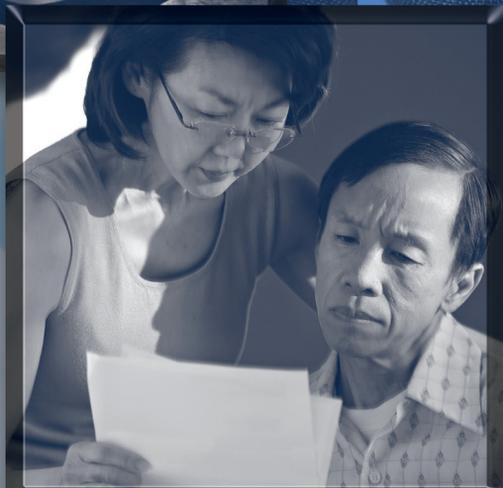




# FY 2010 BUDGET

## *Road Map for Transformation*



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

*Also available on [www.hud.gov/budgetsummary2010](http://www.hud.gov/budgetsummary2010)*



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## INTRODUCTION FROM SECRETARY DONOVAN

The submission of the fiscal year 2010 Budget occurs at a time when the Department of Housing and Urban Development (“HUD”) is more important than at any time since its founding. Then, in 1965, there was an “urban crisis.” Now there are a series of national economic, social, and energy challenges that require a firm and expansive housing and community development role. After years of neglect, HUD has become an indispensable agency.



*HUD is at the center of the federal response to the national mortgage meltdown and foreclosure emergency.* In the midst of a credit crunch, the Federal Housing Administration (“FHA”) is playing a critical countercyclical role. FHA represented 23.7 percent of single family mortgage dollar volume in the last quarter of 2008, up from 1.9 percent in 2006, serving 1.4 million households in 2008. HUD is actively involved in foreclosure mitigation, homeownership counseling and a myriad of efforts to curb mortgage abuse and lending discrimination. HUD is also part of efforts to rethink the regulatory structure governing the housing sector, to prevent the repetition of the reckless and speculative lending that precipitated the current housing crisis.

*HUD is essential to broader economic recovery and restructuring given its power to generate jobs quickly and catalyze housing construction and renovation.* The American Recovery and Reinvestment Act invested \$13.6 billion in HUD programs in an ambitious effort to modernize and “green” the public and assisted housing inventory, jumpstart the stalled low-income housing tax credit market, stabilize neighborhoods hard hit by foreclosures, and prevent homelessness. With affordable housing renovation and construction underfunded in recent years, these activities generate local jobs quickly in neighborhoods hardest hit by unemployment.

*HUD is critical to addressing the structural gap between household incomes and housing prices and the persistent un-affordability of housing.* HUD already plays an important role in making housing affordable through its investments in rental vouchers, public and assisted housing and more recent HUD-funded efforts led by states and localities. These efforts recognize that ensuring a stable supply of affordable housing in safe, quality communities enables low-income families and individuals (young and old) to live healthy, productive lives through ready access to quality schools, continuing education, good jobs, and important health services.

*HUD is a vehicle for advancing sustainable and inclusive growth patterns at the metropolitan level, communities of choice at the neighborhood scale and energy efficiency at the building scale.* Already, HUD is establishing unprecedented partnerships with the Departments of Transportation, Education and Energy to ensure that the location of affordable housing enhances access to employment and educational opportunities and makes the way we develop and redevelop our communities a key part of the solution to climate change and energy independence.

These roles require an agency that is nimble and market savvy, with the capacity and expertise necessary to galvanize HUD’s vast network of partners: state and local



governments, builders, lenders, realtors, appraisers, energy auditors, community development corporations, technical providers and research institutions, just to name a few.

The fiscal year 2010 Budget constitutes a crucial early step towards a broad transformation and renewal of HUD. Its goal, plain and simple, is to rebuild HUD as a powerful agent for advancing not only national housing objectives but, through housing, broader economic, social and energy goals as well.

There is much work to do.

To achieve these lofty ambitions, HUD must embrace *Systemic Reform*, to reinvent the way it delivers traditional programs like public and assisted housing and rental vouchers and responsibly manage FHA's new found relevance in the market.

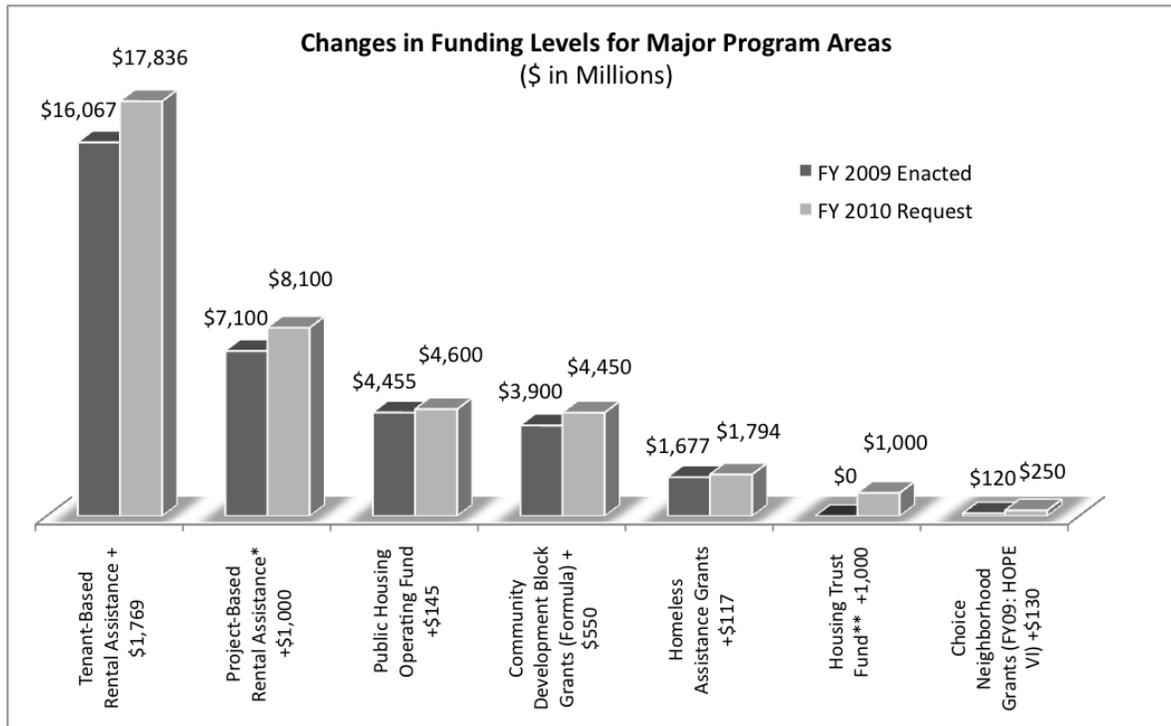
HUD must engage in continuous *Policy Innovation*, to move beyond legacy programs and shape new markets and methods in the production and preservation of affordable housing, the "greening" of residential housing, the regeneration of high poverty neighborhoods and the promotion of sustainable growth in metro America.

HUD must harness *Private Sector Capital and Talent*, to ensure that innovations become widely adopted in market practice and public resources leverage private sector investment.

HUD must invent a new kind of *Partnership and Collaboration*, to respond to the multidimensional challenges facing the country (e.g., congestion, climate change, competitiveness, aging, poverty) by joining up federal housing and related policies on transportation, energy, labor, health and education.

And HUD must commit to an unprecedented level of *Transparency and Accountability*, to use metrics to gauge performance, research to evaluate programs, demonstrations to foster policy innovation, technical assistance to identify and diffuse innovation and technology to track spending, inform decisions and curb fraud, waste and abuse.

The fiscal year 2010 Budget represents a vote of confidence that this broader transformation can be achieved. As illustrated by Appendix A, "HUD by the Numbers," the Obama Administration requests a gross budget of \$46.344 billion in fiscal year 2010, an increase of 10.8 percent over the fiscal year 2009 budget of \$41.833 billion. This funding increase enables the Department to respond aggressively to the housing crisis as well as contribute to broader national priorities on energy, sustainable growth, community revitalization and poverty alleviation. As the following chart shows, the fiscal year 2010 budget increases will strengthen efforts to expand the production and preservation of affordable rental housing, renew expiring rental assistance contracts, build vital and sustainable urban and rural communities, create neighborhoods of choice, maintain and operating public housing, address the rise in homelessness and catalyze new markets for energy efficiency and housing retrofit.



\*Includes \$400 million advance appropriation for FY 2010

\*\*Housing Trust Fund is a mandatory appropriation

This historic budget strives to achieve five inter-related objectives:

First, the fiscal year 2010 Budget will enable HUD to *address the nation's housing and economic crisis*. Enhanced investments in technology, staffing and training will ensure the safety and soundness of FHA, enabling it to cope with the rising volume of mortgage business, detect fraud and monitor the practices of lenders and appraisers. Increased funding in fair housing and FHA will also enhance the Department's ability to curb mortgage abuse and lending discrimination and provide pre- and post-purchase counseling to vulnerable homeowners.

Second, the fiscal year 2010 Budget will *restore federal leadership on promoting affordable rental housing*. The budget will, for the first time, capitalize the Housing Trust Fund with \$1 billion. The budget will substantially increase funding for Section 8 tenant based rental vouchers, enabling the Department to assist an estimated 2,165,700 low-income households, the most ever in the history of the program and 116,000 more than was supported in the fiscal year 2008 appropriations. The budget will invest in the preservation of public and assisted housing, via enhanced funding for Section 8 project based rental assistance and full funding for public housing operating subsidies. The budget will increase funding for Homeless Assistance Grants, embracing the shift towards homelessness prevention contained in the American Recovery and Reinvestment Act and the effort to consolidate programs that is moving forward in Congress.

Third, the fiscal year 2010 Budget will *invest strategically in rural and metropolitan communities*. The budget couples a substantial increase in funding for the Community



Development Block Grant, reflecting President Obama's pledge to fully fund the program, with a call for formula reform and performance accountability. A \$250 million Choice Neighborhoods Initiative would expand on the lessons of the HOPE VI program and help revitalize neighborhoods of high poverty through transformative investments in distressed public and assisted housing and closer linkages with school reform and early childhood interventions. The budget also makes important investments in a Rural Innovation Fund to test and rapidly disseminate innovative efforts to revitalize rural communities and a University Community Fund to leverage the critical role of higher educational institutions in urban and rural communities.

Fourth, the fiscal year 2010 Budget will *drive energy efficient housing and inclusive, sustainable growth*. The budget contains a \$100 million Energy Innovation Fund to catalyze private sector investment in the energy efficiency of the Nation's housing stock. The budget also includes a \$150 million Sustainable Communities Initiative to catalyze a new generation of metropolitan and rural efforts to integrate transportation, housing and land use planning and decisions in a way that maximize choices for residents and businesses, lowers transportation costs, saves energy and improves quality of life. Enhanced investments are also made in fair housing programs to ensure that smart housing interventions can help build a new "geography of opportunity." To oversee these efforts as well as the agency's promising relationships with the Departments of Transportation and Energy, the Environmental Protection Agency and other federal agencies, the budget calls for the creation of an Office of Sustainable Housing and Communities.

Finally, the fiscal year 2010 Budget seeks to *transform the way that HUD does business*. Building on a recent National Academy of Sciences report, the budget calls for an agency wide Transformation Initiative. This Initiative would set-aside up to 1 percent of agency funding annually for research and evaluation, major demonstrations, enhanced technical assistance and capacity building, and next generation technology investments. These investments will generate programmatic savings, helping HUD and its partners deliver more with less. This budget already takes steps to streamline and simplify the agency's activities by consolidating or eliminating 27 separate programs and activities. The budget also expands funding for the Office of Policy Development and Research to enable sizable investments in basic, market shaping data systems like the American Housing Survey. The fiscal year 2010 budget will make substantial enhancements to the agency's managerial and programmatic capacity by creating the new position of a Chief Operating Officer and establishing an Office of Strategic Planning and Management.

A handwritten signature in black ink, appearing to be "K. Duncan", written in a cursive style.

May 7, 2009

## SETTING PRIORITIES: ADDRESS HOUSING AND ECONOMIC CRISES FIRST



The extent of the housing and economic crisis is now painfully apparent. According to Mortgage Bankers Association (MBA) data, approximately 3.7 million borrowers began the foreclosure process in 2007 and 2008; more than 1.4 million additional households were more than 90 days delinquent on their mortgage at the end of 2008. An estimated 4 million households have mortgages that exceed the value of their homes and unemployment rates have been rising. Beyond the devastating effects on household stability and wealth, depressed home prices and illiquid assets represent a significant drag on consumer spending and the economy as a whole, starting with the large housing sector. Quite simply, an effective foreclosure response is central to any economic recovery strategy.

The impact of the housing crisis is felt throughout the country, but is magnified among certain groups and in certain places. Minority borrowers have been particularly affected – they were far more likely to have received riskier high cost loans and have been far more likely than white borrowers to suffer foreclosures and to bear the collateral affects of concentrated foreclosures. From 2005-2007, 49 percent of all loans made to African American borrowers and 37 percent of all loans made to Latino borrowers were subprime as compared to 20 percent of loans to non-Latino white borrowers. After controlling for income, credit score, loan to value and property locations, borrowers of color were about 30 percent more likely to receive higher cost loans than similarly risky white borrowers.

The impact on states and communities is also severe, but uneven. At the end of 2008, the Mortgage Bankers Association reported that 6.2 percent of loans in the U.S. were either seriously delinquent (i.e., 90 days past due) or in foreclosure. Ten states exceeded this national average: Florida, Nevada, California, Arizona, Michigan, Indiana, Ohio, Illinois, Mississippi and Rhode Island. While these ten states represent 39 percent of all mortgages in the U.S., they account for 56 percent of the mortgages that are seriously delinquent or in foreclosure. Just two states -- Florida and California -- represent 35 percent of loans in the country that are seriously delinquent or in foreclosure.

The Administration is responding to these historic challenges with bold and comprehensive action. The President's Making Home Affordable program represents a necessary and creative intervention to help millions of homeowners get current on their mortgage payments and stay in their homes.

HUD is now playing a central role in efforts to stabilize mortgage and housing markets, curb mortgage abuses and predatory market activity and provide assistance to households and communities hard hit by the current turmoil.

HUD is helping to shape the design and implementation of the President's initiative, partly through HUD's presence on the Oversight Board of the Federal Housing Finance Agency (FHFA) and the Financial Stability Oversight Board (FSOB) and partly through the implementation of the Hope for Homeowners Program as well as other loan modification efforts.



FHA continues to play a *countercyclical* role – serving as a vital backstop to the private mortgage market. The FHA-insured share of single-family mortgage originations was at a low point of just 1.9% in the fourth quarter of 2006, and then rose continuously over the next two years, reaching 23.7% in the fourth quarter of 2008.

HUD has joined with the Departments of Treasury and Justice as well as the Federal Trade Commission to crack down on mortgage abuse and fraud, specifically foreclosure rescue and modification scams that cost borrowers thousands of dollars.

HUD is working to mitigate the impact of foreclosures on heavily impacted communities through its implementation of the Neighborhood Stabilization Program.

HUD is acting quickly to implement the \$13.6 billion in funding provided by the American Recovery and Reinvestment Act. This funding recognizes that investments in HUD’s housing programs are a cost effective way to generate jobs quickly as well as serve other national priorities such as promoting energy efficiency, upgrading housing quality, stabilizing neighborhoods and preventing homelessness.

The FY 2010 budget builds on these initial steps in several ways.

<b>Response to Mortgage Crisis</b>				
(\$ in millions)				
	<b>2009</b>		<b>2010</b>	<b>Difference</b>
	<b>Enacted</b>		<b>Request</b>	<b>2010 vs 2009</b>
FHA MMI Loan Guarantee Limitation Level	[\$315,000]		[\$400,000]	[\$85,000]
Ginnie Mae Loan Guarantee Limitation Level	[\$300,000]		[\$500,000]	[200,000]
Positive Credit Subsidy, MMI/HECM	.....		\$798.0	\$798.0
Housing Counseling	\$65.0		\$100.0	\$35.0
HUD Mortgage Fraud Initiative	.....		\$37.0	\$37.0
FHA Mortgage Fraud Initiative	.....		[\$20.0]	[\$20.0]
Fair Housing Programs (FHAP/FHIP)	\$2.0		[\$13.0]	[\$13.0]
Salaries & Expense (OGC, FHA, FHEO)	.....		[\$4.0]	[\$4.0]

*Strengthening FHA’s Role:* HUD requests substantial increases in the commitment limitations for both FHA and Ginnie Mae, envisioning continued growth in use of its products and services as a result of the credit crisis. FHA, for example, has played an increasing role in the refinance of conventional mortgages and the origination of new mortgages. In terms of dollar volumes, FHA insured nearly \$205 billion dollars of single-family mortgages in fiscal year 2008, and has insured an additional \$158 billion in the first six months of fiscal year 2009 (October – March). At the current pace FHA will likely insure more than 2 million single-family mortgages in fiscal year 2009, compared with 1.2 million in fiscal year 2008, and 639,000 in fiscal year 2007.

FHA's single family program is positioned to continue to play a critical role in financing new mortgage activity in 2010, generating sufficient revenues from new insurance premiums without requiring any appropriations. Because of the credit crisis, FHA is attracting borrowers with higher credit scores than in recent years. In addition, the statutory elimination of Seller-Financed Downpayment Assistance has eliminated a large source of default risk.

HUD also requests \$798 million for the Home Equity Conversion Mortgage (HECM) program. For fiscal year 2010, it is estimated that 121,000 loans will be endorsed under the HECM program. This program allows senior homeowners age 62 and older access to FHA insured reverse mortgages to convert the equity in their homes into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the homes. The need for appropriated funding for this program reflects the sensitivity of reverse mortgages to changes in home price assumptions. An indefinite appropriation will support the program should actual demand exceed the Budget's projection.

*Housing Counseling Assistance:* HUD requests \$100 million for the Housing Counseling Assistance program, an increase of \$35 million over the level provided in the FY 2009 Omnibus Appropriations Act. The housing crisis has illustrated that many families simply do not understand the complex homebuying process and have limited sense of how much home they can afford, what types of mortgages are best for them, or how to improve their credit. Many families have proven to be particularly vulnerable to aggressive and misleading marketing of risky loan products that are not in their best interest. In this environment, the need and demand for mortgage counseling efforts could not be greater.

The increase in counseling appropriations is also necessary to provide assistance to the record number of homeowners at risk of foreclosure, particularly those preparing to take advantage of the foreclosure prevention programs made available under the Administration's Making Home Affordable initiative. In addition, it is essential to maintain funding for pre-purchase, rental, reverse mortgage and other types of housing counseling, because those efforts help prevent future defaults and foreclosures and produce mortgage ready homebuyers.

*Combating Mortgage Fraud and Predatory Practices:* HUD requests \$37 million for an agency wide initiative to Combat Mortgage Fraud and Predatory Practices. HUD recognizes that the current market environment increases the potential for mortgage fraud and predatory practices on multiple fronts. On one level, the significant expansion in the volume of FHA insured loans exposes the insurance funds to increased risk of abuses within the program. With increased volume and market share, the number of new participating lenders has increased 230 percent in the past year, from 997 to 3300 lenders. At the same time, new forms of predatory practices are on the rise. According to the Federal Bureau of Investigation, the decline in the housing market has created an ideal climate for predators in the form of mortgage rescue scams.



This \$37 million initiative has multiple components:

First, \$20 million will boost fraud detection by training industry partners and giving FHA access to state-of-the-art fraud detection tools, including automated valuation tools for verifying appraisals, and income verification mechanisms. These tools would be applied to all phases of the mortgage insurance process and give FHA the ability to identify misrepresentation at the consumer, application and property levels through the automated check and analysis of multiple data sources. This funding would be part of the Transformation Initiative, described below.

Second, \$13 million will be dedicated to curbing discrimination, through increases in the Department's fair housing activities. Such additional funding will support the efforts of traditional fair housing centers, consumer protection advocates and others in waging a comprehensive response to discriminatory mortgage practices and mortgage rescue scams. Such additional funding will also enhance the capacity of state and local agencies to address lending discrimination and mortgage abuse.

Finally, \$4 million will provide additional staff to address abusive and fraudulent mortgage practices and increase enforcement of mortgage and home purchase settlement requirements. This funding would increase staffing for (a) the Office of Fair Housing and Equal Opportunity to expand fair lending efforts; (b) the Office of General Counsel to handle increased fair lending and mortgage fraud enforcement, including increased action by the Mortgagee Review Board, and Real Estate Settlement Protection Act (RESPA) enforcement; and (c) the Office of Housing to create a new Secure and Fair Enforcement Mortgage Licensing Act (SAFE) office to administer this new regulatory responsibility.

# RESTORING LEADERSHIP: CATALYZING AFFORDABLE RENTAL HOUSING



Beyond the immediate housing and economic crises, the United States faces a stark disconnect between wages and the cost of living, particularly housing prices. This affordability gap imposes particular burdens on the third of Americans who rent. In 2007, about 22 percent of the 36.9 million rental households in the United States were spending more than half of their income on rental costs, despite a widely-accepted standard that 30 percent of income is affordable.

The affordability crunch is rooted both in the stagnation of wages for workers at the low end of the education spectrum *and* the inadequate supply of low-cost housing. After eight years of drift, the federal leadership on affordable housing issues must be restored. This needs to be a different kind of leadership than in decades past, focusing equally on expanding opportunities for both renters and homeowners and building on the network of highly skilled state and local housing agencies, nonprofit intermediaries and private sector actors that has emerged in the absence of federal direction.

HUD envisions a strategic partnership that strives to address the persistent un-affordability of housing in three ways: (a) by supplementing incomes via an enhanced commitment to rental vouchers; (b) preserving existing affordable housing through smart investments in public, Native American and assisted housing; and (c) expanding supply by capitalizing the new national Housing Trust Fund. The new compact would also build on strategies deployed in the American Recovery and Reinvestment Act to prevent homelessness and rapidly re-house families and individuals who are displaced because of the economic downturn.

Each of these strategies is discussed in turn.

***Reaffirming Support for Vouchers:*** The first element of the new partnership on affordable rental housing involves strong and persistent support for vouchers. HUD requests \$17.836 billion for vouchers, an increase of approximately \$1.77 billion over the levels provided in the fiscal year 2009 Omnibus Appropriations Act. Initiated in the mid-1970s, rental housing vouchers have since emerged as the nation's largest low-income housing assistance program. They now serve over 2 million households with extremely low incomes (about 40 percent of families who receive vouchers now have incomes below *half* of the poverty line), paying the difference between 30 percent of a household's income and the rent of a qualifying, moderately priced house or apartment.



<b>Voucher Assistance</b>			
(\$ in millions)			
	<b>2009</b>		<b>2010</b>
	<b>Enacted</b>		<b>Request</b>
			<b>Difference</b>
			<b>2010 vs 2009</b>
<b>Tenant-Based Rental Assistance</b>			
Section 8 Contract Renewals	\$15,034.1		\$16,189.2
Administrative Fees	\$1,450.0		\$1,493.8
Family Self-Sufficiency (FSS) Coordinators	\$50.0		\$50.0
Tenant Protection Vouchers	\$150.0		\$103.0
Incremental Vouchers	\$125.0		.....
Working Capital Fund Transfer	\$7.9		.....
Offset/Rescission from PHA Balances	(\$750.0)		.....
<i>Total, Tenant-Based Rental Assistance</i>	\$16,067.0	a/	17,836.0
			\$1,769.0
a/ Calendar year			

This budget provides sufficient funds to renew existing vouchers, taking into account a number of factors:

- the recent increase in the percentage of funding that housing authorities commit to helping eligible families lease apartments (“lease-up rates”);
- a three-percent increase in housing assistance payments, necessary to cover both projected declines in tenant incomes, higher utility costs, and higher market rents; and
- the first-time renewal of incremental vouchers funded in 2008 and 2009. These new vouchers include “tenant protection” vouchers for tenants who are displaced from public and assisted housing due to conversion or demolition and vouchers appropriated for special purposes such as Veterans Affairs Supportive Housing and disaster victims.

The budget will enable the Department to take into account balances held by PHAs when allocating funding for contract renewals. In the past, Congress and the Department have rescinded these balances. However, by providing more flexibility in fiscal year 2010 allocations, the Department will avoid rescissions while maximizing the effectiveness of these funds in providing housing assistance.

***Preserving Public, Assisted and Native American Housing:*** The second element of the new partnership on affordable rental housing involves preserving the long-term viability and affordability of millions of units financed under public, assisted and Native American housing programs. Over 90 percent of the households served in these programs are very low income, providing a critical resource as affordable housing is lost due to gentrification, conversion, dilapidation and other market forces. The preservation of existing housing is also fiscally effective, given that the cost of building even modest quality new housing has grown substantially over time.

<b>Public and Assisted Housing</b>				
(\$ in millions)				
	<b>2009</b>		<b>2010</b>	<b>Difference</b>
	<b>Enacted</b>		<b>Request</b>	<b>2010 vs 2009</b>
Public Housing Operating Fund	\$4,455.0		\$4,600.0	\$145.0
Public Housing Capital Fund	\$2,450.0	a/	\$2,244.0	(\$206.0)
Project-Based Section 8 Contracts (Housing)	\$7,100.0	b/	\$8,100.0	\$1,000.0
Native American Housing Block Grant	\$645.0	d/	\$645.0	.....
a/ Does not include \$4 billion ARRA supplemental				
b/ Does not include \$2 billion ARRA supplemental				
c/ Includes \$400 million advance appropriation request				
d/ Does not include \$510 million ARRA supplemental				

*Public Housing Operating Fund:* HUD requests \$4.6 billion for the Public Housing Operating Fund, an increase of \$145 million over fiscal year 2009. For the first time since 2002, this request will provide 100 percent of funding for operating subsidies, as calculated by a formula devised pursuant to negotiated rule making. Operating subsidies provide support to approximately 3,200 Public Housing Authorities nationwide to ensure that a reasonable level of services is provided to residents. Typical services include maintenance, a portion of utilities and security. Federal subsidies make up about half of operating expenses, the remainder being derived from tenant rent payments.

*Public Housing Capital Fund:* HUD also requests \$2.24 billion for the Public Housing Capital Fund, a decrease of \$206 million from the fiscal year 2009 levels. The reduction in funding is justified because of the \$4 billion appropriated for the Capital Fund in the American Recovery and Reinvestment Act as well as the request to fund 100 percent of operating subsidies (which means that capital funds will not be needed to augment routine maintenance activities as in prior years). Capital funds are designed to modernize public housing developments and reduce the substantial backlog of public housing capital improvement needs.

*Section 8 Project Based Rental Assistance:* HUD requests \$8.1 billion for Project-Based Contracts including renewal of all expiring Section 8 contracts, an increase of \$1 billion over the fiscal year 2009 appropriations level. Funding for fiscal year 2010 includes \$7.7 billion requested in the President’s Budget and a \$400 million advance appropriated in fiscal year 2009. The Budget also provides a \$400 million advance appropriation to be available on October 1, 2010. HUD believes strongly that annual renewal funding should be predictable, timely and sufficient to fund rental contracts for a full 12 months, a sharp contrast to the short funding of contracts that occurred in recent years. Such funding is administratively efficient and will enable sensible practices by the owners of these properties. To this end, the Department applauds Congressional action in the American Recovery and Reinvestment Act to invest \$2 billion in the Project-Based Rental Assistance program, to help fund full 12-month renewals in fiscal year 2009.



*Native American Housing Block Grant:* HUD requests \$645 million for the Native American Housing Block Grant, the same level contained in the fiscal year 2009 appropriations law. The program provides formula funds to eligible Indian tribes or through their Tribally Designated Housing Entities. Funds can be used for a wide variety of activities that will increase the availability of affordable housing. The American Recovery and Reinvestment Act makes an important investment in addressing the housing needs within Native American communities, providing \$510 million for Native American housing, with \$255 million distributed by formula through the Native American Housing Block Grant and \$255 million distributed by competition.

*Expanding Supply:* The third element of the new partnership on affordable rental housing involves efforts to address the long standing shortage of housing units affordable to very low income households. According to data from the 2007 American Housing Survey, there are 74 affordable and available units for every 100 very low income households; and 44 units per 100 extremely low income households. In addition, between 1995 and 2007, the share of renters paying more than 50 percent of their income for rent increased from 18 percent to 22 percent.

The Department, therefore, invests in a range of new and traditional programs to expand supply.

<b>Affordable Supply</b>				
(\$in millions)				
	<b>2009</b>		<b>2010</b>	
	<b>Enacted</b>		<b>Request</b>	
			<b>Difference</b>	
			<b>2010 vs 2009</b>	
Housing Trust Fund	.....		\$1,000.0 a/	\$1,000.0
HOME	\$1,825.0	b/	\$1,825.0	.....
Housing for the Elderly (Section 202)	\$765.0		\$522.0	(\$243.0)
Section 202, Contract Renewals and Amendments	.....		\$243.0	\$243.0
<i>Total, Section 202</i>	\$765.0		\$765.0	.....
Housing for Persons with Disabilities (Section 811)	\$250.0		\$114.0	(\$136.0)
Section 811, Contract Renewals and Amendments	.....		\$136.0	\$136.0
<i>Total, Section 811</i>	\$250.0		\$250.0	.....
a/ Provided as mandatory budget authority				
b/ Does not include \$2.25 billion ARRA supplemental				

*Housing Trust Fund:* HUD requests \$1 billion for the initial capitalization of the Housing Trust Fund. Authorized by the Housing and Economic Recovery Act of 2008, the Affordable Housing Trust Fund represents the first major federal housing production program since the creation of the HOME Investments Partnership Program in 1990. The purpose of the Trust Fund is primarily to increase and preserve the supply of rental housing

for low and very low income households. The Trust Fund was originally authorized with a dedicated funding stream from assessments on Fannie Mae and Freddie Mac. Given the financial difficulties of the government sponsored enterprises, the Federal Housing Finance Agency has indefinitely suspended these assessments.

*HOME Investment Partnerships Program:* HUD requests \$1.825 billion for the HOME program, the same level provided in the fiscal year 2009 Omnibus Appropriations Act. Created in the National Affordable Housing Act of 1990, HOME has become a linchpin of the federal government's partnership with state and local governments to produce and preserve affordable housing and assist low-income renters and homeowners. Jurisdictions can use program funds to finance the construction and rehabilitation of multifamily rental housing, provide homeownership assistance and support tenant-based rental assistance. Since 1992, the program has produced 873,000 units (38 percent rental), with 58 percent of those units for households at less than 50 percent of median.

*Section 202 Housing for the Elderly:* HUD requests \$765 million for Section 202, the same level provided in the fiscal year 2009 Omnibus Appropriations Act. Under this program, HUD provides capital grants to eligible non-profit entities for the acquisition, rehabilitation, or construction of housing for seniors and provides project based rental assistance to support operational costs for such units.

The budget provides \$522 million to finance the construction and initial rental assistance for new housing for the elderly. These "expansion" funds are requested in a separate appropriation for the first time. This separation of funding will provide a new level of transparency to the budgeting process, identifying clearly which funding is for new activity, and which funding is needed to continue funding for existing projects.

The budget also provides \$153 million to renew and/or amend existing Project Rental Assistance Contracts and \$90 million to support the hiring of service coordinators in developments. The deployment of service coordinators has been shown to have a positive impact on helping residents live independently for a longer period of time. Finally, the budget eliminates separate line item funding for planning grants and conversion to assisted living grants, making those activities eligible under the main program.

*Section 811 Housing for Persons with Disabilities:* HUD requests \$250 million for Section 811, the same level provided in the fiscal year 2009 Omnibus Appropriations Act. Created in the National Affordable Housing Act of 1990, Section 811 provides funding to expand the supply of housing for persons with disabilities, as well as provide rental assistance to enable such individuals to "mainstream" into the private rental market.

The budget provides \$114 million to finance the construction and initial rental assistance for new housing for persons with disabilities. These "expansion" funds are requested in a separate appropriation for the first time. As with Section 202 housing for the elderly, this



separation of funding will provide a new level of transparency to the budgeting process. The budget also provides \$49 million to renew and/or amend existing Project Rental Assistance Contracts. Finally, the budget provides \$87 million to amend or renew Section 811 contracts that provide tenant based rental assistance.

**Addressing Homelessness and the Housing Needs of People with AIDS:** The final element of the new partnership on rental housing involves an aggressive effort to address the rise in homelessness. Since the late 1980s and the enactment of the McKinney Homeless Assistance Act, HUD has played a critical role in breaking the cycle of homelessness and moving homeless persons and families to permanent housing. HUD’s response to homelessness takes on new meaning in the context of the current economic downturn. Authoritative studies have warned that the economic downturn has triggered a major spike in homelessness due to job dislocation and the eviction of low and moderate renters and homeowners. Recognizing these alarming trends, the American Recovery and Reinvestment Act provided \$1.5 billion in a Homelessness Prevention Fund. This Fund represents an attempt to both prevent homelessness as well as rapidly re-house families and individuals that enter the shelter system due to the economic downturn.

The Department intends to build on this historic investment in several ways:

<b>Homeless Programs</b>				
(\$ in millions)				
	<b>2009</b>		<b>2010</b>	
	<b>Enacted</b>		<b>Request</b>	
			<b>Difference</b>	
			<b>2010 vs 2009</b>	
Homeless Assistance Grants	\$1,677.0	a/	\$1,793.7	\$116.7
Housing Opportunities for Persons with AIDS (HOPWA)	\$310.0		\$310.0	.....
a/ Does not include \$1,500,000,000 ARRA supplemental				

*Homeless Assistance Grants:* HUD requests \$1.794 billion for Homeless Assistance Grants, an increase of \$117 million over the fiscal year 2009 appropriated level. This program provides rental assistance, emergency shelter, transitional and permanent housing and supportive services to homeless persons and families. The emergency shelter grant is a formula funded grant program, while the supportive housing, Section 8 moderate rehabilitation single-room occupancy program and the shelter plus care program are competitive grants.

The fiscal year 2010 request has three components: First, the budget provides \$140 million to finance new activity via competitive grants. HUD fully supports Congressional efforts to consolidate and streamline existing programs to bring new efficiencies. Second, the budget provides \$1.5 billion to renew and or amend existing homeless assistance grants. Finally, the budget provides \$150 million to fund the Emergency Shelter Grant program. HUD

fully intends to continue the focus on homelessness prevention that was initiated in the American Recovery and Reinvestment Act.

*Housing Opportunities for Persons with AIDS:* HUD requests \$310 million for the HOPWA program, the same level provided in the fiscal year 2009 Omnibus Appropriations Act. The program is designed to provide states and localities with the resources to devise comprehensive strategies for addressing the housing needs of people living with HIV/AIDS and their families.

# REBUILDING PLACE: INVEST IN URBAN AND RURAL COMMUNITIES



As HUD's name suggests, the mission of the agency has always extended beyond housing to include the economic revitalization of distressed communities.

This part of the agency's mission recognizes at the outset that the design, location and management of housing have a dramatic effect on quality of place. The evidence proves incontrovertibly that the concentration of low-rent housing in marginal geographic areas, mostly inner city neighborhoods, has had a negative impact on the economic health and vitality of places and people. At the same time, the "UD" in HUD reflects an understanding that many places in the United States are cut off from the economic mainstream and need access to special programs and funding sources to jump start private market activity.

The broader community development mission of HUD takes on new urgency and complexity in the early part of this century due to large scale demographic and market shifts in our country. The fact is that the economic geography and spatial landscape of America has altered considerably, and federal policy must do so as well.

Several national trends are worth noting:

*Metropolitan Engines:* The top 100 metropolitan areas alone now house two-thirds of the American population, and generate three-quarters of our gross domestic product. These metropolitan areas, cities, suburbs and rural areas together, have become the engines of national prosperity because they serve as the gateways of international trade and migration and harbor the private and nonprofit institutions that are at the cutting edge of innovation.

*Rural Dynamics:* Growth and decentralization have further blurred the lines between urban, suburban and rural areas. With more people and jobs moving toward the urban periphery, more residents of small towns now find themselves part of the large labor markets that metropolitan areas represent. In 2000, over 50 percent of all people living in what the Census Bureau defines as "rural areas"--places with relatively low population density--actually lived within the boundaries of metropolitan areas. That percentage was up from 40 percent in 1980.

*Suburban Change:* Suburbs have become more complex socially as jobs and population have dispersed. Suburbs are increasingly employment centers for the country, with more and more jobs now locating far from central business districts. More poor people now live in suburbs than cities, indicating a wholesale shift in demographic patterns.

*Concentrated Poverty:* Despite the new found relevance of cities and the changing demographics of suburban and rural areas, concentrated poverty in inner cities remains a serious challenge. The 2000 census (the last accurate accounting for neighborhood-based poverty) showed that some 7.9 million poor people live



in “extreme poverty” census tracts, where the poverty rate exceeded 40 percent. Neighborhoods of extreme poverty disproportionately concentrate the minority poor and are overwhelmingly located in central cities.

These trends, taken together, present a challenge to the traditional housing and community development efforts of HUD, which rely on methods of distribution and patterns of intervention that are decades old. HUD’s approach to community revitalization must, therefore, change to fit this challenging moment. HUD envisions several mutually reinforcing strategies.

<b>Community Investment</b>				
(\$ in millions)				
	<b>2009</b>		<b>2010</b>	
	<b>Enacted</b>		<b>Request</b>	<b>Difference</b>
				<b>2010 vs 2009</b>
CDBG	\$3,900.0	a/	\$4,450.0	\$550.0
Sustainable Communities Initiative			[\$150.0]	b/ [\$150.0]
Rural Housing Fund	.....		[\$25.0]	b/ [\$25.0]
University Fund	.....		[\$25.0]	b/ [\$25.0]
Choice Neighborhoods	\$120.0	c/	\$250.0	\$130.0
a/ Does not include \$2 billion NSP or \$1 billion CDBG appropriation provided in ARRA supplemental				
b/ Budgeted under CDBG				
b/ FY 2009 Appropriation for HOPE VI				

**Community Development Block Grant (“CDBG”):** HUD requests \$4.45 billion for the Community Development Block Grant program, an increase of \$550 million over the fiscal year 2009 appropriated level. Since the mid 1970s, CDBG has provided communities and states with extremely flexible funding to address locally determined community and economic development priorities. CDBG funds are used to rehabilitate housing, improve infrastructure, provide job training, finance revolving loan funds and finance other community determined projects.

Despite these attributes, the formula driving the allocation of CDBG funds has been in place since 1977 and has neither kept current with shifting population and social dynamics nor distributed funds adequately to communities that are most in need. HUD hopes to ensure that its main community development programs reflect America as it is today, not as it was three decades ago before the impact of major population growth as well as migration and immigration shifts. *Increased funding will allow an update to a formula that is more than 30 years old without any jurisdiction receiving a reduction in funding.* With a higher funding level, HUD can hold all grantees harmless at their fiscal year 2009 funding amount, leaving the proposed increase to expand funding for the needy communities that do not receive their fair share because of problems in the existing formula.

Increased funding will also enable support for a series of targeted investments in programs that advance healthy and vital places: a \$150 million Sustainable Communities Initiative, a \$25 million University Community Fund and a \$25 million Rural Innovation Fund. All of these signature initiatives are described below in greater detail.

HUD also seeks to strengthen CDBG performance by helping grantees tailor their community development strategies to local market and social realities while better measuring performance to enhance accountability. HUD intends to use funds provided under the Transformation Initiative (see below) to help states and entitlement grantees design and implement community strategies that reflect the latest data on community need and potential and articulate a clear strategy for revitalizing communities. These efforts will focus on developing appropriate performance metrics to measure progress over time.

***University Community Fund:*** HUD requests \$25 million for a new University Community Fund as a set-aside from the larger CDBG program. Funding would be allocated by competition to universities that show innovative community development strategies that respond to local needs and build on past experience. This Fund would consolidate four separate university and community assistance programs: Tribal Colleges and Universities Program, Historically Black Colleges and Universities, Hispanic Serving Institutions Assisting Communities and Alaska Native and Native Hawaiian Serving Institutions Assisting Communities.

The University Community Fund recognizes that universities are institutions that anchor regeneration efforts in communities across the nation. Besides their central teaching role, universities are major employers, large real estate holders and important procurers of goods and services. Institutions like the University of Cincinnati and the University of Pennsylvania have used these assets and their own resources to spark real sustainable revitalization in neighborhoods surrounding the university campus. This initiative will continue to provide support to minority serving institutions similar to LeMoyne-Owen College in Memphis, Tennessee and Los Angeles Trade Tech in Los Angeles, California, that have used their grants from HUD to catalyze neighborhood revitalization activities in their target neighborhoods.

***Rural Innovation Fund:*** HUD requests \$25 million in a new Rural Innovation Fund, also as a set-aside from the larger Community Development Block Grant program, supplanting the Rural Economic Development and Housing initiative. This funding will support a limited number of highly targeted and innovative approaches dedicated to addressing the problem of concentrated rural housing distress and community poverty. Similar to the Choice Neighborhoods Initiative, the Rural Innovation Fund will focus on areas of high distress that have a good chance of revitalization given their location.

The Rural Innovation Fund will augment HUD's capacity to play a positive and catalytic role in rural America. While generally perceived to be an "urban-focused" agency, HUD



makes consistent and significant contributions to the revitalization of rural areas through a variety of means. A portion of HUD's block grant funds for example, flow directly to States, which use them in turn to invest in small communities. Other programs like public and assisted housing also have a rural presence. HUD will work closely with the Department of Agriculture on the implementation of these broader programs as well as the Rural Innovation Fund.

***Choice Neighborhoods Initiative:*** HUD requests \$250 million for a Choice Neighborhoods Initiative, \$130 million over the level appropriated for HOPE VI in fiscal year 2009. The initiative would challenge public, private and nonprofit partners to extend neighborhood transformation efforts beyond public housing and link housing interventions more closely with school reform and early childhood innovation.

Choice Neighborhoods would continue the effort, started under HOPE VI, to alleviate the intense concentration of poverty in inner city neighborhoods that is caused by the over concentration of public and assisted housing. Such concentration undermines the promise of affordable housing to serve as a platform for individual advancement and community revitalization.

Over the past 15 years, HOPE VI has invested \$6.1 billion of federal funding for 235 projects, to demolish 96,200 public housing units and produce 107,800 new or renovated housing units, 56,800 of which will be affordable to the lowest-income households. The new housing is economically mixed, better designed, less dense, and fundamentally integrated into the fabric of local neighborhoods and city economies. In addition to rebuilding new housing units, over 78,000 housing vouchers have been issued in support of HOPE VI revitalization efforts. Research by the Urban Institute has found families "who moved with vouchers are living in significantly better quality housing in neighborhoods that are lower poverty and dramatically safer."

The quality of many of the new HOPE VI developments has sparked significant improvements in the surrounding neighborhoods. Case studies almost uniformly show substantial declines in neighborhood poverty, crime and unemployment and substantial increases in income, property values, and market investment. In several high-profile developments, HOPE VI investments have been accompanied by significant improvements in the quality of the local schools and the educational performance of low-income children.

Beyond bricks and mortar, HOPE VI has transformed lives and neighborhoods in other ways, including funding for supportive services to help former public housing residents make the transition to work as well as housing vouchers to aid the relocation of residents who choose to move out of the neighborhood.

Choice Neighborhoods would build on the lessons of HOPE VI in several ways. The range of eligible activities would be broader than public housing transformation, since in

many neighborhoods public housing is no longer the “cancer” in the community. Choice Neighborhoods resources could be used to support the transformation of assisted housing development, the acquisition and renovation (or replacement) of unsubsidized, privately owned stock (perhaps through a land banking entity), and the construction of mixed income housing in strategic locations. As a result, the pool of eligible applicants would be broader than public housing agencies and include local governments, non-profit intermediaries, private firms as well as public housing agencies. Residents in public and assisted housing would also be eligible to receive work incentives and work supports, along the lines of the successful Jobs Plus Demonstration.

Preference would be given to cities and neighborhoods that are the focus of intensive school reform and early childhood development activities. To the greatest extent practicable, the Choice Neighborhoods initiative will be aligned with the Administration’s effort to replicate the successes of the Harlem Children Zone through the new Promise Neighborhoods initiative.

# GOING GREEN: DRIVING ENERGY EFFICIENT HOUSING AND SUSTAINABLE, INCLUSIVE GROWTH



HUD has always had a metropolitan focus. HUD's original charter, as codified in the Housing and Urban Development Act of 1965, addressed the nation's housing needs, but placed them in the context of a larger vision for the agency. HUD was charged with "assisting communities in developing solutions to community and metropolitan development problems and encouraging effective regional cooperation in the planning and conduct of community and metropolitan development."

This larger vision is especially relevant today. Residential housing and the built environment more broadly are major contributors to energy consumption and global warming. Residential buildings alone account for 20 percent of U.S. carbon emissions, with the vast majority coming from detached single-family houses. The transportation sector accounts for another third of carbon emissions, in part because sprawling development patterns separate jobs and houses that, without adequate transit systems, necessitate long commutes and increased dependence on car travel.

The social implications of current growth patterns have also become more apparent. As metropolitan areas continue to sprawl outward and jobs become increasingly dispersed, fewer low-wage earners and renters are able to find housing near their work. Nationally, 45 percent of all renters and two-thirds of poor renters live in central cities. Low-income families, many of them minorities, live in neighborhoods that limit access to quality jobs, good schools and opportunities to create wealth.

The unbalanced nature of metropolitan housing development has strained urban, suburban and rural household budgets, as commutes lengthen: the combination of housing and transportation costs now average a combined 60 percent of income for working families in metropolitan areas.

With few exceptions, the federal government has not been up to the task of addressing these critical trends. Federal programs dealing with housing, transportation and energy issues remain largely divorced from each other, precluding smart, integrated problem solving. Federal policies and rules are narrowly defined, poorly coordinated and often work at cross purposes. The silo driven nature of federal policy and program extends to planning, data collection, performance measurement and research and evaluation.

In the past several months, HUD and its partners in the Congress and the Administration have begun to address the relationship between housing, energy and sustainable growth. The American Recovery and Reinvestment Act, for example, committed funds in unprecedented amounts for energy efficiency and green building improvements: \$4 billion in capital funds for public housing, and \$250 million for assisted multifamily housing retrofits.

In February, 2009, HUD and the Department of Energy announced a new partnership to focus on developing joint financing strategies by exploring the use of DOE loan guarantee



authority for the residential sector, developing a common baseline for measuring home energy efficiency and coordinating the use of economic recovery funds. In March, 2009, HUD and the Department of Transportation announced a new, high level interagency working group to support joint research, policy analysis and program implementation between the two agencies.

The FY 2010 Budget builds on these efforts through major initiatives designed to catalyze the retrofit of existing homes and buildings, promote the green construction of new dwellings and advance more environmentally sustainable and socially inclusive development patterns.

<b>Sustainability</b>			
(\$ in millions)			
	<b>2009</b>	<b>2010</b>	<b>Difference</b>
	<b>Enacted</b>	<b>Request</b>	<b>2010 vs 2009</b>
Energy Innovation Fund	.....	\$100.0	\$100.0
Sustainable Communities Initiative	.....	\$150.0 a/	\$150.0
Fair Housing Initiatives Program (FHIP)	\$27.5	\$42.5	\$15.0
Fair Housing Assistance Program (FHAP)	\$26.0	\$29.5	\$3.5
Office of Sustainable Housing and Communities	.....	\$2.4	\$2.4
a/ Budgeted under CDBG			

**Energy Innovation Fund:** HUD requests \$100 million for an Energy Innovation Fund to catalyze a residential energy retrofit and new construction market in the United States. HUD intends to build on the wave of innovation that is occurring in the private sector and at the state and local level. Although the returns on investment vary by type and age of structure and by region, retrofits of existing buildings are generally a very good investment. They pay for themselves in the form of reduced operating costs in the short- and long run. In practice, however, retrofitting of existing homes has been slow to get past “early adopters,” largely due to the lack of information that prevents the market from underwriting debt against the savings generated by these investments and because of high transaction costs that result from the lack of integrated products or an organized supply chain.

The Energy Innovation Fund will have three central components:

The Fund will work with FHA to re-engineer the FHA Energy Efficient Mortgage as an effective financing vehicle for investing in energy efficiency as part of the home buying or mortgage refinancing transaction. \$25 million will help streamline the energy audit and retrofit process and create new Title I and second mortgage products to position FHA as a leader in energy efficiency and green lending for single-family housing.

The Fund will work with FHA in the multifamily sector to overcome disincentives to energy investments in HUD assisted housing. \$25 million will be used to test the impact of reducing or offsetting the cost of mortgage insurance premiums as an incentive for property owners to invest in energy and other key strategies.

The Fund will include a \$50 million grants program to support promising local energy funds that leverage public and private funds from utilities, local banks, states and local governments, test innovative on-bill utility financing or billing arrangements, and provide streamlined energy audit and technical services to participating home and property owners.

***Sustainable Communities Initiative:*** HUD requests \$150 million for a new Sustainable Communities Initiative to integrate transportation and housing planning and decisions in a way that maximizes choices for residents and businesses, lowers transportation costs and drives more sustainable development patterns. Funding for this initiative would be set aside from the proposed increase in the CDBG program.

This investment reflects HUD's strong belief that housing is best developed "in context" of communities and regions, as proximity to transit, jobs, and retail amenities influence the long term success of both the housing and its occupants. Walkable, transit-oriented, mixed income and mixed use communities substantially reduce transportation costs (now a greater part of many family budgets than housing costs), create energy savings (by reducing Vehicle Miles Traveled), and enhance access to employment and educational opportunities.

The initiative would address three central efforts:

First, the Initiative would dedicate \$100 million for a regional planning effort to be jointly administered by HUD and DOT. The goal of this effort would be to enable metropolitan areas to set a vision for growth and then apply federal transportation, housing and other investments in an integrated way in support of the broader vision. HUD and DOT would entertain joint applications between metropolitan planning organizations and consortia of local recipients of HUD block grant assistance. States could be co-applicants where appropriate. Funding would generally be used to support the development of integrated, state of the art regional development plans that use the latest data and most sophisticated analytic, modeling and mapping tools available.

This funding would help HUD and DOT overcome the current fragmentation of transportation and housing planning. For example, HUD requires states, cities and counties, as a condition to receiving formula grants, to prepare a five-year Consolidated Plan, as well as an annual Action Plan, estimating housing status and needs. These plans have become largely pro forma, do not take land use or transportation into account, and are for political jurisdictions, not regions. At the same time, the Department of Transportation requires states and metropolitan areas (through Metropolitan Planning Organizations) to develop a 20 year Long Range Transportation Plan and a four-year Transportation Improvement Program



(TIP). While taken more seriously, and regional in scope, these plans generally do not consider housing and land use patterns, or broader sustainability goals.

Second, this Initiative would include \$40 million in community challenge grants to entice metropolitan and local leaders (and states in certain cases) to make market-shifting changes in local zoning and land use rules, as well as building codes. These investments will provide a local complement to the regional planning initiative, enabling those changes in local land use policy and practice that are necessary to carry out the broader scale vision for growth.

Challenge grants would help states and localities design and implement a variety of reforms. Cities and smaller municipalities and towns hoping to build mixed use districts might seek funds to revise local zoning rules for downtown areas, commercial and even industrial areas. States might request resources to make it easier to rehabilitate older buildings through an overhaul of building codes. Rural counties might seek support for innovative techniques (e.g., transfer of development rights) to augment the conservation of open space and the preservation of farmland.

Finally, the Initiative would dedicate \$10 million for a major research and evaluation effort that is jointly administered by DOT and HUD. This effort would aggressively engage on joint data development, information platforms, analytic tools and research. Efforts would be made to better track housing and transportation expenditures by location, create broader measures of affordability, establish standardized and efficient performance measures, identify best practices in transit-oriented development and evaluate location efficient mortgages. To the greatest extent possible, the goal of research would be to gauge the effectiveness of federal investments as well as inform private investment and consumer decisions.

***Fair Housing Initiatives:*** HUD requests substantial increases in its signature fair housing programs to combat discrimination in the housing market and enable growth patterns that are not only sustainable but inclusive.

HUD requests \$42.5 million for the Fair Housing Initiatives Program (FHIP), an increase of \$15 million over the fiscal year 2009 appropriated level. The FHIP program generally provides funding to help private non profit fair housing organizations carry out programs that enhance compliance with fair housing laws. The Department proposes to dedicate \$12 million of the increase in funding to the agency wide effort to curb mortgage fraud and predatory practices.

HUD also requests \$29.5 million for the Fair Housing Assistance Program (FHAP), an increase of \$3.5 million over the fiscal year 2009 appropriated level. The FHAP program provides assistance to State and local agencies that administer fair housing laws certified by the Department as “substantially equivalent” to Title VIII of the Civil Rights Act of 1968. The Department proposes to dedicate \$1 million of the increase in funding to the agency wide effort to curb mortgage fraud and predatory practices.

**Office of Sustainable Housing and Communities:** HUD requests \$2.4 million for a new HUD Office of Sustainable Housing and Communities, reporting directly to the Deputy Secretary. Currently, HUD has no lead on energy and sustainability issues, with responsibility for overseeing the relationship of housing programs to broader energy and sustainability goals spread across the agency.

The creation of the Office of Sustainable Housing and Communities will resolve this organizational fragmentation. The mission of the new Office will be to advance housing and communities that promote affordable, livable and sustainable living environments. With an expected staff of 20 professionals with special skills and knowledge, the Office will provide technical and policy support for energy, green building, and integrated housing and transportation programs at HUD and around the nation. The Office will co-manage the Sustainable Communities Initiative as well as the Energy Innovation Fund. In addition, the Office will manage the Department's key relationships with other federal agencies in this arena like the Departments of Transportation and Energy and the Environmental Protection Agency. The Office will also work closely with the philanthropic sector on a range of activities including but not limited to research and evaluation, demonstrations, technical assistance and capacity building.

# GOVERNING SMART: TRANSFORMING THE WAY HUD DOES BUSINESS



HUD is an agency deeply in need of transformation and reform. The current economic and housing crisis, the structural affordability challenges facing low-income homeowners and renters, the new, multidimensional challenges facing our urban, suburban and rural communities all require an agency where the fundamentals matter and the basics function.

Management systems – budgeting, human resources, technology, procurement – that can allocate scarce resources in a targeted, timely and effective manner.

Basic data on market dynamics and program performance that can inform HUD and Congress, as well as practitioners in the market and consumers of HUD’s disparate programs.

A continuous emphasis on learning, research and evaluation so that Congress and the agency can invest in what works and fix what doesn’t.

A persistent commitment to knowledge sharing and technological innovation so that the ingredients of program success can be disseminated and diffused widely and the full network of governments, firms, intermediaries and individuals that use HUD programs can get better at what they do.

A firm dedication to transparency, accounting and accountability so that HUD can provide timely and consistent data on the true costs of programs, the cost effectiveness of alternative strategies, and ultimately do more with less.

The hard truth is that today’s market realities demand a functioning national housing agency with the capacity and capabilities to meet big challenges. The good news is that HUD can be fixed, if we invest in transformation and implement smartly and persistently over time.

The fiscal year 2010 Budget includes four strategies to transform and revive HUD: (a) investing in basic data to drive markets and inform the evaluation of government programs; (b) investing in the maintenance and upkeep of agency technology systems; (c) pursuing an agency wide Transformation Initiative; and (d) adding structural capacity to oversee systemic reform and agency accountability.



<b>HUD Transformation</b>				
(\$ in millions)				
	<b>2009</b>		<b>2010</b>	
	<b>Enacted</b>		<b>Request</b>	
			<b>Difference</b>	
			<b>2010 vs 2009</b>	
PD&R Research and Technology	\$32.0	a/	\$50.0	\$18.0
Working Capital Fund				
Direct Appropriation	\$224.0		\$200.0	(\$24.0)
Program Transfers to WCF	\$106.8		\$70.8	(\$36.0)
<i>Total WCF</i>	\$330.8		\$270.8	(\$60.0)
Transformation Initiative	.....		\$433.6	\$433.6
Office of Strategic Planning and Management	.....		\$2.5	\$2.5
a/ Reflects core R&T funding only				

**Basic Data Infrastructure:** HUD requests \$50 million for the Office of Policy Development and Research to support the collection and dissemination of the core data needed to support effective decision making about housing, one of the largest sectors of the economy. HUD’s request for this purpose is \$18 million more than the fiscal year 2009 appropriated level of \$32 million.

Of the fiscal year 2010 request, \$44 million would be used to conduct housing surveys, including the American Housing Survey, the Survey of New Home Sales and Completions, the Survey of Market Absorption of Multifamily Units, the Survey of New Manufactured Housing Placements and the proposed new Multifamily Residential Finance Survey. Other fixed activities include \$5.5 million for research dissemination and clearinghouse activities.

The largest investment, by far, \$35.8 million, would be dedicated to the American Housing Survey (AHS). The AHS is the richest source of information about the nation’s housing stock and the characteristics of its occupants. It performs an important role in informing market decisions as well as research efforts that assess the performance of government housing programs. Without the proposed funding, the AHS will be in a perilous state, as funding restrictions in recent years have reduced sample sizes and coverage of metropolitan areas to the point of violating the Congressional mandate. The AHS is used extensively by HUD as well as a broad array of Congressional and federal research organizations, and academic, industry and nonprofit groups.

**Working Capital Fund:** HUD requests \$271 million for the Working Capital Fund, to cover the steady state operations and corrective maintenance of HUD’s existing technology infrastructure. This amount represents a decrease of \$60 million from the fiscal year 2009 levels because “next generation technology” development would be funded through the Transformation Initiative, as described below. The bulk of the fiscal year 2010 request (\$200 million) would be in the form of a direct appropriation. In addition, HUD seeks a \$71 million transfer from FHA to pay for the maintenance of its systems.

***The Transformation Initiative:*** As part of broader renewal, the Department seeks the authority to set-aside up to 1 percent of HUD’s total budget for an agency wide ***Transformation Initiative***. This set-aside is necessary to build a transparent and accountable agency that uses metrics to gauge performance, research to evaluate programs, demonstrations to illustrate the broader impact of federal interventions, technical assistance to identify and diffuse innovation and technology to track spending, inform decisions and curb fraud, waste and abuse. Additionally, HUD seeks \$20 million for the Combating Abusive and Fraudulent Mortgage Practices Initiative through this account.

The Transformation Initiative has four related components.

First, the Initiative would enable HUD to have a predictable stream of funding for high quality *research and evaluation*. This would enable HUD to subject programs continuously to rigorous evaluation to highlight what works and to modify programs and policies that are not showing results. As the National Academy of Sciences recently chronicled, funding for HUD research has declined precipitously in the past decade, from \$49.4 million in fiscal year 2001 to \$27.9 million in fiscal year 2008. Several kinds of research would be consistently supported through this investment:

*basic research*, such as evaluating the costs and benefits of green building, the costs and benefits of housing counseling, the causes of homelessness, the benefits and drawbacks of resident mobility or the prevalence and nature of mortgage fraud;

*trends analysis*, such as tracking the improvement of high poverty neighborhoods, the adoption of innovative and sustainable building technologies in housing, or the recovery from disasters;

*metric development* to enable the measurement of energy efficient improvements or HUD customer satisfaction or success rates in the voucher program; and

*program evaluation*, to assess progress in the neighborhood stabilization program, the costs of administering the voucher program or the long term effect of efforts like HOPE VI.

HUD strongly believes that this range of research would generate savings over time and improve program effectiveness. The National Academy of Sciences recently called for enhanced in house research capacity, mostly on the belief that a strong PD&R would generate programmatic savings as well as prevent waste and abuse.

Second, the Transformation Initiative would enable HUD to design and execute a series of major *research demonstrations* to test new ideas for improving its programs and helping state and local governments develop more effective housing and community and economic development strategies. The collection and dissemination of information on best-practices,



while valuable, can only take one so far. At some point, rigorous evidence is needed to help communities make better decisions and to help HUD strengthen its programs, and this requires both vision and resources. The findings generated by demonstrations conducted in the past, like Moving to Opportunity and Jobs Plus, have proven invaluable to practitioners and policymakers and dramatically advanced learning in the field.

Third, the Transformation Initiative would enable HUD to deliver a new level of *technical assistance and capacity building*. This capability would enable HUD grantees to administer programs effectively as well as move towards a higher level of integrated planning and action, across programs and jurisdictions. This capability would also enable HUD to establish the kind of peer-to-peer networks that are so essential to diffuse program innovations.

HUD's fiscal year 2010 Budget would roll all existing technical assistance accounts into one broad program technical assistance account. The Secretary would be given the discretion to target funding for technical assistance to those programs that need the funding most, given the capacity of current grantees, new conditions in the program or broader economic and social imperatives (e.g., a spike in homelessness). In addition, the Secretary would have the latitude to provide technical assistance across programs, given the common challenges (e.g., energy efficiency) that face HUD's disparate programs.

Fourth, the Transformation Initiative would enable HUD to *develop next generation information technology systems*. In recent years, HUD's funding for Information Technology has not been sufficient to make major investments in developing, modernizing and enhancing our information systems. Instead, the Department has had to maintain and operate outdated technology, in some cases, in existence for twenty years or more. Reliance on these legacy systems has prevented the Department from taking full advantage of modern tools to capture, store, share and disseminate information.

***Implementing Agency Transformation:*** HUD requests two organizational changes to implement the broad transformation and renewal of the department.

HUD seeks to create a Chief Operating Officer ("COO") for the agency, building on the best thinking in the world of business management. The COO would report to the Deputy Secretary and oversee all of the agency's key support functions, including Offices of the Chief Financial Officer, Chief Procurement Officer, Chief Human Capital Officer (Administration) and the Chief Information Officer. The COO would have day-to-day management responsibilities for these offices as well as work closely with the new Office of Strategic Planning and Management to deliver transformational change across the support functions in support of the Department's strategic objectives.

HUD also seeks to create an Office of Strategic Planning and Management to reinvigorate the strategic planning process, streamline program and support functions, and create

ownership and accountability for performance across the Department. The Office will also provide analytic, internal consulting and solution delivery capacity and project management expertise to address the Department's biggest challenges.

The Office's responsibilities begin with the development of a new strategic plan, which will be central to HUD's transformation. The plan will identify the Department's key goals, objectives and measures of success, and will serve as the "roadmap" for HUD. For the Transformation Initiative, it will identify both short and long-term strategies in the areas of research, demonstrations, technical assistance, and next generation technology improvements. In the short-term, this plan will identify and target Transformation Initiative funding toward modernizing HUD's IT systems for existing programs, as well as ensure HUD and its partners have access to the best training and best practice information to maximize program performance. The plan will also look to the long-term and identify and fund the research and demonstrations needed to make informed decisions for transforming existing programs, identify new and better ways to address old problems, and think forward to addressing new and potential housing and urban development issues. In addition to developing the strategic plan for the Department, the Office will identify meaningful management performance measures for the entire Department, as well as identify, plan, execute, and monitor workforce, program and support process transformation initiatives.

***Program Streamlining: A Downpayment on Transformation:*** As illustrated by Appendix B, HUD seeks to eliminate or consolidate 27 programs and activities in the fiscal year 2010 budget. In many respects, this constitutes an early sign of what transformation can achieve at HUD: fewer categorical, silo-driven programs, enhanced emphasis on results, greater transparency for external stakeholders and partners, and greater flexibility and latitude for agency managers to respond quickly to shifting dynamics.

## CONCLUSION

The fiscal year 2010 budget provides the foundation for transforming the Department of Housing and Urban Development and making the agency a key vehicle for delivering the kind of housing and community outcomes that the nation desperately needs in this moment of economic challenge.

HUD looks forward to working with Congress and the agency's vast network of public and private sector partners on designing and implementing the transformation of housing and community development policies and programs.

In the end, the budget represents a blueprint for harnessing the energies and talents of literally thousands of communities and tens of thousands of governmental agencies, private firms and non-profit organizations.

The fiscal year 2010 Budget represents, in short, the start to a new HUD and a new era of innovation and impact.

# APPENDIX A. 1: HUD SUMMARY BUDGET TABLE

	2009 Actual (\$ millions)	2010 Proposed (\$ millions)	Difference (\$ millions)
<b>DISCRETIONARY AUTHORITY</b>			
PUBLIC AND INDIAN HOUSING (PIH)	\$23,757	\$25,593	\$1,836
HOUSING PROGRAMS (HOUSING)	\$8,360	\$10,348	\$1,988
COMMUNITY PLANNING AND DEVELOPMENT (CPD)	\$7,818	\$8,456	\$638
POLICY DEVELOPMENT AND RESEARCH (PD&R)	\$58	\$50	(\$8)
FAIR HOUSING AND EQUAL OPPORTUNITY (FHEO)	\$53	\$72	\$19
OFFICE OF HEALTHY HOMES AND LEAD HAZARD CONTROL	\$140	\$140	.....
MANAGEMENT AND ADMINISTRATION	\$1,647	\$1,666	\$19
<b>HUD Presidential Initiatives and Transformation Initiatives</b>			
<b>MORTGAGE FRAUD INITIATIVE</b>			
FHA Combating Mortgage Fraud	.....	[20] a/	[20]
FHEO Mortgage Fraud and Lending Discrimination	.....	[13] b/	[13]
S&E Mortgage Fraud Initiative	.....	[4] c/	[4]
<b>Total, Mortgage Fraud Initiative</b>	.....	<b>[\$37]</b>	<b>[\$37]</b>
COMMUNITY DEVELOPMENT BLOCK GRANT (Full Funding)	[\$3,900]	[\$4,450] d/	[\$550]
<b>TRANSFORMATION INITIATIVE</b>			
Combating Mortgage Fraud Transfer Authority		20	20
<b>Total, Transformation Initiative</b>	.....	<b>[\$434] e/</b>	<b>[\$434]</b>
<b>Total, New Initiatives Direct Appropriation</b>	.....	<b>\$20</b>	<b>\$20</b>
<b>Total, Discretionary Presidential and Transformation Init.</b>	.....	<b>[\$721]</b>	<b>[\$721]</b>
<b>Subtotal, HUD Discretionary Amount (Gross)</b>	<b>\$41,833</b>	<b>\$46,344</b>	<b>\$4,511</b>
RECEIPTS	(\$1,305)	(\$2,626)	(\$1,321)
<b>TOTAL, HUD Discretionary Amount (Net)</b>	<b>\$40,528</b>	<b>\$43,718</b>	<b>\$3,190</b>

## FOOTNOTES

- a/ Funding included in the Transformation Initiative
- b/ Funding included in FHEO Budget Request
- c/ Funding included in S&E Budget Request
- d/ Funding included in Community Planning and Development
- e/ Up to 1 percent of program budgets will be transferred to the Transformation Initiative

## APPENDIX A. 2: BUDGET DETAILS

	2009 Actual (\$ millions)	2010 Proposed (\$ millions)	Difference (\$ millions)
<b>PUBLIC AND INDIAN HOUSING (PIH)</b>			
Tenant-Based Rental Assistance (TBRA)	\$16,817	\$17,836	\$1,019
Rescission Section 8	(750)	.....	750
<i>Sub-total Tenant-based Rental Assistance</i>	<b>\$16,067</b>	<b>\$17,836</b>	<b>\$1,769</b>
Public Housing Capital Fund	2,450	2,244 a/	(206)
Revitalization of Severely Distressed Public Housing (HOPE VI)	120	.....	(120)
Choice Neighborhoods	.....	250	250
Public Housing Operating Fund	4,455	4,600 a/	145
Native American Housing Block Grants	645	645	.....
Indian Housing Loan Guarantee Fund (Section 184)	9	7	(2)
Loan Guarantee Limitation Level	[420]	[919]	[499]
Native Hawaiian Housing Loan Guarantee Fund (Section 184A)	1	1	.....
Loan Guarantee Limitation Level	[42]	[42]	.....
Native Hawaiian Housing Block Grants	10	10	.....
<b>Total, PIH</b>	<b>\$23,757</b>	<b>\$25,593</b>	<b>\$1,836</b>
<b>HOUSING PROGRAMS (HOUSING)</b>			
Project-Based Rental Assistance (PBRA)	7,100	8,100 b/	1,000
Housing Counseling Assistance	65 c/	100 c/	35
Housing for the Elderly (Section 202)	765	765	.....
Housing for Persons with Disabilities (Section 811)	250	250	.....
FHA Mutual Mortgage Insurance (MMI) & Cooperative			
Management Housing Insurance (CMHI) Fund	116	987 d/	871
Direct Loan Limitation	[50]	[50]	.....
Loan Guarantee Limitation Level	[315,000]	[400,000]	[85,000]
General Insurance and Special Risk Insurance (GI/SRI) Fund	53	9 d/	(44)
Direct Loan Limitation	[50]	[20]	[(30)]
Loan Guarantee Limitation Level	[45,000]	[15,000]	[(30,000)]
Energy Innovation Fund	.....	100	100
Manufactured Housing Standards Program	16 e/	16	.....
General Fund Payment, Manufactured Housing Fees Trust Fund	5	9	4
Rental Housing Assistance Program			
(RAP - Section 236/Rent Supplement)	28	40	12
(RAP - Section 236/Rent Supplement) - Rescission	(38)	(28)	10
<b>Total, Housing</b>	<b>\$8,360</b>	<b>\$10,348</b>	<b>\$1,988</b>



#### FOOTNOTES

- a/ Capital Fund reduced to fund Operating Fund increase
- b/ Includes \$400 million advance appropriation
- c/ Moved from HOME to separate account in Housing in 2009
- d/ All FHA Administrative Contracts funding consolidated in MMI

	2009 Actual (\$ millions)	2010 Proposed (\$ millions)	Difference (\$ millions)
<b>COMMUNITY PLANNING AND DEVELOPMENT (CPD)</b>			
Community Development Block Grant (CDBG) Funds	3,900	4,450	550
HOME Investment Partnerships Program	1,825	1,825	.....
Community Development Loan Guarantees (Section 108)	6	..... f/	(6)
Loan Guarantee Limitation Level	[275]	[275]	.....
Self-Help and Assisted Homeownership Opportunity Program (SHOP)	64	77	13
Homeless Assistance Grants (HAG)	1,677	1,794	117
Housing Opportunities for Person With AIDS (HOPWA)	310	310	.....
Brownfields Economic Development Initiative	10	.....	(10)
Rural Housing and Economic Development	26	..... g/	(26)
<b>Total, CPD</b>	<b>\$7,818</b>	<b>\$8,456</b>	<b>\$638</b>
<b>GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA)</b>			
<b>GUARANTEES OF MORTGAGE-BACKED SECURITIES (MBS)</b>			
Loan Guarantee Limitation Level	[300,000]	[500,000]	[200,000]
<b>Total, GNMA</b>	<b>.....</b>	<b>.....</b>	<b>.....</b>
<b>POLICY DEVELOPMENT AND RESEARCH (PD&amp;R)</b>			
Research and Technology (R&T)	32	50	18
Administrative Cost Study and Disaster Technology	3	.....	(3)
<b>Total, R&amp;T</b>	<b>\$35</b>	<b>\$50</b>	<b>\$15</b>
Office of University Partnerships (OUP)	23	..... h/	(23)
<b>Total, OUP</b>	<b>\$23</b>	<b>.....</b>	<b>(\$23)</b>
<b>FAIR HOUSING AND EQUAL OPPORTUNITY (FHEO)</b>			
Fair Housing Assistance Program (FHAP)	26.0	29.5	3.5
Fair Housing Initiatives Program (FHIP)	27.5	42.5 i/	15.0
<b>Total, FHEO</b>	<b>\$53.5</b>	<b>\$72.0</b>	<b>\$18.5</b>
<b>OFFICE OF HEALTHY HOMES AND LEAD HAZARD CONTROL (OHHLHC)</b>			
<b>Total, OHHLHC</b>	<b>\$140</b>	<b>\$140</b>	<b>.....</b>



## FOOTNOTES

f/ Funded through fees; consolidated with CDBG

g/ Consolidated with CDBG

h/ Consolidated with CDBG

i/ Increased through Presidential Initiative to help combat mortgage fraud

## APPENDIX A. 2: BUDGET DETAILS

	2009 Actual (\$ millions)	2010 Proposed (\$ millions)	Difference (\$ millions)
<b>MANAGEMENT AND ADMINISTRATION</b>			
Salaries and Expenses			
Sub-Total, HUD S&E	1,303	1,346	43
Sub-Total, OIG S&E	120	120	.....
Working Capital Fund (WCF)			
Direct Appropriation	224	200	(24)
Transfers from Program Budgets	[107]	[71]	[(36)]
<i>Sub-Total, HUD WCF</i>	[331]	[271]	[(60)]
<b><i>Total, Management and Administration</i></b>	<b>\$1,647</b>	<b>\$1,666</b>	<b>\$19</b>
<b>RECEIPTS</b>			
<i>Offsetting</i>			
MMI Capital Reserve Account Receipts (Negative Subsidy)	(525)	(1,710)	(1,185)
GNMA	(630)	(720)	(90)
FHA (GI/SRI Negative Subsidy in the receipt account)	(134)	(180)	(46)
Manufactured Housing Fees Trust Fund	(11)	(7)	4
General Fund Payment, Manufactured Housing Fees Trust Fund	(5)	(9)	(4)
<b><i>Total, Receipts</i></b>	<b>(\$1,305)</b>	<b>(\$2,626)</b>	<b>(\$1,321)</b>

# APPENDIX B: PROGRAM ELIMINATIONS/ STREAMLINING/CONSOLIDATIONS



## HUD's FY 2010 Budget Eliminates or Consolidates 27 Programs

<u>Program</u>	<u>Reform Step Taken</u>
1. American Dream Downpayment Initiative	Program eliminated
2. Section 108	Funding eliminated
3. Brownfields Economic Development Initiative	Funding eliminated
4. Tribal Colleges and Universities Program	Consolidated to University Community Fund
5. Historically Black Colleges and Universities	Consolidated to University Community Fund
6. Hispanic Serving Institutions Assisting Communities	Consolidated to University Community Fund
7. Alaska Native and Native Hawaiian Serving Institutions Assisting Communities	Consolidated to University Community Fund
8. Public Housing Capital TA	Consolidated to Transformation Initiative
9. Native American Block Grant TA	Consolidated to Transformation Initiative
10. Native American TA	Consolidated to Transformation Initiative
11. Native Hawaiian TA	Consolidated to Transformation Initiative
12. Section 202 TA	Consolidated to Transformation Initiative
13. CDBG TA	Consolidated to Transformation Initiative
14. HOME TA	Consolidated to Transformation Initiative
15. HOME/CHDO TA	Consolidated to Transformation Initiative
16. HOPWA TA	Consolidated to Transformation Initiative
17. Elderly Leverage Financing Demonstration	Consolidated to Transformation Initiative
18. Disabled Leverage Financing Demonstration	Consolidated to Transformation Initiative
19. Nation's Veterans Demonstration	Consolidated to Transformation Initiative
20. Partnership for the Advancement of Technology in Housing	Consolidated to Transformation Initiative
21. Homeless Assistance Grants – Evaluation of Demonstration Program	Consolidated to Transformation Initiative
22. Homeless Research	Consolidated to Transformation Initiative
23. Public Housing Resident Opportunity and Supportive Services	Line item eliminated; now an eligible use of funds under another program
24. Elderly Conversion to Assisted Living/Emergency Repairs	Line item eliminated; now an eligible use of funds under another program
25. Elderly Housing Planning Grant	Line item eliminated; now an eligible use of funds under another program
26. FHEO Limited English Proficiency Program	Line item eliminated; now an eligible use of funds under another program
27. Office of Healthy Homes/Communication and Outreach to Potential Applicants	Line item eliminated; now an eligible use of funds under another program



## Fiscal Year 2010 Budget Summary