total Liabilities increased 4.5 percent ($1.3 billion) from $28.83 billion at September 30, 2002 to $30.13 billion at September 30, 2003.

Total Liability Trend
(Dollars in Billions)



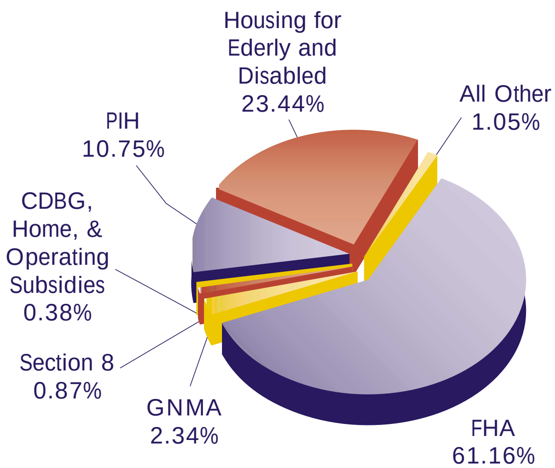
The increase was due to an increase of $2.5 billion in Loan Guarantees, and $1.1 billion in Debt offset by a decrease of $2.0 billion in remaining Liabilities and $.02 billion in Accounts Payable.

Liabilities by Responsibility Segments

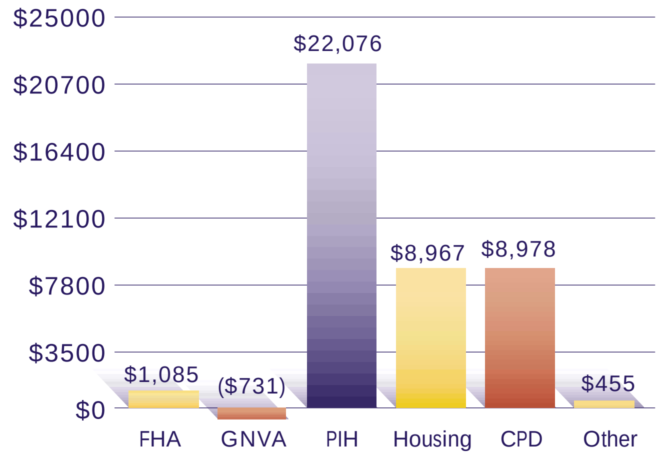
The $2.5 increase in loan guarantees was primarily due to an overall increase in loan guarantees for FHA programs. The $1.1 billion increase in HUD debt (repayments exceed new borrowings) was primarily due to a $1.5 billion increase in FHA debt offset partially be a decrease of $0.4 billion in Public and Indian Housing.

In FY 2003 FHA reclassified the General Insurance/ Special Risk Insurance special receipt account liability fro Account Payable to Other Intragovernmental Liabilities. As a result of this reclassification the FY 2002 balance sheet has been restated to show the reclassification of $3.1 billion as Other Intragovernmental Liabilities.

Liabilities by Responsibility Segments



Net Cost by Reporting Segment
(Dollars in Millions)



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 2003 Net Position of $90.6 billion represents a 1 percent ($1.0 billion) increase over FY 2002. This increase is primarily attributable to a $1.7 billion increase in cumulative results of operations (Financing Sources in excess of Net Cost of Operations) and a $654 million decrease in Unexpended Appropriations.

Net Cost of Operations

HUD's Net Cost of Operations 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).

HUD's total Net Cost for FY 2003 was $40.8 billion. Of this amount, 52 percent ($21.0 billion) was spent in support of the Section 8 program (administered jointly by the Housing, Community Planning and Development, and Public and Indian Housing programs). Total HUD Net Costs include FHA net costs of $1.1 billion, attributable to FHA's upward re-estimate of the anticipated long-term costs of its insurance programs.

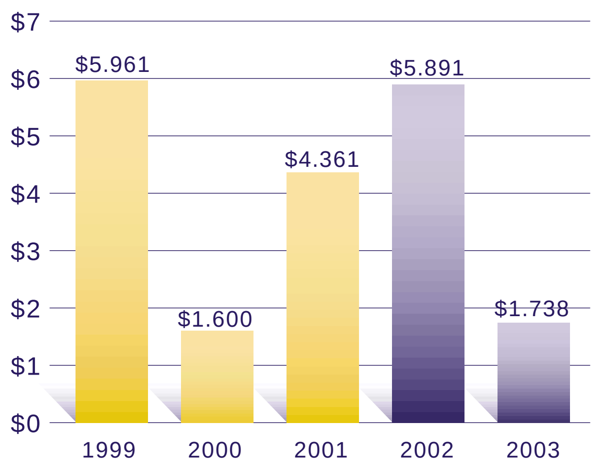
Financing Sources

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 2003 totaled $42.6 billion. This amount is comprised primarily of $43.2 billion in Appropriations Used, offset by approximately $620 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 70 percent decrease in Net Results of Operations of $1.7 billion during FY 2003. The significant year-to-year fluctuation shown below 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.

Net Results of Operations
(Dollars in Billions)



Unexpended Appropriations

HUD's unexpended appropriations, which decreased 1 percent from $65,407 million in FY 2002 to $64,753 million in FY 2003, 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.

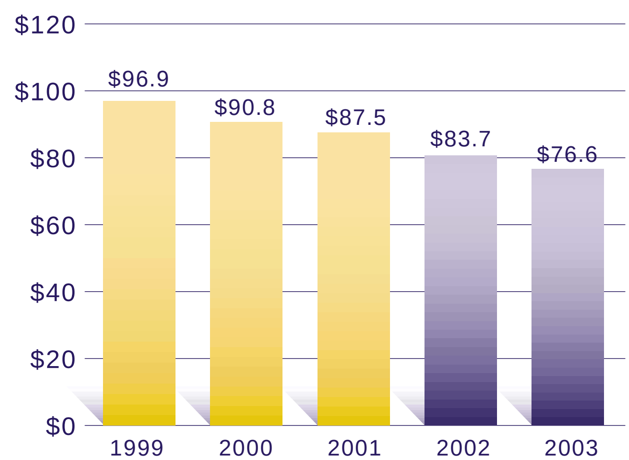
Analysis of Off-Balance-Sheet Risk

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 $76.6 billion in FY 2003 represents HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. Administrative Commitments (reservations) of $3.8 billion relate to specific projects for which funds will be provided upon execution of the related contract.

Contractual 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 budget authority, 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 fiscal year 1988. Since fiscal 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.

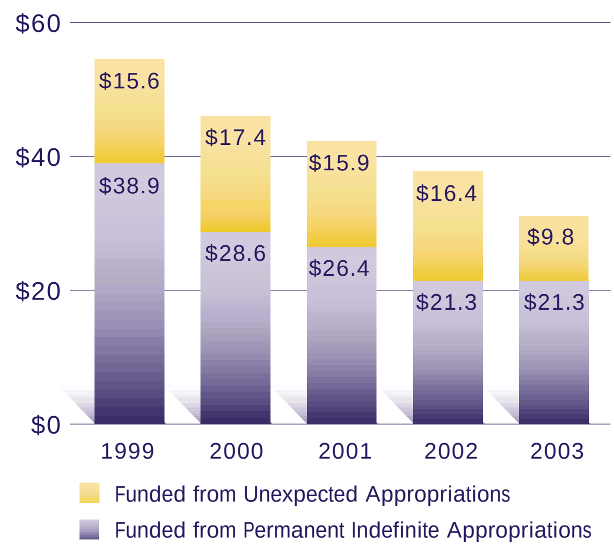
Total commitments (administrative and contractual) decreased $8.9 billion or 10 percent during FY 2003. The change is attributable to a decrease of $6.5 billion in Section 8 commitments, a decrease of $1.1 billion in Community Development Block Grant, Public and Indian Housing, and Section 202 combined, and a decrease of $1.7 billion in All Other commitments partially offset by a $430 million increase in HOME and Operating Subsidies commitments.

To contain the costs of future Section 8 contract renewals, the Department began converting all expiring contracts to 1-year terms during fiscal year 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.

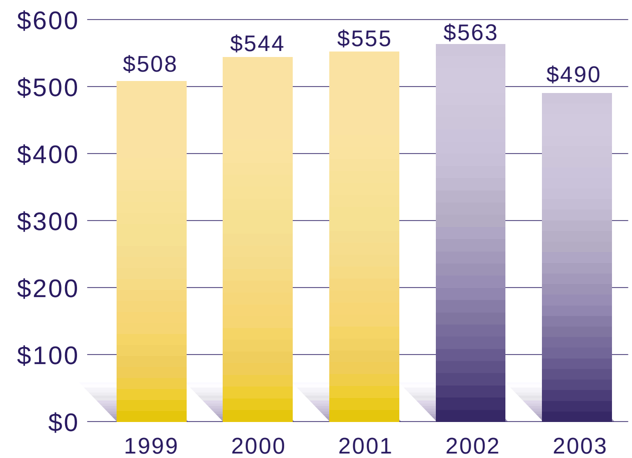
FHA Insurance in Force

FHA's total insurance-in-force decreased $73 billion or 13 percent from $563 billion in FY 2002 to $490 billion in FY 2003. 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 2003 due to the decline in interest rates and house price appreciations. Most of this decrease ($63.0 billion) was in the Mutual Mortgage Insurance fund, which comprises 83 percent of FHA's total insurance-in-force

Section 8 Contractual Commitments
(Dollars in Billions)



FHA Insurance in Force
As of September 30
(Dollars in Billions)



Ginnie Mae Guarantees

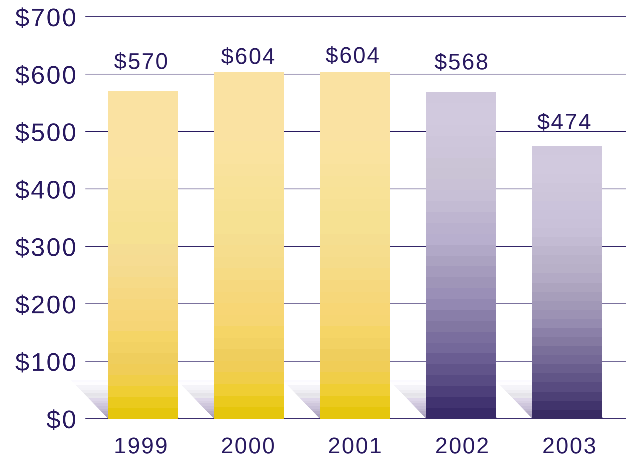
Ginnie Mae financial instruments with off-balance sheet risk include guarantees of Mortgage-Backed Securities and commitments to guaranty Mortgage-Backed Securities. The securities are backed by pools of FHA-insured, Rural Housing Service-insured, and Veterans Affairs-guaranteed mortgage loans. Ginnie 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, 2003 and 2002, was approximately $474 billion and $568 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, 2003 and 2002 were $46.4 billion and $43.2 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 FY 2003 and 2002, Ginnie Mae issued a total of $106 billion and $122.2 billion respectively in its multi-class securities program. The estimated outstanding balance at September 30, 2003 and 2002, were $109 billion and $214.40 billion, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the Mortgage-Backed Securities program.

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



2. Performance Information

Overview: Strategic Framework and Performance Data Reliability

Reporting on Progress toward Strategic Goals

The second part of HUD's FY 2003 Performance and Accountability Report gauges actual performance relating to the program indicators and targets published in the Department's FY 2003 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 has been improved. The data discussions contained in this section now 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 achieved.

Organization of Strategic Goals and Objectives

The strategic framework in place during HUD's FY 2003 performance period was the following eight-goal interim structure. For FY 2004 and following years, a six-goal structure has been established by *the HUD Strategic* Plan FY 2003–FY 2008.[2]

---

[1] Appendix A of HUD's FY 2004 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 2003 Strategic Framework

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

Strategic Goal 2	Strategic Goal 3	Strategic Goal 4	Strategic Goal 5	Strategic Goal 6	Strategic Goal 7	Strategic Goal 8	
complicated, the paperwork less demanding and the mortgage process less expensive.	Help families move from rental housing to homeownership.	Improve the quality of public and assisted housing and provide more choices for its residents.	Strengthen and expand faith-based and community partnerships that enhance communities.	Effectively address the challenge of homelessness.	Embrace high standards of ethics, management and accountability.	Ensure equal opportunity and access to housing.	Support community and economic development efforts.
Objectives Strategic	**Objectives Strategic**	**Objectives Strategic**	**Objectives Strategic**	**Objectives Strategic**	**Objectives Strategic**	**Objectives Strategic**	**Objectives Strategic**
1.1 Reform Real Estate Settlements Procedures Act rules. 1.2 Eliminate practices that permit predatory lending.	2.1 Expand national homeownership opportunities. 2.2 Expand homeownership opportunities for minorities and persons with disabilities. 2.3 Increase the availability of affordable rental housing.	3.1 Help families in public and assisted housing make progress towards self-sufficiency and become home-owners. 3.2 Improve the management accountability for public and assisted housing. 3.3 Improve physical and related conditions in public and assisted housing.	4.1 Ensure equal access to HUD resources for faith-based and grassroots non-profits. 4.2 Improve HUD's programs by increasing the involvement of faith-based and community organizations	5.1 End chronic homelessness in ten years. 5.2 Help homeless individuals and families move to permanent housing. 5.3 Expand efforts to prevent households from becoming homeless.	6.1 Improve HUD's management and internal controls, includ-ing FHA's financial management, and resolve audit issues. 6.2 Improve accountability, service delivery and customer service of HUD and our partners.	7.1 Reduce housing discrimination. 7.2 Improve the accessibility of housing to persons with disabilities. 7.3 Improve housing options for the elderly.	8.1 Provide capital to create and retain jobs to improve economic conditions in distressed communities. 8.2 Help communities more readily access revitalization resources to become more livable.

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 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 now 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 or fully accurate data availability, 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 Bureau of Census. 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 2003 Annual Performance Plan 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 creates 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 has and is expanding our 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 compared 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 recently completed "quality control" study of rent determination errors in HUD's housing programs has 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 2003 research efforts and findings.

Goal 1:
Make The Homebuying Process Less Complicated, The Paperwork Less Demanding And The Mortgage Process Less Expensive

Strategic Objectives

1.1 Reform Real Estate Settlements Procedures Act (RESPA) rules.

1.2 Eliminate practices that permit predatory lending.

Performance Report Card - Goal 1

	Performance Indicators	2000	2001	2002	2003	2003 Target	Substantially Met	Notes
1.1.1	Publication of a RESPA revised rule to simplify disclosure							g
1.1.2	Average closing cost of FHA-insured single-family mortgages							a, b, f
1.2.1 (a)	Publication of rule restricting FHA endorsement of properties being sold within 90 days after acquisition						√	
1.2.1 (b)	Enhancement of CHUMS to prevent FHA endorsement for properties being sold within 90 days after acquisition						√	
1.2.2	Publication of a RESPA revised rule to limit fees charged on FHA-insured single-family mortgages							a

(Values represent fiscal year data unless otherwise noted.)

- 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 ending in the current fiscal year.
- e Calendar year ending the previous fiscal year.
- 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.

Objective 1.1: Reform Real Estate Settlement Procedures Act (RESPA) rules.

1.1.1: The Department will implement regulations to simplify disclosure of settlement charges, and thus allow consumers to shop effectively for mortgage loans.

Background. Buying a home is often the most expensive transaction a consumer will enter into, and the current disclosure requirements under the RESPA may not provide information to consumers early enough in the settlement process to enable them to shop effectively and make meaningful comparisons between loan products. These concerns are exacerbated by the fact that home purchases are infrequent transactions, so consumers have little or no experience in shopping and obtaining a loan with the lowest settlement costs.

The Good Faith Estimate required under RESPA is usually mailed too late in the mortgage process for the consumer to compare settlement costs, because often the consumer pays a nonrefundable fee at application. In addition, the Estimate is not binding on the lender; actual closing costs may vary by any amount. Thus, the consumer may be surprised at settlement with charges that are higher than previously disclosed, and in some cases, not disclosed at all.

HUD's Office of Consumer and Regulatory Affairs tracks consumer complaints about fees charged at settlement. In approximately 15 percent of the complaints the Division receives, consumers complain about fees they were charged at settlement, often stating they were given a Good Faith Estimate of costs that underestimated the closing costs that they were ultimately charged. Simplifying the required disclosure process will allow consumers to compare settlement costs and as a result, the mortgage process should become less expensive.

On July 29, 2002, HUD issued a proposed rule that would simplify and improve the mortgage loan process by: (1) fundamentally changing the way in which lender payments to mortgage brokers are recorded and reported to consumers; (2) significantly improving the Good Faith Estimate settlement cost disclosure by making it firmer and more usable; and (3) promoting competition by removing regulatory barriers to allow guaranteed packages of settlement services and mortgages to be made available to consumers, to simplify shopping by consumers and further reduce settlement costs.

The FY 2003 performance goal was to publish revised RESPA regulations to simplify disclosure of settlement charges by the end of FY 2003.

Results and analysis. HUD received thousands of comments (nearly 45,000) from industry, consumers and other interested persons during the official comment period, which ended October 28, 2002. Some large industry organizations were opposed to the single package approach while others were opposed to the changes to the Good Faith Estimate. HUD frequently met with organizations representing consumer interests and the mortgage finance industry in the process of formulating the final rule during the comment period. The Department carefully considered the comments made during these meetings, as well as all public comments submitted on the regulation, in drafting the final rule.

During the rulemaking process, the Office of Consumer and Regulatory Affairs was also inundated with Congressional and other correspondence concerning the proposed RESPA rule that had to be answered in a timely manner. Moreover, the National Association of Realtors began a letter writing campaign toward the end of the fiscal year. The National Association of Realtors submitted over 11,000 comments from realtors nationwide. The Office of Consumer and Regulatory Affairs was responsible for answering those letters and numerous other individual letters from real estate agents.

The Department did not issue a final rule during FY 2003, but remains committed to simplifying disclosures to consumers, promoting competition and lowering settlement costs. The rule is extremely controversial, but HUD recognizes that RESPA reform is necessary and the Office of Consumer and Regulatory Affairs will continue to advance this high priority of the Secretary.

Data discussion. Accomplishment of this milestone goal will be marked by publication of the rule in the federal register.

1.1.2: Average closing costs for FHA loans goes down from FY 2001 – FY 2006.

Background. Reducing the closing costs that home purchasers must pay will make homeownership more affordable to all Americans. HUD is issuing new regulations under the RESPA to reduce closing costs by subjecting the loan and settlement process to greater competition. This indicator will track changes in total closing costs for FHA loans resulting from RESPA reform and increased enforcement.

The settlement package of paperwork that home purchasers must sign includes a RESPA-mandated HUD-1 form that documents closing costs. Closing costs typically are associated with loans, title insurance, attorneys, settlement agents, taxes, escrow accounts, and other payments in the transaction. The Office of Policy Development and Research currently is producing a closing cost database based on the HUD-1 forms in case binders of FHA loans. This database will support statistical analysis of closing costs and enable HUD to establish a baseline for assessing progress in reducing transaction costs of homeownership.

Results and analysis. The data collection phase for the closing cost database is currently underway. A statistically representative baseline of closing costs in FY 2001 is scheduled to be available for reporting in the FY 2004 Performance and Accountability Report.

Data discussion. The data for this measure will come from the Policy Development and Research Closing Cost Study Database, based on a representative sample of HUD-1 forms from 10,000 FHA loans. A limitation of this database is that it will cover only FHA loans, while RESPA applies to all home mortgage transactions. The research contract includes quality control components to prevent problems arising from classification errors in the HUD-1 forms. The Office of Policy Development and Research will review and analyze the data for consistency and inputting errors.

Objective 1.2: Eliminate practices that permit predatory lending.

1.2.1: By the end of FY 2003, FHA will prevent the issuance of FHA mortgage insurance on properties that have been transferred within 90 days.

Background. The Department planned to publish a final rule in FY 2003 that would address the predatory lending practice of property "flipping." The practice, which is often abetted by collusion with an appraiser, occurs when a recently acquired property is resold for a considerable profit at an artificially inflated value. The final rule would establish certain new requirements regarding the eligibility of properties for Federal Housing Administration mortgage insurance.

Specifically, the rule would require that any property sold within 90 days after acquisition, with some exceptions, is not eligible for FHA financing and that only those properties purchased from the owner of record are eligible for FHA mortgage insurance. In addition, if re-sale occurs between 91 and 180 days and the new sales price exceeds the previous sales price by 100 percent or more, FHA would require additional documentation validating the property's value. The rule would provide flexibility for FHA to examine and require additional evidence of appraised value when properties are re-sold within 12 months. These changes were intended to protect FHA borrowers from becoming unwitting victims of property flipping. The performance indicator was revised to reflect the policy decision to restrict property resale within a 90-day window rather than a six-month window.

FHA collects data on the mortgage transaction through the Computerized Homes Underwriting Management System (CHUMS), accessed through the FHA Connection. FHA planned to modify CHUMS to perform an automated check to prevent FHA insurance for any property being sold within 90 days after acquisition.

Results and analysis. FHA accomplished its objective for this goal, publishing a final rule on property eligibility for FHA mortgage insurance on May 1, 2003. On October 18, 2003 FHA also implemented its planned CHUMS system modification to prevent FHA insurance on any property being sold within 90 days after acquisition. Reporting rates are near 100 percent as the lender must enter data about the mortgage transaction into the CHUMS system. During pre- and post- endorsements reviews and monitoring reviews, HUD will assure that properties transferred within 90 days are not eligible for FHA insurance, unless one of the exceptions is met. Any failure of the automated CHUMS system check to perform in the function intended will be noted and corrected.

Data discussion. Reporting of this milestone measure is based on publication of the rule in the Federal Register and upon management reports of the implementation of CHUMS modifications.

1.2.2: FHA will restrict excessive points and fees on FHA loans.

Background. The Department proposed to issue a rule that would limit the fees charged on FHA-insured single-family mortgages. FHA collects data on the mortgage transactions though the CHUMS, accessed by lenders via the FHA Connection. In general, any fees or charges exceeding 5 percent of the loan amount would make the loan ineligible for FHA insurance. FHA's goal for FY 2003 was to publish a final rule and to begin discussions with FHA's data contractor to make modifications to CHUMS that would prevent FHA insurance on loans with excessive fees and charges. Restricting excessive points and fees on FHA loans is an important element in combating predatory lending.

Results and analysis. FHA will not report progress against this performance measure. The FHA Commissioner informed Single Family Housing's Office of Program Development to withdraw its Mortgagee Letter on this topic since the same subject would be covered under revised Real Estate Settlement Procedures Act regulations. Issues that were to be addressed under this performance measure are now covered under performance indicator 1.1.1, which pertains to disclosure of settlement charges for mortgage loan products. HUD's Office of Consumer and Regulatory Affairs – Interstate Land Sales/RESPA division will report on the implementation of the revised regulations affecting disclosure of settlement charges.

Data discussion. Not applicable.

Goal 2:
Help Families Move from Rental Housing to Homeownership

Strategic Objectives

2.1 Expand national homeownership opportunities.

2.2 Expand homeownership opportunities for minorities and persons with disabilities.

2.3 Increase the availability of affordable rental housing.

Performance Report Card - Goal 2

	Performance Indicators	2000	2001	2002	2003	2003 Target	Substantially Met	Notes
2.1.1	The overall homeownership rate	67.7%	68.1%	68.0%	68.4%			b, c
2.1.2	Ginnie Mae securitization rate for FHA and Veterans Affairs loans	86.2%	97.9%	87.5%	92.4%	85.0%	√	
2.1.3	Share of FHA mortgage defaults resolved by loss mitigation	34.1%	46.1%	49.7%	50.0%	40%	√	
2.1.4	Share of all homebuyers who are first-time homebuyers.	40.1%		41.3%				a, b, e
2.1.5	Number of FHA single-family endorsements (1,000s).	921	1,067	1,288	1,338			b
2.1.6	Share of FHA mortgages going to first-time homebuyers.	81.6%	79.8%	78.0%	77.1%	80.0%		
2.1.7	Number of households who receive homeownership counseling (1,000s).	85	187	226				a, b, f
2.1.8	Homeownership rate among households with incomes below median.	52.2%	52.6%	51.9%	52.1%			b, c
2.1.9 (a)	Fannie Mae meets HUD-defined targets for low- and moderate-income mortgage purchases.	45.9%	49.5%	51.5%	51.8%	50.0%	√	d
2.1.9 (b)	Freddie Mac meets HUD-defined targets for low- and moderate-income mortgage purchases.	46.1%	49.9%	53.2%	51.4%	50.0%	√	d
2.1.10 (a)	Fannie Mae meets HUD-defined targets for special affordable mortgage purchases.	17.6%	19.2%	21.6%	21.4%	20.0%	√	
2.1.10 (b)	Freddie Mac meets HUD-defined targets for special affordable mortgage purchases.	17.2%	20.7%	22.6%	21.4%	20.0%	√	
2.1.11	Number of homeowners assisted with HOME.							See 2.3.4
2.1.12	Number of new homebuyers assisted with the homeownership downpayment assistance initiative.							i
2.1.13	Number of homeowners assisted with the Self-Help Homeownership Opportunity Program.	1,675	1,655	2,063	2,157	1,800	√	
2.1.14	Homeownership rate in central cities.	51.9%	52.3%	52.1%	52.3%			b, c

Performance Indicators		2000	2001	2002	2003	2003 Target	Substantially Met	Notes
2.2.1	Percentage of minority households who are homeowners.	48.2%	49.2%	48.9%	49.3%	50.0%		c
2.2.2	Ratio of homeownership rates between minority and non-minority low- and moderate-income families with children.	75.2%		72.4%				a, b, e
2.2.4	Ratio of mortgage disapproval rates between minority and other applicants.	177.3%	176.4%	192.6%	191.0%			b, d
2.2.5	Share of minority homebuyers among FHA mortgage endorsements.	41.7%	36.5%	36.0%	35.0%	37.0%		
2.2.6	Percentage of mortgagors who receive default counseling who avoid foreclosure	90.9%	93.0%	91.6%	91.9%	62.0%	√	
2.2.7	Percentage of Housing Counseling clients who are minorities	52.5%			50.3%	58.5%		a, k
2.2.8	Percentage of minority FHA mortgage endorsements processed by the Technology Open To Approved Lenders Scorecard							a
2.2.9	Number of FHA single-family mortgage endorsements in underserved areas (1000s).	357	412	492	464	421	√	
2.2.10	Number of Section 184 mortgage guarantees for native Americans	185	89	188	271	200	√	
2.3.1.1	Number of worst case needs, families with children, households (1000s).	1,793		1,832				a, b, e
2.3.1.2	Number of worst case needs, elderly households, households (1000s).	1,028		1,184				a, b, e
2.3.1.3	Number of worst case needs, disabled households, households (1000s).	1,100		1,100				a, b, e
2.3.2	Among extremely-low-income renters, ratio of assisted to worst case needs or already assisted.	44.7%		43.7%				a, b, e
2.3.3	Percentage of assisted units by household type.							b, g
2.3.4.1	Number of households receiving CDBG assistance.	182,700	172,445	187,380	184,611	180,260	√	
2.3.4.2	Number of households receiving HOME tenant-based assistance.	6,899	11,756	10,239	10,731	9,932	√	
2.3.4.3	Number of rental units for which HOME assistance is committed.	33,487	27,456	27,243	41,092	29,784	√	
2.3.4.4	Number of new homebuyers for whom HOME assistance is committed.	30,748	29,690	32,490	31,999	34,746		
2.3.4.5	Number of existing homeowners for whom HOME assistance is committed.	14,731	12,566	14,082	15,181	13,140	√	
2.3.4.6	Sum of households for whom four types of HOME assistance is committed.	95,865	81,468	84,054	99,003	87,602	√	
2.3.4.7	Number of households receiving Housing Opportunities for Persons with Aids assistance.	43,902	72,117	84,059	86,600	72,525	√	
2.3.4.8	Number of households assisted with a Native American Housing Block Grant.			52,000	87,169	52,000	√	
2.3.4.9	Number of loans under Native American Housing Assistance Self-Determination Act Title VI Federal Guarantees				17	15	√	
2.3.4.10	Number of households assisted with Native Hawaiian Homelands Block Grant				188			b, h

	Performance Indicators	2000	2001	2002	2003	2003 Target	Substantially Met	Notes
2.3.5	Sum of households for whom three types of HOME assistance is committed.	76,609	55,148	52,344	62,549	62,019	√	
2.3.6	Percentage of HOME rental households with incomes below 30 percent of area median at initial occupancy	42%	41%	41.8%	41.4%			b
2.3.7	Number of FHA multifamily mortgage endorsements.	574	758	1,105	1,331	800	√	
2.3.8	Share of FHA multifamily mortgages securitized by Ginnie Mae.	100%	100%	100%	91%	80%	√	
2.3.9	The volume of Ginnie Mae credit enhancements on Rear Estate Mortgage Investment Conduit securities ($ billions).	41.9	67.4	122.9	106.1	80.9	√	

(Values represent fiscal year data unless otherwise noted.)
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 ending in the current fiscal year.
e Calendar year ending the previous fiscal year.
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.

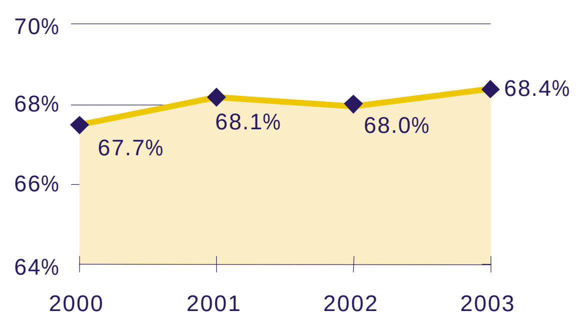
Objective 2.1: Expand national homeownership opportunities.

2.1.1: 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 the opportunity of homeownership to minority families and other disadvantaged groups is a Presidential priority. Homeownership is widely believed to encourage commitment to communities and good citizenship. A number of HUD’s programs support increases in the homeownership rate. However, a FY 2003 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. During the third quarter of 2003, the homeownership rate reached a new quarterly record high, 68.4 percent. Although a performance goal was not established, the result reflects an increase of 0.4 percentage points from the homeownership rate in the same quarter of 2002.

Overall Homeownership Rate (3rd quarter)



The Nation gained an estimated 713,000 homeowners in the preceding 12 months, attaining a new high of 72.2 million homeowners. An important cause of the advance during FY 2003 was that interest rates dipped below 6 percent for much of the year, the lowest rates seen 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 2.1.5). 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 (2.1.6). Communities have also used CDBG and HOME block grants (2.3.4) and Self-Help Homeownership Opportunity Program competitive grants to promote homeownership (2.1.13).

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 0.47 percent are statistically significant with 90 percent confidence.

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

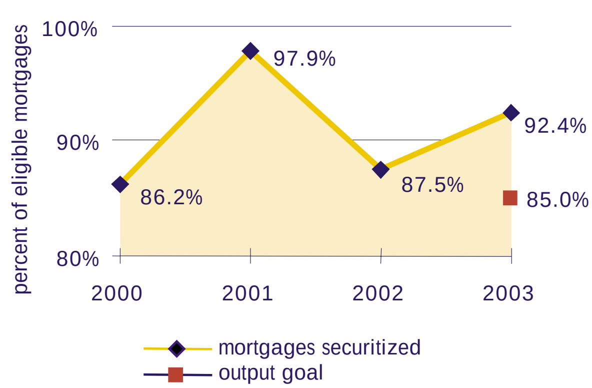
Background. Ginnie Mae is a wholly owned instrumentality of the United States government within HUD. Section 306(g) of the National Housing Act authorizes Ginnie Mae to facilitate the financing of residential mortgage loans insured or guaranteed by the Federal Housing Administration, the Department of Veterans Affair, 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.

Results and analysis. Ginnie Mae's FY 2003 goal was to securitize at least 85 percent of FHA and Veteran Affairs single-family insured or guaranteed loans. Actual figures indicate that over 92.4 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.

FHA/VA Single-Family Mortgages Securitized by Ginnie Mae

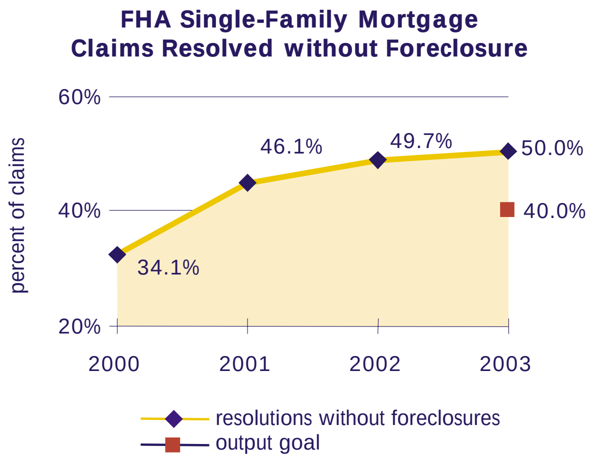


Data discussion. The data source used was Ginnie Mae's database of FHA and Veterans Affairs loans. Ginnie Mae's data systems are audited each year, and Ginnie Mae obtains a clean opinion.

2.1.3: 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 2003 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 2003, 50.0 percent of FHA mortgage defaults were resolved through loss mitigation alternatives to foreclosure, exceeding the goal of 40 percent and the performance level of 49.7 percent achieved in FY 2002. By comparison, 34.1 percent of FHA mortgage defaults were resolved through loss mitigation alternatives to foreclosure in FY 2000 and 46.1 percent in FY 2001. The result represents a continuation of the trend of increases.



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 2004. 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 now excluded. 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 2003.

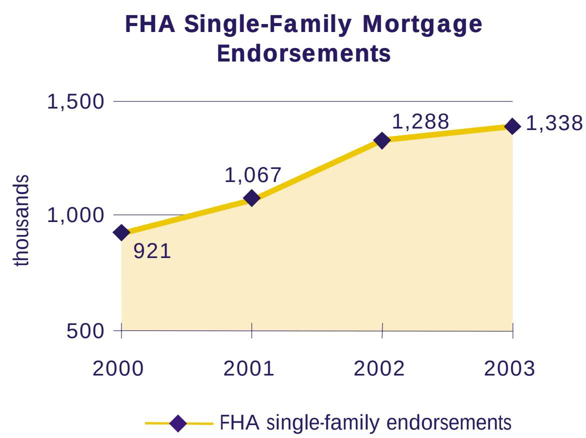
2.1.4: The share of all homebuyers who are first-time homebuyers.

Background. Increasing the proportion of homebuyers who are purchasing a home for the first time is a key to higher homeownership rates, one of HUD's main goals. The FY 2003 Annual Performance Plan established this measure as a tracking indicator with no numeric target. This change reflects the dominant impact of the macro-economy compared with HUD's limited span of control over the outcome. The calendar year 2003 results needed to report this measure cannot be fully collected during HUD's fiscal year. The data, obtained from the American Housing Survey, will be available for reporting in 2004.

2.1.5: 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 2003 is 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 has decided to track this measure, but not establish a numeric goal for FY 2003.

Results and analysis. During FY 2003, FHA endorsed 1,337,728 single-family mortgages for insurance. Although no goal had been established for FY 2003, this result exceeds the volume of endorsement activity that took place during FY 2002 and continues FHA's success in expanding home ownership opportunities. With the exception of FY 2000, during which approximately 921,000 single-family endorsements were made, FHA has endorsed at least 1 million single-family mortgages for insurance in three of the past four years. Approximately 1,067,000 single-family mortgage endorsements were made in FY 2001 and 1,288,000 in FY 2002. The strong performance during FY 2003 was supported by low interest rates, which made homebuying and refinancing appealing for many households.



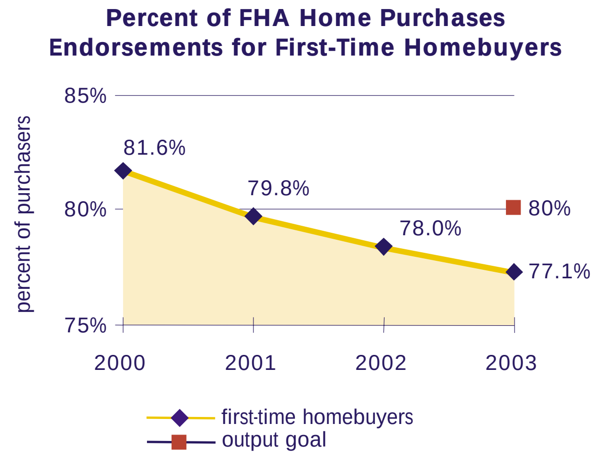
Data discussion. Data for this indicator are drawn from FHA's Single Family Data Warehouse, based on the Computerized Homes Underwriting Management System, F17. There are no data deficiencies affecting this measure. FHA data are entered by direct-endorsement lenders into Computerized Homes Underwriting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

2.1.6: First-time homebuyers will account for at least 80 percent of 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. For FY 2003 a performance goal of 80 percent was established to set a new benchmark for the high level of performance achieved since 1998. 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 2003, 77.1 percent of home purchase endorsements were made to first-time homebuyers. This performance is only slightly lower than the actual share of 78 percent accomplished in FY 2002, but falls short of the goal of 80.0 percent. By comparison, FHA endorsed 81.6 percent of FHA home purchase mortgages to first-time homebuyers in FY 2000 and 79.8 percent in FY 2001.

The slight drop in the share of first-time homebuyers between FY 2002 and FY 2003 may be a result of record low interest rates, which cause an unusually high number of homeowners to refinance their mortgages. Refinancing transactions are less costly and less time-consuming than purchase transactions where deed and titles must be recorded, so lenders may have concentrated on this business. In addition, FHA has a streamlined refinancing program that requires no new appraisal, which further encourages an increased volume of refinancing activity. The share of mortgages processed and submitted to FHA was thus much greater for refinanced mortgages than for home purchase mortgages during most of FY 2003. 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.

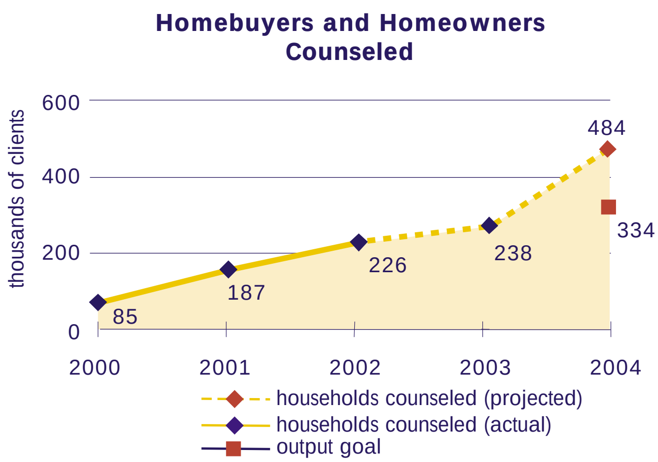


Data discussion. Data for this performance indicator are drawn from FHA's Single-Family Data Warehouse, based on the F42 data system. FHA data on first-time buyers are more accurate than estimates of first-time buyers in the conventional market. FHA data are entered by direct-endorsement lenders with monitoring by FHA.

2.1.7: Housing counseling is provided to 40 percent more homebuyers or homeowners in FY 2004 than in FY 2003.

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, pre-purchase 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. An increase in Housing Counseling funding in FY 2003 not only will increase the number of homebuyers and homeowners counseled, but will allow the Department to provide training to improve the capacity of its Housing Counseling agencies. Due to the spend-out rate of new counseling funds, the increase in funding will not become evident programmatically until FY 2004. This indicator therefore will measure the percentage increase in the number of homebuyers or homeowners counseled between FY 2003 and FY 2004.

Results and analysis. Although actual FY 2003 results are not yet available, 238,356 homebuyers or homeowners are expected to receive housing counseling services in FY 2003, based on a total housing counseling appropriation of $20 million for FY 2002. This is an anticipated increase of 5.3 percent over the 226,438 clients counseled during FY 2002, which corresponds to a $20 million appropriation for FY 2001. Slightly more of the FY 2002 appropriation was competed than for FY 2001, which explains the slight increase in the anticipated number of homebuyers and homeowners counseled during FY 2003.



The $39.7 million appropriated for FY 2003 is expected to fund housing counseling for 483,749 homebuyers or homeowners during FY 2004. This represents an increase of almost 103 percent over the anticipated number of clients served during FY 2003, more than two and a half times the targeted increase of 40 percent.

HUD does not compete the entire housing counseling appropriation for counseling activities, but reserves some funding for training, monitoring, operating the housing counseling clearinghouse, etc. Competed amounts for FY 2002 and FY 2003 were $19 million and $38.5 million respectively.

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 2003 are based on actual housing counseling data collected for the grant period 10/1/2001 – 9/30/2002. The actual percentage increase in additional homebuyers or homeowners served between FY 2003 and FY 2004 will not be able to be determined until early FY 2005, when final housing counseling activity data for FY 2004 become 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.

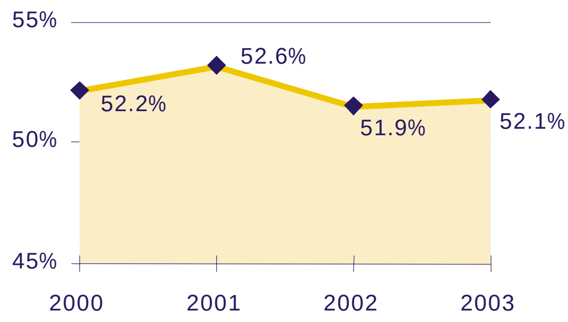
2.1.8: The homeownership rate among households with incomes less than median family income.

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. Yet homeownership is a tenuous proposition when incomes are insufficient. This indicator tracks national progress in increasing homeownership among households with incomes below the national median family income. A FY 2003 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. During the third quarter of 2003, the homeownership rate among households with incomes below the national median increased slightly to 52.1 percent. No goal was established, and the increase of 0.2 percentage points from the 2002 level was not statistically significant.

The result essentially maintained the lower level observed in 2002, which reversed a trend of significant homeownership gains among families with incomes below the national median. The economic slowdown of 2001 and 2002 slowed a trend of increases in median income. Low interest rates mitigated this weakness in earnings growth during FY 2003, actually improving the affordability of homes for families at the median income.[3]

Homeowners Rate for Households with Income less than Median Family Income (3rd quarter)



[3] As measured by the Composite Affordability Index developed by the National Association of Realtors. This index is the ratio of median family income to the income needed to qualify for the median-priced home, assuming a 20 percent down payment. (HUD-Policy Development and Research. "U.S. Housing Market Conditions," Table 11. Available at **http: //www.huduser.org/periodicals/USHMC/summer03/histdat11.htm)**.

In FY 2003, HUD devoted an estimated $1.26 billion and 1,026 staff to increasing homeownership opportunities. 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 income.

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 0.71 percentage point are statistically significant with 90 percent confidence.

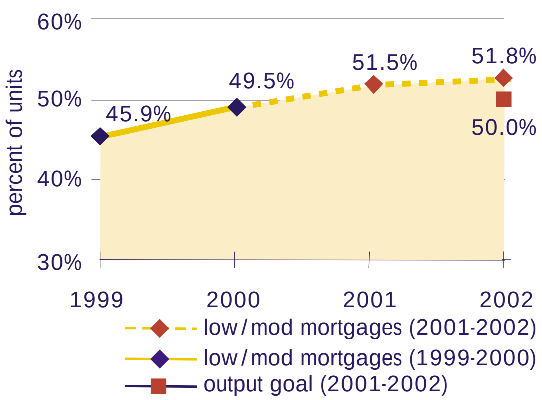
2.1.9: Fannie Mae and Freddie Mac meet or surpass HUD-defined targets for low- and moderate-income mortgage purchases.

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.

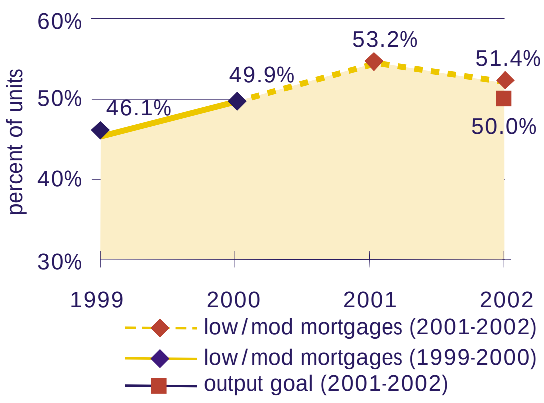
Results and analysis. In calendar year 2002, both Fannie Mae and Freddie Mac surpassed HUD's target of 50 percent. Fannie Mae achieved 51.8 percent and Freddie Mac achieved 51.4 percent, representing a combined 4.8 million dwelling units that qualified as low/mod purchases.

These performance figures include bonus point incentives that each GSE can earn for acquiring loans serving specific underserved markets. For example, each GSE can earn double credit toward 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 units. Although the GSEs may count both multifamily and

Fannie Mae Performance Relative to Low/Mod Target



Freddie Mac Performance Relative to Low/Mod Target



single-family purchases toward the low/mod target, both GSEs 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 GSEs to achieve the Low- and Moderate-Income target in 2002. Absent these incentives in the scoring system, Fannie Mae's performance would have been 49.0 percent and Freddie Mac's performance would have been 46.5 percent in 2002.[4]

An analysis of the composition of units qualifying as low- and moderate-income purchases in 2002 shows that 2 million dwelling units, which equates to 69.6 percent of the units that qualified toward 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 1.4 million low-income dwelling units, which equated to 68.8 percent of Freddie Mac's qualifying purchases serving this market.

With regard to the minority composition of the GSEs' low- and moderate-income performance, 9.7 percent of single-family housing units that qualified toward Freddie Mac's performance served African-American and Hispanic borrowers, while 13.8 percent of Fannie Mae's purchases served these borrowers. This compares to 10.6 percent in 2001 for Freddie Mac and 13.4 percent in 2001 for Fannie Mae. In 2002, 19 percent of Freddie Mac's purchases served all minority borrowers while Fannie Mae served 22 percent of this market.

Data discussion. This measure uses calendar-year data from HUD's Government Sponsored Enterprise database. There is a one-year reporting lag because the GSEs report to HUD in the year following the performance year. To ensure the reliability of data, the GSEs apply appropriate quality control measures to data elements provided to HUD. HUD verifies the data through comparison with independent data sources, replication of GSE goal performance reports, and reviews of GSE data quality procedures. GSE financial reports are verified by independent audits.

2.1.10: Fannie Mae and Freddie Mac meet or surpass 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 (with incomes up to 60 percent of area median income) or for low-income families (up to 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.

Results and analysis. In calendar year 2002, Fannie Mae and Freddie Mac both surpassed the 20 percent target. Both Fannie Mae and Freddie Mac reported that 21.4 percent of their mortgage purchases qualified as special affordable housing. Bonus points for acquisitions made in certain underserved markets and a temporary adjustment

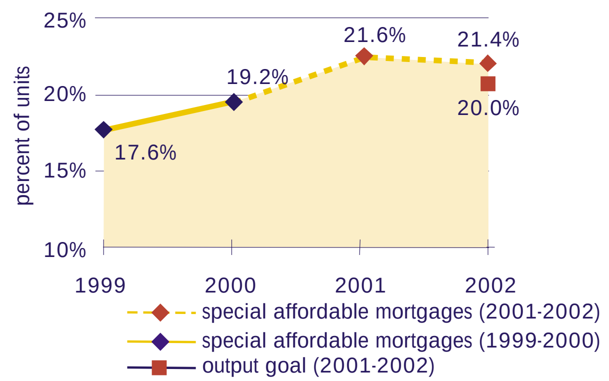
[4] In the accompanying graphs, the dotted lines from 2000 to 2002 reflect the changes in HUD scoring rules that became effective in 2001. The square shows the level of the housing goal beginning in 2001.

factor for Freddie Mac's multifamily purchases made it possible for the GSEs to meet the target goal. Absent these incentives in the scoring system, Fannie Mae's performance would have been 19.9 percent and Freddie Mac's performance would have been 18.6 percent in 2002.[5]

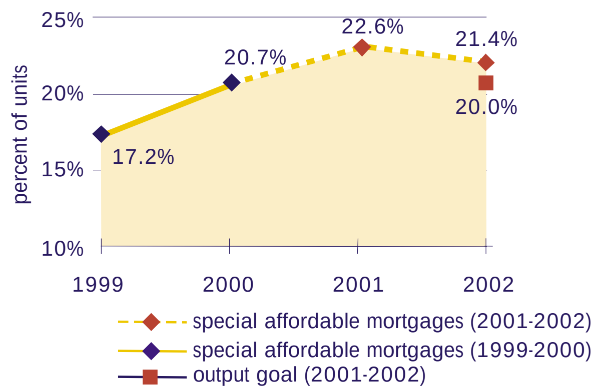
An analysis of mortgages counted toward the Special Affordable target indicates that, as a result of substantial refinance volume during this period, the composition of qualifying units changed in 2002. For example, as a percentage of total dwelling units qualifying under this goal, Fannie Mae's special affordable mortgage purchases for one-unit, single-family, owner-occupied properties increased by 40 percent, or 190,340 units, from 2001 to 2002. Freddie Mac's purchases also increased but by a lesser margin: In 2002, Freddie Mac purchased 127,850 more qualifying units than in 2001, representing a 38 percent increase over 2001 performance.

Similarly, purchases of owner-occupied, two-to-four unit properties counted toward the Special Affordable target also rose in 2002. Fannie Mae posted a 25 percent increase in qualifying purchases over its 2001 performance while Freddie Mac improved its performance by 58 percent. Because these properties disproportionately serve lower income families, HUD's revised rule awards bonus point credit for these mortgages.

Fannie Mae Performance Relative to Special Affordable Target



Freddie Mac Performance Relative to Special Affordable 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 GSEs apply appropriate quality control measures to data elements provided to HUD. HUD verifies the data through comparison with independent data sources, replication of GSE goal performance reports, and reviews of GSE data quality procedures. GSE financial reports are verified by independent audits.

2.1.11: The number of homeowners who have been assisted with HOME is maximized (see table under 2.3.4).

Background. This indicator tracks the number of homeowners who have been assisted with HOME funds during FY 2003. The output tracked by this indicator shows the contribution made by the HOME Program toward increasing the national homeownership rate and the number of minority homeowners, two key Presidential and

[5] In the accompanying graphs, the dotted lines from 2000 to 2002 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.

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 2003, participating jurisdictions committed funds to 15,181 existing homeowner rehabilitation units and 31,999 new homebuyer units, for a total of 47,180 units. The number of new homebuyers (31,999) represents 92 percent of the 2003 target of 34,746 units, thus substantially meeting the 2003 goal. These accomplishments also represent an increase over FY 2002 results by 7.8 percent (1,099 units) for existing homeowner rehabilitation units and a decrease of 1.5 percent (491 units) for new homebuyer units.

Participating jurisdictions committed a total of $241 million to existing homeowner rehabilitation units and $383 million to new homebuyer units during FY 2003. The per-unit HOME cost of producing a homeowner rehabilitation unit ($15,979) or homebuyer unit ($11,468) increased only modestly compared to FY 2002 by $423 and $340, respectively.

The rescission of $50 million from the FY 2002 HOME Program appropriation that had been originally earmarked for the American Dream Downpayment Initiative may have impacted results, as would the five-month congressional delay in approving the FY 2003 American Dream Downpayment Initiative appropriation combined with the lack of authorizing legislation that is still being considered by Congress. 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. Drafts of the pending American Dream Downpayment Initiative authorizing legislation currently before Congress would remove Uniform Relocation Act requirements from such private market sales.

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.

Data discussion. Data entered by participating jurisdictions in HUD’s Integrated Disbursement and Information System are used to track performance. Ongoing HUD-sponsored Integrated Disbursement and Information System training and data clean-up efforts are used to consistently improve data quality and reliability.

2.1.12: The homeownership Downpayment Assistance Initiative will be fully implemented and assist 10,000 new homebuyers.

Background. Congress passed appropriation language for FY 2002 that provided $50 million for the American Dream Downpayment Initiative subject to passage of enabling legislation by June 30, 2002. This enabling legislation was not passed by the deadline and the $50 million was subsequently rescinded by Congress. The delay in passage of the FY 2003 appropriation containing $75 million for the Initiative, and the subsequent introduction of authorizing legislation that is still pending, prevented these funds from being allocated in time to assist potential homebuyers in FY 2003. Regulations for the Downpayment Assistance Initiative cannot be promulgated and funds cannot be allocated until work on the authorizing legislation is completed.

Results and analysis. The rescission of the $50 million and the delay in allocating FY 2003 funds upon which the target of 10,000 new homebuyers was predicated resulted in no reportable activity under this indicator. Authorizing legislation is now under consideration by Congress and enactment is anticipated in the near term. If authorizing legislation is passed, FY 2003 funds should be distributed to participating jurisdictions beginning in the second quarter of FY 2004.

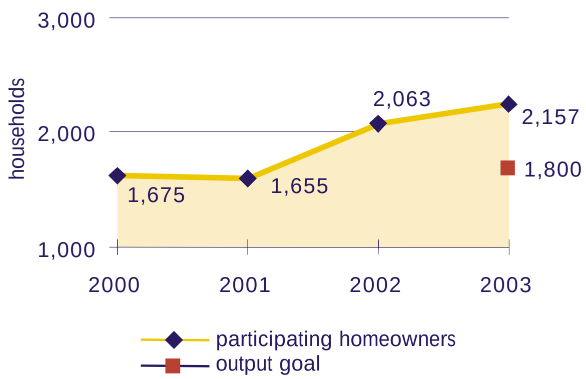
Data discussion. Once implemented, Downpayment Assistance Initiative accomplishments will be tracked through the Integrated Disbursement and Information System in the same way that HOME Program accomplishments are currently recorded.

2.1.13: 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 FY 2003 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 $25 million appropriated in FY 2003 to $65 million requested in FY 2004.

Results and analysis. During FY 2003, SHOP grantees completed 2,157 housing units, exceeding the program goal of 1,800 completed units by 20 percent and represents a five percent increase over the number of units produced in FY 2002 (2,063). Another 1,685 Self-Help Homeownership Opportunity Program units were under development at the close of the fiscal year. Self-Help Homeownership Opportunity Program grantees in FY 2003 were Habitat for Humanity, the Housing Assistance Council, Northwest Regional Facilitators, ACORN Housing Corporation, and Wisconsin Association of Self-Help Executive Directors and PPEP Microbusiness and Housing Development Corp.

Homeowners Who Combined Sweat Equity with SHOP Assistance



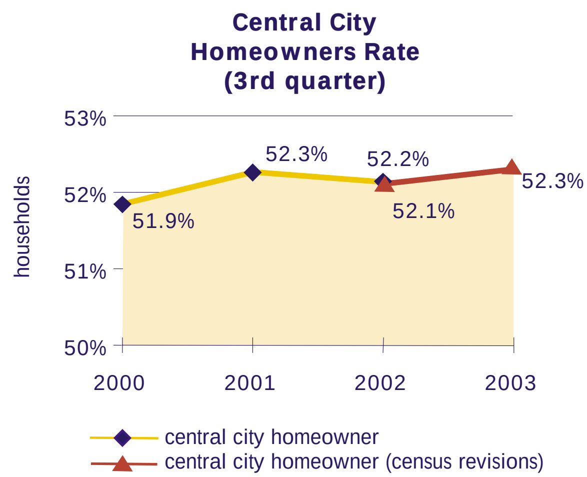
The accomplishment of this output indicator is affected by several external factors: the level of Self-Help Homeownership Opportunity Program appropriations, the “pass-through” nature of program funds to local affiliates, the level of sophistication of local Self-Help Homeownership Opportunity Program 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 2003, HUD continued to provide technical assistance upon request to Self-Help Homeownership Opportunity Program grantees to improve the efficiency and capacity of the program which, taken together with the increasing experience of the grantees and their numerous affiliates with the Self-Help Homeownership Opportunity Program over the past several years, has led to the very positive production results in 2003.

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 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.

2.1.14: 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 2003 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 52.1 percent in 2002 to 52.3 percent in 2003. No goal was established, and the increase of 0.2 percentage points was not statistically significant.



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. Over one-third of households who receive HOME assistance receive homebuyer assistance, or roughly 30,000 homebuyers annually.

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, school 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.

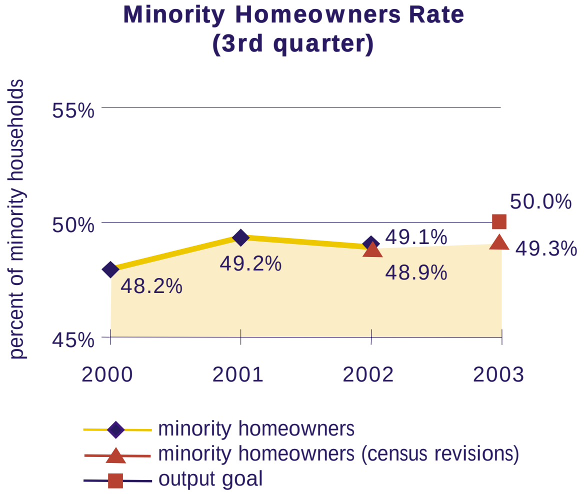
Data discussion. The measure uses Current Population Survey data from the third quarter of the calendar year, corresponding to the end of HUD's fiscal year. The Current Population Survey data are free of limitations affecting the measure's reliability. Rebenchmarked estimates are provided for 2002 and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

Objective 2.2: Expand homeownership opportunities for minorities and persons with disabilities.

2.2.1: The minority homeownership rate will increase to 50 percent.

Background. HUD's Strategic Plan presents 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. The FY 2003 performance goal was to increase the overall minority homeownership rate to 50.0 percent in the third quarter of 2003, an increase of 0.4 percentage points per year from a baseline of 49.2 percent in the third quarter of 2001.

Results and analysis. The minority homeownership rate increased by 0.4 percentage points to 49.3 percent during 2003. Although the new level fell short of the target of 50.0 percent, the increase of 0.4 percentage points from 2002 levels was on pace; the weakness occurred earlier in the 0.1 point decline between 2001 and 2002. (As the chart shows, an additional 0.2 points of the shortfall reflects the rebenchmarking of 2002 and 2003 estimates to reflect Census 2000 population information and housing unit controls.)



The increase of 0.4 percentage points represents 681,000 additional minority homeowners compared with the third quarter of 2002, or about 95 percent of new homeowners. FHA assisted a substantial share of these families by insuring about 240,000 mortgages for minority home purchasers during FY 2003. Homeownership gains of 0.6 percentage points by Black households (to 48.7 percent) and a remarkable 1.7 points by Other households (to 56.4 percent) counterbalanced a decline of 1.0 percentage points among Hispanic households (to 46.1 percent) following record Hispanic homeownership levels observed in the last quarter of 2001. These detailed results partially reflect redefinition of minority status required by new Census definitions (see Data discussion).

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 to build the knowledge to become homeowners and to sustain their new tenure by meeting the ongoing responsibilities of homeownership. FHA also has implemented the "Technology Open To Approved Lenders Scorecard" to evaluate mortgage applications and credit information in an objective, consistent manner to assess the credit worthiness of FHA borrowers.

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 the estimated minority homeownership rate exceeding 0.93 percentage points are statistically significant with 90 percent confidence. Rebenchmarked estimates are provided for 2002 and 2003 to reflect Census 2000 population information and housing unit controls. The 2003 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.

2.2.2: The ratio of homeownership rates of minority and nonminority low and moderate-income families with children increases by 0.4 percentage points to 76.0 percent by 2003.

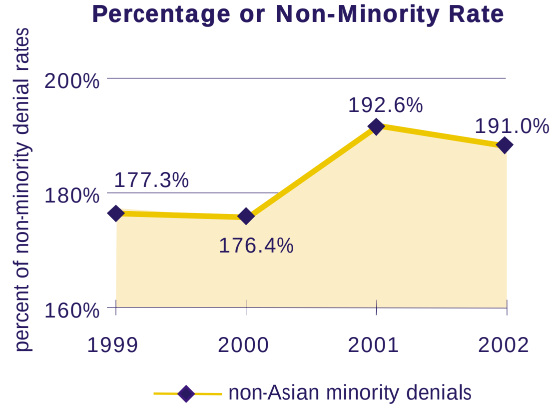
Background. One of HUD's central objectives is to remove homeownership barriers and increase homeownership among minorities. Homeownership rates are more susceptible to policy intervention among renters who are marginally creditworthy, discouraged by discrimination or unaware of the economic benefits of homeownership. This indicator measures progress in reducing these barriers to homeownership among racial and ethnic minorities. The FY 2003 goal is to increase the ratio by 0.4 percentage points from calendar year 2001 levels by 2003. The calendar year 2003 results needed to report this measure cannot be fully collected during HUD's fiscal year. The data, obtained from the American Housing Survey, will be available for reporting in 2004.

2.2.4: The ratio of home purchase mortgage disapproval rates between minority and other applicants.

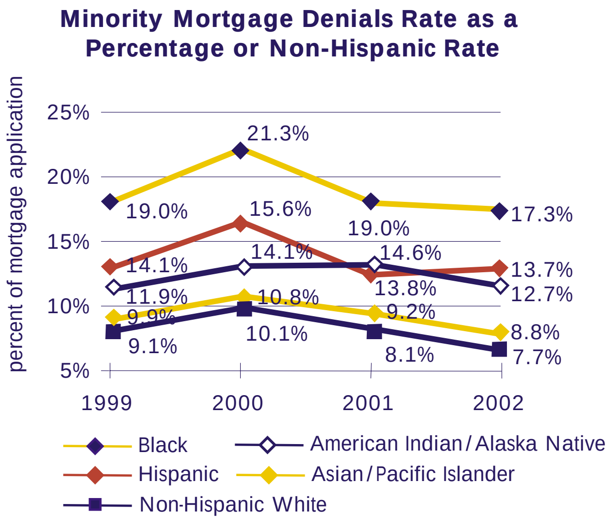
Background. This is a tracking indicator for minority mortgage disapproval rates, an important early indicator of trends in minority homeownership. Equal access to home loans is critical for decreasing disparities in homeownership. This measure tracks home purchase mortgage disapproval rates of minorities that have had limited access to traditional housing markets—African Americans, Hispanics, Native Americans, and other minorities except Asians—and compares them to disapproval rates of non-Hispanic white applicants. (Asians and Pacific Islanders are not included because as a group, their denial rates differ little from those of non-Hispanic whites.) A FY 2003 performance goal was not established because of limitations in HUD's span of control relative to external factors.

Results and analysis. Disparities in mortgage denial rates declined by 1.6 percentage points from 2001 levels. In 2002 (latest available data), non-Asian minorities were 91.0 percent more likely to be denied mortgages than were non-Hispanic whites compared with a difference of 92.6 percent in 2001. Although no goal was established for this performance period, the improvement reflects a substantial reduction in denial rates for non-Asian minorities, from 15.7 percent in 2001 to 14.7 percent in 2002. This is the lowest denial rate in over six years (17.2 percent of non-Asian minority mortgage applications were denied in 2000). Denial rates also improved during 2002 for Asians and Pacific Islanders (see second chart). Black applicants experienced the greatest improvement, a 3.0 point reduction during the 2000-2002 period.

Minority Mortgage Denials Rate as a Percentage or Non-Minority Rate



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.

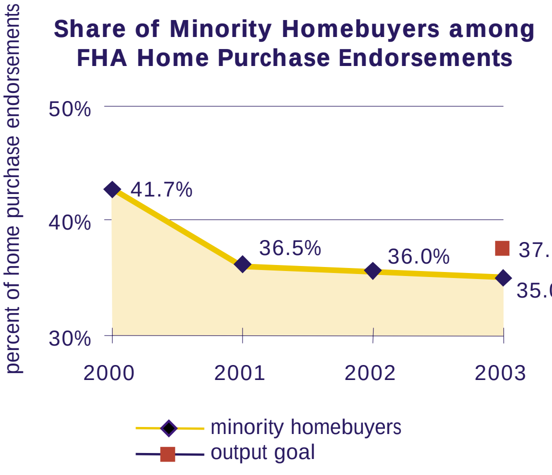


The Department currently is not able to quantify the impact of these efforts on denial rates. A substantial portion of the ongoing difference in denial rates between minority and non-minority applicants—but not all of the difference—can be explained by finance- and credit-related attributes of the applicants. 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 measure uses Home Mortgage Disclosure Act data collected from lenders on a calendar-year basis. Calendar-year 2003 data are not yet available. Non-metropolitan and manufactured housing loans are excluded from the measure. The measure has limitations arising from the statistical variance of the numerous interacting variables used in its computation. Because of the Nation's increasingly diverse population, the data also suffer from rising incidence of missing race/ethnicity data for applications (from 9 percent missing in 1997 to 14 percent in 2002), a problem which is worse among denied applications (from 20 percent missing in 1997 to 23 percent in 2002). The second chart reflects a more reliable presentation of the same data that was adopted for FY 2004. The race categories used for this measure are not the same as the Census-derived categories reflecting single and multiple races that are used for other measures beginning in 2003.

2.2.5: The share of minority homebuyers among FHA home purchase-endorsements increases by 1 percentage point.

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 within the next ten years. The FY 2003 goal is to increase the proportion of minority homebuyers by one percentage point from the FY 2002 level, building on an equivalent improvement presumed for FY 2002. Beginning in FY 2004, FHA has elected to track the progress of this performance measure without establishing a numeric target, due to FHA's limited control regarding minority participation. Further, beginning in FY 2004 FHA will revise its methodology for this performance indicator considering only first-time minority homebuyers as a share of total home purchase endorsements, excluding borrowers whose race is unknown, thereby resulting in a new baseline. By tracking only first-time minority homebuyers FHA will be able to better evaluate its success in contributing to increasing minority homeownership.



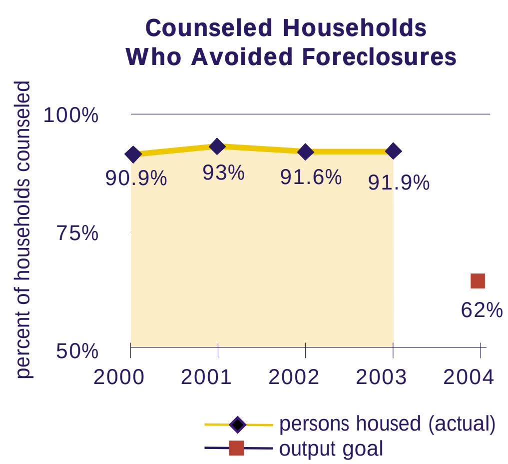
Results and analysis. During FY 2003, 35.0 percent of FHA home purchase endorsements were made to minority homebuyers, slightly lower than the 36.0 percent share achieved during FY 2002. Although FHA fell short of its goal of a 1-percentage point increase, the minority share of home purchase endorsements remained relatively stable between FY 2002 and FY 2003. It should be noted that overall home purchase endorsements declined substantially from approximately 876,000 during FY 2002 to about 677,000 in FY 2003. FHA 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 F42 Consolidated Single-Family Statistical System. The data are judged to be reliable for this measure. The share of borrowers with undetermined race or ethnicity may increase as more people claim multi-racial identity. FHA data are entered by direct-endorsement lenders with monitoring by FHA.

2.2.6: 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 2003 goal for this performance indicator is to ensure that more than 62 percent of total mortgagors receiving default counseling successfully avoid foreclosure, a goal established on the basis of an analysis of a different data source, the Single Family Data Warehouse loss mitigation table.

Results and analysis. Results for clients counseled during FY 2003 cannot be fully assessed, but among the 27,857 mortgagors who received default-specific counseling during FY 2002, 91.9 percent had successfully avoided foreclosure by the end of the year. The result substantially exceeds the target, which was determined on the basis of other data.



The high foreclosure avoidance rate reported is partially due to design flaws in the previous HUD Form 9902. Under the old data collection instrument, clients receiving counseling for reasons of mortgage default were not distinguished from the entire group of clients receiving post-purchase counseling. Individuals receiving counseling for reasons of mortgage default first had to be identified from all post-purchase counseling clients, and then from the sub-group identified an approximate percentage avoiding foreclosure had to be calculated, thereby resulting in an unreliable baseline. The high avoidance rate may also be explained in light of the goal set for this performance indicator. Analysis used to establish the goal considered defaulted FHA mortgage loans that did not enter foreclosure, irrespective of whether or not the mortgagor received housing counseling, resulting in a target of 62 percent. It was expected that housing counseling to mortgagors in default would result in a much higher rate of foreclosure avoidance than those who received no counseling, thus the goal was substantially exceeded.

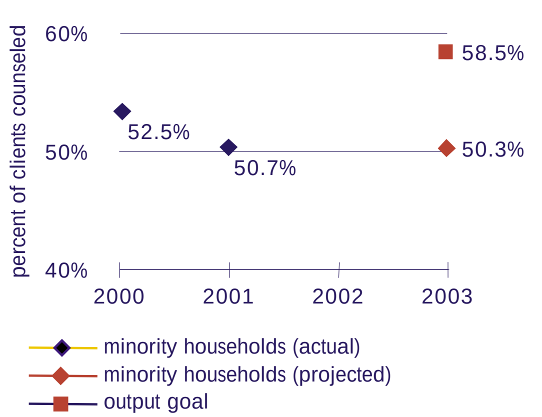
Data discussion. The goal of 62 percent established for FY 2003 was based on a trend analysis conducted by FHA's Office of Evaluation using data drawn from the Single Family Data Warehouse loss mitigation table. Based on an analysis of default rate data for the past five years it was determined that approximately 38 percent of loans in default result in foreclosure. The above percentages were calculated without determining if mortgagors received housing counseling. The 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. Allowing time for compilation of the results, it is anticipated that Single Family Housing will be able to report FY 2003 actual data for this indicator by early January 2004. The estimates above are based on the previous version of the form HUD-9902, which was flawed in that mortgagors receiving default counseling weren't easily distinguished from other counseling types provided to mortgagors. It was necessary to exclude irrelevant counseling provided to mortgagors—i.e., reverse mortgage counseling, home improvement counseling and refinance counseling. To improve the quality of the counseling data and make it useful for this type of performance measure, FHA has significantly revised the form HUD-9902 to facilitate the identification of the client's specific counseling needs and the improved tracking of outcomes, such as mortgage delinquency resolution, among other updates. The revised instrument was implemented during FY 2003.

2.2.7: The share of Housing Counseling clients who are minorities will increase to 58.5 percent to support 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 share of total housing counseling clients who are minorities. The FY 2003 performance goal is to increase the proportion to 58.5 percent.

Results and analysis. Although actual FY 2003 data are not yet available, an estimated 50.3 percent of the FY 2003 counseling caseload was minorities, based on a FY 2002 housing appropriation of $20 million, of which $19 million was competed. The result fell short of the target of 58.5 percent. Housing counseling appropriations were $17.5 million in FY 1999 and $15 million in FY 2000, with 190,727 minority clients counseled in FY 2000 (52.5 percent of total housing counseling clients) and 156,161 in FY 2001 (50.7 percent). While the percentage share of minority clients counseled fell short of the target, the number of minority clients receiving housing counseling is expected to increase by more than 10,000 over FY 2002, an encouraging sign for increasing the minority homeownership rate.

Minority Share of Housing Counseling Clients



Data discussion. The data source for this performance indicator is the Housing Counseling Agency Fiscal Year

Activity Reports (form HUD-9902). The above FY 2003 projection is based on actual housing counseling data collected for the grant period 10/1/2001 – 9/30/2002. The actual percentage of minorities among housing counseling clients will not be able to be determined until early FY 2004, when final housing counseling activity data for FY 2003 become available. FHA monitors HUD-approved housing counseling agencies through site visits to assure quality counseling practices.

2.2.8: The share of minority endorsements processed by the FHA Technology Open To All Lenders Scorecard increases by 1 percentage point.

Background. (See also indicators 6.2.4 and 7.1.4.) HUD currently has three approved scorecards developed by third parties for use within the mortgage industry for FHA mortgages. These scorecards, developed by the industry partners for their automated underwriting systems, will be replaced by the Technology Open To Approved Lenders Scorecard and made available to all lenders with the implementation of Technology Open To Approved Lenders by the end of December 2003. At the present time, approximately 40 percent of FHA's mortgage endorsements are underwritten using third party scorecards. Technology Open To Approved Lenders Scorecard will improve the automated underwriting process through increasing lender efficiency, decreasing losses to the FHA fund through more consistent, objective evaluation of the credit worthiness of borrowers, and better integration of automated underwriting systems usage into FHA's existing processes and workflow, including mortgage endorsement processing. FHA also believes that the objectivity and broad availability of Technology Open To Approved Lenders Scorecard will increase homeownership opportunities for minorities. Under the conditions of use for Technology Open To Approved Lenders Scorecard, minority applicants receiving a "refer" decision must be manually underwritten by the lender and cannot be denied a loan solely on the basis of the Technology Open To Approved Lenders Scorecard decision. This indicator measures the share of minority endorsements processed by Technology Open To Approved Lenders Scorecard.

Results and analysis. FHA is currently unable to report progress against this performance measure. Implementation of Technology Open To Approved Lenders Scorecard is expected in December 2003. Another year of data collection is necessary in order to establish a reliable baseline for measuring program performance for this indicator.

Data discussion. The data source for this performance indicator is FHA's Computerized Homes Underwriting Management system. The goal was to be validated through use and acceptance of the FHA Technology Open To Approved Lenders Scorecard by the mortgage industry. HUD was to adjust its policy and procedures to ensure the program goals were achieved in a properly controlled environment. The performance of business partners who utilize Technology Open To Approved Lenders Scorecard will be monitored, and HUD will conduct program compliance reviews through the Quality Assurance Division.

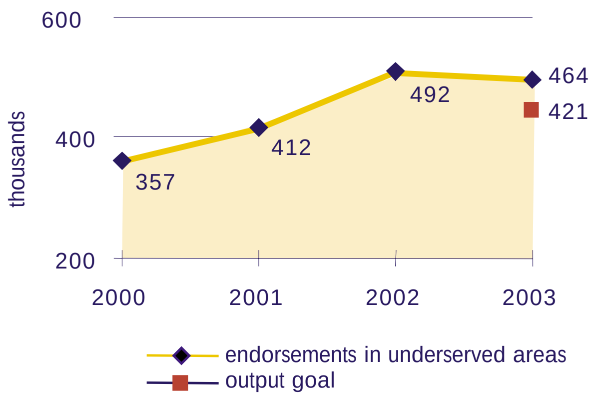
2.2.9: Endorse at least 421,000 FHA single-family mortgages in underserved communities.

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 extensively 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 to underserved areas during FY 2003.

Results and analysis. During FY 2003, FHA endorsed 464,272 single-family mortgages in underserved communities. The result exceeded the target of 421,000 endorsements, maintaining FHA's success in expanding home ownership opportunities, although the volume was slightly higher during FY 2002. With the exception of FY 2000, during which approximately 357,000 endorsements were made, FHA has made greater than 400,000 endorsements to underserved areas in three of the past four fiscal years. 412,192 endorsements to underserved areas were made in FY 2001 and 491,592 in FY 2002. FHA will continue its efforts to reach underserved communities through participation in conferences, seminars and other outreach events.

FHA Single family Mortgage Endorsements in Underserved Areas



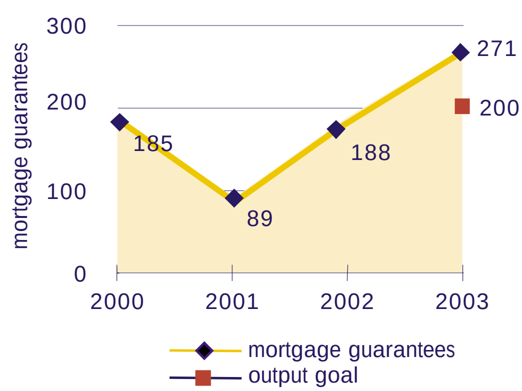
Data discussion. This measure uses data from FHA's Consolidated Single-Family Statistical System (F42). This measure may fluctuate when the census tracts constituting underserved areas are redefined using the latest census data. The fluctuations are not expected to substantially reduce the reliability 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 by 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.

2.2.10: Section 184 mortgage financing is guaranteed for 200 Native American homeowners during FY 2003.

Background. 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 184 program provides alternative financing for Native Americans so that they can move from rental housing into their own homes. This program is directed toward meeting the President's goal of increasing minority homeownership.

Results and analysis. The goal of 200 new loan guarantees for FY 2003 was exceeded by over one-third. During the year, 271 loan certificates were issued for $27.2 million. This was a 44 percent increase over the FY 2002 level of 188 certificates, and a 63 percent increase over the dollar amount of $16.7 million.

Section 184 Home Mortgages Guaranteed for Native Americans



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.

Objective 2.3: Increase the availability of affordable rental housing.

2.3.1: The number of households with worst case housing needs decreases by 3 percent between 2001 and 2003 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 results needed to report this measure cannot be fully collected during HUD's fiscal year. The data, obtained from the American Housing Survey, will be available for reporting in 2004.

2.3.2: Among extremely low-income renters, the ratio of assisted households to households with worst case needs or already assisted.

Background. This tracking indicator provides essential contextual information for indicator 2.3.1 by assessing the disparity between the number of households who qualify for Federal housing assistance and the number who are assisted. The FY 2003 Annual Performance Plan did not establish a numeric target for this indicator because the reduction of worst case housing needs is controlled primarily by economic factors and the number of assisted households is driven by Congressional appropriations for incremental housing assistance. The calendar year 2003 results needed to report this measure cannot be fully collected during HUD's fiscal year. The data, obtained from the American Housing Survey, will be available for reporting in 2004.

2.3.3: The share of units of low-rent public housing and Section 8 programs that are occupied by families with children, elderly, and persons with disabilities.

Background. This is a tracking indicator that measures the share of low- and very-low-income households with various characteristics that receive rental assistance through the public housing operating fund, Housing Choice Vouchers, or project-based Section 8 assistance in privately-owned multifamily developments. No goals are established for this indicator because housing providers have discretion regarding admissions policies. HUD includes these data in its Annual Performance Plan to inform policy decisions by Congress and HUD. This information is also useful to assist HUD's overall and specific program efforts to assist families with children, the elderly and the disabled.

Because the supply of affordable housing for very-low-income households is so limited, the affordable rents households pay under these programs in most cases keep them from falling into worst case housing needs. Households with worst case needs are defined as unassisted renters with incomes below 50 percent of the local median, who pay more than half of their income for rent or live in severely substandard housing. The number of households in each group is unlikely to change dramatically from year to year because families leave the program and turn over their units at a rather low rate compared with unassisted rental housing.

Units in Program Occupied by Families of Various Attributes

	Families with Children, no disabilities	Elderly, no children (possible disabilities)	Non-Elderly Disabled, no children	Non-Elderly Disabled, with children
Public Housing	38.0%	30.3%	15.2%	4.3%
Housing Choice Vouchers	51.3%	15.0%	16.6%	7.7%
Project-based Section 8	25.2%	50.0%	14.3%	2.4%

Results and analysis. No goals are established for this indicator. The Public Housing and Voucher programs continue to serve a sizable portion of families with children. Half of the assisted multifamily program continues to serve elderly households. No category of household types changed substantially for FY 2003. Housing providers, not HUD, determine preferences for which families are admitted.

Data discussion. Data about households served by the public housing and Housing Choice Voucher programs are from the Public and Indian Housing Information Center Form 50058 system, consisting of records for the 12 months ending June 30, 2003. Public and Indian Housing Information Center is an online system that allows housing agencies to electronically submit information to HUD. The Public and Indian Housing Information Center facilitates more timely and accurate exchanges of data between PHA and local HUD field offices. Housing agencies submit the Form HUD-50058 Family Report to the Form 50058 system in Public and Indian Housing Information Center. Data about households receiving project-based Section 8 assistance are from the Tenant Rental Assistance Certification System, consisting of records for the 12 months ending September 30, 2003. The Public and Indian Housing Information Center and the Tenant Rental Assistance Certification System verify the accuracy of tenant data by performing automated checks on data ranges and internal consistency.

2.3.4: The number of households receiving housing assistance with Community Development Block Grant, HOME, Housing Opportunities for Persons with AIDS, Native American Housing Block Grant and Native Hawaiian Homelands Block increases.

Background. This indicator tracks the number of households that receive housing assistance through the identified programs in FY 2003. 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 **Community Development Block Grant** program is another tool, although housing assistance is only one of several eligible activities among which Community Development Block Grant grantees may choose.

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. In FY 2003, 111 formula State and eligible metropolitan area grantees and 84 active competitive grants used Housing Opportunities for Persons with AIDS program funds to provide housing and related supportive services. The number of formula state and eligible metropolitan area grantees increases to 117 in FY 2004.

The **Native American Housing Block Grant** and Native Hawaiian Homelands 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 Homelands 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

	2000 Act.	2001 Act.	2002 Act.	2003 Act.	*2003 Goal*
CDBG households	182,700	172,445	187,390	184,611	180,260
HOME tenant-based assistance	6,899	11,756	10,239	10,731	9,932
HOME rental units committed	33,487	27,456	27,243	41,092	29,784
HOME new homebuyers committed	30,748	29,690	32,490	31,999	34,746
HOME existing homeowners committed	14,731	12,566	14,082	15,181	13,140
HOME total households	85,865	81,468	84,054	99,003	87,602
Housing Opportunities for Persons with AIDS households	43,902	72,117	84,059	86,600	72,525
Native American Housing Block Grant households	Not available	Not available	52,000	87,169	52,000
Title VI Federal Guarantees program (number of loans)	Not available	Not available	Not available	17	15
Native Hawaiian Homelands Block Grant households assisted	Not available	Not available	Not available	188	Tbd

*This number differs from the one in the FY 2001 Performance and Accountability Report because Housing Opportunities for Persons with AIDS used a more accurate system (Integrated Disbursement and Information System) to generate data.

Results and analysis. During FY 2003 the total number of households receiving housing assistance through these programs was 457,588. HOME, CDBG, and Housing Opportunities for Persons with AIDS exceeded their numeric goals. The Native American Housing Block Grant and Title VI programs also exceeded their goals.

CDBG. For FY 2003, the number of households receiving housing assistance with CDBG was 184,611 households, 2.4 percent greater than the FY 2003 projected goal of 180,260 assisted households. This is a 1.48 percent decline from the FY 2002 actual accomplishment of 187,380 households assisted. The funding for housing activities was $824 million in FY 2003. During FY 2003 total expenditures for housing activities tracked for this indicator decreased 5.4 percent compared to the same period in FY 2002. Thus the actual accomplishments are higher than would have been expected given the 5.4 percent decrease in expenditures for housing between FY 2002 and FY 2003.

There may be two explanations for a smaller than expected decline in households assisted: a carryover in households assisted in FY 2002 to FY 2003 and better reporting of grantees of accomplishments during FY 2003 due to HUD's on-going data clean-up efforts). (Note that grantees reporting of accomplishments for completed activities increased from 88.74 percent in FY 2002 to 92.97 percent in FY 2003.)

Future improvements in data quality are likely to occur as HUD improves the Integrated Disbursement and Information System to include more edits as well as improved data entry methods. The overall improvement of Integrated Disbursement and Information System is scheduled over the next several years.

HOME. HOME substantially exceeded its goal for total households assisted, with all but one component (i.e., new homebuyers committed) significantly exceeding FY 2003 projections. (See 2.1.11.) HOME participating jurisdictions committed 99,003 new units of assisted housing for FY 2003, exceeding the goal of 87,602 units by 11,401 or 13 percent. The FY 2003 performance also represents an increase of 14,949 units or 18 percent over the 84,054 units committed to in FY 2002. Of the FY 2003 total, 41,092 commitments were for rental housing, an increase of 13,849 units over the previous year; 31,999 commitments were for new homebuyer housing, 491 commitments units less than the previous year; 15,181 commitments were for existing homeowner rehabilitation housing, an increase of 1,099 over FY 2002; and 10,731 commitments were for tenant-based rental assistance, 492 over the previous year.

The blended per-unit HOME cost average of producing a rental, homebuyer or homeowner unit increased by $534 to $16,407 or approximately 3 percent, compared to FY 2002. Participating jurisdictions disbursed $1.424 billion in HOME funds to projects during FY 2003.

Contributing to the accomplishments this year was 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, 95 deliveries of 12 specially designed courses, including one focusing on productivity entitled Measuring Up: A Practical Approach to Measuring Productivity and Performance, were conducted across the country. 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 – including deobligating funds from those that failed to meet the 24-month statutory commitment deadline. Finally, the HOME Program Performance SNAPSHOT was rolled out and 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 likely contributed to the improved performance of HOME as measured by this indicator. Of course, since grantees have discretion about which housing activities they choose to fund, there may be fluctuations among the individual components of this indicator from year to year reflecting the emphasis given to one activity over another at the local level. In FY 2003, for example, there was a drop in homebuyer activity while rental activity increased. These fluctuations are normal and are not necessarily attributable to any specific factors or trends.

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, and general economic conditions affecting the cost and availability of housing and the income levels of potential homebuyers.

Housing Opportunities for Persons with AIDS. A preliminary estimate based on FY 2003 financial data shows that the Housing Opportunities for Persons with AIDS formula and competitive programs supported 86,600 units of housing across the country, thereby exceeding HUD's projected goal of 72,525 units by 19.4 percent. In addition, this represents an increase of approximately 3 percent from the 84,059 units assisted in FY 2002. HUD's financial system documented disbursements of $270.3 million to Housing Opportunities for Persons with AIDS grantees. In response to a congressional request, the Office of HIV/AIDS Housing submitted a report to Congress in September 2003 detailing program expenditures on housing and supportive services that has validated these results.

For the most recently completed grantee performance reporting for FY 2001, the blended per-unit Housing Opportunities for Persons with AIDS cost average of producing a rental, short term/emergency housing, and supportive housing facility unit was $1,823. It is important to distinguish the cost average amongst these three different types of housing assistance. In FY 2001, the average cost per unit of rental assistance was $2,837, short term/emergency housing assistance was $763, and supportive housing facilities was $3,376. The Housing Opportunities for Persons with AIDS program expenditures for housing assistance totaled $149,867,752 in FY 2001.

NAHBG. The goal of assisting 52,000 Native American families in FY 2003 was exceeded. During FY 2003, 87,169 were assisted, 35,169, or 68 percent, above the FY 2003 goal.

NHHBG. The construction of 188 Native Hawaiian Homelands Block Grant-assisted units began in FY 2003. Native Hawaiian Homelands Block Grant funds in the amount of $7,044,000 were obligated as of 9/30/2003, representing 73 percent of the grant amount of $9,600,000.

- Work is underway at Waiakea 6 (Hawaii) to develop infrastructure for 40 single-family units. Once the infrastructure is completed in 2004, the sites will be leased to low-income Native Hawaiians from the Department of Hawaiian Homelands waiting list to construct their own homes. Native Hawaiian Homelands Block Grant funds in the amount of $2,000,000 have been obligated for this activity.
- Work is underway at the Villages of Kapolei (Oahu) to construct 33 single-family homes using the "self-help" development method. Native Hawaiian Homelands Block Grant funds in the amount of $564,000 have been obligated and are being leveraged against a total project cost of $2.3 million. Project completion is scheduled for early 2004.
- Work is underway at Waiehu Kou (Maui) to develop infrastructure for 115 single-family units. Once the infrastructure is completed in 2004, the sites will be leased to low-income Native Hawaiians from the Department of Hawaiian Homelands waiting list to construct their own homes. Native Hawaiian Homelands Block Grant funds in the amount of $4,000,000 have been obligated and are being combined with $4,900,000 in Department of Hawaiian Homelands trust funds for a total project cost of $8,900,000.

Native American Housing Assistance Self-Determination Act Title VI. The goal of fifteen Title VI loan guarantees for FY 2003 was exceeded by completing seventeen loans, 13 percent more than the target. This was a 50 percent increase in activity over FY 2002. At year-end of FY 2003, nine additional preliminary approvals were issued for loan guarantees that will be counted in FY 2004.

Data discussion. Data for CDBG, HOME, and Housing Opportunities for Persons with AIDS are reported in the Integrated Disbursement and Information System. During FY 2003, the Department continued its data clean-up effort to improve the quality of data reported and eliminate duplicate or erroneous entries.

CDBG figures are based upon actual drawdown of funds in each grantee's letter of credit and balances remaining. HUD develops monthly timeliness reports showing which grantees are not timely that month. HUD's source for this data is Community Planning and Development's Integrated Disbursement Information System.

The HOME Program office has established a team of management, technical staff and contractors, under the working title of HOME ROCS! (Re-engineering our Computer System), to make improvements, now scheduled to be implemented in FY 2004, to Integrated Disbursement Information System and ultimately reduce the need for ongoing data cleanup efforts. Screen designs and terminology are being simplified. More checks (edits) will be added to reduce errors. The report functions will be improved and a search feature added so that users easily find information on activities by grantee and by date range.

Housing Opportunities for Persons with AIDS program accomplishments are based on the performance information reported 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 Integrated Disbursement and Information System. These annual reports are submitted by formula and competitive grantees and are due to HUD 90 days after the close of the grantee's operating year.

For the second year, the Housing Opportunities for Persons with AIDS program has experienced an increase in the number of actual units assisted over the projected number of units assisted. In FY 2004, the program will be initiating new outcome measures to enhance the use of the annual output measure to portray a more comprehensive projection of performance accomplishments. In addition, as the result of new Housing Opportunities for Persons with AIDS training and data clean up efforts being undertaken in 2004, changes in the data are expected to occur as grantees complete their program year and report their annual performance information. The technical assistance support for grantees' efforts will improve the accuracy of their performance reporting. However, it should be noted that some grantees are not included at this time since grantee operating years do not coincide with the federal fiscal year reporting period. Updated information will be collected from a small number of formula grantees that have October 1 program year start dates. This may result in an adjustment to estimated output performance of 86,600 units of housing during this period.

Native American Housing Block Grant data for FY 2003 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 will eventually include the Native Hawaiian Homeland Block Grant program as needed. The application is currently being 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.

2.3.5: 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 2003. The HUD strategic goals of increasing homeownership opportunities and promoting decent affordable housing are directly supported through this indicator.

HOME Units Completed

	FY 2000 Act.	FY 2001 Act.	FY 2002 Act.	FY 2003 Goal	FY *2003 Actual*
HOME rental units produced	29,309	20,453	19,076	*	25,977
HOME new homebuyers	34,126	24,757	23,241	*	25,867
HOME existing homeowners	13,174	9,938	10,027	*	10,705
HOME total households assisted	76,609	55,148	52,344	62,019*	62,549

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

Results and analysis. During FY 2003, participating jurisdictions completed 62,549 HOME-assisted production units, 1 percent more than the goal of 62,019 units. Of this total, 25,977 units were rental housing, 25,867 units were homebuyer housing and 10,705 units were existing homeowner rehabilitation housing. The number of completed units in FY 2003 exceeded the number in FY 2002 by 10,205, an increase of approximately 20 percent. Participating jurisdictions disbursed $1.424 billion in HOME funds to projects during FY 2003.

Contributing to the accomplishments this year was 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, 95 deliveries of 12 specially designed courses, including one focusing on productivity entitled "Measuring Up: A Practical Approach to Measuring Productivity and Performance," were conducted across the country. 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 was rolled out and 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 Integrated Disbursement and Information System are used to track quarterly performance. Ongoing HUD-sponsored Integrated Disbursement and Information System training and data clean-up efforts are used to consistently improve data quality and reliability. Improvements to the Integrated Disbursement and Information System are underway which will include features that will make it more difficult to enter incorrect data thus reducing the need for ongoing clean-up efforts.

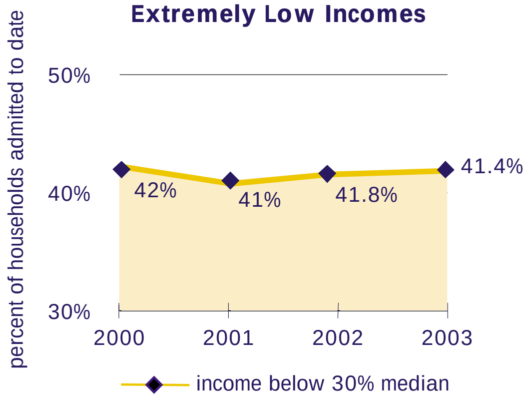
2.3.6: Among households living in HOME rental developments, the share with incomes below 30 percent of area median at initial occupancy.

Background. This monitoring indicator measures the percentage of households residing in the HOME-assisted rental units who have incomes below 30 percent of area median income at initial occupancy on a cumulative basis since the inception of the program in 1992. The HOME Program contributes over twenty thousand affordable rental units to the housing stock each year, with 25,977 produced in FY 2003. 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.

Although HOME rental developments are not required to serve families with incomes below 30 percent of the area median, HUD believes its important to track this usage as such families have the greatest incidence of worst-case housing needs (defined as low-income households who pay more than half of their incomes for housing or who live in substandard housing). Because the number of such households served by HOME rental developments varies based upon the discretionary decisions of HUD grantees, HUD has not established a specific performance goal for this indicator.

Results and analysis. Based on cumulative Integrated Disbursement and Information System data since the beginning of the HOME Program in 1992, 41.4 percent of all households in the 243,404 completed HOME-assisted rental units developments have had incomes below 30 percent of the area median (i.e., extremely low-income) at initial occupancy. This rate has remained relatively stable since FY 2001, when the percentage of HOME-assisted rental households with incomes below 30 percent of area median was 41 percent.

Percentage of Households Admitted to HOME Rental Developments Who Have Extremely Low Incomes



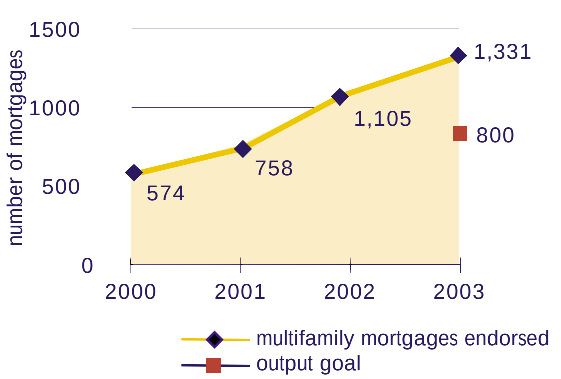
Data discussion. Data entered by participating jurisdictions in HUD's Integrated Disbursement and Information System are used to track performance. Ongoing HUD-sponsored Integrated Disbursement and Information System training and data clean-up efforts are used to consistently improve data quality and reliability.

2.3.7: FHA endorses at least 800 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. The 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 2003 goal was 800 multifamily mortgage initial endorsements.

Results and analysis. For FY 2003, FHA endorsed 1,331 FHA-insured loans, exceeding the performance goal by 66 percent. This compares with 1,105 loans in FY 2002 and nearly doubles the 758 loans made in FY 2001.

FHA Multifamily Mortgage Endorsements



HUD's 51 Multifamily Hubs and Program Centers initially endorsed 1,257 loans equal to $6.85 billion, which financed nearly 168,000 housing units and 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 74 loans totaling nearly $514 million and approximately 10,000 units.

The continued high level of FHA mortgage insurance in FY 2003 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 General Accounting 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 straight-forward 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 Real Estate Management System in FY 2001 identified no problems that compromise this measure.

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

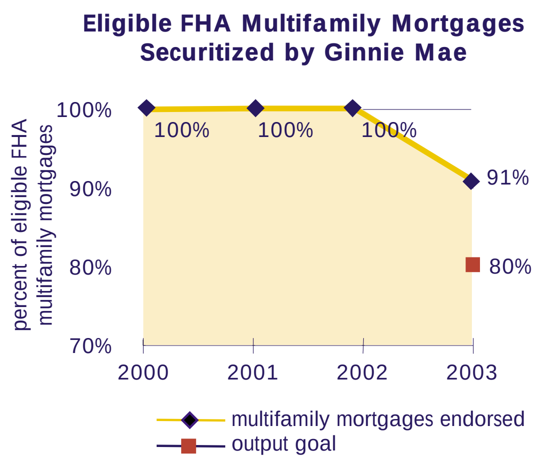
Background. Ginnie Mae is a wholly owned instrumentality of the United States government within HUD. Section 306(g) of the National Housing Act authorizes Ginnie Mae to facilitate the financing of residential mortgage loans insured or guaranteed by the Federal Housing Administration, the Department of 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 91 percent of eligible FHA multifamily mortgages during FY 2003. The performance exceeded the goal of 80 percent market share.

During FY 2003, 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 $7.9 billion in FY 2002 to $9.3 billion in FY 2003, representing an increase of 17.7 percent. The multifamily remaining principal balance increased by 13.8 percent from $25.4 billion to $28.9 billion. For the first time, in FY 2003, multifamily construction loans were used as a new type of collateral for multifamily Real Estate Mortgage Conduits. 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, and Ginnie Mae obtains a clean opinion.

2.3.9: Ginnie Mae credit enhancements on multi-class securities increase to $80.9 billion in FY 2003.

Background. Ginnie Mae initiated its Multiclass Security Program in 1994 to support investor needs by providing investment opportunities and liquidity to the capital markets. The program provides the Ginnie Mae guaranty on structured MBS, including Ginnie Mae Real Estate Mortgage Investment Conduits and Ginnie Mae Platinum Securities. These products are backed by Ginnie Mae Mortgage Backed Securities and allow for different alternatives in the allocation of the principal and interest payment from the underlying mortgages to satisfy the specific demands of diverse groups of investors.

Results and analysis. In FY 2003, Ginnie Mae's multi-class securities issuance volume of $106.1 billion exceeded the target by over 31 percent. Although this was a decrease of 13.8 percent from 2002's record level, given increased volatility and extension risk concerns in the global capital markets, this level demonstrated the resilience of the program. Specifically, Ginnie Mae guaranteed a record 109 Real Estate Mortgage Investment Conduits transactions with total volume down 9.7 percent from the FY 2002 level to $67.9 billion. Ginnie Mae Platinum transactions declined 20.1 percent ($9.6 billion) from FY 2002 to $38.2 billion.

Data discussion. Real Estate Mortgage Investment Conduits data are based on Offering Circular Supplements and the Ginnie Mae Real Estate Mortgage Investment Conduits database. Platinum data are based on the Ginnie Mae Integrated Pool Management System. Ginnie Mae data systems are audited each year, and Ginnie Mae receives a clean opinion.

Goal 3:
Improve The Quality Of Public and Assisted Housing And Provide More Choices For Its Residents

Strategic Objectives

3.1 Help families in public and assisted housing make progress toward self-sufficiency and become homeowners.

3.2 Improve the management accountability for public and assisted housing

3.3 Improve physical and related conditions in public and assisted housing

Report Card - Goal 3

Performance Indicators		2000	2001	2002	2003	2003 Target	Substantially Met	Notes
3.1.1	Number of households that received vouchers and successfully used them to become homeowners			531	1,395	637	√	f
3.1.2.1	Among nonelderly nondisabled public housing households, the average change in earned income at the time of recertification				0.5%	5%		
3.1.2.3	Among nonelderly nondisabled voucher households, the average change in earned income at the time of recertification				-0.1%	5%		
3.1.2.2	Among nonelderly nondisabled assisted multifamily households, the average change in earned income at the time of recertification				0.9%			b
3.1.3	Percentage of able public housing households with children deriving more than 50 percent of income from work	48.0%	48.8%	46.3%	46.4%	47.3%		f
3.1.4.1	Number of Family Self Sufficiency participants with escrow assets		19,631	11,782	16,870	12,371	√	
3.1.4.2	Average escrow balance of Family Self Sufficiency graduates		$4,482	$4,876	$4,741	Increase		
3.1.5	Percentage of Housing Authorities that score highly for Family Self Sufficiency under SEMAP			40.7%	33.9%	45.7%		
3.2.1	The unit-weighted average PHAS score.	78.7	80.2	85.3	87.3	89.6		
3.2.2	The household-weighted average SEMAP score.			83.4%	82.5%	Increase		f, h
3.2.3.1	Percentage of households for which rent determinations are in error	54%			43%	46%	√	
3.2.3.2	Estimated net annual subsidy overpayments to households ($ billion)	2.2			1.5	1.9	√	
3.2.4	Share of vouchers managed by Housing Authorities that score highly for income verification.			86.8%	78.2%	Increase		f, h
3.2.5	Share of vouchers managed by Housing Authorities that score highly for determination of rent reasonableness.			80.6%	81.2%	Increase	√	f, h

Performance Indicators		2000	2001	2002	2003	2003 Target	Substantially Met	Notes
3.2.6 (a)	Average Financial Assessment Subsystem score for PHAs designated as "troubled"			3.3%	5.6%	3.5%	√	
3.2.7	National average voucher utilization, as scored by SEMAP			94%	97.4%	95%	√	
3.2.8	Percentage of vouchers administered by Housing Authorities with low lease-up rates		42.8%	33.1%	18.3%	29.8%	√	
3.2.9	Reduction in number of public housing units managed by troubled Housing Authorities.			23.1%	71.8%	15%	√	
3.2.10	Surveyed public housing households who respond positively about managers taking action			71%	73%	76%		
3.2.11	Percentage of all vouchers that are managed by troubled Housing Authorities.			6.4%	7.9%	6.0%		
3.3.1.1	Share of public housing units meeting HUD-established standards.	73.3%	82.4%	87.1%	85.9%	88.6%		f
3.3.1.2	Share of assisted multifamily units meeting HUD-established standards	86.2%	92.1%	93.2%	93.9%	94.7%		f
3.3.2.1	Share of public housing properties with life-threatening health and safety deficiencies.	49.3%	46.9%	45.5%	49.8%	44.5%		f
3.3.2.2	Share of assisted multifamily properties with life-threatening health and safety deficiencies.	40.2%	37.3%	39.1%	43.5%	38.5%		f
3.3.2b	Completion of study on mold and mildew in Native American Housing				Yes	Yes	√	
3.3.3	Number of units of public housing demolished.	13,476	14,144	15,065		13,000		a
3.3.4.1	Number of families relocated for HOPE VI program.			4,986	6,859	3,160	√	
3.3.4.2	Number of units demolished for HOPE VI program.			8,787	7,468	3,905	√	
3.3.4.3	Number of HOPE VI new or rehabilitated units completed.			6,583	8,611	6,821	√	
3.3.4.4	Number of HOPE VI units occupied.			6,123	7,512	6,201	√	
3.3.5.1	Average satisfaction of public housing tenants.	87%		89%	90%	90%	√	f
3.3.5.2	Average satisfaction of assisted multifamily renters.		84%	87%		88%		a
3.3.6	Percentage of surveyed public housing residents who report they feel "safe or very safe" in units, buildings, parking areas.						√	g
3.3.7.1	Share of public housing units with smoke detectors.	87.7%	89.8%	91.4%	91.8%	92.6%		f
3.3.7.2	Share of multifamily projects that comply with fire safety standards.	90.1%	91.5%	92.4%	91.8%	93.1%		f

(Values represent fiscal year data unless otherwise noted.)

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 ending in the current fiscal year.
e Calendar year ending the previous fiscal year.
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.

Objective 3.1: Help families in public and assisted housing make progress toward self-sufficiency and become homeowners.

3.1.1: 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 public housing agencies 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. This indicator tracks the number of homeowners assisted with voucher funds.

Results and analysis. HUD conducted a telephone survey of HUD field offices in April and May of 2003, and they in turn surveyed all Public Housing Agencies (PHAs) in their jurisdictions. The results showed that 1,395 homeowners were assisted with vouchers in FY 2003, up from 531 voucher-assisted homeowners reported in a similar telephone survey for FY 2002. This represents an increase of 163 percent, far exceeding the goal of a 20 percent increase. Additionally, respondents in the survey anticipated that there would be another 105 closings by the end of the fiscal year for a total of 1,500 homeownership units.

The results far exceeded the goal for several reasons. Because the program is in its infancy, is completely voluntary, and has no separate or additional vouchers provided by HUD, it is difficult to project the increase in the number of households that will participate in the voucher homeownership program in a given year. A wide variety of factors come into play beyond local market conditions, interest rates, and the availability of willing lender and counseling agency partners. For example, the size of a PHA's homeownership voucher program is also constrained by the number of qualified households (particularly households with sufficient credit standing to qualify for a mortgage) and the amount of staff resources the PHA can make available at any given time. PHAs may see immediate success following implementation with a number of well-qualified families, but then experience a drop-off in activity as they begin to work with families that may take a significantly longer period of time to become mortgage-ready.

Data discussion. At the end of FY 2002, a baseline of 531 homeownership units was established based on a telephone survey of HUD field offices conducted by Headquarters, since it was determined that the data in the Public and Indian Housing Information Center were inadequate. To remedy that situation, a notice was issued by the Department in August 2003 emphasizing the importance of reporting homeownership families appropriately in Public and Indian Housing Information Center. In addition, future funding related to homeownership counseling will be based on homeownership units reported in Public and Indian Housing Information Center. It is anticipated that Public and Indian Housing Information Center will reflect the actual homeownership units reported in the survey and that future goals related to increased homeownership through the voucher program will be obtained from Public and Indian Housing Information Center.

3.1.2: Average earnings increase by 5 percent from year to year among non-elderly non-disabled households in the public housing, Housing Choice Voucher and project-based Section 8 programs.

Background. Housing agencies help voucher recipients and public housing residents make progress toward self-sufficiency by providing affordable housing, income disregards and some Family Self-Sufficiency programs. This indicator tracks how earnings change among assisted households changes 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 2003 increased by a modest 0.5 percent on average from their levels the previous year. Average earnings among similar voucher households showed an insignificant decline of 0.1 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 the change in law through the Quality Housing and Work Responsibility Act of 1998, where all new vouchers must be proportionally distributed so 75 percent of all new vouchers must go to families with incomes below 30 percent of median.

Among non-elderly, non-disabled households in the project-based Section 8 program, average earnings increased by 0.9 percent during FY 2003. No goal had been established for this program because private owners of multifamily projects have few tools to increase their tenants' earning capacity. The mean income of the project-based Section 8 households in 2003 was only $8,000, reflecting their marginal employment.

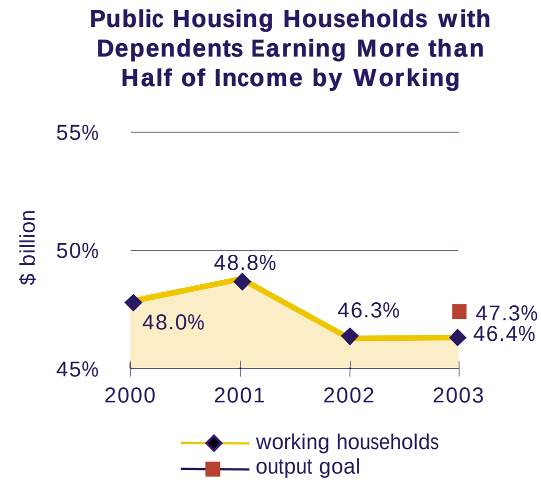
Data discussion. This measure tracks the change in earnings of a cohort of households between sequential 12-month reporting periods. Only non-elderly non-disabled households participating in the same program in both periods are included. Earned income data for the public housing and voucher programs come from 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 and Certificate programs. The measure for the project-based Section 8 program uses data from the Tenant Rental Assistance Certification System is based on 12-month periods ending September 30. The data generally are free of sampling error because they represent a near-census of assisted households, and high reporting rates limit non-response error.

3.1.3: 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 public housing agencies 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 and Self Sufficiency programs likewise may help agencies promote and support work among public housing families.

Results and analysis. Performance data for FY 2003, from July 1, 2002 to June 30, 2003 (latest available data), show that 46.4 percent of non-elderly, non-disabled families with dependents in the Public Housing program received a majority of their income from earnings, an insignificant increase from the 46.3 percent observed for the period October 1, 2001 to September 30, 2002. The increase of 0.1 percentage points fell short of the goal of a 1.0 point increase.

The earned income disregard lowers resident 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 disregard affects the percent of residents earning more than 50 percent of their income from work since disregarded income is not included in the resident's total annual income. While flat rents may encourage residents to increase their incomes, because housing agencies are only required to reexamine the income of families that select flat rents every three years, increases in the incomes of flat rent households may not have been reported to Public and Indian Housing Information Center yet. Flat rents also are not used enough because the law limits the amount of rent that PHAs can keep. In addition, since flat rents are meant to represent the market rent for units, they may be set too high in certain markets for public housing families to be able to afford, reducing the incentive for those families to increase their income.



Data discussion. Data come 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 has been adjusted to July 1, 2002 to June 30, 2003, due to the accelerated reporting deadline. The FY 2002 value reported above on the basis of complete data restates the result of 48.4 percent that was previously reported for FY 2002 on the basis of a preliminary restricted sample. Public and Indian Housing Information Center verifies the accuracy of tenant data by performing automated checks on data ranges and internal consistency.

3.1.4: 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.

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. 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 public housing agency administering the FSS program. A family receives its escrow funds upon successful completion of its five-year self-sufficiency contract with the housing agency. At the time of contract completion, no family member can be receiving welfare assistance.

Results and analysis. The number of FSS families in HUD's Public and Indian Housing Information Center database with positive escrow balances significantly exceeded the FY 2003 goal while the average escrow account balance of graduates declined slightly, missing the goal. The number of families with accumulated escrow account assets increased by approximately 43 percent from 11,782 in FY 2002 to 16,870 in FY 2003. However, the higher FY 2003 number is still below the FY 2001 baseline level of 19,631 families with positive escrow balances. The average escrow balance of graduates, $4,741, was approximately 2.8 percent less that the FY 2002 level of $4,876, but higher than the FY 2001 baseline of $4,482. The number of graduates increased significantly in FY 2003, to 802 from the FY 2002 level of 227 and also exceeded the FY 2001 baseline year when 433 FSS families graduated.

PHAs continue to report undercounting of FSS families in Public and Indian Housing Information Center, and both the Public and Indian Housing Information Center system and PHA software problems have been identified and are being corrected. These data issues may be partially responsible for the 2003 reported results. However, even more important are the many external factors such as the job market conditions and the varying education and skill levels of families that choose to enroll in FSS. These external factors, which are beyond the control of HUD and PHAs, have major impacts on outcomes for this indicator and will continue to result in variations from year-to-year in the numbers of families with positive escrow balances and the amounts families are able to accrue in their escrow accounts.

Data discussion. Data on public housing and housing choice voucher FSS families come from HUD's PIC-50058 data system. PHAs submit FSS program enrollment, progress and exit reports for each participating family using the FSS addendum to 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, since a family can have no escrow credit prior to its first FSS progress report.

Data for each of the fiscal years cover a twelve-month period. The FY 2001 and FY 2002 data are from the period October 1 through September 30 of each fiscal year. Although the FY 2003 data are also for a twelve-month period, they cover the period from July 1, 2002 through June 30, 2003, because reporting for that period was more complete at the time this annual report was prepared for submission.

To address the issue of underreporting of FSS data in Public and Indian Housing Information Center, Public and Indian Housing has added an FSS indicator in the Section Eight Management Assessment Program which evaluates PHA performance of PHAs with mandatory FSS programs. HUD is also currently working to improve reporting levels of public housing FSS programs and of voluntary Housing Choice Voucher FSS programs so that the Public and Indian Housing Information Center data more accurately reflect the entire FSS program. HUD continues to devote considerable technical assistance resources to identifying and correcting systems problems that are resulting in undercounting of FSS activities, but there remains much room for improvement.

3.1.5: The share of housing agencies scoring at least 8 points under the SEMAP indicator for FSS increases by 5 percentage points.

Background. This indicator measures the success of PHAs in implementing the FSS Program. HUD evaluates PHA management performance using the SEMAP scoring system, which includes a score for performance in administering the FSS program. By monitoring how well PHAs operate their FSS programs, HUD strives to ensure that more low-income assisted families build assets and move toward self-sufficiency.

This indicator applies only to PHAs that have mandatory housing choice voucher FSS programs, which are those PHAs that received funding for additional housing choice vouchers or rental certificates between 1990 and 1998. Ratings for the SEMAP FSS indicator are based on the percentage of mandatory FSS slots that have been filled and the percentage of FSS families that have positive escrow account balances. To score at least eight out of ten possible points on this indicator, a PHA must have filled at least 60 percent of its mandatory FSS program slots, and at least 30 percent of its FSS families must have positive escrow account balances.

Results and analysis. In FY 2003, this goal was not met. The number of housing agencies that scored at least 8 points under the SEMAP indicator for FSS decreased from the baseline of 40.7 percent to 33.9 percent.

The baseline was established in FY 2002 using SEMAP scores of PHAs rated on the FSS SEMAP indicator for the four quarters from December 31, 2000 through September 30, 2001. For that baseline period, 440 of the 1,080 PHAs rated under the FSS SEMAP indicator scored at least 8 points for that indicator. The FY 2003 indicator was scored using SEMAP data for four quarters from March 31, 2002 through December 31, 2002. For that time period, 1,091 PHAs were scored on the SEMAP FSS indicator, but only 370 had final rating scores of at least 8 points on the indicator.

Although errors in calculating the SEMAP scores of PHAs and underreporting of FSS families in the Public and Indian Housing Information Center may be partially responsible for the decrease, the effects of the poor economy and of targeting Section 8 vouchers to extremely low-income residents as mandated by Quality Housing and Work Responsibility Act are likely the most important reasons for the decline.

HUD is providing technical assistance resources to help PHAs improve both the quality of services provided to FSS families and the quality of their reporting in the Public and Indian Housing Information Center. FY 2003 funding that was recently awarded will enable 771 PHAs to employ FSS program coordinators to ensure that appropriate services are provided to FSS families. A staff member in each HUD field office has been designated as an FSS contact and resource person. Promising practices are being shared with PHAs through field office workshops and teleconferences and posting of information on the HUD website.

Data discussion. Results are based on Public and Indian Housing Information Center SEMAP data, which is based primarily on data reported by PHAs. The period from March 31, 2002 through December 31, 2002 was used to allow final ratings to be completed in time for this report. In addition to the Public and Indian Housing Information Center data, the SEMAP FSS indicator requires the local HUD field offices to confirm which PHAs have mandatory housing choice voucher FSS programs and to enter the correct mandatory minimum housing choice voucher FSS program size of the PHA.

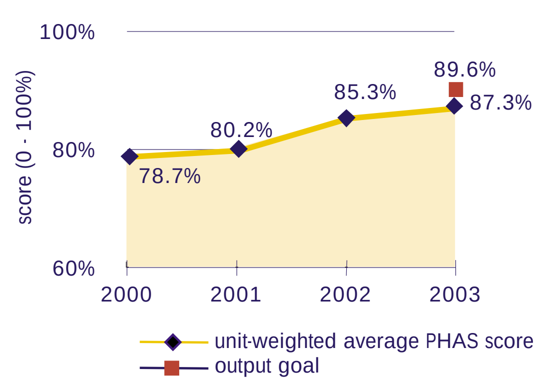
In some cases, it appears that the percent of families with positive escrow balances may have been calculated for all families enrolled in FSS rather than those families with FSS progress reports. This would result in a lower percentage, since new enrollees cannot have positive escrow account balances. Both PHA software and Public and Indian Housing Information Center system problems resulted in underreporting of FSS data. Inaccurate Public and Indian Housing Information Center counting of portable voucher FSS families also resulted in lower FSS indicator scores of some PHAs. Additionally, graduation data in the Public and Indian Housing Information Center was often incomplete and the percentage of mandatory program slots filled was not always correctly calculated.

Objective 3.2: Improve the management accountability for public and assisted housing.

3.2.1: The unit-weighted average Public Housing Assessment System (PHAS) score increases by 5 percent.

Background. This indicator tracks HUD's progress toward increasing the capability and accountability of public housing agency 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.

Average Rating of Public Housing under PHAS



Results and analysis. As of the end of FY 2003, the unit-weighted average PHAS score was 87.3. Although Public and

Indian Housing did not meet the goal of a five percent increase, the result represents an increase of 2.3 percent from the FY 2002 baseline, or about 50 percent of the goal.

It should be noted that, although the unit-weighted PHAS score increased by only 2.3 percent, the proportion of units that were troubled in 2003 decreased by 4.6 percent (from 10.8 percent in 2002 to 6.2 percent in 2003.) This was due to a substantive effort and focus undertaken by the field offices to reduce the number of troubled PHAs. According to the Real Estate Assessment Center database, the number of troubled/substandard PHAs dropped from 357 in 2002 to 159 in 2003, or 55 percent.

Data discussion. This measure is developed by multiplying the PHAS scores for each public housing agency by the number of units managed by each agency and dividing by 1,146,765 units in the public housing program. The FY 2003 estimate is based on 3,120 PHAS scores released by Real Estate Assessment Center between October 1, 2002 and September 30, 2003. Eighteen PHAs were excluded. These consisted of PHAs designated as “Moving to Work” (1), “Invalidated” (15), or “Advisory” (2).

3.2.2: The household-weighted average SEMAP score increases.

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 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. Household-weighted average SEMAP scores did not increase as expected. Out of the 2,427 PHAs that received SEMAP ratings from March 2002 through December 2002, the average weighted SEMAP score was 82.47, a one-percentage point decrease from the baseline average weighted score of 83.40 percent based on the 2,420 PHAs with final ratings for the four quarters from December 2000 through September 2001. Although the change is slight, it can be attributed to the decrease in the share of assistance managed by housing authorities that scored highly for income verification, a SEMAP indicator worth a maximum of 20 points. Of the 2,053 baseline PHAs that scored highly for income verification, only 1,772 scored highly under this year’s assessment. See results and analysis under indicator 3.2.4 for further details on the income verification SEMAP indicator.

The decrease in the goal during the reporting period is the result of a one-time downward adjustment to the reporting period baseline as Rental Integrity Monitoring reviews are completed and PHA self certified scores revised. HUD continues to review SEMAP indicators to improve measurement standards.

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.

3.2.3: 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 expenditures in FY 2003 to serve over 4.8 million households. Based on studies of year 2000 program activity, HUD estimated that 60 percent of all subsidized rent calculations were done in error, and that there were approximately $3.2 billion in gross erroneous payments and $2 billion in net annual subsidy overpayments attributed to the combination of program administration errors and tenant underreporting of income upon which the subsidy is based. Further details on the nature of HUD's error measurement activity are provided in Footnote 17 to HUD's consolidated financial statements for FY 2003.

Under the President's Management Agenda, 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. A separate assessment of budget impacts is planned for FY 2004. 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. In any event, HUD's goal is to better assure that the right benefits go to the right persons. HUD is also expanding its error measurement process to include a third and final component covering the accuracy of assistance billings and payments. Billing error estimates will be completed for reporting in FY 2004.

In the past two decades, HUD's capacity to monitor subsidy determinations and billings was greatly diminished and lax oversight of the programs rose to the level of a material weakness. Prior to FY 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 databases to address the unreported tenant income issue. This process proved to be ineffective, given the age of the tax data and other factors that contributed to a high level of false positive income discrepancies.

In 2001, a multi-organizational HUD Working Group developed a more comprehensive corrective action strategy that considers: statutory and regulatory simplification of the programs; structured forms and automated tools needed to determine rents and subsidies correctly; education and training 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 third party program administrators, using risk-based targeting indicators; automated billing verifications; stronger performance incentives and sanctions for HUD's program administrators and tenants; and an on-going quality control program. To date, actions have been taken to improve program guidance and training and to reestablish HUD's monitoring capacity and efforts. In FY 2003, PIH completed over 700 Rental Integrity Monitoring reviews covering PHAs administering 80 percent of PIH's rental assistance funding. The Office of Multifamily Housing continued to outsource the monitoring of its project-based assistance portfolio to State agencies, with over 10,000 contracts overseen by Performance-Based Contract Administrators in FY 2003.

Results and analysis. Based on a study of program activity in the first half of FY 2003, HUD exceeded its interim FY 2003 goal of a 15 percent reduction in estimated program administrator errors in income and rent determinations. The FY 2003 study used the same methodology, sampling procedures, and sample sizes as the baseline 2000 study. However, PHAs that had been placed under "Moving to Work" agreements were excluded in the 2003 study because they are subject to special agreements that are similar to block grant funding and they have discretion to alter program rules, thereby invalidating application of standard error measurement procedures. These PHAs were also taken out of the 2000 baseline results for comparison purposes. Approximately 2 percent of all assisted housing is under such agreements. Whereas the adjusted baseline results showed 54 percent of cases in error, the 2003 study found only 43 percent of cases in error, a 20 percent reduction. The 2003 study also found a significant reduction in erroneous payments attributed to program administrator income and rent determinations, as reflected in the following table:

Rental Assistance Programs	FY 2003 Estimates of Errors in Program Administrator Income and Rent Determinations*				FY 2000 Estimates*	Percent Reduction In Gross Erroneous Payments
	Assistance Over-payments	Assistance Under-payments	Net Erroneous Payments	Gross Erroneous Payments	Gross Erroneous Payments	
Public Housing	$248,544	$107,496	$141,048	$356,040	$602,556	40.9%
Vouchers & Mod Rehab	$470,784	$326,724	$144,060	$797,508	$1,096,524	27.3%
Total PHA Administered	$719,328	$434220	$285,108	$1,153,548	$1,699,092	32.1%
Project-based Assistance	$267,672	$128,124	$139,548	$395,796	$539,160	26.6%
Total	$987,000 (+/-$208,000)	$562,344 (+/-$287,000)	$424,656 (+/-$184,000)	$1,549,344 (+/-$229,000)	$2,238,252 (+/-$275,000)	30.8%

* All values are presented in thousands.

The independent source of income data needed to do the income matching to determine tenant income reporting errors for the 2003 sample will not be available until the latter part of 2004, so the 2000 baseline estimates on that component continue to be reported with 95 percent confidence that the annual amount of assistance overpayments attributed to tenant underreporting of income is $978 million ± $247 million. During FY 2003, HUD developed and began to pilot test an Upfront Income Verification Program using computer matching with state wage data at 40 PHAs in seven pilot states. Legislation was also proposed to grant HUD authority to use available central federal sources of state wage and other income data for more efficient and effective upfront income verification efforts to eliminate errors due to inaccurate income determinations and tenant underreporting of income. Effective upfront verification of income has the potential to eliminate over half the total estimated erroneous rental housing assistance payments.

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 Office of Inspector General 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.

3.2.4: The share of Housing Choice Voucher units managed by housing authorities that score highly for income verification increases.

Background. Tenant income verification is a critical tool that housing authorities have to control the costs of providing tenant-based assistance. A maximum score of 20 points can be achieved under SEMAP when both the family's adjusted income has been verified by third party and the correct utility allowance is applied for at least 90 percent of households. This indicator supports the goal of improving the management accountability for public and assisted housing.

Results and analysis. The share of assistance attributed to PHAs that scored highly for income verification decreased, missing the FY 2003 goal. Out of the 2,427 PHAs that received SEMAP ratings for the four quarters from March 2002 through December 2002, 1,898 scored 20 points under this indicator. This represents 1,541,739 units out of 1,970,437, or a share of assistance of 78.24 percent. In the baseline-reporting period, 2,053 of 2,420 PHAs with final SEMAP ratings for the four quarters from December 2000 through September 2001 scored 20 points under the Determination of Adjusted Income indicator, representing 1,563,349 units out of 1,801,668, or a share of assistance of 86.77 percent. Of those 2,053 baseline PHAs that scored 20 points, only 1,772 scored 20 points under this year's assessment, a decrease of 281 PHAs. Thus, the FY 2003 result fell by over 8 percentage points from the baseline.

This decrease can be attributed to more vigorous monitoring and training by HUD field offices that resulted in greater scrutiny and more accurate reporting of this SEMAP indicator. The Department has been actively conducting Rental Integrity Monitoring reviews throughout the country to ensure correct calculation of housing assistance based on third party verification of family income and allowances, as well as proper and accurate self-certification of this corresponding SEMAP indicator.

The decrease in the goal during the reporting period is the result of a one-time downward adjustment to the reporting period baseline as Rental Integrity Monitoring reviews are completed and PHA self certified scores revised. HUD continues to review SEMAP indicators to improve measurement standards.

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 indicators 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 features in the same market area the Field Office's Management Plan.

3.2.5: The share of Housing Choice Voucher units managed by housing agencies that score highly for determination of rent reasonableness increases.

Background. Determination of whether rents are reasonable is one of several tools that housing agencies use to control costs in the Housing Choice Voucher program. A reasonable rent for an assisted unit is one that is comparable to the rents charged for unassisted units in the same market area with similar features. Under the SEMAP, HUD awards a maximum score of 20 points when 98 percent or more of randomly selected tenant files have documented determinations that the rent for the unit is reasonable in accordance with the PHA's written methodology in its Administrative Plan. This indicator supports the goal of improving the management accountability for public and assisted housing.

Results and analysis. For the four quarters from March 2002 through December 2002, the share of voucher units managed by PHAs that scored highly on the rent reasonableness indicator was 81.16 percent, a slight increase of less than one percent from the baseline of 80.58 percent. Out of the 2,427 PHAs that received SEMAP ratings for the four quarters from March 2002 through December 2002, 1,817 scored 20 points under this indicator. This represents 1,599,181 units out of 1,970,437, or a share of assistance of 81.16 percent.

A baseline was established using the first year's scores under SEMAP. Out of 2,420 PHAs with final SEMAP ratings for the four quarters from December 2000 through September 2001, 1,879 scored 20 points under the rent reasonableness indicator. This represented 1,451,698 units out of 1,801,668, a share of assistance of 80.58 percent.

Although the share of assistance attributed to PHAs that self-certified to the maximum number of points under the Reasonable Rent indicator increased by less than one percent, a recent HUD study revealed that self-certified indicators have questionable value in determining the actual performance of a PHA. HUD continues to review SEMAP indicators to improve performance measurement standards.

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.

3.2.6: The average Financial Assessment Subsystem score for all PHAs designated by the Financial Assessment Subsystem as "troubled" will increase by 5 percent.

Indicator background. The Real Estate Assessment Center is evaluating the financial management of public housing agencies based on generally accepted accounting principles. The Real Estate Assessment Center plans a similar assessment of tribal properties. The Real Estate Assessment Center's 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. According to the Real Estate Assessment Center database, the average Financial Assessment Subsystem score for troubled PHAs increased from 3.34 points in FY 2002 to 5.57 points in FY 2003, or an increase of 67 percent. This meets the goal of a 5 percent increase. The big increase is explained by the fact that FY 2002 included many more Late Presumptive Failures than are expected in the future. This caused the FY 2002 baseline to be unusually low. Scoring is now "live" and official; so fewer Late Presumptive Failures are expected future years, and therefore the base year/future year disparities will be much less.

Data Discussion. The data source is the Real Estate Assessment Center 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. Real Estate Assessment Center performs Quality Assurance Reviews of the audited financial statements submitted by Independent Public Accountants of PHAs. The Quality Assurance Reviews 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.

3.2.7: The utilization of Housing Choice Vouchers increases by 1 percentage point from the FY 2002 level

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 enabling 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 funds. Increasing PHAs' utilization of voucher funds remains a key HUD priority.

This measure tracks the extent to which Housing Choice Voucher units and funding are being utilized by agencies, in support of the strategic objective of improving management accountability for public and assisted housing. HUD's definition of a PHA's utilization rate is the higher of the share of budget authority spent or the share of units utilized during the PHA's fiscal years, excluding units under Annual Contributions Contracts for less than one year or reserved for litigation.

Results and analysis. For the Performance and Accountability Report reporting period, FY 2003, utilization of housing choice vouchers was 97.4 percent. This three percent increase from the FY 2002 baseline exceeded the goal of a 1.0 percent increase. Utilization was determined using the definition identified in the Section 8 Management Assessment Program.

In the past several years, the Department and Congress have taken a number of steps to improve Section 8 utilization rates. These include: merger of the certificate and voucher programs, reforms to make the voucher program more attractive to landlords, expanded flexibility for PHAs to raise voucher payment standards to respond to changes and variations in local market conditions, a requirement that recipients of new incremental vouchers have utilization rates of 97 percent or more, and authorization to allow housing vouchers to be used for homeownership. HUD instituted a process that will provide for the reallocation of unused vouchers from PHAs that fail to achieve an adequate utilization rate. HUD also encourages PHAs that do not anticipate using all their vouchers to voluntarily reduce their program size. In addition, the Department has implemented SEMAP, which scores PHAs on their performance in managing Section 8 programs and strongly emphasizes voucher utilization rates. Finally, HUD plans to adopt a new system for tracking up-to-date utilization rates to allow for early intervention and conduct in-depth research into the causes and potential solutions for underutilization.

The changes implemented by the Department have had the desired result. Utilization of vouchers is now at a comparable level, or higher, as compared to market rental housing statistics. For the reporting period that began as early as October 1, 2001 (PHAs with a fiscal year ending September 30, 2002) through July 1, 2002 (PHAs with a fiscal year ended June 30, 2003), the vouchers served on average 1.85 million households.

The enactment of the FY 2003 Omnibus Appropriations Act brought about changes in the way funding is provided to PHAs. Funding is provided only for the number of units leased by a PHA. As a result of this change in methodology, in FY 2004 the goal will be adjusted to reflect the actual lease-up level as the measurement tool. Since HUD only provides funding for units leased, budget authority for PHAs will almost always be fully utilized; therefore, a measurement of budget authority will not correlate to improved PHA performance. The corresponding adjustment will also be made to the SEMAP utilization definition in FY 2004.

Data discussion. Data came from the HUD Central Accounting Program System. Utilization is determined from HUD approved year-end statements.

The assessment was based on actual financial data from public housing authorities for the PHA quarters ending 9/30/2002, 12/31/2002, 3/31/2003, and 6/30/2003. There were 101 PHAs that had not reported as of the end of the reporting period. For the purposes of a comparable assessment, the FY 2002 baseline data included actual financial data from PHAs with fiscal years ending 9/30/2001, 12/31/2001, 3/31/2002, and 6/30/2002. The PHA fiscal year ends were selected because they contained the latest financial data available at the time of the Performance and Accountability Report assessment, and provide information for a full year. PHAs with a fiscal year ending on September 30, 2003 had not submitted financial reports at the time the Performance and Accountability Report was prepared for submission.

The data also reflect utilization adjusted by the SEMAP defined conditions; therefore, the outcome is slightly inflated for both the baseline and reported year. Utilization is a comparison of actual PHA activities to a defined level of units and dollars under contract. Since litigation and new allocations (units and dollars) are excluded for the entire PHA reporting period, any leasing and expenditures that actually occurred during the period slightly overstates the results.

Year-end financial data are reviewed by financial analysts for consistency and accuracy. The data are entered into HUD Central Accounting and Program System, where they are reviewed again by a HUD Central Accounting and Program System approver prior to approving the document in the system. Thereafter, prior to developing reports associated with Annual Performance Plan goal accomplishment, the data are assessed in the aggregate using quality control standards such as: utilization not less than 50 percent and not greater than 125 percent; monthly per unit costs between a range of not less than $200 and not greater than $1,400; PHA must have an active voucher program in the assessment year; reserved number of units greater than 25, etc. If an individual PHA data fails any of the quality control checks, the data input provider is contacted to further validate or correct the data. A new system was implemented in April 2003 that collects leasing data from PHAs quarterly. This will result in more up-to-date measurement of lease-up in future reports.

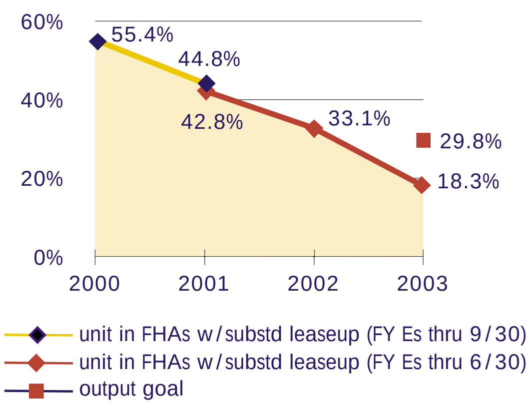
3.2.8: The share of the Housing Choice Voucher program administered by housing agencies with substandard utilization rates decreases by 10 percent.

Background. Background on the important issue of Section 8 utilization is presented under Indicator 3.2.7. That indicator measures the overall proportion of Housing Choice Vouchers that are being used by PHAs to assist families. This indicator, by contrast, tracks the number of PHAs that have substandard utilization rates and the share of the program that they administer.

In accordance with the standards in SEMAP, "substandard utilization" by a housing agency is identified with a two-pronged test: both the "unit utilization rate" and "budget authority utilization rate" are below 94.5 percent. Under an improved SEMAP definition that took effect in FY 2001, the utilization rate is defined as the higher of the share of budget authority spent or the share of units utilized during the PHA's fiscal years, excluding units under an Annual Contributions Contract for less than one year or reserved for litigation.

Results and analysis. In FY 2003, the share of vouchers under management by agencies with substandard utilization was 18.3 percent. The share of the program with substandard utilization thus was reduced by 45 percent from the 33.1 percent baseline, substantially exceeding the goal of a 10 percent reduction.

Vouchers Managed by Housing Agencies with Substandard Leaseup



The number of PHAs with substandard utilization rates in FY 2002 was 879, and the number of vouchers managed by those PHAs was 639,380, representing 33 percent of the inventory. The FY 2003 number of PHAs with substandard utilization rates was 513, representing 347,208 vouchers.

As described in indicator 3.2.7, given the critical task of increasing lease-up in the housing choice voucher program, the Department implemented changes in program policy that resulted in noticeable improvement, allowing Public and Indian Housing to exceed the goal. Policies and procedures governing the SEMAP have been a very successful management tool. SEMAP provides for objective measurement of the performance of a public housing agency in key areas of the Section 8 tenant based assistance program, such as utilization. SEMAP enables HUD to ensure that program initiatives are met and increases accountability for PHAs by identifying management capabilities and deficiencies, and by improving risk assessment to effectively target monitoring and program assistance. PHAs can use the SEMAP performance analysis to assess their own program operations.

However, the enactment of the FY 2003 Omnibus Appropriations Act brought about changes in the way funding is provided to PHAs. Funding is provided only for the number of units leased by a PHA. As a result of this change in methodology, in FY 2004 the goal will be adjusted to reflect the lease-up level as the measurement tool. Since HUD only provides funding for units leased, budget authority for PHAs will almost always be fully utilized; therefore, a measurement of budget authority will not correlate to improved PHA performance. The corresponding adjustment will also be made to the SEMAP utilization definition in FY 2004.

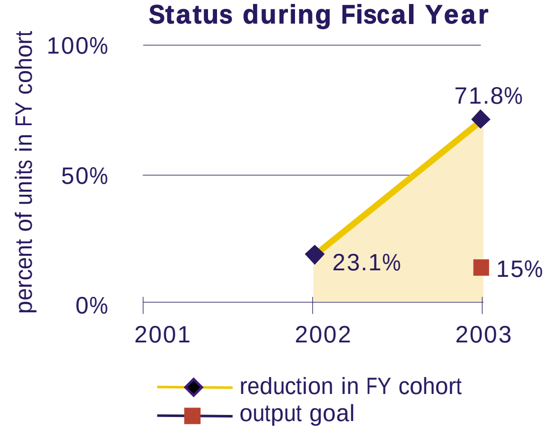
Data discussion. Data came from the HUD Central Accounting Processing System. Utilization is determined from HUD-approved year-end statements submitted by PHAs for the PHA quarters ending 9/30/2002, 12/31/2002, 3/31/2003, and 6/30/2003. The remaining data issues discussed under 3.2.7 also apply to this measure.

3.2.9: Among public housing units managed by troubled housing agencies at the beginning of FY 2003, the number will decrease by 15 percent by the end of the year.

Background. Public and Indian Housing and the Real Estate Assessment Center use the Public Housing Assessment System (PHAS) to evaluate the performance of public housing agencies based on four categories: physical condition, management operations, financial condition, and resident satisfaction. Public housing agencies with composite PHAS scores below 60, or scores below 18 in any one component, are classified as substandard or troubled. This indicator tracks the change in the number of units managed by "troubled" agencies that successfully returned to "standard" status by the end of the fiscal year due to intervention by Troubled Agency Recovery Centers.

Results and analysis. During FY 2003 the number of units managed by "troubled" agencies was reduced by 72 percent, exceeding the 15 percent target. On October 1, 2002, 82 PHAs containing 57,433 low-rent units were assigned to the Troubled Agency Recovery Centers. By September 30, 2003, 41,245 of those units were no longer troubled after receiving assistance from the Troubled Agency Recovery Centers.

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



Data discussion. The Troubled Agency Recovery Center portfolio system captures the date a PHA is transferred to the Troubled Agency Recovery Center because of PHAS scores. PHAS comprises scores determined by the Physical, Management, Financial, and Resident satisfaction Assessment Subsystem (Physical Assessment Subsystem, Management Assessment Subsystem, Financial Assessment Subsystem, and Resident Satisfaction Assessment Subsystem). Until PHAS scoring was fully implemented in FY 2002, PHAs were declared troubled based solely on the management operations indicator (Management Assessment Subsystem) because the other component indicator scores were considered "advisory" pursuant to congressional intent.

Physical Assessment Subsystem and Resident Satisfaction Assessment Subsystem are statistically representative of public housing projects and households, respectively. Physical Assessment Subsystem scores are based on independent inspection of the PHAs' properties by HUD, and are verified through HUD's Quality Assurance Program. Management Assessment Subsystem and Financial Assessment Subsystem submissions are subject to verification by independent audit.

3.2.10: The share of public housing residents who feel that housing agency managers take action when residents in the development break rules increases by 5 percentage points.

Background. This indicator uses resident survey data to track public housing management responsiveness to program violations, measuring an element of public housing security that is fully within the control of public housing managers. HUD strives to increase the percentage of residents who recognize responsiveness among housing agency management, in support of the strategic goal of improving the overall quality of public housing.

Results and analysis. During FY 2003, 73 percent of public housing residents felt that housing agency managers took action when residents broke rules of their lease that pertain to safety (drug activity, for example). Although this result represents an increase of 2 percentage points from the FY 2002 baseline of 71 percent, it did not meet the goal of a 5 percentage point increase.

The FY 2003 reported results cover the quarters ending 6/30/2002, 9/30/2002, 12/31/2002, and 3/31/2003. Beginning with the 12/31/2002 assessment cycle, the survey question was modified to include the phrase, "that pertain to safety." It should be noted that this wording modification might have impacted residents' interpretation of the question.

Data discussion. Data come from the Resident Satisfaction Assessment Subsystem, the Real Estate Assessment Center System databases. The 2003 metric was determined by taking a weighted national average all residents who provided a "Yes" response to survey question 11. This calculation was performed by dividing the weighted total count of residents responding "Yes" by the weighted total count of residents responding either "Yes" or "No" to this question, controlling for any "Don't Know" responses. There is a confidence interval for Resident Satisfaction Assessment Subsystem of 95 percent overall in terms of accuracy, which is well within the industry standard.

3.2.11: The share of Housing Choice Voucher units managed by troubled housing agencies decreases by 5 percent.

Background. This indicator tracks the share of assistance under the Housing Choice Voucher program that is vulnerable to mismanagement by troubled housing agencies. Using the SEMAP HUD rates PHA 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. Out of the 2,427 PHAs that received SEMAP ratings for the four quarters from March 2002 through December 2002, 303 scored under 60 percent and were declared troubled. These troubled PHAs comprise 156,245 units out of 1,970,437, or a share of assistance of 7.93 percent. This share of assistance increased by over one percentage point from the baseline, missing the goal of a 5 percent decrease. The baseline was established using the first year's scores under SEMAP. Out of 2,420 PHAs with final SEMAP ratings for the four quarters from December 2000 through September 2001, 274 were declared troubled. This represented 114,850 units out of 1,801,668, or a share of assistance of 6.37 percent.

The increase in the number of voucher units managed by troubled PHAs represents an increase of 29 PHAs and a share of assistance of 41,395 units. This increase in the share of units managed by troubled PHAs can be attributed directly to the decrease in the share of assistance managed by housing authorities that scored highly for income verification. Of the 274 baseline PHAs that were declared troubled, 188 PHAs, or 69 percent, did not score 20 points under SEMAP's income verification indicator. Of the 303 PHAs that were declared troubled under this year's assessment, 285, or 94 percent, did not score 20 points under the income verification indicator. Please refer to Indicator 3.2.4 for an explanation of the income verification SEMAP indicator.

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.

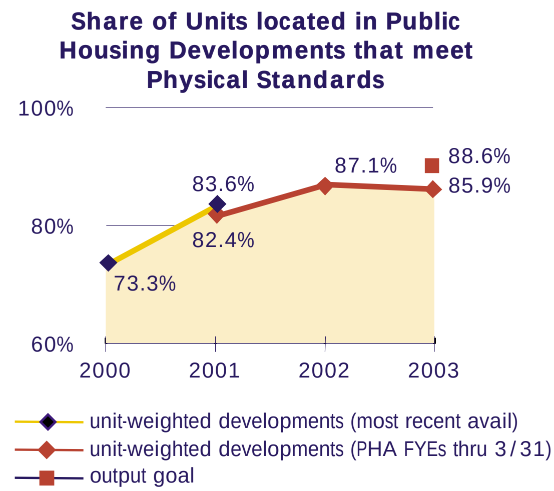
Objective 3.3: Improve physical and related conditions in public and assisted housing.

3.3.1: The share of public housing and assisted Multifamily units that meet HUD-established physical standards increases by 1.5 percentage points.

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 public housing to ensure compliance with HUD-established standards, or with local codes if they are more stringent. Private owners of assisted housing also have a contractual obligation to meet physical standards. For FY 2003, the target has been set at a 1.5 percentage point increase in the proportion of units in each program that are located in properties with acceptable quality.

Results and analysis. In FY 2003, 85.9 percent of units in public housing were located in properties with acceptable physical quality, representing a decrease of 1.2 percentage points from the previous year. This result failed to meet the goal of a 1.5 percentage point increase. According to the Real Estate Assessment Center data, 8 percent of public housing properties had a Physical Assessment Subsystem score of less than 60 points, meaning that they failed to meet HUD's physical condition standards. These 8 percent of properties represent 14 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.

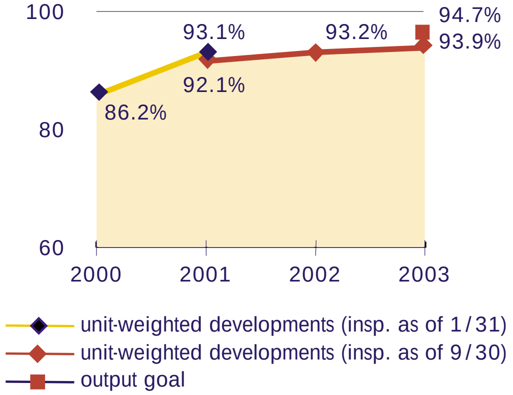
In multifamily housing, 93.9 percent of units were found to be in properties with acceptable quality upon initial inspection. The gain of 0.7 percentage points for the multifamily housing stock fell slightly short of the goal of a 1.5 point increase.



Along with the higher baseline, a methodological factor limited the apparent improvements for multifamily housing. 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, and their scores roll over from year to year. Public housing is on a "2-1" schedule.

The multifamily follow-up on properties that continue to fall below standard is significantly rigorous to assure that such properties are placed under a compliance plan that assures their repair to meet HUD standards or have the owners face foreclosure. HUD had identified less than 800 properties nationally, slightly more than 2 percent of its portfolio, that continue to be substandard.

Share of Units located in Assisted Multifamily Developments that meet Physical Standards



Data discussion. Data for this indicator are from Real Estate Assessment Center Physical Assessment Subsystem. Inspections at PHAs are conducted and scored at the project level, but the results of project inspections are aggregated at the PHA level into an interim PHAS Physical Indicator score and reported as one of four components of the PHAS rule scoring process. For both public housing and private multifamily properties, results for FY 2003 reflect the most recent inspections available as of 9/30/2003. For both programs, a substantial share of properties did not receive a new inspection during FY 2003; so earlier scores were carried over.

3.3.2: The share of HUD-assisted properties observed with Exigent health and safety or fire safety deficiencies decreases by 1.0 percentage points for public housing and by 0.6 percentage points for assisted multifamily housing.

Background. HUD's Real Estate Assessment Center inspects the physical conditions of public and assisted housing and identifies life-threatening deficiencies such as exposed electrical wires, blocked exits and gas leaks. This indicator measures the proportion of unit-weighted properties with exigent health and safety or fire safety deficiencies—the most severe life-threatening deficiencies.

Exigent Health and Safety or Fire Safety Deficiencies

	FY 2000	FY 2001	FY 2002	FY 2003	FY *2003 Goal*
Public Housing					
Properties with Exigent Health and Safety/Fire Safety deficiencies (observed)	49.3%	46.9%	45.5%	49.8%	44.5%
Units with, in building with, or on site with Exigent Health and Safety or Fire Safety deficiencies (estimated)	22.2%	–	16.0%	17.6%	16.4%
Assisted Multifamily Housing					
Properties with Exigent Health and Safety or Fire Safety deficiencies (observed)	40.2%	37.3%	39.1%	43.5%	38.5%
Units with, in building with, or on site with Exigent Health and Safety or Fire Safety deficiencies (estimated)	18.7%	–	16.2%	19.4%	15.6%

Results and analysis. During FY 2003, 49.8 percent of public housing properties had exigent deficiencies, up from 45.5 percent in FY 2002. The increase of 4.3 percentage points missed the goal of a 1.0 point decrease. To some extent the result reflects more frequent observation of deficiencies in small properties, as indicated by the fact that the proportion of units found in deficient properties increased only 1.6 percentage points to 17.6 percent.

Among assisted multifamily properties, 43.5 percent had exigent deficiencies in FY 2003, up from 39.1 percent in FY 2002. The increase of 4.4 percentage points missed the goal of a 0.6 point decrease. The share of units found in deficient properties increased 3.2 points from 16.2 to 19.4 percent.

Several technical factors affect the apparent increase in the percentage of properties with Life Threatening Defects.

- The measure focuses on the number of properties with a Life Threatening defect, and does not capture a reduction in the number of defects on a property. For example, if a property mitigates 9 of 10 defects, this improvement is not reflected since the Life Threatening defect is still present at the property. Measured differently and averaged across the inventory, the number of Life Threatening defects per property has gone down between subsequent inspections.
- Because the measure is based on the entire inventory of properties, and not all properties are inspected every year, older inspections are carried forward into the reporting for the current fiscal year. Due to the Physical Assessment Subsystem incentive for both Multifamily and Public Housing properties, properties in worse condition are more likely to be inspected in a given year. Poor performing Public Housing properties are as much as 2 times more likely to be included (due to the 2-1 rule), and poor performing Multifamily properties are up to 3 times more likely (due to the 3-2-1 rule). Because of this, the restricted data set is biased toward worse properties, and the full life cycle of reporting is more likely 2 to 3 years, rather than only the 1 year reported in the Annual Performance Plan/Performance and Accountability Report.
- On June 18, 2001, the Department issued Special Bulletin 18 to address the application of defects related to means of egress. This Bulletin increased the frequency of observations of particular EHS defects since this time, and in particular, "Emergency/Fire Exits Blocked/Unusable."

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 2003, nationwide, 98 percent of these multifamily deficiencies were corrected or mitigated.

Data discussion. Data for this indicator are from Real Estate Assessment Center's Physical Assessment Subsystem. Because OMB advanced the reporting schedule, public housing results for FY 2003 reflect inspections completed for properties in PHAs with fiscal years ending between 6/30/2002 and 3/31/2003. For private multifamily properties, results for FY 2003 reflect the most recent inspections available as of 9/30/2003. For both programs, a substantial share of properties did not receive a new inspection during FY 2003 so earlier scores were carried over. This is because public housing is on a "2-1" inspection schedule and the multifamily program is on a "3-2-1" inspection schedule. New project scores were available for 51 percent of public housing units and 39 percent of multifamily units.

3.3.2b: Conduct a study of the extent of mold and mildew in Native American housing in the U.S. by the fourth quarter of FY 2003.

Background. Congress expressed concern over the volume of reported incidents of mold and mildew infestation on several Indian Reservations. To address this issue, the Office of Native American Programs initiated a study to determine the magnitude and severity of mold and mildew infestation in Native American households. This study continues the efforts of HUD to provide decent, affordable housing in safe and sanitary settings.

Results and analysis. During the fourth quarter of FY 2003, Office of Native American Programs completed the study, achieving the milestone goal for FY 2003. Results of the study are currently under review by the Assistant Secretary of Public and Indian Housing, and the findings will be published in the near future.

Data discussion. Office of Native American Programs contracted with an independent firm to conduct the study. The contractors used standard procedures for sampling and statistical analysis.

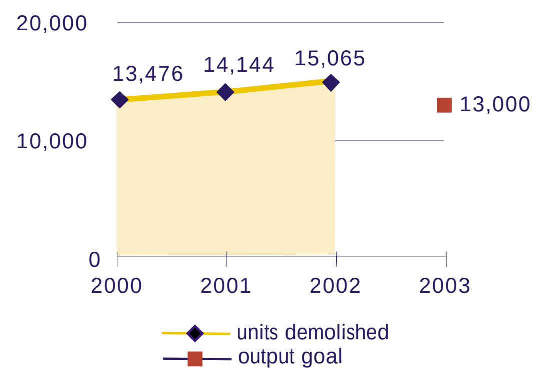
3.3.3: As part of the effort to eliminate 100,000 units of the worst public housing, demolish 13,000 units during FY 2003.

Background. HUD intends to demolish 100,000 units of severely distressed public housing by FY 2003, including the demolition of 13,000 units in FY 2003. Often demolishing distressed stock 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 ill-designed developments attract crime and drain valuable housing authority resources because of costly operations.

Results and analysis. Data for FY 2003 are not yet available because of a transition to a new data system. HUD is in the process of completing a multi-step reconciliation process with respect to data for demolitions for FY 2003. It is anticipated that the reconciliation process will be completed by the end of March 2004.

FY 2002 data are the most recent data available for this indicator. In that year, HUD exceeded its annual goal by 16 percent by demolishing 15,065 units instead of 13,000 units. Through FY 2002, a cumulative 88,922 units of the targeted 100,000 units were demolished.

Public Housing Units Demolished Annually



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 Integrated Business System at the end of FY 2002.

The transition to the tracking system that is replacing 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 Housing Information Center System), internal validation on the transfer of Integrated Business System data into the new system has been completed, and the transfer itself has been completed.

Instructions for the remaining validation checks to be performed by housing authorities are in the process of being cleared by the Department. Once the instructions are issued, PHAs will be given 60 days to take action to validate the data migrated into the Demolition/Disposition module. Based on the feedback received from PHAs during the 60-day validation period, HUD will finalize the data and will be in a position to report on this indicator. It is anticipated that the reconciliation/validation process will be completed by March 2004.

3.3.4: The HOPE VI Revitalization Development program for public housing relocates 3,160 families, demolishes 3,905 units, completes 6,821 new and rehabilitated units, and occupies 6,201 units.

Background. HOPE VI is HUD's primary program for eliminating 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 goals reflect planned achievements based on HOPE VI plans submitted to HUD by Public Housing Authorities.

Results and analysis. As of September 30, 2003, the HOPE VI Revitalization program had exceeded its redevelopment plans in all of the four key outputs. Grantees relocated 6,859 households to permit redevelopment, 117 percent above the goal of 3,160 relocations. The HOPE VI program demolished 7,468 units, 91 percent more than the goal of 3,905. Completions of new or rehabilitated units totaled 8,611, an achievement 26 percent greater than the 6,821-unit goal. Families occupied 7,512 units, exceeding the goal of 6,201 occupied units by 21 percent.

As of September 30, 2003, a cumulative total of 51,603 households had been relocated; 63,082 units had been demolished; 29,633 units (new and rehabilitated) had been completed; and 27,254 completed units had been occupied.

Cumulative Achievements for HOPE VI

	FY 2000	FY 2001	FY 2002	FY 2003
Households relocated	33,153	39,758	44,744	51,603
Units demolished	34,893	46,827	55,614	63,082
Units completed	10,510	14,439	21,022	29,633
Units occupied	9,958	13,619	19,742	27,254

The highly complex and ambitious nature of the HOPE VI program can often impede the achievement of production goals set for the program. Given this, the HOPE VI program office attributes the success in meeting and exceeding the FY 2003 goals to its continued emphasis on timeliness and accountability in the implementation of HOPE VI grants. The primary tools 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, trainings and workshops for grantees, and a range of programs and policy guidance.

Data discussion. The data are submitted quarterly to HUD by housing authorities via Public and Indian Housing's HOPE VI quarterly progress reporting system. In addition to using 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 General Accounting Office have not audited the system itself, they have used its data in their reviews of the HOPE VI program.

3.3.5: The average satisfaction of assisted renters and public housing tenants with their overall living conditions increases by 1 percentage point.

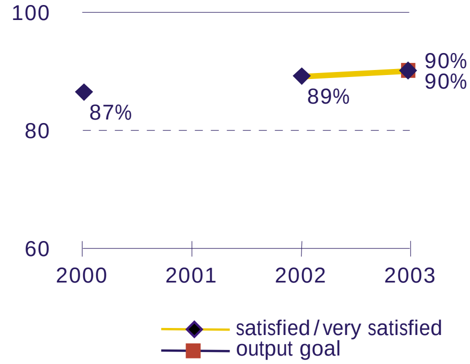
Background. The recipients of HUD housing assistance form one of HUD's largest groups of customers. Resident satisfaction with living conditions in these assisted housing developments is influenced by the quality of management by housing agencies and private multifamily development managers. HUD monitors resident satisfaction through an annual survey of public housing residents and residents in private assisted rental developments.

Results and analysis. During FY 2003, 90 percent of public housing residents were satisfied or very satisfied with their "overall living conditions." This result is 1 percentage point above the 89 percent of residents who reported being satisfied or very satisfied in FY 2002 and meets the FY 2003 performance goal.

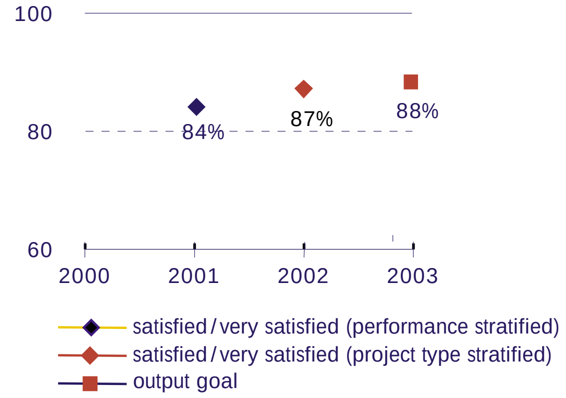
The survey of assisted multifamily renters was not conducted during FY 2003. The satisfaction level in FY 2002 was 87 percent. Some resources were made available late in FY 2003 for a resident survey that will be combined with FY 2004 resources for a new resident survey in FY 2004.

Data discussion. Data for this indicator are from the Real Estate Assessment Center'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 2003 result for public housing represents public housing agencies with fiscal years ending between June 30, 2002 and March 31, 2003.

Public Housing Residents who are Satisfied with Overall Living Conditions



Multifamily Residents who are Satisfied with Overall Living Conditions



3.3.6: The share of public housing residents who feel safe or very safe increases by 1 percentage point.

Background. Ensuring that public housing residents feel safe in their environments is essential to the Department's strategic objective of improving the physical conditions in housing and the strategic goal of improving the overall quality of public housing. Public housing agencies and resident management councils conduct a variety of activities to reduce crime. This indicator tracks the level of security perceived by residents of public housing, measured through an annual survey and defined as the share of those who report they feel "safe or very safe" in their unit, their building, and their parking area.

Residents who feel safe or very safe in:	FY2000	FY 2001	FY 2002	FY 2003
their units	72.3%	73.3%	72.5%	74.3%
their building	67.7%	69.3%	67.1%	70.4%
the parking area	59.6%	62.1%	60.4%	63.0%

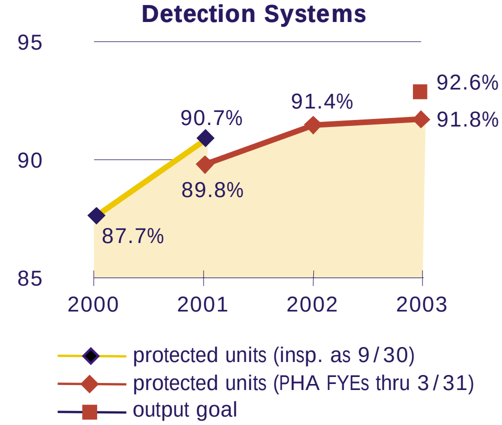
Results and analysis. Compared with FY 2002 results, the FY 2003 survey results indicate an increase of 1.8 percentage points in the proportion who reported that they felt safe or very safe in regard to their units, an increase of 3.3 percentage points in regard to their buildings, and an increase of 2.6 percentage points in regard to parking areas. These results show a remarkable improvement and well exceed the performance goal of a one percentage point increase.

Data discussion. The data are from the Real Estate Assessment Center's Resident Satisfaction Assessment Sub-System, based on surveys of a nationally representative random sample of public housing households. Public housing satisfaction metrics were calculated by taking a national weighted average of PHA survey score results for survey question #9 (Residents who feel safe or very safe in their units, buildings, and parking area) for PHAs having fiscal year end dates of 6/03/2002, 9/30/2002, 12/31/2002, and 3/31/2003.

3.3.7: The share of units that have functioning smoke detectors and are in buildings with functioning smoke detectors increases annually by 1.2 percentage points for public housing and by 0.7 percentage points for assisted multifamily housing.

Background. Protecting HUD assisted low-income renters from fire hazards is a crucial part of HUD's goal to improve the quality of public and assisted housing. HUD's Real Estate Assessment Center inspects the quality of public and assisted housing, including checking for the presence of functioning smoke detectors. This indicator tracks the share of units that both have 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.

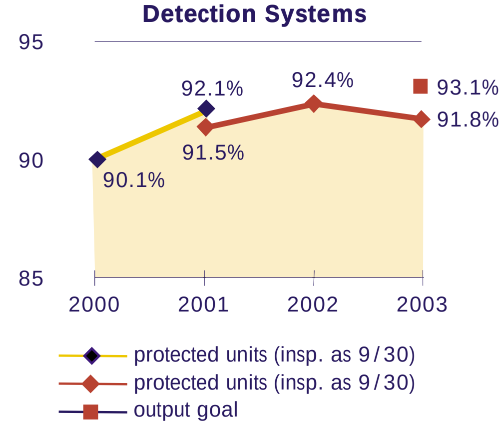
Estimated Share of Public Housing Units Fully Protected with Functional Smoke Detection Systems



Results and analysis. As of the end of FY 2003, 91.8 percent of public housing units and 92.8 percent of assisted multifamily units had functioning smoke detectors and were in buildings with functioning smoke detection systems. These data represent a 0.4 percentage point increase for public housing and a decline of 0.6 percentage point for assisted multifamily housing. Both programs fell short of their goals.

Although the targets were not met for this year, 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 who are protected.

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



Data discussion. Data for this indicator are from the Real Estate Assessment Center'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 2003 reflect the most recent inspections available as of 9/30/2003. 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 did not receive a new inspection.

Goal 4:
Strengthen and Expand Faith-Based and Community Partnerships that Enhance Communities

Strategic Objectives

4.1 ***Ensure equal access to HUD resources for faith-based and grassroots nonprofits.***

4.2 ***Improve HUD's programs by increasing the involvement of faith-based and community organizations.***

4.1 Performance Report Card - Goal 4

Performance Indicators		2000	2001	2002	2003	2003 Target	Substantially Met	Notes
4.1.1.1	Completion of training for 20,000 representatives from faith-based and community organizations.				Yes	Yes	√	
4.1.1.2	Completion of resource center and inter-agency website for the Faith-Based and Community Initiative.				Yes	Yes	√	
4.1.1.3	Completed streamlining of requirements that unnecessarily limit program participation by faith-based and community organizations.				Yes	Yes	√	
4.1.1.4	Elimination of the "primarily religious organization regulatory language.				Yes	Yes	√	
4.1.2.1	Number of grant applications received from faith- and community-based organizations.				190			b, h
4.1.2.2	Number of active grants that have been awarded to faith- and community-based organizations.							b, h, l
4.2.1.1	Expand Family Self Sufficiency program of faith-based and community organizations.				No	Yes		
4.2.1.2	Expand programs to faith-based and community organizations in Colonias.				Yes	Yes	√	
4.2.1.3	Increase involvement of faith-based and community organizations in Continuum of Care programs.				Yes	Yes	√	
4.2.1.4	Increase involvement of faith-based and community organizations in education about predatory lending.				Yes	Yes	√	
4.2.1.5	Completion of other efforts to increase involvement of faith-based and community organizations.				Yes	Yes	√	

(Values represent fiscal year data unless otherwise noted.)

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 ending in the current fiscal year.

e Calendar year ending the previous fiscal year.

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 All grantees not available for tabulation in FY 2003. Delayed enactment of Congressional appropriations resulted in significant delays in grant application process.

Objective 4.1: Ensure equal access to HUD resources for faith-based and grassroots non-profits.

4.1.1: Complete four milestones to reduce barriers to program participation by faith-based and community organizations.

Background. In the 2001 Executive Order creating the Centers for Faith-Based and Community Initiatives in five Federal departments, President Bush issued a clear directive that all barriers to the increased participation of faith-based and community organizations in Administration programs be identified and removed. He followed with Executive Order 13279 in December 2002, which directed Federal agencies to require equal treatment policies in their programs, initiatives, and operations. Four milestones were established for this objective in 2003:

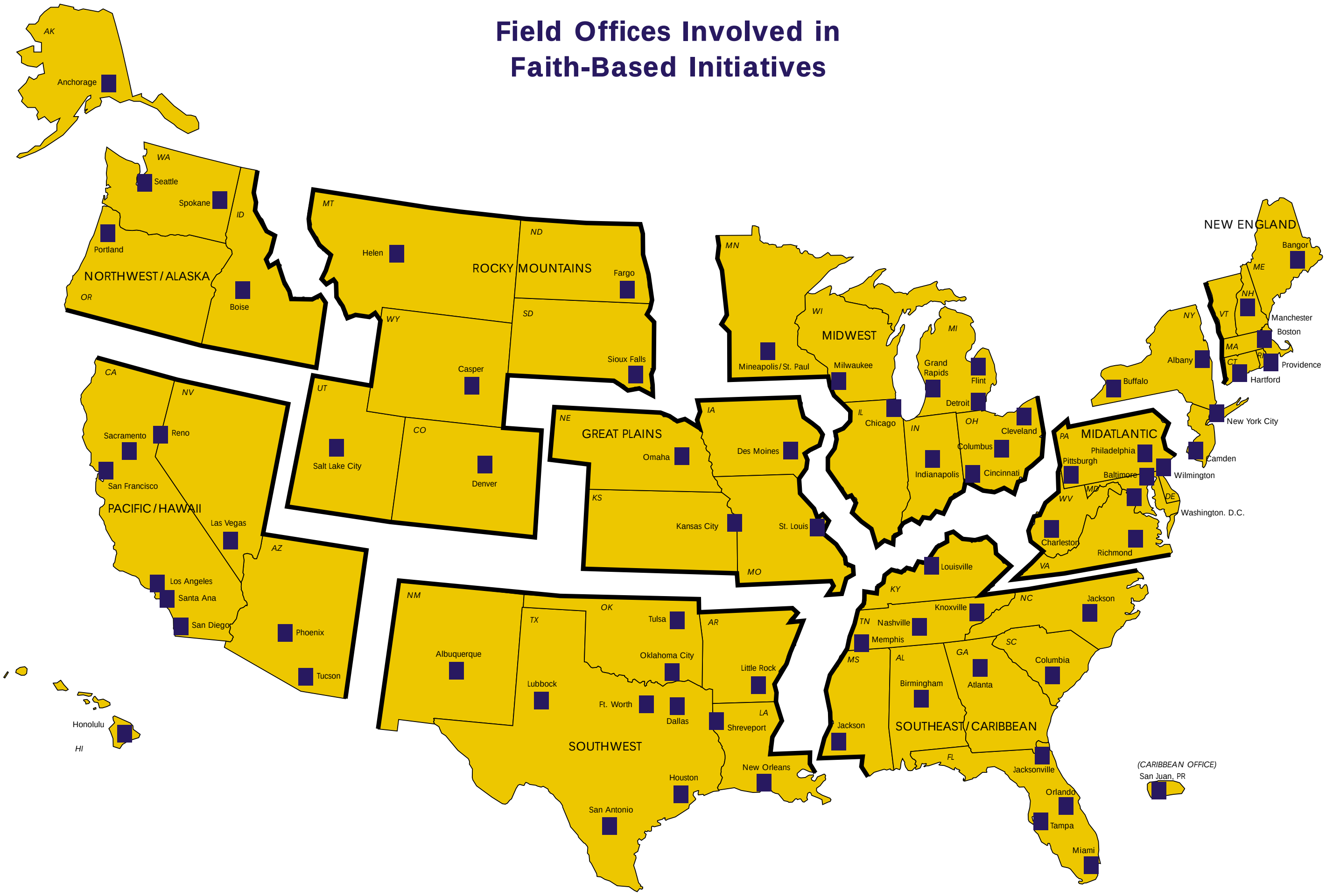
- Provide education and training for faith-based and community organizations;
- Establish a resource center and interagency website for the initiative;
- Identify and eliminate requirements not contained in statues or regulations;
- Identify and eliminate bureaucratic barriers that prohibit or discourage participation by faith-based and community organizations.

Results and analysis. All milestones were achieved. Regarding the first milestone, headquarters staff and regional and field liaisons combined participated in over 92 education and training events for faith-based and community organizations. This number included 6 field office-sponsored conferences and 6 regional conferences, 3 of which were sponsored by the White House Office of Faith-Based and Community Initiatives. This overall effort successfully reached the target audience.

The Center also developed a workshop curriculum highlighting grant writing and application techniques taught by regional and field liaisons in 2003. Furthermore, in 2003, the Office of Faith-Based and Community Initiatives expanded its network of contacts and programmatic activity from Washington, D.C. to include newly appointed faith-based and community liaisons in 81 regional and field offices.

The second milestone, the creation of a resource center and inter-agency website, was also achieved but reflects a change in strategy and location by the principal staff in the White House Office. Rather than have the HUD Center develop an interagency website, it was instead decided that a White House Office of Faith-Based and Community Initiatives web site would be developed. The interagency site can be viewed at **www.fcbi.gov** and the HUD Center's website is available at **www.hud.gov/faithandcommunity**. The remaining functions of the original national resource center are being executed by the National Resource Center created by the Compassion Capital Fund at the Department of Health and Human Services.

Field Offices Involved in Faith-Based Initiatives



An audit of HUD programs revealed numerous regulatory barriers to the participation of faith-based and grassroots community organizations. An ambitious reform effort was undertaken, culminating in a successful announcement in September 2003, of a final rule eliminating barriers to the participation of faith-based organizations in eight programs totaling nearly $8 billion. Announced by President Bush and Secretary Martinez, the rule applies to HUD's major community development programs, homelessness programs, major AIDS program, and Youthbuild, HUD's popular youth construction program. The promulgation of this final rule marked a major milestone in the department's goal of expanding access to those organizations that most effectively help the needy in our nation.

Additionally, in the 2003 grant cycles, the applications were improved from their historical format in three significant ways: bonus points were awarded to grassroots organizations or those who partner with them, the introductory language in applications was changed to encourage faith-based groups to apply, and the clarity of applications and instructions was greatly enhanced.

Data discussion. The specifics of the final rule were published in the Federal Register. The qualitative measures used for this indicator do not require numerical databases. This and future accomplishments in this objective area will be assessed and documented by HUD's Center for Faith-Based and Community Initiatives. The Center will catalogue each alteration that is executed and finalized in official documentation (such as regulatory rule, policy and implementation manuals, etc.).

4.1.2: Increase the number of faith-based and community organization grant applications and successful grantees from a FY 2003 baseline by FY 2004.

Background. Together with the White House Office, the other six Centers for Faith-Based and Community Initiatives, and the Office of Management and Budget, the Center's mission includes educating faith-based and community organizations on the grant application process with the hope of creating a larger, more competitive pool of potential grantees. Thus all seven of the Federal Centers have implemented a voluntary survey for nonprofit organizations to be completed during the grant application process. The survey was first made available during the 2003 SuperNOFA (Super Notification of Funds Availability) to support the establishment of a baseline number of applicants.

Results and analysis. The Center established a system in cooperation with the Office of Grants Management and Oversight for collecting and tabulating the surveys when applications were received during the 2003 SuperNOFA cycle. During this grants cycle 645 surveys were returned, of which 139 were self-identified as faith-based, and an additional 51, as smaller (annual budget under $300,000), community organizations. While the 645 surveys are not statistically significant according to the standards set by the Office of Management and Budget, they do represent a pool of applicants from which a rough baseline can be set. Of the total surveys returned, 8 percent of the respondents said they are faith-based organizations, and 21.4 percent reported to have annual budgets of $300,000 or less.

Data discussion. The low return rate for the nonprofit surveys is most likely a reflection of the fact that the surveys are voluntary. Another limiting factor is the anonymous nature of the surveys, namely that no organization name or the grant program for which the applicant is applying is recorded on the form. While the voluntary nature of the survey cannot be changed, it will be marketed more extensively in the 2004 SuperNOFA cycle, and a new survey form has been approved by the Office of Management and Budget for 2004 that will allow organizations to record their names and the programs for which they are applying. With this addition, it will enable the Center to analyze not only the total pool of applicants, but also program-specific pools.

Objective 4.2: Improve HUD's programs by increasing the involvement of faith-based and community organizations.

4.2.1: Develop and implement pilot and demonstration projects to increase the effectiveness of program areas and their accessibility to grassroots organizations (including faith-based and community organizations).

Background. Since its inception, HUD's Center for Faith-Based and Community Initiatives 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. During 2003 the Center for Faith-Based and Community Initiatives embarked on a new strategy to accomplish this objective that included pilot program development, capacity building research and development, HUD network (regional and field) expansion, and enhanced access to HUD programs.

Results and analysis. In June 2003, Secretary Martinez announced the "Reaching the Dream" pilot program to support the Administration's goal of increasing minority homeownership. This pilot provides technical assistance to approximately 60 faith-based and community organizations in five cities to encourage and equip them to provide homebuyer education and to help first-time homebuyers in their communities find attractive homeownership opportunities. "Reaching the Dream" will also recruit 250 faith-based and community organizations nationally to become HUD-approved housing counseling centers, creating additional credibility for these organizations with lenders, community partners, and families served. Planning for this pilot program was completed in 2003, with implementation scheduled to begin during the first quarter of 2004.

The homebuyer awareness programs developed in each of the five target cities of the "Reaching the Dream" pilot will stress the education of faith and community-based organizations on the costly and illegal practices of predatory lending affecting low and middle-income homebuyers in many localities across the nation.

Headquarters staff, in cooperation with HUD's Office of Departmental Operations and Coordination's Colonias Initiative, made presentations at four conferences in FY 2003, effectively expanding outreach to faith-based and community organizations in these locations.

In order to increase the awareness and involvement of faith-based and community organizations in the growing challenge of homelessness, the Center ensured that the various programs of Continuum of Care, HUD's comprehensive approach to assisting individuals and families from moving to independence and self-sufficiency, were on the agenda of the seven White House Conferences on Faith-Based and Community Initiatives held in 2003. The Center was also represented on the departmental taskforce on this important issue.

The Center has also launched an initiative to increase the capacity of the regional and field offices to offer technical assistance and outreach to faith-based and community organizations. Reflecting the view that all community progress—like politics—is local, a new strategy was developed and implemented in 2003 to expand the locus of activity for this initiative beyond headquarters to include empowered and engaged liaisons in HUD's 81 regional and field offices. In February of 2003, all liaisons were appointed and brought to Washington, DC for a three-day training centered on effective interaction with faith-based and community organizations. As a result, HUD's faith-based and community liaisons have participated in more than 80 outreach-related events, including 6 field office-sponsored conferences and 6 regional conferences, all designed to increase the effectiveness of HUD programs and provide increased access to faith-based and community groups. Liaisons have also identified leaders and organizations for a national database of approximately 8,000 currently under development. These activities increase the effectiveness and accessibility of HUD programs to faith-based and community groups.

Data discussion. Accomplishments will be assessed and documented by HUD's Center for Faith-Based and Community Initiatives. As a new initiative, quantitative measures are under development and not always available. Milestone performance indicators will be supplemented or replaced by quantitative measures as initiatives are implemented and evaluated and data capabilities are enhanced. However, while some information may be captured most appropriately in a quantitative format, the nature of the initiative is often best reflected in qualitative measures.

Goal 5:
Effectively Address the Challenge of homelessness

Strategic Objectives

***5.1** End chronic homelessness in ten years.*

***5.2** Help homeless individuals and families move to permanent housing.*

***5.3** Expand efforts to prevent households from becoming homeless.*

Performance Report Card - Goal 5

	Performance Indicators	2000	2001	2002	2003	2003 Target	Substantially Met	Notes
5.1.1	Number of formerly homeless persons who move into HUD McKinney-funded permanent housing		30,000	47,905	34,307	25,000	√	
5.1.2	Estimated number of chronically homeless individuals							a
5.2.1	Number of homeless persons who leave HUD-funded transitional housing and move to permanent housing				45,217	29,000	√	
5.2.2	Number of homeless persons served by HUD-funded supportive-services-only projects who move to permanent housing				94,442	34,000	√	
5.2.3	Number of persons moving into HUD-funded transitional housing.			192,392	158,824	115,000	√	
5.2.4	Number of communities with the Homeless Management Information System.		12	24	75	75	√	k
5.2.5	Number of households who receive renter counseling (1,000s)	115	95	120				a, b, f
5.2.6	Number of homeless persons employed				50,192	19,000	√	
5.2.7	Develop a baseline estimate of the number of tribal member households that are overcrowded				yes	yes	√	
5.3.1	Number of households receiving emergency rental or mortgage payment assistance through Emergency Food and Shelter program							Not authorized

(Values represent fiscal year data unless otherwise noted.)

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 ending in the current fiscal year.
e Calendar year ending the previous fiscal year.
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.

Objective 5.1: End chronic homelessness in ten years.

5.1.1: At least 25,000 formerly homeless persons move into HUD McKinney-Vento funded permanent housing.

Background. The ultimate goal of homeless assistance is to help homeless families and individuals achieve permanent housing and self-sufficiency. This effort supports the President's bold goal to end chronic homelessness in 10 years. This measure tracks the number of formerly homeless persons who move into permanent housing funded by HUD under the McKinney-Vento Homeless Assistance Act. For FY 2003, HUD's target is to help at least 25,000 formerly homeless persons achieve permanent housing through these programs.

The residents of HUD's McKinney-Vento funded permanent housing are often chronically homeless individuals. One of the largest of these programs, Shelter Plus Care, uses HUD 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 toward 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, 34,307 homeless adults moved into HUD-funded permanent housing, which surpassed the goal of assisting 25,000 formerly homeless persons. This significant number can be attributed to HUD's emphasis on increasing the number of permanent housing units available for people who are homeless reflecting both policy direction in the use of funds as well as increased appropriations. HUD emphasizes the goal of reaching permanent housing in national broadcasts, the NOFA, and the homeless assistance application.

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 project. 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 reflect projects that ended their operational year during the calendar year 2003. Due to the varied operation dates for projects, the Annual Progress Report data for all Annual Progress Report-based indicators represent 37 percent of all projects operating in 2003. The 37 percent includes all data collected by October 23, 2003. Since 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.

5.1.2: The number of chronically homeless individuals declines by up to 50 percent over 5 years.

Background. This indicator supports through measurement, the President's goal to end chronic homelessness in 10 years. While there currently is no way to directly measure 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. This 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. Once a critical number of these systems become operational, HUD will collect data from these 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 system and differences in definitions of chronic homelessness across communities. In 2004, communities will be provided with national technical assistance on collecting data related to chronically homeless persons.

Results and analysis. The 2003 homeless assistance application required communities to report on their number of chronically homeless persons. While these numbers can be used to establish the baseline for reducing the number of chronically homeless persons, the data collection methods varied across the country. The baseline will be verified through the 2004 homeless assistance application and through the Homeless Management Information System data.

Data discussion. See Background discussion above.

Objective 5.2: Help homeless individuals and families move to permanent housing.

5.2.1: At least 29,000 homeless persons will leave HUD transitional housing and move to permanent housing.

Background. This measure is defined as the number of adults leaving transitional housing who are moving into permanent housing. A significant portion of HUD's homeless assistance is dedicated to transitional housing. Transitional housing projects provide not only housing but also an array of supportive services to help homeless individuals and families prepare for permanent housing and self-sufficiency. The needs of homeless subpopulations within a particular community are varied. Some homeless persons need extensive supportive services while in permanent housing to maintain self-sufficiency. For others, market-rate housing with minimal services is adequate.

Results and analysis. According to APR data, 45,217 homeless adults left HUD's transitional housing and moved into permanent housing, exceeding the goal of 29,000. This goal was met as a result of HUD's emphasis on increasing the number of permanent housing units available for people who are homeless. HUD encourages local communities to use HUD homeless assistance funds for permanent housing in national broadcasts, the NOFA, the application, and by providing bonuses to Continuum of Care communities that propose new permanent housing projects as their top priority.

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 37 percent of all projects operating in 2003. The 37 percent includes all data collected by October 23, 2003. Since 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.

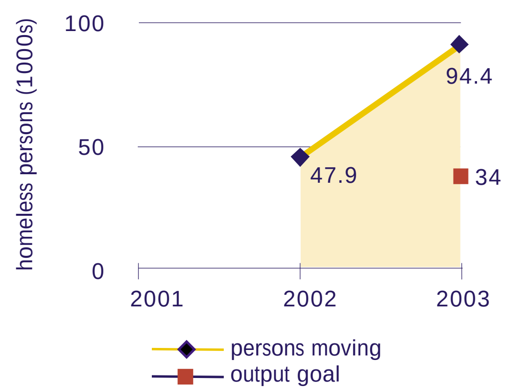
5.2.2: At least 34,000 homeless persons served by HUD-funded supportive services programs will move to permanent housing.

Background. Moving homeless persons to permanent housing is a priority policy that efficiently uses limited program resources and effectively meets the longer-term needs of the chronically homeless and targets the general homeless population. When transitional housing is not available or appropriate for homeless people, they may participate in HUD-funded supportive-services-only programs. More than half of people served by HUD's homeless assistance programs are in supportive-services-only programs.

This measure is defined as the number of adults who receive services through supportive-services-only projects that move to permanent housing. There is significant overlap between the people counted in this indicator and the people counted in the previous indicator (5.2.1). The overlap is a result of people who use HUD-funded transitional housing and also participate in supportive services programs through a separate provider. As communities implement client level reporting systems, the extent of this overlap can be more directly analyzed.

Results and analysis. In 2003, approximately 94,442 homeless persons receiving HUD-funded supportive services moved into permanent housing, far exceeding the goal of 34,000. This goal was met as a result of HUD's emphasis on permanent housing and by encouraging local communities to use HUD funds to move homeless persons to permanent housing.

Homeless Persons Moving to Permanent Housings



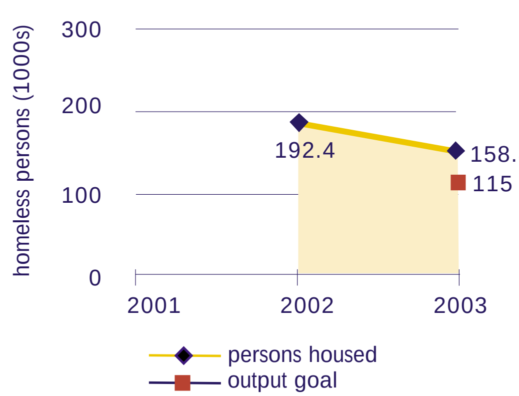
Data discussion. Data for this indicator are collected from HUD's Annual Progress Report. Due to the varied operation dates for projects, the Annual Progress Report data for all Annual Progress Report-based indicators represent 37 percent of all projects operating in 2003. The 37 percent includes all data collected by October 23, 2003. Since 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.

5.2.3: At least 115,000 people move into HUD-funded transitional housing.

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 2003. These projects are funded with several prior years' appropriations.

Results and analysis. In 2003, an estimated 158,824 homeless persons moved into HUD-funded transitional housing. This far exceeds the goal of 115,000. HUD continues to increase the number of HUD-funded transitional housing beds. 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.

Homeless Persons Becoming Housed in Transitional Housings



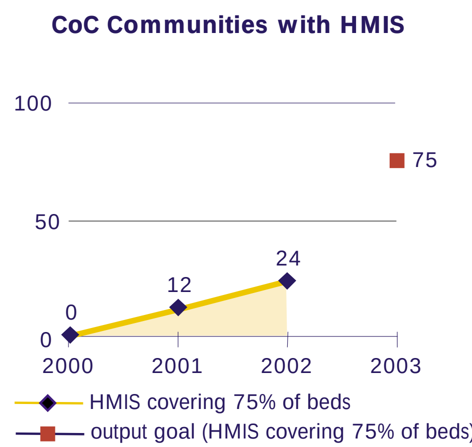
Data discussion. Data for this indicator are collected from HUD's Annual Progress Report. Due to the varied operation dates for projects, the Annual Progress Report data for all Annual Progress Report-based indicators represent 37 percent of all projects operating in 2003. The 37 percent includes all data collected by October 23, 2003. Since 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.

5.2.4: The number of communities with Homeless Management Information Systems increases to 75.

Background. Homeless Management Information Systems help homeless service providers improve services and planning by providing the technological capacity to track the usage of homeless services by specific individuals and families over time. This information can also help to more accurately determine the size, characteristics and needs of the community's homeless population and will serve to track the decline in the chronically homeless and other homeless caseload. (See indicator 5.1.2.)

Twelve communities have been participating in a technical assistance project to collect unduplicated counts of homeless service users. These communities are included in the study if at least 75 percent of emergency shelter beds in the community were reported during 1999. Another four have established Homeless Management Information Systems with at least 50 percent reporting but not yet 75 percent reporting. The Department established a baseline of the number of communities with Homeless Management Information Systems and the proportion of emergency shelter, transitional housing, and permanent supportive housing beds covered by the system during FY 2002.

Results and analysis. As of October 23, 2003, the 2003 homeless assistance application data elements were not completely entered into the competition database. These elements, which include the number of communities with an Homeless Management Information Systems, will be entered into the data system by the end of 2003. Early estimates based on competition priority lists indicate that the goal of 75 communities with the Homeless Management Information Systems will be met. The 2004 indicator goal for the Homeless Management Information Systems includes at least 360 functioning CoC communities with the Homeless Management Information Systems.

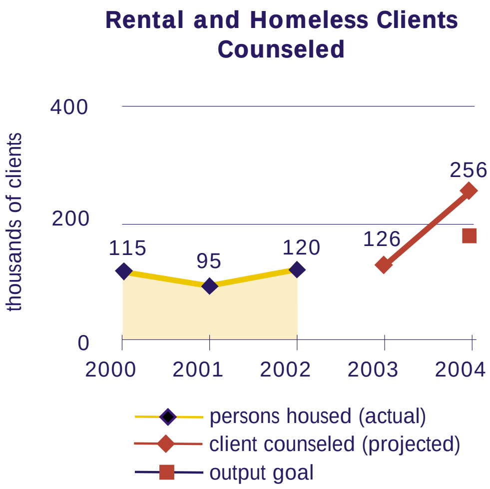


Data discussion. Rated questions on the FY 2003 McKinney-Vento community homeless application ask for information about Homeless Management Information Systems. This is the second time HUD has collected data on local systems for the Homeless Management Information Systems.

5.2.5: Housing Counseling is provided to 40 percent more renters and homeless clients in FY 2004 than in FY 2003.

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. An increase in Housing Counseling funding in FY 2003 will not only increase the number of renters and homeless clients counseled, but also allow the Department to provide training to improve the capacity of its Housing Counseling agencies. Due to the spend out rate of new counseling funds, the increase in funding will not become evident programmatically until

FY 2004. This indicator therefore will measure the percentage increase in the number of renters and homeless clients counseled between FY 2003 and FY 2004.



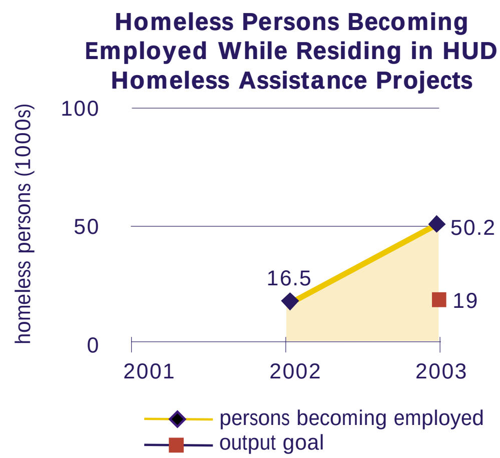
Results and analysis. Based on a total housing counseling appropriation of $20 million for FY 2002, 125,973 renters and homeless clients are expected to receive housing counseling services in FY 2003, an anticipated increase of 5.3 percent over the 119,674 clients counseled during FY 2002, which corresponds to an FY 2001 appropriation of $20 million. Slightly more of the FY 2002 appropriation was competed than for FY 2001, which explains the slight increase in the number of renters and homeless clients counseled. During FY 2003, $39.7 million was appropriated for housing counseling and 255,665 renters and homeless clients are expected to receive housing counseling in FY 2004. This represents an increase of almost 103 percent over the anticipated number of clients served during FY 2003, more than two and a half times the targeted increase of 40 percent. By comparison, $17.5 million was appropriated in FY 1999 with 115,314 clients served during FY 2000. In FY 2000, $15 million was appropriated and 95,206 renters and homeless clients were served in FY 2001. It is important to note that the Office of Single Family Housing does not compete the entire housing counseling appropriation, but reserves some funding for training, monitoring, operating the housing counseling clearinghouse, etc. Competed amounts for FY 2002 and FY 2003 were $19 million and $ 38.5 million respectively.

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 2003 Performance and Accountability Report, the Office of Single Family Housing will only be able to report projections for the anticipated percentage increase in additional renters and homeless clients served between FY 2003 and FY 2004. Projections are based on actual housing counseling data collected for the grant period 10/1/2001 – 9/30/2002. The actual percentage increase in additional renters and homeless clients served between FY 2003 and FY 2004 will not be able to be determined until early FY 2005, when final housing counseling activity data for FY 2004 become available. FHA monitors HUD-approved housing counseling agencies through site visits to assure quality counseling practices.

5.2.6: At least 19,000 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, 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 2003, the number of homeless persons who became employed while in HUD's homeless assistance projects was 50,192, exceeding the goal of 19,000. 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.



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 37 percent of all projects operating in 2003. The 37 percent includes all data collected by October 23, 2003. Since 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.

5.2.7: Each Offfice of Native American Programs Area Office, and each participating tribe, will jointly develop a baseline estimate of the number of tribal member households that are overcrowded by May 30, 2003.

Background. The Office of Management and Budget expressed concern over the extent of overcrowding in American Indian and Alaska Native households. A component of the Office of Management and Budgets Program Assessment Rating Tool evaluation of the Native American Housing Block Grant program recommended the development of a baseline estimate of the number of households that are currently overcrowded.

Results and analysis. This goal was achieved through the development of a baseline estimate of overcrowding using 2000 census data and the census definition of overcrowding (more than one person per room).

Data discussion. Variances were discovered when comparisons were made between local tribal data, which comes from actual housing authority counts, and the baseline estimate using 2000 census data. For example, on one reservation 13 percent of all households were overcrowded according to census counts while 75 percent of households were overcrowded according to tribal housing authority records. The Office of Native American Programs is currently working with participating tribes to jointly address the variance issue and develop updated estimates of overcrowding for those reservations or tribal areas.

Objective 5.3:
Expand efforts to prevent households from becoming homeless.

5.3.1: At least 110,000 households will receive emergency rental or mortgage payment assistance through the Emergency Food and Shelter program to prevent homelessness.

Background. The program was not transferred from the Federal Emergency Management Administration to HUD in FY 2003. The transfer would consolidate and streamline the Administrations' efforts to effectively address homelessness.

Results and analysis. Not applicable.

Goal 6:
Embrace High Standards of Ethics, Management and Accountability

Strategic Objectives

6.1 ***Improve HUD's management and internal controls, including FHA's financial management, and resolve audit issues.***

6.2 ***Improve accountability, service delivery and customer service of HUD and our partners.***

Performance Report Card - Goal 6

Performance Indicators		2000	2001	2002	2003	2003 Target	Substantially Met	Notes
6.1.1	Implementation of integrated financial system						√	g
6.1.2	The FHA Mutual Mortgage Insurance capital reserve ratio	3.51%	3.75%	4.52%	5.21%	2.00%	√	
6.1.3	Rate of recovery received on the sale of property through the Accelerated Claim Program Demonstration							a
6.1.4	Resource Estimation and Allocation Process (REAP) implementation			Yes	Yes		√	
6.1.5	Implementation of plan to reduce management layers				Yes	Yes	√	
6.1.6	Implementation of succession plan, including recruitment and training programs and initiatives				Yes	Yes	√	
6.1.7	Increase representation of Hispanics in HUD workforce.	7.0%	7.0%	7.1%	7.2%	7.3%		
6.1.7	Increase representation of white females in HUD workforce.	27.0%	26.6%	26.0%	25.8%	26.9%		
6.1.8	Achievement of unqualified audit opinion.	Yes	Yes	Yes	Yes	Yes	√	k
6.1.9.1	Number of overdue management decisions on Office of Inspector General audit recommendations	6%	0%	0%	0%	0%	√	
6.1.9.2	Number of final actions on audit recommendations that are overdue more than 12 months	124	122	107	120	54		
6.1.10	Number of HUD financial management systems that the Inspector General determines are not in compliance with Federal standards			17	17	14	√	
6.1.11	Obligations through performance-based contracts as a percentage of obligations for service contracts			17.8%	25.6%	20%	√	
6.1.12.1	Number of mission critical data systems assessed for data quality			7	8	8	√	
6.1.12.2	Number of mission critical data systems monitored for data quality improvement							b
6.1.12.3	Number of mission critical data systems with data quality certifications (cumulative).		2	4	12	8	√	

Performance Indicators		2000	2001	2002	2003	2003 Target	Substantially Met	Notes
6.1.13	Percentage of system performance goals achieved for automated data systems and development projects			80%	75%	85%		g
6.1.14.1	Completion of Government Information Security Reform Act report				Yes	Yes	√	
6.1.14.2	Verification of sensitive information systems				Yes	Yes	√	
6.1.14.3	Completion of review of access rights to sensitive information systems				Yes	Yes	√	
6.1.14.4	Completion of external penetration test of sensitive information systems				Yes	Yes	√	
6.1.14.5	Completion of Enterprise Security Awareness training				64%	100%		
6.1.15.1	National average of Public and Indian Housing Information Center on-time reporting rates for public housing households				89%	85%	√	
6.1.15.2	National average of Public and Indian Housing Information Center on-time reporting rates for Housing Choice Voucher households				98%	85%	√	
6.1.16	Closure of multifamily cases referred to Departmental Enforcement Center						√	g
6.1.17	Real Estate Owned properties sold to owner-occupants as a percentage of all Real Estate Owned properties sold	58.3%	54.2%	62.2%	61.5%	65.3%		
6.2.1	Percentage of HUD employees satisfied overall.			59%				a, b
6.2.2	Level of empowerment, capability and performance focus reported by HUD partners.							a, b, g
6.2.3	Implementation of single-family appraisal protocols through appraisal monitoring contracts							g
6.2.4	Percentage of FHA single-family loan applications processed through Automated Underwriting Systems	45.6%	58.4%	62.9%	62.7%	72.9%		
6.2.5	Percentage of key users of Policy Development and Research work products who rate them as valuable		81%					a, b
6.2.6	Number of Policy Development and Research publications produced and disseminated through HUD USER		36	70	69	40	√	
6.2.7	Number of files downloaded from Policy Development and Research's website (millions)			4.0	3.2	2.5	√	
6.2.9	Number of multifamily properties with rent reductions or mortgage restructuring under Mark-to-Market.	494	615	461	445	470		
6.2.10	Percentage of existing eGovernment applications that achieve performance goals							g
6.2.11	Implementation of strategies to streamline the Consolidated Plan							g
6.2.12	Share of Consolidated Plans with measurable performance goals for housing activities and community development activities.			100%	100%		√	
6.2.13	Number of Consolidated Plan grantees monitored onsite			462	442	485		
6.2.14.1	Number of CDBG entitlement grantees who fail regulatory standards for 1.5 timely expenditure.	181	152	58	44	52	√	
6.2.14.2	Number of CDBG entitlement grantees who fail regulatory standards for 2.0 timely expenditure	64	44	7	4	6	√	
6.2.14b	Undisbursed balances of grants in Indian Housing Block Grant for FYs 1998-2001				56%	20%	√	
6.2.15	Share of completed CDBG activities for which grantees report accomplishments.		87.5%	88.7%	93.0%	90%	√	

Performance Indicators		2000	2001	2002	2003	2003 Target	Substantially Met	Notes
6.2.16	Share of HOME-assisted rental units with occupancy data reported.	76%	80%	88%	90%	91%	√	
6.2.17	Milestones achieved by the Manufactured Housing Consensus Committee						√	g

(Values represent fiscal year data unless otherwise noted.)

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 ending in the current fiscal year.
e Calendar year ending the previous fiscal year.
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.

Objective 6.1: Improve HUD's management and internal controls, including FHA's financial management, and resolve audit issues.

6.1.1: FHA will 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. This project supports HUD's cross-cutting strategic goal to embrace high standards of ethics, management and accountability. By addressing long-standing deficiencies of its financial management systems, FHA will improve its ability to manage financial risk. This will improve both service to customers and accountability to taxpayers.

The Federal Housing Administration Comptroller developed the *FHA Blueprint for Financial Management Systems* in April 2001 to describe FHA's goals and objectives for financial management systems and operations. *FHA's Blueprint*, executed in three phases, incorporates the use of a new commercial-off-the-shelf software package to function as a subsidiary ledger that will capture and report on FHA's financial transactions in a manner consistent with Federal rules and regulations. This integrated core financial management system, FHA Subsidiary Ledger, is certified Joint Financial Management Improvement Program compliant.

The FHA Subsidiary Ledger project addresses financial management and system deficiencies by addressing 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;
- Produce FHA financial statements and regulatory reports directly from the FHA general ledger; and
- Eliminate manual accounting processes and improve integration of FHA financial and program systems.

Some key benefits to FHA management include:

- Improved decision making through the availability of real-time, accurate data;
- Improved ability to manage financial risk;
- Full Compliance of FHA's financial management systems with Federal reporting requirements.

Results and analysis. FHA achieved the first major milestone of the FHA Subsidiary Ledger project in October 2002 by implementing the new general ledger module of its commercial off-the-shelf core financial package. This Joint Financial Management Improvement Program-compliant package by PeopleSoft uses the US Standard General Ledger chart of accounts and classifications essential to Federal credit programs. FHA now has the capability to record and track budgetary resources, control expenditures against available resources, and automatically produce financial statement reports directly from the general ledger. FY 2003 key accomplishments include:

- Implementing the new FHA General Ledger on October 1, 2002;
- Implementing the US Standard General Ledger Chart of Accounts and classifications required for FHA credit programs in the PeopleSoft general ledger module;
- Establishing automated interfaces from FHA insurance systems to the PeopleSoft general ledger and interfaces with HUD Central Accounting and Program System;
- Enhancing FHA's legacy systems to accommodate new program initiatives, such as the implementation of the Section 601 program, and further improve system functionality and data quality;
- Integrating the Credit Subsidy Control System with the overall budgetary and funds control functions of FHA Subsidiary Ledger;
- Establishing short-term compensating controls for funds control and budget execution.

The FHA Subsidiary Ledger project provides:

- Improved accuracy of transactions through integration;
- Improved timeliness of transactions through the real-time update feature;
- Reduced cycle time through the real-time update feature;
- Improved efficiencies or productivity of program areas through elimination of duplicate data entry and real-time updates;
- Increased automation through the elimination and reengineering of manual processes;
- Ability to perform daily and real-time funds control;
- Automation of the reconciliation of fund and cash balances;
- Ability to conduct queries of detailed case-level financial data;
- Reduction in the number of legacy mainframe systems by incorporating their functionality into the commercial off-the-shelf package.

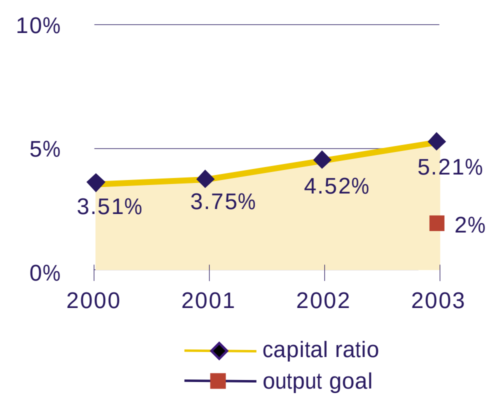
Data discussion. This milestone goal is based on qualitative data from quarterly reports to the Secretary. The HUD Inspector General validates progress on implementation through independent reviews for Joint Financial Management Improvement Program certification and periodic reviews and financial audits.

6.1.2: 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.

Capital Ratio for FHA Mutual Mortgage Insurance Fund



Results and analysis. The Mutual Mortgage Insurance Fund's capital ratio was 5.21 percent for FY 2003. The ratio exceeded the FY 2002 result of 4.52 percent by 0.69 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.

Data discussion. The measure is determined through the annual actuarial review. The results are validated through the audit process.

6.1.3: Exceed the rate of net recovery received through the sale of property through the Accelerated Claim Program Demonstration (Section 601).

Background. A key element of FHA's business is the payment of claims on defaulted insured loans. Title VI, Section 601 of the Veterans Affairs, HUD, and Independent Agencies Appropriations Act (1999) reformed the single-family claims and property disposition process. The legislation enables HUD/FHA to: (i) pay claims upon assignment of mortgages rather than upon conveyance of the properties; (ii) take assignment of notes and transfer them to private parties for servicing, foreclosure avoidance, foreclosure, property management and asset disposition; and (iii) 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 through the transfer of mortgage notes instead of through property acquisitions. Currently, FHA plans to make Accelerated Claim Program Demonstration a permanent program in FY 2004. This indicator tracks the rate of recovery on FHA claims between FY 2002 and FY 2003.

Results and analysis. FHA is currently unable to report progress against this performance measure. Due to the limited amount of data pertaining to recovery on sales in FY 2003 a reliable figure for this performance measure is not available at the present time. Constructing a reliable baseline for reporting on the net recovery rate for Section 601 sales will not be possible until a greater amount of data on recovery is available, and FHA should be able to provide some data in response after the end of FY 2004. The current joint venture partnership will last for a minimum of three years, and net recovery information will be available further into the life of the partnership.

Data discussion. The progress of the Accelerated Claim Program Demonstration will be monitored through the Single Family Insurance System – Claims Sub-system, which provides on-line update and inquiry capability to Single Family Insurance and Claims databases and to cumulative history files. 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. Data for FHA claims and recovery are audited by the Inspector General.

6.1.4: The Resource Estimation and Allocation Process will be fully implemented and will establish a baseline for managing resource requirements and prioritizing staffing allocations by program and office.

Background. HUD implemented a Departmental resource management process called Resource Estimation and Allocation Process (REAP) that was fully functioning in FY 2003. 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. REAP also will provide a foundation as the Department develops a comprehensive Strategic Workforce Plan.

Results and analysis. The REAP process was fully implemented in FY 2003 and was utilized to improve the operations of the Department across all program areas. REAP also was a key tool in developing the FY 2004 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 NAPA methodology, in FY 2003, a refresh of the REAP data was begun and will be completed in FY 2004.

In FY 2002, the Department also implemented the Total Estimation and Allocation Mechanism (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.

Data discussion. REAP/TEAM data are maintained by the Chief Financial Officer's Office of Budget. TEAM data are based on random sampling of work activities.

6.1.5: HUD will continue implementing its five-year plan to reduce the number of managers and supervisors and organizational layers in the Department.

Background. In response to OMB Bulletin No. 01-07, the Department will continue its ongoing implementation of its five-year strategic plan to reduce the total number of managers and supervisors, eliminate unnecessary layers of organization, increase the span of control of management, place positions closer to the customer and delegate authority to the lowest possible level. By eliminating unnecessary layers of management and redirecting the focus on service delivery, it is anticipated that a net decrease in average salary costs will be achieved.

Results and analysis. In March 2003, HUD successfully issued its Five-year Strategic Human Capital Management Plan (Plan). HUD intends to take a more strategic look at the human capital issues in the department for the next five years. A complementary performance goal for FY 2004 aims to complete a comprehensive workforce analysis and produce a workforce plan for the core program business offices.

This five-year plan sets forth the vision, values, goals, objectives, and strategies for future human capital planning and resource management in HUD. The Plan also will assist the Department in implementing long-range succession planning strategies to ensure that retiring employees are succeeded by a qualified and diverse workforce.

The first critical component of the Department's human capital strategy for more effective resource management is to conduct a workforce analysis. In FY 2003, a workforce analysis was started for the Office of Public and Indian Housing, and is expected to be completed by December 2003. In FY 2004, HUD will complete individual workforce plans for the four core program areas: Housing; Public and Indian Housing; Community Planning and Development; and Fair Housing and Equal Opportunity. In FY 2005, the Departmental workforce plan will be updated to include HUD support offices. Once complete, this Departmental workforce plan will be used as a resource for restructuring actions. Where relevant, restructuring actions will include reducing the number of managers and supervisors and organizational layers.

In addition, organizational de-layering and reducing the supervisor-to-employee ratios were identified as critical human capital factors to be addressed monthly in the program office self-scoring of human capital initiatives for the President's Management Agenda. HUD program offices are challenged to identify and report improvements as part of their monthly human capital achievements.

HUD also developed a draft Strategic Human Capital Management Implementation Plan with action steps, performance measures for success, and estimated completion dates to implement the Department's human capital strategies. This formalized implementation approach will result in a better-deployed workforce, mission-driven performance, and increased efficiency and effectiveness of operations.

Data discussion. Data will be gathered from the National Finance Center payroll/personnel system, Departmental Workforce Analysis, REAP, TEAM and, when operational, from the HUD Integrated Human Resources and Training System.

6.1.6: HUD will pursue training and development and recruitment strategies designed to ensure that critical positions are filled.

Background. The GAO has identified the area of succession planning as a "weakness" throughout the Government. Consequently, HUD is implementing training and development strategies and relying on a range of recruitment programs, including Executive Development, Emerging Leaders, and the Intern programs to fill vacancies. Guidelines and procedures also will be developed to help offices utilize the various recruitment programs.

Results and analysis. In FY 2003, the Department continued to successfully implement its intern programs to maintain a constant flow of promising and talented individuals to support and ensure a productive workforce. At the end of FY 2003, HUD retained 257 of its interns, or over 95 percent of those originally employed. More than 30 interns were hired or converted to full time positions during FY 2003. A Departmental intern program coordinator provides guidance to participating program offices to ensure these interns are trained to fulfill mission critical skill gaps caused by upcoming retirements. By the end of the first quarter of FY 2004, all interns will have completed their core training.

In FY 2003, HUD developed the Emerging Leaders Program, which will be announced in FY 2004 for 30 participants. The candidates who are selected will participate in a series of classes to prepare them to replace the many members of HUD's current leadership ranks that are eligible to retire in the next five years.

In FY 2003, HUD completed the first technical course in its Operation Brain Trust curriculum that was attended by approximately 700 employees nationwide. Thirty senior subject-matter employees were selected to serve as "professors" to transfer their knowledge to others. This program is designed to capture the critical knowledge of experienced HUD professionals and deliver that knowledge to new and less experienced employees before the senior employees retire.

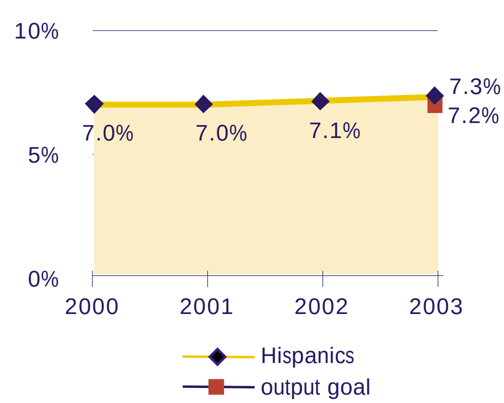
In FY 2003, HUD established a new staff for Human Capital and Recruitment to provide additional direct support and assistance to managers and supervisors on matters pertaining to workforce planning, targeted recruitment and overall human capital management.

Data discussion. Intern retention data covered the period from FY 2002 through the end of FY 2003. Data are derived from the HUD Training Academy project managers and their weekly training reports.

6.1.7: Monitor and report improvements in the representation of under-represented groups in the Department.

Background. It is the policy of HUD to prohibit discrimination in employment because of race, color, religion, sex, national origin, age, or disability. HUD promotes the full realization of equal employment opportunity through a continuing Affirmative Employment Program. This Program involves increasing the diversity of the applicant pool for job openings. When an opening is posted, the Department also sends notices to organizations that represent women and minorities, and educational institutions with a high rate of women and minority enrollment. HUD's affirmative employment efforts do not include any hiring preference based on race or gender. HUD's Hispanic representation of 7.0 percent has consistently remained below the Hispanic Civilian Labor Force representation of 8.1 percent for the past several years. HUD's first diversity goal was to increase the Hispanic representation to 7.3 percent of employees by FY 2003. Similarly, HUD hoped to reverse the decline in the representation of white females by reaching 26.9 percent, in order to close the gap with the Civilian Labor Force representation of 35.5 percent.

Representation of Hispanics among HUD Employees

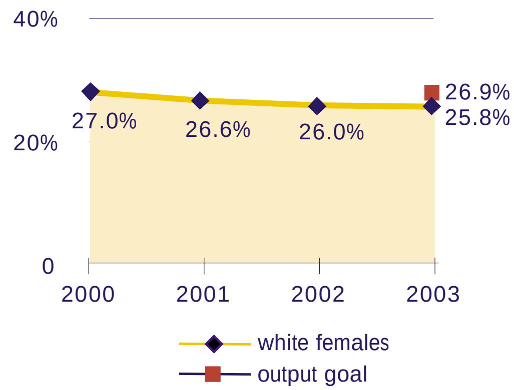


Results and analysis. Equal Employment Opportunity Management Analysis System data revealed that neither of the objectives was fully accomplished for the targeted groups. The year-end data revealed that the number of Hispanic employees increased by 39 (from 689 to 728), and their workforce representation increased by 0.1 percentage points to 7.2 percent. The number of White females increased by 65 (from 2,530 to 2,595), yet their workforce representation decreased by 0.2 points to 25.8 percent.

ODEEO will continue to monitor and report on HUD's workforce diversity on a quarterly basis.

Data discussion. HUD employment data are tabulated in the Department's Equal Employment Opportunity Management Analysis System. The Equal Employment Opportunity Management Analysis System data are believed to be accurate and reliable. The Equal Employment Opportunity Management Analysis System data are reviewed by the U.S. Equal Employment Opportunity Commission.

Representation of White Females among HUD Employees



6.1.8: HUD financial statements receive unqualified audit opinions.

Background. The Department introduced this indicator into its goal structure to maintain a focus on improving and enhancing HUD's financial stewardship. On January 31, 2003, the Inspector General issued an unqualified audit opinion on HUD's FY 2002 financial statements. The Department has received an unqualified audit opinion for three consecutive years—an indicator of financial management discipline and stability. The issuance of HUD's audited financial statements was accelerated by one month for FY 2002, to four months or 123 days after the end of the fiscal year. HUD plans to further accelerate the issuance of its FY 2003 audited financial statements to 80 days after the end of the fiscal year. The Office of Management and Budget has mandated that all agencies issue their audited financial statements within 45 days of the end of the fiscal year, on or about November 15, for FY 2004 and thereafter. To provide more timely financial management information and support for the accelerated audit process, HUD prepared mid-year financial statements for FY 2002, initiated the preparation of quarterly financial statements for FY 2003. Quarterly statements were initially scheduled to be issued 45 days after the end of the quarter and will be accelerated to 21 days after the end of the quarter beginning with the second quarter in FY 2004.

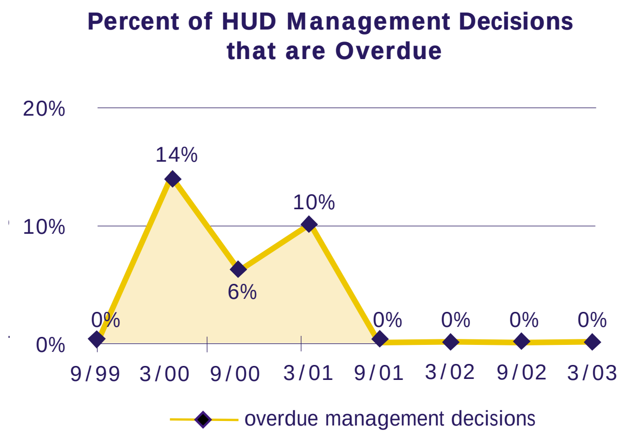
The receipt of an unqualified audit opinion for HUD's consolidated financial statements is important in restoring confidence in the Department's financial statements for the Office of Management and Budget, congressional and public users. However, HUD is very mindful of the financial management discipline and vigilance required to maintain that confidence, and of the need for continued progress in resolving remaining material management control weaknesses and reportable conditions still associated with HUD's underlying financial management systems and operations. HUD ended FY 2002 with three auditor reported material weakness and ten reportable condition issues. The President's Management Agenda established a goal for elimination of at least three of those 13 issues in FY 2003.

Results and analysis. HUD met its goal of receiving an unqualified audit opinion on its FY 2003 consolidated financial statements, as well as the related goals of accelerating the issuance of the audited statements and timely issuance of quarterly statements during the year. HUD surpassed the related President's Management Agenda goal of eliminating at least 3 auditor reported material weaknesses or reportable conditions by eliminating one material weakness and 3 reportable conditions. Elimination of these issues was indicative of improved controls over FHA's general and credit reform accounting and property disposition, and improved controls over the distribution of public housing operating subsidies.

Data discussion. HUD financial statement audits are performed by the Office of Inspector General and contracted resources directed by the Office of Inspector General. Financial statement audits review the adequacy of data systems and internal controls, as well as compliance with laws and regulations, and identify and recommend corrective action on weaknesses that are material to the presentation of HUD's financial statements. Office of Inspector General audits are independent of HUD management, are performed in accordance with General Accounting Office auditing standards, and adhere to the Office of Management and Budget and other guidelines and standards governing the preparation and audit of agency financial statements.

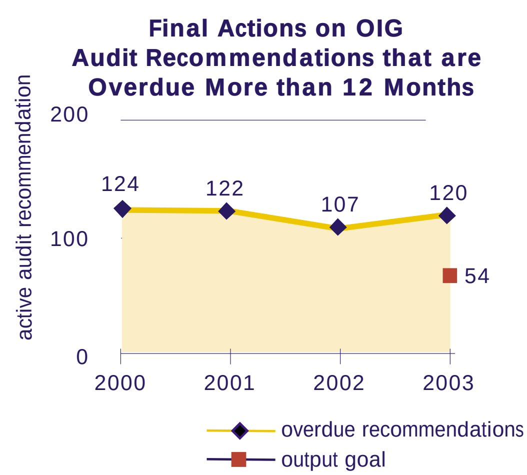
6.1.9: Ensure timely management decisions and final actions on audit recommendations by the HUD Office of Inspector General.

Background. The large body of internal and external audit work conducted by the HUD Office of Inspector General 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 Office of Inspector General 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 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, 2003 and September 30, 2003, HUD made timely management decisions on 858 Office of Inspector General audit recommendations and met its goal of no overdue management decisions for the fourth and fifth consecutive periods.

However, HUD did not meet its goal for reducing overdue final actions. The Department began the year with an inventory of 783 management decisions requiring final action, with 107 actions more than 12 months overdue. During the year, 858 additional management decisions were made and the Department completed final action on a total of 831 recommendations, leaving a total of 810 audit recommendations with final actions pending. Of these 810 audit recommendations, 120 were more than 12 months overdue, a 12 percent increase compared to the balance at the end of FY 2002. The overall heavy volume of audit resolution activity this year, and the redirection of audit liaison staff time to developing and implementing the new audit resolution system, were contributing factors to this missed goal. HUD will place a greater focus on analyzing and reducing the number of final actions more than 12 months overdue in FY 2004.



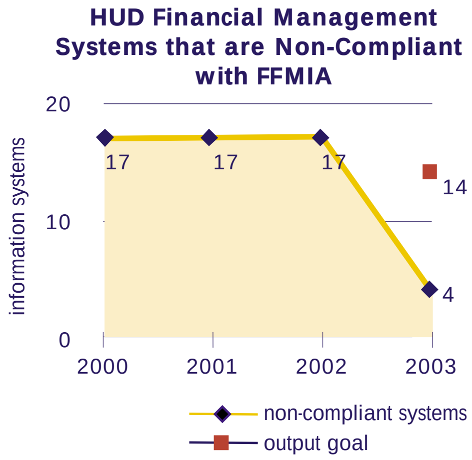
Data source. HUD's new Audit Resolution and Corrective Action Tracking System was implemented in FY 2003 as the data source for this indicator. The data are reliable for these measures. The HUD Inspector General and the Departmental Audit Liaison in the Office of the Chief Financial Officer reconcile and confirm the accuracy of the data.

6.1.10: The number of non-compliant financial management systems is reduced from 17 to 14.

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 FY 2002, the total number of financial systems dropped to 48 due to systems consolidations, terminations and reclassifications, but the number of noncompliant systems remained at 17. Fourteen of the 17 non-compliant systems were in the FHA where there was a need to replace FHA's commercial accounting system with a system that is fully compliant with the federal basis of budgeting and accounting. The FHA Subsidiary Ledger Project was planned to replace the non-compliant FHA general ledger and to replace or properly integrate and improve the other 13 non-compliant FHA program feeder systems.

Results and analysis. HUD exceeded this goal by reducing the number of non-compliant systems from 17 to four in FY 2003. The 13 systems that were brought into compliance or eliminated were as follows:

- *Office of Public and Indian Housing*—Regional Operating Budget and Obligation Tracking.
- *Office of Housing/Federal Housing Administration*—Mortgage Insurance General Accounting; Single Family Insurance System; Single Family Insurance Claims Subsystem; Distributive Shares and Refund Subsystem; Single Family Premium Collections Subsystems–Upfront and Periodic; Home Equity Conversion Mortgages; Cash, Control, Accounting Reporting System; Title I Notes Servicing; Title I Insurance and Claims; Multifamily Claims System; Tenant Rental Assistance Certification System. In the case of the 11 FHA systems certified as compliant, 9 are still pending an independent verification review. While Tenant Rental Assistance Certification System was determined to be substantially compliant, a business process reengineering study will be undertaken to improve systems support for eliminating material weaknesses in HUD's rental assistance programs.



For the remaining four non-compliant systems, the Loan Accounting System is scheduled for remediation in FY 2005, and the three remaining FHA systems will be corrected through the continuing multi-year FHA Subsidiary Ledger Project (Single Family Mortgage Notes Servicing; Single Family Acquired Asset Management; and Multifamily Insurance).

Data discussion. The Office of the Chief Financial Officer maintains the financial management systems inventory, with input from systems sponsors and cyclical compliance reviews. The data are reliable for this measure. HUD contracts for financial management systems compliance reviews on a three-year cycle, and the Inspector General verifies compliance of HUD financial system through audits.

6.1.11: Ensure that contractors produce results by obligating not less than 20 percent of total eligible service contract dollars using outcome or performance-based service contracting techniques (for new contracts over $25,000).

Background. The procurement of services is essential to the accomplishment of HUD's mission. As recommended by the Inspector General and the General Accounting 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 the Office of Management and Budget'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 2002, HUD increased total obligations for contracts with performance-based features to $80.4 million. Progress in this area has steadily increased over the years, as demonstrated by the chart.

Fiscal Year	Total Performance Based Service Contract Obligations (millions)
1998	$3.4
1999	$19.3
2000	$48.7
2001	$75.3
2002	$80.4
2003	$112.1

For FY 2003, the goal is to ensure that at least 20 percent of eligible funds for new service contracts are obligated using Performance Based Contracting.

Results and analysis. In FY 2003, 25.6 percent of total eligible service contract dollars were awarded using Performance Based Contracting, exceeding the target by over five percentage points and $18 million. During FY 2003, new Performance Based Contracting obligations reached $83,249,436 while new contract obligations totaled $325,564,508. The 20 percent goal would have been met with new Performance Based Contracting obligations of $65,112,902.

When viewed in the context of total procurement activity over $25,000 (as presented in the above table), Performance Based Contracting obligations reached $112.1 million, an increase of 39.4 percent over the FY 2002 total. 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; and active outreach and training.

Data discussion. The 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.

6.1.12: HUD will assess 8 mission critical systems for data quality, monitor the data quality improvement schedules for assessed systems that have identified data quality deficiencies, and certify the data quality of all assessed systems no later than 3 months after the systems become eligible for certification.

Background. The Department's growing concern with the quality of its program data, along with the Secretary's desire to accurately report where and how HUD dollars are being spent, led the Department to authorize the establishment of an Enterprise Data Management Practice. The Enterprise Data Management Practice provides the ability to manage data as a strategic resource to improve the effectiveness of HUD initiatives, to measure HUD's performance in the execution of its mission, and to demonstrate the Department's effectiveness and impact on America's communities. In 2000, the Office of the Chief Information Officer launched an enterprise-wide initiative, the Data Quality Improvement Program, to ensure the quality of data in HUD information systems.

Data Quality Improvement Program follows a 3-step process: 1) independent assessment, 2) data quality cleanup and improvement, and 3) certification. Based on the results of its independent assessment, Office of the Chief Information Officer provides findings and recommendations to the system owners, who are accountable for step 2—data quality cleanup and improvement. Step 2 efforts correct deficiencies and ensure data quality. When data quality improvements are completed, the system becomes eligible for an Office of the Chief Information Officer independent certification. Step 3, certification, repeats Step 1 to verify intended improvements were made and are working.

Results and analysis. In FY 2003, the Enterprise Data Management Practice assessed eight systems, immediately certified six of the eight systems, and certified two systems assessed in 2001 that had successfully completed Step 2 data quality improvements. HUD met its FY 2003 goal for data quality assessments and certifications. At the end of FY 2002, seven HUD systems had been assessed and four were certified. Cumulatively, 15 systems have been assessed and 12 certified through the end of FY 2003.

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	Certified 2002
HUDCAPS HUD	Central Accounting Payment System	Certified 2003
REMS	Real Estate Management System	Certified 2003
TRACS	Tenant Rental Assistance Certification System	Assessed 2001
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 Information System (HOME)	Certified 2003*
IDIS-CDBG	Integrated Disbursement Information System (CDBG)	Assessed 2003
CHUMS	Computerized Home Underwriting Management System	Assessed 2003

*Denotes systems that were both assessed and certified in FY 2003.

Data discussion. Each fiscal year, the Department-wide Data Control Board selects by unanimous consent the 8 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) the 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 General Accounting Office, Office of Management and Budget or Office of the Inspector General audits; (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 project teams review the assessment reports and provide feedback to the Enterprise Data 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 Annual Performance Plan reporting information is extracted from supporting systems and provided for Annual Performance Plan reporting.

6.1.13: The percentage of existing automated data systems and system development projects that achieve their performance goals increases by 5 percent from the FY 2002 baseline.

Background. The Department seeks to assess the usability, usefulness, and life-cycle costs of HUD data systems. The Chief Information Officer has worked with program offices to develop performance measures for a number of existing data systems and for nearly all system development projects in the Information Technology Investment Portfolio System, HUD's strategic capital planning tool for information systems. This results-based approach to information technology management ensures that HUD complies with the Clinger-Cohen Act, Office of Management and Budget guidance for capital asset planning, and General Accounting Office recommendations. It also enables HUD management to be assured that the systems are producing reliable data that will meet user needs and help HUD manage its business. The FY 2002 baseline was established to be 80 percent of projects meeting performance goals based on the FY 2002, Fourth Quarter Control Review.

The Department implemented a comprehensive Capital Planning and Investment Control process to ensure that its portfolio of information technology projects adequately address HUD's business strategies, and are managed to achieve expected benefits in accordance with accurate and complete cost, schedule, technical and performance baselines. As business conditions, priorities, and technologies change, the Capital Planning and Investment Control process allows for frequent portfolio reviews and alterations that are subsequently reflected in the architecture. By using this approach, HUD is enabled to better serve the citizens. The performance of HUD's portfolio is reviewed on a quarterly basis. The quarterly portfolio control reviews facilitate the realignment of the information technology portfolio based on changes in mission, legislative, or business requirements, in addition to tracking performance against established baselines. Each project within the portfolio is required to maintain cost and schedule objectives to ensure that information technology funds are spent efficiently and are providing maximum benefit to HUD.

Results and analysis. This goal was not achieved. For FY 2003, 75 percent of HUD projects met their cost and schedule goals. As a result, HUD's overall performance decreased by 5 percent when compared to the FY 2002 baseline of 80 percent. HUD was hindered from achieving this goal because it operated under a Continuing Resolution through February 20, which funded limited operations and maintenance. In addition, contract awards were delayed because HUD was converting a significant number of "time-and-materials" contracts to the newer, performance-based contracting techniques.

Data discussion. Performance data on HUD's entire information technology investment portfolio are maintained in Information Technology Investment Portfolio System, which provides a self-documenting business case for investments, a central source of cost, risk, and mission support information, and on-line access to information about individual information technology capital planning initiatives. Information Technology Investment Portfolio System helps focus information technology investments on HUD's critical missions, goals, and objectives and helps reduce the risk associated with information technology investments. Project managers are required to enter data into the Information Technology Investment Portfolio System quarterly. HUD conducts quarterly control reviews to measure the progress of each project. Each Program Office and the Office of the Chief Information Officer verify the reliability and completeness of the performance data for information technology automated data systems and system development projects. Discrepancies identified within Information Technology Investment Portfolio System are highlighted to the appropriate Program Office, which makes corrections.

6.1.14: During FY 2003 HUD will complete five milestones in support of its Computer Security Program.

Background. During FY 2001, GAO identified the need to improve information security as a continuing challenge across government. HUD has detailed work plans that support its Computer Security Program. Computer security at HUD supports the HUD mission by assuring the automated files and processes are free from unauthorized access. This assures HUD management that the confidentiality, availability and integrity of the automated processes are maintained. These work plans, when executed, result in orderly monitoring, deficiency detection, and deficiency correction. The work plans provide information on the schedule of activities designed to ensure that a secure environment exists to protect HUD's information infrastructure. Five activities were scheduled throughout FY 2003:

- Prepare the Department's annual Federal Information Security Management Act report;
- Verify the list of sensitive systems in the Department;
- Complete a review of access rights to sensitive data and systems to identify individuals who need background investigations;
- Conduct an external penetration test; and
- Provide Enterprise Security Awareness training to all employees, covering Federal Information Security Management Act requirements and all four Critical Infrastructure Protection areas—data, people, facilities and systems.

Results and analysis. In FY 2003, HUD completed three of the five milestones in support of this critical infrastructure protection initiative that involves managing, implementing, and maintaining an effective HUD Information Technology security program. In FY 2003, HUD: 1) completed and submitted its Annual Federal Information Security Management Act report to OMB; 2) completed and verified the list of sensitive systems; and 3) conducted an external penetration test.

By December 31, 2003, HUD expects to complete its review of access rights to sensitive data and systems to identify individuals who need background investigations. During FY 2003, approximately 6,400 individuals received the required Enterprise Security Awareness Training, and HUD expects all remaining individuals to complete this training by the second quarter of FY 2004.

Data discussion. Data for this measure are from five-year Security Plan Status Reports developed by the Chief Information Officer. Data on the training program come from the Chief Information Officer administrative data, consisting of attendance reports provided by program offices. The status reports provide accurate tracking information on planned activities. Program managers regularly review the status reports to ensure that planned actions occur. Testing of attendees receiving training will indicate depth of training and attendance records will be compared against employee rolls. Additionally, these activities are reported in the President's Management Agenda process. Information Technology Security Program managers regularly review the President's Management Agenda status reports to ensure that planned actions occur and are reported in the President's Management Agenda process.

6.1.15: The national average Public and Indian Housing Information Center on-time reporting rates for public housing and Housing Choice Voucher households will be 85 percent or better.

Background. Accurate and timely 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 this Performance and Accountability Report use data about public housing or voucher households that housing agencies submit to the PIC 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. The Office of Public and Indian Housing uses Form 50058 reporting rates to evaluate housing agencies and as a criterion in the SEMAP assessment system.

The annual goal for this indicator was revised from 90 percent to 85 percent to be consistent with the programmatic requirements as outlined in Notice PIH-2000-13, issued April 7, 2000. Based on that Notice, public housing agencies are to maintain a reporting rate of at least 85 percent.

Results and analysis. Performance data for FY 2003 show that the on-time reporting rate was 89 percent for households in the Public Housing program and 98 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 an 85 percent on-time reporting rate. These results are based on data from July 1, 2002 to June 30, 2003 and exclude participants in the Moving-to-Work program. 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 data reporting period, July 1, 2002 to June 30, 2003, was adjusted to accommodate the accelerated deadline for this report.

6.1.16: 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 multifamily properties that fail to comply fully with HUD regulatory and business agreements. The Departmental Enforcement Center working with legal support from the Office of Program Enforcement, 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.

Mid-year, the Departmental Enforcement Center requested that multifamily referrals counting for the first milestone goal would be restricted to referrals for physical conditions. During this fiscal year, the Departmental Enforcement Center committed to the Office of Multi-family Housing that processing of physical referral cases would be the Departmental Enforcement Center's top priority in order to align the Departmental Enforcement Center's goals with those of Multifamily Housing. This commitment resulted in the implementation of a new protocol that substantially increased the number of physical referrals to the Departmental Enforcement Center.

The Departmental Enforcement Center also included the Mortgagee Review Board staff responsible for making recommendations to the Mortgagee Review Board. The Mortgagee Review Board is a statutorily created entity within the Department responsible for the sanctioning of FHA-approved lenders. The Mortgagee Review Board enforces program requirements for FHA-approved Title I and Title II mortgage lenders and issues administrative sanctions and civil money penalties in cases where lenders have committed fraud and abuse and/or violated HUD regulations.

Results and analysis. The Departmental Enforcement Center far exceeded its 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 three focuses: (1) working with owners to achieve compliance with requirements, (2) employing administrative sanctions to purge poor practices and projects, and (3) weeding out poor lending 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.

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, 2002 by 80 percent. The Departmental Enforcement Center began the fiscal year with 235 physical cases. By September 30, 2003, the Departmental Enforcement Center closed 215 of the 235 physical referrals for a completion rate of 91 percent. In contrast, in FY 2002, the Departmental Enforcement Center closed 81 percent of its carryover inventory of multi-family housing referrals (which had included a substantial number of financial referrals). This accomplishment reflected a significant staff effort to implement new procedures.

The second goal was to complete actions in 75 percent of the cases referred for administrative sanctions. Of the 406 cases identified, the Departmental Enforcement Center completed 354 or 87 percent. In FY 2003, the Departmental Enforcement Center processed a total of 833 actions (suspensions, proposed debarments and final debarments.) The Departmental Enforcement Center processes referrals for suspensions and debarments from HUD's program offices and the Office of the Inspector General to ensure that the Government conducts business with responsible participants.

The third goal for FY 2003 was to close 75 percent of Mortgagee Review Board cases outstanding as of September 30, 2002. The number of outstanding cases was 47. As of September 30, 2003, Mortgagee Review Board had closed 38 cases, or 81 percent.

Data discussion. The Departmental Enforcement Center's data source for the first goal is the Real Estate Management System. 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 Real Estate Management

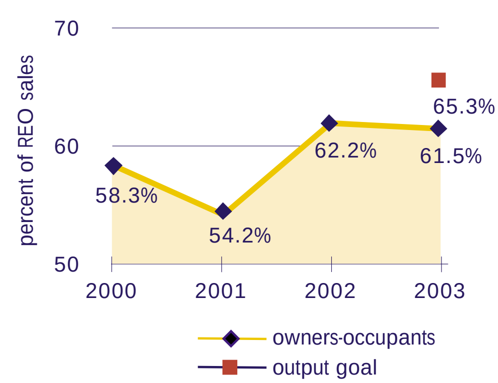
System. These reports reflect the goal accomplishments on a fiscal year-to-date basis. Most of the data are manually entered into the Real Estate Management System and thus are subject to human error. Monthly reviews of the goal accomplishments by Headquarters staff provide some quality control, as does the closeout process within each field office. Before an analyst closes a referral, a supervisor must concur, and a check of the data entries is conducted. 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. Finally, for the third goal, the Departmental Enforcement Center draws from a database-requiring manual input to track Mortgagee Review Board cases. The accuracy of the data is routinely checked against paper files and other HUD systems, including one of the Office of Single Family Housing's primary databases.

6.1.17: The share of Real Estate Owned properties that are sold to owner-occupants will increase by 5 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. Real estate owned properties held in HUD's inventory represent one portion of the Department's 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 2003 goal is to increase the share of real estate owned properties that are sold to owner occupants by 5 percent from FY 2002 levels. This goal reflects a projected decline in total real estate owned sales during FY 2003 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 2003, 61.5 percent (43,840 out of 71,302) of real estate owned properties were sold to owner occupants, compared with 62.2 percent (39,214 out of 63,068) during FY 2002. By comparison, the percentage of real estate owned sales to owner occupants during FY 2000 and FY 2001 was 58.3 and 54.2 percent respectively. Although the targeted increase of 5 percent for FY 2003 was not met, the actual number of sales to owner occupants (43,840) exceeded FY 2002 results (39,214) by more than 4,600 properties. FHA will continue to work with its Management and Marketing contractors to increase sales of real estate owned properties to owner occupants and expand homeownership opportunities.

Real Estate Owned Property Sold to Owner-Occupants



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.

Objective 6.2: Improve accountability, service delivery and customer service of HUD and our partners.

6.2.1: HUD employees become more satisfied with the Department's performance and work environment.

Background. HUD is shifting its focus from administrative processes to customer driven results. Research has shown a strong correlation between employee satisfaction and customer satisfaction. In follow-up to the FY 2002 Organizational Assessment Survey, HUD will use periodic employee satisfaction surveys each fiscal year to track performance, progress and the effects of implemented activities. Results will be analyzed and compared with benchmarks for Federal agencies and private organizations.

Results and analysis. In an effort triggered by the baseline survey results, three major activities were completed during FY 2003 to improve communication within the Department. HUD completed the model for developing the Department-wide resource guide and web-page. This template is based on the employee resource guide and website for Office of Administration employees. HUD began implementing an exit survey that is given to HUD employees before they leave the department in order to collect information and ideas about their experience while working at HUD. Focus groups were used to provide a deeper understanding of the Organizational Assessment Survey data by providing organization context information, prioritizing issues, and developing potential solutions.

In FY 2003, as a result of the focus group work, HUD's Executive Steering Committee for Human Capital Management (the Committee) selected four dimensions as the primary Departmental focus areas out of 17 dimensions measured by the survey results. These dimensions are: (1) communications; (2) rewards and recognition; (3) training and development; and (4) use of resources. An Organizational Assessment Survey action plan was implemented with three Regional action teams and one Headquarters action team created to develop recommendations for one of the four dimensions. The action team results will be analyzed and compared with benchmarks for Federal agencies and private organizations. The baseline findings will be used to identify performance issues and define specific performance goals. Action team recommendations are scheduled for presentation to the Committee in January 2004, and will be implemented in FY 2004. In FY 2005, HUD will conduct another independent survey with a goal of at least a 10 percent improvement in employee satisfaction within the four primary Human Capital dimensions over the baseline results.

Data discussion. This measure is based on periodic Organizational Assessment Surveys. Although all employees were surveyed, the response rate for the baseline survey was 37 percent, creating potential for non-response bias in the results. The extensive previous use of the core Organizational Assessment Surveys instrument has demonstrated its reliability and established performance benchmarks in the public and private sectors. Survey results will be available to HUD managers and staff online with confidentiality protections.

6.2.2: 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, which 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. HUD's goal for this indicator is to observe an increase in satisfaction of partner groups when the study is replicated.

During FY 2001, HUD conducted a baseline survey of eight partner groups to assess their satisfaction with the Department generally and perceptions of the recent management changes at HUD. The partner groups surveyed included: community development directors, public housing agency directors, Fair Housing Assistance Program directors, mayors, multifamily owners, and non-profit providers. Overall satisfaction of the partners varied greatly, with FHAP directors and mayors highly satisfied and PHA directors and multifamily owners less satisfied. Similarly, partner assessments of the HUD 2020 management changes were mixed.

Results and analysis. The survey of current partners was not completed during FY 2003, as HUD's intention has been to replicate the baseline survey at three-year intervals. The research project is currently in process for procurement during FY 2004.

Data discussion. Data for this measure consist of separate summary average satisfaction scores for each partner group based on a Policy Development and Research survey. The forthcoming study will differ slightly from the baseline research by focusing on particular stakeholders and particular issues. The survey instrument was pretested to determine appropriate validation and verification procedures.

6.2.3: HUD will implement procedures to hold 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 planned to create new protocols for the monitoring of lenders' appraisers. These new protocols were expected to be implemented through appraisal monitoring contracts and fully implemented in FY 2003. FHA believes that closer monitoring of lenders by HUD will support improved performance of appraisers. This indicator tracks the accomplishment of implementing new protocols for the selection and monitoring of appraisers used by FHA-approved lenders, and corresponds with the FY 2002 President's Management Agenda, which established the goal of eliminating most, if not all, falsely inflated appraisals by 2004.

Results and analysis. As of September 30, 2003, regulations to hold lenders accountable for the selection and performance of appraisers for FHA-insured mortgages had not been published. FHA anticipates publication of such regulations during the second quarter of FY 2004. However, Single Family Housing has implemented new appraiser procedures, including Appraiser Watch, a risk-based method for targeting appraisers for review. In future years, the Department will continue to assess the accuracy of FHA appraisals on an ongoing basis.

Data discussion. Full implementation of this milestone goal will be marked by publication of the rule in the Federal Register, and intermediate milestones are documented in management reports. The results of appraisal sanctions are maintained in the Computerized Homes Underwriting Management System Appraisal Sanctioning Screen. Data from Computerized Homes Underwriting Management System are believed to be accurate and reliable for this measure.

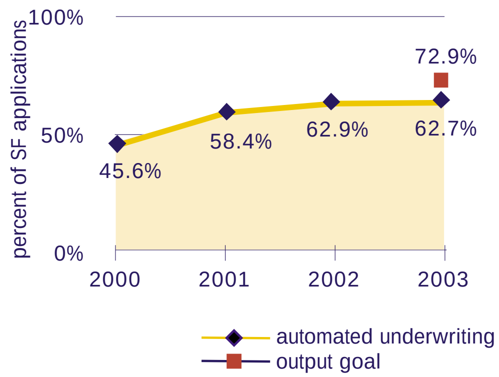
6.2.4: The share of FHA loan applications processed through Automated Underwriting Systems increases by 10 percentage points.

Background. (See also indicators 2.2.8 and 7.1.4.) Automated underwriting systems are used to assess borrower eligibility for mortgage insurance through forecasting a mortgage's future performance using consistent, accurate statistical methods to compare against other mortgages with similar characteristics. By significantly reducing the time required to process insurance applications, automated underwriting systems allow significant savings to borrowers on mortgage closing costs.

Mortgage scorecards used in conjunction with automated underwriting systems provide an objective evaluation of default risk on a mortgage. Based on a mathematical analysis of prior loan performance, the scorecard considers the borrower's credit history and other application variables and allows the lender or mortgage insurer to more accurately and objectively asses s the risk on a loan and decide whether to insure that loan. HUD currently has three approved scorecards developed by third parties for use within the mortgage industry for FHA mortgages. The scorecards, developed by the industry partners for their automated underwriting systems, will be replaced by the Technology Open To Approved Lenders Scorecard which will be implemented by the end of December 2003. Automated underwriting will benefit from the introduction of Technology Open To Approved Lenders through increased efficiency and greater objectivity in the evaluation of borrowers' credit worthiness, ultimately expanding homeownership opportunities. This performance indicator measures the share of FHA loan applications processed through automated underwriting systems. The FY 2003 goal is to increase the share of FHA loan applications that are processed through automated underwriting systems by 10 percentage points from FY 2002 levels.

Results and analysis. During FY 2003, 62.7 percent of single-family mortgage applications were processed for FHA mortgage insurance through automated underwriting systems, compared with 62.9 percent during FY 2002, falling short of the target of a 10 point increase over FY 2002 levels.

FHA Applications Processed with Automated underwriting



One factor affecting the shortfall was HUD's adoption of streamlined refinancing procedures. Refinanced applications do not require new underwriting under the streamlined procedures so they do not need to be processed through automated underwriting systems. Refinancing accounted for a greater share of applications in FY 2003. Thus, the combination of market demand factors with streamlined processes may have contributed to the failure to meet the goal. Although the target was not met, the percentage share of insurance applications processed remained relatively stable between FY 2002 and FY 2003. Over the same period the number of mortgage insurance applications processed through automated underwriting systems, regardless of endorsement approval, increased from 819,111 to 850,745.

Data discussion. The number of endorsements made through automated underwriting systems is based on monthly reports from the Computerized Homes Underwriting Management System and/or the Office of the Comptroller. The data have no limitations affecting reliability of this measure, and will be used as part of the overall monitoring of FHA's portfolio quality and as a component of the internal controls of FHA.

6.2.5: 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." [6] The stakeholders and users interviewed included

[6] HUD Office of Policy Development and Research, 2001. "Assessment of the Usefulness of the Products of the Office of Policy Development and Research." Available at **www.huduser.org.**

academics, nonprofit researchers, building professionals, trade and manufacturing associations, financial institutions, and housing advocacy groups.

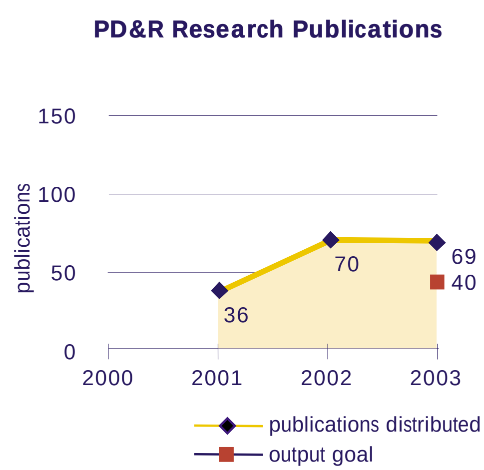
Results and analysis. The FY 2001 baseline survey findings remain the most recent data available for this measure. Policy Development and Research is assessing the baseline results and recommendations for opportunities to improve service. For FY 2004, a related web-based survey of HUD USER clients has been contracted. 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 approximately six weeks during Spring 2004.

Data discussion. The user survey component of the 2001 survey was based on informal discussions with a convenient sample of 75 individuals who are either key users or users at the state and local levels. The web-based survey will be a census of all listserv members and users during a six-week period, and will include features designed to boost response rates.

6.2.6: Policy Development and Research will produce and facilitate the dissemination of more than 40 publications through its distribution clearinghouse, HUD USER.

Background. HUD's Office of Policy Development and Research produces a variety of documents that support the Department's policy priorities and help to disseminate information on national housing and community development issues. These documents include information on housing needs and market conditions, housing technology research, demonstrations, HUD program evaluations, and policy reports.

Results and analysis. In FY 2003, Policy Development and Research prepared 69 research publications, and made them available both to specific research and policy audiences and to the public at large. This result substantially exceeded the goal of 40 publications because a new category of regular reports, the Comprehensive Market Analysis Reports, was developed. These reports provide detailed current and forecast market information that directly supports the viability of new FHA multifamily properties. Without the addition of these new reports, Policy Development and Research would still have achieved its goal with the production of 51 reports. All publications are available through Policy Development and Research's clearinghouse at www.huduser.org.



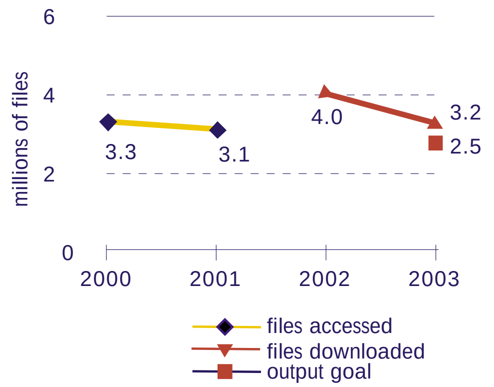
Data discussion. The data are obtained through a manual count based on an internal Policy Development and Research annual summary report on publications. This count excludes numerous publications that are not technically research reports. Because many research products take more than one year to complete, the number of publications in a particular year may reflect funding levels from prior years.

6.2.7: 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, 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 Policy Development and Research's work, and of HUD USER's coordination and outreach activities on behalf of HUD's customers.

Results and analysis. Preliminary estimates indicate that during 2003, users will have downloaded over 3.2 million files from the HUD USER research clearinghouse: www.huduser.org. The result exceeded the goal of 2.5 million downloads, while showing a decline from the 4.0 million downloads of 2002. Activity in 2003 represents greater research dissemination than was achieved during 2000 or 2001, as the similar numbers of those years are based on a less rigorous measure of website activity. The decline from 2002 results partly reflects a substantial reduction in financial resources for HUDUSER in FY 2003.

Housing and Community Development Information Obtained from the HUD USER Website



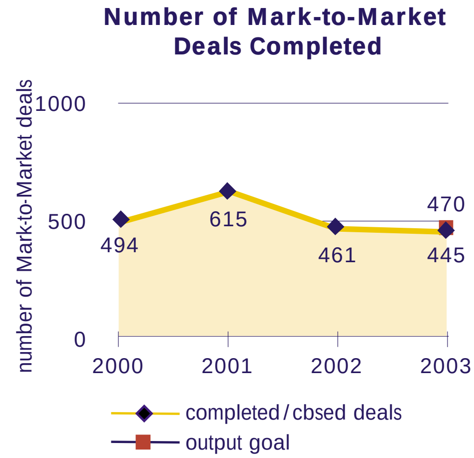
Data discussion. The data are gathered in monthly reports from Optimus Corporation, HUD's contracted research clearinghouse for HUD USER. No counting errors are expected. The data are reported for the calendar year, not the fiscal year. Preliminary estimates reflect the assumption that the average download rate observed in available monthly reports will be maintained for the remainder of calendar year 2003. Complete actual counts will become available in January 2004.

6.2.9: Under the Mark-to-Market program, HUD will reduce rents on and presesrve housing on 470 eligible properties with above-market rents.

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. The original FY 2003 target of completing/closing 500 projects was revised to 470 properties completed/closed, reflecting the pipeline at the beginning of the fiscal year and performance data. The volume of properties received during FY 2002 was much less than expected and also a significantly greater portion of the pipeline has been for full debt restructurings rather than rent restructurings. For FY 2004, this indicator was revised to measure completions and closings as a percentage of projects in the pipeline at the beginning of the fiscal year.

Results and analysis. During FY 2003, 445 properties were completed/closed under the Mark-to-Market program resulting in annual Section 8 savings (non-incurrence of cost) of $35.6 million. Office of Multifamily Housing Assistance Restructuring substantially achieved the goal, reaching 95 percent of the target of completing/closing 470 projects. Throughout FY 2003, 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 M2M program. As a result, 459 new referrals were received into the Mark-to-Market program, or 24 percent more than were estimated for the fiscal year. In addition, 131 properties re-entered the

Mark-to-Market program, for a total of 590 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.) 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 37 projects per month were completed/closed and an average of 38 new referrals were received per month. Over 2,000 properties, resulting in Section 8 savings (non-incurrence of cost) of approximately $142 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 2003, including revisions to previously-reported results caused by properties re-entering the Mark-to-Market program under the "Once Eligible, Always Eligible" provision. 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 their 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.

6.2.10: The percent of existing eGovernment applications that achieve their performance goals increases by 5 percent from the FY 2002 baseline.

Background. The full integration of the capabilities of information technology into the business of the Federal government is a central objective of the Administration. The Federal government can secure greater services at lower cost through Electronic Government (eGovernment). HUD's commitment to transform the way we do business using eGovernment technology is demonstrated through the linkage of HUD's eGovernment Program and the Information Technology budget process. All eGovernment applications must have sound performance measures that are specific, quantifiable, and linked to the business area programs they support. HUD has identified fifteen major eGovernment projects that each is being measured based upon the performance goals identified in its FY 2005 OMB Exhibit 300, Section 1-C, Performance Goals and Measures, which is submitted for all major Information Technology projects. These eGovernment projects support HUD's strategic goals and the President's Management Agenda objective of Expanding eGovernment in an effort to simplify the delivery of services to citizens, enable the agency's business processes to be more efficient, and reduce costs through integration and elimination of redundant systems.

Result and Analysis. In FY 2003, HUD made significant progress establishing baselines and performance measure targets for its eGovernment applications. All 15 major eGovernment applications have one or more performance measures established. Of these, 11, or 73 percent, have quantifiable performance targets established. During the second quarter of FY 2004, HUD expects to establish the remaining baselines and measurable targets for its eGovernment applications. HUD's major eGovernment projects will be monitored and evaluated quarterly to ensure that they reach their performance targets. The eGovernment projects that do not meet their established performance targets will be required to develop corrective action plans and be re-evaluated for alignment with HUD's overall Strategic Plan and the President's Management Agenda objective of Expanding Electronic Government.

In FY 2002, HUD's major eGovernment applications did not have quantifiable and meaningful targets established and baseline data were not developed. The initial attempt to establish measurable and reportable eGovernment performance goals was insufficient. Consequently, in FY 2003, HUD's eGovernment performance measurement efforts were modified to be consistent with the capital planning performance measurement process, to be less burdensome to project owners, and to result in substantial performance goals that can be maintained and measured each year.

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 and President's Management Agenda Scorecard for eGovernment.

6.2.11: Streamlining the Consolidated Plan consolidated planning process, making it more results-oriented and useful to communities.

Background. Communities develop 5-year Consolidated Plans to guide their use of CDBG, HOME, Emergency Shelter, and Housing Opportunities for Persons with AIDS grants. The President's Management Agenda includes as a key priority the streamlining of the Consolidated Plan to make it more results oriented and useful to communities. HUD is working closely with local program stakeholders to streamline the Consolidated Plan requirement to make it more results-oriented and useful to communities in assessing their own progress toward addressing the problems of low-income areas. A stakeholders group was convened to discuss alternatives for improving the process. Working groups were formed to work with HUD in the design of pilot projects that were tested and evaluated in FY 2003 and FY2004.

Results and analysis. The Department issued guidance clarifying consolidated planning and reporting requirements in November 2002. The guidance identified minimum requirements that grantees must meet to be in compliance with the statute and regulations and emphasized the plans should be concise, useful, action-oriented management tools for States and local governments. The guidance provided greater flexibility and streamlined submission requirements for grantees. Input from city, county and state representatives from around the country suggested some streamlining changes that would enhance the usefulness of the consolidated planning and reporting process. These changes included: 1) integration with existing plans and reporting documents, 2) use of standardized templates, 3) replacement of the Community 2020 mapping software with a Web based system, 4) decreasing narrative required, 5) receiving more guidance from HUD on reporting performance and 6) a more flexible Integrated Disbursement and Information System that allows simple adjustments in performance measurements and easy collection and organization of data. Three states, ten counties, and eleven cities were selected to carry out eight pilots that were designed to test ideas developed by six stakeholder working groups.

Data discussion. Not applicable.

6.2.12: The share of Consolidated Plans that contain measurable performance goals for housing activities and for community development activities increases.

Background. Communities develop 5-year Consolidated Plans to guide their use of CDBG, HOME, Emergency Shelter, and Housing Opportunities for Persons with AIDS grants. Grantees are able to choose from a wide array of activities, so the quality of planning for self-defined objectives is critical. Consolidated Plans that contain specific goals for housing and for community development encourage community leaders to plan more carefully and to be more responsive and accountable to citizens over the life of the plans.

During FY 2003, 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 the plan more useful to communities in assessing their own progress toward addressing the problems of low-income areas. The Office of Community Planning and Development sought to implement this requirement through the Consolidated Plan Improvement Initiative that hopes to support local setting and tracking of performance relative to national program goals, integrating Integrated Disbursement and Information System and the Consolidated Plan.

Results and analysis. Field offices conducted reviews of 1,079 Consolidated/Action Plans received in FY 2003. By the end of the FY 2002, the CPD Field Offices reviewed 1,069 Consolidated Plans, all of which were found to have contained measurable goals. All Consolidated Plans reviewed in FY 2003 also contained measurable goals.

The Office of Community Planning and Development issued a notice on September 3, 2003 outlining criteria for state and local performance measurement systems. This notice asked grantees to: (1) describe, in their next Consolidated Plan or Annual Action Plan, the method they use to measure the outputs and outcomes of their Community Planning and Development formula grant programs, or (2) provide a description of their system in the self-evaluation component of the next Consolidated Annual Performance and Evaluation Report submitted sixty days after the date of the notice. In such cases, grantees may simply submit a copy of the report from their system.

The performance measurement systems notice is available from the Consolidated Planning website: **http: //www.hud.gov/offices/cpd/about/conplan/index.cfm**. The Consolidated Plan Improvement Initiative is also implementing some pilots that will try to link goals with outcomes. It is expected that the results of these pilots may create some additional useful approaches to state and local performance measurement systems by the end of FY 2004.

Data discussion. The Consolidated/Action Plans were reviewed by Community Planning and Development field staff. Entitlement grantees are required to submit their Consolidated/Action Plan for review and approval by Community Planning and Development prior to receiving funds.

6.2.13: HUD will monitor 5 percent more Consolidated Plan grantees on site for compliance with their plans.

Background. Communities develop five-year Consolidated Plans to guide their use of CDBG, HOME, Emergency Shelter, and Housing Opportunities for Persons with AIDS formula grants. This indicator tracks the extent of monitoring activity by HUD field staff to ensure that grantees implement their plans to help low-income families and redevelop distressed neighborhoods.

Results and analysis. Community Planning and Development field staff monitored 442 formula grantees onsite, 4 percent less than last year's actual of 462 onsite monitoring visits. The result missed the goal of a 5 percent increase. Due to a limited travel budget, field staff were not able to conduct as many onsite-monitoring visits in FY 2003.

Data discussion. Data on the number of monitoring trips taken were provided by field offices through the HUD Integrated Performance Reporting System, the Department's internal tracking system.

6.2.14: The number of CDBG entitlement grantees that fail to meet regulatory standards for timeliness of expenditure decreases by 10 percent to 132, and the number that carry balances above 2.0 times their most recent grant decreases by 15 percent.

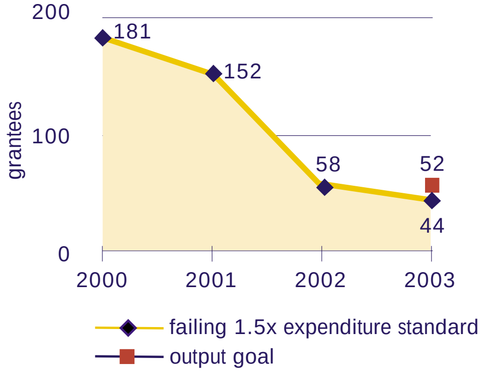
Background. Entitlement communities have extensive flexibility to use CDBG funds for locally defined purposes. However, they must use funds for eligible activities that meet the CDBG program's national objectives and implement their activities in fiscally responsible ways. To meet timeliness standards, grantees may not have funds in their line of credit exceeding 1.5 times the value of the most recent grant, as measured 60 days before the next subsequent grant. This measure is important because it is the best overall indicator of whether a grantee has overall capacity to implement its program. A CDBG entitlement grantee's failure to timely implement its program denies low- and moderate-income persons from assistance that improves their quality of life.

This measure uses data provided by the Integrated Disbursement Information System. HUD also began, in FY 2002, to track the number of grantees with undrawn funds of more than 2.0 times the value of the most recent grant.

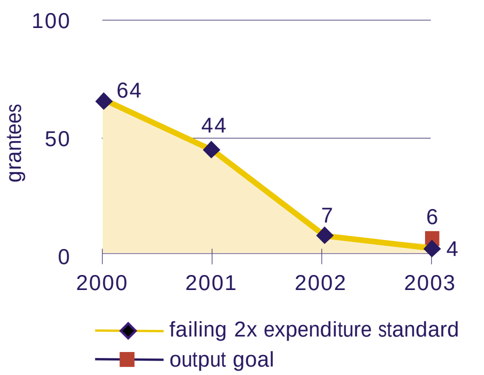
Results and analysis. The goal for FY 2003 was to reduce the number of untimely entitlement grantees by 10 percent. At the beginning of FY 2003, the number of untimely entitlement grantees was 58. By the end of FY 2003, the number of untimely entitlement grantees was reduced to 44. HUD has exceeded its goals for this indicator. The 44 untimely grantees are significant because 42 of those grantees became untimely for the first time during this fiscal year. Under current policy, these grantees must become timely during their current program year or risk losing those funds that exceed the standard.

In November 2001, the Assistant Secretary for Community Planning and Development established an aggressive policy in dealing with untimely grantees. Simply stated, an untimely grantee that failed to make substantial progress in its rate of expenditure by its next measure in FY 2002 (or FY 2003 for January – March grantees) would have its CDBG entitlement grant reduced by a proportion of the amount exceeding the 1.5 threshold. Further, beginning with FY 2003, any grantee that exceeded the 1.5 ratio for a second year in a row would have its next grant reduced to the 1.5 ratio. The policy also established that any grantee that was not previously untimely, but became untimely during the fiscal year, would have until the next measure to become timely or face a grant reduction to the 1.5 level. The policy has had a direct bearing on the achievement of the goals.

CDBG Grantees Failing the 1.5 Timeliness Standard



CDBG Grantees Failing the 2.0 Timeliness Standard



The FY 2003 goal for the number of grantees that exceeded a 2.0 level of untimeliness was to reduce the number by 15 percent from the FY 2002 baseline. This goal was also surpassed. In FY 2002, there were 7 entitlement grantees whose drawdown ratios exceeded 2.0. As of October 2003, that number was 4 grantees. Under current policy all of these grantees will meet the timeliness standard by their next measure or will have their grants reduced by the amount that exceeds the standard.

Data discussion. All figures are based upon the actual drawdown of CDBG funds in each grantee's letter of credit and balances remaining. HUD develops monthly timeliness reports showing which grantees are not timely that month. HUD's source for this data is Community Planning and Development's Integrated Disbursement Information System.

6.2.14b: Reduce the undisbursed balances of grants in the Indian Housing Block Grant program by 20 percent for Fiscal Years 1998 – 2001.

Background. This indicator measures the amount of undisbursed Indian Housing Block Grant funds remaining as of September 30, 2003, 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, 2002. The undisbursed balances represent funds that have not been drawn-down by grant recipients.

Results and analysis. As of September 30, 2003, the aggregate reduction to the undisbursed balance from the September 30, 2002 level was approximately 56 percent. The stated goal was a 20 percent reduction; however, through better coordination with, and cooperation from, the grant recipients the final actual accomplishment exceeded the goal by 36 percentage points.

Data discussion. The data on undisbursed funds are derived from the Line of Credit Control System data provided by the Public and Indian Housing Office of Administration and Budget.

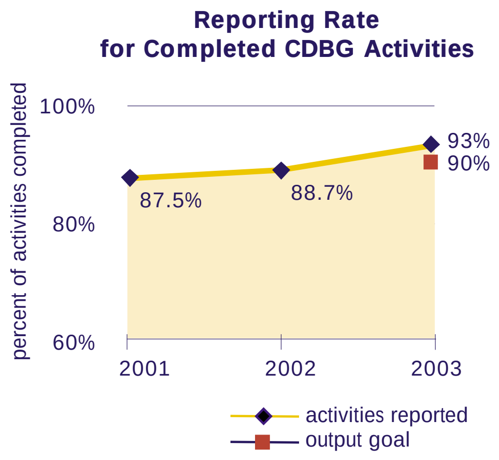
6.2.15: The share of completed CDBG activities for which grantees satisfactorily report accomplishments increases to 90 percent.

Background. This indicator tracks the level of reporting of CDBG activity accomplishments in the Integrated Disbursement Information System. Integrated Disbursement Information System 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 objectives 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 the Integrated Disbursement Information System.

Results and analysis. During FY 2003, reported accomplishments for 92.97 percent of all covered activities were reported as completed. This exceeds the goal by 2.97 percentage points. During FY 2003, CDBG grantees reported 39,281 completed activities covered by this indicator. Of these, approximately 36,520 had reported accomplishments. For FY 2002, grantees reported 44,476 completed activities of which approximately 39,470 had reported accomplishments. The FY 2003 reporting rate of 92.97 percent rate is a 4.77 percent improvement over the FY 2002 reporting rate of 88.74 percent and is a continued improvement over previous years' reported rates.

These improved reporting rates are due largely to Community Planning and Development's data clean-up efforts over the last fiscal year. Data clean-up efforts will continue during FY 2004.

Continued improvement in reporting rates may occur as HUD improves the Integrated Disbursement and Information System to include more edits as well as improved data entry methods. The overall improvement of Integrated Disbursement Information System is scheduled over the next several years.



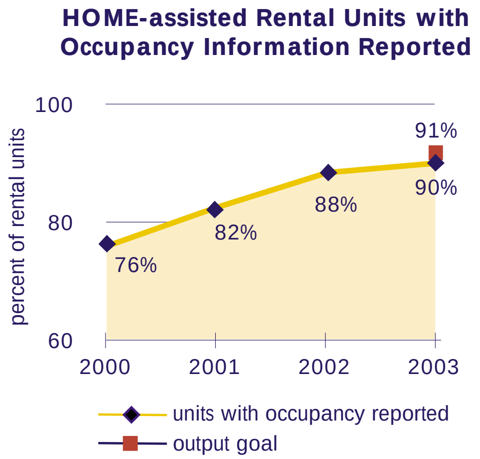
Data discussion. Integrated Disbursement and Information System. HUD relies on grantees to enter data into Integrated Disbursement Information System. Completeness of reporting is only one criterion of data quality. Community Planning and Development field staff will monitor grantees on a random-sample basis.

6.2.16: The share of HOME-assisted rental units for which occupancy information is reported increases by 3 percentage points.

Background. This indicator tracks the reporting by HOME participating jurisdictions into HUD's Integrated Disbursement and Information System 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 2003, 90 percent of rental units had occupancy information reported in the Integrated Disbursement Information System. This is a 2 percentage point increase over the FY 2002 level of 88 percent, and substantially meets the FY 2003 the goal of a 3 point increase.

HUD relies on HOME participating jurisdictions to enter data into the Integrated Disbursement Information System. HUD will continue to use ongoing data clean-up, intensive follow-up with participating jurisdictions, and a new individualized Participating Jurisdiction performance "SNAPSHOT" discussed under indicator 2.3.4 to improve grantee accountability and encourage more complete data entry.



Data discussion. Data entered by participating jurisdictions in HUD's Integrated Disbursement and Information System 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.

6.2.17: 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 (the Act) 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. Ensuring the performance of the Consensus Committee makes it accountable for 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 statute, HUD procured the services of an Administering Organization. The Department monitors the performance of this organization in supporting the Manufactured Housing Consensus Committee, also established by statute.

At least once in each 2-year period, the Consensus Committee must consider revisions to the Federal Manufactured Housing Construction and Safety Standards. The Department, through the AO, will assist in this process as necessary. The Act requires the Department to publish standards and regulations for the installation of manufactured homes and regulations for dispute resolution, within five years of the date of the Act, following receipt of proposals by the Consensus Committee. In FY 2003, the Consensus Committee was required to submit to HUD proposed regulations and standards for the development of these two initiatives. HUD's FY 2003 performance goal was to ensure that these milestones were achieved. While the Department will work closely with the Administering Organization and the Consensus Committee to monitor their progress, these partner organizations operate largely outside HUD's control.

Results and analysis. HUD's FY 2003 performance goal was to support the Consensus Committee in its efforts to develop proposed regulations for installation standards. The Department has fully met this target by facilitating through the Administering Organization three Consensus Committee meetings of approximately 2 $^{1}/_{2}$ days each; twenty-two teleconferences of the Manufactured Housing Consensus Committee subcommittees resulting in the receipt of two sets of recommended changes to the Manufactured Housing Construction and Safety Standards; and two recommended changes to the Manufactured Housing Procedural and Enforcement Regulations.

In addition, the Administering Organization provided technical and administrative support to the Consensus Committee by maintaining and providing updates to the Manufactured Housing Consensus Committee website, and subcontracting support from Danner & Associates to provide regulatory drafting support.

The efforts of the Department have allowed the Consensus Committee to foster better communications within the Committee and with HUD. This process has also resulted in the itemization of revised installation standards and the development of a voting ballot for those items to be included in the proposed regulations.

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' participation in the Manufactured Housing Consensus Committee and subcommittee meetings.

Goal 7:
Ensure Equal Opportunity and Access to Housing

Strategic Objectives

7.1 Reduce housing discrimination.

7.2 Improve the accessibility of housing to persons with disabilities.

7.3 Improve housing options for the elderly.

Performance Report Card - Goal 7

Performance Indicators		2000	2001	2002	2003	2003 Target	Substantially Met	Notes
7.1.1	The rate of housing discrimination.							g
7.1.2	Share of the population with adequate awareness of fair housing law.		51%					b, f
7.1.3	Number of fair housing conciliation/settlement agreements completed by Fair Housing Equal Opportunity staff	906	859	1,010	1,060	1,000	√	
7.1.4	Percentage of FHA single-family loan applications processed through Automated Underwriting Systems.							See 6.2.4
7.1.5	Number of FHIP groups funded in underserved areas.	2	0	7	2	2	√	
7.1.6	Number of agencies rated as substantially equivalent.	89	94	96	98	98	√	
7.1.7	Number of fair housing conciliation/settlement agreements completed by FHAP grantees	1,397	1,390	1,635	1,876	2,044		
7.1.8	Share of fair housing complaints that age in HUD inventory.	82%	37%	29%	19%	25%	√	
7.1.9	Share of fair housing complaints that age over 100 days in FHAP inventory.	68.4%	69.3%	45%	43%	35%		
7.1.10	Baseline number of fair housing complaints in counties bordering Mexico that are identified by FHIP grantees							a
7.1.11	Number of HUD grantees that Fair Housing Equal Opportunity reviews for compliance with accessibility requirements				50	60		
7.2.1	Share of new multifamily buildings accessible to persons with disabilities.							a
7.2.2	Section 504 compliance reviews of HUD recipients.	47	68	80	75	90		
7.3.1	Number of assisted living units in Section 202 projects completing conversion.				2,618		√	a, h
7.3.2	Number of elderly households in public or multifamily projects served by service coordinator (1000s).		63	88	111.2	96.8	√	
7.3.3	The share of elderly households in assisted multifamily housing satisfied with housing (service-enriched vs. non-service-enriched).							a, g

Performance Indicators		2000	2001	2002	2003	2003 Target	Substantially Met	Notes
7.3.4	Number of Section 202 and 811 projects reaching initial closing.	278	301	307	334	250	√	
7.3.5	Cumulative number of Section 202 projects converted to assisted living.			2	13	10	√	

(Values represent fiscal year data unless otherwise noted.)
- 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 ending in the current fiscal year.
- e Calendar year ending the previous fiscal year.
- 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.

Objective 7.1: Reduce housing discrimination

7.1.1: Housing discrimination declines 2 percentage points from 1989 national levels by 2001.

Background. Reducing housing discrimination is more important than ever as the share of the population that is minority continues to increase and as much of that growth comes from a large influx of diverse immigrant groups. Census data shows that, between 1990 and 2000, geographical concentration of poverty and isolation of low-income households worsened. Studies continue to show that discrimination against minorities seeking to buy or rent homes is very common.

HUD is committed to vigorous enforcement of the fair housing laws to help ensure that all households have equal access to rental housing and homeownership opportunities. HUD also is committed to a strategy of encouraging local creativity in promoting housing choice.

Results and analysis. Phase I of the four-phased Housing Discrimination Study (HDS 2000) documents and analyzes housing discrimination in the United States for both the rental and sales markets. Key products from this study include an estimate of the change in discrimination against blacks and Hispanics since 1989; current national estimates of discrimination against blacks, Hispanics, and Asian Americans and Pacific Islanders; and report cards for selected states and metropolitan areas. The final report was released on November 7, 2002.

As reported in the FY 2002 Performance and Accountability Report, HDS 2000 shows African Americans and Hispanics receive 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.

Phase II of HDS 2000, released in FY 2003, shows the results of HUD's first nationwide study of housing discrimination against Asians and Pacific Islanders. The study showed that in approximately one in every five rental or sales transactions whites are consistently favored over Asians and Pacific Islanders.

Phase III of HDS 2000, also released in FY 2003, provides the first-ever metropolitan estimates of the level of housing discrimination against Native Americans who do not live on reservations. In one of the metropolitan areas studied, whites were consistently favored over Native Americans in 33 percent of rental transactions.

Phase IV of HDS 2000, measuring levels of discrimination against persons with disabilities, is now in the data gathering stage. Publication of results is not expected until 2006.

The most troubling finding of HDS 2000 is that since 1989 discrimination against Hispanic renters has not declined but rather remains unchanged.

Data discussion. Consistency measures are reported here as the Urban Institute's best estimate of discrimination. While alternative methods exist for calculating the overall level of discrimination, the alternative methods generally show the same pattern of change. Sensitivity analysis showed that some differences in treatment are attributable to different agents. Results for multiple measures are presented in HUD's "Discrimination in Metropolitan Housing Markets: National Results from Phase I HDS 2000," conducted by the Urban Institute. The HDS 2000 was based on 4,600-paired tests conducted in 23 metropolitan areas during FY 2000. The research is representative of experiences of qualified home seekers, who are basing their search on newspaper advertisements in major metropolitan markets, during their initial encounters with rental or sales agents. The report is available at http: //www.huduser.org/publications/hsgfin/phase1.html.

7.1.2: The share of the population with adequate awareness of fair housing law increases from the 2001 baseline by 2004.

Background. Increased public awareness of fair housing laws reduces discriminatory actions. 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 there is relatively widespread, if not universal, knowledge of certain fair housing protections and prohibitions, yet the public understands some areas of the law such as protections for families with children much 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 the scenarios involve conduct that is illegal under federal housing law. One-half (51 percent) of the general public can correctly identify as unlawful six or more of the eight scenarios describing illegal conduct. Conversely, less than one-fourth (23 percent) knows the law in only two or fewer of the eight cases. The average person can correctly identify five instances of unlawful conduct. Looked at on a scenario-by-scenario basis, a majority of the public can accurately identify illegal conduct in seven of the eight scenarios.

Using this information as a baseline, HUD will perform a similar survey in FY 2004 to ascertain whether public awareness has increased during this time period.

Results and analysis. This indicator tracks the effect of prior fair housing enforcement activities and public information campaigns funded by FHIP Education and Outreach grants on the level of public understanding of rights and responsibilities under the Fair Housing Act. Results of these surveys will be released beginning in FY 2006. The FY 2004 follow-up survey results will guide future policies and programs beginning with FY 2006 to educate the public about rights and responsibilities under the Fair Housing Act.

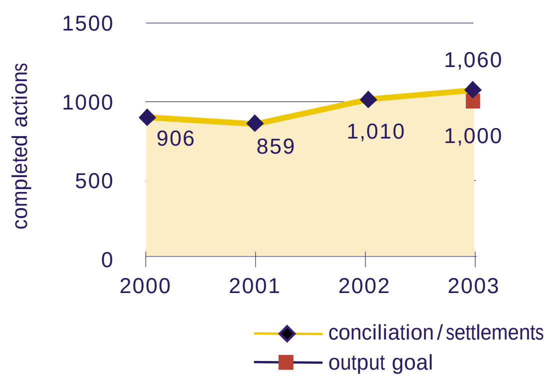
Data discussion. Data source is a Policy Development and Research survey, "How Much Do We Know? Public Awareness of the Nation's Fair Housing Laws," released in the fall of 2001. Data from this survey constitute a baseline for follow-up surveys that will begin in the fourth quarter of 2004. The research was designed to produce statistically valid and reproducible estimates.

7.1.3: Provide protected classes under the Federal Fair Housing Act with increased access to sale and rental housing without discrimination by completing at least 1,000 fair housing conciliation/settlement agreements in FY 2003.

Background. HUD investigates and resolves complaints of alleged housing discrimination from 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. 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 persons 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.

Results and analysis. In FY 2003, HUD's Office of Fair Housing and Equal Opportunity completed 1,060 conciliation or settlement agreements, an increase from the FY 2002 level of 1,010 and exceeding the goal of 1,000 conciliation or settlement agreements. The result of these actions has helped to increase homeownership among racial minorities. Homeownership helps to improve a family's asset accumulation by building equity. It also helps to strengthen and stabilize neighborhoods.

Fair Housing Conciliation/Settlement Agreements Completed by HUD Staff



Data discussion. Resolutions of each complaint are recorded in Office of Fair Housing and Equal Opportunity's Title VIII 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.

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

This indicator appears here because it supports the Strategic Objective of reducing housing discrimination. It discussed more fully as indicator 6.2.4 where it supports strategic objective 6.2: Improve accountability, service delivery and customer service of HUD and our partners.

7.1.5: At least two new fair housing groups are funded by Fair Housing Initiatives Program (FHIP) through collaborative efforts between fair housing and community or faith-based organizations.

Background. Many communities do not have strong State or local legal protections from housing discrimination. HUD's FHIP addresses this shortfall by helping independent fair housing groups to educate, to reach out, and to ensure compliance with the Fair Housing Act and the Americans with Disabilities Act. Although the number of agencies funded depends on the level of appropriations, HUD intends to increase the impact of FHIP by improving collaboration with community and faith-based organizations.

Results and analysis. During FY 2003, the Office of Fair Housing Equal Opportunity met its goal of funding two new fair housing groups through collaborative efforts between fair housing and community or faith-based organizations. Awards to these new organizations were completed before the end of FY 2003. The two newly funded grantees represent an increase in the nation's capacity to provide coordinated enforcement of fair housing laws. The two newly funded FHIP grantees are National Community Reinvestment Coalition and Jacksonville Area Legal Aid, Inc. The Fair Housing Assistance Program also funded two new agencies in FY 2003, Lancaster, PA and the State of Arkansas.

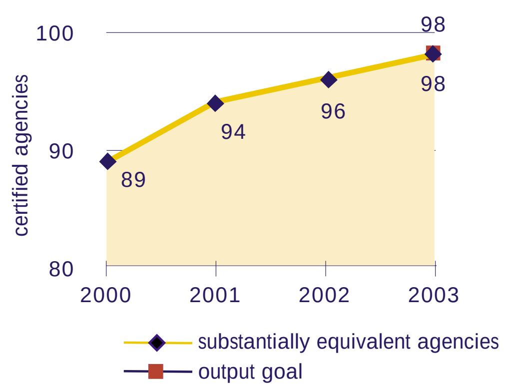
Data discussion. The Office of Fair Housing Equal Opportunity staff independently verifies the status of new agencies.

7.1.6: The number of enforcement agencies rated as substantially equivalent under the Fair Housing Act increases by two to total 98 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 2003, the number of agencies that are certified increased by two, from 96 to 98. 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 so that more Americans can afford to live where they choose and can afford. This effort supports the strategic goal of expanding national homeownership and minority homeownership. The newly certified agencies – located in Lancaster, Pennsylvania and the State of Arkansas – represent an increase in the nation's capacity to provide coordinated enforcement of fair housing laws.

Number of Substantially Equivalent Fair Housing Enforcement Agencies



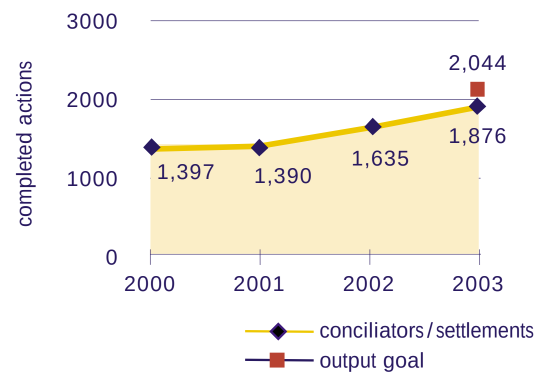
Data discussion. FHAP administrative data are maintained in the Office of Fair Housing Equal Opportunity's Title VIII Automated Paperless Office Tracking System. This indicator uses a straightforward and easily verifiable count of FHAP agencies. Determinations of substantial equivalency are made by the Assistant Secretary for Fair Housing and Equal Opportunity in accordance with the regulations at 24 CFR Part 115.

7.1.7: FHAP grantees increase the number of fair housing conciliation/settlement agreements processed by 25 percent.

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. HUD is committed to vigorous enforcement of the fair housing laws to help ensure that all households have an equal access to rental housing and homeownership opportunities. HUD is also committed to a strategy of encouraging local creativity in promoting housing choice. This effort supports the strategic goal of expanding national homeownership and minority homeownership. This indicator tracks the number of "substantially equivalent" grantees funded by the Fair Housing Assistance Program that post significant increases in enforcement activity. The FY 2003 goal was to increase by 25 percent the aggregate number of complaints that FHAP grantees investigate and close during the fiscal year.

Results and analysis. During FY 2003, FHAP conciliation or settlement agreements were 1,876, compared with a FY 2002 baseline of 1,635. The 14.7 percent increase fell short of the goal of a 25 percent increase in effort but represents strong continuous progress. In FY 2004 HUD will continue to assist FHAP organizations in reducing their aged case backlog for FY 2003. This will be accomplished further 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

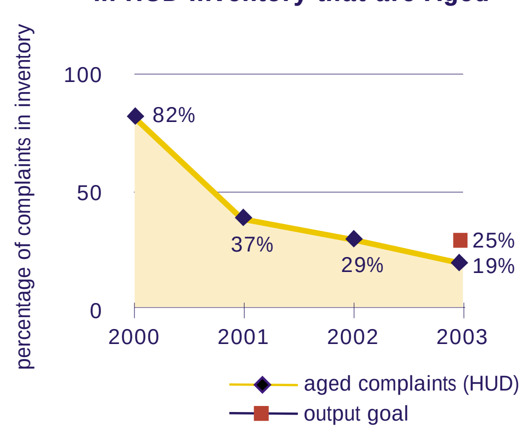


Data discussion. FHAP data are maintained in the Title VIII Automated Paperless Office and Tracking System. Although the data are self-reported by FHAP agencies, Title VIII Automated Paperless Office and Tracking System controls quality by tracking the progress of cases from receipt through closure.

7.1.8: The percentage of fair housing complaints aged over 100 days will decrease by 4 percentage points from the FY 2002 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 processing time for fair housing complaints handled by HUD, including time for determination of jurisdiction and for conducting investigations and conciliation.

Percentage of Fair Housing Complaints in HUD Inventory that are Aged



Results and analysis. At the end of FY 2003, aged cases constituted 19 percent of HUD's open cases, compared with 29 percent at the end of FY 2002. The decrease of 10 percentage points exceeded the goal. The Office of Fair Housing 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.

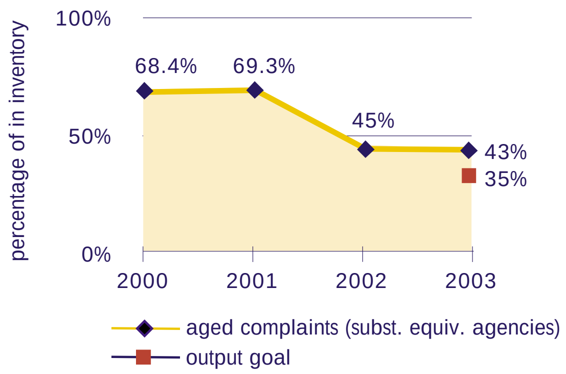
Data discussion. Data are maintained in the Title VIII Automated Paperless Office and Tracking System. The data represent a "snapshot" of the fair housing case inventory carried by HUD as of the last date of each fiscal year. The year-end snapshot measures overall efficiency in handling complaints, without being unduly affected by a few complex or far-reaching cases requiring investigative periods extending far beyond 100 days.

7.1.9: The percentage of fair housing complaints aged over 100 days will decrease by 10 percentage points from the FY 2002 level of the inventory of substantially equivalent agencies.

Background. Effective and efficient enforcement processing by substantially equivalent agencies is an important dimension of fair housing enforcement. This indicator tracks processing time for fair housing complaints, including time for determination of jurisdiction and for conducting investigations and conciliations.

Results and analysis. During FY 2003, cases aged over 100 days were 43 percent of open FHAP cases, compared with 45 percent in FY 2002. The decrease of 2 percentage points for FHAPs fell short of their goal of a 10-point decrease. HUD will continue to assist FHAP organizations in reducing their aged case backlog. This will be accomplished through closer monitoring, extensive training and technical assistance that HUD will provide to the substantially equivalent agencies. This effort will reassure the public that if a complaint is filed action will be taken.

Percentage of Fair Housing Complaints in FHAP Inventory that are Aged



Data discussion. The data are maintained in the Title VIII Automated Paperless Office and Tracking System. Title VIII Automated Paperless Office and Tracking System incorporates controls to ensure data quality.

7.1.10: The baseline number of fair housing complaints identified by FHIP partners in the Southwest border region is established.

Background. Colonias are rural communities and neighborhoods located within 150 miles of the U.S.-Mexican border that lack adequate infrastructure and other basic services such as water and sewer systems, paved roads, and safe and sanitary housing. Many colonias have emerged in rural areas without formally sanctioned local governance and the collective services that local government customarily provides. These conditions make the Colonias 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.

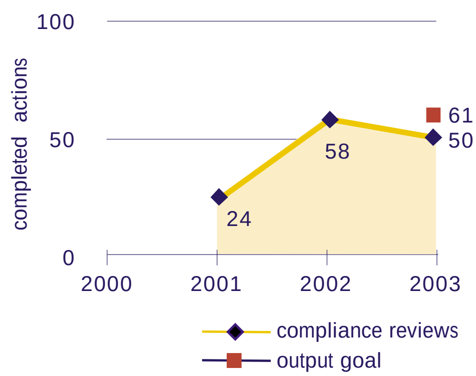
Results and analysis. During FY 2003, the available data, along with the discrimination patterns they reveal, are being assessed to verify their reliability and validate their suitability for this measure. Border counties may not include all underserved areas commonly considered colonias. HUD has not yet verified the reliability of data from FHIP enforcement logs. FHIP has funded several non-profit agencies that are working in the Colonias. In addition, FHIP funded a contract to a minority Small Business Administration 8(a) contractor to undertake enforcement activities in the Colonias for FY 2003.

Data discussion. Data source is the FHIP grantee enforcement logs. Available data, along with the discrimination patterns they reveal, are being assessed to verify their reliability and validate their suitability for this measure. A baseline will be developed utilizing FY 2003 data.

7.1.11: Increase the number of Title VI/Section 109 compliance reviews conducted of HUD recipients by 5 percent.

Background. The Office of Fair Housing Equal Opportunity 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 Community and Development Act of 1974. This effort helps ensure that the $30 billion in HUD assistance is conducted and prevents discrimination. Title VI prohibits discrimination based on race, color, or national origin, whereas Section 109 also forbids discrimination on the basis of sex and religion. Compliance reviews determine whether there are any violations of these statutes and HUD's implementing regulations. If non-compliance is found, it is resolved through voluntary compliance agreements.

Title VI & Section 109 Fair Housing Compliance Reviews Completed by FHEO



Results and analysis. During FY 2003, 50 reviews were completed, compared with 58 in FY 2002. The result fell short of the goal of a 5 percent increase. This responds to the identified need to further address enforcement and compliance issues as disclosed 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.

Objective 7.2: Improve the accessibility of housing to persons with disabilities.

7.2.1: The share of newly constructed buildings that conform to selected accessibility requirements increases from the 2001 baseline.

Background. The Fair Housing Act requires public areas and some apartments in newly constructed multifamily housing to be accessible to persons with disabilities. Congress directed HUD to develop a plan in FY 2000 to educate users and providers of multifamily housing (planners, builder, developers, sellers, renters, architects and building code officials) about the requirements of the Fair Housing Act regarding accessible housing.

Results and analysis. Approximately 300,000 multifamily projects have been built annually since the Fair Housing Act accessibility requirements went into effect on March 13, 1991. In January, HUD launched Fair Housing Accessibility FIRST 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 six months of training in 25 locations with a total attendance to date of 1,555. To date, all training sessions have been full and the interest that housing organizations have shown for future training events evidence a strong need and growing demand for this training. In FY 2003, a total of $1.5 million was committed to carry out the training and technical guidance program.

Data discussion. From the Policy Development and Research study done under contract by Steven Winter and Associates, the Office of Fair Housing Equal Opportunity evaluated 14 key accessibility features, such as an accessible route to and into a multifamily building, in 729 buildings with valid responses. The evaluation showed that 33 percent of buildings were completely accessible and 67 percent were not accessible for one or more of the 14 key features. Using this result as a baseline, the Office of Fair Housing Equal Opportunity and Policy Development and Research will create a design in FY 2004 for a follow-up study to be completed in FY 2005 that will measure levels of conformance with these key accessibility features and others.

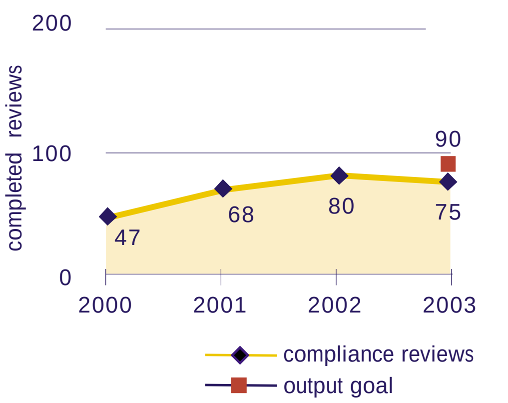
It is important to note that the Winter and follow-up studies do not measure compliance with law. They are not designed to determine levels of compliance, generally or in any individual instance, with the Fair Housing Act or any other law. Only a full-scale review by a HUD investigator on a specific multifamily building in the context of a formal allegation of noncompliance can determine legal compliance.

7.2.2: HUD will conduct 90 Section 504 disability compliance reviews of HUD recipients.

Background. The Office of Fair Housing Equal Opportunity 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 and the uniform Federal Accessibility standards. Section 504 prohibits discrimination based on disability in federally assisted programs and activities. Compliance reviews determine whether persons with disabilities are being denied an opportunity to participate fully in housing and non-housing programs. If non-compliance is found, it is usually resolved through a Voluntary Compliance Agreement. Enforcement through compliance reviews is a means to improve the availability of affordable accessible housing. For example, in FY 2002, HUD successfully negotiated Voluntary Compliance Agreements with the Boston Housing Authority and the District of Columbia Housing authority that will result in the creation of 1,200 units of newly constructed or retrofitted accessible housing.

Results and analysis. During FY 2003, HUD completed 75 Section 504 compliance reviews, falling short of the goal of 90. This is 15 fewer reviews than projected.

Section 504 Fair Housing Compliance Review Completed by FHEO



The decrease was caused by travel restrictions during the last quarter of FY 2003. HUD plans to meet its goal in FY 2004 predicated upon a sufficient travel budget. There is still a need to further address enforcement and compliance issues as disclosed in the National Council On Disability Report. HUD is committed to performing compliance reviews of assisted housing providers as well as PHAs.

In FY 2003, HUD negotiated a Voluntary Compliance Agreement with the nation’s second largest housing authority, Puerto Rico Public Housing Administration, which will result in the provision of more than 2,800 fully accessible public housing units to residents with disabilities.

Data discussion. This measure uses data from the Title VIII Paperless Office and Tracking 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.

Objective 7.3: Improve housing options for the elderly.

7.3.1: The number of assisted-living units that HUD supports through FHA insurance and conversion of Section 202 elderly units increases.

Background. HUD has several programs that work together to provide housing for the elderly who need assistance with health needs or daily living. FHA's mortgage insurance under Section 232 ensures that capital funding is available for Assisted-Living and Board and Care developments. HUD also funds the conversion of units in Section 202 properties (multifamily housing for the elderly) to assisted living units, which include basic medical care. HUD also is developing a third category of support for assisted living: the provision of Section 8 rental assistance vouchers that can be used to pay for the housing component of assisted living, and that can be linked with Medicaid funding for health services to create a completely affordable assisted living package.

Results and analysis. During FY 2003, HUD and the owners of 12 properties completed the conversion process under the 202 program, providing an additional 401 units of beds of assisted living and meeting the goal. In addition, HUD initially endorsed 28 assisted living properties and two board and care facilities. These projects added 2,618 units or beds to the estimated 18,000 assisted living units/beds in 325 Section 232 developments operating in FY 2002.

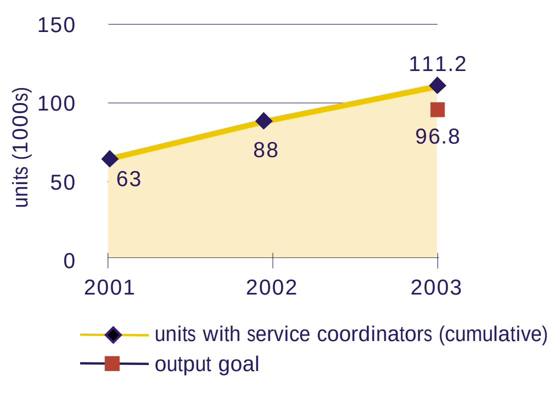
Data discussion. These data are reported by grantees and there is a data definition issue of grantees reporting both "beds" and "units," which are not always comparable. HUD will continue to probe the data quality issues relating to the definition of "units" versus "beds," including potentially re-specifying this measure in a manner that enhances data reliability while still capturing its substantive intent.

7.3.2: The number of elderly households living in private assisted housing developments 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 in a number of ways: 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.

Units in Elderly Projects with Service Coordinators



Results and analysis. During FY 2003, Service Coordinator grants funded service coordinators for 23,180 additional units in elderly projects. The new grants increased the total number of units in elderly developments with service coordinators by 26 percent to over 111,000, substantially 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 $50 million appropriation for 2003, $31 million was used for 200 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 NOFA responses

Data discussion. This measure uses data for elderly private multifamily projects with service coordinators from the Office of Housing service coordinator grants database.

7.3.3: Service-enriched housing increases the satisfaction of elderly families and individuals with their units, developments and neighborhoods.

Background. The Service Coordinator program funds service coordinators in assisted multifamily housing developments. 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, as shown by two demonstration programs, the HOPE for Elderly Independence Demonstration and the Congregate Housing Services Program, and an evaluation of the Service Coordinator program. Even elderly persons who are not "frail"—defined as needing help with three activities of daily living—will have greater ability to age in place when service coordinators provide appropriate support for independent living.

This indicator tracks the satisfaction of elderly residents (62 and older) in privately-owned assisted housing, comparing the satisfaction of elderly households in developments with and without service coordinators. Resident satisfaction is measured using a survey conducted by the Real Estate Assessment Center.

Results and analysis. The survey of assisted multifamily renters was not conducted during FY 2003. To develop a baseline in FY 2001, HUD compared resident survey results for 114 elderly projects that had service coordinator grants with 1,210 elderly projects that did not have a coordinator. The preliminary results showed that during Spring 2001, residents in service coordinator projects were slightly more satisfied overall. Of residents in service coordinator projects, 86.0 percent expressed overall satisfaction, compared with 85.1 percent in unfunded elderly projects. However, the difference was not statistically significant. 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 in FY 2004.

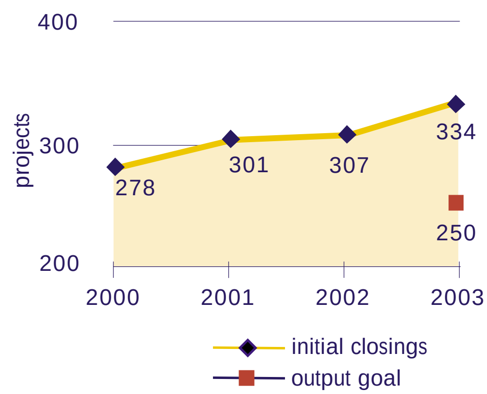
Data discussion. Resources were not available for the FY 2003 survey needed to report this measure.

7.3.4: 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 2003, HUD reached initial closing on 334 Section 202 and 811 projects resulting in an additional 7,500 Section 202 units and 1,721 units for persons with disabilities. The performance exceeded the closings goal by 34 percent.

Initial Closing 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 over two years old has been declining.

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.

Other strategies are addressing 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. Also, in 1999 the Department signed a Memorandum of Understanding with the Federal Housing Finance Board.

The memorandum established a policy for how the Federal Home Loan Banks could use Affordable Housing Program funds for subordinate financing of Section 202 and Section 811 projects. The policy streamlined the approval process and decreased the time it takes to initially close these projects. Finally, in FY 2004, HUD will conduct a study of the costs of developing Section 202 and Section 811 projects. This should result in a revision of the development cost limits to reflect more accurately the actual cost of developing these projects.

Data discussion. This measure uses data from the Development Applications Processing system. HUD's central office receives copies of the closing documents that are used to verify data system entries. Development Process data also are used to track management plan goals and accomplishments, which helps ensure that data are accurate.

7.3.5: At least 10 Section 202 developments will complete conversion of units to assisted living by FY 2003.

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 2003, 10 developments to assisted living.

Results and analysis. During FY 2003, HUD and the owners of 13 properties completed the conversion process under the 202 program, providing an additional 407 units of beds and meeting the target of assisted living. Of these developments, one had been converted by the end of FY 2002.

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.

Goal 8:
Support Community and Economic Development Efforts

Strategic Objectives

8.1 Provide capital to create and retain jobs and improve economic conditions in distressed communities.

8.2 Help communities more readily access revitalization resources to become more livable.

Performance Report Card - Goal 8

Performance Indicators		2000	2001	2002	2003	2003 Target	Substantially Met	Notes
8.1.1.1	Percent of Enterprise Zone (EZ) and Enterprise Community (EC) projects achieve local goals in promoting homeownership by residents.	81%	88%	77%	80%	90%		
8.1.1.2	Percentage of EZ/EC projects achieving goals for new affordable units.	91%	88%	79%	73%	90%		
8.1.1.3	Percentage of EZ/EC projects achieving goals for rehabilitated affordable units.	88%	86%	74%	66%	87%	√	
8.1.1.4	Percentage of EZ/EC projects achieving goals for homeless assistance.	83%	89%	71%	70%	90%		
8.1.1.5	Percentage of EZ/EC projects achieving goals for social services.	73%	83%	78%	74%	87%		
8.1.1.6	Percentage of EZ/EC projects achieving goals for resident employment.	69%	61%	69%	72%	75%		
8.1.1.7	Percentage of EZ/EC projects achieving goals for public safety.	91%	84%	88%	88%	85%	√	
8.1.2	Number of on-site Section 3 monitoring reviews of PHAs.			25	46	30	√	
8.1.3	Percentage of Section 3 complaints aged over 120 days.		48%	57%	24%	32%		
8.2.1.1	Jobs created or retained through CDBG.			90,263	108,684	87,555	√	
8.2.1.2	Jobs created or retained through Section 108.			10,092	11,730	15,000		
8.2.2	Number of jobs created through Brownfields Economic Development Initiatives/108.			4,968	7,000	5,400	√	
8.2.3	Youth trained through Youthbuild.	2,897	3,762	3,729	4,123	3,774	√	
8.2.4	Share of Entitlement CDBG funds benefiting low/mod persons.	93.7%	94.9%	94.4%	94.8%	92.0%	√	
8.2.5	Share of State CDBG funds benefiting low/ mod persons.	97.4%	96.4%	96.4%	96.7%	98.0	√	
8.2.6	Number of units made lead safe.	7,969	8,212	8,040	9,098	7,600	√	
8.2.7	Number of children under age of six who have elevated blood lead in 2004.							a, b, f
8.2.8.1	Number of agreements operational under Healthy Homes Initiative.	8	20	35	41	26	√	
8.2.8.2	Number of agreements awarded under Healthy Homes Initiative.		14	5	11	4	√	

Performance Indicators		2000	2001	2002	2003	2003 Target	Substantially Met	Notes
8.2.9	Ratio of funds leveraged by Community Outreach Partnership Center grantees above planned amount.	26%	36%	31%	34%	20%	√	
8.2.10	Number of Multifamily units in underserved areas newly insured by FHA (1,000s)	19.0	17.8	25.8	53.2	27.1	√	
8.2.11 (a)	Fannie Mae meets special affordable multifamily targets (billion $).	4.06	3.79	7.36	7.57	2.85	√	d
8.2.11 (b)	Freddie Mac meet special affordable multifamily targets (billion $).	2.26	2.40	4.65	5.22	2.11	√	d
8.2.12 (a)	Fannie Mae surpasses HUD-defined geographic targets for mortgage purchases in underserved areas (% of eligible dwelling units).	26.8%	31.0%	32.6%	32.8%	31.0%	√	d
8.2.12 (b)	Freddie Mac surpasses HUD-defined geographic targets for mortgage purchases in underserved areas (% of eligible dwelling units).	27.5%	29.2%	31.7%	31.9%	31.0%	√	d

(Values represent fiscal year data unless otherwise noted.)
- 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 ending in the current fiscal year.
- e Calendar year ending the previous fiscal year.
- 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.

Objective 8.1: Provide capital to create and retain jobs and improve economic conditions in distressed communities.

8.1.1: Enterprise Zone (EZ) and Enterprise Community (EC) projects achieve local goals in seven activities.

Background. HUD designates census tract based areas to receive tax incentives for businesses, competitive grant preferences and in some cases grants to leverage funds to implement the strategic plan developed with community participation. Renewal Communities, EZ and EC are important because they represent a model of inter-governmental strategic planning that leverage private partnerships for participatory community renewal. This indicator measures the progress toward locally defined goals. Data for this indicator represent the number of designees that achieved at least 95 percent of their projected outputs divided by the total number of designees with applicable completed projects. Beginning next year, HUD will report on four simplified indicators that track actual outputs rather than percentages in order simplify and focus indicators toward HUD's strategic goals. Indicators relating to social services, homeless, public safety and jobs support HUD's strategic goal to strengthen communities. Two indicators support decent affordable housing and one indicator supports homeownership. Currently 79 EZ/ECs report in the Performance Measurement System.

Results and analysis. EZ/ECs met or exceeded targets in one of seven goals. The reporting year is July 1st through June 30th with reports due on July 31st. In the past, HUD has observed that EZ/ECs overestimate their goals as a result of the complexity of administering a comprehensive strategic plan with leveraged partnerships. In order to improve performance, HUD is conducting ongoing technical assistance workshops with increased emphasis on improving management, monitoring and performance measurement. EZ/ECs utilize HUD's staff and information technology resources to improve planning and implementation of projects and programs.

Percent of EZ/EC Designees Meeting their Project Goals

Goals Identified in Implementation Plans	1999 (corrected)	2000 (corrected)	2001 (final)	2002 (prelim.)	2003 (prelim.)	*2003 goal*
Residents receiving homeownership assistance	80%	81%	88%	77%	80%	90%
New affordable housing completed	93%	91%	88%	79%	73%	90%
Rehabilitated affordable housing completed	71%	88%	86%	74%	66%	87%
Homeless residents served by homeless assistance programs	84%	83%	89%	71%	70%	90%
Residents served by social service programs	80%	73%	83%	78%	74%	87%
Residents find gainful employment	82%	69%	61%	69%	72%	75%
Residents served by public safety and crime prevention programs	74%	91%	84%	88%	88%	85%

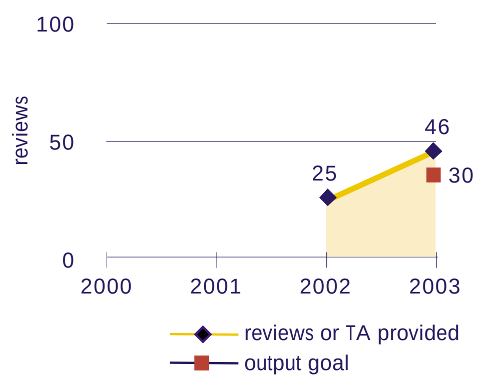
2002 has been corrected with 79 of 79 reporting. 2003 is with 63 of 79 reporting. 2003 values will be recalculated for next year's report.

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. To date 63 of 79 EZs and ECs have reported. Full reporting is expected by December 31. 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. In order to verify accuracy of information in Performance Measurement System, HUD field staff review a sample of all EZ/EC reported implementation plans each year, but will not be able to finish their work before this report is finalized. In 2002, the HUD Office of Inspector General has independently reviewed the accuracy of the data in Performance Measurement System and recommended that HUD improve systems for ensuring data accuracy. HUD's proposed improvements include a headquarters desk officer guidebook, repeated monitoring of Round II EZs with an expanded field-monitoring guide that contains increased attention to sub recipient monitoring and continued technical assistance. Finally, the Government Accounting Office opened a seven-year evaluation of the program that will include an assessment of Performance Measurement System. The first status report will be published in January 2004.

8.1.2: HUD will conduct monitoring and compliance reviews or provide technical assistance under Section 3 to 30 housing authorities.

Background. Under Section 3 of the HUD Act of 1968, HUD requires public housing agencies and their contractors to use their best efforts to provide training and employment opportunities to low-and very-low income persons. HUD is providing billions of dollars of assistance to communities, creating numerous employment opportunities for residents. The PHAs must report the number of Section 3 residents receiving employment, training and contract opportunities each year. Analyses of 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 2003 was to identify and review 30 agencies.

Public Housing Agencies Monitored or Assisted with Section 3 Compliance



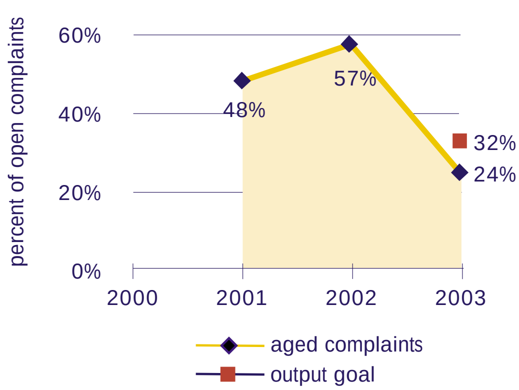
Results and analysis. HUD completed 46 Section 3 reviews in FY 2003, surpassing the goal by 16. During FY 2003 there were 22 monitoring reviews, one compliance review, and technical assistance was provided to 23 agencies.

Data discussion. The primary source of data will be a manual count of the number of housing agencies monitored, based on documentation. Headquarters staff will verify the data.

8.1.3: The percentage of Section 3 complaints aged over 120 days will decrease by 25 percentage points from the FY 2002 level of the inventory of Section 3 complaints.

Background. Section 3 of the HUD Act of l968 requires that, to the greatest extent feasible, HUD will ensure that jobs, training and contracts are given to low- and very low-income residents of the economically distressed areas served by HUD's grantees. The Office of Fair Housing Equal Opportunity's Office of Economic Development had a total of 30 open Section 3 complaints within its inventory at the beginning of FY 2003. Seventeen of these cases exceeded the 120-day time limit that is allowed for the Final Investigative Report to be submitted to headquarters. Headquarters staff have 30 days after submission to make a final determination and notify both the complainant and the recipient. In order to provide residents with fair and adequate treatment when seeking opportunities, HUD must process complaints in a timely manner.

Section 3 Complaints Aged Over 120 Days



Results and analysis. At the end of FY 2003, the total number of aged complaints was nine, or 24 percent of the 37 cases that remained open. The proportion of complaints that were aged thus decreased by 33 percentage points from the FY 2002 level of 57 percent, exceeding the goal of a 25 point reduction in aged cases.

Data discussion. The total number of complaints and aged complaints is manually tabulated by The Office of Fair Housing Equal Opportunity Headquarters staff.

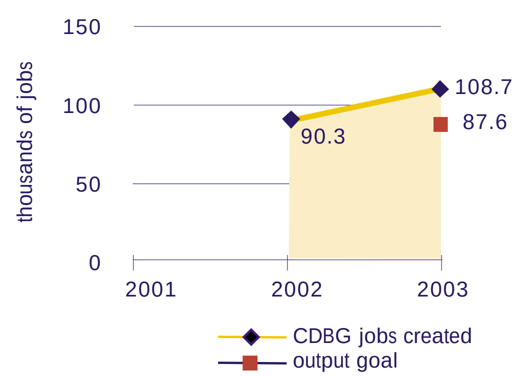
Objective 8.2: Help communities more readily access revitalization resources to become more livable.

8.2.1: A total of 87,555 jobs will be created or retained through CDBG and 15,000 through Section 108.

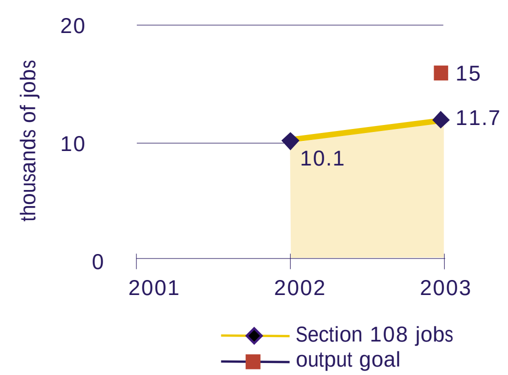
Background. This measure tracks the number of jobs that grantees report as created or retained through CDBG and Section 108. This indicator parallels one of the means cited by the CDBG legislation, expanding economic opportunities, to achieve the program's primary objective of developing viable urban 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 2003, CDBG grantees reported that 108,684 full-time-equivalent jobs were created or retained with CDBG funds. This exceeds the goal by 24 percent and is a 20.4 percent increase over the FY 2002 reported total of 90,263 full-time-equivalent jobs created or retained. During FY 2003, total expenditures ($344 million) for economic development job creation and retention activities tracked for this indicator decreased 6.7 percent compared with the same period in FY 2002 ($368.7 million), with an approximately 15 percent decline for entitlement grantees and a 2 percent increase for State-administered, non-entitlement grantees. The FY 2003 cost per job was approximately $3,165 per job created or retained. This cost per job is not a life cycle cost, as it doesn't consider program income generated by an activity as the result of a loan to a business, nor does it consider business failures that might occur.

Number of Jobs Created or Retained through CDBG



Number of Jobs Created or Retained through Section 108



There may be two explanations for the 20.4 percent increase in the number of jobs created or retained, notwithstanding an overall decline in CDBG funds expended for job creation or retention activities. First, historically, there is a time lag from the period in which CDBG funds are expended for job creation activities and when the actual jobs are created. In other words, some of the funds expended in earlier years for economic development activities create jobs one to three years after the funds were expended. Second, improved reporting by grantees of actual accomplishments for completed activities in FY 2003 would provide more complete counts of reported jobs created or retained.

The measure for the Section 108 Loan Guarantee program is based on data gathered when an application for a Section 108 Loan Guarantee commitment is submitted. The applications for Section 108 Loan Guarantee assistance that were approved in FY 2003 reported that the number of jobs that would be created or retained would total 11,730. This was 78.2 percent of the goal of 15,000 jobs, but an increase of 16 percent from the FY 2002 results of 10,092 jobs created or retained.

Approximately $188.7 million in Section 108 Loan Guarantee commitments were approved for job creation or retention activities in FY 2003, compared with $151.8 million in FY 2002. The projected average cost per job created or retained for Loan Guarantee commitments made in FY 2003 was $16,087. The projected 108 Loan Guarantee credit subsidy costs to the Federal Treasury for FY 2003 is approximately $370 per job created or retained (108's credit subsidy rate of 2.3 percent times $16,087 cost per job). 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.

During FY 2003, the Department completed a significant evaluation of CDBG funded economic development, entitled "Public-sector Loans to Private-Sector Business."[7] The report blended information from five distinct sources covering CDBG funds from 1996 through 1999 and Section 108 lending originated between 1994 and 1999. Highlights of the report 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:

- 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 loaned 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.

External factors that may affect the level of accomplishments in the future are the level of CDBG annual appropriations, the choices grantees make among their community, housing and economic development needs, and the level of availability of other resources, notably local and state funds that are used in conjunction CDBG assisted economic development.

Due to a lack of CDBG technical assistance funds, the Department has not been able to offer CDBG and Section 108 recipients needed training on economic development practices generally or more technical training on financial underwriting, portfolio management and revolving loan fund management specifically.

Data discussion. Future improvements in data quality are likely to occur as HUD improves the Integrated Disbursement and Information System to include more edits as well as improved data entry methods. The overall improvement of Integrated Disbursement and Information System is scheduled over the next several years.

The data used for CDBG comes from the Integrated Disbursement Information System. 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 is continuing into FY 2004. Increased reporting from states may be a result of the passage of an additional year of participation in the Integrated Disbursement and Information System. States began

[7] The report is available at: **http: //www.huduser.org/publications/econdev/pubsec_loans.html**.

participating in Integrated Disbursement and Information System, on average, two years later than entitlement grantees, generally the period from 1998-1999. For the Section 108 Loan Guarantee program, job estimates are based upon information provided by applicants during FY 2003 as part of their Section 108 Loan Guarantee application. All estimates are reviewed for accuracy, including where applicable, compliance with the program's regulatory Public Benefit criteria.

8.2.2: Brownfields Economic Development Initiative grants will support the creation of 5,400 jobs.

Background. The redevelopment of brownfields is a top priority of local governments and presents an important opportunity to reclaim currently unusable land 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 principally for the redevelopment of brownfields sites, which are defined as difficult to redevelop because of real or perceived environmental contamination. Accordingly, the Brownfields Economic Development Initiative funds combined with Section 108 loan guarantees are used for economic 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 2003 was $25 million.

Results and analysis. Based on estimates contained in this year's applications for funding, over 7,000 jobs were projected to be created or retained, representing 130 percent of the goal of 5,400. Through the Brownfields Economic Development Initiative program communities are experiencing environmental redevelopment and increased job creation. The number of sites projected to be cleaned up and redeveloped for FY 2003 was 22, while the number of jobs projected to be created was 5,400.

One explanation why the number of jobs projected by applicants was greater this year is that HUD made a concentrated effort to clarify to those interested in the Brownfields Economic Development Initiative program that it was intent on selecting those projects for funding that were 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 NOFA carefully for changes in the program goals and related scoring requirements. This year, for example, HUD discouraged the submission of site preparation-only and loan pool proposals, while instead encouraging economic development projects that could be commenced and completed within 3 to 5 years. The result was that HUD received far more applications for FY 2003, including far stronger applications with shorter-term goals projecting as many or more jobs as in previous years.

Data discussion. HUD is continuing its efforts to gather data regarding actual program outcomes by having our field offices to report on the number of jobs produced in the Brownfields Economic Development Initiative and 108 programs. There also is a longer 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 the Brownfields Economic Development Initiative program.

8.2.3: A total of 3,774 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 2003, 3,774 youths were projected to be trained based on the number of applications granted and the projections of each.

Results and analysis. Between October 1, 2002 and September 20, 2003, the actual number of youths trained is 4,123, or 108 percent of 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. HUD has no control over the number of fundable applications and the number of youths to be trained as projected in the applications. 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 2003 goal
persons trained / GED	2,897	3,762	3,729	4,123	3,774
units of new construction	NA	NA	NA	346	711
units of rehab construction	NA	NA	NA	1,409	940
total housing units	NA	NA	NA	1,755	1,651

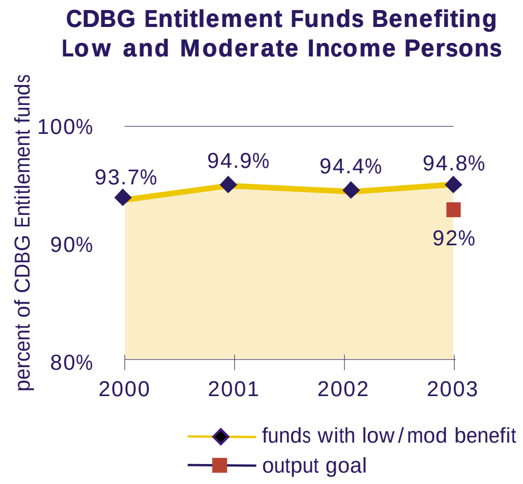
In addition to the number of youths trained through the Youthbuild program, HUD is able to collect data on other successes. Between October 1, 2002 and September 30, 2003, 1,260 participants achieved high school general equivalency diplomas (GEDs), while 1,939 participants were placed in jobs or higher education upon graduation. Approximately 346 new units of housing were constructed along with the rehabilitation of 1,409 units. Overall, the number of housing units made available for habitation exceeded the totals projected by 6.2 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 the projects were underway, plans changed resulting in a different mix of units rehabilitated or newly constructed.

Data discussion. The fiscal year data were obtained by Community Planning and Development field offices through contact with the Youthbuild grantees.

8.2.4: 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—over a one, two or three year period selected by the grantee—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.

Results and analysis. During FY 2003, entitlement communities used 94.8 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 2002 level of 94.4 percent.



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, advise and encourage grantees to use their CDBG funds for the most needy residents.

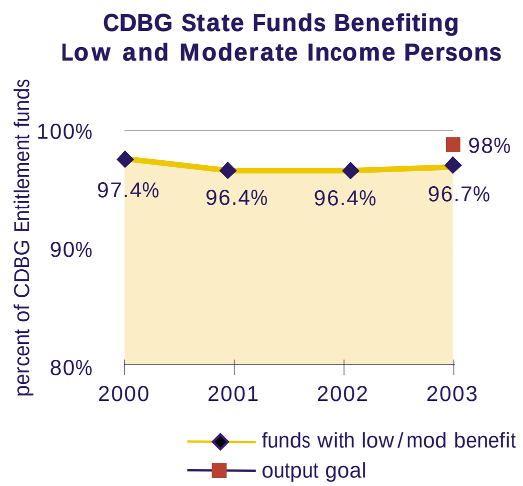
In addition to local factors affecting grantees' program choices, external factors also may include the decline in the economy as a whole, which may reduce other non-federal funding sources traditionally used in conjunction with CDBG funds to carryout program activities. Other factors include a lack of CDBG technical assistance funds and resources. This hampers efforts to improve the Integrated Disbursement and Information System, to provide CDBG grantee training and technical assistance, and to improve the quality of program data collection.

Data discussion. The data come from the Integrated Disbursement and Information System. During FY 2002 and FY 2003, the Department undertook a major data clean-up effort to improve the quality of data reported and eliminated duplicate or erroneous entries. Extensive follow-up with grantees to obtain corrections was part of the effort. The data clean-up effort is continuing into FY 2004.

8.2.5: The share of State CDBG funds that benefit low-and moderate-income persons remains at or exceeds 98 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.

Results and analysis. During FY 2003, State grantees used 96.7 percent of their CDBG funds for activities that benefit low- and moderate-income persons. That level is slightly below the goal of 98 percent, though it is higher than FY 2002's level of 96.4 percent.



During FY 2003, 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. Improved data quality may be a reflection that the actual results of 96.7 percent are moving incrementally closer to the 98 percent goal. It is not known whether a 98 percent goal is feasible to attain. The

98 percent goal had been established under a less rigorous paper-based reporting method. Future results and their evaluations will continue to examine whether the 98 percent goal should be retained as a realistic goal or be amended accordingly.

HUD has no direct control over the percentage of CDBG funds that states and communities use for 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.

In addition to local factors affecting grantees' program choices, external factors also may include the decline in the economy as a whole, which may reduce other non-federal funding sources traditionally used in conjunction with CDBG funds to carryout program activities. Other factors include a lack of CDBG technical assistance funds and resources. This hampers efforts to improve the Integrated Disbursement and Information System, to provide CDBG grantee training and technical assistance, and to improve the quality of program data collection.

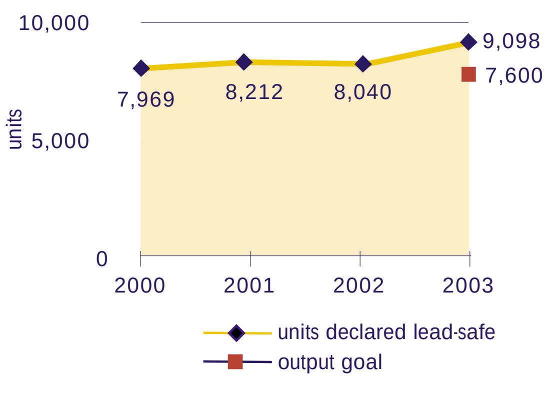
Data discussion. The data come from the Integrated Disbursement Information System. During FY 2002 and FY 2003, the Department undertook a major data clean-up effort to improve the quality of data reported and eliminated duplicate or erroneous entries. Extensive follow-up with grantees to obtain corrections was part of the effort. The data clean-up effort is continuing into FY 2004. Increased reporting from states may be a result of an additional year of participation in the Integrated Disbursement Information System. States began participating in Integrated Disbursement Information System, on average, two years later than entitlement grantees.

8.2.6: As part of a ten-year effort to eradicate lead hazards, the Lead Hazard Control Grant program will make 7,600 units lead safe in FY 2003.

Background. HUD is playing a central role in the interagency initiative to eliminate lead poisoning of the Nation's children by 2010. HUD intends to eliminate lead hazards in housing by expanding the Lead Hazard Control Program and leveraging other resources. The Centers for Disease Control and Prevention report that during 1991-94 nearly 1 million children ages one to five had elevated blood lead levels (see discussion of significant progress under indicator 8.2.7) – amounting to about 5 percent of all children in that age group. The majority of cases involve low-income children. Exposure to lead can cause permanent damage to the nervous system and a variety of health problems, including reduced intelligence and attention span, hearing loss, stunted growth, reading and learning problems, and behavior difficulties.

The HUD Office of Healthy Homes and Lead Hazard Control provide 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) 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.

Housing Units Made Lead-Safe



Results and analysis. For FY 2003, the Lead Hazard Control Grant Program completed 9,098 lead-safe units (homes), 20 percent more than the goal of 7,600. 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 2004 budget requests a further $10 million increase over the amount requested in FY 2003 ($96 million) to continue to expand the effort to eliminate this preventable disease.

This performance level and a sustained increase in funding levels is a reflection 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 2003 was $71 million, which directly supported the completion of at least 9,098 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; technical studies; and other HUD rehabilitation housing assistance covered by the HUD Lead Safe Housing Rule for assisted housing.

8.2.7: 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 1991-94. 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. For this indicator, elevated blood levels is defined as blood lead levels at or above 10 micrograms per deciliter (mg/dL). The long-term goal of this indicator is to reduce elevated blood levels as measured by the next National Health and Nutrition Examination Survey, with additional data projected to be available in 2004.

Results and analysis. In FY 2003, the Centers for Disease Control and Prevention reported that the number of children with elevated blood lead levels had declined to 434,000 during 1999–2000, which is principally due to improvements in the nation's housing (see http: //www.cdc.gov/nceh/lead/research/kidsBLL.htm). Other local data from 19 states showed that the proportion of children under the age of six who tested with elevated blood levels decreased from 10.5 percent in 1996 to 7.6 percent in 1998.[8]

Elevated blood levels is 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 levels are demolition, substantial rehabilitation, enforcement of lead safety laws and ongoing public education.

Data discussion. The Centers for Disease Control and Prevention are conducting the next National Health and Nutrition Examination Survey, with additional data projected to be available in 2004.

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 National

[8] 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**

Health and Nutrition Examination Survey cannot identify the source of elevated blood levels. HUD does not verify the National Health and Nutrition Examination 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.

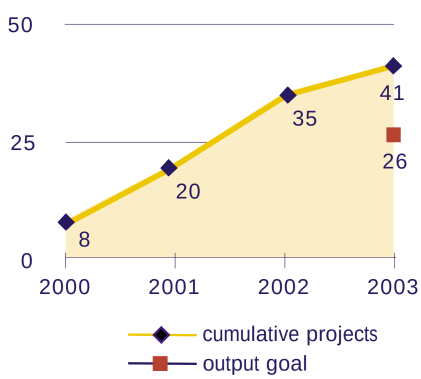
8.2.8: The first 26 procurement actions of the Healthy Homes Initiative become operational and an additional four are awarded.

Background. Under the Healthy Home Initiative, the Office of Healthy Homes and Lead Hazard Control has funded each year $10 million in 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, the National Institute of Science and Technology, and the National Institute of Environmental Health Sciences to implement the 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.

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. In FY 2003, a web-based quarterly reporting system was launched for Healthy Homes Demonstration and Technical Studies grantees. This system reports output data, such as the number of assessments, interventions, and individuals reached and trained through Healthy Homes grant projects.

Results and analysis. In FY 2003, the Healthy Homes program exceeded its goal, with thirty-nine grants and two interagency agreements becoming operational since the program's inception for a total of 41 operational actions. Of this total, twelve new Healthy Homes Demonstration and Technical Studies grants became operational as the result of the FY 2002 Healthy Homes Notices of Funding Availability. In FY 2003, a total of 82 applicants requested over $65 million for this program.

Healthy Homes Grants and Interagency Agreements made Operational



In addition, Office of Healthy Homes and Lead Hazard Control made funding decisions and awarded 11 new Healthy Homes Demonstration and Technical Studies grants in FY 2003. These grants were announced in October 2003, which Secretary Martinez declared "Healthy Homes Month." The program also exceeded its goals for this indicator in fiscal years 2002 and 2001.

Principal outcomes of the projects in FY 2003 were public education, training to build capacity for "high performance" housing construction and rehabilitation (incorporating energy efficiency, durability, sustainability, and health and safety features), 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.

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, 37,781 clients have been served by Healthy Homes grant programs; 4,203 units have been assessed; and 1,176 interventions (homes treated for hazards) have been completed. Over 424,000 individuals have been reached through Healthy Homes projects and over 2,600 individuals have been trained in the assessment and mitigation of healthy homes hazards.

Office of Healthy Homes and Lead Hazard Control staff and grantees are working with state and local health departments to integrate Healthy Homes interventions into regional asthma strategies. The Healthy Homes Initiative also promotes the voluntary adoption of healthy home building and maintenance practices by state housing development and finance agencies, municipal CDBG/HOME programs, and public housing authorities.

The Department is developing outcome indicators for this program that focus on the number of units produced under Healthy Homes protocols.

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.

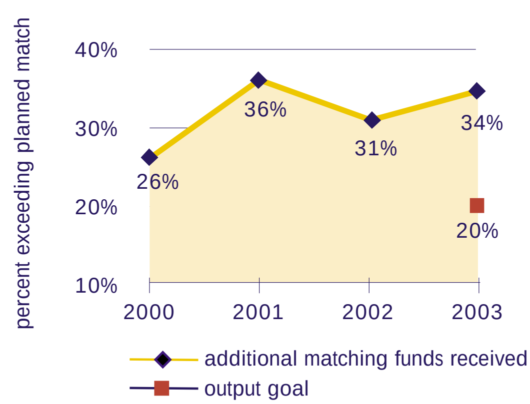
8.2.9: The Community Outreach Partnership Centers grantees will receive an extra 20 percent in non-Federal funds above the match amount originally claimed in their application between the times they start and complete their projects.

Background. The Community Outreach Partnership Centers program provides funds to colleges and universities for a wide variety of technical assistance and applied research activities. The underlying purpose is to institutionalize the commitment of colleges and universities to their communities and local organizations, build the capacity of community-based organizations, and promote dialog and disseminate information about community/university partnerships. This indicator demonstrates the satisfaction that community-based organizations, local governments, foundations, private businesses, and the schools themselves have with the Community Outreach Partnership Centers funded activities by measuring new financial commitments to continue, expand, and in some cases institutionalize, the work.

Results and analysis. For the 10 the Community Outreach Partnership Centers grants that were completed between January and September of 2003, the average amount of non-federal match funds secured during the life of the grant was at least 34 percent more than originally claimed in the grant application. This result exceeds the goal of a 20 percent increase from original estimates.

The grantees secured $9,208,027 in match funds, compared with $6,849,492 of matching funds anticipated in their grant applications. The continued success of the Community Outreach Partnership Centers grantees in attracting other funds demonstrates the value that the contributors perceive in the program activities.

COPC Matching Funds Received Above the Planned Match



Data discussion. The Community Outreach Partnership Centers program data used for this measure come from grantee performance reports. Results represent the percentage by which matching funds exceeded match commitments for those Community Outreach Partnership Centers grantees whose grants closed by the end of HUD's fiscal year. Grants closing during a calendar-year reporting period were reported for FY 2001 and prior years. The change was motivated by the Office of Management and Budget's accelerated reporting requirements. During FY 2002, the interim report format was revised to improve retrieval and accuracy of cumulative totals of nonfederal funds raised by grantees.

8.2.10: The number of multifamily rental units in underserved areas newly insured by FHA increases by 5 percent.

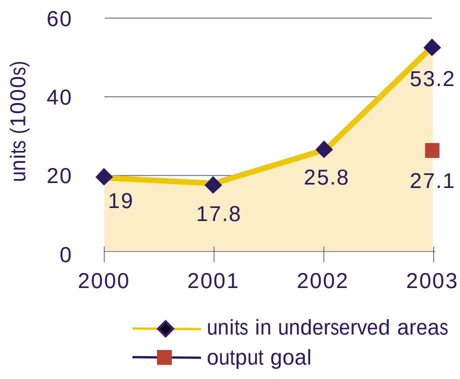
Background. FHA insures loans for new construction and substantial rehabilitation of multifamily rental units under a variety of programs (Sections 220, 221(d)(3), 221(d)(4), and risk-sharing under 542(b) and (c)). FHA also insures mortgages to refinance or purchase existing multifamily properties (Section 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 units in 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 (irrespective of minority population percentage). A similar definition of underserved applies to non-metropolitan areas, using counties rather than tracts.

Results and analysis. During FY 2003, 53,220 multifamily units in underserved areas benefited from new FHA mortgage endorsements. This was more than twice the FY 2002 accomplishment of 25,791 units, exceeding the goal of a 5 percent increase.

In large part, this increase reflects the fact that FHA considers all initial endorsements in underserved areas, including refinancing, to contribute to the stock of decent, safe, and sanitary affordable housing. The dramatic increase in FY 2003 reflects the strong refinancing market generated by low interest rates. Most refinancing results in rehabilitation and upgrading of properties.

Multifamily units Endorsed in Undeserved Areas by FHA

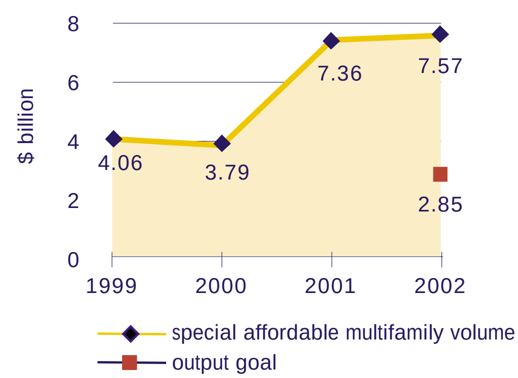


Data source. The unit project locations and unit counts used to determine this measure are from FHA's Development Applications Processing system. FHA performs computerized checks of data quality, and FHA staffs verify multifamily mortgage transactions. Census data are used to establish underserved areas.

8.2.11: Fannie Mae and Freddie Mac meet or surpass 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 GSEs provide market liquidity through multifamily purchase programs targeted to the housing needs of low-income and very-low income families. The GSEs purchase, guarantee, or acquire interests in multifamily mortgages secured by residential properties that contain at least five dwelling units. When a GSE acquires a multifamily mortgage, or an interest in such mortgages, it is entitled to count the dwelling units toward 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 families earning incomes less than or equal to 60 percent of the area median income, or that are affordable to families earning incomes which are less than or equal to 80 percent of the area median income and which are also located in low-income areas. Beginning in 2001, HUD substantially increased the Special Affordable Multifamily Goal from $.99 billion to $2.11 billion for Freddie Mac and from $1.29 billion to $2.85 billion for Fannie Mae. HUD also implemented new scoring rules.

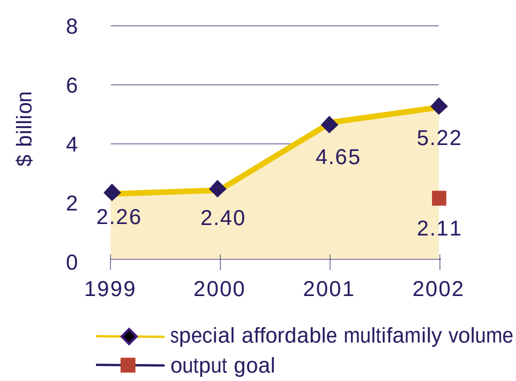
Fannie Mae Performance Relative to Special Affordable Multifamily Target



Results and analysis. In calendar year 2002, Fannie Mae purchased $7.57 billion of qualifying multifamily mortgages, far exceeding the goal of $2.85 billion. Freddie Mac purchased $5.22 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 toward the Special Affordable Multifamily target in 2002, they provide an incentive for the GSEs to increase their purchases of small multifamily properties. Because qualifying multifamily loans counted toward other HUD-defined targets may also be counted toward the affordable multifamily target, these purchases contributed to the strong results achieved under the multifamily target in 2002. For example, Fannie Mae's acquisition of units in small multifamily properties that qualified under the special affordable multifamily target increased from 17,255 units in 2001 to 30,368 units in 2002. Units financed by Freddie Mac decreased during this period from 36,600 units in 2001 to 28,310 units in 2002.

Freddie Mac Performance Relative to Special Affordable Multifamily Target



Data discussion. This measure uses calendar-year data from the HUD GSE database. There is a one-year reporting lag because the GSEs report to HUD in the year following the performance year. To ensure the reliability of data, the GSEs apply appropriate quality control measures to data elements provided to HUD. HUD verifies the data through comparison with independent data sources, replication of GSE goal performance reports, and reviews of the GSE data quality procedures. The GSE financial reports are verified by independent audits.

8.2.12: Fannie Mae and Freddie Mac meet or surpass 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 GSEs' 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.

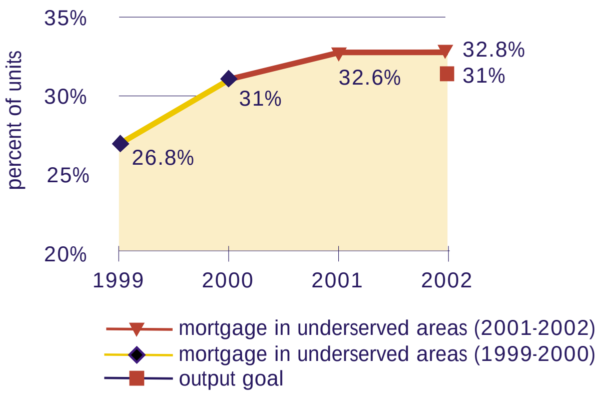
HUD research has shown that such areas have high mortgage denial rates and low mortgage origination rates, suggesting difficulty in obtaining access to mortgage credit. Beginning in 2001, HUD substantially increased the Underserved Areas Goal from 24 percent to 31 percent. HUD also implemented new scoring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

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.

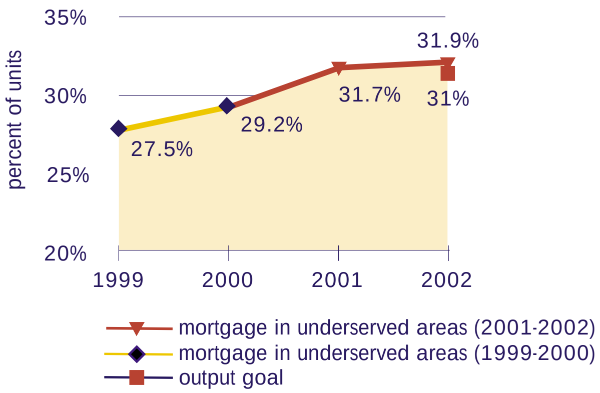
Results and analysis. In calendar year 2002, Fannie Mae and Freddie Mac both surpassed HUD's target of 31 percent for mortgage purchases in underserved areas. Fannie Mae achieved 32.8 percent and Freddie Mac achieved 31.9 percent.

Bonus points to both Government-Sponsored Enterprises and a temporary adjustment factor for certain Freddie Mac multifamily mortgage purchases enabled the GSEs to achieve their goal. Absent these incentives in the scoring system, Fannie Mae's performance would have been 30.2 percent, and Freddie Mac's performance would have been 28.4 percent in 2002.[9]

Fannie Mae Performance Relative to Geographic Target



Freddie Mac Performance Relative to Geographic Target



[9] In the accompanying graphs, the dotted lines from 2000 to 2002 reflect the changes in HUD scoring rules that became effective in 2001. The square shows the level of the housing goal beginning in 2001.

Despite some decline in overall qualifying purchases, both GSEs improved the affordability composition of their qualifying purchases from the previous year by significantly increasing their purchases of mortgages from high-minority tracts (30 percent or greater minority population). Fannie Mae increased high-minority tract purchases by 28 percent (from 745,875 units to 957,454 units) while Freddie Mac posted an increase of 36 percent (from 442,312 units to 603,187 units) over the previous year.

With regard to the number 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 GSEs' purchases decreased somewhat from the previous year. In 2002, of all the mortgages that qualified to count under this goal, 44 percent of each GSE's purchases served families with low incomes. This represents a decrease of one percent from 2001 for Fannie Mae and a decrease of more than two and a half percent for Freddie Mac.

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 GSEs apply appropriate quality control measures to data elements provided to HUD. HUD verifies the data through comparison with independent data sources, replication of GSE goal performance reports, and reviews of GSE data quality procedures. The GSEs' financial reports are verified by independent audits.ß

3. Financial Information

The Chief Financial Officer's Message

I am pleased to report that Fiscal Year (FY) 2003 was a year of significant financial management improvements at HUD. Under the President's Management Agenda, goals were set and met to accelerate financial reporting, eliminate internal control weaknesses, strengthen financial management systems and reduce erroneous payments.

To provide the Congress and the public with more timely information on the effectiveness of HUD's use of public funds, we accelerated the preparation and audit of HUD's annual financial statements and the issuance of the FY 2003 Performance and Accountability Report by six weeks. The year-end closeout and financial reporting process benefited from improved accounting discipline throughout the year, including monthly reconciliation of accounts and preparation of quarterly financial statements. In addition, we worked closely with our independent financial statement auditors from the Office of the Inspector General to schedule and support audit work throughout the year. Program staff also made necessary adjustments to program performance reporting cycles to meet the accelerated reporting goal. These efforts are a major step towards meeting the President's challenge for federal agencies to close and audit their books and complete year-end financial and performance reporting within 45 days after the end of the fiscal year, beginning in FY 2004.

As a further indicator of HUD's financial management stability, HUD received an unqualified audit opinion on its consolidated financial statements for the fourth consecutive year. Progress was also made in strengthening internal controls and financial management systems, as evidenced by a reduction in the number of auditor-reported material weakness issues from three to two, and in the number of other reportable conditions from ten to seven. Improvements were made in the Federal Housing Administration's (FHA) controls over property disposition and general and credit reform accounting, and in HUD controls over the distribution of public housing operating subsidies.

The successful implementation of a new general ledger system for FHA was a significant accomplishment in strengthening HUD's financial management controls and compliance with federal financial management systems requirements. The new FHA general ledger system replaced FHA's former commercial accounting system and enabled FHA to eliminate a material weakness and issue its audited financial statements for FY 2003 within 45 days after the end of the fiscal year. The remaining phases of the multi-year FHA Subsidiary Ledger Project will replace or provide integration to 19 program feeder systems to bring HUD's overall integrated financial management system into substantial compliance with federal financial management systems requirements by the end of FY 2006.

HUD also continued to implement corrective actions to address material weaknesses in its largest funded programs area – rental housing assistance – with measurable results towards the goal of a fifty percent reduction in erroneous assistance payments by the end of FY 2005. Based on a study of rental housing assistance program activity in the first half of FY 2003, the estimated gross annual erroneous payments attributed to program administrator processing errors was reduced 30 percent from the FY 2000 baseline of $2.2 billion to $1.5 billion. HUD will assess the risk of erroneous payments in other programs in FY 2004.

My staff and I look forward to continuing 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,

De W. Ritchie
Deputy 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; and
- 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, 2003 and 2002

(Dollars in Millions)

	2003	2002
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$76,458	$77,632
Investments (Note 5)	31,260	28,342
Accounts Receivable (Note 7)		3
Other Assets (Note 8)	4	
Total Intragovernmental Assets (Note 6)	$107,722	$105,977
Investments (Net) (Note 5)	123	
Accounts Receivable (Net) (Note 7)	569	785
Credit Program Receivables and Related		
Foreclosed Property (Net) (Note 9)	12,022	11,376
General Property Plant and Equipment (Net) (Note 10)	84	87
Other Assets (Note 8)	243	152
TOTAL ASSETS (Note 6)	$120,763	$118,377
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable	$0	$0
Debt (Note 12)	12,814	11,677
Other Intragovernmental Liabilities (Note 13)	6,029	7,769
Total Intragovernmental Liabilities (Note 11)	$18,843	$19,446
Accounts Payable	1,120	1,408
Loan Guarantees Liabilities (Note 9)	6,313	3,814
Debt Held by the Public (Note 12)	2,210	2,508
Federal Employee and Veterans' Benefits (Note 2)	85	81
Loss Reserves (Note 14)	519	539
Other Governmental Liabilities (Note 13)	1,044	1,038
TOTAL LIABILITIES (Note 11)	$30,134	$28,834
NET POSITION		
Unexpended Appropriations	$64,753	$65,407
Cumulative Results of Operations	25,876	24,136
TOTAL NET POSITION	90,629	89,543
TOTAL LIABILITIES AND NET POSITION	$120,763	$118,377

The accompanying notes are an integral part of these statements

Consolidating Statement of Net Cost
For the Period Ended September 2003

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing	Community Planning and Development	Other	Financial Statement Eliminations	Consolidated
COSTS:								
Federal Housing Administration Unsubsidized Program								
Intragovernmental	$583						($71)	$512
Intragovernmental Earned Revenues	(1,312)							(1,312)
Intragovernmental Net Costs	($729)	$0	$0	$0	$0	$0	($71)	($800)
With the Public	$3,679							$3,679
Earned Revenue With the Public	(445)							(445)
Net Costs With the Public	$3,234	$0	$0	$0	$0	$0		$3,234
Net Program Costs	$2,505						($71)	$2,434
Federal Housing Administration Subsidized Program								
Intragovernmental	$132							$132
Intragovernmental Earned Revenues	(106)							(106)
Intragovernmental Net Costs	$26	$0	$0	$0	$0	$0		$26
With the Public	($941)							($941)
Earned Revenue With the Public	(505)							(505)
Net Costs With the Public	($1,446)	$0	$0	$0	$0	$0		($1,446)
Net Program Costs	($1,420)							($1,420)
Government National Mortgage Association								
Intragovernmental		$0						$0
Intragovernmental Earned Revenues		($388)						(388)
Intragovernmental Net Costs	$0	($388)	$0	$0	$0	$0		($388)
With the Public		$68						$68
Earned Revenues		(411)						(411)
Net Costs With the Public	$0	($343)	$0	$0	$0	$0		($343
Net Program Costs		($731)						($731)
Section 8:								
Intragovernmental			$13	$35	$0			$48
Intragovernmental Earned Revenues								
Intragovernmental Net Costs	$0	$0	$13	$35	$0	$0		$48
With the Public			$13,423	$7,562	$3			$20,988
Earned Revenues								0
Net Costs With the Public	$0	$0	$13,423	$7,562	$3	$0		$20,988
Net Program Costs			$13,436	$7,597	$3			$21,036
Low Rent Public Housing Loans and Grants								
Intragovernmental			$160					$160
Intragovernmental Earned Revenues								
Intragovernmental Net Costs	$0	$0	$160	$0	$0	$0		$160
With the Public			$3,936					$3,936
Earned Revenues			(0)					
Net Costs With the Public	$0	$0	$3,936	$0	$0	$0		$3,936
Net Program Costs			$4,096					$4,096

The accompanying notes are an integral part of these statements

Consolidating Statement of Net Cost
For The Period Ended September 2003

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing	Community Planning and Development	Other	Financial Statement Eliminations	Consolidated
COSTS: (Continued):								
Operating Subsidies:								
Intragovernmental			$44					$44
Intragovernmental Earned Revenues								
Intragovernmental Net Costs	$0	$0	$44	$0	$0	$0		$44
With the Public			$3,462					$3,462
Earned Revenues								
Net Costs With the Public	$0	$0	$3,462	$0	$0	$0		$3,462
Net Program Costs			$3,506					$3,506
Housing for the Elderly and Disabled								
Intragovernmental				$228				$228
Intragovernmental Earned Revenues				0				0
Intragovernmental Net Costs	$0	$0	$0	$228	$0	$0		$228
With the Public				$1,026				$1,026
Earned Revenues				(637)				(637)
Net Costs With the Public	$0	$0	$0	$389	$0	$0		$389
Net Program Costs				$617				$617
Community Development Block Grants:								
Intragovernmental					$33			$33
Intragovernmental Earned Revenues								
Intragovernmental Net Costs	$0	$0	$0	$0	$33	$0		$33
With the Public					$5,582			$5,582
Earned Revenues								0
Net Costs With the Public	$0	$0	$0	$0	$5,582	$0		$5,582
Net Program Costs					$5,615			$5,615
HOME:								
Intragovernmental					$14			$14
Intragovernmental Earned Revenues								
Intragovernmental Net Costs	$0	$0	$0	$0	$14	$0		$14
With the Public					$1,625			$1,625
Earned Revenues								0
Net Costs With the Public	$0	$0	$0	$0	$1,625	$0		$1,625
Net Program Costs					$1,639			$1,639
Other:								
Intragovernmental			$32	$18	$33	$140		$223
Intragovernmental Earned Revenues			(2)	(2)	(3)	(72)	71	(8)
Intragovernmental Net Costs	$0	$0	$30	$16	$30	$68	$71	$215
With the Public			$800	$709	$1,536	$386		$3,431
Earned Revenues			($0)	(27)	(1)			(28)
Net Costs With the Public	$0	$0	$800	$682	$1,535	$386		$3,403
Net Program Costs			$830	$698	$1,565	$454	$71	$3,618
Costs Not Assigned to Programs			$208	$55	$156	$1		$420
NET COST OF OPERATIONS	$1,085	($731)	$22,076	$8,967	$8,978	$455	$0	$40,830

The accompany notes are an integral part of these statements

Consolidating Statement of Net Cost
For the Period Ended September 2002

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
COSTS:							
Federal Housing Administration Unsubsidized Program							
Intragovernmental Gross Cost	$516						$516
Intragovernmental Earned Revenue	(1,354)						(1,354)
Intragovernmental Net Costs	($838)	$0	$0	$0	$0	$0	($838)
Gross Costs With the Public	($1,084)						($1,084)
Earned Revenue With the Public	(678)						(678)
Net Costs With the Public	($1,762)	$0	$0	$0	$0	$0	($1,762)
Net Program Costs	($2,600)						($2,600)
Federal Housing Administration Subsidized Program							
Intragovernmental Gross Cost	$125						$125
Intragovernmental Earned Revenue	(107)						(107)
Intragovernmental Net Costs	$18	$0	$0	$0	$0	$0	$18
Gross Costs With the Public	($987)						($987)
Earned Revenue With the Public	(366)						(366)
Net Costs With the Public	($1,353)	$0	$0	$0	$0	$0	($1,353)
Net Program Costs	($1,335)						($1,335)
Government National Mortgage Association							
Intragovernmental Gross Cost							$0
Intragovernmental Earned Revenues		(399)					(399)
Intragovernmental Net Costs	$0	($399)	$0	$0	$0	$0	($399)
Gross Cost With the Public		$57					$57
Earned Revenues		(452)					(452)
Net Costs With the Public	$0	($395)	$0	$0	$0	$0	($395)
Net Program Costs		($794)					($794)
Section 8:							
Intragovernmental Gross Cost			$27	$26	$0		$53
Intragovernmental Earned Revenues							
Intragovernmental Net Costs	$0	$0	$27	$26	$0	$0	$53
Gross Cost With the Public			$11,385	$7,019	$17		$18,421
Earned Revenues			(175)	175			
Net Costs With the Public	$0	$0	$11,210	$7,194	$17	$0	$18,421
Net Program Costs			$11,237	$7,220	$17		$18,474
Low Rent Public Housing Loans and Grants							
Intragovernmental Gross Cost			$214				$214
Intragovernmental Earned Revenues							
Intragovernmental Net Costs	$0	$0	$214	$0	$0	$0	$214
Gross Cost With the Public			$4,038				$4,038
Earned Revenues							0
Net Costs With the Public	$0	$0	$4,038	$0	$0	$0	$4,038
Net Program Costs			$4,252				$4,252

The accompanying notes are an integral part of these statements

Consolidating Statement of Net Cost
For The Period Ended September 2002

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
COSTS: (Continued):							
Operating Subsidies:							
Intragovernmental Gross Cost			$33				$33
Intragovernmental Earned Revenues							
Intragovernmental Net Costs	$0	$0	$33	$0	$0	$0	$33
Gross Cost With the Public			$3,666				$3,666
Earned Revenues							
Net Costs With the Public	$0	$0	$3,666	$0	$0	$0	$3,666
Net Program Costs			$3,699				$3,699
Housing for the Elderly and Disabled							
Intragovernmental Gross Cost				$264			$264
Intragovernmental Earned Revenues				0			
Intragovernmental Net Costs	$0	$0	$0	$264	$0	$0	$264
Gross Cost With the Public				$898			$898
Earned Revenues				(646)			(646)
Net Costs With the Public	$0	$0	$0	$252	$0	$0	$252
Net Program Costs				$516			$516
Community Development Block Grants:							
Intragovernmental Gross Cost					$26		$26
Intragovernmental Earned Revenues							
Intragovernmental Net Costs	$0	$0	$0	$0	$26	$0	$26
Gross Cost With the Public					$5,417		$5,417
Earned Revenues							
Net Costs With the Public	$0	$0	$0	$0	$5,417	$0	$5,417
Net Program Costs					$5,443		$5,443
HOME:							
Intragovernmental Gross Cost					$14		$14
Intragovernmental Earned Revenues							
Intragovernmental Net Costs	$0	$0	$0	$0	$14	$0	$14
Gross Cost With the Public					$1,537		$1,537
Earned Revenues							
Net Costs With the Public	$0	$0	$0	$0	$1,537	$0	$1,537
Net Program Costs					$1,551		$1,551
Other:							
Intragovernmental Gross Cost			$39	$17	$54	$103	$213
Intragovernmental Earned Revenues			(1)	(4)	(2)		(7)
Intragovernmental Net Costs	$0	$0	$38	$13	$52	$103	$206
Gross Cost With the Public			$810	$687	$1,495	$232	$3,224
Earned Revenues				(27)	(2)		(29)
Net Costs With the Public	$0	$0	$810	$660	$1,493	$232	$3,195
Net Program Costs			$848	$673	$1,545	$335	$3,401
Costs Not Assigned to Programs			$208	$64	$130	$1	$403
NET COST OF OPERATIONS	($3,935)	($794)	$20,244	$8,473	$8,686	$337	$33,010

The accompanying notes are an integral part of these statements

Consolidated Statement of Changes in Net Position For the Period Ending September 2003 and 2002

(Dollars in Millions)

	2003		2002	
	Cumulative Results of Unexpended	Cumulative Results of Unexpended	Operations Appropriations	Operations Appropriations
Net Position-Beginning of Period	($24,136)	($65,407)	($18,250)	($63,305)
Prior Period Adjustments (Note 19)	(2)		5	(5)
Beginning Balances, As Adjusted	($24,138)	($65,407)	($18,245)	($63,310)
BUDGETARY FINANCING SOURCES				
Appropriations Received		(44,674)		(45,630)
Transfers In / Out		240		1,280
Other Adjustments (Recissions, etc)	24	1,889		1,717
Appropriations Used	(43,164)	43,199	(40,542)	40,536
Transfers In / Out Without Reimbursement	482		839	
Other Budgetary Financing Sources	20		8	
Other Financing Sources				
Donations and Forfeitures of Property				
Transfers In / Out Without Reimbursement	138		865	
Imputed Financing From Costs				
Absorbed From Others	(72)		(73)	
Other	4		2	
TOTAL FINANCING SOURCES	($42,568)	$654	($38,901)	($2,097)
Net Cost of Operations	40,830		33,010	
ENDING BALANCES	($25,876)	($64,753)	($24,136)	($65,407)

The accompanying notes are an integral part of these statements

Combined Statement of Budgetary Resources
For the Period Ended September 2003 and 2002

(Dollars in Millions)

	2003		2002	
	Budgetary	NonBudgetary Credit Program Financing Accounts	Budgetary	NonBudgetary Credit Program Financing Accounts
BUDGETARY RESOURCES:				
Budget Authority	$44,900	$2,890	$45,809	$3,925
Net Transfers, Current Year Authority	7		6	
Unobligated Balance-Beginning of Year	45,287	3,092	39,641	4,537
Net Transfers, Actual, Prior Year Balance			700	
Spending Authority from Offsetting Collections	8,072	12,405	10,281	10,237
Adjustments				
Recoveries of Prior Year Obligations	3,313	77	3,695	50
Permanently not available				
Cancellations-Expired and No Year Accts	(72)		(45)	
Enacted Recissions	(1,608)		(1,958)	
Capital Trans & Debt Redemption	(954)	(1,649)	(2,796)	(916)
Other Authority Withdrawn	(7,912)		(6,559	
TOTAL BUDGETARY RESOURCES	$91,033	$16,815	$88,774	$17,833
STATUS OF BUDGETARY RESOURCES:				
Obligations Incurred (Note 20)	$41,144	$15,671	$43,487	$14,740
Unobligated Balances Available	10,726	814	9,362	1,467
Unobligated Balances Not Available	39,163	330	35,925	$1,626
TOTAL STATUS OF BUDGETARY RESOURCES	$91,033	$16,815	$88,774	$17,833
Obligated Balance, Net-Beg of Period	$89,706	($98)	$94,000	($119)
Obligated Balance Transferred, Net				
Obligated Balance, Net - End of Period	80,663	921	89,706	(98)
OUTLAYS				
Disbursements	$46,880	$14,733	$44,216	$14,658
Collections	(8,078)	(12,562)	(10,410)	(10,226)
Subtotal	$38,802	$2,171	$33,806	$4,432
Less: Offsetting Receipts	(1,382)		(2,001)	
NET OUTLAYS	$37,420	$2,171	$31,805	$4,432

The accompanying notes are an integral part of these statements

Consolidated Statement of Financing
For the Year Ended September 2003 and 2002

(Dollars in Millions)

	2003	2002
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated		
Obligations Incurred	$56,815	$58,227
Less: Spending Authority from Offsetting Collections & Recoveries	(23,866)	(24,263)
Obligations Net of Offsetting Collections	$32,949	$33,964
Less: Offsetting Receipts	(1,381)	(2,001)
Net Obligations	$31,568	$31,963
Other Resources		
Transfers In/Out Without Reimbursement	(139)	(865)
Imputed Financing from Costs Absorbed by Others	72	73
Other Resources	(31)	6
Net Other Resources Used to Finance Activites	($98)	($786)
Total Resources Used to Finance Activities	$31,470	$31,177
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	$8,157	$4,199
Resources That Fund Expenses from Prior Periods	(3,556)	(6,261)
Budgetary Offsetting Collections and Receipts Not Affecting Net Cost of Operations	19,871	19,488
Resources Financing Acquistion of Assets	(15,652)	(10,335)
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	(701)	4
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$8,119	$7,095
Total Resources Used to Finance the Net Cost of Operations	$39,589	$38,272
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	$2
Reestimates of Credit Subsidy Expense	7,407	1,149
Exchange Revenue Receivable from the Public	(6,410)	(657)
Other	3	
Total Requiring/Generating Resources in Future Periods	$1,000	$494
Components Not Requiring/Generating Resources		
Depreciation and Amortization	$10	$13
Revaluation of Assets or Liabilities	522	(1,275)
Other	(291)	(4,494)
Total Components of Net Cost of Operation Not Requiring/Generating Resources	$241	($5,756)
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	$1,241	($5,262)
NET COST OF OPERATIONS	$40,830	$33,010

The accompanying notes are an integral part of these statements

Notes to Financial Statements
September 30, 2003 and 2002

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 home-buying public to promote homeownership and 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.

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- or very-low-income family can afford and the approved rent for an adequate housing unit.

Operating Subsidies are provided to Public Housing Authorities (PHAs) and Tribally Designated Housing Entities to help finance the operations and maintenance costs of their housing projects.

The **Community Development Block Grant** 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 a "Community Development Fund" for emergency expenses to respond to the September 11, 2002 terrorist attacks on the United States. Of the amounts appropriated, $649 million was expensed in FY 2003 and $312.5 million was expensed in FY 2002. Any remaining un-obligated balances shall remain available until expended.

The **Low Rent Public Housing Grants** program provides grants to PHAs 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 PHAs 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 comprise smaller programs that 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 homeownership. These programs constitute approximately 8.6 percent of HUD’s consolidated assets and 8.4 percent of HUD’s consolidated revenues and financing sources for FY 2003 and 9.1 percent of HUD’s consolidated assets and 8.2 percent of HUD’s consolidated revenues and financing sources for FY 2002.

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 the Office of Management and Budget (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 three 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

Ginnie Mae receives monthly guaranty fees for each Mortgage Backed Securities mortgage pool based on a percentage of the pool's outstanding balance. Fees received for Ginnie Mae's guaranty of Mortgage Backed Securities are recognized when earned. Ginnie Mae receives commitment fees as issuers request Commitment Authority and recognizes the commitment fees as income 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. Ginnie Mae recognizes as income the major portion of fees related to the issuance of multiclass securities in the period the fees are received, with the balance deferred and amortized over the weighted average life of the underlying mortgages to match the recognition of related administrative expenses. Losses on assets acquired through liquidation and claims against HUD/FHA and Veterans Affairs are recognized when they occur.

D. Appropriations and Moneys 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 composed 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, as a result of Credit Reform, cash collected on insurance endorsed on or after October 1, 1991, is no longer available to invest in U.S. Government securities, and may only be used to finance claims arising from insurance endorsed during or after FY 1992. FHA may have to liquidate its U.S. Government securities before maturity to finance claim payments from pre-FY 1992 insurance endorsements. However, management does not expect early liquidation of any U.S. Government Securities and believes it has the ability to hold these securities to maturity.

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 HUD 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 fiscal 2003, 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 Liability 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 Liability for Loan Guarantees is computed using the net realizable value method. The Liability 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 Liability for Loan Guarantees for pre-Credit Reform multifamily insured mortgages includes estimates for defaults that are considered probable but have not been reported to FHA.

H. Full Cost Reporting

Beginning in fiscal 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 $85 million as of September 30, 2003 and $81 million as of September 30, 2002. 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 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 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. Under the Civil Service Retirement System, employees can contribute up to 8 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 FY 2003 and 2002 was $68 million and $71 million, respectively.

L. Federal Employee and Veterans' Benefit

The Department's 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. Federal Employee and Veterans' benefit expenses totaled approximately $125 million for FY 2002; this amount includes $31 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. Reclassifications

In FY 2003, FHA classified rent receivables related to foreclosed properties as part of Accounts Receivable. Prior to FY 2003, these receivables were included as part of Loans Receivable and Related Foreclosed Property, Net. The FY 2002 line items that are affected have been reclassified to conform to the FY 2003 presentation. This change in classifications has no effect on previously reported net position.

Additionally, in FY 2003, FHA classified the General Insurance/Special Risk Insurance special receipt account liability as Other Liabilities, Intragovernmental. Prior to FY 2003, this liability was presented as Accounts Payable, Intragovernmental. The FY 2002 line items affected by this reclassification have been adjusted to conform to the FY 2003 presentation. This change has no effect on previously reported net position.

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, 2003 and 2002, were as follows (dollars in millions):

Description	2003	2002
Revolving Funds	$ 8,012	$ 9,488
Appropriated Funds	64,647	64,359
Trust Funds	6	8
Other	3,793	3,777
TOTAL - FUND BALANCE	$ 76,458	$ 77,632

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

HUD's fund balances with U.S. Treasury as reflected in the entity's general ledger as of September 30, 2002 were as follows:

	Unobligated			
Description	Available	Unavailable	Obligated Not Yet Disbursed	Total Fund Balance
FHA	$ 2,091	$ 5,434	$ 2,072	$ 9,597
GNMA	–	2,509	–	2,509
Section 8 Rental Assistance	1,737	10	16,632	18,379
CDBG	1,756	30	11,413	13,199
HOME	257	–	4,669	4,926
Operating Subsidies	–	26	1,660	1,686
Low Rent Public Housing Loans and Grants	866	23	8,811	9,700
Section 202/811	2,501	42	4,764	7,307
All Other	2,633	519	7,177	10,329
TOTAL	$ 11,841	$ 8,593	$ 57,198	$ 77,632

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 FY 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, 2003 (dollars in millions):

	Commitments Funded Through			
Programs	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.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2002 (dollars in millions):

	Commitments Funded Through			
Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collection	Total Contractual Commitments
Section 8 Rental Assistance	$ 16,371	$ 21,290	–	37,661
Community Development Block Grants	11,382	–	–	11,382
HOME Partnership Investment Program	4,660	–	–	4,660
Operating Subsidies	1,590	–	–	1,590
Low Rent Public Housing Grants and Loans	8,600	–	–	8,600
Housing for Elderly and Disabled	4,636	–	–	4,636
Section 235/236	215	8,012	–	8,227
All Other	6,770	48	$ 128	6,946
TOTAL	$ 54,224	$ 29,350	$ 128	$ 83,702

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2002, $28.9 billion relates to project-based commitments, and $8.7 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 that 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, 2003 (dollars in millions):

	Administrative Commitments Funded Through			
Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collection	Total Reservations
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

The following shows HUD's administrative commitments as of September 30, 2002 (dollars in millions):

Programs	Administrative Commitments Funded Through: Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collection	Total Reservations
Section 8 Rental Assistance Project-Based	278	0	0	278
Section 8 Rental Assistance Tenant-Based	3	–	–	3
Community Development Block Grants	1,484	–	–	1,484
HOME Partnership Investment Program	229	–	–	229
Low Rent Public Housing Grants and Loans	747	–	–	747
Housing for Elderly and Disabled	2,310	–	–	2,310
All Other	554	$ 11	$ 3	568
TOTAL	$ 5,605	$ 11	$ 3	$ 5,619

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 FY 2003 ranged from .95 percent to 13.88 percent. During FY 2002 interest rates ranged from 3 percent to 13.88 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2003 and 2002, were as follows (dollars in millions):

	Cost	Par Value	Unamortized Premium (Discount)	Accrued Interest	Net Investments	Unamortized Gain	Market Value
FY 2003	$ 30,857	$ 31,064	$ (143)	$ 339	$ 31,260	$ 1,639	$ 32,899
FY 2002	$ 27,845	$ 28,209	$ (194)	$ 327	$ 28,342	$ 2,208	$ 30,550

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 FY 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 2003	$ –	$ 133	$ 4	$ (14)	$ –	$ 123
FY 2002	$ –	$ –	$ –	$ –	$ –	$ –

The condensed, audited financial information related to these private-sector entities for the period from inception to June 30, 2003 is summarized below (dollars in millions):

	2003	2002
Total assets, primarily mortgage loans	$ 323	$ –
Liabilities	$ –	$ –
Partners' capital	323	
TOTAL LIABILITIES AND PARTNERS'S CAPITAL	$ 323	$ –
Revenues	$ 24	$ –
Expenses	(2)	–
NET INCOME	$ 22	$ –

NOTE 6 – Entity and Non-Entity Assets

The following shows HUD's assets as of September 30, 2003 and 2002, were as follows (dollars in millions):

	2003			2002		
Description	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Intragovernmental						
Fund Balance with Treasury	$ 74,736	$ 1,722	$ 76,458	$ 75,477	$ 2,155	$ 77,632
Investments	31,256	4	31,260	28,340	2	28,342
Accounts Receivable	–	–	–	–	3	3
Other Assets	4	–	4	–	–	–
TOTAL INTRAGOVERNMENTAL ASSETS	$ 105,996	$ 1,726	$ 107,722	$ 103,817	$ 2,160	$ 105,977
Investments	123		123			
Accounts Receivable (net)	435	134	569	595	190	785
Loan Receivables and Related Foreclosed Property (net)	12,022	–	12,022	11,369	7	11,376
General Property Plant and Equipment (net)	84	–	84	87	–	87
Other Assets	120	123	243	29	123	152
TOTAL ASSETS	$ 118,780	$ 1,983	$ 120,763	$ 115,897	$ 2,480	$ 118,377

NOTE 7 - Accounts Receivable

The Department's accounts receivable represents claims to cash from the public and state and local authorities for bond refundings, 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 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, 2003 and 2002 this amount totaled $253 million and $229 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 (PHAs 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, 2003 and 2002, HUD was due $134 million and $189 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, 2003 and 2002, as follows (dollars in millions):

	FY 2003			FY 2002		
Description	Gross Accounts Receivable	Allowance for Loss	Total	Gross Accounts Receivable	Allowance for Loss	Total
Section 8 Settlements	$ 253	–	$ 253	$ 229	$ –	$ 229
Bond Refundings	144	$ (11)	133	200	(11)	189
Other Receivables:						
FHA Premiums	27	–	27	208	–	208
Other Receivables	250	(94)	156	245	(83)	162
TOTAL	$ 674	$ (105)	$ 569	$ 882	$ (94)	$ 788

NOTE 8 - Other Assets

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

The following shows HUD's Other Assets as of September 30, 2002 (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	–	–	–	–	–
TOTAL INTRAGOVERNMENTAL ASSETS	–	–	–	–	–
Receivables Related to Asset Sales	–	–	–	–	–
Receivables Related to Credit Program Assets	–	–	–	–	–
GNMA Real Estate Owned Property and Hole Mortgages	–	$ 10	–	–	$ 10
Equity Interest in Multifamily Mortgage Trust 1996	–	–	–	–	–
Premiums Receivable	–	–	–	–	–
Mortgagor Reserves for Replacement - Cash	$ 123	–	–	–	123
Advances from the Public	–	–	–	$ 4	4
Other Assets	15	–	–	–	15
TOTAL	$ 138	$ 10	$ –	$ 4	$ 152

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 uncollectable 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 FY 2003 and 2002 were as follows:

A. List of HUD's Direct Loan and/or Loan Guarantee Programs:

1. FHA
2. Ginnie Mae
3. Housing for the Elderly and Disabled
4. Low Rent Public Housing Loan Fund
5. All Other
    a) Revolving Fund
    b) Flexible Subsidy
    c) Community Development Block Grant Section 108(b)
    d) Public and Indian Loan Guarantee
    e) Loan Guarantee Recovery Fund
    f) Public and Indian Housing Loan Fund
    g) Hawaiian Home Guarantee Loan Fund
    h) Title VI Indian Housing Loan Guarantee

B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) (dollars in millions):

	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

	2002				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	$ 27	–	$ (9)	–	$ 18
Housing for Elderly and Disabled	7,646	$ 88	(19)	$ 9	7,724
Low Rent Public Housing Loans	2	2	–	–	4
All Other	811	54	(588)	2	279
TOTAL	$ 8,486	$ 144	$ (616)	$ 11	$ 8,025

C. Direct Loans Obligated After FY 1991 (dollars in millions):

	2003				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	–	–	$ (3)	–	$ (3)

	2002				
Direct Loan Programs	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):

	2003				
Direct Loan Programs	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

	2002				
Direct Loan Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA	$ 2,301	$ 107	$ (983)	$ 199	$ 1,624

E. Defaulted Guaranteed Loans From Post-FY 1991 Guarantees (dollars in millions):

	2003				
Direct Loan Programs	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
All Other	–	–	–	–	–
TOTAL	$ 816	$ 48	$ (1,527)	$ 3,193	$ 2,530

	2002				
Direct Loan Programs	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	$ 817	$ 23	$ (1,455)	$ 2,344	$ 1,729
All Other	–	–	–	1	1
TOTAL	$ 817	$ 23	$ (1,455)	$ 2,345	$ 1,730

	2003	**2002**
Total Credit Program Receivables and Related Foreclosed Property, Net	**$12,022**	**11,376**

F. Guaranteed Loans Outstanding (dollars in millions):

Guaranteed Loans Outstanding:

	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

	2002	
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$ 608,089	$ 563,379
All Other	2,232	2,232
TOTAL	$ 610,321	$ 565,611

New Guaranteed Loans Disbursed (Current Reporting Year)

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

New Guaranteed Loans Disbursed (Prior Reporting Years)

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$ 112,710	$ 110,642
All Other	149	149
TOTAL	$ 112,859	$ 110,791

G. Liability for Loan Guarantees (Estimated Future Default Claims, Pre-1992) (dollars in millions):

	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

	2002		
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	$ 5,088	$ (1,327)	$ 3,761
All Other	–	53	53
TOTAL	$ 5,088	$ (1,274)	$ 3,814

H. Subsidy Expense for Post-FY 1991 Loan Guarantees:

Subsidy Expense for Current Year Loan Guarantees (dollars in millions)

	2003				
Loan Guarantee Programs	Endorsement Amount	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)

	2002				
Loan Guarantee Programs	Endorsement Amount	Default Component	Fees Component	Other Component	Subsidy Amount
FHA	–	$ 2,517	$ (5,964)	$ 258	$ (3,189)
All Other	–	14	–	–	14
TOTAL	–	$ 2,531	$ (5,964)	$ 258	$ (3,175)

Modification and Re-estimates (dollars in millions)

	2003			
Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
FHA	–	–	$ 6,298	$ 6,298
Total	–	–	$ 6,298	$ 6,298

	2002			
Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
FHA	–	–	$ 951	$ 951
TOTAL	–	–	$ 951	$ 951

Total Loan Guarantee Subsidy Expense (dollars in millions)

Loan Guarantee Programs	Current Year	Prior Year
FHA	$ 2,447	$ (2,238)
All Other	10	15
TOTAL	$ 2,457	$ (2,223)

I. Subsidy Rates for Loan Guarantees by Programs and Component:

Budget Subsidy Rates for Loans Guarantee for FY 2003

Loan Guarantee Program	Default	Fees and Other Collections	Other	Total
FHA				
FHA	1.55%	-4.08%	0.00%	-2.53%
FHA- Other	4.75%	-5.88%		-1.13%
ALL OTHER				
Section 108 (b)	2.30%			2.30%
Indian Housing	2.43%			2.43%
Hawaiian Home	2.43%			2.43%
Title VI Indian Housing	11.07%			11.07%

The subsidy rates above pertain only to FY 2003 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 2003	FY 2002
Beginning balance of the loan guarantee liability	$ 3,814	$ 6,090
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	–	–
(b) Default costs (net of recoveries)	2,770	2,530
(c) Fees and other collections	(7,092)	(5,964)
(d) Other subsidy costs	479	258
Total of the above subsidy expense components	$ (3,843)	$ (3,176)
Adjustments:		
(a) Loan guarantee modifications	–	–
(b) Fees Received	3,085	2,946
(c) Interest supplemental paid		
(d) Foreclosed property and loans acquired	6,526	3,314
(e) Claim payments to lenders	(8,933)	(5,890)
(f) Interest accumulation on the liability balance	(323)	(150)
(g) Other	235	(134)
Ending balance of the subsidy cost allowance before reestimates	$ 561	$ 3,000
Add or Subtract subsidy reestimates by component:		
(a) Interest rate reestimate	–	–
(b) Technical / default reestimate	5,752	814
Total of the above reestimate components	5,752	814
ENDING BALANCE OF THE SUBSIDY COST ALLOWANCE	$ 6,313	$ 3,814

K. Administrative Expense (dollars in millions):

Loan Guarantee Program	FY 2003	FY 2002
FHA	$ 447	$ 511
All Other	1	1
TOTAL	$ 448	$ 512

NOTE 10 – General Property Plant and Equiptment

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 an asset and depreciated over their estimated useful life on a straight-line 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, 2003 and 2002, (dollars in millions):

	FY 2003			FY 2002		
Description	Cost	Accumulated Depreciation and Amortization	Book Value	Cost	Accumulated Depreciation and Amortization	Book Value
Furniture, Fixtures, and Equipment	$ 46	$ (20)	$ 26	$ 61	$ (43)	$ 18
Data Processing Software	6	(4)	2	6	(2)	4
Internal Use Software	71	(15)	56	72	(9)	63
Other Property Plant and Equipment	–	–	–	2	–	2
TOTAL ASSETS	$ 123	$ (39)	$ 84	$ 141	$ (54)	$ 87

NOTE 11 – Liabilities Covered and Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2003 and 2002 (dollars in millions):

	2003			2002		
Description	Covered	Not-Covered	Total	Covered	Not-Covered	Total
Intragovernmental						
Accounts Payable	$ –	$ –	$ –	$ –	$ –	$ –
Debt	11,681	$ 1,133	12,814	10,465	$ 1,212	11,677
Other Intragovernmental Liabilities	1,738	4,291	6,029	3,371	4,398	7,769
TOTAL INTRAGOVERNMENTAL LIABILITIES	$ 13,419	$ 5,424	$ 18,843	$ 13,836	$ 5,610	$ 19,446
Accounts Payable	1,120	–	1,120	1,408	–	1,408
Liabilities for Loan Guarantees	6,313	–	6,313	3,814	–	3,814
Debentures Issued to Claimants	–	–	–	–	–	–
Loss Reserves	519	–	519	539	–	539
Debt	294	1,916	2,210	318	2,190	2,508
Federal Employee and Veterans' Benefits	–	85	85	–	81	81
Other Liabilities	977	67	1,044	974	64	1,038
TOTAL LIABILITIES	$ 22,642	$ 7,492	$ 30,134	$ 20,889	$ 7,945	$ 28,834

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, PHAs 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 PHAs and Tribally Designated Housing Entities.

The following shows HUD borrowings, and borrowings by PHAs/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

The following shows HUD borrowings, and borrowings by PHAs/Tribally Designated Housing Entities for which HUD is responsible for repayment, as of September 30, 2002 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$ 1,430	$ (76)	$ 1,354
Held by the Public	2,720	(212)	2,508
Total Agency Debt	$ 4,150	$ (288)	$ 3,862
Other Debt:			
Debt to the U.S. Treasury	$ 7,797	$ 2,521	$ 10,318
Debt to the Federal Financing Bank	8	(3)	5
Total Other Debt	$ 7,805	$ 2,518	$ 10,323
TOTAL DEBT	$ 11,955	$ 2,230	$ 14,185
Classification of Debt:			
Intragovernmental Debt			$ 11,677
Debt held by the Public			2,508
Debentures Issued to Claimants			–
TOTAL DEBT			$ 14,185

Interest paid on borrowings during the year ended September 30, 2003 and 2002, were $1.1 billion and $1.0 billion, respectively. 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 9.17 percent during FY 2003 and 8.69 percent to 9.17 percent for FY 2002.

In FY 2003 and 2002, FHA borrowed $2.9 billion and $3.9 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 funds financing account; downward re-estimates have occurred from activity of the FHA's loan guarantee financing accounts. These borrowings carried interest rates ranging from 4.76 percent to 7.36 percent during FY 2003 and from 5.47 percent to 7.59 percent during FY 2002.

Borrowings from the Federal Financing Bank and the Public

During the 1960s, 1970s, and 1980s, PHAs 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 PHAs, 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 2003 and from 2.25 percent to 6.0 percent during FY 2002. The borrowings from the Federal Financing Bank and the private sector have terms up to 40 years. Federal Financing Bank interest is payable annually on November 1. Interest rates range from 10.67 percent to 16.18 percent during both FY 2003 and 2002.

Before July 1, 1986, the Federal Financing Bank 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 13.38 percent for FY 2003 and 2002 and from 4.00 percent to 12.88 percent in FY 2002. 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, 2003 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Payable from Unapplied Receipts Recorded by Treasury	–	–	–
Special Receipt Account Liability	–	$ 1,510	$ 1,510
HUD-Section 312 Rehabilitation Program Payable	–	–	–
Unfunded FECA Liability	–	17	17
Resource Payable to Treasury	$ 4,291	–	4,291
Miscellaneous Receipts Payable to Treasury	209	–	209
Deposit Funds	–	–	–
Other Liabilities	–	2	2
TOTAL INTRAGOVERNMENTAL LIABILITIES	$ 4,500	$ 1,529	$ 6,029
Other Liabilities			
FHA Other Liabilities	–	$ 218	$ 218
FHA Escrow Funds Related to Mortgage Notes	–	240	240
FHA Unearned Premiums	–	–	–
Ginnie Mae Deferred Income	–	150	150
Deferred Credits	232	50	282
Deposit Funds	32	27	59
Accrued Unfunded Annual Leave	67	–	67
Accrued Funded Payroll Benefits	28	–	28
Other	–	–	–
TOTAL OTHER LIABILITIES	$ 4,859	$ 2,214	$ 7,073

Special Receipt Account Liability

The special receipt account liability is created from negative subsidy endorsements and downward credit subsidy in the General Insurance/Special Risk Insurance special receipt account.

The following shows HUD's Other Liabilities as of September 30, 2002 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Payable from Unapplied Receipts Recorded by Treasury	–	–	–
Special Receipt Account Liability	–	$ 3,095	$ 3,095
HUD-Section 312 Rehabilitation Program Payable	–	–	–
Unfunded FECA Liability	–	17	17
Resource Payable to Treasury	$ 4,381	–	4,381
Miscellaneous Receipts Payable to Treasury	273	–	273
Other Liabilities	–	3	3
TOTAL INTRAGOVERNMENTAL LIABILITIES	$ 4,654	$ 3,115	$ 7,769
Other Liabilities			
FHA Other Liabilities	–	$ 189	$ 189
FHA Escrow Funds Related to Mortgage Notes	–	269	269
FHA Unearned Premiums	–	–	–
Ginnie Mae Deferred Income	–	65	65
Deferred Credits	318	66	384
Deposit Funds	12	31	43
Accrued Unfunded Annual Leave	64	–	64
Accrued Funded Payroll Benefits	24	–	24
Other	–	–	–
TOTAL OTHER LIABILITIES	$ 5,072	$ 3,735	$ 8,807

NOTE 14 - Loss Reserves

For FY 2003 and 2002, Ginnie Mae established loss reserves of $519 million and $539 million, respectively, which 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, 2003 and 2002 was $535 billion and $608 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 Veterans 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, 2003 and 2002, was approximately $473.9 billion and $568.4 billion, respectively. However, Ginnie Mae's potential loss is considerably less because the FHA and Rural Housing Service insurance and Veteran 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, 2003 and 2002 were $46.4 billion and $43.2 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 FY 2003 and 2002, Ginnie Mae issued a total of $106.1 billion and $122.9 billion respectively in its multi-class securities program. The estimated outstanding balance at September 30, 2003 and 2002, were $182.9 billion and $214.4 billion, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the Mortgage Backed Securities program.

C. Section 108 Loan Guarantees

Under HUD's Section 108 Loan Guarantee program, recipients of Community Development Block Grant 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, 2003 and 2002, were $2.2 billion and $2.0 billion, respectively. HUD's management believes its exposure in providing these loan guarantees is limited, since loan repayments can be offset from future Community Development Block Grant 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

Lawsuits and Other

HUD is party in various legal actions and claims brought against it. In the opinion of HUD's management and General Counsel, the ultimate resolution of these legal actions and claims will not materially affect HUD's financial position or results of operations for the fiscal year ended September 30, 2003 and 2002. Payments made out of the Claims, Judgments and Relief Acts Fund in settlement of the legal proceedings are subject to the Department of Justice's approval.

Forty-two multifamily housing projects owners filed a case alleging that the United States effected breaches of contract by enacting the Emergency Low-Income Housing Preservation Act of 1987 and the Low-Income Housing Preservation and Resident Homeownership Act of 1990. The plaintiffs claim that these acts prevented them from prepaying their mortgages 20 years after mortgage-insurance endorsement, or alternatively, that the Low-Income Housing Preservation and Resident Homeownership Act of 1990 effected regulatory takings of their properties. There are nine other still-pending actions in the Court of Federal Claims, involving an additional 199 plaintiff project owners, raising identical claims. More than a dozen other Low-Income Housing Preservation and Resident Homeownership Act of 1990 cases, involving some 500-plaintiff project owners, have been previously dismissed.

The Court of Federal Claims ruled that the project owners' mortgage contracts had in fact been breached by implementation of the Emergency Low-Income Housing Preservation Act of 1987 and the Low-Income Housing Preservation and Resident Homeownership Act of 1990, and held a trial in November 1996 to determine damages, if any, with respect to that claim. The court awarded $3,061,107 in damages to the Plaintiffs for four "test" properties jointly selected by the parties. The United States appealed this judgment. On December 7, 1998, the United States Court of Appeals for the Federal Circuit reversed the judgment of the Court of Federal Claims, holding that the Emergency Low-Income Housing Preservation Act of 1987 and the Low-Income Housing Preservation and Resident Homeownership Act of 1990 did not breach contract between the plaintiffs and HUD. The Federal Circuit remanded the action to the Court of Federal Claims for consideration of the plaintiffs' takings claim. On March 11, 1999, the Federal Circuit denied rehearing and declined rehearing en banc. On October 4, 1999, the United States Supreme Court denied certiorari.

On June 12, 2003, the Federal Circuit, once again reversing the lower court, held that the Low-Income Housing Preservation and Resident Homeownership Act of 1990 and the Emergency Low-Income Housing Preservation Act of 1987 had effected regulatory takings. The Court went on to hold that the amount that had been awarded the four "Model Plaintiffs" in the original damages judgment entered in the earlier breach of contract damages trial "be reinstated in the amount awarded therein for each of the four Model Plaintiffs." With respect to the remaining 38 non-model plaintiffs, the Court remanded the case " for the trial court to develop an appropriate record and to rule on liability, and if liability is found, also damages." The United States is currently reviewing whether to seek review en banc in the Federal Circuit and or certiorari in the United States Supreme Court. The United States intends to continue to vigorously defend all the Low-Income Housing Preservation and Resident Homeownership Act of 1990 cases and is unable to form a judgment regarding the outcome with absolute certainty.

Another case was filed for breach of contract by two Corporations controlled by an individual and 20 partnerships in which he and/or the two corporations are general partners stemming from a so-called "Repayment Agreement" between HUD and them, executed on August 25,1994. Plaintiffs allege that HUD was contractually bound to process Section 241(f) "equity loans" (an incentive offered to multifamily project owners under the Low-Income Housing Preservation and Resident Homeownership Act of 1990 for 26 properties identified in Schedule D of the Repayment

Agreement. Plaintiffs claim that HUD's 1997 Appropriations Act effectively modified the Repayment Agreement, by replacing HUD's authorization to provide Section 241(f) loans (which was repealed) with an obligation to provide capital (direct) loans for the 26 properties identified on Schedule D of the Agreement by specifically earmarking a $ 75 million appropriation to HUD for that purpose. Plaintiffs claim HUD breached its contractual obligation by failing to provide capital (direct) loans for 20 of the 26 properties identified in Schedule D of the Agreement.

An answer was filed by the United States in January 2003, and extensive discovery ensued. Both the plaintiffs and the United States moved for summary judgment in April 2003. On November 25, 2003, the Court ruled on the parties' cross-motions for summary judgment on liability. The Court denied HUD's motion and granted Plaintiff's partial summary judgment on liability. The Court agreed with HUD's primary arguments, namely that the 1997 Appropriations Act did not breach the parties' contract (Repayment Agreement), and that the Act's purpose was public and general and thus was a "sovereign act" that neither party anticipated or provided for in their contract. Notwithstanding, the Court agreed with Plaintiffs' argument that HUD had offered a modification to the Repayment Agreement when it made $25 million in capital (direct) loans available to Plaintiff and Plaintiff accepted the capital (direct) loans as complying with the contract. Consequently, according to the Court, although Congress gave HUD discretion to allocate the carve out funds among various programs; this discretion did not authorize HUD to breach a contract to which it was already a party. The court has retained jurisdiction to decide the damages issue. Plaintiffs' most current estimation of damages for breach of contract is $33 million. The United States intends to continue to vigorously defend this case, and is unable at this time to form a judgment regarding the outcome.

Finally, a former HUD Contractor has filed a lawsuit in the Court of Federal Claims asserting that the Department misappropriated its intellectual property in connection with its performance of annual financial statements contracts it held between 1990-1994. A HUD contracting officer denied its claims, totaling $62.5 million, and the contractor then filed its suit.

The parties have filed briefs in support of cross motions for summary judgment. In its motion, HUD argues that, even viewed in a light most favorable to the corporation, HUD is entitled to summary judgment as to all of the corporation's claims. The corporation takes a different position. It argues that, viewing the facts in a light most favorable to HUD, the corporation has proven its entitlement as to some of its claims and is entitled to summary judgment on those claims. As for the other claims, the corporation argues that the issues cannot be determined by summary judgment, and it is entitled to present its case at trial. After completing significant discovery, the parties sought to have the case decided by Summary Judgment. HUD filed a motion for Summary Judgment requesting disposal of the case in its entirety. The Corporation filed a motion for partial Summary Judgment and the parties engaged in back and forth briefing. The parties are now awaiting either a ruling from the judge or a request by the judge for oral argument. HUD will continue to vigorously defend this case, and is unable to form a judgment regarding the outcome with absolute certainty.

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 types of rental housing assistance payment errors, consisting of errors in: 1) program administrator income and rent determinations, 2) tenant reporting of income, and 3) processing of program administrator billings for assistance payments. Error estimates for each of these three components are provided in the captioned sections below. A study covering the first half of FY 2003 was used to update the 2000 baseline measurement of errors in program administrator income and rent determinations. The independent source of income data needed to do the income matching to determine tenant income reporting errors for the 2003 sample will not be available until the latter part of 2004, so the 2000 baseline estimates on that component continue to be reported. The preliminary 2000 baseline estimate for the third component, billing error, underwent further review and adjustment this period, but the results are still not considered conclusive, pending expansion of the billing study methodology to cover all possible allowable program activity. An updated set of acceptable billing studies will be performed in 2004, on FY 2003 activity, to complete a comprehensive erroneous payments estimate on FY 2003 activity for reporting in the FY 2004 financial statements.

Program Administrator Income and Rent Determinations

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. Policy Development and Research's methodology 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 calculations for a representative sample of 2,403 households receiving assistance at 600 projects. The 2003 study to update these estimates used the same methodology, sampling procedures, and sample sizes. The 2003 study shows a significant reduction in erroneous payments attributed to program administrator income and rent determinations, as reflected in the following table:

	FY 2003 Estimates of Errors In Program Administrator Income and Rent Determinations*				FY 2000 Estimates*	Percent Reduction
Rental Assistance Programs	Assistance Over-payments	Assistance Under-payments	Net Erroneous Payments	Gross Erroneous Payments	Gross Erroneous Payments	In Gross Erroneous Payments
Public Housing	$248,544	$107,496	$141,048	$356,040	$631,776	43.6%
Vouchers & Mod Rehab	$470,784	$326,724	$144,060	$797,508	$1,132,560	29.6%
Total PHA Administered	$719,328	$434220	$285,108	$1,153,548	$1,764,336	34.6%
Project-based Assistance	$267,672	$128,124	$139,548	$395,796	$539,160	26.6%
TOTAL	$987,000 (+/-$208,000)	$562,344 (+/-$287,000)	$424,656 (+/-$184,000)	$1,549,344 (+/-$229,000)	$2,303,496 (+/-$275,000)	32.7%

** All values are presented in thousands.*

Tenant Reporting of Income

The estimate of assistance overpayments attributed to tenant underreporting of income is based on a sample of 2,403 households assisted in 2000. These tenants had all been asked detailed questions about all sources of income. These responses were compared with earned and unearned household income from Social Security Administration and Internal

Revenue Service databases. Identified cases of possible undisclosed income sources were verified with employers. The additional sources of income were also examined to determine if the additional income found would affect the computation of the correct HUD rental assistance amount, or if the income discrepancies were attributed to other causes not affecting the assistance amount (e.g., data entry errors in any of the systems involved in the matching process, timing differences in the income data being considered, or tenant income excluded by program regulation). Validated income discrepancies were further assessed against the original program administrator error estimates for these sample cases to eliminate any duplication. Based on the results of this review, the Department projects, with 95 percent confidence, that the amount of assistance overpayments attributed to intentional tenant underreporting of income was $978 million +/- $247 million.

Program Administrator Billings

As part of HUD's continuing efforts to improve management of its rental housing assistance programs, two reviews of billing errors were conducted during 2002. One review related to the Office of Public and Indian Housing's voucher program and the other to the Office of Housing's project-based assistance. The purpose of these reviews was to determine, on a sample basis, whether HUD assistance was billed and disbursed in accordance with HUD policies and regulations. Data for a randomly selected sample of 50 projects were collected for each program area. FY 2000 records were selected to permit use of reconciled statements and bills, which also served to maintain consistency with HUD's other 2000 baseline error estimates. The distribution of the sampled projects matched well with that of the respective program universe. Ten tenant files were selected for each project in the sample. The preliminary baseline results for each program area were as follows:

Office of Public and Indian Housing: The original review projected assistance underpayments totaling an estimated $121 million and assistance overpayments totaling an estimated $99 million, with a possible additional estimated $1,267 million of erroneous payments due to the 24 percent of sampled cases that did not have the expected documentation to support the validity of the billings. Program management questioned the study results and whether the reviewers had sufficient program knowledge to properly recognize program policy, accounting and record keeping nuances that might provide acceptable explanations for many of the originally perceived errors and unaccepted documentation. Program experts were sent to perform additional fieldwork at 10 of the sampled PHA's that formed the basis for $1,044 million of the total projected billing errors and unsupported amounts. As a result of the additional review by program experts, the amount in question was reduced by 89 percent to $138 million in estimated error. Program staff also performed desk reviews of sample case files for an additional 10 PHAs representing another $115 million in projected erroneous or unsupported billings and found acceptable case material to warrant a 33 percent reduction in the estimated error to $77 million. Program staff did not review the case support for 28 other sampled PHAs associated with $289 million in additional projected errors or unsupported billings, but it is likely that downward adjustments to those cases would have followed a similar pattern to cases that were subjected to further review. Given the questionable and incomplete nature of the original Public and Indian Housing billing study, the results are considered inconclusive and unacceptable as a baseline error measurement. In FY 2004, Public and Indian Housing plans to develop and implement a more detailed billing study methodology, with improved training for reviewers, to establish a valid baseline of billing error in the public housing, voucher and mod rehab programs.

Office of Housing: Based on the 95 percent of sampled cases with all required supporting documentation, estimated assistance underpayments totaled $14.7 million and assistance overpayments totaled $22.8 million, for a net assistance overpayment estimate of $8.1 million attributed to billing errors. The relatively small size of these errors resulted in a relatively large 95 percent estimate confidence interval of plus/minus $0.9 million for the net error estimate. Regarding the 5 percent of sampled cases with missing tenant assistance determinations or billing records, the full value of the projected assistance associated with such cases is estimated at $72 million. This estimate has a 95 percent confidence interval of plus/minus $0.6 million. While the full amount of this estimate could be counted as process error because the required supporting documentation was not readily available or explainable, further review would be necessary to determine how much, if any, of this additional $72 million estimate actually represents a valid payment error versus a program administration or record keeping deficiency.

Combined 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)	$356	$797	$396	$1,549
Error Due To Tenant Under-reporting Of Income (2000)	$294	$418	$266	$978
Billing Error (Baseline to be established in FY 2004)	–	–	–	–
TOTAL GROSS ERROR	$650	$1,215	$662	$2,527
FY 2003 Program Expenditures	$3,435	$13,409	$7,737	$24,581
Percent of Erroneous Payments	18.9	9.0	8.6	10.3

** All values are presented in millions.*

Corrective Actions

HUD has taken aggressive steps to address the causes of erroneous assistance payments, including extensive on-site monitoring. It is also instituting additional controls, such as validating tenant reported income against state wage data, to better assure that payments are made in the correct amounts, in accordance with program statutory and regulatory requirements. HUD's goal is to reduce processing errors and resulting erroneous payments 50 percent by 2005. The 2003 study of administrator processing error shows significant progress in meeting this goal. HUD exceeded its interim 2003 goal of a 15 percent reduction in that component of error since 2000. 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 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

The following shows HUD's total cost and earned revenue by budget functional classification for FY 2002 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 896	$ 1,860	$ (964)
Community and Regional Development	63	2	61
Income Security	500	4	496
Administration of Justice	–	–	–
Miscellaneous	–	–	–
TOTAL INTRAGOVERNMENTAL	$ 1,459	$ 1,866	$ (407)
With the Public:			
Commerce and Housing Credit	$ (1,984)	$ 2,151	$ (4,135)
Community and Regional Development	5,660	2	5,658
Income Security	31,868	19	31,849
Administration of Justice	43	–	43
Miscellaneous	–	–	–
TOTAL WITH THE PUBLIC	$ 35,587	$ 2,172	$ 33,415
TOTAL:			
Commerce and Housing Credit	$ (1,088)	$ 4,011	$ (5,099)
Community and Regional Development	5,723	4	5,719
Income Security	32,368	23	32,345
Administration of Justice	44	–	44
Miscellaneous	–	–	–
TOTAL:	$ 37,047	$ 4,038	$ 33,009

NOTE 19 – Prior Period Adjustments

In FY 2003, HUD recorded $4,763,973 in prior period adjustments for the Working Capital Fund. This adjustment resulted from depreciation of equipment for FY 2002. In addition, HUD recorded $6,622,497 in prior period adjustments for the Rental Housing Assistance program. This adjustment resulted from an expense relating to a payable that should have been established to transfer funds to the Flexible Subsidy program in FY 2002.

NOTE 20 – Apportionment Categories of Obligations Incurred

HUD's categories of obligations incurred were as follows (dollars in millions):

Fiscal Year	Category A	Category B	Exempt From Apportionment	Total
FY 2003	$1,186	$55,629	$ –	$56,815
FY 2002	$1,227	$56,686	$314	$58,227

NOTE 21 – Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

Information from the FY 2003 Statement of Budgetary Resources will be presented in the FY 2005 Budget of the U.S. Government. The Budget will be transmitted to Congress on the first Monday in February 2004 and will be available from the Government Printing Office at that time.

The President's Budget is not yet available for comparison to the Statement of Budgetary Resources.

NOTE 22 - Explanation of the Relationship Between Liabilities not Covered by Budgetary Resources on the Balance Sheet an the Changes in Components Requiring or Generating Resources in Future Periods

In FY 2002, the department reported a net increase in unfunded annual leave liability, in the consolidated Statement of Financing of $2.4 million. 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 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)				
Other Assets (Note 8)	57			
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	
Credit Program Receivables and Related				
Foreclosed Property (Net) (Note 9)	4,291			
General Property Plant and Equipment (Net) (Note 10)		8		
Other Assets (Note 8)	130	110		
TOTAL ASSETS (Note 6)	$36,669	$10,354	$19,243	$12,521
LIABILITIES				
Intragovernmental Liabilities				
Accounts Payable				$6
Debt (Note 12)	8,794			
Other Intragovernmental Liabilities (Note 13)	1,510		$177	1
Total Intragovernmental Liabilities (Note 11)	$10,305		$177	$7
Accounts Payable	869	35	11	14
Loan Guarantees Liabilities (Note 9)	6,251			
Debt Held by the Public (Note 12)	270			
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)	739	150	9	6
TOTAL LIABILITIES (Note 11)	$18,434	$704	$204	$34
NET POSITION				
Unexpended Appropriations	$576		$19,039	$12,488
Cumulative Results of Operations	17,659	$9,650		
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		$76,458
						31,260
				6	(6)	
				(53)		4
$5,305	$1,865	$9,110	$7,843	$10,046	($6)	$107,722
						123
				3		569
		2	7,517	211		12,022
				75		84
				3		243
$5,305	$1,865	$9,112	$15,360	$10,339	($6)	$120,763
					($6)	
		$1,270	$2,748	2		12,814
1	1	1	4,291	47		6,029
$1	$1	$1,271	$7,039	$49	($6)	$18,843
7	119	26	6	32		1,120
				62		6,313
		1,940				2,210
3	5	2	2	60		85
						519
3	6	2	19	112		1,044
$13	$131	$3,240	$7,066	$315	($6)	$30,134
$5,291	$1,734	$8,928	$7,132	$9,564		$64,753
		(3,056)	1,162	459		25,876
$5,291	$1,734	$5,872	$8,294	$10,024		$90,629
$5,305	$1,865	$9,112	$15,360	$10,339	($6)	$120,763

Consolidating Balance Sheet As of September 2002

(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)	$9,597	$2,509	$18,379	$13,199
Investments (Note 5)	21,346	6,996		
Accounts Receivable (Note 7)				
Other Assets (Note 8)	88		6	9
Total Intragovernmental Assets (Note 6)	$31,031	$9,505	$18,385	$13,208
Investments (Net) (Note 5)				
Accounts Receivable (Net) (Note 7)	334	31	419	
Credit Program Receivables and Related				
Foreclosed Property (Net) (Note 9)	3,367			
General Property Plant and Equipment (Net) (Note 10)		9		
Other Assets (Note 8)	137	10		
TOTAL ASSETS (Note 6)	$34,870	$9,555	$18,804	$13,208
LIABILITIES				
Intragovernmental Liabilities				
Accounts Payable				$5
Debt (Note 12)	7,552			
Other Intragovernmental Liabilities (Note 13)	3,096		$239	
Total Intragovernmental Liabilities (Note 11)	$10,648		$239	$6
Accounts Payable	1,207	33	7	24
Loan Guarantees Liabilities (Note 9)	3,761			
Debt Held by the Public (Note 12)	288			
Federal Employee and Veterans' Benefits (Note 2)				
Debentures Issued to Claimants (Note 12)				
Loss Reserves (Note 14)		539		
Other Governmental Liabilities (Note 13)	839	65	4	3
TOTAL LIABILITIES (Note 11)	$16,743	$637	$250	$33
NET POSITION				
Unexpended Appropriations	$761		$18,554	$13,175
Cumulative Results of Operations	17,366	$8,918		
TOTAL NET POSITION	$18,127	$8,918	$18,554	$13,175
TOTAL LIABILITIES AND NET POSITION	$34,870	$9,555	$18,804	$13,208

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
$4,926	$1,686	$9,700	$7,307	$10,329		$77,632
						28,342
				9	(6)	3
8		35	1	52	(199)	
$4,934	$1,686	$9,735	$7,308	$10,390	($205)	$105,977
				1		785
		4	7,724	280		11,376
				78		87
				5		152
$4,934	$1,686	$9,739	$15,032	$10,754	($205)	$118,377
					($5)	
		$1,354	$2,766	5		11,677
			4,381	253	(199)	7,769
$0	$0	$1,354	$7,147	$258	($205)	$19,446
	69	29	2	30		1,408
				53		3,814
		2,220				2,508
				81		81
						539
1	1	6	16	101		1,038
$9	$70	$3,609	$7,165	$523	($205)	$28,834
$4,925	$1,616	$9,533	$7,109	$9,734		$65,407
		(3,403)	758	497		24,136
$4,925	$1,616	$6,130	$7,867	$10,231		$89,543
$4,934	$1,686	$9,739	$15,032	$10,754	($205)	$118,377

Consolidating Statement of Net Cost
For the Period Ended September 2003 and 2002 (Dollars in Millions)

2003	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
PROGRAM COSTS				
Intragovernmental Gross Costs	$715		$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				
NET COST OF OPERATIONS	$1,085	($731)	$21,036	$5,615

2002	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
PROGRAM COSTS				
Intragovernmental Gross Costs	$641		$53	$26
Less: Intragovernmental Earned Revenue	(1,461)	($399)		
Intragovernmental Net Costs	($820)	($399)	$53	$26
Gross Costs With the Public	($2,071)	$57	$18,421	$5,417
Less: Earned Revenues	(1,044)	(452)		
Net Costs With the Public	($3,115)	($395)	$18,421	$5,417
TOTAL NET COSTS	($3,935)	($794)	$18,474	$5,443
Costs Not Assigned to Programs				
NET COST OF OPERATIONS	($3,935)	($794)	$18,474	$5,443

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
$14	$44	$160	$228	$223	($71)	$1,395
				(79)	71	(1,815)
$14	$44	$160	$228	$144		($420)
$1,625	$3,462	$3,936	$1,026	$3,431		$42,856
			(637)	(28)		(2,026)
$1,625	$3,462	$3,936	$389	$3,403		$40,830
$1,639	$3,506	$4,096	$617	$3,547		$40,410
				420		420
$1,639	$3,506	$4,096	$617	$3,967		$40,830

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
$14	$33	$214	$264	$213		$1,458
				(7)		(1,867)
$14	$33	$214	$264	$206		($409)
$1,537	$3,666	$4,038	$898	$3,224		$35,187
			(646)	(29)		(2,171)
$1,537	$3,666	$4,038	$252	$3,195		$33,016
$1,551	$3,699	$4,252	$516	$3,401		$32,607
				403		403
$1,551	$3,699	$4,252	$516	$3,804		$33,010

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)		
Prior Period Adjustments				
Beginning Balances, As Adjusted	($17,366)	($8,918)		
BUDGETARY FINANCING SOURCES				
Appropriations Used	($2,258)		($20,954)	($5,558)
Other Adjustments (Recissions, etc)				
Transfers In / Out Without Reimbursement	755			
Other Budgetary Financing Sources			(82)	(58)
OTHER FINANCING SOURCES				
Transfers In / Out Without Reimbursement	138			
Imputed Financing From Costs Absorbed From Others	(16)			
Other	3			
TOTAL FINANCING SOURCES	($1,378)		($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)	($13,751)
BUDGETARY FINANCING SOURCES				
Appropriations Received	($2,402)		($22,724)	($4,937)
Transfers In / Out	319		(11)	(3)
Other Adjustment (Recissions, etc)	10		1,289	62
Appropriations Used	2,258		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)
				(2)		(2)
		$3,403	($758)	($499)		($24,138)
($1,615)	($3,447)	($4,424)	($1,000)	($3,909)		($43,164)
				24		24
				(273)		482
(25)	(59)	(18)	(21)	284		20
						138
				(56)		(72)
				1		4
($1,640)	($3,506)	($4,442)	($1,021)	($3,928)	$0	($42,568)
1,640	3,506	4,096	616	3,967		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)
($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)		(3)		(56)		240
17	35	29	11	435		1,889
1,623	3,447	4,456	1,000	3,890		43,199
($366)	($118)	$605	($23)	$168	$0	$654
($5,291)	($1,734)	($8,928)	($7,132)	($9,566)	$0	($64,753)

Consolidating Statement of Changes in Net Position
For the period Ended September 2002 (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	($12,986)	($8,124)		$ 5
Prior Period Adjustments				
Beginning Balances, As Adjusted	($12,986)	($8,124)		$5
BUDGETARY FINANCING SOURCES				
Appropriations Used	($2,381)		($18,391)	($5,405)
Other Adjustments (Recissions, etc)				
Transfers In / Out Without Reimbursement	839			
Other Budgetary Financing Sources			(83)	(38)
OTHER FINANCING SOURCES				
Transfers In / Out Without Reimbursement	1102			
Imputed Financing From Costs Absorbed From Others	(14)			
Other	9			(5)
TOTAL FINANCING SOURCES	($445)		($18,474)	($5,448)
Net Cost of Operations	(3,935)	(794)	18,474	5,443
ENDING BALANCES	($17,366)	($8,918)	$0	$0

Unexpended Appropriations	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Net Postion-Beginning of Period	($2,129)		($17,813)	($10,106)
Prior Period Adjustments				(5)
Beginning Balances, As Adjusted	($2,129)		($17,813)	($10,111)
BUDGETARY FINANCING SOURCES				
Appropriations Received	($2,982)		($20,746)	($7,783)
Transfers In / Out	1,986			(700)
Other Adjustment (Recissions, etc)	(17)		1,614	14
Appropriations Used	2,381		18,391	5,405
TOTAL FINANCING SOURCES	$1,368	$0	($741)	($3,064)
ENDING BALANCES	($761)	$0	($18,554)	($13,175)

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
		$3,749	($365)	($524)		($18,250)
						5
		$3,749	($365)	($524)		($18,245)
($1,531)	($3,672)	($4,527)	($887)	($3,748)		($40,542)
						839
(20)	(27)	(71)	(22)	269		8
				(237)		865
				(59)		(73)
				(2)		2
($1,551)	($3,699)	($4,598)	($909)	($3,777)	$0	($38,901)
1,551	3,699	4,252	516	3,804		33,010
$0	$0	$3,403	($758)	($497)	$0	($24,136)

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
($4,660)	$1,793	($10,068)	($6,899)	($9,837)		($63,305)
				0		(5)
($4,660)	($1,793)	($10,068)	($6,899)	($9,837)		($63,310)
($1,846)	($3,495)	($3,986)	($1,097)	($3,695)		($45,630)
				(6)		1,280
50				56		1,717
1,531	3,672	4,521	887	3,748		40,536
($265)	$177	$535	($210)	$103	$0	($2,097)
($4,925)	($1,616)	($9,533)	($7,109)	($9,734)	$0	($65,407)

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
BUDGETARY RESOURCES					
Budget Authority	$2,607		$22,724	$4,937	$2,000
Net Transfers, Current Yr Authority					
Unobligated Balance-Beginning of Yr	23,834	9,415	1,947	1,785	256
Spending Authority from Offsetting Collections	6,576	849			
Adjustments					
Recoveries of Prior Year Obligations	510		1,616	15	13
Permanently not available					
Cancellation-Expired and No Year Accts	(1)		(10)	(21)	
Enacted Recissions			(1,174)		
Capital Trans & Debt Redemption	(755)				
Other Authority Withdrawn	(5)		(5,617)	(32)	(13)
TOTAL BUDGETARY RESOURCES	$32,767	$10,264	$19,486	$6,684	$2,257
Status of Budgetary Resources:					
Obligations Incurred (Note 20)	$5,656	$158	$16,003	$5,537	$1,869
Unobligated Balances Available	225		3,454	1,118	378
Unobligated Balances Not Available	26,886	10,106	30	29	9
TOTAL STATUS OF BUDGETARY RESOURCES	$32,767	$10,264	$19,486	$6,684	$2,257
Obligated Balance, Net-Beg of Period	$1,707	$6	$37,664	$11,409	$4,667
Obligated Balance Transferred, Net					
Obligated Balance, Net-End of Period	938	27	31,108	11,375	4,917
OUTLAYS					
Disbursements	5,907	137	20,944	5,557	1,606
Collections	(6,569)	(849)			
Subtotal	($662)	($712)	$20,944	$5,557	$1,606
Less: Offsetting Receipts	(1,372)				
NET OUTLAYS	($2,034)	($712)	$20,944	$5,557	$1,606

Figures may not add to totals because of rounding

Operating Subsidies	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
$3,600	$3,902	$1,034		$4,097	$44,900	$2,890		$2,890	$47,790
				7	7				7
26	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
18	20	10		1,110	3,313	77		77	3,390
				(39)	(72)				(72)
				(434)	(1,608)				(1,608)
	(96)	(90)		(13)	(954)	(1,649)		(1,649)	(2,603)
(23)	(529)	(7)	0	(1,687)	(7,912)				(7,913)
$3,621	$4,186	$4,320	($6)	$7,455	$91,033	$16,730	$85	$16,815	$107,848
$3,618	$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		814	11,540
2	12	562	$0	1,527	39,163	247	83	330	39,493
$3,621	$4,186	$4,320	($6)	$7,455	$91,033	$16,730	$85	$16,815	$107,848
$1,658	$12,609	$4,762		$15,224	$89,706	($79)	($19)	($98)	$89,608
1,863	11,595	5,338	$13	13,490	80,663	941	(20)	921	81,584
3,395	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)
$3,395	$4,337	$400	($13)	$3,951	$38,802	$2,182	($10)	$2,171	$40,973
				(10)	(1,382)	0			(1,382)
$3,395	$4,337	$400	($13)	$3,941	$37,420	$2,182	($10)	$2,171	$39,592

Combining Statement of Budgetary Resources
For the Period Ended September 2002 (Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME
BUDGETARY RESOURCES					
Budget Authority	$3,231		$20,641	$7,783	$1,846
Net Transfers, Current Yr Authority					
Unobligated Balance-Beginning of Yr	19,894	$8,605	1,685	1,054	284
Net Transfers, Actual, Prior Year Balance				700	
Spending Authority from Offsetting Collections	7,423	931	105		
Adjustments					
Recoveries of Prior Year Obligations	25		2,634	9	3
Permanently not available					
Cancellation-Expired and No Year Accts	(4)			(4)	
Enacted Recissions			(1,588)		(50)
Capital Trans & Debt Redemption	(2,199)				
Other Authority Withdrawn			(5,122)		
TOTAL BUDGETARY RESOURCES	$28,370	$9,536	$18,355	$9,542	$2,083
STATUS OF BUDGETARY RESOURCES:					
Obligations Incurred (Note 20)	$4,536	$121	$16,408	$7,756	$1,827
Unobligated Balances Available	625		665	1,756	256
Unobligated Balances Not Available	23,209	9,415	1,282	30	
TOTAL STATUS OF BUDGETARY RESOURCES	$28,370	$9,536	$18,355	$9,542	$2,083
Obligated Balance, Net-Beg of Period	$1,576	($39)	$42,494	$9,091	$4,383
Obligated BalanceTransferred, Net					
Obligated Balance, Net-End of Period	1,707	6	37,664	11,409	4,667
OUTLAYS					
Disbursements	4,492	76	18,604	5,429	1,540
Collections	(7,535)	(931)	(105)		
Subtotal	($3,403)	($855)	$18,499	$5,429	$1,540
Less: Offsetting Receipts	(1,993)				
NET OUTLAYS	($5,036)	($855)	$18,499	$5,429	$1,540

Figures may not add to totals because of rounding

Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Others	2002 Budgetary Total	Federal Housing Administration Non Budgetary	Other Non Budgetary Credit Program Accounts	2002 Total Non Budgetary Credit Program Financing Accounts	Total
$3,495	$4,011	$1,097	$3,705	$45,809	$3,925		$3,925	$49,734
			6	6				6
141	882	2,922	4,174	39,641	4,478	$59	4,537	44,178
				700				700
	72	807	943	10,281	10,223	14	10,237	20,518
26	42	14	942	3,695	50		50	3,745
			(37)	(45)				(45)
			(320)	(1,958)				(1,958)
	(90)	(489)	(18)	(2,796)	(916)		(916)	(3,712)
	(522)	(73)	(842)	(6,559)				(6,559)
$3,662	$4,395	$4,278	$8,553	$88,774	$17,760	$73	$17,833	$106,607
$3,636	$3,506	$1,735	$3,962	$43,487	$14,739	$1	$14,740	$58,227
	867	2,501	2,692	9,362	1,467		1,467	10,829
26	22	42	1,899	35,925	1,554	72	1,626	37,551
$3,662	$4,395	$4,278	$8,553	$88,774	$17,760	$73	$17,833	$106,607
$1,683	$13,711	$4,215	$16,886	$94,000	($98)	($21)	($119)	$93,881
1,658	12,609	4,762	15,224	89,706	(79)	(19)	(98)	89,608
3,635	4,566	1,174	4,700	44,216	14,657	1	14,658	58,874
	(72)	(807)	(960)	(10,410)	(10,211)	(15)	(10,226)	(20,636)
$3,635	$4,494	$367	$3,740	$33,806	$4,446	($14)	$4,432	$38,238
			(8)	(2,001)				(2,001)
$3,635	$4,494	$367	$3,732	$31,805	$4,446	($14)	$4,432	$36,237

Consolidating Statement of Financing 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)			
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)			
Budgetary Offsetting Collections and Receipts Not Affecting Net Cost of Operations	19,010			
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)				
Increase in Environmental/Disposal Liability				
Reestimates of Credit Subsidy Expense	7,408			
Exchange Revenue Receivable from the Public	(5,767)			
Other				
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			
Other	(352)			
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)		(1,381)
$1,856	$3,600	$3,323	$975	$2,196	$0	$31,568
						($139)
				56		72
				12		(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
				1		(3,556)
			829	34		19,871
		74	17	(13)		(15,652)
25	59	(330)	20	(9)		(701)
($216)	($95)	$771	$278	$1,639	$0	$8,119
$1,640	$3,506	$4,094	$1,254	$3,903	$0	$39,589
				(1)		7,407
			(637)	(6)		(6,410)
				3		3
$0	$0	$0	($637)	($5)	$0	$1,000
				$10		$10
						522
		$2		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

Consolidating Statement of Financing
For the Year Ended September 2002 (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	$19,275	$121	$16,408	$7,756
Less: Spending Authority from Offsetting Collections & Recoveries	(17,721)	(931)	(2,739)	(9)
Obligations Net of Offsetting Collections	$1,554	($810)	$13,669	$7,747
Less: Offsetting Receipts	(1993)			
Net Obligations	($439)	($810)	$13,669	$7,747
Other Resources				
Donations & Forfeitures of Property				
Transfers In/Out Without Reimbursement	($1,102	0		
Imputed Financing from Costs Absorbed by Others	14			
Other Resources	(9)	$16		
Net Other Resources Used to Finance Activities	($1,097)	$16		
TOTAL RESOURCES USED TO FINANCE ACTIVITIES	($1,536)	($794)	$13,669	$7,747
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	($154)		$4,722	($2,337)
Resources That Fund Expenses from Prior Periods	(6,258)			
Budgetary Offsetting Collections and Receipts Not Affecting Net Cost of Operations	18,656			
Resources Financing Acquisition of Assets	(10,355)			
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	357		83	33
TOTAL RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS	$2,246	$0	$4,805	($2,304)
TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS	$710	($794)	$18,474	$5,443
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)				
Increase in Environmental/Disposal Liability				
Reestimates of Credit Subsidy Expense	1,149			
Exchange Revenue Receivable from the Public				
Other				
TOTAL REQUIRING/GENERATING RESOURCES IN FUTURE PERIODS	$1,149	$0	$0	$0
Components Not Requiring/Generating Resources				
Depreciation and Amortization				
Revaluation of Assets or Liabilities	($1,275)			
Other	($4,519)			
TOTAL COMPONENTS OF NET COST OF OPERATION NOT REQUIRING/GENERATING RESOURCES	($5,794)	$0	$0	$0
TOTAL COMPONENTS OF NET COST OF OPERATION NOT REQUIRING/GENERATING RESOURCES IN THE CURRENT PERIOD:	($4,645)	$0	$0	$0
NET COST OF OPERATIONS	($3,935)	($794)	$18,474	$5,443

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
$1,827	$3,636	$3,506	$1,735	$3,963		$58,227
(3)	(26)	(114)	(821)	(1,899)		(24,263)
$1,824	$3,610	$3,392	$914	$2,064		$33,964
				(8)		(2,001)
$1,824	$3,610	$3,392	$914	$2,056	$0	$31,963
				$237		($865)
				59		73
				(1)		6
				$295	$0	($786)
$1,824	$3,610	$3,392	$914	$2,351	$0	$31,177
($293)	$62	$1,063	($580)	$1,716	$0	$4,199
				(3)		(6,261)
			806	26		19,488
		72		(52)		(10,335)
20	27	(275)	22	(263)		4
($273)	$89	$860	$248	$1,424	$0	$7,095
$1,551	$3,699	$4,252	$1,162	$3,775	$0	$38,272
				2		2
						1,149
			(646)	(11)		(657)
$0	$0	$0	($646)	($9)	$0	$494
				$13		$13
						(1,275)
				25		(4,494)
$0	$0	$0	$0	$38	$0	($5,756)
$0	$0	$0	($646)	$29	$0	($5,262)
$1,551	$3,699	$4,252	$516	$3,804	$0	$33,010

Required Supplementary Stewardship Information (Unaudited)
For the Year Ended September 30, 2003

- **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, 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, Public and Indian Housing, Policy Development and Research, and Office of 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 Community Planning and Development programs:

- **Community Development Block Grants** 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 meet 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** 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 trade, 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 Public and Indian Housing programs:

- **The Public Housing Capital Fund** provides grants to Public Housing Agencies 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 Public Housing Agencies, 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 Public Housing Agency-owned property, while others help to provide education and job training to residents of the communities targeted for rehabilitation.
- **Indian Housing Block Grants** provides 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** provides 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 has 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 Sates 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 which 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. 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 lead professionals; for parents, building owners, housing and public health professionals, and other to increase awareness on lead-based paint and related housing-based health issues.

Investment in 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. The following table summarizes material HUD Non-Federal Physical Property investment by program. Additional information regarding the following programs' contribution to HUD's goal may be found in Section II of this report.

HUD Investment in Non-Federal Physical Property, 1999-2003

(Dollars in Millions)

Program	1999	2000	2001	2002	2003
Community Planning and Development					
Community Development Block Grant	$603	$1,237	$1,189	$1,298	$1,206
Disaster Grants	$29	$198	$56	$29	$7
HOME	–	$34	$24	$8	$33
Public and Indian Housing					
Public Housing Capital Fund	$2,414	$2,046	$1,863	$2,036	$1,949
HOPE VI	$236	$291	$495	$367	$427
Indian Housing Block Grant (1)	$182	$176	N/A	$292	$296
Indian Community Development Block Grant (2)	$52	$63	$53	$51	N/A
Public Housing Drug Elimination Program (3)	$10	$6	$4	N/A	N/A
TOTAL	$3,526	$4,051	$3,684	$4,081	$3,918

(1) FY 2001 investment data were unavailable due to the transition in contractor support.
(2) No grants were awarded in this program during FY 2003, due to the delay in the appropriation.
(3) Congress terminated funding for the Public Housing Drug Elimination Program after FY 2001.

Investment in 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 goal may be found in Section II of this report.

HUD Investments in Human Capital, FY 1999-2003

(Dollars in Millions)

Program	1999	2000	2001	2002	2003
Community Planning and Development					
Community Development Block Grant	$21	$22	$25	$29	$23
Youthbuild	$12	$13	$15	$14	$19
Public and Indian Housing					
HOPE VI	$22	$29	$55	$51	$56
Policy Development and Research					
Community Development Work Study	$5	$4	$3	$3	$3
Healthy Homes Lead Hazard Control					
Lead Technical Assistance	–	$1	$2	$7	$1
TOTAL	$60	$69	$100	$104	$102

The following table presents the output (number of people trained) generated by human capital investments by HUD's Community Planning and Development, Policy Development and Research, and Healthy Homes Lead Hazard Control programs:

Number of People Trained, FY 1999-2003

Program	1999	2000	2001	2002	2003
Community Planning and Development					
Community Development Block Grant	131,000	252,800	127,565	149,502	172,416
Youthbuild	2,752	3,000	3,614	2,717	4,123
Policy Development and Research					
Community Development Work Study	97	101	98	99	95
Health Homes Lead Hazard Control					
Lead Technical Assistance (4)	–	6,834	19,579	23,501	N/A
TOTAL	133,849	262,735	150,856	175,819	176,634

(4) FY 2003 investment strategy was for training of home supply store lead safety trainers (vs. end-users as was the case till FY 2002), and for curriculum development. The number of trainers trained for FY 2003 is 46.

The following table presents key HOPE VI cumulative performance information for FY 2002 and FY 2003 since the program's inception (FY 1993).

HOPE VI Service	2003 Enrolled	2003 Completed	Percent Completed	2002 Enrolled	2002 Completed	Percent Completed
Employment Preparation, Placement, & Retention	30,560			18,638		
Job Skills Training Programs	13,320	7,194	54%	9,333	5,565	60%
High School Equivalent Education	7,896	2,745	35%	5,180	2,028	39%
Entrepreneurship Training	1,926	868	45%	1,182	631	53%
Homeownership Counseling	5,681	2,412	42%	3,646	1,580	43%

Entrepreneurship training contributed to the creation of around 350 new businesses, employing more than 500 HOPE VI property residents.

Investment in Research and Development

Investment in Research and Development supports the search for new knowledge or refines knowledge and ideas of 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 since FY 1999. Additional information regarding the following programs' contribution to HUD's goal may be found in Section II of this report.

HUD Investments in Research and Development, FY 1999-2003

(Dollars in Millions)

Program	1999	2000	2001	2002	2003
Policy Development and Research					
Partnership for Advancing Technology in Housing	$3	$7	$9	$10	$8
Healthy Homes Lead Hazard					
Control Lead Technical Assistance	$12	$9	$6	$3	$9
TOTAL	$15	$16	$15	$13	$17

During FY 2003, the Partnership for Advancing Technology in Housing investments generated more than 160 technology listings. In addition, the Partnership for Advancing Technology in Housing awarded five university-based applied research projects, eight technology development projects, and four 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 Lead Hazard Control's Lead Hazard Control Grant Program, as indicated in the following table. These studies also lead to the identification of the prevalence of related hazards.

Per-Housing Unit Cost of Lead Hazard Evaluation and Control, FY 1999-2003

Program	1999	2000	2001	2002	2003
Healthy Homes Lead Hazard Control					
Lead Technical Assistance	$5,532	$5,881	$4,639	$5,411	$4,827
TOTAL	$5,532	$5,881	$4,639	$5,411	$4,827

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, 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	$ –

September 30, 2002

(Dollars in Millions):

Intragovernmental Assets:

Trading Partner	Fund Balance	Accounts Receivable	Investments	Other	Total
Department of Treasury	$ 77,632	$ 3	$ 28,342	$ –	$ 105,977
Other Agencies	–	–	–	–	–
Total	$ 77,632	$ 3	$ 28,342	$ –	$ 105,977

Intragovernmental Liabilities:

Trading Partner	Accounts Payable	Debt	Other	Total
Department of Treasury	$ –	$ 11,677	$ 7,749	$ 19,426
Other Agencies	–	–	20	20
Total	$ –	$ 11,677	$ 7,769	$ 19,446

Intragovernmental Earned Revenues and Related Costs:

Trading Partner	Earned Revenue
Department of Treasury	$ 1,867
Other Agencies	–
Total	$ 1,867

Budget Functional Classification	Gross Cost to Generate Revenue
Commerce and Housing Credit	$ –
Community and Regional Dev	–
Income Security	–
Total	$ –

Independent Auditor's Report

To the Secretary,
U.S. Department of Housing and Urban Development:

In accordance with the Chief Financial Officers (CFO) Act of 1990, we have audited the accompanying consolidated balance sheets of the Department of Housing and Urban Development (HUD) as of September 30, 2003 and 2002, 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. The objective of our audit was to express an opinion on the fair presentation of these principal financial statements. We did not audit the financial statements of the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae), whose combined statements reflect total assets constituting 39 percent of the related consolidated totals. Other auditors, whose reports have been furnished to us, audited those statements and our opinion, insofar as it relates to the amounts included for FHA and Ginnie Mae, is based solely on the reports of the other auditors. 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 and regulations that could have a direct and material effect on its principal financial statements.[1]

Opinion on the Financial Statements

In our opinion, based on our audit and the reports of other auditors, the accompanying principal financial statements present fairly, in all material respects, the financial position of HUD as of September 30, 2003 and 2002 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 2003 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; and
  - improve oversight and monitoring of subsidy calculations and intermediaries' program performance.
- Reportable conditions in internal controls in fiscal year 2003 related to the need to:
  - improve quality control over performance measures data;
  - improve controls over project-based subsidy payments;
  - strengthen controls over HUD's computing environment;
  - improve personnel security practices for access to the Department's critical financial systems;

1 This report is a condensed version of a more detailed report issued separately on December 19, 2003 by HUD, OIG entitled, "Audit of U.S. Department of Housing and Urban Development Financial Statements for Fiscal Years 2003 and 2002" (2004-FO-0003). The report is available at HUD, OIG Internet site at ***http://www.hud.gov/oig/oigindex.html.***

– improve processes for reviewing obligation balances;

– more effectively manage controls over the FHA systems' portfolio; and

– place more emphasis on monitoring lender underwriting and improving early warning and loss prevention for FHA single-family insured mortgages.

Most of these 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 and regulations:

– HUD did not substantially comply with the Federal Financial Management Improvement Act (FFMIA). 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 fiscal years 2003 and 2002 principal financial statements taken as a whole. HUD is presenting 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 2003 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 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.

Required Supplementary Information

In their *Fiscal Year 2003 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's) "Discussion and Analysis of Operations" and information on intra-governmental 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 Office of Management and Budget (OMB) Bulletin 01-09, *Form and Content of Agency Financial Statements*. We did not audit and do not express an opinion on this information, however, we have 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 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 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.

Issues with HUD's Internal Control Environment

Most of the material weaknesses and reportable conditions discussed in this report relate to issues discussed in prior years' reports on HUD's financial statements. HUD has been taking actions to address the weaknesses 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. We have reported for the past several years that HUD has made progress toward overhauling its operations and addressing its management problems through these efforts, but challenges remain. 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
- continue with the implementation of its process to identify and justify its staff resource requirements.

The most critical need faced by HUD in improving its control environment is to complete development of adequate systems. 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. Over the years, the Department's plans have experienced significant schedule delays, changes in direction and cost overruns.

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 measure data.

Housing Assistance Program Delivery

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofits and for profit) and has. These intermediaries, in-turn, provide housing assistance to benefit primarily low-income households. HUD spent about $24.6 billion in fiscal year 2003 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.

Legislation authorizing HUD's housing assistance programs includes specific criteria concerning tenant eligibility and providing assistance for housing that meets acceptable physical standards. Moreover, legislation authorizing HUD's programs also establishes minimum performance levels to be achieved. For example, subsidized housing must comply with HUD's housing quality standards.

HUD relies heavily upon intermediaries to ensure that rent calculations for assisted households are based on HUD requirements. Ultimately, these rent calculations determine the amount of subsidy HUD pays on behalf of the assisted household. Under project-based programs administered by the Office of Housing, the individual project owners or agents carry out this responsibility. Under public housing and tenant-based Section 8 programs, the HAs determine eligibility and rent amounts for eligible households residing in public housing or at approved housing provided by private landlords. In prior reports on HUD's financial statements, we have expressed concerns about the significant risk to HUD that 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 along with the absence of 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 its 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 determinations errors made by the intermediaries resulted in substantial subsidy overpayments and underpayments. The study was based on analyses of a statistical sample of tenant files, tenant interviews, and income verification data. This study also reports subsidy payment inconsistencies such that HUD incorrectly paid $1.549 billion in annual housing subsidies of which about $987 million in subsidies was overpaid on behalf of households paying too little rent, and about $562 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 restated its FY 2002 estimate of an additional $978 million in overpayments. A new estimate for income underreporting will be developed for next year based on the tenant data from this year's contracted study of rental assistance determinations. Also HUD conducted a quality control review to revise the estimate of erroneous payments for its intermediary's subsidy billings errors reported last year. We reviewed the quality control results and found that erroneous payments had resulted from the intermediaries' failure to accurately report or maintain required subsidy determination documentation, along with bookkeeping or procedural errors. Based on the payments errors that were identified, we substantiated an estimated $614 million in billings errors, which consists of $379.2 million in overpayments and $235.2 million in underpayments errors.

In fiscal year 2001, HUD initiated the Rental Housing Integrity Improvement Project (RHIIP). This Secretarial initiative is designed to reduce errors and improper payments by (1) simplifying the payment process, (2) enhancing administrative capacity, and (3) establishing better controls, incentives, and sanctions. These improvements will be implemented over the next several years with a fiscal year 2005 goal of reducing by 50 percent the frequency of calculation processing errors and the amount of subsidy overpayments.

In our separate report, we elaborate on a long-standing reportable condition involving internal control weaknesses with the processing of subsidy payments under the project-based programs administered by the Office of Housing.

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 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.

Results of the Audit of FHA's Financial Statements

The independent certified public accounting firm of KPMG LLP performed a separate audit of FHA's fiscal year 2003 and 2002 financial statements. Their report on FHA's financial statements, dated November 7, 2003,[2] includes an unqualified opinion on FHA's financial statements, along with discussions of one material weakness and two reportable conditions. The FHA material weakness follows:

- HUD/FHA's ADP 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 legacy-based systems, limiting FHA's ability to integrate its financial processing environment and to monitor budget execution.

Controls over budget execution and funds control must be improved. FHA does not have a collection of ADP financial systems that are capable of fully monitoring and controlling budgetary resources in an ADP integrated process. Lack of efficient integration between these systems requires the use of manual analysis and reconciliation and use of additional databases to collect and summarize funds control information, which subjects the process to the risk of errors resulting from reliance on manual processes.

KPMG LLP also notes two reportable conditions regarding the need for FHA and HUD to: (1) more effectively manage controls over the FHA ADP systems portfolio, and (2) place more emphasis on monitoring lender underwriting and improving early warning and loss prevention for single family insured mortgages.

We consider the above issues to be material weaknesses and reportable conditions at the Departmental level. A more detailed discussion of these issues can be found in KPMG LLP's report on FHA's fiscal years 2003 and 2002 financial statements.

Results of the Audit of FHA's Financial Statements

KPMG LLP performed a separate audit of the Ginnie Mae's financial statements for fiscal years 2003 and 2002. Their report on Ginnie Mae's financial statements, dated December 3, 2003,[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.

[2] *KPMG LLP's report on Ginnie Mae entitled, "Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2003 and 2002" (2004-FO-0002, dated December 19, 2003) was incorporated in our report.*

[3] *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."*

HUD Has Made Progress in Addressing Management Deficiencies, but More Progress is Needed

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.

With respect to fiscal years 2003 and 2002, we were able to conclude that HUD's consolidated financial statements were reliable in all material respects. However, 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 based on our audit. 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. 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 financial statements.

We also tested HUD's compliance with laws and regulations 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 and regulations 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 and regulations. Accordingly, we do not express an opinion on HUD's internal controls or on its compliance with laws and regulations.

Agency Comments and Our Evaluation

On December 1, 2003, 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 December 9, 2003. Remaining sections of the draft report were provided on December 15, 2003. The Department generally agreed with our presentation of findings and recommendations subject to detailed comments included in the memorandum and attachments. The Department's response was considered in preparing the final version of this report.

James A. Heist

James A. Heist
Assistant Inspector General for Audit

December 19, 2003

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 November 12, 2002, HUD's Inspector General provided a statement on five management challenges for inclusion in this FY 2003 Performance and Accountability Report.

1. Complete Department-wide organizational changes.
2. Improve financial management systems.
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 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
1. Complete Department-wide organizational changes.	→	Initiative 1 – Management of Human Capital
2. Improve financial management systems.	→	Initiative 3 – Improved Financial Performance
3. Assure HUD staff are adequately and sufficiently trained	→	Initiative 1 – Management of Human Capital
4. Improve FHA single-family origination and real estate owned property oversight.	→	Initiative 6C – Improve FHA Risk Management
5. Improve the effectiveness and efficiency of public and assisted housing program administration.	→	Initiatives 6A and 6B – Improve the Performance of Housing Intermediaries and Reduce Overpaid Rent Subsidies

U.S. Department of Housing and Urban Development

Office of Inspector General

451 7th St., S.W.
Washington, D.C. 20410-4500

November 12, 2003

MEMORANUM FOR: Mel Martinez, Secretary, S

FROM: Kennet 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 a 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 2004 and beyond. Our audits and investigations continue to focus on efforts to address these issues. More details on these issues can be found in our audit and investigative chapters of our Semiannual Report to the Congress.

The management and performance challenges facing HUD have been present for many years. The management structure, size, and complexity of HUD's major 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 reported this year include the need to:

- ✓ Comp1ete Departmentwide organizational changes.
- ✓ Improve financial management systems.
- ✓ Assure HUD staff are adequately and sufficiently trained.
- ✓ lmprove Federal Housing Administration (FHA) single-family origination and real estate owned property oversight.
- ✓ lmprove the effectiveness and efficiency of public and assisted housing program administration.

The attachment provides a greater discussion of these challenges and the OIG's efforts to help the Department resolve these matters. We continue our appeal that HUD makes every effort to eliminate high risk and staff intensive programs, and focus sufficient resources on HUD's core mission areas.

Attachment

Attachment

Inspector General's Assessment of HUD Management and Performance Challenges Fiscal Year 2004 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 senior staff took buy-outs and left the Agency. While these organizational changes were well intended, the disruptions caused by these sweeping changes further compounded problems in effectively managing HUD operations. Among the problems were unclear lines of authority, many staff in the wrong location, staff not trained in new duties, 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 changes to include:

- Placing the Departmental Enforcement Center (DEC) under the direction of the General Counsel to consolidate legal resources in support of a strong program enforcement effort. HUD's program enforcement efforts were previously under the Office of General Counsel before the creation of a separate DEC.
- Placing the Real Estate Assessment Center (REAC) under the direction of the Assistant Secretary for Public and Indian Housing (PIH), in order to improve REAC's working relationships with program staff and program partners and strengthen accountability for resource use and results.
- Placing the Office of the Chief Procurement Officer (OCPO) and Office of the Chief Information Officer (OCIO) under the direction of the Assistant Secretary for Administration/Chief Information Officer, to streamline HUD's organizational structure and improve service delivery to HUD's program and administrative components.
- Establishing the Office of Field Policy and Management (FPM) as an independent office reporting to the Deputy Secretary, with responsibility for oversight of HUD's field management and assistance to program Assistant Secretaries in meeting program goals at the field office level.
- Redeploying staff in the outreach function to understaffed program delivery and oversight functions, where there was a critical need.
- Creating new regional management positions 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.
- Revising program office delegations of authority.

These operational changes delegate additional authority to the field. These represent positive steps that bring HUD's operational activities and authority closer to the customers it serves. However, we continue to see the changes as a management challenge until Departmental realignments become fully functional. Our audits will evaluate the effectiveness of many of these changes. For example, we are currently reviewing the operations of the Enforcement Center and will issue a report early next year.

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 Fiscal Year 1991. While progress has been made, a number of longstanding deficiencies remain.

Because of the large volume of financial transactions, HUD relies heavily on automated information systems. For 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 Fiscal Year 2002 Consolidated Financial 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 funds controls over public housing operating funds and processes for reviewing outstanding obligations to ensure that unneeded amounts are de-obligated in a timely manner. Major deficiencies include:

- The Office of Public and Indian Housing did not have an operational, information system for monitoring operating subsidy eligibility requirements and obligations during 6 months of Fiscal Year 2002. As part of our FY 2003 Consolidated Financial Audit, we are evaluating corrective actions taken by the Department.
- 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 Fiscal Year 2002 financial statements continued to report long-standing weaknesses in FHA's financial management systems environment. The FHA general ledger and its supporting subsidiary systems remained noncompliant with federal financial systems requirements. Its 19 subsidiary systems that feed transactions to its commercial general ledger system lack the capabilities to process transactions in the standard general ledger format. In addition, there continues to be an inability to support adequate funds control for FHA. Although FHA has made progress in funds control, FHA continues to lack automated financial systems and processes that are capable of fully monitoring and controlling budgetary resources. A key improvement made during Fiscal Year 2003 was the implementation of the FHA subsidiary ledger, which automated many previously manual processes used to consolidate the accounting data received from the various FHA legacy systems.

Adequate and Sufficiently Trained Staff.

For many years the Department has lacked a system for measuring work and reporting time, thereby making it a difficult task to determine staff resource needs. HUD worked with the National Academy of Public Administration (NAPA) to develop a methodology or approach for resource management that would allow the Department to identify and justify its resource requirements for effective and efficient program administration and management.

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.

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 next step in development of the Department's resource management strategy is 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.

Congress expressed concern over HUD's hiring practices. In the Conference Report for HUD's Fiscal Year 2003 Appropriation, the OIG was tasked to report to the Committees on Appropriations by August 2003 on whether the Department's hiring decisions were consistent with the Department's staffing needs, program requirements, and personnel practices. On August 15, 2003, we issued a report to the Assistant Secretary for Administration and the Chief Financial Officer on our findings. Between July and September 2002, HUD undertook a hiring effort known as "Staffing 9/30." The goal of Staffing 9/30 was to quickly fill mission critical positions before the end of Fiscal Year 2002. Staffing 9/30 was inadequately planned and directed. HUD did not use REAP and TEAM data in determining needs and hired about 300 staff over ceiling. The results of Staffing 9/30 were inconsistent with program requirements and staffing needs.

FHA Single Family Origination and Real Estate Owned (REO) 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 GAO'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 FHA financial audit reported a need to place more emphasis on monitoring lender underwriting and continuing to improve early warning and loss prevention for single-family mortgages. 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. Potentially problem lenders must be identified before FHA can institute loss mitigation techniques and lender enforcement measures that can reduce eventual claims.

This year we issued an audit that covered a detailed statistical analysis of HUD/FHA loan files to enable us to comment on the origination of HUD's current portfolio of single-family loans. We recommended ways for HUD to strengthen FHA loan performance through insurance endorsement policy changes. We also completed a review of two HUD contractors that process insurance endorsements. Audit results showed that the contractors were not diligent in questioning the documentation that lenders submitted when the endorsement requests were late.

In the last 6 months, we initiated 17 lender audits nationwide based a targeting strategy that identified lenders with poor performing FHA portfolios. Results from one completed audit found significant lender underwriting deficiencies and irregularities involving mortgage brokers that were not FHA approved. We should complete the majority of these reviews early next 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. Administered by the Office of Public Housing, PHAs provide rental units to low-income families or make Section 8 assistance payments to private owners who lease their rental properties to assisted families. The Office of Housing also administers a variety of assisted housing programs including parts of the Section 8 program and the Section 202/811 programs. These subsidies are called "project-based" because the subsidy is tied to particular properties. Therefore, tenants who move from "project-based" properties may lose their rental assistance. HUD spent about $23 billion in Fiscal Year 2002 to provide rent and operating subsidies that benefited over 4 million households.

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 some type of error. The Secretary has rightly made the reduction of subsidy overpayments a top priority of his Administration. HUD 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 over the next 2 years, HUD initiated the Rental Housing Improvement Project. The project is designed to reduce errors and improper payments by 1) simplifying the payment process, 2) enhancing administrative capacity, and 3) establishing better controls, incentives, and sanctions. Paralleling this effort, our investigative and audit focus are concentrating on fraudulent practices in the Section 8 program.

HUD continues to implement its performance oriented, risk based strategy for carrying out its PHA oversight responsibilities. However, as noted in previous financial audits, further improvements need to be made in the field office monitoring of PHAs in other key areas. HUD began implementing a statutory mandated monitoring effort of the Public Housing Assessment System (PHAS). PHAS provides a statistical measure of the quality of the housing stock, and has been successful in identifying troubled PHAs and helping PIH management ensure corrective action. Likewise, a companion system, SEMAP, has been able to identify problem providers of Section 8 assistance. However, full implementation of these systems has been delayed. HUD has not been able to establish the 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.

In prior years we have also reported on long-standing weaknesses with the processing of subsidy payment requests under the project-based programs administered by the Office of Housing. Historically, this process has been hampered by the need for improved information systems to eliminate manually intensive review procedures that HUD has been unable to adequately perform.

Housing staff or their Contract Administrators (CAs) are to perform management reviews to monitor tenant eligibility and ensure accurate rents are charged at multifamily projects. The primary tool is to conduct on-site reviews that assess the owners' compliance with HUD's occupancy requirements. HUD's continued implementation of the CA initiative resulted in a substantial increase in the total number of management reviews. However, a comprehensive plan needs to be developed that would result in an increase of on-site reviews that would assess and ensure that all owners of assisted multifamily projects comply with HUD 's occupancy requirements.

HUD's plans include a variety of continuing efforts that we support. Principle among these are: continued implementation of the CA initiative; increased enforcement efforts; implementation of more targeted property inspections; increased frequency of management/occupancy reviews for assisted projects; and development of an integrated risk reporting system.

Financial Management Accountability

This section covers:

Federal Managers' Financial Integrity Act Reporting

Secretary's Audit Resolution Report to Congress

Delinquent Debt Collection

Federal Managers Financial Integrity Act Reporting

FMFIA Assurance Statement

I am able to certify with reasonable assurance that, except for the material weakness and non-conformance specifically identified in this section of the FY 2003 Performance and Accountability Report, the Department is in compliance with the provisions of Section 2 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. With regard to section 4, I am unable to certify that HUD is in full compliance with FMFIA. Although the Department made a key improvement in FY 2003 with the implementation of the FHA Subsidary Ledger, efforts continue to ensure full compliance with capturing standard general ledger information at the transaction level.

Mel Martinez
Secretary of Housing and Urban Development

Material Weaknesses and Non-Conformances

Material weaknesses are management control deficiencies that preclude reasonable assurance that obligations and costs are in accordance with applicable laws, assets are safeguarded, and accountability is maintained. Section 2 of FMFIA requires the annual reporting of material weaknesses and plans to correct any such weaknesses. Section 4 of FMFIA requires the reporting of any material non-conformance with financial management systems requirements prescribed in Office of Management and Budget (OMB) Circular A-127.

HUD has multi-year corrective action strategies to address the material weaknesses, non-conformances, and other weaknesses reported in prior FMFIA assurance statements. Significant progress continues to be made. This progress is independently verified by the Office of the Inspector General in annual audits of the Department's Financial Statements.

Material Weakness
FY 2002 Carry Over Issue and FY 2003 Status

First Reported	Material Weakness	Status at End of FY 2003
1996	Controls Over Rental Subsidies[4]	Open

Status of Remaining Material Weakness

HUD's rental housing assistance programs – including 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. General Accounting Office, with material management control weaknesses reported by HUD's Office of Inspector General. HUD has a comprehensive multi-year corrective action strategy to address this material weakness. A goal was established to reduce processing errors and resulting erroneous payments 50 percent by the end of FY 2005, with an interim reduction goal of 30 percent for FY 2004. Specific information on completed and planned corrective actions is provided in the Departmental Highlights – Management Challenges section of this report.

Material Non-Conformances
FY 2002 Carry Over Issues and FY 2003 Status

First Reported	Material Non-Conformances	Status at End of FY 2003
1989	Departmental Financial Management Systems	Open
1991	FHA Accounting and Management Systems	Combined[5]

Status of Remaining Material Non-Conformance

Although significant improvements in HUD's financial management systems were made during FY 2003, further improvements are needed to ensure overall compliance with the Federal Financial Management Improvement Act (FFMIA) and the related OMB Circular No. A-127. The provisions of FFMIA and A-127 include compliance with: 1) Federal Financial Management Systems Requirements; 2) applicable accounting standards; and 3) the U.S. Standard General Ledger at the transaction level.

A key improvement made during FY 2003 was the implementation of the FHA Subsidiary Ledger financial system, which automated many previously manual processes used to consolidate the accounting data received from various FHA legacy systems. HUD also made improvements in its financial management systems' non-compliance with OMB Circular A-127 at the individual systems level. At the end of FY 2003, HUD reported only 4 non-compliant

[4] *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."*

[5] *This prior material non-conformance has been combined as a part of the Departmental Financial Management Systems non-conformance.*

systems, a reduction of 13 from FY 2002. During FY 2003, 2 non-compliant systems, the Mortgage Insurance General Accounting System and the Regional Operating Budget and Obligation Tracking System (A56 and N07), were discontinued; and FHA reported 9 previously non-compliant systems as compliant, pending independent verification. In addition, independent verification reviews disclosed that 2 previously reported non-compliant systems, the Tenant Rental Assistance Certification System (F87) and the Single Family Insurance System (A43), are now compliant. A complete listing of HUD's financial management systems, including status, is shown in Appendix A-3. The President's Management Agenda section of this report includes additional information on FY 2003 improvements and actions planned to achieve overall compliance.

Management Concerns

HUD also reports on management concerns, which 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 2003, HUD had 12 open management concerns. Corrective actions taken to improve controls over FHA's Single Family Property Inventory were sufficient to warrant closure of that concern, leaving a total of 11 open management concerns at the end of FY 2003.

Management Concerns
FY 2002 Carry Over Issues and FY 2003 Status

Carry Over Issues	Management Concern	Status at End of FY 2003
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*	Open
MC10	SF Property Inventory	Closed
MC12	FHA Systems Controls*	Open
MC13	Resource Management	Open
MC14	Management Controls	Open
MC16	Single Audit Act Coverage	Open
MC17	Administrative Funds Control*	Open

**Reportable Conditions in OIG's FY 2003 Financial Audit*

Status of Remaining Management Concerns

Management Concern/ Problem Statement	FY 2003 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.	• Launched an enterprise-wide initiative, the Data Quality Improvement Program, to address HUD's information quality deficiencies. • Performed data quality assessments on eight HUD information systems, and certified eight HUD information systems as meeting HUD data quality standards. • Trained Departmental personnel on developing performance measures, drafting performance budget justifications, and use of the newly restructured budget formats. • Incorporated the Performance Assessment Rating Tool performance measures into the budget submissions. • Instituted Results Oriented Management and Accountability training for HUD staff and 2003 Notice of Funding Availability (NOFA) applicants, and required use of a common methodology and format (Logic Model Form 96010) for capturing performance goals for activities to be conducted under HUD's financial assistance programs.	• Fully implement the Data Quality Improvement Program and define short and long-term approaches to identify, assess, report, and continually improve the overall quality of HUD's data. • Complete the data quality assessment and certification of HUD information systems used to support Annual Performance Plan reporting. • Evaluate the Logic Model responses submitted under the 2003 grant application process to improve outcome and output performance measures of applicants and grantees. • Provide additional training sessions to HUD staff and the grantee community. • Continue aligning and integrating the President's Management Agenda, Management Plan, Annual Performance Plan, and Performance and Accountability Report.
PHA Monitoring Continued efforts are needed to improve housing authority monitoring to ensure that program funds are expended in compliance with laws and regulations.	• Reorganized the Office of Public and Indian Housing, dismantling the Troubled Agency Recovery Centers and reassigned out-stationed employees back to the field offices to maximize limited resources. • Conducted Compliance and Monitoring Initiative training for field office staff responsible for monitoring. • Assessed the adequacy of field office monitoring during Quality Management Reviews.	• Conduct extensive training on PHA recovery efforts. • Continue delivery of the Compliance and Monitoring Initiative training to field office staff. • Continue the Quality Management Reviews. • Upgrade PIC 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.	• Implemented HUD's Single Sign On initiative. • Implemented a new Microsoft Windows 2000 operating system for local area network servers. • Developed a new Information Technology Security Policy. • Updated HUD's ADP Security Handbook. • Updated Critical Infrastructure Protection in compliance with Presidential Decision Directive-63. • Provided Enterprise Security Awareness training to employees and contractors, covering the Federal Information Security Management Act requirements and all four critical infrastructure protection areas: 1) data; 2) people; 3) facilities; and 4) systems.	• Complete the implementation of the new Microsoft Windows XP operating system for all employees' desktop personal computers. • Oversee the new 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. • Fully implement a systems security accreditation and certification process.
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.	• Conducted a reconciliation of the Office of Inspector General derived list that showed users who have access to mission critical systems without background investigation records in the Security Control and System. • Identified and removed users with greater that read access who failed to submit the appropriate background investigation documents, or who were terminated or no longer authorized to access information resources. • Began quarterly comparison of access security data with data residing in the personnel security's database.	• Continue the quarterly comparison of access security data with data residing in the personnel security's database and consistently adhere to requirements.

Management Concern / Problem Statement	FY 2003 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.	• Improved annual review of unliquidated obligations by enhancing web-based software to incorporate administrative contracts, previously reviewed via manual process. • Retired the Regional Operating Budget and Obligation Tracking System and implemented revised systems and procedures for the Public and Indian Housing Operating Subsidy Program that satisfy the management control requirements of A-127. • Implemented further enhancements to the configuration of the project cost accounting module of the HUD Central Accounting and Program System to track budgets, commitments, obligations, and expenditures. • Enhanced the data available in the financial data mart and added new tools to the toolkit for deployment of reports such as the annual validity of obligations reports through web technology and new broadcast capabilities. • Reconciled Section 236 program and financial systems data, posted necessary adjustments, and institututed improved controls to maintain proper balances.	• Initiate a significant number of upgrades to PIC that will take advantage of an improved technical architecture that is being developed through the Enterprise Architecture effort. Included in the enhancements is the development of automation support for the Capital Fund to enable improved tracking of obligations by PHAs. • Develop an automated monthly report on grant obligations per grant program to more effectively monitor the obligation and expenditure of grant program funds. • Complete systems improvements and other actions to provide for more timely recaptures of rental assistance funds.
FHA Loss Prevention FHA needs to further improve its early warning or detective control processes in order to timely prevent unplanned risks to its insurance portfolio.	• Began piloting the Technology Open to All Lenders Scorecard, an automated underwriting system that considers using credit scoring and systematic confirmation of the borrower's identity. • Issued a solicitation with a new Statement of Work that includes incentives and disincentives for the management and marketing contracts.	• Fully implement FHA's Technology Open to All Lenders Scorecard. • Implement a pilot program for electronic endorsement of FHA mortgages. • Implement a post-endorsement technical review algorithm to further target loans for early intervention. • Implement the statistical model for targeting appraisers for review. • Award new management and marketing contracts.
FHA Systems Control Continued improvement is needed in the area of ADP application security, system support, and preparation and maintenance of system documentation.	• Implemented FHA Subsidiary Ledger, which addressed several long-standing ADP control issues. • Implemented configuration management to track management approval of changes to the single family and multifamily cash flow models.	• Perform a 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 enhancement of HUD's security certification and accreditation program and incorporate FHA systems in the program. • Replace the Credit Subsidy Control System, which is used to monitor credit subsidies and related appropriations for Multifamily mortgages, and integrate the process with the overall budgetary and funds control functions of the FHA Subsidiary Ledger.

Management Concern / Problem Statement	FY 2003 Accomplishments	Planned Actions
Resource Management HUD needs to develop a comprehensive strategy to manage its resources and better estimate staffing needs and support its staffing requests.	• Completed the Strategic Human Capital Management Plan to address the human capital issues facing the Department. • Implemented the enhanced HUD Intern Program, designed to maintain a constant flow of talented individuals into HUD's workforce. • Developed a new Emerging Leaders Program for HUD aspiring leaders, supervisors, managers, and executives. • Launched Operation Brain Trust to capture the knowledge of experienced HUD professionals and leaders, and deliver that knowledge to new less experienced employees. • Completed a full year of Total Estimation and Allocation Mechanism time and workload data gathering to validate the Resource Estimation and Allocation Process staffing estimates.	• Complete the comprehensive workforce analysis and an Individual Program Office Workforce Plan for the four core business program offices. • Complete development of Departmental Succession Planning Strategy, which links to the Workforce Plan, Resource Estimation and Allocation Process study results, the Strategic Human Capital Management Plan, and competitive sourcing plans. • Implement the HUD Integrated Human Resources and Training System, which will integrate all of HUD's human resources information into a single platform making information readily available to managers and supervisors for strategic human capital planning and employee development. • Conduct Resource Estimation and Allocation Process studies for two-thirds of the Department over the next 12 months. • Develop and conduct 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.
Management Controls Weaknesses in the Department's control environment impact HUD's ability to effectively manage its programs.	• Issued new guidance on the Front End Risk Assessment process for program offices to use when mitigating risks for new or substantially revised programs. • Completed a total of ten Quality Management Reviews of field office operations, providing the opportunity to detect emerging problems and give immediate technical assistance to the field. • Further refined the Department's Compliance and Monitoring Initiative training, which is designed to bring consistency and uniformity to HUD's monitoring process in Headquarters and the field. The total number of employees trained during FY 2003 was 175. • Continued delivery of the new Compliance and Monitoring Course designed specifically for managers and supervisors. A total of 108 managers and supervisors were trained during FY 2003. • Initiated an accelerated management decision process for internal audits that encourages reaching early management decisions prior to the issuance of the final report.	• Revise the Departmental Management Control Handbook 1840.1 Rev-3, to reflect current policies and procedures and streamline the Front End Risk Assessment process. • Continue compliance audits of the Audit Liaison Officer's certification and documentation process for both Headquarters and the field in accordance with Handbook 2000.6 Rev-3. • Further refine the Quality Management Review process. • Implement a recovery audit process designed to identify overpayments to contractors that are due to payment errors. • Complete actions to eliminate or downgrade material weaknesses or other deficiencies.

Management Concern / Problem Statement	FY 2003 Accomplishments	Planned Actions
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.	• Strengthened HUD program area guidance on single audit processing. • Continued to emphasize single audit requirements and use during Compliance Monitoring Initiative training to Headquarters and field staff and supervisors. • Continued testing of field office use of single audits as part of HUD's Quality Management Review Program.	• Develop and implement a central single audit resolution tracking system for HUD program areas that do not have a central 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.	• Issued new policies and procedures for administrative control of funds. • Enhanced legal staff function to advise management on appropriations law • Established a Funds Control Oversight group to investigate possible Anti-Deficiency Act violations. • Provided appropriations law training to key funds control officials. • Documented funds control plans for FY 2003 appropriations.	• Flowchart and improve documentation of funds control processes. • Begin cyclical testing of compliance with funds control processes. • Update handbook to reflect revisions required by the HUD Appropriations Act for FY 2003 and FY 2004. • Complete satellite broadcast and web-based training on funds control for all HUD staff. • Plan systems improvements to further strengthen HUD's funds control.

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, 2002 through September 30, 2003. 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 2003, 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 fifth consecutive semiannual period, the Department ended FY 2003 with no overdue management decisions. This two 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, the Audit Resolution Corrective Action Tracking System, a new on-line system for reaching management decisions and tracking the implementation of recommendations, was implemented in May 2003.

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 2003 began with a total of 279 recommendations without management decisions. During the year, 801 recommendations requiring management decisions were added to HUD's active workload, and management decisions were made on a total of 858 recommendations. FY 2003 ended with 222 recommendations without management decisions, all within the statutory period of six months.

Summary Of Recommendations Without Management Decisions
October 1, 2002 - September 30, 2003

Opening Inventory	279
New Audit Recommendations Requiring Decision	801
Management Decisions Made	(858)
Audit Recommendations Awaiting Management Decisions	222
Audit Recommendations Beyond Statutory Period	0

Recommendations With Management Decision But No Final Action Taken

The Department began the year with an inventory of 783 management decisions requiring final action. During FY 2003, 858 additional management decisions were made, and final action was completed on a total of 831 recommendations. As a result, the total number of audit recommendations with management decisions but final action not yet completed at the end of the year was 810. Of this 810 number, 55 are under active multi-year repayment plans that will remain open until the collection activities are completed.

Summary Of Recommendations With Management Decisions And No Final Action
October 1, 2002 - September 30, 2003

Opening Inventory	783
Management Decisions Made During FY 2002	858
Sub-Total No Final Action at End of Period	1,641
Final Action Taken	(831)
Total Audit Recommendations Requiring Final Actions	810[1]

[1] *The Department has 55 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, 2002, there were 131 audits with management decisions on which final action had not been taken, with a dollar value of disallowed costs totaling $170 million. During FY 2003, management decisions were made for 76 audits with disallowed costs totaling approximately $52.7 million. The Department had 56 audits in which final action was taken during the fiscal year, with approximately $33 million in recoveries and $29 million in write-offs. As of September 30, 2003, there were 151 audits with disallowed costs awaiting final action, with an associated value of approximately $160 million.

Note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, disallowed costs are not recorded until all recommendations in a report are closed. When reporting is done at the more detailed recommendation level, the $160 million of disallowed costs awaiting final action is reduced by $37 million (See footnote 5).

Management Report on Final Action On Audits With Disallowed Costs
For the Fiscal Year Ended 9/30/03

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.	131	$170,454,035
B. Audit reports on which management decisions were made during the period	76	$52,720,976[1]
C. Total audit reports pending final action during period	207	$223,175,011
D. Audit reports on which final action was taken during the period		
1. Recoveries	45[2]	$33,351,823
(a) Collections and offsets	43	$27,792,372
(b) Property	2	$4,978,638
(c) Other	3	$580,813 2.
2. Write-offs	45	$29,498,552
3. Total of 1 and 2	56[3]	$62,850,375
E. Audit reports needing final action at the end of the period (subtract D3 from C)	151[4]	$160,324,636
	(318)[5]	($123,461,480)

1 Includes $55,145 from 2 retroactive entries made by the Office of Inspector General.
2 Audit reports are duplicated in D.1.(a) and D.1.(c), thus the total is reduced by 3.
3 Audit reports will not add by 34 because of partial recoveries and write-offs which are included in both D.1 and D.2.
4 Litigation, legislation, or investigation is pending for 21 audit reports with costs totaling $35,731,456.
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 2003, there were 16 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 $8.2 million. The Department had eight recommendations for which final action was taken during the fiscal year with a dollar value of $8.8 million, and three recommendations totaling $0.9 million that management concluded should not or could not be implemented. At the end of the year, there were ten audits with recommendations to put funds to better use awaiting final action with an associated value of approximately $9.7 million.

Management Report on Final Action On Audits With Recommendations That Funds Be Put to Better Use For The Fiscal Year Ended 9/30/03

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.	16	$8,244,179
B. Audit reports on which management decisions were made during the period	15	$1,275,824,686
C. Total audit reports pending final action during period (Total of A and B)	31	$1,284,068,865
D. Audit reports on which final action was taken during the period		
1.Value of recommendations implemented (completed)	8	$8,826,534
2. Value of recommendations that management concluded should not or could not be implemented	3	$869,071
3. Total of 1 and 2	10[1]	$9,695,605
E. Audit reports needing final action at the end of the period (subtract D3 from C)	21[2]	$1,274,373,260
	25[3]	($1,187,511,059)

1 Audit reports are duplicated in D.1 and D.2, thus the totalis reduced by 1.
2 Litigation, legislation, or investigation is pending for 2 audit reports with costs totaling $4,379,101.
3 The figures in brackets represent data at the recommendation level as compared to the report level.

Delinquent Debt Collection

Fiscal Ending	Total Debt (In millions)	Delinquent Debt (In millions)	Delinquent Debt Collections (In millions)
2003	$12,986	$763	$3,295

In FY 2003, Due Process Notices were sent to 2,768 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.

In FY 2003, HUD published an official Implementation Plan and began processing appeals of administrative wage garnishment action submitted to HUD's Board of Contract Appeals. Treasury acknowledged that HUD was the first major creditor agency to implement administrative wage garnishment via Treasury's Cross-Servicing Program. To date, administrative wage garnishment action has been initiated on 568 debts and $655,833 has been collected via administrative wage garnishment on HUD debts.

During FY 2003, HUD submitted over 18,500 delinquent debts totaling $266.2 million to Treasury for potential offset via the Treasury Offset Program. HUD also sent 3,800 debts, totaling $43.3 million to Treasury for Cross-Servicing during the year. Cross-Servicing collections on debts referred during FY 2003 totaled over $11.8 million and $2.1 million via the Treasury Offset Program.

HUD 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. In FY 2003, HUD continued to refer delinquent debtors to Treasury for offset on a weekly basis and to Cross-Servicing on a monthly basis. Also in FY 2003, HUD modified its collection process to reduce the number of demand letters from 4 to 1 single demand letter.

HUD continues to work with Treasury in the development of a new Treasury debt collection system, "FedDebt." In FY 2003, HUD completed the enhancement to its Debt Collection Asset Management System (F71) that incorporated the "Currently Not Collectible" debt status. The improvement allows HUD to reflect a more accurate value of the delinquent debts in its portfolio as mandated by OMB Circular A-129. At the end of FY 2003, HUD had a total of $212.7 million classified as currently not collectible. These debts were written-off in FY 2003 but not yet closed out because they continue to be eligible for the Treasury Offset Program.

Appendices

1. Glossary of Acronyms

2. Units/Households Receiving HUD Assistance

3. Compliance Status of Financial Systems

4. Role of Program Evaluations and Research Studies in Assessing Program Performance

5. Erroneous Payments Reduction Activity

Appendix 1. Glossary of Acronyms

Acronym	Definition
ADP	Automated Data Processing
HIV/AIDS	Human Immunodeficieny Virus/Acquired Immunodeficiency Syndrome
CA	Contract Administrator
CDBG	Community Development Block Grant
CFO	Chief Financial Officer
CHUMS	Computerized Homes Underwriting Management System
CPD	Community Planning and Development
DEC	Departmental Enforcement Center
EC	Enterprise Communities
eGovernment	Electronic Government
ELIHPA	Emergency Low-Income Housing Preservation Act of 1987
EZ	Empowerment Zones Fannie Mae Federal National Mortgage Association
FFMIA	Federal Financial Management Improvement Act
FHA	Federal Housing Administration FHAP Fair Housing Assistance Program
FHIP	Fair Housing Initiative Program
FMFIA	Federal Managers' Financial Integrity Act
FPM	Field Policy and Management
Freddie Mac	Federal Home Loan Mortgage Corporation
FSS	Family Self-Sufficiency
FY	Fiscal Year
GAO	General Accounting Office
Ginnie Mae	Government National Mortgage Association
GNMA	Government National Mortgage Association
HA	Housing Authority
HMIS	Homeless Management Information System
HOME	Housing Investment Partnership
HUD	The Department of Housing and Urban Development
HUDCAPS	HUD Central Accounting and Program System
LOCCS	Line of Credit Control System
NAPA	National Academy of Public Administration
NOFA	Notice of Funds Availability
OCIO	Office of the Chief Information Officer
OCPO	Office of the Chief Procurement Officer
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PHA	Public Housing Agency
PHAS	Public Housing Assessment System
PIH	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
SEMAP	Section Eight Management Assessment Program
TEAM	Total Estimation and Allocation Mechanism

Appendix 2. Units/Households Receiving HUD Assistance

	2000	2001	2002	2003
SECTION 8 LOW INCOME RENTAL ASSISTANCE PROGRAM:				
Tenant-based Assistance	1,837,428	1,966,171	1,997,733	2,051,967 a/
Project-based Assistance	1,358,797	1,343,574	1,328,532	1,319,632
TOTAL SECTION 8	3,196,225	3,309,745	3,326,265	3,371,599 a/
PUBLIC HOUSING PROGRAM	1,266,980	1,219,238	1,208,730	1,206,721
Sub-total	4,463,205	4,528,983	4,534,995	4,578,320
Housing for the Elderly (Section 202)	NA	NA	62,694	70,026 b/
Housing for the Disabled (Section 811)	NA	NA	18,649	20,379 b/
Tenant-based 811	NA	NA	13,061	14,447 b/
Sub-total			94,404	104,852 b/
OTHER ASSISTANCE PROGRAMS				
Homeownership Assistance Program (Section 235)	26,477	17,746	13,043	10,195
Rental Housing Assistance Program (Section 236)	446,300	414,576	392,233	368,900
Rent Supplement	20,261	20,161	18,600	18,107
Sub-total	493,038	452,483	423,876	397,202
Less estimated number of households receiving more than one form of assistance (double count)	(190,140)	(190,140)	(190,140)	(217,250)
TOTAL, PUBLIC AND ASSISTED HOUSING a/	4,766,103	4,791,326	4,863,135	4,863,124
CDBG Households Assisted	182,700	172,445	187,390	184,611
HOME Tenant-Based Assistance	6,899	11,756	10,239	10,731
HOME Rental Units Committed	33,487	27,456	27,243	41,092
HOME New Homebuyers Committed	30,748	29,690	32,490	31,999
HOME Existing Homeowners Committed	14,731	12,566	14,082	15,181
HOME TOTAL HOUSEHOLDS	85,865	81,468	84,054	99,003
Housing Opportunities for Persons with AIDS Households	43,902	72,117	84,059	86,600
Native American Housing Block Grant	NA	NA	NA	87,169 b/
Title VI Federal Guarantee program	NA	NA	NA	17 b/
Native American Homelands Block Grant	NA	NA	NA	188 b/
TOTAL OF CDBG, HOME, HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS AND NATIVE AMERICAN HOUSING BLOCK GRANT c/	312,467	326,030	355,503	457,588

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/ The year additional information has been provide in FY 2003 Performance and Accountability Report for housing for the Elderly and Disabled and Native American and Hawaiian Housing programs.

c/ Historical data has in some cases been revised from prior Performance and Accountability Reports to reflect undated data.

N/A Not Available

Appendix 3. Compliance Status of Financial Systems

HUD obtains independent review of its financial management systems at the individual system level to confirm compliance with the requirements of the Federal Financial Management Improvement Act/A-127. FHA certified that the implementation of the FHA Subsidiary Ledger in October of 2002 resolved the non-compliant issues associated with its systems, but 9 of those systems are reported as compliant pending independent verification.

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 Sys
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 Premium Collection Sys-upfront**
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 (3)

B09	Default Management System
B15	Check Record Issuance System
B16	Macola Accounting Software System

Public and Indian Housing (2)

P113	Public and Indian Housing Information Center System
P106	Tenant Assessment Subsystem

* Non-compliant
** Compliant, pending independent verification

Appendix 4. The Role of Program Evaluations and Research Studies in Assessing Program Performance

Each year, HUD completes a number of program evaluations and research studies of significant policy topics. 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.

The Appendix presents the primary findings of selected research reports completed since the beginning of FY 2003. Most of the reports are available from the Office of Policy Development and Research's clearinghouse, HUD USER (http://www.huduser.org).

Strategic Goal 2: Help Families Move from Rental Housing to Homeownership

The following is a selected list of evaluation and research efforts relevant to Strategic Goal 2 that were completed since the beginning of FY 2003. 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* biannually, which provide data and analysis about housing markets.

- **Voucher Homeownership Assessment: Volume 1 – Cross-Site Analysis & Volume 2 –** Case Studies. This study is an assessment of the early implementation of the Voucher Homeownership Program. The purpose of this study is to provide insight into aspects of the program that are working well and those that are problematic. Although it is premature to conduct a complete evaluation of the program, this study provides useful information about how the Voucher Homeownership Program has been designed and implemented in different parts of the country, the characteristics of program purchasers and properties purchased, and the local factors that affect program implementation.

  The report finds that PHAs and their partners have focused on assisting qualified households to purchase houses in good condition and under financing terms that will be affordable over the long-term. The 12 local programs that were studied have been effective in developing the partnerships, financing arrangements, and management strategies necessary to maximize the opportunities presented by their local markets and minimize the constraints. Given the experiences of the study sites, it is reasonable to expect that the program will be able to assist eligible households to purchase modest housing in a variety of housing markets, with the possible exception of the most expensive markets in the country. However, homeownership vouchers are unlikely to become a large share of the overall voucher programs at those PHAs offering the homeownership option. Most PHAs in this study anticipated that between 10 and 20 households would be able to purchase through their programs each year.

  The size of a PHA's voucher homeownership program is constrained by the number of qualified households, the availability of staff resources to assist households to become purchase ready, the availability of additional subsidies beyond the voucher, and the availability of housing stock for purchase. Supporting program participants after they purchase is likely to be a key challenge for PHAs and their partners as the number of homebuyers grows.

- **Issue Papers on Demographic Trends Important to Housing**. The Department commissioned three papers on demographic trends important to housing in order to better understand how these trends will shape both housing demand and supply over the coming decade. These papers review past immigration patterns, how assumptions about future immigration can influence population predictions, and current and future trends in households' age and minority compositions. Collectively, these three papers illustrate that the current demographic profile of the typical American household can be expected to change dramatically over the coming decades.

The first paper finds that in the coming decades we can expect an increasing share of immigrants in the population. The share of immigrants living within metropolitan areas will increase, but a smaller proportion will live the central cities. In addition, the size of dwelling places of immigrants will increase.

The second paper concludes that the United States will continue to witness substantial growth in the number of households over the next two decades. Household growth between 2000 and 2020 should be about 23.8 million. On an annual basis, this translates into about 1.1 to 1.3 million households per year.

In the final paper, the author notes that the combination of longer life expectancies and the continuing preference for one or two children will make households without children even more numerous. The nation's minority population has grown significantly in recent decades, and minority household patterns are somewhat different from those of non-Hispanic white households. In particular, minority households tend to have more children and are more likely to include multiple generations and/or be headed by a single individual. The author concludes that whether for financing, constructing, or managing housing, professionals will need to investigate ways to accommodate the greater variety of household types.

- **Refinancing Premium, National Loan Limit, and Long-Term Care Premium Waiver for FHA's Home Equity Conversion Mortgage Program**. The Home Equity Conversion Mortgage Program is a form of reverse mortgage in which the homeowner receives payments from the lender. In 2000, HUD completed an evaluation of the Home Equity Conversion Mortgage Program entitled, "No Place Like Home: A Report to Congress on FHA's Home Equity Conversion Mortgage Program," known as the 2000 Home Equity Conversion Mortgage Report. This report updates the actuarial analysis presented in the 2000 Home Equity Conversion Mortgage Report and examines the potential impact of three legislated changes to FHA's Home Equity Conversion Mortgage Program:
  - **Replace local loan limits with a single, national loan limit**. Allowing national loan limits decreases the net liability slightly from $245 million to $249 million for 87 percent loan limits and to $252 million for 100 percent loan limits.
  - **Reduce the premium for refinancing**. There are some disadvantages from this policy, particularly for owners with few assets beyond the equity in their house. Medicaid pays health care expenses for most low-income seniors. As a result, few low-wealth seniors would choose to tie up their primary source of wealth in order to spare Medicaid an uncertain, future expense.
  - **Waive the upfront premium for Home Equity Conversion Mortgages used exclusively for the payment of long-term care insurance policies**. The key finding is that even with the most flexible option and highest assumed participation, the incremental effect of refinancing on net liability is less than $33 million. Another disadvantage of this policy is that FHA would lose the revenue from the upfront premium—over $1 million for every 1,000 participants in the long term care insurance version of the home equity conversion mortgage.
- **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, conducted every two years, 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.

- **Study of HUD's Site Contamination Policies**. This study reviews HUD's contamination policies and provides recommendations such as increased environmental engineering and financial risk analysis for how to improve the Department's approach to environmental review.
- **Technology Roadmapping For Manufactured Housing**. This document is one in a series of technology roadmaps created to serve as guides to help the housing industry make decisions about research and development investments. The Partnership for Advancing Technology in Housing, administered by HUD, is focused on improving the affordability and value of new and existing homes. Through public and private efforts, Partnership for Advancing Technology in Housing is working to improve affordability, energy efficiency, environmental impact, quality, durability and maintenance, hazard mitigation, and labor safety. To accomplish this, Partnership for Advancing Technology in Housing has identified research and established priorities for technology development that will enable the home building industry to work toward the Partnership for Advancing Technology in Housing mission. This priority setting process, known as "Roadmapping," has brought together many industry stakeholders, including home manufacturers, retailers, builders, remodelers, community owners and managers, trade contractors, material and product suppliers, financial industry representatives, codes and standards officials, power suppliers and public agencies. To date, the group's work has led to the development of four technology roadmaps.

  This document focuses specifically on manufactured housing. The Roadmap offers a vision of how the factory built housing industry will continue to create and apply new technologies that increase home value and performance. The document summarizes the situation today, describes major industry challenges and opportunities, and suggests activities and milestones that will lead to the fulfillment of the vision.
- **Partnership for Advancing Technology in Housing Technology Roadmap: Energy Efficiency in Existing Homes—Volume Two: Strategies Defined**. This document is another in the series of technology roadmaps discussed above. The document focuses specifically on improving energy efficiency in existing housing. It describes the challenges, and outlines activities and accomplishments that will lead to the achievement of the vision. These include promoting new technologies, evaluating products and processes for retrofit, building capabilities among trade contractors, and identifying potential consumer incentives.
- **Getting Building Technology Accepted: Developing and Deploying New Building Technologies**. This report explains how regulatory activities affect new building technology research, development, and deployment and how to effectively apply regulatory information to successfully develop and deploy building technologies. Taking these issues into consideration will build an awareness of the need to perform technology acceptance planning – the integration of parallel rather than sequential efforts to address building regulations and technology development. By using the approaches in this report, product innovators and proponents will better understand the issues associated with codes and standards and be better prepared to develop successful strategies to bring new products to the marketplace. These new products will, in turn, contribute to the development of safer, better, and more affordable housing for all Americans.

Strategic Goal 3: Improve the Quality of Public and Assisted Housing and Provide More Choices for Its Residents

- **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.

- **Impacts of Welfare Reform on Recipients of Housing Assistance: Evidence from Indiana and Delaware**. Welfare reform and housing assistance programs have the potential to strongly affect one another because of the substantial overlap in the populations they serve. Although the potential for interactive effects between welfare reform and housing assistance has been recognized, relatively little rigorous research evidence is available on the subject. This is the first study that uses HUD administrative data to estimate the experimental impacts of welfare reform on exits from housing assistance. Housing subsidies' potential to improve the effectiveness of welfare reform has implications for how state welfare agencies and housing programs might target resources, and provides a strong rationale for integrating services.

  The evidence from this study suggests that welfare reform did not, for the most part, have substantially different impacts for welfare recipients with housing assistance in Indiana and Delaware compared to welfare recipients without housing assistance. For both HUD-assisted and non-HUD-assisted recipients in the two states, welfare reform increased employment and earnings and decreased welfare receipt. At a minimum, the results presented in this report indicate that HUD-assisted residents are no less likely to be affected by welfare reform and no less able to respond to welfare reform policies. The non-experimental analysis in this report provides intriguing, though not conclusive, evidence that welfare recipients' additional time in housing assistance may generate positive effects beyond the direct benefit of housing and, in particular, may increase recipients' subsequent employment and decrease their reliance on welfare.

- **Costs and Utilization in the Housing Choice Voucher Program**. This study provides insights into the factors that affect Housing Choice Voucher program utilization rates and costs in a sample of sites nationwide. HUD, Congress, voucher program managers, researchers and housing advocacy groups have focused on voucher utilization and the related issues of success rates and program costs for several years. Because under-utilization of vouchers results in fewer families receiving housing assistance each year than could be served with available resources, HUD would like to make all possible efforts to maximize the utilization of vouchers allocated to local programs.

  The study finds that the key factors that affect utilization rates appear to be rental market conditions, condition of the affordable housing stock, PHA management, method used to determine voucher issuance, leasing success rates, and frequency of updating wait lists. The study also finds that factors that affect normalized subsidy costs include participant income distributions, age/disability status, use of exception payment standards, enforcement of rent reasonableness, standards for assigning bedroom sizes, and higher concentrations of opt-out vouchers.

- **Housing Choice Voucher Location Patterns: Implications for Participant and Neighborhood Welfare**. The purpose of this study is 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 Housing Choice Voucher 's possible impacts on program participants and the neighborhoods in which they live. This study extends previous research by providing information for the 50 most populous Metropolitan Statistical Areas where about one-half of all program units are located.

  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. However, 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. By highlighting these areas, the study paves the way for further information gathering to uncover practices and procedures that substantially affect housing choice, poverty deconcentration, movement toward self-sufficiency and neighborhood stability, and for testing alternative practices and procedures.

- **SEMAP Study**. (Not published). One of the key tools for assessing the effectiveness of management of the housing choice voucher program is the Section Eight Management Assessment Program (SEMAP). SEMAP helps HUD target monitoring and assistance to PHA programs that need the most improvement. This is a new and untested system. As a first step in assessing the value of the system, Policy Development and Research conducted a study, which examined the accuracy of Public and Indian Housing-reported SEMAP data and estimated the effect of poor data on SEMAP scores. The study showed substantial reporting error, and Public and Indian Housing is considering modifications to SEMAP based on the study.
- **Work Participation and Length of Stay in HUD-Assisted Housing**. (Published in Cityscape: A Journal of Policy Development and Research, Volume 6, Number 2, 2003). This study analyzes how long HUD-assisted tenants remain assisted once admitted to the Housing Choice Voucher program, the project-based Section 8 program or public housing, and to what extent assisted tenants participate in paid work. The study finds that five out of nine nonelderly nondisabled assisted tenants are employed, and the earnings of most of these tenants are below the federal poverty level. The study also finds that the typical length of stay in housing assistance for nonelderly nondisabled tenants is approximately 3 years.

Strategic Goal 4: Strengthen and Expand Faith-Based and Community Partnerships that Enhance Communities

- **Faith-Based and Community-Based Organizations Summit**. While faith-based and other community development organizations have done a great deal of work in their target communities, remarkably little is known about how to help these organizations grow, become more effective, and reach the point of long-term sustainability. Working in partnership with HUD’s Office of Community and Faith-Based Initiatives, Policy Development and Research hosted a Summit in June 2003 to lay the foundation for answering these questions. Policy Development and Research is currently completing a compendium of papers initially developed for the June Summit, which will greatly enhance the literature in the area of capacity building for faith- and community-based organizations.

Strategic Goal 6: Embrace High Standards of Ethics, Management and Accountability

- **Planning to Meet Local Housing Needs: The Role of HUD’s Consolidated Planning Requirements in the 1990s**. This study reviews how large central cities and suburban jurisdictions in six metropolitan areas with very diverse housing markets undertook housing needs analyses and priority and strategy development for housing plans during the 1990s. It then examines what actual housing implementation occurred during that time period and how the needs for affordable housing changed.

  The study finds that jurisdictions are successfully implementing the consolidated planning requirements, and that these requirements are generally having a positive impact on local planning processes. However, HUD could strengthen and clarify the process and provide more support to jurisdictions to make the local consolidated plan more meaningful and effective. The report makes four key recommendations for improving the consolidated planning process:

  - Addressing the problem of outdated census information,
  - Providing explicit guidance that priorities and strategies should reflect all federal, state and local resources,

- Designing activity reports that align with priorities and strategies, and
- Requiring Public Housing Agencies to actively participate in the local planning process.

Strategic Goal 7: Ensure Equal Opportunity and Access to Housing

- **Discrimination in Metropolitan Housing Markets: National Results from Phase 1 and Phase 2 of the Housing Discrimination Study (HDS 2000)**. HDS 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 provides national estimates of discrimination faced by African Americans and Hispanics in 2000–2001 as they searched for housing in the sales and rental markets. It also provides an accurate measure of how housing discrimination has changed for these groups since 1989. The report shows large decreases 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. However, Hispanic renters now are more likely to experience discrimination in their housing search than do African American renters. Although discrimination is down on most measures for African American and Hispanic homebuyers, there are worrisome upward trends of discrimination in the areas of geographic steering for African Americans and, relative to non-Hispanic whites, the amount of help agents provide to Hispanics with obtaining financing.

  Phase 2 of the study provides the first ever estimate of the level of discrimination experienced by Asians and Pacific Islanders. The study finds that Asian and Pacific Islander prospective renters experienced consistent adverse treatment relative to comparable whites, at about the same as the level for African American and Hispanic renters. In addition, Asian and Pacific Islander prospective homebuyers experienced consistent adverse treatment relative to comparable whites, with systematic discrimination occurring in housing availability, inspections, financing assistance, and agent encouragement.

Strategic Goal 8: Support Community and Economic Development Efforts

- **Public-Sector Loans to Private-Sector Businesses: An Assessment of HUD-Supported Local Economic Development Lending Activities**. This report assesses the performance of the third party loans under principal programs that the Office of Community Planning and Development directs toward economic development: the Community Development Block Grant Program; the Section 108 Program; and the Economic Development Initiative. The research describes the Community Development Block Grant, Section 108, and Economic Development Initiative programs, how they work, and what types of economic development they fund; estimates the size and quality of the loan portfolio; and appraises the success of these programs in terms of job creation, business success, loan pay back, leveraging, and cost per job created. Additionally, the study examines the reasons why communities have used Section 108, their experiences using Section 108, the effect of Economic Development Initiative money on that use, and the results of Section 108 projects. The concluding chapter assesses the feasibility of developing a secondary market for the economic development loans originating under the Community Planning and Development programs.

  The findings of this report demonstrate the scope and variety in the Community Planning and Development programs and the range of locally-determined objectives served by third party loans. Examination of nearly 1,000 loan files maintained by the 51 most active community users of Community Development Block Grant and Section 108 funds for third-party lending indicates that local loan programs create jobs and leverage investment at costs that are comparable to those of other federal government programs.

- **The Impact of CDBG Spending on Urban Neighborhoods**. This study examines whether readily available data sources can be used to track the outcomes of activities funded with CDBG. The study concludes that larger CDBG investments are linked to improvements in neighborhood quality in the 17 cities studied for this project. The study also finds that two readily available data elements – median home loan amount and the number of businesses – hold some promise as tools for helping local communities measure the effects of concentrated CDBG expenditures, but that additional research is needed to verify the utility and clarify the limitations of this methodology. Even as HUD continues to refine its research in this area, the measures developed here may be useful to local communities interested in assessing their own community development performance and in furthering their understanding of the neighborhood effects of past CDBG investments.

- **Redistribution Effect of Introducing Census 2000 Data into the CDBG Formula**. This report details how and why funding allocations have shifted between jurisdictions over the past 10 years. The purpose of this report is to be a resource for understanding the intricacies of the existing formula. It does not discuss how the shifting allocations have impacted CDBG targeting of community development need.

  The report concludes that decennial data for poverty, overcrowded housing and, to a lesser extent, pre-1940 housing and population from the 2000 census has resulted in a shift in allocations under the CDBG dual formula, just as it did with the introduction of 1990 and 1980 data. The new census data affect not only the formula factors but also the introduction of new entitlement communities and new metropolitan areas. It is not clear whether these data have improved or lessened the targeting to need. A future report will examine this question.

- **The Practice of Low Impact Development**. This publication is intended to assist building professionals, municipal planning officials, private developers, and public sector officials by providing basic conventional and innovative land development technology information, and encouraging the amendment of existing development codes to facilitate the use of those technologies. In an effort to help meet both groups' needs, the publication provides ways to simultaneously incorporate economic and environmental considerations into the land development process. This approach to land development, called Low Impact Development, uses various land planning and design practices and technologies to simultaneously conserve and protect natural resource systems and reduce infrastructure costs. Low impact development still allows land to be developed, but in a cost-effective manner that helps mitigate potential environmental impacts.

Appendix 5. Erroneous Payments Reduction Activity

HUD is committed to reducing the risk of 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 (the Act) and Office of Management and Budget'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 shall estimate the annual amount of erroneous payments and report the estimates along with plans to reduce erroneous payments to the President and the Congress.

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.

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 P.L. 107-300 and OMB Memo No. M-03-13. The Office of the Chief Financial Officer has developed a plan for implementing the Act and has begun to put the plan into effect. HUD's plans and goals for identifying and reducing erroneous payments are being tracked under the President's Management Agenda.

Existing Erroneous Payment Reduction Program Activity

Prior to the Act, 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 constitute about 70 percent of HUD's appropriated funding, with over $24 billion in expenditures in FY 2003. Reduction of erroneous payments in HUD's rental housing assistance programs is the primary goal of the Rental Housing Integrity Improvement Project established by the Secretary in FY 2001. The Rental Housing Integrity Improvement Project is directed by the responsible HUD program offices, with Chief Financial Officer oversight. A FY 2003 study indicated a 30 percent reduction in the 2000 baseline estimation of $2.3 billion in erroneous payments attributed to program administrator errors in income and rent determinations. Further information on the study and the overall the Rental Housing Integrity Improvement Project effort is provided in Footnote 17 to HUD's consolidated FY 2003 financial statements and Indicator 3.2.1 in the Performance Information Section of this report.

Risk Assessment and Recovery Auditing Plans

The Chief Financial Officer's plan calls for a risk assessment of all of HUD's 140 funded programs and activities, except for the rental housing assistance programs already covered by the separate Rental Housing Integrity Improvement Project effort. HUD has obtained contracted services for administrative control of funds compliance reviews and other services related to reducing the risk of erroneous payments. In fulfillment of the requirements of

OMB Memo No. M-03-13 and OMB Circular A-11, this contract will assist HUD in providing for an assessment of all of HUD's funds control processes, a determination of what other programs and activities are at significant risk of erroneous payments, recommendations for internal control improvements, and estimation methodologies and estimates of error in activities most susceptible to erroneous payments.

HUD awarded this contract in late September 2003 and the contractor began work in the beginning of October 2003. Completion of the initial erroneous payment risk assessment and the corrective action planning phase is scheduled for the fourth quarter of FY 2004. Additional time may be needed to formulate and execute any required error measurement processes, depending upon the nature and scope of any programs assessed in excess of the improper payments threshold established in the Act and OMB guidelines. Erroneous payment rates for programs or activities other than the rental assistance programs will likely not be available until FY 2005.

HUD's contract for services related to the administrative control of funds also includes tasks designed to comply with the requirement to identify and recover erroneous payments to contractors, as set forth in Section 831 of the Defense Authorization Act of FY 2002 and OMB Memo No. M-03-07. This provision and its implementing guidance requires 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. The contractor shall formulate a methodology for performing recovery auditing on HUD contract activity by developing and assisting in the implementation of recovery audit programs and guides designed to identify potential improper payments to contractors. The contractor shall also assist HUD in the analysis of the reasons why payment errors occurred to recommend cost-effective controls to prevent such errors from occurring in the future.

Travel and Purchase Card Activity

In FY 2003, HUD led or was among the top federal agencies in terms of the lowest percentage of travel card balances delinquent in excess of 60 days each month. HUD ended the year with less than one percent (0.6%) of the total outstanding travel card balances delinquent more than 60 days. To achieve this acceptable level, corrective actions were taken to: automate HUD's travel form processing to improve the timeliness of travel voucher payments to staff, educate staff on travel regulations, strengthen management oversight of payment delinquencies, and use administrative payroll off-set or wage garnishment for egregious cases. It is clear HUD's travel card users now understand the rules and follow them, with appropriate management oversight to assure they do.

HUD has also continued to improve internal controls over its Purchase Charge Card Program, taking actions to: limit the number of cardholders; improve documentation requirements; train cardholders on the proper use of cards and processing of purchases; and increase the monitoring of card use to reduce the risk of improprieties. Performance metrics were established for both travel and purchase card activity for quarterly reporting to the Office of Management and Budget.

If you have any questions or
comments, please call James Martin,
Assistant Chief Financial Officer
for Financial Management at
202-708-0638 or email him at
James_M._Martin@hud.gov

For additional copies of this report,
please call the
CFO's Office for Financial Management
at 202-708-0638 extension 3842
or email Helen_Jackson@hud.gov

U.S. Department of Housing and Urban Development
Washington, DC 20410-0100

This report is available on the Web at www.hud.gov/cfo