

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

AT A GLANCE:

2006 Discretionary Budget Authority: \$28.5 billion
(Decrease from 2005: 11 percent)

Major Programs:

- Section 8 Rental Assistance
- Federal Housing Administration
- Public Housing
- HOME Improvement Partnerships Program
- Homeless Assistance Programs
- Housing for the Elderly and Disabled



MEETING PRESIDENTIAL GOALS

Promoting Economic Opportunity and Ownership

- Supporting the President's ambitious agenda for expanded homeownership by assisting approximately 40,000 low-income families with the downpayment on their first home.
- Preparing families for homeownership, identifying predatory lending practices, and helping current homeowners avoid default.
- Proposing two new mortgage programs that would help more than 250,000 families achieve homeownership.
- Supplying tax credits to increase the supply of single family affordable homes.

Supporting a Compassionate Society

- Working to end chronic homelessness through innovative local strategies to move chronically homeless individuals from the street to permanent supportive housing.
- Helping ex-offenders get a second chance at employment.

Making Government More Effective

- Reforming Housing Vouchers to improve results and better serve two million low-income households.

MEETING PRESIDENTIAL GOALS—Continued

- Expanding outreach to faith-based and community organizations to level the playing field for the Department of Housing and Urban Development's formula and competitive grants.
- Reducing improper payments in rental assistance programs.

PROMOTING ECONOMIC OPPORTUNITY AND OWNERSHIP

More Americans have achieved the dream of homeownership than at any time in our Nation's history: Sixty-nine percent of households own their homes. For the first time ever in 2004, a majority of minority households own their own homes. The 2006 Budget supports ambitious goals to:

- Add 5.5 million new minority homeowners by 2010 (goal set in 2002)—1.9 million new minority homeowners were added by 2004; and
- Increase the supply of affordable homeownership units by seven million over the next 10 years (goal set in 2004).

American Dream Downpayment Initiative

Saving enough cash for the downpayment and closing costs is the greatest obstacle to homeownership for many. To help overcome this obstacle, the President proposed new Department of Housing and Urban Development (HUD) funding to help low-income families purchase their first homes. On December 16, 2003, President Bush signed the American Dream Downpayment Act. Six months later, HUD distributed \$161.5 million in downpayment funds to over 400 State and local Governments. These funds have already helped over 4,000 families purchase their first homes; 50 percent of those families are minorities. The 2006 Budget provides \$200 million to continue this initiative.



On December 16, 2003, President Bush signed the American Dream Downpayment Act. As a result of this initiative, on October 29, 2004, Taryn Ramos was able to purchase her first home with the downpayment assistance grants administered by Fresno, California.

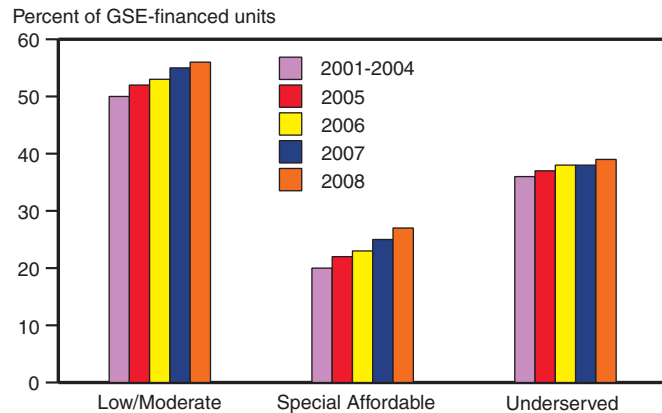
Housing Counseling

The Budget proposes \$40 million for Housing Counseling to prepare families for homeownership, identify predatory lending practices, and help current homeowners avoid default. In 2006, HUD will assist approximately 800,000 families to become homeowners or avoid foreclosure, using faith-based and community organizations in this effort.

PROMOTING ECONOMIC OPPORTUNITY AND OWNERSHIP—Continued

Ensuring Government-Sponsored Enterprises Promote Affordable Housing

New Affordable Housing Goals



Source: HUD.

Government-sponsored enterprises (GSEs) were chartered to help low- and moderate-income families secure mortgages. HUD recently published a rule that requires Fannie Mae and Freddie Mac to increase their purchases of mortgages for low- and moderate-income households and underserved communities. These new goals will push the GSEs to genuinely lead the market in creating homeownership opportunities for less advantaged Americans.

In addition to increasing the annual housing goals through 2008 (see accompanying chart), HUD's rule establishes new home purchase sub-goals in each of the three goal areas. This is intended to focus the GSE's efforts on purchases of homes rather than refinancings. HUD projects

that over the next four years, the GSEs will purchase an additional 400,000 home loans that meet these new and more aggressive goals as a result of the new rule.

FHA Zero Down Payment and Payment Incentives

To remove two large barriers to homeownership—the down payment and impaired credit—the Budget proposes two mortgage programs. The Zero Down Payment mortgage allows first-time buyers with a strong credit record to finance 100 percent of the home purchase price and closing costs. For borrowers with limited or weak credit histories, a second program, Payment Incentives, initially charges a higher insurance premium and reduces premiums after a period of on-time payments. In 2006, these new mortgage programs would assist more than 250,000 families achieve homeownership.

Single Family Homeownership Tax Credit

The President proposes a new Single Family Homeownership Tax Credit that will increase the supply of single family affordable homes by up to an additional 50,000 homes annually. Under the President's plan, builders of affordable homes for middle-income purchasers will receive a tax credit. State housing finance agencies will award tax credits to single family developments located in a census tract with median income equal to 80 percent or less of area median income and will be limited to homebuyers in the same income range. The credits may not exceed 50 percent of the cost of constructing a new home or rehabilitating an existing property. Each State would have a homeownership credit ceiling adjusted for inflation each year and equal to the greater of \$1.75 times the State population or \$2 million. In total, the tax credit will provide \$2.5 billion over five years.

Homeownership Vouchers

The Homeownership Voucher program, while still new, has successfully paved a path for low-income Americans to become homeowners. Strong and committed collaboration among public housing

agencies, local non-profits, and lenders, as well as pre- and post-homeownership counseling for families has proven essential in making the program work. The greatest challenge to the success of the program is finding lenders who are willing to participate.

Although the Homeownership Voucher program is voluntary, a Program Assessment Rating Tool analysis completed on the program shows that it has over-achieved its annual goals consistently since the program began. In its first four years, the program helped over 2,000 low-income families that were renting through the Section 8 program to become homeowners. In 2006, the program plans to assist 5,000 families achieve homeownership.

Neighborhood Reinvestment Corporation

The Budget increases funding for the Neighborhood Reinvestment Corporation to \$118 million. The Corporation, a public nonprofit organization chartered by the Congress in 1978 and independent of HUD, is also working to expand minority homeownership. The Corporation is pledging to provide direct assistance to over 170,000 families in 2006 through affordable mortgage and rehabilitation lending, comprehensive homebuyer education, and counseling services.

SUPPORTING A COMPASSIONATE SOCIETY

Ending Chronic Homelessness

The Administration remains committed to the goal of ending chronic homelessness. Chronically homeless individuals who have disabling conditions and live on the streets and in shelters for long periods comprise less than 10 percent of the homeless population, yet they consume over half of emergency homeless services. Housing this population will free Federal, State, and local emergency resources for families and individuals who need shorter-term assistance.

In 2004, the Federal Collaborative Initiative to End Chronic Homelessness, through HUD, and the Departments of Health and Human Services (HHS) and Veterans Affairs (VA), funded 11 grantees across the country. Building on the success of this initiative, in 2006, the Samaritan Housing Initiative will provide up to \$200 million through HUD in new housing subsidies paired with case management specifically targeted to this population.

Across the country, 46 States and 170 localities, along with the private sector, have joined the Federal effort to move chronically homeless individuals from the streets to permanent supportive housing, and to prevent additional individuals from becoming chronically homeless.

The Budget provides more resources than ever for permanent supportive housing for homeless individuals who have been on the streets or in shelters for long periods. The 2006 Budget includes \$1.4 billion for Homeless Assistance Grants, \$0.2 billion more than in 2005. Altogether, the Administration requests \$4 billion in 2006 for Federal housing and social programs for the homeless, an 8.5-percent increase.



Coming Out of the Cold: Providing permanent housing for chronically homeless individuals.

In its second year, the Federal Collaborative Initiative to End Chronic Homelessness in 11 communities continues its progress. Already, it has helped place 438 formerly homeless persons in permanent housing. This group had been homeless for a cumulative 2,873 years. One study suggests that similar cases of homelessness cost the public an average of \$40,000 a year in shelter, emergency room visits, and other public services. Without the help of this initiative, these individuals would have cost the public \$115 million, over the average seven-year period they were homeless.

Consider the case of Wayne, a 44 year old veteran who had been homeless off and on for five years. In December 2003, after living in the woods for 18 months, Wayne, with a serious infection and substance abuse issues, sought shelter during a bad snowstorm. After stays in a local shelter and a detox program, he was treated at the local VA hospital, which referred him to the newly funded Collaborative Initiative project in Portland, Oregon led by Central City Concern. As part of the Federal support for that project, VA provides case management services for eligible veterans. Wayne received permanent supportive housing in March 2004. He has remained housed and wants to work. His goal is to work on disaster relief for the American Red Cross. The Portland Collaborative Program has assigned him to an employment specialist to help him to reach his goal.

Local Plan to End Chronic Homelessness

Through the Federal Collaborative Initiative, the U.S. Interagency Council on Homelessness has worked with over 200 States and localities to develop plans to end chronic homelessness. The plans detail current Federal, State, and local resources available to combat homelessness and additional public and private resources they will invest toward this specific initiative. Below is an example of a local plan that addresses both chronic homelessness and the prevention of homelessness.

Chattanooga, Tennessee: The Chattanooga Blueprint for Ending Chronic Homelessness

- | | |
|-----------------------------|---|
| Goal: | <ul style="list-style-type: none"> • To develop 1,400 additional targeted housing subsidies to end chronic homelessness. |
| Direct Federal Investments: | <ul style="list-style-type: none"> • \$2.6 million in 2003 from HUD Homeless Assistance and Emergency Shelter grants. • \$2.2 million from the HUD/HHS/VA Collaborative Initiative to End Chronic Homelessness that will house and provide services for 50 individuals for five years. |
| State Investments: | <ul style="list-style-type: none"> • State earmarks 10 percent of its Low-Income Housing Tax Credit allocation to support housing for persons with special needs. |
| Local Investments: | <ul style="list-style-type: none"> • 2005 City budget sets aside first-time funds of \$400,000 for supportive housing. • Chattanooga Housing Authority's bonding authority. • \$681,500 in city and county funds in 2003 for homeless services. |
| Private Investments: | <ul style="list-style-type: none"> • 43 percent of the annual \$7.3 million spent on homelessness is secured from private sector sources (philanthropy, faith-based organizations, foundations, United Way). • Portion of \$20 million in Home Loan Bank funds. |
| Progress to Date: | <ul style="list-style-type: none"> • 49 chronically homeless individuals are now living in supportive housing through the Collaborative Initiative. • New Regional Interagency Council on Homelessness created. Comprised of Federal, State, county, and city governments, plus faith-based organizations, and formerly homeless persons. |

Housing for Special Populations

Housing Opportunities for Persons with AIDS (HOPWA) provides formula grants to States and localities to provide housing to ensure persons with AIDS can continue to receive health care and other needed support. The program also provides competitive grants to nonprofit organizations. HOPWA funding will assist over 67,000 households with housing assistance across 124 jurisdictions and through 25 competitive grants.

SUPPORTING A COMPASSIONATE SOCIETY—Continued

Housing for Returning Ex-offenders

More than 600,000 offenders are released from prisons each year and face multiple barriers upon their return to society, including inadequate job skills and housing. Approximately two-thirds of prisoners are re-arrested within three years of their release, and half return to prison during that same period. To confront this problem, the President announced in the 2004 State of the Union Address a four-year \$300 million Prisoner Re-entry Initiative to help individuals leaving prison make a successful transition to community life and long-term employment. Drawing on the collaborative efforts of the Departments of Labor, HUD, and Justice, and harnessing the experience of faith-based and community organizations, the program will offer a range of job training, housing, and mentoring services, that will help reduce recidivism and ensure that former prisoners are reintegrated into society. The President's Budget provides \$75 million for this initiative in 2006, including \$25 million within HUD.

MAKING GOVERNMENT MORE EFFECTIVE

Reform Low-Income Housing Assistance

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

The Administration proposes to simplify the program and give more flexibility to PHAs to administer the program to better address local needs. Building on changes in the 2005 Consolidated Appropriations Act, the Administration proposes expanding the “dollar-based” approach. PHAs would continue to receive a set dollar amount as in 2005, but they would have the freedom to adjust the program to the unique and changing needs of their community, including the ability to set their own subsidy levels based on local market conditions. These changes would provide a more efficient and effective program to help low-income families more easily obtain decent, safe, and affordable housing.

Housing for the Elderly

The Housing for the Elderly (Section 202) program provides capital grants and operating subsidies to non-profit sponsors to construct new apartment units for very low-income elderly people. The 2004 PART found lengthy and delayed construction, unexpected cost increases, and an inability to demonstrate program performance results.

The Administration will investigate ways that Housing for the Elderly can be reformed to address these performance shortcomings. In doing so, it will be guided by successful models of housing assistance vouchers and the HOME block grant, both of which provide housing efficiently and quickly. The following table compares and contrasts the approach of the existing Housing for the Elderly capital grant program with that of the HOME program.

Section 202 Elderly Housing has Higher Federal Costs and is Slower to Complete than HOME Assistance

	202 Capital Grants	HOME Program
Delivery System	Competitive grant to nonprofit sponsors for all capital costs and operating subsidy.	HUD formula grant to cities and States for capital and operation.
Approximate Federal Grant Share per Unit	\$100,000	\$30,000
Other Sources per Unit	\$0	\$70,000
Years to Occupancy	5 years	2¼ years

MAKING GOVERNMENT MORE EFFECTIVE—Continued

Improving the Targeting of Public Housing Assistance

HUD allocates annual subsidies to local PHAs to support their operations and maintain 1.2 million units of locally owned low-income housing. The current operating subsidy allocation formula, which dates from the 1970s, has been almost universally criticized as obsolete and inaccurate in estimating local needs. In 2000, the Congress directed HUD to commission a cost study by the Harvard Graduate School of Design to establish the basis for a new, fairer allocation. HUD has negotiated with representatives of the PHAs and others on the terms of a possible new formula based on the Harvard study's findings. The right formula would help ensure that funds are distributed equitably. Accompanied by other rules changes, including project-by-project cost accounting, it would reward PHAs that manage their housing assets more effectively and thereby encourage them to do so. A rule drafted with the advice of the negotiating group is now under review. A revised version will be published later this year for public comment and could be the basis for operating funds allocation beginning in 2007.

Reforming Community and Economic Development Programs

The Budget proposes a new program within the Department of Commerce to support communities' own efforts to meet the goals of improving their economies and their quality of life. This initiative will consolidate programs such as Community Development Block Grants into a more targeted, unified program that sets accountability standards in exchange for flexible use of the funds. (See the Department of Commerce chapter for more details.)

HUD Reforms its Consolidated Planning Process

To receive funds from four formula programs, grantees must submit a Consolidated Plan to HUD. In many communities, the plan has become a burdensome paperwork exercise, often prepared by consultants. HUD has worked with its stakeholders and communities to slim the document down to a manageable size that will be more useful for local communities. Grantees can now use a new, easy-to-use online software tool to submit their plans. Here is some of the initial reaction:

- Des Moines, Iowa: Reduced their Consolidated Plan submission from over 200 to 107 pages, nearly a 50-percent paperwork reduction, with HUD's new tool.
- Auburn, New York: "I am extremely impressed with the new tool. It combines the strategy, action plan, and reporting under one umbrella while complying with the regulations. It's also a great management tool." — Jennifer Haines, Planning and Economic Development Program Manager, Auburn, NY

Improving FHA's Single Family Mortgage Program

The program was rated Adequate because it meets its statutory objective to serve predominantly first-time and minority homeowners and maintain an adequate capital reserve. However, the program lacks quantifiable annual and long-term performance goals; its credit model does not accurately predict losses to the insurance fund; and it cannot demonstrate its ability to reduce fraud in the program. FHA will establish quantifiable annual and long-term performance goals for the percentage of FHA Single Family insured loans for first-time and minority homeowners. FHA will continue current efforts to develop a credit model that more accurately and reliably predicts defaults.

Update on the President's Management Agenda

The table below provides an update on HUD's implementation of the President's Management Agenda as of December 31, 2004.

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					
HUD has begun to overcome chronic weaknesses in its human capital as cited by the Government Accountability Office. HUD has revamped its hiring practices to fill jobs in an average of 38 days instead of 96 days; is developing a new managerial cadre through recent hiring and executive training programs; and synchronized managers' goals and performance plans with the overall aims of the agency. HUD's year-long effort to develop a workforce plan sets the stage for more improvement in closing skill gaps over the next year. HUD's first competition is now in progress and HUD is working to expand competitive sourcing to generate savings in commercial activities. While still suffering from internal control weaknesses, HUD met the accelerated timetables for producing its performance and accountability report, and improved the reliability, accuracy, and timeliness of financial systems. HUD is continuing efforts to reduce its internal control weaknesses from 10 to 7 by next year. HUD completed security reviews for all of its information systems in calendar year 2004, and plans are in place to eliminate security defects by next year. HUD set achievable long-term goals on reducing chronic homelessness and increasing minority homeownership. HUD will expand this strategic approach to other budget areas and use them to focus its resources and programs on achieving those goals.					

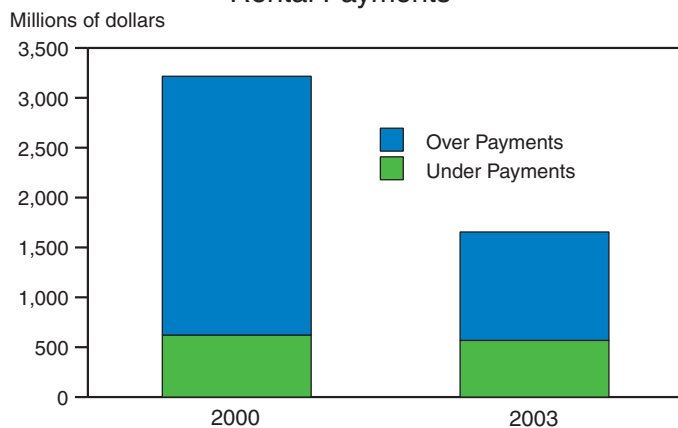
Initiative	Status	Progress
Faith-Based and Community Initiative		
Eliminating Improper Payments		
HUD Management and Performance		
HUD expanded its outreach to community organizations, including faith-based organizations, attempting to level the playing field for its formula and competitive grants. HUD has removed all discriminatory barriers to participation by such organizations. HUD's technical assistance has helped these organizations understand the application process as well as the responsibilities for implementation. These organizations are beginning to compete more widely and effectively as shown in their success in increasing the number of grants from 659 to 765 (increase of 16 percent) from 2002 to 2003.		

MAKING GOVERNMENT MORE EFFECTIVE—Continued

At the beginning of the President's first term, HUD committed to working with its stakeholders to reduce the improper payment in rental subsidies by one-half by 2005. At that time, over 60 percent of rental subsidies were computed incorrectly because of administrative processing errors. Other errors resulted from inadequate verification of tenants' self-reported incomes. Four years later, HUD has achieved exactly what it committed to do. Processing errors are down to 30 percent and improper payments are lower by half, a reduction of \$1.6 billion in payment errors (see accompanying chart). HUD does not plan to stop there. Beginning in 2005, HUD will expand the verification of tenant self-reported incomes to include recent wage data. This has the dual benefit of both improving accuracy and providing more privacy because income data will be matched electronically whereas current procedures require a paper verification letter to the tenant's employer. These stewardship efforts improve confidence that the right person is getting the right benefit in a timely, dignified, and private manner as intended under law. (Because this is the first quarter that agency efforts in this initiative were rated, progress scores were not given.)

Today, public and assisted housing residents reside in better quality housing with fewer safety violations than four years ago. HUD increased the percentage of projects meeting its physical condition standards in public housing by nine percentage points (from 83 percent in 2002 to 92 percent in 2004) and in subsidized private housing by eight percentage points (from 87 percent in 2002 to 95 percent in 2004). HUD now turns around at least 45 percent of public housing authorities classified as "troubled" within 12 months rather than the two years allowed by regulation. New rules and procedures have virtually eliminated property flipping fraud from the FHA insurance programs, and close monitoring will continue to prevent such abuses. New rules and procedures have forced out bad appraisers from the FHA program and an effort called Credit Watch will continue to bar other individuals who improperly raise the risk of loss in these programs. Since 2001, HUD has worked with stakeholders to streamline their Consolidated Planning process into an easy-to-use and helpful tool for communities.

Reduction of \$1.6 Billion in Improper HUD
Rental Payments



Source: HUD.

HUD has responded with successful initiatives to reduce the chronic overpayment problems in its rental assistance programs, as cited by the Government Accountability Office and others. HUD has reduced improper payments by 50 percent, from \$3.2 billion in 2000 to \$1.6 billion in 2003. Further efforts in the future will improve the accuracy of these payments, ensuring that eligible households received the correct payment under the rules of the program.

Department of Housing and Urban Development
(In millions of dollars)

	2004 Actual	Estimate	
		2005	2006
Spending			
Discretionary Budget Authority:			
Community Development Fund	4,933	4,703	—
HOME Investment Partnerships	2,006	1,900	1,941
<i>American Dream Downpayment Initiative (non-add)</i>	87	50	200
Homeless Assistance Grants	1,260	1,241	1,440
Housing Opportunities for Persons with AIDS	295	282	268
Tenant-based Rental Assistance	—	14,766	15,845
Project-based Rental Assistance	—	5,298	5,072
Housing Certificate Fund	16,413	–1,557	–2,500
Public Housing	6,275	5,017	5,734
Native American Housing Block Grant	650	601	583
Revitalization of Severely Distressed Public Housing (HOPE VI)	149	143	–143
Housing for the Elderly	773	741	741
Housing for Persons with Disabilities	249	238	120
Federal Housing Administration (FHA)	–2,941	–2,311	–2,224
Lead Hazard Reduction	174	167	119
All other HUD programs	1,798	979	1,514
Total, Discretionary budget authority	32,034	32,208	28,510
<i>Memorandum: Total, excluding programs consolidated into new Commerce program ¹</i>	27,575	27,972	28,510
<i>Memorandum: Budget authority from enacted supplementals</i>	—	150	—
Total, Discretionary outlays	39,197	41,063	42,122
Total, Mandatory outlays	5,822	1,551	–1,937
Total, Outlays	45,019	42,614	40,185
Credit activity			
Direct Loan Disbursements:			
FHA	—	53	54
Total, Direct loan disbursements		53	54
Guaranteed Loan Commitments:			
FHA	132,080	137,063	136,220
All other programs	419	353	359
Total, Guaranteed loan commitments	132,499	137,416	136,579

¹ See Department of Commerce chapter for details.