



FISCAL YEAR 2005 BUDGET SUMMARY

MESSAGE FROM ACTING SECRETARY JACKSON

The \$31.3 billion budget President Bush has proposed for the U.S. Department of Housing and Urban Development (HUD) for Fiscal Year 2005 will create new opportunities for families and individuals who seek affordable housing and the American Dream of homeownership, and generate new stability and prosperity for the communities in which they live and work.

Housing remains the lynchpin of the nation's economy. The housing market generated robust activity throughout the 2001 recession, and today, housing continues to fuel the ongoing economic recovery. Last year, Americans took an estimated \$80 billion out of the equity they had accumulated in their houses to make investments in home improvements, furnishings, education, consumer goods and new businesses. Bolstered by historically low interest rates, home sales and new housing construction have repeatedly outperformed expectations. Homeownership rates have reached all-time highs and more minorities than ever before are buying their own homes.

HUD's FY 2005 budget seeks to build on these successes, while reaching out a compassionate hand to individuals in need.

The proposed HUD budget reflects the Department's broad, yet focused strategic goals as the federal agency responsible for addressing America's housing needs and improving and developing the nation's communities.

- ***Increasing Homeownership.*** HUD is dedicated to helping more Americans – especially minorities – realize their dreams of homeownership. To achieve this, HUD is breaking down the barriers that lock too many families out of homeownership. These barriers include high down payments; the inability of would-be homeowners to access information about their rights, responsibilities and financing options; and a confusing and costly homebuying process.
- ***Promoting Decent Affordable Housing.*** The Department is working to meet the needs of those who rent, whether they live in single-family housing or multifamily developments. Improving the quality and accessibility of public and assisted housing remains a top priority; as does HUD's commitment to inject flexibility, cost efficiency and accountability into our voucher program. The proposed FY 2005 budget creates new programs and expanded initiatives that will stimulate the production of affordable housing, generating more housing choices and opportunities for Americans who rent.

- ***Strengthening Communities.*** State and local governments depend upon HUD grants to support economic development projects that revive troubled neighborhoods. HUD's partners also work in their communities to protect those vulnerable individuals and families who truly need government assistance. In FY 2005, HUD will strengthen its core grant programs by ensuring that its funding partners have new flexibility to address locally determined concerns. The Administration's unprecedented commitment to ending chronic homelessness – a priority since 2001 – will continue.
- ***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 2005 budget, HUD will have the tools it needs to help Americans receive fair and equal access to housing, without fear of discrimination or intimidation.
- ***Promoting the Participation of Faith-Based and Community Organizations.*** The Administration is dedicated to removing the barriers that faith-based and community organizations face in federal programs. HUD's proposed budget for FY 2005 builds on the Administration's commitment to place faith-based and community organizations on an equal footing with other organizations that serve low-income Americans and revitalize distressed neighborhoods.
- ***Embracing High Standards of Ethics, Management and Accountability.*** HUD has made great progress in implementing President Bush's Management Agenda and making the Department work better for the taxpayers and for every American who seeks a place to call home. HUD will continue to embrace the highest standards of ethics, management and accountability in carrying out its work in FY 2005.

Ours is a compassionate mission, and consequently, HUD's success will be judged by the lives and communities we have forever changed through our work: the young families who have taken out their first mortgage and become homeowners; the once-homeless men and women who now have a home; the faith-based and community organizations that are successfully 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 FY 2005, new success stories will be written and our communities and the entire nation will grow stronger. And more citizens will come to know the American Dream for themselves.

Alphonso Jackson
February 2, 2004



INCREASING HOMEOWNERSHIP OPPORTUNITIES

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

Homeownership creates community stakeholders who tend to be active in charities, churches and neighborhood activities. Homeownership inspires civic responsibility, and owners are more likely to 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, the homeownership rate was higher in 2003 than at any time in this nation's history. The national homeownership rate is 68.4 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 76 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. 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 financial 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. More than 1 million new minority homeowners were created in the United States in the first 15 months of the initiative.

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 2005 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 likely to be targeted by predatory lenders, through comprehensive reform.

LOW-INCOME HOMEOWNERSHIP PROGRAMS

- **American Dream Downpayment Act.** President Bush signed the American Dream Downpayment Act into law on December 16, 2003, creating an opportunity for thousands of Americans to become homeowners. HUD proposes to fund the American Dream Downpayment Initiative at \$200 million in FY 2005 to help approximately 40,000 low-income families – for whom saving enough cash for a down payment is the most significant obstacle to homeownership – with the down payment on their first home.
- **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. 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 2005 budget will provide a record \$45 million to support 550,000 families with home purchase and homeownership counseling and about 250,000 families with rental counseling.
- **Flexible Voucher Program.** The FY 2005 budget proposes the Flexible Voucher Program under the Housing Certificate Fund that will provide flexibility to Public Housing Agencies (PHAs). This proposal allows one-time down payment assistance or monthly homeownership subsidies to families participating in the program. In addition, through the Flexible Voucher Program, the Department will reward PHAs that participate in homeownership activities through performance-based bonuses.
- **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 2005 budget request of \$65 million more than doubles the funding received in 2004, reflecting President Bush's continuing 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.
- **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 specifically targets low-income individuals and families.



HOME INVESTMENT PARTNERSHIPS PROGRAM

The HOME Investment Partnerships program plays a key role in addressing the shortage of affordable housing in America. In FY 2005, a total of \$2.1 billion is being proposed for participating jurisdictions (states and local governments) to expand the nation's supply of affordable housing. HOME participating jurisdictions have substantial local discretion to determine how to spend these funds. In addition to homeownership assistance, HOME funds can be used to help renters, new homebuyers or existing homeowners through rehabilitation of substandard housing, acquisition of standard housing, new construction or tenant-based rental assistance. To date, HOME grantees have committed funds to provide homebuyer assistance to more than 294,000 low-income households. Based on historical trends, 36 percent of HOME funds will be used for new construction, 47 percent for rehabilitation, 14 percent for acquisition and 3 percent for rental assistance.

FEDERAL HOUSING ADMINISTRATION (FHA)

FHA insures mortgage loans on multifamily rental housing projects. In FY 2005, FHA will reduce the annual mortgage insurance premiums on its largest apartment new construction program, Section 221(d)(4), for the third year in a row - from 50 basis points in FY 2004 to 45 basis points in FY 2005. With this reduction, the Department estimates that it will insure \$3.1 billion in apartment development loans through this program in FY 2005, producing more than 41,000 additional new rental units. Most of these units will be affordable to moderate-income families, and most of them will be located in underserved areas.

When combined with other multifamily mortgage programs, including those serving non-profit developers, health care facilities and refinancing mortgagors, FHA anticipates providing support for over 251,000 new units.

- **Zero Down Payment Program.** The Administration is proposing legislation to offer a new mortgage product to help first-time homebuyers purchase a home by allowing zero down payment loans and financing of the settlement costs. Currently FHA requires a minimum down payment of three percent. To cover the higher risk involved, premiums will be slightly increased in the short term for these borrowers. This program will be implemented at no cost to the government or the American taxpayer.
- **New FHA Payment Incentives Program.** The Administration is proposing legislation for a new sub-prime loan product to offer FHA insurance to families that, due to poor credit, would be served either by the private market at a higher cost or not at all. Borrowers would 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 \$7.9 billion in endorsements for 60,000 additional homes.



- **FHA Loss Mitigation.** Loss mitigation activities will continue to expand in order to minimize FHA claim payments 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.
- **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 has also instituted a program similar to Credit Watch called Appraiser Watch that identifies appraisers involved in questionable transactions. FHA is holding 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.

- **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.



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 those under the Department of Veterans Affairs and the Rural Housing Service of the Department of Agriculture. The FY 2005 budget requests \$200 billion in new loan guarantee limitations.

During FY 2003, Ginnie Mae marked its 35th anniversary and guaranteed a record \$215.8 billion in mortgage-backed securities. Since its inception in 1968, Ginnie Mae has guaranteed more than \$2 trillion in mortgage-backed securities and helped more than 27 million families gain access to affordable housing or lower mortgage costs. 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 historical performance is a fundamental indicator of its ability to manage risk and increase stability in the marketplace. During 2003, Ginnie Mae made changes to the Ginnie Mae II security, making it more attractive for both issuers and investors. In October 2003, Ginnie Mae began guaranteeing hybrid adjustable rate mortgage (ARM) securities and during 2005 will guarantee interest-only and principal-only securities. In FY 2003, Ginnie Mae's record volume produced a net income of \$731.5 million, 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

By statute, the Federal Housing Enterprise Financial Safety and Soundness Act, FHEFSSA, Government-Sponsored Enterprises (GSEs) such as Fannie Mae and Freddie Mac are assessed for the costs of their financial safety and soundness regulation. The FY 2005 budget requests \$6.25 million for oversight and compliance activities, funded outside of the appropriations process through direct assessment of the GSEs, as outlined in recent Administration proposals. These proposals were announced by the Secretaries of the Departments of Housing and Urban Development and the Treasury on September 10, 2003 and October 16, 2003.

RESPA REFORM

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 give consumers better opportunities to shop for lower-cost mortgages.



HUD will issue new regulations for these RESPA reforms, thus expanding homeownership by making the homebuying process less complicated, the paperwork less demanding, and the mortgage process less expensive. A key to achieving this outcome is to provide consumers with upfront disclosure of all costs associated with obtaining a federally related mortgage loan in understandable terms prior to the payment of non-refundable fees. The overall reform effort will assist millions of homebuyers and will save American families \$6-\$11 billion annually. The Department issued a proposed rule covering RESPA reform in FY 2002 and anticipates a final rule in FY 2004.

HOMEOWNERSHIP PROGRAMS FOR NATIVE AMERICAN AND HAWAIIAN COMMUNITIES

The FY 2005 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 \$647 million in funding 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. The Department's budget proposes to continue funding this program at last year's level, which will provide \$17.9 million in loan guarantee authority.
- ***Indian Housing 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 2005, \$1 million is requested in credit subsidy for 100 percent federal guarantees of approximately \$29 million in private loans.
- ***Native Hawaiian Home Loan Guarantee Fund (Section 184A)***. The Hawaiian Homelands Homeownership Act of 2000 established a loan guarantee program modeled after the Indian Housing Loan Guarantee program (Section 184). The guarantees will be used primarily to secure private financing 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 2005 budget will provide



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- \$1 million in credit subsidy to secure approximately \$37.4 million in private loans.
- ***Native Hawaiian Housing Block Grant (NHHBG)***. Modeled after the NAHBG, the Native Hawaiian Housing Block Grant program 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 2005 budget will provide \$9.5 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 of affordable housing. Activities include real property acquisition, demolition, financing, and development of utilities and utility services, as well as administration and planning, housing management services, crime prevention and safety activities.



PROMOTE DECENT AFFORDABLE HOUSING

HUD's proposed FY 2005 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). Currently HUD subsidizes the operation, maintenance and modernization of an additional 1.2 million public housing units. In total, these programs will provide more than \$23.2 billion in new funds each year to support rental costs for low-income individuals and families; total rental assistance accounts for approximately 74 percent of the total budget for the Department in FY 2005.

The FY 2005 budget continues to fund Section 8 tenant-based and project-based rental assistance through the Housing Certificate Fund. In addition, public housing is subsidized 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.

- **Flexible Voucher Program (FVP).** The current unit-based funding for the Housing Choice Voucher Program has allowed for a dramatic increase in program costs. Consecutive years of double-digit cost increases for this program are not sustainable; these increases have already reduced HUD's ability to fund other critical programs. Therefore, HUD is proposing a return to a dollar-based grant program that will control the growth in costs and provide a more efficient and effective program.

The Department is proposing a new Flexible Voucher Program. This program would replace the Housing Choice Voucher Program and improve the delivery of rental and homeownership subsidies for low-income families in a fiscally responsible manner, thereby ensuring cost efficiency and effectiveness for tenant-based subsidies. Some of the key features of the new FVP include greater PHA discretion in meeting local housing needs and serving more families, steady and predictable funding levels and rewards for PHAs that are good managers.



HUD will also provide performance-based incentives, while holding PHAs accountable for poor performance.

The FVP will simplify federally mandated program requirements and avoid the "one size fits all" program design. The FVP provides local and state PHAs with greater administrative flexibility to meet the overall program objective of providing temporary and transitional housing assistance for low-income families.

As is current practice, the FVP will be administered by PHAs. The FVP would include administrative costs as part of the total grant. High-performing PHAs that meet national objectives, such as increasing the number of participants that use the voucher assistance on a transitional (not permanent) basis; increasing homeownership and efficiently assisting families; would be eligible for performance and incentive bonuses.

The objectives of the FVP are:

- Control program costs by converting from a unit-based system to a dollar-based system, as recommended by Congress.
 - Simplify program requirements and provide PHAs with greater administrative flexibility so that they and their local communities can meet the overall program objective of assisting low-income families in finding suitable temporary housing.
 - Increase the effective utilization of funds to assist additional low-income families.
 - Reward PHAs that are good managers through performance-based incentives while holding PHAs accountable for poor performance.
 - Increase HUD's ability to effectively monitor the program; HUD will focus on results as opposed to bureaucratic processes.
- **Project-Based Rental Assistance.** For FY 2005, Project Based Rental Assistance will continue to provide 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 \$5.1 billion is requested in FY 2005, which is a \$330 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.

It is anticipated that approximately 896,000 project-based units under rental assistance will require renewal in FY 2005, an increase of about 25,000 units from the current fiscal year. This continues the upward trend stemming from first-time expirations in addition to contracts already under the annual renewal cycle.

- **Low-Income Housing Tax Credit.** The Low-Income Housing Tax Credit is one of the major federal programs that finances new and rehabilitated affordable rental housing. In 2003, the tax credit supported an estimated 94,000 units of completed low- to moderate-income rental housing.



PUBLIC HOUSING

Public Housing is the other major form of assistance that HUD provides to the nation's low-income population. In FY 2005, 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 3,100 PHAs. Like the Section 8 program, tenants pay 30 percent of their income for rent and utilities, and HUD subsidies cover much of the remaining cost.

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. Through its regulatory authority HUD will ensure that housing that is no longer viable will be removed from the inventory. It will encourage voluntary removal of decaying units when it makes economic sense to do so. Many of these decisions will be made at the local level and HUD will work with PHAs to allow greater local decision-making.

- **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 2005, the Department's budget provides approximately \$3.6 billion in funding for public housing.
- **Public Housing Capital Fund.** This program provides formula grants to PHAs for major repairs and modernization of units. The FY 2005 budget will provide \$2.7 billion in this account. This amount is sufficient to meet new modernization needs in FY 2005.

Of the funds made available, up to \$50 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 2005, up to \$55 million will be available for the ROSS program, which provides supportive services and assists residents in becoming economically self-sufficient.

- **Freedom to House: Public Housing Reform Demonstration Program.** HUD will introduce a demonstration program in 2005 designed to improve public housing. The Freedom to House Initiative will maximize the ability of local PHAs to make decisions affecting their tenants, while simultaneously serving essentially the same numbers of low-income families. It will grant to participating demonstration PHAs the ability to combine the use of capital and operating funds, to set locally determined rent structures, and to free themselves from many of the administratively burdensome requirements of federal reporting. This demonstration will also allow HUD and PHAs to shift to an asset-based management practice.

The Moving to Work Program has shown that residents and PHAs have benefited from increased local flexibility. These PHAs are convinced that their reforms have encouraged residents to seek work, work more hours and pursue opportunities to



increase their incomes. Freedom to House will continue this experiment in an environment that will allow for measurement and comparative evaluation.

Up to 50 PHAs will be identified to participate in the demonstration, while up to 50 others will serve as a control group following current public housing laws and regulations. Annual assessment of the PHAs will be based on parameters of financial health and physical safety and soundness. Performance assessment results and other pertinent data will be provided on an annual basis and will provide policymakers with the ability to review current practices against increased PHA flexibility in order to guide future policy decisions.

OTHER RENTAL ASSISTANCE PROGRAMS

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. Since its inception, the HOME program has supported the building, rehabilitation and purchase of more than 334,000 rental units. Program funds have also provided direct rental assistance to more than 100,000 households.

Native American Housing Block Grants (NAHBG). This block grant is a flexible source of funding to tribes or tribally designated housing entities and is used for a wide variety of affordable housing activities. Authorized uses include both rental housing and homeownership. The block grant is funded at \$647 million in FY 2005.

Native Hawaiian Housing Block Grants (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.

FHA Multifamily Insurance Program. FHA insures mortgage loans on multifamily rental housing projects. FHA has reduced the annual mortgage insurance premiums on its largest apartment new construction program, Section 221(d)(4), for the third year in a row. This year, the premium will be reduced from 50 basis points to 45 basis points. With this reduction, the Department estimates that it will insure \$3 billion in FY 2005 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.

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 178,000 families.

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.



AMERICA'S AFFORDABLE COMMUNITIES INITIATIVE: REGULATORY BARRIERS TO THE DEVELOPMENT OF AFFORDABLE HOUSING

Unnecessary, excessive or exclusionary federal, state and local regulations severely limit housing affordability by increasing costs as much as 35 percent. They also limit the ability of housing providers to build many affordable housing options such as multifamily housing, duplexes and cost-effective housing rehabilitation. Addressing these barriers to affordability is now a Departmental priority. The Department believes that regulatory barrier removal must be an essential component of any national housing strategy to address the needs of low- and moderate-income families. Therefore, HUD is committed to working with states and local communities to reduce regulatory barriers to the development of affordable housing.

In FY 2003, the Department established "America's Affordable Communities Initiative: Bringing Homes Within Reach through Regulatory Reform." This major new initiative is a Department-wide effort managed by a team of senior HUD staff charged not only with developing new approaches and incentives that can encourage efforts at the local level, but also reviewing and reforming HUD's own regulations that may be barriers to expanded housing affordability.

Over the past year, HUD has initiated a wide range of activities to address the affordability problem. The Department is working with state and local governments, homebuilders and non-profits to support and provide technical information and tools for local coalition building that can address the regulatory barrier issue at the local level. Through the Regulatory Barriers Clearinghouse, the Department maintains and disseminates important information on regulatory barriers to local governments and housing providers, as well as new strategies and solutions developed by local communities. Further, all proposed HUD rules, regulations, notices and mortgagee letters are now carefully reviewed by the Initiative office to ensure that they enhance rather than restrict housing affordability; a recent Federal Register notice has called for suggestions by HUD program participants on how HUD can change its existing rules to eliminate any barriers to affordability. The Department is also considering whether regulatory barrier removal should be included as a priority in the evaluation and funding of HUD grants.

To support this effort, the Department requests \$2 million next year for additional research and dissemination efforts to learn more about the nature and extent of regulatory obstacles to affordable housing. Current research underway includes developing a methodology for "housing impact" analyses. This new tool will assist HUD, other federal agencies, as well as state and local governments to measure the impact of any proposed new regulation on housing affordability. Through such an expanded research and dissemination effort, HUD will develop the tools and approaches needed by state and local governments to address the many barriers that restrict the development of affordable housing.



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 2005 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 development priorities through local decision making.

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM

The flagship of HUD's community and economic development programs is the Community Development Block Grant (CDBG) program. In FY 2005, total funding for the CDBG account will be \$4.6 billion. CDBG funds go to 1,160 grantees in 944 cities, 165 counties and 50 states, plus Puerto Rico.

CDBG's popularity is based on the fact that funds may be used for a broad range of housing revitalization and community and economic development activities, thereby increasing state and local capacity for economic revitalization, job creation and retention, neighborhood revitalization, public services, community development, renewal of distressed communities, and leveraging of non-federal resources.

Of the \$4.5 billion in FY 2005, \$4.3 billion will be distributed to entitlement communities, states and insular areas, and \$71.6 million will be distributed by a competition to Indian tribes for the same uses. The remaining \$215 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:

- ***Development Challenge Pilot Program.*** The FY 2005 budget proposes an interagency effort to test ways to better coordinate, target and leverage existing federal community and economic development programs. Under this \$10 million pilot program, competitive grants will be awarded to a limited number of communities to develop and implement clear, measurable community development goals. The results of this initiative are intended to improve and provide valuable information on how performance measurement can be made an integral part of CDBG and other large block grant programs.
- ***National Community Development Initiative (NCDI).*** HUD participates in the privately organized and initiated NCDI. The FY 2005 budget will provide \$25 million for the NCDI, 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. In addition, the budget includes funding for capacity



building activities for Habitat for Humanity (\$4.6 million) and Youthbuild USA (\$2 million).

- **University Partnership Grant Programs.** The FY 2005 budget provides \$33.8 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.
- **Youthbuild.** The FY 2005 budget requests \$64.6 million for the Youthbuild program. This program is targeted to high school dropouts aged 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 2005 request will serve more than 3,728 young adults.

PROGRAMS TO HELP HOMELESS INDIVIDUALS

The Administration continues to work to meet the challenge of homelessness that confronts many American cities. HUD is leading an unprecedented, Administration-wide commitment to eliminating chronic homelessness. 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.

HUD is an active member of the U.S. Interagency Council on Homelessness in its work to 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 simplifying the funding process.

The FY 2005 budget continues to address the housing needs of homeless persons and families by funding the program at \$1.5 billion.

Several initiatives 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:

- **The Samaritan Initiative:** The FY 2005 budget includes \$50 million for the Samaritan Initiative to address the President's goal of ending chronic homelessness. 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



emergency homeless services because their needs are not comprehensively addressed. Thus, they continually remain in the homeless system.

The Samaritan Program will fund promising local collaborative strategies to move chronically homeless individuals from the streets to safe permanent housing with supportive services. It 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, the Department of Health and Human Services, Veterans Affairs and the Interagency Council on Homelessness.

- **Legislation to Consolidate Homeless Assistance Programs.** HUD will again propose to consolidate its three competitive homeless assistance programs into a single program. The consolidation will provide more consistent funding from year to year, expand eligible activities – including prevention – across programs, eliminate multiple match requirements and simplify the competition and award process.
- **Emergency Food and Shelter Program.** The Administration is again proposing legislation that would transfer the Emergency Food and Shelter Program (EFSP) from the Federal Emergency Management Agency to HUD. The transfer of this \$153 million program in its current form would allow for the consolidation of emergency shelter assistance – EFSP and the Emergency Shelter Grants program – under one agency. EFSP funds are distributed through a National Board, a public-private partnership, which in turn allocates funds to similar 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, the Salvation Army and the United Way, as well as other experts in emergency assistance.

PROGRAMS FOR THE ELDERLY AND PERSONS WITH DISABILITIES

- **Supportive Housing for the Elderly (Section 202).** The FY 2005 budget will provide \$773 million in funding for Supportive Housing for the Elderly. The proposed appropriation plus \$20 million of unobligated prior year carryover funds will allow more units to be produced in FY 2005 than FY 2004. In the Section 202 program, funding for housing for the elderly is awarded competitively to non-profit organizations that construct new facilities. The facilities are also provided with rental assistance subsidies, enabling them to accept very low-income residents. Many residents live in the facilities for years; over time, these people often become frail and less able to live without some additional services. Therefore, the program is providing up to \$30 million of the grants to fund the conversion of all or part of existing properties to assisted-living facilities, enabling these elderly residents to remain in their units. In addition, up to \$53 million of the grant funds will be targeted to funding the service coordinators who help elderly residents obtain supportive services from the community.



- **Supporting Housing for Persons with Disabilities (Section 811).** The FY 2005 budget proposes to fund grants of \$249 million for Supportive Housing for Persons with Disabilities. The Section 811 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 2005, up to \$50 million of the grant funds will be used to renew "mainstream" Section 8-type so that individuals can continue to use their vouchers to obtain rental-housing vouchers in the mainstream rental market. The Department proposes to reform the program to allow faith-based and other non-profit sponsors more ability to respond to local needs. The reformed program would also recognize the unique needs of persons with disabilities at risk of homelessness as part of the Administration's Samaritan Initiative to end chronic homelessness.
- **Housing Opportunities for Persons with AIDS (HOPWA).** In 2005, HUD will provide \$295 million in new grant funds for housing assistance and related supportive services for low-income persons with HIV/AIDS and their families. Although most grants are allocated by formula, based on the number of cases and highest incidence of AIDS, a small portion is provided through competition for projects of national significance. The program will renew all existing grants in FY 2005 and provide new formula grants for an expected two additional jurisdictions. Since 1999, the number of formula grantees has risen from 97 to an expected 119 in FY 2005.

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 2005 include:

- **Voluntary Graduation Incentive Bonus.** Public and assisted housing is a scarce resource needed by many families. In allocating such a resource, the federal government has an interest in ensuring that as many people as are eligible have the opportunity to participate in this federal program. PHAs are encouraged by the Voluntary Graduation Incentive Bonus to promote graduation so that more families have the opportunity to share in limited housing resources and so that public and assisted housing does not become a permanent institution for a limited number of tenants.

The Department will allocate \$15 million in operating fund monies to those PHAs that exceed a baseline graduation rate. PHAs will be encouraged to transition families out of public and assisted housing within the current regulatory and statutory constraints. Such activities could include enrolling



more tenants in established work-training programs, promoting the use of income disregards, child-care deductions and escrow accounts.

- **Flexible Voucher Program.** In FY 2005, the Department is introducing the concept of performance-based bonuses to PHAs in the Flexible Voucher Program. One of the performance standards in the program measures the effectiveness of voucher assistance in helping families, including elderly and disabled individuals, move toward independent living, self-sufficiency and homeownership. PHAs that successfully achieve this goal will be rewarded with performance-based bonuses.

The Department's objectives emphasize the outcome of the self-sufficiency efforts and will measure the changes in the number of households no longer needing assistance, with an increase in the number of FSS families whose predominant source of income is work. PHAs will be rewarded for achieving these objectives through an incentive bonus. The bonus funding can be used by PHAs for a variety of activities, including but not limited to:

- Payment of FSS staff salaries to ensure coordination with state agencies, faith-based organizations and other non-profit providers of supportive services.
 - Job training, vocational, and educational activities.
 - Counseling services.
 - Homeownership activities.
- **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 Indian 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.** This program is the central element of the President's effort to eradicate childhood lead-based paint poisoning. In FY 2005, funding for the lead-based paint program will increase to \$139 million from the \$136 million requested by the President for FY 2004. 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 \$9 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. New estimates from the Centers for Disease Control and Prevention (CDC) show that the program has helped to reduce the number of children at risk by 50 percent, but that nearly half a million children still have too much lead in their bodies.



- **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.
- **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, such as critical care facilities, in rural areas where there is limited credit available through the private sector.



ENSURING EQUAL OPPORTUNITY IN HOUSING

As the primary federal agency responsible for the administration of fair housing laws, HUD is committed to protecting the housing rights of all Americans, regardless of race, color, national origin, religion, sex, age, familial status or disability. This commitment is reflected in HUD's budget request for FY 2005.

The goal of HUD's fair housing 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 2005 budget will provide \$27 million for state and local jurisdictions that administer laws substantially equivalent to the Federal Fair Housing Act. The Department supports FHAP agencies by providing funds for capacity building, complaint processing, administration, training and the enhancement of data and information systems. FHAP grants are awarded annually on a noncompetitive basis. Activities funded by this program have the concurrent effect of and play pivotal role in increasing the overall national homeownership rate, which supports the President's goal of adding 5.5 million new minority homeowners by the end of the decade. These funds will support:

- ***Targeted Education and Enforcement Follow Up on Housing Discrimination Studies.*** This education campaign combats discriminatory activities against African-Americans, Hispanics, Asians, Pacific Islanders, American Indians and persons with disabilities.
- ***Fair Housing Training Academy.*** The academy will serve all FHAP agencies and will provide continuing professional fair housing training and certification for current and future FHAP staff, to ensure consistent guidance and performance standards to all program participants. The curriculum will cover training needed to ensure quality and timely investigations of fair housing complaints and includes case processing, conciliation skills, compliance monitoring, and testing.
- ***Case Processing.*** The Department expects increases in discrimination cases processed by state and local fair housing agencies as a result of increased education and outreach activities. The FY 2005 budget request supports this increase.



Fair Housing Initiatives Program (FHIP)

The FY 2005 budget will provide \$20.7 million in grant funds for non-profit FHIP agencies nationwide to directly target discrimination through education, outreach and enforcement. The FHIP program for FY 2005 is structured to respond to the finding of the three-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. This funding will allow for more general awards and will also fund specific initiatives such as:

- ***Fair Housing Accessibility First (formerly the Project for Accessibility Training and Technical Guidance)***. Promoting the fair housing rights of persons with disabilities is a Departmental priority and will remain an important initiative within FHIP. Fair Housing Act accessibility design and construction training and technical guidance is an integral part of the Fair Housing Accessibility First Project. Bringing about industry-wide acceptance of accessibility as the way to design housing will depend, to a significant degree, on easy access to consistently accurate and helpful information and guidance on compliance. An extension of the current program for at least an additional one to three years is necessary to achieve this goal.

This project provides training to architects, builders and others on how to design and construct multifamily buildings in compliance with the accessibility requirements of the Fair Housing Act. Therefore, the Department is requesting \$1 million for the first year of a new three-year contract to continue the Fair Housing Accessibility First education and outreach training to builders, architects and others. Fair Housing Accessibility First will maintain a hotline and a Web site to provide personal assistance to housing professionals on design and construction problems.



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 2005 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 partnerships 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." The intent of the Executive Order 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 on the actions it proposes to undertake to implement the Order.

In FY 2005, 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:

- ***Removing Regulatory Barriers.*** The Center will continue to implement Executive Order 13279 by ensuring that the new regulations on faith-based organizations are implemented and reflected in all HUD policies, handbooks and other program guidance.
- ***Outreach to Faith-Based and Community Groups.*** The Center will continue to provide technical assistance to nontraditional grassroots organizations and networks. It will equip them with the skills needed to successfully pursue funding and partner opportunities. The Center will enhance its Web site and other media to better serve those interested in HUD and the initiative. In conjunction with the White House Office of Faith-Based Initiatives 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 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. Particular attention will be given to innovations in homelessness services, community development, homeownership counseling and services to residents moving out of public housing.
- ***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

HUD is committed to improving performance and to producing these improvements in a manner that reflects the highest standards of ethics, management and accountability.

PRESIDENT'S MANAGEMENT AGENDA

The President's Management Agenda (PMA) 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 in a "red-yellow-green" scoring process where green represents goal achievement. The scores on HUD's 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 2003 is summarized in the table below followed by a synopsis of the Department's 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 2005.

In addition, the Department expects to build upon its continuing efforts to improve field management and Headquarters support to the operation and management of HUD's extensive field structure. In particular, the Office of Field Policy and Management will continue to work toward the effective integration of HUD's programs at the community level.



HUD's December 31, 2003 Scorecard on the President's Management Agenda

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

GOVERNMENT-WIDE INITIATIVES

Human Capital

After many years of downsizing, HUD faces a large number of potential retirements and the 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. HUD has taken significant steps to enhance and better use its existing staff capacity, and to obtain, develop and maintain the staff capacity necessary to adequately support HUD's future program delivery. During FY 2003, HUD completed the Department's Five-Year Strategic Human Capital Plan with implementation plans and in FY 2005 will complete comprehensive workforce analyses and plans focusing on its core business functions. During FY 2005, HUD will implement its comprehensive Departmental workforce plan to ensure its workforce is aligned efficiently, skill gaps are assessed and corrected, and HUD staff retiring over the next five years are succeeded by qualified staff to continue quality service and program delivery.

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 has initially focused on establishing an adequate capacity to support the competitive sourcing process, with identifications of some initial opportunities for consideration of possible outsourcing, or in sourcing competitions 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. HUD has received an unqualified audit opinion on its consolidated financial statements for the past four consecutive years, and has reduced the number of auditor-reported internal control weakness issues. In FY 2005, the Department will continue making progress to reduce the number of material weaknesses or reportable conditions in its financial systems.

Electronic Government/Information Technology

HUD is not only pursuing increased electronic commerce and actively participating in all categories of the President's "E-Government" initiatives, but is also focused on information technology management improvements and maximizing the use of Internet technologies to make HUD more efficient, effective and responsive. In FY 2005, will HUD place increased emphasis on the Department's E-Government, Privacy Act, Section 508 Disabilities Act and Paperwork Reduction Act Programs. HUD's FY 2005 information technology portfolio will benefit from continuing efforts to improve the IT capital planning process, implement project management guidance, strengthen IT project management to achieve performance goals, complete major business segments of HUD's IT business architecture, and continue to improve systems security on all platforms and applications.

Budget and Performance Integration

HUD developed its FY 2005 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 General Accounting Office's (GAO) 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 developments are meeting with success. HUD and its housing partners have already achieved the original housing quality improvement goals through FY 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 established aggressive interim goals for a 15 percent reduction in 2003 and a 30 percent reduction in 2004. The latest study for FY 2003 indicates that HUD exceeded its error reduction goal for that year. Updated error measurement studies will be performed on program activity in 2004 and 2005 to assess the effectiveness of efforts to reduce program and payment errors. The Department has a number of training and monitoring programs in place that should produce additional error reductions. In FY 2005, HUD will work with its program intermediaries to fully implement new statutory authority that enables more effective upfront income verifications to eliminate over half of the estimated erroneous assistance payments.
- ***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 property "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.

Since 2001, FHA has mounted a vigorous assault on predatory lending. FHA developed 16 rules to address deceptive or fraudulent practices. This includes the new Appraiser Watch Initiative, improvements to the Credit Watch Initiative that will identify problem loans and lenders earlier on, new standards for home inspectors, a rule to prohibit property "flipping" in FHA programs and rules to prevent future swindles like the Section 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.*** The President's Management Agenda tasked HUD with streamlining the Consolidated Plan process to make it more useful to communities in assessing their own progress toward addressing the problems of low-income areas. HUD works closely with state and local program stakeholders on this initiative. It is anticipated that statutory and/or regulatory proposals to meet the intent of the PMA will be announced shortly. Pilots testing a variety of streamlining efforts will be completed during 2004, which may lead to additional proposals for change. As an outgrowth of the initiative, HUD issues a Notice entitled, "Development of State and Local Performance Measurement Systems for CPD Formula Grant Programs," which provides guidance to communities on developing and implementing performance measurement systems.



- **Strengthen Acquisition Management.** HUD acquires over \$1 billion in contracted services and goods each year. As part of an overall strategy to improve HUD's acquisition management, actions are being taken to ensure that HUD's centralized contract management information system contains reliable data on the number of active contracts, the expected cost of the contracts, and the types of goods and services acquired, and that its financial management information systems provide complete and reliable obligation and expenditure information on HUD's contracting activities. Other aspects of HUD's acquisitions management improvement strategy are being addressed through the human capital management strategy, which incorporates actions to enhance HUD's procurement staff capacity and improve guidance and training for acquisition officials throughout HUD.



Appendix A

2005 PRESIDENT'S BUDGET REQUEST

	<u>FY 2004</u>	<u>FY 2005</u>
	(Dollars in Millions)	
<u>PROGRAM</u>		
PUBLIC and INDIAN HOUSING		
Section 8 (net)	\$16,413	\$16,909
PH Modernization	2,696	2,674
PH Operating Subsidies	3,579	3,573
HOPE VI	149	0
Native Amer. Block Grants	650	647
Indian/Hawaiian Loan Prgs.	6	2
Hawaiian Grant Prg.	[10]	10
Rescissions	<u>0</u>	<u>-59</u>
Subtotal	23,493	23,756
<u>HOUSING/GNMA</u>		
Housing Counseling	[40]	45
Sec. 202 Elderly	774	773
Sec. 811 Disabled	249	249
Manufactured Hsg.	13	13
FHA MMI Operations	441	437
FHA GI/SRI Operations	321	316
FHA Subsidy	15	10
GNMA	<u>11</u>	<u>11</u>
Subtotal	1,824	1,854
Offsets and Rescissions	-303	-705
Receipts (FHA New Products)	<u>0</u>	<u>-415</u>
Net Housing	1,521	734
<u>COMMUNITY PLANNING AND DEVELOPMENT</u>		
Community Development Block Grant	4,934	4,618
Formula Grants	[4,331]	[4,331]
Set-Asides		
EDI/ NID	[334]	[0]
PROGRAMS	[270]	[287]
LOANS	7	0



UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FISCAL YEAR 2005 BUDGET SUMMARY

HOME	2,006	2,084
ADDI	[87]	[200]
Housing Counseling	[40]	[0]
Homeless	1,260	1,460
FEMA	[0]	[153]
Samaritan	[0]	[50]
HOPWA	295	295
Rural Economic Dev.	25	0
Brownfields	25	0
Urban Empowerment Zones	15	0
Faith-Based Prisoner Re-entry Initiative	0	25
UDAG Rescission	<u>-30</u>	<u>0</u>
Subtotal CPD	8,537	8,482
Lead-Based Hazard Grants	124	139
Lead Demonstration Grants	<u>50</u>	<u>0</u>
Subtotal Lead	174	139
Fair Housing	48	48
PD&R	47	47
<u>Management/Administration</u>		
HUD	544	589
IG	77	77
OFHEO	40	44
Transfer OFHEO function to Treasury	0	-44
Working Capital Fund	<u>234</u>	<u>232</u>
Subtotal M/A	895	898
<u>RECEIPTS (TECHNICAL)</u>		
General Receipts	-755	-628
FHA Receipts	-3,545	-2,212
<u>Net HUD Discretionary Budget</u>	30,415	31,264



**UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FISCAL YEAR 2005 BUDGET SUMMARY**

Appendix B

**BUDGET AUTHORITY BY PROGRAM
COMPARATIVE SUMMARY, FISCAL YEARS 2003-2005
(Dollars in Millions)**

	2003 ENACTED	2004 ENACTED	2005 ESTIMATE
DISCRETIONARY PROGRAMS			
PUBLIC AND INDIAN HOUSING			
Housing Certificate Fund			
Section 8 Contract Renewals/Amendments	\$15,168	\$17,531	\$16,920
Central Fund	392	136	100
Administrative Fees	1,072	1,235	1,176
Family Self-Sufficiency	48	48	...
Tenant Protection/Replacement Voucher	234	205	163
Advanced Appropriation for FY 2003	[4,173]	...	...
Advanced Appropriation for FY 2004	[(4,200)]	[4,175]	...
Advanced Appropriation for FY 2005	...	[(4,200)]	[4,200]
Advanced Appropriation for FY 2006	...	...	[(4,200)]
Contract Administrators	195	99	102
Transfer to Working Capital Fund	3	3	5
Subtotal, Housing Certificate Fund	17,112	19,257	18,466
Rescission of Section 8 Balances	(1,174)	(2,844)	(1,557)
Housing Certificate Fund	15,938	16,413	16,909
Public Housing Capital Fund	2,712	2,696	2,674
High Performers	[444]	[...]	[...]
Modernization TA	[51]	[50]	[35]
Remediation Troubled PHAs	[[11]]	[13]	[[5]]
Emergency Cap Needs	[50]	[40]	[50]
ROSS (within CDBG until FY 2003)	[55]	[55]	[55]
Transfer to Working Capital Fund	[19]	[11]	[5]
Demolitions	...	[...]	[30]
Neighborhood Networks Initiative	[15]	[15]	[...]
Administrative Receivership	[...]	[...]	[10]
Subtotal, PIH Capital Fund	[2,712]	[2,696]	[2,674]
Revitalization of Severely Distressed Public Housing Projects	570	149	...
Neighborhood Networks Initiative	[5]	[...]	[...]
Technical Assistance	[6]	[4]	[...]
Public Housing Operating Fund	3,577	3,579	3,573
Additional Funds for 2002	[250]	[...]	[...]
Funds to Attorney General to fight crime and drugs	[10]	[10]	[...]
Voluntary Graduation Bonus	[...]	[...]	[15]
Rescission of Drug Elimination Grants	(23)	...	(5)
Native American Housing Block Grants	645	650	647
Transfer to the Working Capital Fund	[1]	[3]	[1]
Technical Assistance	[4]	[5]	[5]
National American Indian Housing Council	[2]	[2]	[...]



**UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
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Title VI Federal Guarantees for Tribal Housing Activities:			
Program Account	[2]	[2]	[2]
Loan Guarantee Limitation	[17]	[17]	[18]
Rescission of Carryover	...	...	(21)
Indian Housing Loan Guarantee Fund:			
Program Account	5	5	1
Limitation Level	[197]	[197]	[29]
Rescission of credit subsidy carryover	...	...	(33)
Native Hawaiian Loan Guarantee Fund			
Program Account	\$1	\$1	\$1
Limitation Level	[40]	[40]	[37]
Native Hawaiian Housing Block Grants	... a/	... a/	10
Technical Assistance	[...]	...	[0.4]
Subtotal, Public and Indian Housing	23,425	23,493	23,756
 COMMUNITY PLANNING AND DEVELOPMENT			
Community Development Block Grants Fund	4,905	4,934	4,618
Formula Grants	[4,340]	[4,331]	[4,324]
Insular Areas	[...]	[...]	[7]
CDBG Set-Asides:			
Indian Community Block Grant	[71]	[72]	[72]
Capacity Building (NCDI)	[32]	[35]	[30]
Habitat for Humanity	[[4]]	[[5]]	[[5]]
Section 107 Grants	[49]	[52]	[35]
Technical Assistance	[[...]]	[[2]]	[[2]]
Insular Areas	[[7]]	[[7]]	[[...]]
Historically Black Colleges and Universities	[[10]]	[[10]]	[[10]]
Technical Assistance (HBCU)	[[[2]]]	[[[2]]]	[[[2]]]
Community Development Work Study	[[3]]	[[3]]	[[3]]
Hispanic Serving Institutions	[[7]]	[[7]]	[[7]]
Community Outreach Partnerships	[[7]]	[[7]]	[[7]]
Alaskan Native and Hawaiian Native Institutions	[[3]]	[[4]]	[[4]]
Department of Hawaiian Home Lands	[[10]]	[[9]]	[[...]]
Tribal Colleges and Universities	[[3]]	[[3]]	[[3]]
Housing Assistance Council	[3]	[3]	[3]
National American Indian Housing Council	[2]	[3]	[2]
Neighborhood Initiative Demonstration	[42]	[44]	[...]
Self-Help Homeownership/Habitat	[25]	[27]	[65]
Technical Assistance	[[...]]	[[...]]	[[3]]
Youthbuild	[60]	[65]	[65]
Youthbuild Capacity Building	[[2]]	[[2]]	[[2]]
Youthbuild Technical Assistance	[[3]]	[[3]]	[[3]]
Transfer to the Working Capital Fund	[3]	[5]	[1]
EDI Special Purpose Projects	[259]	[290]	[...]
National Housing Development Corporation	[5]	[5]	[...]
La Raza	[5]	[5]	[...]
Technical Assistance	[[1]]	[[...]]	[[...]]
Paul and Sheila Wellstone Center for Community Building	[9]	[...]	[...]
Development Challenge Pilot	...	...	[10]
Faith Based Pilot	...	...	[5]
Urban Development Action Grants	...	(30)	...



**UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FISCAL YEAR 2005 BUDGET SUMMARY**

Community Development Loan Guarantees:			
Credit Subsidy and Administrative Costs	7	7	...
Loan Guarantee Limitation	[275]	[275]	[...]
Brownfields Redevelopment Program	25	25	...
Urban Empowerment Zones	30	15	...
HOME Investment Partnerships Program	\$1,987	\$2,006	\$2,084
Homeownership Downpayment Assistance Initiative	[75]	[87]	[200]
Technology Advancement Partnership	...	...	[2]
Transfer to Working Capital Fund	[1]	[2]	[0.2]
Technical Assistance and Management Information Systems	[18]	[18]	[18]
Housing Counseling	[40]	[40]	[...]
Homeless Assistance Grants	1,217	1,260	1,257
Transfer to Working Capital Fund	[2]	[3]	[1]
Technical Assistance and Management Information Systems	[18]	[12]	[12]
Best Practices Demonstration	[10]	[...]	[...]
Shelter Plus Care (Renewals)	[...]	[193]	[193]
Samaritan Housing Program	[...]	[...]	50
FEMA Emergency Food and Shelter	...	[...]	153
Faith Based Prisoner Re-entry Initiative	...	...	25
Total, Homeless	[1,217]	[1,260]	[1,485]
Housing Opportunities for Persons with AIDS (HOPWA)	290	295	295
Technical Assistance	[2]	[3]	[3]
Rural Housing and Economic Development	25	25	...
Subtotal, Community Planning and Development	8,486	8,537	8,482

HOUSING PROGRAMS

Housing Counseling Assistance	[40] b/	[40] b/	45
Housing for Special Populations:			
Supportive Housing for the Elderly Housing	778	774	773
PRAC Renewals	[1]	[2]	[4]
Planning Grant	[25]	[20]	[...]
Transfer to Working Capital Fund	[0.2]	[0.5]	[0.1]
CAP Grants (Rehab)/Conversion to Assisted Living	[25]	[25]	[30]
Service Coordinators	[50]	[30]	[53]
Disabled Housing (Section 811)	249	249	249
PRAC Renewals	[1]	[1]	[2]
Mainstream Voucher Renewals	[28]	[42]	[50]
Transfer to Working Capital Fund	[0.3]	[0.5]	[0.1]
FHA Funds:			
Mutual Mort. Ins. and Coop. Mgt. Housing Ins. Funds:			
Program Account:			
Administrative Expenses	346	357	366
Non-overhead Expenses	85	85	71
Mortgage Insurance Limitation	[165,000]	[185,000]	[185,000]
Direct Loan Limitation	[100]	[50]	[50]
Transfer to the Working Capital Fund	[21]	[21]	[7]
General Insurance and Special Risk Insurance Funds:			
Program Account:			
Administrative Expenses	222	228	234
Non-overhead Expenses	93	93	82
Credit Subsidy	15	15	10



**UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FISCAL YEAR 2005 BUDGET SUMMARY**

Rescission of Credit Subsidy	...	...	(30)
Mortgage Insurance Limitation	[25,000]	[25,000]	[35,000]
Direct Loan Limitation	[50]	[50]	[50]
Transfer to the Working Capital Fund	[14]	[17]	[5]
Subtotal, FHA Funds	761	778	733
Manufactured Home Inspection and Monitoring Trust Fund	\$10	\$13	\$13
Payments to Manufactured Housing Fees	\$3	...	...
Rescission of Section 236 Recaptures	(100)	(303)	...
Nehemiah Housing Opportunity Fund	(3)	...	...
Homeownership Assistance Fund	(86)	...	...
HOPE	(6)	...	...
Flexible Subsidy Fund	(308)	...	...
Rescission of Section 236 Contract Amendments	...	...	(675)
Subtotal, Housing Programs	1,298	1,511	1,138
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION			
Guarantees of Mortgage-Backed Securities:			
Program Account	10	11	11
MBS Guarantee Limitation	[200,000]	[200,000]	[200,000]
Subtotal, GNMA	10	11	11
POLICY DEVELOPMENT AND RESEARCH			
Research and Technology	39	39	47
Program Evaluations	...	[...]	[8]
Barriers Removal	...	[...]	[2]
Technology Advancement Partnership (PATH)	8	8	...
Subtotal, PD&R	47	47	47
FAIR HOUSING & EQUAL OPPORTUNITY			
Fair Housing Assistance Program	26	28	27
Fair Housing Initiatives Program	20	20	21
Subtotal, Fair Housing Activities	46	48	48
OFFICE OF LEAD-BASED PAINT AND POISONING PREVENTION			
Lead-Based Paint Hazard Reduction	175	174	139
Technical Assistance	[10]	[10]	[10]
Operation LEAP	[10]	[10]	[9]
Healthy Homes	[10]	[10]	[10]
High Lead Areas Removal Initiative	[50]	[49.7]	...
MANAGEMENT AND ADMINISTRATION			
Salaries and Expenses, HUD	527	544	592
Reduction as a result of GSE Proposal	...	...	(3)
Transfers (FHA/GNMA/CPD)	[556]	[573]	[587]
Subtotal, Salaries and Expenses, HUD	[1,083]	[1,117]	[1,176]
Salaries and Expenses, OIG	74	77	77
Transfers (FHA/PIH)	[23]	[24]	[24]
Consolidated Fee Account	(8)	...	...
Salaries and Expenses, OFHEO	30	40	44
Reduction as a result of GSE Proposal	...	...	(44)
Working Capital Fund (Direct)	275	234	234



**UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FISCAL YEAR 2005 BUDGET SUMMARY**

Reduction as a result of GSE Proposal	...	...	(2)
Transfers	[78]	[64]	[24]
Subtotal, Working Capital Fund	[352]	[298]	[256]
Subtotal, Management and Administration	898	895	898
Subtotal, HUD Discretionary Budget Authority (Gross)	34,385	34,716	34,519
Current Year Offsetting Receipts (see attached detail)	(708)	(755)	(628)
Receipts to MMI Capital Reserve Account	(3,584)	(3,545)	(2,627)
FHA Legislative Proposals	...	...	[(324)]
FHA Administrative Changes	...	...	[(91)]
Total, HUD Discretionary Budget Authority (Net)	30,093	30,416	31,264

MANDATORY PROGRAMS

Native American Housing Block Grants	...	\$1	...
Low-rent Public Housing - Loans and Other Expenses	\$25	30	\$30
FHA GI/SRI Program Account	1,167	517	...
FHA MMI/CMHI Capital Reserve Account	3,584	3,545	2,627
FHA GI/SRI Liquidating Account	674	886	686
Housing for the Elderly or Handicapped Liquidating Account	...	(577)	(604)
Community Development Loan Guarantees Program Account	...	26	...
Community Development Loan Liquidating Account	(3)	(2)	...
GSE Regulation	...	...	(6)
Guarantees of Mortgage-Backed Securities Liquidating Account	...	66	55
Subtotal, Gross Mandatory Budget Authority	5,447	4,492	2,788
Mandatory Receipts	(1,104)	(200)	(10)
Total, Net Mandatory Budget Authority	4,343	4,292	2,778
Total, Net HUD Budget Authority	34,436	34,708	34,042

a/ Funded under CDBG.

b/ Funded under HOME.

Note: Totals may differ from President's Budget due to rounding.