



FISCAL YEAR 2004 BUDGET SUMMARY

MESSAGE FROM SECRETARY MARTINEZ

The daily work of the U.S. Department of Housing and Urban Development is guided by broad, yet focused strategic goals: increase homeownership opportunities; promote decent affordable housing; strengthen communities; ensure equal opportunity in housing; embrace high standards of ethics, management and accountability; and promote the participation of community and faith-based organizations.

To fulfill both its mission and its obligations to the American people, HUD is working aggressively to implement the housing agenda laid out by President Bush. Our proposed \$31.3 billion budget for Fiscal Year 2004 ensures that HUD will continue to offer new opportunities to families and individuals seeking the American Dream. As the President said during his June 2002 visit to HUD headquarters, "Our collective job is to make sure that [the] notion of the American Dream extends into every single neighborhood around this country."

The HUD budget achieves this by empowering communities and families to make decisions that best meet local needs. It makes HUD a better steward of the taxpayers' dollars by insisting on completion, performance and results.

HUD will continue to play an important role in Fiscal Year 2004 through budget initiatives that work to strengthen communities as well as stimulate the economy and create jobs. Housing is a critical component of the President's agenda. The proposed budget continues to promote homeownership – particularly among minorities – as a stabilizing economic force for families, communities and for the nation as a whole. New programs and expanded initiatives will also work to spur affordable housing production for families and individuals who rent. We are also opening up opportunities for more of those in need to access assisted housing.

HUD is leading an unprecedented commitment by the Administration to address the challenge of homelessness. Our outreach includes new budgetary resources and a new focus on ending chronic homelessness. By providing appropriate care to those who experience chronic homelessness, HUD will ensure it has the ability to serve every homeless individual who seeks our help.

In fulfillment of the President's Management Agenda, the Fiscal Year 2004 budget ensures that HUD's internal offices work together to produce strong, integrated results and to improve overall compliance, standards and efficiencies in an agency that has long been labeled "high risk." The plan stresses accountability and results, so that citizens can be confident that their tax dollars are being spent effectively.



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We know that HUD can achieve its mission by improving management and the delivery of services.

As we implement this budget, we will also judge our success by the lives and communities we have helped to change through HUD's mission of compassionate service to others: the young families who have taken out their first mortgage and become homeowners, the homeless individuals who are no longer homeless, the neighborhoods that have found new hope, the faith-based and community organizations that are today using HUD grants to deliver social services, and the neighborhoods once facing a shortage of affordable housing that now have enough homes for all.

Empowered by the resources provided for and supported by HUD's proposed budget for Fiscal Year 2004, our communities and the entire nation will grow even stronger. And more citizens will come to know the American Dream for themselves.

A handwritten signature in black ink, reading "Mel Martinez".

Mel Martinez
February 3, 2003



EXECUTIVE SUMMARY

The Fiscal Year (FY) 2004 budget proposed by President Bush for the U.S. Department of Housing and Urban Development (HUD) is a budget of opportunity. It offers new opportunities for families and individuals to lift themselves toward self-sufficiency and achieve the American Dream. It offers new opportunities for communities nationwide to generate renewal, growth and prosperity through their participation in programs that promote local decision-making. And it provides HUD with new opportunities to improve the Department's management and performance, ensuring that HUD is well run and results-oriented.

Reflecting HUD's role as the Federal agency responsible for addressing America's housing needs and improving and developing the nation's communities, the Administration is proposing \$31.3 billion in funding for HUD for FY 2004. These funds will support HUD's broad, yet focused strategic goals:

- Increasing homeownership opportunities
- Promoting decent affordable housing
- Strengthening communities
- Ensuring equal opportunity in housing
- Promoting the participation of faith-based and community organizations
- Embracing high standards of ethics, management and accountability

HUD has achieved measurable success since 2001 in carrying out its mission and meeting the many challenges a Cabinet-level Department must confront. Today, HUD annually subsidizes housing costs for approximately 4.5 million low-income households through rental assistance, grants and loans. It helps revitalize over 4,000 localities through community development programs. The Department provides housing and services to help homeless families and individuals become self-sufficient. HUD also encourages homeownership by providing mortgage insurance for more than six million homeowners, many of whom would not otherwise qualify for loans.

Supported by the Administration's FY 2004 budget, this important work will continue.

INCREASING HOMEOWNERSHIP OPPORTUNITIES

For many families, the American Dream means owning their own home. HUD is dedicated to helping more Americans – especially minorities – realize the dream for themselves. The President has committed this nation to creating 5.5 million new minority homeowners by the end of this decade, and said last October, "We can put light where there's darkness, and hope where there's despondency in this country."



And part of it is working together as a nation to encourage folks to own their own home.”

To achieve this, HUD is working to break down the barriers that lock too many families out of homeownership. These barriers include high down payments and closing costs; the inability of would-be homeowners to access information about their rights, responsibilities and financing options; and a confusing and costly homebuying process. By eliminating these barriers, HUD is empowering families to know the security of self-sufficiency, and strengthening communities and the nation as a whole in many measurable ways.

Several new or expanded proposals in the FY 2004 budget will increase the availability and production of affordable homes, and help hundreds of thousands of families come to know the security of homeownership.

- **American Dream Downpayment Initiative.** HUD proposes to fund the American Dream Downpayment Initiative, providing \$200 million to help approximately 40,000 low-income families – for whom coming up with down payment cash is the most significant obstacle to homeownership – with the down payment on their first home.
- **New FHA Financing Option.** The budget proposes a new FHA mortgage product that rewards credit-risk borrowers who make timely mortgage payments. This will help families with poor credit records who would otherwise be forced to rely on high-cost alternatives.
- **Housing Counseling.** Helping families learn about the loan products and services available to them and how to identify and avoid predatory lending practices is critical to increasing homeownership. Housing counseling is an invaluable tool for not only prospective homebuyers, but for renters as well, and anyone struggling to keep their home amidst financial stress. The budget increases housing counseling by \$10 million, providing \$45 million to help take the mystery out of buying a home.
- **Housing Choice Voucher Homeownership.** The FY 2004 budget proposes to help low-income families move into homeownership by allowing them to put up to a year’s worth of their Housing Choice Voucher assistance toward a home down payment. Housing Choice Vouchers can also be used to subsidize the ongoing costs of a mortgage.
- **Self-Help Homeownership Opportunity Program (SHOP).** The FY 2004 budget continues President Bush’s commitment to SHOP, a key initiative of the Administration that reaches out to faith-based and other community organizations working to turn low-income Americans into homeowners. Funded at \$65 million – triple the funding level of 2002– the program will support the construction of 5,200 homes and reduce the cost of homeownership through sweat equity and volunteer labor.
- **Single-Family Affordable Housing Tax Credit.** To promote the production of affordable single-family homes in areas where such housing is scarce – and to help revitalize distressed communities – a tax credit of up to 50 percent of



the cost of constructing a new home or rehabilitating an existing home would be provided. This new tax credit targets low-income individuals and families; eligible homebuyers would have incomes of not more than 80 percent of their area median.

PROMOTE DECENT AFFORDABLE HOUSING

At the same time HUD pursues its mission of increasing the ranks of homeowners, the Department's work encompasses housing in every other form as well, from single-family rentals and multifamily developments to meeting the special needs of society's most vulnerable citizens. Improving the quality and accessibility of public and assisted housing remains a top priority.

The HUD FY 2004 budget proposal expands housing choice and opportunity by offering new flexibility to state and local governments.

- ***Housing Assistance for the Needy.*** The Administration proposes converting the Section 8 Housing Choice Voucher program – one of HUD's major rental housing programs – to a state-run block grant called Housing Assistance for Needy Families (HANF). By giving administration of the program to the states, the states could allocate resources to highest priority needs and assist more low-income households to locate decent and affordable housing in a timely and more effective manner.
- ***HOME Investment Partnerships Program.*** Our proposed budget provides a five percent, or \$113 million, increase in HUD's HOME program. HOME is one of HUD's major tools for helping communities meet housing-affordability needs, and offers maximum flexibility to ensure local decision-making. An estimated \$2.2 billion in total funds will be provided through HOME to state and local grantees to help finance the costs of land acquisition, new construction, rehabilitation, down payments and tenant-based rental assistance.
- ***Public Housing Reinvestment Initiative (PHRI).*** By giving public housing authorities (PHAs) a new ability to leverage private capital, the proposed Public Housing Reinvestment Initiative would substantially improve public housing conditions. A partial loan guarantee is included to increase the proposal's effectiveness.
- ***Low-Income Housing Tax Credit.*** One of the major Federal programs that finances new and rehabilitated affordable rental housing is the Low-Income Housing Tax Credit. In 2002, the tax credit supported an estimated 90,000 units of completed low- to moderate-income rental housing. This number will increase in subsequent years as the recent 40 percent increase in the tax credit becomes fully effective.
- ***Regulatory Barriers to the Development of Affordable Housing.*** HUD is committed to working with states and local communities to reduce regulatory barriers to the development of rental and affordable housing.



STRENGTHENING COMMUNITIES

State and local governments depend upon HUD and its system of grants to support community development projects that revive troubled neighborhoods and spark urban renewal. In FY 2004, HUD will support and strengthen these core programs by ensuring that grantees have even greater flexibility to address locally determined priorities and maintain long-term prosperity.

- **Community Development Block Grant (CDBG) Program.** The CDBG program will provide \$4.436 billion, including insular areas, in funding to meet locally identified community and economic development needs in more than 1,000 eligible cities, counties and states. In 2004, HUD will reform the program and make it more effective by studying ways to reward communities that commit to results-oriented, outcome-based performance plans.
- **Colonias Gateway Initiative (CGI).** The FY 2004 budget proposes \$16 million for a new Colonias Gateway Initiative. The CGI is a regional initiative, focusing on the rural communities and neighborhoods – the *colonias* – located in many border states.

Through its FY 2004 budget, HUD will strengthen its efforts to protect the nation's most vulnerable: those individuals and families who truly need government assistance. The FY 2004 budget provides services to adults and children from low-income families, the elderly, those with physical and mental disabilities, victims of predatory lending practices and families living in housing contaminated by lead-based paint hazards.

HOMELESSNESS. Homelessness remains a special focus of the Bush Administration, which made a commitment in 2001 to end chronic homelessness within a decade. The latest research suggests that persons experiencing chronic homelessness – a number estimated to be approximately 150,000 – may make up less than 10 percent of the homeless population, yet consume more than half of all homeless services. Meeting a goal as ambitious as ending chronic homelessness requires investing in permanent solutions that decrease the number of homeless men and women, not simply moving individuals off the street and into shelters. Highlights within the FY 2004 budget include:

- **The Samaritan Initiative.** The new Samaritan Initiative is an important new element of the Administration's strategy to end chronic homelessness. The Samaritan Initiative includes a proposed competitive grant, to be administered jointly by HUD and the Departments of Health and Human Services (HHS) and Veterans Affairs (VA). For 2004, HUD provides \$50 million for the housing component of this initiative, while HHS and VA will each provide \$10 million for services such as substance abuse treatment and primary health care. Priority will be given to state and local grantees who seek to expand access to mainstream federal programs by those who experience chronic homelessness.



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- **Consolidation of Homeless Assistance Grants.** To increase the flexibility of communities in combating homelessness, the budget proposes to consolidate the current three homeless assistance programs. The move will provide more consistent funding and eliminate the burden of administering the current competitive programs.
- **Interagency Council on Homelessness.** In the previous fiscal year, the Administration reactivated the U.S. Interagency Council on Homelessness and doubled its funding to \$1 million. In recognition of the Council's effectiveness in coordinating the efforts of the 18 Federal agencies that support homeless men, women and families, the Department will provide \$1.5 million to operate the Interagency Council, a 50-percent funding increase over FY 2003.

OTHER VULNERABLE POPULATIONS. The following are highlights of those HUD programs that provide essential support to a wide range of populations with special needs:

- **Elderly Housing and Services.** For FY 2004, HUD will continue its support for older Americans by providing \$783 million for the Section 202 supportive housing for the elderly program.
- **Persons with Disabilities.** The FY 2004 budget provides \$251 million under HUD's Section 811 program to improve access to affordable housing for persons with disabilities.
- **Persons with HIV/AIDS.** In FY 2004, HUD will fund the Housing Opportunities for Persons with AIDS (HOPWA) program at \$297 million.

The budget also increases funding to \$17 million for the Manufactured Housing Standards program and provides \$136 million for the Lead-Based Paint program, of which \$10 million is for the Healthy Homes initiative. In addition, the budget provides \$25 million for a new, innovative lead hazard reduction demonstration program, to be funded within the HOME Investment Partnerships program budget request.

PROGRAMS THAT PROMOTE SELF-SUFFICIENCY. Activities that help low-income working families acquire skills that will increase their earnings and move them toward self-sufficiency are central to HUD's mission. HUD also seeks to help low-income families accumulate



for Needy Families program and other state-run self-sufficiency initiatives. State control of both the housing and welfare programs, along with additional flexibility in the housing program to allow local needs to be addressed, should result in more effective self-sufficiency efforts and better support of the families involved.

- **Family Self-Sufficiency (FSS) Program.** In FY 2004, the Department will provide \$72 million (within the Housing Assistance for Needy Families account) to continue and expand the FSS program. The FSS program is designed to link families with local opportunities for education, job training and counseling while they receive housing assistance. Over a 5-year period, as the earnings of a participant grow, an amount equal to the increased rent attributable to the participant's increased earnings is deposited into an escrow account to purchase a home, pay for higher education or even start a business. Currently, the FSS program serves more than 55,000 families in the tenant-based Section 8 and public housing programs.
- **Resident Opportunity and Self-Sufficiency (ROSS) Program.** As it has since 1999, the Department will provide \$55 million in funds to support the ROSS program for residents of Public and Native American Housing. The main purpose of the funds is to provide a link between residents and services that can help them achieve self-sufficiency. ROSS is funded from both the Public Housing Capital Fund and the Public Housing Operating Subsidy Account.

ENSURING EQUAL OPPORTUNITY

HUD's commitment to creating equal housing opportunities for all Americans regardless of race, color, religion, sex, national origin, age, disability and familial status has never been stronger. Within the FY 2004 budget, HUD will have the tools it needs to help Americans receive fair and equal access to housing, without fear of discrimination or intimidation.

- **Fair Housing Assistance Program (FHAP).** The FY 2004 budget allocates \$29.7 million for the Fair Housing Assistance Program. The program provides funding to state and local jurisdictions that have entered into cooperative agreements with HUD and whose housing discrimination laws are substantially equivalent to the federal fair housing laws. The funds support enforcement, education and outreach.
- **Fair Housing Initiatives Program (FHIP).** The Fair Housing Initiatives Program supports non-profit agencies that directly target discrimination through education, outreach and enforcement. The HUD budget proposes funding of \$20.3 million for FY 2004.



***PROMOTING THE PARTICIPATION OF FAITH-BASED
AND COMMUNITY ORGANIZATIONS***

The Administration is committed to knocking down the barriers that faith-based and community organizations face in acquiring federal grants. In 2002, HUD conducted an exhaustive review of its internal regulations to identify barriers to faith-based participation in its programs. Following this review, the President proposed eliminating federal regulations that unnecessarily limit the ability of religious organizations to access grant programs administered by HUD.

HUD's proposed budget for FY 2004 builds on the Administration's commitment to place faith-based and community organizations on an equal footing with other programs that serve low-income Americans and revitalize distressed neighborhoods. Through HUD's Center for Faith-Based and Community Initiatives, the Department is eliminating the barriers to participation and substantially strengthening its partnership – and its communication and information sharing – with faith-based and community groups.

***EMBRACING HIGH STANDARDS OF ETHICS, MANAGEMENT
AND ACCOUNTABILITY***

HUD has made great progress over the past 2 years in implementing the President's Management Agenda and making the Department work better for the taxpayers and for every American who seeks a place to call home. HUD today is insisting on completion, performance and results. The steps the Department has taken have gone a long way toward restoring the confidence of Congress and the public in HUD's management of its financial resources.

In accordance with the President's Management Agenda, HUD is embracing the highest standards of ethics, management and accountability in carrying out its work. This commitment will continue in FY 2004.



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INCREASING HOMEOWNERSHIP OPPORTUNITIES

Americans place a high value on homeownership because its benefits for families, communities and the nation as a whole are so profound.

Homeownership creates community stakeholders who tend to be active in charities and churches. Homeownership inspires civic responsibility, and owners vote and get involved with local issues. Homeownership offers children a stable living environment that influences their personal development in many positive, measurable ways – at home and in school.

Homeownership's potential to create wealth is impressive, too. For the vast majority of families, the purchase of a home represents the path to prosperity. A home is the largest purchase most Americans will ever make – a tangible asset that builds equity, credit health, borrowing power and overall wealth.

Due in part to a robust housing economy and Bush Administration budget initiatives focused on promoting homeownership, more Americans were homeowners in 2002 than at any time in this nation's history. The national homeownership rate is 68 percent. That statistic, however, masks a deep "homeownership gap" between non-Hispanic whites and minorities: while the homeownership rate for non-Hispanic whites is nearly 75 percent, it is less than 50 percent for African-Americans and Hispanics.

The Administration is focused on giving more Americans the opportunity to own their own homes, especially minority families who have been shut out in the past. In June 2002, President Bush announced an aggressive homeownership agenda to increase the number of minority homeowners by at least 5.5 million by the end of this decade. The Administration's homeownership agenda is dismantling the barriers to homeownership by providing down payment assistance, increasing the supply of affordable homes, increasing support for homeownership education programs and simplifying the homebuying process.

Through "America's Homeownership Challenge," the President called on the real estate and mortgage finance industries to take concrete steps to tear down the barriers to homeownership that minority families face. In response, HUD created the Blueprint for the American Dream Partnership, an unprecedented public/private initiative that harnesses the resources of the Federal Government with those of the housing industry to accomplish the President's goal.

Additionally, HUD is proposing several new or expanded initiatives in FY 2004 to continue the increase in overall homeownership while targeting assistance to improve minority homeowner rates. HUD's budget proposal promotes housing production that makes affordable homeownership an option for more families. It



also supports HUD's efforts to make the homebuying process simpler, clearer and less expensive – and less of a target of predatory lenders – through comprehensive reform.

LOW-INCOME HOMEOWNER ASSISTANCE PROGRAMS

- ***American Dream Downpayment Initiative.*** First introduced in FY 2002, this program targets funding under the HOME program specifically to low-income families wanting to purchase a home. The FY 2004 budget provides \$200 million to assist approximately 40,000 low-income families with down payment and closing costs on their homes.
- ***Housing Counseling.*** Counseling has proven to be an extremely important element in both the purchase of a home and in helping homeowners keep their homes in times of financial stress. The FY 2004 budget will expand funds for counseling services from \$35 million to \$45 million. This will provide 550,000 families with home purchase and homeownership counseling and about 250,000 families with rental counseling.
- ***Housing Choice Voucher Homeownership.*** HUD will continue to work to authorize PHAs to use Section 8 funds as down payment assistance for individuals already receiving assistance through the Housing Choice Voucher program. Instead of using a voucher for rental assistance, the individual could use up to one year's worth of voucher funds as a down payment to purchase a home. PHAs already have the authority to use this monthly rental assistance for mortgage subsidy rather than rental subsidy. The costs of the program would remain unchanged. In the years after FY 2004, states would be given the authority and flexibility to facilitate self-sufficiency and homeownership under the Housing Assistance for Needy Families (HANF) program.
- ***Self-Help Homeownership Opportunity Program (SHOP).*** SHOP provides grants to national and regional non-profit organizations to subsidize the costs of land acquisition and infrastructure improvements. Homebuyers must contribute significant amounts of sweat equity or volunteer labor to the construction or rehabilitation of the property. The FY 2004 budget request for \$65 million triples the funding received in 2002, reflecting President Bush's commitment to self-help housing organizations such as Habitat for Humanity. These funds will help produce approximately 5,200 new homes nationwide for very low-income families. Funds are provided as a set-aside within the Community Development Block Grant account.

HOME INVESTMENT PARTNERSHIPS PROGRAM

The HOME program plays a key role in addressing the shortage of affordable housing in America. In 2004, a total of \$2.197 billion is being provided to participating jurisdictions (states, units of local government and consortia) to expand affordable housing. The funds dedicated to expanding and improving homeownership will be spent rehabilitating owner-occupied buildings and providing assistance to new



homebuyers. Based on historical trends, 36 percent of the homeownership-related funds will be used for new construction, 47 percent for rehabilitation and 14 percent for acquisition.

Recipients of HOME funds have substantial discretion to determine how the funds are spent. HOME funds can be used to expand access to homeownership by subsidizing down payment and closing costs, as well as the costs of acquisition, rehabilitation and new construction for rental, homebuyer and homeowner housing. To date, HOME grantees have committed funds to provide homebuyer assistance to more than 288,000 low-income households.

FEDERAL HOUSING ADMINISTRATION (FHA)

FHA is the Federal Government's single largest program to extend access to homeownership to individuals and families who lack the savings, credit history or income to qualify for a conventional mortgage. In 2002, FHA insured \$150 billion in mortgages for almost 1.3 million households, most of them first-time homebuyers, which represents a 21 percent increase over the previous year. Thirty-six percent were minority households.

FHA offers a wide variety of insurance products, the largest being single-family mortgage insurance products. FHA insures single-family homes, home rehabilitation loans, condominium loans, energy efficiency loans and reverse mortgages for elderly individuals. Special discounts are available to teachers and police officers who purchase homes that have been defaulted to HUD and who promise to live in their homes in revitalized areas.

- ***New FHA Mortgage Product.*** Legislation for a new sub-prime loan product will be proposed to offer FHA insurance to families that, due to poor credit, would either be served by the private market at a higher cost or not at all. It is anticipated that borrowers will be offered FHA loan insurance under this new initiative that will allow them to maintain their home or to purchase a new home. The new MMI mortgage loan program is expected to generate an additional \$7.5 billion in endorsements for 62,000 additional homes.
- ***FHA Loss Mitigation.*** Loss mitigation activities will continue to expand in order to minimize FHA claims and property disposition costs. Loss mitigation also keeps families in their homes rather than having properties go to foreclosure and sale, benefiting the homeowner while saving FHA the management and marketing costs associated with foreclosed properties.
- ***FHA Neighborhood Watch.*** The Neighborhood Watch program helps homeowners to help themselves by providing an Internet-based lender monitoring service that allows prospective buyers an opportunity to track the performance of lenders in the area they are considering.
- ***TOTAL Scorecard.*** The TOTAL (Technology Open To All Lenders) Scorecard will enable FHA lenders to assess the risk of default on an FHA mortgage within their own automated underwriting systems. TOTAL will facilitate prompt approval of loans for insurance. FHA will continue to evaluate the most effective means of



using this technology to increase the availability of mortgage credit to underserved populations.

- **Claims Process Reform.** At the beginning of FY 2003, FHA inaugurated a major reform in its claims process with the first sale of defaulted single-family loans acquired under the Accelerated Claims Disposition demonstration program. This initiative will accelerate the claims process by taking mortgage notes rather than requiring lenders to foreclose and transfer single-family properties to FHA. FHA will continue to sell defaulted notes to the private sector for servicing and/or disposition, thereby eliminating most of the real property that FHA currently acquires. By accelerating the FHA claims process, properties will remain vacant for shorter periods of time, reducing the potential of such properties to be used in a manner that destabilizes communities.
- **Credit Watch and Appraiser Watch.** FHA has made a commitment to address deficiencies in the loan origination performance of FHA-approved lenders by monitoring loans and terminating lenders that make loans with excessive loss rates. Under the Credit Watch initiative, lenders whose loans default and claim at twice the rate experienced in their geographic area are identified for termination. Since accurate appraisals are essential to prevent undue risk, FHA is also instituting a program similar to Credit Watch called Appraiser Watch that will identify appraisers involved in questionable transactions. FHA will hold lenders accountable for the performance of the appraisers they select for FHA-insured mortgages. Both the Credit Watch and Appraiser Watch initiatives are important to the Administration's fight against predatory lending.

Additional efforts to improve appraisals and their usefulness are underway, such as issuance of a new appraiser handbook for FHA loans, examinations to test appraisers' knowledge of new requirements, and requirements that appraisers disclose readily observable defects. These disclosures by appraisers, in combination with a new disclosure form, provide better information to homebuyers prior to purchase and should reduce defaults due to poor property condition. Further efforts to more closely monitor appraisers are being examined.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GINNIE MAE)

Through its mortgage-backed securities program, Ginnie Mae helps to ensure that mortgage funds are available for low- and moderate-income families served by FHA and other government programs such as VA and the Rural Housing Service of the U.S. Department of Agriculture.

During Fiscal Year 2002, Ginnie Mae surpassed a total of \$2 trillion in mortgage-backed securities issued since 1970. Reaching this milestone means that more than 28.4 million families have had access to affordable housing or lower mortgage costs since Ginnie Mae's inception. HUD is proud of Ginnie Mae's accomplishments and its important role in helping to support affordable homeownership for low- and moderate-income families in America. HUD's role in the secondary mortgage market



provides an important public benefit to Americans seeking to fulfill their dream of homeownership.

Ginnie Mae's performance over many years is a fundamental indicator of its ability to manage risk and increase stability in the marketplace. Ginnie Mae's mortgage-backed securities program guaranteed the issuance of \$174.9 billion in mortgage-backed securities last year, thereby providing capital for the purchase or refinance of approximately 1.5 million homes, including multifamily units. The large volume of new guarantees left Ginnie Mae's mortgage-backed securities outstanding at \$568.4 billion on September 30, 2002. Ginnie Mae's net income was \$794.3 million in Fiscal Year 2002, continuing its uninterrupted record of financing its own operations and providing a significant contribution to the Federal budget.

OVERSIGHT OF FANNIE MAE AND FREDDIE MAC

To augment the amount of mortgage credit available to low- and moderate-income families, HUD is responsible for setting affordable-housing goals for two other key institutions that play a vital role in financing affordable owner-occupied and rental housing throughout the nation: Fannie Mae and Freddie Mac. Along with Ginnie Mae, these Government-Sponsored Enterprises (GSEs) are the major participants in the secondary market. HUD has oversight responsibilities for establishing Fannie Mae's and Freddie Mac's affordable-housing goals and for monitoring their progress toward achieving those goals. For FY 2004, HUD will expand and be more aggressive in its oversight activities, which will include:

- Setting, monitoring and enforcing the GSEs' goals for the purchases of mortgages made to low- and moderate-income families, mortgages on properties located in underserved areas and mortgages made to low- and very low-income families in low-income areas, including mortgages on multifamily properties;
- Reviewing the GSEs' requests for approval of new programs;
- Reviewing and commenting on the GSEs' underwriting guidelines to ensure their consistency with fair housing laws;
- Continuing to release an annual public use database on the GSEs' mortgage purchases, and reports and research on the GSEs' activities.

RESPA REFORM AND PREDATORY LENDING

HUD has taken bold steps to comprehensively reform the homebuying process and make it far less complicated and less expensive for consumers. New disclosure requirements proposed by the Administration under the Real Estate Settlement Procedures Act (RESPA) call for full, upfront disclosure and explanation of all fees that buyers pay at settlement, making it clear to the borrower what options are available for financing a home and what they might cost. This will allow consumers better opportunities to shop for lower-cost mortgages.



Once adopted, the proposal is projected to reduce settlement costs by an average of \$700 per closing. Overall, the annual savings to consumers could be as much as \$8 billion, allowing many Americans who are priced out of the homebuying market today to buy a home.

Tightly interwoven with reform of the mortgage origination process is HUD's commitment to stopping predatory lenders from doing business. The Administration is targeting unscrupulous lenders in part by pooling the resources of the Federal Government and helping agencies work together to fight abusive lending practices. As a result, HUD and its partners are becoming much more effective in tracking down lenders who target first-time homebuyers, senior citizens and minorities for predatory practices.

HOMEOWNERSHIP PROGRAMS FOR NATIVE AMERICAN AND HAWAIIAN COMMUNITIES

The FY 2004 budget supports five HUD programs that help to promote homeownership in Native American and Hawaiian communities:

- ***Native American Housing Block Grants (NAHBG)***. The NAHBG provides funds to tribes and to tribally designated housing entities for a wide variety of affordable-housing activities. Grants are awarded on a formula basis that was established through negotiated rulemaking with the tribes. The NAHBG program allows funds to be used to develop new housing units to meet critical shortages in housing. Other uses include housing assistance to modernize and maintain existing units; housing services, including direct tenant rental subsidy; crime prevention; administration of the units; and certain model activities.
- ***The Title VI Federal Guarantees for Tribal Housing***. The Title VI Federal Guarantees for Tribal Housing program provides guaranteed loans to recipients of the Native American Housing Block Grant who need additional funds to engage in affordable-housing activities but who cannot borrow from private sources without the guarantee of payment by the Federal Government. Because the grantees have not applied for all funds appropriated in prior years, the amount of subsidy required in FY 2004 is reduced from \$2 million to \$1 million, and the loan amount supported is reduced from \$16.6 million to \$8 million. Prior-year funds remain available until used.
- ***Indian HOME Loan Guarantee (Section 184)***. Section 184 helps Native Americans to access private mortgage financing for the purchase, construction or rehabilitation of single-family homes. The program guarantees payments to lenders in the event of default. In FY 2004, \$1 million is requested in credit subsidy for 100 percent federal guarantees of approximately \$27 million in private loans.
- ***Native Hawaiian Home Loan Guarantee Fund***. The Hawaiian Homelands Homeownership Act of 2000 established a loan guarantee program, modeled after the Indian HOME Loan Guarantee program (Section 184). The guarantees will be used primarily to secure private financing for infrastructure to purchase,



construct or rehabilitate single-family homes on Hawaiian Home Lands. It makes possible the financing of construction loans and home mortgages by private financial institutions that would otherwise not be possible due to the unique status of Hawaiian Home Lands. The FY 2004 budget will provide \$1 million in credit subsidy to secure approximately \$35 million in private loans.

- **Native Hawaiian Housing Block Grant (NHHBG).** Modeled after the NAHBG, the Native Hawaiian Housing Block Grant was authorized by the Hawaiian Homelands Homeownership Act of 2000. It recognizes the documented housing needs of native Hawaiians who are eligible to reside on, or who already live on, Hawaiian Home Lands. Native Hawaiians experience the worst housing conditions in the state and constitute nearly 30 percent of the homeless population. The FY 2004 budget will provide \$10 million. Grant funds will be awarded to the Department of Hawaiian Home Lands and may be used to support acquisition, new construction, reconstruction and rehabilitation. Activities will include real property acquisition, demolition, financing, and development of utilities and utility services, as well as administration and planning.



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PROMOTE DECENT AFFORDABLE HOUSING

Ideally, homeownership would be an option for everyone, but even with its new and expanded homeownership initiatives, the Administration recognizes that many families will have incomes insufficient to support a mortgage in the areas where they live. Therefore, along with boosting homeownership, HUD's proposed FY 2004 budget promotes the production and accessibility of affordable housing for families and individuals who rent. This is achieved, in part, by providing states and localities new flexibility to respond to local needs.

HUD has three major rental assistance programs that collectively provide rental subsidies to approximately 4.5 million households nationwide. The major vehicle for providing rental subsidies is the Section 8 program, which is authorized in Section 8 of the U.S. Housing Act of 1937. Under this program, HUD provides subsidies to individuals (tenant-based) who seek rental housing from qualified and approved owners, and also provides subsidies directly to private property owners who set aside some or all of their units for low-income families (project-based). Finally, HUD subsidizes the operation, maintenance and modernization of an additional 1.2 million public housing units. In total, these programs will provide more than \$23.3 billion in new funds each year to support rental costs for low-income individuals and families; this accounts for approximately 74 percent of the total budget for the Department in FY 2004.

The FY 2004 budget funds the two Section 8 programs under two accounts – a new *Housing Assistance for Needy Families* (HANF) account and a Project-Based Rental Assistance Account (PBRAA). The public housing program is funded through the *Public Housing Operating Fund* and the *Public Housing Capital Fund*.

HUD also helps to provide affordable rental housing through the HOME program, the Native American Housing Block Grant, FHA mortgage insurance and the Community Development Block Grant (CDBG) program. In addition, HUD meets the specialized housing needs of the elderly and individuals with disabilities through grants for the development and operation of supportive housing projects for these target populations.

HOUSING ASSISTANCE FOR NEEDY FAMILIES (HANF)

HUD is proposing a new initiative – HANF – under which the funding for vouchers, which has been allocated to approximately 2,600 public housing authorities, would be allocated to the states. States, in turn, could choose to contract with PHAs or other entities to administer the program. The funding for both incremental and renewal vouchers will be contained in the HANF account.



There are a number of advantages to providing the voucher funds to the states. The allocation of funds to states rather than PHAs should allow for more flexibility in efforts to address problems in the underutilization of vouchers that have occurred in certain local markets. The allocation of funds to the states will be coupled with additional flexibility in program laws and rules, to allow states to better address local needs and to commit vouchers for program uses that otherwise would go unused. In the former Housing Certificate Fund, more than \$2.41 billion has been recaptured over the last two years from the Housing Choice Voucher program. These large recaptures have resulted in a denial of appropriated housing assistance for thousands of families, which will be avoided under HANF. The administration of the HANF program should run more smoothly, with HUD managing fewer than 60 grantees compared to approximately 2,600 today.

Allocation of the funds to the states should allow for more coordinated efforts with the Temporary Assistance for Needy Families (TANF) program, successfully administered by the states, to support the efforts of those now receiving public assistance who are climbing the ladder of self-sufficiency.

HUD proposes that FY 2004 be a transition year in which PHAs would continue to receive voucher funds directly while states ramp up in preparation for administering the HANF program. Up to \$100 million would be made available to assist states with this effort. In addition, states could apply for incremental vouchers if they are ready to do so, and could request waivers that would assist in the implementation of their programs.

The HANF account would contain \$13.6 billion in funding for voucher renewals and incremental vouchers. This would include funding for up to \$36 million in incremental vouchers for persons with disabilities, additional incremental vouchers to the extent that funding is available, \$252 million for tenant protection vouchers to prevent displacement of tenants affected by public housing demolition or disposition of project-based Section 8 contract terminations or expirations, and \$72 million for Family Self-Sufficiency Coordinators.

PROJECT-BASED RENTAL ASSISTANCE ACCOUNT

For FY 2004, the Administration proposes separate funding for vouchers under the new HANF account. The Project Based Rental Assistance Account will retain funding for renewals of expiring project-based rental assistance contracts under Section 8, including amounts necessary to maintain performance-based contract administrators. An appropriation of \$4.8 billion is requested for these renewals in FY 2004, which is a \$300 million increase over the current fiscal year. In addition to new appropriations, funds available in this account from prior-year balances and from recaptures will augment the amount available for renewals and will be available to meet amendment requirements for on-going contracts that have depleted available funding, as well as a rescission of \$300 million.

It is anticipated that approximately 870,000 project-based units under rental assistance will require renewal in FY 2004, an increase of about 50,000 units from the current fiscal year, continuing the upward trend stemming from first-time expirations in addition to contracts already under the annual renewal cycle. The



HANF account funds an estimated 30,300 units in subsidized or partially assisted projects requiring tenant-protection vouchers due to terminations, opt-outs and prepayments.

PUBLIC HOUSING

Public Housing is the other major form of assistance that HUD provides to the nation's low-income population. In FY 2004, HUD anticipates that there will be approximately 1.2 million public housing units occupied by tenants. These units are under the direct management of approximately 3,050 PHAs. Like the Section 8 program, tenants pay approximately 30 percent of their income for rent and utilities, and HUD subsidies cover the remaining costs.

HUD is programmatically and financially committed to ensuring that the existing public housing stock is either maintained in good condition or is demolished. Maintenance is achieved through the subsidy to PHAs for both operating expenses and modernization costs. Legislation to implement a new financing initiative is included and enhanced in the FY 2004 budget (see below). This will allow for the acceleration of the reduction in the backlog of modernization requirements in public housing facilities across the nation.

- **Public Housing Operating Fund.** The formula distribution of funds takes into account the size, location, age of public housing stock, occupancy and other factors intended to reflect the costs of operating a well-managed public housing development. In FY 2004, HUD will increase the amounts provided for operating subsidies from \$3.530 billion to \$3.559 billion, plus \$15 million to fund activities associated with the Resident Opportunities and Supportive Services (ROSS) program.
- **Public Housing Capital Fund.** This program provides formula grants to PHAs for major repairs and modernization of its units. The FY 2004 budget will provide \$2.641 billion in this account. This amount is sufficient to meet the accrual of new modernization needs in FY 2004.

Of the funds made available, up to \$40 million may be maintained in the Capital Fund for natural disasters and emergencies. Up to \$30 million can be used for demolition grants – to accelerate the demolition of thousands of public housing units that have been approved for demolition but remain standing. Also in FY 2004, up to \$40 million will be available for the ROSS program (in addition to \$15 million in the Operating Fund), which provides supportive services and assists residents in becoming economically self-sufficient.

- **Public Housing Reinvestment Initiative (PHRI): Leverage of Private-Sector Funds and Financial Reform.** To address the backlog of capital needs, the Department is including a legislative proposal in its 2004 budget that will allow PHAs to use their Operating Fund and Capital Fund grants to facilitate the private financing of capital improvements. This initiative also will encourage development-based financial management and accountability in PHAs.



These objectives would be achieved by authorizing HUD to approve, on a property-by-property basis, PHA requests to convert public housing developments (or portions of developments) into project-based voucher assistance. The conversion of units to project-based vouchers will allow the PHAs to secure private financing to rehabilitate or replace their aging properties by pledging the project-based revenue as collateral for private loans for capital improvements.

The FY 2004 budget enhances this proposal, which was made in last year's budget request as the Public Housing Reinvestment Initiative (PHRI), by also proposing a guarantee of up to 80 percent of the principal of loans made to provide the capital for PHRI. There was substantial interest by PHAs and others in last year's budget proposal; the loan guarantee should greatly facilitate the involvement of private lenders. The budget includes \$131 million in subsidy for this guarantee, which would allow the guarantee of almost \$2 billion in loans and significantly accelerate the improvement in public housing conditions.

- **Revitalization of Severely Distressed Public Housing (HOPE VI).** The FY 2004 budget does not include additional funding for HOPE VI. A principal goal of the HOPE VI program has been the demolition, replacement and rehabilitation of 86,000 severely distressed public housing units as identified in the 1992 final report issued by the National Commission on Severely Distressed Housing. The program has resulted in the demolition of 55,000 units and over 140,000 public housing units have been approved for demolition under HOPE VI and other programs. In addition, because progress is often slow under the HOPE VI program for various reasons, billions of dollars in HOPE VI funds remain in the pipeline and demand the concentrated attention of HUD and the current grantees.

Table 2
PUBLIC HOUSING
(Dollars in Millions)

	2003	2004	Difference
Operating Subsidies	3,530	3,574	+44
Public Housing Capital Fund	2,426	2,641	+215
Revitalization of Severely Distressed Public Housing (HOPE VI)	574	0	-574

OTHER RENTAL ASSISTANCE PROGRAMS

FHA Multifamily Insurance Program. FHA insures mortgages on multifamily rental housing projects. In FY 2004, FHA will reduce the annual mortgage insurance premiums on its largest apartment new construction program, Section 221(d)(4), for the second year in a row – from 57 basis points to 50 basis points. With this reduction, the Department estimates that it will insure \$3 billion in apartment



development loans through this program, for the annual production of an additional 42,000 new rental units, most of which will be affordable to moderate-income families, and most of which will be located in underserved areas. Additionally, because this program is no longer dependent on appropriated subsidies, FHA avoids the uncertainty and the suspensions that have plagued the program in prior years. When combined with other multifamily mortgage programs, including those serving non-profit developers, nursing homes and refinancing mortgagors, FHA anticipates providing support for a total of some multifamily 178,000 housing units.

HOME Investment Partnerships Program. In addition to the extensive use of HOME funds for homeownership, the HOME program has invested heavily in the creation of new affordable rental housing. The program has, in fact, supported the building, rehabilitation and purchase of more than 322,000 rental units. Program funds have also provided direct rental assistance to more than 88,000 households.

Native American Housing Block Grant (NAHBG). This block grant is a flexible source of funding to tribes or tribally designated entities and is used for a wide variety of affordable-housing activities. Authorized uses include both rental and homeownership. The block grant is funded at \$647 million in FY 2004.

Native Hawaiian Housing Block Grant (NHHBG). The Native Hawaiian Housing Block Grant is modeled on the NAHBG, and provides funding to the Department of Hawaiian Home Lands for a wide variety of eligible affordable-housing activities, including construction, rehabilitation or acquisition of rental units for native Hawaiians who are eligible to reside on, or who already live on, Hawaiian Home Lands.

Several other HUD programs contribute to rental assistance, although not as a primary function. For example, the flexible Community Development Block Grant can be used to support rental housing activities.

REGULATORY BARRIERS TO THE DEVELOPMENT OF AFFORDABLE HOUSING

HUD is committed to working with states and local communities to reduce regulatory barriers to the development of affordable housing. HUD plans to create a new Office of Regulatory Reform, which will, among other things, commit an additional \$2 million next year for research efforts to learn more about the nature and extent of regulatory obstacles to affordable housing. Through this office, researchers will develop the tools needed to measure and ultimately reduce the effects of excessive barriers that restrict the development.



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STRENGTHENING COMMUNITIES

HUD is committed to preserving America's cities as vibrant hubs of commerce and making communities better places to live, work and raise a family. The FY 2004 budget provides states and localities with tools they can put to work improving economic health and promoting community development. Perhaps the greatest strength of HUD's economic development programs is the emphasis they place on helping communities address locally determined development priorities through decisions made locally.

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM

The mainstay of HUD's community and economic development programs is the Community Development Block Grant (CDBG) program. In FY 2004, total funding for CDBG will be \$4.732 billion. Funding for the CDBG formula program will remain level with FY 2003 at \$4.436 billion. Currently, 865 cities, 159 counties and 50 states plus Puerto Rico receive formula grant funds.

HUD is analyzing the impact of the 2000 Census on the distribution of CDBG funds to entitlement communities and states. Based on this review, revisions to the existing formula may be proposed. Any proposals will, of course, consider need and distress, as well as other factors.

Of the \$4.732 billion in FY 2004, \$4.436 billion will be distributed to entitlement communities, states and insular areas, and \$72.5 million will be distributed by a competition to Indian tribes for the same uses and purposes. This budget presumes legislative changes proposed in FY 2003 to fund CDBG grants to insular areas as part of the formula, and to shift administration of the Hawaii Small Cities program to the State. The remaining \$224 million is for specific purposes and programs at the local level and is distributed generally on a competitive grant basis. Principal among these initiatives are:

- ***Colonias Gateway Initiative.*** As it did in FY 2003, the FY 2004 budget again proposes \$16 million for the Colonias Gateway Initiative (CGI). The CGI is a regional initiative, focusing on border states where the Colonias are located. *Colonias* are small, generally unincorporated communities that are characterized by substandard housing, lack of basic infrastructure and public facilities, and weak capacity to implement economic development initiatives. The FY 2004 funds will provide start-up seed capital to develop baseline socio-economic information and a geographic information system; identify and structure new projects and training initiatives; fund training and business advice; and provide matching funds to develop sustainable housing and economic development projects that, once proven, could be taken over by the private sector.



- **National Community Development Initiative (NCDI).** HUD participates in the privately organized and initiated NCDI. The FY 2004 budget will provide \$30 million for the NCDI and Habitat for Humanity, in which HUD has funded three phases of work since 1994. A fourth phase will emphasize the capacity building of community based development organizations, including community development corporations, in the economic arena and related community revitalization activities through the work of intermediaries, including the Local Initiatives Support Corporation and the Enterprise Foundation.
- **University Partnership Grant Programs.** The FY 2004 budget provides \$31.9 million to assist colleges and universities, including minority institutions, to engage in a wide range of community development activities. Funds are also provided to support graduate programs that attract minority and economically disadvantaged students to participate in housing and community development fields of study.

Grant funds are awarded competitively to six programs: Historically Black Colleges and Universities; Hispanic-Serving Institutions; Alaskan Native/Native Hawaiian Institutions; Tribal Colleges and Universities; Community Outreach Partnership Centers; and Community Development Work Study. Funds are used for work study and other programs to assist institutions of higher learning in forming partnerships with the communities in which they are located and to undertake a wide range of academic activities that foster and achieve neighborhood revitalization.

- **Youthbuild.** The FY 2004 budget requests \$65 million for the Youthbuild program. This program is targeted to high school dropouts ages 16 to 24, and provides these disadvantaged young adults with education and employment skills through constructing and rehabilitating housing for low-income and homeless people. The program also provides opportunities for placement in apprenticeship programs or in jobs. The FY 2004 request will serve more than 3,728 young adults.

RENEWAL COMMUNITIES/EMPOWERMENT ZONES

The Community Renewal Tax Relief Act of 2000 authorized the designation of 40 Renewal Communities (RC) and nine Round III Empowerment Zones (EZ), and provided tax incentives which can be used to encourage community revitalization efforts. Private investors in both RC and EZ areas are eligible for tax benefits over the next ten years tied to the expansion of job opportunities in these locations. These programs allow communities to design and administer their own economic development strategies with a minimum of federal involvement. No grant funds have been authorized or appropriated for RCs or Round III EZs. Round II Empowerment Zone communities have received grant funding in the past, but after four years of funding, still have balances of unused funds available. Of course, all of the tax and other benefits associated with Zone designation remain intact. Also, both HOME and CDBG funds can be used for the same activities.



PROGRAMS TO HELP THE HOMELESS

The Administration is deeply engaged in meeting the challenge of homelessness that confronts many American cities. HUD is leading an unprecedented, Administration-wide commitment to eliminating chronic homelessness within the next 10 years. The Administration is also fundamentally changing the way the nation manages the issue of homelessness by focusing more resources on providing permanent housing and supportive services for the homeless population, instead of simply providing more shelter beds.

As a first step, the Administration reactivated the U.S. Interagency Council on Homelessness to better coordinate the efforts of 18 Federal agencies that address the needs of homeless persons. HUD and its partners are focused on improving the delivery of homeless services, which includes working to cut government red tape and make the funding process simpler for those who provide homeless services.

The FY 2004 budget continues to provide strong support to homeless persons and families by funding the program at the record level of \$1.528 billion.

Several changes to the program are being proposed that will provide new direction and streamline the delivery of funds to the local and non-profit organizations that serve the homeless population. These include:

- ***Samaritan Initiative:*** The FY 2004 budget includes funding for a new program to address the President's goal of ending chronic homelessness in 10 years. Persons who experience chronic homelessness are a sub-population of approximately 150,000 who often have an addiction or suffer from a disabling physical or mental condition, and are homeless for extended periods of time or experience multiple episodes of homelessness. These individuals, for the most part, get help for a short time but soon fall back to the streets and shelters. Research indicates that although these individuals may make up less than 10 percent of the homeless population, they consume more than half of all homeless services because their needs are not comprehensively addressed. Thus, they continually remain in the homeless system.

Funded by HUD at \$50 million, the Samaritan Initiative will provide new housing options as well as aggressive outreach and services to homeless people living on the streets. This program is part of a broader, coordinated federal effort between HUD, HHS, VA and the Interagency Council on Homelessness.

- ***Legislation to Consolidate Homeless Assistance Programs.*** HUD will propose legislation to consolidate its current homeless assistance programs into a single program. The consolidated program will significantly streamline homeless assistance in this nation.
- ***Reactivation of the Interagency Council on Homelessness.*** Reactivating the Council has provided better coordination of the various homeless assistance programs that are directly available to homeless individuals through HUD, HHS, VA, the Department of Labor and other



agencies. HUD will provide \$1.5 million to operate the Interagency Council, a 50 percent funding increase over FY 2003.

- **Emergency Food and Shelter Program.** The Administration is proposing legislation that would transfer intact the Emergency Food and Shelter Program (EFSP) that is currently administered by FEMA to HUD. The transfer of this \$153 million program would allow for the consolidation of all emergency shelter assistance – EFSP and the Emergency Shelter Grant program – under one agency. EFSP funds are distributed to a National Board, which in turn allocates funds to similarly comprised local Boards in eligible jurisdictions. Eligibility for funding is based on population, poverty and unemployment data. The Board will be chaired by the Secretary of HUD and will include the American Red Cross, Salvation Army and the United Way, as well as other experts.

PROGRAMS FOR THE ELDERLY AND PERSONS WITH DISABILITIES

Nearly two million households headed by an elderly individual or a person with disabilities receive HUD rental assistance that provides them with the opportunity to afford a decent place to live and oftentimes helps them to live independent lives.

The FY 2004 budget will provide the same level of funding for Housing for Elderly and Housing for Persons with Disabilities as was requested for FY 2003. Funding for housing for the elderly (Section 202) is awarded competitively to non-profit organizations that construct new facilities. The facilities are then provided with rental assistance, enabling them to accept very low-income residents. In FY 2004, \$783 million will be provided for elderly facilities. Many of the residents live in the facilities for years; over time, these individuals are likely to become frailer and less able to live in rental facilities without some additional services. Therefore, the program is providing \$30 million of the grants for construction to convert all or part of existing properties to assisted-living facilities. Doing so will allow individual elderly residents to remain in their units. In addition, \$53 million of the grant funds will be targeted to funding the services coordinators who help elderly residents obtain needed and supportive service from the community.

The budget for FY 2004 proposes to separately fund grants for Supportive Housing for Individuals with Disabilities (Section 811) at \$251 million. The disabled facilities grant program will also continue to set aside funds to enable persons with disabilities to live in mainstream environments. Up to 25 percent of the grant funds can be used to provide Section 8-type vouchers that offer an alternative to congregate housing developments. In FY 2004, \$42 million of the grant funds will be provided to renew "mainstream" Section 8-type vouchers so that, where appropriate, individuals can continue to use their vouchers to obtain rental housing in the mainstream rental market. The Department proposes to reform the program to allow faith-based and other nonprofit sponsors the ability to better respond to local needs. In addition, the reformed program would recognize the unique needs of people with disabilities at risk of homelessness as part of the Administration's Samaritan Initiative to end chronic homelessness.



- **Non-Elderly Disabled Vouchers.** One of the targeted uses of new incremental vouchers under the Section 8 program is for non-elderly disabled individuals who are currently residing in housing that was designated for the elderly. Disabled individuals are provided Section 8 vouchers to continue their subsidies elsewhere. If a sufficient number of applications for these vouchers are not received, the PHAs may use them for any other disabled individuals on the PHAs' waiting lists. In FY 2004, the Department will allocate \$36 million for the non-elderly disabled to fund approximately 5,500 vouchers.
- **Housing Opportunities for Persons with AIDS (HOPWA).** In FY 2004, HUD will provide \$297 million in new grant funds for housing assistance and related supportive services for low-income persons with HIV/AIDS and their families. This is an increase of \$5 million over the FY 2003 level and is based on the most recent statistics prepared by the Centers for Disease Control and Prevention. Although most grants are allocated by formula, based on the number of cases and highest incidence of AIDS, a small portion are provided through competition for projects of national significance. The program will renew all existing grants in FY 2004 and provide new grants for an expected three new jurisdictions. Since 1999, the number of formula grantees has risen from 97 to an expected 114 in FY 2004.
- **FHA Reverse Mortgages.** FHA's Home Equity Conversion Mortgage (HECM) Program allows homeowners ages 62 and older who have paid off their mortgages or have only small mortgage balances remaining to borrow against the equity in their homes. Unlike ordinary home equity loans, a HUD reverse mortgage does not require repayment as long as the owner lives in the home. Loans are repaid, with interest, when the home is sold. This program gives senior citizens an option to keep their own homes as long as possible. In FY 2002, FHA insured a record 13,000 HECM loans totaling nearly \$2 billion, almost double the amount insured in the previous year. Continued growth in this important source of equity financing for seniors is expected as lenders and homeowners become more familiar with this product.



**Table 4
HOUSING FOR SPECIAL POPULATIONS**

	2003	2004	Difference
ELDERLY:			
Elderly Housing Production (Section 202)	\$783	\$783	...
Project Rental Assistance Contract (PRAC) Renewal	[16]	[16]	...
Conversion to Assisted Living/CAP Grant (Rehab)	[30]	[30]	...
Service Coordinators	[53]	[53]	...
Total Elderly	\$783	783	...
Working Capital Fund	[0.6]	[.5]	[-0.1]
PERSONS WITH DISABILITIES			
Persons with Disabilities	\$251	\$251	...
Project Rental Assistance Contract (PRAC) Renewal	[6]	[8]	[2]
Mainstream Voucher Renewal	[32]	[42]	[10]
Total Persons with Disabilities	\$251	\$251	...
Working Capital Fund	0.6	0.5	[-0.1]
Use of Recaptures	-10	-10
Total, Elderly and Persons w/ Disabilities Programs	\$1,024	\$1,024	\$0
HOMELESS PERSONS			
Homeless Assistance Grants	\$1,130	\$1,325	\$195
Shelter Plus Care	[0]	[194]	[194]
Working Capital Fund	[2]	[3]	[1]
Technical Assistance and Management Information System	[18]	[12]	[-6]
Interagency Council on the Homelessness	[1]	[2]	[1]
Samaritan Initiative	...	50	50
Emergency Food and Shelter	153	153	...
Total, Homeless Persons	\$1,283	\$1,528	\$245
PERSONS WITH HIV/AIDS			
Housing Opportunities for Persons with AIDS	\$292	\$297	\$5
Technical Assistance	[2]	[3]	[1]

HELPING INDIVIDUALS ACHIEVE SELF-SUFFICIENCY

A compassionate nation must ensure that those Americans served by HUD – many of whom are struggling families, or individuals facing a trying time in their lives – live in a healthy and secure environment and have access to tools and opportunities that will help them move toward self-sufficiency. HUD's basic programs contribute to this goal by providing individuals and families with the housing and services that allow them to focus on recovery, job-related skill development and obtaining work or increasing income.



Key initiatives for FY 2004 include:

- **Housing Assistance for Needy Families (HANF).** By overhauling the voucher program to allocate vouchers to the states rather than PHAs, HUD will provide a unique opportunity to improve the coordination of self-sufficiency efforts among the voucher program, the Temporary Assistance for Needy Families program and other state-run self-sufficiency initiatives. While coordinated efforts are encouraged under current law, results have been spotty. State control of both the housing and welfare programs, along with additional flexibility in the housing program to allow local needs to be addressed, should result in more effective self-sufficiency efforts.
- **Family Self-Sufficiency (FSS) Program.** In FY 2004, the Department will provide \$72 million within the HANF account to continue and expand the FSS program. The FSS program is designed to link families with local opportunities for education, job training and counseling while receiving housing assistance. Over a 5-year period, as the earnings of a participant grows, an amount equal to the increased rent attributable to the participant's increased earnings is deposited into an escrow account to purchase a home, pay for higher education or even start a business. Currently, the FSS program serves more than 55,000 families in the tenant-based Section 8 and public housing programs.
- **Resident Opportunity and Self-Sufficiency (ROSS) program.** The Department will provide \$55 million in funds to support the ROSS program for residents of Public and Native American Housing. The main purpose of the funds is to provide a link between residents and services that can help them achieve self-sufficiency.

HEALTH AND SAFETY PROGRAMS

- **The Lead-Based Paint Program** is the central element of the President's program to eradicate childhood lead-based paint poisoning in 10 years or less. In FY 2004, funding for the lead-based paint program will increase to \$136 million from \$126 million provided in the President's request for FY 2003. Grant funds are targeted to low-income, privately owned homes most likely to expose children to lead-based paint hazards. Included in the total funding is \$10 million in funds for Operation LEAP, which is targeted to organizations that demonstrate an exceptional ability to leverage private sector funds with Federal dollars, and funding for technical studies to reduce the cost of lead hazard control. The program also conducts public education and compliance assistance to prevent childhood lead poisoning. The President's budget also requests an additional \$25 million for a new, innovative lead hazard reduction demonstration program to eliminate lead-based paint hazards in homes of low-income children, funded under the HOME program. This new program will provide creative ways of identifying and eliminating lead-based paint hazards – methods that will serve as models for existing lead hazard control programs, such as replacing old windows contaminated with high levels of lead paint dust with pa Te4 T2364 Tm(t)T84 853690.02



- **Healthy Homes Initiative.** Also included is \$10 million for the Healthy Homes Initiative, which is targeted funding to prevent other housing-related childhood diseases and injuries such as asthma and carbon monoxide poisoning. The President's Taskforce Report notes that asthma alone costs the nation over \$6 billion each year. Working with other agencies such as the CDC and the Environmental Protection Agency, HUD is bringing comprehensive expertise to the table in housing rehabilitation and construction, architecture, urban planning, public health, environmental science and engineering to address a variety of childhood problems that are associated with housing.
- **Manufactured Housing Standards Program.** HUD is requesting \$17 million in FY 2004 to meet the expanded costs of this program, as mandated in the American Homeownership Opportunity Act of 2000. This is a \$4 million increase over the current fiscal year. These funds will meet the costs of hiring contractors to inspect manufacturing facilities, make payments to the states to investigate complaints by purchasers and cover administrative costs, including the Department's staff. Fees have been set by regulation to support the operation of this program.

FHA Specialized Mortgage Insurance. FHA provides mortgage insurance for specialized programs such as nursing homes, assisted-living facilities and hospitals. This insurance allows the construction of these much-needed facilities in areas where there is limited credit available through the private sector because of perceived risk.



ENSURING EQUAL OPPORTUNITY IN HOUSING

In this land of opportunity, no one should be denied housing because of that individual's race, color, national origin, religion, sex, familial status or disability. The Administration is committed to the fight against housing discrimination, and this is reflected in HUD's budget request for FY 2004.

HUD is the primary Federal agency responsible for the administration of fair housing laws. The goal of these programs is to ensure that all families and individuals have access to a suitable living environment free from discrimination. HUD contributes to fair housing enforcement and education by directly enforcing the Federal fair housing laws and by funding state and local fair housing efforts through two programs.

Fair Housing Assistance Program (FHAP)

The FY 2004 budget will provide \$29.7 million – an increase of \$4 million above the FY 2003 level – for state and local jurisdictions that administer laws substantially equivalent to the Federal Fair Housing Act. The increase will provide: (1) an education campaign to address persistently high rates of discrimination against Hispanic renters (as identified by the 2000 Housing Discrimination Study); (2) funding for a Fair Housing Training Academy to better train civil rights professionals and housing partners in conducting fair housing investigations; and (3) additional funding for expected increases in discrimination cases processed by state and local fair housing agencies as a result of increased education and outreach activities. The Department supports FHAP agencies by providing funds for capacity building, complaint processing, administration, special enforcement efforts, training and the enhancement of data and information systems. FHAP grants are awarded annually on a noncompetitive basis.

Fair Housing Initiatives Program (FHIP)

The FY 2004 budget will provide \$20.3 million in grant funds for non-profit FHIP agencies nationwide to directly target discrimination through education, outreach and enforcement. The FHIP program for FY 2004 is structured to respond to the finding of the 3-year National Discrimination Study and related studies, which reflect the need to expand education and outreach efforts nationally as a result of continuing high levels of discrimination. The requested funds will also continue to support five special initiatives.

- ***Combating Predatory Lending.*** Fighting predatory lending is an important activity for FHIP agencies, as reports continue to show that abusive lenders



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frequently target racial minorities, the elderly and women for mortgage loans that have exorbitant fees and onerous conditions.

- ***Educational Outreach.*** Educational outreach is a critical component of HUD's ongoing efforts to prevent or eliminate discriminatory housing practices. HUD will continue its work to make individuals more aware of their rights and responsibilities under the Fair Housing Act. A major study titled "How Much Do We Know" emphasized the continuing need for public education on fair housing laws; in FY 2004, FHIP



PROMOTING THE PARTICIPATION OF FAITH-BASED AND COMMUNITY ORGANIZATIONS

HUD's Center for Faith-Based and Community Initiatives ("the Center") was established by Executive Order 13198 on January 29, 2001. Its purpose is to coordinate the Department's efforts to eliminate regulatory, contracting and other obstacles to the participation of faith-based and other community organizations in social service programs.

The Center will continue to play a key role in FY 2004 in facilitating intra-Departmental and interagency cooperation regarding the needs of faith-based and community organizations. It will focus on research; law and policy; development of an interagency resource center to service faith-based and community partners; and expanding outreach, training and coalition building. Additionally, the Center will participate in the furtherance of HUD's overall strategic goals and objectives—particularly as they relate to partnership with faith-based and community organizations.

On December 12, 2002, the President issued Executive Order 13279, "Equal Protection of the Laws for Faith-Based and Community Organizations." Its intent is to ensure that faith-based and community organizations are not unjustly discriminated against by regulations and bureaucratic practices and policies. The Order directs the Center to: (1) amend any policies that contradict the Order; (2) where appropriate, implement new policies that are necessary to further the fundamental principles and policymaking criteria set forth in the Order; (3) implement new policies to ensure collection of data regarding the participation of faith-based and community organizations in social service programs that receive federal financial assistance; and (4) report to the President the actions it proposes to undertake to implement the Order.

In compliance with Executive Orders 13198 and 13279, the Center will continue to participate in implementing HUD's strategic goals and objectives, as well as the following key responsibilities, in FY 2004:

- **Annual Department-wide Inventory.** The Center is charged with conducting, in coordination with the White House Office of Faith-Based and Community Initiatives (WHOFBCI), an annual Department-wide inventory to identify barriers to participation of faith-based and community organizations in the delivery of social services. These barriers include barriers created by regulations, rules, orders, internal policies and practices, and outreach activities that either discriminate against or otherwise discourage the participation of faith-based and community organizations in HUD programs.



- **Remediation of Barriers.** The Center will continue to initiate and support efforts to remove barriers identified in the annual Department-wide inventory.
- **Expand Opportunities for Faith-Based and Other Community Organizations.** The Center coordinates comprehensive Departmental efforts to incorporate faith-based and community organizations in HUD programs and initiatives to the greatest extent possible, to widen the pool of grant applicants to include historically excluded groups.
- **Outreach to Faith-Based and Community Groups.** The Center will continue to develop its databases of faith- and community-based organizations with little or no history of working with HUD. Outreach and technical assistance to such nontraditional grassroots organizations and networks will equip them with the skills needed to successfully pursue funding and partner opportunities. The Center will enhance its website to better serve those interested in HUD and the initiative. In conjunction with the Administration's other faith-based centers, the Center will work with the interagency resource center for individuals and organizations interested in the initiative. In conjunction with WHOFBCI and other agency centers, the Center will host interagency summits to share information concerning the initiatives, partnership opportunities with the Federal Government and strategies to develop local public/private partnerships.
- **Pilot Projects and Partnering with HUD Program Offices.** The Center will continue to partner with HUD program offices to establish mutual goals and identify opportunities to assist the offices in carrying out their strategic plans and objectives, with particular regard to strengthening and expanding their faith-based and community partnerships. The Center will continue to propose and develop innovative pilot and demonstration programs to increase the participation of faith-based and other community organizations in programming changes, contracting opportunities and other Departmental initiatives, including Internet resources.

Educating Government Personnel. The Center will participate in HUD field conferences, training sessions and seminars to educate HUD personnel and state and local governments on the faith-based and community initiative.

Progress on these efforts will be tracked as part of the President's Management Agenda.



EMBRACING HIGH STANDARDS OF ETHICS, MANAGEMENT AND ACCOUNTABILITY

The Secretary has established a commitment to improve performance and to produce these improvements in a manner that reflects the highest standards of ethics, management and accountability.

PRESIDENT'S MANAGEMENT AGENDA

The President's Management Agenda is designed to improve the overall efficiency and effectiveness of the Federal government and to address significant management deficiencies at individual agencies. HUD fully embraces this sound management agenda and is on-target with the necessary plans and actions to meet the challenging goals set by the President. To sustain the focus needed to achieve these goals, they have been engrained in HUD's strategic and annual performance and operating plans.

The President's Management Agenda includes five government-wide and two HUD-specific initiatives that are tracked and scored in terms of both baseline goal accomplishment and the adequacy of plans and progress towards achieving established goals. At HUD, these initiatives are addressing longstanding management problems that will take multiple years to achieve the President's goals. This is clearly reflected in HUD's across-the-board baseline goal accomplishment scores of "red" -- in a "red-yellow-green" scoring process where green represents goal achievement. However, HUD's scores on plans and progress are all green or yellow, indicating that HUD has adequate plans and is making good progress towards achieving the President's goals for more efficient and effective management of HUD's resources. HUD's scorecard at the end of calendar year 2002 is summarized in the table below followed by a synopsis of our progress in each of the initiatives. While the criteria for goal accomplishment are tough, HUD plans to move many of its baseline scores from red to yellow in 2004.



**HUD's December 31, 2002 Scorecard on the President's Management
Agenda**

PMA Initiative	Baseline Goal Score	Plans and Progress Score
Human Capital	Red	Yellow
Competitive Sourcing	Red	Yellow
Financial Performance	Red	Green
Electronic Government	Red	Green
Budget and Performance Integration	Red	Green
HUD Management and Performance	Red	Yellow
Faith-Based and Community Initiatives	Yellow	Green



GOVERNMENT-WIDE INITIATIVES

Human Capital

After many years of downsizing, HUD faces a potential retirement wave and loss of experienced staff. HUD's staff, or "human capital," is its most important asset in the delivery and oversight of the Department's mission. Effective human capital management is the purview of all HUD managers and program areas, and improvements have been geared towards meeting HUD's primary human capital management challenges. HUD has taken significant steps to enhance and better utilize its existing staff capacity, and to obtain, develop and maintain the staff capacity necessary to adequately support HUD's future program delivery. Building upon a new staff resource estimation and allocation system implemented in 2002, HUD will complete a Comprehensive Workforce Analysis in 2004 to serve as the basis to fill mission critical skill gaps through succession planning, hiring and training initiatives in a Five-Year Human Capital Management Strategy.

Competitive Sourcing

HUD is working to determine if competition of staff functions identified as commercial would result in better performance and value for the government. However, given HUD's significant downsizing and extensive outsourcing of administrative and program functions over the past decade, opportunities for further competitive sourcing are limited and need to be carefully considered in the context of program risk exposure. HUD's Competitive Sourcing Plan identifies some initial opportunities for consideration of possible outsourcing, in-sourcing or direct conversion studies to realize the President's goals for cost efficiency savings and improved service delivery. HUD will continue to assess its activities for other areas where competitive sourcing studies might benefit the Department.

Improved Financial Performance

HUD has strived over the past two years to enhance and stabilize its existing financial management systems operating environment to better support the Department and produce auditable financial statements in a timely manner. In FY 2004, the Department will continue making progress to reduce the number of material weaknesses or reportable conditions in its financial systems. HUD is looking to the future as well, as it studies the feasibility, cost and risk of various options for the next generation core financial management system.

Electronic Government/Information Technology

HUD is not only pursuing increased electronic commerce and actively participating in the President's "E-Government" projects, but is also focused on more fundamental HUD-specific information technology management improvements. HUD's FY 2004 information technology portfolio will benefit from continuing efforts to improve the IT capital planning process, convert to performance-based IT service contracts,



strengthen IT project management to better assure results, extend the data quality improvement program, and improve systems security on all platforms and applications.

Budget and Performance Integration

HUD developed its FY 2004 budget with a focus on collecting and using quality performance information, utilizing full cost accounting principles and emphasizing program evaluations and research to inform decision makers. Staffing and other resources are aligned with strategic goals, objectives and accomplishments. The Department will continue to work hard to improve and measure program performance.

HUD Management and Performance

HUD is aggressively pursuing several major efforts to improve its management and performance by strengthening internal controls to eliminate material weaknesses and remove HUD programs from the GAO's high risk list. These efforts are summarized below:

Improve Performance of Housing Intermediaries. HUD's considerable efforts to improve the physical conditions at HUD-supported public and assisted housing projects are meeting with success. HUD and its housing partners have already achieved the original housing quality improvement goals through fiscal year 2005 and are raising the bar with new goals.

Income and Rent Determinations. HUD overpays hundreds of millions of dollars in low-income rent subsidies due to the incomplete reporting of tenant income and the improper calculation of tenant rent contributions. Under the President's Management Agenda, HUD's goal is to reduce rental assistance program errors and resulting erroneous payments 50 percent by 2005. HUD has established aggressive interim goals for a 15 percent reduction in 2003 and a 30 percent reduction in 2004. Updated error measurement studies will be performed on program activity in 2003 through 2005 to assess the effectiveness of efforts to reduce program and payment errors.

FHA Fraud Reduction and Improved Program Controls. FHA will continue to vigorously attack predatory lending practices that encourage families to buy homes they cannot afford and cause homeowners to lose their homes by refinancing into loans with high interest rates. Elderly and minority homeowners are particularly vulnerable to predatory lending practices, which include loan "flipping" (schemes where unscrupulous lenders buy homes and quickly resell them at inflated prices to uninformed buyers), home improvement scams, unaffordable mortgage loans, repeated refinancings with no borrower benefit and "packing" life insurance and other products into the loan amount.

In FY 2001 and FY 2002, FHA mounted a vigorous assault on predatory lending. FHA developed 16 rules to address deceptive or fraudulent practices. This includes the new Appraiser Watch program, improvements to the Credit Watch



program that will identify problem loans and lenders earlier on, new standards for home inspectors, a proposed rule to prohibit property “flipping” in FHA programs and rules to prevent future swindles like the 203(k) scam that threatened the availability of affordable housing in New York City.

These reforms, and the greater transparency they ensure, will make it more difficult for unscrupulous lenders to abuse borrowers. The HUD budget ensures that consumer education and enhanced financial literacy remain potent weapons in combating predatory lending.

Reduce Meaningless Compliance Burdens. HUD is closely working with local program stakeholders to streamline the Consolidated Plan requirement to make it more results-oriented and useful to communities in assessing their own progress toward addressing the problems of low-income areas. A stakeholders group was convened to discuss alternatives for improving the process. Working groups were formed to work with HUD in the design of pilot projects to be tested and evaluated over the 2003-2004 period.



Appendix A

**Summary of 2004 Budget Increases and Decreases
Comparison to FY 2003 Budget
(Dollars In Millions)**

FY 2003 President's Budget **\$30,901**

Programs Increased in 2004

Home Investment Partnerships	88
Homeless Assistance Grants	245
Housing Opportunities for Persons with AIDS	5
Section 8 Funding (net of Rescissions/Offsets)	631
Public Housing Capital Fund	215
Public Housing Operating Fund	44
Housing Counseling Assistance	10
FHA Expenses	15
Manufactured Housing Standards	4
Ginnie Mae Expenses	1
Research and Technology	4
Fair Housing and Equal Opportunity	4
Lead-Based Paint	10
Lead Window Replacement Initiative	25
Management and Administration	37

Subtotal Program Increases **+1,338**

Programs Decreased in 2004

Section 108 Loan Guarantees	-7
Brownfields Redevelopment Program	-25
HOPE VI Revitalization	-574
Title VI Federal Guarantees for Tribal Activities	-1
Indian Housing Loan Guarantee Fund	-4
New FHA Product Line	-103

Change in Rescissions/Offset **-714**

Rescission of Section 236	-203
Rescission of UDAG Balances	-30
MMI Receipt estimates	-49
Offsetting Receipts	+57

-225

FY 2004 President's Budget **\$31,300**



**UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FISCAL YEAR 2004 BUDGET SUMMARY**
