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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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/**

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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.

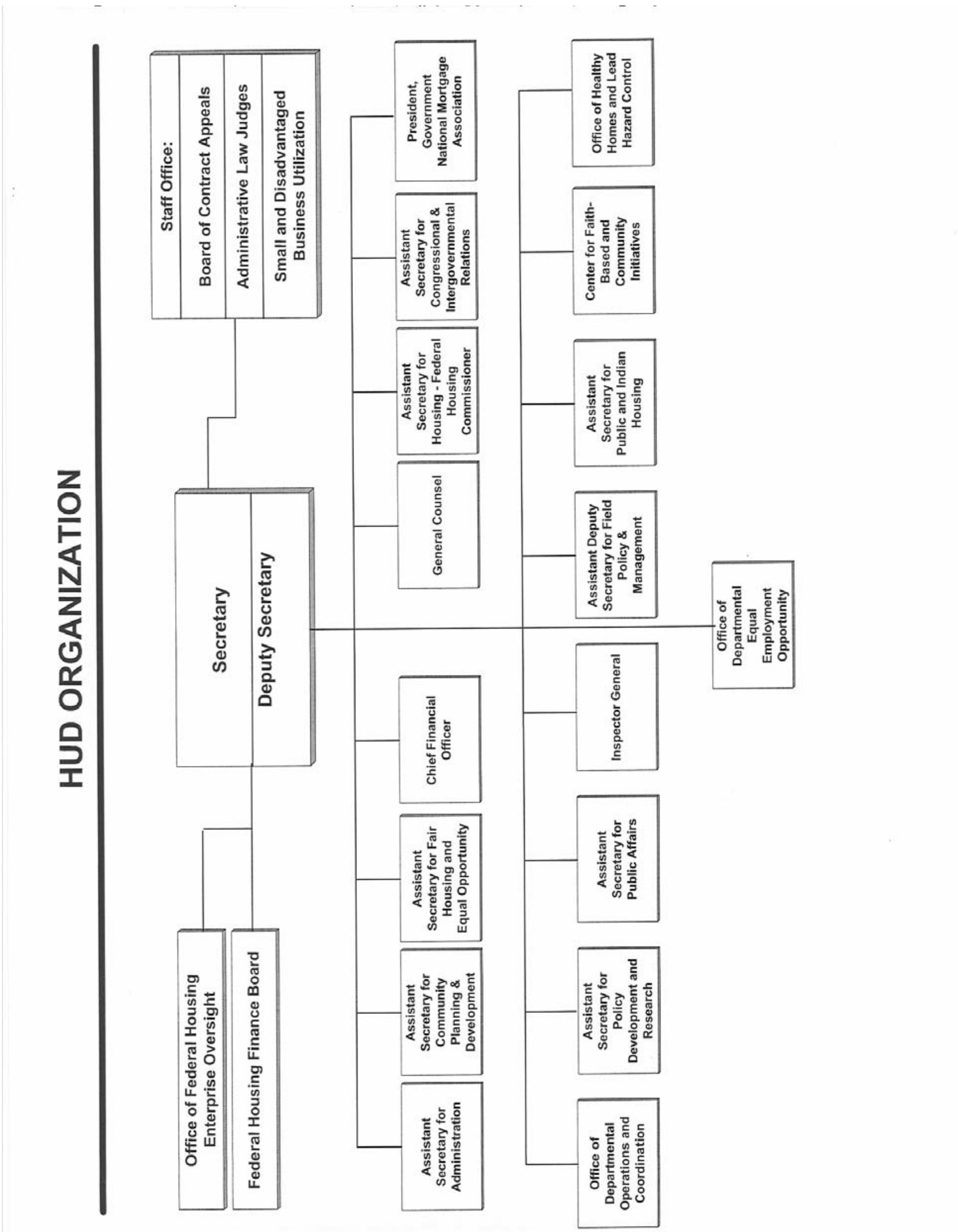
The Office of General Counsel attorneys provide legal opinions, advice, and services with respect to all Departmental programs and activities.

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
Secretary
Deputy Secretary
Staff Office:
Board of Contract Appeals
Administrative Law Judges
Small and Disadvantaged Business Utilization
Office of Federal Housing Enterprise Oversight
Federal Housing Finance Board
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. <u>Improved Housing Intermediary Performance</u>. – 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. <u>Improved FHA Risk Management</u>. **–** 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. <u>Fewer Meaningless Compliance Burdens</u>. **–** 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.

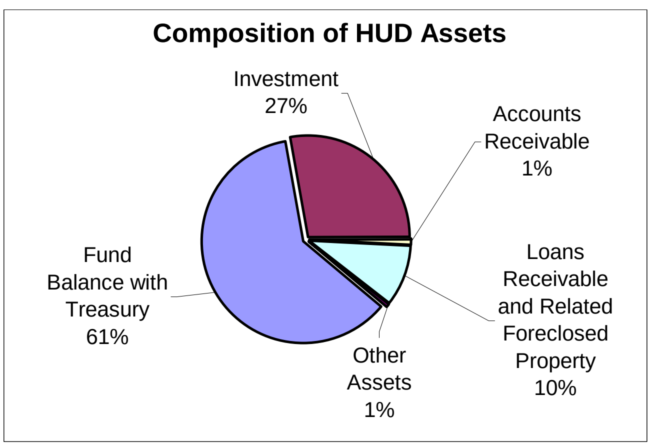


Chart 1

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.

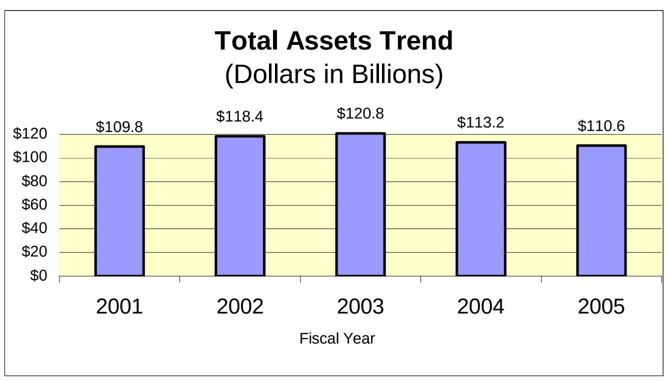


Table 1

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.

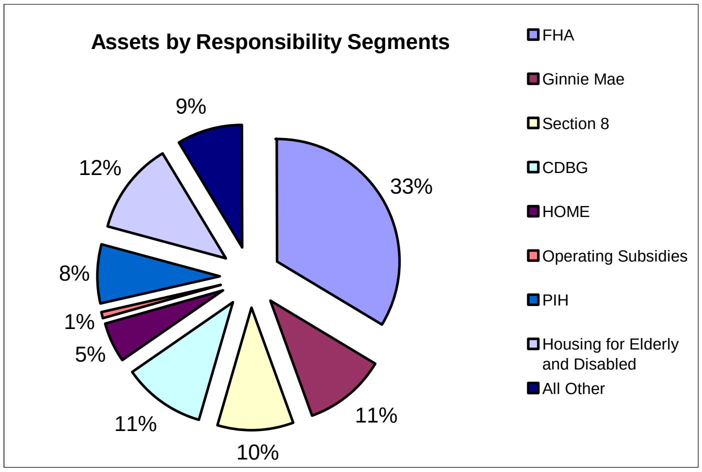


Chart 2

Composition of HUD Liabilities

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

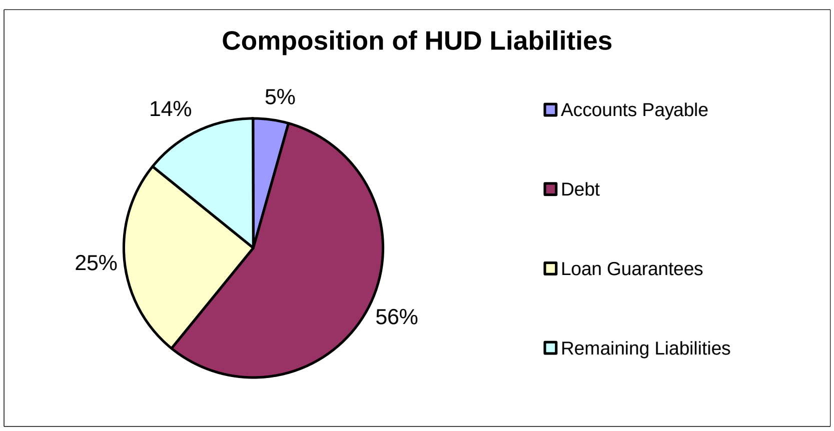


Chart 3

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.

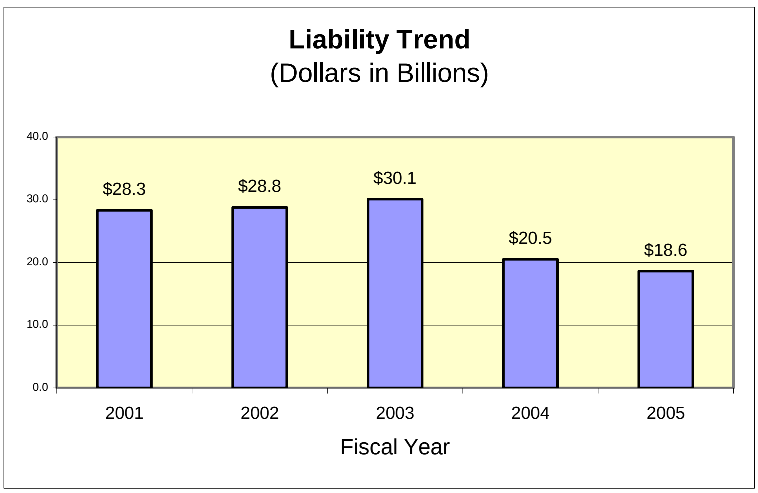


Table 2

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.

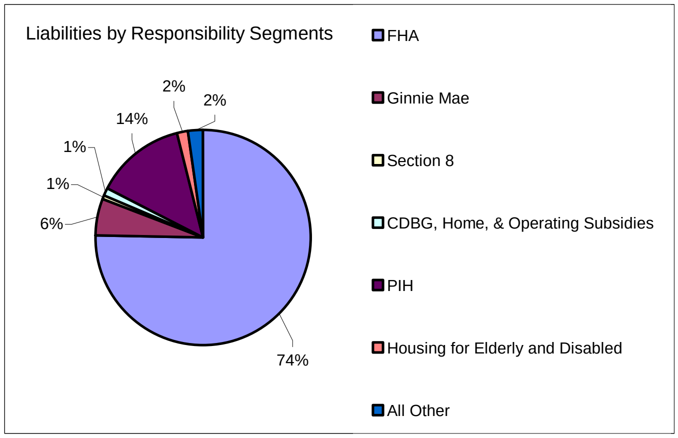


Chart 4

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.

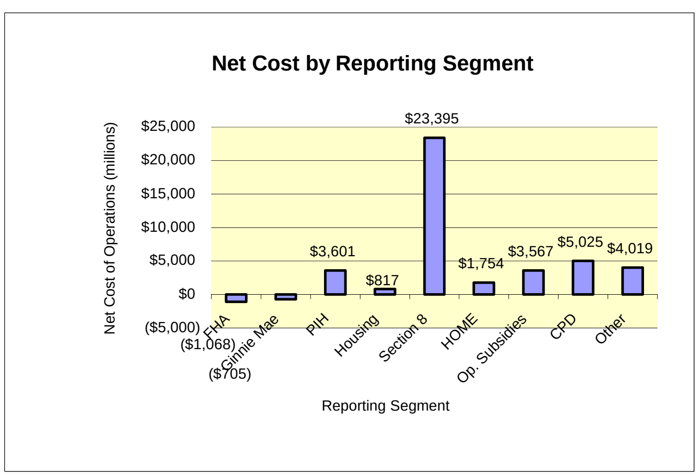


Table 3

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.

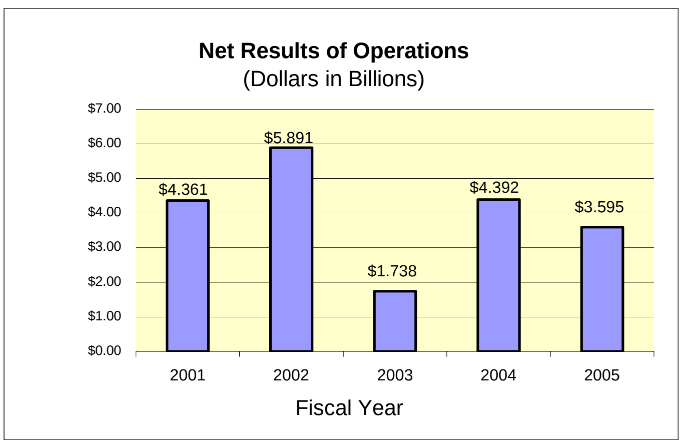


Table 4

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.

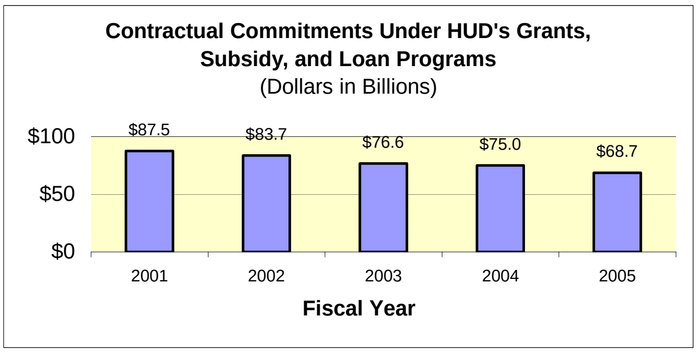


Table 5

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.

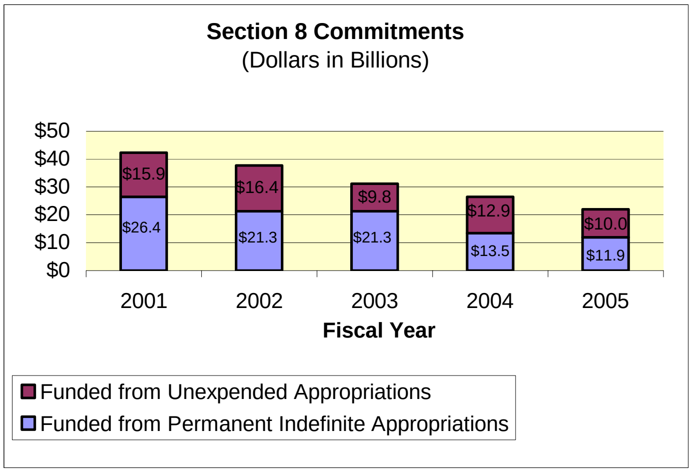


Table 6

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.

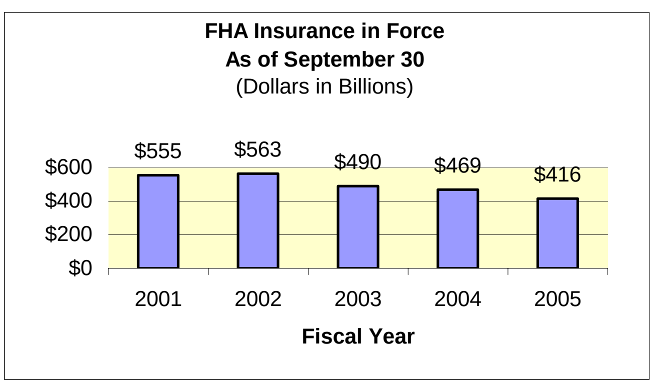


Table 7

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.

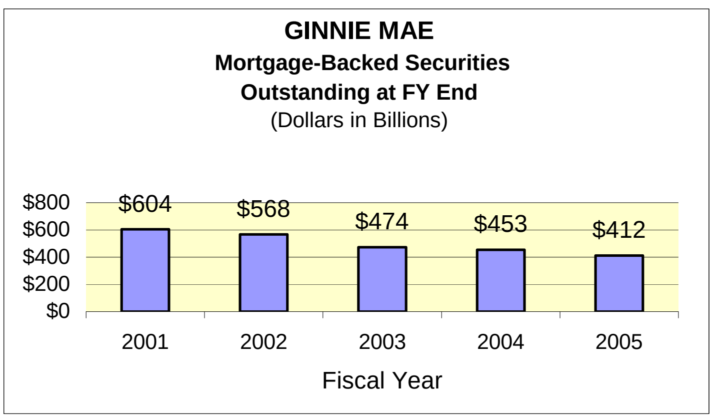


Table 8

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.