1965 2005

40th Anniversary

Performance and Accountability Report

FY 2005

The FY 2005 Performance and Accountability Report for the U.S. Department of Housing and Urban Development consists of five major components:

- Secretary's Message
- Section 1, Management Discussion and Analysis
- Section 2, Performance Information
- Section 3, Financial Information
- Appendices

This report is available on the World Wide Web at:
www.hud.gov

Prior year Performance and Accountability Reports are available at:
www.hud.gov/offices/cfo/reports/cforept.cfm

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

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

Table of Contents

Message from Secretary Jackson

November 15, 2005

On this 40-year anniversary of the creation of the Department of Housing and Urban Development, I proudly share with you the Department's FY 2005 Performance and Accountability Report to provide information on our program results, management stewardship, and financial condition for the Fiscal Year ending September 30, 2005. While our accomplishments are numerous and noteworthy, we also face the daunting and humbling task of rebuilding the housing and economic infrastructure in the Gulf Coast. The devastation brought by major hurricanes this year was especially hard on the poor, and underscores the critical importance of HUD's mission and role in providing for America's housing and community development needs – in periods of crisis or stability.

Our Mission – The Department has three programmatic strategic goals: 1) Increase homeownership opportunities; 2) Promote access to decent affordable housing; and 3) Strengthen communities through economic development. HUD also has three cross-cutting strategic goals: 1) Ensure equal opportunity in housing; 2) Embrace high standards of ethics, management and accountability; and 3) Promote participation of faith-based and community organizations. Many of our cross-cutting goals are closely linked with our initiatives under the President's Management Agenda. Working with our many community and housing industry partners and the Congress, HUD continued to improve the efficiency and effectiveness of the delivery of its essential programs and services to the American people. HUD's strategic goals have been linked to the performance standards and evaluations of all HUD executives, managers, and staff, to better ensure improved performance in the future.

Increase Homeownership Opportunities – The President has emphasized the importance of creating an "ownership society," and over the past year HUD has helped more Americans, especially minorities, realize their dreams of homeownership. The total number of FHA-insured mortgages to date exceeds 37 million, including over 550,000 this year. In addition, the Government National Mortgage Association (Ginnie Mae) has been expanding homeownership opportunities for over a million families annually through secondary market financing.

Promote Decent Affordable Housing – HUD is working to meet the needs of those who rent and to ensure the quality and accessibility of public and assisted housing. Nearly half of HUD's annual expenditures support its various rental housing assistance programs. Approximately 4.8 million families are receiving HUD rental assistance, 3.6 million through direct rental assistance and 1.2 million in public housing. HUD and its housing industry partners continue to improve the quality of public and assisted housing properties.

Strengthen Communities – HUD and its partners work together to provide grants and support for housing, infrastructure, and economic development projects that revive troubled neighborhoods. Two of HUD's most successful programs are the Community Development Block Grant (CDBG) and HOME Investment Partnership (HOME) programs. Since 1974, HUD's CDBG Program has awarded more than $112 billion to state and local governments to target their own community development priorities. CDBG is one of HUD's most flexible and popular programs. The HOME program provides grants to state and local governments to produce affordable housing for low-income families. Since 1992, more than 600 communities have committed to produce more than 811,000 affordable housing units, including almost 319,000 for first time homebuyers.

President's Management Agenda – The goal of the President's Management Agenda is to implement actions to create a government that is citizen-centered, not bureaucracy-centered; results-oriented, not process-oriented; and market-based, not competition-impeding. During FY 2005, HUD improved its scores for achieving the President's goals on six of the eight management initiatives applicable to the Department. HUD is the first agency to obtain the highest score in reducing improper payments, as well as in promoting participation of faith-based and community organizations. HUD also continues to make substantial progress in improving the strategic management of its human capital; enhancing and expanding its application of electronic government; and providing more timely and useful financial and performance data, with better integration of that information to inform budget decisions.

Assurances – The Federal Managers' Financial Integrity Act of 1982 requires the Secretary to report to the President and the Congress on the adequacy of management controls in safeguarding resources. Based on the Office of Inspector General's unqualified audit opinion on HUD's consolidated financial statements, the elimination of HUD's two longstanding material internal control weakness issues in FY 2005, and year-end assurances given by principal agency officials, I assert that HUD's internal controls and financial systems comply with Sections 2 and 4 of the Federal Managers' Financial Integrity Act, as discussed in the Financial Management Accountability section of this report. This report also describes the corrective action plans and progress HUD is taking to remediate its remaining reportable internal control conditions by FY 2007.

Additionally, the Federal Financial Management Improvement Act of 1996 requires agencies to implement and maintain financial management systems that are in substantial compliance with OMB Circular A-127, Financial Systems Integration Office requirements, federal accounting standards, and the United States Government Standard General Ledger at the transaction level. This is the first year in which the Department has reported substantial compliance with these requirements. In general, the performance and financial data in this report are complete and reliable, with any limitations noted in Section 2, covering Performance Information, and Section 3, covering Financial Information. Data limitations, where noted, are not considered significant to overall information reliability.

Challenges and Hurricane Response – HUD employs about 9,100 staff nationwide to manage an annual budget of over $36 billion, open obligations of $68 billion, and a portfolio of over $900 billion in FHA-insured loans and Ginnie Mae mortgage-backed securities. Given the agency's diverse mission, reliance on thousands of program intermediaries in its program delivery, and the millions of beneficiaries that depend on HUD's housing programs, accomplishing HUD's mission continues to be an ambitious challenge. HUD is continuing to address these challenges and is making significant progress, as reflected in the accomplishments described in this report.

The recent hurricanes devastated many Gulf Coast communities and displaced millions of people. Approximately 2 million individuals housed in over 700,000 HUD assisted or insured housing units are in the affected areas. HUD's initial response – including temporary housing assistance, waivers of regulations to ease and expedite access to HUD programs, providing foreclosure relief for FHA-insured mortgages, and other actions – are discussed in the body of this report.

Details on all of HUD's program accomplishments, financial status, and planned management improvements are provided in the attached report. I am passionate about the mission of the Department, proud of its accomplishments over the past 40 years, and optimistic of its important role for the next 40 years. If you take advantage of the various programs HUD offers, the dream of homeownership and of owning your future will be closer than you think! I have said and continue to believe that the American dream is meant for everyone, and we're dedicated to building a society in which every person **– every person –** can realize the promise of America.

Alphonso Jackson
Secretary

Section 1. Management Discussion and Analysis

An Overview of the Performance and Accountability Report

The Department of Housing and Urban Development's (HUD) Performance and Accountability Report for Fiscal Year (FY) 2005 provides performance and financial information to the Congress, the President, and the American people. The report allows readers to assess HUD's performance relative to its mission, strategic goals and objectives, and stewardship of the resources entrusted to the Department.

The report is divided into three sections:

Section 1 – Management Discussion and Analysis. This section provides a summary of HUD's FY 2005 results, including actions taken under the President's Management Agenda to address HUD's management challenges and high-risk programs, and provides background and other information on HUD's:

- Organization and major programs;
- Performance results highlights for FY 2005;
- Risks, trends, and factors affecting FY 2005 and future goals; and
- Analysis of financial condition and results for FY 2005.

The Management Discussion and Analysis is supported and supplemented by detailed information contained in Section 2 (Performance Information) and Section 3 (Financial Information), and in the Appendices.

Section 2 – Performance Information. This section provides detailed information on HUD's progress toward achieving each of the Agency's strategic goals and objectives in support of its mission for FY 2005. This includes detailed explanations and future plans for the goals and objectives that HUD did and did not achieve.

HUD's mission is to increase homeownership, support community development, and increase access to affordable housing free from discrimination. The Department pursues this mission by detailing, in a six-year Strategic Plan and Annual Performance Plan, the following strategic goals and objectives HUD seeks to achieve through its funded programs:

- Goal H: Increase homeownership opportunities;
- Goal A: Promote decent affordable housing;
- Goal C: Strengthen communities;
- Goal FH: Ensure equal opportunity in housing;
- Goal EM: Embrace high standards of ethics, management and accountability; and
- Goal FC: Promote participation of faith-based and community organizations.

Section 3 – Financial Information. This section presents HUD's consolidated financial statements for FY 2005, along with the independent auditor's report on those financial statements. This section also contains supplementary stewardship information and the HUD Office of Inspector General's (OIG) independent assessment of the Department's major management and performance challenges, and progress in addressing those challenges.

PERFORMANCE AND ACCOUNTABILITY REPORT

The Performance and Accountability Report satisfies the reporting requirements of the following legislation:

- Federal Managers' Financial Integrity Act of 1982;
- Chief Financial Officers Act of 1990;
- Government Performance and Results Act of 1993;
- Government Management Reform Act of 1994;
- Debt Collection Improvement Act of 1996;
- Federal Financial Management Improvement Act of 1996;
- Reports Consolidation Act of 2000; and
- Improper Payments Information Act of 2002.

HUD Major Program Areas

Community Planning and Development:

The Office of Community Planning and Development (CPD) administers the Department's major economic and community development grant programs, housing programs, and HUD's homeless assistance programs. These programs support decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons. The primary means toward this end is the development of partnerships among all levels of government and the private sector, including for-profit and nonprofit organizations.

One key program administered by CPD is the Community Development Block Grant (CDBG) program, a formula grant that allocates 70 percent of grant funds to units of general local government and 30 percent to states for the funding of local community development programs. The primary objective of the program is to develop viable urban communities by providing decent housing, a suitable living environment, and by expanding economic opportunities. Activities undertaken with the grants must meet one of the three broad national objectives: 1) benefit low- and moderate-income persons; 2) aid in the prevention or elimination of slums and blight; or 3) meet other particularly urgent community development needs. In addition, at least 70 percent of all CDBG funds received by a grantee must be used for activities that benefit persons of low- and moderate-income.

Another key grant program administered by CPD is the HOME Investment Partnerships program, which provides funding to states and localities – often in partnership with local nonprofit groups – to create affordable housing for low-income households. Each year the program allocates approximately $2 billion among participating jurisdictions. These entities may choose among a broad range of activities including home purchase or rehabilitation financing assistance, funds for building/rehabilitation of housing for rent or ownership, or for providing tenant-based rental assistance contracts. In addition, the American Dream Downpayment Initiative, a component of the HOME program, provides assistance with downpayment and closing costs for first time homebuyers. HOME's flexibility empowers people and communities to design and implement strategies tailored to their own needs and priorities. It also strengthens partnerships among all levels of government and the private sector in the development of affordable housing.

Through programs such as CDBG and HOME, CPD seeks to encourage empowerment of local residents by helping to give them a voice in the future of their neighborhoods, stimulate the creation of community-based organizations, and enhance the management skills of existing organizations so they can achieve greater production capacity. These groups are at the heart of a bottom-up housing and community development strategy.

Office of Fair Housing and Equal Opportunity:

The Office of Fair Housing and Equal Opportunity strives to create equal housing opportunities by administering laws that prohibit discrimination in housing on the basis of race, color, religion, sex, national origin, disability, familial status, and age.

Particular activities carried out by the Office of Fair Housing and Equal Opportunity include implementing and enforcing the Fair Housing Act and other civil rights laws, including Title VI of the Civil Rights Act of 1964, Section 109 of the Housing and Community Development Act of 1974, Section 504 of the Rehabilitation Act of 1973, Title II of the Americans with Disabilities Act of 1990, the Age Discrimination Act of 1975, Title IX of the Education Amendments Act of 1972, and the Architectural Barriers Act of 1968.

In carrying out its mission, the Office of Fair Housing and Equal Opportunity works with other government agencies on fair housing issues and promotes voluntary fair housing compliance among private industry and community advocacy groups. The agency also administers the award and management of program grants and proposes fair housing legislation.

Federal Housing Administration:

Congress created the Federal Housing Administration (FHA) under the National Housing Act of 1934 to provide all Americans access to decent, safe, and sanitary housing, and to expand opportunities for homeownership. The instability in the housing market and the breakdown of the banking system during the Great Depression heightened the need for FHA programs. Congress looked to the FHA to boost the depressed economy and solve the nation's housing shortage. Organizationally, FHA is part of HUD's Office of Housing, and administers both single family and multifamily mortgage insurance programs. (Office of Housing programs are described in the section below.)

FHA has expanded its mission since its inception and now provides mortgage insurance to private lenders that finance single family homes, multifamily projects, healthcare facilities, loans for property improvements, and manufactured homes. Availability of FHA mortgage insurance stabilizes the provision of mortgage credit in the marketplace and encourages the provision of credit to households not served or underserved by the private sector, most notably first time and minority homebuyers. FHA has also expanded its mission to include establishing housing quality standards and demonstrating the financial viability of new mortgage instruments.

In many ways, FHA can be seen as a specialized insurance company that guarantees the payment of mortgages made by private lenders (banks and other mortgage lenders) who make loans to developers and homebuyers. By eliminating the risk of loss, lenders will provide market rate loans to all eligible purchasers. By collecting mortgage insurance premiums and other fees, FHA is able to be financially self-sustaining, and operate in a financially sound manner. This allows it to pursue its objectives and respond to the needs of its constituency. Since its inception 71 years ago, FHA has provided mortgage insurance to 33.8 million single family households, and 48,237 multifamily projects containing 5.5 million units of housing. FHA currently has 4.2 million insured single family mortgages and 12,581 insured multifamily projects in its portfolio.

Government National Mortgage Administration (Ginnie Mae):

Through its mortgage-backed securities program, Ginnie Mae, a wholly owned government corporation within HUD, helps to ensure that mortgage funds are available for low- and moderate-income families served by HUD's Office of Public and Indian Housing, FHA, the Department of Veterans Affairs, and the Rural Housing Service of the U.S. Department of Agriculture. Ginnie Mae's Mortgage-Backed Securities Program has been a significant contributor to the growth of the mortgage-backed securities market in the United States, as well as to the expansion of homeownership opportunities for American families by channeling global capital into the nation's housing markets.

During FY 2005, Ginnie Mae guaranteed $90.3 billion in mortgage-backed securities. Ginnie Mae's role in the secondary mortgage market provides an important public benefit to Americans seeking to fulfill their dream of homeownership. Over the past three and a half decades, Ginnie Mae has guaranteed more than $2.4 trillion in mortgage-backed securities, enabling more than 32 million Americans to realize their dream of homeownership. The total amount of Ginnie Mae securities outstanding at the end of FY 2005 was approximately $412.3 billion.

Office of Housing:

The Office of Housing provides vital public services through its nationally administered programs. FHA, the largest mortgage insurer in the world, is also located within HUD's Office of Housing. (FHA is described in the section above).

Within the Office of Housing are three business areas:

1. HUD's Single Family programs include mortgage insurance on loans to purchase new or existing homes, condominiums, manufactured housing, houses needing rehabilitation, and for reverse equity mortgages to elderly homeowners.
2. HUD's Multifamily programs provide mortgage insurance to HUD approved lenders to facilitate the construction, substantial rehabilitation, purchase and refinancing of multifamily housing projects and healthcare facilities.
3. HUD's Regulatory programs are designed to protect homeowners, homebuyers, and to regulate real estate transactions.

The Office of Housing administers rental subsidy, homeownership subsidy, and grant programs designed to provide housing to low- and moderate-income persons. One such program is the Section 8 Project-based Rental Assistance Program. Project-based Section 8 assistance differs from the Housing Choice Voucher program (described below in the Public and Indian Housing section) in that the assistance is not provided to individual families but is instead attached to multifamily housing properties to ensure that these properties remain affordable to low-income families.

In addition, the Office of Housing provides interest-free capital advances to finance the construction, rehabilitation or acquisition of affordable housing with supportive services for the elderly (Section 202) and persons with disabilities (Section 811). The program also provides rental assistance funding to cover the difference between the HUD-approved rent and the tenant's contribution (usually 30 percent of adjusted income). Recipients do not have to repay the grants as long as the housing remains available for very low-income elderly and persons with disabilities for a period of 40 years.

Finally, the Office of Housing also issues manufactured housing construction and safety standards, administers the Real Estate Settlement Procedures Act, and regulates interstate land sales.

Office of Public and Indian Housing:

The aim of the Office of Public and Indian Housing (PIH) is to ensure safe, decent, and affordable housing; create opportunities for residents' economic self-sufficiency; and ensure fiscal integrity by all program participants.

PIH is responsible for administering and managing a range of programs authorized and funded by Congress under the basic provisions of the U.S. Housing Act of 1937. The Act created the

Public and Indian Housing program, which now provides affordable housing to over 1.3 million households nationwide.

One such program is the Section 8 Housing Choice Voucher program, in which vouchers are administered by public housing agencies (PHAs) and other state and local designated entities. With these vouchers, an eligible family can seek housing in the private market, and in a neighborhood of its choice. The family generally pays 30 percent of its adjusted income toward the rent while the voucher subsidizes the remaining cost up to a PHA-determined cap.

In addition, Public Housing Capital Funds are provided to PHAs to finance capital improvements (developing, rehabilitating, and demolishing units), replace housing, and manage improvements. In FY 2005, the Office of Capital Improvements approved 17 proposals involving approximately $880 million in financing. The financed funds were used for the modernization and development of public housing at 40 PHAs.

Finally, Indian Housing Block Grants and Home Loan Guarantees fund housing development in Indian areas, provide housing assistance to eligible families, and help promote homeownership for Native Americans by providing loan guarantees to private lenders to increase the availability of mortgages and other financing for housing.

Other Mission Support Activities

The HUD Center for Faith-Based and Community Initiatives is one of 10 such centers established by the President in Cabinet level agencies. The goal of the Center is to implement the President's vision of a compassionate community, where faith-based and community organizations work with government to help the needy in a more effective manner. One of the key principles in this Presidential initiative is that all groups, whether religious or secular, should compete on a level playing field when applying for federal funds. As a result, an important part of the Center's work is empowering faith-based and community organizations to apply for HUD grants. The Center does not make decisions on awarding grants, nor is there any preference for faith-based organizations. Instead, the Center works to remove unnecessary barriers in order to fully engage these organizations as partners in fulfilling HUD's mission.

The Office of Healthy Homes and Lead Hazard Control provides funds to state and local governments to develop cost-effective ways to reduce lead-based paint hazards. In addition, the office enforces HUD's lead-based paint regulation, provides public outreach and technical assistance, and conducts technical studies to help protect children and their families from health and safety hazards in the home.

The Office of Federal Housing Enterprise Oversight is an independent office within HUD that ensures the capital adequacy and the financial safety and soundness of the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae). The Office of Federal Housing Enterprise Oversight is funded through assessments of Fannie Mae and Freddie Mac. The Office of Federal Housing Enterprise Oversight's operations represent no direct cost to the taxpayer.

Support Organizations

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

The Office of Administration provides support to the Department in the areas of human resources, training, management and planning, administrative and management services, control and management of correspondence, security and emergency planning, and executive scheduling. Included within the Office of Administration are the **Offices of the Chief Information Officer** and the **Chief Procurement Officer.** The Office of the Chief Information Officer provides leadership, vision, and advice to the Secretary and other HUD senior managers on the strategic use of information technology to support core business processes and to achieve mission-critical goals. The Office of the Chief Procurement Officer awards and administers contracts and purchase orders, and provides vital procurement services to HUD's contract and support offices.

The Office of the Chief Financial Officer employs sound financial management practices to help meet the Department's mission. The Office provides critical support to HUD in the areas of systems, accounting, budget, and financial management.

The Office of Congressional and Intergovernmental Relations is responsible for coordinating Congressional and intergovernmental relations activities involving program offices to ensure the effective and accurate presentation of the Department's views. The Office also is responsible for coordinating the presentation of the Department's legislative and budget program to the Congress. It also monitors and responds to the HUD-related activities of the Department's Congressional oversight, authorizing, and appropriations committees.

The Office of Departmental Operations and Coordination performs a broad range of cross-program functions that assist the Secretary and Deputy Secretary with HUD's continuing management improvement initiatives. The mission of the Office is to directly support the Departmental strategic goal to "embrace high standards of ethics, management, and accountability," and directly or indirectly support the remaining strategic goals to advance homeownership, affordable housing, stronger communities, fair housing, and participation of faith-based and community organizations.

The Office of Field Policy and Management provides direction and oversight for regional and field office directors. It communicates priorities and policies of the Secretary to these managers and ensures the effective pursuit of the Secretary's initiatives and special projects.

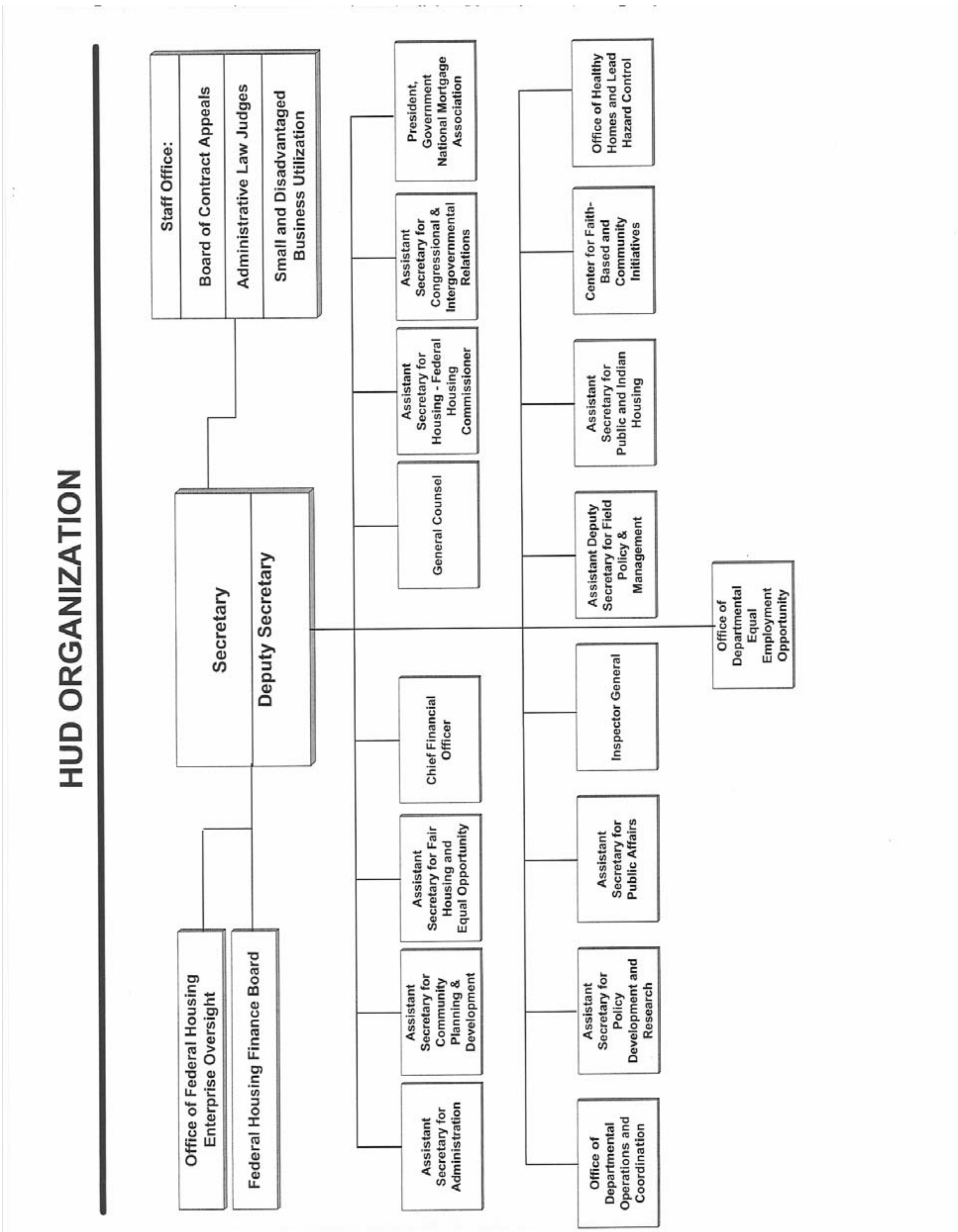
The Office of General Counsel attorneys provide legal opinions, advice, and services with respect to all Departmental programs and activities.

The Office of Inspector General provides independent and objective reporting to the Secretary and the Congress for the purpose of bringing about positive change in the integrity, efficiency, and effectiveness of HUD operations.

The Office of Policy Development and Research is responsible for maintaining current information on housing needs, market conditions, and existing programs, as well as conducting research on priority housing and community development issues. The Office provides reliable and objective data and analysis to help inform policy decisions. The Office is committed to involving a greater diversity of perspectives, methods, and researchers in HUD research.

The Office of Public Affairs staff work closely with local and national news media, as well as HUD program and policy contacts, to demonstrate to the public what HUD is doing for them and their communities.

On the following page is an overview of the organizational components of the Department.


HUD ORGANIZATION
Office of Federal Housing Enterprise Oversight
Federal Housing Finance Board
Secretary
Deputy Secretary
Staff Office:
Board of Contract Appeals
Administrative Law Judges
Small and Disadvantaged Business Utilization
Assistant Secretary for Administration
Assistant Secretary for Community Planning & Development
Assistant Secretary for Fair Housing and Equal Opportunity
Chief Financial Officer
General Counsel
Assistant Secretary for Housing - Federal Housing Commissioner
Assistant Secretary for Congressional & Intergovernmental Relations
President, Government National Mortgage Association
Office of Departmental Operations and Coordination
Assistant Secretary for Policy Development and Research
Assistant Secretary for Public Affairs
Inspector General
Assistant Deputy Secretary for Field Policy & Management
Assistant Secretary for Public and Indian Housing
Center for Faith-Based and Community Initiatives
Office of Healthy Homes and Lead Hazard Control
Office of Departmental Equal Employment Opportunity

Departmental Performance Highlights in Fiscal Year 2005

During FY 2005, HUD programs continued to enable millions of American families to realize the dream of homeownership or to obtain decent, affordable rental housing, and provided funding and assistance to enable local targeting of other community and economic needs across the country. The following captioned sections highlight some of HUD's more significant accomplishments this year, including a focus on internal management actions designed to improve HUD's overall program delivery and results. A more detailed discussion and analysis of performance against each of HUD's FY 2005 strategic goals and objectives is provided in Section 2 of this report on "Performance Information."

Increase Homeownership Opportunities (Goal H)

HUD's strategic goal of increasing homeownership opportunities is achieved through providing FHA single family mortgage insurance, improving decision-making through housing counseling, and fighting practices that permit predatory lending. Through a variety of programs, HUD is increasing minority homeownership, providing down payment assistance, and fostering increased flexibility through expanded voucher programs.

Homeownership is advantageous because it contributes to personal asset development, better neighborhoods and schools, stability of tenure, and wider choice of housing types. Holding other factors equal, homeownership improves outcomes for children on a number of dimensions. The children of homeowners score an average of 9 percent higher in math and 7 percent higher in reading ability. They are 25 percent more likely to graduate high school, and they have a 116 percent better chance of graduating college. The housing sector also has a direct, positive impact on the nation's economy. For every 1,000 single family homes built, 2,500 jobs are created, $75 million in wages are earned, and $37 million in tax revenues are generated.

Yet, homeownership can also be risky when individuals do not have the income or the knowledge to even enter the housing market or take on the financial responsibility of homeownership. There is substantial evidence that lower income and minority neighborhoods are not as well served by the conventional mortgage market as more affluent and non-minority neighborhoods. HUD's policy and program intervention efforts have a greater effect on increasing homeownership rates among renters who are marginally creditworthy, discouraged by discrimination, or unaware of the economic benefits of homeownership.

This goal has 6 objectives that are composed of 11 tracking indicators and 21 performance indicators. The tracking indicators are generally national in scope and provide a good indicator of national trends in areas where HUD's span of control is more limited. Of the 21 performance indicators, data were available for 20, and HUD met or exceeded 15 of those 20 indicators. More detailed information on these tracking and performance indicators can be found in Section 2 of this report.

The National Homeownership Picture remained generally positive during FY 2005, with strong increases in homeownership among targeted central city populations, and lesser increases among minority households and low- or moderate-income households.

- During the third quarter of 2005, the homeownership rate was 68.8 percent, down 0.2 percentage points from the third quarter of 2004. However, the nation gained an estimated 816,000 new homeowners during that period.
- The minority homeownership rate increased to 51.2 percent, an increase of 0.3 percent, representing an additional 455,000 minority homeowners.
- The homeownership rate in central cities showed continued strength, advancing by 0.8 percentage points to 54.0 percent.
- The homeownership rate among households with incomes below the national median increased by 0.1 percentage point during the year to 52.8 percent.

With the gains in minority homeownership this year, HUD and the housing industry remain on pace to meet the President's long-term goal for 5.5 million additional minority households to become homeowners by 2010. Homeownership estimates do not fully reflect the impact of Hurricanes Katrina and Rita, which occurred after most of the data were collected.

Before

After

Shreveport, Louisiana, is where Miss Lucy Ann Anderson spent 40 years taking care of other people's homes. She worked 12-hour days, holding two or more jobs at a time. Miss Lucy returned each night to a home with no electricity, gas or water, and with a roof that leaked. She was never able to save enough to enable her to buy a safe and structurally sound place to live. Funds from HUD's HOME program were used to fund the construction of Miss Lucy's new home. After long hours at work, she now comes home to a 915 square foot, two bedroom, one bath brick house – with electricity, water, central air, and heat. It was built directly in front of the garage where she has resided for more than 30 years. "It's a taste of heaven for me," said Miss Lucy. (Photo credit: Martha Sakre, HUD Shreveport Office)

HUD's Homeownership Program Results made a significant contribution to the improving national homeownership picture in FY 2005, as follows:

- FHA endorsed 555,717 single family mortgages for insurance, consisting of both home purchase mortgage endorsements and refinanced mortgages.
- 79.0 percent of the FHA home purchase endorsements were made to first time homebuyers, enabling 280,188 families to purchase their first home this year.
- 96,426 of FHA's first time homebuyer mortgage endorsements were made to minority homebuyers, contributing to the President's long-term goal that 5.5 million additional minority households will become homeowners by 2010.

- 41.3 percent (or a total of 229,204) of FHA-endorsed single family mortgages were in underserved communities, exceeding FHA's goal of 35 percent.
- 3,708 HUD-owned single family properties that are FHA-insurable were sold to owner occupants to further contribute to homeownership goals.
- Participating jurisdictions used HUD's HOME program grant funds to complete 32,307 new homebuyer units.
- Participating jurisdictions assisted 8,894 households in the purchase of their first homes through HUD's new American Dream Downpayment Initiative, which exceeded the goal of 8,000 by 11 percent.
- 2,277 housing units were completed by HUD's Self-help Homeownership Opportunity Program grant recipients, and another 3,038 units were under development.
- 3,069 low-income and minority families have become first time homeowners through the Housing Choice Voucher homeownership program, Section 8 Family Self-Sufficiency, and the Moving to Work homeownership program. To date there have been 5,121 homeowners under these programs.
- Under the Section 32 Rule and resulting homeownership program, HUD approved 214 units for sale to public housing residents and other low-income individuals. Additionally, 86 units were sold to public housing residents under previously approved programs.
- 634 new loan certificates were issued for $77 million in mortgage guarantees for Native American homeowners under the Section 184 program.
- Ginnie Mae increased the availability of mortgage capital by placing 92.7 percent of all Veterans Affairs and FHA single family housing loans into Ginnie Mae securities, exceeding its goal of 85 percent. Ginnie Mae expanded homeownership opportunities for 790,000 families in FY 2005 through its secondary market financing.
- Fannie Mae and Freddie Mac both surpassed HUD's target of 50 percent of mortgages purchased or guaranteed to serve low- and moderate-income families, with Fannie Mae achieving 53.4 percent and Freddie Mac 52.5 percent.

Other HUD Activities Promoting Homeownership in FY 2005 included increased housing counseling and loss mitigation efforts on FHA-insured mortgages:

- 42.2 percent of clients receiving pre-purchase counseling from HUD-approved agencies purchased a home or became mortgage-ready within 90 days, surpassing the goal of 30 percent.
- FHA loan servicers continued to successfully implement statutorily required loss-mitigation techniques when borrowers experience financial difficulties and default on their FHA mortgages. Increased loss mitigation helps to increase the overall homeownership rate by enabling borrowers who default on their mortgages to keep their current homes or to buy another home sooner. Better loss-mitigation efforts, such as enhanced borrower counseling, assist a borrower to resolve a default in several ways short of foreclosure. By avoiding foreclosure, FHA reduces its insurance losses, which makes FHA more financially sound and able to help more borrowers. FHA mortgage defaults resolved through loss mitigation alternatives as a share of total claims increased from 54.2 percent in FY 2004 to 59.1 percent for FY 2005, which exceeded the 45 percent target set for this goal.

HUD will continue to promote higher homeownership rates among underserved populations through improved partnering, marketing, and outreach in the single family FHA programs, and the efforts of Ginnie Mae, Fannie Mae, and Freddie Mac. Homeownership vouchers and the American Dream Downpayment Initiative will play a growing future role in achieving this goal. HUD's block grant programs, CDBG and HOME, will remain pivotal in providing homeownership assistance of various types to target local needs and preferences, particularly to groups with incomes below the median income level.

Promote Decent Affordable Housing (Goal A)

HUD's strategic goal of promoting decent affordable housing is achieved through expanding access to affordable rental housing and improving the physical quality and management accountability of public and assisted housing. In addition, HUD is working to increase housing opportunities for the elderly and persons with disabilities, and transitioning families from HUD assisted housing to self-sufficiency.

This goal has 4 objectives that are composed of 1 tracking indicator and 25 performance indicators. The tracking indicator is national in scope and provides a good indication of the national trend in an area where HUD's span of control is more limited. Of the 25 performance indicators, data were available for 23, and HUD met or exceeded 20 of those 23 indicators. More detailed information on these tracking and performance indicators can be found in Section 2 of this report.

Increased Production of Affordable Rental Housing was supported by a number of HUD programs this year. HUD and its many housing partners used available budgetary resources to meet or exceed the FY 2005 goals established for the production of additional critically needed rental housing units:

- FHA endorsed 903 insured multifamily housing loans, valued at $4.8 billion, which financed 108,643 housing units or beds in multifamily housing properties, nursing homes and assisted living facilities. In addition, FHA shared the risk with state housing finance agencies for an additional 114 loans totaling nearly $719 million and approximately 13,824 units. The combined 1,017 new FHA-insured multifamily loans exceeded the FY 2005 performance goal of 1,000. Forty-three percent of these new loans supported 438 multifamily properties with 54,017 units in underserved areas.
- HUD reached initial closing on 303 Section 202 and Section 811 projects this year, resulting in an additional 6,425 elderly housing units and 1,605 units for persons with disabilities. This exceeded the closings goal by 20 percent.
- The HOME Program contributed over 33,612 affordable rental units to the housing stock in FY 2005. Regulations allow HOME-assisted rental developments to admit households with incomes up to 80 percent of area median, but 90 percent of residents must have incomes below 60 percent of median. HOME performance consistently exceeds this statutory requirement.
- The HOPE VI program has been HUD's major vehicle for eliminating the worst public housing by demolishing unsustainable developments and rebuilding communities in accordance with community-sensitive principles. The HOPE VI program relocated 4,702 households, demolished 8,765 units to permit redevelopment, and completed 9,632 new or rehabilitated units, of which 8,467 were occupied.

- Ginnie Mae securitized 91.1 percent of eligible FHA multifamily mortgages to increase the supply of mortgage capital. The multifamily program's remaining principal balance increased by 8 percent, from $32.7 billion in FY 2004 to $35.3 billion in FY 2005. This reflects the continuing appeal of multifamily government-guaranteed loans to investors.
- Fannie Mae and Freddie Mac both greatly exceeded their goals for providing capital for special affordable multifamily housing in calendar year 2004, with Fannie Mae purchasing $7.32 billion of qualifying multifamily mortgages, exceeding the goal of $2.85 billion, and Freddie Mac purchasing $7.77 billion, exceeding the goal of $2.11 billion.

Michael and Robin Keen moved into their 1700 square foot home on Delphine Street in Waynesboro, Virginia. It's a brand-new home, built by the Waynesboro Redevelopment and Housing Authority's Youthbuild program, funded by HUD. Both Michael and Robin are disabled, confined to wheelchairs. More importantly for the Keens, it's their home – their very first home. "This time last year," Michael says, "the thought of homeownership was merely a fantasy." But thanks to HUD's Youthbuild program, as well as down payment assistance through a HOME grant for down payment and closing costs, a HUD Housing Choice Homeownership Voucher to help with their $90,000 mortgage and mortgage financing from the Virginia Housing Development Administration, "fantasy" has become reality. (Photo credit: Mike Tripp, The News Leader (Staunton, Virginia))

Rental Housing Assistance Program Improvements continued to be a primary focus for HUD and its housing partners in FY 2005. HUD's major rental housing assistance programs – public housing, Housing Choice Vouchers, and multifamily project-based assistance – constitute HUD's largest appropriated funding activity, with $27 billion of expenditures to provide housing to nearly 4.8 million households in FY 2005. Under these programs, assisted households typically pay 30 percent of their income for housing, with HUD funding covering the balance of the stipulated rent or remaining operating costs, in accordance with program regulations. The table in Appendix 2 of this report shows how many units of housing assistance are available under the major HUD rental assistance programs and certain other HUD housing assistance programs.

Public Housing

HUD's rental housing assistance programs are administered by third party intermediaries, including private for-profit and nonprofit owners and PHAs. Given the significance of the resources and responsibilities entrusted to the PHAs, HUD has established comprehensive remote monitoring systems to assess performance and the need to target on-site monitoring, technical assistance or other intervention actions to improve performance. As indicated by the most recent assessment systems scoring results, most PHAs are performing adequately:

- The Public Housing Assessment System assesses the performance of PHAs, which can receive a maximum score of 100 based on their physical and financial condition and their management quality (30 points each), as well as resident satisfaction (10 points). As of the end of FY 2005, the unit-weighted average Public Housing Assessment System score was 85.8, a decrease of 1.1 percent from FY 2004.

- PHAs that do not perform acceptably are placed in "troubled" status and are subjected to a remediation period to correct performance or the PHA's management will be replaced with an acceptable performer. Of the 66,424 public housing units managed by troubled PHAs on October 1, 2004, a total of 21,936 were no longer in troubled status by the end of FY 2005, a reduction of 33 percent. This significantly exceeded the goal of a 15 percent reduction.
- Section Eight Management Assessment Program scores are designed to track the capability of a PHA's administration of the Housing Choice Voucher Program. For FY 2005, which included scores for the quarters ending March 31, 2004, through December 31, 2004, 4.7 percent of the units under this program were managed by PHAs that were scored as "troubled." This compares with 3.9 percent for the comparable quarters of calendar year 2003.

HUD strives to ensure that its rental assistance is providing decent, safe, and sanitary housing in accordance with HUD's physical condition standards. Working with its program partners, HUD continued to improve the quality of housing supported by its public housing, multifamily housing mortgage insurance, and project-based assistance in FY 2005.

Individual PHA project inspection results indicate a PHA's compliance with HUD's physical condition standards. The results of project inspections as of September 30, 2005, associated with the current profile of PHA inspection scores, are shown in the following chart.

Public Housing Project Inspection Profiles *

Project Conditions	**FY 2000 Profile** (13,569 projects)	**FY 2001 Profile** (14,011 projects)	**FY 2002 Profile** (14,021 projects)	**FY 2003 Profile** (14,142 projects)	**FY 2004 Profile** (14,316 projects)	**FY 2005 Profile** (14,367 projects)
Above Standard	22%	33%	38%	38%	38%	37%
Standard	61%	58%	55%	55%	54%	55%
Subtotal – Standard or Above	**83%**	**91%**	**93%**	**93%**	**92%**	**92%**
Sub-Standard	17%	9%	7%	7%	8%	8%

* Under HUD's targeted inspection program, properties are inspected on a rotating basis. The frequency of inspection is based on several factors, including size and previous scores. (Inspections are more frequent for lower-scoring properties.) If a property has not been inspected during the current fiscal year, the previous inspection's score is used for that year's profile.

Currently, 92 percent of PHA projects meet or exceed HUD's housing quality standards, a significant improvement compared to the baseline of 83 percent five years ago.

As of the end of FY 2005, 92.9 percent of public housing units had functioning smoke detectors and were in buildings with functioning smoke detection systems, which represents a

0.1 percentage point increase from FY 2004. This far exceeds the 75 percent of all U.S. households that are protected by functioning smoke detectors.

Multifamily Housing

Multifamily Housing has oversight responsibility for approximately 30,000 properties with over 2.5 million units. Of these 2.5 million units, 1.3 million are Section 8 assisted units located in 18,300 properties. To improve the subsidy administration of these properties, HUD has outsourced some of its monitoring to state agencies under performance-based contract administrator agreements. The performance-based contract administrators review all vouchers prior to payment and perform annual Management and Occupancy Reviews on all assigned properties to ensure owners and management agents are properly applying the occupancy guidelines and income verification processes. In the Management and Occupancy Review, the performance-based contract administrators also follow up on the most recent physical inspection to ensure that deficiencies noted in that inspection or any exigent health and safety conditions cited have been satisfactorily corrected.

The results of the most recent physical inspections conducted on the multifamily housing portfolio of 29,254 insured and assisted properties shows that 96 percent of projects currently meet or exceed HUD's physical condition standards, a significant improvement compared to the baseline of 87 percent in 2000.

Multifamily Housing Project Inspection Profiles *

Project Conditions (100 point scale)	**FY 2000 Profile** (28,038 projects)	**FY 2001 Profile** (28,647 projects)	**FY 2002 Profile** (28,898 projects)	**FY 2003 Profile** (29,705 projects)	**FY 2004 Profile** (30,319 projects)	**FY 2005 Profile** (29,254 projects)
Exemplary (90-100)	37%	55%	54%	55%	55%	55%
Above Standard (80-89)	24%	25%	25%	25%	25%	26%
Standard (60-79)	26%	14%	15%	15%	15%	15%
Subtotal - Standard or Above (60-100)	**87%**	**94%**	**94%**	**95%**	**95%**	**96%**
Sub-Standard (31-59)	11%	5%	5%	4%	4%	4%
Troubled (0-30)	2%	1%	1%	1%	1%	<1%

* Under HUD's targeted inspection program, properties are inspected on a rotating basis. The frequency of inspection is based on several factors, including previous scores. (Inspections are more frequent for lower-scoring properties.) If a property has not been inspected during the current fiscal year, the previous inspection's score is used for that year's profile.

The Office of Multifamily Housing implemented a new protocol on physical inspection referrals to the Departmental Enforcement Center during FY 2003. The new protocol streamlined procedures and placed an increased focus on enforcing corrective action at properties scoring in the sub-standard range.

In FY 2003, HUD also established more stringent requirements for defining and reporting on exigent or life-threatening health and safety deficiencies. When such deficiencies are detected during HUD's on-site physical inspections, citations are issued to project owners and agents requiring corrective action and a response to HUD within three business days. In FY 2005, 99 percent of the detected multifamily housing deficiencies were corrected or mitigated nationwide.

As of the end of FY 2005, 94.0 percent of HUD-assisted multifamily units had functioning smoke detectors and were in buildings with functioning smoke detection systems, which represents a 0.6 percent increase since FY 2004.

Strengthen Communities (Goal C)

HUD's strategic goal of strengthening communities is achieved through providing capital and resources to improve economic conditions in distressed communities, and working to help organizations access critical resources to make their communities more livable. Through its varied grant, loan, and subsidy programs, HUD is also striving to move homeless families and individuals into permanent housing, and mitigate housing conditions that threaten health.

Funds from HUD's Community Development Block Grants helped to renovate this home in Great Falls, Montana. These funds can be used to help low-income homeowners make necessary repairs to bring their homes up to code and make them safe and sanitary places to live. The Great Falls program provides that the applicant must own the home and have lived in it for at least one year. The homeowner receives an interest-free loan, and monthly payments are not due until the first mortgage is paid off. Alternatively, the full loan amount is due upon any transfer of title. The maximum loan amount is $20,000 per homeowner (Photo credit: Charles Sheets, City of Great Falls, Montana.

This goal has 4 objectives that are composed of 29 performance indicators. Of the 29 performance indicators, data were available for 27, and HUD met or exceeded 24 of those 27 indicators. More detailed information on these performance indicators can be found in Section 2 of this report.

Benefits to Low- and Moderate-Income Residents are a mandated goal for CDBG Entitlement communities and states, which are required to spend at least 70 percent of grant funds for housing and community and economic development activities that benefit low- and moderate-income residents. During FY 2005:

- Entitlement communities used 95.3 percent of their CDBG funds for activities that benefit low- and moderate-income persons. This exceeds the goal of 92.0 percent and represents an increase over the FY 2004 level of 94.9 percent.

- State grantees used 96.8 percent of their CDBG funds for activities that benefit low- and moderate-income persons. This exceeds the goal of 96.0 percent, and represents an increase over the FY 2004 level of 96.4 percent.

Addressing Homelessness is a major focus of several HUD grant programs to communities, and Annual Progress Report data reflects the following significant results in FY 2005:

- Of the homeless persons who entered HUD-funded permanent housing, 70 percent remained in that housing for at least 6 months, reflecting HUD's emphasis on increasing the number of permanent housing units for the homeless and providing appropriate supportive services.
- An estimated 61 percent of formerly homeless persons in HUD-funded transitional housing went into permanent housing in FY 2005.
- Approximately 17 percent of persons who left HUD-funded homeless assistance programs in FY 2005 were employed, compared to only 10 percent of those who entered the programs. Stable employment for homeless persons is a critical step toward self-sufficiency.

While there was previously no method to directly measure the number of chronically homeless individuals, HUD is working with other federal agencies and communities to develop definitions, methods and systems for measuring the extent of chronic homelessness. HUD continued to work with communities to establish adequate Homeless Management Information Systems to provide data and support analysis regarding the extent of homelessness and the effectiveness of program efforts to address homelessness. Based on the applications received under the 2005 Continuum of Care competition, 382 communities throughout the country have implemented Homeless Management Information Systems.

Job Creation and Retention was a continuing focus of community recipients of HUD grant and loan funds in FY 2005, with the following activity reported:

- 91,287 full-time-equivalent jobs were created or retained with CDBG funds.
- The total number of jobs to be created or retained through approved applications for Section 108 Loan Guarantee assistance was 9,611.

Moving People to Self-Sufficiency is also a benefit of HUD's community-oriented programs, including the following FY 2005 activities:

- The Youthbuild Program offers academic and construction skills training for 16 to 24 year old high school dropouts, with the added benefit of housing construction and rehabilitation that benefits the community. The actual number of youths trained in FY 2005 was 4,366, or 17.1 percent above the goal of 3,728. The Youthbuild Program produced 876 units of housing and rehabilitated an additional 1,089 units. In addition, 1,525 participants achieved their high school general equivalency diplomas.
- HUD's Neighborhood Networks initiative encourages multifamily housing property owners and managers to establish community technology centers in their properties. These centers make computer technology available to low- and moderate-income tenants so they can develop knowledge and skills for the job market and move toward self-sufficiency. HUD continued to support the voluntary Neighborhood Networks efforts of private multifamily property owners by allowing them to use funds from their reserves for replacement account or residual receipts account for up to three years. Multifamily partners established 147 new Neighborhood Networks centers during FY 2005. In addition, HUD staff provided technical

assistance to 25 percent of the existing centers to help them improve their operations and provide quality training and services to the users of these centers to increase their chances of becoming self-sufficient.

Assuring Healthy Homes is the focus of HUD's Office of Healthy Homes and Lead Hazard Control, which provides grants to state and local government agencies to control lead and housing-related hazards in privately owned low-income housing, with the following results through the end of FY 2005:

- Under the Healthy Homes Grant Program to date, 7,054 units have been assessed and 4,476 interventions (homes treated for hazards) have been completed. Over 1 million individuals have been reached through Healthy Homes Projects and over 13,510 individuals have been trained in the assessment and mitigation of healthy homes hazards.
- The Lead Hazard Control Grant Program made an estimated 9,500 homes lead safe.

Gary/Hammond/East Chicago Empowerment Zone

Gone are the weedy, vacant lots and boarded-up homes in the 500 blocks of Rhode Island, Georgia, and Vermont Streets in Gary, Indiana. The Emerson Multi-Family Housing Project is the cornerstone of the revitalization of this neighborhood. The development includes 10 garden apartments and 34 apartment town homes.

Financed through the Gary/East Chicago/Hammond Federal Empowerment Zone and sponsored by the Gary Urban Enterprise Association, these homes include a mix of affordable and market-rate housing. The project is bringing job training and the promise of a better quality of life for everyone involved.

"As part of the loan agreement, at least 100 Empowerment Zone residents participated in job training with 51 completions and 49 placed into construction or related jobs," according to Scott Upshaw, Business Empowerment Center Manager. "This project is a great fit for the Empowerment Zone," Upshaw said. "It combines job training and job creation for Zone residents. It also creates new housing stock into an established neighborhood that has spurred improvements in the surrounding neighborhood. It will make a positive impact on the community for generations to come." (Photo credit: Christopher Myers, Gary-East Chicago-Hammond Empowerment Zone)


Ensure Equal Opportunity in Housing (Goal FH)

HUD's strategic goal of ensuring equal opportunity in housing is achieved through improving public awareness of fair housing laws, and providing greater housing accessibility for persons with disabilities. HUD also provides a fair and efficient administrative process to investigate and resolve housing discrimination complaints.

This goal has three objectives that are composed of six performance indicators. HUD met or exceeded all six of the indicators. More detailed information on these performance indicators can be found in Section 2 of this report.

Measuring Discrimination and Public Awareness

HUD conducts studies of the nature and extent of housing discrimination and public awareness of fair housing laws to enable HUD's Office of Fair Housing and Equal Opportunity to target activities to increase awareness and reduce discrimination. As reported in the most recent HUD-sponsored Housing Discrimination Studies:

- African Americans and Hispanics received adverse treatment relative to non-Hispanic whites in over 20 percent of initial rental search inquiries and over 15 percent of initial home purchase inquiries. This represents a large decrease in discrimination in home purchase inquiries for both groups between 1989 and 2000. There has also been a modest decrease in discrimination toward African Americans seeking to rent a unit. This downward trend, however, has not been seen for Hispanic renters, who are now more likely to experience discrimination in their housing search than African American renters.
- Whites are consistently favored over Asians and Pacific Islanders in approximately one in every five rental or sales transactions.
- Whites were consistently favored over American Indians in rental transactions an average of 28.5 percent across the three states studied.

Increased public awareness of fair housing law reduces discriminatory actions. However, prior to a study begun in FY 2000, no nationally available data existed to estimate the extent of awareness. The findings of the study support the conclusion that the public has relatively widespread knowledge of certain fair housing protections and prohibitions, while other areas of the law, such as protections for families with children, are not well known. In FY 2006, HUD will release the results of a follow-up survey that addresses whether public awareness has increased since 2000.

Investigation and Enforcement Activity

HUD investigates and resolves complaints of alleged housing discrimination filed by private citizens and interest groups throughout the nation. Through vigilant enforcement efforts, HUD and its grantee partners are transmitting the message that fair housing laws are a key priority and must be obeyed. In FY 2005, HUD's Office of Fair Housing and Equal Opportunity closed 77 percent of non-complex fair housing complaints in 100 days, exceeding the goal of 75 percent.

HUD also provides Fair Housing Assistance Program grants to "substantially equivalent" fair housing agencies. These agencies enforce state fair housing laws or local ordinances that are substantially equivalent to the Fair Housing Act. This enforcement is comparable to HUD's enforcement of the Fair Housing Act, which prohibits discrimination in the sale or rental of housing. HUD certified 2 new Fair Housing Assistance Program agencies in FY 2005, raising the total from 101 to 103.

During FY 2005, Fair Housing Assistance Program grantees closed 48 percent of fair housing complaints within 100 days, exceeding the goal of 45 percent. In FY 2006, HUD will continue to assist these organizations in reducing their aged case backlog through monitoring, training, and technical assistance. Moreover, investigators from these grantees will receive training at the National Fair Housing Training Academy to help develop their investigative and writing skills, which will result in improved enforcement of fair housing laws. This effort will ensure that if a complaint is filed, timely action will be taken. HUD is committed to vigorous enforcement of the fair housing laws so that all households have equal access to rental housing and homeownership opportunities.

Former Assistant Secretary for Fair Housing and Equal Opportunity Carolyn Peoples presents a check to Héctor Nieves, Executive Director of the Ceiba Housing and Economic Development Corporation in Puerto Rico (CHEDCO).

***From left to right*: Olga Roche of CHEDCO; Hector Nieves of CHEDCO, former Assistant Secretary Carolyn Peoples; Michael Colón, HUD Field Office Director; and James Sutton, HUD's Region IV Fair Housing Director.**

Former Assistant Secretary Carolyn Peoples presents a symbolic check in the amount of $92,386 to Ceiba Housing and Economic Development, Inc., a local nonprofit housing counseling and Community Housing Development Organization. This marked the first time that HUD awarded funds to Puerto Rico to conduct outreach and education under HUD's Fair Housing Initiatives Program. Former Assistant Secretary Peoples also participated in a roundtable with local fair housing advocates and encouraged them to join forces in educating the people of Puerto Rico about fair housing. (Photo credit: Efrain Maldonado, HUD Puerto Rico Office)

Many communities do not have strong state or local legal protections from housing discrimination. HUD's Fair Housing Initiatives Program provides grant funding to address this shortfall by helping independent fair housing groups to educate, to reach out, and to ensure compliance with the Fair Housing Act, as well as state and local laws prohibiting housing discrimination. In FY 2005, recipients of HUD's Fair Housing Initiatives Program grants held 405 public events reaching a total of 519,317 people, which far exceeded the goal of 120,000.

The Fair Housing Act requires common areas and some apartments in newly constructed multifamily housing to be accessible to persons with disabilities. In FY 2003, HUD launched the Fair Housing Accessibility FIRST (Fair Housing Instruction, Resources, Support, and Technical Guidance) program to provide training and technical guidance to architects, builders, and others on how to design and construct accessible multifamily housing in accordance with the requirements of the Fair Housing Act. In FY 2005, the program provided 24 training sessions with a total attendance of 1,443, significantly exceeding the goal of 1,000.

Ensuring HUD Programs are Free of Discrimination

The Office of Fair Housing and Equal Opportunity monitors and reviews recipients of HUD federal financial assistance to ensure that their housing and non-housing programs and activities comply with the non-discrimination requirements of Title VI of the Civil Rights Act of 1964 and Section 109 of Title I of the Housing and Community Development Act of 1974. This effort helps ensure that the over $30 billion in annual HUD program assistance is administered in a nondiscriminatory manner. Title VI prohibits discrimination based on race, color, or national origin, whereas Section 109 also forbids discrimination on the basis of race, color, national origin, sex, or religion. If HUD finds that an agency is not in compliance, it normally resolves the matter with voluntary compliance agreements. During FY 2005, HUD completed 69 Title VI and Section 109 reviews, far exceeding the goal of 56.

The Office of Fair Housing and Equal Opportunity also reviews recipients of HUD federal financial assistance to ensure that their housing and non-housing programs and activities comply with the non-discrimination requirements of Section 504 of the Rehabilitation Act of 1973, which prohibits discrimination based on disability. During FY 2005, HUD issued Letters of Findings in 80 Section 504 compliance reviews, surpassing the goal of 75.

Embrace High Standards of Ethics, Management and Accountability (Goal EM)

HUD's strategic goal of embracing high standards of ethics, management, and accountability is achieved through rebuilding and better managing its human capital. In addition, HUD is improving its internal controls and systems, and resolving audit issues in a timely manner. Finally, HUD is improving accountability and service delivery through creating and fostering constructive partnerships with PHAs and other intergovernmental bodies.

Highlights of HUD's accomplishments under this strategic goal are incorporated and described in the President's Management Agenda (PMA) discussion that follows and in Section 2 of this report. HUD made substantial progress during the past year, achieving higher status scores on six of the eight PMA initiatives. The Department was the first federal agency to meet the OMB criteria to earn the highest score of Green on the Improper Payments Initiative by reducing improper rental assistance payments from $3.2 billion in FY 2000 to $1.4 billion in FY 2004, a 56 percent reduction. A full discussion of HUD's improper payments reduction activities can be found in the Required Supplementary Information in Section 3. Additionally, the Department was one of the first to achieve a Green score for increasing faith-based and community organization participation opportunities in HUD grant programs.

HUD continued its focus on making significant improvements in financial management and reporting. This past year, the Department eliminated two long-standing material weaknesses. HUD also received an unqualified audit opinion for FY 2005. An unqualified (without qualifications) audit opinion indicates that HUD's "principal financial statements present fairly, in all material respects, the financial position of HUD…and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America."

Additionally, the audit for FY 2004 was completed and HUD also received an unqualified audit opinion. HUD has now received unqualified audit opinions for the past six consecutive years. Additional information can be found in the Independent Auditor's Report in Section 3 of this report.

This goal has 5 objectives that are composed of 29 performance indicators. Of the 29 performance indicators, data were available for 28, and HUD met or exceeded 25 of those 28 indicators. More detailed information on these performance indicators can be found in Section 2 of this report.

Promote Participation of Faith-Based and Community Organizations (Goal FC)

HUD's strategic goal of promoting participation of faith-based and community organizations is achieved through reducing barriers to participation by these organizations. Through its programs, HUD is conducting outreach and providing technical assistance to faith-based and community organizations to strengthen their capacity to attract partners and secure resources.

The new Catherine Booth Friendship House in Fort Worth, Texas, is a good example of how federal funding is working in a community through the efforts and partnership of faith-based organizations like the Salvation Army and HUD. At the Friendship House, the Salvation Army is providing 97 homes of affordable housing for the very low-income elderly. (Photo credit: HUD Fort Worth Office)

Highlights of HUD's accomplishments under this strategic goal are described in the President's Management Agenda discussion that follows.

This goal has three objectives that are composed of seven performance indicators. Of the seven performance indicators, data were available for four, and HUD met or exceeded all four of those indicators. More detailed information on these performance indicators can be found in Section 2 of this report.

HUD's Response to Hurricane Disasters

On August 29, 2005, Hurricane Katrina struck the Gulf Coast, displacing hundreds of thousands of people from their homes. HUD responded quickly in the wake of this unprecedented natural disaster to help meet both the temporary and long-term needs of the devastated region. The following are some of HUD's significant contributions to the Hurricane Katrina recovery effort:

- Established the Hurricane Recovery and Response Center – an emergency management division that serves as a command post with staff from Housing, PIH, General Counsel, and Public Affairs. The Hurricane Recovery and Response Center reports directly to the Secretary and is housed at HUD headquarters.
- Dispatched more than 50 HUD specialists with expertise on manufactured housing, reconstruction, and community planning to the Federal Emergency Management Agency's Housing Command Center in Baton Rouge, Louisiana, and plans to dispatch additional individuals as needed.
- Deployed HUD senior officials to serve as co-chair of the Joint Housing Solutions Center in Baton Rouge and as HUD liaisons in the city of New Orleans.
- Approved waivers of many regulations in the Department's programs to ease and expedite access to programs and to provide more flexibility in the use of funds for disaster relief.

- Established toll-free hotlines for the Department's various programs to assist the victims of Hurricane Katrina and established a website for information regarding the Department's efforts and available housing resources.
- The Office of Housing is conducting damage assessments of all FHA-insured single family and multifamily properties. PIH, in conjunction with local public housing authorities, is also conducting damage assessments of public housing properties.
- As an agent of the Federal Emergency Management Agency, the Department has developed and implemented the Katrina Disaster Housing Assistance Program to provide temporary housing assistance to all HUD-assisted evacuees as well as those who were homeless prior to the disaster.
- The Department has instructed all FHA-approved single family lenders to provide foreclosure relief to FHA-insured families that are affected by the Hurricane and has strongly encouraged all FHA-approved multifamily lenders to not foreclose on a defaulted mortgage.

HUD conducted an upfront risk assessment on its various disaster assistance efforts and is following OMB's guidance on controlling activities in a manner that both expedites the provision of relief efforts and minimizes opportunities for fraud, waste, and abuse in funded activities.

President's Management Agenda

While the above highlights are noteworthy, HUD management recognizes that it is not sufficient to rest on past accomplishments. In addition to the Goals, Objectives, and Performance indicators identified in the Strategic and Annual Performance Plans, the Secretary and Deputy Secretary also have emphasized, within the PMA, a number of initiatives designed to *continuously improve* HUD-wide management performance and program operations and outcomes.

The PMA for HUD contains:

- Five government-wide initiatives to improve overall government performance;
- A sixth HUD-specific initiative to correct longstanding HUD program risks and material management control weaknesses;
- A seventh initiative to improve HUD's program delivery by enabling increased participation by faith-based and community organizations; and
- An eighth initiative to "eliminate improper payments" in federally funded activities.

The Secretary and Deputy Secretary place a high priority on effective coordination and oversight of HUD's efforts to implement the PMA. To ensure the PMA produces desired results and is not viewed as another passing management fad, the following structure was established to ingrain the PMA into HUD's management environment:

- PMA goals and activities have been embedded in HUD's ongoing performance management process through their incorporation in the Department's long-range Strategic Plan, Annual Performance Plan, and Management Plan.
- The Deputy Secretary oversees and supports the PMA through coverage of PMA plans and progress at a quarterly Executive Management Meeting with HUD's Assistant Secretaries and other Principal Staff.

- HUD has assigned PMA Initiative Owners at the Assistant Secretary or equivalent level, with responsibility for planning and coordinating necessary actions to achieve the goals of each initiative.
- An annual PMA plan of actions and milestones is developed to establish where HUD thinks it would be "Proud-To-Be" on PMA goals at the end of the annual period, with refinement of planned actions and milestones each quarter.
- OMB provides quarterly scorecards that assess where agencies are against the overall goals of each initiative (goal scores), as well as the progress made in carrying out actions planned towards that goal each quarter (progress scores).
- HUD has a management meeting with OMB each month to discuss PMA progress, plans, and scores.
- The Deputy Secretary has designated a Special Assistant to conduct bi-weekly meetings with HUD's PMA Initiative Owners to discuss plans and actions needed to sustain progress and achieve results on the PMA.
- Progress on PMA actions and attainment of PMA goals are critical factors in HUD's performance evaluation and awards processes for managers, supervisors, and staff.
- Communication of information on PMA goals, criteria, plans, progress, and accomplishments are shared with HUD staff, affected program industry participants, and the public through a variety of means, including print media, satellite broadcasts, and the HUD web site.

A summary of the nature and results of HUD's eight PMA initiatives follows:

1. **Strategic Management of Human Capital.** HUD has taken significant steps to better utilize its existing staff capacity, and to obtain, develop, and maintain the capacity necessary to adequately support HUD's future mission-critical program delivery. A five-year strategy for management of human capital has been developed with detailed implementation plans to ensure that: HUD's organizational structure is optimized; succession strategies are in place to provide a continuously updated talent pool; performance appraisal plans for all managers and staff are linked to HUD's mission goals and objectives; diversity hiring strategies are in place; skill gaps are assessed and addressed; and human capital management accountability systems are in place to support effective management of HUD's human capital. To ensure HUD maintains progress toward accomplishing the goals outlined in this five-year strategy, HUD tracks progress against the interim milestones during its bi-weekly PMA meetings.

   In addition to the above actions, HUD also embarked on an "Optimal Organization Study" to ensure HUD is positioned to provide maximum service to its constituents.

   During FY 2005, HUD continued to implement its Strategic Human Capital Management Plan, with the following results:

   - Aligned the performance plans of all employees with the Department's strategic goals, moving towards a multi-level performance appraisal process for all employees, including Senior Executive Service members.
   - Established Workforce Analysis Planning Committees for HUD's core business program areas, and began implementing short- and long-term strategies to reduce skill gaps.

- Established an executive team to 1) develop a vision of what HUD will be doing in the future; 2) define how to organize the work; and 3) develop and publish multi-year implementation plans.
- Issued a Departmental Workforce Plan which identifies cross-cutting issues in each of the four core business area workforce plans, and which includes a comprehensive listing of actions and milestones to address staffing and skill gap issues.
- Made incremental progress in addressing general and technical skill gaps by hiring 63 employees and staff completed 742 on-line courses. The courses enhanced the general skills in areas identified as deficient in the workforce plans.
- Improved timeframes associated with filling critical vacancies by reducing HUD's average recruitment time by 43 percent.
- Implemented the HUD Integrated Human Resource and Training System, through an interagency agreement to use the Department of Treasury's HR-Connect System. The system makes human resources information readily available to managers and supervisors for strategic planning and employee development.
- Completed and issued a Departmental Succession Planning Strategy that links to the Departmental Workforce Plan and Strategic Human Capital Management Plan. The associated guidance supports the identification of leadership talent pools with skills assessments to confirm gaps and subsequent training plans to close those gaps.
- Issued new guidance to streamline the Senior Executive Service hiring timeline.

Collectively, these actions are enabling HUD to recruit, develop, manage, and retain a high-performing workforce that is capable of effectively supporting HUD's mission.

2. **Competitive Sourcing.** Competitive sourcing is a process designed to ensure that the government acquires commercial services at the best value for the taxpayer, regardless of whether the service provider is a public entity (agency or other agency staff) or private entity (contractor staff). The goal of this initiative is to realize more cost-efficient operations and improved service delivery through competition; it is not designed to outsource existing federal jobs. HUD already is heavily reliant on outsourced services and needs to consider carefully the impact of any further outsourcing on program risk. To reduce costs and improve services, HUD's approved competitive sourcing plan allows for consideration of both "outsourcing" and "in-sourcing" competitions. The competitive sourcing process provides the opportunity to implement best business practices to increase productivity and enhance the quality and efficiency of operations.

   HUD has announced 6 competitive sourcing efforts affecting an estimated 315 full-time equivalent staffing positions. Four of those six competitions, affecting 19 full-time equivalent staff positions, have been completed with an estimated savings to the government in excess of $4.1 million over a five-year performance period. The four functional areas competed to date consist of: financial management systems compliance reviews; financial reporting; Spanish translation services; and the motor pool. The two competitions in process consist of project-based housing assistance contract administration in programs other than Section 8, and training support services. Competitive sourcing has been integrated as a resource management tool in HUD's strategic human capital management planning process.

3. **Improved Financial Performance.** This initiative is designed to improve controls over financial transactions and the quality of financial information so that agencies and the Congress can use the information to make informed decisions about federal programs; reduce the risk of fraud, waste, and abuse; and manage federal programs more effectively. Success is measured against clear and specific criteria for successful financial performance, including:

   - Accurate and timely financial information;
   - Integrated financial and performance management systems that support day-to-day operations;
   - Financial systems that meet federal requirements; and
   - Clean and timely audit opinions with no material weaknesses.

   HUD's improved financial performance results pertaining to FY 2005 included:

   - Issuance of audited Department-wide financial statements within 45 days after the end of the fiscal year, with an unqualified audit opinion;
   - Preparation and issuance of quarterly financial statements within 21 days after the end of the quarter;
   - Elimination of a longstanding material weakness on controls over rental housing assistance – through improved program guidance and training, and increased assistance, monitoring and enforcement – enabling HUD to report an unqualified compliance statement on Section 2 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982, for the first time;
   - Elimination of a longstanding material weakness on HUD's financial systems compliance – through improved FHA systems support for its cash management, funds control and credit subsidy accounting functions – enabling HUD to report substantial compliance with the Federal Financial Management Improvement Act of 1996 and Section 4 of the FMFIA, for the first time;
   - Improved controls over obligation balances to recapture excess funds on expired rental housing assistance contracts and maintain accurate balances on the Section 236 Interest Reduction Program;
   - Continued progress on corrective action plans to eliminate HUD's remaining auditor-reported internal control deficiency issues by FY 2007; and
   - Completion of the requirements phase of the HUD Integrated Financial Management Improvement Project, as a key step towards implementing a new modern core financial system through a Center of Excellence service provider by FY 2008.

4. **Expanded Electronic Government.** HUD continues its E-Government transformation to meet public expectations and government performance mandates by increasing access to information and services using the Internet, developing systems within expected costs and schedules that can be shared and used to simplify business processes, ensuring the protection of personal data, and providing increased security to guard against intrusion and improve reliability. These E-Government efforts support HUD's mission and goals by delivering more value to citizens and business partners, promoting innovation, and incorporating best practices and federal-wide solutions. HUD's E-Government transformation is built around

five major areas: Enterprise Architecture, Information Technology Investment Management, Information Security, Privacy, and PMA E-Government participation.

- HUD has adopted a service-oriented and component-based approach to Enterprise Architecture, which is consistent with government and industry best practice and enables HUD to “build once, use often.” HUD’s Information Technology investment decisions are driven by Enterprise Architecture, funding only those initiatives that demonstrate they are proceeding in accordance with the target architecture for their line of business. The Department is now positioned to identify common business and information needs, eliminate redundant and obsolete systems, leverage emerging technologies, modernize and simplify systems solutions, reduce costs, and streamline operations.
- HUD has built a comprehensive Information Technology Investment Management process to ensure that its portfolio of information technology initiatives adequately addresses HUD’s business strategies, and that it is managed to achieve expected benefits in accordance with accurate and complete cost, schedule, technical, performance, and strategic capacity baselines. HUD established an aggressive, agency-wide plan to improve the oversight of its information technology investments and has corrected the deficiencies in over 94 percent of HUD’s major business cases.
- HUD assessed progress in mitigating risks for major applications and general support systems. Outdated, inconsistent, and duplicative information was corrected. Weaknesses were closed due to progress in completing various Information Technology security efforts, including security awareness training, risk assessments, security plans, Information Technology Security policy and certification and accreditation methodology implementation, and documenting incident response procedures. Because of these efforts, in May 2005 HUD’s Inspector General verified the effectiveness of the Department-wide Information Technology Security remediation process.
- In addition to the Information Technology security efforts, HUD is using the Privacy Impact Assessment to protect personal information. HUD has evaluated the privacy of personally identifiable information in 45 automated systems via the Privacy Impact Assessment. The resulting Privacy Impact Assessments, which are available for viewing at http://www.hud.gov/offices/cio/privacy/pia/pia1.cfm, have ensured that appropriate administrative controls are in place to protect personal information and ensure that only information deemed necessary and relevant to HUD’s mission is collected.
- Over the past year, HUD has entered into agreements with the managing partners of 14 E-Government initiatives and lines of business. Through these agreements, the Department is improving the delivery of information and services with innovative, cost-effective solutions. By establishing strong partnerships and alliances, the Department is committed to the planning and implementation of federal-wide solutions and has achieved the following results this year:
    - Established the Credit Alert Interactive Voice Response System – a federal government database of delinquent federal debtors that allows federal agencies to reduce the risk to federal loan and loan guarantee programs – as a best practice, and extended service, security, cost savings, and loss avoidance to HUD and its partners, realizing cash collections of delinquent debts in excess of $6 million;

- Simplified and standardized processes for finding HUD grant opportunities, as well as applying for competitive grants, on Grants.gov;
- Migrated from a paper-based docket system to the Environmental Protection Agency's EDOCKET system;
- Implemented the Department of Treasury's human resources cross-servicing solution that significantly reduced the investment risk, resulted in $10.1 million in cost avoidance, and delivered a mature solution that is used by several Treasury bureaus;
- Reduced contractor reporting burden and increased efficiency in obtaining key business and financial information for procurement transactions through the Central Contractor Registration, as well as improved acquisition data accuracy and increased timely data submissions through the Federal Procurement Data System - Next Generation;
- Facilitated the development, sharing, and use of Departmental geospatial data; and
- Gained an awareness and understanding of authentication requirements and identified systems and customers that are potential candidates for E-Authentication solutions.

5. **Budget and Performance Integration.** This PMA initiative is directed at reducing and better focusing performance measures, establishing program efficiency measures, and better integrating budget and performance information for use by program decision makers to increase results. This initiative has heightened awareness of the need for clear, measurable program goals and indicators to make budget and resource allocation decisions based on performance results. HUD has completed a Program Assessment Rating Tool evaluation on 26 major program areas, representing over 80 percent of HUD's budget, to identify areas in need of actions to improve performance measures and establish efficiency measures. HUD continues to work with OMB to develop and use efficiency measures for major programs and to reduce the number and improve the focus of performance measures covering the Department's core Strategic Plan goals and objectives.

   One way HUD is using this initiative to increase results is to establish national performance goals, to which many different individual or smaller programs can contribute to collectively make a significant difference. For example, 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. Increasing the focus on minority homeownership in all of HUD's various housing programs, such as FHA mortgage insurance and Housing Counseling, is making a difference. At the end of FY 2005, 2.35 million new minority homeowners had been counted towards this goal, putting the nation ahead of pace for this goal. Similar crosscutting goals have been established for reducing chronic homelessness and moving families from HUD's rental assistance to homeownership, and new goals are being contemplated for eliminating neighborhood blight and addressing other objectives such as energy conservation on a crosscutting program basis.

   Other accomplishments under this initiative to date included actions that:

   - Streamlined and improved strategic goals and performance indicators to better focus on the Department's core mission and to better align budgeted resources with those strategic goals;

- Assured there are acceptable efficiency measures for at least 50 percent of programs that had completed a Program Assessment Rating Tool evaluation, and continue to pursue development of efficiency measures for the remaining programs;
- Identified program areas on which HUD will develop marginal cost measures;
- Submitted HUD's budget justifications reflecting use of performance and cost information to enhance budget decisions on limited resources.

HUD continues to work with the Office of Management and Budget (OMB) to develop major, long-range goals for its affordable housing and community development programs, which will be integrated and supported in HUD's future budget justifications.

6. **Improved HUD Management and Performance.** This HUD-specific initiative is focused on addressing HUD's high-risk programs and material weakness issues that are not covered by the other PMA initiatives, including Improved Housing Conditions and Intermediary Performance; Improved FHA Risk Management; Consolidated Plan Improvements; and Improved Acquisition Management Data.

   a. Improved Housing Intermediary Performance. – HUD surpassed initial goals for improving adherence to housing physical condition standards for public and assisted housing properties and for reducing improper payments (see the 8th PMA Initiative below) in its rental housing assistance programs. HUD's various rental housing assistance programs (public housing, tenant-based vouchers and project-based assistance) represent its largest program area with over $27 billion expended in FY 2005 to house nearly 4.8 million households. These programs are locally administered by over 3,100 PHAs and 22,000 private housing owners/management agents, with HUD oversight. HUD set and communicated clear measurable goals and corrective actions for reducing improper payments and improving housing conditions, and worked collaboratively with the housing industry and local housing program administrators to exceed initial goals.

   b. Improved FHA Risk Management. – FHA's Single Family Mortgage Insurance Programs enable millions of first time, minority, low-income, elderly and other underserved households to realize the dream and benefits of homeownership, but the populations served by FHA are particularly vulnerable to predatory lending practices that are harmful to those homebuyers and the self-sustaining FHA fund. HUD has taken a number of actions to reduce risks to homebuyers and the FHA fund. With consistent implementation of these and other corrective actions taken by FHA, HUD's goal is to eliminate the Government Accountability Office's (GAO) high-risk program designation on the Single Family Housing Mortgage Insurance Program area by January 2007.

   c. Fewer Meaningless Compliance Burdens. – Formula grantees, states and units of local government, participating in CDBG, HOME, Emergency Shelter, and Housing Opportunities for Persons with AIDS grant programs are required to develop Consolidated Plans to guide their use of billions of dollars of annual funding. The PMA identified this planning process as one to be streamlined and made more results-oriented and useful to communities in assessing their own progress toward addressing the problems of low-income areas. Under the Consolidated Plan Improvement Initiative, HUD has worked closely with grantees, program stakeholders, and public interest groups to develop techniques for streamlining the Consolidated Plan process and making it useful to communities in assessing their own progress toward addressing their identified problems. In addition, HUD developed and released the Consolidated Plan Management Process Tool that introduced an automated approach to managing the consolidated planning and reporting process.

d. Improved Acquisition Management. – HUD acquires more than $1 billion in contracted services and goods each year. As part of an overall strategy to improve HUD's acquisition management, actions are being taken to ensure that:

- HUD's centralized contracting management information system contains reliable data on the number of active contracts, the expected cost of the contracts, and the types of goods and services acquired, and
- HUD's financial management information systems provide complete and reliable obligation and expenditure information on its contracting activities.

Other aspects of HUD's acquisitions management improvement strategy are being addressed through the human capital strategic implementation plan, which incorporates actions to enhance HUD's procurement staff capacity and improve guidance and training for HUD's acquisition workforce.

7. **Increased Faith-Based and Community Organization Participation.** The goals of this initiative are 1) to identify and eliminate barriers that prevent the equal treatment of faith-based and community organizations in the federal funding process; and 2) to increase outreach and technical assistance to faith-based and community organizations in order to facilitate their participation in grant programs. The Center for Faith-Based and Community Initiatives strives to meet these goals through targeted pilot program efforts in which faith-based and community organizations are in a position to make a substantive contribution. The effects of this increased outreach and technical assistance are measured through the collection and evaluation of data on faith-based and community organizations' participation in federal programs and corresponding results. Within HUD, the Center plays a critical role in actively supporting and engaging in HUD's goal of improving the efficiency and effectiveness of the delivery of its essential programs and services to the American people. As an active leader, the Center has set the standard in policy reforms that welcome organizations rooted in the community.

   The Center has been producing results in its regulatory reform efforts, its responsiveness to faith-based and community organizations, and its outreach to potential participants. Policy changes have allowed faith-based and community organizations to make a unique impact in the lives of society's most vulnerable citizens, channeling America's compassion in new directions. The Center also acts as a catalyst by organizing and facilitating technical assistance training and outreach programs to strengthen the competencies and skills of those faith-based and community organizations that may wish to compete for federal funds. From FY 2002 to FY 2004 (the last period for which data were reported), the number of grants to faith-based organizations increased by 27 percent, from 659 to 835.

8. **Eliminate Improper Payments.** HUD is the first federal agency to achieve the PMA goals for reducing improper payments.

   The PMA initiative on eliminating improper payments was established in conjunction with the requirements of the Improper Payments Information Act of 2002. The Act requires agencies to annually assess improper payment risk and measure and report on programs/activities that may be susceptible to improper payment levels in excess of a $10 million threshold. It holds agency managers accountable for strengthening financial management controls in order to reduce any significant improper payment levels identified.

During FY 2004, HUD completed its first annual improper payment risk assessment on $52.9 billion in disbursement activity for the prior year (FY 2003). Over $30 billion in disbursements in 10 major program areas were determined to be at-risk of a significant improper payment level, subject to statistical sample testing and estimation of an improper payment amount. In FY 2005, HUD completed sample testing on those 10 programs and found that only 4 of the 10 program areas had a significant improper payment problem, with a combined improper payment estimate of $1.8 billion, or 3.4 percent of total HUD payments in FY 2003. Most of that $1.8 billion improper payment estimate pertained to HUD's 3 rental housing assistance program areas where HUD continues to make significant progress in reducing improper payments through corrective actions initiated in FY 2001. A FY 2000 baseline estimate of $3.2 billion in gross annual improper rental assistance payments attributed to program administrator error and tenant underreporting of income was reduced by 50 percent to $1.6 billion in FY 2003, and by 61 percent to $1.2 billion in FY 2004.

PMA Scoring Results

OMB rates the results each federal Agency achieved using a "traffic light" scoring system of Green, Yellow, and Red, with Green indicating an Agency successfully met OMB's scoring criteria, Yellow reflecting mixed results, and Red denoting an unsatisfactory result.

The chart on the following page displays the continuous improvements HUD has made in implementing the President's Management Agenda and achieving results for the American taxpayer. HUD's Status scorecard was entirely Red in June 2002. By focusing on achieving results, HUD has since earned Status scores of Green on two initiatives, and Yellow on an additional five initiatives. HUD cannot attain a yellow goal score on the remaining initiative (i.e., Improved Financial Performance) until it completes corrective actions to eliminate two longstanding material weakness issues in early FY 2007. In the interim, HUD is ensuring its corrective actions remain on schedule and is monitoring its progress during its bi-weekly status meetings.

HUD's PMA Scoring Progress 2002 – 2005

Initiative	Status			
	June 2002	June 2003	June 2004	June 2005
Human Capital	Red	Red	↑ Yellow	Yellow
Competitive Sourcing	Red	Red	Red	↑ Yellow
Improved Financial Performance	Red	Red	Red	Red
Expanded E-Government	Red	Red	Red	↑ Yellow
Budget and Performance Integration	Red	Red	Red	↑ Yellow
HUD Management and Performance	Red	Red	Red	↑ Yellow
Faith-Based and Community Initiative	N/A	Yellow	Yellow	↑ Green
Eliminate Improper Payments	N/A	N/A	N/A	↑ Green

↑ Denotes an increase in the status score from the previous year.

Risks, Trends, and Factors Affecting Goals

Homeownership and Rental Housing Programs

Many external factors, over which HUD has little or no direct influence, impact HUD's ability to achieve its strategic goals.

National and regional economic conditions, as well as the actions of many private and public players, exert a critical influence on increasing homeownership and achieving HUD's specific performance targets that measure progress toward that objective.

The single family housing sector remained exceptionally vigorous during FY 2005, setting new records for single family building permits, new home sales, and existing home sales. Interest rates remained less than 6 percent, but affordability declined because of rising home prices. Prices of new homes have climbed because of the strong demand for building materials, labor, and land, as well as long-standing and increasing regulatory barriers.

As concerns about overheating in the home purchase market received greater attention during the fiscal year, liberalization of mortgage credit terms added to risks of broad market declines accompanied by financial losses by purchasers. Although program safeguards reduce the risk to FHA's mortgage insurance programs, potential for losses to the insurance funds has increased. Market interest rates play an important role in HUD's goals related to homeownership. Higher interest rates can reduce the number of first time homebuyers, as well as the number of home purchases insured by FHA. Lower interest rates usually increase the number of refinancings, thus reducing the proportion of FHA-insured loans going to first time homebuyers, even if their numbers rise. FHA balances factors that encourage refinancing by reaching out to potential first time homebuyers through conferences, seminars, and other events.

Hurricane Katrina, which hit the Gulf Coast states late in FY 2005, reminded the nation of the possibility of disaster-related losses of housing stock and displacement of families. An estimated 302,000 housing units were destroyed or damaged by the storm, of which about 53 percent were owner-occupied. Approximately 89,000 of those units were occupied by families with low or very low incomes.

Economic weakness and unemployment that results from normal business cycles typically are associated with fewer homebuyers applying for FHA loans and higher loan default rates. These factors frequently have a disproportionate impact on low-income households. During FY 2005, FHA continued to increase the proportion of mortgagors with troubled mortgages who were able to resolve their mortgage defaults rather than going through foreclosure. Through loss mitigation techniques, such as home retention tools, pre-foreclosure sales and deeds-in-lieu, more defaults were resolved and fewer homeowners lost their homes. Housing counseling is also proving effective in reducing the incidence of defaults. While greatly influenced by external factors, both FHA and the housing industry overall have maintained a high level of performance, even during weakened economic conditions.

HUD's establishment of housing goals for the government-sponsored enterprises, Fannie Mae and Freddie Mac, is occurring in a context of challenges to their accounting, safety, and soundness by their financial regulator, the Office of Federal Housing Enterprise Oversight. HUD published new housing goals for government-sponsored enterprises in November 2004. HUD's future oversight of the government-sponsored enterprises will incorporate appropriate verification of performance data, and will be tailored to sustain their public purpose while ensuring their ongoing financial stability.

Many external factors also affect the supply of affordable rental housing, including tax policy, local rental markets, building codes and land use regulations, state and local program decisions, and the actions of HUD's many other partners. Although rental vacancy rates nationally have been unusually high for a number of years, local rental markets vary substantially in the availability of housing with rents below local fair market rents. Some large metropolitan areas have relatively few units that would be affordable to extremely low-income renters without HUD program assistance. On the other hand, vacancies in the national rental market proved invaluable for housing hurricane evacuees.

Constraints on federal resources for subsidy payments also affect HUD's ability to provide access to affordable housing. Substantial increases in voucher costs and utilization have strained HUD's Section 8 program resources. Changes in unemployment rates, in the cost of developing and maintaining housing, or in personal income – factors over which HUD has little control – all affect housing affordability. Tenant-paid rents are established as a percentage of income in HUD's rental assistance programs, so lower incomes necessitate greater subsidies just as higher rents do. For the same reason, tenants who underreported income, and assisted housing providers who inadequately verified reported income, have over the years caused assisted housing resources to be substantially misdirected to less needy families. The Department has made landmark progress in slashing these erroneous subsidies during the past several years, as noted in the Improper Payments discussion in Section 3 of this report.

Following completion of a Harvard study of the operating costs of public housing and subsequent negotiation with PHAs, HUD has implemented regulatory changes to the operating subsidy program, moving to a project-based subsidy calculation and more efficient management practices used by private housing providers. These operational changes will support more rapid adaptation to the substantial increases in energy costs that took effect during FY 2005.

External factors also affect the supply of affordable rental housing for the elderly and persons with disabilities. The share of the population who are elderly (65 and older) is projected to increase from 12 percent of the population in 2000 to 20 percent by 2030, with rapid growth beginning around 2010. Other factors include local rental markets, building codes and land use regulations, state and local program decisions, and the actions of HUD's partners.

The Supreme Court held in 1999 that states must place persons with disabilities in community settings rather than institutions when treatment professionals determine that community placement is appropriate (*Olmstead v. L.C.*). As a result of this decision, more persons with disabilities could be moving into communities at a time when affordable housing continues to be scarce.

Internal factors, such as improving HUD's management practices and streamlining business processes, also affect the Department's ability to provide access to affordable housing and increase homeownership. FHA again increased the capital ratio of its Mutual Mortgage Insurance Fund during FY 2005. This was accomplished through improved management of its portfolio, insurance premiums, and more stringent measures to ensure data integrity, combined with a market-driven reduction of insurance-in-force. The capital ratio has a direct influence on FHA's ability to provide insurance coverage to homeowners. FHA's current business practices and initiatives reflect HUD's emphasis on risk reduction and automation of business processes.

A wide array of local factors, such as building codes and other regulations, affect the choices builders make in constructing and rehabilitating American homes. While HUD can encourage local communities to improve and enforce building codes and regulations, and can promote private rehabilitation, the Department cannot mandate these changes. Increasing building density and other land use factors also have major impacts on the vulnerability to natural disasters and the magnitude of associated risk. Public awareness of hazards and of ways of reducing them is also important but often lacking.

Equal Opportunity in Housing

Although fair housing law prohibits housing discrimination and provides victims with a system for obtaining legal recourse, recent research has revealed several barriers to achieving fully equal opportunity in housing.

A recent HUD-commissioned study, “How Much Do We Know,” found a widespread lack of knowledge of some aspects of fair housing law. For example, the study found that 62 percent of persons did not know that it was illegal to limit the housing choices of families with children. A lack of awareness among the public of what constitutes housing discrimination greatly hinders HUD’s ability to enforce fair housing law. HUD has increased education efforts and is expanding research in this area.

Although the study found widespread knowledge of and support for the prohibition of discrimination based on race, other recent HUD studies that use matched pairs of testers have found disparities in treatment of protected classes. Persistent discrimination has been found against African Americans, Hispanics, Asians, and Pacific Islanders in the residential sales and rental markets. HUD’s Housing Discrimination Study 2000 showed that African-American homebuyers experienced consistent adverse treatment in 17 percent of transactions, and Hispanic homebuyers experienced consistent adverse treatment in 20 percent of transactions. In the rental market, African Americans and Hispanics experienced consistent adverse treatment in 22 percent and 25 percent of transactions, respectively.

HUD also examined discrimination experienced by Asians and Pacific Islanders when they look for housing. The study found that Asian and Pacific Islander prospective renters experienced consistent adverse treatment relative to comparable whites in 22 percent of tests. Asian and Pacific Islander homebuyers experienced consistent adverse treatment 20 percent of the time.

The final phase of HUD’s study of discrimination revealed that persons with disabilities also face substantial discrimination, including refusals to allow reasonable accommodations.

If the victim does not detect discrimination, it will not be redressed. Although we cannot measure to what extent this occurs, it clearly accounts for part of the gap between the number of housing discrimination complaints filed with HUD or state and local partners and the frequency with which African Americans, Hispanics, Asians, and Pacific Islanders experience adverse treatment according to HUD’s Housing Discrimination Study 2000.

Other factors also contribute to the underreporting of housing discrimination, such as a lack of awareness of how to file a complaint and a feeling that nothing would come of complaining. The “How Much Do We Know” study found that 83 percent of persons who felt they had experienced housing discrimination did nothing about it; only one percent reported that they filed a complaint with a government agency.

Local policies, including land use controls and accessible building code enforcement, will continue to influence levels of discrimination. The private sector likewise plays a central role in achieving fair housing outcomes.

HUD continues to promote fair housing by investigating, conciliating, and prosecuting discrimination in the private market, while also ensuring non-discrimination in its own programs. FHA, which insures mortgages for low- and moderate-income borrowers, has worked to ensure equal housing opportunities through targeted marketing and outreach activities to unserved and underserved markets. FHA also has taken substantial steps to reduce the predatory lending activity that has had a disproportionate impact on minority households and neighborhoods.

Strengthening Communities

The economy produced two to three million new jobs during FY 2005, according to the Bureau of Labor Statistics. Numerous metropolitan areas participated in the improvement, with 305 areas gaining jobs and 267 of 367 areas experiencing corresponding decreases in unemployment rates. Less information is available about central cities and other older communities that HUD programs may target. To the extent that such communities rely on manufacturing employment, they may be adversely affected by continuing loss of manufacturing jobs. These macroeconomic trends can affect the success of HUD's partnership efforts.

Hurricane Katrina has posed an unusual challenge for HUD's goal of strengthening communities, because much of the physical infrastructure, the local economy and community institutions, and household assets of New Orleans were destroyed in one blow. HUD has marshaled a full range of program authority in the service of rebuilding New Orleans and other hurricane-damaged communities. Yet the hurricanes of 2005 reinforced the reality of the risks of disaster, whether of natural or other causes, to the fabric of America's communities.

Community economic development is often challenged by imbalances in local job markets related to skill gaps or to mismatches between the locations of available jobs and unemployed workers. Many older communities also face fiscal pressures as they struggle to provide quality services and attract employers during a time of declining tax bases. Rural communities often face additional challenges because of the changing structure of the farming industry, under-investment, weak infrastructure, limited services, and few community institutions. Rural labor forces are more narrowly based and are more dispersed.

Communities also have a great deal of flexibility when using HUD funds to address their economic conditions and community needs. Many programs – particularly Community Development Block Grants – may be used for a wide variety of eligible activities at the discretion of the grantee. When communities do choose to address job growth for low-income individuals, there are a wide variety of approaches that are difficult to measure. Some communities may support infrastructure to increase business development in certain areas, while others may directly apply funds toward preparing individuals for employment. Thus the ability of communities to respond with discretion to local conditions also establishes constraints on setting goals and assessing results at a national level. HUD is working closely with state and local partners to enhance local accountability for results without restricting the flexibility provided by HUD's programs.

Success in aiding the homeless to become self-sufficient is also affected by a variety of factors beyond HUD's control. The incidence of homelessness is affected by macroeconomic forces such as unemployment levels, structural factors such as the supply of entry-level jobs, and the availability of low-cost housing. Personal factors such as domestic violence, substance abuse, disabilities, and the extent of a person's educational or job skills also may underlie homelessness. Successful transitions to society from prisons, treatment facilities, or other institutions are increasingly recognized as critical to reductions of chronic homelessness. HUD is promoting the implementation of local Homeless Management Information Systems, which are critical tools for serving the diverse needs of individuals more effectively.

Participation levels by partners in the provision of homeless assistance – including state and local agencies, nonprofit organizations, service providers, housing developers, neighborhood groups, private foundations, the banking community, local businesses, and current and former homeless persons – will substantially determine the success of homeless families and individuals in becoming more self-sufficient. Increasing fiscal strains on these governments may reduce their ability to make contributions towards HUD's objectives. State and local governments also make critical decisions about zoning and the use of funds from programs such as Community Development or HOME block grants, and tax-exempt bonds for rental housing, which may affect the local housing supply.

Economic downturns typically increase unemployment and can hamper self-sufficiency efforts. Recessions tend to affect homeless people and other low-income people disproportionately, because they are usually among the first to be laid-off, and generally have few marketable skills. Recent job creation should make it easier for many low-skilled or inexperienced workers to enter the workforce in the coming years, although much of the growth has been occurring in relatively low-paying service occupations. Jobs continue to grow faster in suburban areas, while families making the transition from welfare are more likely to live in inner-city or rural areas.

Many of the educational, training, and service programs available to help families make the transition to self-sufficiency are operated by local recipients of federal funds from agencies other than HUD, and efforts are increasing the integration of these resources. Such factors can constrain the Department's ability to achieve marked success in promoting self-sufficiency and homeownership of assisted renters. HUD has implemented incentives to enable PHAs to encourage transitions to self-sufficiency among public housing residents and assisted renters.

HUD Management Challenges

Improving the efficiency and effectiveness of HUD's program delivery requires the Department to both sustain operational consistency in completed reforms and implement corrective actions on remaining material weaknesses in internal controls and other concerns discussed in the "Management and Performance Challenges" and "Financial Management Accountability" discussions in Section 3 of this report.

To better ensure operational consistency, it is essential that HUD execute its Strategic Five-Year Human Capital Management Plan to address needs identified by recently completed workforce studies and assure mission-critical functions are adequately staffed and performed. Succession planning is critical, since HUD has an aging workforce in which over 40 percent of the employees are eligible to retire. HUD's workforce planning is adversely impacted when it does not receive sufficient funds to realize its authorized full-time equivalent staffing levels, due to across-the-board budget cuts or the need to fund salary increases that are not provided for in HUD's annual appropriations.

To use limited staff and resources more effectively, it also is essential that HUD sustain efforts to refine and strengthen use of risk-based techniques for monitoring programs. When monitoring reveals significant performance and compliance problems, HUD must act appropriately to address those problems to minimize the risk and further program objectives.

Adequate funding of HUD's information technology portfolio is a concern, as the conversion to fixed-price performance-based contracts and contract protest issues have presented challenges to HUD's management of available funding for information technology. Many of HUD's critical program and financial management systems are legacy systems dependent on outdated technology that is becoming increasingly difficult and costly to maintain. HUD needs the commitment and funding to modernize these antiquated and limited systems. It is also essential that HUD program managers assume a stronger systems ownership role in assuring that systems requirements and controls over data quality and security are properly established. These efforts will result in improved program delivery and better support for HUD's mission.

To continue to reduce improper payments in rental housing subsidy programs, HUD will need the cooperation of its program partners and tenant groups to simplify program requirements and improve internal controls to ensure that appropriate subsidy payments go to intended beneficiaries. The Enterprise Income Verification System, which will be implemented for the use of PHAs in October 2005, will allow HUD's partners to more accurately verify tenant income. This will likely eliminate the majority of improper payments in rental assistance attributable to tenant underreporting of income. Statutory change may be required to simplify and standardize subsidy program requirements.

Finally, it is also important that HUD improve its acquisitions workforce to assure timely award and proper administration of the heavy volume of contract actions for information technology and other essential administrative and program services that HUD has outsourced.

Analysis of Financial Condition and Results

This section provides a summary of HUD's:

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

Summarized Financial Data
(Dollars in Millions)

	2005	2004
Total Assets at End of FY	$110,569	$113,194
Total Liabilities at End of FY	$18,619	$20,536
Net Position at End of FY	$91,950	$92,658
FHA Insurance In Force	$416,461	$468,795
Ginnie Mae Mortgage-Backed Securities Guarantees	$412,304	$453,422
Non-FHA/Ginnie Mae Commitments	$67,602	$73,911

Analysis of Financial Position

Composition of HUD Assets

HUD's FY 2005 Assets as reported in the Consolidated Balance Sheet are displayed in Chart 1.

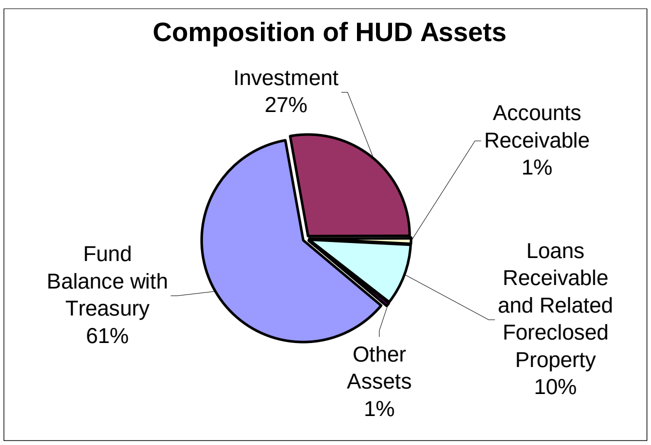


Chart 1

Total Assets of $110.6 billion are predominately comprised of Fund Balance with Treasury of $67.5 billion, or 61 percent, and Investment of $30.7 billion, or 27 percent.
Fund Balance with Treasury represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities.

Investments consist primarily of investments by FHA's Mutual Mortgage Insurance/Cooperative Management Housing Insurance Fund and by Ginnie Mae, in non-marketable market-based Treasury interest-bearing obligations (i.e., investments not sold in public markets).

Loans Receivable and Related Foreclosed Property of $10.8 billion, or 10 percent of Total Assets, are generated by HUD's support of construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program, and FHA credit program receivables.

Accounts Receivable of $646 million, or 1 percent of Total Assets, consists primarily of claims to cash from the public and state and local authorities for bond refunding, Section 8 year-end settlements, sustained audit findings, FHA insurance premiums and foreclosed property proceeds. A 100 percent allowance for loss is established for all delinquent debt 90 days and over.

The remaining assets of $689 million, or 1 percent of Total Assets, include Property, Plant, & Equipment and Other Assets.

Trends in Assets

Total Assets decreased $2.6 billion, or 2 percent, from $113.2 billion at September 30, 2004, to $110.6 billion at September 30, 2005. Table 1 presents HUD's total assets for FY 2005 and the four preceding years.

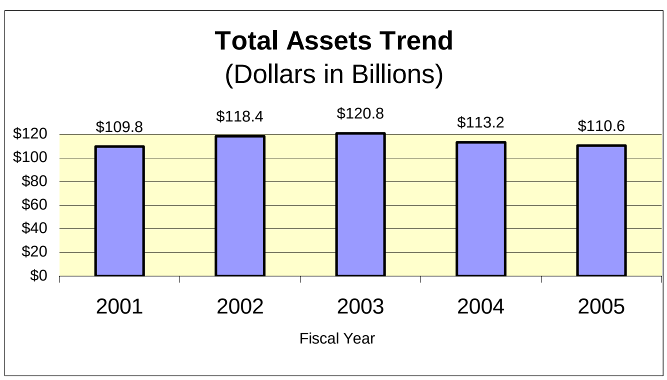


Table 1

The net decrease in Total Assets was due primarily to a decrease of $2.1 billion, or 3 percent, in Fund Balance with Treasury from $69.6 billion at September 30, 2004, to $67.5 billion at September 30, 2005.

A decrease in Fund Balance with Treasury was due to funding decreases in the following programs: Section 8 of $2.2 billion; Operating Subsidies of $1.1 billion; All Other of $0.6 billion; Housing for Elderly and Disabled of $0.3 billion; Community Development Block Program (CDBG) of $0.2 billion; and Public and Indian Housing (PIH) of $0.1 billion. The HUD programs that did experience funding increases were FHA of $1.8 billion; Ginnie Mae of

$0.4 billion; and HOME of $0.2 billion. The increase was primarily attributable to funding for increase in program expenditures that consumed both new appropriations and portions of pre-existing funding during FY 2005.

Chart 2 presents HUD's Total Assets for FY 2005 by responsibility segment.

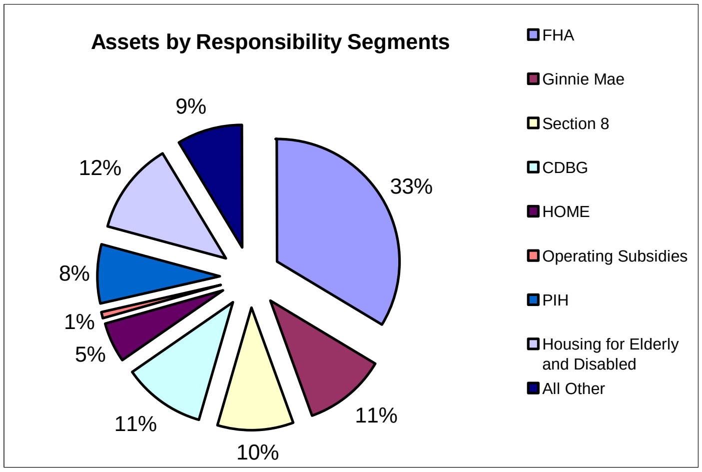


Chart 2

Composition of HUD Liabilities

HUD's FY 2005 Liabilities as reported in the Consolidated Balance Sheet are displayed in Chart 3.

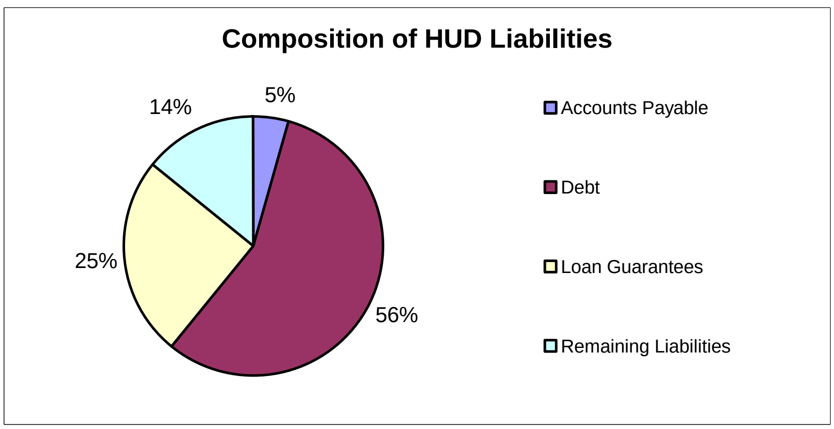


Chart 3

HUD's Total Liabilities of $18.6 billion consists of $10.5 billion, or 56 percent, in debt; $4.7 billion, or 25 percent, in loan guarantee liabilities; $2.6 billion, or 14 percent, in remaining liabilities; and $0.8 billion, or 5 percent, in accounts payable.

HUD's debt includes intra-governmental debt of $8.9 billion and debt held by the public of $1.6 billion. The intra-governmental debt consists of loans from the Treasury, Public Housing Authorities, Tribally Designated Housing Entities and the Federal Financing Bank. HUD's debt held by the public consists of new housing authority bonds and FHA debentures issued to the public at par value.

Accounts Payable consist primarily of pending grants payments and cash claims for single family properties and multifamily mortgage notes assigned.

The Loan Guarantee Liability consists of the Liability for Loan Guarantees related to Credit Reform loans made after October 1, 1991, and the Loan Loss Reserve related to guaranteed loans made before October 1, 1991. The Liability for Loan Guarantees and the Loan Loss Reserve are both comprised of the present value of anticipated cash outflows for defaults such as claim payments, premium refunds, property expense for on-hand properties, and sales expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from property sales, and principal interest on Secretary-held notes.

The remaining liabilities consist primarily of Insurance Liabilities, Federal Employee and Veteran Benefits, and Other Liabilities.

Trends in Liabilities

Total Liabilities decreased $1.9 billion, or 9 percent, from $20.5 billion at September 30, 2004, to $18.6 billion at September 30, 2005. Table 2 presents HUD's total liabilities for FY 2005 and the four preceding years.

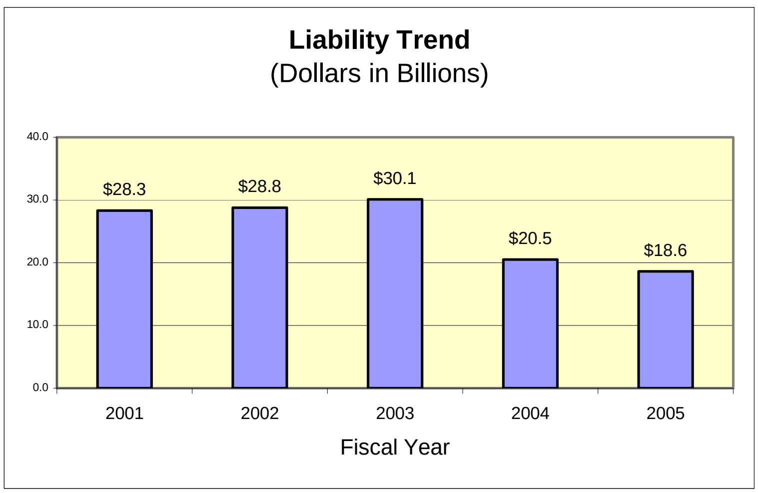


Table 2

The decrease in Total Liabilities was due primarily to a decrease of $1.5 billion in Debt; and $0.5 billion in Loan Guarantees. The programs that experience increase in Liabilities were Remaining Liabilities and Account Payable with a cumulative total of $0.1 billion.

The decrease in debt, whereby repayments exceed new borrowings, was primarily due to decreases in the following programs: Housing for Elderly and Disabled, $1.0 billion; PIH $0.4 billion; and FHA, $0.1 billion. The decrease in loan guarantees was primarily due to an overall decrease in loan guarantees for FHA programs.

Chart 4 presents HUD's total liabilities for FY 2005 by responsibility segment.

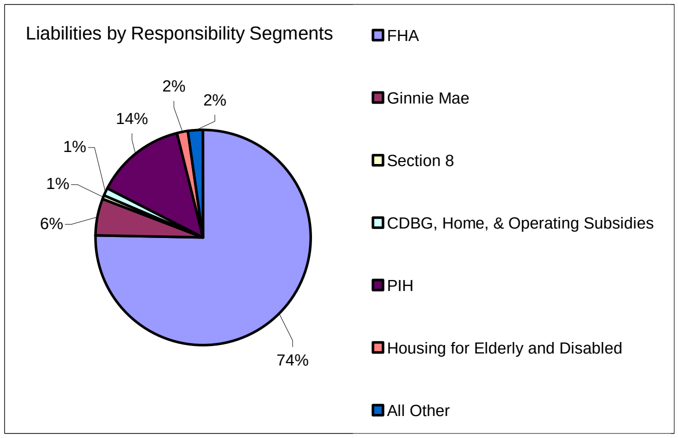


Chart 4

Net Position

HUD's Net Cost of Operations, Financing Sources, and Change in Unexpended Appropriations combine to determine the Net Position at the end of the year. HUD's FY 2005 Net Position of $91.9 billion represents a $700 million, or 1 percent, decrease over FY 2004. This decrease is attributable to a $4.3 billion decrease in Unexpended Appropriations, offset by a $3.6 billion increase in Cumulative Results of Operations (Financing Sources in excess of Net Cost of Operations).

Net Cost of Operations

HUD's Net Cost of Operations as reported in the Consolidating Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Consolidated Statement of Financing consists of total costs, including direct and indirect program costs, as well as general Department costs, offset by program exchange revenues (in exchange for HUD services provided). Table 3 presents HUD's Total Net Cost for FY 2005 by reporting segment.

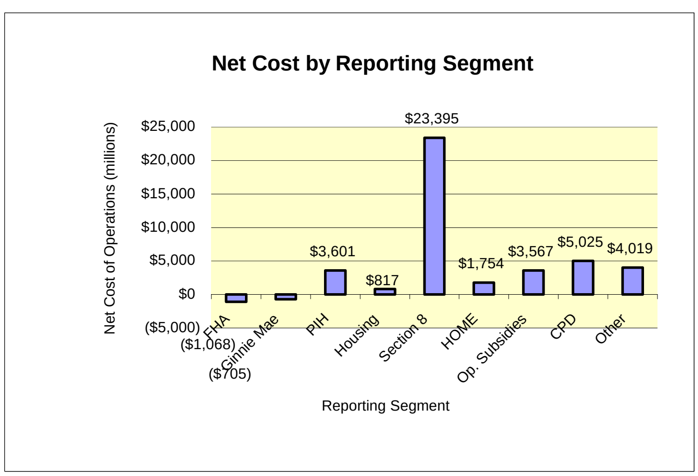


Table 3

HUD's Total Net Cost for FY 2005 was $40.4 billion. Of this amount, $23.4 billion, or 58 percent, was spent in support of the Section 8 program (administered jointly by the Housing, Community Planning and Development, and PIH programs). Total Net Costs include FHA net costs of $(1.1) billion, primarily attributable to FHA's downward re-estimate of the anticipated long-term costs of its insurance programs.

Financing Sources

As shown in HUD's Statement of Changes in Net Position, HUD's financing sources (other than exchange revenues contributing to Net Cost) for FY 2005 totaled $44.0 billion. This amount is comprised primarily of $44.6 billion in Appropriations Used, offset by approximately $688 million in net transfers out. The transfers out consist of FHA's General Insurance/ Special Risk Insurance subsidy for new endorsements, credit subsidy for downward re-estimates, and the sweep of the liquidating account's unobligated budgetary resources.

Net Results of Operations

The combined effect of HUD's Net Cost of Operations and Financing Sources resulted in an 18 percent decrease in Net Results of Operations of $3.6 billion during FY 2005. The fluctuation shown in Table 4 is due primarily to the annual re-estimation of long-term credit program costs, which can be impacted by both program performance and economic forecasts.

Table 4 presents HUD's Net Cost of Operations for FY 2005 and the four preceding years.

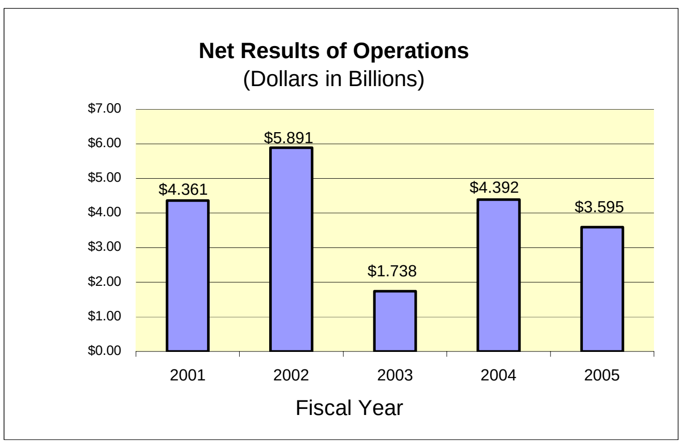


Table 4

Unexpended Appropriations

HUD's unexpended appropriations represent the accumulation of appropriated funds not yet disbursed. Unexpended Appropriations can change as the Fund Balance with Treasury changes. A significant portion of these unexpended funds is attributable to long-term commitments as discussed in the following section. For the current fiscal year, Unexpended Appropriations decreased 7 percent from $58.1 billion in FY 2004 to $53.9 billion in FY 2005.

Analysis of Off-Balance Sheet Risk

The financial risks of HUD's credit activities are due primarily to managing FHA's insurance of mortgage guarantees and Ginnie Mae's guarantees of mortgage-backed securities. Financial operations of these entities can be affected by large unanticipated losses from defaults by borrowers and issuers and by an inability to sell the underlying collateral for an amount sufficient to recover all costs incurred.

Contractual and Administrative Commitments

HUD's contractual commitments of $68.7 billion in FY 2005 represents HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. Administrative Commitments (reservations) of $2.6 billion relate to specific projects for which funds will be provided upon execution of the related contract.

Table 5 presents HUD's Contractual Commitments for FY 2005 and the four preceding years.

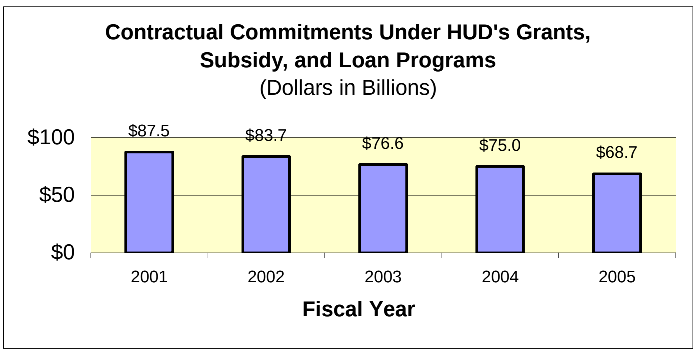


Table 5

These commitments are primarily funded by a combination of unexpended appropriations and permanent indefinite appropriations, depending on the inception date of the contract. HUD draws on permanent indefinite budget authority to fund the current year's portion of contracts entered into prior to FY 1988. Since FY 1988, HUD has been appropriated funds in advance for the entire contract term in the initial year, resulting in substantial increases and sustained balances in HUD's unexpended appropriations.

Total commitments (administrative and contractual) decreased $6.6 billion, or 9 percent, during FY 2005. The change is attributable to a decrease of $4.7 billion in Section 8 commitments (comprised of $4.6 billion in contractual and $0.1 billion in administrative commitments), a decrease of $1.1 billion in Operating Subsidies, and a decrease of $1.1 billion in CDBG, PIH, Section 202, and All Other, offset by a $0.3 billion increase in FHA and HOME.

Table 6 presents HUD's Section 8 Contractual Commitments for FY 2005 and the four preceding years.

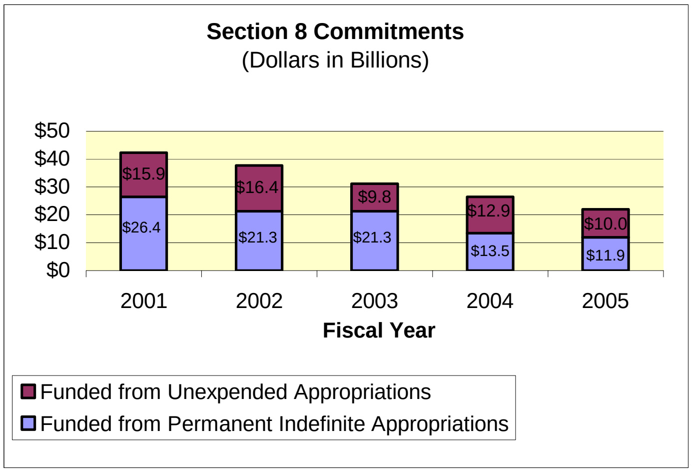


Table 6

To contain the costs of future Section 8 contract renewals, the Department began converting all expiring contracts to 1-year terms during FY 1996. By changing to 1-year contract terms, HUD effectively reduced the annual budget authority needed from Congress to fund the subsidies while still maintaining the same number of contracts outstanding.

FHA Insurance in Force

FHA's total insurance in force decreased $53 billion, or 11.3 percent, from $469 billion in FY 2004 to $416 billion in FY 2005. The decrease in FHA's insurance in force was primarily due to FHA borrowers refinancing their mortgages and converting them to conventional mortgages. The volume of such refinancing was high in FY 2005 due to the decline in interest rates and house price appreciations. Most of this decrease ($48 billion) was in the Mutual Mortgage Insurance fund, which comprises 80 percent of FHA's total insurance in force.

Table 7 presents FHA's Insurance in Force for FY 2005 and the four preceding years.

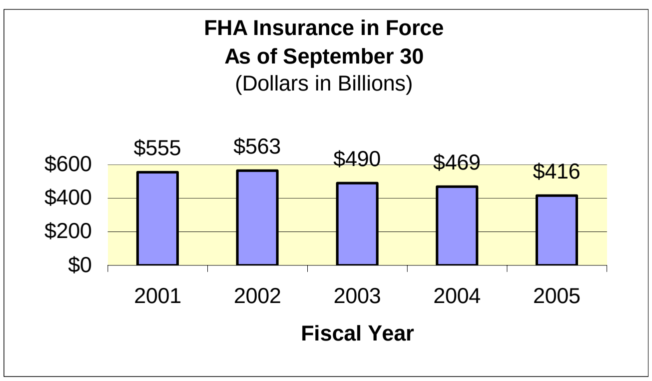


Table 7

Ginnie Mae Guarantees

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of mortgage-backed securities and commitments to guaranty. The securities are backed by pools of FHA-insured, Rural Housing Service-insured, and Veterans Affairs-guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments.

The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2005, and September 30, 2004, was approximately $412 billion and $453 billion, respectively. However, Ginnie Mae's potential loss is considerably less because the FHA and Rural Housing Service insurance and Veterans Affairs guaranty serve to indemnify Ginnie Mae for most losses. Also, as a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty mortgage-backed securities. The commitment ends when the mortgage-backed securities are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of mortgage-backed securities. Outstanding commitments as of September 30, 2005, and September 30, 2004, were $55 billion and $43 billion, respectively.

Table 8 presents Ginnie Mae mortgage-backed securities for FY 2005 and the four preceding years.

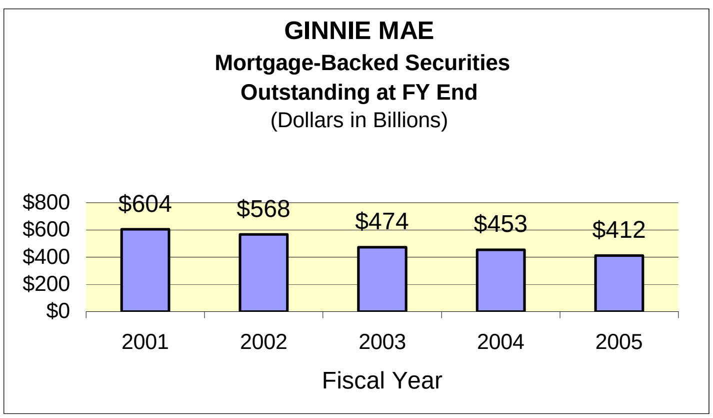


Table 8

Generally, Ginnie Mae's mortgage-backed securities pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers.

In FY 2005 and FY 2004, Ginnie Mae issued a total of $57 billion and $81 billion, respectively, in its multi-class securities program. The estimated outstanding balances at September 30, 2005, and September 30, 2004, were $186 billion and $189 billion, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the Mortgage-Backed Securities program.

Section 2. Performance Information

Overview: Strategic Framework and Performance Data Reliability

Reporting on Progress Toward Strategic Goals

The second section of HUD's FY 2005 Performance and Accountability Report gauges actual performance relating to the program indicators and targets published in the Department's FY 2005 Annual Performance Plan.[1] These performance indicators reflect short-term progress toward the Department's Strategic Goals and Objectives outlined in the Department's six-year Strategic Plan published in March 2003. Significant performance results have been highlighted in the Management Discussion and Analysis section of this report.

This year's Performance Section continues general improvement efforts of recent years. The data discussions contained in this section provide more detailed accounts of the quality, validity, and source of data for virtually all performance indicators. A summary report card preceding each strategic goal section indicates, in a transparent way, whether each target has been substantially met (i.e., at least 95 percent achieved).

Organization of Strategic Goals and Objectives

The strategic framework in place during HUD's FY 2005 performance period was the following six-goal structure established by the *HUD Strategic Plan FY 2003–FY 2008*.[2]

Budget Resources by Strategic Goal

Following the Strategic Framework is a breakout of HUD's FY 2005 and FY 2006 requested net discretionary budget resources and Full Time Equivalent positions by Strategic Goal.

[1] Appendix B of HUD's FY 2006 Annual Performance Plan identifies revisions to a limited number of performance indicators or targets.
[2] Available at www.hud.gov/offices/cfo/reports/03strategic.pdf

HUD'S STRATEGIC FRAMEWORK *

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

Programmatic Strategic Goals

Increase homeownership opportunities

- Expand national homeownership opportunities.
- Increase minority homeownership.
- Make the home-buying process less complicated and less expensive.
- Fight practices that permit predatory lending.
- Help HUD-assisted renters become homeowners.
- Keep existing homeowners from losing their homes.

Promote decent affordable housing

- Expand access to affordable rental housing.
- Improve the physical quality and management accountability of public and assisted housing.
- Increase housing opportunities for the elderly and persons with disabilities.
- Transition families from HUD-assisted housing to self sufficiency.

Strengthen communities

- Provide capital and resources to improve economic conditions in distressed communities.
- Help organizations access the resources they need to make their communities more livable.
- End chronic homelessness and move homeless families and individuals to permanent housing.
- Mitigate housing conditions that threaten health.

Cross-Cutting Strategic Goals

Ensure equal opportunity in housing

- Provide a fair and efficient administrative process to investigate and resolve complaints of discrimination.
- Improve public awareness of fair housing laws.
- Improve housing accessibility for persons with disabilities.

Embrace high standards of ethics, management and accountability

- Rebuild HUD's human capital and further diversify its workforce.
- Improve HUD's management, internal controls and systems, and resolve audit issues.
- Improve accountability, service delivery, and customer service of HUD and its partners.
- Ensure program compliance.
- Improve internal communications and employee involvement.

Promote participation of faith-based and community organizations

- Reduce barriers to participation by faith-based and community organizations.
- Conduct outreach and provide technical assistance to faith-based and community organizations to strengthen their capacity to attract partners and secure resources.
- Encourage partnerships between faith-based and community organizations and HUD's traditional grantees.

* This chart reflects slight changes to four strategic objectives under goals A, EM, and FC that are being adopted for the FY 2005 Annual Performance Plan and are discussed in Appendix B of the FY 2006 Annual Performance Plan.

Discussion of Performance Indicators

The discussion section for each indicator contains a background explanation of the program being assessed, the measure used to gauge performance, the time period being reported, and results, when measurable.

As results are presented, a clear statement has been included indicating whether the performance goal has been met, exceeded, or substantially met (i.e., 95 percent of goal was achieved), or missed. The accompanying analysis explains the results and outcomes, including discussion of external factors as appropriate and feasible. The Department has made a focused effort to make these discussions understandable to the reader. In instances in which HUD failed to achieve a performance goal, a strategy for improvement is presented.

Reliability of Performance Data

HUD has made substantial advances in improving the completeness, accuracy, and reliability of performance data. As a result, the reader can generally rely on the data reported here to assess the Department's achievements. An important part of data reliability is the extent to which limitations are disclosed. In several cases HUD has made and is continuing to make notable improvements to strengthen and improve reliability of data elements. This does not mean that the data are unreliable, but generally means that the data are being made more reliable.

HUD has made substantial efforts to reveal limitations of completeness and accuracy in this report. Each performance indicator includes a data discussion, where it is relevant. Additional information about data limitations, validation, and verification is presented in HUD's Annual Performance Plan -- in many cases with greater detail each year. Nevertheless, lack of timely data and, in some cases, inadequate availability of fully accurate data, prevent entire reporting of HUD's achievements for every program.

HUD can assess outcomes of a number of programs only in limited ways because of statutory provisions, potential reporting burdens, and privacy concerns. The Community Development Block Grant program is a prime example. CDBG allows grantees discretion to conduct a broad variety of activities, and there is a necessary balance between assessing their impacts on final customers and creating reporting burdens for our partners. In such cases, the Department is consulting with partners and conducting research on ways to use available data more effectively, including data from external sources such as the U.S. Census Bureau. In point of fact, a focused effort is being conducted to develop superior performance measurement of the CDBG program over the next several years. There are other key areas where improved measurement efforts are underway or being researched. In other cases, performance measures that use survey sampling techniques are being developed. Some of these survey results are reported this year, and others are forthcoming.

External data also come with availability problems, because the cost of data collection prevents survey-based data from being produced on an annual basis for selected areas or small populations, such as individual neighborhoods, that are of interest to HUD. Timeliness is also a weakness of external data sources. This Performance and Accountability Report and the FY 2005 and 2006 Annual Performance Plans reflect the Department's continuing attempts to help the reader assess data reliability with greater confidence, including efforts to report statistical confidence intervals for measures that rely on sampling. This Performance and

Accountability Report has been produced on an accelerated basis and that also has presented new challenges in obtaining timely and accurate data.

Use of Evaluations to Improve Strategies

Performance indicators face inherent limitations because they often cannot address the issue of attribution. That is, performance measures can show results but may not be well suited for showing that the program, rather than external factors, caused the results. In areas where externalities are significant, the most that can be done with performance measures is to plausibly attribute the outcome to the program by demonstrating a logical connection between the efforts and the results of HUD's activities.

To address the attribution problem, the Department also relies on program evaluations and is expanding efforts in this area. Evaluations are studies that assess program impacts, sometimes by using control groups, random assignment, econometric modeling, and other methodologies to exclude the effects of external forces. Evaluations also support a longer-term assessment of program performance that annual performance measures cannot capture.

HUD uses evaluation results to improve the Department's strategies, programs, and policies. For example, a major experimental evaluation conducted in the 1970s was used to develop the Section 8 tenant-based program, a major innovation relative to previous "bricks and mortar" approaches to affordable housing. As a result, the Housing Choice Voucher program now relies on the private market to house more families than public housing does.

In a similar way, current program evaluations are used both to attribute results and to improve program strategies and operations. The ongoing "quality control" studies of rent determination errors in HUD's housing programs led the Department to undertake the Rental Housing Integrity Improvement Project, which has dramatically reduced the level of improper payments in HUD's rental assistance programs.

The Performance and Accountability Report also continues to include an Appendix that systematically summarizes FY 2005 research efforts and findings.

Summary of Resources By Strategic Goal

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.

	2005 Estimate	2006 Request
Strategic Goal H: Increase Homeownership Opportunities		
Discretionary BA	2,542,592	2,525,586
FTE	1,035	1,018
S&E Cost	105,434	106,342
Strategic Goal A: Promote Decent Affordable Housing		
Discretionary BA	25,749,684	25,790,531
FTE	3,176	3,162
S&E Cost	326,856	334,410
Strategic Goal C: Strengthen Communities		
Discretionary BA	5,486,392	2,017,137
FTE	782	772
S&E Cost	82,396	86,046
Strategic Goal FH: Ensure Equal Opportunity in Housing		
Discretionary BA	170,085	163,497
FTE	610	614
S&E Cost	62,184	64,624
Strategic Goal EM: Embrace High Standards of Ethics, Management, and Accountability		
Discretionary BA	2,097,017	2,193,198
FTE	3,131	3,251
S&E Cost	526,603	553,488
Strategic Goal FC: Promote Participation of Faith-Based and Community Organizations		
Discretionary BA	129,595	117,318
FTE	66	64
S&E Cost	7,567	7,609
Total Resources		
Total BA	**36,175,365**	**32,807,267**
FTE	**8,800**	**8,881**
S&E Cost	**1,111,040**	**1,152,519**

Goal H: Increase Homeownership Opportunities

Strategic Objectives:

H.1 Expand national homeownership opportunities.

H.2 Increase minority homeownership.

H.3 Make the homebuying process less complicated and less expensive.

H.4 Fight practices that permit predatory lending.

H.5 Help HUD-assisted renters become homeowners.

H.6 Keep existing homeowners from losing their homes.

PERFORMANCE REPORT CARD – GOAL H

	Performance Indicators	2002	2003	2004	2005	2005 Target	Met	Notes
H.1.1	Improve National homeownership opportunities.	68.0%	68.4%	69.0%	68.8%	N/A	N/A	c,d
H.1.2	The share of all homebuyers who are first-time homebuyers.	N/A	39.1%	N/A	N/A	N/A	N/A	c,e
H.1.3	The number of FHA single family mortgage insurance endorsements nationwide.	1,288	1,338	997	556	N/A	N/A	c,j
H.1.4	The share of first-time homebuyers among FHA-insured home-purchase mortgages.	78.0%	77.1%	72.8%	79.0%	N/A	N/A	c
H.1.5	The homeownership Downpayment Assistance Initiative will be fully implemented and assist 8,000 new homebuyers.	N/A	N/A	2,263	8,894	8,000	Yes	
H.1.6	GNMA securitizes at least 85 percent of single family FHA and VA loans.	87.5%	92.4%	87.3%	92.7%	85%	Yes	
H.1.7	At least 30 percent of clients receiving pre-purchase counseling will purchase a home or become mortgage-ready within 90 days.	N/A	N/A	N/A	42.2%	30%	Yes	i
H.1.8	Assist 34,806 homebuyers with HOME and American Dream Downpayment assistance.	23,241	25,867	30,780	32,307	34,806	No	
H.1.9	The number of homeowners who have used sweat equity to earn assistance with Self-help Homeownership Opportunity Program funding reaches 2,140.	2,063	2,157	1,735	2,277	2,140	Yes	f
H.1.10	The FHA Mutual Mortgage Insurance Fund meets Congressionally mandated capital reserve targets.	4.52%	5.21%	5.53%	6.02%	2.0%	Yes	
H.1.11	The share of FHA-insurable Real Estate Owned properties that are sold to owner-occupants will be 90.0 percent.	98.4%	98.3%	98.4%	85.1%	90.0%	No	

PERFORMANCE REPORT CARD – GOAL H

	Performance Indicators	2002	2003	2004	2005	2005 Target	Met	Notes
H.1.12	HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for low- and moderate-income mortgage purchases.	51.5% 53.2%	51.8% 50.5%	52.3% 51.2%	53.4% 52.5%	50.0% 50.0%	Yes Yes	f f
H.2.1	The minority homeownership rate.	48.9%	49.3%	50.9%	51.2%	N/A	N/A	c,d
H.2.2	The ratio of homeownership rates of minority and non-minority low and moderate-income families with children increases by 0.4 percentage points by 2005.	N/A	73.9%	N/A	N/A	74.3%	N/A	a
H.2.3	The share of first-time minority homebuyers among FHA home purchase-endorsements. Revised reporting methods	36.0% 39.2%	35.0% 37.6%	32.3% 37.2%	N/A 34.4%	N/A	N/A	c
H.2.4	HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for special affordable mortgage purchases.	21.6% 22.6%	21.4% 20.4%	21.2% 21.4%	23.6% 23.0%	20.0% 20.0%	Yes Yes	f f
H.2.5	Minority clients are at least 50 percent of total clients receiving housing counseling in FY 2005.	N/A	N/A	N/A	49.6%	50%	Yes	i
H.2.6	The HOME program, including the American Dream Downpayment Initiative, assists 19,139 minority households to become homeowners.	N/A	N/A	10,934	17,344	19,139	No	
H.2.7	Section 184 mortgage financing of $150 million is guaranteed for Native American homeowners during FY 2005.	$16.7	$27.2	$62.3	$77.0	$150.0	No	
H.2.8	The homeownership rate among households with incomes less than median family income.	51.9%	52.1%	52.7%	52.8%	N/A	N/A	c,d
H.2.9	The homeownership rate in central cities.	52.1%	52.3%	53.2%	54.0%	N/A	N/A	c,d
H.2.10	The mortgage disapproval rates of minority applicants.	15.7%	13.7%	15.4%	N/A	N/A	N/A	a,c,f
H.2.11	Section 184A mortgage financing will guarantee loans creating 50 housing units for Native Hawaiian homebuyers.	N/A	N/A	N/A	10	50	No	
H.3.1	Respond to 1,000 inquiries and complaints from consumers and industry regarding the Real Estate Settlement Procedures Act and the home buying and mortgage loan process.	901	1,000	1,244	1,245	1,000	Yes	
H.4.1	The number of loans originated by FHA-approved lenders that have been reviewed and determined to have findings.	20,722 11,424	21,115 11,983	21,520 9,972	17,912 8,305	N/A N/A	N/A N/A	c c
H.5.1	Increase the cumulative homeownership closings under the Housing Choice Voucher program to 4,000 at the end of FY 2005.	531	1,500	2,052	5,121	4,000	Yes	
H.5.2	By FY 2006, public housing agencies with Resident Opportunity and Self Sufficiency (ROSS) grants increase by 10 percent the number of public housing residents who receive homeownership supportive services.	N/A	N/A	N/A	N/A	N/A	Yes	h
H.6.1	Loss mitigation claims are 45 percent of total claims on FHA-insured single family mortgages.	49.7%	50.0%	54.2%	59.1%	45.0%	Yes	

PERFORMANCE REPORT CARD – GOAL H

	Performance Indicators	2002	2003	2004	2005	2005 Target	Met	Notes
H.6.2	More than 50 percent of total mortgagors seeking help with resolving or preventing mortgage delinquency avoid foreclosure.	91.9%	47.1%	60%	60%	50.0%	Yes	i

Notes:

a Data not available.
b No performance goal for this fiscal year.
c Tracking indicator.
d Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).
e Calendar year beginning during the fiscal year shown.
f Calendar year ending during the fiscal year shown.
g Result too complex to summarize. See indicator.
h Baseline newly established.
i Result is estimated.
j Number is in thousands.
k Number reported in millions.
l Number reported in billions.

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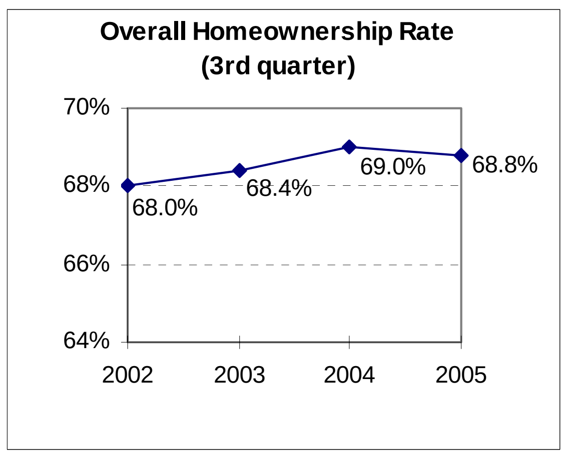
Objective H.1: Expand national homeownership opportunities.

H.1.1: Improve National homeownership opportunities.

Background. The overall homeownership rate represents the share of the nation's households that have achieved the "American dream" of homeownership. Providing expanded opportunities for homeownership to all Americans, with an emphasis on minority families and other disadvantaged groups, is a Presidential priority. Homeownership is widely believed to encourage commitment to communities and good citizenship. A significant number of HUD's programs support increases in the homeownership rate. However, a FY 2005 performance target was not established for this tracking indicator because of the substantial limits in HUD's span of control relative to economic factors.

Results and analysis. During the third quarter of calendar year 2005, the national homeownership rate was 68.8 percent, down 0.2 percentage point from the level of the third quarter a year earlier. No goal has been established for this tracking indicator. Despite the slight decrease in the proportion of households who are homeowners, the nation gained an estimated 816,000 new homeowners during FY 2005. This increase suggests that the decline was because the increase in the number of households was greater proportionately than the increase in the number of homebuyers. When total households remain constant, each 0.1 percentage point increase in the national homeownership rate represents about 100,000 new homeowners.

Despite the reduction in the overall homeownership rate, progress continued among the households that HUD's programs target, including minorities, those with low and moderate incomes, and central city residents. FHA played an important role, insuring loans for over 280,000 first time homebuyers during FY 2005. Communities have also made aggressive use of funds from CDBG, the HOME Investment Partnerships program, and Self-Help Homeownership Opportunities Program grants to promote homeownership. Low mortgage interest rates also continued to support first time homebuying during FY 2005. A countervailing factor that became more evident during the year was an increase in mortgage defaults. Defaults triggered by Hurricane Katrina may not be fully captured by fiscal year end data, and may affect FY 2006 results. FHA has urged leniency and use of loss mitigation techniques by mortgage lenders to ensure that hurricane impacts are minimized.



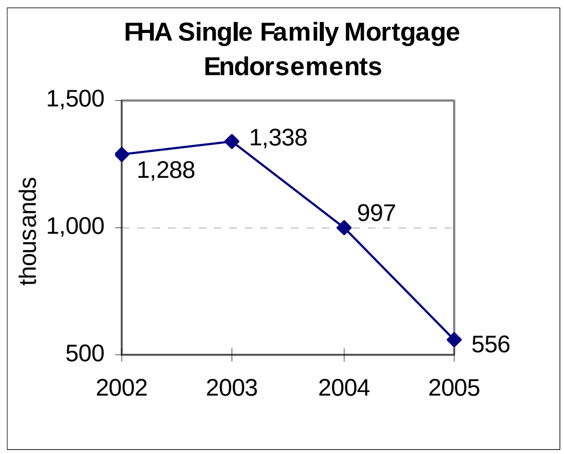
Data discussion. The measure is based on averages of monthly Current Population Survey data for the third quarter (the last quarter of the fiscal year). The Current Population Survey data are free of limitations affecting the measure's reliability. Changes in estimated rates that exceed 0.25 percentage point are statistically significant with 90 percent confidence.

H.1.2: The share of all homebuyers who are first time homebuyers.

Background. Increasing the proportion of homebuyers who are purchasing a home for the first time is a key to higher homeownership rates. This is a tracking indicator with no numeric target for FY 2005, reflecting the dominant impact of the macro-economy compared with HUD's limited span of control over the outcome. The indicator uses data from the biennial American Housing Survey. The most recent available data indicate that 39.1 percent of the homebuyers were first time homebuyers during 2003. Calendar year data will become available to update this indicator during FY 2006.

H.1.3: The number of FHA single family mortgage insurance endorsements nationwide.

Background. This is a tracking indicator. FHA insures mortgages issued by private lenders, increasing access to mortgage capital so homeownership opportunities increase. This indicator tracks FHA's contribution to the homeownership rate through the annual volume of FHA-insured single family mortgage loans. While the number of FHA single family mortgage endorsements is a key measure of HUD's contribution to homeownership, the actual rate achieved during FY 2005 was dramatically affected by market forces outside of HUD's control, especially interest rates. Balancing the importance of reporting this key measure of HUD activity with an appreciation of the substantial role of the market in the final result, the Department decided to track the number of endorsements, but not establish a numeric goal for FY 2005.



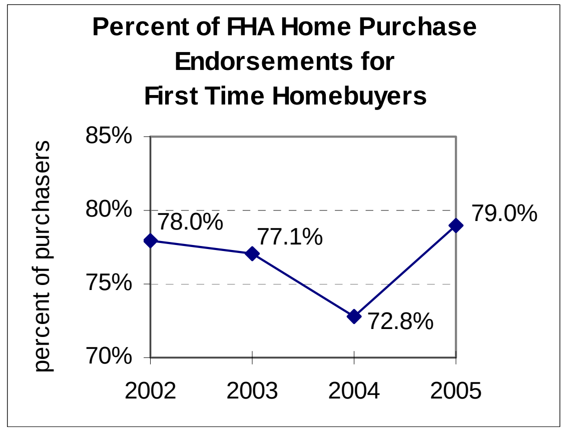
Results and analysis. During FY 2005, FHA endorsed 555,717 single family mortgages for insurance. Although no goal had been established for FY 2005, this result represents a decrease from the volume of endorsement activity that took place during FY 2004 (997,344). The decrease in single family endorsement volume from FY 2004 to FY 2005 was largely attributable to a much lower number of mortgage refinancings (158,528), which constituted a larger share of FHA business during FY 2004 (374,418). Recent interest rate increases and strong competition from sub-prime and conventional mortgage products may have contributed to reduce the number of traditional consumers who would have otherwise relied on FHA to meet their home financing needs. FHA is in the process of examining impediments to the use of its products by the mortgage industry and is considering the statutory barriers affecting the flexibility of its products to respond to changes in the marketplace.

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

H.1.4: The share of first-time homebuyers among FHA-insured home-purchase mortgages.

Background. FHA is a major source of mortgage financing for first time buyers as well as for minority and lower income buyers. HUD will help increase the overall homeownership rate, as well as reduce the homeownership gap between whites and minorities, by increasing FHA endorsements for first time homebuyers. This indicator tracks the share of first time homebuyers among FHA endorsements for home purchases – thus excluding loans made for home improvements. A FY 2005 performance target was not established for this performance measure because results are strongly influenced by macroeconomic and other factors beyond FHA's control. Such factors include interest rate changes and choices made by lenders concerning the type of mortgage transactions on which they focus their business.

Results and analysis. During FY 2005, 79.0 percent of home purchase endorsements were made to first time homebuyers. This result is substantially higher than last year, reflecting a return to levels not seen since FY 2001. Although the total volume of FHA's single family business, including the overall number of home purchase transactions, declined considerably from FY 2004 levels, the home purchase business that was conducted was more concentrated on first time mortgagors in FY 2005. FHA will continue its efforts to reach potential first time homebuyers through participation in conferences, seminars and other outreach events, and by working with other organizations in HUD to support the use of Community Development Block Grant and HOME block grant funding for homeownership activities.



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

H.1.5: The homeownership Downpayment Assistance Initiative will be fully implemented and assist 8,000 new homebuyers.

Background. This indicator tracks the number of first time homebuyers who have been assisted with American Dream Downpayment Initiative funds during FY 2005. The output tracked by this indicator shows the contribution of the initiative toward increasing the national homeownership rate and the number of minority homeowners, two key Presidential and Secretarial priorities.

Congress passed the American Dream Downpayment Act and the President signed it into law on December 16, 2003. The Initiative is part of the HOME Investment Partnerships Program. Funds are allocated according to the formula specified in the Act. The first allocations to eligible HOME Program participating jurisdictions were made in the fourth quarter of FY 2004. There were 427 HOME participating jurisdictions eligible to receive American Dream Downpayment Initiative funds in FY 2004, out of a total of 630 HOME participating jurisdictions. A 40 percent reduction in funding for the initiative in FY 2005 lowered the number of participating jurisdictions receiving an allocation to 367.

In mid-year the target was revised downward from 10,000 units to reflect a lower than expected FY 2005 appropriation, a higher average cost per unit outlay, and to more closely track actual program results.

Results and analysis. This was the first full year of results for the American Dream Downpayment Initiative. During FY 2005, 8,894 households became first time homebuyers through the American Dream Downpayment Initiative. The number of households assisted exceeds the FY 2005 target of 8,000 by 894, or 11 percent. Forty-eight percent of these households were minority. The average amount of downpayment assistance provided was $7,473 per household. During FY 2004, the first partial year of funding under the Initiative, HOME participating jurisdictions assisted 2,263 households in the purchase of their first homes, thus exceeding the 2004 goal of 1,000. Forty-nine percent of these households were minority. Achievement of the goal was aided by an intensive informational campaign that included the development of a special website dedicated to the Initiative, meetings convened across the country, and the wide distribution of printed materials and brochures. While the FY 2005 target was achieved, results were affected by the significant reduction in FY 2005 funding which led to fewer participating jurisdictions receiving an allocation.

Data discussion. American Dream Downpayment Initiative accomplishments are tracked through the Integrated Disbursement and Information System in the same way that HOME Program accomplishments are currently recorded. Completion data was submitted with a lag because time was needed for grantees to establish local programs and for recipients to close on new homes. CPD field staff monitor grantees to verify reported results and program compliance.

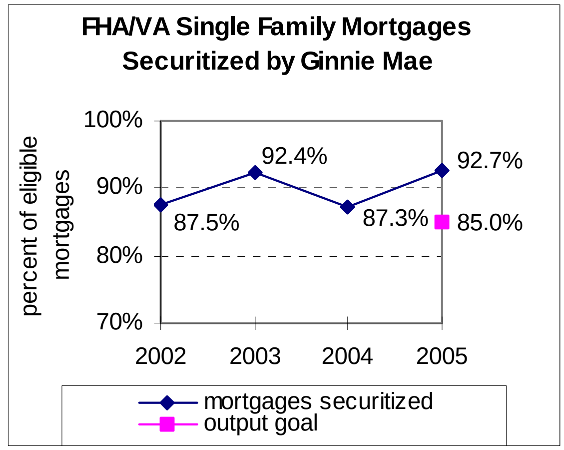
H.1.6: Ginnie Mae securitizes at least 85 percent of single family FHA and VA loans.

Background. The Government National Mortgage Association (Ginnie Mae) is a wholly owned instrumentality of the United States government located within HUD. Section 306(g) of the National Housing Act authorizes Ginnie Mae to facilitate the financing of residential mortgage loans insured or guaranteed by FHA, the Department of Veterans Affairs, and the Rural Housing Service. Ginnie Mae’s principal products are mortgage-backed securities.

Ginnie Mae’s Mortgage-Backed Securities program has been a significant contributor to the growth of the mortgage-backed securities market in the United States as well as to the expansion of homeownership opportunities for American families. This participation by Ginnie Mae in the capital markets of our nation has helped to provide an efficient link between Wall Street and homebuyers. By making Ginnie Mae securities attractive to investors, Ginnie Mae ensures that a continuous flow of capital is available throughout the country. Ginnie Mae has been instrumental in nearly eliminating regional differences in the availability of mortgage credit for American families. Under the terms of its Mortgage-Backed Securities program, Ginnie Mae guarantees the timely payment of principal and interest on pools of mortgage loans. Ginnie Mae’s obligations are backed by the full faith and credit of the United States.

When Ginnie Mae was established in 1968, it was given primary responsibility for facilitating an efficient secondary mortgage market for FHA, Veterans Affairs, and Rural Housing Service insured mortgages, all of which serve low- and moderate-income homebuyers. Ginnie Mae provides financial incentives for lenders to increase loan volumes in traditionally underserved areas through its Targeted Lending Initiative. The program was established in October 1996 to help raise homeownership levels in central city areas and was later expanded to include Rural Empowerment Zones, Rural Enterprise Communities, and Indian lands.

Results and analysis. In FY 2005, most of the mortgages Ginnie Mae securitized were from the FHA and Veterans Affairs programs (67.6 percent and 29.4 percent of dollars, respectively). Ginnie Mae's FY 2005 goal was to securitize at least 85 percent of FHA and Veterans Affairs single family insured or guaranteed loans. Actual figures for FY 2005 indicate that 92.7 percent of all FHA and Veterans Affairs loans were placed into Ginnie Mae securities, a significant accomplishment in light of existing competition in the low- to moderate-income housing market. Ginnie Mae was able to exceed its goal by offering financial instruments with a structure that provides the best execution from a pricing standpoint. Also important were Ginnie Mae's continued success in reducing issuers' back-end processing cost and continued improvement in security disclosures. The amount of outstanding single family securities at the end of FY 2005 is $376.5 billion, compared to $420.4 billion at the end of the previous fiscal year. This decline was primarily because repayments exceeded new issuances.



Data discussion. The data source used was Ginnie Mae's database of FHA and Veterans Affairs loans. The Office of Inspector General audits Ginnie Mae's data systems each year and Ginnie Mae obtains a clean opinion.

H.1.7: At least 30 percent of clients receiving pre-purchase counseling will purchase a home or become mortgage-ready within 90 days.

Background. The Department continues to emphasize the critical role of counseling in the home buying process. Clients tracked through this indicator include those receiving housing counseling for pre-purchase reasons, including clients who are preparing to purchase a home or working to become mortgage-ready. The indicator was revised in the FY 2006 Annual Performance Plan to focus on these outcomes. The revised FY 2005 performance goal is to ensure that at least 30 percent of clients receiving pre-purchase counseling will purchase a home or become mortgage-ready within 90 days.

Results and analysis. Although actual results are not yet available, HUD expects 42.2 percent of clients receiving pre-purchase counseling from HUD-approved agencies to purchase a home or become mortgage-ready within 90 days. This projection represents the actual results for FY 2004 and exceeds the FY 2005 goal of 30 percent. The final housing counseling activity data needed to report this measure will become available early in FY 2006. HUD-approved housing counseling agencies are given 90 days after the end of a fiscal year to report the results of counseling activity for that fiscal year and to submit requests to HUD for reimbursement for counseling services provided.

Data discussion. HUD collects data on clients receiving pre-purchase counseling through Housing Counseling Agency Fiscal Year Activity Reports. These data include the total number of clients, the type of counseling they received, and the results of the counseling. A major limitation of the data collection instrument is that it does not differentiate the level of counseling given to each client. The quality and level of counseling can vary significantly. To improve the quality of housing counseling information that is used by HUD, the Department is in the process of implementing a new automated data collection instrument that will enable it to collect client-level data beginning in FY 2007.

H.1.8: Assist 34,806 homebuyers with HOME and American Dream Downpayment assistance.

Background. This indicator tracks the number of homebuyers assisted by the HOME Investment Partnership program and its American Dream Downpayment Initiative in FY 2005. The output tracked by this indicator shows the potential contribution to be made by the HOME Investment Partnerships program and the American Dream Downpayment Initiative toward increasing the national homeownership rate and the number of minority homeowners, two key Presidential and Secretarial priorities. The HOME Investment Partnerships program gives states and local communities flexibility to meet their housing needs in a variety of ways. Many participating jurisdictions choose to use their funds to promote homeownership, both by helping low-income families to purchase homes and by rehabilitating existing owner-occupied units, reducing the possibility that these homeowners could lose their homes.

This indicator was revised mid-year to revise the target downward from 43,690 homebuyers, consisting of 33,690 for the HOME Investment Partnerships program and 10,000 for the American Dream Downpayment Initiative to reflect a change in the measure; the number of unit "completions" was substituted for the number of "commitments" because it is a more accurate and reliable measure of performance. Based on prior year results, the estimated number of households to be assisted with HOME Investment Partnerships program funds during FY 2005 was 26,806. In addition, the American Dream Downpayment Initiative figure was 8,000 households.

Results and analysis. During FY 2005, participating jurisdictions completed 32,307 new homebuyer units, including 8,894 through the American Dream Downpayment Initiative (*see* Indicator H.1.5). The number of completions represents 93 percent of the FY 2005 target of 34,806 units. However, these results represent an increase in completions of 1,527 units, or 5 percent, compared with FY 2004. The per-unit HOME cost of providing a homebuyer unit ($10,591) decreased by $630 compared with FY 2004.

Also during FY 2005, participating jurisdictions used HOME Investment Partnerships funds to complete 14,832 existing homeowner rehabilitation units. This exceeds the FY 2005 goal of 9,505 units by 5,327, or 56 percent. It also represents an increase in completions compared to FY 2004 of 47 percent (4,720 units).

The accomplishment of this output indicator is affected by several external factors: the level of annual HOME Investment Partnerships program and American Dream Downpayment Initiative appropriations, the number of new and inexperienced participating jurisdictions entering the program, the choices that participating jurisdictions make among their competing housing needs, fiscal conditions affecting state and local government program staffing levels, and general economic conditions affecting the cost and availability of housing and the income levels of potential homebuyers.

Homeowners Assisted

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2005 Goal
HOME	23,241	25,867	28,517	23,413	26,806
Downpayment Initiative	--	--	2,263	8,894	8,000

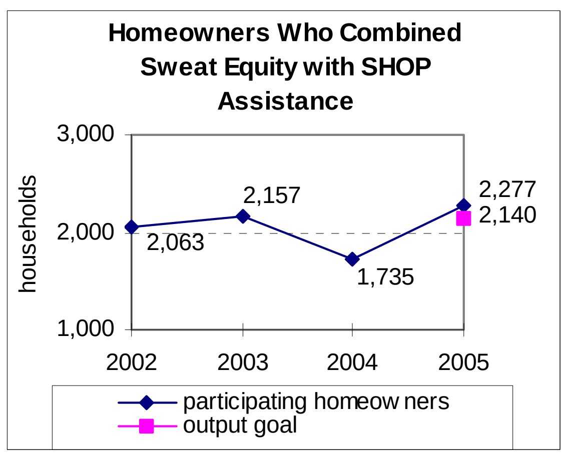
Data discussion. Data entered by participating jurisdictions in HUD's Integrated Disbursement and Information System are used to track performance. The HOME Investment Partnerships program office completed improvements to the system in FY 2004 that have purged inaccurate data and reduced the need for ongoing data cleanup efforts. Screen designs and terminology were simplified. More checks (edits) were added to reduce potential entry errors. The report functions were improved and a search feature added so that users can now easily find information on activities by grantee and by date range. During FY 2005, additional modernization of the Integrated Disbursement and Information System, including incorporating additional performance measurement standards, was proceeding with an initial release planned for the spring of 2006.

H.1.9: The number of homeowners who have used sweat equity to earn assistance with SHOP funding reaches 2,140.

Background. This indicator tracks the number of housing units completed during the period July 1, 2004, to June 30, 2005, by national and regional nonprofit organizations and consortia receiving Self-help Homeownership Opportunity Program funds. Due to issues of data availability, this indicator tracks accomplishments for an adjusted one year period. The output tracked by this indicator also contributes toward increasing the national homeownership rate and the number of minority homeowners, two key Presidential and Secretarial priorities. The program assists households who would not otherwise be able to afford their own homes.

Program Website: www.hud.gov/offices/cpd/affordablehousing/programs/shop/index.cfm

Results and analysis. During the one-year period ending June 30, 2005, Self-help Homeownership Opportunity Program grantees completed 2,277 housing units, exceeding the program goal of 2,140 units by 137, or 6 percent. This represents a 31 percent increase compared with the 1,735 units produced in FY 2004. Another 3,038 Self-Help Homeownership Opportunity Program units were under development at the close of the period. Self-Help Homeownership Opportunity Program grantees in FY 2005 were Habitat for Humanity, the Housing Assistance Council, Northwest Regional Facilitators, ACORN Housing Corporation, Wisconsin Association of Self-Help Executive Directors, and PPEP Microbusiness and Housing Development Corp.



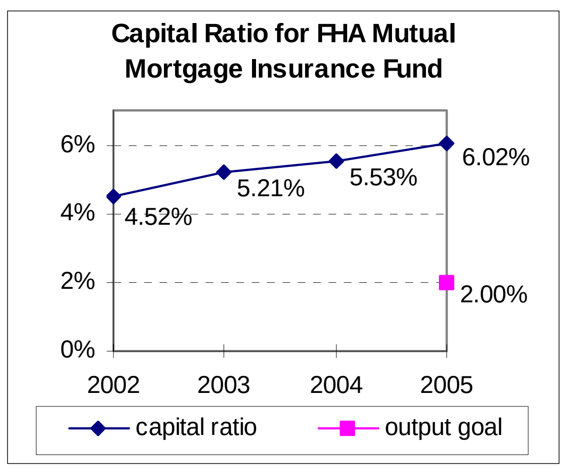
The achievement of this output indicator is directly affected by several external factors: the cost and availability of land, the level of Self-Help Homeownership Opportunity Program appropriations, the "pass-through" nature of program funds to local affiliates, the level of sophistication of local organizations in developing and managing self-help housing, and the varying skill levels of the homebuyers and volunteers who work on the construction of the homes. During FY 2005, HUD continued to provide technical assistance upon request to grantees to improve the efficiency and capacity of the program.

Data discussion. Reports compiled by Self-Help Homeownership Opportunity Program grantees are used to track performance under this indicator. HUD headquarters staff monitors grantees to ensure that reported accomplishments are accurate.

H.1.10: The FHA Mutual Mortgage Insurance Fund meets Congressionally mandated capital reserve targets.

Background. FHA's Mutual Mortgage Insurance Fund pays all expenses, including insurance claims, incurred under FHA's basic single family mortgage insurance program. The insurance program and fund are expected to be entirely self-financing from up-front and annual insurance premiums paid by borrowers obtaining FHA mortgage loans as well as from earnings on fund assets. Because the Department is expected to operate the program in an actuarially sound way, the fund is subject to an annual actuarial review. The review assesses the fund's current economic value, its capital ratio, and its ability to provide homeownership opportunities while remaining self-sustaining based on current and expected future cash flows.

The capital ratio is an important indicator of the fund's financial soundness and of its continuing ability to make homeownership affordable to renters even when economic downturns increase insurance claims. The economic value is defined as the sum of FHA's capital resources plus the net present value of expected future cash flows (resulting from premium collections, asset earnings, and insurance claim losses). The capital ratio is the current economic value divided by the unamortized insurance-in-force. This measure is based on the capital ratio determined by the independent actuarial review discussed above.



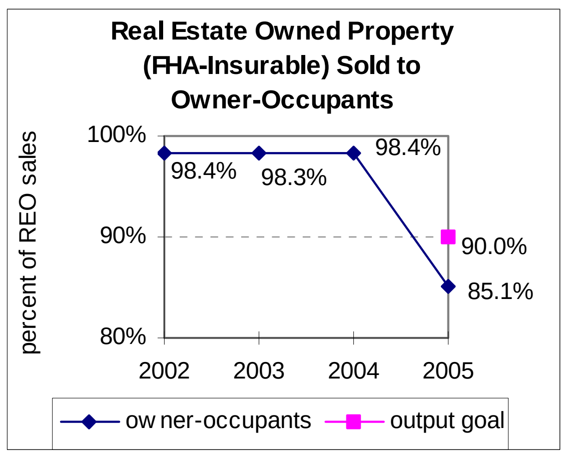
Results and analysis. The fund's capital ratio was 6.02 percent for FY 2005. The ratio exceeded the FY 2004 result of 5.53 percent by 0.49 percentage points. The congressionally mandated goal of 2 percent was surpassed, as it has been since FY 1995. For FY 2005, the economic value of the fund fell slightly (down 1.6 percent), but the capital ratio continued to rise as the insurance-in-force fell more (down 9.7 percent from FY 2004) as low interest rates enabled many FHA borrowers to refinance their loans in the conventional market.

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

H.1.11: The share of FHA-insurable REO properties that are sold to owner-occupants is 90 percent.

Background. Real estate owned properties are homes acquired by HUD as a result of mortgage foreclosures and insurance claim conveyance payments made to lenders. The real estate owned properties held in HUD's inventory are Department assets and provide a resource for increasing the availability of affordable homes to potential homebuyers. This indicator tracks one measure of the Department's success in expanding homeownership opportunities and helping stabilize neighborhoods. HUD intends to increase sales of its real estate owned homes directly to families who will occupy them rather than to investors. During the mid-year revision for the FY 2005 Annual Performance Plan, HUD revised this performance indicator to exclude properties that, on the basis of their physical condition, are not appropriate for owner-occupant purchasers. Owner-occupants are more likely to purchase homes that do not require the extensive time and expense associated with repairs that many of HUD's real estate owned properties would need to become FHA-insurable. HUD regulations require that properties be sold as-is without repairs. Expansion of homeownership opportunities to owner-occupants is therefore better evaluated on the basis of properties that these potential homebuyers are likely to consider. The revised FY 2005 goal was to ensure that at least 90 percent of FHA-insurable real estate owned property sales are to owner-occupants.

Results and analysis. During FY 2005, 85.1 percent (3,708 out of 4,356) of FHA-insurable real estate owned single family properties sold were to owner-occupants. The result falls short of the goal of 90 percent and represents a substantial reduction from the 98.4 percent (6,786 out of 6,895) of FHA-insurable properties sold to owner-occupants during FY 2004.

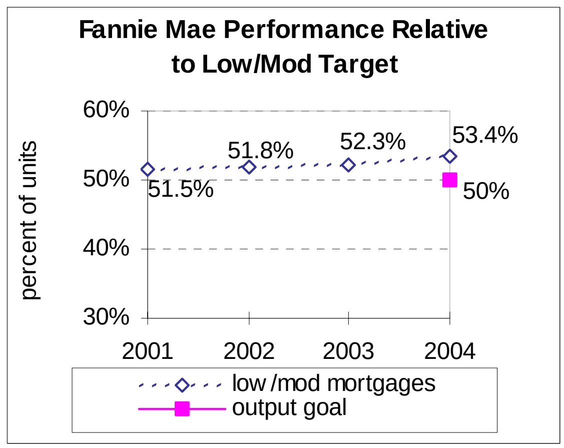


The decline from FY 2004 levels is attributable to a number of factors, which may include a substantial increase in the number of investors in the national housing market over the past year, and a decline in total real estate owned sales during FY 2005 resulting from the Section 601 program, which has meant that more single family insurance claims were sold as notes before HUD took ownership of the properties. The effect of hurricanes during the past two years on HUD's inventory of insurable properties in the Gulf states region, historically a strong area for real estate owned property sales to owner-occupants, may have also contributed to a decline in sales to this group. Additional factors, such as stronger FHA requirements for pre-sale disclosure of property conditions, in combination with the absence of many such requirements in the overall mortgage industry, may have also drawn potential owner-occupants away from purchasing these properties. FHA has included a performance goal related to sales to owner-occupants in its new Management and Marketing contracts, which is expected to increase sales of FHA-insurable real estate owned properties to owner-occupants and expand homeownership opportunities. Efforts to increase FHA's market share will also help promote property sales to prospective owner-occupant purchasers.

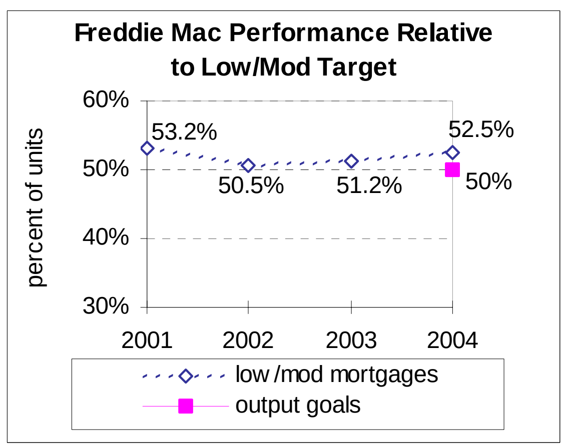
Data discussion. The data for this indicator are from FHA's Single Family Acquired Asset Management System. The data will be used as a part of the overall monitoring of FHA's portfolio and as a component of the internal controls of FHA. Real estate owned data are covered by the Inspector General audit.

H.1.12: HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for low- and moderate-income mortgage purchases.

Background. Congress mandated that, as Government-Sponsored Enterprises, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) must achieve a number of public purpose goals, one of which is to expand homeownership opportunities for persons of low- and moderate-income. To ensure that this public purpose is achieved, HUD regulations establish an annual performance standard -- the Low- and Moderate-Income goal -- for mortgages purchased or guaranteed by the Government-Sponsored Enterprises that serve low- and moderate-income families. These are families earning incomes at or below area medians. Beginning in 2005, HUD increased the Low- and Moderate-Income goal from 50 percent to 52 percent. The Low- and Moderate-Income goal will increase in stages between 2005 and 2008, capping at 56 percent in 2008.



Results and analysis. In calendar year 2004, both Fannie Mae and Freddie Mac surpassed HUD's target of 50 percent. Fannie Mae achieved 53.4 percent and Freddie Mac achieved 52.5 percent.[3]



Although the Government-Sponsored Enterprises may count both multifamily and single family purchases towards the Low- and Moderate-Income target, both Fannie Mae and Freddie Mac achieve the majority of their performance through the purchase of loans on single family owner-occupied housing.

An analysis of the composition of units qualifying as low- and moderate-income purchases in 2004 shows that 1.65 million dwelling units, or

[3] In verifying Freddie Mac's official 2004 goals performance, HUD determined that Freddie Mac counted, for housing goals credit, dwelling units derived from purchases of securities that HUD had not pre-approved as eligible to count as mortgage purchases under the housing goals. Freddie Mac also established its own counting formula for the transactions without HUD's prior approval. As a penalty for Freddie Mac's failure to obtain HUD's prior approval, HUD applied a 50 percent partial credit to the dwelling units derived from mortgages associated with these transactions under the Low- and Moderate-Income Housing goal. The penalty reduced Freddie Mac's performance by 1.6 percentage points from 54.1 percent to 52.5 percent.

70.9 percent of the dwelling units that qualified under Fannie Mae's Low- and Moderate-Income goal, served low-income families (i.e, families earning 80 percent or less of area median income). Freddie Mac purchased mortgages for 1.28 million low-income dwelling units, or 72.4 percent of Freddie Mac's qualifying purchases serving this market.

With regard to the minority composition of the Government-Sponsored Enterprises' low- and moderate-income performance, 21.8 percent of single family dwelling units that qualified under Freddie Mac's Low- and Moderate-Income goal were for minority borrowers, including 15.2 percent that were for African-American and Hispanic borrowers. The corresponding percentages for Fannie Mae were 20.9 percent minority and 13.6 percent African-American and Hispanic.

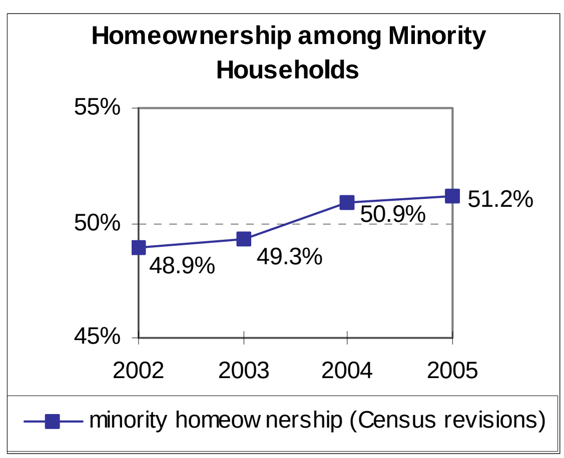
Data discussion. The data reported under this goal are based on calendar year performance. There is a one year reporting lag because the Government-Sponsored Enterprises report to HUD in the year following the performance year. To ensure the reliability of data, Fannie Mae and Freddie Mac apply various quality control measures to data elements provided to HUD. HUD verifies the data through comparison with independent data sources, replication of Fannie Mae's and Freddie Mac's goal performance reports, and reviews of their data quality procedures. Fannie Mae's and Freddie Mac's financial reports are verified by independent audits.

Objective H.2: Increase minority homeownership.

H.2.1: The minority homeownership rate.

Background. HUD's Strategic Plan reflects the President's long-term goal that 5.5 million additional minority households will become homeowners by 2010. Many of HUD's programs improve homeownership by targeting underserved populations, including minorities. This tracking indicator helps monitor progress toward the long-term goal, but a FY 2005 goal was not established because of the substantial limits in HUD's span of control relative to economic factors.

Results and analysis. During the last quarter of FY 2005, the minority homeownership rate was 51.2 percent, up by 0.3 percentage points from the same quarter in FY 2004. The number of minority homeowners increased by 455,000 during the year. Although an annual performance goal has not been established, the increase in minority homeownership ensures that the nation remains ahead of pace to meet the President's long-term goal for 5.5 million additional minority households by 2010, with 43 percent of the goal completed while 41 percent of the time has elapsed.



Hispanic homebuyers made the largest contribution to the positive result during FY 2005, accounting for 47 percent of the new minority homebuyers and increasing their homeownership rate to 49.1 percent. The greatest proportional gains occurred among the group collectively known as "other race, non-Hispanics," comprising American Indians and Alaska Natives, Asians, Native Hawaiians, and other Pacific Islanders.

This group, which numbers about half the Hispanic population, accounted for 37 percent of the total increase and raised their homeownership rate to 60.5 percent. The homeownership rate for black, non-Hispanic households slipped by 0.3 percentage points to 48.7 percent during FY 2005, despite their gain of 59,000 new homeowners.

FHA contributed substantially to minority homeownership during FY 2005, insuring over 96,000 loans to first time minority homebuyers. Results were also supported by strategies that include increased outreach and continued enforcement of equal opportunity in housing, and increased funding for housing counseling. Counseling resources help more members of minority and other underserved groups build the knowledge to become homeowners and to sustain their new tenure by meeting the ongoing responsibilities of homeownership.

Differences in homebuying among various groups reflects variation in their locations and their ability to afford homes in their area, especially in view of the increase of 13.4 percent in the median price of an existing home, to $212,000, during FY 2005. Homeownership estimates do not fully reflect the impact of Hurricane Katrina, which occurred after most of the data were collected.

Data discussion. The indicator is based on averages of monthly Current Population Survey data for the last quarter of the fiscal year. The data are free of limitations affecting the measure's reliability. Changes in the estimated minority homeownership rate exceeding 0.53 percentage points are statistically significant with 90 percent confidence. Beginning with 2003 data, minority categories reflect new survey procedures that allow respondents to select more than one race, and this self-reporting may change slightly as respondents grow accustomed to the new approach.

H.2.2: The ratio of homeownership rates of minority and non-minority low- and moderate-income families with children increases by 0.4 percentage points by 2005.

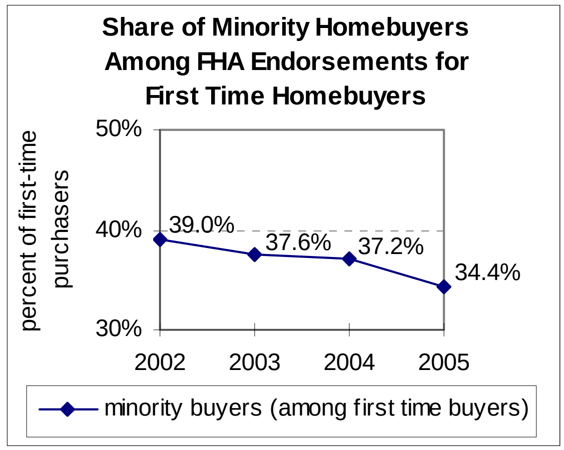
Background. This indicator measures progress in reducing barriers to homeownership among racial and ethnic minorities, as measured by the ratio of minority homeownership rates to homeownership of non-Hispanic whites. The effects of income and household type are controlled by comparing homeownership rates for low- and moderate-income families with children (those with incomes of 51 to 120 percent of area median income). The FY 2004–2005 goal is to increase the ratio by 0.4 percentage points from calendar year 2003 levels by 2005.

This indicator uses data from the biennial American Housing Survey. Calendar year 2005 data are not yet available, but will become available during FY 2006. Beginning with the FY 2006 Annual Performance Plan, this indicator is revised to track the "homeownership gap," i.e., the difference in percentage points between the homeownership rates of households who are "non-Hispanic white alone" and those who are minority. The minority homeownership gap averaged 25.0 percentage points in 2004.

H.2.3: The share of first-time minority homebuyers among FHA home purchase endorsements.

Background. FHA is a major source of mortgage financing for minority as well as low-income buyers. Increasing the number of FHA endorsements for minority homebuyers will help reduce the homeownership gap between whites and minorities as well as increase the overall homeownership rate. This performance indicator helps to track homeownership activities in support of the President's commitment to add 5.5 million minority homebuyers by 2010. In an effort to better evaluate the Department's success in implementing the President's minority homeownership initiative, during FY 2004 FHA revised this indicator to consider only first time minority homebuyers and exclude from this analysis borrowers whose race is unknown. During the mid-year revision for the FY 2005 Annual Performance Plan, FHA updated the caption for this performance indicator to specify the revised measure's focus on first time minority homebuyers. FHA has elected to track the progress of this performance measure without establishing a numeric target, due to its limited control regarding minority participation.

Results and analysis. During FY 2005, 34.4 percent of FHA home purchase endorsements made to first time homebuyers were for minorities. This result is a 2.8 percentage point decline from FY 2004, and continues the trend of declining minority share of home purchase endorsements. The decline may be attributable to competing mortgage products in the conventional and sub-prime markets in combination with broader declines in home buying as single family homes have become less affordable. Two such competing products are 100 percent financing and "80/20," whereby a homebuyer finances 80 percent of the value of their home with a first mortgage, using a second mortgage to finance the remaining value (20 percent) of the property as a downpayment. The ability of the conventional and sub-prime markets to develop these and other financing options that either waive insurance premiums or that have few, or no credit or income verification and downpayment requirements, may have drawn many minority homebuyers who would have been able to meet some but not all of FHA's underwriting criteria. On the basis of this data, FHA will monitor its progress in improving minority homeownership opportunities and will continue to pursue the President's commitment to reaching minorities and increasing the minority homeownership rate through housing counseling program outreach.

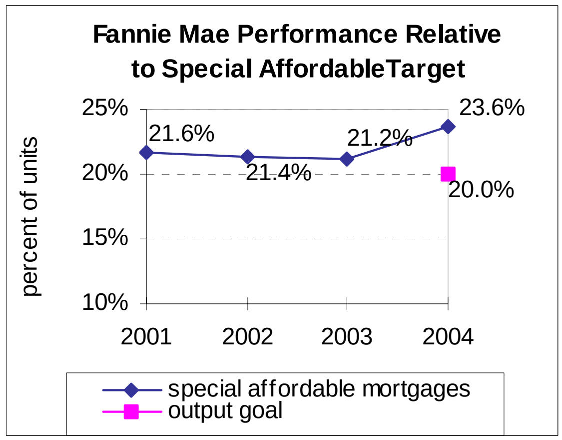


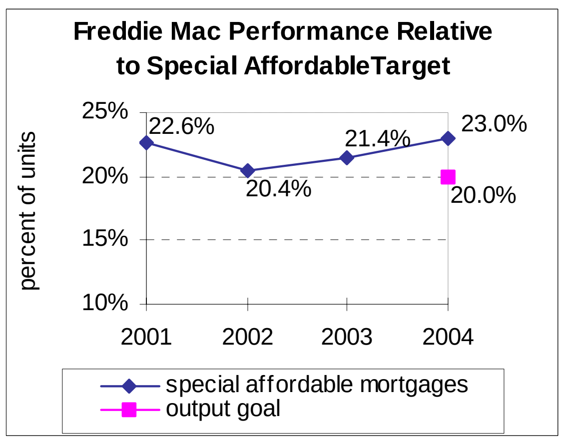
Data discussion. The data source for this performance indicator is FHA's Single Family Data Warehouse, based on data submitted by direct-endorsement lenders to the Computerized Home Underwriting Management System. The data are judged to be reliable for this measure. FHA data are entered by direct-endorsement lenders with monitoring by FHA.

H.2.4: HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for special affordable mortgage purchases.

Background. HUD defines performance targets for Fannie Mae and Freddie Mac (two housing Government-Sponsored Enterprises) in several areas, including mortgage purchases of special affordable housing. This target is intended to achieve increased purchases by Fannie Mae and Freddie Mac of mortgages on rental housing and owner-occupied housing that address the unmet needs of very low- and low-income families. As such, the Special Affordable Housing goal supports HUD's national objectives for expanding both affordable homeownership and the availability of affordable rental housing. Mortgages qualify as special affordable if they support dwelling units either for very low-income families (those earning no more than 60 percent of area median income) or for low-income families (those earning no more than 80 percent of area median income) located in low-income areas. Low-income areas are defined as (1) metropolitan census tracts where the median income does not exceed 80 percent of area median income and (2) non-metropolitan census tracts where median income does not exceed 80 percent of the county median income or the statewide metropolitan median income, whichever is greater. Beginning in 2005, HUD increased the Special Affordable Housing goal from 20 percent to 22 percent. The Special Affordable Housing goal will increase in stages between 2005 and 2008, capping at 27 percent in 2008.

Results and analysis. In calendar year 2004, Fannie Mae and Freddie Mac both surpassed the 20 percent target. Fannie Mae achieved 23.6 percent, and Freddie Mac achieved 23.0 percent.[4]





An analysis of the composition of units qualifying under the Special Affordable Housing goal in 2004 shows that, of all of the dwelling units that qualified for this goal in 2004 for Fannie Mae, 59.4 percent were one-unit owner-occupied properties (including condominium and cooperative units), 4.8 percent were owner-occupied units in two- to four-unit properties, 12.6 percent were rental units in single family (one- to four-unit) properties, and 23.2 percent were multifamily rental units. These percentages did not change substantially from 2003 for Fannie Mae. For Freddie Mac the corresponding percentages in 2004 were 47.4 percent one-unit owner-occupied properties, 5.5 percent owner-occupied units in two- to four-unit properties, 11.6 percent rental units in single family properties, and 35.6 percent multifamily rental units. Freddie Mac's percentages for multifamily units increased and single family owner units decreased somewhat relative to 2003.

Data discussion. The data reported under this goal are based on calendar year performance. There is a one year reporting lag because Fannie Mae and Freddie Mac report to HUD in the year following the performance year. To ensure the reliability of data, Fannie Mae and Freddie Mac apply various quality control measures to data elements provided to HUD. HUD verifies the data through comparison with independent data

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[4] In verifying Freddie Mac's official 2004 goals performance, HUD determined that Freddie Mac counted, for housing goals credit, dwelling units derived from purchases of securities that HUD had not pre-approved as eligible to count as mortgage purchases under the housing goals. Freddie Mac also established its own counting formula for the transactions without HUD's prior approval. As a penalty for Freddie Mac's failure to obtain HUD's prior approval, HUD applied a 50 percent partial credit to the dwelling units derived from mortgages associated with these transactions under the Special Affordable Housing goal. The penalty reduced Freddie Mac's performance by 1.2 percentage points from 24.2 percent to 23.0 percent.

sources, replication of Fannie Mae's and Freddie Mac's goal performance reports, and reviews of their data quality procedures. Fannie Mae's and Freddie Mac's financial reports are verified by independent audits.

H.2.5: Minority clients are at least 50 percent of total clients receiving housing counseling in FY 2005.

Background. The housing counseling assistance program is an integral part of helping increase the minority homeownership rate. In order to specifically target and increase the overall amount of funding benefiting the minority community, the Department is setting aside housing counseling appropriations specifically for counseling in conjunction with the Housing Choice Voucher program, agencies serving colonias, and predatory lending. Clients tracked through this indicator include those receiving various forms of housing counseling – from homebuyer education, pre-purchase, and loss mitigation/default counseling to rental, fair housing, and homeless counseling.

HUD revised this performance indicator mid-year to report the percentage of total clients receiving HUD-funded housing counseling who are minorities. The goal for FY 2005 is to ensure that minority clients are at least 50 percent of total clients receiving HUD-funded housing counseling.

Results and analysis. Although actual results for FY 2005 are not yet available, HUD expects 49.6 percent of all clients receiving HUD-funded housing counseling to be minorities. This projection represents the actual results for FY 2004 and substantially meets the FY 2005 goal of 50 percent. Final housing counseling activity data for FY 2005 will become available early in FY 2006. HUD-approved housing counseling agencies are given 90 days after the end of a fiscal year to report the results of counseling activity for that fiscal year and to submit requests to HUD for reimbursement for counseling services provided.

Data discussion. The data source for this performance indicator is the Housing Counseling Agency Fiscal Year Activity Reports. A major limitation of the data for this indicator is that it is difficult for counselors to collect demographic data from individuals participating in group education sessions. The lack of confidentiality and privacy discourages many responses. HUD is working with counselors to encourage them to discreetly collect this information, in an effort to improve reporting rates.

H.2.6: The HOME program, including the American Dream Downpayment Initiative, assists 19,139 minority households to become homeowners.

Background. This indicator tracks the number of new minority homeowners assisted with HOME Investment Partnerships program and its American Dream Downpayment Initiative funds during FY 2005. The output tracked by this indicator shows the potential contribution to be made by the HOME Investment Partnership program toward increasing the national homeownership rate and the number of minority homeowners, two key Presidential and Secretarial priorities. The HOME Investment Partnerships program gives states and local communities flexibility to meet their housing needs in a variety of ways. Many participating jurisdictions choose to use their HOME Investment Partnerships program funds to promote homeownership. Since 1992, over 52 percent of the homebuyer commitments have been made to minority households. The FY 2005 goal was based on a minority share of 52 percent of the total homebuyers assisted by participating jurisdictions during this period.

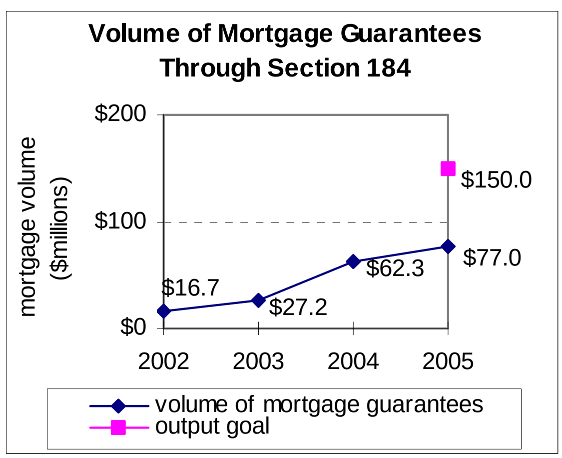
Mid-year this goal was revised downward from 24,466 minority households to reflect a change in the measure; the number of unit “completions” was substituted for the number of “commitments” because it is a more accurate and reliable measure of performance. Based on a similar revision to indicator H.1.8, the resulting number of minority households to be assisted with HOME Investment Partnerships program funds, including American Dream Downpayment Initiative assistance funds, was reduced to 19,139.

Results and analysis. During FY 2005, participating jurisdictions assisted 17,344 minority households in becoming homeowners. This number represents 91 percent of the FY 2005 target of 19,139 completions, a shortfall of 1,795 households. This is an increase, however, of 6,410 households (59 percent) compared to the FY 2004 results. The shortfall was largely a consequence of the lower number of minority households assisted in FY 2005 as a percentage of all families assisted (48 percent) compared to the historic average for the HOME Investment Partnerships program since 1992 of 52 percent. HUD’s ability to influence the demographics of beneficiaries in a block grant program is limited.

Data discussion. Data entered by participating jurisdictions in HUD’s Integrated Disbursement and Information System are used to track performance. The HOME Investment Partnerships program office completed improvements in FY 2004 to the Integrated Disbursement and Information System, which have purged inaccurate data and reduced the need for ongoing data cleanup efforts. Screen designs and terminology were simplified. More checks (edits) were added to reduce potential entry errors. The report functions were improved and a search feature added so that users can now easily find information on activities by grantee and by date range. During FY 2005, additional modernization of the Integrated Disbursement and Information System, including incorporating additional performance measurement standards, was proceeding with an initial release planned for the spring of 2006.

H.2.7: Section 184 mortgage financing of $150 million is guaranteed for Native American homeowners during FY 2005.

Background. This indicator tracks the annual dollar amount guaranteed by HUD to finance homeownership loans under the Section 184 program. This indicator was revised mid-year to measure the dollar volume of mortgage guarantees as a better metric of program growth.



Because this program supports the President’s goal of increasing homeownership, the Department ambitiously sought a goal for FY 2005 of $150 million. In July 2002, census data indicated that the homeownership rate for Native Americans was 55 percent, 13 percent below the national rate. Homeownership rates on reservations are historically low because lenders have been hesitant to assume the risk of providing mortgage financing for tribal land that cannot be used as collateral. The Section 184 program provides a federal loan guarantee as an inducement to lenders. Native Americans who wish to live on tribal lands can then more easily obtain financing to purchase a home.

Program website: www.hud.gov/progdesc/insec184.cfm

Results and analysis. During FY 2005, loans totaling approximately $77 million (an increase of 24 percent from FY 2004) were guaranteed and thus the Department did not achieve its FY 2005 goal of $150 million in mortgage guarantees. In FY 2005, $102.5 million in loans were approved, but only $77 million closed. The remainder of these transactions should close in early FY 2006.

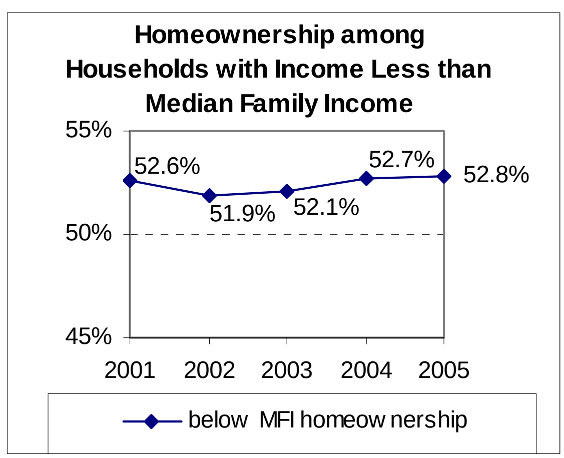
Data discussion. The Office of Loan Guarantee compiles data on the number of loan guarantee certificates issued. The Director of the Office of Loan Guarantee validates the data on a monthly basis. The Public and Indian Housing Budget Office verifies this count. For the purposes of this indicator, the guarantees are tracked when the loan is closed and not when it is approved.

H.2.8: The homeownership rate among households with incomes less than median family income.

Background. Homeownership is advantageous because it contributes to asset development, better neighborhoods and schools, stability of tenure, and wider choice of housing types. Holding other factors equal, homeownership improves outcomes for children on a number of dimensions, including school achievement and dropout rates. This indicator tracks national progress in increasing homeownership among households with incomes below the national median family income. A target was not established for this tracking indicator in FY 2005, reflecting limits in HUD’s span of control.

Results and analysis. During FY 2005, the homeownership rate among households with incomes below the national median increased slightly by 0.1 percentage point to 52.8 percent in the third quarter. The result is a new record high, although no goal has been established for this tracking indicator.

The continuing trend of homeownership gains for households with incomes below the median is encouraging in view of the recent rapid increases in median home prices. During FY 2005, the median price of existing homes increased 13.4 percent to $212,000, and the median price of new homes increased 1.9 percent to $215,700. Interest rates that remained near 6 percent during the year helped keep the affordability of such homes within reach.



HUD will continue to promote higher homeownership rates among low-income households through improved partnering, marketing, and outreach in the single family FHA programs. Homeownership vouchers and the homeownership downpayment assistance initiative will play a growing role in achieving this goal. HUD’s block grant programs, CDBG and HOME Investment Partnerships, also provide homeownership assistance of various types, depending on local needs and preferences. Both of these programs are targeted primarily to groups with incomes below median.

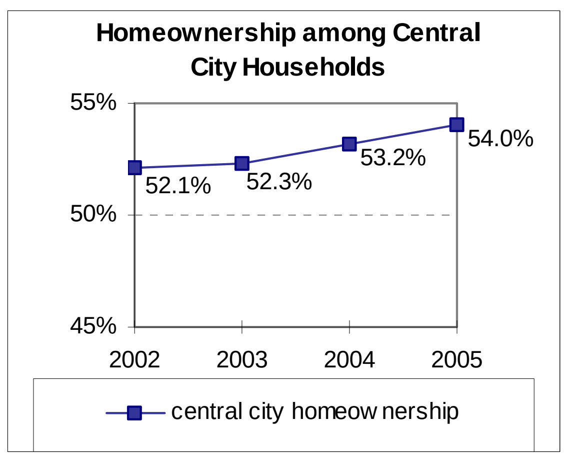
Data discussion. The measure uses Current Population Survey data from the third quarter of the calendar year, corresponding to the end of HUD's fiscal year. The data are free of limitations affecting the measure's reliability. Changes in estimated rates that exceed 0.43 percentage points are statistically significant with 90 percent confidence.

H.2.9: The homeownership rate in central cities.

Background. Central cities have below-average rates of homeownership, in part because of higher density development and multifamily housing, but also because of losses of middle-class families in past decades. Low homeownership can contribute to neighborhood decline because absentee landlords and their tenants put forth less maintenance effort than homeowners. In such cases, low homeownership often leads to a shrinking municipal tax base. The central city homeownership rate reflects the progress in reestablishing central cities as desirable places for long-term individual investment. A FY 2005 performance target was not established for this tracking indicator because of the substantial limits in HUD's span of control relative to economic factors.

Results and analysis. The homeownership rate in central cities showed continued strength during 2005, advancing by 0.8 percentage points to 54.0 percent in the third quarter. The result builds on a comparable gain of 0.9 percentage point during FY 2004, setting a new high for third quarter rates. No performance goal has been established for this indicator.

The increase in central city homeownership continues a recent trend that reflects renewed confidence in cities and demand for urban living. A number of HUD's programs contribute to homeownership in central cities. FHA single family mortgage insurance serves many central city households. CDBG and HOME Investment Partnerships program block grants are among the Department's largest programs, and each has a sizable homeownership component. Over one-third of households who receive HOME Investment Partnerships program assistance receive homebuyer assistance, or roughly 30,000 homebuyers annually.



HUD also has increased marketing and outreach efforts to promote central city homeownership, including targeted sales of HUD-owned properties. The Department's geographically-targeted goals for the housing Government-Sponsored Enterprises include central city criteria to help ensure that mortgage capital is available. HUD's Good Neighbor initiative allows police officers, school teachers, nonprofits, and local governments to purchase HUD-owned homes at significant discounts, thus strengthening distressed urban communities while providing homeownership opportunities for public service professionals. HUD expanded this program to firefighters and other first responders during FY 2005. Cities also are making efforts to increase homeownership rates, as grantees increasingly use HOME Investment Partnerships program funds to promote homeownership.

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

H.2.10: The mortgage disapproval rates of minority applicants.

Background. This is a tracking indicator for minority mortgage disapproval rates, an important early indicator of trends in minority homeownership. Equal access to home loans is critical for decreasing disparities in homeownership. This measure tracks home purchase mortgage disapproval rates of minorities that have had limited access to traditional housing markets -- African Americans, Hispanics, Native Americans, and other minorities. A FY 2005 performance goal was not established because of HUD's limited span of control relative to external factors.

Results and analysis. The most recent data for calendar year 2004 show that minority mortgage applications continue to be denied at higher rates than applications by white households. Among primary borrowers reported as a single race, black alone households experienced the highest denial rate of 19.8 percent. Denial rates were 16.6 percent for American Indian/Alaskan Natives alone, 11.8 percent for Asian alone, 14.0 percent for Native Hawaiian/Pacific Islander alone, 16.6 percent for Hispanics, and 12.8 percent for two or more races, compared with 10.0 percent for white alone.

A number of technical changes, discussed below, limit the comparability of the 2004 results with previous data. Nevertheless, denial rates apparently are higher for all categories of borrowers.

Data discussion. This indicator uses Home Mortgage Disclosure Act data collected from lenders on a calendar year basis. Calendar year 2005 data are not yet available. The mortgage applications counted are conforming loans or loans insured by FHA, Veterans Affairs, or Rural Housing Service, and are limited to owner-occupied single family homes purchased in core-based statistical areas for 2004, in 2000-based metropolitan areas for 2003, and in 1990-based metropolitan areas for preceding years. Loan denials at the pre-approval stage are excluded, although new but incomplete data suggest that initially denied or unaccepted pre-approvals may account for at least one percent of all loans. Refinance loans and manufactured housing loans are excluded, as were loans by sub-prime lenders or manufactured home loan specialists until 2004. The new Census race and ethnicity categories are used for this indicator beginning with 2004.

HUD assessed the impact of several technical factors on the reported results. First, new data for 2004 made possible the direct exclusion of manufactured home loans rather than loans by manufactured home loan specialists. This change contributes 0.6 percentage point to the denial rate of white alone households, reducing disparities in denial rates. Second, estimates for 2003 and 2004 are based on rounding the “conforming” loan limit for Government-Sponsored Enterprise mortgage purchases up to the nearest $1,000, which would have decreased the 2002 denial rate by 0.1 percentage point. Finally, about 11.5 percent of applications had missing or unknown race and ethnicity data in 2004, down from 13.7 percent missing in 2002.

H.2.11: Section 184A mortgage financing will guarantee loans creating 50 housing units for Native Hawaiian homebuyers.

Background. This indicator tracks the number of housing units built or acquired using the Section 184A loan guarantee program. The Section 184A program facilitates private sector investment in housing and encourages lenders to finance housing (1) through the State of Hawaii's Department of Hawaiian Home Lands and (2) directly with Native Hawaiians eligible to reside on Hawaiian Home Lands.

This indicator was added in mid-year to track the performance of this new program.

Results and analysis. FY 2005 saw the first loans guaranteed using the Section 184A program. Although the Department did not meet its goal, these loans will finance 10 homes to be built on Hawaiian Home Lands, with HUD guaranteeing approximately $1.5 million in financing. In FY 2006 this program will be available to individual Native Hawaiians (during FY 2005 it was only available for institutional transactions) and thus activity is expected to greatly increase in FY 2006.

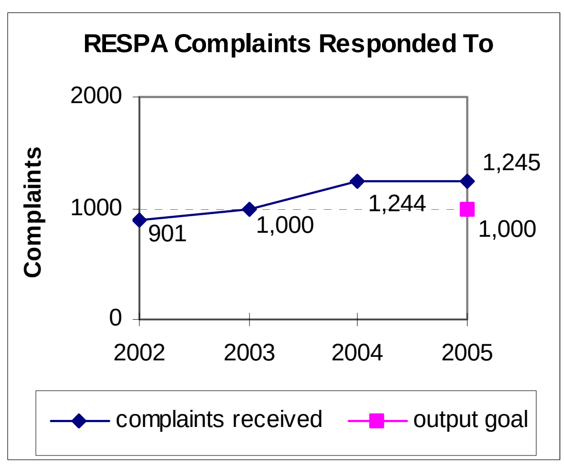
Data discussion. The Office of Loan Guarantee compiles data on the number of loan guarantee certificates issued. The Director of the Office of Loan Guarantee validates the data on a monthly basis. The Public and Indian Housing Budget Office verifies this count.

Objective H.3: Make the home-buying process less complicated and less expensive.

H.3.1: Respond to 1,000 inquiries and complaints from consumers and industry regarding the Real Estate Settlement Procedures Act and the home buying and mortgage loan process.

Background. The Real Estate Settlement Procedures Act is a consumer protection statute enforced by HUD. This Act helps consumers be better shoppers in the home buying and mortgage loan process by requiring that consumers receive disclosures at various times in the transactions and by prohibiting practices, such as paying kickbacks, that increase the cost of settlement services. The Act also provides consumers with protections relating to the servicing of their loans, including proper escrow account management. The Department currently receives inquiries and complaints from consumers, industry, and other state and federal regulatory agencies by mail, telephone, and e-mail.

HUD's Office of Real Estate Settlement Procedures Act and Interstate Land Sales tracks responses to inquiries and complaints regarding the home buying, home financing, and settlement process, as well as inquiries from industry and state and federal regulators regarding practices that may violate the Act. The FY 2005 goal was to respond to 1,000 of these inquiries and complaints. This goal was set in early FY 2004, and was based on the average of 673 complaints closed during



FY 2001, FY 2002, and FY 2003. The office anticipated that by increasing public awareness of enforcement, an increasing number of consumers, industry, and other regulatory agencies would file complaints alleging violations of the Act. This has helped bring additional violations of the Act to the attention of the Department, and enabled the Department to provide greater assistance to the public, particularly consumers.

Results and analysis. The Office of Real Estate Settlement Procedures Act and Interstate Land Sales responded to 1,245 complaints during FY 2005. This number reflects the number of formal complaint cases closed and exceeds the goal by 25 percent. In part, the increase reflects an increased enforcement of the Act through aggressive investigation of complaints.

The overall increase in public awareness of enforcement generated an additional 1,227 e-mail and 2,051 telephone consumer and industry inquires. These were not included in assessing the office's performance against this FY 2005 goal because the great majority of these were less formal than the complaints, which are formally addressed and do count towards the goal. However, these additional inquiries and associated workload will be taken into account in setting future Annual Performance Plan goals.

Data discussion. The data are compiled from the Office of Real Estate Settlement Procedures Act's Case Management System, which maintains an electronic record of complaints and telephone calls received by the Office. In addition, e-mail responses are maintained in Lotus Notes via the Real Estate Settlement Procedures Act e-mailbox. Management reviews this tracking system and e-mail on an ongoing basis.

Objective H.4: Fight practices that permit predatory lending.

H.4.1: The number of loans originated by FHA-approved lenders that have been reviewed and determined to have findings.

Background. This indicator tracks efforts to reduce fraud and compliance problems in FHA relative to the number of single family loans reviewed that have findings. A finding is defined as a failure to adhere to FHA program requirements pertaining to the origination and/or servicing of mortgage loans. Lenders are reviewed on the basis of a target methodology that focuses on high early default and claim rates in addition to other risk factors. Loans that are originated by the lenders are reviewed and then evaluated for findings. Quality Assurance Division reviews of FHA-approved lenders provide the means of data collection for this performance measure. Due to the oversight and enforcement-oriented function performed by the Quality Assurance Division, and the need to maintain objectivity in the Quality Assurance Division review process, a numeric target cannot be established for this performance measure. FHA has therefore elected to track the number of loans reviewed that have findings without establishing a numeric target.

Results and analysis. Out of 17,912 loans reviewed that were originated by FHA-approved lenders in FY 2005, 8,305, or 46.4 percent, were determined to have findings. By comparison, the incidence of findings among single family mortgage loans originated by FHA-approved lenders in FY 2004 was equal to that in FY 2005 (46.4 percent), although the number of loans reviewed and findings noted were slightly higher. This stability indicates that with lower numbers of lender monitoring reviews conducted by Quality Assurance Division, and therefore fewer FHA-insured single family mortgage loans reviewed, that FHA is focusing its monitoring efforts more closely on those lenders that are high and moderate risks, thereby allowing for consistent patterns of risk and material violations to be identified and more effective remedies to be developed. More effective remedies to program violations mean that FHA's insurance funds remain fiscally sound and in a position to help current homeowners and prospective homebuyers.

FHA-Insured Single Family Loans Reviewed

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Loans reviewed	22,138	20,942	20,722	21,115	21,520	17,912
Loans with findings	9,867	11,483	11,424	11,983	9,972	8,305

Data discussion. Loan review and findings data are drawn from the Approval Re-certification/Review Tracking System. Data are generated independently and entered into this system by Quality Assurance Division monitors operating throughout the country, with secondary review and verification by FHA Homeownership Centers. Quality Assurance Division functions and data are included in the annual FHA Financial Statements audit.

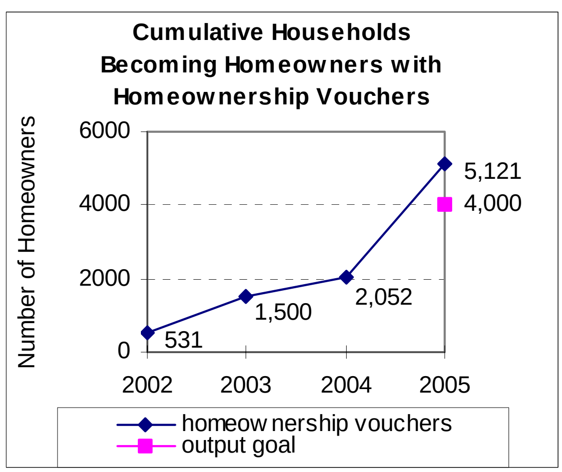
Objective H.5: Help HUD-assisted renters become homeowners.

H.5.1: Increase the cumulative homeownership closings under the homeownership option of the Housing Choice Voucher program to 4,000 at the end of FY 2005.

Background. Increasing homeownership among low-income and minority households is one of the Department's most important initiatives. The homeownership option under the Housing Choice Voucher program helps accomplish this objective by allowing PHAs to provide voucher assistance to low-income first time homebuyers for monthly homeownership expenses rather than for monthly rental payments, the most typical use of voucher assistance.

This indicator was revised mid-year to reflect better than anticipated performance in FY 2004, and reworded to include a numeric target rather than a percentage increase as the goal.

Results and analysis. At the end of FY 2005, 5,121 families have become homeowners through the Housing Choice Voucher, Family Self Sufficiency and Moving to Work Homeownership programs, compared to the goal of 4,000 cumulative homeownership closings. This is an increase of 3,069 homeowners, or approximately 150 percent, over the previous fiscal year. This major increase was the result of an extensive nationwide outreach to PHAs that provided a step-by-step instruction package to assist in developing the program, the holding of 15 well-attended conferences nationwide to communicate the program goals, and the implementation of a bonus program that provided $5,000 to the PHA to establish a program and $1,000 per closing.



Data discussion. At the end of FY 2005, the number of homeownership closings under the Housing Choice Voucher Program was determined through the PIH Inventory

Management System database. The Department is committed to ensuring that all homeownership closings are recorded in the Inventory Management System before paying calendar year 2005 administrative fee funding incentives to PHAs for homeownership program implementation and closings.

H.5.2: By Fiscal Year 2006, public housing agencies with Resident Opportunity and Self Sufficiency grants increase by 10 percent the number of public housing residents who receive homeownership supportive services.

Background. This indicator measures the amount of homeownership counseling received by residents in connection with the Resident Opportunity and Self Sufficiency Homeownership Supportive Services grants.

The Resident Opportunity Self Sufficiency program, through the Homeownership Supportive Services grant category, provides funds to PHAs, tribes/tribally designated housing entities, and qualified nonprofit organizations to deliver homeownership training, counseling, and other supportive services to residents of public and Indian housing. The Homeownership Supportive Services grants are designed to build upon other self-sufficiency efforts by providing supportive services to participating residents to support them transitioning from rental housing to homeownership.

The target was revised mid-year to reflect that implementation of the goal has been delayed from FY 2005 until FY 2006 due to the need to establish a baseline in FY 2005.

Program Website: www.hud.gov/offices/pih/programs/ph/ross/about.cfm

Results and analysis. As of the end of FY 2005, data have been collected by the program office that establishes the baseline for this goal as 3,363 residents. The program office collected the data through communication with the field offices and grantees. Accordingly, grant activity occurring during FY 2006 will be measured against this baseline.

Data discussion. Data currently come from reports that Homeownership Supportive Services grantees submit to field offices. Grantees establish their baselines from their approved work plan and report results as of January 31 and July 30 of each grant year. The Department plans that, in the future, grantees will report through an Internet-based logic model system. As of the end of FY 2005, the Department continues to refine this reporting system. Until such a system is instituted, the program office will continue to collect data independently on FY 2003 and FY 2004 grantees in order to track this goal.

Data validity is addressed as a function of field office monitoring and program office analysis. As this is a newer indicator (baseline recently established), there has not been an independent evaluation to verify data. Any data problems will be addressed by the program office in coordination with the field offices and grantees as needed.

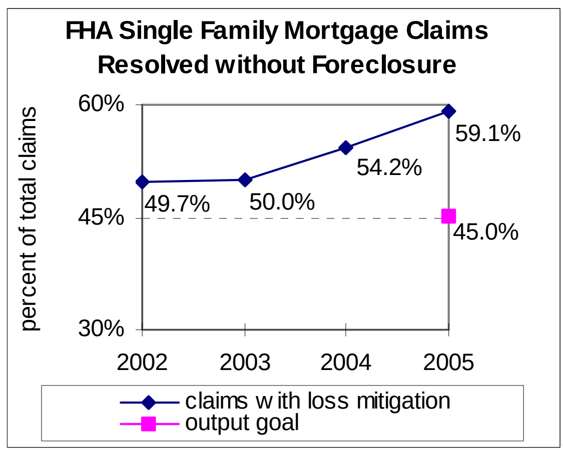
Objective H.6: Keep existing homeowners from losing their homes.

H.6.1: Loss mitigation claims are 45 percent of total claims on FHA-insured single family mortgages.

Background. This indicator measures the success of FHA loan servicers in implementing statutorily required loss mitigation techniques when borrowers default on their FHA mortgages.

A borrower can resolve a default (90-day delinquency) in several ways short of foreclosure -- for example, by paying down the delinquency (cure), by a pre-foreclosure sale with FHA paying an insurance claim in the amount of the shortfall, or by surrendering a deed in lieu of foreclosure. Better loss-mitigation efforts, such as enhanced borrower counseling, help borrowers keep their current homes or permit them to buy another home sooner. Avoidance of foreclosure also reduces FHA's insurance losses, making FHA more financially sound and enabling it to help more borrowers. For both reasons, by achieving this goal HUD will help increase the overall homeownership rate. The FY 2005 goal is to ensure that at least 45 percent of claims are resolved through loss mitigation.

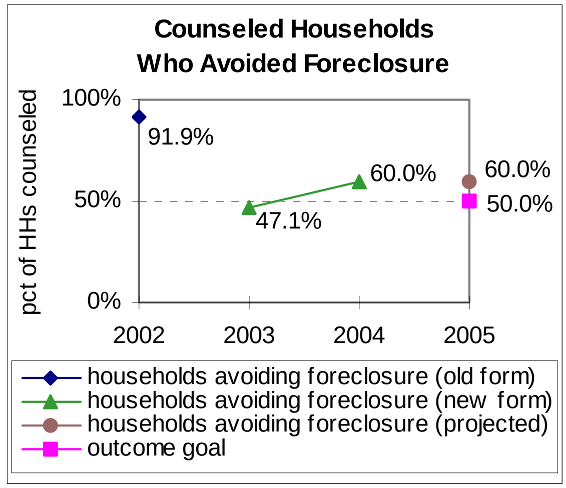
Results and analysis. During FY 2005, 59.1 percent of FHA mortgage defaults were resolved through loss mitigation alternatives to foreclosure, exceeding the goal of 45 percent and the performance level of 54.2 percent achieved in FY 2004. The result represents a continuation of the trend of increases. Loss mitigation actions do not permanently stabilize many borrowers' financial status. However, about 60 percent of borrowers who receive the benefits of loss mitigation remain current on their mortgage for at least a 12-month period. This reduction in foreclosure claim expenses is a key component of Departmental budget estimates for FY 2006. Our programmatic objective is to sustain the high level of participation in loss mitigation even as the Office of Housing tightens programmatic requirements designed to increase the ultimate success rate of loss mitigation in helping borrowers avoid foreclosure.



Data discussion. FHA's Single Family Data Warehouse, Loss Mitigation table is the data source for this performance indicator. The resolutions that are counted as loss mitigation are: forbearance agreements, loan modifications, partial claims, pre-foreclosure sales, and deeds-in-lieu of foreclosure. A small and decreasing number of "other" resolutions that were previously counted were excluded beginning in FY 2003. Total claims comprise loss mitigation claims plus conveyance claims. No data limitations are known to affect this indicator. FHA data are entered by the loan servicers with monitoring by FHA. The results reported for this performance indicator are consistent with those reported in the FHA Management Report for FY 2005. FHA expects to collect 30- and 60-day default data during FY 2006, which will provide better information about typical default patterns and improve loss mitigation efforts.

H.6.2: More than 50 percent of total mortgagors seeking help with resolving or preventing mortgage delinquency will successfully avoid foreclosure.

Background. Clients tracked through this indicator include homeowners with mortgages who are at risk of default, or have already defaulted, and are seeking assistance in order to remain in their home and meet the responsibilities of homeownership. By limiting delinquency and foreclosure, default counseling is a cost-effective way to reduce HUD's exposure to risk while contributing to the growth and stability of families and communities across the country. Moreover, default counseling is increasingly important during periods of economic downturn, when job losses and low wages make it difficult for families to meet their financial obligations, and default rates rise. This indicator measures the share of total mortgagors who, after seeking help with resolving or preventing mortgage delinquency, have successfully avoided foreclosure. After analyzing the initial summary data collected under a revised data collection form and the results of its recent loss mitigation efforts, HUD revised the numeric target for this performance indicator during the mid-year revision period for the FY 2005 Annual Performance Plan to more closely parallel the actual rate of successful mortgage delinquency resolution. The revised FY 2005 performance goal is to ensure that more than 50 percent of total mortgagors seeking help with resolving or preventing mortgage delinquency successfully avoid foreclosure.



Results and analysis. While results for clients counseled during FY 2005 cannot be fully assessed, HUD anticipated that approximately 60 percent of total mortgagors seeking help with resolving or preventing mortgage delinquency would successfully avoid foreclosure. This projection represents the actual results for FY 2004 and exceeds the FY 2005 goal of 50 percent. These results reflect an improvement in default counseling and loss mitigation tools and techniques, and the increased training of counselors from HUD-approved agencies. Final housing counseling activity data for FY 2005 will become available early in FY 2006. HUD-approved housing counseling agencies are given 90 days after the end of a fiscal year to report the results of counseling activity for that fiscal year and to submit requests to HUD for reimbursement for counseling services provided.

Data discussion. The data source for this performance indicator is the Housing Counseling Agency Fiscal Year Activity Reports. One limitation of the data is that mortgagors can, and often do, go in and out of default. Consequently, a mortgagor whose counseling outcome was recorded as “reinstated” in a given year could actually result in “foreclosure” in another year. To improve the quality of the counseling data and make it useful for this type of performance measure, HUD significantly revised its data collection form in 2002 to facilitate identification of the client’s specific counseling needs and the improved tracking of outcomes, such as mortgage delinquency resolution, among other updates. The updated form was implemented in October 2002 to coincide with the FY 2002 grant cycle, with the first summary results becoming available during the second quarter of FY 2004. In an effort to further improve its ability to collect detailed information about the families and individuals seeking help with resolving or preventing mortgage delinquency, among other data, the Department is in the process of implementing an automated data collection instrument that will enable it to collect client-level information beginning in FY 2007.

Goal A. Promote Decent Affordable Housing

Strategic Objectives:

A.1 Expand access to affordable rental housing.

A.2 Improve the physical quality and management accountability of public and assisted housing.

A.3 Increase housing opportunities for the elderly and persons with disabilities.

A.4 Transition families from HUD-assisted housing to self sufficiency.

PERFORMANCE REPORT CARD - GOAL A

	Performance Indicators	2002	2003	2004	2005	2005 Target	Met	Notes
A.1.1	The number of households with worst case housing needs among families with children, the elderly, and person with disabilities.	N/A	N/A	N/A	N/A	N/A	N/A	a,b,c
A.1.2	The number of households receiving housing assistance with CDBG, HOME, Housing Opportunities for Persons With AIDS, Self-help Housing Opportunity Program, Indian Housing Block Grant and Native Hawaiian Housing Block Grant.	332,888	344,618	319,696	347,480	316,152	Yes	
A.1.3	The number of HOME production units that are completed within the fiscal year will be maximized.	52,344	62,549	64,284	80,751	66,309	Yes	
A.1.6	FHA endorses at least 1000 multifamily mortgages.	1,105	1,331	1,497	1,017	1,000	Yes	
A.1.7	GNMA securitizes at least 80 percent of eligible FHA multifamily mortgages.	100%	91%	92%	91.1%	80%	Yes	
A.1.8	HUD will complete 80 percent of the initial FY 2005 Mark-to-Market pipeline during the fiscal year, reducing rents and restructuring mortgages where appropriate.	66%	75%	72%	82%	80%	Yes	
A.1.9	HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for special affordable multifamily mortgage purchases.	$7.36 $4.65	$7.57 $5.22	$12.23 $8.79	$7.32 $7.77	$2.85 $2.11	Yes Yes	f,l f,l
A.1.10	At least 70 percent of clients receiving rental or homeless counseling either find suitable housing or receive social service assistance to improve their housing situation.	N/A	N/A	72.9%	72.9%	70%	Yes	i
A.1.11	Fully implement actions included in the Departmental Energy Action Plan by FY 2005.	N/A	N/A	7	16	21	No	
A.2.1	The average satisfaction of assisted renters with their overall living conditions increases by 1 percentage point in multifamily housing.	87%	N/A	N/A	N/A	88%	N/A	a
A.2.2	The share of public housing units that meet HUD-established physical standards will be at least 85 percent.	87.1%	85.9%	85.0%	85.1%	85.0%	Yes	

PERFORMANCE REPORT CARD - GOAL A

	Performance Indicators	2002	2003	2004	2005	2005 Target	Met	Notes
A.2.3	The share of assisted and insured privately-owned multifamily properties that meet HUD established physical standards are maintained at no less than 95 percent.	94.4	N/A	95.5%	96%	95%	Yes	
A.2.4	The unit-weighted average PHAS score remains at least 86.9 percent.	85.3	87.3	86.9%	85.8%	86.9%	No	
A.2.7	For households living in assisted and insured privately-owned multifamily properties, the share of properties that meets HUD's financial management compliance is maintained at no less than 95 percent.	95%	N/A	98%	98%	95%	Yes	
A.2.8 (a)	The HOPE VI Revitalization program for public housing relocates 1,446 families.	4,668	6,859	4,618	4,702	1,446	Yes	f
A.2.8 (b)	The HOPE VI Revitalization program demolishes 2,602 units.	8,346	7,468	4,919	8,765	2,602	Yes	f
A.2.8 (c)	The HOPE VI Revitalization program completes 6,267 new and rehabilitated units.	6,468	8,611	4,132	9,632	6,267	Yes	f
A.2.8. (d)	The HOPE VI Revitalization program occupies 6,070 units.	6,205	7,512	4,210	8,467	6,070	Yes	f
A.2.9	The percent of units under management of troubled housing agencies at the beginning of FY 2005 decreases by 15 percent by the end of the fiscal year.	23.1%	71.8%	43.5%	33.0%	15.0%	Yes	
A.2.10	The share of Housing Choice Voucher/Housing Certificate Fund Voucher units managed by troubled housing agencies decreases by 1 percent.	6.4%	7.9%	4.0%	4.72%	3.96%	No	
A.3.1	Increase the availability of affordable housing for the elderly and persons with disabilities by bringing 250 projects to initial closing under Sections 202 and 811.	307	334	303	303	250	Yes	
A.3.2	The number of assisted-living units that HUD supports through Assisted Living Conversion program increases by completing conversion of 10 Section 202 properties.	N/A	12	7	16	10	Yes	
A.3.3	The number of elderly households living in private assisted housing developments served by a service coordinator for the elderly increases by 5 percent.	88	111.2	125.3	N/A	131.6	N/A	a
A.4.1	By FY 2008, increase the proportion of those who "graduate" from HUD's public housing and Housing Choice Voucher programs by 5 percent and decrease the proportion of active participants who have been in HUD's housing assistance programs for 10 years or more by 10 percent.	N/A N/A	N/A N/A	N/A N/A	12.8% 19.2%	11.6% 18.5%	Yes Yes	g

Notes:

a	Data not available.	g	Result too complex to summarize. See indicator.
b	No performance goal for this fiscal year.	h	Baseline newly established.
c	Tracking indicator.	i	Result is estimated.
d	Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).	j	Number is in thousands.
		k	Number reported in millions.
e	Calendar year beginning during the fiscal year shown.	l	Number reported in billions.
f	Calendar year ending during the fiscal year shown.		

Objective A.1: Expand access to affordable rental housing.

A.1.1: The number of households with worst case housing needs among families with children, the elderly, and persons with disabilities.

Background. This performance measure provides a central indication of whether HUD and the nation are advancing or losing ground in the fight to ensure decent, safe, and affordable housing for America's families. Because the elderly, disabled persons, and families with children are particularly susceptible to housing problems and targeted by HUD housing programs, they are the focus of this indicator. Worst case needs are defined as unassisted renters with very low-incomes and a priority housing problem. These are either severely inadequate housing or, more commonly, housing costs exceeding 50 percent of monthly income.

Calendar year 2003 data from the American Housing Survey became available during FY 2004. However, HUD has not released the housing needs estimates pending completion of HUD's report to Congress on worst case needs in 2003. In preparing this report, the Office of Policy Development and Research continues to review independent recommendations for strengthening the definition and reporting of worst case needs, and also is exploring ways to validate the American Housing Survey data with the Survey of Income and Program Participation and other data. The results, including the results for this indicator, are expected to be released early in FY 2006.

A.1.2: The number of households receiving housing assistance with CDBG, HOME, HOPWA, SHOP, IHBG and NHHBG.

Background. This indicator tracks the number of households that receive affordable housing assistance through the identified programs in FY 2005. The outputs tracked by this indicator show the contribution of important HUD programs toward increasing the national homeownership rate and the number of minority homeowners, two key Presidential and Secretarial priorities. These programs also help reduce the number of households with worst-case housing needs (very low-income households who pay more than half of their incomes for housing or who live in substandard housing).

The HOME Investment Partnerships program is one of HUD's major affordable housing production programs. The HOME Investment Partnerships program's block grant structure enables participating state and local governments to build or rehabilitate housing for rent or ownership, provide home purchase or rehabilitation financing assistance to existing homeowners and new homebuyers, and provide tenant-based rental assistance to assist low-income households. The American Dream Downpayment Initiative component of the HOME Investment Partnerships program provides downpayment assistance to expand homeownership. The FY 2005 goal for the HOME Investment Partnerships program was revised in the FY 2006 Annual Performance Plan from 85,115 units to 76,702 to reflect a change in the measure; the number of unit "completions" was substituted for the number of "commitments" because it is a more accurate and reliable measure of performance.

The Community Development Block Grant program is another tool for providing housing assistance, although it is only one of several eligible activities from which Community Development Block Grant grantees may choose. For FY 2005, CDBG assistance under this indicator was broken down to separate the use of CDBG funds to rehabilitate rental housing from the use of funds for homeowner assistance, i.e., providing homeownership assistance and rehabilitating owner-occupied housing. The number of households expected to be assisted through the use of CDBG funds under this indicator in FY 2005 was revised from 173,486 households to 154,757 in the FY 2006 Annual Performance Plan. That change was based on actual FY 2004 accomplishments, a reduction in the FY 2005 appropriation, estimated spend-out rates, and a 3 percent reduction for inflation.

The Housing Opportunities for Persons with AIDS program provides local and state government and nonprofit organizations with the resources and incentives to develop long-term comprehensive housing strategies for meeting the housing and related supportive service needs of low-income persons living with HIV/AIDS and their families. The program supports the goals of increasing the availability of decent, safe, and affordable housing in America's communities by providing permanent housing with coordinated supportive services through tenant-based rental assistance, short-term rent, mortgage or utility payments which help maintain the current residence of beneficiaries, and support for community facilities that provide residential care and other needed support. The FY 2005 target was 73,700 households assisted.

The Self-help Homeownership Opportunity program provides funding to qualified national and regional nonprofit organizations to facilitate and encourage innovative homeownership opportunities through self-help housing where the homebuyer contributes a significant amount of sweat equity toward the construction of the new dwelling. Self-help Homeownership Opportunity Program funds may be used to pay for the land acquisition and infrastructure improvements associated with the development of the self-help housing. The FY 2005 target was 2,140 units.

The Indian Housing Block Grant and the Native Hawaiian Housing Block Grant programs provide housing block grants to federally recognized Indian tribes, or their tribally designated housing entities, and to the Department of Hawaiian Home Lands. These grants meet locally determined, low-income housing needs, including maintaining and rehabilitating existing units (if applicable), providing housing management services, funding crime prevention and safety activities, providing housing counseling services, and/or developing new homeownership and rental units. Indian Housing Block Grant recipients receive funds on the basis of an annual formula allocation. The Department of Hawaiian Home Lands is the only grant recipient of the Native Hawaiian Housing Block Grant program funds.

The measure for the Indian Housing Block Grant families assisted was replaced mid-year with separate goals reflecting new construction, acquisition, and rehabilitations. The two goals were that 2,415 households would be assisted for rentals and 6,240 households would be assisted for homeownership.

The Title VI program, authorized by the Native American Housing Assistance and Self-Determination Act, assists Indian Housing Block Grant program recipients that want to use private financing for affordable housing activities. Future years' block grant funds can be used as security for the loans, and borrowers have successfully used this as leverage to access other sources of funds. The loans have been used to finance housing infrastructure, housing construction, public facilities, acquisition, and maintenance activities.

Results and analysis. The HOME Investment Partnerships program, CDBG and Self-help Homeownership Opportunity Program exceeded their goals. However, Housing Opportunities for Persons with AIDS, Indian Housing Block Grants (homeownership and rental), Title VI Federal Guarantees, and Native Hawaiian Housing Block Grants each missed their goals.

Households Assisted by HUD Programs

Households Assisted	FY 2002	FY 2003	FY 2004	FY 2005	FY 2005 Goal
CDBG rental households a/	--	20,547	31,186	34,918	23,214
CDBG households – Total	**187,380**	**184,611**	**159,703**	**166,992**	**154,757**
HOME tenant-based assistance	10,239	10,731	15,479	20,554	10,393
HOME rental units completed	19,076	25,977	23,392	33,612	21,998
HOME homebuyer units completed	23,241	25,867	30,780	32,307	34,806
HOME existing homeowner units completed	10,027	10,705	10,112	14,832	9,505
HOME households – Total	**62,583**	**73,280**	**79,763**	**101,305**	**76,702**
HOPWA households	74,964	78,467	70,779	70,325	73,700
Self-help Homeownership Opportunity Program	2,063	2,157	1,735	2,277	2,140
PIH Indian Housing Block Grant households—homeownership	5,563	4,732	5,864	5,455	6,240
PIH Indian Housing Block Grant households—rental	331	1,365	1,848	1,050	2,415
PIH Title VI Federal Guarantees program (number of loans)	4	6*	4*	4	10
PIH Native Hawaiian Housing Block Grant households	N/A	N/A	N/A	72	188
Grand Total	**332,888**	**344,618**	**319,696**	**347,480**	**316,152**

*Numbers reflect annual activity whereas the FY 2004 Performance and Accountability Report reflected cumulative numbers.

a/ Reflects updated data for previous years and an updated goal of 23,214 versus a published goal of 11,200.

Community Development Block Grant. For FY 2005, the total number of households assisted under this indicator was 166,992, 8 percent more than the goal of 154,757. This consisted of 34,918 rental units rehabilitated with CDBG and 132,074 households receiving CDBG assistance to become homeowners or for the rehabilitation of owner-occupied housing. The FY 2005 actual is a 5 percent increase over the FY 2004 actual accomplishment of 159,703 households assisted. The total expenditures for all housing activities tracked by this indicator increased by three percent compared to FY 2004. Housing rehabilitation assisted under the CDBG program ranges from the rehabilitation of major household systems, such as roofing, heating and siding, to small weatherization improvements and emergency repairs. CDBG homeownership assistance may range from relatively large amounts to provide mortgage write-downs to smaller amounts for downpayment assistance and/or closing costs.

HOME. The HOME Investment Partnerships program met its goals for both rental housing production and tenant-based rental assistance in FY 2005. HOME participating jurisdictions completed 33,612 rental housing units in FY 2005, exceeding the goal of 21,998 units by 11,614 units, or 53 percent. The FY 2005 performance represents an increase of 10,220 units, or 44 percent from the 23,392 units completed in FY 2004. The 20,554 households assisted with HOME Investment Partnerships program-funded tenant-based rental assistance in FY 2005 exceeded the goal of 10,393 by 10,161 households, or 98 percent. This represents an increase of 5,075 households or 33 percent from FY 2004 levels. (For further discussion of HOME Investment Partnerships program assistance to homebuyers and existing homeowners in FY 2005, see Indicator H.1.8.)

Based on commitments, the average per-unit HOME cost of producing a rental unit in FY 2005 increased by $2,679 to $25,123, or approximately 12 percent, from FY 2004 levels. The annual cost of providing tenant-based rental assistance to a household stood at $3,269 in FY 2005, a decrease of $147, or 4 percent. Participating jurisdictions committed $51.7 million to tenant-based rental assistance during FY 2005, compared with $44.1 million in FY 2004.

The improved results are due in part to an aggressive effort to follow up with participating jurisdictions that were shown to be lagging in performance. HUD issues monthly production reports and a quarterly HOME Investment Partnerships program performance SNAPSHOT to identify these participating jurisdictions. The SNAPSHOTs compare the performance of the participating jurisdictions to each other on eight factors and assign a performance ranking. The SNAPSHOTs have succeeded in focusing attention on production and the completion of units. Enhancements to the SNAPSHOTs, including additional information on beneficiaries, were made during FY 2005.

HUD continued its efforts this year to provide training and technical assistance, including web-based assistance, to participating jurisdictions to improve their program performance. For example, a new demand/response system for scheduling and delivering 12 HOME Investment Partnerships program training courses and 8 seminars throughout the country began in FY 2005, with approximately 30 deliveries planned in the coming 18 months.

Of course, because grantees have discretion about which housing activities they choose to fund, there may be fluctuations among the individual components of this indicator from year to year reflecting the emphasis given to one activity over another at the local level. In FY 2005, for example, there was a significant increase in the use of tenant-based rental assistance, which was at least partly attributable to the impact of Hurricane Katrina in September 2005.

The accomplishment of this output indicator is also affected by several external factors: the level of annual HOME Investment Partnerships program appropriations, the number of new, less experienced, participating jurisdictions entering the program, and general economic conditions affecting the cost and availability of housing and the income levels of potential homebuyers.

Housing Opportunities for Persons with AIDS. The Housing Opportunities for Persons with AIDS program assisted 70,325 households in FY 2005, 5 percent below the goal of 73,700 households. Part of the explanation for this shortfall is due to a recently completed comprehensive data verification of performance reporting data from grantees and comprehensive financial data on expenditures from all grantees. This data verification validated and updated the number of households reported being assisted by 111 formula grantees, and completed a review of reports from 85 competitive grantees covering their most recent program operating year. This data verification corrected data reported in the Integrated Disbursement and Information System that artificially inflated results in this performance year, which influenced the estimate for FY 2005. Additionally, the number of households assisted in FY 2004 has been revised from 78,000 to 70,779 following this verification effort. A significant challenge to providing accurate performance data is to compile a complete set of statistical data in the Integrated Disbursement and Information System and other reports on the variety of grant programs operated by these grantees through local networks involving around 500 Housing Opportunities for Persons with AIDS project sponsors. The completion of the verification efforts helps to ensure more consistent, accurate and timely reporting. Implementation of the new Consolidated Annual Performance and Evaluation Report and Annual Performance Report performance reporting along with enhancements in the Integrated Disbursement and Information System are anticipated to commence during the second quarter of FY 2006.

Self-help Homeownership Opportunity Program. During the one-year period ending June 30, 2005, Self-help Homeownership Opportunity Program grantees completed 2,277 housing units, exceeding the program goal of 2,140 units by 137, or 6 percent. This represents a 31 percent increase compared to the number of units produced in FY 2004 (1,735). Another 3,038 Self-help Homeownership Opportunity Program units were under development at the close of the period. Self-help Homeownership Opportunity Program grantees in FY 2005 were Habitat for Humanity, the Housing Assistance Council, Northwest Regional Facilitators, ACORN Housing Corporation, Wisconsin Association of Self-Help Executive Directors, and PPEP Microbusiness and Housing Development Corp.

The achievement of this output indicator is directly affected by several external factors: the cost and availability of land, the level of Self-help Homeownership Opportunity Program appropriations, the “pass-through” nature of program funds to local affiliates, the level of sophistication of local organizations in developing and managing self-help housing, and the varying skill levels of the homebuyers and volunteers who work on the construction of the homes. During FY 2005, HUD continued to provide technical assistance upon request to grantees to improve the efficiency and capacity of the program.

PIH Programs. Indian Housing Block Grant recipients attained 87 percent of the homeownership goal and 44 percent of the goal for rental assistance. The Department of Hawaiian Home Lands achieved 38 percent of the FY 2005 goal. The results reflect several factors: The targets in general were aggressive given previous performance; program activities reflect the complexities of housing activity in Indian Country, including difficult local economic conditions; and grantees under the block grant program have wide flexibility as to what categories they want to emphasize each year.

Data discussion. Data for CDBG, the HOME Investment Partnerships program, and Housing Opportunities for Persons with AIDS are reported in the Integrated Disbursement and Information System. During the last quarter of FY 2004, the Department deployed substantial data entry edits in the Integrated Disbursement and Information System that should result in continuing improvements to data quality. HUD has scheduled future improvements of the system over the next few years that should continue to improve data quality, streamline data entry, extend the scope of output data as well as introduce additional outcome performance measures. Reports compiled by Self-help Homeownership Opportunity Program grantees are also used to track performance under this indicator.

CDBG data is based on actual assistance reported by grantees in the Integrated Disbursement and Information System as of September 30, 2005. The reliability of the data reported by grantees continues to improve as a result of CPD's data clean-up effort, which continued during FY 2005, and the implementation of substantial data entry edits in the Integrated Disbursement and Information System in the last quarter of FY 2004. Future improvements will both streamline data entry and introduce additional performance measure outcomes to the CDBG program.

The Housing Opportunities for Persons with AIDS Program's validation process supplements the use of the Program Accounting System, the Integrated Disbursement and Information System, and annual performance reports submitted by all grantees to ensure the completeness of data shown for actual program accomplishments and expenditures. This effort also involves the implementation of reporting and information technology system changes and related training for the use of the new Housing Opportunities for Persons With AIDS performance outcome measures. During FY 2006, the program expects that the upgraded performance report requirements and related Integrated Disbursement and Information System enhancements will allow for full implementation of new outcome reporting requirements by both formula and competitive grantees. The enhanced reports will enable grantees and HUD to capture and review relevant information on client outcomes in achieving stable housing that reduces the risks of homelessness, and improves access to health care and other support.

Indian and Native Hawaiian Housing Block Grant data for this indicator in FY 2005 represent the number of homeownership and rental units that were built, acquired, or rehabilitated, as reported by the grant recipients in their Annual Performance Reports. This indicator excludes rehabilitation work performed on older units that were built or acquired before 1998, using other program funds. Data are entered and aggregated in a database by staff in the Office of Native American Programs, which has made improvements to its system for measuring program accomplishments. The recently established tracking system aggregates data reported by the grant recipients on their Annual Performance Reports. In prior years, performance for this indicator represented the number of households that had been provided *any* housing related service by a tribe or a tribally designated housing entity; in some cases, this resulted in households being counted multiple times. For FY 2005, this indicator was refined to count only the number of homeownership or rental units that were constructed, acquired, or rehabilitated using Indian or Native Hawaiian Housing Block Grant funds. It excludes rehabilitation work on older units that were built or acquired before 1998, using other program funds.

The Office of Loan Guarantee compiles data on the number of Title VI loan guarantees issued. The Director of the Office of Loan Guarantee validates the data on a monthly basis. The Public and Indian Housing Budget office verifies this count.

A.1.3: The number of HOME production units that are completed within the fiscal year will be maximized.

Background. This indicator tracks the production number of HOME Investment Partnerships program-assisted units of all tenure types (i.e., rental, homebuyer, homeowner rehabilitation) that have been completed and put into service in FY 2005. The HUD strategic goals of increasing homeownership opportunities and promoting decent affordable housing are directly supported by the program efforts tracked through this indicator.

Program Website: www.hud.gov/offices/cpd/affordablehousing/programs/home/index.cfm

Results and analysis. During FY 2005, participating jurisdictions completed 80,751 HOME Investment Partnerships program-assisted production units, 22 percent more than the goal of 66,309 units. Of this total, 33,612 units were rental housing, 32,307 units were homebuyer housing and 14,832 units were existing homeowner rehabilitation housing. The number of completed units in FY 2005 exceeded the number in FY 2004 (64,284) by 16,467, an increase of 26 percent. Participating jurisdictions disbursed $1.46 billion in HOME Investment Partnerships program funds to affordable housing projects during FY 2005.

Contributing to the accomplishments this year was HUD's continuing efforts to provide training and technical assistance, including web-based assistance, to participating jurisdictions to improve their HOME Investment Partnerships program performance. For example, a new demand/response system for scheduling and delivering 12 HOME Investment Partnerships program training courses and 8 seminars throughout the country began in FY 2005, with approximately 30 deliveries planned in the coming 18 months.

The improved results are due in part to an aggressive effort to follow up with participating jurisdictions that were shown to be lagging in performance. HUD issues monthly production reports and a quarterly HOME Investment Partnerships program performance SNAPSHOT to identify these participating jurisdictions. The SNAPSHOTs compare the performance of HOME Investment Partnerships program's participating jurisdictions to each other on eight factors and assign a performance ranking. The SNAPSHOTs have succeeded in focusing attention on production and the completion of units. Enhancements to the SHAPSHOTs, including additional information on beneficiaries, were made during FY 2005.

The accomplishment of this output indicator is also affected by several external factors: the level of annual HOME Investment Partnerships program appropriations; the number of new, less experienced, participating jurisdictions entering the program; the choices that participating jurisdictions make among types of projects and competing housing needs; fiscal conditions affecting state and local government program staffing levels; and general economic conditions affecting the cost and availability of housing and the income levels of potential homebuyers.

	FY 2002	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2005 Goal**
HOME rental units produced	19,076	25,977	23,392	33,612	21,998
HOME new homebuyers	23,241	25,867	30,780	32,307	34,806
HOME existing homeowners	10,027	10,705	10,112	14,832	9,505
HOME total households assisted	52,344	62,549	64,284	80,751	66,309*

* The overall goal of 66,309 units reflects an upward revision from the original goal of 60,133.

Data discussion. Data entered by participating jurisdictions in HUD's Integrated Disbursement and Information System are used to track quarterly performance. The HOME Investment Partnerships program office completed improvements in FY 2004 to the system that has eliminated inaccurate data, mostly related to "commitments" as opposed to actual "completions," and reduced the need for ongoing data cleanup efforts. Screen designs and terminology were simplified. More checks (edits) were added to reduce potential entry errors. The report functions were improved and a search feature added so that users can now easily find information on activities by grantee and by date range. During FY 2005, additional modernization of the Integrated Disbursement and Information System, including incorporating additional performance measurement standards, was proceeding with an initial release planned for the spring of 2006.

A.1.4: The utilization of Housing Choice Voucher/Housing Certificate Fund Vouchers is maintained at the FY 2003 level of 97 percent.

This goal was deleted as changes in the program largely ensure full dollar utilization.

A.1.5: The share of the Housing Choice Voucher/Housing Certificate Fund program administered by housing agencies with substandard utilization rates.

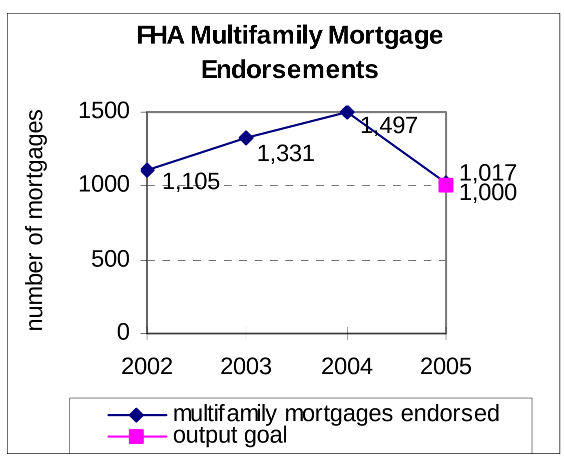
This goal was deleted as changes in the program largely ensure full dollar utilization.

A.1.6: FHA endorses at least 1,000 multifamily mortgages.

Background. FHA multifamily mortgage insurance is vitally important to a number of segments in the housing industry, including small builders, buyers or owners of aging inner-city properties, and nonprofit sponsors. FHA offers many unique and valuable products in the market and brings stability to the market. FHA also retains a leadership position in the market for high loan-to-value and long-term fully-amortizing multifamily loans, which can help in the provision of affordable rental housing. The FY 2005 goal was 1,000 multifamily mortgage initial endorsements.

Results and analysis. For FY 2005, FHA endorsed 1,017 FHA-insured loans and exceeded the goal of 1,000 endorsements. This compares with 1,497 loans in FY 2004 and 1,331 loans made in FY 2003.

HUD's 51 Multifamily Hubs and Program Centers initially endorsed 903 loans equal to $4.8 billion, which financed 108,643 housing units/beds in multifamily housing properties. This includes 23,100 units and beds financed under Section 232 for health care facilities such as nursing homes and assisted living facilities. In addition, FHA shared the risk with state housing finance agencies for an additional 114 loans totaling $719 million for 13,824 units.



The lower level of overall multifamily insurance activity this fiscal year was due to uncertain and fluctuating interest rates during the year, a significant drop in number of loans refinanced, and generally softened markets for new construction as low interest rates spurred homeownership for families who otherwise would qualify for market rate rental properties.

While there was an overall drop in FHA endorsements, HUD saw an increased level of lender interest and confidence in Multifamily Accelerated Processing, particularly for Section 202 and Section 236 refinancings. Multifamily Accelerated Processing places responsibility on the lenders for underwriting the loan and responsibility for the review of their work and final approval for mortgage insurance to HUD. HUD anticipates increased activity in FY 2006 when the Office of Multifamily Housing issues clarifications on underwriting FHA refinances of Section 202/Section 8 direct loans and Section 236 insured mortgages, and streamlines the Section 223(a)(7) refinancing requirements.

The Department's Lender Qualification and Monitoring Division reviews Multifamily Accelerated Processing transactions in accordance with FHA underwriting requirements and recommendations from the GAO.

Data discussion. This measure is based on data from FHA's Real Estate Management System, based on lender-submitted data. The data, which are based on a straightforward and easily verifiable count of endorsements completed, are judged to be reliable for this measure. FHA monitors the quality of data submitted by lenders. A data quality assessment completed for this system in FY 2001 identified no problems that compromise this measure.

A.1.7: Ginnie Mae securitizes at least 80 percent of eligible FHA multifamily mortgages.

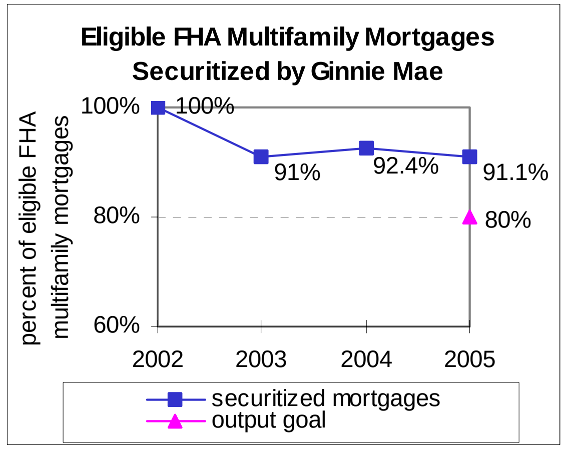
Background. Ginnie Mae is a wholly owned instrumentality of the United States government located within HUD. Section 306(g) of the National Housing Act authorizes Ginnie Mae to facilitate the financing of residential mortgage loans insured or guaranteed by the Federal Housing Administration, the Department of Veterans Affairs, and the Rural Housing Service. For multifamily residential lending, Ginnie Mae uses two major programs, Mortgage-Backed Securities and Multi-class Securities.

Ginnie Mae's Mortgage-Backed Securities program has been a significant contributor to the growth of the Mortgage-Backed Securities market in the United States as well as to the expansion of homeownership opportunities for American families. This participation by Ginnie Mae in the capital markets of our nation has helped to provide an efficient link between Wall Street and homebuyers. By making Ginnie Mae securities attractive to investors, Ginnie Mae ensures that a continuous flow of capital is available throughout the country. Ginnie Mae has been instrumental in nearly eliminating regional differences in the availability of mortgage credit for American families. Under the terms of its Mortgage-Backed Securities program, Ginnie Mae guarantees the timely payment of principal and interest on pools of mortgage loans. Ginnie Mae's obligations are backed by the full faith and credit of the United States.

When Ginnie Mae was established in 1968, it was given primary responsibility for facilitating an efficient secondary mortgage market for FHA, Veterans Affairs, and Rural Housing Service-insured mortgages, all of which serve low- and moderate-income homebuyers. Ginnie Mae provides financial incentives for lenders to increase loan volumes in traditionally underserved areas through its Targeted Lending Initiative. The program was established in October 1996 to help raise homeownership levels in central city areas and was later expanded to include Rural Empowerment Zones, Rural Enterprise Communities, and Indian lands.

Results and analysis. During a period of growth in its multifamily portfolio, Ginnie Mae securitized 91.1 percent of eligible FHA multifamily mortgages. This performance in FY 2005 exceeded the goal of 80 percent market share.

Ginnie Mae's multifamily program continued to grow through FY 2005, but at a slower pace than in previous years. As a result, multifamily issuances decreased 19 percent from $10.5 billion in FY 2004 to $8.5 billion in FY 2005. Despite a slower growth rate in FY 2005, the multifamily program's remaining principal balance increased by 8 percent, from $32.7 billion to $35.3 billion. This increase reflects the appeal of multifamily government-guaranteed loans to investors.

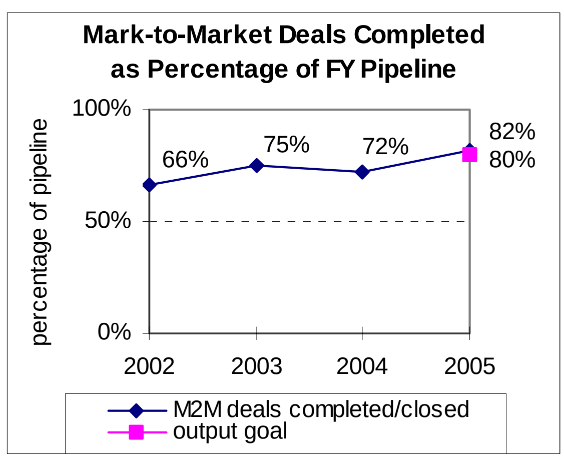


Data discussion. This measure is based on a Ginnie Mae database of multifamily loan securities compared with a FHA multifamily database with ineligible projects excluded. Ginnie Mae and FHA data are subject to audits. The Office of Inspector General audits Ginnie Mae's data systems each year and Ginnie Mae obtains a clean opinion.

A.1.8: HUD will complete 80 percent of the initial FY 2005 Mark-to-Market pipeline during the fiscal year, reducing rents and restructuring mortgages where appropriate.

Background. The Mark-to-Market program seeks to preserve affordable housing stock by maintaining the long-term physical and financial integrity of such housing and to reduce the Section 8 rental assistance costs and the cost of FHA insurance claims. Under the Mark-to-Market program, the Office of Affordable Housing Preservation analyzes FHA-insured multifamily properties for which Section 8 rents exceed comparable market rents, and reduces Section 8 rents to bring them in line with comparable market rents or levels that preserve financial viability. Properties also are eligible for full debt restructuring that involves a write-down of the existing mortgage in conjunction with the reduced rent levels. This indicator measures completions and closings as a percentage of projects in the pipeline at the beginning of the fiscal year.

Results and analysis. During FY 2005, the Office of Affordable Housing Preservation completed/closed 411 properties under the Mark-to-Market program resulting in annual Section 8 savings (non-incurrence of cost) of over $34 million. The Office of Affordable Housing Preservation's initial active pipeline on October 1, 2004, was 503 assets; the office exceeded its goal and completed 82 percent of its initial FY 2005 pipeline.



Throughout FY 2005, the Office of Affordable Housing Preservation continued efforts to reach out and improve communication and coordination with HUD staff, performance based contract administrators, owners, and industry groups. The purpose was to educate owners, HUD staff, and other stakeholders about the Mark-to-Market program. As a result, 160 new referrals were received into the Mark-to-Market program and 94 properties re-entered the Mark-to-Market program, for a total of 254 referrals for the fiscal year. Under the "Once Eligible, Always Eligible" provision in the statute, any property that was initially eligible for the Mark-to-Market program but failed to close as a full debt restructuring remains eligible to re-enter the program. The Office of Affordable Housing Preservation continues its efforts under the Mark-to-Market program to preserve the affordability and availability of low-income rental housing and reducing long-term project-based Section 8 rental assistance costs. Overall, an average of 34 projects per month were completed/closed and an average of 13 new referrals were received per month. Over 2,700 properties, resulting in Section 8 savings (non-incurrence of cost) of approximately $216 million per year, have been completed/closed under the Mark-to-Market program since FY 2000.

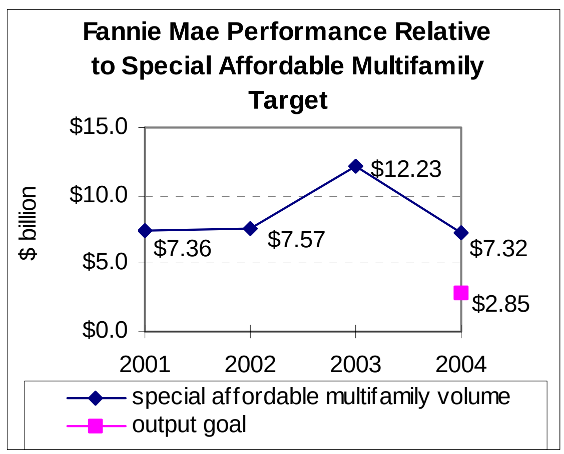
The Office of Affordable Housing Preservation Rehabilitation Escrow office, working with the nonprofit owner Colorado Housing and Finance Agency, oversaw the completion of work under Island Grove Village's sizeable rehabilitation escrow. This escrow resulted from a successful Mark-to-Market full debt restructuring on Island Grove Village, a 108-unit development in Greeley, Colorado. The rehabilitation escrow of over $1.3 million had its work completed in April 2005. The property was transformed with a complete makeover; improvements included replacement of exterior siding as well as windows, and a HVAC was installed in every unit where one had not existed previously. Furthermore, the property was made safer by the removal of asbestos-containing materials located throughout the property.

Data discussion. This measure uses data from the Mark-to-Market Management Information System. Results are reported on a fiscal year basis. Values reflect status as of September 2005, including revisions to previously-reported results caused by properties re-entering the Mark-to-Market program under the "Once Eligible, Always Eligible" provision. The Office of Affordable Housing Preservation has put into place various data quality checks to ensure that the information stored in the Mark-to-Market Management Information System is reliable and complete. Monthly data integrity meetings are held between the Office of Affordable Housing Preservation's system manager and its Production Office staff. These meetings focus on timeliness in updating the system as the various milestones of the properties are completed, and reviewing system reports to ensure that dates and data are within established parameters. During the audits of Participating Administrative Entities the performance dates are reviewed against three sources: dates entered into the Mark-to-Market Management Information System; dates recorded in the their final files; and dates shown on supporting documents such as the date the appraisal was completed. For those properties that received a full debt restructuring, staff also examine three separate data sources to be sure all entered data are consistent. The sources include data entered into the Mark-to-Market underwriting model, information reported in the closing dockets, and data entered into the Mark-to-Market Management Information System. Internal reports are generated to assist staff in their reviews.

A.1.9: HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for special affordable multifamily mortgage purchases.

Background. This indicator tracks the performance of Fannie Mae and Freddie Mac (two housing Government-Sponsored Enterprises) in providing capital for special affordable multifamily housing. The Special Affordable Multifamily Housing goal supports HUD's mission of promoting the creation of new affordable dwelling units by ensuring that both Fannie Mae and Freddie Mac provide market liquidity through multifamily purchase programs targeted to the housing needs of low-income and very low-income families. Fannie Mae and Freddie Mac purchase, guarantee, or acquire interests in multifamily mortgages secured by residential properties that contain at least five dwelling units. When a Government-Sponsored Enterprise acquires a multifamily mortgage, or an interest in such mortgages, it is entitled to count the mortgage towards the calculation of the Special Affordable Multifamily target to the extent that the dwelling units financed by the mortgage meet HUD's eligibility requirements. Qualifying multifamily mortgages are those that fund dwelling units affordable to families earning incomes not exceeding 60 percent of the area median income, or that are affordable to families earning incomes not exceeding 80 percent of the area median income and who are living in low-income areas. Beginning in 2005, HUD increased the Special Affordable Multifamily goal from $2.11 billion to $3.92 billion for Freddie Mac and from $2.85 billion to $5.49 billion for Fannie Mae.

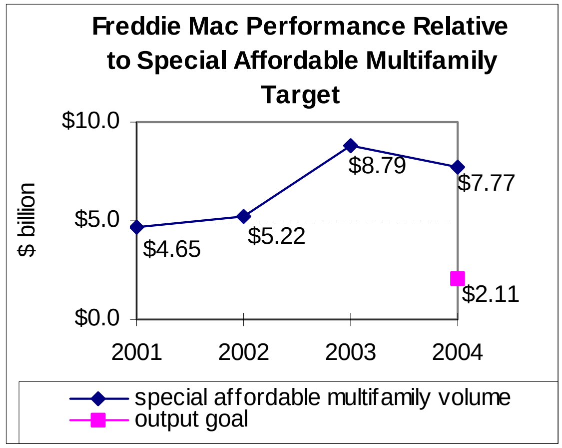
Results and analysis. In calendar year 2004, both Government-Sponsored Enterprises exceeded the Special Affordable Multifamily goal. Fannie Mae purchased $7.32 billion of qualifying multifamily mortgages, while Freddie Mac purchased $7.77 billion.[5]



Small (5-50 unit) multifamily properties are an important share of the Government-Sponsored Enterprises' purchases because these properties typically serve lower-income families. In 2003, 26.5 percent of Fannie Mae's qualifying multifamily purchases was for small multifamily properties. However, in 2004, Fannie Mae's percentage of qualifying small multifamily properties dropped to 11.9 percent of all its qualifying multifamily purchases. In 2003 Freddie Mac's qualifying small multifamily purchases were 32.2 percent of all qualifying multifamily purchases. In 2004, the corresponding percentage was 9.7 percent.

[5] In verifying Freddie Mac's official 2004 goals performance, HUD determined that Freddie Mac counted, for goal credit, the purchase of mortgages backing securities that HUD had not pre-approved as eligible to count as a mortgage purchase under the housing goals. As a penalty for Freddie Mac's failure to obtain HUD's prior approval, HUD applied a 50 percent partial credit to the mortgages from these transactions under the Special Affordable Multifamily goal. The penalty reduced Freddie Mac's performance by $1.99 billion from $9.76 billion to $7.77 billion.

Data discussion. The data reported under this goal are based on calendar year performance. There is a one year reporting lag because the Government-Sponsored Enterprises report to HUD in the year following the performance year. To ensure the reliability of data, Fannie Mae and Freddie Mac apply various quality control measures to data elements provided to HUD. HUD verifies the data through comparison with independent data sources, replication of Fannie Mae's and Freddie Mac's goal performance reports, and reviews of their data quality procedures. Fannie Mae's and Freddie Mac's financial reports are verified by independent audits.



A.1.10: At least 70 percent of clients receiving rental or homeless counseling either find suitable housing or receive social service assistance to improve their housing situation.

Background. The Department is placing more emphasis on housing counseling, including counseling for homeless clients and families seeking affordable rental housing. This indicator tracks the share of clients receiving rental or homeless counseling that either find suitable housing or receive social service assistance to improve their housing situation. The indicator was revised in the FY 2006 Annual Performance Plan to focus on these outcomes. The revised FY 2005 performance goal is to ensure that at least 70 percent of clients receiving rental or homeless counseling either find suitable housing or receive social service assistance to improve their housing situation by the end of the fiscal year.

Results and analysis. Although actual FY 2005 results are not yet available, HUD expects 72.9 percent of clients receiving rental or homeless counseling to either find suitable housing or receive social service assistance to improve their housing situation. This projection represents first time reporting on the actual results for FY 2004 and exceeds the FY 2005 goal of 70 percent. The actual FY 2005 outcome data will become available early in FY 2006. HUD-approved housing counseling agencies are given 90 days after the end of a fiscal year to report the results of counseling activity for that fiscal year.

Data discussion. HUD collects data on renters and homeless clients counseled through Housing Counseling Agency Fiscal Year Activity Reports. The data include the total number of clients, the type of counseling received and the results of the counseling. A major limitation of the data collection instrument is that it does not differentiate the level of counseling given to each client. The quality and level of counseling can vary significantly. To improve the quality of housing counseling data, HUD is implementing a new automated data collection instrument that will enable it to collect client-level data beginning in FY 2007.

A.1.11: Fully implement actions included in the Departmental Energy Action Plan by FY 2005.

Background. In FY 2002, HUD adopted a 21-point, Department-wide Energy Action Plan in support of the President's National Energy Policy. A task force was established to identify measures that HUD could take to support these goals, and included every program area with a current or potential role in supporting energy efficiency. The Energy Action Plan is primarily operational, aimed at upgrading the energy efficiency of existing housing using proven energy-efficient products and appliances that can be put to work immediately in HUD programs. This involves consumer education and outreach, interagency cooperation, market-based incentives, and public-private partnerships. The Action Plan was intended to be fully implemented over a two-year period, with 50 percent of the actions to be implemented in FY 2004, and the balance in FY 2005.

Results and analysis. The FY 2005 goal was not met, although 16 of the 21 actions in the Energy Action Plan were fully implemented and the five remaining actions were partially completed. For further information, consult www.hud.gov/energy.

Achievements during FY 2005 include the announcement by Secretary Alphonso Jackson of the Partnerships for Home Energy Efficiency between HUD, the Environmental Protection Agency, and the Department of Energy. The Partnership has the goal of reducing energy costs in existing homes by 10 percent, and builds on HUD's 2002 interagency agreement with these agencies to promote Energy Star in HUD buildings.

A number of other efforts resulted in successes during FY 2005:

- Establishing state-level partnerships for weatherizing multifamily housing and initiating training for multifamily building operators in energy efficient management and maintenance techniques;
- Encouraging public housing authorities to purchase Energy Star equipment when cost-effective, and to adopt Energy Star for New Homes as the standard for HOPE VI;
- Streamlining energy performance contracting in public housing;
- Issuing a new Mortgagee Letter for FHA's Energy Efficient Mortgage product that consolidated and clarified underwriting procedures;
- Establishing priority rating points for energy efficiency in determining awards for all of HUD's competitive grant programs;
- Incorporating, for the first time, energy performance measures in the Department's and Field Office Management Plans;
- Offering more than 250 field office training and technical assistance activities, as well as several regional conferences sponsored jointly with Headquarters;
- Establishing an effective network of Regional Energy Coordinators to facilitate field and regional outreach activities related to energy efficiency;
- Implementing a new web-based energy efficiency training curriculum for the HOME Investment Partnerships program grantees and providing Energy Star information to all CDBG grantees.

Performance indicators are being developed to measure energy savings resulting from energy efficiency actions in FY 2006 and FY 2007. In addition, Congress enacted the National Energy Policy Act of 2005, which requires HUD to develop an "integrated energy strategy" for public and assisted housing, and contains a number of provisions related to energy efficiency in public housing that PIH will implement in FY 2006.

Data discussion. Field program offices record outreach activities identified in the Management Plan in HUD's Integrated Performance Reporting System. Remaining activities are reported separately each quarter by program or field offices to the Office of Policy Development and Research. The Office of Departmental Operations and Coordination, working with the Offices of Policy Development and Research and CPD, verify and report whether actions are fully implemented.

Objective A.2: Improve the physical quality and management accountability of public and assisted housing.

A.2.1: The average satisfaction of assisted renters with their overall living conditions increases by 1 percentage point in multifamily housing.

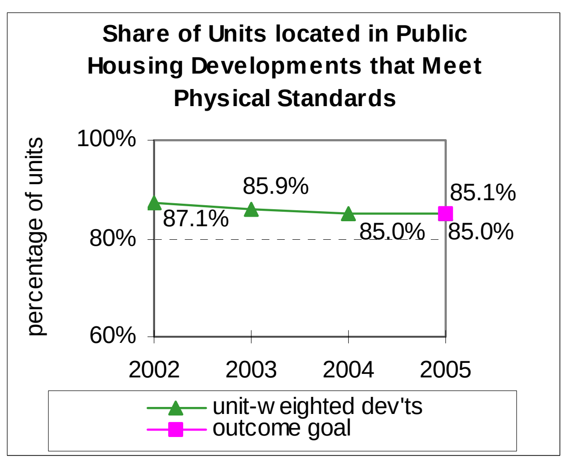
Background. The recipients of HUD housing assistance are one of HUD's largest groups of customers. Resident satisfaction is influenced by the quality of management by housing agencies and private multifamily development managers. In FY 2005, the goal for this indicator was to increase resident satisfaction by 1 percentage point per year in multifamily housing.

The public housing component of this indicator was deleted mid-year because the goal of having high rent satisfaction is considered substantially accomplished. For the last five years, the reported satisfaction rates have hovered in the range of 87 to 90 percent.

Results and analysis. HUD did not measure this outcome because a survey of assisted multifamily renters was not conducted during FY 2005 due to limited resources.

A.2.2: The share of public housing units that meet HUD-established physical standards will be at least 85 percent.

Background. HUD requires PHAs to inspect and maintain public housing to ensure compliance with HUD-established standards for physical condition, or with local codes if they are more stringent. Private owners of assisted housing also have a contractual obligation to meet physical standards. This indicator tracks the proportion of units in public housing facilities that meet these physical standards, helping the Department to monitor its success in improving the physical conditions in public and assisted housing.



The target was revised mid-year to reflect more realistic estimates, based on the introduction of revised criteria for inspections and budget constraints.

Program Website:
www.hud.gov/offices/reac/products/prodphas.cfm

Results and analysis. In FY 2005, 91.5 percent of the properties representing 85.1 percent of public housing units met or exceeded HUD's physical condition standards and the goal was met.

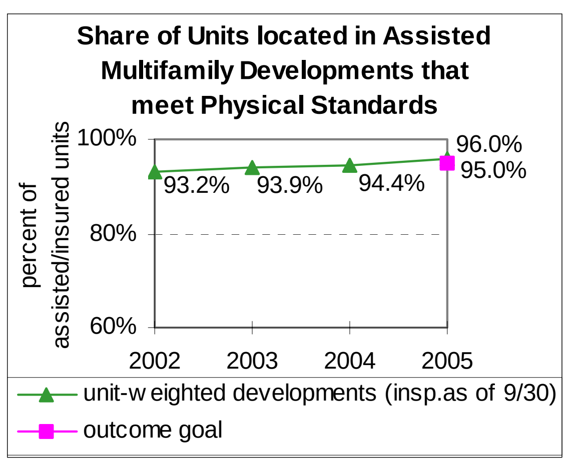
Data discussion. Data for this indicator are from the Real Estate Assessment Center's Physical Assessment Subsystem. Inspections at PHAs are conducted by contractors and are based on a statistically valid random sample of selected buildings and dwelling units within a property. Inspections are scored by the Real Estate Assessment Center system at the property level. The results of project inspections are then aggregated at the PHA level into a Public Housing Assessment System Physical Indicator score and reported as one of four components of the Public Housing Assessment System rule scoring process.

A.2.3: The share of assisted and insured privately-owned multifamily properties that meet HUD established physical standards are maintained at no less than 95 percent.

Background. The President's Management Agenda has established this performance indicator as a priority for the Department. Private owners of HUD-involved multifamily housing have a contractual obligation to meet physical standards. For FY 2005, the target has been set at maintaining the proportion of properties that meet acceptable physical condition standards.

Results and analysis. In FY 2005, 28,061 of 29,254 properties in Multifamily's portfolio (96 percent) were found to have acceptable physical condition upon inspection, exceeding the target of 95 percent. The properties in acceptable condition contain approximately 95 percent of the multifamily units. The multifamily program is on a "3-2-1" inspection schedule, so that the higher-performing properties are not reinspected every year like troubled properties; their scores carry forward until a new inspection is conducted.

For properties that fail to meet physical condition standards, Multifamily Housing has implemented a stringent program to bring them into compliance through certain, consistent, timely follow-up action with severe consequences for failure. Properties scoring below 60 receive immediate attention. Upon the first inspection score below 60, the owner's history of performance, the property's physical condition, and severity of the deficiencies are reviewed to determine whether the responsible program participants should be flagged for non-compliance/performance in HUD's Active Partners Performance System and/or referred to the Departmental Enforcement Center. If referred to the Departmental Enforcement Center, the Center issues a Notice of Violation, and/or a Notice of Default, and meets with the owner to put the owner on notice that failure to correct the deficiencies will result in severe action. The owner is given 60 days to make necessary repairs to bring the property into compliance. If upon reinspection, the property again fails to meet standards, severe actions are taken. For those properties that the owner either cannot or will not bring into compliance, the alternatives are to force a change in ownership that can bring the property up to standard, to assess substantial monetary penalties, or to sever HUD's association with the property by abating any subsidies.



Between June 1, 2002, and September 30, 2005, HUD identified 598 properties nationally (about 2 percent of its portfolio) that continued to be substandard by twice failing a Real Estate Assessment Center physical inspection. Of these, 160 were resolved in prior fiscal years. At the beginning of FY 2005, 112 properties were being monitored to assure compliance with Compliance Disposition Enforcement plans and 137 were being actively reviewed to be put under a Compliance Disposition Enforcement plan. During the fiscal year, an additional 189 properties were added by twice failing a Real Estate Assessment Center physical inspection. At the end of the fiscal year, of the 438 under active review for resolution, 174 were brought up to standard condition or removed from HUD's portfolio, and an additional 126 properties have Compliance Disposition Enforcement Plans active. The balance (138 properties) remains under review and face pending actions, or are in litigation or bankruptcy, have third inspections pending, or await other actions.

Data discussion. Data for this indicator are from the Real Estate Assessment Center's Physical Assessment Subsystem. For private multifamily properties, results for FY 2005 reflect the most recent inspections available as of September 30, 2005. Under the inspection protocols, a substantial share of properties are not scheduled to receive a new inspection during FY 2005; therefore, earlier scores were carried forward.

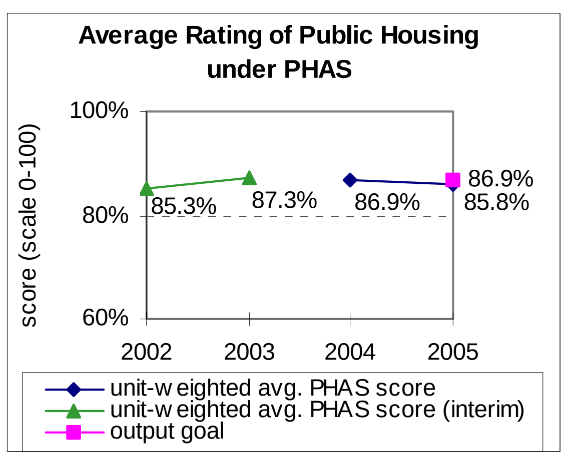
A.2.4: The unit-weighted average Public Housing Assessment Score remains at least 86.9 percent.

Background. The Public Housing Assessment System scores provide an indication of the quality of the housing stock and the management conditions within which each public housing resident lives. This indicator tracks HUD's progress toward increasing the capability and accountability of PHA partners and increasing the satisfaction of residents. The Public Housing Assessment System assesses the performance of PHAs based on their physical and financial condition and their management quality (30 points each), as well as on resident satisfaction (10 points), for a total score of up to 100 points. Housing agencies with composite scores below 60 points or scores below 18 points for any one component are classified as "troubled" agencies.

The FY 2005 target was revised mid-year for public housing to reflect actual FY 2004 performance.

Program Website: www.hud.gov/offices/reac/products/prodphas.cfm

Results and analysis. By the end of FY 2005, the unit-weighted average Public Housing Assessment Score was 85.8 and, thus, the Department did not meet its goal. This decrease in full performance resulted from the evolving scoring mechanism and greater oversight by HUD field offices.



FY 2004 is the first full year all PHAs were evaluated against all elements of the four Public Housing Assessment Score standards. Prior year evaluations were based on a mix of the interim scores, which did not evaluate all financial and physical components of Public Housing Assessment Score and may have resulted in inflated scores. Because of the Department's concern that the interim scores may not accurately portray the true condition of the housing authority, the field office applied a greater focus on certifying Public Housing Assessment System score results. As result of these efforts, management scores were reduced. For example, after comprehensive Public Housing Assessment System score validation reviews in 2005, the Newark, New Jersey and the Detroit, Michigan housing authorities' overall scores were reduced by 52 and 25 points, respectively. The Newark and the Detroit authorities collectively have over 12,000 units and represents over 1 percent of the total number of units in the Department's public housing inventory.

Public Housing Assessment System Scores

Scoring Data	**2003**	**2004**	**2005**
Total Unit Count	1,077,876	1,128,385	1,117,169
Unit-Weighted Average Scores	87.3	86.9	85.8

Source: Real Estate Assessment Center

Data discussion. The data sources are the Real Estate Assessment Center-Public Housing Assessment System database. Some PHAs were excluded from this analysis. These consisted of agencies designated as "Moving to Work," "Invalidated," and "Advisory."

A.2.5: The household-weighted average SEMAP score increases by 1 percentage point.

This goal was deleted. HUD will be replacing the Section Eight Management Assessment Program as a measure of the management of the Housing Choice Voucher program. During FY 2005, the transition period, HUD monitored compliance using Indicator A.2.10.

A.2.6: The average Financial Assessment Subsystem score for all PHAs designated as "troubled" will increase by 3 percent.

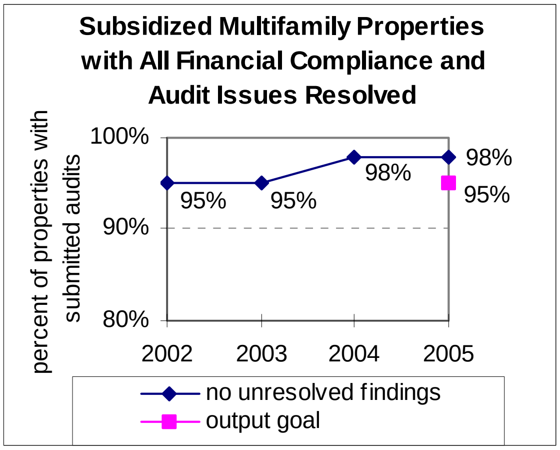
This indicator was deleted because the Department no longer considers it a required measure given the substantial progress in recent years and coverage through the Public Housing Assessment Score.

A.2.7: Among households living in assisted and insured privately-owned multifamily properties, the share that meets HUD's financial management compliance is maintained at no less than 95 percent.

Background. The Real Estate Assessment Center evaluates the financial management of HUD-involved, privately-owned multifamily properties. Through the Center's Financial Assessment Subsystem, multifamily owners electronically submit financial information. Data are validated, reviewed, and compliance checks performed. The Real Estate Assessment Center financial analysts review the compliance flags and may make referrals to the Departmental Enforcement Center or to Multifamily Housing on compliance issues.

Results and analysis. For FY 2005, Multifamily field offices brought 98 percent of the properties they financially reviewed into compliance, exceeding the goal of 95 percent. For the reporting period in 2005, the share of properties reviewed that had no financial compliance findings was 76 percent. HUD's multifamily project managers in the field offices quickly resolve the preponderance of compliance findings.

The Financial Assessment Subsystem also scores financial statements for every HUD-involved property (i.e., those properties with insured mortgages and/or that have Section 8 contracts or receive other subsidies (including subsidized uninsured properties)). This score is used as only one criterion in the ranking of a field office's or a project manager's portfolio. The ranking is done as triage to focus attention on the weaker properties or properties that have a higher degree of risk.



In addition, owners not submitting their audited financial statements in a timely manner are referred to the Departmental Enforcement Center. The management plan goal for multifamily housing is that 95 percent of the properties submitting a financial statement either: 1) have no compliance issues or have had such issues corrected, or 2) the owner is referred to the Departmental Enforcement Center.

Data discussion. Initial compliance findings are identified by the Real Estate Assessment Center's Financial Assessment Subsystem. The Real Estate Management System is used for tracking the Office of Multifamily Housing's corrective actions. The Financial Assessment Subsystem financial assessment is a process validated by the American Institute of Certified Public Accountants. The Real Estate Assessment Center performs Quality Assurance Reviews of the audited financial statements submitted by independent public accountants. These reviews provide assurance that the audited statements are accurate and reliable and that audits are conducted in accordance with government and professional standards. The Financial Assessment Subsystem incorporates extensive data checks and both targeted and random review by independent auditors.

A.2.8: The HOPE VI Revitalization program for public housing relocates 1,446 families, demolishes 2,602 units, completes 6,267 new and rehabilitated units, and occupies 6,070 units.

Background. The HOPE VI Revitalization program has been HUD's primary program for redeveloping the worst public housing by demolishing unsustainable developments and rebuilding communities in accordance with community-sensitive principles. This indicator tracks the implementation of HOPE VI redevelopment plans in terms of four key outputs: households relocated to permit redevelopment, units demolished, new and rehabilitated units completed, and units occupied. The annual goals reflect planned achievements based on HOPE VI plans submitted to HUD by PHAs.

Program Website: www.hud.gov/offices/pih/programs/ph/hope6/about/description.cfm

Results and analysis. As of June 30, 2005, the HOPE VI Revitalization program had exceeded its redevelopment plans in all of the four key outputs. Grantees relocated 4,702 households to permit redevelopment, approximately 225 percent above the goal of 1,446 relocations. The HOPE VI program demolished 8,765 units, almost 237 percent more than the goal of 2,602. Completions of new or rehabilitated units totaled 9,632, achieving 54 percent more than the 6,267-unit goal. Families occupied 8,467 units, reaching approximately 40 percent over the goal of 6,070 occupied units.

Additionally, previous years' grantees continue to be tracked against achievement standards. The Achievement Standard is based on grantees' planned achievements, taking into consideration Grant Agreement deadlines and factors influencing performance. Based on the 54 month implementation period for HOPE VI grants, since program inception a cumulative total of 60,923 households had been relocated, achieving 95 percent of the 64,477 achievement standard; 76,766 units had been demolished, reaching 90 percent of the 85,244 unit achievement standard; 43,397 units (new and rehabilitated) had been completed, achieving 55 percent of the 79,003 unit achievement standard; and 39,931 completed units had been occupied, achieving 51 percent of the achievement standard of 79,003.

HOPE VI Achievements

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2005 Goal
Households Relocated	4,668	6,859	4,618	4,702	1,446
Units Demolished	8,346	7,468	4,919	8,765	2,602
Units Completed (Construction or Rehab)	6,468	8,611	4,132	9,632	6,267
Units occupied	6,205	7,512	4,210	8,467	6,070

The HOPE VI program office continues to emphasize timeliness and accountability in the implementation of HOPE VI grants in order to achieve its goals. The primary tool for achieving these objectives include vigilant management and monitoring of grants by grant managers, holding PHAs accountable to following their program schedule, extensive use of the quarterly progress reporting system in all aspects of the HOPE VI program, risk assessment of grantees, and a range of programs and policy guidance.

Data discussion. The data are submitted quarterly to HUD by PHAs via PIH's HOPE VI quarterly progress reporting system. In addition to the grant management tools mentioned above, field staff verifies reports of redevelopment progress through site visits. The system has been subject to routine integrity checks by the system administrator. Although the OIG and the GAO have not audited the system itself, they have used its data in their reviews of the HOPE VI program.

Supplemental Information – Cumulative Achievements

	FY 2002	FY 2003	FY 2004*	FY 2005**	Achievement Standard***
Households Relocated	44,744	51,603	56,221	60,923	64,477
Units Demolished	55,614	63,082	68,001	76,766	85,244
Units Completed (Construction or Rehab)	21,022	29,633	33,765	43,397	79,003
Units Occupied	19,742	27,254	31,464	39,931	79,003

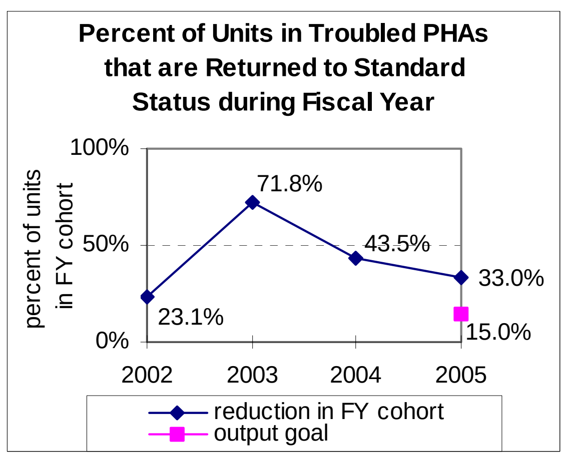
* The FY 2004 cumulative data is as of the quarter ending June 30, 2004, as reported in the FY 2004 PAR.

** To accommodate the accelerated deadline, the most recent four quarters of data are provided, covering July 1, 2004, through June 30, 2005.

*** The Achievement Standard is based on grantees' planned achievements, taking into consideration Grant Agreement deadlines and factors influencing performance. Standards are: Relocation and demolition should be 100 percent complete for FY 1993-2002 grantees, and 50 percent complete for FY 2003 grantees. Unit completion and occupancy should be 100 percent complete for FY 1993-1998 grantees, and partially completed, based on decreasing percentages, for FY 1999-2002 grantees.

A.2.9: The percent of public housing units under management of troubled housing agencies at the beginning of FY 2005 decreases by 15 percent by the end of the fiscal year.

Background. PIH and the Real Estate Assessment Center use the Public Housing Assessment System to evaluate the performance of PHAs based on four components: physical condition, management operations, financial condition, and resident satisfaction. Housing agencies with composite scores below 60 percent, or scores below 18 percent in any one component, are classified as "substandard" or "troubled." This indicator tracks the change in the number of units managed by "troubled" PHAs at the beginning of the fiscal year that successfully return to "standard" status by the end of the fiscal year due to intervention by the Department.



Results and analysis. During FY 2005, the number of units managed by "troubled" PHAs was reduced by 33 percent, exceeding the 15 percent target. On October 1, 2004, 136 PHAs, containing 66,424 low-rent units, were assigned to the PIH field offices. By September 30, 2005, 21,936 of those units were no longer troubled after receiving assistance from the PIH field offices and the Recovery and Prevention Corps. The PIH Office of Field Operations continues to provide effective monitoring of the field offices' troubled portfolio and quick intervention to recover troubled PHAs. The Recovery and Prevention Corps supports the Public Housing field offices by providing technical assistance, training, and consultation services.

Data discussion. The Troubled List is issued monthly and reports the status of troubled PHAs. PHAs will remain on the Troubled List until they receive a passing Public Housing Assessment System score (i.e., are recovered). For purposes of this analysis the Department only examines data related to low-rent units. To calculate the percent of troubled housing units that are no longer managed by troubled PHAs, the Department compared the PHAs that were listed on the September 2004 report to the PHAs that are shown on the September 2005 list. Those PHAs that were not reported on the September 2005 list are considered recovered. The number of units managed by the recovered PHAs was used to calculate the percentage decrease in units managed by troubled agencies.

The analysis only represents a "snap-shot" of the Department's ability to assist troubled PHAs. Because of reporting delays, appeals, or quality assurance reviews, PHA scores are not always released in a timely fashion. Because of these fluctuations in the release or changes to the scores, this analysis only reflects variations between scores and units of the control group (September 2004 Troubled List) and the PHAs that were deemed troubled as of September 30, 2005.

Scores from the management operations and financial conditions components are subject to independent audit, and the physical conditions component scores are based on independent inspections of the PHAs' properties and are verified through HUD's Quality Assurance Program.

A.2.10: The share of Housing Choice Voucher/Housing Certificate Fund (HCF) units managed by troubled housing authorities decreases by 1 percent.

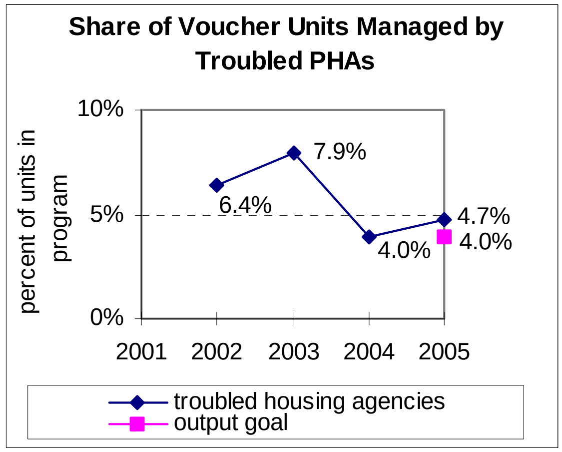
Background. By maintaining a low share of vouchers managed by troubled housing agencies, the Department hopes to ensure that all vouchers are used effectively. This indicator tracks the share of assistance under the Housing Choice Voucher program that is vulnerable to mismanagement by troubled housing agencies. Using the Section Eight Management Assessment Program, HUD rates the PHAs based on, but not limited to, waiting list management, rent reasonableness determinations, adjusted income verification, housing quality standards inspections and enforcement, expanding housing opportunities, lease-up rates, Family Self-Sufficiency program participation, and correct tenant rent calculations. PHAs are designated as troubled when they receive less than 60 percent of the maximum points they can achieve.

The target was revised mid-year from 7.4 percent to 3.96 percent due to better than forecasted performance in FY 2004.

Results and analysis. The unit goal was not met, but the number of PHAs that were classified as troubled declined significantly. There was a decrease of 27.5 percent in the number of troubled PHAs (103 versus 142); however, since the PHAs declared troubled during the current period were, on the average, larger than the prior period the number of units covered by these PHAs increased from 3.96 percent to 4.72 percent. Of the 2,104 PHAs that received the Section Eight Management Assessment Program ratings for the four quarters ended December 2004, 103 scored under 60 percent and were declared troubled. This represented 91,444 units out of 1,935,716, or a share of assistance of 4.72 percent.

Out of the 2,030 PHAs that received the Section Eight Management Assessment Program ratings for the four quarters ended December 2003, 142 scored under 60 percent and were declared troubled. This represents 76,299 units out of 1,927,662, or a share of assistance of 3.96 percent. The results indicate that although fewer PHAs were declared troubled in 2004, their respective inventories of voucher units were greater.

Data discussion: PHAs submit their Section Eight Management Assessment Program certifications into the PIH Inventory Management System for their assessed fiscal year no later than 60 days from the end of the PHA's fiscal year. Since there is another two-month period between the submission deadline and HUD field office scoring, with additional time required by Headquarters to ensure data completeness, HUD assesses its Section Eight Management Assessment Program-related performance goals based on calendar year results rather than fiscal year results. Data are verified through (1) independent public accountant audits and/or (2) on-site file reviews performed by the field office, or a contracted vendor, based on the Field Office Management Plan.

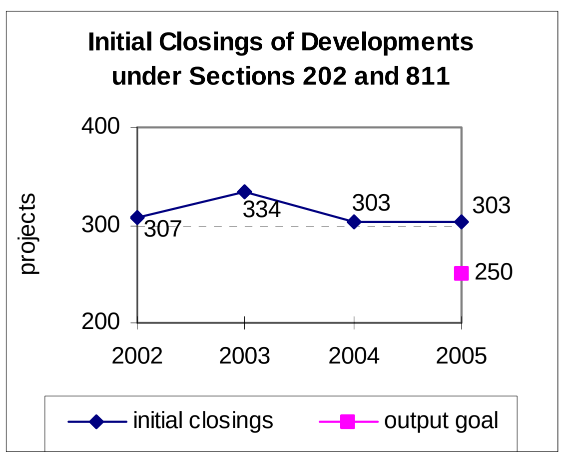


Objective A.3: Increase housing opportunities for the elderly and persons with disabilities.

A.3.1: Increase the availability of affordable housing for the elderly and persons with disabilities by bringing 250 projects to initial closing under Sections 202 and 811.

Background. HUD provides a substantial number of housing units for populations with special needs each year. Project sponsors can receive capital advances for multifamily development under the Supportive Housing for the Elderly (Section 202) program and the Supportive Housing for the Persons with Disabilities (Section 811) program. This indicator tracks the number of projects each year that reach the initial closing stage (when the project design was approved, all of the local and legal requirements have been met, and construction is expected to start in 30 days).

Results and analysis. During FY 2005, HUD reached initial closing on 303 Section 202 and 811 projects resulting in an additional 6,425 Section 202 units and 1,605 units for persons with disabilities. The performance exceeded the closings goal by 20 percent.



In recent years HUD has increased the emphasis on timely closings. Section 202 and 811 projects can be difficult to bring to closing because sponsors usually must find other sources of funding to supplement the Section 202 or Section 811 capital advances. Some project features are not fundable by the program but are necessary to meet local requirements for the project to blend into the neighborhood. Sponsors may also experience cost increases due to delays between the time of application and the projected time for construction. Other delays are encountered because neighborhood residents sometimes oppose the developments.

The Section 202 Demonstration Planning Grant Program is expected to reduce or at best eliminate any delay in the development process. In FY 2004, the Department provided predevelopment grant funding to 104 of the 148 sponsors that received Fund Reservation Awards pursuant to the FY 2004 Super Notice of Funding Availability for the Section 202 Supportive housing for the Elderly Program. Sponsors that participate in the Section 202 Demonstration Planning Grant Program are expected to reach initial closing within 18 months or less.

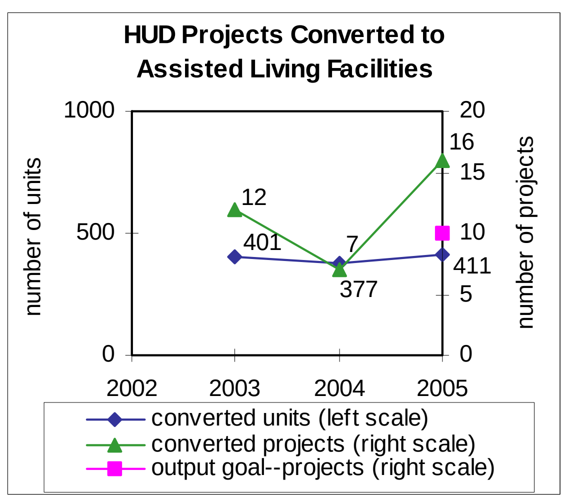
To address the delay issues and to expedite processing, more authority was delegated and classroom training was conducted for field staff for the first time in over a decade. This training was to reinforce the requirements of Notice 96-102, which streamlined the processing for 202 and 811 projects.

To address the issue of sponsors needing external sources of funding, since FY 2001 nonprofit owners of Section 202 and Section 811 developments could indicate their intention to form limited partnerships with for-profit entities. The partnerships help them compete for low-income housing tax credits for the purpose of providing additional capital and/or increasing the number of affordable housing units available to meet the needs of the elderly and persons with disabilities. Additionally, in FY 2005, HUD began a study of the costs of developing Section 202 and Section 811 projects. HUD is currently reviewing the options proposed in the study and anticipates implementing any recommended changes during FY 2006.

Data discussion. This measure uses data from the Development Applications Processing system. Data from this system also are used to track management plan goals and accomplishments, which helps ensure data are accurate. Field offices regularly review data to assure their accomplishments are accurately reflected.

A.3.2: The Assisted-Living Conversion program increases the supply of suitable housing for the frail elderly by completing conversion of 10 properties per year.

Background. HUD's FY 2002 appropriations included funds to convert Section 202 multifamily projects for the elderly to assisted living. The conversions may involve entire projects or a subset of their units. This funding responds to the projected increase in demand for affordable assisted living accommodations caused by the aging of the baby boomer generation. The conversions are subject to state licensing requirements, creating potentially lengthy conversion timetables. The goal was to convert another 10 projects to assisted living by the end of FY 2005.



Results and analysis. During FY 2005, the Department successfully accomplished 160 percent of its goal. HUD and the grantees completed the conversion process for 16 projects and provided an additional 411 units of assisted living. The 18 grants involved 16 projects, as 2 projects received more than one grant to convert the units in the project. The goal of converting 10 projects was accomplished despite the fact that these properties are difficult to complete because construction is often delayed by unanticipated construction changes, the amount of time needed to get building permits, and the need to get additional funds to pay for changes required by the locality and/or increased construction costs.

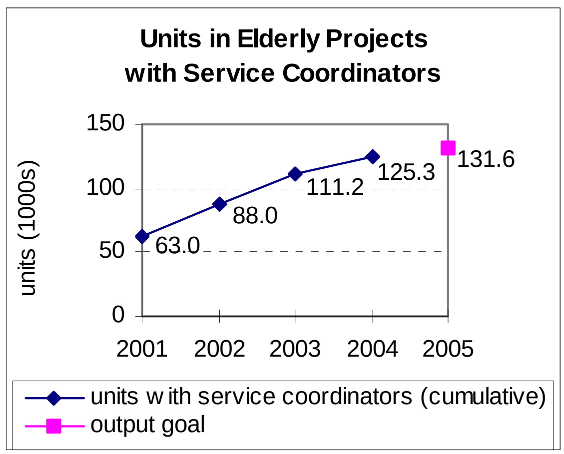
Data discussion. This measure is based on the Assisted Living conversion grant database, consisting of annual progress reports submitted by grantees. The Office of Housing verifies grantee reports by monitoring.

A.3.3: The number of elderly households living in private assisted housing development served by a service coordinator for the elderly increases by 5 percent.

Background. Service coordinators improve the quality of life of elders by helping them remain as active and independent as their health permits. Service coordinators for assisted housing projects are funded through grants made by the Office of Housing and from assisted housing project budgets and reserves.

HUD received a significant increase in funding for service coordinators in assisted multifamily housing, from $13 million in FY 1999 to $50 million in FY 2000, to help meet the needs of a growing population that is aging in place. The Service Coordinator program was funded at $50 million again in FY 2001, FY 2002, FY 2003, and FY 2004. However, in FY 2005, only $30 million was appropriated.

This indicator was revised mid-year from 10 percent because more funding than initially expected is being used for program renewals.



Results and analysis. The analysis cannot be completed at this time because the FY 2005 Notice Of Funding Availability was reopened. As a result, the service coordinator awards will not be made until the end of the first quarter of FY 2006.

Of the $50 million appropriated for FY 2005, approximately $16 million will be used to fund service coordinators in new properties, with the balance renewing existing properties. In future fiscal years, the percentage of the appropriated funds needed to extend the service coordinators in the previously funded projects is expected to increase to the extent that no funds will remain for new coordinators. However, HUD will continue to encourage owners to use residual receipts to leverage federal resources in order to increase the number of service-enhanced units. The Department also will enhance the Service Coordinator program as appropriate on the basis of ongoing program reviews, grantee operations, and Notice of Funding Availability responses.

The Department also encourages service coordinators to assist low-income elderly families living near, as well as those residing in, multifamily elderly projects.

Data discussion. This measure uses data for elderly private multifamily projects with service coordinators from the Office of Housing service coordinator grants database. Data validation is ongoing with the field offices active in using the program.

Objective A.4: Transition families from HUD-assisted housing to self sufficiency.

A.4.1: By FY 2008, increase the proportion of those who "graduate" from HUD's public housing and Housing Choice Voucher programs by 5 percent and decrease the proportion of active participants who have been in HUD's housing assistance programs for 10 years or more by 10 percent.

Background: HUD's public and assisted housing programs provide low-income families with transitional housing that affords an opportunity for families to gain self-sufficiency. This indicator emphasizes the movement of families to adequate shelter of their own, which allows HUD to serve more families in need of housing assistance. The objective of this indicator is to improve the annual "graduation" proportion from the FY 2003 baseline of 11.1 percent to at least 11.6 percent in FY 2008 and reduce the proportion of households who have been in HUD's public housing and Housing Choice Voucher programs for 10 years or more from 20.6 percent in FY 2003 to 18.5 percent or less by FY 2008.

This indicator, originally adopted in HUD's FY 2003-2008 Strategic Plan, has been modified mid-year to track the percentage of all recipients who leave public and assisted housing each year for any reason as well as the reduction of long-term dependence.

Results and analysis. The first year of tracking these data shows encouraging results. There has been positive movement in the end of participation measure. Based on FY 2003 data, the goal for the five-year period is 11.6 percent (11.1 percent of participants ended their participation in both the public housing and Housing Choice Voucher programs times 105 percent). At the end of FY 2005, 12.8 percent, or 49,348 additional households, were able to leave subsidized rental housing for the private market. Accordingly, the five-year goal had been surpassed after the second year.

As additional evidence that families are using the programs as a transitional benefit, the percentage of current participants with a length of stay greater than or equal to 10 years has decreased when compared to FY 2003 numbers. In FY 2003, 20.6 percent of active households had participated in the program for 10 years or more. Accordingly, the goal by FY 2008 is 18.5 percent (20.6 percent times 90 percent). By FY 2005, 19.2 percent of households have been in the programs for 10 years or more -- which exceeds this goal. This reduction is a reflection of many macro- and micro-economic factors, many of which are beyond HUD's ability to impact. As examples, the unemployment rate, local housing market, and vacancy rates all play a significant role in the decision making process for households considering whether to leave assisted housing programs for the private market. The data may also reflect PHA efforts to encourage transition, such as through the Voucher Homeownership program.

Data discussion. HUD uses occupancy data taken from the Inventory Management System database to track and report these measures. PHAs submit these data on each household in their program. Graduation is defined as the proportion of households who were active in the public housing and Housing Choice Voucher programs during the fiscal year and left rental assistance at any point during the year. For the Voucher program, participants who enter the Homeownership component are counted as exiting the "rental assistance" program.

Resident length of stay is based on continuous program participation from the date of program admittance to the end of the fiscal year. The length of stay measure does not accurately capture tenure for the small number of families who transfer between programs because their length of stay restarts at zero.

The Inventory Management System is the most complete data source available on low-income assisted households. However, it is susceptible to the limitations found in all administrative data. Incomplete reporting to the Inventory Management System may introduce some error to these measures. In addition, data are continuously updated into the system. The data have minimal sampling error because they represent a census of assisted households. High reporting rates limit non-response error. However, PHAs that participate in the Moving to Work Demonstration project have not been required to submit household data into the Public and Indian Housing Information Center and are not represented by these data.

A.4.2: Average earnings increase by 5 percent from year to year among non-elderly non-disable households in the public housing and Housing Choice voucher programs.

This goal was eliminated because the public housing and Housing Choice Voucher program do not have sufficient occupancy policies or grant programs to provide the impetus to move residents toward meeting the goal of increasing earnings from year to year.

A.4.3: Increase by 5 percent the number of FSS families whose predominant source of income is earned income.

This goal was deleted. The effect of external factors beyond the control of HUD and PHAs administering the program make this indicator a poor measure of program performance. External factors include job market conditions and the varying education and skill levels of families that choose to enroll in the Family Self-Sufficiency program.

A.4.4: Increase by 3 percent the total number of PHAs administering Family Self-Sufficiency programs.

This goal was deleted because PHAs are reluctant to implement new Family Self-Sufficiency programs in the current climate of Housing Choice Voucher program limitations.

Goal C: Strengthen Communities

Strategic Objectives:

C.1 Provide capital and resources to improve economic conditions in distressed communities.

C.2 Help organizations access the resources they need to make their communities more livable.

C.3 End chronic homelessness and move homeless families and individuals to permanent housing.

C.4 Mitigate housing conditions that threaten health.

PERFORMANCE REPORT CARD - GOAL C

	Performance Indicators	2002	2003	2004	2005	2005 Target	Met	Notes
C.1.1	A total of 76,432 jobs will be created or retained through CDBG.	90.3	108.7	78.8	91.3	76.4	Yes	j
C.1.2	RC, EZ and EC areas achieve community renewal goals in three areas – new or rehabilitated affordable housing units completed, homeless persons assisted, and residents finding or retaining a new or existing job. Cumulative goals.	32,514 50,487 169,935	34,835 47,657 189,416	39,693 60,786 238,166	41,853 60,674 230,048	38,603 56,088 219,352	Yes Yes Yes	
C.1.3	A total of 3,728 at-risk youths are trained in construction trades through Youthbuild.	3,729	4,123	3,896	4,366	3,728	Yes	
C.2.1	Streamline the Consolidated Plan to make it more results-oriented and useful to communities.				Proposed changes	Proposed changes	Yes	
C.2.2	The share of CDBG entitlement funds for activities that principally benefit low- and moderate-income persons remains at or exceeds 92 percent.	94.4%	94.8%	94.9%	95.3%	92.0%	Yes	
C.2.3	The share of State CDBG funds for activities that principally benefit low- and moderate-income persons remains at or exceeds 96 percent.	96.4%	96.7%	96.4%	96.8%	96.0%	Yes	
C.2.4	For CDBG entitlement grantees, increase the number of approved Neighborhood Revitalization Strategy Areas by five percent.	N/A	N/A	N/A	5.3%	5.0%	Yes	
C.2.5	At least 35 percent of single family mortgages endorsed for insurance by FHA are in underserved communities.	N/A	34.7%	39.4%	41.3%	35.0%	Yes	
C.2.6	The number of multifamily properties in underserved areas insured by FHA is maintained at 25 percent of initial endorsements.	33.7%	N/A	34%	43%	25%	Yes	
C.2.7	HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined geographic targets for mortgage purchases in underserved areas.	32.6% 31.7%	32.8% 31.0%	32.1% 32.7%	33.5% 32.3%	31.0% 31.0%	Yes Yes	f f
C.2.8	Section 4 funding will stimulate community development activity totaling ten times the Section 4 investment.	N/A	N/A	N/A	48:1	10:1	Yes	

PERFORMANCE REPORT CARD - GOAL C

	Performance Indicators	2002	2003	2004	2005	2005 Target	Met	Notes
C.3.1	At least 386 functioning CoC Communities, or 93 percent of our Continuum of Care communities, will have a functional Homeless Management Information Systems by FY 2005.	24	75	288	382	386	Yes	i
C.3.2	The number of chronically homeless individuals declines by up to 50 percent by FY 2008.	N/A	N/A	N/A	N/A	N/A	N/A	b
C.3.4	The percentage of formerly homeless individuals who remain housed in HUD permanent housing projects for at least 6 months will be 70 percent.	N/A	N/A	N/A	70%	70%	Yes	
C.3.5	The percentage of homeless persons who have moved from HUD transitional housing into permanent housing will be 60 percent.	N/A	N/A	N/A	61%	60%	Yes	
C.3.6	The employment rate of persons exiting HUD homeless assistance projects will be 10 percentage points greater than the employment rate of those entering.	N/A	N/A	45,066	7%	10%	No	
C.3.7	Overcrowded households in Indian country shall be reduced by one percent.	N/A	N/A	4.5%	4%	1%	Yes	
C.3.9	The percentage of HOPWA clients who maintain housing stability, avoid homelessness and access care increases through the use of annual resources with the goal that this reaches 80 percent by 2008.	N/A	N/A	N/A	N/A	N/A	N/A	b
C.4.1	The average number of observed exigent deficiencies per property does not exceed 1.85 for public housing and 1.40 for multifamily housing.	1.50 1.46	1.52 1.41	1.85 1.40	1.92 1.40	1.85 1.40	No Yes	
C.4.2	The share of units that have functioning smoke detectors and are in building with functioning smoke detectors will be 92.8 percent or greater for both public housing and multifamily housing.	91.4% 92.4%	91.8% 91.8%	92.8% 93.4%	92.9% 94.0%	92.8% 92.8%	Yes Yes	
C.4.3	The number of children under the age of 6 who have elevated blood lead levels will be less than 152,000 by 2005, down from 434,000 in 1992-2000 and 890,000 in 1991-1994.	N/A	434,000	N/A	N/A	152,000	Yes	g,i
C.4.4	As part of a 10-year effort to eradicate lead hazards, the Lead Hazard Control Grant program will make 9,500 units lead safe in FY 2005.	8,040	9,098	8,811	9,500	9,500	Yes	i
C.4.5	At least 2,500 housing units undergoing construction or rehabilitation will use Healthy Homes principles.	N/A	N/A	N/A	4,476	2,500	Yes	
C.4.6	Upon advice from the Consensus Committee, HUD will publish rules for dispute resolution and installation programs mandated by the Manufactured Housing Improvement Act of 2000 by September 30, 2005.	N/A	N/A	N/A	1	2	No	

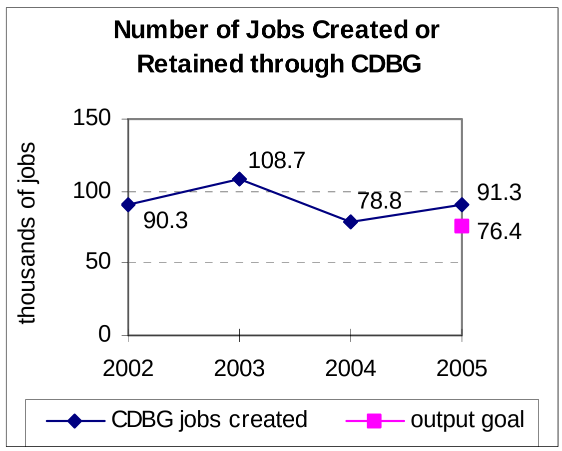
Notes:

a Data not available.
b No performance goal for this fiscal year.
c Tracking indicator.
d Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).
e Calendar year beginning during the fiscal year shown.
f Calendar year ending during the fiscal year shown.
g Result too complex to summarize. See indicator.
h Baseline newly established.
i Result is estimated.
j Number is in thousands.
k Number reported in millions.
l Number reported in billions.

Objective C.1: Provide capital and resources to improve economic conditions in distressed communities.

C.1.1: A total of 76,432 jobs will be created or retained through CDBG.

Background. This measure tracks the number of jobs grantees report as created or retained as a result of using CDBG funds for economic development activities. Such use reflects the CDBG statutory objective of the "development of viable urban communities…by expanding economic opportunities…principally for persons of low and moderate income." The use of CDBG funds for activities that create or retain jobs also helps achieve the statutory objective of providing "a suitable living environment" principally for low- and moderate-income persons because of the long-term benefits that permanent employment opportunities bring to individuals and communities alike. While grantees continue to use CDBG funds for activities that will create or retain jobs, this goal was revised mid-year, which reduced the goal from 82,378 jobs to 76,432. This reduction was based on actual accomplishments reported for FY 2004, the actual FY 2005 CDBG appropriation, estimated spend-out rates, and a 3 percent reduction for inflation.



Results and analysis. CDBG grantees (states and units of local government) reported that 91,287 full-time equivalent jobs were created or retained from the use of CDBG funds in FY 2005. The total number of jobs reported is 19 percent greater than the projected goal of 76,432, and a 16 percent increase from the 78,828 full-time equivalent jobs that were created or retained with CDBG funds in FY 2004. A significant percentage of the increase is due to innovative activity in one community.

Although the total amount of CDBG funds used each year for economic development activities has averaged about nine percent of total expenditures over the past five years, the number of jobs created or retained can vary considerably from year to year. CDBG spending levels for economic development activities decreased by less than one percent from FY 2004 to FY 2005. While the CDBG program exceeded its goal, several factors make it difficult to accurately estimate the number of jobs that will be created or retained in any given year. First, job creation/retention is frequently the national objective selected by the grantee to be met by an economic development activity, but it is not the only national objective that may be met by such an activity. When a different objective is selected, information on jobs created or retained is not required. Second, when assistance is identified as meeting the job creation national objective, there is typically a lag between when the investment is made and when persons are hired for the newly created jobs. The lag between investment and job creation is not generally predictable and varies significantly with the nature and scope of the project. Additionally, each year HUD's analysis of the data reported by grantees in the Integrated Disbursement and Information System is more thorough. Each year improved processing of the data allows for more in-depth quality control. As a result, HUD is able to identify a greater number of reporting problems and refine criteria as needed. Edits that have been added to the Integrated Disbursement and Information System help to eliminate double-counting and reduce incorrect reporting, but HUD's additional data review is critical for identifying reporting inaccuracies that cannot be detected electronically.

Data discussion. The data used for this measure are based on information reported by grantees in the Integrated Disbursement and Information System during FY 2005. While data clean-up efforts continued in FY 2005 and edits to the system have improved data quality, additional guidance will be issued to grantees on reporting on CDBG-assisted activities that create or retain jobs. HUD will also determine what additional changes can be added to improve reporting in this area in the re-engineering of the Integrated Disbursement and Information System, which will streamline data entry and introduce new performance measurement outcomes -- associated with the outputs already reported -- to the CDBG program.

C.1.2: Renewal Community, Empowerment Zone and Enterprise Community areas achieve community renewal goals in three areas.

Background. Renewal Communities, Empowerment Zones, and Enterprise Communities are distressed geographic areas designated by the Secretary to receive certain federal benefits, including tax incentives. By tracking residents that find gainful employment, HUD has evidence that the capital and program resources improved economic conditions. Tracking of new and rehabilitated affordable housing construction and homeless services provides evidence of the movement of individuals to permanent housing.

Goals Identified in Implementation Plans	FY 2002 (Actual)	FY 2003 (Actual/ 1)	FY 2004 (Actual/ 2)	FY 2005 (Cum. Goal)	FY 2005 (Cum Actual/ 3)
New or rehabilitated affordable housing units completed	*32,514*	*34,835*	*39,693*	*38,603*	*41,853*
Homeless persons assisted	*50,487*	*47,657*	*60,786*	*56,088*	*60,674*
Residents finding or retaining a new or existing job	*169,935*	*189,416*	*238,166*	*219,352*	*230,048*

1/ Results do not include data from 10 reports not yet submitted.
2/ Results include data from pre-2004 prior year reports for 27 reports not yet submitted.
3/ Results include data from pre-2005 prior year reports for 39 reports not yet submitted. The FY 2005 data includes updated reporting on prior year accomplishments.

Results and analysis. Empowerment Zones and Enterprise Communities met or exceeded targets in all three cumulative goals. Compliance was achieved in building affordable housing, assisting homeless persons, and creating jobs.

- The number of housing units (41,853) is 8 percent above the goal of 38,603 new or rehabilitated housing units completed.
- The number of homeless persons assisted (60,674) is 8 percent above the goal of 56,088 homeless persons assisted.
- The number of residents finding jobs (230,048) is 5 percent above the goal of 219,352 residents finding or retaining a new or existing job.

As a result of data clean up efforts this past year, HUD now requires that the designees maintain backup documents to be able to support reported information. This may be causing more conservative reporting, and we are aware of particular instances where designees lowered the numbers previously reported as actual. This data clean up is a program management improvement that will continue during 2006. In the past, HUD observed that some Empowerment Zones and Enterprise Communities overestimated their goals and also tended to over report their accomplishments because of the complexity of administering comprehensive strategic plans with leveraged partnerships. The initial 10-year strategic plan period for seven Round I urban Empowerment Zones and all 65 urban Enterprise Communities ended in 2005, and HUD believes that this contributed to some over reporting in 2004 and subsequent data corrections in 2005, resulting in lower cumulative reported outputs. Additionally, with smaller appropriations in FY 2004 and FY 2005, each Round II Empowerment Zone was awarded less than $1 million, approximately $990,000 in FY 2004 and $660,000 in FY 2005, leading to decreased economic development activity with grant funding. Jobs and investments resulting from the Empowerment Zone and Renewal Community tax incentive packages for businesses are not captured in HUD's data.

In order to improve performance, CPD will continue to provide technical assistance on improving management, monitoring and performance measurement. This includes training new designee staff resulting from frequent turnover. To date, 40 of 79 Empowerment Zones and Enterprise Communities have reported for 2005. Other management improvements in process are catching up with overdue reports and ensuring data timeliness. Finally, CPD will adjust the annual reporting schedule for Empowerment Zones, Enterprise Communities, and Renewal Communities to bring them into line with new government-wide reporting and budget cycles.

Data discussion. CPD's online Performance Measurement System allows Empowerment Zones and Enterprise Communities to submit annual progress reports. HUD aggregates the data to calculate the indicator results. The data represent the actual number of reported cumulative accomplishments and are compared to the previous year to give the progress for the year.

Currently, Empowerment Zones and Enterprise Communities have a July 1 – June 30 reporting year. To date, only 40 of 79 Empowerment Zones and Enterprise Communities have reported, although full reporting is expected by December 31, 2005.

HUD designated Round I Enterprise Communities for a 10 year period that ended in December 2004. CPD anticipates that some Round I Enterprise Communities will continue reporting in 2006. In addition, for Round I Empowerment Zones, periodic reporting will be required for reporting progress in implementing the Tax Incentive Utilization Plan.

In order to verify accuracy of information in the Performance Measurement System, HUD field staff review a sample of all Empowerment Zones and Enterprise Communities reported implementation plans in a given year. In addition, CPD issued a desk officer guidebook for Round II and Round III Empowerment Zones to provide instructions on all functions relating to Empowerment Zone program management.

HUD is still working with interagency partners to develop sound data on the use of $11 billion in earmarked tax incentives and the impact on community revitalization. HUD will include such a measure in the Annual Performance Plan when these efforts come to fruition. Hundreds of individual Renewal Communities, Empowerment Zones and Enterprise Communities achievements will also be featured in our upcoming *Spotlight on Results* publication.

C.1.3: A total of 3,728 at-risk youths are trained in construction trades through Youthbuild.

Background. The Youthbuild Program offers 16 to 24 year old high school dropouts general academic and construction skills training, resulting in housing construction or rehabilitation. For FY 2005, 3,728 youths were projected to be trained based on the number of applications granted and the projections of each.

Program Website:
www.hud.gov/offices/cpd/economicdevelopment/programs/youthbuild/index.cfm

Results and analysis. Between July 1, 2004, and June 30, 2005, the actual number of youths trained was 4,366, 17 percent above the goal. As the Youthbuild program has matured, awards are being made to previous grantees. Having established programs and experience running a Youthbuild program, these grantees are more efficient in enrolling students, resulting in a greater number of youths trained. The Office of Economic Development, which is responsible for administering the Youthbuild program, has implemented a data collection process to review all active projects each fiscal year. The process allows for a more accurate analysis of the program to determine the performance and impact of the local projects.

Accomplishments of Youthbuild

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2005 goal
Persons trained	3,729	4,123	3,896	4,366	3,728
GED	NA	1,260	1,375	1,525	NA*
Housing units constructed	NA	346	373	876	460
Housing units rehabilitated	NA	1,409	1,069	1,089	746
Literacy & Numeracy goals	NA	1,755	1,327	4,086	587

*No specific target established for general equivalency diplomas (GED).

In addition to the number of youths trained through the Youthbuild program, HUD is able to collect data on other successes. Between July 1, 2004, and June 30, 2005, 1,525 participants achieved high school general equivalency diplomas. Approximately 876 units of housing were constructed along with the rehabilitation of 1,089 units. Overall, the number of housing units made available for habitation exceeded the total of 1,206 units projected by 63 percent; however, the mix of actual units rehabilitated or newly constructed differed from the goals because they were based on projections provided by applicants. Once projects were underway, plans changed, resulting in a different mix of units rehabilitated or newly constructed. A reported 4,086 Youthbuild participants increased their literacy and numeracy skills during the year. This number is significantly higher that what has been reported in prior years. This is due to the methodology used to track the literacy and numeracy skills. Data were collected on a quarterly basis. If a student increased in skill over two quarters, that person's increase was counted each quarter. The Youthbuild program is working on developing guidance to eliminate this double counting.

Data discussion. Grantees submit semi-annual reports of accomplishments to CPD field offices. Grantees are monitored by their respective field offices for performance and compliance with HUD guidelines.

Objective C.2: Help organizations access the resources they need to make their communities more livable.

C.2.1: Streamline the Consolidated Plan to make it more results-oriented and useful to communities.

Background. Communities use the Consolidated Plan to identify community and neighborhood needs, actions that will address those needs, and measures necessary to gauge their performance. The PMA directed HUD to work with local stakeholders to streamline the Consolidated Plan, making it more results-oriented and useful to communities in assessing their own progress towards addressing the problems of low-income areas. CPD sought to implement this requirement through the Consolidated Plan Improvement Initiative that encouraged the use of the plan as a management tool for tracking results. During FY 2004, CPD carefully considered ideas generated by several stakeholder-working groups that were established to explore alternative planning requirements and suggestions for improving the Consolidated Plan process.

During FY 2005, CPD worked with stakeholders to implement suggestions for streamlining the plan, making the plan more results-oriented and useful in assessing progress toward addressing problems of low-income areas, and improving the performance measurement and reporting process. CPD worked with national public interest groups, including the Council of State Community Development Agencies, the National Community Development Association, and the National Association of County, Community and Economic Development, to develop a standardized approach to outcome measurement that could aggregate results at a national level. By December 2004, CPD was to propose legislative and/or regulatory changes to fulfill the directive contained in the PMA.

Results and analysis. During FY 2005, the Department began implementing the reformed, results-oriented planning and reporting process. HUD made significant progress in achieving this goal through proposed changes in regulations, guidance, and tools that are designed to improve the management of programs, increase accountability, and reduce the burden on grantees. On December 30, 2004, CPD issued a proposed Consolidated Plan rule that makes clarifying and streamlining changes, and makes the Consolidated Plan process more useful for tracking results. CPD implemented a new Consolidated Plan Management Process tool that streamlined the Consolidated Plan submission process and allowed grantees to track results for up to five Annual Action Plans and Consolidated Annual Performance and Evaluation Reports. On June 10, 2005, CPD also issued a *Federal Register* notice that requested comment on an outcome measurement framework that could aggregate results at a national or local level. A draft final rule was sent to the OMB for review on October 28, 2005. During FY 2006, CPD will be implementing regulatory changes to the consolidated plan and the first phase of the modernization of the Integrated Disbursement and Information System.

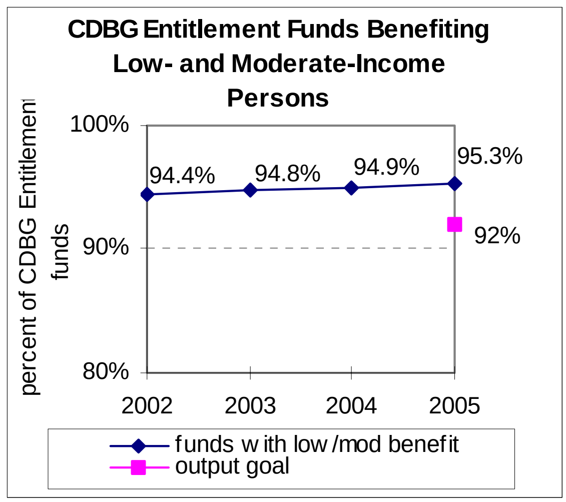
C.2.2. The share of CDBG entitlement funds for activities that principally benefit low- and moderate-income persons remains at or exceeds 92 percent.

Background: Entitlement grantees are required to use at least 70 percent of the CDBG funds they expend for eligible activities that benefit low- and moderate-income persons. This threshold may be met over a one, two or three year period of each grantee's choosing, but CDBG grantees, as a whole, have historically exceeded this requirement on an annual basis.

HUD does not have direct control over the percentage of CDBG funds that communities use for activities that benefit low- and moderate-income persons, but this is the primary objective of the CDBG program. Therefore, a major focus in monitoring is to ensure the compliance of activities undertaken under this national objective. In addition, HUD has emphasized the importance of targeting the use of CDBG funds for activities that benefit low- and moderate-income persons, including those who are extremely low-income.

Program Website:
www.hud.gov/offices/cpd/communitydevelopment/programs/entitlement/index.cfm

Results and analysis. In FY 2005, CDBG entitlement grantees used 95.3 percent of their CDBG funds for activities that benefit low- and moderate-income persons. Not only does this level exceed the goal of 92 percent, it is an increase over the FY 2004 level of 94.9 percent, reflecting the efforts of grantees to target their use of CDBG funds to serve those most in need in their communities.



Data discussion: The data for this measure are based on information reported by entitlement grantees in the Integrated Disbursement and Information System. CPD field staff verifies program data when monitoring grantees.

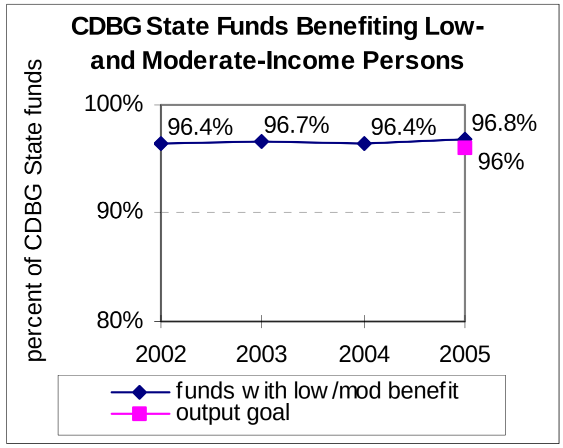
C.2.3: The share of State CDBG funds for activities that principally benefit low- and moderate-income persons remains at or exceeds 96 percent.

Background. This indicator measures the targeting of CDBG funds by states, who, like entitlement communities, are required to use at least 70 percent of CDBG funds they expend for activities that benefit low- and moderate-income persons. CDBG grantees historically have exceeded this requirement, and HUD encourages the continuation of this high level of performance to ensure that the needs of those who are disadvantaged are met.

HUD does not have direct control over the percentage of CDBG funds that communities use for activities that benefit low- and moderate-income persons, but this is the primary objective of the CDBG program. Therefore, a major focus in monitoring is to ensure the compliance of activities undertaken under this national objective. In addition, HUD has emphasized the importance of targeting the use of CDBG funds for activities that benefit low- and moderate-income persons, including those who are extremely low-income.

Program Website:
www.hud.gov/offices/cpd/communitydevelopment/programs/stateadmin/index.cfm

Results and analysis. In FY 2005, state grantees used 96.77 percent of their CDBG funds for activities that benefit low- and moderate-income persons. This meets the goal for this fiscal year and is a slight increase above the FY 2004 level of 96.4 percent and the FY 2003 level of 96.72 percent.



Data discussion. The data for this measure are based on information reported by state grantees in the Integrated Disbursement and Information System. CPD field staff verifies program data when monitoring grantees.

C.2.4: For CDBG entitlement grantees, increase the number of approved Neighborhood Revitalization Strategy Areas by five percent.

Background. In January 1995, HUD described Neighborhood Revitalization Strategy Areas in the Consolidated Plan regulations at 24 CFR Part 91. Neighborhood Revitalization Strategy Areas are comprehensive strategies carried out in identified, limited geographic areas that are expected to achieve substantial physical improvements and create meaningful economic opportunities for residents in the area. In the CDBG regulations at 24 CFR Part 570, HUD provided certain regulatory incentives to grantees for certain types of activities carried out in HUD-approved Neighborhood Revitalization Strategy Areas.

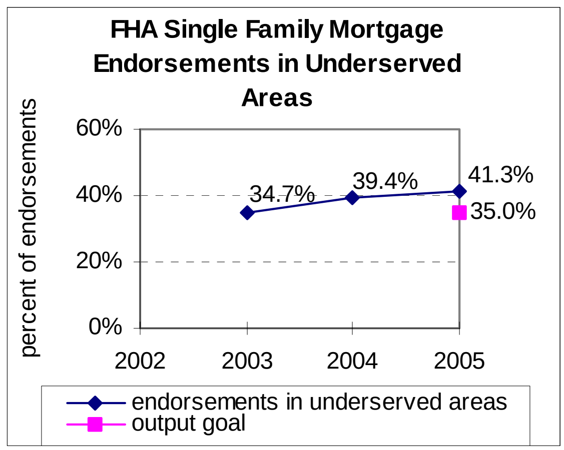
Results and analysis. This goal was met. HUD approved an additional 13 Neighborhood Revitalization Strategy Areas in FY 2005, which is a 5.3 percent increase. The identification and approval of a distressed area as a Neighborhood Revitalization Strategy Area allows more targeting of CDBG funds to address the needs of the area and its residents. Further, the regulatory flexibilities HUD provided for certain types of activities help grantees achieve comprehensive revitalization of the area, with a focus on the creation of partnerships that involve the private sector, community organizations and neighborhood residents.

Data discussion. The data for this measure are based on information reported by entitlement grantees in the Integrated Disbursement and Information System. Grantees identify Neighborhood Revitalization Strategy Areas in the Integrated Disbursement and Information System after approval by HUD. Each grantee may associate individual activities reported in the Integrated Disbursement and Information System with a Neighborhood Revitalization Strategy Area, and one report in the system summarizes activities identified by the grantee as being in a Neighborhood Revitalization Strategy Area.

C.2.5: At least 35 percent of single-family mortgages endorsed for insurance by FHA are in underserved communities.

Background. FHA's role in the mortgage market is to extend homeownership to families that otherwise might not achieve homeownership. There is substantial evidence that the conventional mortgage market does not serve lower income and minority neighborhoods as well as more affluent and non-minority neighborhoods. FHA lending in disadvantaged neighborhoods increases the homeownership rate. To strengthen this indicator's focus on outcomes despite variations in the volume of single family endorsements, this indicator was revised in the FY 2006 Annual Performance Plan. The revised FY 2005 goal is to ensure that at least 35 percent of all single family mortgages endorsed for insurance by FHA during the year are in underserved areas. An underserved area is defined as census tracts with below average income and/or above average shares of minority households. These neighborhoods historically have been underserved by the mortgage market, as shown by high mortgage denial rates and low mortgage origination rates.

Results and analysis. During FY 2005, 41.3 percent (229,204 out of 555,717) of all single family mortgages endorsed for insurance by FHA were in underserved communities. The result exceeded the target of 35 percent, maintaining FHA's success in expanding home ownership opportunities. The performance also surpasses the program's recent levels of success in targeted service to underserved areas, and may have been influenced by marketing and outreach activities in these communities. FHA will continue its efforts to reach underserved communities through participation in conferences, seminars and other outreach events.



Data discussion. This measure uses data from FHA's Consolidated Single Family Statistical System. This measure may fluctuate when the census tracts constituting underserved areas are redefined using the latest census data. The fluctuations are not expected to substantially reduce the reliability of this national summary measure. HUD verifies FHA data for underserved communities by comparison with Home Mortgage Disclosure Act data.

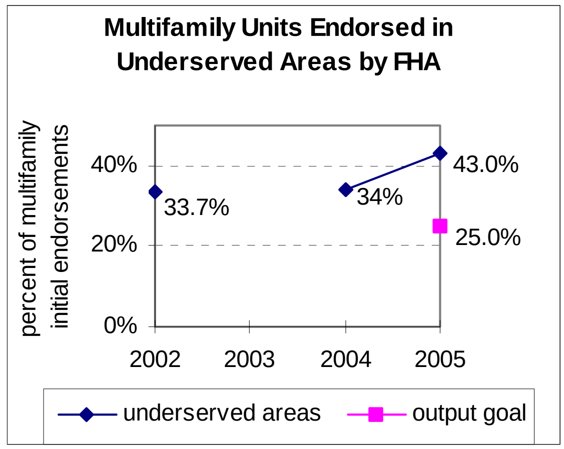
C.2.6: The number of multifamily properties in underserved areas insured by FHA is maintained at 25 percent of initial endorsements.

Background. FHA insures loans for new construction and substantial rehabilitation of multifamily rental units under a variety of programs (Sections 220, 221(d)(3), 221(d)(4), and risk-sharing under 542(b) and (c)). FHA also insures mortgages to refinance or purchase existing multifamily properties (Section 223(f)). These programs improve the availability, quality, and affordability of rental housing, thus promoting revitalization in underserved neighborhoods.

This measure counts the number of properties within underserved neighborhoods that are newly endorsed by FHA. Grants under Section 202 and Section 811 are excluded from this measure. The measure was revised in the FY 2003 Annual Performance Plan to include refinancing activity, which creates similar benefits for underserved areas. Refinanced loans include those restructured under the Mark-to-Market program as well as refinancing in support of repair and rehabilitation. Underserved neighborhoods are defined in metropolitan areas as census tracts either with a minority population of 30 percent and median family income below 120 percent of the metropolitan area median, or with median family income at or below 90 percent of area median (irrespective of minority population percentage). A similar definition of underserved applies to non-metropolitan areas, using counties rather than tracts.

Results and analysis. During FY 2005, 438 multifamily properties with 54,017 units in underserved areas benefited from new FHA mortgage endorsements totaling $2.14 billion. This amounted to 43 percent of HUD's total level of initial endorsements being in such areas -- 18 percentage points higher than the goal. This is higher than the ratio of activity in FY 2004 and exceeds the Department's goal.

In large part, this accomplishment reflects FHA outreach to underserved areas, both for new construction and substantial rehabilitation as well as refinancing, to contribute to the stock of decent, safe, and sanitary affordable housing. Most refinancing results in rehabilitation and upgrading of properties.



Data discussion. The unit project locations and unit counts used to determine this measure are from FHA's Real Estate Management System. FHA performs computerized checks of data quality, and FHA staff verifies multifamily mortgage transactions. Census data are used to establish underserved areas.

C.2.7: HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined geographic targets for mortgage purchases in underserved areas.

Background. One of the four defined targets that HUD sets for Fannie Mae and Freddie Mac (two housing Government-Sponsored Enterprises) is intended to increase their purchases of mortgages on housing located in central cities, rural areas, and other areas underserved in terms of mortgage credit. This indicator helps support HUD's goal of expanding homeownership opportunities, especially for minority home purchasers.

HUD research has shown that such areas have high mortgage denial rates and low mortgage origination rates, suggesting difficulty in obtaining access to mortgage credit. Beginning in 2005, HUD increased the Underserved Areas goal from 31 percent to 37 percent.[6] The Underserved Areas goal will increase in stages, reaching 39 percent in 2008.

Mortgage purchases qualify towards this target as follows: For metropolitan areas, dwelling units count if they are located in census tracts with (1) tract median family income less than or equal to 90 percent of area median income) or (2) minority composition of at least 30 percent *and* tract median family income less than or equal to 120 percent of area medium income. Dwelling units in non-metropolitan areas count if (1) median family income of the census tract is less than or equal to 95 percent of the greater of state or national non-metropolitan median

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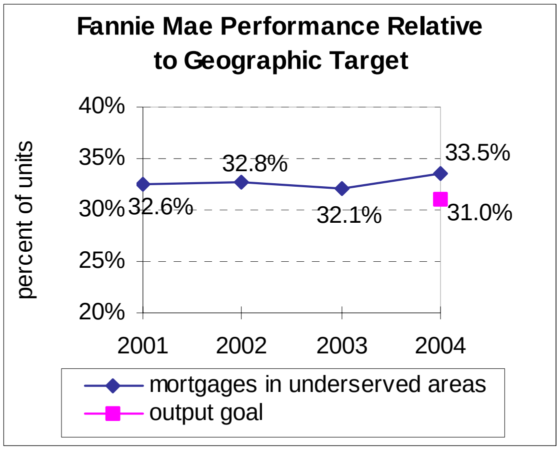
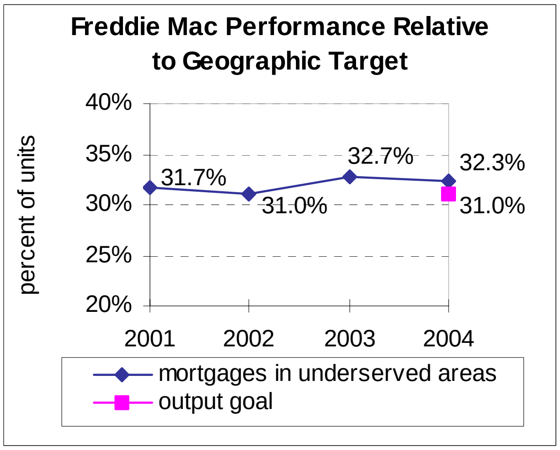
[6] The 31 percent goal in 2004 is equivalent to 36 percent in 2005, taking account of the effects of the 2000 Census and designation of Metropolitan Statistical Areas based on the 2000 Census.

income or if (2) minority concentration of the census tract is at least 30 percent *and* tract median family income is less than or equal to 120 percent of the greater of state or national non-metropolitan median income.

Results and analysis. In calendar year 2004, Fannie Mae and Freddie Mac surpassed HUD's target of 31 percent for mortgage purchases in underserved areas. Fannie Mae achieved a performance of 33.5 percent, while Freddie Mac's performance was 32.3 percent.[7]





An analysis of the composition of units that qualified to count toward the Underserved Areas goal in 2004 shows that 1.05 million dwelling units, or 65.4 percent of the dwelling units that qualified towards Fannie Mae's performance under the goal, were on properties located in high-minority census tracts (i.e., tracts with 30 percent or greater minority population). Freddie Mac purchased mortgages for 737,000 properties in high-minority census tracts, or 63.7 percent of Freddie Mac's qualifying purchases serving this market. For both Government-Sponsored Enterprises, these percentages show increases from the 2003 figures that were 62.4 percent for Fannie Mae and 52.6 percent for Freddie Mac.

With regard to the percentage of dwelling units qualifying for the Underserved Areas goal that were affordable to low-income families (i.e., those earning 80 percent or less of area median income), Freddie Mac's purchases increased from 44.1 percent in 2003 to 47.4 percent in 2004, while Fannie Mae's purchases increased from 42.6 percent in 2003 to 43.6 percent in 2004.

Data discussion. The data reported under this goal are based on calendar year performance. There is a one year reporting lag because the Government-Sponsored Enterprises report to HUD in the year following the performance year. To ensure the reliability of data, the Fannie Mae and Freddie Mac apply various quality control measures to data elements provided to HUD. HUD verifies the data through comparison with independent data sources, replication of Fannie Mae's and Freddie Mac's goal performance reports, and reviews of their data quality procedures. Fannie Mae's and Freddie Mac's financial reports are verified by independent audits.

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[7] In verifying Freddie Mac's official 2004 goals performance, HUD determined that Freddie Mac counted, for housing goals credit, dwelling units derived from purchases of securities that HUD had not pre-approved as eligible to count as a mortgage purchase under the housing goals. Freddie Mac also established its own counting formula for the transactions without HUD's prior approval. As a penalty for Freddie Mac's failure to obtain HUD's prior approval, HUD applied a 50 percent partial credit to the dwelling units derived from mortgages associated with these transactions under the Underserved Areas goal. The penalty reduced Freddie Mac's performance by 2.1 percentage points from 34.4 percent to 32.3 percent.

C.2.8: Section 4 funding will stimulate community development activity totaling ten times the Section 4 investment.

Background. The Section 4 program emerged from a unique and unprecedented partnership initiated in 1991, the National Community Development Initiative, which is a consortium of national foundations, corporations and HUD. Now known as the Living Cities/National Community Development Initiative, the program works through the two largest intermediaries serving the nonprofit community development industry, the Enterprise Foundation and the Local Initiatives Support Corporation. Based on the success of the National Community Development Initiative, Congress directed HUD to join in 1994 for the second round at this early stage of the partnership. In 1997 Congress expanded the Section 4 program for urban and rural capacity building beyond the National Community Development Initiative.

This indicator measures the level of community development activity generated, leveraged or supported by Section 4 funding. Most community development activities are expected to involve real estate development, including housing, economic development and community facilities. The FY 2005 goal is to ensure that the ratio of the total cost of community development activities (net of Section 4 support for that activity) to the investment of Section 4 funding shall equal or exceed 10:1.

Results and analysis. In FY 2005, the Enterprise Foundation and the Local Initiatives Support Corporation were paid $30.7 million in vouchers by HUD, which stimulated community development totaling $1.478 billion in the areas where Section 4 was implemented. This equates to a 48:1 investment ratio, greatly exceeding the goal of a 10:1 ratio.

Data discussion. Data were drawn from actual production of affordable housing development in cities where Section 4 funds were awarded. Investment values grew in part due to significant appreciation of development costs in urban and rural areas, in particular the cost of land and building acquisition, labor, insurance and some materials.

Regarding the status of the intermediaries' efforts to build out their data management infrastructure, rollout of these systems has been delayed due to significant vendor challenges to meet the broad scope of the effort. A significant upgrade to the existing product is being developed this fall to resolve many of the previous challenges. In the event that issues cannot be resolved by the upgrade, the initiatives will have to look elsewhere for their technology solutions.

Objective C.3: End chronic homelessness and move homeless families and individuals to permanent housing.

C.3.1: At least 386 functioning Continuum of Care communities, or 93 percent of our Continuum of Care communities, will have a functional Homeless Management Information System by FY 2005.

Background. Congress has directed HUD on the need for data and analysis regarding the extent of homelessness and the effectiveness of the McKinney-Vento Homeless Assistance Act programs. This directive includes developing unduplicated counts of clients served at the local level; analyzing patterns of use of people entering and exiting the homeless assistance system; and evaluating the effectiveness of these systems. To assist communities in reaching this goal, HUD has undertaken an extensive in-depth training and technical assistance initiative. In addition to providing Continuum of Care communities with the tools necessary to generate data, Homeless Management Information Systems assist with informed policy decisions and resource allocation. These systems allow communities to provide important community-level, aggregate information to HUD to further understand the nature and extent of homelessness at the national level.

Results and analysis. Based on reporting in the 2005 Continuum of Care competition, 334 Continuums of Care, or 71 percent, reported that they had started entering data in their homeless management information system as of June 2005. Although the goal of 386 functional Homeless Management Information Systems was not met, an additional 48 Continuums, or 10 percent, indicated that they would begin entering data into their systems between July and September 2005, bringing the total to 382. This information will be confirmed in next year's applications and reported on in the FY 2006 Performance and Accountability Report. HUD is working toward capturing more standardized bed coverage information. The number of communities in the early stages of planning a homeless management information system and selecting software has decreased accordingly between 2004 and 2005.

Data discussion. Rated questions on the FY 2005 McKinney-Vento Homeless Assistance Act community homeless application ask for information about Homeless Management Information Systems. This is the fourth time HUD has collected data on local systems for Homeless Management Information Systems, and the third time scoring points have been awarded based on Homeless Management Information Systems progress. In addition to homeless application reporting, HUD deployed a Status Assessment and Evaluation process to assess the progress of each implementing community throughout the country, with the goal of identifying best practices and barriers to implementation.

C.3.2: The number of chronically homeless individuals declines by up to 50 percent by FY 2008.

Background. While there is currently no direct measurement of the number of chronically homeless individuals, HUD is working with communities to develop methods for measuring the extent of chronic homelessness using Homeless Management Information Systems. Last year, with more than 382 communities implementing an operational homeless management system, HUD began collecting data from the systems to track this indicator. However, with many communities entering data on the chronic population for the first time, the data verification process remains ongoing. Preliminary analyses indicate that there will be challenges with respect to the percentage of facilities within communities that are covered by management systems, as well as differences in definitions of chronic homelessness across communities. This year, communities were provided with national technical assistance on collecting data related to chronically homeless persons.

Program Website: http://www.hmis.info

Results and analysis. In FY 2003, homeless assistance applicants were required to report on their number of chronically homeless persons. These baseline numbers were verified through the FY 2004 homeless assistance application, and inconsistencies were identified. Based on these findings, additional guidance was issued in FY 2005 and can be found on the HUD Homeless Management Information System web site cited in the Background section. Given the current data challenges, reporting will be postponed to a future timeframe that is still under review and reflects that this goal is several years in the future.

Data discussion. *See* Background discussion above.

C.3.3: The Samaritan Housing Initiative will be implemented and the number of chronically homeless who are assisted will be maximized.

This goal was eliminated because the statutory change was not enacted.

C.3.4: The percentage of formerly homeless individuals who remain housed in HUD permanent housing projects for at least 6 months will be 70 percent.

Background. The ultimate goal of homeless assistance is to help homeless families and individuals achieve permanent housing and self-sufficiency. This measure tracks the number of formerly homeless persons who remain in permanent housing for at least six months in beds funded by HUD under the McKinney-Vento Homeless Assistance Act.

The residents of permanent housing are often chronically homeless individuals. One of HUD’s programs, Shelter Plus Care, uses funding to support housing related expenses. Communities secure an equal level of funding for a variety of supportive services. This combination ensures that residents receive the housing and services they need to maintain stable permanent housing and make progress towards self-sufficiency. Other HUD programs that provide permanent housing, including the Supportive Housing Program and the Moderate Rehabilitation/Single Room Occupancy program, help to meet other needs related to homelessness. Many communities are increasing their permanent housing stock as a direct result of the statutory requirement that 30 percent of HUD’s homeless assistance funding be allocated to permanent housing.

Results and analysis. During FY 2005, HUD achieved its goal of having 70 percent of formerly homeless persons remain in permanent housing for at least six months. This achievement can be attributed to HUD’s emphasis on increasing the number of permanent housing units available for people who are homeless, and combining these units with appropriate supportive services. HUD emphasizes the goal of reaching permanent housing in national broadcasts, the Notices of Funding Availability, and the homeless assistance grant application.

Data discussion. Data for this indicator are collected from HUD’s Annual Progress Report. This report is submitted by the grantee to HUD as a means of reporting on their HUD-funded homeless assistance project. Field staff monitor grantees on a sample basis to assess quality of data in grantee reports. HUD intends to improve reliability of this measure by developing an electronic Annual Progress Report that will eliminate transaction lag of the paper based reporting system and increase response rates. The Annual Progress Report is submitted yearly for each homeless assistance project at the end of the operating year. Because projects begin annual operations at different times, the data reflect projects that ended their operational year by September 30, 2005. Due to the varied operation dates for projects, the data for all Annual Progress Report-based indicators represent 28 percent of all projects operating in 2005.

C.3.5: The percentage of homeless persons who have moved from HUD transitional housing into permanent housing will be 60 percent.

Background. An important steppingstone toward permanent housing for many homeless persons is the availability of transitional housing with supportive services to stabilize their lives. This measure tracks the number of homeless persons who move from HUD-funded transitional housing projects into permanent housing and homeless persons who move directly into permanent housing. The ultimate objective of homeless assistance is to help homeless families and individual achieve permanent housing and self-sufficiency. The needs of the homeless subpopulations within a particular community are varied. Some need extensive supportive services while in permanent housing to maintain self-sufficiency. For others, market-rate housing with minimal service is adequate. These projects are funded with several prior years' appropriations.

Results and analysis. In FY 2005, HUD exceeded its goal of 60 percent and moved 61 percent of homeless persons in HUD-funded transitional housing into permanent housing. The result is also an increase from the FY 2004 level of 60 percent. HUD also continues to provide the supportive services necessary to move people who are homeless from transitional housing to permanent housing, allowing more vacancies for homeless persons in need of transitional housing and accompanying supportive services.

Data discussion. Data for this indicator are collected from HUD's Annual Progress Report. This report is submitted by the grantee to HUD as a means of reporting on their HUD-funded homeless assistance project. Field staff monitor grantees on a sample basis to assess quality of data in grantee reports. HUD intends to improve reliability of this measure by developing an electronic Annual Progress Report that will eliminate transaction lags of the paper based reporting system and increase response rates. The Annual Progress Report is submitted yearly for each homeless assistance project at the end of the operating year. Because projects begin annual operations at different times, the data reflect projects that ended their operational year by September 30, 2005. Due to the varied operation dates for projects, the data for all Annual Progress Report-based indicators represent 28 percent of all projects operating in 2005.

C.3.6: The employment rate of persons exiting HUD homeless assistance projects will be 10 percentage points greater than the employment rate of those entering.

Background. Stable employment is a critical step for homeless persons to achieve greater self-sufficiency. HUD encourages communities to provide comprehensive housing and services to homeless individuals and families. Clients receiving HUD's McKinney-Vento assistance receive support, which can include employment training and job search assistance, to help them achieve greater self-sufficiency. This indicator tracks the number of adult clients who become employed while in HUD-funded homeless assistance projects. The measure is defined as the difference between the number of employed adults who left a HUD-assisted project during a program year and the number of those adults who were not employed when entering the project. One of the eligible activities under the Supportive Housing Program includes employment assistance. This category, combined with case management, has allowed many communities to focus their services efforts on employment activities.

Results and analysis. In FY 2005, the number of homeless persons receiving employment income at entry was 10 percent and those with employment income at exit were 17 percent. While HUD fell short of meeting its goal by 3 percentage points, this shortfall can be attributed to a greater number of persons with employment income at entry than in previous years. HUD will continue to monitor the employment rate in its Annual Progress Report.

The percentage of homeless funds used for housing activities is increasing each year compared to the percentage used for supportive services. With limited resources available, HUD's emphasis on housing activities has achieved efficiencies by encouraging and rewarding Continuum of Cares that create housing, and seek services such as employment training from mainstream service providers.

Data discussion. Data for this indicator are collected from HUD's Annual Progress Report. This report is submitted by the grantee to HUD as a means of reporting on their HUD-funded homeless assistance project. Field staff monitor grantees on a sample basis to assess quality of data in grantee reports. HUD intends to improve reliability of this measure by developing an electronic Annual Progress Report that will eliminate transaction lag of the paper based reporting system and increase response rates. The Annual Progress Report is submitted yearly for each homeless assistance project at the end of the operating year. Because projects begin annual operations at different times, the data reflect projects that ended their operational year by September 30, 2005. Due to the varied operation dates for projects, the data for all Annual Progress Report-based indicators represent 28 percent of all projects operating in 2005.

C.3.7: Overcrowded households in Indian Country shall be reduced by one percent.

Background. The Department has identified overcrowding in American Indian and Alaska Native households as a concern. During FY 2003, the Office of Native American Programs and several participating tribes developed baseline estimates based on Census data of the extent of overcrowding in Indian Country. They concluded that an estimated 47,169 households were overcrowded in FY 2003. The Department's goal is to reduce the number of overcrowded households by one percent each year.

Web address: www.hud.gov/offices/pih/ih/codetalk/onap/

Results and analysis. Indian Housing Block Grant funds contributed to the construction of 1,902 new homeownership and rental housing units in FY 2005 and projections reflect that the goal was exceeded by 3 percentage points in FY 2005. Although Indian Housing Block Grant grantees are given flexibility to design and administer their own unique housing programs, the Department encourages grantees to focus on areas of need such as overcrowding.

Data discussion. Because a precise measurement tool has not been identified, and it is cost prohibitive to conduct a new census, the exact number of the new units built that specifically went toward reduction of the overcrowded household percentage cannot be determined. However, the Office of Native American Programs is consulting and working with tribes to determine a better method of tracking the reduction of overcrowded households. A new methodology will likely require revisions to the primary data collection instrument, the Annual Performance Report. A joint tribal/HUD working group, formed in FY 2005, is analyzing the tribal reporting and planning instruments, and will make recommendations to improve the measurement of this indicator.

C.3.8: At least 110,000 households will receive emergency rental or mortgage payment assistance through the Emergency Food and Shelter program to prevent homelessness.

This indicator was deleted because the statutory change was not enacted.

C.3.9: The percentage of HOPWA clients who maintain housing stability, avoid homelessness and access care increases through the use of annual resources with the goal that this reaches 80 percent by 2008.

Background. This is an important measure for the Department because it is an outcome indicator that reflects the priority for providing stable and permanent housing assistance to the most vulnerable populations -- very low-income persons living with HIV or AIDS -- who face homelessness and other challenges. To help reach this goal, there is an important new Housing Opportunities for Persons with AIDS grants management tool for evaluating the effectiveness of grantee's efforts in establishing and maintaining stable housing for this special needs population of persons living with HIV/AIDS. During FY 2005, the updating of annual performance requirements for formula grantees that submit a Consolidated Annual Performance and Evaluation Report and competitive grantees that submit an Annual Progress Report have been completed. These extensive revisions to the reporting forms and CPD information technology systems incorporate the new long-term performance focus on client outcomes that will assess program's accomplishments in assisting clients achieve and maintain housing stability, avoid homelessness, and improve access to HIV treatment and other care. Grantee reporting on these elements will enable the grantees and HUD to evaluate the progress towards achieving the goal of housing stability for 80 percent of clients by FY 2008. Both Housing Opportunities for Persons with AIDS formula and competitive grant recipients must conduct activities consistent with their approved plans for annual housing assistance output goals, objectively measure actual achievements against their anticipated accomplishments, and annually report on these results.

The Department has conducted training on these new performance requirements and has consulted with national organizations on common outcomes for related CPD programs. The office has worked with a group of Housing Opportunities for Persons with AIDS formula and competitive grantees to test the practical use of new data elements that will provide the basis for evaluating and determining client housing stability. With full implementation, the new reporting tools will enhance the national and local assessments of performance in providing stable housing to program beneficiaries. In addition, this new reporting effort will enable grantees to aggregate program results along with other CPD programs to evidence the effectiveness of the community-wide coordination and delivery of these federal resources.

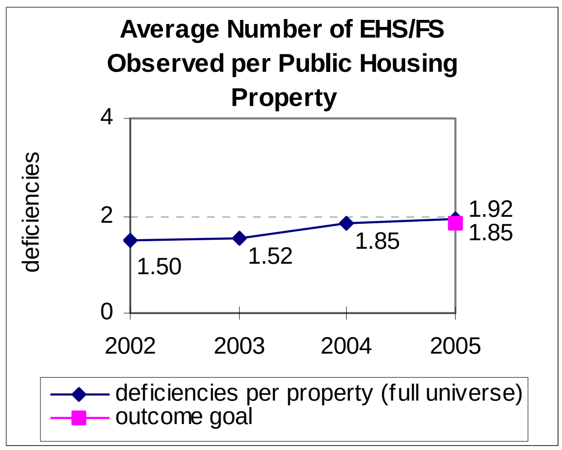
Results and analysis. The Office collaborated with 17 grantees to test the use of the new reporting tools for collecting information on client outcomes. Data were provided on 1,267 households that had received support from rental assistance programs or in facility-based housing programs. For these households, housing stability was achieved for 91 percent (including 81 percent who will continue to receive the Housing Opportunities for Persons with AIDS assistance and about 10 percent who have moved to other permanent housing arrangements). However, data on other households receiving short-term support were not collected in a complete or consistent manner under the new outcome measure and the use of the data requires further review.

Data discussion. Data will be collected consistent with the implementation of the new Consolidated Annual Performance and Evaluation Report and Annual Performance Report performance reporting along with enhancements in the Integrated Disbursement and Information System, which are anticipated to commence during the second quarter of FY 2006.

Objective C.4: Mitigate housing conditions that threaten health.

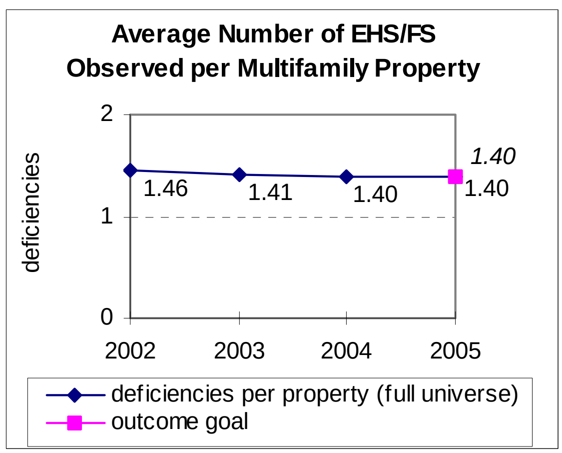
C.4.1: The average number of observed exigent deficiencies per property does not exceed 1.85 for public housing and 1.40 for multifamily housing.

Background. The Real Estate Assessment Center conducts physical inspections that identify exigent health and safety or fire safety deficiencies. Exigent health and safety hazards include, but are not limited to: (1) air quality, gas leaks; (2) electrical hazards, exposed wires/open panels; (3) water leaks on or near electrical equipment; (4) emergency/fire exits/blocked/unusable fire escapes; (5) blocked egress/ladders; and (6) carbon monoxide hazards. Fire safety hazards include: (1) window security bars preventing egress; and (2) fire extinguishers expired. (Smoke detectors are excluded from exigent health and safety or fire safety deficiencies for this measure because they are covered in Indicator C.4.2.)



This indicator measures the reductions in exigent health and safety or fire safety deficiencies nationwide as HUD applies its physical inspection protocol, Uniform Property Condition Standards, to properties inspected. The use of physical inspections by the Real Estate Assessment Center has effected a reduction in exigent health and safety hazards. This trend is likely to continue. However, this indicator is based on identification of such conditions when inspected.

This goal was revised mid-year to reflect better than anticipated performance in FY 2004.



Results and analysis. The average number of exigent health and safety or fire safety deficiencies for public housing was 1.92 for FY 2005 versus a goal of 1.85. Therefore, this goal was not accomplished. Notwithstanding the overall result, substantial progress was made on sectors of the population. PIH generally has targeted its limited monitoring resources on PHAs with the highest error rates. For example, for PHAs with scores of 0 to 59 (substandard), the current inspection yielded 6.10 defects per property while the previous inspection found 7.56 defects per property (an improvement of 19.3 percent). For the PHAs with scores of 60-89, a 9.1 percent improvement was experienced. Conversely, the highest scoring PHAs (90-100) currently had 1.00 defects per property versus 0.35 previously. Although this group's results worsened significantly, the overall error rate was still very low. PIH will explore modifying this goal for FY 2006 to better target where monitoring resources can provide the greatest impact.

For multifamily properties, which are privately-owned, the average number of exigent health and safety or fire safety deficiencies was maintained at 1.40 per property inspected, meeting the goal. Because of the implementation of the “3-2-1” protocol it was estimated that the average defects would rise sharply, because the lower scoring properties (those with more defects) would be visited more frequently. The results indicate that the impact of this change on the goal has not been as great as expected. HUD continues to refine the inspection process. Data definitions have been expanded to address increased types of deficiencies. Under the “3-2-1” protocol for inspection scheduling, lower scoring projects are inspected and acted on every year to motivate greater improvement in physical conditions. When life threatening health and safety deficiencies are detected during HUD’s on-site physical inspections, citations are issued to project owners and agents requiring corrective action and response to HUD within three business days. In FY 2005, nationwide, HUD’s field staff continued to assure that 99 percent of these multifamily deficiencies were corrected or mitigated. Many types of defects covered by the process may be attributable to tenant behavior or local risk decisions rather than maintenance issues.

Data discussion. Data for this indicator are from the Real Estate Assessment Center’s Physical Assessment Subsystem, based on the inspection protocol DCD v.2.3 only. The data represent inspections conducted through September 30 of each year. A number of properties do not receive new inspections every year if their scores pass the thresholds under the “2-1” inspection schedule for public housing and the “3-2-1” schedule for multifamily properties.

C.4.2: The share of units that have functioning smoke detectors and are in buildings with functioning smoke detectors will be 92.8 percent or greater for both public housing and multifamily housing.

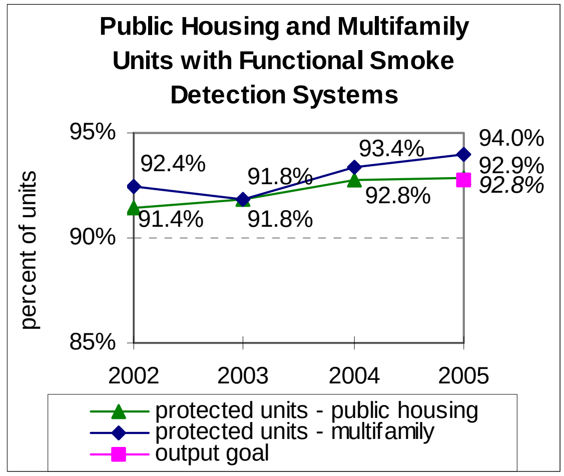
Background. HUD’s Real Estate Assessment Center inspects the quality of HUD-involved housing, including the presence of functioning fire detection systems including smoke detectors. This indicator tracks the share of units that have both functioning smoke detectors and are in buildings with functioning smoke detection systems, as functional smoke detection systems in common areas of a building are critical to overall fire safety.

This goal was revised mid-year to reflect better than anticipated performance in FY 2004, as well as reductions in travel funding for monitoring in FY 2005, and represents a more realistic target.

Results and analysis. The Department was successful in meeting its goal related to the share of units with functional smoke detection systems in public housing and assisted multifamily housing. As of the end of FY 2005, the share of public housing units that had functioning smoke detectors and were in buildings with functioning smoke detection systems was 92.9 percent versus 92.8 percent in FY 2004. This result includes the most recent physical conditions inspections of the quarter cut-off date for each year. In FY 2005, the number of units totaled 1,224,988, of which 1,137,840 (or 92.9 percent) had functioning smoke detectors and were in buildings with functioning smoke detectors.

As of the end of FY 2005, 94 percent of assisted multifamily units had functioning smoke detectors and were in buildings with functioning smoke detection systems. These data represent a 0.6 percent increase for assisted multifamily housing. These results show that the share of

HUD-assisted households that are adequately protected with smoke detectors exceeds the three-quarter share of all U.S. households that are protected. The Department's increased attention to physical conditions in the housing stock is believed to have motivated improvements in management by housing providers.



Data discussion. Data for this indicator are from the Real Estate Assessment Center's Physical Assessment Subsystem, based on a sample of units from each project, and weighted to represent the entire stock. For private multifamily properties, results for FY 2005 reflect the most recent inspections available as of September 30, 2005. Properties are inspected at intervals of one, two or three years, depending on the results of the previous inspection, so a substantial share of properties do not receive a new inspection annually.

C.4.3: The number of children under the age of six who have elevated blood lead levels will be less than 152,000 by 2005, down from 434,000 in 1999–2000 and 890,000 in 1991–1994.

Background. Approximately 890,000 children under the age of 6 were estimated by the Centers for Disease Control and Prevention to have elevated blood lead levels in the period from 1991-1994. In FY 2003, they reported that this number had declined to 434,000 children during 1999-2000. For this indicator, elevated blood lead level is defined as being at or above 10 micrograms per deciliter. Other local data from 19 states showed that the proportion of children under the age of 6 who had elevated blood lead levels decreased from 10.5 percent in 1996 to 7.6 percent in 1998, according to the Centers for Disease Control and Prevention's most recent published report on state surveillance data (*see* www.cdc.gov/mmwr/preview/mmwrhtml/mm4950a3.htm).

Elevated blood lead levels are more common among low-income children, urban children, and those living in older housing. These children, especially those less than three years old, are vulnerable to permanent developmental problems because of the well-understood effect of lead on developing nervous systems.

Results and analysis. In May 2005, the Centers for Disease Control and Prevention estimated that 310,000 children had elevated blood lead levels during 1999-2002, the most recent reporting period of its National Health and Nutrition Examination Survey. This decrease is principally due to improvements in the nation's housing (*see* www.cdc.gov/nceh/lead/research/kidsBLL.htm). Although the Centers for Disease Control and Prevention's report for the period covering FY 2005 will not be published until 2008, the Department is on target to meet the goal.

In addition to HUD's lead-based paint hazard control grant program and regulations concerning federal housing, other factors causing the decreased number of children with elevated blood lead levels are demolition, substantial rehabilitation, enforcement of lead safety laws, and ongoing public education. The Centers for Disease Control and Prevention is continuing its National

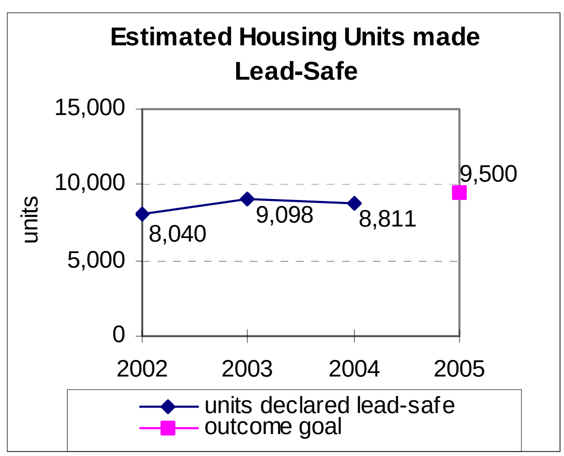
Health and Nutrition Examination Survey, with additional data through 2003 projected to be available in the 2nd quarter of calendar year 2006.

Data discussion. The National Health and Nutrition Examination Survey, conducted by the Centers for Disease Control and Prevention, is costly because it uses actual physical examinations of a large, nationally representative sample of children to determine blood-lead levels, among other things. The survey cannot identify the source of elevated blood lead levels. HUD does not verify the survey results independently. The National Health and Nutrition Examination Survey is regarded as providing the best national estimate of a number of health outcomes, and incorporates a variety of quality control and verification procedures.

C.4.4: As part of a 10-year effort to eradicate lead hazards, the Lead Hazard Control Grant program will make 9,500 units lead safe in FY 2005.

Background. The HUD Office of Healthy Homes and Lead Hazard Control provides grants to state and local government agencies to control lead and housing-related hazards in privately owned low-income housing. The Lead Hazard Control program requires grantees to employ certified personnel to collect clearance (quality control) lead dust samples in housing to confirm that it has been made lead-safe because lead dust is the major pathway by which children are exposed to lead-based paint. The primary output measure of the program is the number of homes made lead-safe by the grantee.

Results and analysis. As of October 30, 2005, Office of Healthy Homes and Lead Hazard Control Grant Program grantees had reported completing 7,240 lead-safe units. However, only 72 percent of the grantees had reported their full FY 2005 results by that date. Based on this partial reporting, the Office anticipates that the grant program will meet its goal of making 9,500 units lead safe among all of its lead hazard control programs. Full data will be available by the end of the first quarter of FY 2006. The grant program continues its primary focus on interim controls of lead hazards, which have been shown to be effective for up to at least six years (as opposed to abatement, which is conducted rarely, upon recommendation of the lead risk assessor in particularly high-risk situations), and on a significant fraction of homes where children with elevated blood lead levels have resided. The grant program continues to promote training of local workers in lead-safe work practices and educating the public on lead safety in housing.



Data discussion. This measure uses the Office of Healthy Homes and Lead Hazard Control administrative data derived from grant agreements, quarterly and final reports from grantees, collected from grantees by web-based reporting, as well as from monitoring. Grantee reporting is quarterly and provides detailed quantitative and qualitative information regarding progress, achievements, and barriers to performance to maximize grantee performance and to protect the largest number of children possible. The reporting system is supplemented by telephone and written communication, as well as on-site monitoring by HUD field and headquarters staff. The data do not include the substantial number of housing units made lead-safe as a result of public outreach/education programs; leveraging of other funds; federal, state and local enforcement efforts; technical studies; and other HUD rehabilitation housing assistance covered by the HUD Lead Safe Housing Rule for assisted housing.

Related program evaluations. The National Center for Healthy Housing and the University of Cincinnati conducted a series of program evaluations. The data show that dust lead levels in treated homes decline by 50-85 percent and generally remain well within applicable HUD/Environmental Protection Agency hazard standards up to six years, the period studied, after the treatments have been completed.

Several other studies have shown that the Lead Hazard Control Program has been responsible for stimulating substantial activity in both the public and private sector to make housing lead-safe. In addition to the Centers for Disease Control and Prevention data on elevated blood lead levels in children (discussed above), HUD's National Survey of Lead in Housing shows that the number of units with lead paint declined from 64 million in 1990 to 38 million in 2000. Both of these reductions are due in part to the HUD Lead Hazard Control Program, because lead-based paint hazards in housing constitute the principal source of exposure for most children today. Other contributing factors to these reductions include housing demolition; substantial rehabilitation; increased regulation and enforcement of federal, state, and local lead safety laws; and improved measurement technologies.

C.4.5: At least 2,500 housing units undergoing construction or rehabilitation will use Healthy Homes principles.

Background. The Healthy Homes program contributes to the achievement of HUD's strategic goals by reducing multiple housing-related hazards that result in preventable childhood illnesses and injuries, such as lead poisoning and asthma. For FY 2005, it was anticipated that at least 2,500 housing units undergoing construction or rehabilitation interventions through Healthy Homes Demonstration grants and Healthy Homes Technical Studies grants would use Healthy Homes principles.

Results and analysis. To date, 4,476 units have undergone construction or rehabilitation using Healthy Homes principles, exceeding the goal by 79 percent. The Healthy Homes program gives particular emphasis to the mitigation of asthma triggers, such as mold and allergens (from exposure to debris from dust mites, cockroaches, and rodents). Project activities include inspecting residences and providing physical interventions such as smoke/carbon monoxide detectors, pillow and mattress covers, pest control (through integrated pest management with roach traps and gels), repairs to correct plumbing leaks, moisture incursion through building envelopes, lead hazards, proper ventilation of appliances such as stoves and furnaces, and dust control (through high-efficiency filters and vacuums).

Data discussion. Grantee reporting is quarterly and provides detailed quantitative and qualitative information regarding progress, achievements, and barriers to performance to maximize grantee performance and to protect the largest number of children possible. The reporting system is supplemented by telephone and written communication as well as on-site monitoring by HUD field and headquarters staff.

C.4.6: Upon advice from the Consensus Committee, HUD will publish rules for dispute resolution and installation programs mandated by the Manufactured Housing Improvement Act of 2000 by September 30, 2005.

Background. The Manufactured Housing Improvement Act of 2000 establishes new responsibilities and procedures for the Department with respect to its role in regulating manufactured housing. As mandated by the statute, HUD procured the services of an Administering Organization. The Department monitors the performance of this organization in supporting the Manufactured Housing Consensus Committee, also established by statute.

Through the Administering Organization and within 18 months of their initial appointments, the Act requires the Consensus Committee to propose model manufactured housing installation standards to the Department. The Department is to publish final standards and regulations for the installation of manufactured homes, and regulations for dispute resolution, within five years of date of the Act. HUD's FY 2005 performance goal was to publish rules for the dispute resolution and installation programs upon advice from the Committee by September 30, 2005.

Results and analysis. HUD partially achieved the performance goal for FY 2005 by publishing the proposed rule for the Model Manufactured Home Installation Standards (the Model Installation Standards) during the fiscal year. The proposed rule for the Manufactured Housing Dispute Resolution Program was published on October 20, 2005. The Department received over 100 public comments on the proposed rule for the Model Installation Standards, and is nearing completion of the final rule.

The Department worked extensively with the Consensus Committee to develop the rules for the Model Installation Standards and the Dispute Resolution Program, and provided additional time for the Committee to review and comment on a draft of the Model Installation Standards rule prior to its submission to OMB.

The program office lost more than 70 percent of its technical and engineering staff who were involved in the development of the Model Installation Standards, Installation Program and Dispute Resolution rules, and additional rules that will revise and update the Department's Manufactured Home Construction and Safety Standards (the Construction and Safety Standards). Hiring limitations did not allow the program to fill these positions. Upon recommendation and consultation with the Consensus Committee, the Department also published a proposed rule revising the Construction and Safety Standards during FY 2005, and will publish a final rule in FY 2006.

Data discussion. Accomplishments are assessed through weekly reports submitted to the Assistant Secretary for Housing – Federal Housing Commissioner, and are verifiable by consulting the *Federal Register*.

Goal FH: Ensure Equal Opportunity in Housing

Strategic Objective:

FH.1 Provide a fair and efficient administrative process to investigate and resolve complaints of discrimination.

FH.2 Improve public awareness of fair housing laws.

FH.3 Improve housing accessibility for persons with disabilities.

PERFORMANCE REPORT CARD - GOAL FH

	Performance Indicators	2002	2003	2004	2005	2005 Target	Met	Notes
FH.1.1	Increase the percentage of non-complex fair housing complaints closed in 100 days to 75 percent.	N/A	N/A	N/A	77%	75%	Yes	
FH.1.2	Increase the percentage of Fair Housing Assistance Program complaints closed in 100 days to 45 percent.	N/A	N/A	N/A	48%	45%	Yes	
FH.1.4	In order to increase the nation's capacity to provide coordinated enforcement of fair housing laws, certify one new substantially equivalent agency under the Fair Housing Act.	96	98	101	103	102	Yes	
FH.2.3	Recipients of Fair Housing Initiatives Program education and outreach grants will hold 150 public events, to include outreach to faith-based and grassroots organizations reaching, at least, 120,000 people.	N/A	N/A	N/A	405 519,000	150 120,000	Yes	
FH.3.1	HUD will conduct 75 Section 504 disability compliance reviews of HUD recipients.	80	75	113	80	75	Yes	
FH.3.2	At least 1,000 housing professionals will be trained on how to design and construct multifamily housing that complies with the Fair Housing Act.	N/A	N/A	N/A	1,443	1,000	Yes	

Notes:
a Data not available.
b No performance goal for this fiscal year.
c Tracking indicator.
d Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).
e Calendar year beginning during the fiscal year shown.
f Calendar year ending during the fiscal year shown.
g Result too complex to summarize. See indicator.
h Baseline newly established.
i Result is estimated.
j Number is in thousands.
k Number reported in millions.
l Number reported in billions.

Objective FH.1: Provide a fair and efficient administrative process to investigate and resolve complaints of discrimination.

FH.1.1: Increase the percentage of non-complex fair housing complaints closed in 100 days to 75 percent.

Background. The efficiency of complaint processing is an important factor in assessing the effectiveness of HUD's fair housing enforcement. When cases are processed in a timely manner, evidence is preserved, witnesses are more readily available, and other victims of discrimination are more likely to file a complaint.

This case processing efficiency indicator measures HUD's ability to process routine complaints within the statutory timeframe. More specifically, this indicator tracks the percentage of non-complex complaints that HUD closed within 100 days during the fiscal year. A non-complex complaint is any fair housing complaint that contains issues other than discriminatory financing, discriminatory brokerage service, refusal to provide insurance, redlining, steering, failure to meet senior housing exemption criteria, non-compliance with design and construction requirements, and failure to permit a reasonable modification. (These types of cases are expected to take more than 100 days to resolve.) It is important to note that there are instances in which it may be impracticable to complete non-complex complaints within 100 days, such as illness of the complainant or respondent.

This indicator was revised mid-year to focus on efficiency in closing new cases, rather than on closures of aged cases, which have been reduced significantly to this point.

Results and analysis. In FY 2005, HUD closed 77 percent of its non-complex fair housing complaints within 100 days, exceeding its goal by 2 percentage points. This is an increase from 73 percent in FY 2004.

The result of this accomplishment plays a key role in building public confidence in the responsiveness of the system and encouraging victims of discrimination to file complaints. The Office of Fair Housing and Equal Opportunity will continue to work diligently to complete its cases within 100 days while ensuring fair and impartial judgment to the parties involved.

Data discussion. Data are maintained in the Title Eight Automated Paperless Office Tracking System. That system incorporates internal controls to ensure quality assurance.

Results for this indicator were calculated by dividing the number of non-complex cases closed between October 1, 2004, and September 31, 2005, that had been open less than 100 days, by the total number of cases closed during that time frame. Cases open at the end of the year will be reported on in the next fiscal year. This count excludes cases filed prior to October 1, 2003.

FH.1.2: Increase the percentage of Fair Housing Assistance Program complaints closed in 100 days to 45 percent.

Background. HUD provides funding through the Fair Housing Assistance Program to state and local government agencies who enforce laws that are substantially equivalent to the federal Fair Housing Act. The efficiency of these agencies in processing complaints of discrimination is an important factor in assessing the effectiveness of their enforcement efforts. When Fair Housing Assistance Program agencies process complaints in a timely manner, there is greater assurance that evidence is preserved, witnesses are more readily available, and victims are more likely to file a complaint. This indicator tracks the percentage of complaints in the Fair Housing Assistance Program inventory that are completed within the statutory timeframe of 100 days. The measure includes all types of cases processed by Fair Housing Assistance Program agencies, potentially including complex cases that require more than 100 days to investigate.

This indicator was revised mid-year to focus on efficiency in closing new cases, rather than on closures of aged cases, which have been reduced significantly to this point.

Results and analysis. In FY 2005, Fair Housing Assistance Program agencies closed 48 percent of their housing complaints within 100 days, exceeding the goal by 3 percentage points. The increase also represents a 6.4 percentage point increase from performance in FY 2004. The result of this accomplishment plays a key role in building public confidence in the responsiveness of the system and encouraging victims of discrimination to file complaints. HUD will continue to provide training and technical assistance to Fair Housing Assistance Program agencies to help them increase the percentage of complaints closed within 100 days.

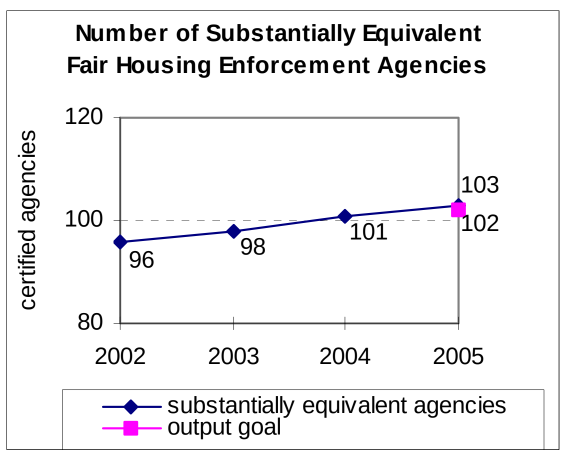
Data discussion. The data are maintained in the Title Eight Automated Paperless Office Tracking System. This system incorporates controls for quality assurance. Results for this indicator were calculated by dividing the number of cases closed between October 1, 2004, and September 30, 2005, that had been open less than 100 days, by the total number of cases closed during that time frame. Cases open at the end of the year will be reported on in the next fiscal year.

FH.1.3: FHAP grantees increase access to sale and rental housing by completing at least 2,150 fair housing conciliation/settlements in FY 2005.

This goal was deleted as part of the Department's shift toward efficiency and outcome goals (*see* the revised FH.1.2) rather than outputs.

FH.1.4: In order to increase the nation's capacity to provide coordinated enforcement of fair housing laws, certify one new substantially equivalent agency under the Fair Housing Act.

Background. HUD provides funding through the Fair Housing Assistance Program to state and local government agencies that enforce laws that are substantially equivalent to the federal Fair Housing Act. This indicator tracks the number of state and local government agencies that have been certified as substantially equivalent during the fiscal year.



The wording of this indicator was revised mid-year to reflect actual performance in FY 2004. The targeted cumulative number of agencies was increased from 100 to 102.

Program Website:
www.hud.gov/offices/fheo/partners/FHAP/index.cfm

Results and analysis. In FY 2005, HUD admitted two agencies into the Fair Housing Assistance Program, exceeding its goal by one agency. This brought the number of Fair Housing Assistance Program agencies from 101 to 103. The newly certified agencies -- the City of North Olmstead (Ohio) Department of Law and the Geneva (New York) Human Rights Commission -- represent an increase in the nation's capacity to provide coordinated enforcement of fair housing laws.

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

FH.1.5: Provide protected classes under the federal Fair Housing Act with increased access to sale and rental housing with discrimination by completing at least 1,200 fair housing conciliation/settlement agreements in FY 2005.

This goal was deleted as part of the Department's shift toward efficiency and outcome goals (*see* the revised FH.1.1) rather than outputs.

Objective FH.2: Improve public awareness of fair housing laws.

FH.2.1: At least one new fair housing group will be funded through collaborative efforts between fair housing and community or faith-based organizations.

This indicator, originally intended to promote a Departmental priority, was removed as priorities shifted. The Office of Faith-Based and Community Initiatives continues its broader departmental activities, which include fair housing groups.

FH.2.2: The number of fair housing complaints identified by FHIP partners in the Southwest border region increases by 2 percent.

The Department deleted this indicator because no data were available.

FH.2.3: Recipients of Fair Housing Initiatives Program education and outreach grants will hold 150 public events, to include outreach to faith-based and grassroots organizations reaching, at least, 120,000 people.

Background. The Fair Housing Initiatives Program provides grants to public, private, and nonprofit groups to conduct education and outreach activities within particular communities. These activities typically include developing and distributing educational materials, and training housing industry professionals on fair housing.

Such activities go hand-in-hand with effective enforcement of fair housing laws, as many people in the United States lack awareness of those laws and ways in which to report violations. The 2002 HUD study, "How Much Do We Know?" (www.huduser.org/publications/fairhsg/hmwk.html), examined the public's awareness of the Fair Housing Act's prohibitions against housing discrimination. This study found that many Americans still do not recognize unlawful discrimination when it occurs. For example, 46 percent of people surveyed did not know that it is illegal for real estate agents to limit a home search to certain neighborhoods based on the race of the home seeker and the racial composition of the neighborhood. It also found that 83 percent of respondents who believed they had experienced discrimination took no action against it and that almost one in five people who believe they have experienced discrimination did not know their rights or where they should go to complain.

This indicator was added mid-year to better demonstrate HUD's efforts to improve public awareness of fair housing laws during FY 2005.

Program Website: www.hud.gov/offices/fheo/partners/fhip/fhip.cfm

Results and analysis. During FY 2005, Fair Housing Initiatives Program grantees far surpassed this goal by conducting 405 public events that reached approximately 519,317 people. This was the first year that HUD has compiled aggregate data for education and outreach activities and these figures will serve as a baseline for future reporting. The education and outreach activities conducted by Fair Housing Initiatives Program grantees will continue to be one of the primary ways HUD will increase public awareness of fair housing law.

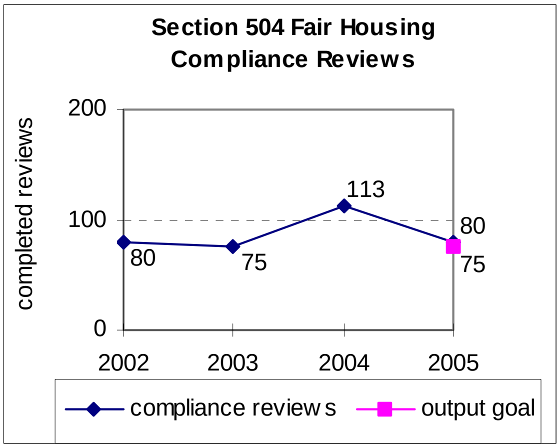
Data discussion. HUD requires Fair Housing Initiatives Program recipients to report their education and outreach activities. HUD calculated the total number of events held and persons reached based on information submitted by the grantees on the required forms. HUD also requires that Fair Housing Initiatives Program grantees submit copies of items, such as the programs and attendance sheets from education and outreach activities, to verify their activities.

Objective FH.3: Improve housing accessibility for persons with disabilities.

FH.3.1: HUD will conduct 75 Section 504 disability compliance reviews of HUD recipients.

Background. The Office of Fair Housing and Equal Opportunity reviews PHAs, providers of HUD-assisted housing, and other HUD grantees for compliance with Section 504 of the Rehabilitation Act of 1973, which prohibits discrimination based on disability in federally assisted programs and activities. Section 504 compliance reviews examine the program accessibility and physical accessibility of HUD-funded housing and non-housing programs and activities.

This goal was adjusted downward mid-year from 100 reviews to reflect reduced resources available to support this effort.



Results and analysis. During FY 2005, HUD issued letters of finding in 80 Section 504 compliance reviews, which is 5 more than HUD anticipated. A letter of finding contains the finding of fact, a finding of compliance or non-compliance, and a description of appropriate remedies for any violations identified. HUD will continue to ensure that persons with disabilities have an equal opportunity to fully benefit from HUD housing and non-housing programs.

Data discussion. This measure uses data from the Title Eight Automated Paperless Office

Tracking System and HUD's Integrated Performance Reporting System. The database counts the various compliance reviews conducted, but does not track the various stages or provide qualitative information about results of the reviews. HUD managers conduct periodic quality assurance reviews of the results.

FH.3.2: At least 1,000 housing professionals will be trained on how to design and construct multifamily housing that complies with the Fair Housing Act.

Background. The Fair Housing Act outlines seven basic design and construction requirements that multifamily dwellings built for first occupancy after March 13, 1991, must meet in order to be accessible to and usable by persons with disabilities. HUD educates housing professionals on these requirements through the Fair Housing Accessibility FIRST (Fair Housing Instruction, Resources, Support, and Technical Guidance) program. HUD contracted with Bearing Point to administer this program, which was launched in January 2003. The Fair Housing Accessibility FIRST program consists of training events, a Web site (www.fairhousingfirst.org), and a technical guidance hotline (1-888-341-7781).

This indicator was adjusted mid-year to reflect an annual goal, rather than a cumulative goal of 3,000 trained.

Results and analysis. From August 24, 2004, through August 24, 2005, the Fair Housing Accessibility FIRST program trained 1,443 housing professionals through 24 training events nationwide, surpassing its goal by over 40 percent. This brings the cumulative total of people trained to 5,003 since January 2003. The Fair Housing Accessibility FIRST training sessions during this program year have potentially added at least 357,501 accessible units -- the number of multifamily units that training attendees reported they were currently assisting with development, design, or construction.

Data discussion. The data are from monthly reports provided by Bearing Point. Bearing Point reports data by program year, which is from August 24, 2004, to August 24, 2005. As a monitoring measure, the HUD Government Technical Representative attended Bearing Point's training events to verify and validate the contractor's monthly attendance reports.

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

Strategic Objectives:

EM.1 Rebuild HUD's human capital and further diversify its workforce.

EM.2 Improve HUD's management, internal controls and systems and resolve audit issues.

EM.3 Improve accountability, service delivery, and customer service of HUD and its partners.

EM.4 Ensure program compliance.

EM.5 Improve internal communications and employee involvement.

PERFORMANCE REPORT CARD - GOAL EM

	Performance Indicators	2002	2003	2004	2005	2005 Target	Met	Notes
EM.1.1	The Resource Estimation and Allocation Process and Total Estimation and Allocation Mechanism will complete three milestones in support of strategic human capital management.	Yes	Yes	Yes	3	3	Yes	
EM.1.2	HUD will reduce skill and competency gaps in mission-critical occupations in Public and Indian Housing (PIH).	N/A	N/A	N/A	g	10%	Yes	g
EM 1.3	Sixty-eight percent of HUD's successfully performing interns are retained after completing their intern program.	N/A	N/A	N/A	84%	68%	Yes	
EM.2.1	FHA will continue to address financial management and system deficiencies through the phased implementation of an integrated financial system to better support FHA's business needs, with full completion by December 2006.	N/A	Yes	Yes	g	g	Yes	
EM.2.2	HUD is proceeding with plans to eliminate non-compliant financial management systems.	17	4	4	2	3	Yes	
EM.2.3	HUD financial statements receive unqualified audit opinions, and the preparation and audit of HUD's financial statements is accelerated.	Yes	Yes	No	Yes	Yes	Yes	
EM.2.4	Ensure timely management decisions and final actions on audit recommendations by the HUD Office of Inspector General.	0% 107	0% 120	0% 33	.005% 35	0% 17	Yes No	
EM.2.5	HUD will assess eight additional major systems for data quality.	7	8	8	5	8	Yes	g
EM 2.6	HUD will achieve SA-CMM Level 2 for five additional mission critical systems.	N/A	N/A	6	6	5	Yes	

EM.2.7	HUD will maintain Information Technology Investment Management (ITIM) Maturity Stage 3 achieved in FY 2004 and progress toward ITIM Maturity Stage 4 by the end of FY 2005.	Stage 2	N/A	Stage 3	Stage 3	Stage 3	Yes	
EM.2.8	HUD will complete its target architecture by the end of FY 2005.	N/A	N/A	N/A	Target EA	Target EA	Yes	
EM.2.9	HUD will implement policies and controls to reduce computer security risks, including certifying and accrediting 100 percent of HUD's IT systems by December 31, 2005.	N/A	N/A	N/A	100%	100%	Yes	i
EM.2.10	The Accelerated Claim and Asset Disposition demonstration program (Section 601) will exceed the rate of net recovery received through the conveyance program on the sale of single family assets.	N/A	N/A	76.9%	77.4%	71.2%	Yes	
EM.3.1	HUD partners become more satisfied with the Department's performance, operations, and programs.	N/A	N/A	N/A	N/A	N/A	N/A	a
EM.3.2	At least 80 percent of key users (including researchers, state and local governments, and private industry) rate PD&R's work products as valuable.	N/A	N/A	N/A	87%	80%	Yes	
EM.3.3	More than 3.2 million files related to housing and community development topics will be downloaded from PD&R's website.	4.0	5.0	5.3	5.9	3.2	Yes	k
EM.4.1	The high incidence of program errors and improper payments in HUD's rental housing assistance programs will be reduced.	N/A	15%	30%	67%	50%	Yes	
EM.4.2	The national average PIH Information Center (PIC) reporting rates for public housing and Housing Choice Voucher households will be 95 percent or better.	N/A	N/A	N/A	89%	95%	No	
EM.4.3	The share of completed CDBG activities for which grantees satisfactorily report accomplishments increases to 93 percent.	88.7%	93.0%	95.0%	97.3%	93.0%	Yes	
EM.4.4	A minimum of 20 percent of active CPD program grantees will be monitored on-site or remotely for compliance with statutory and regulatory requirements.	N/A	N/A	30%	21%	20%	Yes	
EM.4.5	The share of HOME-assisted rental units for which occupancy information is reported shall be maintained at a level of 90 percent.	88%	90%	91%	92%	90%	Yes	
EM.4.6	By FY 2005, the Departmental Enforcement Center will increase the percentage of residents living in acceptable insured and/or assisted multifamily housing to 95 percent by taking aggressive civil or administrative enforcement actions. This will be accomplished by closing 85 percent of the physical referral cases in the DEC as of October 1, 2004, by September 30, 2005.	N/A N/A	N/A N/A	N/A 93.0%	95.0% 89.5%	95.0% 85.0%	Yes Yes	
EM.4.7	HUD will conduct 56 Title VI and/or Section 109 compliance reviews.	58	50	93	69	56	Yes	
EM.4.8	Conduct monitoring and compliance reviews or provide technical assistance under Section 3 to 20 housing authorities and other recipients of HUD financial assistance.	25	46	66	22	20	Yes	

EM.4.9	Increase the percentage of Section 3 complaints closed in 100 days to 75 percent.	N/A	N/A	73%	100%	75%	Yes	
EM.4.10	Ensure appropriate use of funds among 100 percent of Fair Housing Initiative Program and Fair Housing Assistance Program grantees by monitoring cooperative and grant agreements.	N/A	N/A	N/A	100%	100%	Yes	
EM.5.1	Increase by 10 percentage points the level of employee satisfaction on four targeted dimensions of the Organizational Assessment Survey.	N/A	N/A	12	1%	10	No	g

Notes:

a Data not available.
b No performance goal for this fiscal year.
c Tracking indicator.
d Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).
e Calendar year beginning during the fiscal year shown.
f Calendar year ending during the fiscal year shown.
g Result too complex to summarize. See indicator.
h Baseline newly established.
i Result is estimated.
j Number is in thousands.
k Number reported in millions.
l Number reported in billions.

Objective EM.1: Rebuild HUD's human capital and further diversify its workforce.

EM.1.1: The Resource Estimation and Allocation Process and Total Estimation and Allocation Mechanism will complete three milestones in support of strategic human capital management.

Background. HUD implemented a Departmental resource management process called the Resource Estimation and Allocation Process in FY 2001. This management process is a priority investment that allows HUD to allocate resources in a highly effective and efficient manner to improve performance and also coordinate policy, performance and staffing-related budget resources. The Resource Estimation and Allocation Process methodology was developed in conjunction with the National Academy of Public Administration. The Resource Estimation and Allocation Process allows the Department to estimate, allocate, and validate resources for effective and efficient program administration and management. The Resource Estimation and Allocation Process is being used as a key tool in managing staffing resources and workload.

Results and analysis. The Department refreshed the Resource Estimation and Allocation Process baseline based on the studies completed during FY 2004. This revised baseline was a key tool in developing the FY 2006 President's Budget Request. The Resource Estimation and Allocation Process was used in the budget formulation process to match policy choices and staffing-related budget resources to maximize efficiency and performance results. The Resource Estimation and Allocation Process analyses provide a baseline for estimating staffing requirements throughout the Department.

The Department complements the Resource Estimation and Allocation Process with the Total Estimation and Allocation Mechanism. The Total Estimation and Allocation Mechanism is an automated information system designed to validate the Resource Estimation and Allocation Process baseline data or pinpoint areas for re-evaluation. The primary purpose of the Total Estimation and Allocation Mechanism is to validate the Resource Estimation and Allocation Process data by capturing actual information on workload accomplishments and time usage by HUD employees. The Total Estimation and Allocation Mechanism accumulates information in a central database and provides managers and staff with the capability to query and analyze the stored data. Total Estimation and Allocation Mechanism data was used in developing the FY 2006 Budget request. Additionally, as part of the budget execution process, Total Estimation and Allocation Mechanism data was one tool used by the HUD program managers as part of the process of assessing hiring needs and making hiring decisions.

Data discussion. Data in the two systems are maintained by the Office of the CFO's Office of Budget. Total Estimation and Allocation Mechanism data are based on random sampling of time usage and actual workload accomplishments.

EM.1.2: HUD will reduce skill and competency gaps in mission-critical occupations in Public and Indian Housing (PIH).

Background. In March 2003, HUD issued its Strategic Human Capital Management Plan. One of the major strategies contained in the Plan is conducting a comprehensive workforce analysis and developing a workforce plan for each program office to address mission critical skill gaps.

In FY 2004, HUD completed a workforce analysis and finalized plans for the following offices: Public and Indian Housing; Housing; Fair Housing and Equal Opportunity; and Community Planning and Development. In FY 2005, HUD established a baseline of existing skill gaps in mission critical occupations for PIH by completing the PIH Workforce Plan. As part of the Department's continuing effort to strengthen its human capital, HUD has established a goal of reducing the mission critical competency gaps identified in the PIH workforce plan through a combination of both training and recruitment. PIH identified the 0560 Budget Analysis series as an important mission critical job series and cited the following mission critical competencies for closure: (1) Knowledge of the federal appropriations process; (2) Knowledge of financial systems; and (3) Budget analysis. Reducing the identified competency gaps within this series will strengthen PIH's human capital and better enable them to achieve their mission. Effective management of resources, both human and budgetary, supports the Departmental strategic goal of "Embracing high standards of ethics, management, and accountability." As an extension of this goal, PIH set a target to reduce technical skill gaps in this mission critical occupation by 10 percent.

Results and analysis. PIH used the limited resources available to achieve success on this goal. Two positions were filled with qualified Budget Analysts in the GS-0560 series. Training resources were focused in the Office of Budget. Through this combination of both training and recruitment, PIH achieved the following reduction in the mission critical competency gaps for the Budget Analysis GS-0560 series.

Mission Critical Competency	Baseline Gap	Employees Hired	Employees Trained	Skill Gap Reduction
Knowledge of federal appropriations process	58.6%	2	0	35.0%
Knowledge of financial systems	22.8%	2	1	15.0%
Budget analysis	46.6%	2	2	5.0%

PIH managers established the baselines during the workforce analysis conducted in FY 2003. The reduction of these skill gaps has resulted in more efficient operations and better service to all of PIH's programs involving budget analysis activities. PIH also established baselines for skill gap reduction in the Contract Specialist series and the Public Housing Revitalization Specialist series. Further skill gap reductions will be detailed in FY 2006.

Data discussion. The data source for the reduction percentages was an analysis by the same PIH managers who originally identified the gap in the workforce analysis studies. The data are reliable, as it was developed at a strategic level based on the managers' knowledge of the capability of existing staff. For future assessments, PIH will be working more closely with Training Services to complete individual employee skills assessments and identify other specific competency gaps by employee.

EM 1.3: Sixty-eight percent of HUD's successfully performing interns are retained after completing their intern program.

Background. As part of its Strategic Human Capital Management Plan, HUD is addressing succession planning, which has been identified by the GAO as a "weakness" throughout the government. The HUD Intern Program attracts exceptional individuals as a part of its succession planning efforts to recruit and train a talent pool of qualified professionals to fill mission-critical occupations for the Department's future operations. The program offers interns professional experiences and formal training opportunities that are tailored to meet their educational and professional goals and interests, and to fill mission-critical skill gaps as senior HUD staff retire. Continued successful implementation of the Intern Program is crucial to maintain a constant flow of promising, talented individuals to support a productive workforce. The Department has priority interest in tracking the retention of all intern hires, because successful, long-term retention of employees from the intern programs will ensure a smooth transition from one generation of HUD employees to the next. Accordingly, the Department has established a goal of retaining 68 percent of all successfully performing interns.

Results and analysis. HUD has surpassed the target for this goal by retaining 84 percent of the interns hired in FY 2002 using three critical intern programs: Presidential Management Fellows; Federal Career Interns; and Legal Honors Interns. In FY 2002, the Department hired 249 interns. Of the 249 interns, 210 were converted to full-time employees during FY 2004. The Department, through proper placement, rotational assignments, training, and mentoring programs was able to surpass the 68 percent intern retention goal and achieved a retention rate of 84 percent as documented below:

Intern Program	Intern Hires FY 2002	Interns Converted FY 2004	Retention Rate FY 2005
Presidential Management Fellows	32	22	69%
Federal Career Interns	177	158	89%
Legal Honors Interns	40	30	75%
Total	249	210	84%

A number of the interns that were converted to career appointments are now participating in leadership development training and have become members of the potential leadership talent pools within their respective program offices. The ability of the Department to recruit and retain highly qualified individuals increases the program specific knowledge readily available to fulfill mission requirements in the future. The high retention rate also addresses the success of the Department's intern programs and can be used as a marketing tool, enabling HUD to continue to attract outstanding new candidates and continue effective succession planning.

Data discussion. The data were gathered through manual performance reports provided by HUD program offices and data from the National Finance Center. The Deputy Assistant Secretary for Human Resource Management, within the Office of Administration, closely administers the HUD Intern Program. Status reports on intern activities, training, mentoring, and rotational assignments are received regularly from HUD program offices. The Training Services staff monitors the completion of individual development plans and is responsible for monitoring and measuring results against the intern program retention and performance goals.

Objective EM.2: Improve HUD's management, internal controls and systems and resolve audit issues.

EM.2.1: FHA will continue to address financial management and system deficiencies through the phased implementation of an integrated financial system to better support FHA's business needs, with full completion by December 2006.

Background. The FHA Comptroller developed a Blueprint for Financial Management that provides for a phased implementation of an integrated core financial management system to address financial management and system deficiencies documented by HUD's Inspector General, FHA and HUD financial statement auditors, OMB examiners, and GAO auditors.

Implementing the system is a priority of the Secretary and the President's Management Agenda for HUD. The system will strengthen program controls and address material weaknesses and reportable conditions identified in FHA's annual financial statement audits and reports to the Congress. The Blueprint for Financial Management also provides corrective action for 14 different FHA systems that were previously non-compliant with federal financial systems requirements.

The FHA Blueprint for an Integrated Financial Management System has the following key objectives:

- Implement the U.S. Government Standard General Ledger and credit reform accounts in the FHA general ledger;
- Implement automated funds control processes using the FHA general ledger;
- Automate FHA's interface with HUD's departmental general ledger;
- Produce FHA financial statements and regulatory reports directly from the FHA general ledger;
- Enhance FHA cash accounting and Treasury reconciliation with automated support from the integrated financial management system;
- Enhance FHA contract accounting with automated support from the integrated financial management system; and
- Eliminate manual accounting processes and improve integration of FHA financial and program systems, including daily or real-time funds control for insurance operations.

This systems project has a phased implementation. In Phase I, FHA identified its financial management requirements, defined and built translation software to produce financial transactions in a common format from 19 different automated sources, and acquired a Joint Financial Management Improvement Program-compliant, commercial-off-the-shelf product to serve as its new core financial system. In September 2000, FHA selected the financial software offered by PeopleSoft, and named the new system the FHA Subsidiary Ledger.

In Phase II, FHA implemented the new PeopleSoft financial software to perform central accounting functions of the FHA Comptroller's office, such as general ledger operations and cash management. FHA accomplished the first major milestone of Phase II in October 2002 by implementing the general ledger module of the FHA Subsidiary Ledger system. With this step, FHA acquired the capability for the first time to record and track budgetary resources using the U.S. Government Standard General Ledger at the transaction level, to control expenditures against available resources (on a monthly basis), and to produce financial statement reports directly from the general ledger. In October 2003, FHA upgraded the software for web operation to improve critical accounting processes such as funds control.

FHA completed parallel operations for the final Phase II milestones in June 2004, implementing accounts payable, accounts receivable, procurement, and projects modules to perform central accounting functions. HUD's goal is to complete Phase III by December 2006.

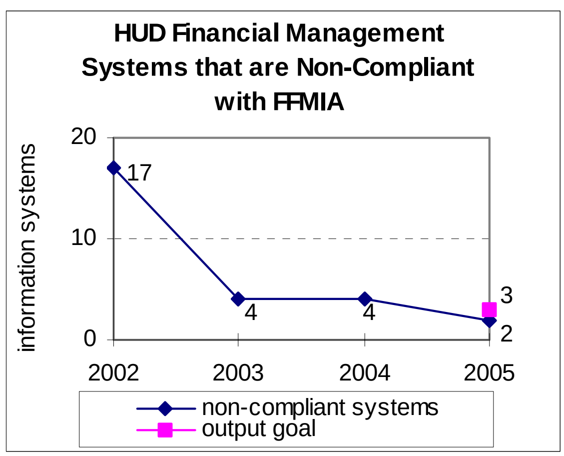
Results and analysis. Phase III of the project accomplished several major milestones in FY 2005. These included upgrading PeopleSoft from version 8.4 to version 8.8, enhancing system reporting, and improving system performance by reducing batch and online processing times for key business activities. The continued integration of legacy systems into the FHA Subsidiary Ledger was advanced by documenting "as-is" and "to-be" business processes, by identifying how program office functionality will be implemented, and by developing customizations necessary to support unique business requirements of the program offices.

Phase III will complete the integration of FHA insurance operations with the new core financial system, including integration of Single Family premium refunds, Multifamily premium billing and collection, and Multifamily claims operations.

Data discussion. Successful performance is assessed by HUD's Inspector General and reported in the annual audit of FHA's financial statements. The performance measures for the project are subject to independent assessment and depend on readily verifiable information such as number of findings (material weaknesses and other reportable conditions) eliminated from the auditor's annual opinion and number of legacy systems replaced. The project will identify new annual milestones as work on each phase is completed.

EM.2.2: HUD is proceeding with plans to eliminate non-compliant financial management systems.

Background. The Federal Financial Management Improvement Act of 1996 requires federal agencies to implement and maintain financial management systems that comply with federal reporting requirements and accounting standards, and to support the U.S. Government Standard General Ledger at the transaction level. At the end of FY 2000, HUD had 67 financial management systems, of which 17 failed criteria for compliance with federal requirements. By the end of FY 2004, the total number of financial management systems dropped to 46, and the Department achieved a significant reduction in the number of non-compliant financial systems from 17 to 4.



Results and analysis. At the end of FY 2005, HUD had a total of 44 financial management systems. HUD successfully reduced the number of non-compliant systems to 2, down from 4 reported at the end of FY 2004. The Department continues to report the Office of the CFO's Loan Accounting System as non-compliant. The Office of the CFO is currently in the process of replacing the Loan Accounting System with a commercial-off-the-shelf replacement system. Implementation is projected to occur during the first quarter of FY 2006. The other non-compliant system is the Office of Administration's Facilities Integrated Resources Management System. In its 2005 FMFIA assurance statement, the Office of Administration reported the Facilities Integrated Resources Management System as non-compliant with Section 4 of FMFIA. While the Office of Administration has compensating controls to periodically reconcile the property inventory maintained in the Facilities Integrated Resources Management System with the various purchasing activities, there are corrective actions in process to address systemic internal control deficiencies to better assure the Facilities Integrated Resources Management System maintains a current, accurate and complete property inventory. HUD's overall financial management systems environment is now deemed substantially compliant with the Federal Financial Management Improvement Act and OMB Circular A-127. The long-standing material systems non-conformance has been downgraded to a reportable condition.

Data discussion. The Office of the CFO maintains the financial management systems inventory, with input from systems sponsors and cyclical compliance reviews of systems. The data are reliable for this measure. HUD performs financial management systems compliance reviews on a three-year cycle, or in conjunction with major systems changes, and the Inspector General also verifies compliance of HUD financial systems through audits.

EM.2.3: HUD financial statements receive unqualified audit opinions, and the preparation and audit of HUD's financial statements is accelerated.

Background. The Department introduced this indicator in order to continue its focus on improving and enhancing HUD's financial stewardship. An unqualified audit opinion is a strong indicator to OMB, the Congress, and the public on the accuracy of HUD's consolidated financial statements, the reliability of the underlying financial management systems and controls over financial reporting, and the strength of HUD's financial management team. An independent financial statement audit is an important tool to instill confidence in HUD's financial operations and reporting for the Department's external stakeholders. Establishing and maintaining this trust requires a long-term commitment to financial integrity, including progress toward eliminating the material internal control weaknesses and reportable conditions identified in the financial statement audit.

HUD had received an unqualified audit opinion for four consecutive fiscal years (2000-2003) -- an indicator of financial management discipline and stability. However, as a financial management improvement in FY 2004, OMB mandated the preparation and audit of federal agency financial statements within 45 days after the end of the fiscal year on November 15. The Inspector General's original report on their audit of HUD's FY 2004 financial statements stated that they were unable to express an audit opinion due to insufficient time to complete their work by the accelerated deadline. That report also identified three auditor-reported material weaknesses and seven reportable conditions.

HUD's FY 2005 goals were to: prepare and issue its audited FY 2004/2005 consolidated financial statements by the 45 day deadline of November 15, 2005, with an unqualified audit opinion; continue corrective actions to reduce the number of material weakness and reportable condition issues; and continue to meet OMB goals for the preparation of quarterly financial statements within 21 days after the end of the quarter.

Results and analysis. HUD met its goal of receiving an unqualified audit opinion on its FY 2005 financial statements within 45 days after the end of the fiscal year. In addition, audit work was completed on the FY 2004 financial statements that also led to an unqualified opinion. HUD has now received an unqualified audit opinion on its consolidated financial statements for six consecutive fiscal years.

HUD also continued efforts to strengthen internal controls in FY 2005, resulting in the downgrading of two longstanding auditor-reported material weaknesses -- controls over rental housing assistance and compliance with financial systems requirements -- to reportable conditions. However, one prior reportable condition was elevated to a material weakness issue, resulting in a net reduction of one material weakness. Also, while two reportable conditions were eliminated and one was elevated, the addition of two downgraded material weaknesses resulted in a net reduction of one reportable condition at year-end. HUD ended FY 2005 with two material weaknesses and six reportable conditions.

HUD met its goal for accelerating the production of the quarterly financial statements to within 21 days after the end of the quarter, and continued to provide timely financial data for managers to use in making program decisions. HUD intends to continue producing quarterly financial statements within 21 days after the end of each quarter in future years.

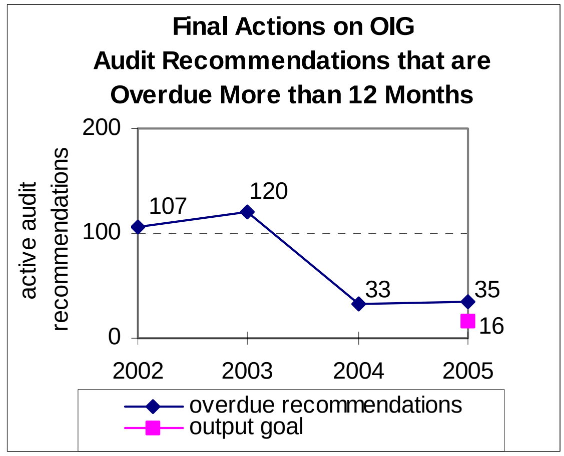
Data discussion. The OIG, along with contracted personnel under their direction, conducts the annual financial statement audit. This audit examines the adequacy of HUD's financial management systems, the effectiveness of internal controls over financial reporting, and compliance with laws and regulations that could have a material effect on the financial statements. The OIG also identifies material weaknesses and reportable conditions, and recommends appropriate corrective actions. OIG audits are independent of HUD management, are performed in accordance with GAO auditing standards, and adhere to the OMB and other guidelines and standards governing the preparation and audit of agency financial statements.

EM.2.4: Ensure timely management decisions and final actions on audit recommendations by the HUD OIG.

Background. The large body of internal and external audit work conducted by the HUD OIG results in a significant volume of recommendations involving recovery of disallowed and questioned costs, opportunities to put funds to better use, and improvements to management controls to reduce the risk of fraud, waste and abuse, and improve program performance. The Inspector General Act of 1978, as amended, establishes requirements for the timely resolution and reporting on OIG audit recommendations by agency managers. By statute, agency managers have six months from the date of issuance of an audit report to reach acceptable management decisions with OIG on all audit recommendations. HUD's goal is to have "no" overdue management decisions every six-month reporting period. As part of an approved management decision on an audit recommendation, a target date is established for completing final action on that recommendation. HUD management tracks the status of final actions and established a FY 2004 and FY 2005 goal for a 50 percent reduction in final actions more than 12 months overdue.

Results and analysis. For the year ended September 30, 2005, HUD made timely management decisions on 790 OIG audit recommendations and met 99.5 percent of its goal of no overdue management decisions for the sixth and seventh consecutive periods. Four management decisions were overdue at the close of the year. The OIG and the Office of Housing agreed to the four management decisions just seven days after the close of the fiscal year.

HUD did not meet its goal for reducing overdue final actions. At the beginning of FY 2005, the Department established annual performance sub-goals for each program office within HUD to reduce the opening balance of final actions that were more than 12 months overdue by 50 percent. There were 33 final actions that were more than 12 months overdue. There were an additional 95 overdue recommendations that, through aging, could have become more than 12 months overdue, for a total of 128 recommendations potentially in the 12 months overdue category at the end of the year. However, 93 of the 128 recommendations were closed during the year, leaving a balance of 35 final actions that were more than 12 months overdue at the end of FY 2005. While the Department did not meet its goal of halving the number of these significantly overdue recommendations, all program offices, except the Office of Housing, ended the year with zero recommendations overdue by 12 months or more. In addition, the Department reduced its *total* inventory of overdue recommendations from a beginning balance of 163 to just 53 at year's end.



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

EM.2.5: HUD will assess eight additional major systems for data quality.

Background. The Department's growing concern with the quality of its program data, and the Secretary's desire to accurately report where and how HUD dollars are being spent to revitalize the communities across America, led the Department to establish an Enterprise Data Management Practice. The Enterprise Data Management Practice provides HUD the ability to: (1) manage data as a strategic resource to improve the effectiveness of all HUD initiatives; (2) measure HUD's performance in achieving its mission; and (3) demonstrate the Department's effectiveness and impact on America's communities. In 2000, HUD launched the Data Quality Improvement Program to ensure that the quality of Annual Performance Plan performance indicator data in HUD information technology systems is enhanced. The Data Quality Improvement Program includes a three-step process: 1) independent assessment; 2) data quality cleanup and improvement; and 3) certification. HUD systems used for Annual Performance Plan reporting are required to receive an independent assessment. Based on the results of its independent assessment, HUD staff provides findings and recommendations to the system owners, who are accountable for Step 2 -- data quality cleanup and improvement. When implemented, Step 2 actions correct deficiencies and ensure data quality. When data quality is corrected and improvements are completed, the Office of the Chief Information Officer will then perform an independent certification. Step 3 (certification) repeats Step 1 by verifying that intended improvements were made and are working.

Results and analysis. Three of the eight Annual Performance Plan data sources originally designated to be supported by HUD information systems were in fact manual record-keeping systems, and were therefore not in scope for data quality assessment. In FY 2005, HUD staff therefore assessed five systems instead of the eight that were planned, and by so doing, fully met the goal. By the end of FY 2005, HUD met its goal of assessing all systems currently supporting Annual Performance Plan performance indicators, which now number 24 (instead of the 27 assumed at the beginning of the fiscal year). Over the last four years, 28 separate systems or subsystems have been assessed and 24 certified, as shown in the following chart:

System Acronym	System Name	Certification Status
LOCCS	Line of Credit Control System	Certified 2001
PAS	Program Accounting System	Certified 2001
SAMS	Single Family Asset Management System	Certified 2002
MTCS	Multifamily Tenant Characteristics System	Certified 2002
HUDCAPS	HUD Central Accounting Payment System	Certified 2003
REMS	Real Estate Management System	Certified 2003
TRACS	Tenant Rental Assistance Certification System (see NOTE)	Certified 2004
RASS	Residential Assessment Subsystem	Certified 2003
NASS	iNtegrated Assessment Subsystem	Certified 2003
PASS	Physical Assessment Subsystem	Certified 2003
FASS	Financial Assessment Subsystem	Certified 2003
MFIS	Multifamily Insurance System	Certified 2003
IDIS-HOME	Integrated Disbursement and Information System (HOME)	Certified 2003
IDIS-CDBG	Integrated Disbursement and Information System (CDBG)	Assessed 2003
CHUMS	Computerized Home Underwriting Management System	Assessed 2003
PIC-SEMAP	SEMAP Module of the PIH Information Center	Certified 2004
PIC-50058	50058 Module of the PIH Information Center (see NOTE)	Certified 2004
TRACS	Tenant Rental Assistance Certification System	Certified 2004

DAP	Development Application Processing System	Certified 2004
TEAPOTS	Title VIII Automated Paperless Office Tracking System	Certified 2004
CPD/APR	CPD Administrative Database (APR)	Certified 2004
CSFSS	Consolidated Single Family Statistical System	Certified 2004
CLAIMS	Single Family Insurance System-Claims Subsystem	Certified 2004
PERMS	EC/EZ Performance Measurement System	Certified 2005*
HCS	Housing Counseling System	Certified 2005*
ARCATS	Audit Resolution and Corrective Action Tracking System	Certified 2005*
HOPE VI	PIH's HOPE VI Progress Reporting	Assessed 2005
ARRTS	Approval Recertification/Review Tracking System	Preliminary assessment 2005

NOTE: Multifamily Tenant Characteristics System was re-platformed creating a new data management environment (Public and Indian Housing Information Center-50058). Therefore, a new assessment was completed in FY 2004. The Tenant Rental Assistance Certification System was reassessed in FY 2004 in order to focus on data that supports Annual Performance Plan reporting.

*Denotes systems that were both assessed and certified in FY 2005.

Of the FY 2005 systems, the EC/EZ Performance Measurement System, Housing Counseling System, Audit Resolution and Corrective Action Tracking System, and HOPE VI assessments were completed on schedule. Other than the HOPE VI system, the others meet the future target data quality standard of 6 sigma (indicating that the data is 99.99996 percent accurate). In the case of HOPE VI, system certification will be delayed until the system is hosted in the HUD environment and its data architecture independently validated. In the case of the Approval Recertification/Review Tracking System, the assessment against identified business rules has been completed, and the system will be certified at 3 sigma (indicating that the data is 93.3 percent accurate) on November 11, 2005, when the final assessment report is published.

Data discussion. In its most recent financial statements audit (2005-FO-0003), the Inspector General named performance measures data reliability a reportable condition. Completion of the 24 data quality assessments supporting the current Annual Performance Plan fulfills the Office of the Chief Information Officer's corrective action plan for the reportable condition. During FY 2006, the Enterprise Data Management Practice will transition from an assessment-focused team to a certification-focused one. In that role, the Enterprise Data Management Practice will evaluate new performance indicators and ensure that the supporting systems are certified at HUD's quality standard. The Office of the Chief Information Officer is currently proposing that HUD's target data quality standard be revised to 4 sigma (indicating that the data is 99.379 percent correct). Based on lessons learned during earlier assessments, the Office believes that the 4 sigma standard is more appropriate, because it will not be feasible in all cases to design the system edits that would enable quickly achieving 6 sigma data quality.

EM.2.6: HUD will achieve SA-CMM level 2 for five additional mission critical systems.

Background: During FY 2005, HUD built upon the work previously performed under the Software Acquisition-Capability Maturity Model. Additional projects were trained to practice the model at level 2. The Software Acquisition-Capability Maturity Model Level 2 (repeatable) maturity is primarily focused on projects. At this level, repeatable software acquisition project management is established, software acquisition project management processes are documented and followed, organizational policies guide the projects in establishing management processes, and successful practices developed on earlier projects can be repeated.

Results and analysis. In FY 2005, the GAO visited HUD to evaluate the implementation of their recommendations cited in GAO-01-962 report of September 2001. The report recommended HUD adopt the model as a practice to assure risk free software development acquisition. The GAO concluded in their FY 2005 visit that HUD had successfully implemented the practice and projects were following the practice and closed the findings.

As part of HUD's continued effort to improve the model, six mission critical systems were trained in the practice and mentored into a repeatable practice. These projects include:

- Computerized Homes Underwriting Management System
- FHA Connection
- HUD Client Information and Policy System
- Integrated Disbursement and Information System
- Single Family Insurance System
- Single Family Insurance System – Claims Subsystem

The six mission critical systems were chosen for assessment of the model. Each support team, project manager, business sponsor and integrated product team were trained on the model and then appraised on their conformance with the model. The assessment was an Internal Process Improvement Assessment and followed the latest protocol promulgated by Carnegie Mellon University Software Engineering Institute for appraisals. A Software Engineering Institute-authorized lead assessor executed the assessments.

The overall results of this assessment were good. A number of improvements were made since the previous assessment conducted last year. The creation of the Project Management Plan template, implementation of internal HUD project best practices, lessons learned from the previous phase and development of the Project Management Guide created a roadmap to success. Each contributed to define the roles and responsibilities of project personnel and project management practice employed.

The progress made by the projects selected for this appraisal was notable, and reflects on the direction provided by the Project Management Center of Excellence. The Center has provided guidance to the process improvement program.

Data discussion. HUD successfully implemented practices toward achieving a Level 2 designation for six additional systems, and continued to assist projects at Level 2 to advance to Level 3. Successful government and industry organizations involved in software development have adopted proven practices to reduce risk in their software development. HUD has adopted the Carnegie Mellon Capability Maturity Model as a practice to enforce repeatable, defined, optimized and performance measured processes to sustain a successful risk free software development effort. Between FY 2004 and FY 2005, HUD has continued to improve on its adoption of this model and has used third party assessments such as Carnegie Mellon assessors and the GAO auditors to verify the benefits of the adoption.

EM.2.7: HUD will maintain Information Technology Investment Management (ITIM) Maturity Stage 3 achieved in FY 2004 and progress toward ITIM Maturity Stage 4 by the end of FY 2005.

Background. In FY 2005, HUD obligated over $320 million on an information technology portfolio of 120 projects. These projects primarily involve maintaining legacy systems and small to major modifications. These systems are designed, developed, and managed so HUD can timely address changing business needs, emerging Departmental requirements (e.g., legislation, regulations, guidance, court orders), and project performance considerations.

HUD's Capital Planning and Investment Control process, required by the Clinger-Cohen Act, lays the foundation for a mature approach to Information Technology Investment Management. In 2000, HUD began following the GAO Information Technology Investment Management Maturity Framework to improve its Capital Planning and Investment Control process, because a mature process will reduce project cost overruns, schedule slippages, and unproductive systems. The Maturity Framework improves the selection and management of HUD's information technology portfolio by addressing business strategies and workforce needs. HUD also established controls over investments to minimize project failure or excessive cost and schedule overruns.

There are five levels of maturity to the GAO Information Technology Investment Management Maturity framework:

Stage 1 – Creating investment awareness;

Stage 2 – Building an investment foundation;

Stage 3 – Developing a complete investment portfolio;

Stage 4 – Improving the investment process;

Stage 5 – Leveraging information technology for strategic outcomes.

Results and analysis. HUD successfully maintained Information Technology Investment Management Maturity Stage 3 achieved in FY 2004, and progress toward Maturity Stage 4 by the end of FY 2005. In September 2005, HUD conducted an ITIM Maturity Assessment against the GAO ITIM Framework released in March 2004 to identify the current maturity stage and identify recommendations for moving forward. HUD is evaluated at stage 3. Going forward, the Office of the Chief Information Officer will evaluate the recommendations and adopt/pursue key processes consistent with Departmental objectives and priorities to improve the information technology portfolio management and work towards the next level of maturity (stage 4).

Data discussion. The independent assessment was conducted by an outside consultant (Synthesis Technologies, Inc.) using the 2000 version of the GAO Information Technology Investment Management Maturity Framework from September through mid-December 2003.

The assessment included the review of HUD's current Information Technology Investment Management policies, procedures and practices; interviews with key HUD stakeholders; and analysis of historical documents and data.

EM.2.8: HUD will complete its target architecture by the end of FY 2005.

Background. In 2000, HUD established an enterprise architecture program to promote sound business and information technology decisions through comprehensive understanding of HUD's complex computing environment. The primary purpose of enterprise architecture is to inform, guide, and govern the decisions at the enterprise level, especially those related to information technology investments. The enterprise architecture describes the current and planned design of the Department's business, information and technology. With enterprise architecture, HUD identifies its needs and defines the technology needed to support those needs. Across the Department, enterprise architecture: (1) illustrates the implications of business and information technology decisions; (2) ensures the acquiring technologies adequately support business and information needs; (3) facilitates information sharing among the program offices; (4) promotes a reduction in duplicative system functionality; and (5) highlights opportunities for building greater flexibility into applications.

Results and analysis. HUD's FY 2005 goal was to complete its target architecture by the end of FY 2005, and this goal was successfully achieved. During FY 2005, HUD's enterprise architecture team completed development of Target Architecture Version 1.0 and Version 2.0, meeting the goal. Target Enterprise Architecture Version 1.0 included architectural principles, drivers, common requirements and enterprise-wide business, services, and technology architecture. Target Enterprise Architecture Version 2.0 augmented Version 1.0 through the addition of enterprise-wide data architecture. In addition, HUD's enterprise architecture team completed development of an Enterprise Architecture Transition Plan. This plan defines a logical sequencing plan to implement HUD's target enterprise architecture.

HUD's enterprise architecture team executes the transition plan by supporting development of detailed segment architecture for HUD's strategic lines of business, common business functions, and core information technology services. The following segment architectures have been completed or are under development: Single Family Housing, Rental Housing Assistance, Multifamily Housing, Financial Management, Human Resources Management, Grants Management, and Tracking and Workflow.

Additional work will be completed in FY 2006 to develop an enterprise-wide performance architecture and to augment HUD's technical architecture to support information technology modernization. In addition, the Enterprise Architecture team will continue to support execution of the Enterprise Architecture Transition Plan through the development and maintenance of segment architecture.

Data discussion. Enterprise architecture activities are included in HUD's Information Technology Strategic Plan for FY 2005 – FY 2010. Status reports provide accurate tracking information on planned activities. Program managers regularly review the status reports to ensure that planned actions occur. Additionally, these activities are reported in the PMA. HUD's Chief Architect regularly reviews the PMA status reports to ensure that planned actions occur and are reported in the PMA process.

In June 2005, HUD's Enterprise Architecture program was assessed at a level of 3.44 out of 5.0 relative to OMB assessment framework. This score reflects a higher level of product maturity (completeness) and demonstrated use of HUD's enterprise architecture to support information technology investment management (utility), as well as represents a significant improvement over an initial enterprise architecture program assessment of 1.81 out of 5.0 (August 2004).

EM.2.9: HUD will implement policies and controls to reduce computer security risks, including certifying and accrediting 100 percent of HUD's IT systems by December 31, 2005.

Background. The Federal Information Security Management Act establishes certification and accreditation as the government's primary risk management process. The Act stipulates that each agency information technology system classified as a major application or general support system will undergo certification testing to assess the adequacy of its security controls and will be accredited by a senior agency management official prior to operation. Currently, HUD has designated in its Inventory of Automated Systems 7 general support systems, and 146 major applications systems, all of which are in operation and are required to be certified and accredited.

Results and analysis. HUD has successfully completed the vast majority of this goal, and projects fully meeting the goal by the target date of December 31, 2005. The Office of Information Technology Security has published a handbook which establishes policies and controls relating to risk management and system certification and accreditation. This includes requirements for mitigation of risks. The Office has also published the HUD Certification and Accreditation Process guide, which has served as the basis for the certification and accreditation of 143 major applications as of September 30, 2005. Certification of the remaining three major applications is planned for the 1st Quarter FY 2006, and accreditation is anticipated by November 30, 2005. Additionally, all of HUD's seven general support systems are now undergoing certification, and their accreditation is anticipated by October 31, 2005. According to plans and initiatives currently in place, 100 percent of HUD's information technology systems will be certified and accredited by December 31, 2005.

Data discussion. Weaknesses identified through the certification and accreditation process and the status of corrective actions are tracked on a quarterly basis by the Office of Information Technology Security staff in coordination with system owners. If weaknesses are identified, staff will develop corrective action plans with program offices.

EM.2.10: The Accelerated Claim and Asset Disposition demonstration program (Section 601) will exceed the rate of net recovery received through the conveyance program on the sale of single family assets.

Background. A key element to FHA's business is the payment of claims on defaulted insured loans. Title VI, Section 601 of the Veterans Administration, HUD, and Independent Agencies Appropriations Act (1999) reformed the single family claims and property disposition process. The legislation enables HUD/FHA to: (1) pay claims upon assignment of mortgages rather than upon conveyance of the properties; (2) take assignment of notes and transfer them to private parties for servicing, foreclosure avoidance, foreclosure, property management and asset disposition; and (3) participate as an equity partner with private entities in asset disposition. The overall initial goal of the Accelerated Claim and Asset Disposition Demonstration was to increase the value of the single family assets, and therefore the recovery to FHA, while ensuring that FHA's public policy issues are addressed. If this methodology proves successful, FHA can resolve a substantial percent of defaulted mortgages by transferring mortgages to private partners rather than acquiring properties. This indicator tracks the rate of recovery on claims under the Section 601 demonstration program between FY 2002 and FY 2005.

Results and analysis. As the Accelerated Claim and Asset Disposition Demonstration matures and final disposition outcomes are made, the Department anticipates that the recoveries from the program will continue to exceed the Conveyance Recoveries of 71.2 percent. Recoveries as of August 31, 2005, for the three Single Family Sales Initiatives:

	Recoveries Adjusted for Claim Cost as of 8/31/05
Single Family – Sale 1 October 2002 (assets sold FY 2003)	68.2%
Single Family – Sale 2 September 2003 (assets sold FY 2004)	72.3%
Single Family – Sale 3 August 2004 (assets sold FY 2005)	82.6%

The most recent available FY 2005 data show that as of August 31, 2005, the average net recovery rate for the second and third joint venture note sales completed under the demonstration program was 77.4 percent. Additional recoveries will be realized as the remaining assets of the portfolios are sold. The recovery for the first Joint Venture is 68.2 percent; the assets sold under this partnership were located in the Philadelphia and Atlanta Homeownership Centers and, as such, this recovery rate is not comparable with recovery numbers based on nationwide claims.

The winning bid percentage continued to increase for the most recent sale, Single Family Joint Venture 2005.

Data discussion. The data source is the Single Family Insurance System -- Claims Subsystem, which is audited by the Inspector General.

Objective EM.3: Improve accountability, service delivery, and customer service of HUD and its partners.

EM.3.1: HUD partners become more satisfied with the Department's performance, operations, and programs.

Background. HUD partners are critical to the Department's overall performance. These partners, which include government, nonprofit, and for-profit entities, provide service delivery for a majority of HUD programs. Increasing their satisfaction with HUD makes them more willing to support HUD and achieve common objectives. During FY 2001, the Office of Policy Development and Research surveyed eight partner groups to assess partner satisfaction with the Department and perceptions of management changes at HUD. The partner groups included community development directors, PHA directors, Fair Housing Assistance Program directors, mayors, multifamily owners, and nonprofit providers. Overall satisfaction by partners varied greatly, with mayors and Fair Housing Assistance Program directors highly satisfied, and PHA directors and multifamily owners less satisfied. The Department's goal is to observe an increase in satisfaction among partner groups when the 2001 baseline study is replicated.

Results and analysis. The Office of Policy Development and Research contracted a second stakeholder survey during FY 2004 but the data are not yet available. The researchers completed data collection during FY 2005. They attained an overall response rate of 73 percent, substantially higher than typical levels for comparable surveys. Results will become available after the data are analyzed and the report is prepared early in FY 2006. The report for the baseline survey, "How's HUD Doing? Agency Performance as Judged by Its Partners," is available at www.huduser.org.

Data discussion. The survey instruments used in FY 2001 and FY 2005 each were pre-tested to validate the data collection. The surveys differ slightly in focus because the management environment has changed. The new effort maintains a core set of questions to ensure comparability with the earlier survey.

EM.3.2: At least 80 percent of key users (including researchers, State and local governments, and private industry) rate PD&R's work products as valuable.

Background. The Office of Policy Development and Research is charged with providing data on housing and urban conditions to support program operations and external research, evaluating HUD programs, and preparing studies on housing conditions, policy, and technology. A FY 2001 baseline set of discussions with key stakeholders and selected research users found that 81 percent rated research products as "valuable." The stakeholders and users interviewed during the baseline research included academics, nonprofit researchers, building professionals, trade and manufacturing associations, financial institutions, and housing advocacy groups.

During FY 2005, follow-up surveys focused on customers of the Office of Policy Development and Research's online distribution center, HUD USER, which receives about 2.5 million visits annually. The survey respondents represented three groups of customers: visitors to the HUD USER website, subscribers to the HUD USER News and American Housing Survey listservs, and users of the Regulatory Barriers Clearinghouse listserv and website. Listserv customers generally may be considered key users.

Results and analysis. Among the FY 2005 survey respondents, 87 percent were highly satisfied or moderately satisfied with the quality of the information available on HUD USER. This result exceeds the goal of 80 percent finding the information "valuable," which is slightly narrower in concept. Satisfaction with the quality of information was even higher among the key users of the listserv groups, reaching 94 percent for each group.

Regarding the HUD USER website itself, 84 percent of respondents expressed satisfaction. Sixty percent of these users typically use the information for research. Overall website satisfaction was higher among the key users, reaching 92 percent among News and American Housing Survey listserv respondents and 93 percent among Regulatory Barriers Clearinghouse respondents.

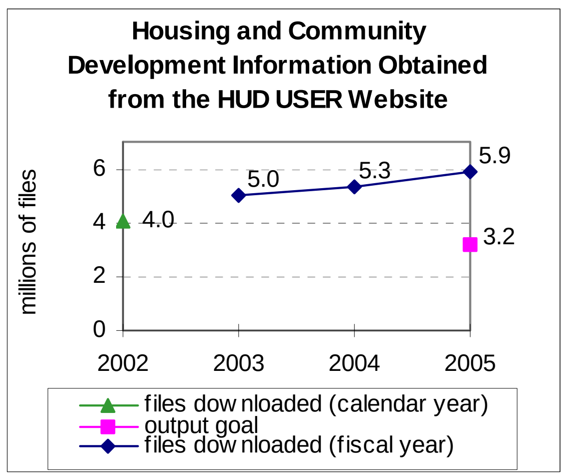
Overall satisfaction with the HUD USER website and Office of Policy Development and Research products was very high. Most respondents were very satisfied with the content of the website, the quality and adequacy of research, and the adequacy of the data sets. However, they also offered a large number of suggestions for improving the website, notably including stronger search capabilities. The results of the survey are presented in full in the final report, "Assessment of the Office of Policy Development and Research Website."

Data discussion. The data consist of 10,795 valid responses to the website survey and 1,832 valid responses to the listserv surveys (995 for News and American Housing Survey listservs and 837 for the Regulatory Barriers Clearinghouse listserv). All users between October 7 and December 10, 2004, were asked to participate. To boost the rate of response to the survey, respondents were offered Policy Development and Research publications valued at up to $10. An analysis conducted to validate the sample revealed no significant differences between respondents and non-respondents, nor between visitors during the survey period and the rest of the year.

EM.3.3: More than 3.2 million files related to housing and community development topics will be downloaded from PD&R's website.

Background. In 1978, the Office of Policy Development and Research established HUD USER, an information resource for housing and community development researchers and policymakers. HUD USER is one of the principal sources for federal government reports and information on housing policy and programs, building technology, economic development, urban planning, and other housing-related topics. HUD USER also creates and distributes a wide variety of useful information products and services and provides research support in the form of an email- and phone-based Help Desk. Substantial HUD USER activity is an indication of the value of the Office of Policy Development and Research's work, and of HUD USER's coordination and outreach activities on behalf of HUD's customers. The performance target was increased to 4.8 million downloads for FY 2006.

Results and analysis. During FY 2005, users of the HUD USER research clearinghouse downloaded 5.9 million electronic files, surpassing the goal of 3.2 million downloads. The result represents a new record for annual volume. The number of downloads varies from month to month, reflecting the timing and popularity of new reports and information.



Data discussion. The data are gathered in monthly reports from Sage Computing, HUD's web hosting and content management provider for HUD USER. Beginning in mid-2003, the counts have been generated with WebTrends software, a standard analytical application in the web hosting industry. No counting errors are expected. However, users may download multiple files while obtaining the information they were seeking, and a single user may download the same product more than once. An effort has been made to exclude partial downloads, but a small proportion of partial downloads are known to remain in the total. A survey of HUD USER customers during FY 2005 (see indicator EM.3.2) provided independent qualitative and quantitative information for validating usage patterns from automated data.

Objective EM.4: Ensure program compliance.

EM.4.1: The high incidence of program errors and improper payments in HUD's rental housing assistance programs will be reduced.

Background. The rental housing assistance programs (public housing, Housing Choice Vouchers, and project-based assistance programs) constitute HUD's largest appropriated activity, with over $26 billion in annual expenditures. There are three major sources of error in these complex programs:

- Program administrator error: the program administrator's failure to properly apply income exclusions and deductions and correctly determine income, rent, and subsidy levels;
- Tenant income reporting: the tenant beneficiary's failure to properly disclose all income sources; and
- Billing error: errors in the billing and payment of subsidies between third party program administrators and HUD.

In FY 2000, HUD estimated that 60 percent of all subsidized rent calculations were done in error, and that there were approximately $2 billion in net annual subsidy overpayments attributable to program administrator error and tenant income reporting error. (The baseline studies for the third component, billing error, were completed later.) HUD's OIG has identified rental assistance payment errors as a material weakness in past audits of the Department's financial statements, and in response, HUD has committed to specific and aggressive corrective actions as part of the Eliminate Improper Payments initiative of the PMA.

In conjunction with OMB, HUD established a goal for a 50 percent reduction in both the frequency of errors and the $2 billion in net annual overpayments by FY 2005. HUD set interim error reduction goals of 15 percent for FY 2003 and 30 percent for FY 2004, which the Department significantly exceeded with a 71 percent reduction in net subsidy overpayments by the end of FY 2003, as reported in the FY 2004 Performance and Accountability Report.

However, the reduction of errors and improper payments is not expected to have a significant impact on budget outlays, as HUD's experience has been that many higher income tenants, as well as tenants who have been underreporting their incomes, will leave subsidized housing and be replaced with lower income tenants requiring increased rent subsidies. The Department's error reduction efforts are still vitally important, regardless of budgetary savings, because they help to ensure that program funds are directed toward households that properly qualify for rental assistance.

To address the FY 2000 baseline estimate of improper payments, HUD established the Rental Housing Integrity Improvement Project. This project was led by a multi-organizational working group that developed a comprehensive corrective action plan that provided for:

- Structured forms, training, and automated tools needed to determine rents and subsidies correctly;
- Education on program processes and benefits;
- Increased use of automated sources of income data during rent and subsidy determinations;

- Increased monitoring of program processing by HUD's intermediaries, using risk-based targeting indicators;
- Automated billing verifications;
- Stronger performance incentives and sanctions for HUD's intermediaries and tenants;
- An on-going quality control program; and
- Statutory and regulatory simplification of the program.

In FY 2004, HUD developed and began implementation of the Upfront Income Verification System (now the Enterprise Income Verification System) to share state wage data matching information with PHAs for use in verifying tenant income. In FY 2004, HUD received statutory authority to conduct an ongoing computer matching program with the National Directory of New Hires, administered by the Department of Health and Human Services. The National Directory of New Hires is a central source of wage, unemployment benefit, and new hires information for most employed individuals in the United States. Throughout FY 2005, HUD completed the necessary system developments to prepare for the implementation of National Directory of New Hires data into the Enterprise Income Verification System in October 2005. This new capability will allow PHAs to conduct more effective and timely income verification of tenants.

In FY 2006, HUD plans to consolidate all available income match data sources into the Enterprise Income Verification System so that HUD program administrators can access the data in a central location. HUD also plans to expand access to the system to all private owners and contract administrators of multifamily properties in FY 2006. This increased computer matching capability has the potential to eliminate the majority of the remaining improper payments related to program administrator errors and tenant underreporting of income.

HUD also continued its increased monitoring focus in FY 2005 through PIH's Rental Integrity Monitoring reviews, and the Office of Multifamily Housing's increased monitoring through the expanded use of Performance-Based Contract Administrators.

Results and analysis. HUD has already surpassed its FY 2005 goal for a 50 percent reduction in net subsidy overpayments with a 67 percent reduction from FY 2000 through FY 2004. More significantly, HUD reduced gross improper payments by 61 percent during the same period. The following table summarizes the reductions in improper payments attributable to program administrator and tenant income reporting errors based on the FY 2000, FY 2003, and FY 2004 studies:

Reductions in Improper Payments Due to Program Administrator and Tenant Income Reporting Errors

Period	Percent of Cases In Error	Over Payments*	Under Payments*	Net Over-Payments*	Gross Improper Payments*
2000	60	2.594	0.622	1.972	3.216
2003	41	1.087	0.519	0.568	1.606
2004	34	0.947	0.306	0.641	1.253
Reduction from 2000 to 2004	26	1.647	0.316	1.331	1.963
% Reduction from 2000 to 2004	43%	63%	51%	67%	61%

* Dollars in billions

The reductions in program administrator errors resulted from HUD's efforts to work with its housing industry partners at PHAs and multifamily housing projects through enhanced program guidance, training, oversight, and enforcement. The reduction of erroneous payments due to tenant under-reporting of income was due to:

- Improved income verification efforts by housing program administrators;
- Increased voluntary compliance by tenants due to promotion of the issue;
- HUD's initiation of improved computer matching processes for upfront verification of tenant income, and
- Improved methodology for reviewing income discrepancies identified through computer matching to better determine actual cases of underreported income impacting subsidy levels.

HUD also completed baseline studies for the third error component, billing error, in FY 2005. Billing errors are discrepancies between the proper subsidy level (based on the actual rent charges) and the amount that HUD is actually billed. The following baseline estimates pertain to FY 2003 activity.

Results of Billing Error Studies (FY 2003)

Program	Subsidies Overpaid*	Subsidies Underpaid*	Gross Billing Error*
Public Housing	$56	$28	$84
Section 8 Vouchers	$15	$15	$30
Project-based Assistance	$56	$44	$100
Total All Programs	$127	$87	$214

* Dollars in millions

HUD's increased review of program payment vouchers and on-site monitoring of support for these vouchers will lead to reductions in these estimates.

Data discussion. Periodic error measurement studies directed by the Office of Policy Development and Research provide the basis for measuring this indicator. The data are reliable for this measure, assuming availability of funding to cover the cost of the study. The independent HUD OIG reviews the error measurement methodology and support, as well as management controls over the related program activity, as part of its audit of HUD's annual financial statements. In compliance with OMB implementing guidance for the Improper Payments Information Act of 2002, future measures of improper payments and goals for reducing improper payments will be expressed in terms of gross improper payment estimates as a percentage of total annual program payments. Both overpayments and underpayments of subsidies adversely affect intended program beneficiaries, since a subsidy overpayment means that less assistance is available for other eligible families and a subsidy underpayment means that a family in need is paying more rent than they should. Furthermore, the focus on net subsidy overpayments can be misleading in situations where both subsidy overpayments and underpayments *decrease*, but the net error actually *increases* because the difference between the two has increased. This occurred between FY 2003 and FY 2004 in HUD's rental housing assistance programs. These results could present a misleading summary of actual performance, and incorrectly imply that the Department's performance level is regressing, when in actuality the Department showed improvements in reducing both under- and over-payments.

EM.4.2: The national average PIH Information Center (PIC) reporting rates for public housing and Housing Choice Voucher households will be 95 percent or better.

Background. Accurate and complete information about the households participating in HUD housing programs is necessary to allow HUD to monitor the effectiveness of the programs, assess agency compliance with regulations, and analyze the impacts of proposed program changes. Several outcome indicators in the Performance and Accountability Report use data about public housing or voucher households that housing agencies submit to the PIH Information Center system via electronic submissions, as required by program regulations.

The PIH Information Center system provides the primary source of data on participation in these programs, and field staff uses the data to monitor and evaluate housing agencies and as a criterion in the Section Eight Management Assessment Program.

This indicator was revised mid-year to reflect better than anticipated performance in FY 2004. The initial reporting goal of 85 percent was based on the minimum reporting rate established for PHAs in the late 1990s. At that time the reporting rate was much lower than it is now. PHAs with reporting rates lower than 95 percent are subject to sanctions.

Results and analysis. The reporting rate, based on records submitted between June 1, 2004, and September 30, 2005, was 89 percent, which is six percentage points below the 95 percent target and represents a similar decline from FY 2004's reporting rate. The data excludes PHAs that participate in the Moving to Work demonstration program. PHAs experienced a decline in reporting rates as a result of HUD switching to the Voucher Management System to calculate Housing Choice Voucher reporting rates. PIH expects an increase in reporting rates as PHAs prepare for their annual reporting rate assessment.

Data discussion. PHAs experienced a decline in reporting rates as a result of a change in the source of the denominator for Housing Choice Voucher households to the Voucher Management

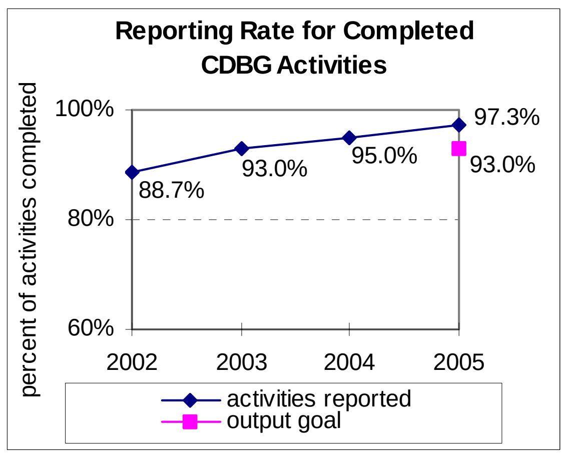
System. PIH expects reporting rates to increase once all PHAs complete the adjustment of their public housing reporting rate denominators to indicate the appropriate unit status type in the Public and Indian Housing Information Center Building & Unit module. PIH issued a notice in June 2005 that implements a sanctions policy for PHAs with reporting rates under 95 percent. The notice goes into effect starting with the December 31, 2005, fiscal year end PHAs. Consequently, PIH expects an increase in reporting rates as PHAs prepare for their annual reporting rate assessment.

Late reporting is identified by automated PIH Information Center module reports that specify late re-certifications for each housing agency and flag poor reporters. The tenant data and summary statistics are electronically available to PHAs and field offices for verification, validation, analysis, and monitoring purposes. The reporting rate was based on records submitted between June 1, 2004, and September 30, 2005.

EM.4.3: The share of completed CDBG activities for which grantees satisfactorily report accomplishments increases to 93 percent.

Background. This indicator tracks the level of reporting of accomplishments for completed CDBG activities in the Integrated Disbursement and Information System. Grantees use the system to report to HUD on their use of CDBG and other CPD formula program funds (i.e., HOME Investment Partnerships, Emergency Shelter Grants, and Housing Opportunities for Persons with AIDS). This indicator is important because it reflects a benchmark of the overall quality of the information grantees report, and this data is used to determine whether the performance goals established by HUD in its Annual Performance Plan for the CDBG program have been met.

Results and analysis. In FY 2005, grantees reported accomplishments for 97.3 percent of completed activities in the Integrated Disbursement and Information System, exceeding the goal by slightly more than four percent. During FY 2005, of the 38,639 activities reported as completed, 37,587 had reported accomplishments. This is a 2 percent increase from the 95 percent achieved in FY 2004, and reflects continued improvement under this indicator since 2002.



Data discussion. The improvement in the reporting of accomplishments for completed CDBG activities is primarily a result of HUD's ongoing data clean-up efforts, as well as edits added to the Integrated Disbursement and Information System that provide greater consistency in reporting and require grantees to enter certain accomplishment data prior to reporting an activity as completed. HUD continues to look for additional improvements that can be made to the Integrated Disbursement and Information System to improve data quality and consistency, as well as the ease of entering data.

EM.4.4: A minimum of 20 percent of active CPD program grantees will be monitored on-site or remotely for compliance with statutory and regulatory requirements.

Background. CPD grantees are recipients of formula and competitive grants designed to assist communities to build viable neighborhoods, expand homeownership and affordable housing, and provide economic opportunities. Specific goals and beneficiaries are identified for consolidated plans and competitive grant applications.

This indicator tracks the extent of monitoring activity by HUD field staff to ensure that grantees are appropriately carrying out CPD programs, helping low- and moderate-income families, and developing distressed neighborhoods. HUD monitors both active formula and competitive CPD program grantees for compliance. Grantees are monitored on-site and remotely.

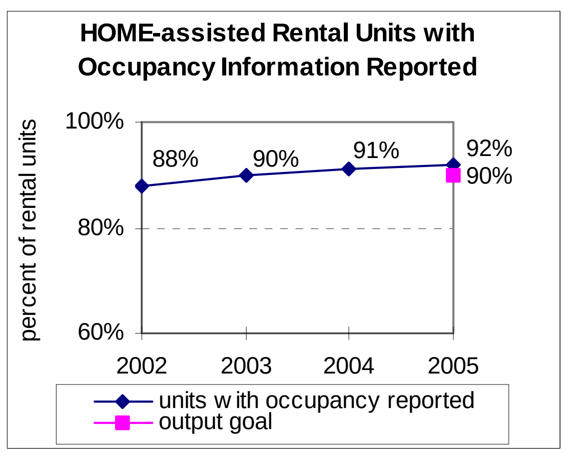
Results and analysis. CPD field staff monitored 977 grantees, or 21 percent of 4,710 active grantees, exceeding the target of 942 grantees, or 20 percent. Grantees are assessed for risk on an annual basis using CPD's Risk Analysis Notice. Field offices use the results of the risk analysis to identify grantees targeted for monitoring during the fiscal year. Monitoring conforms to both sound quality assurance practices and risk-based principles that focus on weak performers.

Data discussion. CPD field offices report how many grantees were reviewed in the Department's internal tracking system, HUD Integrated Performance Reporting System. Remote monitoring activities are carried out in compliance with guidelines established in the HUD Monitoring Desk Guide (Training Edition). Field supervisors review monitoring activity and reporting by field staff.

EM.4.5: The share of HOME-assisted rental units for which occupancy information is reported shall be maintained at a level of 90 percent.

Background. This indicator tracks the reporting by HOME Investment Partnerships program participating jurisdictions into HUD's Integrated Disbursement and Information System of data describing the households that occupy the assisted rental units. This information helps HUD assess compliance with the HOME Investment Partnerships program-assisted tenant income limits, as well as determine who is benefiting from the program.

Results and analysis. During FY 2005, 92 percent of rental units had occupancy information reported in the Integrated Disbursement and Information System. This is a one percent increase over the FY 2004 level of 91 percent, and met the FY 2005 goal for maintaining the percentage of rental units for which occupancy information is reported at a minimum of 90 percent.



HUD relies on the HOME Investment Partnerships program's participating jurisdictions to enter data into the Integrated Disbursement and Information System. HUD will continue to use ongoing data clean-up, intensive follow-up with participating jurisdictions, and the individualized participating jurisdictions performance "SNAPSHOT" discussed under indicator A.1.3 to monitor and improve grantee accountability, and to encourage more complete data entry.

Data discussion. Data entered by participating jurisdictions in HUD's Integrated Disbursement and Information System are used to track performance. Future annual performance plans will continue to track the share of HOME-assisted rental units for which occupancy information is reported. CPD field staff verifies program data when monitoring grantees, and grantee reports are subject to independent audits.

EM.4.6: By Fiscal Year 2005, the Departmental Enforcement Center (DEC) will increase the percentage of residents living in acceptable insured and/or assisted multifamily housing to 95 percent by taking aggressive civil or administrative enforcement actions. This will be accomplished by closing 85 percent of the physical referral cases in the DEC as of October 1, 2004, by September 30, 2005.

Background. The Departmental Enforcement Center, under the direction of the General Counsel and in coordination with HUD Program Offices, has central responsibility for taking enforcement action against troubled multifamily properties that fail to fully comply with all HUD regulatory and business agreements. The Departmental Enforcement Center, working with legal support from the Office of General Counsel's Office of Program Enforcement, also processes suspensions and debarments and refers civil cases to the Department of Justice and criminal cases to HUD's Inspector General. The sum of these actions brings resolution to the most egregious non-compliance issues among recipients of HUD program resources and ensures compliance with legal requirements to preserve decent, safe and sanitary housing for low- and moderate-income households.

As in FY 2004, physical referrals continued to be the priority for the Departmental Enforcement Center during FY 2005. In the area of administrative sanctions, the Center processed over 700 notices of proposed suspensions, debarments or final determinations. Administrative sanctions were imposed against participants from all program areas.

This measure was revised mid-year to include a target for Departmental Enforcement Center case closures, which demonstrates its contributions in achieving the housing quality goal.

Results and analysis. For FY 2005, the Departmental Enforcement Center's goal was to increase the percentage of residents living in acceptable insured and/or assisted multifamily housing to 95 percent by closing 85 percent of the physical referral cases in the inventory as of October 1, 2004. Accordingly, by September 30, 2005, the percentage of residents living in acceptable condition in multifamily insured/assisted housing was 95 percent. The Departmental Enforcement Center closed 204 of the 228 physical referral cases in its inventory, for a closure rate of 89.5 percent. The first measure in the indicator was met and the second was exceeded.

Data discussion. The Departmental Enforcement Center's data source for the goal is the Real Estate Management System, which is a database system that maintains data on properties in the multifamily housing inventory. The Departmental Enforcement Center Management System is the system by which standardized reports are generated using data in the Real Estate Management System. These reports reflect the goal accomplishments on a fiscal year-to-date basis. Most of the data are manually entered into the Real Estate Management System and thus are subject to human error. Monthly reviews of the goal accomplishments by headquarters staff provide some quality control, as does the closeout process within each field office.

The Compliance Tracking System is also a database created to track the status of referrals to the Departmental Enforcement Center for administrative sanctions. This system is crosschecked manually against paper files and against reports submitted by offices making referrals to the Departmental Enforcement Center.

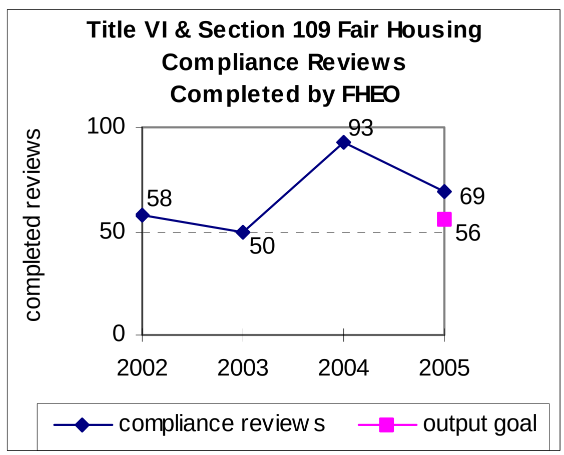
During FY 2005, considerable work has been taken to transition from the Compliance Tracking System to a new system called the Enforcement Center Program Compliance Integration System. This new system will contain modules used by the Departmental Enforcement Center and the Office of General Counsel's Office of Program Enforcement to ensure duplicate data entry is eliminated and coordinated reports tracking the status of cases processed by both offices are readily available.

EM.4.7: HUD will conduct 56 Title VI and/or Section 109 compliance reviews.

Background. The Office of Fair Housing and Equal Opportunity reviews PHAs, providers of HUD-assisted housing, and other HUD recipients to determine whether their programs and activities comply with Title VI of the Civil Rights Act of 1964 and Section 109 of Title I of the Housing and Community Development Act of 1974. Title VI prohibits discrimination on the basis of race, color, or national origin in programs or activities receiving federal financial assistance. Section 109 prohibits discrimination on the basis of race, color, national origin, religion, or sex in any program or activity funded by the Community Development Block Grant program. HUD completes a compliance review by issuing a letter of finding, which contains the findings of fact, a finding of compliance or noncompliance, and a description of an appropriate remedy for each violation identified, if any.

This goal was revised downward mid-year from 98 in response to reductions in staff and travel resources.

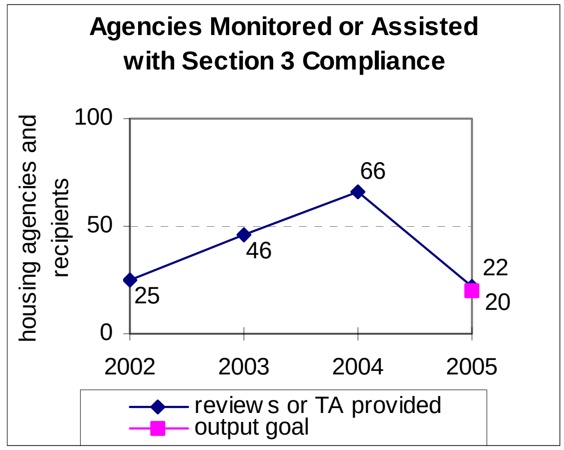
Results and analysis. During FY 2005, HUD issued letters of finding in 11 Section 109 compliance reviews and 58 Title VI compliance reviews, exceeding its goal by 23 percent. HUD will continue to review its programs to ensure that they are administered in a nondiscriminatory manner.



Data discussion. The data are maintained in the Title Eight Automated Paperless Office Tracking System. HUD managers provide quality assurance by reviewing the results on an intermittent basis.

EM.4.8: Conduct monitoring and compliance reviews or provide technical assistance under Section 3 to 20 housing authorities and other recipients of HUD financial assistance.

Background. Section 3 of the Housing and Urban Development Act of 1968 requires that the employment and other economic opportunities generated by federal financial assistance for housing and community development programs shall, to the greatest extent feasible, be directed toward low- and very low-income persons, particularly those who are recipients of government assistance for housing. Recipients of funds covered by the law are required to report the number of Section 3 residents receiving employment, training, and contract opportunities each year.



HUD provides PHAs and other recipients of HUD federal assistance with technical assistance in implementing methods for achieving the employment, contracting, and other economic objectives of Section 3, and conducts compliance reviews to determine the extent to which they have met these objectives.

The goal for this indicator was revised downward mid-year from 40 monitoring and compliance reviews/technical assistance visits to reflect a reduction in resources available to support monitoring.

Results and analysis. During FY 2005, HUD conducted 22 monitoring/compliance reviews or technical assistance visits, exceeding its goal by two. Efforts were targeted toward sites of previous complaints and existing Section 3 Voluntary Compliance Agreements. These activities have ensured that the recipients are providing more training, employment, and contracting opportunities for low- and very low-income persons.

Data discussion. The data are based on the Office of Fair Housing and Equal Opportunity administrative records. The office verifies the data through manual review of records, which is reliable, given the small number of records.

EM.4.9: Increase the percentage of Section 3 complaints closed in 100 days to 75 percent.

Background. Section 3 of the Housing and Urban Development Act of 1968 requires that the employment and other economic opportunities generated by federal financial assistance for housing and community development programs shall, to the greatest extent feasible, be directed toward low and very low-income persons, particularly those who are recipients of government assistance for housing.

Any person or business that qualifies as a Section 3 resident or business concern (or their representative) may file a complaint with HUD if they believe that employment or contracting opportunities generated from the expenditure of Section 3 covered assistance are not being awarded in accordance with Section 3 requirements. HUD reviews complaints and may initiate an investigation if such an action is merited to bring resolution to the complaint. HUD considers a complaint investigation closed when it makes a determination of compliance or noncompliance. When these cases are resolved in a timely manner, evidence is preserved, witnesses are more readily available, and violations are more likely to be reported.

This indicator was revised mid-year to measure efficiency in closing new cases, rather than closures of aged cases, which have been reduced significantly to this point.

Results and analysis. In FY 2005, HUD received 15 Section 3 complaints. Of those, HUD closed nine during FY 2005. One hundred percent of the cases closed were completed within 100 days. This compares to 73 percent of the cases filed and subsequently closed in FY 2004. Of the six cases filed during FY 2005 that were still open at the end of the fiscal year, two had aged past 100 days while four had not yet passed the 100-day mark. During FY 2005, HUD also closed outstanding cases filed during previous years, lowering its backlog of cases. HUD will continue to work diligently to resolve Section 3 complaint investigations in a timely manner.

Data discussion. The indicator is based on a manual count of administrative records. This method is reliable because of the small number of records involved.

EM.4.10: Ensure appropriate use of funds among 100 percent of Fair Housing Initiatives Program and Fair Housing Assistance Program grantees by monitoring cooperative and grant agreements.

Background. Fair Housing Initiatives Program grantees and Fair Housing Assistance Program agencies provide services to all segments of society in support of equal opportunity in housing. The Office of Fair Housing and Equal Opportunity conducts annual reviews of all open grants and cooperative agreements. HUD monitors the program compliance of all grantees; however, in-depth agency specific monitoring is conducted on all high-risk grantees. To the extent there are significant issues, concerns, or findings identified during monitoring and technical assistance, HUD will develop and require corrective action of the grantee.

This indicator was reworded mid-year to emphasize proper use of funds, and to specify the significance of monitoring as a means for ensuring compliance.

Results and analysis. In FY 2005, HUD monitored 100 percent of its Fair Housing Initiatives Program grant agreements and Fair Housing Assistance Program cooperative agreements for appropriate use of funds. The number of Fair Housing Initiatives Program grantees and Fair Housing Assistance Program agencies determines the number of monitoring reviews that will be conducted during the year. HUD completed 225 Fair Housing Initiatives Program and 131 Fair Housing Assistance Program monitoring reviews. These amounts exceed the total number of open Fair Housing Initiatives Program grants and Fair Housing Assistance Program cooperative agreements because, in some instances, grantees were monitored several times throughout the fiscal year.

Data discussion. The Office of Fair Housing and Equal Opportunity sets its annual goals for its monitoring reviews based on the number of Fair Housing Initiatives Program grantees and Fair Housing Assistance Program agencies. Upon completion of each monitoring review, the regional offices report information in HUD’s Integrated Performance Reporting System.

Objective EM.5: Improve internal communications and employee involvement.

EM.5.1. Increase by 10 percentage points the level of employee satisfaction on four targeted dimensions of the Organizational Assessment Survey.

Background. HUD is moving toward a more customer-oriented workforce and a greater emphasis has been placed on an employee's ability to interact with customers, both internal and external. Research shows a strong correlation between employee satisfaction and customer satisfaction. HUD uses periodic employee surveys to gauge staff satisfaction with their work environment, the training and support they receive, and HUD's performance orientation measured along several dimensions. The most recent Organizational Assessment Survey was conducted in FY 2005, and the Department has established a goal of improving employee satisfaction by ten percentage points in the following four dimensions: (1) Communication; (2) Rewards and Recognition; (3) Training and Development; and (4) Use of Resources. Employee responses to the FY 2005 Organizational Assessment Survey have been compared to the responses from the one conducted in FY 2002. In FY 2004, the Office of Personnel Management revised the survey, making it shorter and clarifying some of its dimensions. Therefore, HUD's previous Organizational Assessment Survey scores, as reported in the FY 2005 Annual Performance Plan, were adjusted to fit the revised Organizational Assessment Survey structure. A satisfied workforce translates to a strong workforce and helps to support two of the Department's human capital goals, which are to become a mission-focused agency and to maintain a high quality workforce.

Results and analysis. The results of the FY 2005 Organizational Assessment Survey, while encouraging, did not meet the established goal of a 10 percentage point increase in employee satisfaction in the four dimensions, as documented below:

Percentage of Favorable Responses in HUD Employee Survey

Targeted Dimension	FY 2002 Baseline	FY 2005 Goal	FY 2005 Results
Communications	40%	50%	46%
Use of Resources	39%	49%	41%
Training and Career Development	36%	46%	39%
Rewards and Recognition	39%	49%	40%

The highest increase, shown in Communications, reflects the conscious effort throughout the Department to promote discussions with employees about the mission of HUD and to increase their understanding of how their work contributes to the success of that mission. While the increases in the remaining dimensions were not as high, they are still indicative of continuous improvement in these areas. Training and Career Development showed an increase of three percentage points, despite this year's severe reductions in the Department's training budget. Use of Resources showed a two-percentage point increase, reflecting the Department's commitment to becoming more efficient. While Rewards and Recognition increased by only one percentage point, the Department is working with the Office of Personnel Management to revise its performance management programs and expects the revisions to have a positive impact on both performance appraisal and employee recognition. HUD remains committed to continuous improvement in all dimensions of the Organizational Assessment Survey.

Data discussion. The Personnel Resources and Development Center of the Office of Personnel Management administers the Organizational Assessment Survey. These data are not significantly affected by sampling error because all employees receive the survey. However, because of the low response rate, the results may not be representative of the entire staff. It should also be noted that the survey had a 1.3 percent margin of error, which is a very good performance standard. The Organizational Assessment Survey was tested by the Office of Personnel Management, with additional pre-testing for HUD. A committee guided development of the survey administration framework and survey design to ensure valid and useful results. In FY 2004, the Office of Personnel Management revised the Organizational Assessment Survey, making it shorter and clarifying some of its dimensions. Therefore, HUD's Organizational Assessment Survey scores prior to this, as reported in the FY 2005 Annual Performance Plan, were adjusted to fit the revised Organizational Assessment Survey structure.

Goal FC: Promote Participation of Faith-Based and Community Organizations

Strategic Objectives:

FC.1 Reduce barriers to participation by faith-based and community organizations.

FC.2 Conduct outreach and provide technical assistance to faith-based and community organizations to strengthen their capacity to attract partners and secure resources.

FC.3 Encourage partnerships between faith-based and community organizations and HUD's traditional grantees.

PERFORMANCE REPORT CARD - GOAL FC

	Performance Indicators	2002	2003	2004	2005	2005 Target	Met	Notes
FC.1.1	The Center will measure the potentially increased participation by new and past participating faith-based and community organizations in the Department's FY 2005 SuperNOFA process compared to 2004.	$479	$532	$545	N/A	N/A	N/A	a,g
FC.2.1	The Center will conduct comprehensive outreach to faith-based and community organizations by attending and participating in conferences, workshops and maintaining an exhaustive database.	N/A	N/A	N/A	47	N/A	Yes	g
FC.2.2	In order to ensure that faith-based and community organizations have equal access to HUD and private funding opportunities, the Center will conduct 20 free grant writing training sessions across the country that provide participants with approaches to obtaining federal funds, information on how to successfully write grants, and strategies for developing coalitions.	N/A	N/A	N/A	69	20	Yes	
FC.3.1	The Center will analyze successful strategies in six U.S. cities involving faith-based and community organizations in affordable housing and homeownership plans, and will educate more than 50 mayors on the strategies and how to implement them in their respective cities.	N/A N/A	N/A N/A	N/A N/A	7 N/A	6 50	Yes N/A	 a
FC.3.2	The Center will work with at least one HUD program office to implement a pilot program to strengthen partnerships between faith-based and community groups and HUD programs.	N/A	N/A	N/A	1	1	Yes	
FC.3.3	CPD Joint Notice of Funding Opportunity with the Department of Labor.	N/A	N/A	N/A	N/A	N/A	N/A	g

Notes:

a	Data not available.	f	Calendar year ending during the fiscal year shown.
b	No performance goal for this fiscal year.	g	Result too complex to summarize. See indicator.
c	Tracking indicator.	h	Baseline newly established.
d	Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).	i	Result is estimated.
		j	Number is in thousands.
e	Calendar year beginning during the fiscal year shown.	k	Number reported in millions.
		l	Number reported in billions.

Objective FC.1: Reduce barriers to participation by faith-based and community organizations.

FC.1.1: The Center will measure the potentially increased participation by new and past participating faith-based and community organizations in the Department's FY 2005 Super Notice of Funding Availability process compared to 2004.

Background. The Center for Faith-Based and Community Initiatives compares currently available fiscal year data against available data from past fiscal years, in order to check for growth against the immediately preceding year and to look for long-term trends. The Center has no involvement in grant decisions and management, but it does conduct outreach to equip faith-based and community organizations for more effective participation in Super Notice of Funding Availability competitions. One way to measure the effectiveness of the Center's outreach is to look at the number of both first time and repeat awards to faith-based and community organizations in the Super Notice of Funding Availability process. The Center measures this number in fulfillment of its White House mandate to report on results.

Results and analysis. Final data for FY 2005 grant awards are not currently available, and FY 2004 data were not available for the publication of the FY 2004 Performance and Accountability Report. HUD can now report that in FY 2004 faith-based and community organizations secured $545 million in competitive funding, compared to $532 million in 2003 and $479 million in FY 2002, an overall increase of 14 percent from FY 2002 to FY 2004. The number of grantees rose from 659 in 2002, to 765 in 2003, to 836 in 2004, an increase of 27 percent from FY 2002 to FY 2004. First time grantee numbers have increased from 37 in 2002, to 52 in 2003, to 77 in 2004, an increase of 108 percent from 2002 to 2004. In FY 2004, while faith-based organizations accounted for 15 percent of all grantees, they accounted for 24 percent of dollars received in select competitive funding. Faith-based and community organizations' increased participation in HUD's awards is attributable to their more effective participation in the Super Notice of Funding Availability application process.

Data discussion. Data were collected through the program offices using a variety of methods to best collect the most accurate information. The Center is confident that the collection process has become more refined and accurate each year, as program offices are thoroughly familiar with the reporting requirements and the Center has been able to provide longer lead-time for data collection and assembly. Any questions regarding accuracy are referred back to the program office, and when necessary, submitted to the organization in question for final resolution.

Objective FC.2: Conduct outreach and provide technical assistance to faith-based and community organizations to strengthen their capacity to attract partners and secure resources.

FC.2.1: The Center will conduct comprehensive outreach to faith-based and community organizations by attending and participating in conferences, workshops and maintaining an exhaustive database.

Background. To help nonprofit organizations meet the challenges of securing resources, it is important to educate faith-based and community organizations about the government programs that are available from HUD. This targeted effort reflects the knowledge that such organizations are often unaware of grants and other opportunities that may be available to support their work. In support of the Center's outreach goal, the Center continued to work with Faith-Based and Community Initiatives liaisons located in each of HUD's regional and field offices. The liaisons are charged with educating faith-based organizations and community organizations in their community on the Initiative and HUD opportunities. The Center also continued the use of various media, including mass mailings and web casts, to distribute information, and continue the development of a database that currently contains more than 5,000 faith-based and community-based organizations. In addition, Center staff and Faith-Based and Community Initiatives liaisons participated in national, regional, and state conferences across the country, resulting in outreach to a broad range of social service providers, including many of the nation's largest and most effective providers.

Results and analysis. In FY 2005, the Center built on the effective activities of previous years, and successfully met the goal of conducting comprehensive outreach to inform potential parties of HUD opportunities. Between October 1, 2004, and September 30, 2005, the number of conferences and public events attended by Center staff and Faith-based & Community liaisons was 47. During these events, representatives from the Center for Faith-Based and Community Initiatives addressed a variety of audiences, conducted workshops, and participated on panels. In addition, HUD representatives staffed networking tables to answer questions, give directions, and distribute information from HUD's major program offices: PIH, CPD, Housing, Fair Housing and Equal Opportunity, Healthy Homes and Lead Hazard Control, and Policy Development and Research. Approximately 14,800 people attended these conferences, compared to approximately 3,000 in FY 2004. The Center continues to maintain an exhaustive database of faith based and community development organizations.

Data discussion. The Center tracks the participation of all Faith-Based and Community Initiatives liaisons at conferences and public events by requiring the liaisons to submit event-scheduling forms. Numbers for conference attendance are generated by registration forms, which may be adjusted based on other measures of actual attendance.

FC.2.2: In order to ensure that faith-based and community organizations have equal access to HUD and private funding opportunities, the Center will conduct 20 free grant writing training sessions across the country that provide participants with approaches to obtaining federal funds, information on how to successfully write grants, and strategies for developing coalitions.

Background. The Center believes that it is important to equip faith-based and community organizations with the knowledge and skills necessary for attaining resources to address the many needs of the community. Accordingly, the Center had instituted a two-day, intensive grant writing training session, entitled "The Art & Science of Grant Writing," which educates faith-based and community organizations about the sources that are available to them from HUD, other government agencies, foundations, and corporate funding streams. HUD staff conducts the training across the country. At the conclusion of the training session, every participant receives a "Certificate of Completion."

Results and analysis. Due to high demand, HUD's Center For Faith-Based and Community Initiatives dramatically exceeded its goal of 20 sessions, as 69 sessions were completed nationwide. Participants at the grant writing training sessions received and filled out a registration form and organizational survey, which identified their organization in terms of budget, planning strategy, mission, and number of employees. Participants also completed an evaluation form, which Policy Development and Research staff uses to evaluate the effectiveness of each session. This process allows for a more accurate analysis of the program, determining the level of performance and impact of the grant writing training sessions.

In FY 2005, the Center trained over 13,000 individuals. According to HUD's Office of Policy Development and Research, the sum of $48 million in new grant dollars is directly attributable to the training people received from the Center for FY 2004. In addition, this training is very cost effective. In FY 2004, the average cost per session was under $1,700, a very responsible stewardship of taxpayer dollars.

Data discussion. Accomplishments will be assessed and documented by HUD's Center For Faith-Based and Community Initiatives and Policy Development & Research. Attendances of all training sessions are documented through registration, sign-in sheets, organizational surveys, and evaluation sheets.

Objective FC.3: Encourage partnerships between faith-based and community organizations and HUD's traditional grantees.

FC.3.1: The Center will analyze successful strategies in six U.S. cities for involving faith-based and community organizations in affordable housing and homeownership plans, and will educate more than 50 mayors on the strategies and how to implement them in their respective cities.

Background. Since its inception, the Center has aimed to design and identify demonstration and pilot projects that promote best practices in community revitalization and development and to build organizational capacity in faith-based and community groups to increase their ability to compete with larger, more experienced grantees. The Center has contracted with a small business to identify and highlight successful local strategies for involving faith-based and community organizations in affordable housing plans, and to educate mayors and other city officials across America about successful strategies and how HUD resources contribute to the process. This initiative, entitled "Unlocking Doors," includes training to five or more local governments to build upon and improve innovative partnerships.

Results and analysis. The goal of analyzing six cities for this project was exceeded, as this pilot project was launched in seven U. S. cities: Chicago, Raleigh, Columbus, Nashville, Detroit, Miami, and Oakland. Forums were held in each city with mayors and/or their representatives, key faith-based and community leaders, and HUD Faith-Based and Community Organization liaisons. These forums/discussions opened doors to the local governments to work more effectively with faith-based and community organizations, thereby allowing them to open doors to affordable housing for the broader community. With the completion of the forums, the Center has completed a study of best practices that is in the process of being released to all mayors of cities of more than 150,000 people. Due to disaster relief efforts by cities nationwide at the end of the fiscal year, the mayors involved in this symposium requested an extended completion date for education regarding best practices in housing. Following these requests, completion of web chats leading to a symposium of mayors will be concluded in FY 2006.

Data discussion. The Center tracks the results of the Unlocking Doors forums through periodic dialogues, questionnaires, and feedback indicating that projects where brought to completion due to the open communication maintained by faith-based and community organizations and the Center with local authorities. The Center will assess and document additional accomplishments.

FC.3.2: The Center will work with at least one HUD program office to implement a pilot program to strengthen partnerships between faith-based and community groups and HUD programs.

Background. Together with the Office of Public and Indian Housing, the Center For Faith-Based and Community Initiatives developed a concept designed to support PHA case managers and enable PHAs to enlist the services of local faith-based and community organizations in helping public housing residents' transition into independent housing and achieve personal goals toward self-sufficiency. This project allows PHAs to compensate faith-based and community organizations on a per capita, fee-for-service basis each time a faith-based and community organization mentor successfully leads a public housing resident toward an agreed upon benchmark. These funds were made available to determine if a mentoring demonstration program assistance model improves the results of self-sufficiency type programs for participating residents. This is an 18-month program.

Results and analysis. There were three PHAs awarded a minimum of $174,000 each to implement this program. The PHAs that received awards are: Danville, Virginia; Chicago, Illinois; and Philadelphia, Pennsylvania.

Data discussion. Center For Faith-Based and Community Initiatives staff will be maintaining a system for communicating and monitoring the HOPE VI demonstration projects through Public and Indian Housing personnel, PHA directors, and their case management staff.

FC.3.3:* CPD joint Notice of Funding Opportunity with the Department of Labor.

Background. In FY 2004, the Center worked with CPD to design and offer a joint $15 million Notice of Funding Opportunity with the Department of Labor that would engage faith-based and community organizations in housing and job training services for homeless young people. In FY 2005, the Center will assist in promoting the awards made, and will evaluate the implications of the Notice of Funding Opportunity's emphasis on involving grassroots organizations for other HUD grant programs.

Results and analysis. This joint effort between HUD and the Department of Labor was designed to offer urban and suburban shelter care providers funding to focus on working with cities that are partnering innovatively with faith-based and community organizations to enhance their facilities and promote job training. The Department of Labor committed $10 million and CPD committed $5 million for this community development pilot project. Due to legislative restrictions, this program was not implemented.

***This indicator was cited as FC.4.1 in the FY 2005 Annual Performance Plan.**

Section 3. Financial Information

Acting Deputy Chief Financial Officer's Message

November 15, 2005

I am pleased to report on HUD's continuing financial management improvements during FY 2005. The Department was able to close the annual books on its significant program activity and produce audited consolidated financial statements within 45 days after the end of the fiscal year, with an unqualified audit opinion. This accomplishment is a result of systemic improvements and other corrective actions to strengthen internal controls and instill increased discipline in controls over financial reporting throughout the year, as evidenced by the following:

- Continuing efforts to improve internal controls over HUD's rental housing assistance payments eliminated a longstanding material weakness and reduced the $3.2 billion baseline estimate of improper payments established in FY 2000 to $1.4 billion, well exceeding the FY 2005 goal for a 50 percent reduction;
- A full year's operation of the new accounts payable, accounts receivable, procurement, and projects modules of the FHA Subsidiary Ledger Project strengthened support for FHA's cash management, funds control, and credit subsidy accounting functions and enabled the Department to eliminate another longstanding material weakness issue, and for the first time, to report substantial compliance with the Federal Financial Management Improvement Act of 1996 and Section 4 of the Federal Managers' Financial Integrity Act of 1982;
- A reconciliation and reconstruction of records for over 3,300 projects in the Section 236 Interest Reduction Program enabled HUD to establish a revised estimate of the remaining program run-out costs of nearly $5 billion, with provisions for an improved integration and automation of the program business and accounting processes to maintain accurate program balances going forward;
- Changes to Section 8 Program funding processes and methodologies for recapturing excess program funds addressed prior Inspector General audit concerns regarding large obligation balances on expired contracts and enabled HUD to recapture over $1.5 billion to meet enacted rescission mandates and other program needs; and
- Accounting operations met or exceeded OMB's financial performance metrics goals for producing quarterly financial statements and decreases in: fund balance with Treasury differences, aged suspense accounts, accounts receivables delinquencies, late payments of invoices, travel card delinquencies on both individually and centrally billed accounts, and purchase card delinquencies.

HUD is committed to maintaining proper stewardship of the resources entrusted to it by the Congress and the American taxpayer. I want to thank the staff of the Office of the Chief Financial Officer, the FHA and Ginnie Mae Comptroller's Offices, the Office of Inspector General, and other HUD program and administrative components that are involved in the stewardship of HUD's funds, for their dedication and effort in providing HUD's management team with the budgetary, accounting, financial management systems, auditing, and performance management services necessary to effectively support HUD's mission and deliver results for the American people.

James M. Martin
Acting Deputy Chief Financial Officer

Introduction to the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of HUD, pursuant to the requirements of the Chief Financial Officers Act of 1990 (31 U.S.C. 3515(b)), the Government Management Reform Act of 1994, and OMB Circular No. A-136, "Financial Reporting Requirements." While the financial statements have been prepared from HUD's books and records in accordance with formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The principal financial statements and notes should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication is that the liabilities reported in the financial statements cannot be liquidated without legislation that provides resources to do so.

The financial statements presented herein are:

The **Consolidated Balance Sheets**, which present as of September 30, 2005 and 2004 those resources owned or managed by HUD which are available to provide future economic benefits (assets); amounts owed by HUD that will require payments from those resources or future resources (liabilities); and residual amounts retained by HUD comprising the difference (net position).

The **Consolidated Statements of Net Cost**, which present the net cost of HUD operations for the years ended September 30, 2005 and 2004. HUD's net cost of operations includes the gross costs incurred by HUD less any exchange revenue earned from HUD activities.

The **Consolidated Statements of Changes in Net Position**, which present the change in HUD's net position resulting from the net cost of HUD operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2005 and 2004.

The **Combined Statements of Budgetary Resources**, which present the budgetary resources available to HUD during FY 2005 and 2004, the status of these resources at September 30, 2005 and 2004, and the outlay of budgetary resources for the years ended September 30, 2005 and 2004.

The **Consolidated Statements of Financing**, which reconcile the net cost of operations with the obligation of budgetary resources for the years ended September 30, 2005 and 2004.

The **Notes to the Financial Statements** provide important disclosures and details related to information reported on the statements.

Consolidated Balance Sheet
As of September 30, 2005 and 2004
(Dollars in millions)

	2005	2004 Restated
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$67,500	$69,647
Investments (Note 5)	30,715	31,029
Other Assets (Note 8)	28	21
Total Intragovernmental Assets (Note 6)	$98,243	$100,697
Investments (Net) (Note 5)	201	122
Accounts Receivable (Net) (Note 7)	646	491
Credit Program Receivables and Related Foreclosed Property (Net) (Note 9)	10,818	11,238
General Property Plant and Equipment (Net) (Note 10)	141	96
Other Assets (Note 8)	520	550
TOTAL ASSETS (Note 6)	$110,569	$113,194
LIABILITIES		
Intragovernmental Liabilities		
Debt (Note 12)	$8,922	$10,102
Other Intragovernmental Liabilities (Note 13)	995	790
Total Intragovernmental Liabilities (Note 11)	$9,917	$10,892
Accounts Payable	847	817
Loan Guarantees Liabilities (Note 9)	4,678	5,172
Debt Held by the Public (Note 12)	1,542	1,858
Federal Employee and Veterans' Benefits (Note 2)	82	79
Loss Reserves (Note 14)	539	519
Other Governmental Liabilities (Note 13)	1,014	1,199
TOTAL LIABILITIES (Note 11)	$18,619	$20,536
NET POSITION		
Unexpended Appropriations	$53,828	$58,131
Cumulative Results of Operations	38,122	34,527
Total Net Position	91,950	92,658
Total Liabilities and Net Position	$110,569	$113,194

Consolidating Statement of Net Cost
For the Period Ended September 2005 and 2004
(Dollars in millions)

	2005	2004
COSTS:		
Federal Housing Administration		
Intragovernmental	$532	$719
Intragovernmental Earned Revenues	(1,491)	(1,552)
Intragovernmental Net Costs	($959)	($832)
With the Public	$254	($667)
Earned Revenue With the Public	(363)	(250)
Net Costs With the Public	($109)	($917)
Net Program Costs	($1,068)	($1,750)
Government National Mortgage Association		
Intragovernmental		
Intragovernmental Earned Revenues	($457)	($443)
Intragovernmental Net Costs	($457)	($443)
With the Public	$81	$78
Earned Revenues	(329)	(373)
Net Costs With the Public	($248)	($295)
Net Program Costs	($705)	($738)
Section 8		
Intragovernmental	$65	$64
Intragovernmental Earned Revenues		
Intragovernmental Net Costs	$65	$64
With the Public	$23,330	$22,401
Earned Revenues		
Net Costs With the Public	$23,330	$22,401
Net Program Costs	$23,395	$22,465
Low Rent Public Housing Loans and Grants		
Intragovernmental	$176	$189
Intragovernmental Earned Revenues		
Intragovernmental Net Costs	$176	$189
With the Public	$3,425	$3,711
Earned Revenues		
Net Costs With the Public	$3,425	$3,711
Net Program Costs	$3,601	$3,900

(continued)

Operating Subsidies		
Intragovernmental	$12	$16
Intragovernmental Earned Revenues		
Intragovernmental Net Costs	$12	$16
With the Public	$3,555	$3,449
Earned Revenues		
Net Costs With the Public	$3,555	$3,449
Net Program Costs	$3,567	$3,465
Housing for the Elderly and Disabled		
Intragovernmental	$115	$183
Intragovernmental Earned Revenues		
Intragovernmental Net Costs	$115	$183
With the Public	$1,255	$1,116
Earned Revenues	($553)	(616)
Net Costs With the Public	$702	$500
Net Program Costs	$817	$683
Community Development Block Grants		
Intragovernmental	$23	$38
Intragovernmental Earned Revenues		
Intragovernmental Net Costs	$23	$38
With the Public	$5,002	$5,419
Earned Revenues		
Net Costs With the Public	$5,002	$5,419
Net Program Costs	$5,025	$5,457
HOME		
Intragovernmental	$20	$13
Intragovernmental Earned Revenues		
Intragovernmental Net Costs	$20	$13
With the Public	$1,734	$1,612
Earned Revenues		
Net Costs With the Public	$1,734	$1,612
Net Program Costs	$1,754	$1,625
Other		
Intragovernmental	$204	$163
Intragovernmental Earned Revenues	($9)	(5)
Intragovernmental Net Costs	$195	$158
With the Public	$3,580	$3,415
Earned Revenues	($24)	(32)
Net Costs With the Public	$3,556	$3,383
Net Program Costs	$3,751	$3,541
Costs Not Assigned to Programs	$268	$392
Net Cost of Operations	$40,405	$39,040

Consolidated Statement of Changes in Net Position
For the Period Ended September 2005 and 2004
(Dollars in millions)

	2005		2004 Restated	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Net Position-Beginning of Period	($34,527)	($58,131)	($30,166)	($64,753)
Adjustments				
Changes in Accounting Principles				
Correction of Errors			5	
Beginning Balances, As Adjusted	($34,527)	($58,131)	($30,161)	($64,753)
Budgetary Financing Sources				
Appropriations Received		(42,637)		(40,569)
Transfers In/Out		127		85
Other Adjustments (Rescissions, etc)		2,206		3,281
Appropriations Used	(44,607)	44,607	(43,859)	43,825
Transfers In/Out Without Reimbursement	384		306	
Other Budgetary Financing Sources			(2)	
Other Financing Sources				
Donations and Forfeitures of Property				
Transfers In/Out Without Reimbursement	304		209	
Imputed Financing From Costs Absorbed From Others	(81)		(62)	
Other			2	
Total Financing Sources	($44,000)	$4,303	($43,406)	$6,622
Net Cost of Operations	40,405		39,040	
Net Change	($3,595)	$4,303	($4,366)	$6,622
Ending Balances	($38,122)	($53,828)	($34,527)	($58,131)

Combined Statement of Budgetary Resources
For the Period Ended September 2005 and 2004
(Dollars in millions)

	2005		2004 Restated	
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:				
Budget Authority	$43,414	$1,174	$41,223	$3,400
Net Transfer, Current Year Authority	21		10	
Unobligated Balance-Beginning of Year	44,731	4,723	49,888	1,144
Net Transfers, Actual	208		394	
Spending Authority from Offsetting Collections	5,314	11,657	6,800	17,466
Anticipated for Rest of Year				
Adjustments				
Recoveries of Prior Year Obligations	1,996	39	2,096	12
Anticipated Recoveries, Prior Year				
Temporarily Not Available Per PL				
Permanently not available				
Cancellations-Expired and No Year Accts	(130)		(50)	
Enacted Rescissions	(2,274)		(3,094)	
Capital Trans & Debt Redemption	(1,335)	(1,214)	(1,865)	(4,559)
Other Authority Withdrawn	(4,403)		(1,319)	
Total Budgetary Resources	$87,542	$16,379	$94,083	$17,463
Status of Budgetary Resources:				
Obligations Incurred	$44,153	$10,373	$49,352	$12,740
Unobligated Balances Available	7,723	2,662	7,707	2,589
Unobligated Balances Not Available	35,666	3,344	37,024	2,134
Total Status of Budgetary Resources	$87,542	$16,379	$94,083	$17,463
Obligated Balance, Net-Beg of Period	$75,198	$1,108	$80,663	$921
Obligated Balance Transferred, Net				
Obligated Balance, Net - End of Period	68,885	1,191	75,198	1,108
Outlays				
Disbursements	48,465	10,334	52,749	12,420
Collections	(5,308)	(11,740)	(6,828)	(17,345)
Subtotal	$43,157	($1,406)	$45,921	($4,926)
Less: Offsetting Receipts	(483)		(428)	
Net Outlays	$42,674	($1,406)	$45,493	($4,926)

Consolidated Statement of Financing
For the Year Ended September 2005 and 2004
(Dollars in millions)

	2005	2004 Restated
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$54,526	$62,091
Less: Spending Authority from Offsetting Collections & Recoveries	(19,006)	(26,373)
Obligations Net of Offsetting Collections	$35,520	$35,718
Less: Offsetting Receipts	(483)	(428)
Net Obligations	$35,037	$35,290
Other Resources		
Transfers In/Out Without Reimbursement	(512)	(604)
Imputed Financing from Costs Absorbed by Others	58	63
Other Resources	53	(21)
Net Other Resources Used to Finance Activities	($401)	($562)
Total Resources Used to Finance Activities	$34,636	$34,728
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods Services/Benefits Ordered but not yet Provided	$6,312	$4,921
Resources That Fund Expenses from Prior Periods	(3,162)	(7,548)
Budgetary Offsetting Collections and Receipts Not Affecting Net Cost of Operations	14,262	21,203
Resources Financing Acquisition of Assets	(10,103)	(12,595)
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	(501)	71
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$6,808	$6,052
Total Resources Used to Finance the Net Cost of Operations	$41,444	$40,780

Consolidated Statement of Financing (continued)
For the Year Ended September 2005 and 2004
(Dollars in millions)

Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability (Note 22)	$2	$3
Re-estimates of Credit Subsidy Expense	2,131	2,859
Exchange Revenue Receivable from the Public	(563)	(615)
Other	3	(5)
Total Requiring/Generating Resources in Future Periods	$1,573	$2,242
Components Not Requiring/Generating Resources		
Depreciation and Amortization	$15	$14
Revaluation of Assets or Liabilities	(1,338)	(1,433)
Other	(1,289)	(2,563)
Total Components of Net Cost of Operation Not Requiring/Generating Resources	($2,612)	($3,982)
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	($1,039)	($1,740)
Net Cost of Operations	$40,405	$39,040

Notes to the Financial Statements September 30, 2005 and 2004

Note 1 – Entity and Mission

The U.S. Department of Housing and Urban Development (HUD) was created in 1965 to (1) provide housing subsidies for low- and moderate-income families, (2) provide grants to states and communities for community development activities, (3) provide direct loans and capital advances for construction and rehabilitation of housing projects for the elderly and persons with disabilities, and (4) promote and enforce fair housing and equal housing opportunity. In addition, HUD insures mortgages for single family and multifamily dwellings, insures loans for home improvements and manufactured homes, and facilitates financing for the purchase or refinancing of millions of American homes.

HUD's major programs are as follows:

The **Federal Housing Administration** (FHA) was established under the National Housing Act of 1934 and became a wholly owned government corporation in 1948 subject to the Government Corporation Control Act, as amended. While FHA was established as a separate federal entity, it was subsequently merged into HUD when it was created in 1965. FHA administers active mortgage insurance programs that are designed to make mortgage financing more accessible to the homebuying public and thereby to develop affordable housing. FHA insures private lenders against loss on mortgages that finance single family homes, multifamily projects, health care facilities, property improvements, and manufactured homes.

The **Government National Mortgage Association** (Ginnie Mae) was created as a Government corporation within HUD to administer mortgage support programs that could not be carried out in the private market. Ginnie Mae guarantees the timely payment of principal and interest on mortgage-backed securities issued by approved private mortgage institutions and backed by pools of mortgages insured or guaranteed by FHA, the Rural Housing Service, the Department of Veterans Affairs, and the HUD Office of Public and Indian Housing (PIH).

The **Section 8 Rental Assistance** programs assist low- and very low-income families in obtaining decent and safe rental housing. HUD makes up the difference between what a low- and very low-income family can afford and the approved rent for an adequate housing unit.

Operating Subsidies are provided to Public Housing Authorities (PHAs) and Tribally Designated Housing Entities to help finance the operations and maintenance costs of their housing projects.

The **Community Development Block Grant** (CDBG) programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, and improved community facilities and services. The United States Congress appropriated $2 billion in FY 2002 and $783 million in emergency supplemental appropriations in FY 2001 for the "Community Development Fund" for emergency expenses to respond to the September 11, 2001 terrorist attacks on the United States. Of the amounts appropriated, $111 million was expensed in FY 2005 and $517 million was expensed in FY 2004. Any remaining unobligated balances shall remain available until expended.

The **Low Rent Public Housing Grants** program provides grants to PHAs and Tribally Designated Housing Entities for construction and rehabilitation of low-rent housing. This program is a continuation of the Low Rent Public Housing Loan Program, which pays principal and interest on long-term loans made to PHAs and these entities for construction and rehabilitation of low rent housing.

The **Section 202/811 Supportive Housing for the Elderly and Persons with Disabilities** programs, prior to FY 1992, provided 40-year loans to nonprofit organizations sponsoring rental housing for the elderly or disabled. During FY 1992, the program was converted to a grant program. The grant program provides long-term supportive housing for the elderly (Section 202) and disabled (Section 811).

The **HOME Investment Partnerships** program provides grants to states, local governments, and Indian tribes to implement local housing strategies designed to increase homeownership and affordable housing opportunities for low- and very low-income Americans.

Other Programs not included above consist of smaller programs that provide grant, subsidy funding, and direct loans to support other HUD objectives such as fair housing and equal opportunity, energy conservation, assistance for the homeless, rehabilitation of housing units, and homeownership. These programs comprise approximately 8.6 percent of HUD's consolidated assets and 7.9 percent of HUD's consolidated revenues and financing sources for FY 2005, and 8.8 percent of HUD's consolidated assets and 9.1 percent of HUD's consolidated revenues and financing sources for FY 2004.

Note 2 – Summary of Significant Accounting Policies

A. Basis of Consolidation

The financial statements include all funds and programs for which HUD is responsible. All significant intra-fund balances and transactions have been eliminated in consolidation. Transfer appropriations are consolidated into the financial statements based on an evaluation of their relationship with HUD.

B. Basis of Accounting

The financial statements include the accounts and transactions of the Ginnie Mae, FHA, and HUD's Grant, Subsidy, and Loan programs.

The financial statements are presented in accordance with OMB Circular No. A-136, Financial Reporting Requirements, and in conformance with the Federal Accounting Standards Advisory Board's Statements of Federal Financial Accounting Standards.

The financial statements are presented on the accrual basis of accounting. Under this method, HUD recognizes revenues when earned, and expenses when a liability is incurred, without regard to receipt or payment of cash. Generally, procedures for HUD's major grant and subsidy programs require recipients to request periodic disbursement concurrent with incurring eligible costs.

The Department's disbursement policy permits grantees/recipients to request funds to meet immediate cash needs to reimburse themselves for eligible incurred expenses and eligible expenses expected to be received and paid within three days. HUD's disbursement of funds for these purposes are not considered advance payments, but are viewed as good cash management between the Department and the grantees. In the event it is determined that the grantee/recipient did not disburse the funds within the three day time frame, interest earned must be returned to HUD and deposited into one of Treasury's miscellaneous receipt accounts.

C. Use of Estimates

The preparation of the principal financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Amounts reported for net loans receivable and related foreclosed property and the loan guarantee liability represent the Department's best estimates based on pertinent information available.

To estimate the allowance for subsidy associated with loans receivable and related to foreclosed property and the liability for loan guarantees, the Department uses cash flow model assumptions associated with loan guarantee cases subject to the Federal Credit Reform Act of 1990, as described in Note 9, to estimate the cash flows associated with future loan performance. To make reasonable projections of future loan performance, the Department develops assumptions based on historical data, current and forecasted program and economic assumptions.

Certain programs have higher risks due to increased chances of fraudulent activities perpetrated against the Department. The Department accounts for these risks through the assumptions used in the liabilities for loan guarantee estimates. HUD develops the assumptions based on historical performance and management's judgments about future loan performance.

D. Credit Reform Accounting

The primary purpose of the Federal Credit Reform Act of 1990, which became effective on October 1, 1991, is to more accurately measure the cost of federal credit programs and to place the cost of such credit programs on a basis equivalent with other federal spending. OMB Circular A-129, Federal Credit Programs, defines a loan guarantee as any guarantee, insurance, or other pledge with respect to the payment of all, or a part of, the principal or interest on any debt obligation of a non-federal borrower (issuer) to a non-federal lender (investor). In the opinion of Ginnie Mae management and HUD's General Counsel, the Federal Credit Reform Act does not apply to Ginnie Mae. Nevertheless, in consultation with OMB, Ginnie Mae has adopted certain credit reform practices.

The Federal Credit Reform Act also establishes the use of the program, financing, general fund receipt, and capital reserve accounts for loan guarantees committed and direct loans obligated after September 30, 1991 (Credit Reform). It also establishes the liquidating account for activity relating to any loan guarantees committed and direct loans obligated before October 1, 1991 (pre-Credit Reform). These accounts are classified as either budgetary or non-budgetary in the Combined Statements of Budgetary Resources. The budgetary accounts include the program, capital reserve, and liquidating accounts. The non-budgetary accounts consist of the credit reform financing accounts.

The program account is a budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to the financing account. The program account also receives appropriations for administrative expenses. The financing account is a non-budgetary account that records all of the cash flows resulting from Credit Reform direct loans or loan guarantees. It disburses loans, collects repayments and fees, makes claim payments, holds balances, borrows from the U.S. Treasury, earns or pays interest, and receives the subsidy cost payment from the program account.

The general fund receipt account is a budget account used for the receipt of amounts paid from the financing account when there is a negative subsidy from the original estimate or a downward re-estimate. In most cases, the receipt account is a general fund receipt account and amounts are not earmarked for the credit program. They are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in this account are non-entity assets and are offset by intragovernmental liabilities. At the beginning of the following fiscal year, the fund balance in the general fund receipt account is transferred to the U.S. Treasury General Fund. The FHA General Fund receipt account of the General Insurance and Special Risk Insurance funds are in this category.

In order to resolve the different requirements between the Federal Credit Reporting Act of 1990 and the National Affordable Housing Act of 1990, OMB instructed FHA to create the capital reserve account to retain the Mutual Mortgage Insurance/Cooperative Management Housing Insurance negative subsidy and subsequent downward re-estimates. Specifically, the National Affordable Housing Act required that FHA's Mutual Mortgage Insurance fund achieve a Capital Ratio of 2.0 percent by FY 2000. The Capital Ratio is defined as the ratio of economic net worth (current cash plus the present value of all future net cash flows) of this fund to unamortized insurance in force (the unpaid balance of insured mortgages). Therefore, to ensure that the calculated Capital Ratio reflects the actual strength of the Mutual Mortgage Insurance fund, the resources of the capital reserve account, which are considered FHA assets, are included in the calculation of the fund's economic net worth. At the end of FY 1995, FHA met and has since maintained the Capital Ratio requirement. FHA's actuary estimates the September 30, 2005, Capital Ratio at 6.02 percent. The FY 2004 estimated Capital Ratio was 5.53 percent.

The liquidating account is a budget account that records all cash flows to and from FHA resulting from pre-Credit Reform direct loans or loan guarantees. Liquidating account collections in any year are available only for obligations incurred during that year or to repay debt. Unobligated balances remaining in the General Insurance and Special Risk Insurance liquidating funds at year-end are transferred to the U.S. Treasury's General Fund. Consequently, in the event that resources in the General Insurance/Special Risk Insurance liquidating account are otherwise insufficient to cover the payments for obligations or commitments, the Federal Credit Reform Act provides the liquidating account with permanent indefinite authority to cover any resource shortages.

E. Operating Revenue and Financing Sources

HUD finances operations principally through appropriations, collection of premiums and fees on its FHA and Ginnie Mae programs, and interest income on its mortgage notes, loans, and investments portfolio.

Appropriations for Grant and Subsidy Programs

HUD receives both annual and multi-year appropriations, and recognizes those appropriations as revenue when related program expenses are incurred. Accordingly, HUD recognizes grant-related revenue and related expenses as recipients perform under the contracts. HUD recognizes subsidy-related revenue and related expenses when the underlying assistance (e.g., provision of a Section 8 rental unit by a housing owner) is provided.

FHA Unearned Premiums

Premiums charged by FHA for single family mortgage insurance provided by its Mutual Mortgage Insurance and Cooperative Management Housing Insurance Fund include up-front and annual risk based premiums. Pre-credit reform upfront risk-based premiums are recorded as unearned revenue upon collection and are recognized as revenue over the period in which losses and insurance costs are expected to occur. Annual risk-based premiums are recognized as revenue on a straight-line basis throughout the year. FHA's other activities charge periodic insurance premiums over the mortgage insurance term. Premiums on annual installment policies are recognized for the liquidating accounts on a straight-line basis throughout the year.

Premiums associated with Credit Reform loan guarantees are included in the calculation of the liability for loan guarantees, and are not included in the unearned premium amount reported on the Balance Sheet, since these guarantees represent the net present value of future cash flows associated with those insurance portfolios.

Ginnie Mae Fees

Fees received for Ginnie Mae's guaranty of mortgage-backed securities are recognized as earned on an accrual basis. Commitment fees represent income that Ginnie Mae earns for providing approved issuers with authority to pool mortgages into Ginnie Mae mortgage-backed securities. The authority Ginnie Mae provides issuers expires 12 months from issuance for single family issuers and 24 months from issuance for multifamily issuers. Ginnie Mae receives commitment fees as issuers request commitment authority and recognizes the commitment fees as earned as issuers use their commitment authority, with the balance deferred until earned or expired, whichever occurs first. Fees from expired commitment authority are not returned to issuers.

F. Appropriations and Moneys Received from Other HUD Programs

The National Housing Act of 1990, as amended, provides for appropriations from Congress to finance the operations of the General Insurance and Special Risk Insurance funds. For Credit Reform loan guarantees, appropriations to these funds are provided at the beginning of each fiscal year to cover estimated losses on insured loans during the year. For pre-Credit Reform loan guarantees, FHA has permanent indefinite appropriation authority to finance any shortages of resources needed for operations.

Monies received from other HUD programs, such as interest subsidies and rent supplements, are recorded as revenue for the liquidating accounts when services are rendered. Monies received for the financing accounts are recorded as additions to the liability for loan guarantees or the Allowance for Subsidy when collected.

G. Investments

HUD limits its investments, principally comprised of investments by FHA's Mutual Mortgage Insurance/ Cooperative Management Housing Insurance Fund and by Ginnie Mae, to non-marketable market-based Treasury interest-bearing obligations (i.e., investments not sold in public markets). The market value and interest rates established for such investments are the same as those for similar Treasury issues, which are publicly marketed.

HUD's investment decisions are limited by Treasury policy which: (1) only allows investment in Treasury notes, bills, and bonds; and (2) prohibits HUD from engaging in practices that result in "windfall" gains and profits, such as security trading and full scale restructuring of portfolios, in order to take advantage of interest rate fluctuations. FHA's normal policy is to hold investments in U.S. Government securities to maturity. However, in certain circumstances, FHA may have to liquidate its U.S. Government securities before maturity to finance claim payments.

HUD reports investments in U.S. Government securities at amortized cost. Premiums or discounts are amortized into interest income over the term of the investment. HUD intends to hold investments to maturity, unless needed for operations. No provision is made to record unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

The Departments of Veterans Affairs and Housing and Urban Development Appropriations Act of 1999 and Section 601 of the Independent Agencies Act of 1999 provide FHA with new flexibility in reforming its single family claims and property disposition activities. In accordance with these Acts, FHA implemented the Accelerated Claims Disposition Demonstration Program (the Section 601 program) to shorten the claim filing process, obtain higher recoveries from its defaulted guaranteed loans, and support the Office of Housing's mission of keeping homeowners in their home. To achieve these objectives, FHA transfers assigned mortgage notes to private sector entities in exchange for cash and equity interest. The servicing and disposition of the mortgage notes are performed by the private sector entities whose primary mission is dedicated to these types of activities.

With the transfer of assigned mortgage notes under the Section 601 program, FHA obtains ownership interest in the private sector entities. This level of ownership interest enables FHA to exercise significant influence over the operating and financial policies of the entities. Accordingly, to comply with the requirement of Opinion Number 18 issued by the Accounting Principles Board, FHA uses the equity method of accounting to measure the value of its investments in these entities. The equity method of accounting requires FHA to record its investments in the entities at cost initially. Periodically, the carrying amount of the investments is adjusted for cash distributions to FHA and for FHA's share of the entities' earnings or losses.

H. Credit Program Receivables and Related Foreclosed Property

HUD finances mortgages and provides loans to support construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program. Prior to April 1996, mortgages were also assigned to HUD through FHA claims settlement (i.e., mortgage notes assigned). Single family mortgages were assigned to FHA when the mortgagor defaulted due to certain "temporary hardship" conditions beyond the control of the mortgagor, and when, in management's judgment, it was likely that the mortgage could be brought current in the future. FHA's loans receivable include mortgage notes assigned, also described as Secretary-held notes, and purchase money mortgages. Under the requirements of the Federal Credit Reporting Act, purchase money mortgages notes are considered to be direct loans while mortgage notes assigned notes are considered to be defaulted guaranteed loans. The purchase money mortgages loans are generated from the sales on credit of FHA's foreclosed properties to qualified nonprofit organizations. The mortgage notes assigned are created when FHA pays the lenders for claims on defaulted guaranteed loans and takes assignment of the defaulted loans for direct collections. In addition, multifamily mortgages are assigned to FHA when lenders file mortgage insurance claims for defaulted notes.

Credit program receivables for direct loan programs and defaulted guaranteed loans assigned for direct collection are valued differently based on the direct loan obligation or loan guarantee commitment date. These valuations are in accordance with the Federal Credit Reform Act of 1990 and Statement of Federal Financial Accounting Standards Number 2, "Accounting for Direct Loans and Loan Guarantees," as amended by Statements of Federal Financial Accounting Standards Number 18. Those obligated or committed on or after October 1, 1991 (post-Credit Reform) are valued at the net present value of expected cash flows from the related receivables.

Credit program receivables resulting from obligations or commitments prior to October 1, 1991 (pre-Credit Reform) are recorded at the lower of cost or fair value (net realizable value). Fair value is estimated based on the prevailing market interest rates at the date of mortgage assignment. When fair value is less than cost, discounts are recorded and amortized to interest income over the remaining terms of the mortgages or upon sale of the mortgages. Interest is recognized as income when earned. However, when full collection of principal is considered doubtful, the accrual of interest income is suspended and receipts (both interest and principal) are recorded as collections of principal. Pre-Credit Reform loans are reported net of allowance for loss and any unamortized discount. The estimate for the allowance on credit program receivables is based on historical loss rates and recovery rates resulting from asset sales and property recovery rates, net of cost of sales.

Foreclosed property acquired as a result of defaults of loans obligated or loan guarantees committed on or after October 1, 1991, is valued at the net present value of the projected cash flows associated with the property. Foreclosed property acquired as a result in defaulted loans obligated or loan guarantees committed prior to 1992 is valued at net realizable value. The estimate for the allowance for loss related to the net realizable value of foreclosed property is based on historical loss rates and recovery rates resulting from property sales, net of cost of sales.

I. Borrowings

As further discussed in Note 12, several of HUD's programs have the authority to borrow funds from the U.S. Treasury from program operations. These borrowings, representing unpaid principal balances and future accrued interest, are reported as debt in HUD's consolidated financial statements. The PIH Low Rent Public Housing Loan Program and the Housing for the Elderly or Handicapped fund were financed through borrowings from the Federal Financing Bank or the U.S. Treasury prior to the Department's conversion of these programs to grant programs. The Department also borrowed funds from the private sector to assist in the construction and rehabilitation of low rent housing projects under the PIH Low Rent Public Housing Loan Program. Repayments of these long-term borrowings have terms up to 40 years.

In accordance with Credit Reform accounting, FHA also borrows from the U.S. Treasury when cash is needed in its financing accounts. Usually, the need for cash arises when FHA has to transfer the negative credit subsidy amount related to new loan disbursements, and existing loan modifications from the financing accounts to the general fund receipts account (for cases in General Insurance/Special Risk Insurance funds) or the liquidating account (for cases in Mutual Mortgage Insurance/Cooperative Management Housing Insurance funds). In some instances, borrowings are also needed to transfer the credit subsidy related to downward re-estimates from the General Insurance/Special Risk Insurance financing account to the corresponding receipt account or when available cash is less than claim payments due.

J. Liability for Loan Guarantees

The potential future losses related to FHA's central business of providing mortgage insurance are accounted for as Loan Guarantee Liability in the consolidated balance sheets. As required by Statement of Federal Financial Accounting Standards Number 2, the Loan Guarantee Liability includes the Credit Reform-related Liabilities for Loan Guarantees and the Loan Loss Reserve.

The Liabilities for Loan Guarantees and the Loan Loss Reserve are calculated as the present value of anticipated cash outflows for defaults, such as claim payments, premium refunds, property expense for on-hand properties, and sale expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from asset sales and principal and interest on Secretary-held notes acquired from FHA's claim settlements of defaulted mortgages or pursuant to Section 221(g)(4) of the National Housing Act.

HUD records its loan loss reserves for its mortgage insurance programs operated through FHA and its financial guaranty programs operated by Ginnie Mae. FHA loss reserves are recorded for the net present value of estimated future cash flows associated with FHA-insured mortgage loans endorsed before FY 1992. Ginnie Mae establishes reserves for actual and probable defaults of issuers of Ginnie Mae-guaranteed mortgage-backed securities. Such reserves disclosed in the consolidated financial statements are based on management's judgment about historical claim and loss information and current and projected economic factors.

K. Full Cost Reporting

Statement of Federal Financial Accounting Standards Number 4 requires that full costing of program outputs be included in federal agency financial statements. Full cost reporting includes direct, indirect, and inter-entity costs. For purposes of the consolidated Department financial statements, HUD identified each responsible segment's share of the program costs or resources provided by HUD or other federal agencies.

These costs are treated as imputed cost for the Statement of Net Cost, and imputed financing for the Statement of Changes in Net Position and the Statement of Financing.

L. Accrued Unfunded Leave and Federal Employees Compensation Act Liabilities

Annual leave and compensatory time are accrued as earned and the liability is reduced as leave is taken. The liability at year-end reflects cumulative leave earned but not taken, priced at current wage rates. Earned leave deferred to future periods is to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources in the Net Position section of its Consolidated Balance Sheet. Sick leave and other types of leave are expensed as taken.

HUD also accrues the portion of the estimated liability for disability benefits assigned to the agency under the Federal Employees' Compensation Act, administered and determined by the Department of Labor. The liability, based on the net present value of estimated future payments based on a study conducted by the Department of Labor, was $82 million as of September 30, 2005, and $79 million as of September 30, 2004. Future payments on this liability are to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources.

M. Retirement Plans

The majority of HUD's employees participate in either the Civil Service Retirement System or the Federal Employees Retirement System. The latter program went into effect pursuant to Public Law 99-335 on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by the Federal Employees Retirement System and Social Security. Employees hired before January 1, 1984, can elect to either join this program and Social Security or remain in the Civil Service Retirement System. HUD expenses its contributions to the retirement plans.

A primary feature of the Federal Employees Retirement System is that it offers a savings plan whereby HUD automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. Under the Civil Service Retirement System, employees can contribute up to 15 percent of their pay to the savings plan, but there is no corresponding matching by HUD. Although HUD funds a portion of the benefits under the Federal Employees Retirement System relating to its employees and makes the necessary withholdings from them, it has no liability for future payments to employees under these plans, nor does it report any retirement plan assets, Federal Employees' Compensation Act assets, accumulated plan benefits, or unfunded liabilities applicable to its employees' retirement plans. These amounts are reported by the Office of Personnel Management and are not allocated to the individual employers. HUD's matching contribution to these retirement plans during FY 2005 and FY 2004 was $79 million and $77 million, respectively.

N. Federal Employee and Veterans' Benefit

The Department's Federal Employee and Veterans' benefit expenses totaled approximately $137 million for FY 2005; this amount includes $36 million to be funded by the Office of Personnel Management. Amounts funded by the Office of Personnel Management are charged to expense with a corresponding amount considered as an imputed financing source in the Statement of Changes in Net Position.

O. Financial Accounting Standards Board Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees

The Financial Accounting Standards Board Interpretation Number 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, is an interpretation of Financial Accounting Standards Board Statements Numbers 5, 57, and 107, and Rescission of Interpretation No. 34, in November 2002. Interpretation Number 45 clarifies the requirements of Statement Number 5, Accounting for Contingencies, relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. Interpretation Number 45 requires that upon issuance of a guarantee, the entity (i.e., the guarantor) must recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of Interpretation Number 45 are effective for financial statements that end after December 15, 2002. These provisions for initial recognition and measurement are to be applied on a prospective basis only to guarantees issued or modified after December 31, 2002. The guarantor's previous accounting for guarantees that were issued before the date of Interpretation 45's initial application may not be revised or restated to reflect the effect of the recognition and measurement provisions of this Interpretation. Ginnie Mae has completed an evaluation of its guarantees for disclosures required by Interpretation 45, and have disclosed an asset and liability of $382.3 million (i.e., Other Assets and Other Liabilities). There is no impact of adopting this interpretation on the net financial position.

P. Re-estimate of Obligated Balance for Section 236

HUD's Section 236 Interest Reduction Program was established under the National Housing Act (Public Law 90-448), enacted in 1968 for the purpose of providing an incentive to develop rental housing for low- and moderate-income households. The incentive is a HUD subsidy for the difference between the monthly payment for principal, interest, and mortgage insurance premiums on the outstanding mortgage at the market rate of interest and the monthly payments that are required under a mortgage bearing an interest rate of one percent. This makes HUD liable to the mortgage lender/servicer for the balance of the interest due. Generally, mortgages were originated with a term of 40 years, with certain program provisions that could result in early termination of the Interest Reduction Program agreement, or payment deferrals and program term extensions up to a period of 50 years. New program activity was terminated in the late 1970s and HUD maintained the remaining program liability in its official accounting system as the cumulative remaining estimated obligation amount. HUD has permanent indefinite contract authority to cover the remaining obligations under this program. In FY 2004, the Office of Inspector General reported internal control deficiencies in the Section 236 Interest Reduction Program that called the remaining estimated obligation balance into question. To address this reportable condition, HUD's Office of the CFO contracted for a 100 percent reconciliation and reconstruction of records for the Section 236 Interest Reduction Program in FY 2005, with improved integration and automation of the business and accounting processes to maintain accurate program balances going forward. This effort reconciled information on over 3,000 Interest Reduction Program agreements and determined a revised estimated cumulative remaining obligation balance of $5.1 billion. HUD requested that OMB apportion $757 million in additional permanent indefinite authority to fully cover the revised estimated remaining obligation balance, which is reflected in the Statement of Budgetary Resources as a current year obligation. There are 51 projects where, due to missing documentation or ambiguous terms, the contractor could not yet determine if the term of the Interest Reduction Program agreement was 40 or 50 years. To be conservative, HUD assumed that these agreements will be valid for 50 years from the date they were executed. As a result, there is a potential $352 million overstatement of the $5.1 billion cumulative obligation balance for the Section 236 Interest Reduction Program if it is subsequently found that the program agreements for all 51 projects were actually valid for only 40 years from the date they were executed.

Q. Emergency Relief Efforts for Hurricane Katrina

Ginnie Mae guarantees advance payments of principal and interest on mortgage-backed securities when the issuer of the pooled mortgages behind these securities defaults. Ginnie Mae files the claims for loans defaulted within the defaulted issuers portfolio to FHA, the Department of Veterans Affairs, or the Rural

Housing Service. Due to Hurricane Katrina, the pool income stream has been disrupted from destruction of the collateral, displacement of the FHA or Department of Veterans Affairs loan borrowers, and the loss of borrower employment. Ginnie Mae has determined that there are about $6.5 billion of mortgages underlying its Mortgage-Backed Securities guaranteed program in the affected region. Most Ginnie Mae issuers in the affected region are currently able to advance funds when required. Ginnie Mae believes the financial risk to the reserves to be limited, and has identified approximately $500 million in securities portfolios that may be at risk of default. Past experience has shown that approximately one percent of defaulted portfolios are not covered by FHA insurance. Therefore, it is adding additional funds to the Reserve for Loss. Ginnie Mae has estimated $5 million to cover the identified potential risk and an additional $5 million to cover unidentified financial risks. This would bring its total Reserve for Loss to $538 million.

The Department will provide transitional housing assistance to displaced public housing residents, displaced Section 8 participants, displaced families from other HUD assisted programs, and individuals who were homeless in the disaster affected area prior to Katrina.

R. Restatements

In FY 2005, HUD restated its FY 2004 Balance Sheet and Statement of Changes in Net Position for the effect of incorrect application of Statement of Federal Financial Accounting Standard Number 7, issued in 1998. The incorrect application resulted in an overstatement of liabilities and understatement of net position in the amount of $4.2 billion. This amount represented cumulative activity reported as a liability payable to Treasury from the Housing for the Elderly and Disabled program, a loan guarantee liquidating account. In FY 2001, in conjunction with the revisions to central agency guidance on accounting for federal credit programs, HUD began its application of Statement of Federal Financial Accounting Standards Number 7 to the Housing for the Elderly and Disabled program, but delayed reclassification of the liability to Treasury until the guidance was completed in July 2004. As a result, in FY 2005, $4.2 billion was reclassified from other intragovernmental liabilities to cumulative results of operations. Prior to the issuance of Statement of Federal Financial Accounting Standards Number 7, central agency guidance recommended that the cumulative activity in liquidating accounts be treated as a liability to Treasury.

In the Department’s Combined Statement of Budgetary Resources for FY 2004, the Credit Subsidy Amount of $415 million transferred by Ginnie Mae to the general fund receipt account was reported as Spending Authority from Offsetting Collections. As requested by OMB, the Credit Subsidy amount was reclassified from an offsetting collection to a non-expenditure transfer and, unlike Credit Reform, the Ginnie Mae Receipt Account is not swept to the U.S. Treasury General Fund at the end of each fiscal year. These funds are maintained on Ginnie Mae’s books as a cash reserve. Ginnie Mae also received a payment of $10 million from the general fund receipt account for administrative expenses necessary to carry out the guaranteed Mortgage-Backed Securities Program, resulting in a net increase of $405 million in net outlays reported on HUD's restated financial statements. OMB Circular A-11, Preparation, Submission and Execution of the Budget, requires that cash transfers to the general fund receipt account be recorded as non-expenditure transfers and should not offset the amount of gross outlays reported on the Statement of Budgetary Resources. The adjustment of $405 million on the Net Cost of Operations reported on the Statement of Financing was not impacted since the adjustment of $405 million previously reported as an offsetting collection in the Statement of Financing was reclassified as Other Resources in HUD’s restated financial statements.

Note 3 – Fund Balance with the U.S. Treasury

The U.S. Treasury, which, in effect, maintains HUD's bank accounts, processes substantially all of HUD's receipts and disbursements. HUD's fund balances with the U.S. Treasury as of September 30, 2005 and 2004, were as follows (dollars in millions):

Description	2005	2004
Revolving Funds	$ 12,410	$ 10,782
Appropriated Funds	53,723	58,092
Trust Funds	5	5
Other	1,362	768
Total - Fund Balance	$ 67,500	$ 69,647

The Department's Fund Balance with Treasury includes receipt accounts established under current Federal Credit Reform legislation and cash collections deposited in restricted accounts that cannot be used by HUD for its programmatic needs. These designated funds established by the Department of Treasury are classified as suspense and/or deposit funds and consist of accounts receivable balances due from the public. A Statement of Budgetary Resources is not prepared for these funds since any cash remittances received by the Department are not defined as a budgetary resource.

In addition to fund balance, contract and investment authority are also a part of HUD's funding sources. Contract authority permits an agency to incur obligations in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. HUD has permanent indefinite contract authority. Since federal securities are considered the equivalent of cash for budget purposes, investments in them are treated as a change in the mix of assets held, rather than as a purchase of assets.

HUD's fund balances with U.S. Treasury as reflected in the entity's general ledger as of September 30, 2005, were as follows (dollars in millions):

Status of Resources

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 2,726	$ 26,766	$ 2,330	$ (313)	$ 31,509	$ 9,231	$ 22,278	$ 31,509
Ginnie Mae	-	11,579	121	(78)	11,622	3,711	7,911	11,622
Section 8 Rental Assistance	2,035	76	21,819	-	23,930	10,689	13,241	23,930
CDBG	1,183	36	10,659	-	11,878	11,878	-	11,878
HOME	318	-	5,557	-	5,875	5,875	-	5,875
Operating Subsidies	-	2	873	-	875	875	-	875
Public Housing Loans and Grants	384	17	10,421	-	10,822	8,683	2,139	10,822
Housing for the Elderly & Disabled	1,320	17	5,530	-	6,867	6,867	-	6,867
Section 235/236	257	240	6,818	-	7,315	367	6,948	7,315
All Other	2,162	276	6,367	(27)	8,778	8,761	17	8,778
Total	$ 10,385	$ 39,009	$ 70,495	$ (418)	$ 119,471	$ 66,937	$ 52,534	$ 119,471

Status of Resources Covered by Fund Balance

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Fund Balance	Suspense, Deposit and Receipt Accounts	Total Fund Balance
FHA	$ 2,726	$ 4,488	$ 2,330	$ (313)	$ 9,231	$ 474	$ 9,705
Ginnie Mae	-	3,668	121	(78)	3,711	-	3,711
Section 8 Rental Assistance	697	-	9,992		10,689	12	10,701
CDBG	1,183	36	10,659		11,878	-	11,878
HOME	318	-	5,557		5,875	-	5,875
Operating Subsidies	-	2	873		875	-	875
Public Housing Loans and Grants	384	17	8,282		8,683	-	8,683
Housing for the Elderly & Disabled	1,320	17	5,530		6,867	-	6,867
Section 235/236	1	10	356		367	-	367
All Other	2,162	270	6,356	(27)	8,761	77	8,838
Total	$ 8,791	$ 8,508	$ 50,056	$ (418)	$ 66,937	$ 563	$ 67,500

Status of Resources Covered by Other Authority

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Permanent Indefinite Authority	Investment Authority
FHA		$ 22,278				$ 22,278
Ginnie Mae		7,911				7,911
Section 8 Rental Assistance	$ 1,338	76	$ 11,827		$ 13,241	
Public Housing Loans and Grants	-	-	2,139		2,139	
Section 235/236	256	230	6,462		6,948	
All Other	-	6	11		17	
Total	$ 1,594	$ 30,501	$ 20,439	$ -	$ 22,345	$ 30,189

HUD's fund balances with U.S. Treasury as reflected in the entity's general ledger as of September 30, 2004, were as follows (dollars in millions):

Status of Resources

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 2,738	$ 25,848	$ 2,255	$ (387)	$ 30,454	$ 7,479	$ 22,975	$ 30,454
Ginnie Mae	-	10,841	120	(84)	10,877	3,355	7,522	10,877
Section 8 Rental Assistance	1,563	691	26,383	-	28,637	12,866	15,771	28,637
CDBG	1,307	39	10,693	-	12,039	12,039	-	12,039
HOME	444	12	5,247	-	5,703	5,703	-	5,703
Operating Subsidies	2	1	2,007	-	2,010	2,010	-	2,010
Public Housing Loans and Grants	390	7	11,139	-	11,536	8,788	2,748	11,536
Housing for the Elderly and Disabled	1,619	46	5,496	-	7,161	7,161	-	7,161
Section 235/236	40	1,381	6,467	-	7,888	351	7,537	7,888
All Other	2,192	293	7,002	(32)	9,455	9,428	27	9,455
Total	$ 10,295	$ 39,159	$ 76,809	$ (503)	$ 125,760	$ 69,180	$ 56,580	$ 125,760

Status of Resources Covered by Fund Balance

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Fund Balance	Suspense, Deposit and Receipt Accounts	Total Fund Balance
FHA	$ 2,738	$ 2,873	$ 2,255	$ (387)	$ 7,479	$ 419	$ 7,898
Ginnie Mae	-	3,319	120	(84)	3,355	-	3,355
Section 8 Rental Assistance	-	-	12,866	-	12,866	23	12,889
CDBG	1,307	39	10,693		12,039		12,039
HOME	444	12	5,247		5,703		5,703
Operating Subsidies	2	1	2,007		2,010		2,010
Public Housing Loans and Grants	390	7	8,391		8,788	-	8,788
Housing for the Elderly and Disabled	1,619	46	5,496		7,161		7,161
Section 235/236	1	6	344		351	-	351
All Other	2,192	293	6,975	(32)	9,428	25	9,453
Total	$ 8,693	$ 6,596	$ 54,394	$ (503)	$ 69,180	$ 467	$ 69,647

Status of Resources Covered by Other Authority

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Permanent Indefinite Authority	Investment Authority
FHA	-	$ 22,975	-	-		$ 22,975
Ginnie Mae	-	7,522	-	-		7,522
Section 8 Rental Assistance	$ 1,563	691	$ 13,517	-	$ 15,771	
Public Housing Loans and Grants	-	-	2,748	-	2,748	
Section 235/236	39	1,375	6,123	-	7,537	
All Other	-	-	27	-	27	
Total	$ 1,602	$ 32,563	$ 22,415	$ -	$ 26,083	$ 30,497

An immaterial difference exists between HUD's recorded Fund Balances with the U.S. Treasury and the U.S. Department of Treasury's records. It is the Department's practice to adjust its records to agree with

Treasury's balances at the end of the fiscal year. The adjustments are reversed at the beginning of the following fiscal year.

Note 4 – Commitments Under HUD's Grant, Subsidy, and Loan Programs

A. Contractual Commitments

HUD has entered into extensive long-term contractual commitments under its various grant, subsidy, and loan programs. These commitments consist of legally binding agreements the Department has entered into to provide grants, subsidies, or loans. Commitments become liabilities when all actions required for payment under an agreement have occurred. The mechanism for funding subsidy commitments generally differs depending on whether the agreements were entered into before or after 1988.

Prior to FY 1988, HUD's subsidy programs, primarily the Section 8 program and the Section 235/236 programs, operated under contract authority. Each year, Congress provided HUD the authority to enter into multi-year contracts within annual and total contract limitation ceilings. HUD then drew on, and continues to draw on, permanent indefinite appropriations to fund the current year's portion of those multi-year contracts. Because of the duration of these contracts (up to 40 years), significant authority exists to draw on the permanent indefinite appropriations. Beginning in FY 1988, the Section 8 and the Section 235/236 programs began operating under multi-year budget authority whereby the Congress appropriates the funds "upfront" for the entire contract term in the initial year.

As shown below, appropriations to fund a substantial portion of these commitments will be provided through permanent indefinite authority. These commitments relate primarily to the Section 8 program, and the Section 235/236 rental assistance and interest reduction programs, and are explained in greater detail below.

HUD's commitment balances are based on the amount of unliquidated obligations recorded in HUD's accounting records with no provision for changes in future eligibility, and thus are equal to the maximum amounts available under existing agreements and contracts. Unexpended appropriations and cumulative results of operations shown in the Consolidated Balance Sheet comprise funds in the U.S. Treasury available to fund existing commitments that were provided through "upfront" appropriations, and also include permanent indefinite appropriations received in excess of amounts used to fund the pre-1988 subsidy contracts and offsetting collections.

Prior to FY 2004, the Department did not disclose the amount of permanent indefinite authority required to meet its obligations under the PIH Low Rent Public Housing Loan Fund. The Department's obligations reported on the Statement of Budgetary Resources for this program are the result of liabilities assumed by the agency in repayment of borrowings on behalf of PHAs and Indian housing agencies authorized by Public Law 99-272. The amount of funding required for the repayment of principal and interest are financed by the Debt Service Fund and covered by the amount of permanent indefinite appropriations not to exceed $7.2 billion authorized by the Secretary of the Treasury. These balances in HUD's budget authority were disclosed as a reconciling item between the amount of unexpended appropriations reported in the Consolidated Statement of Financial Position and the obligated balances reported in the Consolidated Statement of Budgetary Resources in prior financial statement audits. Congress converted the PIH Low Rent and Homeownership loan programs to grant programs in 1986.

FHA enters into long-term contracts for both program and administrative services. FHA funds these contractual obligations through appropriations, permanent indefinite authority, and offsetting collections.

The appropriated funds are primarily used to support administrative contract expenses, while the permanent indefinite authority and the offsetting collections are used for program services.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2005 (dollars in millions):

	Commitments Funded Through			
Programs	Unexpended Appropriations	Permanent Indefinite or Investment Authority	Offsetting Collection	Undelivered Orders - Obligations, Unpaid
FHA	$ 188	$ 364	$ 571	$ 1,123
Ginnie Mae	-	-	-	-
Section 8 Rental Assistance	9,989	11,827		21,816
Community Development Block Grants	10,635	-	-	10,635
HOME Investment Partnerships Program	5,546	-	-	5,546
Operating Subsidies	759	-	-	759
Low Rent Public Housing Grants and Loans	8,129	2,139		10,268
Housing for Elderly and Disabled	5,480	-	-	5,480
Section 235/236	356	6,462	-	6,818
All Other	6,172	11	97	6,280
Total	$ 47,254	$ 20,803	$ 668	$ 68,725

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2005**,** $18.2 billion relates to project-based commitments, and $3.6 billion relates to tenant-based commitments.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2004 (dollars in millions):

	Commitments Funded Through				
Programs	Unexpended Appropriations	Permanent Indefinite or Investment Authority	Offsetting Collection	Investments in Federal Securities	Undelivered Orders - Obligations, Unpaid
FHA	$ 169	$ 368	$ 520	$ -	$ 1,057
Ginnie Mae	-	-	-	-	-
Section 8 Rental Assistance	12,854	13,517	-	-	26,371
Community Development Block Grants	10,671	-	-	-	10,671
HOME Investment Partnerships Program	5,237	-	-	-	5,237
Operating Subsidies	1,873	-	-	-	1,873
Low Rent Public Housing Grants and Loans	8,215	2,747	-	-	10,962
Housing for Elderly and Disabled	5,411	-	-	-	5,411
Section 235/236	342	6,123	-	-	6,465
All Other	6,786	27	108	-	6,921
Total	$ 51,558	$ 22,782	$ 628	$ -	$ 74,968

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2004**,** $20.7 billion relates to project-based commitments, and $5.6 billion relates to tenant-based commitments. With the exception of the Housing for the Elderly and Disabled and Low Rent Public Housing Loan Programs (which have been converted to grant programs), Section 235/236, and a portion of "all other" programs, HUD management expects all of the above programs to continue to incur new commitments under authority granted by Congress in future years. However, estimated future commitments under such new authority are not included in the amounts above.

B. Administrative Commitments

In addition to the above contractual commitments, HUD has entered into administrative commitments, which are reservations of funds for specific projects (including those for which a contract has not yet been executed) to obligate all or part of those funds. Administrative commitments become contractual commitments upon contract execution.

The following shows HUD's administrative commitments as of September 30, 2005 (dollars in millions):

Programs	Administrative Commitments Funded Through: Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance Project-Based	$ 17	$ 22	-	$ 39
Section 8 Rental Assistance Tenant-Based	-	1	-	1
Community Development Block Grants	1,001	-	-	1,001
HOME Investment Partnerships Program	277	-	-	277
Low Rent Public Housing Grants and Loans	148	-	-	148
Housing for Elderly and Disabled	415	-	-	415
All Other	668	12	$ 4	684
Total	$ 2,526	$ 35	$ 4	$ 2,565

The following shows HUD's administrative commitments as of September 30, 2004 (dollars in millions):

Programs	Administrative Commitments Funded Through: Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance Project-Based	-	$ 113	-	$ 113
Section 8 Rental Assistance Tenant-Based	-	24	-	24
Community Development Block Grants	$ 1,108	-	-	1,108
HOME Investment Partnerships Program	416	-	-	416
Low Rent Public Housing Grants and Loans	148	-	-	148
Housing for Elderly and Disabled	618	-	-	618
All Other	507	$ 24	$ 6	537
Total	$ 2,797	$ 161	$ 6	$ 2,964

Note 5 – Investments

U.S. Government securities are non-marketable intragovernmental securities. Interest rates are established by the U.S. Treasury and during FY 2005 ranged from 0.88 percent to 13.88 percent. During FY 2004, interest rates ranged from 1.28 percent to 12.84 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2005 and 2004, were as follows (dollars in millions):

	Cost	Par Value	Unamortized Premium (Discount)	Accrued Interest	Net Investments	Unamortized Gain	Market Value
FY 2005	$ 30,406	$ 30,595	$ (189)	$ 309	$ 30,715	$ 511	$ 31,226
FY 2004	$ 30,669	$ 30,887	$ (165)	$ 307	$ 31,029	$ 1,150	$ 32,179

Investments in Private Sector Entities

These investments in private sector entities are the result of FHA's participation in the Accelerated Claims Disposition Demonstration program in FY 2005 and 2004, as discussed in Note 2. The following table presents financial data on FHA's investments in private sector entities as of September 30 (dollars in millions):

	Beginning Balance	New Acquisitions	Share of Earnings or Losses	Return of Investments	Other Adjustments	Ending Balance
FY 2005	$ 122	$ 252	$ 58	$ (231)	$ -	$ 201
FY 2004	$ 123	$ 123	$ 62	$ (185)	$ (1)	$ 122

The condensed, audited financial information related to these private sector entities as of June 30, 2005, and for the period from inception to June 30, 2004, is summarized below (dollars in millions):

	2005	2004
Total assets, primarily mortgage loans	$ 499	$ 349
Liabilities	$ 3	$ 2
Partners' capital	496	347
Total liabilities and partners' capital	$ 499	$ 349
Revenues	$ 235	$ 62
Expenses	(31)	(11)
Net Income	$ 204	$ 51

Note 6 – Entity and Non-Entity Assets

Non-entity assets consist of assets that belong to other entities but are included in the Department's consolidated financial statements and are offset by various liabilities to accurately reflect HUD's net position. The Department's non-entity assets principally consist of: (1) U.S. deposit of negative credit subsidy in the General Insurance/Special Risk Insurance general fund receipt account, (2) escrow monies collected by FHA that are either deposited at the U.S. Treasury, minority-owned banks or invested in U.S. Treasury securities, and (3) cash remittances from Section 8 bond refundings deposited in the General Fund of the Treasury.

The following shows HUD's assets as of September 30, 2005 and 2004 (dollars in millions):

Description	2005			2004		
	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Intragovernmental						
Fund Balance with Treasury (Note 3)	$ 66,118	$ 1,382	$ 67,500	$ 68,793	$ 854	$ 69,647
Investments (Note 5)	30,711	4	30,715	31,025	4	31,029
Accounts Receivable (net) (Note 7)		-	-	-	-	-
Other Assets (Note 8)	28	-	28	21	-	21
Total Intragovernmental Assets	$ 96,857	$ 1,386	$ 98,243	$ 99,839	$ 858	$ 100,697
Investments (Note 5)	201		201	$ 122		122
Accounts Receivable (net) (Note 7)	553	93	646	380	111	491
Loan Receivables and Related Foreclosed Property (net) (Note 9)	10,818	-	10,818	11,238	-	11,238
General Property Plant and Equipment (net) (Note10)	141	-	141	96	-	96
Other Assets (Note 8)	425	95	520	435	115	550
Total Assets	$ 108,995	$ 1,574	$ 110,569	$ 112,110	$ 1,084	$ 113,194

Note 7 – Accounts Receivable

The Department's accounts receivable represents Section 8 year-end settlements, claims to cash from the public and state and local authorities for bond refundings, sustained audit findings, FHA insurance premiums, and foreclosed property proceeds. A 100 percent allowance for loss is established for all delinquent accounts 90 days and over.

Section 8 Settlements

Section 8 subsidies disbursed during the year under annual contribution contracts are based on estimated amounts due under the contracts by PHAs. At the end of each year the actual amount due under the contracts is determined. The excess of subsidies paid to PHAs during the year over the actual amount due is reflected as accounts receivable in the balance sheet. These amounts are "collected" by offsetting such amounts with subsidies due to PHAs in subsequent periods. As of September 30, 2005 and 2004, the amounts totaled $220 million and $120 million, respectively.

Bond Refundings

Many of the Section 8 projects constructed in the late 1970s and early 1980s were financed with tax-exempt bonds with maturities ranging from 20 to 40 years. The related Section 8 contracts provided that the subsidies would be based on the difference between what tenants could pay pursuant to a formula, and the total operating costs of the Section 8 project, including debt service. The high interest rates during the construction period resulted in high subsidies. When interest rates came down in the 1980s, HUD was interested in getting the bonds refunded. One method used to account for the savings when bonds are refunded (PHAs sell a new series of bonds at a lower interest rate, to liquidate the original bonds) is to continue to pay the original amount of the bond debt service to a trustee. The amounts paid in excess of the lower "refunded" debt service and any related financing costs, are considered savings. One-half of these savings are provided to the PHA, the remaining half is returned to HUD. As of September 30, 2005 and 2004, HUD was due $90 million and $108 million, respectively.

Other Receivables

Other receivables include sustained audit findings, refunds of overpayment, FHA insurance premiums, and foreclosed property proceeds due from the public.

The following shows accounts receivable as reflected in the Balance Sheet as of September 30, 2005, and 2004, as follows (dollars in millions):

	FY 2005			FY 2004		
Description	Gross Accounts Receivable	Allowance for Loss	Total	Gross Accounts Receivable	Allowance for Loss	Total
Section 8 Settlements	$ 220	-	$ 220	$ 120	$ -	$ 120
Bond Refundings	101	$ (11)	90	119	(11)	108
Other Receivables:						
FHA Premiums	119	-	119	50	-	50
Other Receivables	300	(83)	217	296	(83)	213
Total	$ 740	$ (94)	$ 646	$ 585	$ (94)	$ 491

Note 8 – Other Assets

The following shows HUD’s Other Assets as of September 30, 2005 (dollars in millions):

Description	FHA	Ginnie Mae	Section 8 Rental Assistance	All Other	Total
Intragovernmental Assets:					
Receivables from unapplied disbursements	-	-	-	-	-
Sec. 312 Rehabilitation Loan Program Receivables	-	-	-	-	-
Mortgagor Reserves for Replacement - Investment	-	-	-	-	-
Other Assets	-	-	-	$ 28	28
Total Intragovernmental Assets	-	-	-	28	28
Receivables Related to Asset Sales	-	-	-	-	-
Receivables Related to Credit Program Assets	-	-	-	-	-
Equity Interest in Multifamily Mortgage Trust 1996	-	-	-	-	-
GNMA Real Estate Owned Property and Hole Mortgages	-	-	-	-	-
Mortgagor Reserves for Replacement - Cash	$ 95	-	-	-	$ 95
Undeposited Collections	-	-	-	-	-
Advances to the Public	-	-	-	$ 1	1
Other Assets	2	$ 422	-	-	424
Total	$ 97	$ 422	-	$ 29	$ 548

The following shows HUD's Other Assets as of September 30, 2004 (dollars in millions):

Description	FHA	Ginnie Mae	Section 8 Rental Assistance	All Other	Total
Intragovernmental Assets:					
Receivables from unapplied disbursements	-	-	-	-	-
Sec. 312 Rehabilitation Loan Program Receivables	-	-	-	-	-
Mortgagor Reserves for Replacement - Investment	-	-	-	-	-
Other Assets	-	-	-	$ 21	21
Total Intragovernmental Assets	-	-	-	$ 21	$ 21
Receivables Related to Asset Sales	-	-	-	-	-
Receivables Related to Credit Program Assets	-	-	-	-	-
GNMA Real Estate Owned Property and Hole Mortgages	-	-	-	-	-
Equity Interest in Multifamily Mortgage Trust 1996	-	-	-	-	-
Premiums Receivable	-	-	-	-	-
Mortgagor Reserves for Replacement - Cash	$ 115	-	-	-	$ 115
Undeposited Collections	-	-	-	-	-
Advances from the Public	-	-	-	$ 2	2
Other Assets	5	$ 428	-	-	433
Total	$ 120	$ 428	$ -	$ 23	$ 571

Note 9 – Direct Loans and Loan Guarantees, Non-Federal Borrowers

HUD reports direct loan obligations or loan guarantee commitments made prior to FY 1992 and the resulting direct loans or defaulted guaranteed loans, net of allowance for estimated uncollectible loans or estimated losses.

Direct loan obligations or loan guarantee commitments made after FY 1991, and the resulting direct loans or defaulted guaranteed loans, are governed by the Federal Credit Reform Act of 1990, and are recorded as the net present value of the associated cash flows (i.e. interest rate differential, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows). The following is an analysis of loan receivables, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees for FY 2004 and 2003:

A. List of HUD's Direct Loan and/or Loan Guarantee Programs:

1. FHA
2. Housing for the Elderly and Disabled
3. Low Rent Public Housing Loan Fund
4. All Other
    a) Revolving Fund
    b) Flexible Subsidy
    c) CDBG Section 108(b)
    d) Indian Housing Loan Guarantee Fund
    e) Loan Guarantee Recovery Fund
    f) Native Hawaiian Housing Loan Guarantee Fund
    g) Title VI Indian Housing Loan Guarantee Fund

B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)(dollars in millions):

2005

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	$ 17	$ 3	$ (7)	-	$ 13
Housing for Elderly and Disabled	6,502	70	(19)	$ 7	6,560
Low Rent Public Housing Loans	1	-	-	-	1
All Other	694	6	(502)	2	200
Total	$ 7,214	$ 79	$ (528)	$ 9	$ 6,774

2004

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	$ 22	$ 3	$ (12)	-	$ 13
Housing for Elderly and Disabled	6,991	78	(18)	$ 31	7,082
Low Rent Public Housing Loans	1	1	-	-	2
All Other	714	7	(516)	1	206
Total	$ 7,728	$ 89	$ (546)	$ 32	$ 7,303

C. Direct Loans Obligated After FY 1991(dollars in millions):

2005

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	1	-	$ (3)	-	$ (2)

2004

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	$ -	$ -	$ (3)	$ -	$ (3)

D. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method)(dollars in millions):

	2005				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA	$ 2,973	$ 140	$ (847)	$ 25	$ 2,291

	2004				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA	$ 2,760	$ 135	$ (905)	$ 15	$ 2,005

E. Defaulted Guaranteed Loans From Post-FY 1991 Guarantees (dollars in millions):

	2005				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA	$ 998	$ 61	$ (2,096)	$ 2,792	$ 1,755

	2004				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA	$ 1,044	$ 74	$ (1,675)	$ 2,490	$ 1,933

	2005	2004
Total Credit Program Receivables and Related Foreclosed Property, Net	**$10,818**	**11,238**

F. Guaranteed Loans Outstanding (dollars in millions):

Guaranteed Loans Outstanding:

Loan Guarantee Programs	2005 Outstanding Principal, Guaranteed Loans, Face Value	2005 Amount of Outstanding Principal Guaranteed
FHA Programs	$ 454,372	$ 416,461
All Other	2,621	2,621
Total	$ 456,993	$ 419,082

Loan Guarantee Programs	2004 Outstanding Principal, Guaranteed Loans, Face Value	2004 Amount of Outstanding Principal Guaranteed
FHA Programs	$ 507,115	$ 468,796
All Other	2,548	2,548
Total	$ 509,663	$ 471,344

New Guaranteed Loans Disbursed (Current Reporting Year)

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$ 66,290	$ 65,773
All Other	251	251
Total	$ 66,541	$ 66,024

New Guaranteed Loans Disbursed (Prior Reporting Years)

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$ 117,381	$ 116,139
All Other	403	403
Total	$ 117,784	$ 116,542

G. Liability for Loan Guarantees (Estimated Future Default Claims, Pre-1992)(dollars in millions):

Loan Guarantee Programs	2005 Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	2005 Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	2005 Total Liabilities For Loan Guarantees
FHA Programs	$ 1,217	$ 3,367	$ 4,584
All Other	-	94	94
Total	$ 1,217	$ 3,461	$ 4,678

Loan Guarantee Programs	2004 Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	2004 Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	2004 Total Liabilities For Loan Guarantees
FHA Programs	$ 2,349	$ 2,725	$ 5,074
All Other	-	97	97
Total	$ 2,349	$ 2,822	$ 5,171

H. Subsidy Expense for Post-FY 1991 Loan Guarantees:

Subsidy Expense for Current Year Loan Guarantees (dollars in millions)

Loan Guarantee Programs	2005 Default Component	2005 Fees Component	2005 Other Component	2005 Subsidy Amount
FHA	$ 1,910	$ (3,406)	$ 271	$ (1,225)
All Other	6	-	-	6
Total	$ 1,916	$ (3,406)	$ 271	$ (1,219)

Loan Guarantee Programs	2004 Default Component	2004 Fees Component	2004 Other Component	2004 Subsidy Amount
FHA	$ 2,252	$ (5,578)	$ 388	$ (2,938)
All Other	10	-	-	10
Total	$ 2,262	$ (5,578)	$ 388	$ (2,928)

Modification and Re-estimates (dollars in millions)

	2005			
Loan Guarantee Programs	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
FHA	(78)	-	$ 1,921	$ 1,843
All Other			6	6
Total	$ (78)	$ -	$ 1,927	$ 1,849

	2004			
Loan Guarantee Programs	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
FHA	-	-	$ 2,494	$ 2,494
All Other			$ 26	$ 26
Total	$ -	$ -	$ 2,520	$ 2,520

Total Loan Guarantee Subsidy Expense (dollars in millions)

Loan Guarantee Programs	Current Year	Prior Year
FHA	$ 618	$ (444)
All Other	-	36
Total	$ 618	$ (408)

I. Subsidy Rates for Loan Guarantees by Programs and Component:

Budget Subsidy Rates for Loans Guarantee for FY 2005

Loan Guarantee Program	Interest Rate Differential	Default	Fees and Other Collections	Other	Total
FHA					
FHA	0.00%	2.05%	-4.30%	0.46%	-1.79%
FHA- Other	0.00%	3.51%	-4.41%		-0.90%
All Other					
CDBG, Section 108 (b)	0.00%	2.30%			2.30%
Loan Guarantee Recovery	0.00%	50.00%			50.00%
Indian Housing	0.00%	2.58%			2.58%
Native Hawaiian Housing	0.00%	2.58%			2.58%
Title VI Indian Housing	0.00%	10.32%			10.32%

The subsidy rates above pertain only to FY 2005 cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohort. The subsidy expense reported in the current year also includes modifications and re-estimates.

J. Schedule for Reconciling Loan Guarantee Liability Balances (post-1991 Loan Guarantees): (dollars in millions)

Beginning Balance, Changes, and Ending Balance	FY 2005	FY 2004
Beginning balance of the loan guarantee liability	$ 5,172	$ 6,313
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	-	-
(b) Default costs (net of recoveries)	1,916	2,289
(c) Fees and other collections	(3,406)	(5,577)
(d) Othe subsidy costs	271	387
Total of the above subsidy expense components	$ (1,219)	$ (2,901)
Adjustments:		
(a) Loan guarantee modifications	-	-
(b) Fees Received	2,482	2,914
(c) Interest supplemental paid	-	-
(d) Foreclosed property and loans acquired	5,753	6,367
(e) Claim payments to lenders	(8,506)	(9,116)
(f) Interest accumulation on the liability balance	(51)	(223)
(g) Other	42	44
Ending balance of the subsidy cost allowance before re-estimates	$ 3,673	$ 3,398
Add or Subtract subsidy re-estimates by component:		
(a) Interest rate re-estimate	198	-
(b) Technical/default re-estimate	807	1,774
Total of the above re-estimate components	1,005	1,774
Ending balance of the subsidy cost allowance	$ 4,678	$ 5,172

K. Administrative Expense (dollars in millions):

Loan Guarantee Program	FY 2005	FY 2004
FHA	$ 473	$ 425
All Other	1	1
Total	$ 474	$ 426

Note 10 – General Property, Plant, and Equipment

General property, plant, and equipment consists of furniture, fixtures, equipment, and data processing software used in providing goods and services that have an estimated useful life of two or more years. Purchases of $100,000 or more are recorded as an asset and depreciated over their estimated useful life on a straightline basis with no salvage value. Capitalized replacement and improvement costs are depreciated over the remaining useful life of the replaced or improved asset. Generally, the Department's assets are depreciated over a four-year period, unless it can be demonstrated that the estimated useful life is significantly greater than four years.

The following shows general property, plant, and equipment as of September 30, 2005 and 2004 (dollars in millions).

Description	FY 2005			FY 2004		
	Cost	Accum Depr and Amortization	Book Value	Cost	Accum Depr and Amortization	Book Value
Equipment	$ 31	$ (27)	$ 4	$ 31	$ (27)	$ 4
Leasehold Improvements	5	(2)	3	4	(2)	2
Internal Use Software	92	(46)	46	76	(39)	37
Internal Use Software in Development	88	-	88	53	-	53
Total Assets	$ 216	$ (75)	$ 141	$ 164	$ (68)	$ 96

Note 11 – Liabilities Covered and Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2005, and 2004 (dollars in millions):

Description	2005			2004		
	Covered	Not-Covered	Total	Covered	Not-Covered	Total
Intragovernmental						
Accounts Payable	$ -	-	$ -	$ -	-	$ -
Debt	8,922	$ -	8,922	10,102	$ -	10,102
Other Intragovernmental Liabilities	977	18	995	772	18	790
Total Intragovernmental Liabilities	$ 9,899	$ 18	$ 9,917	$ 10,874	$ 18	$ 10,892
Accounts Payable	847	-	847	817	-	817
Liabilities for Loan Guarantees	4,678	-	4,678	5,172	-	5,172
Debt	1,542	-	1,542	1,858	-	1,858
Federal Employee and Veterans' Benefits	-	82	82	-	79	79
Loss Reserves	539	-	539	519	-	519
Other Liabilities	941	73	1,014	1,128	71	1,199
Total Liabilities	$ 18,446	$ 173	$ 18,619	$ 20,368	$ 168	$ 20,536

Note 12 – Debt

Several HUD programs have the authority to borrow funds from the U.S. Treasury for program operations. Additionally, the National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to pay claims. Also, PHAs and Tribally Designated Housing Entities borrowed funds from the private sector and from the Federal Financing Bank to finance construction and rehabilitation of low rent housing. HUD is repaying these borrowings on behalf of the PHAs and the Tribally Designated Housing Entities.

The following shows HUD borrowings, and borrowings by PHAs/Tribally Designated Housing Entities for which HUD is responsible for repayment, as of September 30, 2005 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$ 1,183	$ (93)	$ 1,090
Held by the Public	1,858	(316)	1,542
Total Agency Debt	$ 3,041	$ (409)	$ 2,632
Other Debt:			
Debt to the U.S. Treasury	$ 8,919	$ (1,087)	$ 7,832
Total Debt	$ 11,960	$ (1,496)	$ 10,464
Classification of Debt:			
Intragovernmental Debt			$ 8,922
Debt held by the Public			1,542
Debentures Issued to Claimants			-
Total Debt			$ 10,464

The following shows HUD borrowings, and borrowings by PHAs/Tribally Designated Housing Entities for which HUD is responsible for repayment, as of September 30, 2004 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$ 1,270	$ (87)	$ 1,183
Held by the Public	2,210	(352)	1,858
Total Agency Debt	$ 3,480	$ (439)	$ 3,041
Other Debt:			
Debt to the U.S. Treasury	$ 11,542	$ (2,623)	$ 8,919
Debt to the Federal Financing Bank	2	(2)	-
Total Other Debt	$ 11,544	$ (2,625)	$ 8,919
Total Debt	$ 15,024	$ (3,064)	$ 11,960
Classification of Debt:			
Intragovernmental Debt			$ 10,102
Debt held by the Public			1,858
Debentures Issued to Claimants			-
Total Debt			$ 11,960

Interest paid on borrowings during the year ended September 30, 2005, and 2004, was $1 billion and $1.1 billion, respectively. The purpose of these borrowings is discussed in the following paragraphs.

Borrowings from the U.S. Treasury

HUD is authorized to borrow from the U.S. Treasury to finance Housing for Elderly and Disabled loans. The Treasury borrowings typically have a 15-year term, but may be repaid prior to maturity at HUD's discretion. However, such borrowings must be repaid in the sequence in which they were borrowed from Treasury. The interest rates on the borrowings are based on Treasury's 30-year bond yield at the time the notes are issued. Interest is payable on April 30 and October 31. Interest rates ranged from 7.44 percent to 8.18 percent during FY 2005 and 7.44 percent to 8.80 percent for FY 2004.

In FY 2005 and 2004, FHA borrowed $1.2 billion and $3.4 billion respectively from the U.S. Treasury. The borrowings were needed when FHA initially determined negative credit subsidy amounts related to new loan disbursements or to existing loan modifications. In some instances, borrowings were needed where available cash was less than claim payments due or downward subsidy-estimates. All borrowings were made by FHA's financing accounts. Negative subsidies were generated primarily by the Mutual Mortgage Insurance/Cooperative Management Housing Insurance Fund financing account; downward re-estimates have occurred from activity of the FHA's loan guarantee financing accounts. These borrowings carried interest rates ranging from 2.41 percent to 7.34 percent during FY 2005 and from 3.71 percent to 7.34 percent during FY 2004.

Borrowings from the Federal Financing Bank and the Public

During the 1960s, 1970s, and 1980s, PHAs obtained loans from the private sector and from the Federal Financing Bank to finance development and rehabilitation of low rent housing projects. HUD is repaying these borrowings on behalf of the PHAs, through the Low Rent Public Housing program. For borrowings from the public, interest is payable throughout the year. Interest rates ranged from 3.25 percent to 6.0 percent during FY 2005, and from 3.25 percent to 6.0 percent during FY 2004. The borrowings from the Federal Financing Bank and the private sector have terms up to 40 years. Federal Financing Bank interest is payable annually on November 1. Interest rates ranged from 10.67 percent to 16.18 percent during both FY 2005 and 2004.

Before July 1, 1986, the Federal Financing Bank purchased notes issued by units of general local government and guaranteed by HUD under Section 108. These notes had various maturities and carried interest rates that were one-eighth of one percent above rates on comparable Treasury obligations. The Federal Financing Bank still holds substantially all outstanding notes, and no note purchased by the Bank has ever been declared in default.

Debentures Issued To Claimants

The National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to settle claims. FHA-issued debentures bear interest at rates established by the U.S. Treasury. Interest rates related to the outstanding debentures ranged from 4.00 percent to 12.88 percent during both FY 2005 and FY 2004. Debentures may be redeemed by lenders prior to maturity to pay mortgage insurance premiums to FHA, or they may be called with the approval of the Secretary of the U.S. Treasury.

Note 13 – Other Liabilities

The following shows HUD's Other Liabilities as of September 30, 2005 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Payable from Unapplied Receipts			
Recorded by Treasury	-	-	-
Special Receipt Account Liability	-	$ 771	$ 771
HUD-Section 312 Rehabilitation Program Payable	-	-	-
Unfunded Federal Employees' Compensation Act Liability	$ 18	-	18
Resource Payable to Treasury	-	-	-
Miscellaneous Receipts Payable to Treasury	121	-	121
Other Liabilities	-	85	85
Total Intragovernmental Liabilities	$ 139	$ 856	$ 995
Other Liabilities			
FHA Other Liabilities	$ -	$ 226	$ 226
FHA Escrow Funds Related to Mortgage Notes	-	170	170
FHA Unearned Premiums	(50)	27	(23)
Ginnie Mae Deferred Income	-	77	77
Deferred Credits	-	1	1
Deposit Funds	67	2	69
Accrued Unfunded Annual Leave	72	-	72
Accrued Funded Payroll Benefits	36	-	36
Other		386	386
Total Other Liabilities	$ 264	$ 1,745	$ 2,009

Special Receipt Account Liability

The special receipt account liability is created from negative subsidy endorsements and downward credit subsidies in the General Insurance/Special Risk Insurance special receipt account.

The following shows HUD's Other Liabilities as of September 30, 2004 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Payable from Unapplied Receipts			
Recorded by Treasury	-	-	-
Special Receipt Account Liability	-	$ 627	$ 627
HUD-Section 312 Rehabilitation Program Payable	-	-	-
Unfunded Federal Employees' Compensation Act Liability	-	18	18
Resource Payable to Treasury	$ -	-	-
Miscellaneous Receipts Payable to Treasury	141	-	141
Other Liabilities	-	4	4
Total Intragovernmental Liabilities	$ 141	$ 649	$ 790
Other Liabilities			
FHA Other Liabilities	$ -	$ 229	$ 229
FHA Escrow Funds Related to Mortgage Notes	-	189	189
FHA Unearned Premiums	137	35	172
Ginnie Mae Deferred Income	-	75	75
Deferred Credits	-	-	-
Deposit Funds	12	28	40
Accrued Unfunded Annual Leave	71	-	71
Accrued Funded Payroll Benefits	37	-	37
Other	-	386	386
Total Other Liabilities	$ 398	$ 1,591	$ 1,989

Note 14 – Loss Reserves

For FY 2005 and 2004, Ginnie Mae established loss reserves of $539 million and $519 million, respectively, which represents probable defaults by issuers of mortgage-backed securities, through a provision charged to operations. The reserve is relieved as losses are realized from the disposal of the defaulted issuers' portfolios. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios and the sale of servicing rights, which transfers to Ginnie Mae upon the default of the issuer. Ginnie Mae management believes that its reserve is adequate to cover probable losses from defaults by issuers of Ginnie Mae guaranteed mortgage-backed securities.

Ginnie Mae incurs losses when insurance and guarantees do not cover expenses that result from issuer defaults. Such expenses include: (1) unrecoverable losses on individual mortgage defaults because of coverage limitations on mortgage insurance or guarantees, (2) ineligible mortgages included in defaulted Ginnie Mae pools, (3) improper use of proceeds by an issuer, and, (4) non-reimbursable administrative expenses and costs incurred to service and liquidate portfolios of defaulted issuers.

Note 15 – Financial Instruments with Off-Balance Sheet Risk

Some of HUD's programs, principally those operated through FHA and Ginnie Mae, enter into financial arrangements with off-balance sheet risk in the normal course of their operations.

A. FHA Mortgage Insurance

Unamortized insurance in force outstanding for FHA's mortgage insurance programs as of September 30, 2005 and 2004, was $454 billion and $507 billion, respectively, and is discussed in Note 9F.

B. Ginnie Mae Mortgage-Backed Securities

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of mortgage-backed securities and commitments to guaranty those securities. The securities are backed by pools of FHA-insured, Rural Housing Service-insured, and Veterans Affairs-guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2005 and 2004, was approximately $412.3 billion and $453.4 billion, respectively. However, Ginnie Mae's potential loss is considerably less because the FHA and Rural Housing Service insurance and Department of Veterans Affairs guaranty serve to indemnify Ginnie Mae for most losses. Also, as a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty mortgage-backed securities. The commitment ends when the securities are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of mortgage-backed securities. Outstanding commitments as of September 30, 2005 and 2004, were $55.1 billion and $42.9 billion, respectively. Generally, Ginnie Mae's securities pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers.

In FY 2005 and 2004, Ginnie Mae issued a total of $56.6 billion and $81.4 billion, respectively, in its multi-class securities program. The estimated outstanding balances at September 30, 2005 and 2004, were $185.9 billion and $189.1 billion, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the mortgage-backed securities program.

C. Section 108 Loan Guarantees

Under HUD's Section 108 Loan Guarantee program, recipients of CDBG Entitlement Grant program funds may pledge future grant funds as collateral for loans guaranteed by HUD (these loans were provided from private lenders since July 1, 1986). This Loan Guarantee Program provides entitlement communities with a source of financing for projects that are too large to be financed from annual grants. The amount of loan guarantees outstanding as of September 30, 2005 and 2004, was $2.3 billion. HUD's management believes its exposure in providing these loan guarantees is limited, since loan repayments can be offset from future CDBG Entitlement Program Funds and, if necessary, other funds provided to the recipient by HUD. HUD has never had a loss under this program since its inception in 1974.

Note 16 – Contingencies

The Department is subject to various claims and contingencies related to lawsuits incidental to its operations either brought by it or against it. For FY 2005, the Department was party to a number of suits with total claimed amounts of approximately $1.76 billion, plus other suits with unspecified claims. Of this claimed amount, $1.7 billion is linked to cases where the possibility of actual loss is considered remote. The Department had two cases where judgments were issued on September 30, with probable losses totaling $42 million, pending a decision to appeal on one and the results of an appeal on the other.

The Department acknowledges that there are other suits with probable, reasonable, and remote possibility of losses where the potential liabilities cannot be estimated. In the opinion of management, the ultimate resolution of pending litigation does not have a material effect on the Department's FY 2005 financial statements.

Note 17 – Rental Housing Subsidy Payment Errors

Note 17 is no longer required, as the issue has been downgraded from a material weakness to a reportable condition.

Note 18 – Total Cost and Earned Revenue by Budget Functional Classification

The following shows HUD's total cost and earned revenue by budget functional classification for FY 2005 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 637	$ (1,948)	$ (1,311)
Community and Regional Development	19	(5)	14
Income Security	491	(4)	487
Administration of Justice	-	-	-
Miscellaneous	-	-	-
Total Intragovernmental	$ 1,147	$ (1,957)	$ (810)
With the Public:			
Commerce and Housing Credit	$ 708	$ (1,252)	$ (544)
Community and Regional Development	5,485	-	5,485
Income Security	36,244	(17)	36,227
Administration of Justice	47	-	47
Miscellaneous	-	-	-
Total with the Public	$ 42,484	$ (1,269)	$ 41,215
TOTAL:			
Commerce and Housing Credit	$ 1,345	$ (3,200)	$ (1,855)
Community and Regional	-	-	-
Development	5,504	(5)	5,499
Income Security	36,735	(21)	36,714
Administration of Justice	47	-	47
Miscellaneous	-	-	-
TOTAL:	$ 43,631	$ (3,226)	$ 40,405

The following shows HUD's total cost and earned revenue by budget functional classification for FY 2004 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 892	$ (1,994)	$ (1,102)
Community and Regional Development	44	(4)	40
Income Security	448	(1)	447
Administration of Justice	-	-	-
Miscellaneous	-	-	-
Total Intragovernmental	$ 1,384	$ (1,999)	$ (615)
With the Public:			
Commerce and Housing Credit	$ (533)	$ (1,248)	$ (1,781)
Community and Regional Development	5,842	(7)	5,835
Income Security	35,571	(16)	35,555
Administration of Justice	46	-	46
Miscellaneous	-	-	-
Total with the Public	$ 40,926	$ (1,271)	$ 39,655
TOTAL:			
Commerce and Housing Credit	$ 359	$ (3,242)	$ (2,883)
Community and Regional Development	5,886	(11)	5,875
Income Security	36,019	(17)	36,002
Administration of Justice	46	-	46
Miscellaneous	-	-	-
TOTAL:	$ 42,310	$ (3,270)	$ 39,040

Note 19 – Net Costs of HUD's Cross-Cutting Programs

This footnote provides a categorization of net costs for two of HUD's major program areas whose costs were incurred across multiple programs. Section 8 costs are incurred to assist low- and very low-income families in obtaining decent and safe rental housing. In addition, costs incurred under the other major program represent HUD's smaller programs. These programs provide assistance to support other HUD objectives such as fair housing and equal opportunity, energy conversation, homeless assistance, housing units rehabilitation, and home ownership.

The following shows HUD's major programs that incur costs across multiple program offices as of September 30, 2005 (dollars in millions):

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8:					
Intragovernmental Gross Costs	$ 37	$ 28	$ -	$ -	$ 65
Intragovernmental Earned Revenues	-	-	-	-	$ -
Intragovernmental Net Costs	$ 37	$ 28	$ -	$ -	$ 65
Gross Costs with the Public	$ 15,361	$ 7,948	$ 21	$ -	$ 23,330
Earned Revenues	-	-	-	-	$ -
Net Costs with the Public	$ 15,361	$ 7,948	$ 21	$ -	$ 23,330
Net Program Costs	$ 15,398	$ 7,976	$ 21	$ -	$ 23,395
Other:					
Intragovernmental Gross Costs	$ 31	$ 24	$ 43	$ 106	$ 204
Intragovernmental Earned Revenues	(1)	(1)	(4)	(3)	$ (9)
Intragovernmental Net Costs	$ 30	$ 23	$ 39	$ 103	$ 195
Gross Costs with the Public	$ 733	$ 632	$ 1,689	$ 794	$ 3,848
Earned Revenues	-	(24)	-	-	$ (24)
Net Costs with the Public	$ 733	$ 608	$ 1,689	$ 794	$ 3,824
Net Program Costs	$ 763	$ 631	$ 1,728	$ 897	$ 4,019

The following shows the cross-cutting of HUD's major program areas that incur costs across multiple program areas as of September 30, 2004 (dollars in millions):

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8:					
Intragovernmental Gross Costs	$ 39	$ 25	$ -	$ -	$ 64
Intragovernmental Earned Revenues	-	-	-	-	$ -
Intragovernmental Net Costs	$ 39	$ 25	$ -	$ -	$ 64
Gross Costs with the Public	$ 14,673	$ 7,715	$ 13	$ -	$ 22,401
Earned Revenues	-	-	-	-	$ -
Net Costs with the Public	$ 14,673	$ 7,715	$ 13	$ -	$ 22,401
Net Program Costs	$ 14,712	$ 7,740	$ 13	$ -	$ 22,465
Other:					
Intragovernmental Gross Costs	$ 33	$ 28	$ 37	$ 65	$ 163
Intragovernmental Earned Revenues	(1)	-	(4)	-	$ (5)
Intragovernmental Net Costs	$ 32	$ 28	$ 33	$ 65	$ 158
Gross Costs with the Public	$ 666	$ 651	$ 1,640	$ 459	$ 3,416
Earned Revenues	-	(25)	(7)	-	$ (32)
Net Costs with the Public	$ 666	$ 626	$ 1,633	$ 459	$ 3,384
Net Program Costs	$ 698	$ 654	$ 1,666	$ 524	$ 3,542

Note 20 – FHA Net Costs

FHA organizes its operations into two overall program types – Mutual Mortgage Insurance/Cooperative Management Housing Insurance and General Insurance/Special Risk Insurance. These program types are composed of four major funds. The Mutual Mortgage Insurance fund, FHA's largest fund, provides basic single family mortgage insurance and is a mutual insurance fund, whereby mortgagors, upon non-claim termination of their mortgages, share surplus premiums paid into the Mutual Mortgage Insurance fund that are not required for operating expenses and losses or to build equity. The Cooperative Management Housing Insurance fund, another mutual fund, provides mortgage insurance for management-type cooperatives. The General Insurance fund provides a large number of specialized mortgage insurance activities, including insurance of loans for property improvements, cooperatives, condominiums, housing for the elderly, land development, group practice medical facilities, and nonprofit hospitals. The Special Risk Insurance fund provides mortgage insurance on behalf of mortgagors eligible for interest reduction payments who otherwise would not be eligible for mortgage insurance.

The following table shows Net Cost detail for FHA as of September 30, 2005 and 2004 (dollars in millions):

	2005			2,004		
	GI/SRI Program	MMI/CMHI Program	Total	GI/SRI Program	MMI/CMHI Program	Total
Costs						
Intragovernmental Gross Costs	$ 127	$ 405	$ 532	$ 88	$ 631	$ 719
Intragovernmental Earned Revenues	(147)	(1,344)	(1,491)	(92)	(1,460)	(1,552)
Intragovernmental Net Costs	$ (20)	$ (939)	$ (959)	$ (4)	$ (829)	$ (833)
Gross Costs with the Public	$ (989)	$ 1,243	$ 254	$ (231)	$ (436)	$ (667)
Earned Revenues	(322)	(41)	(363)	(186)	(64)	(250)
Net Costs with the Public	$ (1,311)	$ 1,202	$ (109)	$ (417)	$ (500)	$ (917)
Net Program Costs	$ (1,331)	$ 263	$ (1,068)	$ (421)	$ (1,329)	$ (1,750)

Note 21 – Prior Period Adjustments

There were no prior period adjustments.

Note 22 – Apportionment Categories of Obligations Incurred

Budgetary resources are usually distributed in an account or fund by specific time periods, activities, projects, objects, or a combination of these categories. Resources apportioned by fiscal quarters are classified as Category A apportionments. Apportionments by any other category would be classified as Category B apportionments. HUD's categories of obligations incurred were as follows (dollars in millions):

Fiscal Year	Category A	Category B	Exempt From Apportionment	Total
2005	$ 1,263	$ 53,264	$ -	$ 54,527
2004	$ 1,250	$ 60,841	$ -	$ 62,091

Note 23 – Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The President's Budget containing actual FY 2005 data is not available for comparison to the Statement of Budgetary Resources.

For FY 2004, an extensive analysis to compare HUD's Statement of Budgetary Resources to the President's Budget of the United States was performed to identify any differences. The Department's Statement of Budgetary Resources includes unobligated balances totaling $470 million as of September 30, 2004, which are not reported in the President's Budget of the United States. OMB's Circular No. A-11: Preparation, Submission, and Execution of the Budget, requires that any unobligated balances reported in the President's Budget exclude any amounts from funds expiring at the end of the current fiscal year. These programs, reported in the Department's financial statements, consist of administrative accounts appropriated on an annual basis and other grant programs that receive both multi-year and no-year funding authorizations from Congress.

The following shows the difference between Unobligated Balance Carried Forward reported in the Statement of Budgetary Resources and the President's Budget as of September 30, 2004 (dollars in millions):

Unobligated Balance Carried Forward, End of Year	Statement of Budgetary Resources		United States Budget	Differences	Explanation Note
FHA	$28,172		$27,912	$260	1
Ginnie Mae	10,841		10,571	270	2
Section 8 Rental Assistance	2,254		2,253	1	3
CDBG	1,346		1,305	41	1
HOME	457	#	448	9	1
Operating Subsidy	3		3	-	
PIH Loans and Grants	398		398	-	
Housing for the Elderly & Disabled	1,664		1,622	42	1
All Other	3,905		3,785	120	4
Total	$49,040		$48,297	$743	

Explanation Notes:

1 - Activity in expired accounts is reflected in the Statement of Budgetary Resources; however, it is not included in the President's Budget.

2 - The President's Budget reported $260 million in defaulted portfolios seized by Ginnie Mae in FY 2004 as defaulted claim payments. This $260 million represents the remaining principal balance of the securities in the portfolio and is NOT a liability or a potential liability. Ginnie Mae takes possession of mortgage-backed securities portfolios at the time of issuer default; however, Ginnie Mae DOES NOT purchase these portfolios when taking possession. Consequently, NO CASH OUTLAYS are made when Ginnie Mae acquires a mortgage-backed securities portfolio. At the time of default, Ginnie Mae takes possession of the security portfolio servicing assets (which have value) and any corresponding liabilities. The incorrect reporting of $260 million in defaults in turn incorrectly reported total obligations and unobligated balance carried forward in FY 2004. Therefore, total new obligations for FY 2004 should be $429 million and not $689 million as reported in the President's Budget. The $10 million additional difference is in the Receipt Account and is due to the change in requirements for posting negative subsidy transfer to the Receipt Account.

3 - Rounding

4 - $113 million is activity in expired accounts that is not reflected in the President's Budget, $3 million is due to rounding on different programs and $4 million for the Appalachian Regional Commission program is reported in the Other Independent Agency section of the President's Budget.

The following shows the difference between Outlays reported in the Statement of Budgetary Resources and the President's Budget as of September 30, 2004 (dollars in millions):

Outlays reported	Statement of Budgetary Resources	United States Budget	Differences	Explanation Note
FHA	$292	$293	($1)	1
Ginnie Mae	(350)	(350)	-	
Section 8 Rental Assistance	22,362	22,356	6	2
CDBG	5,400	5,388	12	2
HOME	1,607	1,597	10	2
Operating Subsidy	3,434	3,434	-	2
PIH Loans and Grants	4,147	4,088	59	2
Housing for the Elderly & Disabled	244	244	-	
All Other	3,827	3,879	(52)	3
Total	$40,963	$40,929	$34	

Explanation Notes:

1 - Rounding

2 - Represents HUD's Intragovernmental activity not eliminated in the Department's FY 2004 audited financial statements. The Department's methodology for eliminating intragovernmental receipts and collections was revised in FY 2005 to ensure consistency between the amounts of outlays reported in the President's Budget and the audited financial statements.

3 - $58 million is representative in the intragovermental activity explained above. $6 million is for the Appalachian Regional Commission program reported in the Other Independent Agencies section of the President's Budget.

The following shows the difference between Offsetting Receipts reported in the Statement of Budgetary Resources and the President's Budget as of September 30, 2004 (dollars in millions):

Offsetting Receipts	Statement of Budgetary Resources	United States Budget	Differences	Explanation Note
FHA	$419	$419	-	
Ginnie Mae	-	-	-	
All Other	16	16	-	
Total	$435	$435	-	

The following shows the difference between Unpaid Obligations reported in the Statement of Budgetary Resources and the President's Budget as of September 30, 2004 (dollars in millions):

Unpaid Obligations	Statement of Budgetary Resources	United States Budget	Differences	Explanation Note
FHA	$ 1,868	$ 1,868	$ -	
Ginnie Mae	36	296	(260)	1
Section 8 Rental Assistance	26,383	26,383	-	
CDBG	10,693	10,694	(1)	2
HOME	5,247	5,247	-	
Operating Subsidy	2,007	2,007	-	
PIH Loans and Grants	11,140	11,140	-	
Housing for the Elderly & Disabled	5,496	5,496	-	
All Other	13,435	13,426	9	3
Total	$76,305	$76,557	($252)	

Explanation Notes:

1 - The President's Budget reported $260 million in defaulted portfolios seized by Ginnie Mae in FY 2004 as defaulted claim payments. This $260 million represents the remaining principal balance of the securities in the portfolio and is NOT a liability or a potential liability. Ginnie Mae takes possession of mortgage-backed securities portfolios at the time of issuer default; however, Ginnie Mae DOES NOT purchase these portfolios when taking possession. Consequently, NO CASH OUTLAYS are made when Ginnie Mae acquires a mortgage-backed securities portfolio. At the time of default Ginnie Mae takes possession of the security portfolio servicing assets (which have value) and any corresponding liabilities. The incorrect reporting of $260 million in defaults in turn incorrectly reported total obligations and unobligated balance carried forward in FY 2004. Therefore, total new obligations for FY 2004 should be $429 million and not $689 million as reported in the President's Budget.

2 - Rounding

3 - $3 million due to rounding and $12 million is for the Appalachian Regional Commission program reported in the Other Independent Agencies section of the President's Budget.

Note 24 – Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Changes in Components Requiring or Generating Resources in Future Periods

In FY 2005, the Department reported a net increase in unfunded annual leave liability in the amount of $2 million in the Consolidated Statement of Financing. This unfunded leave liability is not covered by budgetary resources at the balance sheet date.

Consolidating Balance Sheet
As of September 2005
(Dollars in millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
ASSETS				
Intragovernmental				
Fund Balance with Treasury (Note 3)	$9,705	$3,711	$10,701	$11,877
Investments (Note 5)	22,744	7,971		
Accounts Receivable (Note 7)				
Other Assets (Note 8)	53		6	10
Total Intragovernmental Assets (Note 6)	$32,503	$11,682	$10,708	$11,887
Investments (Net) (Note 5)	201			
Accounts Receivable (Net) (Note 7)	302	28	310	
Credit Program Receivables and Related				
Foreclosed Property (Net) (Note 9)	4,057			
General Property Plant and Equipment (Net) (Note 10)		2		
Other Assets (Note 8)	97	422		
TOTAL ASSETS (Note 6)	$37,161	$12,135	$11,018	$11,887
LIABILITIES				
Intragovernmental Liabilities				
Accounts Payable				$4
Debt (Note 12)	$7,548			
Other Intragovernmental Liabilities (Note 13)	771		$103	$1
Total Intragovernmental Liabilities (Note 11)	$8,319		$103	$5
Accounts Payable	597	$42	6	20
Loan Guarantees Liabilities (Note 9)	4,584			
Debt Held by the Public (Note 12)	132			
Federal Employee and Veterans' Benefits (Note 2)			8	7
Debentures Issued to Claimants (Note 12)				
Loss Reserves (Note 14)		539		
Other Governmental Liabilities (Note 13)	373	461	9	6
TOTAL LIABILITIES (Note 11)	$14,005	$1,042	$126	$38
NET POSITION				
Unexpended Appropriations	$609		$10,892	$11,849
Cumulative Results of Operations	22,546	$11,093		
Total Net Position	$23,156	$11,093	$10,892	$11,849
Total Liabilities and Net Position	$37,161	$12,135	$11,018	$11,887

Figures may not add to totals because of rounding.

Consolidating Balance Sheet
As of September 2005
(Dollars in millions)

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
$5,875	$875	$8,683	$6,867	$9,205		$67,500
						30,715
6	16	27	1	(93)		28
$5,881	$891	$8,710	$6,869	$9,112		$98,243
						201
		1		4		646
		1	6,560	200		10,818
				139		141
				1		520
$5,881	$891	$8,712	$13,429	$9,457		$110,569
				($4)		
		$1,090	$285			$8,922
$1	$1			117		995
$1	$1	$1,090	$285	$113		$9,917
12	114	15	5	36		847
				94		4,678
		1,410				1,542
3	5	2	2	56		82
						539
3	6	2	21	133		1,014
$18	$126	$2,519	$313	$433		$18,619
$5,863	$764	$8,562	$6,830	$8,458		$53,828
		(2,369)	6,286	566		38,122
$5,863	$764	$6,193	$13,116	$9,024		$91,950
$5,881	$891	$8,712	$13,429	$9,457		$110,569

Consolidating Balance Sheet
As of September 2004
(Dollars in millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
ASSETS				
Intragovernmental				
Fund Balance with Treasury (Note 3)	$7,898	$3,355	$12,889	$12,040
Investments (Note 5)	23,430	7,599		
Accounts Receivable (Note 7)				
Other Assets (Note 8)	64		4	9
Total Intragovernmental Assets (Note 6)	$31,392	$10,954	$12,893	$12,049
Investments (Net) (Note 5)	122			
Accounts Receivable (Net) (Note 7)	234	25	229	
Credit Program Receivables and Related				
Foreclosed Property (Net) (Note 9)	3,947			
General Property Plant and Equipment (Net) (Note 10)		4		
Other Assets (Note 8)	120	428		
TOTAL ASSETS (Note 6)	$35,815	$11,411	$13,122	$12,049
LIABILITIES				
Intragovernmental Liabilities				
Accounts Payable				
Debt (Note 12)	$7,635			
Other Intragovernmental Liabilities (Note 13)	627		$132	$1
Total Intragovernmental Liabilities (Note 11)	$8,262		$132	$5
Accounts Payable	533	40	15	19
Loan Guarantees Liabilities (Note 9)	5,074			
Debt Held by the Public (Note 12)	187			
Federal Employee and Veterans' Benefits(Note 2)			8	7
Debentures Issued to Claimants (Note 12)				
Loss Reserves (Note 14)		519		
Other Governmental Liabilities (Note 13)	590	465	9	6
TOTAL LIABILITIES (Note 11)	$14,646	$1,024	$164	$37
NET POSITION				
Unexpended Appropriations	$699		$12,958	$12,011
Cumulative Results of Operations	20,470	$10,388		
Total Net Position	$21,169	$10,388	$12,958	$12,011
Total Liabilities and Net Position	$35,815	$11,411	$13,122	$12,049

Figures may not add to totals because of rounding.

Consolidating Balance Sheet
As of September 2004
(Dollars in millions)

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
$5,703	$2,010	$8,789	$7,160	$9,803		$69,647
						31,029
2	9	30	1	(100)		21
$5,706	$2,019	$8,819	$7,162	$9,704		$100,697
						122
				4		491
		2	7,082	206		11,238
				91		96
				2		550
$5,706	$2,019	$8,822	$14,244	$10,007		$113,194
				($4)		
		$1,183	$1,284			10,102
	$1			28		790
	$1	$1,183	$1,285	$24		$10,892
10	135	28	4	33		817
				97		5,172
		1,670				1,858
3	5	2	2	53		79
						519
3	6	2	20	98		1,199
$16	$147	$2,885	$1,311	$305		$20,536
$5,689	$1,872	$8,647	$7,060	$9,195		$58,131
		(2,710)	5,872	507		34,527
$5,689	$1,872	$5,936	$12,933	$9,702		$92,658
$5,706	$2,019	$8,822	$14,244	$10,007		$113,194

Consolidating Statement of Net Cost
For the Period Ended September 2005 and 2004
(Dollars in millions)

2005	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
PROGRAM COSTS				
Intragovernmental Gross Costs	$532		$65	$23
Less: Intragovernmental Earned Revenue	(1,491)	($457)		
Intragovernmental Net Costs	($959)	($457)	$65	$23
Gross Costs With the Public	$254	$81	$23,330	$5,002
Less: Earned Revenues	(363)	(329)		
Net Costs With the Public	($109)	($248)	$23,330	$5,002
Total Net Costs	($1,068)	($705)	$23,395	$5,025
Costs Not Assigned to Programs				
Net Cost of Operations	($1,068)	($705)	$23,395	$5,025

2004	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
PROGRAM COSTS				
Intragovernmental Gross Costs	$719		$64	$38
Less: Intragovernmental Earned Revenue	(1,552)	($443)		
Intragovernmental Net Costs	($832)	($443)	$64	$38
Gross Costs With the Public	($667)	$78	$22,401	$5,419
Less: Earned Revenues	(250)	(373)		
Net Costs With the Public	($917)	($295)	$22,401	$5,419
Total Net Costs	($1,750)	($738)	$22,465	$5,457
Costs Not Assigned to Programs				
Net Cost of Operations	($1,750)	($738)	$22,465	$5,457

Figures may not add to totals because of rounding.

Consolidating Statement of Net Cost
For the Period Ended September 2005 and 2004
(Dollars in millions)

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
$20	$12	$176	$115	$204		$1,147
				(9)		(1,957)
$20	$12	$176	$115	$195		($810)
$1,734	$3,555	$3,425	$1,255	$3,580		$42,216
			(553)	(24)		(1,269)
$1,734	$3,555	$3,425	$702	$3,556		$40,947
$1,754	$3,567	$3,601	$817	$3,751		$40,137
				$268		$268
$1,754	$3,567	$3,601	$817	$4,019		$40,405

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
$13	$16	$189	$183	$164		$1,384
				(5)		(1,999)
$13	$16	$189	$183	$158		($615)
$1,612	$3,449	$3,711	$1,116	$3,415		$40,534
			(616)	(32)		(1,271)
$1,612	$3,449	$3,711	$500	$3,383		$39,263
$1,625	$3,465	$3,900	$683	$3,541		$38,648
				392		392
$1,625	$3,465	$3,900	$683	$3,933		$39,040

Consolidating Statement of Changes in Net Position
For the Period Ended September 2005
(Dollars in millions)

Cumulative Results of Operations

2005	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Net Position-Beginning of Period	($20,470)	($10,388)		
Adjustments				
Changes in Accounting Principles				
Corrections of Errors				
Beginning Balances, As Adjusted	($20,470)	($10,388)		
Budgetary Financing Sources				
Appropriations Used	($1,859)		($23,274)	($4,984)
Transfers In/Out Without Reimbursement	576			
Other Budgetary Financing Sources			($121)	($41)
Other Financing Sources				
Transfers In/Out Without Reimbursement	297			
Imputed Financing from Costs Absorbed by Others	($23)			
Other				
Total Financing Sources	($1,008)		($23,395)	($5,025)
Net Cost of Operations	(1,068)	(705)	23,395	5,025
Net Change	(2,076)	(705)		
Ending Balances	($22,546)	($11,093)		

Unexpended Appropriations

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Net Position-Beginning of Period	($699)		($12,958)	($12,011)
Adjustments				
Changes in Accounting Principles				
Corrections of Errors				
Beginning Balances, As Adjusted	($699)		($12,958)	($12,011)
Budgetary Financing Sources				
Appropriations Received	($1,987)		($22,726)	($4,891)
Transfers In/Out	137			(1)
Other Adjustments (Rescissions, etc)	81		1,518	70
Appropriations Used	1,859		23,274	4,984
Total Financing Sources	$89		$2,066	$162
Ending Balances	($609)		($10,892)	($11,849)

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position
For the Period Ended September 2005
(Dollars in millions)

	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
			$2,710	($5,872)	($507)		($34,527)
			$2,710	($5,872)	($507)		($34,527)
	($1,716)	($3,545)	($3,886)	($1,213)	($4,131)		($44,607)
				28	(220)		384
	($38)	($22)	($56)	($44)	323		
					7		304
					(58)		(81)
	($1,754)	($3,567)	($3,942)	($1,230)	($4,077)		($44,000)
	1,754	3,567	3,601	817	4,019		40,405
			(341)	(413)	(59)		(3,595)
			$2,369	($6,286)	($566)		($38,122)

	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
	($5,689)	($1,872)	($8,647)	($7,060)	($9,194)		($58,131)
	($5,689)	($1,872)	($8,647)	($7,060)	($9,195)		($58,131)
	($1,915)	($2,458)	($3,825)	($1,225)	($3,610)		($42,637)
					(9)		127
	25	21	23	242	225		2,206
	1,716	3,545	3,886	1,213	4,131		44,607
	($174)	$1,107	$84	$230	$737		$4,303
	($5,863)	($764)	($8,562)	($6,830)	($8,458)		($53,828)

Consolidating Statement of Changes in Net Position For the Period Ended September 2004 (Dollars in millions)

Cumulative Results of Operations

2004 Restated	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Net Position-Beginning of Period	($17,659)	($9,650)		
Prior Period Adjustments (Note 19)				
Beginning Balances, As Adjusted	($17,659)	($9,650)		
Budgetary Financing Sources				
Other Adjustments (Rescissions, etc)				
Appropriations Used	($1,812)		($22,362)	($5,394)
Transfers In/Out Without Reimbursement	555			
Other Budgetary Financing Sources			(103)	(63)
Other Financing Sources				
Donations and Forfeitures of Property				
Transfers In/Out Without Reimbursement	208			
Imputed Financing From Costs				
Absorbed From Others	(14)			
Other	2			
Total Financing Sources	($1,061)		($22,465)	($5,457)
Net Cost of Operations	(1,750)	(738)	22,465	5,457
Ending Balances	($20,470)	($10,388)		

Unexpended Appropriations

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Net Position-Beginning of Period	($576)		($19,040)	($12,488)
Prior Period Adjustments				
Beginning Balances, As Adjusted	($576)		($19,040)	($12,488)
Budgetary Financing Sources				
Appropriations Received	($2,023)		($19,371)	($4,964)
Transfers In/Out	84			2
Other Adjustments (Rescissions, etc)	5		3,095	50
Appropriations Used	1,812		22,358	5,388
Total Financing Sources	($122)		$6,082	$477
Ending Balances	($699)		($12,958)	($12,011)

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position
For the Period Ended September 2004
(Dollars in millions)

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
		$3,056	($5,453)	($459)		($30,166)
				5		5
		$3,056	($5,453)	($454)		($30,161)
($1,607)	($3,439)	($4,185)	($1,095)	($3,966)		($43,859)
			25	(274)		306
(18)	(26)	(60)	(33)	301		(2)
				1		209
				(49)		(62)
						2
($1,625)	($3,465)	($4,245)	($1,102)	($3,987)		($43,406)
1,625	3,465	3,899	683	3,933		39,040
		$2,710	($5,872)	($507)		($34,527)

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
($5,291)	($1,734)	($8,928)	($7,132)	($9,564)		($64,753)
($5,291)	($1,734)	($8,928)	($7,132)	($9,564)		($64,753)
($2,018)	($3,600)	($3,894)	($1,029)	($3,670)		($40,569)
				(1)		85
20	21	22	6	63		3,281
1,600	3,441	4,154	1,095	3,977		43,825
($398)	($138)	$281	$72	$369		$6,622
($5,689)	($1,872)	($8,647)	($7,060)	($9,195)		($58,131)

Combining Statement of Budgetary Resources
For the Period Ended September 2005
(Dollars in millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies
Budgetary Resources:						
Appropriations Received	$1,987		$22,726	$4,891	$1,915	$2,458
Borrowing Authority	(9)					
Contract Authority						
Net Transfers		$11		(1)		
Other						
Unobligated Balance						
Beginning of Period	23,978	10,841	2,254	1,346	457	3
Net Transfers, Actual		208		2		
Anticipated Transfers, Balances						
Spending Authority from Offsetting Collections						
Earned						
Collected	2,757	640		2		
Receivable from Federal Sources	13					
Change in Unfilled Customer Orders						
Advance Received						
W/O Advance from Federal Sources						
Anticipated for Rest of Year						
Anticipated for Rest of Year, w/o Advance						
Transfers from Trust Funds						
Collected						
Anticipated						
Subtotal	$2,770	$640		$2		
Recoveries of Prior Year Adjustments						
Actual Recoveries	20		1,454	28	6	2
Anticipated Recoveries						
Temporarily Not Available Per PL						
Permanently not available						
Cancellations-Expired and No Year Accts	(45)			(32)	(10)	
Enacted Rescissions	(36)		(1,618)	(38)	(15)	(21)
Capital Trans & Debt Redemption	(230)					
Other Authority Withdrawn			(31)			
Pursuant to Public Law			(2,500)			
Anticipated for Rest of Year						
Total Budgetary Resources	$28,435	$11,699	$22,286	$6,199	$2,353	$2,442

Combining Statement of Budgetary Resources
For the Period Ended September 2005
(Dollars in millions)

Public and Indian Housing Loans & Grants	Housing for the Elderly and Disabled	All Other	2003 Budgetary Total	Federal Housing Administration Non-Budgetary	Other Non Budgetary Credit Program Accounts	2003 Total Non-Budgetary Credit Program Financing Accounts	Total
$3,825	$1,225	$3,619	$42,647				$42,647
20			11	$1,174		$1,174	1,186
		757	757				757
		11	21				21
398	1,664	3,791	44,731	4,608	114	4,723	49,454
		(2)	208				208
84	1,059	700	5,242	11,722	18	11,740	16,983
			12	(86)		(86)	(74)
		66	66				66
		(8)	(7)		3	3	(4)
$84	$1,059	$759	$5,314	$11,635	$22	$11,657	$16,971
22	24	439	1,996	39		39	2,035
		(43)	(130)				(130)
(26)	(246)	(274)	(2,274)				(2,274)
(100)	(991)	(13)	(1,335)	(1,214)		(1,214)	(2,549)
(8)		(638)	(677)				(677)
(600)		(626)	(3,726)				(3,726)
$3,614	$2,735	$7,780	$87,542	$16,243	$136	$16,379	$103,922

Combining Statement of Budgetary Resources
For the Period Ended September 2005
(Dollars in millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies
Status of Budgetary Resources:						
Obligations Incurred						
Category A Direct						
Category B Direct	4,833	120	20,175	4,980	2,035	2,440
Exempt from Apportionment						
Unobligated Balances Available						
Balance, Currently Available	77	0	2,035	1,183	318	0
Apportioned for Subsequent Periods						
Anticipated						
Exempt from Apportionment						
Other Available						
Unobligated Balances Not Available						
Deferred						
Withheld Pending Rescission		11,579				
Other	23,525		76	36		2
Total Status of Budgetary Resources	$28,435	$11,699	$22,286	$6,199	$2,353	$2,442
Relationship of Obligations to Outlays						
Obligated Balance, Net-Beg of Period	$743	$36	$26,383	$10,694	$5,247	$2,007
Obligated Balance Transferred, Net						
Less: Obligated Balance, Net - End of Period						
Accounts Receivable	($261)	($78)				
Unfilled Customer Orders from Fed Source						
Undelivered Orders	552		21,816	10,635	5,546	759
Accounts Payable	515	121	4	23	11	113
Outlays						
Disbursements	$4,737	$112	$23,284	$4,987	$1,718	$3,572
Collections	(2,757)	(640)		(2)		
Subtotal	$1,980	($528)	$23,284	$4,984	$1,718	$3,572
Less: Offsetting Receipts	(474)					
Net Outlays	$1,507	($528)	$23,284	$4,984	$1,718	$3,572

Combining Statement of Budgetary Resources
For the Period Ended September 2005
(Dollars in millions)

Public and Indian Housing Loans & Grants	Housing for the Elderly and Disabled	All Other	2003 Budgetary Total	Federal Housing Administration Non-Budgetary	Other Non Budgetary Credit Program Accounts	2003 Total Non-Budgetary Credit Program Financing Accounts	Total
		$1,263	$1,263				$1,263
3,213	1,398	3,697	42,890	10,352	21	10,373	53,264
384	1,320	2,407	7,723	2,649	13	2,662	10,385
			11,579				11,579
17	17	414	24,087	3,242	102	3,344	27,431
$3,614	$2,735	$7,780	$87,542	$16,243	$136	$16,379	$103,922
$11,139	$5,496	$13,454	$75,198	$1,125	($17)	$1,108	$76,306
		(4)	(343)	($47)		(47)	($390)
		(3)	(3)	(5)	(20)	(25)	(28)
10,268	5,480	13,098	68,154	571		571	68,725
153	50	87	1,077	692		692	1,769
$3,909	$1,340	$4,805	$48,465	$10,314	$21	$10,334	$58,800
(84)	(1,059)	(766)	(5,308)	(11,722)	(18)	(11,740)	(17,049)
$3,826	$281	$4,039	$43,157	($1,408)	$3	($1,406)	$41,751
		(9)	(483)				(483)
$3,826	$281	$4,029	$42,674	($1,408)	$3	($1,406)	$41,268

Combining Statement of Budgetary Resources
For the Period Ended September 2004
(Dollars in millions)

	Federall Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies
Budgetary Resources:						
Appropriations Received	$2,023		$19,371	$4,964	$2,018	$3,600
Borrowing Authority	130					
Contract Authority						
Net Transfers		11		(2)		
Other						
Unobligated Balance						
Beginning of Period	27,111	10,106	3,483	1,146	388	2
Net Transfers, Actual		394				
Anticipated Transfers, Balances						
Spending Authority from Offsetting Collections						
Earned						
Collected	4,432	443				
Receivable from Federal Sources	(30)					
Change in Unfilled Customer Orders						
Advance Received						
W/O Advance from Federal Sources						
Anticipated for Rest of Year						
Anticipated for Rest of Year, w/o Advance						
Transfers from Trust Funds						
Collected						
Anticipated						
Subtotal	$4,403	$443				
Recoveries of Prior Year Adjustments						
Actual Recoveries	37		1,655	20	16	1
Anticipated Recoveries						
Temporarily Not Available Per PL						
Permanently not available						
Cancellations-Expired and No Year Accts				(14)		
Enacted Rescissions			(2,958)	(29)	(12)	(21)
Capital Trans & Debt Redemption	(294)					
Other Authority Withdrawn			(5)			
Pursuant to Public Law	(5)					
Anticipated for Rest of Year						
Total Budgetary Resources	$33,405	$10,953	$21,547	$6,084	$2,409	$3,582

Combining Statement of Budgetary Resources
For the Period Ended September 2004
(Dollars in millions)

Public and Indian Housing Loans & Grants	Housing for the Elderly and Disabled	Financial Statement Eliminations	All Other	2004 Budgetary Total	Federal Housing Administration Non Budgetary	Other Non Budgetary Credit Program Accounts	2004 Total Non-Budgetary Credit Program Financing Accounts	Total
$3,894	$1,029		$3,679	$40,577				$40,577
20				150	3,400		3,400	3,550
			495	495				495
			1	10				10
842	2,505		4,304	49,888	1,061	83	1,144	51,032
				394				394
79	1,044		703	6,700	17,303	43	17,345	24,046
		6	(2)	(25)	119		119	94
			128	128				128
			(4)	(4)	5	(3)	2	(1)
$78	$1,044	$6	$826	$6,800	$17,427	$39	$17,466	$24,266
36	24		308	2,096	12		12	2,107
			(37)	(50)				(50)
(20)	(6)		(48)	(3,094)				(3,094)
(97)	(1,462)		(12)	(1,865)	(4,559)		(4,559)	(6,424)
(21)			(82)	(108)				(108)
(530)			(676)	(1,211)				(1,211)
$4,203	$3,133	$6	$8,760	$94,083	$17,341	$122	$17,463	$111,546

Combining Statement of Budgetary Resources
For the Period Ended September 2004
(Dollars in millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies
Status of Budgetary Resources:						
Obligations Incurred						
Category A Direct						
Category B Direct	9,427	113	19,293	4,738	1,953	3,579
Exempt from Apportionment						
Unobligated Balances Available						
Balance, Currently Available	152	0	1,563	1,307	444	2
Apportioned for Subsequent Periods						
Anticipated						
Exempt from Apportionment						
Other Available						
Unobligated Balances Not Available						
Deferred						
Withheld Pending Rescission						
Other	23,826	10,841	691	39	12	1
Total Status of Budgetary Resources	$33,405	$10,953	$21,547	$6,084	$2,409	$3,582
Relationship of Obligations to Outlays						
Obligated Balance, Net-Beg of Period	$938	$27	$31,108	$11,375	$4,917	$1,863
Obligated Balance Transferred, Net						
Less: Obligated Balance, Net - End of Period						
Accounts Receivable	($248)	($84)				
Unfilled Customer Orders from Fed Source						
Undelivered Orders	537		26,371	10,671	5,237	1,873
Accounts Payable	454	120	13	22	10	134
Outlays						
Disbursements	$9,615	$104	$22,362	$5,400	$1,607	$3,434
Collections	(4,432)	(443)		0		
Subtotal	$5,183	($339)	$22,362	$5,400	$1,607	$3,434
Less: Offsetting Receipts	(419)					
Net Outlays	$4,764	($339)	$22,362	$5,400	$1,607	$3,434

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources
For the Period Ended September 2004
(Dollars in millions)

Public and Indian Housing Loans & Grants	Housing for the Elderly and Disabled	Financial Statement Eliminations	All Other	2004 Budgetary Total	Federal Housing Administration Non Budgetary	Other Non Budgetary Credit Program Accounts	2004 Total Non-Budgetary Credit Program Financing Accounts	Total
			$1,251	1,251				$1,251
3,805	1,469	6	3,718	48,101	12,732	8	12,740	60,841
390	1,618		2,230	7,707	2,586	2	2,589	10,295
	15			15				15
8	31		1,561	37,010	2,022	112	2,134	39,144
$4,203	$3,133	$6	$8,760	$94,083	$17,341	$122	$17,463	$111,546
$11,595	$5,338	$13	$13,490	$80,663	$941	($20)	$921	$81,584
			($5)	($337)	($133)		($133)	($470)
			(11)	(11)	(5)	(17)	(22)	(33)
10,962	5,411		13,386	74,448	520		520	74,968
177	85		82	1,096	744		744	1,840
$4,225	$1,287	$13	$4,703	$52,749	$12,412	$8	$12,420	$65,169
(78)	(1,044)		(831)	(6,828)	(17,303)	(43)	(17,345)	(24,173)
$4,147	$243	$13	$3,872	$45,921	($4,891)	($35)	($4,926)	$40,996
			(9)	(428)				(428)
$4,147	$243	$13	$3,863	$45,493	($4,891)	($35)	($4,926)	$40,568

Consolidating Statement of Financing
For the Year Ended September 2005
(Dollars in millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Resources Used to Finance Activities:				
Budgetary Resources Obligated				
Obligations Incurred	$15,185	$120	$20,175	$4,980
Less: Spending Authority from Offsetting				
Collections & Recoveries	(14,464)	(640)	(1,454)	(31)
Obligations Net of Offsetting Collections	$721	($520)	$18,721	$4,949
Less: Offsetting Receipts	(474)			
Net Obligations	$247	($520)	$18,721	$4,949
Other Resources				
Donations & Forfeitures of Property				
Transfers In/Out Without Reimbursement	($297)	($208)		
Imputed Financing from Costs Absorbed by Others				
Other Resources	23	$23		
Net Other Resources Used to Finance Activities	($274)	($185)		
Total Resources Used to Finance Activities	($27)	($705)	$18,721	$4,949
Resources Used to Finance Items Not				
Part of the Net Cost of Operations				
Change in Budgetary Resources Obligated for Goods				
Services/Benefits Ordered but not yet Provided	($56)		$4,553	$35
Resources That Fund Expenses from Prior Periods	(3,161)			
Budgetary Offsetting Collections and Receipts				
Not Affecting Net Cost of Operations	13,158			
Resources Financing Acquisition of Assets	(10,115)			
Other Changes to Net Obligated Resources				
Not Affecting Net Cost of Operations	(398)		121	41
Total Resources Used to Finance Items				
Not Part of the Net Cost of Operations	($572)		$4,675	$76
Total Resources Used to Finance				
the Net Cost of Operations	($598)	($705)	$23,395	$5,025

Consolidating Statement of Financing
For the Year Ended September 2005
(Dollars in millions)

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
$2,035	$2,440	$3,213	$1,398	$4,981		$54,526
(6)	(2)	(106)	(1,083)	(1,219)		(19,006)
$2,029	$2,438	$3,107	$315	$3,762		$35,520
				(9)		(483)
$2,029	$2,438	$3,107	$315	$3,752		$35,037
				($7)		($512)
				58		58
			$5	1		53
			$5	$52		(401)
$2,029	$2,438	$3,107	$320	$3,804		$34,636
($312)	$1,107	$697	($69)	$357		$6,312
		(1)				(3,162)
			1,059	45		14,262
		83	12	(83)		(10,103)
38	22	(286)	44	(84)		(501)
($274)	$1,129	$493	$1,046	$235		$6,808
$1,754	$3,567	$3,600	$1,365	$4,040		$41,444

Consolidating Statement of Financing
For the Year Ended September 2005
(Dollars in millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period:				
Components Requiring or Generating Resources in Future Periods				
Increase in Annual Leave Liability (Note 22)				
Increase in Environmental/Disposal Liability				
Reestimates of Credit Subsidy Expense	$2,150			
Exchange Revenue Receivable from the Public				
Other				
Total Requiring/Generating Resources in Future Periods	$2,150			
Components Not Requiring/Generating Resources				
Depreciation and Amortization				
Revaluation of Assets or Liabilities	($1,337)			
Other	(1,283)			
Total Components of Net Cost of Operation Not Requiring/Generating Resources	($2,619)			
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	($470)			
Net Cost of Operations	($1,068)	($705)	$23,395	$5,025

Figures may not add to totals because of rounding.

Consolidating Statement of Financing
For the Year Ended September 2005
(Dollars in millions)

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
				$2		$2
				0		0
				(19)		2,131
			($554)	(9)		(563)
				3		3
			($554)	($23)		$1,573
				$15		$15
				(1)		(1,338)
		$1	5	(12)		(1,289)
		$1	$5	$2		($2,612)
		$1	($549)	($21)		($1,039)
$1,754	$3,567	$3,601	$817	$4,019		$40,405

Consolidating Statement of Financing
For the Year Ended September 2004
(Dollars in millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Resources Used to Finance Activities:				
Budgetary Resources Obligated				
Obligations Incurred	$22,159	$113	$19,293	$4,738
Less: Spending Authority from Offsetting				
Collections & Recoveries	(21,878)	(443)	(1,655)	(19)
Obligations Net of Offsetting Collections	$281	($330)	$17,637	$4,719
Less: Offsetting Receipts	(419)			
Net Obligations	($138)	($330)	$17,637	$4,719
Other Resources				
Donations & Forfeitures of Property				
Transfers In/Out Without Reimbursement	($208)	($394)		
Imputed Financing from Costs Absorbed by Others	14			
Other Resources	(2)	(13)		
Net Other Resources Used to Finance Activities	($196)	($408)		
Total Resources Used to Finance Activities	($334)	($738)	$17,637	$4,719
Resources Used to Finance Items Not				
Part of the Net Cost of Operations				
Change in Budgetary Resources Obligated for Goods				
Services/Benefits Ordered but not yet Provided	($340)		$4,725	$675
Resources That Fund Expenses from Prior Periods	(7,546)			
Budgetary Offsetting Collections and Receipts				
Not Affecting Net Cost of Operations	20,097			
Resources Financing Acquisition of Assets	(12,630)			
Other Changes to Net Obligated Resources				
Not Affecting Net Cost of Operations	138		103	63
Total Resources Used to Finance Items				
Not Part of the Net Cost of Operations	($281)		$4,828	$738
Total Resources Used to Finance				
the Net Cost of Operations	($615)	($738)	$22,465	$5,457

Consolidating Statement of Financing
For the Year Ended September 2004
(Dollars in millions)

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
$1,953	$3,579	$3,805	$1,469	$4,977	$6	$62,091
(16)	(1)	(114)	(1,067)	(1,173)	(6)	(26,373)
$1,937	$3,579	$3,691	$402	$3,803		$35,718
				(9)		(428)
$1,937	$3,579	$3,691	$402	$3,794		$35,290
				($1)		($604)
				49		63
				(6)		(21)
				$41		$ (562)
$1,937	$3,579	$3,691	$402	$3,835		$34,728
($330)	($139)	$416	($188)	$102		$4,921
				(1)		(7,548)
			1,041	65		21,203
		78		(43)		(12,595)
18	26	(286)	33	(25)		71
($312)	($114)	$209	$886	$98		$6,052
$1,625	$3,465	$3,899	$1,287	$3,933		$40,780

Consolidating Statement of Financing
For the Year Ended September 2004
(Dollars in millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period:				
Components Requiring or Generating Resources in Future Periods				
Increase in Annual Leave Liability (Note 22)				
Increase in Environmental/Disposal Liability				
Reestimates of Credit Subsidy Expense	2,866			
Exchange Revenue Receivable from the Public				
Other				
Total Requiring/Generating Resources in Future Periods	$2,866			
Components Not Requiring/Generating Resources				
Depreciation and Amortization				
Revaluation of Assets or Liabilities	($1,433)			
Other	(2,569)			
Total Components of Net Cost of Operations Not Requiring/Generating Resources	($4,002)			
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	($1,135)			
Net Cost of Operations	($1,750)	($738)	$22,465	$5,457

Figures may not add to totals because of rounding.

Consolidating Statement of Financing
For the Year Ended September 2004
(Dollars in millions)

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
				3		3
				(7)		2,859
			(605)	(10)		(615)
				(5)		(5)
			($605)	($20)		$2,242
				$14		$14
						(1,433)
				6		(2,563)
				$20		($3,982)
			($605)			($1,740)
$1,625	$3,465	$3,899	$683	$3,933		$39,040

Required Supplementary Stewardship Information

This section provides information on resources entrusted to HUD that do not meet the criteria for information required to be reported or audited in HUD's financial statements but are, nonetheless, important to understand HUD's operations and financial conditions. The stewardship objective requires that HUD report on the broad outcomes of its actions associated with these resources. Such reporting will provide information that will help report users assess the impact of HUD's operations and activities.

HUD's stewardship reporting responsibilities extend to the investments made by a number of HUD programs in Non-Federal Physical Property, Human Capital, and Research and Development. Due to the relative immateriality of the calculations and in the application of the related administrative costs, most of the amounts reported below reflect direct program costs only. The investments addressed in this section are attributable to programs administered through the following offices:

- Community Planning and Development (CPD);
- Public and Indian Housing (PIH);
- Policy Development and Research; and
- Healthy Homes and Lead Hazard Control.

Overview of HUD's Major Programs

CPD seeks to develop viable communities by promoting integrated approaches that provide decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons. HUD makes stewardship investments through the following CPD programs:

- **Community Development Block Grants (CDBG)** are provided to state and local communities, which use these funds to support a wide variety of community development activities within their jurisdiction. These activities are designed to benefit low- and moderate-income persons, aid in the prevention of slums and blight, and meet other urgent community development needs. State and local communities use the funds as they deem necessary, as long as the use of these funds meets at least one of these objectives. A portion of the funds supports the acquisition or rehabilitation of property owned by state and local governments, while other funds help to provide employment and job training to low and moderate-income persons.
- **Disaster Grants** help state and local governments recover from major natural disasters. A portion of these funds can be used to acquire, rehabilitate, or demolish physical property.
- **HOME Investment Partnerships** provide formula grants to states and localities (used often in partnership with local nonprofit groups) to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for low-income persons.
- **Youthbuild** grants assist young individuals to obtain education, employment skills, and meaningful work experience in the construction trade, enabling them to become more productive and self-sufficient.

PIH ensures safe, decent, and affordable housing, creates opportunities for residents' self-sufficiency and economic independence, and assures the fiscal integrity of all program participants. HUD makes stewardship investments through the following PIH programs:

- The **Public Housing Capital Fund** provides grants to PHAs to improve the physical conditions and to upgrade the management and operation of existing public housing.
- **Neighborhood Network Initiative** grants are provided to PHAs to support the improvement of the living environment of public housing residents in distressed public housing units. Some investments support the acquisition or rehabilitation of PHA-owned property, while others help to provide education and job training to residents of the communities targeted for rehabilitation.
- **Indian Housing Block Grants** provide funds needed to allow tribal housing organizations to maintain existing units and to begin development of new units to meet their critical long-term housing needs.
- **Indian Community Development Block Grants** provide funds to Indian organizations to develop viable communities, including decent housing, a suitable living environment, and economic opportunities, principally for low- and moderate-income recipients.
- The **Public Housing Drug Elimination Program** seeks to eliminate drug-related crime and activities in public and Indian housing communities. A portion of these funds is used to improve properties owned by the PHAs and thus increase security and prevent crime at the properties. Congress terminated funding for this program after FY 2001.

The **Office of Policy Development and Research's** stewardship responsibilities include maintaining current information to monitor housing needs and housing market conditions, and to support and conduct research on priority housing and community development issues.

HUD makes stewardship investments through the following programs:

- **Community Development Work Study:** Colleges and universities throughout the United States use this program to offer financial aid and work experience to students enrolled in a full-time graduate program in community development or a closely related field such as urban planning, public policy, or public administration.
- **Partnership for Advancing Technology in Housing** is a public/private sector initiative which seeks to expand the development and utilization of new technologies in order to make American homes stronger, safer, and more durable; more energy efficient and environmentally friendly; easier to maintain and less costly to operate; and more comfortable and exciting places to live. This program links key agencies in the federal government with leaders from the home building, product manufacturing, insurance, financial, and regulatory communities in a unique partnership focused on technological innovation in the American housing industry.

The **Office of Healthy Homes and Lead Hazard Control** seeks to eliminate childhood lead poisoning caused by lead-based paint hazards and to address other children's disease and injuries, such as asthma, unintentional injury, and carbon monoxide poisoning, caused by substandard housing conditions.

- **Lead Technical Assistance Division,** in support of the Departmental lead hazard control program, establishes and coordinates lead-based paint regulations and policy, and supports compliance assistance and enforcement. These programs also support technical assistance and the conduct of technical studies and demonstrations to identify innovative methods to create lead-safe housing at reduced cost. In addition, these programs are designed to increase the awareness of lead professionals, parents, building owners, housing and public health professionals, and others with respect to lead-based paint and related property-based health issues.

Investments in Non-Federal Physical Property

Non-federal physical property investments support the purchase, construction, or major renovation of physical property owned by state and local governments. These investments support three of HUD's strategic goals: to increase the availability of decent, safe, and affordable housing in America communities; improve community quality of life and economic vitality; and ensure public trust in HUD. The following table summarizes material program investments in Non-federal physical property. Additional information regarding the following programs' contribution to HUD's goals may be found in Section 2 of this report.

Investments in Non-Federal Physical Property
FY 2001 - 2005
(Dollars in millions)

Program	2001	2002	2003	2004	2005
CPD					
CDBG	$1,189	$1,298	$1,206	$1,193	$1,175
Disaster Grants(1)	$56	$29	$7	$114	$40
HOME	$24	$8	$33	$26	$44
PIH					
Indian CDBG	$53	$51	N/A	$58	$71
Indian Housing Block Gr	N/A	$292	$296	$176	$213
HOPE VI (2)	$495	$367	$427	$411	$386
Pub Housing Cap Fund	$1,863	$2,036	$1,949	$1,758	$1,289
Drug Elim Prog (3)	$4	$0	$0	$0	$0
TOTAL	**$3,684**	**$4,081**	**$3,918**	**$3,736**	**$3,218**

Notes:
1. *Amount reported for FY 2005 represents 9 months of data.*
2. *For FY 2005, HOPE VI's 4th quarter investment amounts and results of investments were estimated based on the percentage change between FY 2004 3rd quarter and 4th quarter data.*
3. *Congress terminated funding for the Public Housing Drug Elimination Program after FY 2001.*

Investments in Human Capital

Human Capital investments support education and training programs that are intended to increase or maintain national economic productive capacity. These investments support HUD's strategic goals, which are to promote self-sufficiency and asset development of families and individuals; improve community quality of life and economic vitality; and ensure public trust in HUD. The table on the next page summarizes material program investments in Human Capital, for FY 2001 through 2005. Additional information regarding the following programs' contributions to HUD's goals may be found in Section 2 of this report.

Investments in Human Capital
FY 2001 - 2005
(Dollars in millions)

Program	2001	2002	2003	2004	2005
CPD					
CDBG	$25	$29	$23	$26	$28
Youthbuild	$15	$14	$19	$21	$22
PIH					
HOPE VI (2)	$55	$51	$56	$53	$39
Policy Dev and Research					
Comm. Dev. Work Study	$3	$3	$3	$3	$3
Healthy Homes/Lead Haz					
Lead Technical Assistance	$2	$7	$1	$0	$0
TOTAL	**$100**	**$104**	**$102**	**$103**	**$92**

Results of Human Capital Investments: The following table presents the results of or output (number of people trained) of human capital investments made by HUD's CPD, Policy Development and Research, and Healthy Homes and Lead Hazard Control programs:

Results of Investments in Human Capital
Number of People Trained
FY 2001 - 2005

Program	2001	2002	2003	2004	2005
CPD					
CDBG	127,565	149,502	172,416	131,653	122,578
Youthbuild	3,614	2,717	4,123	3,508	4,366
PIH					
HOPE VI (*see table below*)					
Policy Dev and Research					
Comm. Dev. Work Study	98	99	95	99	108
Healthy Homes/Lead Hazard					
Lead Technical Assistance	19,579	23,501	0	0	0
TOTAL	**150,856**	**175,819**	**176,634**	**135,260**	**127,052**

***HOPE VI Results of Investments in Human Capital*:** Since the inception of the HOPE VI program in FY 1993, the program has made significant investments in Human Capital related initiatives (i.e., education and training). The following table presents HOPE VI's key cumulative performance information for FY 2004 and 2005, since the program's inception.

Key Results of HOPE VI Program Activities
FY 2004 and 2005

HOPE VI Service	2004 Enrolled	2004 Completed	% Completed	2005 Enrolled	2005 Completed	% Completed
Employment Preparation, Placement, & Retention	77,146	N/A	N/A	57,424	N/A	N/A
Job Skills Training Programs	32,154	17,123	53%	22,753	12,448	55%
High School Equivalent Education	18,749	5,956	32%	12,843	3,631	28%
Entrepreneurship Training	2,536	1,094	43%	2,732	1,214	44%
Homeownership Counseling	8,361	3,354	40%	10,969	4,135	38%

Investments in Research and Development

Research and development investments support (1) the search for new knowledge, and (2) the refinement and application of knowledge or ideas, pertaining to development of new or improved products or processes. Research and development investments are intended to increase economic productive capacity or yield other future benefits. As such, these investments support HUD's strategic goals, which are to increase the availability of decent, safe, and affordable housing in America's communities; and ensure public trust in HUD. The following table summarizes HUD's research and development investments. Additional information regarding the following programs' contributions to HUD's goals may be found in Section 2 of this report.

Investments in Research and Development
FY 2001 - 2005
(Dollars in millions)

Program	2001	2002	2003	2004	2005
Policy Development and Res					
Partn. For Adv. Tech. In Hous	$9	$10	$8	$8	$8
Healthy Homes/Lead Hazard					
Lead Hazard Control	$6	$3	$9	$6	$5
TOTAL	**$15**	**$13**	**$17**	**$14**	**$13**

Results of Investments in Research and Development: At the end of FY 2005, the Partnership for Advancing Technology in Housing program had over 160 updated technology listings in its technology inventory. During FY 2005, the program awarded 10 university-based applied research projects (in partnership with the National Science Foundation), 3 technology development projects, 5 projects providing information to builders and researchers, 6 technology policy/planning research projects, and 4 projects that require demonstrations of the use of technologies.

In support of HUD's lead hazard control initiatives, the Healthy Homes and Lead Hazard Control program has conducted various studies. As indicated in the following table, such studies have contributed to an overall reduction in the per-housing unit cost of lead hazard evaluation and control efforts. These studies have also led to the identification of the prevalence of related hazards.

Per-Housing Unit Cost of Lead Hazard Evaluation and Control
FY 2001 – 2005

Program	2001	2002	2003	2004	2005
Healthy Homes/Lead Haz Cont					
Lead Hazard Control (1)	$4,639	$5,441	$4,827	$4,577	$6,650
TOTAL	**$4,639**	**$5,441**	**$4,827**	**$4,577**	**$6,650**

Notes:

1. *The FY 2005 4th quarter per-housing unit cost is based on an extrapolation of FY 2005 1st – 3rd quarter data. The Office of Healthy Homes and Lead Hazard Control anticipates that full year actual data, which becomes available the first week of November 2005, will show that the grant program will meet its goal of making 9,500 units lead safe. As a result, the Office anticipates a downward adjustment of the unit cost.*

Required Supplementary Information
Intragovernmental Balances

HUD's intragovernmental amounts represent transactions with other federal entities included in the government's annual report. These transactions include assets, liabilities and earned revenues as follows:

September 30, 2005 (dollars in millions):

Intragovernmental Assets:

Trading Partner	Fund Balance	Accounts Receivable	Investments	Other Assets	Total
Department of Treasury	$ 67,500	$ -	$ 30,715	$ -	$ 98,215
Department of Commerce	-	-	-	$ 11	$ 11
Department of Justice	-	-	-	17	$ 17
Total	$ 67,500	$ -	$ 30,715	$ 28	$ 98,243

Intragovernmental Liabilities:

Trading Partner	Accounts Payable	Debt	Other	Total
Department of Treasury	$ -	$ 8,922	$ 897	$ 9,819
Other Agencies	-	-	98	98
Total	-	$ 8,922	$ 995	$ 9,917

Intragovernmental Earned Revenues and Related Costs:

Trading Partner	Earned Revenue
Department of Treasury	$ 1,954
Other Agencies	3
Total	$ 1,957

Budget Functional Classification	Gross Cost to Generate Revenue
Commerce and Housing Credit	$ -
Community and Regional Dev	-
Income Security	-
Total	$ -

September 30, 2004 (dollars in millions) – RESTATED:

Intragovernmental Assets:

Trading Partner	Fund Balance	Accounts Receivable	Investments	Other Assets	Total
Department of Treasury	$ 69,647	$ -	$ 31,029	$ -	$ 100,676
Department of Commerce	-	-	-	12	$ 12
Department of Justice	-	-	-	9	$ 9
Total	$ 69,647	$ -	$ 31,029	$ 21	$ 100,697

Intragovernmental Liabilities:

Trading Partner	Accounts Payable	Debt	Other	Total
Department of Treasury	$ -	$ 10,102	$ 773	$ 10,875
Other Agencies	-	-	17	17
Total	-	$ 10,102	$ 790	$ 10,892

Intragovernmental Earned Revenues and Related Costs:

Trading Partner	Earned Revenue
Department of Treasury	$ 1,998
Other Agencies	1
Total	$ 1,999

Budget Functional Classification	Gross Cost to Generate Revenue
Commerce and Housing Credit	$ -
Community and Regional Dev	-
Income Security	-
Total	$ -

Required Supplementary Information
Improper Payments Reduction Activity

HUD is the first federal agency to achieve the PMA goals for reducing improper payments. During FY 2004, HUD completed its first annual improper payment risk assessment on $52.9 billion in disbursement activity the prior year (FY 2003). Over $30 billion in disbursements in 10 major program areas were determined to be at-risk of a significant improper payment level, subject to statistical sample testing and estimation of an improper payment amount. In FY 2005, HUD completed sample testing on those 10 programs and found that only 5 of the 10 program areas had a significant improper payment problem, with a combined improper payment estimate of $1.9 billion, or 3.6 percent, of total HUD payments in FY 2003. Most of that $1.9 billion improper payment estimate pertained to HUD's 3 rental housing assistance program areas, where HUD continues to make significant progress in reducing improper payments through corrective actions initiated in FY 2001. The other two areas with an improper payment problem requiring follow-up action in FY 2005 were payments in the Single Family Acquired Asset Management System and the Public Housing Capital Fund. Highlights of HUD's FY 2005 efforts to implement the Improper Payments Information Act and reduce improper payments included:

- Update of an annual risk assessment on the $54.5 billion in disbursements in the prior year, with no new "at-risk" programs identified;
- Update of sample testing of payments in the Single Family Acquired Asset Management System, found that the previously identified improper payment problem had been eliminated;
- Verification of the corrective actions taken on the specific limited causes of improper payments identified in the Public Housing Capital Fund found that the actions taken were sufficient to eliminate the improper payment problem;
- Completion of an updated measurement of gross annual improper rental assistance payments attributed to program administrator error and tenant underreporting of income showed a 61 percent reduction in the FY 2000 baseline estimate of $3.2 billion to $1.2 billion in FY 2004;
- Completion of a $214 million baseline estimate of the third and final component of improper rental housing assistance payments – "billing error" – bringing the total current improper rental assistance payment estimate to $1.4 billion; and
- Initiation of a new computer matching system for tenant income verification that has the potential to eliminate much of the remaining $1.4 billion estimate of improper rental housing assistance payments.

The Requirements

Under the Improper Payments Information Act of 2002 (Public Law 107-300) and OMB's implementing guidance, Memorandum No. M-03-13, agencies are to annually assess all programs and activities they administer and identify those that may be susceptible to significant improper payments. Where the risk of improper payments is assessed as potentially significant, agencies are required to estimate the annual amount of improper payments and report the estimates along with plans to reduce improper payments to the President and the Congress. A "significant" level of improper payments is defined by the statute as annual improper payments exceeding a $10 million dollar threshold.

An "improper payment" is defined as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirement. Incorrect amounts are overpayments and underpayments. An improper payment includes any payment that was made to an ineligible recipient or for an ineligible service. Improper payments are also duplicate payments, payments for services not received, and payments that do not account for credit for applicable discounts. In addition to identifying substantive errors that might warrant repayment, HUD's statistical sampling of support for payments also considered "process" errors that increase the risk of substantive payment errors, and process errors are included in HUD's improper payment estimates.

HUD's Commitment

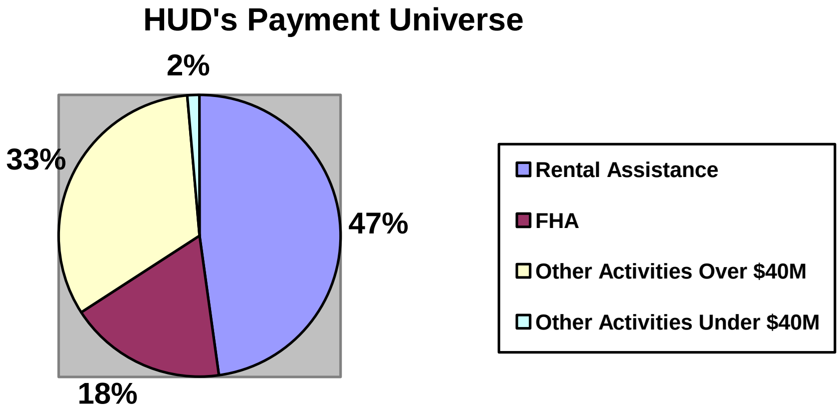
The Secretary designated the Chief Financial Officer as the lead official for directing and overseeing HUD actions to address improper payment issues and bring HUD into compliance with the requirements of the Improper Payments Information Act of 2002 and OMB Memorandum No. M-03-13. The Office of the Chief Financial Officer developed a plan for implementing the Act, and after necessary contract support services were put in place by the Chief Financial Officer and FHA, HUD began to execute the plan in FY 2004. HUD's plans, goals and results for identifying and reducing improper payments are tracked under the President's Management Agenda.

HUD's Process

The HUD process for complying with the Improper Payments Information Act consists of four steps. The first step is an initial survey of all program and administrative activities, regardless of size, for potential indicators of significant improper payments. Any program activities identified in the survey and all program activities with annual expenditures in excess of $40 million are subjected to the second step, which is a detailed risk assessment. The third step consists of statistical sample testing of payments by independent reviewers to determine the estimated amount of improper payments in any program activity determined to be susceptible to a significant improper payment level. The fourth step is to establish, execute, and monitor corrective action plans for reducing improper payments in the identified at-risk programs.

Results of Annual Risk Assessments and Continued Payment Testing

The second annual improper payment risk assessment completed during FY 2005 was based on payment and other relevant activity that occurred during the completed FY 2004 accounting cycle. An inventory of 220 distinct program and administrative payment activities was identified from all of HUD's financial management systems in FY 2004, with total payments of $54.5 billion distributed as follows:



HUD's second risk assessment fully considered the results of the first risk assessment and the outcomes of the statistical sample testing or other reviews of payments in the 10 activities the first risk assessment identified as potentially susceptible to a significant level of improper payments.

HUD's risk assessment update in FY 2005 did not identify any new activities as being at-risk of a significant improper payment level. The following chart provides a summary of the disposition or status of the 10 HUD programs that the FY 2004 risk assessment deemed to be potentially susceptible to a significant improper payment level, pending statistical sample testing. Independent reviewers performed statistical sample testing of payment activity in these 10 at-risk areas in accordance with OMB sampling guidance. Programs that tested below the improper payment threshold established by the Improper Payments Information Act were removed from HUD's at-risk inventory and are not subject to re-testing unless there is significant change in the nature of the activity or HUD's internal control structure.

FY 2004 and FY 2005 Testing Activities/Results on Inventory of Programs Assessed as "At-Risk" of a Significant Improper Payment Level		
Inventory of At-Risk Programs Selected for Statistical Sampling	**FY 2004 Testing Activity/Results**	**FY 2005 Testing Activity/Results**
FHA Payment Systems		
Single Family Acquired Asset Management System	Above Threshold – Based on completed testing of FY 2003 payments	Below Threshold – Based on completed testing of FY 2004 payments – Removed
Multifamily Property Management System	Below Threshold – Based on completed testing of FY 2003 payments – Removed	Not Applicable – Annual payment level also fell below $20 million in FY 2005
Other HUD Programs and Administrative Activities		
HOME Investment Partnerships: HOME States & Local Governments	Testing of FY 2003 payments in process	Below Threshold – Based on completed testing of FY 2003 payments – Removed
CDBG Economic Development Initiative – Special Projects	Testing of FY 2003 payments in process	Below Threshold – Based on completed testing of FY 2003 payments – Removed

Homeless Assistance Grants: Supportive Housing Program	Testing of FY 2003 payments in process	Below Threshold – Based on completed testing of FY 2003 payments – Removed
HOPE VI – Revitalization Grants	Testing of FY 2003 payments in process	Below Threshold – Based on completed testing of FY 2003 payments – Removed
Public Housing Capital Fund	Testing of FY 2003 payments in process	Removed – Based on verified corrective actions taken to address the causes of improper payments detected in the testing of FY 2003 payments – Removed
Rental Housing Assistance Programs		
Public Housing	Above Threshold – Based on completed testing of FY 2003 payments	Above Threshold – Based on completed testing of FY 2004 payments
Tenant-based Vouchers & Mod Rehab	Above Threshold – Based on completed testing of FY 2003 payments	Above Threshold – Based on completed testing of FY 2004 payments
Multifamily Project-based Assistance	Above Threshold – Based on completed testing of FY 2003 payments	Above Threshold – Based on completed testing of FY 2004 payments

FHA Payment Systems

FHA's FY 2005 update of their risk assessment of improper payments covered the following 14 activities, which include credit subsidy programs that require special consideration under the Improper Payments Information Act:

- Two payment activities with annual disbursements less than the $40 million threshold;
- Five other payment activities with annual disbursements greater than the $40 million threshold;
- One payment activity on administrative contracts;
- One activity that is for endorsement or loan guarantee commitments; and
- Five activities that are collection systems for FHA.

In the FY 2004 risk assessment of FHA activities, the initial survey determined that only the five payment systems with annual disbursements greater than $40 million warranted a detailed risk assessment. The risk assessment determined that only two of these five areas were at risk for significant improper payments, subject to statistical sampling. Statistical sample testing and evaluation on these two payment systems was completed in FY 2004. Only one of those two systems was found to exceed the improper payment significance threshold in the first year testing to warrant retesting as an at-risk program in FY 2005. No new "at-risk" activities were identified in FHA's FY 2005 risk assessment update. A summary of the FY 2005 payment testing and evaluation update on FHA's one at-risk program follows:

- The Single Family Acquired Asset Management System was subjected to statistical sampling in accordance with OMB guidance. The results indicated a decrease in the improper payment dollar rate from 6.8 percent of total FY 2003 payments to less than 0.6 percent of total FY 2004 payments, with an estimated improper payment dollar amount of $2.2 million in FY 2004. The improvement was attributed to improvements in data identification and collection, as well as increased oversight of the invoice payment process by both staff in the Program Operations Centers and headquarters managers. Since this result was substantially below the $10 million threshold established by the Improper Payments Information Act, this activity has been removed from HUD's inventory of activities at-risk of a significant level of improper payments.

Other HUD Program and Administrative Activities

HUD has 158 distinct funded activities in this category. A total of 127 activities with payments under $40 million were surveyed and determined not to be at risk of improper payments exceeding the $10 million threshold established by the Improper Payments Information Act. These activities constitute $829 million, or less than 2 percent of HUD's total payments in FY 2004.

Detailed risk assessments were conducted on the remaining 31 of HUD's activities with payments over $40 million. The 31 activities covered by the risk assessment constituted $17.8 billion, or 33 percent, of HUD's total FY 2004 payments. Last year, five of those programs, representing $6.1 billion in FY 2003 payments, were determined to be at-risk of a significant improper payment level, pending statistical sample testing. The statistical sample testing of FY 2003 payments in these five identified at-risk program activities was begun during FY 2004 and scheduled for completion in early FY 2005. The reviews were completed, and the HUD independent reviewer determined that only one of these programs, the Public Housing Capital Fund, was susceptible to a significant improper payment level. Corrective actions taken and verified during FY 2005 mitigated the problem in the Public Housing Capital Fund, as discussed below. HUD's FY 2005 risk assessment update in this category fully considered the results of the statistical sampling and corrective actions initiated last year.

Risk assessments of all programs will continue to be conducted and updated on an annual basis, which may result in a change to their assigned risk level.

Public Housing Capital Fund

HUD completed the statistical sample testing for the Public Housing Capital Fund Program and estimated that the total gross improper payments for the program in FY 2003 were $133.5 million or 5.1 percent of the $2.6 billion in total payments covered by the sample testing. The gross improper payment estimate includes $118.1 million in estimated overpayments and $15.4 million in estimated underpayments. The total estimated gross improper payments amount consists of the following two categories of substantive causes of error and two categories of error associated with incomplete sample testing due to time and cost constraints on the testing:

<u>Estimates of Improper Payments Based on Substantive Causes</u>

- $13.9 million estimated for contract retainage amounts that are paid in advance of the need for payment in violation of HUD's cash management policies, and
- $11,000 in estimated other payments without proper supporting documentation.

Estimates of Improper Payments Due to Incomplete Sample Testing

- $96.8 million estimated for payments associated with large, complex monthly funding drawdown/reconciliation processes for which sample testing was not yet completed after allowing six months to provide adequate supporting documentation, and
- $22.7 million estimated for other payments for which sample testing was not completed after HUD's decision to end sample testing after six months because the general level and causes of errors was believed to be known based on completed testing.

Almost all of the improper payment issues discovered during HUD's sample testing related to the largest Capital Fund grant recipient, the New York City Housing Authority, and did not appear to be a program-wide problem. The New York City Housing Authority accounted for 16 of the 211 sampled HUD payment transactions and those 16 large transactions totaled $160.7 million, or 83 percent, of the total sampled dollars of $192.8 million. In response to HUD's review, the New York City Housing Authority changed its contract retention practice and its letter-of-credit drawdown practice to comply with HUD's cash management policies. The Housing Authority also implemented a new financial system in FY 2004 that they claimed eliminated the complex monthly funding drawdown/reconciliation process that hindered the full and timely completion of HUD's sample testing. Based on the results of the testing that was completed, HUD believes that adequate supporting documentation for both categories of incomplete testing items would likely have been provided if additional time had been provided. However, the cost of additional HUD resources to pursue and test those documents outweighed the potential benefit of continuance, given that the causes and corresponding corrective actions for the limited types of errors detected were already known. Under the circumstances, HUD followed up with a review of the New York City Housing Authority's FY 2004-2005 payment transactions under their new practices and financial system, in lieu of another review of payments in the entire Capital Fund Program. The follow-up review conducted in September 2005 verified the corrective actions taken by the Housing Authority to eliminate the causes of the improper payments found in FY 2003. The nature of the improper payment issues originally disclosed in the Capital Fund Program were primarily payment timing issues not subject to recovery actions.

Rental Housing Assistance Programs

HUD's various rental housing assistance programs -- public housing, tenant-based assistance, and project-based assistance -- had previously been assessed as at high risk of significant improper payment levels, and continue to be reported as such, with corresponding error measurement methodologies, corrective action plans, and error reduction goals described below. These programs constituted $26 billion, or 47 percent, of HUD's total payments in FY 2004.

Prior to enactment of the Improper Payments Information Act of 2002, HUD had already established the Rental Housing Integrity Improvement Project in 2001 to reduce improper payments in its rental assistance programs. This project is directed by the responsible HUD program offices, with oversight by the Office of the Chief Financial Officer and statistical sampling support from the Office of Policy Development and Research. HUD's rental assistance programs are administered by over 26,000 public housing agencies and multifamily housing owners or management agents on HUD's behalf. In general, beneficiaries pay 30 percent of their adjusted income as rent, and HUD payments cover the remainder of the rental cost (or the operating cost, in the case of public housing).

There are three major components of potential errors and improper payments in these complex programs:

1) Program administrator error – the program administrator's failure to properly apply income exclusions and deductions and correctly determine income, rent, and subsidy levels;
2) Tenant income reporting error – the tenant beneficiary's failure to properly disclose all income sources and amounts; and
3) Billing error – errors in the billing and payment of subsidies between third party program administrators and HUD.

From FY 2000 through FY 2004, HUD reduced the gross improper payments for the first 2 of these 3 categories of error in its rental assistance programs from $3.2 billion to $1.2 billion, a reduction of 61 percent.

FY 2000 Baseline Error Estimates - A baseline measurement of improper payments due to program administrator error and tenant income reporting was established by two studies completed in FY 2000. The FY 2000 studies verified subsidy calculations and income for a representative sample of 2,403 households receiving assistance at 600 projects. For all 3 major program types, the combined FY 2000 baseline estimates reported for both types of error were $3.281 billion in gross improper payments and $2.013 billion in net subsidy overpayments. The FY 2000 baseline estimates were later adjusted to $3.216 billion in gross improper payments and $1.972 billion in net subsidy overpayments to eliminate the impact of those public housing programs that had been placed under a block grant approach under the Moving To Work Program, which effectively removed them from consideration for error estimates. HUD set goals for reducing the net subsidy overpayments for these two components (i.e., program administrator error and tenant income reporting error) by 15 percent in FY 2003, 30 percent in FY 2004 and 50 percent in FY 2005.

In FY 2005, HUD completed studies of FY 2004 program activity to update the FY 2000 and FY 2003 estimates on the program administrator error and tenant income reporting error components, using the same general methodology, sampling procedures, and sample sizes. The following paragraphs provide details on the FY 2004 rental assistance error measurement updates.

Program Administrator Error - HUD's update of the measure of program administrator rent and subsidy determination errors in FY 2004 found a 55.9 percent reduction in this improper payment component since FY 2000, as shown in the following chart:

Rental Assistance Programs	FY 2004 Full Year Estimates of Error in Program Administrator Income, Rent & Subsidy Determinations				FY 2000 Estimate of Error*	Percent Reduction in Gross Improper Payments
	Assistance Overpayments $1,000's	Assistance Underpayments $1,000's	Net Improper Payments $1,000's	Gross Improper Payments $1,000's	Gross Improper Payments $1,000's	
Public Housing	$173,172	$68,904	$104,268	$242,076	$602,557	*59.8%
Tenant-based Vouchers & Mod Rehab	$366,492	$154,728	$211,764	$521,220	$1,096,535	52.5%
Total PHA Administered	$539,664	$223,632	$316,032	$763,296	$1,699,092	55.1%
Multifamily Project-based Assistance	$141,708	$82,740	$58,968	$224,448	$539,160	58.4%
Total 2004**	$681,372 (+/-$107,203)	$306,372 (+/-$59,293)	$375,000 (+/-$113,149)	$987,744 (+/-$131,201)	$2,238,252 (+/- $271,000)	55.9%

* - Baseline numbers reported in prior years have been reduced to eliminate data associated with PHAs participating in the Moving To Work Program. Those PHAs were excluded from the FY 2004 updated study because they don't follow the same program rules.

** - Estimates are provided at a 95 percent confidence level.

The significant reduction in this error component is attributed to HUD efforts to work with its housing industry partners at PHAs and multifamily housing projects through enhanced program guidance, training, oversight, and enforcement.

Under the Rental Housing Integrity Improvement Project, PIH initiated on-site Rental Integrity Monitoring reviews focused on the 490 largest PHAs that receive 80 percent of HUD's public housing and tenant-based voucher program funds. Technical assistance was provided to PHAs with the most significant program deficiencies and follow-up Rental Integrity Monitoring reviews were conducted to assess program improvements and the need for corrective and enforcement action. The Office of Multifamily Housing has placed nearly all Section 8 Program project-based assistance under Performance-Based Contract Administrators who review 100 percent of monthly vouchers and perform annual on-site management and occupancy reviews at all projects. Twenty percent of the remaining project-based assistance contracts still administered by HUD staff or traditional contract administrators also received on-site monitoring reviews in FY 2004. These same contracts are the subject of an on-going public-private competitive sourcing effort under OMB Circular No. A-76 in an attempt to further improve the monitoring of those contracts.

<u>Tenant Income Reporting Error</u> - HUD estimates that the total error attributable to tenant underreporting of income was $266 million in FY 2004, a decline of 73 percent from the FY 2000 baseline of $978 million. While this is an increase from the FY 2003 estimate of $191 million, this estimate should be regarded as a normal fluctuation as a result of the small sample size and low error rate, rather than an actual increase in error. Program-level estimates are not provided because the low incidence of errors renders any such estimates statistically unreliable.

HUD believes that the general downward trend in tenant income error will continue as the result of an improved methodology for reviewing income discrepancies identified through computer matching to better determine actual cases of underreported income impacting subsidy levels. The reduction will also be facilitated by: improved income verification efforts by housing program administrators; increased voluntary compliance by tenants due to promotion of the issue; and HUD's initiation of improved computer matching processes for upfront verification of tenant income.

In October 2005, HUD's Enterprise Income Verification System will make income data from the National Directory of New Hires available to local PHAs to allow them to conduct more effective and timely income verification for tenants. The National Directory of New Hires, administered by the Department of Health and Human Services, is a central source of all quarterly state wage and unemployment benefit information, as well as monthly employer information on new hires. By the end of FY 2006, HUD plans to consolidate all available income match data sources in the Enterprise Income Verification System for controlled use by program administrators in all HUD rental housing assistance programs, including multifamily housing. This increased computer matching capability has the potential to eliminate the majority of the remaining estimated improper payments attributable to tenant underreporting of income.

Billing Cycle Error – HUD also completed baseline studies for the third and final error component, billing error, in FY 2005. Billing errors occur when program administrators submit billings or payment vouchers to HUD for activities and amounts that: deviate from allowable HUD contract terms and conditions; differ from local rent rolls and subsidy determinations; or pertain to allowable subsidies or utility allowances that are not properly remitted to participating landlords or tenants. In FY 2005, HUD completed baseline measurements for the billing error in the Department's public housing and voucher programs, based on FY 2003 expenditures. The estimated gross billing error was $84 million in public housing and $30 million in the voucher programs (both tenant-based and project-based). Combined with the billing error estimate of $100 million previously established for project-based assistance in FY 2003, HUD's total baseline estimate of improper rental assistance billings is $214 million, as follows:

Results of Billing Error Studies (FY 2003)

Program	Subsidies Overpaid*	Subsidies Underpaid*	Net Billing Error*	Gross Billing Error*
Public Housing	$56	$28	$28	$84
Section 8 Vouchers	$15	$15	$0	$30
Project-based Assistance	$56	$44	$12	$100
Total All Programs	$127	$87	$40	$214

*** Dollars in millions**

Changes to the manner in which the public housing and voucher programs are funded, subsequent to FY 2003, could reduce the opportunity for billing error. In any event, HUD's increased review of payment vouchers and on-site monitoring of support for vouchers is key to reducing this component of improper payments.

Combined Rental Assistance Error Impacts – The combined effect of the most recent accepted estimates of improper payments for the three error components is summarized in the following chart:

Type of Payment Error (Period)	Public Housing Assistance (millions)	Vouchers & Mod Rehab Assistance (millions)	Project-Based Assistance (millions)	Total All Rental Assistance Programs (millions)
Gross Error In Administrator Subsidy Determinations (2004)	$242	$521	$224	$987
Error Due To Tenant Underreporting Of Income (2004) *				$266
Gross Billing Error (2003)	$84	$30	$100	$214
Total Gross Error				$1,467
FY 2004 Program Expense **				$26,069
Percent of Improper Payments				5.6

* - Tenant income error not segmented by program because an accurate estimate was not possible with the associated low error rate.
** - Program expense is shown on an accrual rather than a cash basis to better match the error study methodology.

HUD will continue to take aggressive steps to address the causes of improper rental assistance payments to ensure that the right benefits go to the right people. Based on the above results for the three types of rental assistance error, as well as plans to address known causes and levels of improper payments, HUD provides the statistical results for FY 2004 and the outlook for improper payment percentages on a combined program basis from FY 2005 – FY 2008, as follows:

Rental Assistance Improper Payment Reduction Outlook FY 2004 – FY 2008

(Dollars shown in millions)

Activity	FY 2004 Payments	FY 2004 IP $	FY 2004 IP % Goal/Actual		FY 2005 IP % Goal	FY 2006 IP % Goal	FY 2007 IP % Goal	FY 2008 IP% Goal
Rental Assistance	$26.069	$1.467	6.9	5.6	5.6	5.0	3.0	2.5

Upon completion of the baseline billing error estimates in FY 2005, HUD will break-out separate error reduction goals for each of the three rental assistance program categories. Further information on HUD's efforts to reduce improper rental housing assistance payments is provided in Indicator EM.4.1 in the Performance Information Section of this report.

Recovery Auditing Activity

In addition to the requirements of the Improper Payments Information Act of 2002, Section 831 of the Defense Authorization Act of 2002, and OMB Memorandum No. M-03-07, require agencies that enter into contracts with a total value in excess of $500 million in a fiscal year to carry out a cost-effective program for identifying errors made in paying contractors and for recovering amounts improperly paid to contractors. HUD acquired the services of an outside recovery-audit service provider to assist in: surveying HUD's procurement and contract payment environment for vulnerabilities and opportunities for recovery-auditing; applying recovery-auditing techniques to the universe of HUD contracts completed subsequent to October 1, 2001; and assessing the causes of any recovery opportunities identified, with recommendations for improved controls to avoid improper payments.

The recovery audit service provider found that "the procedures and systems in place at HUD provide strong controls for processing accurate transactions." These identified strengths cited in the final report include the following:

- Procurement and management of contracts provide a high degree of oversight by both HUD and contractor;
- Contract structure limits the risk to transaction error;
- Transaction approval by the HUD Government Technical Representative reduces errors on a per transaction basis;
- System controls applicable to duplicate payments limits the potential of improper payments;
- Established contract "Close Out" procedures to reduce the exposure to outstanding financial items related to the contract; and
- The Ginnie Mae program third party review has proven beneficial to Ginnie Mae in reducing overpayments made to contractors.

The universe of contract activity covered by HUD's recovery auditing project included 568 contracts with a value of $2.27 billion. Sixteen of the larger and more vulnerable contracts with a value of $206.6 million were subjected to a more detailed review. The initial recovery audit results indicated recovery potential of less than $46,000 (0.02 percent). Follow-up by the HUD Contracting Office confirmed that the payments in question were not improper or erroneous.

The recovery audit service provider concluded that, "With respect to the overall volume of contract transactions and dollar amount disbursed by HUD annually, the results of the project indicated the procedures and systems in place at HUD provide strong controls for processing accurate contract payment transactions." Pursuit of an on-going recovery auditing program at HUD was determined not to be cost-beneficial or necessary.

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INDEPENDENT AUDITOR'S REPORT[1]

To the Secretary,
U.S. Department of Housing and Urban Development:

In accordance with the Chief Financial Officers (CFO) Act of 1990, the Department has prepared the accompanying consolidated balance sheets of the Department of Housing and Urban Development (HUD) as of September 30, 2005 and 2004 and the related consolidated statements of net cost, changes in net position, and financing and the combined statement of budgetary resources for the fiscal years then ended. We are required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994 and implemented by Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*, to audit HUD's principal financial statements or select an independent auditor to do so. The objective of our audit was to express an opinion on the fair presentation of these principal financial statements. In our previous audit report on the fiscal year 2004 financial statements included in HUD's Fiscal Year 2004 Performance and Accountability Report, we reported that we were unable to complete sufficient audit procedures to express an opinion on the fiscal year 2004 financial statements by the OMB-imposed due date of November 15, 2004. We have subsequently completed that work and we are now able to express an opinion on the fiscal year 2004 financial statements. With respect to the fiscal year 2005 and 2004 financial statements, we did not audit the financial statements of the Federal Housing Administration (FHA) whose statements reflected total assets constituting 34 and 32 percent, respectively, of the related consolidated totals. Other auditors, whose reports have been furnished to us, audited those statements and our opinion on the fiscal year 2005 and 2004 financial statements, insofar as it relates to the amounts included for FHA, is based solely on the reports of the other auditors. In connection with our audit, we also considered HUD's internal control over financial reporting and tested HUD's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on its principal financial statements.

[1] This report is supplemented by a separate report issued by HUD-OIG to provide a more detailed discussion of the internal control and compliance issues included in this report and to provide specific recommendations to HUD management. The report is available at the HUD, OIG Internet site at http://www.hud.gov/oig/oigindex.html and is titled: "Additional Details to Supplement Our Report on the Audit of the U.S. Department of Housing and Urban Development's Fiscal Years 2005 and 2004 Financial Statements" (2006-FO-0003, dated November 15, 2005).

Pursuant to the Chief Financial Officers Act of 1990, as amended by the Reports Consolidation Act of 2000 and implemented by OMB Circular Number A-136 *Financial Reporting Requirements*, HUD is required to issue a Performance and Accountability Report that includes, among other information, HUD's annual audited financial statements. For fiscal year 2005, OMB has directed agencies to complete their Performance and Accountability Reports and submit them to the President, OMB and the Congress by November 15, 2005.

Opinion on the Fiscal Year 2005 and 2004 Financial Statements

In our opinion, based on our audit and the reports of other auditors, the accompanying fiscal years 2005 and 2004 principal financial statements present fairly, in all material respects, the financial position of HUD as of September 30, 2005 and 2004 and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2-R to the financial statements, HUD restated its fiscal year 2004 consolidated financial statements to correct accounting errors disclosed during the fiscal year 2005 audit as follows:

HUD restated the balance in Other Intragovernmental Liabilities to Cumulative Results of Operations in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) Number 7, Accounting for Revenue and Other Federal Sources. The balance of $4.2 billion was previously reported as other liabilities in the Department's consolidated balance sheet and represented cumulative activity for the Housing for the Elderly and Disabled Program. The balance sheet reclassification impacted the amount of net position reported for fiscal year 2004 and the components of equity reported on the statement of Changes in Net Position.

In the 2004 Consolidating Statement of Budgetary Resources, the Credit Subsidy Amount transferred by the Government National Mortgage Association (Ginnie Mae) was reported as Spending Authority from Offsetting Collections. The Credit Subsidy amount was reclassified from an offsetting collection to a non-expenditure transfer to comply with OMB Circular A-11 which required that cash transfers to the general fund receipt account be recorded as non-expenditure transfers and should not offset the amount of gross outlays reported on the Statement of Budgetary Resources. These changes resulted in a $405 million adjustment to Ginnie Mae's Net Outlays in the Consolidating Statement of Budgetary

Resources and Resources Used to Finance Activities in the Statement of Financing.

Our audit also disclosed:

- Material weaknesses in internal controls in fiscal year 2005 related to the need to:
  - incorporate better risk factors and monitoring tools into FHA's single family insured mortgage program risk analysis and liability estimation process; and;
  - continue to improve the review over the FHA Credit Reform estimation process.

- Reportable conditions in internal controls in fiscal year 2005 related to the need to:
  - comply with Federal financial management system requirements and continue to enhance FHA's management of controls over its portfolio of integrated insurance and financial systems;
  - improve oversight and monitoring of subsidy calculations and intermediaries' program performance;
  - further strengthen controls over HUD's computing environment;
  - improve personnel security practices for access to the Department's critical financial systems;
  - improve processes for reviewing obligation balances; and
  - improve controls for developing estimates of budget authority required for the Section 236 Interest Reduction Program.

Most of these control weaknesses were reported in prior efforts to audit HUD's financial statements and represent long-standing problems. Our findings also include the following instance of non-compliance with applicable laws, regulations, and provisions of contracts and grant agreements that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

- HUD did not substantially comply with the Federal Financial Management Improvement Act. In this regard, HUD's financial management systems did not substantially comply with Federal Financial Management Systems Requirements.

Consolidating Financial Information

We conducted our audit for the purpose of forming an opinion on the consolidated principal financial statements taken as a whole. HUD has presented consolidating balance sheets and related consolidating statements of net costs and changes in net position, and combining statements of budgetary resources and financing as supplementary information in its *Fiscal Year 2005 Performance and Accountability Report.* The consolidating and combining financial information is presented for purposes of additional analysis of the financial statements rather than to present the financial position, changes in net position, budgetary resources, and net costs of HUD's major activities. The consolidating and combining financial information is not a required part of the principal financial statements. The fiscal year 2005 and 2004 financial information has been subjected to the auditing procedures applied to the principal financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Required Supplementary Information

In its *Fiscal Year 2005 Performance and Accountability Report*, HUD presents "Required Supplemental Stewardship Information," specifically, information on investments in non-Federal physical property and human capital. In addition, HUD presents a Management Discussion and Analysis of Operations and information on intragovernmental balances. This information is not a required part of the basic financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular Number A-136. We did not audit and do not express an opinion on this information, however, we applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. In accordance with OMB Circular Number A-136, the Department, through confirmations, reconciled their intragovernmental transactions with their trading partners with immaterial differences.

Reportable Conditions:

Additional details on our findings regarding HUD's internal controls are summarized below and were provided in a separate report to HUD management. These additional details also augment the discussions of the instances in which HUD had not complied with applicable laws and regulations; the information regarding our audit objectives, scope, and methodology; and recommendations to HUD management resulting from our audit.

HUD/FHA System Environment Needs to Comply with Federal Financial Management System Requirements. In prior years, OIG reported on weaknesses in HUD's financial management systems, which were described as a material weakness. Specifically, HUD had not completed development of an adequate integrated financial management system. A primary reason was HUD's most significant system deficiency involving FHA. Since 2003, FHA has made progress in correcting the weaknesses in its overall compliance with Federal financial management system requirements through the implementation of the FHA Subsidiary Ledger. A key milestone was achieved during fiscal year 2003 with the implementation of the FHA financial system's general ledger module. In fiscal years 2004 and 2005, FHA completed the implementation of its core financial system implementation with the addition of cash management, funds control, and contract modules. These improvements, combined with progress reported in prior years, enabled OIG to conclude that the remaining issues related to information systems controls no longer constitute a material weakness, and therefore this weakness has been reclassified as a reportable condition.

HUD Management Must Continue to Improve Oversight and Monitoring of Subsidy Calculations and Intermediaries' Program Performance. Since 1996, we reported on weaknesses with the monitoring of housing assistance program delivery and the verification of subsidy payments. Specifically, we focused on the impact these weaknesses had on HUD's ability to (1) ensure intermediaries are correctly calculating housing subsidies and (2) verify tenant income and billings for subsidies. During the past several years, HUD has made progress in correcting this weakness, and in 2005, HUD continued its progress, including taking steps to fully establish a comprehensive program for reducing erroneous payments. These improvements, combined with the progress reported in prior years, enabled OIG to reclassify this weakness as a reportable condition. However, HUD's continued commitment to the implementation of a comprehensive program to reduce erroneous payments will be essential to ensure HUD's intermediaries are properly carrying out their responsibility to administer assisted housing programs according to HUD requirements.

The Department has demonstrated improvements in its internal control structure to address the significant risk that HUD's intermediaries are not properly carrying out their responsibility to administer assisted housing programs according to HUD requirements. HUD's increased and improved monitoring has resulted in a continuing downward trend in improper payment estimates over the last three years. However, HUD needs to continue to place emphasis on its on-site monitoring and technical assistance to ensure acceptable levels of performance and compliance are achieved and periodically assess the accuracy of intermediaries rent determinations, tenant income verifications, and billings.

Controls over HUD's Computing Environment Can Be Further Strengthened. HUD's computing environment, data centers, networks, and servers, provide critical support to all facets of the Department's programs, mortgage insurance, servicing, and administrative operations. In prior years, we reported on various weaknesses with general system controls and controls over certain applications, as well as weak security management. These deficiencies increase risks associated with safeguarding funds, property, and assets from waste, loss, unauthorized use, or misappropriation. We evaluated selected information systems general controls of the Department's computer systems, on which HUD's financial systems reside. Our review found information systems controls weaknesses that could negatively affect the integrity, confidentiality, and availability of computerized data.

Weak Personnel Security Practices Continue to Pose Risks of Unauthorized Access to the Department's Critical Financial Systems. For several years we have reported that HUD's personnel security over critical and sensitive systems' access has been inadequate. Although HUD continues to strive to make progress to address the reported problems, risks of unauthorized access to the Department's critical financial systems remain a major concern. We followed up on previously reported personnel security weaknesses and deficiencies and found that the Department still does not have a central repository that would account for all users with above-read (query) access to all HUD general support and application systems.

HUD Needs to Improve Processes for Reviewing Obligation Balances. HUD needs to improve controls over the monitoring of obligation balances to determine whether they remain needed and legally valid as of the end of the fiscal year. HUD's procedures for identifying and deobligating funds that are no longer needed to meet its obligations are not always effective. This has been a long-standing weakness. Our review of the 2005 year-end obligation balances showed $208 million in excess funds that could be recaptured. Although HUD has made some progress in implementing procedures and improving its information systems to ensure accurate data are used, further improvements in financial systems and controls are still needed.

HUD Needs to Continue Improving Controls for Developing Estimates of Required Budget Authority for the Section 236 Interest Reduction Program. Our review showed an improvement in HUD's procedures and documentation to support the amounts recorded in the subsidiary ledgers. However, we noted that HUD still needs to continue their review of contract files to obtain needed documentation support. There are 51 projects where, due to missing documentation and problems interpreting ambiguous language used in some contracts, HUD could not yet determine if the term of the Interest Reduction Program agreement was 40 or 50 years. To be conservative, HUD assumed that these Interest Reduction Program agreements would be valid for 50 years from the date they were executed. As a result, there is a potential overstatement of the $5 billion cumulative obligation balance ranging from $61 million to $352 million. In addition, we noted four contracts where HUD assumed the agreements were for 50 years and the file documentation supported contract durations of less than 50 years. HUD reduced their obligation balance for the estimated run-out costs for these contracts by $20.6 million.

In addition, our review showed 17 Interest Reduction Program contracts with $148 million in contract and budget authority that could be deobligated. These 17 contracts had either been terminated, prepaid, or the owners had opted-out of the program.

Results of the Audit of FHA's Financial Statements

The independent certified public accounting firm of Urbach, Kahn, and Werlin LLP performed a separate audit of FHA's fiscal year 2005 financial statements. Their report on FHA's financial statements, dated October 28, 2005[2] includes an unqualified opinion on FHA's financial statements, along with discussions of two material weaknesses and one reportable condition. The FHA material weaknesses follow:

> **FHA must incorporate better risk factors and monitoring tools into its single-family insured mortgage program risk analysis and liability estimation process.** Due to significant changes in the home mortgage-lending environment in recent years, the composition and credit worthiness of borrowers in FHA's single family insured loan portfolio has changed, resulting in significant increases in the rate of mortgage insurance claims. However, FHA has not developed a formal process to effectively evaluate certain loan attributes, such as borrower credit scores, down payment assistance sources, delinquency rates and other portfolio characteristics and timely incorporated these factors into the insured loan loss liability calculation to help FHA evaluate the program's future performance.

[2] Urbach, Kahn, and Werlin LLP's report on FHA entitled, "Audit of Federal Housing Administration Financial Statements for Fiscal Year 2005" (2006-FO-0002, dated November 7, 2005) was incorporated into this report.

FHA Management Must Continue to Improve Its Review Over the Credit Reform Estimation Process. Despite continuing improvements to the cash flow models used to estimate the net present value of future premiums, claims and recoveries, and the resulting Loan Guarantee Liability, Urbach, Kahn, and Werlin LLP reported that the management review process over the year end estimate was not sufficient to identify material errors in the Mark-to-Market program and Home Equity Conversion Model (reverse mortgage) cash flow calculations.

The audit results also identified the following reportable condition that is not considered a material weakness:

FHA Must Continue to Enhance the Management of Controls Over Its Portfolio of Integrated Insurance and Financial Systems. As FHA's implementation of its new core financial management system project moves into its final phases, Urbach, Kahn, and Werlin LLP found that the remaining portfolio of various insurance and financial systems that support the financial reporting process are not effectively managed, resulting in continuing general control weaknesses with respect to financial management system's contingency planning, risk assessments, disaster recovery planning, and other components of system security.

Results of the Audit of Ginnie Mae's Financial Statements

We performed a separate audit of the Ginnie Mae financial statements for fiscal years 2005 and 2004. Our report on Ginnie Mae's financial statements, dated November 7, 2005,[3] includes an unqualified opinion on these financial statements. In addition, the audit results indicate that there were no material weaknesses or reportable conditions with Ginnie Mae's internal controls, or material instances of non-compliance with laws and regulations.

For informational purposes, in Note L. to the financial statements, Ginnie Mae makes reference to the Federal Credit Reform Act of 1990, which became effective on October 1, 1991, and notes that in the opinion of

[3] Our report on Ginnie Mae entitled, "Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2005 and 2004" (2006-FO-0001, dated November 7, 2005) was incorporated into this report.

Ginnie Mae management, and HUD's General Counsel, the Federal Credit Reform Act does not apply to Ginnie Mae's guarantee programs. Nevertheless, in consultation with OMB, Ginnie Mae has adopted certain credit reform practices. Because OMB administers the Federal Credit Reform Act and Ginnie Mae's financial position and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations could be materially impacted by the adoption of all credit reform reporting practices, the Office of Inspector General has requested that OMB's General Counsel formally opine as to whether Ginnie Mae is subject to the full reporting requirements of the Federal Credit Reform Act. In addition, on June 30, 2005, the U. S. House of Representatives passed H.R. 3058, "Making appropriations for the Departments of Transportation, Treasury, and Housing and Urban Development, the Judiciary, District of Columbia, and independent agencies for the fiscal year ending September 30, 2006, and for other purposes." Section 319 of H.R. 3058 states that no funds provided under this title may be used for an audit of Ginnie Mae that makes applicable requirements under the Federal Credit Reform Act of 1990.

Management Deficiencies Represent Long-Standing Weaknesses

Most of the issues described in this report represent long-standing weaknesses that will be difficult to resolve. HUD's management deficiencies have received much attention in recent years. For example, in January 1994, GAO designated HUD as a high-risk area, the first time such a designation was given to a cabinet level agency. Since that time, HUD has devoted considerable attention and priority to addressing the Department's management deficiencies and has made some progress. In their January 2005 update, GAO noted that HUD has made progress since 2003 in addressing identified weaknesses in its high-risk program areas. However, GAO continues to maintain the Department's single-family mortgage insurance and rental housing assistance program areas as high risk at this time.

Because of continued weaknesses in HUD's internal controls and financial management systems, HUD continues to rely on extensive ad hoc analyses and special projects to develop account balances and necessary disclosures.

Objectives, Scope and Methodology

The accompanying principal financial statements are the responsibility of HUD management. Our responsibility is to express an opinion on these principal financial statements. As part of our audit, we considered HUD's internal controls over financial reporting for the purpose of expressing our opinion on the principal financial statements and not to provide assurance on those internal controls. We conducted our audit in accordance with *Government Auditing Standards*, and the requirements of OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*, as amended. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

We also tested HUD's compliance with laws, regulations, and provisions of contract and grant agreements that could have a direct and material effect on the financial statements. However, our consideration of HUD's internal controls and our testing of its compliance with laws, regulations, and provisions of contract and grant agreements were not designed to and did not provide sufficient evidence to express an opinion on such matters and would not necessarily disclose all matters that might be material weaknesses, reportable conditions or noncompliance with laws, regulations, and provisions of contract and grant agreements. Accordingly, we do not express an opinion on HUD's internal controls or on its compliance with laws, regulations, and provisions of contract and grant agreements.

Agency Comments and Our Evaluation

On October 31, 2005, we provided a draft of the internal control and compliance sections of our report to the CFO and appropriate assistant secretaries and other Departmental officials for review and comment, and requested that the CFO coordinate a Department-wide response. The CFO responded in a memorandum dated November 4, 2005, which is included in its entirety in our separate report. Except for the report's conclusion on HUD's compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA), the Department generally agreed with our presentation of findings and recommendations subject to detailed comments included in the memorandum. The Department's response was considered in preparing the final version of this report.

This report is intended for the information and use of the management of HUD, OMB, the Government Accountability Office, and the U.S.

Congress, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited. In addition to a separate report detailing the internal control and compliance issues included in this report and providing specific recommendations to HUD management, we noted other matters involving internal control over financial reporting and its operation that we are reporting to HUD management in a separate "management letter."

James A. Heist
Assistant Inspector General for Audit

November 15, 2005

Management and Performance Challenges ─ Inspector General and HUD Management Perspectives

In accordance with the Reports Consolidation Act of 2000, HUD's annual Performance and Accountability Report "…shall include a statement prepared by the agency's inspector general that summarizes what the inspector general considers to be the most serious management and performance challenges facing the agency and briefly assesses the agency's progress in addressing those challenges." On October 18, 2005, HUD's Inspector General provided a statement on six management challenges for inclusion in this FY 2005 Performance and Accountability Report:

1. Department-wide organizational changes;
2. Financial management systems;
3. Human capital management;
4. FHA single family origination;
5. Public and assisted housing program administration; and
6. Administering programs directed toward the victims of Hurricanes Katrina and Rita.

The full text of the HUD Inspector General's Management and Performance Challenges statement is presented immediately after the following summary of HUD management's current perspective on these challenges.

HUD Management's Perspective

HUD management agrees that the six areas identified in the Inspector General's statement are challenges currently facing the Department. As an indicator of the importance being placed on addressing each of these issues, the first five of these six challenges are included in high-visibility initiatives in the PMA, and the sixth challenge, administering HUD's hurricane disaster relief efforts, is being carried-out in accordance with OMB guidance on expediting benefits and controlling the risk of fraud, waste, and abuse in hurricane disaster relief efforts. In addition to the progress on these challenges that is summarized below, and in the following Inspector General's statement, further information on HUD's specific FY 2005 actions to meet these challenges is provided in the PMA section of this report.

Department-wide Organizational Changes and Human Capital Management – These two challenges are interrelated and are both covered through HUD actions taken and planned under the PMA initiative on "Strategic Management of Human Capital." HUD has taken significant steps to better utilize existing staff capacity, and to obtain, develop, and maintain the capacity necessary to adequately support HUD's future mission-critical program delivery. A five-year strategy for management of human capital has been developed, with detailed implementation plans to ensure that: HUD's organizational structure is optimized; succession strategies are in place to provide a continuously updated talent pool; performance appraisal plans for all managers and staff are linked to HUD's mission goals and objectives; diversity hiring strategies are in place to address under-representation; skill gaps are assessed and addressed; and human capital management accountability systems are in place to support effective management of HUD's human capital. Collectively, these actions are better enabling HUD to recruit, develop, manage, and retain a high-performing workforce that is capable of effectively supporting HUD's program delivery and mission.

Financial Management Systems – FY 2005 was the first time HUD was able to report substantial compliance with the federal financial systems requirements of the Federal Financial Management Improvement Act of 1996 and Section 4 of the Federal Managers' Financial Integrity Act of 1982. HUD's financial systems supported the preparation and audit of Department-wide consolidated financial statements within 45 days after the end of the fiscal year, with an unqualified audit opinion. A full year's operation of new modules of the FHA Subsidiary Ledger Project strengthened support for FHA's cash management, funds control and credit subsidy accounting functions and enabled the Department to eliminate a material weakness issue. With an inventory of 44 total financial systems, the number of non-compliant systems has been reduced from 17 in FY 2003 to only 2 at the end of FY 2005, and remediation of those 2 systems will occur next year. HUD also made significant progress in improving its compliance with systems security documentation and review requirements this past year, to better assure the security of its data. However, since HUD's existing core financial system could be better integrated, more user friendly and less costly to maintain, HUD is proceeding with plans to develop and implement a modern replacement system through the HUD Integrated Financial Management Improvement Project. The requirements for the new system were completed in FY 2005, and HUD is proceeding with plans for development and implementation of the new system by FY 2008.

FHA Single Family Origination – Risks of the FHA Single Family Housing Mortgage Insurance Programs have been reduced through actions taken under the HUD Management and Performance initiative of the PMA, as acknowledged in the Inspector General's statement. Actions taken to date include implementation of: an automated systems control to preclude the predatory lending practice of "property flipping" on FHA insured loans; stronger professional credentials for appraisers who validate the values of FHA insured mortgages; a new "Appraiser Watch" process that automatically targets appraisers with poor performance records for monitoring and disqualification if they have violated FHA standards; a new automated underwriting system to provide more consistent, objective evaluations of the credit worthiness of borrowers; improved risk-based targeting of lender compliance reviews; and a new process for electronic verification of social security numbers to further reduce fraud in FHA applications. With consistent implementation of these and other pending corrective actions initiated by FHA, HUD's goal is to eliminate the Government Accountability Office's high-risk program designation on the Single Family Housing Mortgage Insurance Program area by January 2007.

Public and Assisted Housing Program Administration – HUD set and communicated clear measurable goals and corrective actions for reducing improper rental housing assistance payments and improving public and assisted housing conditions and continues to work collaboratively with the housing industry and local housing program administrators to meet or exceed those goals. Since FY 2000, estimated improper payments due to program administrator subsidy determination errors and tenant underreporting of income have been reduced 61 percent, from $3.2 billion to $1.2 billion. The percentage of properties meeting HUD's physical condition standards has increased to 92 percent for public housing and 96 percent for assisted multifamily housing. HUD's Office of Public and Indian Housing has focused on increased monitoring, technical assistance, and enforcement actions at the largest 490 public housing agencies that receive over 80 percent of their program funding. HUD's Office of Multifamily

Housing and their Performance-Based Contract Administrators conducted over 15,000 on-site monitoring reviews in FY 2005, directed at improving program administrator performance to reduce improper payments and improve housing conditions. The implementation of HUD's new Enterprise Income Verification System for upfront verification of tenant income, in FY 2006, has the potential to eliminate most of the remaining improper payment estimate.

Administering Programs Directed Toward Victims of Hurricanes Katrina and Rita – On August 29, 2005, Hurricane Katrina struck the Gulf Coast, displacing hundreds of thousands of people from their homes. HUD responded quickly in the wake of this unprecedented natural disaster to help meet the temporary housing needs of displaced households, assess the impacts on HUD-supported housing, and plan the long-term recovery of the devastated region. While HUD's response was immediate and comprehensive, it also ensured adequate controls were established over the use of funds to minimize the risk of fraud, waste, and abuse. As an agent of the Federal Emergency Management Agency, the Department has developed and implemented the Katrina Disaster Housing Assistance Payment program to provide temporary housing assistance to all HUD-assisted evacuees as well as those who were homeless prior to the disaster. The controls over this temporary assistance will closely follow HUD's regular housing voucher program to minimize risk of fraud, waste, and abuse. HUD has also approved waivers of many regulations in the Department's programs to ease and expedite access to programs and to provide more flexibility in the use of funds for disaster relief. Again, HUD's normal program oversight will apply to those program activities.

U.S. Department of Housing and Urban Development
Office of Inspector General
451 7th St., S.W.
Washington, D.C. 20410-4500

OCT 18 2005

MEMORANDUM FOR: Alphonso Jackson, Secretary, S

FROM: Kenneth M. Donohue, Inspector General, G

SUBJECT: Management and Performance Challenges

In accordance with Section 3 of the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) is submitting its annual statement to you summarizing our current assessment of the most serious management and performance challenges facing the Department of Housing and Urban Development (HUD) in fiscal year 2006 and beyond. Through our audits and investigations, we work with Departmental managers in recommending actions that best address these challenges. More details on our efforts in relation to these issues can be found in the audit and investigative chapters of our Semiannual Report to the Congress.

The Department's primary mission is to expand housing opportunities for American families seeking to better their quality of life. HUD seeks to accomplish this through a wide variety of housing and community development grant, subsidy, and loan programs. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single-family and multifamily properties. With about 8,800 staff nationwide, HUD relies upon numerous partners for the performance and integrity of a large number of diverse programs. Among these partners are hundreds of cities that manage HUD's Community Development Block Grant funds, hundreds of public housing authorities that manage assisted housing funds, thousands of HUD-approved lenders that originate and service FHA-insured loans, and hundreds of Ginnie Mae mortgage-backed securities issuers that provide mortgage capital.

Achieving HUD's mission continues to be an ambitious challenge for its limited staff, given the agency's diverse mission, the thousands of program intermediaries assisting the Department in this mission, and the millions of beneficiaries in its housing programs. HUD's management problems have for years kept it on the Government Accountability Office's (GAO) list of agencies with high-risk programs. HUD's management team, GAO, and OIG share the view that improvements in human capital, acquisitions, and information systems are essential in removing HUD from its high-risk designation. More specifically, HUD must focus these improvements on rental housing assistance programs and single-family housing mortgage insurance programs, two areas where financial and programmatic exposure is the greatest. That HUD's reported management challenges are included as part of the President's Management Agenda (PMA) is indicative of HUD's important role in the Federal sector. HUD's current Administration places a high priority on correcting those weaknesses that put HUD on GAO's high-risk list.

As of the end of fiscal year 2005, HUD's PMA scoring status showed significant improvement for six of the eight initiatives applicable to HUD with a total of two "green", five "yellow", and one "red" baseline goal scores. Based upon a comprehensive set of standards, an agency is "green" if it meets all of the standards for success, "yellow" if it has achieved some but not all of the criteria, and "red" if it has even one of the number of serious flaws. HUD's baseline score for Improved Financial Performance remains at "red" because of material weaknesses and a disclaimer of opinion received on HUD's 2004 consolidated financial statements. It is noteworthy, however, that HUD was the first agency to receive a "green" baseline goal score on reducing improper payments.

Although the management structure, size, and range of Departmental programs make it difficult to correct and overcome program weaknesses, HUD is working to address these challenges and, as shown by the PMA scoring, has made progress. The Department's management challenges we are reporting this year include:

✓Department-wide organizational changes,

✓Financial management systems,

✓Human capital management,

✓FHA single-family origination,

✓Public and assisted housing program administration, and

✓Administering programs directed toward the victims of Hurricanes Katrina and Rita.

The attachment provides a greater discussion of these challenges and the OIG's efforts to help the Department resolve these matters.

Attachment

Attachment

HUD Management and Performance Challenges

Fiscal Year 2006 and Beyond

***Department-wide Organizational Changes*.** For more than a decade, the Department has struggled with organizational and management changes in an effort to streamline its operations. These changes were necessary as HUD tried to manage more programs and larger budgets with fewer staff. The former HUD Administration realigned the Department along functional lines, separating outreach from program administration. Also, it placed greater reliance on automated tools, processing centers, contracted services, and HUD partners to administer its programs. As HUD implemented these realignments, many employees were assigned new duties and responsibilities, and many new employees were hired. The disruptions caused by these sweeping changes compounded problems in effectively managing HUD operations.

The current Administration has made several changes to reduce organizational layers and improve operations. The Departmental Enforcement Center was placed under the direction of the General Counsel to consolidate legal resources in support of a strong program enforcement effort. The Real Estate Assessment Center (REAC) was placed under the direction of the Assistant Secretary for Public and Indian Housing to improve REAC's working relationships with program staff and program partners. In addition, the return to the former regional and field office structure was implemented to give HUD's field operations greater operational control over the administrative budget resources they need to pursue their operating and program goals and to strengthen the local focus on workload management to meet national performance goals.

Improving the efficiency and effectiveness of HUD's programs through reorganization efforts requires the Department, in part, to sustain operational consistency in completed reforms. To better ensure operational consistency, it is essential that HUD execute its Strategic Five-Year Human Capital Management Plan. The first goal in HUD's Plan, developed in 2003, is to make HUD a mission-focused agency. Getting the right number of employees in the right location with the right skill mix will improve the quality of HUD programs and services by addressing management challenges, reducing program risks, and improving program performance. The relationship between office functions and department wide goals is also reinforced through the Plan's implementation. HUD's Plan recognizes that human resources activities must be aligned with agency goals to clearly, efficiently, and effectively support and enable HUD to achieve its mission.

***Financial Management Systems*.** Since FY 1991, we have annually reported that the lack of an integrated financial system in compliance with all Federal Financial Management System requirements is a weakness in internal controls. While some progress has been made, a number of long-standing deficiencies remain. For the past several years, our financial audits also reported weaknesses in internal controls and security over HUD's general data processing operations and specific applications. The effect of these weaknesses is that HUD cannot be reasonably assured that system information will remain confidential, protected from loss, and available to those who need it without interruption.

HUD has completed certification and accreditation for 41 of its 44 financial management systems. However, the quality of the underlying documents and the actual certification and accreditation process varied by application. While a number of vulnerabilities were closed, additional vulnerabilities, identified through oversight activities, were not corrected before accreditation. In addition, certification and accreditation of the general support systems on which these applications reside has not been completed and is ongoing.

The weaknesses noted in our FY 2004 Consolidated Financial Audit relate to the need to

- Comply with Federal Financial Management System requirements, including the need to enhance FHA's information technology systems to more effectively support its business and budget processes;
- Strengthen controls over HUD's computing environment;
- Improve personnel security practices for access to the Department's critical financial systems; and
- Improve the systems and processes for reviewing obligation balances to ensure that unneeded amounts are deobligated in a timely manner.

HUD's most significant system challenges have existed in FHA, which continues to conduct some day-to-day business operations with legacy-based systems, limiting its ability to integrate its financial processing environment. During FY 2003, FHA implemented the FHA Subsidiary Ledger (FHASL) financial system. This system automated many previously manual processes used to (1) consolidate the accounting data received from the various FHA operational legacy systems and (2) prepare summary entries for posting to the FHASL. FHA continues to make progress in its overall compliance with Federal Financial Management System requirements. In FY 2004, FHA completed the implementation of its core financial system with the addition of cash management, funds control, and contract modules. By FY 2007, FHA plans to fully integrate program operations with its core financial system, eliminating some legacy systems and reengineering others to implement budgetary controls at the source, further reducing the need for manual processing, and improving financial operations.

Human Capital Management. For many years, one of the Department's major challenges has been to effectively manage its limited staff resources to accomplish its primary mission. In recent years, the Department has contracted out numerous functions essential to the accomplishment of its overall mission, in part due to staffing issues. Many of the weaknesses facing HUD, particularly those concerning HUD's oversight of program recipients, are exacerbated by HUD's resource management shortcomings. Accordingly, we consider it critical for the Department to address these shortcomings through the successful completion of ongoing plans. To operate effectively and hold individuals responsible for performance, HUD needs to know that it has the right number of staff with the proper skills in the right positions.

To address its human capital needs and respond to the PMA, HUD developed a comprehensive Five-Year Strategic Human Capital Management Plan that identifies three strategic goals for human capital:

- Mission-focused agency to align employees and work to support HUD's mission;
- High quality workforce, which recruits, develops, manages, and retains a diverse workforce; and
- Effective succession planning to ensure retirees over the next 5 years are succeeded by qualified employees.

The human capital management plan is the Department's primary tool for advancing its human capital transformation. The plan is reviewed annually, and updates or revisions are issued as needed to support implementation activities. In line with its strategic plan, HUD has increased its focus on human capital management through a variety of initiatives.

To address staffing imbalances and other human capital challenges, the Department uses the Resource Estimation and Allocation Process (REAP) and the Total Estimation and Allocation Mechanism (TEAM). REAP and TEAM are HUD's resource management tools by which the Department identifies, justifies, analyzes, and makes a recommendation regarding the optimal level of resources necessary for effective and efficient program administration and management. REAP obtains crucial time and workload data necessary for viable budget estimation and execution and to meet the Department's Government Performance and Results Act requirements.

In June 2003, HUD awarded a contract to conduct a workforce analysis for the Department. The purposes of the workforce analysis studies were to: establish future workforce needs, compare them with current capabilities, determine skill gaps, and develop human capital strategies and actions to close the gaps. In September 2004, the contractor completed the analysis of HUD's workforce and provided HUD a consolidated report with 5-year workforce projections for planning purposes. The contractor's analysis and report focused on the Department's core business functions, beginning with the Office of Public and Indian Housing (PIH), and then the Office of Community Planning and Development, the Office of Housing, and the Office of Fair Housing and Equal Opportunity.

HUD is currently in the process of integrating REAP and the workforce analysis so that they complement one another and provide strategic workforce planning direction with the objective of comparing priority needs and making workforce management decisions that best serve the Department's mission.

FHA Single-Family Origination. FHA's Single Family Insurance Programs enable millions of first-time, minority, low-income elderly and other underserved households to realize the benefits of homeownership. HUD manages about $368 billion in single-family insured mortgages. Effective management of this high-risk portfolio represents a continuing challenge for the Department. The PMA has committed HUD to tackling long-standing management problems that expose FHA homebuyers to fraudulent practices.

HUD has taken a number of actions to reduce risks to homebuyers including the following:

- Established an automated systems control to preclude the predatory lending practice of "property flipping" on FHA insured loans;

- Established an "Appraiser Watch" process, wherein appraisers with poor performance records are automatically targeted for monitoring and disqualification from program participation if they violated FHA standards;

- Established an automated underwriting system, the Technology Open to Approved Lenders (TOTAL) Scorecard to increase lender efficiency through more consistent, objective evaluations of the credit worthiness of borrowers; and

- Initiated a process for the electronic verification of social security numbers to further reduce fraud in FHA applications.

While GAO and we have reported improved monitoring of lender underwriting, default tracking, and expanded loss mitigation to help reduce mortgage foreclosures, HUD needs to further strengthen lender accountability and take strong enforcement actions against program abusers that victimize first-time and minority homebuyers.

In support of HUD and the PMA, OIG's Strategic Plan for FY 2005 gave priority to detecting and preventing fraud in FHA mortgage lending through targeted audits and investigations. Our audits targeted lenders with high default rates. Our detailed testing focuses on mortgage loans that had defaulted and resulted in FHA insurance losses. Results from these audits have noted significant lender underwriting deficiencies, prohibited late endorsed loans, inadequate quality control, and other operational irregularities. Our recommendations have sought monetary recoveries through loan indemnifications exceeding $197 million, loss reimbursements of over $13.1 million, and appropriate civil remedies. During FY 2005, we completed 50 external audits of FHA-approved mortgage lenders as well as four internal audits of single-family program activities. Additionally, our investigative workload in single-family fraud prevention continues to grow dramatically. Last fiscal year, more than 840 individuals were indicted for single-family fraud.

The OIG's audit of FHA's FY 2004 financial statements also reported a need to place more emphasis on monitoring lender underwriting and continuing to improve single-family early warning and loss prevention. OIG has tailored its audit and investigation techniques to complement this need, support HUD management improvements, and provide an added deterrence to mortgage fraud. We developed a comprehensive training course on auditing single-family lenders and conducting single-family fraud investigations. To date, 154 auditors have completed the single-family lender audit training course.

Public and Assisted Housing Program Administration. HUD provides housing assistance funds under various grant and subsidy programs to public housing agencies and multifamily project owners. These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. PIH and the Office of Housing monitor these intermediaries' administration of the assisted housing programs.

Accurate and timely information about households participating in HUD housing programs is necessary to allow HUD to monitor the effectiveness of the program, assess agency compliance with regulations, and analyze the impacts of proposed program changes. The level of reporting is a criterion for housing agencies' performance in both the Public Housing Assessment System and the Section 8 Management Assessment Program. HUD's goal is to obtain 85 percent reporting of tenant data into the system.

Weaknesses in the monitoring of housing agencies and assisted multifamily projects continue to present obstacles in achieving the intended statutory purposes. These weaknesses have been reported for a number of years in our annual audits of HUD's financial statements.

A 2000 HUD study concluded that 60 percent of all rent and subsidy calculations performed by intermediaries contained overpayment or underpayment errors totaling more than $3.2 billion. In 2003, an update to this study estimated a gross error payment of $1.6 billion. Although still a large amount, this represents a 50-percent reduction from the error estimate completed in 2000. The reduction is attributed to enhanced program guidance, training, oversight, and enforcement, as well as improved income verification efforts, voluntary compliance by tenants due to promotion of the issue, an improved computer matching process, and an improved methodology for reviewing income discrepancies. HUD is also validating tenant-reported income against other Federal sources and considering program simplification options. In addition to these efforts, HUD needs to enforce the requirement that intermediaries report data elements in the management information system. Sanctions need to be applied if intermediaries do not comply with this requirement.

Paralleling HUD efforts, our investigative and audit focus is concentrating on fraudulent practices and the lack of compliance with the Section 8 program statute and requirements. To comply with a Congressional request, OIG conducted 35 external audits of the Section 8 Housing Choice Voucher program during FY 2005. The OIG also hired an additional professional appraiser to assist in evaluating housing quality requirements as part of our audit efforts. In total, these external audits addressed whether the housing agencies are correctly calculating subsidy amounts, correctly determining family income, complying with housing quality standards, fully using authorized vouchers, and implementing controls to prevent duplicative and fraudulent housing assistance payments. Our recommendations for these audits questioned costs of over $45.8 million and identified over $194 million that could be put to better use.

<u>Administering Programs Directed Toward Victims of Hurricanes Katrina and Rita</u>. The recent hurricanes devastated many gulf coast communities and displaced millions of people. Initially, the Federal Emergency Management Agency (FEMA) was to be responsible for the temporary housing (up to a year) of evacuees while HUD was to be responsible for finding permanent housing. However, FEMA and HUD later agreed that HUD would receive $79 million to provide transitional housing (up to 18 months) for those individuals who previously received HUD housing assistance prior to being displaced. HUD reports that there are over 700,000 HUD assisted or insured housing units including elderly housing that housed approximately 2 million individuals in the affected region. This new mission of providing transitional and permanent housing for so many displaced people poses significant management and performance challenges for HUD.

HUD has taken a number of actions to address the more immediate housing assistance issues and challenges including:

- Establishing a Hurricane Recovery and Response Center (HRRC), an emergency management division chaired by the Assistant Secretary for Housing-Federal Housing Commissioner that serves as the HUD headquarters command post and reports directly to the Secretary;

- Establishing a field operations office in Baton Rouge, Louisiana and dispatching HUD specialists with expertise on manufactured housing, reconstruction, and community planning;

- Working with the United States Conference of Mayors and the National Association of Counties to coordinate the identification of housing opportunities nationwide;

- Identifying vacant public housing units and available vouchers nationwide;

- Temporarily waiving numerous program requirements to make it easier for disaster displaced individuals who previously received housing assistance to obtain housing assistance in their new locations;

- Modifying or awarding contracts to provide various contractor services to address the housing assistance needs of the displaced hurricane victims; and

- Identifying about 6,000 HUD owned properties within a 500-mile radius of the disaster region and authorizing Management and Marketing contractors to rehab the properties to make them available for housing.

Now that HUD has started the process of providing housing assistance to displaced individuals, it is extremely important that Agency officials work closely with the OIG to ensure that reasonable controls over the use of funds are put in place to mitigate, to the extent possible, the risk of fraud, waste, and abuse. To this end, OIG established a task force to deal exclusively with audit and investigative matters that arise from HUD’s disaster recovery and reconstruction responsibilities. It is also important that HUD work closely with FEMA to coordinate the various housing actions undertaken by both Agencies.

Financial Management Accountability

This section covers:

- Federal Managers' Financial Integrity Act Reporting
- Secretary's Audit Resolution Report to Congress
- Delinquent Debt Collection

FMFIA Assurance Statement

I am able to certify with reasonable assurance that the Department is in compliance with the provisions of Section 2 and Section 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. This is the first time HUD has reported an unqualified assurance on compliance with FMFIA, due to the elimination of long-standing material weaknesses on financial systems compliance and controls over rental housing assistance.

Alphonso Jackson
Secretary of Housing and Urban Development

Material Weakness and Systems Non-Conformance

A material weakness is a significant control deficiency that results in more than a remote likelihood that a misstatement significant enough to warrant reporting outside of the agency will not be prevented or detected. Section 2 of FMFIA requires the annual reporting of material internal control weaknesses and plans to correct any such weaknesses. Section 4 of FMFIA requires the reporting of any material non-conformance with financial management systems requirements established by OMB Circular A-127 and the Federal Financial Management Improvement Act of 1996, with corresponding remediation plans.

During FY 2005, HUD continued to focus its efforts on successfully implementing its multi-year corrective action strategies to address the remaining material internal control weakness and long-standing material systems non-conformance. FY 2005 marked a milestone for the Department, as both of HUD's two remaining material weakness issues were reduced to reportable conditions, as discussed below.

Material Weakness
FY 2004 Carry Over Issue and FY 2005 Status

First Reported	Material Weakness	Status at End of FY 2005
1996	Controls Over Rental Housing Assistance[4]	Reportable Condition

Remaining Material Weakness Reclassified as Reportable Condition

The Department's comprehensive strategy for addressing weaknesses in its internal controls over subsidy determinations and payments in its rental housing assistance programs progressed to the point where the material weakness has been reclassified as a reportable condition. These programs, which include Public Housing, Section 8 Tenant-Based Assistance, and Multifamily Housing Project-Based Assistance, were collectively designated as a "high risk" program area by the Government Accountability Office, pending their next updated review in January 2007. HUD's Office of Inspector General also reported material internal control weaknesses in this area prior to reclassifying the material weakness as a reportable condition in their FY 2005 financial statement audit. HUD has made substantial reductions in erroneous housing subsidy determinations and payments through enhanced program guidance, training, oversight, and enforcement. Upon full implementation of a new computer matching system for upfront verification of tenant income in FY 2006, HUD expects to resolve the remaining reportable condition issue and justify elimination of the high-risk program designation for rental housing assistance. Additional information on completed and planned corrective actions on this weakness is provided in the President's Management Agenda section of this report, under the initiative to eliminate improper payments.

Material Non-Conformance
FY 2004 Carry Over Issue and FY 2005 Status

First Reported	Material Non-Conformances	Status at End of FY 2005
1989	Departmental Financial Management Systems	Reportable Condition[5]

Material Systems Non-Conformance Reclassified as Reportable Condition

As a result of continued progress made in the area of HUD's financial management systems, this long-standing material non-conformance has been downgraded to a reportable condition, and HUD is now substantially compliant with OMB Circular A-127 and the Federal Financial Management Improvement Act of 1996. Compliance with OMB Circular A-127 is assured when the system meets all of the 12 requirements contained in Section 7 of the Circular. If the system does not comply with one or more factors, the impact of the non-conformance instance is assessed against the overall ability of the system to generate reliable financial information

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[4] This material weakness was presented in 1999 and prior reports as "Income Verification." In FY 2000, HUD expanded the weakness to include all issues associated with improving controls over rental subsidies, including a previously reported management concern entitled "Project-Based Subsidy Payments."

[5] The FHA Accounting and Management Systems material non-conformance, previously shown separately, was combined as a part of the Departmental Financial Management Systems non-conformance in FY 2003.

consistently, accurately, and uniformly. OMB guidelines specify that agencies are substantially compliant with the Federal Financial Management Improvement Act if they can:

- Prepare financial statements and other required financial and budget reports using information generated by the financial management system(s);
- Provide reliable and timely financial information for managing current operations;
- Account for their assets reliably, so that they can be properly protected from loss, misappropriation, or destruction; and
- Do all of the above in a way that is consistent with federal accounting standards and the Standard General Ledger.

HUD's core financial management systems were deemed to be substantially compliant with the Federal Financial Management Improvement Act in FY 2001, with the exception of FHA systems where there was a need to convert from a commercial accounting system to a system that complied with federal requirements, including accounting for budget execution and funds control and credit reform. FHA designed and initiated the multi-year, phased FHA Subsidiary Ledger Project to better address FHA's business needs and comply with federal financial management systems requirements. The general ledger module of the FHA Subsidiary Ledger system was implemented in October 2002, to provide the capability to: record and track budgetary resources using the U.S. Standard General Ledger at the transaction level; control expenditures against available resources (on a monthly basis); and produce timely financial statement reports directly from the general ledger. In late FY 2004, FHA implemented the accounts payable, accounts receivable, procurement, and projects modules of the project to strengthen support for cash management, funds control, and credit subsidy accounting. The project has now moved into the final phase of completing the improved integration of insurance program operations with the new core financial system. In addition, this phase will include strengthening the FHA Subsidiary Ledger System's disaster recovery planning, risk assessment, and contingency planning process, and other components of system security.

A complete listing of HUD's 44 financial and mixed financial program systems is shown in Appendix 3. Of these 44 financial management systems, only 2 are reported as non-compliant: the Facilities Integrated Resources Management System in the Office of Administration, and the Loan Accounting System in the Office of the CFO. This is a significant improvement given the 17 non-compliant systems reported at the beginning of FY 2003.

In FY 2005, an independent contractor determined that the Facilities Integrated Resources Management System was not in compliance with FMFIA due to significant internal control weaknesses. In its 2005 FMFIA assurance statement, the Office of Administration reported the Facilities Integrated Resources Management System as non-compliant with Section 4 of FMFIA. The Office of Administration, while having compensating controls to periodically reconcile the property inventory maintained in the Facilities Integrated Resources Management System with the various purchasing activities, also has corrective actions in process to address systemic internal control deficiencies to better ensure that the system maintains a current, accurate, and complete property inventory.

The Office of the CFO is in the process of replacing the Loan Accounting System, which accounts for the terminated direct loan program for the Section 202 program (elderly housing). The Office of the CFO awarded a contract for procuring a commercial-off-the-shelf package for the Loan Accounting System in March 2005 and purchased the software in April 2005. The system configuration and testing of the software started in May 2005 and continued through the fourth quarter of FY 2005. The implementation of the commercial-off-the-shelf replacement system is projected to occur during the second quarter of FY 2006.

Reportable Conditions

To be consistent with terminology used in the revised OMB Circular A-123, weaknesses previously reported as management concerns are now shown as reportable conditions. Reportable conditions are control deficiencies that represent weaknesses in the design or operation of internal control that could adversely affect the organization's ability to meet its internal control objectives. HUD began FY 2005 with 9 reportable conditions and ended the fiscal year with 10 open conditions, having combined 2 issues, opened 1 new issue and downgraded 2 issues from material weaknesses to reportable conditions, as discussed above. The table following this summary chart provides specific FY 2005 accomplishments and remaining actions on each of the other reportable conditions.

Reportable Conditions
FY 2004 Carry Over Issues and FY 2005 Status

Carry Over/New Issues	Reportable Conditions	Status at End of FY 2005
RC1	Performance Measures*	Open
RC3	PHA Monitoring	Open
RC4	HUD's Computing Environment*	Open
RC5	Personnel Security Over Systems*	Combined with RC4
RC7	Obligation Balances*	Open
RC12	FHA Systems Controls	Combined with RC19
RC13	Resource Management	Open
RC14	Management Controls	Open
RC16	Single Audit Act Coverage	Open
RC17	FHA Risk Analysis/Liability Estimation**	New
RC18	Controls Over Rental Housing Assistance*	Downgraded from a MW
RC19	Departmental Financial Management Systems*	Downgraded from a MW

**Reportable Conditions in the Office of Inspector General's FY 2005 Financial Statement Audit*

***Material Weakness in the Office of Inspector General's FY 2005 Financial Statement Audit*

Status of Reportable Conditions

Reportable Condition/ Problem Statement	FY 2005 Accomplishments	Planned Actions
Performance Measures HUD needs to improve quality controls over performance measure data to ensure data: 1) accuracy, 2) timeliness, 3) estimation, and 4) availability.	• Completed five additional data quality assessments and certifications of HUD information systems used to support Annual Performance Plan reporting. HUD concluded the data quality improvement process on 28 total systems.	• Implement all corrective actions identified during data quality assessments. • Complete certification of systems not yet certified. • Assess and address data availability and quality issues associated with the accelerated Performance and Accountability Report.
PHA Monitoring Continued efforts are needed to improve monitoring of PHAs to ensure that program funds are expended in compliance with laws and regulations.	• Assessed monitoring management and operations of 11 field offices during the Quality Management Review on-site visits and provided technical assistance, as appropriate. • PIH participated in the Department's Compliance and Monitoring Initiative Training for FY 2005. The three-day training consisted of a general session to train staff on the commonalities of monitoring, as well as program-specific training. A total of 34 PIH staff were trained.	• Implement plans to annually conduct comprehensive monitoring reviews on 100 of the 480 largest PHAs and on a 5 percent sample of the remaining PHAs. • Improve the consistency and tracking of the reporting and resolution of monitoring results. • Continue the Quality Management Review on-site visits. • Continue delivery of the Compliance and Monitoring Initiative to field office staff.
HUD's Computing Environment Controls over HUD's computing environment can be further strengthened to reduce the risks associated with safeguarding funds, property, and assets from unauthorized use or misappropriation.	• Developed HUD's security Certification and Accreditation program. • Completed Certification and Accreditation for more than 90 percent of all of HUD's systems. • Completed contingency plan for 41 HUD mission critical systems in accordance with National Institute of Standards and Technology 800-34 publication. • Completed the implementation of the new Microsoft Windows XP operating system for all employees' desktop personal computers. • Standardized Microsoft Windows XP configuration to the National Institute of Standards and Technology standards where practical. • Oversaw the HUD Information Technology Service contract under which the following was carried out: determination and/or revision of any contingency requirements; compliance with the continuity of operations plan; and compliance with the National	• Monitor agency progress on Plan of Action and Milestones in accordance with the Federal Information Security Management Act. • Revise and update the Security and Privacy Architecture for the Target Enterprise Architecture. • Complete, implement, and test a disaster recovery plan for HUD's information technology infrastructure. • Implement a compliance review process to ensure conformance with published security baseline configuration standards. • Complete the contingency plan for each major HUD application, in accordance with the National Institute of Standards and Technology 800-34 publication. • Implement Alpha-Five, the replacement system for the HUD

Reportable Condition/ Problem Statement	FY 2005 Accomplishments	Planned Actions
	Institute of Standards and Technology guidelines.	On-Line User Registration System, which was to provide administrative workflow, multilevel approvals, self-registration, and reporting, but is no longer supported for upgrade.
Personnel Security HUD's personnel security practices need to be strengthened to reduce the risks of unauthorized access to the Department's critical financial systems.	• Performed 100 percent of the FY 2005 reviews, by comparing access security data with data residing in the personnel security's database.	The remaining action on this reportable condition was combined with the above reportable condition on HUD's Computing Environment, pending completion of Alpha-Five.
Obligation Balances HUD needs to improve controls over the monitoring of obligated balances to determine whether they remain needed and legally valid as of the end of the fiscal year.	• Changes to Section 8 funding processes and recapture policies and procedures were completed to address prior OIG audit concerns on large obligation balances on expired contracts. • Performed a 100 percent reconciliation and reconstruction of records for the Section 236 Interest Reduction Program to establish a revised remaining obligation balance of $5 billion, and provided for an improved integration and automation of the business and accounting processes to maintain accurate program balances going forward.	• Fully implement the new Section 236 accounting process. • Resolve the 51 Section 236 projects with missing documentation or ambiguous contract terms. • Strengthen controls over obligation balances on the Office of Housing's project-based assistance programs.
FHA Systems Controls Continued improvement is needed in the area of ADP application security, system support, and preparation and maintenance of system documentation.	• Completed the Certification and Accreditation of all major FHA information technology applications in accordance with National Institute of Standards and Technology guidelines. • Included Underwriting Reporting System functionality into the Computerized Home Underwriting Management System and the FHA Connection system. • Completed Multifamily Housing blueprint. • Completed Project Mobilization and Business Diagnosis phases for Rental Housing Assistance Business Process Reengineering. • Completed define phase of Loan Origination Module, the first module for Single Family Integration.	This reportable condition was combined with the reportable condition on HUD's Departmental Financial Management Systems, discussed earlier in the report.

Reportable Condition/ Problem Statement	FY 2005 Accomplishments	Planned Actions
Resource Management HUD needs to develop a comprehensive strategy to manage its resources and better estimate staffing needs and support its staffing requests.	• Established an executive team to develop a vision of the future HUD workforce, including a multi-year implementation plan. • Issued a Departmental Workforce Implementation and Action Plan that identified crosscutting issues in the four core business areas and included a comprehensive listing of actions and milestones to address staffing and skill gap issues. • Aligned the performance plans of all employees with the Department's strategic goals. • Launched the HUD Integrated Human Resource and Training System, a comprehensive web-based system that automates and re-engineers the Human Resources processes, thus improving the speed and accuracy of critical human resource transactions. • Established Workforce Analysis Planning Committees for HUD's core business programs and began implementing short- and long-term strategies by utilizing the Departmental Workforce Implementation and Action Plan. • Issued a Departmental Succession Planning Strategy that links to the Departmental Workforce Plan and Strategic Human Capital Management Plan. Guidance supports the identification of leadership talent pools with skills assessments to confirm gaps and subsequent training plans to close those gaps. • Reduced the hiring timeline for non-Senior Executive Service positions in accordance with the Office of Personnel Management's approved model. • Issued new guidance to streamline the Senior Executive Service hiring timeline.	• Measure the closure of competency gaps for Leadership Pool employees and current managers and supervisors. • Develop a revised Salaries and Expenses budget request to address skill gaps identified in workforce plans. • Conduct an accountability review with Office of Personnel Management participation; examine results; and develop strategies to strengthen human capital accountability. • Reduce the Senior Executive Service hiring timeline by 58 percent. • Complete workforce analyses and plans for the remaining HUD program and support offices.
Management Controls Weaknesses in the Department's control environment impact its ability to effectively manage its programs.	• Continued participation in the Quality Management Review Program, evaluating field office performance to identify deficiencies and develop corrective solutions. Eleven reviews were completed in FY 2005.	• Update the Departmental Management Control Handbook 1840.1 Rev-3 to reflect OMB Circular A-123 changes that became effective October 2005. (continued)

Reportable Condition/ Problem Statement	FY 2005 Accomplishments	Planned Actions
	• Revised the HUD Monitoring Desk Guide and provided Compliance and Monitoring Training to monitoring staff on assessment of program effectiveness. • Completed risk assessments to identify program control risks and develop monitoring strategies. • Awarded a contract to assist with implementation of the new OMB Circular A-123, Appendix A requirements.	• Continue to mitigate control weaknesses and other deficiencies. • Issue A-123 assurance statement on controls over financial reporting.
Single Audit Act Coverage HUD needs to improve its oversight of program participant compliance with the Single Audit Act requirements and consider central oversight of single audit results.	• Awarded a contract to develop a centralized Single Audit Act system that assists in the Department's Single Audit Act responsibilities. • Sustained testing during HUD's Quality Management Reviews to determine the adequacy of single audit follow-up by field office staff. • Issued instructions to Office of Community Planning and Development field staff on Single Audit Act requirements. • Drafted Department-wide policy for the Single Audit Act requirements. • Expanded use of the Image Management System.	• Continue system design and development of a central Single Audit Act tracking system. • Implement Departmental policy and guidance on the processing and use of single audits.
FHA Risk Analysis/Liability Estimation FHA must improve its use of risk factors and monitoring tools to better predict and limit liabilities.	• Reclassification from a material weakness in FY 2005. • Implemented a new underwriting review process that focuses on risk to the FHA insurance fund. Loans are rated as acceptable or unacceptable for credit and property underwriting. • Continued to improve the use of the Technology Open To All Lenders Scorecard to evaluate risk of individual loans. • Continued to improve cash flow models used to estimate Loan Guarantee Liability. Data validation process was developed to compare actual to projected data.	• Develop a formal process to evaluate the impact of individual loan factors, including borrower credit scores and downpayment assistance sources on the FHA portfolio. • Expand the validation process developed in FY 2005 to compare the prior year's projected and actual cash flows to develop HUD's independent expectations for gross cash flows and other key ratios.

Secretary's Audit Resolution Report to Congress

This information on the Department of Housing and Urban Development's audit resolution and follow-up activity covers the period October 1, 2004, through September 30, 2005. It is required by Section 106 of the Inspector General Act Amendments (Public Law 100-504), and provides information on the status of audit recommendations without management decisions and recommendations with management decisions, but no final action. The report also furnishes statistics on the total number of audit reports and dollar value of disallowed costs for FY 2005, and statistics on the total number of audit reports and dollar value of recommendations that funds be put to better use.

Audit Resolution Highlights

During FY 2005, the Department achieved 790 approved management decisions and successfully implemented 749 recommendations. The Department also made good progress in reducing its rolling inventory of overdue final actions. HUD began the year with 163 recommendations with overdue final actions and ended the year with 53, for a net reduction of 110 overdue recommendations. This was a result of a deliberate and concerted Department-wide effort to strongly address overdue recommendations.

On September 16, 2005, a Hurricane Katrina Audit Resolution Working Group was formed by the Department and directed to consider the impact of Hurricane Katrina on audit resolution. The Group identified 8 audits and 57 recommendations that were significantly affected. To provide program action officials ample time to consider Hurricane Katrina's impact on existing recommendations, the working group extended the final action target dates for the 57 recommendations to April 15, 2006. Action officials will use this time to reassess pre-Katrina action plans to see if they still make sense. Appropriate actions may include timely completion of previously planned actions, ratification of existing action plans with new final action target dates, fully revised action plans, or requests for closure of recommendations that are no longer applicable, to include the write-off of debt.

These hurricane-impacted recommendations were flagged in the Audit Resolution Corrective Action Tracking System, and progress toward removing each "flag" will be encouraged and monitored by the Working Group. The Department also authorized the working group to designate additional recommendations as disaster-impacted, as may become necessary due to additional hurricanes or other future disaster-related events.

Recommendations Without Management Decisions

The Department is statutorily required to provide a management decision (an action plan with milestones) for each audit recommendation within 6 months of report issuance by the Inspector General.

FY 2005 began with a total of 255 recommendations without a management decision. During the year, 806 recommendations requiring management decisions were added to our active workload, and timely management decisions were made on a total of 790 recommendations. FY 2005 ended with 271 recommendations without management decisions, with just four beyond the statutory period of six months. Following the close of the year, the Inspector General approved management decisions for these four recommendations.

Summary of Recommendations Without Management Decisions
October 1, 2004 - September 30, 2005

Opening Inventory	255
New Audit Recommendations Requiring Decision	806
Management Decisions Made	(790)
Audit Recommendations Awaiting Management Decisions	271
Audit Recommendations Beyond Statutory Period	4

Recommendations With Management Decision But No Final Action Taken

The Department began the year with an inventory of 872 management decisions requiring final action. During the year, 790 additional management decisions were made, the Department completed final action on a total of 749 recommendations, and one additional audit recommendation was reopened. The total number of audit recommendations with management decisions but final actions not yet completed at the end of the year was 914. Of this 914, 50 are under active multi-year repayment plans that will remain open until the collection activities are completed.

At the beginning of FY 2005, the Department established an annual performance goal for each program office within HUD to reduce the opening balance of final actions that were more than 12 months overdue by 50 percent. At the beginning of FY 2005, there were 33 final actions that were more than 12 months overdue. During FY 2005, 95 recommendations could have become more than 12 months overdue for a total of 128 recommendations in that category. However, 93 of the 128 recommendations were closed during FY 2005, leaving a balance of 35 final actions that were more than 12 months overdue at the end of FY 2005. While the Department did not meet its goal of halving the number of these significantly overdue recommendations, all program offices, save one, ended the year with zero recommendations overdue by 12 months or more. In addition, the Department reduced its total inventory of overdue recommendations from a beginning balance of 163 overdue recommendations to 53 overdue recommendations at year's end. This 67 percent reduction is an exceptional improvement.

Summary of Recommendations With Management Decisions And No Final Action October 1, 2004 - September 30, 2005

Opening Inventory	872
Management Decisions Made During FY 2004	790
Sub-Total No Final Action at End of Period	1,662
Final Action Taken	(749)
Audit Recommendations Reopened During Period (Without Final Action)	1
Total Audit Recommendations Requiring Final Actions	914[1]

[1] *The Department has 50 recommendations under current repayment plans. These recommendations are considered open and count in the audit inventory until final repayment is made.*

Status of Audits With Disallowed Costs

As of October 1, 2004, there were 155 audits with management decisions on which final action had not been taken, with a dollar value of disallowed costs totaling $246 million. During FY 2005, management decisions were made for 87 audits with disallowed costs totaling approximately $162.4 million. The Department had 62 audits in which final action was taken during the fiscal year, with approximately $23.8 million in recoveries and $35.8 million in write-offs. As of September 30, 2005, there were 180 audit reports with recommendations involving disallowed costs awaiting final action, with an associated value of approximately $348 million.

Note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total disallowed costs in the report are reported as open until all recommendations in a report are closed. When reporting is done at the more detailed recommendation level, the $348 million of disallowed costs awaiting final action are reduced by $90 million (see the notation below corresponding to footnote 4).

Management Report on Final Actions on Audits With Disallowed Costs For the Fiscal Year Ended 9/30/05

Classification	Number of Audit Reports	Disallowed Costs
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period.	155	$245,603,741
B. Audit reports on which management decisions were made during the period.	87	$162,404,892
C. Total audit reports pending final action during period.	242	$408,008,633
D. Audit reports on which final action was taken during the period.		
1. Recoveries	51[1]	$23,805,539
(a) Collections and offsets	45	$22,126,360
(b) Property	0	0
(c) Other	9	$1,679,179
2. Write-offs	37	$35,862,497
3. Total of 1 and 2	62[2]	$59,668,036
E. Audit reports needing final action at the end of the period (subtract D3 from C)	180[3]	$348,340,597
	(346)[4]	($259,881,899)

[1] Audit reports are duplicated in D.1.(a) and D.1.(c), thus the total is reduced by 3.

[2] Audit reports are duplicated in both D.1 and D.2; thus the total is reduced by 26.

[3] Litigation, legislation, or investigation is pending for 24 audit reports with costs totaling $102,941,278.

[4] The figures in brackets represent data at the recommendation level as compared to the report level.

Status of Audits With Recommendations That Funds Be Put to Better Use

At the beginning of FY 2005, there were 47 audits with management decisions on which final action had not been taken with recommendations to put funds to better use (i.e., used more efficiently), with a dollar value of approximately $3.5 billion. During FY 2005, management decisions were made for 73 audits with funds put to better use costs totaling approximately $1.5 billion. The Department had 27 recommendations for which final action was taken during the fiscal year with a dollar value of $132.9 million, and seven recommendations totaling $10.1 million that management concluded should not or could not be implemented. At the end of the year, there were 92 audits with recommendations to put funds to better use awaiting final action with an associated value of approximately $4.8 billion.

Note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total funds put to better use in the report are reported as open until all recommendations in a report are closed. When reporting is done at the more detailed recommendation level, the $4.8 billion of funds put to better use costs awaiting final action is reduced by $3.4 billion (see the notation below corresponding to footnote 3).

Management Report on Final Action On Audits With Recommendations That Funds Be Put to Better Use For The Fiscal Year Ended 9/30/05

Classification	Number of Audit Reports	Disallowed Costs
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period.	47	$3,522,698,401
B. Audit reports on which management decisions were made during the period.	73	$1,452,250,953
C. Total audit reports pending final action during period (Total of A and B).	120	$4,974,949,354
D. Audit reports on which final action was taken during the period		
1. Value of recommendations implemented (completed)	27	$132,965,094
2. Value of recommendations that management concluded should not or could not be implemented	7	$10,103,156
3. Total of 1 and 2	28[1]	$143,068,250
E. Audit reports needing final action at the end of the period (Subtract D3 from C).	92[2]	$4,831,881,104
	(85)[3]	($1,455,927,593)

[1] Audit reports are duplicated in D.1. and D.2, thus the total is reduced by 6.

[2] Litigation, legislation, or investigation is pending for 9 audit reports with costs totaling $248,882,873.

[3] The figures in brackets represent data at the recommendation level as compared to the report level.

Delinquent Debt Collection

Fiscal Year Ending	Total Debt (In millions)	Delinquent Debt (In millions)	Delinquent Debt Collections (In millions)
2005*	$12,686	$730	$550

*The above totals reflect FY 2005 data from the Third Quarter Treasury Report on Receivables Due from the Public. The Treasury Report on Receivables for the Fourth Quarter was not available in time for incorporation into this report. The vast majority of these totals are comprised of debts from FHA and Housing programs. Less than one percent of delinquent debt originates from all other HUD programs. The Housing Financial Operations Center in Albany, New York, administers the vast majority of delinquent, eligible debts that HUD refers to the Department of the Treasury.

HUD's Financial Operations Center remains committed to maximizing collections on delinquent debts using all available collection tools. The Albany staff continues to work closely with systems contractors and the Department of the Treasury to achieve the systems and process improvements necessary to maintain compliance with the Debt Collection Improvement Act.

During FY 2005, HUD submitted 18,677 delinquent debtors to Treasury's National Delinquent Debtor Database for potential offset via the Treasury Offset Program. This program is a centralized offset program, administered by Treasury's Financial Management Service, to collect delinquent debts owed to federal agencies and states in accordance with federal law. Offset collections during FY 2005 totaled $12.7 million for the Department. HUD also referred 1,953 new debts to Treasury for cross-servicing during the year, which totaled $10.8 million. Cross-servicing is the process whereby federal agencies refer delinquent debts to Treasury for collection. The Debt Collection Improvement Act of 1996 designates Treasury for collecting these debts on a government-wide basis.

The Department also mailed 2,769 "Notice of Intent" letters to delinquent debtors advising them that their debts were past due. These notices provide debtors with the right to establish repayment plans or appeal the enforceability of debts through the HUD Board of Contract Appeals or, for federal employees, through an Administrative Law Judge. Debtors who fail to make payment arrangements or exercise their appeal rights are referred to Treasury, where they are subjected to aggressive collection efforts, including offset of federal payments, referral to private collection agencies, and administrative wage garnishment.

During March 2005, HUD obtained access to the U.S. Court Systems' Public Access to Court Electronic Records. This system offers inexpensive, fast, and comprehensive bankruptcy case information on active and recently closed cases, and has allowed HUD to operate more efficiently handling accounts where the debtor(s) is involved in bankruptcy.

In September 2005, HUD responded to the Hurricane Katrina disaster by suspending all active collections against debtors located within the FEMA-designated disaster areas. The Department will re-evaluate the situation in early 2006 to determine the next appropriate actions with respect to the affected debtors.

Among federal agencies, HUD continued to spearhead use of Administrative Wage Garnishment via the Treasury Cross Servicing Program. Treasury reported $1.7 million in these collections for HUD debt during FY 2005, with 388 active Wage Garnishment Orders in place at the end of the fiscal year. To take full advantage of this collection tool, the Department is currently developing an internal administrative wage garnishment program that will target eligible debtors that may have been through the Treasury collection process prior to Treasury's implementation of this collection tool. HUD fully expects that this new program will result in increased collections.

The Department continues to use the Electronic On-line Solutions for Complete and Accurate Reporting to respond electronically to consumer disputes that are filed regarding HUD's credit reporting of delinquent debts. The Consumer Data Industry Association makes this system available to consumer reporting agencies, mortgage reporting companies, and data furnishers to facilitate the resolution of disputes as required by the Fair Credit Reporting Act. During FY 2005, HUD responded to 1,600 credit reporting disputes using this system, and also continued its efforts to convert to the new industry standard, the Metro 2 credit-reporting format.

To ensure the Financial Operations Center remains current on debt collection methods, the Albany staff obtained training from the Department of Treasury Financial Management Services staff in June 2005 on Treasury's comprehensive new debt collection system, FedDebt. This online financial system manages debts referred to Treasury by federal agencies in accordance with the Debt Collection Improvement Act. FedDebt is an interactive system and it is expected to become operational in December 2005. As a result of the training, HUD staff are now prepared to interact effectively with FedDebt.

HUD's Financial Operations Center remains committed to using all available tools to maximize the return on its debt collection efforts, thereby returning the greatest possible value for each taxpayer dollar.

Appendices

Appendix 1. Glossary of Acronyms

Appendix 2. Units/Households Receiving HUD Assistance

Appendix 3. Compliance Status of Financial Management Systems

Appendix 4. Role of Program Evaluations and Research Studies in Assessing Program Performance

Appendix 1. Glossary of Acronyms

CDBG	Community Development Block Grant
CFO	Chief Financial Officer
CPD	Office of Community Planning and Development
Fannie Mae	Federal National Mortgage Association
FHA	Federal Housing Administration
FMFIA	Federal Managers' Financial Integrity Act of 1982
Freddie Mac	Federal Home Loan Mortgage Corporation
FY	Fiscal Year
GAO	Government Accountability Office
Ginnie Mae	Government National Mortgage Association
HUD	Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management and Budget
PHA	Public Housing Agency
PIH	Office of Public and Indian Housing
PMA	President's Management Agenda

Appendix 2: Units/Households Receiving HUD Assistance

	2002		2003		2004		2005	
Section 8 Low Income Rental Assistance Program:								
Tenant-based Assistance a/	1,997,733		2,051,967		2,087,344		2,056,430	
Project-based Assistance	1,328,532		1,319,632		1,309,427		1,306,740	
Total Section 8	3,326,265		3,371,599		3,396,771		3,363,170	
Public Housing Program	1,208,730		1,206,721		1,188,649		1,162,808	
Sub-total	4,534,995		4,578,320		4,585,420		4,525,978	
Housing for the Elderly (Section 202)	62,694		70,026		75,227		82,359	
Housing for the Disabled (Section 811)	18,649		20,379		21,646		23,243	
Tenant-based 811	13,061		14,447		14,447		14,739	
Sub-total	94,404		104,852		111,320		120,341	
Other Assistance Programs								
Homeownership Assistance Program (Section 235)	13,043		10,195		8,447		6,699	
Rental Housing Assistance Program (Section 236)	392,233		368,900		346,802		322,083	
Rent Supplement	18,600		18,107		17,290		17,239	
Sub-total	423,876		397,202		372,539		346,021	
Less estimated number of households receiving more than one form of assistance (double count)	(190,140)		(217,250)		(217,250)		(217,250)	
Total, Public and Assisted Housing a/	**4,863,135**		**4,863,124**		**4,852,029**		**4,775,090**	
HOME Tenant-Based Assistance	10,239		10,731		15,479		20,554	
HOME Rental Units Completed	19,076		25,977		23,392		33,612	
HOME Homebuyer Units Completed	23,241		25,867		30,780		32,307	
HOME Existing Homeowners Completed	10,027		10,705		10,112		14,832	
HOME Total Households	62,583		73,280		79,763		101,305	
CDBG Households	187,380		184,611		159,703		166,992	
Self-help Homeownership Opportunity Program New Homebuyers	2,063		2,157		1,735		2,277	b/
Housing Opportunities for Person with AIDS Households	74,964		78,467		70,779	c/	70,325	
Indian Housing Block Grant Households	5,894	d/	6,097	d/	7,712	d/	6,505	
Rural Housing & Economic Development	3,928		6,065		NA		NA	
Title VI Federal Guaranteed Loans e/	4		6		4		4	
Native Hawaiian Housing Block Grant Households	NA		NA		NA		72	
Total of CDBG, HOME, Self-help Homeownership Opportunity Program, Housing Opportunities for Persons with AIDS, Indian Housing Block Grant, Rural Housing, Title VI Native Hawaiian Housing Block Grant, Households Served	**336,816**		**350,683**		**319,696**		**347,480**	

a/ In FY 2003 and FY 2004, the number of contracted units are displayed.
In FY 2005, the number of funded units are displayed.

b/ Results for Self-help Homeownership Opportunity Program are for the period July 1, 2004, to June 30, 2005, since accomplishments for the 4th quarter of FY 2005 will not be available in time for publication of this report.

c/ This figure has been revised due to data verification efforts.

d/ These figures have been revised to reflect only new construction, acquisition, and rehabilitation activities.

e/ These numbers reflect annual activity whereas the FY 2004 Performance and Accountability Report reflected cumulative numbers.

Appendix 3. Financial Management Systems as of September 30, 2005

Total: 44
Total Non-compliant: 2

Office of Administration (4)

D67A Facilities Integrated Resources Management System (FIRMS)*
A35 HUD Procurement System (HPS)
P035 Small Purchase System (SPS)
P162 HUD Integrated Human Resources Training System (HIHRTS)**

Office of Chief Financial Officer (14)

A21 Loan Accounting System (LAS)*
A39 HUD Consolidated Financial Statement System (HCFSS) (Hyperion)
A65A Section 235 Automated Validation and Editing (SAVE)
A67 Line of Credit Control System (LOCCS)
A75 HUD Central Accounting and Program System (HUDCAPS)
A91 Consolidated Cost and FTE Files (CCFF)
A96 Program Accounting System (PAS)
D08 Bond Payment System (BONDMAPPER)
D21 Departmental Accounts Receivable Tracking / Collection System (DARTS)
D61 EZBudget Budget Formulation System (EZB)
D65A Section 8 Budget Outlay Support System (BOSS)
D91A Total Estimation and Allocation Mechanism – Resource Estimation and Allocation Process (TEAM-REAP)
H18 Integrated Automated Travel System (IATS)
P001 HUD Travel Management System (HTMS)

Community Planning and Development (2)

C04 Integrated Disbursement and Information System (IDIS)
C38 Special Needs Assistance Program (SNAPS)

* Non-compliant systems
** New system

Office of Housing (19)

A43 Single Family Insurance System (SFIS)
A43C Single Family Insurance Claims Subsystem (CLAIMS)
A80B Single Family Premium Collection System-Periodic (SFPCS-P)
A80D Distributive Shares and Refund Subsystem (DSRS)
A80N Single Family Mortgage Notes (SFMN)
A80R Single Family Premium Collection System-Upfront (SFPCS-U)
A80S Single Family Acquired Asset Management System (SAMS)
D64A SF Housing Enterprise Data Warehouse (SFHEDW)
F12 Home Equity Conversion Mortgages (HECM)
F17 Computerized Home Underwriting Management System (CHUMS)
F42D SF Default Monitoring Subsystem (SFDMS)
F47 Multifamily Insurance (MFIS)
F51 Institution Master File (IMF)
F71 Debt Collection and Assets Management System --Title I Notes (DCAMS)
F72 Title I Insurance and Claims (TIIS)
F75 Multifamily Insurance and Claims (MFIC)
F87 Tenant Rental Assistance Certification System (TRACS)
P013 FHA Subsidiary Ledger (FHA-SL)
P057 Multifamily Delinquency and Default Reporting (MDDR)

Government National Mortgage Association (2)

B09 Default Management System (DMS)
B16 MACOLA Accounting Software System (MASS)

Office of Public and Indian Housing (3)

P106 Tenant Assessment Subsystem (TASS)
P113 Inventory Management System (IMS)
P181 Enterprise Income Verification System (EIV)

Inactive Systems: A44D Low Rent Security Ledger (OCFO) and F31 Cash, Control, Accounting Reporting System (Housing)

Reclassified as non-financial management system:
C39 Empowerment Zone/Economic Development (CPD)

Appendix 4. Role of Program Evaluations and Research Studies in Assessing Program Performance

Each year, HUD completes a number of program evaluations and research studies relating to significant policy issues. These studies provide a level of detail and confidence about programmatic impacts that performance measures alone cannot capture. The Department uses the findings of this research to make informed decisions on HUD policies, programs, budget, and legislative proposals. This Appendix presents the primary findings of selected research reports completed since the beginning of FY 2005. Most of the reports are available from the Office of Policy Development and Research clearinghouse, HUD USER, which can be accessed at http://www.huduser.org.

Strategic Goal 1: Increase Homeownership Opportunities

The following study relevant to Strategic Goal 1 was completed during FY 2005. HUD also publishes U.S. Housing Market Conditions (quarterly), the American Housing Survey for specific metro areas (annually), and the American Housing Survey for the United States (biennially) to provide data and analysis about housing markets.

- **A Study of Market Sector Overlap and Mortgage Lending**. This study shows that while there is some overlap, Fannie Mae and Freddie Mac (the government-sponsored enterprises) largely serve a distinct segment of the housing market relative to FHA. Compared with government-sponsored enterprise-purchased loans, FHA-insured loans are characterized by lower down payments and borrowers with lower credit scores, and are more strongly targeted to lower-income and minority borrowers. The study finds that about 10 percent of FHA loans have risk characteristics similar to loans purchased by the government-sponsored enterprises. Since 1995, when HUD conducted its first overlap study, the government-sponsored enterprises increased their purchases of loans with loan-to-value ratios above 95 percent. Based on recent increased government sponsored enterprise purchases of sub-prime loans, the study concludes that overlap between the FHA and government-sponsored enterprise markets may increase in the future.

Strategic Goal 2: Promote Decent Affordable Housing

- **Why Not in Our Community**. "Why Not In Our Community," prepared by the Office of Policy Development and Research in support of the Secretary's "America's Affordable Communities Initiative," revisits the landmark 1992 report "Why Not in My Backyard." The report finds that regulatory barriers are as pervasive today as they were 13 years ago; in fact, the report identifies new types of regulatory barriers that have arisen over this period. However, the report does show some progress. Some state and local governments have taken significant actions to address these barriers. The report also highlights the significant actions recently taken by the Department to address federal and local regulatory barriers.
- **Evaluation of Family Self-Sufficiency Program**. This study was a retrospective analysis of the Family Self-Sufficiency program using HUD administrative data for the years 1996-2000. The research question was whether Family Self-Sufficiency met its basic goal of increasing self-sufficiency for program participants. Family Self-Sufficiency participants'

incomes grew and welfare-receipt diminished at a higher rate than for the rest of the assisted families. For example, participants who enrolled in the Family Self-Sufficiency program in 1996 experienced a 72 percent increase in median income by the year 2000, from $6,936 to $11,960. Among a comparison group of non-Family Self-Sufficiency participants, the increase was only half as large at 36 percent, rising from $6,606 in 1996 to $8,996 in 2000. The median escrow account disbursement for participants completing their contracts was $3,351. In general, we found that entry into the program is followed by significant earnings gains, and, for the minority who graduate, by significant wealth accumulation.

- **Evaluation of Mark-to-Market**. The Mark-to-Market program was created by the Multifamily Assisted Housing Reform and Affordability Act of 1997 to 1) reduce subsidy costs in FHA-insured properties with project-based Section 8 that had above market rents, 2) preserve affordable housing stock, and 3) introduce administrative efficiencies in the multifamily FHA-insured Section 8 portfolio. Given the extreme complexity in the types of transactions, and the specificity of the Mark-to-Market statute, the study found that the Office of Multifamily Housing Assistance Restructuring performed well. The study made estimates of the savings to HUD from Mark-to-Market restructurings completed as of July 31, 2003. The savings amount is based on calculating the 20-year impact of Mark-to-Market-based rent reductions along with costs associated with reducing the FHA-insured mortgages, administrative costs, and possible costs of default for Watch List properties. Since operations began in early 1999, the efficiency of the processing time for the Mark-to-Market program has improved greatly. The decline in processing time is associated with a number of policy changes implemented by the Office of Multifamily Housing Assistance Restructuring, including an Owner Incentive Package, changes in the Mark-to-Market underwriting standards, and the personnel and organizational changes at the Office. This administrative design appears to have been an effective means of achieving Mark-to-Market programmatic goals.

- **Implications of Project Size in Section 202 and Section 811 Assisted Projects for Persons with Disabilities**. In the 2000 Appropriations Act for the Department, Congress directed HUD to assess the social and economic implications of project size with respect to Section 202 and Section 811 housing for persons with disabilities. This report responds to the congressional mandate to evaluate the effects of project size on residents, and on the immediate neighborhoods. Smaller properties that are integrated into the surrounding neighborhood are well suited for most persons with disabilities, but an ongoing debate continues over the appropriate size of projects for this population. This study takes into account the perspective that very large developments are not well suited for most persons with disabilities and, therefore, focuses attention on smaller projects. Findings from this study will help HUD ensure that the Section 202 and Section 811 programs are responsive to the affordable housing and related services needs of very low-income persons with disabilities across the country.

- **Updating the Low Income Housing Tax Credit Database: Projects Placed in Service through 2002**. Under the Low Income Housing Tax Credit program, the states were authorized to issue federal tax credits for the acquisition, rehabilitation, or new construction of affordable rental housing. To ensure that the program is used in the highest need areas, the Secretary of HUD designates Difficult Development Areas annually by ranking metropolitan areas and non-metropolitan counties and awarding bonus tax credits in those areas.

The researchers found that the Low Income Housing Tax Credit is effective in providing affordable housing to extremely low income families *when combined with Section 8 vouchers* (that provide an additional deep rental subsidy income stream); and that the Low Income Housing Tax Credit requirement that owners cannot refuse occupancy to a family solely on the basis of using a voucher is working effectively, at least in a significant portion of the inventory. The study findings also suggest that a legislative change to the Difficult Development Area formula, from a fixed bonus to a sliding scale bonus, might be appropriate to create a more sensitive instrument to ensure that the bonus program does not over-subsidize Low Income Housing Tax Credit projects in some designated areas while failing to provide additional subsidy, and produce housing, in areas that are nearly as costly.

- **Homeownership Conference Papers**. In this past year, two major research projects on homeownership sponsored by HUD's Office of Policy Development and Research were completed and salient findings were shared in a research conference held in June 2005. The first project focused on identifying and understanding the determinants of differential gaps in homeownership rates, particularly among low-income and minority borrowers and neighborhoods, as well as possible policy responses. The project resulted in a comprehensive report titled "Homeownership Gaps Among Low-Income and Minority Borrowers and Neighborhoods," as well as six shorter empirical studies that follow:

  - *The Potential of Downpayment Assistance for Increasing Homeownership Among Minority and Low-Income Households* – Herbert and Tsen
  - *The Importance of Wealth and Income in the Transition to Homeownership* – Di and Liu
  - *Homeownership Gains During the 1990s: Composition Effects and Rate Effects* – Eggers
  - *The Sustainability of Homeownership: Factors Affecting the Duration of Homeownership and Rental Spells* – Haurin and Rosenthal
  - *The Influence of Household Formation On Homeownership Rates Across Time and Race* – Haurin and Rosenthal
  - *The Distribution of Homeownership Gains During the 1990s Across Neighborhoods* – Herbert and Kaul

  The other project has examined the homeownership experience of low-income families over time and resulted in a draft report, titled "The Homeownership Experience of Low-Income and Minority Families: A Review and Synthesis of the Literature," and four shorter empirical studies listed below:

  - *The Impact of House Price Appreciation on Portfolio Composition and Savings* – Haurin and Rosenthal
  - *The Growth of Earnings of Low-Income Households and the Sensitivity of Their Homeownership Choices to Economic and Socio-Demographic Shocks* – Haurin and Rosenthal
  - *Wealth Accumulation and Homeownership: Evidence for Low-Income Households* – Boehm and Schlottman

- *Is Manufactured Housing a Good Alternative for Low-Income Families? Evidence from the American Housing Survey* – Boehm and Schlottman

Strategic Goal 3: Strengthen Communities

- **Strategies for Preventing Homelessness, Final Report**. This project was developed as an exploratory study to identify and document communities that have implemented effective and well-targeted community-wide homelessness prevention activities. Six communities were selected as study sites. This study suggests that a number of elements contribute to homelessness prevention and identifies a number of promising prevention activities in the six communities. The contributing elements include targeting through control of the eligibility screening process; developing community motivation; maximizing mainstream and private resources; fostering leadership; and ensuring the availability and structure of data and information to track progress, improve on prevention efforts, and facilitate outcomes-based contracting. Within the context of these elements, the study identified four promising homelessness prevention activities that may be used alone or in combination as part of a coherent community-wide strategy: (1) supportive services coupled with permanent housing, particularly when combined with effective discharge from institutions, especially mental hospitals; (2) mediation in Housing Courts; (3) cash assistance for rent or mortgage arrears; and (4) rapid exit from shelter.
- **Promising Practices in Grantee Performance Measurement**. This report documents and analyzes promising performance measurement practices of CPD grantees, especially in the CDBG and HOME Investment Partnership programs. The study focused on the performance measurement practices in five sites that were thought to have demonstrated leadership in this field. The final report found that the sites were farther along in developing measures than in using them to guide policy decisions. However, the research did derive some useful "lessons learned" in developing local performance measurement systems and can provide some guidance to other grantees attempting that task. The most striking finding was that measurement focused on the achievement of local objectives was unlikely to provide performance measures for specific federal programs since these programs are blended with state and local resources for any specific local program and its related objectives.
- **CDBG Formula Targeting to Community Development Need**. This report assesses how well the CDBG formula, after introduction of 2000 Census data, allocates funds toward the community development needs identified in the Housing and Community Development Act of 1974. It shows that the current formula's targeting to community development need could be improved and offers several alternative formulas that improve targeting.

Strategic Goal 4: Ensure Equal Opportunity in Housing

- **Discrimination Against Persons with Disabilities: Barriers at Every Stop**. This study developed and implemented new state-of-the-art paired testing procedures to measure discrimination faced by deaf persons and persons using wheelchairs when searching for housing to rent in the Chicago Metropolitan Area. The research found the level of discrimination faced by both deaf persons and persons in wheelchairs to be extremely high.

Strategic Goal 5: Embrace High Standards of Ethics, Management and Accountability

- **Voucher Issuance Program**. The purpose of this research was to develop an intuitive, accessible, and adaptable web-based algorithm software program that would help PHA administrators optimize their utilization of resources under the Housing Choice Voucher program. The software that was developed will enable PHA staff to estimate the number of vouchers they need to issue to achieve the target budget or unit utilization that they set. The software, which is called the Voucher Issuance Program, seems to generate an accurate estimate of the number of vouchers a PHA needs to issue to reach its target unit utilization, while staying within its calendar year budget authority. The correct number of vouchers to issue covers two components that are calculated separately: normal voucher turnover and "catch-up" vouchers, which are based on any underutilization in the calendar year to date. As there is no funding for software updates or support, the Voucher Issuance Program software was designed to be intuitive and easy to use. It has a detailed instruction manual to accompany it that will answer any user questions that may arise.

- **"Improving Subsidy Survey Questions: Data Collection Techniques for Identifying the Housing Subsidy Status of Survey Respondents."** An ongoing problem in large-scale surveys that deal with rental assistance is the fact that respondents often incorrectly report their housing subsidy status. This includes subsidy recipients who incorrectly report the type of assistance they receive. It also includes "false positives," that is, persons with low incomes who are eligible for housing assistance and who report receiving such assistance even though they do not. The inaccuracies in identifying the housing subsidy status of survey respondents have made the use of the general survey information from the American Housing Survey and similar research efforts a doubtful source of input for HUD policy deliberations and impact evaluations with respect to housing subsidy recipients. This research probed how well both housing subsidy respondents and "false positives" understood the language used in American Housing Survey questions and the concepts underlying the housing subsidy process itself. The project produced a number of recommendations with respect to crafting data collection instruments that might better assist respondents in more accurately identifying their subsidy status. As well as including the suggestions for rewording of typical housing subsidy questions, the report discusses specific concepts and specific terms that appeared to be particularly prone to being misunderstood by survey respondents.

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