

Message from the Secretary

November 15, 2007

I am pleased to share with the American public our Annual Report on Performance and Accountability for Fiscal Year 2007. The report highlights HUD's contributions as the nation's chief provider of housing to those most in need, whether it be by increasing homeownership, providing support for community development, or increasing access to affordable rental housing, free from discrimination. This is our mission and this report presents our progress in meeting our strategic and annual performance goals.

Highlights of the Department's accomplishments for 2007 include:



- **Eliminated “High Risk” Designation.** For the first time since 1994, the Government Accountability Office removed HUD's single-family housing mortgage insurance and rental housing assistance programs from the list of “High Risk” federal programs in January 2007. This significant outcome resulted from HUD's multi-year effort to strengthen internal controls to reduce both the risks of FHA's housing mortgage insurance programs and the level of improper rental housing assistance payments. FHA's demonstrated ability to manage its risks and assure the financial soundness of its self-sustaining programs is a key consideration as we seek congressional approval of FHA reforms that will enable FHA to offer homebuyers lower risk and less cost alternatives to the subprime lending market. HUD's level of improper rental housing assistance payments, as a percentage of HUD's total assistance payments, was reduced from 17.1 percent to 5.5 percent since 2001. This increased the amount of HUD's annual program funding available to serve low-income families in need by \$1.9 billion.
- **FHASecure.** HUD will help nearly one-quarter of a million homeowners avoid foreclosure and the loss of their homes by enhancing FHA's refinancing program. In August, 2007, HUD launched a new foreclosure avoidance initiative called FHASecure. This mortgage insurance program is geared toward borrowers who have good credit, but who have been caught up in the subprime lending wave and may not have made all of their payments on time because of resetting interest rates. For the first time, FHA is able to offer many of these homeowners an affordable option to refinance their existing mortgage so they can make their payments and keep their homes. This change, in addition to other existing FHA products, will bring the total number of families that FHA estimates it will help to avoid foreclosure next fiscal year to approximately 240,000.
- **Increased Minority Homeownership.** HUD helped increase the minority homeownership rate from 49.2 percent in 2002 to 51.0 percent in 2007. The proportional gain represents approximately 3.74 million additional minority homeowners since mid-2002. The continued progress supports the challenging 2002 Presidential goal of adding 5.5 million new minority homeowners by the end of the decade in 2010.

- **Targeted Rental Assistance.** HUD expended over \$27.5 billion for rental assistance to house approximately 4.8 million families in need, 3.6 million through direct rental assistance and 1.2 million in public housing.
- **Community Development.** HUD continued to assist communities, awarding \$3.7 billion in FY 2007 to state and local governments to target their own community development priorities. The Community Development Block Grant program allows the communities to prioritize and use the funds to best serve the community with oversight by HUD. With regard to CDBG-funded housing activities during FY 2007, grantees reported that more than 117,800 owner-occupied housing units and 37,000 rental units were rehabilitated with CDBG funds, while more than 6,900 households received direct homeownership assistance. With regard to job creation and retention activities, grantees reported more than 39,000 jobs were created or retained through the use of CDBG funds.
- **Response to Natural Disasters.** The Department continues to be a major participant in the federal government's response to the hurricanes of 2005 by coordinating the long-term housing solutions for Gulf Coast residents displaced by Hurricanes Katrina, Rita, and Wilma.
 - The Disaster Housing Assistance Program assists displaced families in the Gulf States, helps them to rebuild their lives, get on a path to self-sufficiency, and have the opportunity to return to their home, if they choose. HUD is assisting approximately 28,500 families referred by FEMA under this program and will take over payment to landlords as of December 1, 2007.
 - In 2007, \$6.2 billion of HUD's CDBG Disaster Assistance Grant funding for the Gulf Coast States was disbursed to the five states affected by the hurricanes. The disbursed funds were primarily directed to the states of Louisiana and Mississippi for compensation payments to more than 59,000 homeowners in Louisiana and more than 15,000 in Mississippi.
 - HUD also created the nation's first National Housing Locator (NHL) system to facilitate rental housing assistance in disaster areas. The intergovernmental NHL web site was launched in January 2007 as a direct response to lessons learned from Hurricane Katrina – most notably the need for a nationwide, single point of entry, easily searchable system to identify available rental housing in times of disaster.
- **Lead Hazard Control.** The number of children under the age of 6 with elevated blood lead levels has been reduced to approximately 235,000 from a level in excess of 890,000 in the 1990 to 1994 time period. This downward trend is a result of HUD's efforts – in partnership with the Centers for Disease Control and Prevention, the Environmental Protection Agency, and other agencies – to control lead hazards in housing through grants and enforcement of HUD's lead regulations, expanded outreach on this issue, and expansion of the required public-private infrastructure to implement the program. HUD's goal is to eliminate this totally avoidable epidemic – lead poisoning caused by housing – by the end of the decade.
- **Management Excellence.** The Department was upgraded to a score of "Green" on the Improved Financial Performance initiative of the President's Management Agenda. This improvement was a result of HUD's seventh consecutive unqualified audit opinion on its annual consolidated financial statements, elimination of its remaining longstanding material weaknesses, meeting all accelerated financial reporting requirements, initiating FHA activity

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS
MESSAGE FROM THE SECRETARY

based costing, and development of improved financial reporting to enhance budget and program execution, with plans for continued improvement. The Department has "Green" scores on five of nine Presidential initiatives and is working to improve the scores on the initiatives not currently "Green."

By law, I am required to make certain assurances concerning the reliability and completeness of the data contained in this report. The following provides that assurance.

The Federal Managers' Financial Integrity Act (FMFIA) requires that the Secretary report to the President and the Congress on the adequacy of management controls in safeguarding resources. Based on the year-end assurances given by principal agency officials, the Office of Inspector General's unqualified audit opinion on HUD's consolidated financial statements, and the lack of any material internal control weakness issues, I assert that HUD's internal controls and financial systems comply with Sections 2 and 4 of the FMFIA. Further discussion of my assurances and plans for further improvement of our financial management during FY 2008 can be found in the Financial Management Accountability section of this report.

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 and other Financial System Integration Office requirements, federal accounting standards, and the United States Government Standard General Ledger at the transaction level. This is the third 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, and any data limitations noted in Section 2, Performance Information, or Section 3, Financial Information, are not considered significant to overall information reliability and usefulness.

The Department is honored to serve as a strong advocate for increasing homeownership, particularly among minorities, creating affordable rental housing opportunities for low-income Americans, and supporting the homeless, elderly, those with disabilities, and people living with AIDS. We pledge to continue our work to serve the most vulnerable populations, fight discrimination, and revitalize America's communities.

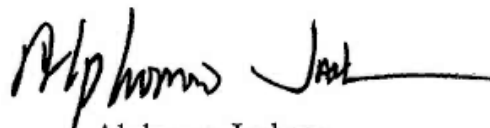

Alphonso Jackson
Secretary

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Glossary of Acronyms

CDBG	Community Development Block Grant
CFO	Chief Financial Officer
CPD	Office of Community Planning and Development
Fannie Mae	Federal National Mortgage Association
FFMIA	Federal Financial Management Improvement Act
FHA	Federal Housing Administration
FHEO	Office of Fair Housing and Equal Opportunity
FMFIA	Federal Managers' Financial Integrity Act of 1982
Freddie Mac	Federal Home Loan Mortgage Corporation
FY	Fiscal Year
GAO	Government Accountability Office
Ginnie Mae	Government National Mortgage Association
GNMA	Government National Mortgage Association
HUD	Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management and Budget
PHA	Public Housing Agency
PIH	Office of Public and Indian Housing
PMA	President's Management Agenda

The Mission of HUD

INCREASE HOMEOWNERSHIP,
SUPPORT COMMUNITY DEVELOPMENT, AND
INCREASE ACCESS TO AFFORDABLE HOUSING
FREE FROM DISCRIMINATION.



These words, from HUD's Strategic Plan, go back to the heart of the United States Housing Act of 1937 which declared it a national policy to "assist the several states and their political subdivisions to remedy the unsafe and unsanitary housing conditions and the acute shortage of decent, safe, and sanitary dwellings for families of lower income and ... to vest in local public housing agencies the maximum amount of responsibility in the administration of their housing programs."

Subsequent legislative and political changes have broadened the scope of the nation's housing policy, and in 1965 the United States Congress established the Department of Housing and Urban Development (HUD) as an Executive, Cabinet-level agency, to:

- Foster the orderly growth and development of the nation's urban areas,
- Coordinate Federal activities affecting housing and urban development,
- Provide technical assistance and information to aid state, county, town, village, or other local governments in developing solutions to community and metropolitan development problems,
- Encourage effective regional cooperation in the planning and conduct of community and metropolitan development programs and projects,
- Encourage and develop the fullest cooperation with private enterprise in achieving the objectives of the Department, and
- Conduct continuing comprehensive studies, and make available findings, with respect to the problems of housing and urban development.

HUD's Strategic Plan and Performance Goals

HUD's strategic planning process provides a framework for effective planning, budgeting, program evaluation, and accountability for results. The result of this process is this annual report to the President, Congress, and the public.

HUD's four-tiered performance management framework to measure performance is illustrated in the following chart:

	<i>Description</i>
<i>Strategic Goals</i>	HUD has three programmatic Strategic Goals and three cross-cutting goals directed toward meeting its mission.
<i>Strategic Objectives</i>	Broad operational focus areas designed to achieve Strategic Goals. HUD has 16 programmatic strategic objectives and 11 cross-cutting objectives.
<i>Performance Indicators</i>	Specific measurable values or characteristics used to measure progress towards achievement of strategic objectives. HUD uses four different types of indicators: outcome, output, milestone and percentage (benchmark). Additionally, tracking measures are used to report valuable data where there are substantial limits on HUD's span of control.
<i>Performance Targets</i>	Quantifiable expressions of desired performance/success levels.

As can be seen from the above chart, performance management at HUD begins with the setting of strategic goals, which are then translated into strategic objectives, performance indicators, and performance targets.

HUD's Strategic Framework

HUD's mission statement and the six Strategic Goals shown in the following chart are integral parts of the Department's planning process reflecting and helping to ensure the continuity of HUD's policies and operations. Three of the strategic goals are programmatic goals that address the specific but separate complimentary mission goals of HUD: to promote homeownership, provide decent affordable rental housing, and strengthening of our communities. Three other Strategic Goals are cross-cutting goals that support each of the first three. A companion discussion that summarizes the means and strategies HUD uses to achieve its mission through key program and policy activities, budget resources, measurements, and results is found at the beginning of Section 2, Performance Indicators. The table on the following page provides a depiction of HUD's Strategic Goals and the objectives of each.

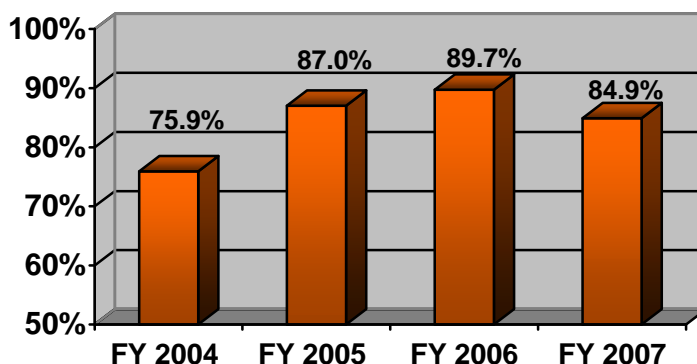
HUD'S STRATEGIC FRAMEWORK

Mission: Increase homeownership, support community development, and increase access to affordable housing free from discrimination.			
Programmatic Strategic Goals	A: Increase homeownership opportunities	B: Promote decent affordable housing	C: Strengthen communities
	<p>A1: Expand national homeownership opportunities.</p> <p>A2: Increase minority homeownership.</p> <p>A3: Make the homebuying process less complicated and less expensive.</p> <p>A4: Reduce predatory lending through reform, education, and enforcement.</p> <p>A5: Help HUD-assisted renters become homeowners.</p> <p>A6: Keep existing homeowners from losing their homes.</p>	<p>B1: Expand access to and availability of decent, affordable rental housing.</p> <p>B2: Improve the management accountability and physical quality of public and assisted housing.</p> <p>B3: Improve housing opportunities for the elderly and persons with disabilities.</p> <p>B4: Promote housing self-sufficiency.</p> <p>B5: Facilitate more effective delivery of affordable housing by reforming public housing and the Housing Choice Voucher program.</p>	<p>C1: Assist disaster recovery in the Gulf Coast region.</p> <p>C2: Enhance sustainability of communities by expanding economic opportunities.</p> <p>C3: Foster a suitable living environment in communities by improving physical conditions and quality of life.</p> <p>C4: End chronic homelessness and move homeless families and individuals to permanent housing.</p> <p>C5: Address housing conditions that threaten health.</p>
Cross-Cutting Strategic Goals	D: Ensure equal opportunity in housing		
	<p>D1: Ensure access to a fair and effective administrative process to investigate and resolve complaints of discrimination.</p> <p>D2: Improve public awareness of rights and responsibilities under fair housing laws.</p> <p>D3: Improve housing accessibility for persons with disabilities.</p> <p>D4: Ensure that HUD-funded entities comply with fair housing and other civil rights laws.</p>		
	E: Embrace high standards of ethics, management, and accountability		
	<p>E1: Strategically manage HUD's human capital to increase employee satisfaction and improve HUD performance.</p> <p>E2: Improve HUD's management and internal controls to ensure program compliance and resolve audit issues.</p> <p>E3: Improve accountability, service delivery, and customer service of HUD and its partners.</p> <p>E4: Capitalize on modernized technology to improve the delivery of HUD's core business functions.</p>		
	F: Promote participation of faith-based and community organizations		
	<p>F1: Reduce barriers to faith-based and community organizations' participation in HUD-sponsored programs.</p> <p>F2: Conduct outreach and provide technical assistance to strengthen the capacity of faith-based and community organizations to attract partners and secure resources.</p> <p>F3: Encourage partnerships between faith-based/community organizations and HUD grantees and sub-grantees.</p>		

Performance Overview

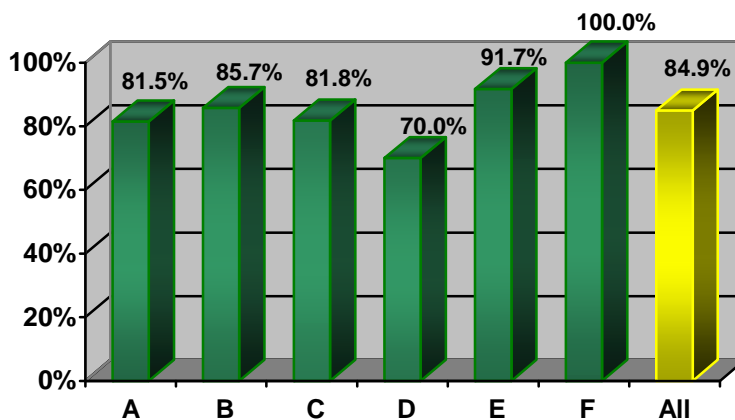
The Department is required to report on its actual performance related to the program indicators and targets published in the Departments FY 2007 Annual Performance Plan. Below is a graphical summary of our performance on all indicators over the past four years, FY 2007 indicators by Strategic Goal, and FY indicators by Program Office.

**Summary of Performance Indicators Met
(by Fiscal Year)**



The Department attributes the drop in the percentage of performance indicators met to the downturn in the economy as it has affected the housing industry (see the section entitled Risks, Trends, and Factors Affecting Goals contained in this section of this report) as well as from a relative reduction in funding available for HUD program monitoring, assistance, enforcement, and for needed IT systems improvement. For a broader explanation of HUD's means, strategies, and plans for accomplishing its Strategic Goals, see the introduction to Section II, the Performance Section.

**Percent of FY 2007 Performance Indicators Met
(by Strategic Goal)**



SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

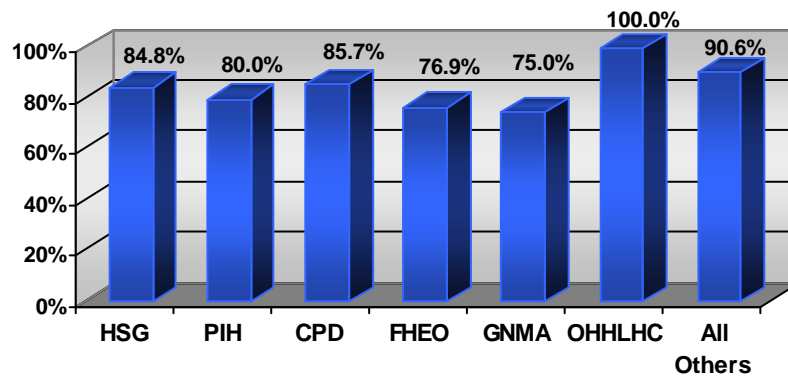
PERFORMANCE OVERVIEW

In order to most efficiently and effectively fulfill the Mission of HUD, the Department has established the following program offices:

- Office of Housing (including the Federal Housing Administration),
- Public and Indian Housing (PIH),
- Community Planning and Development (CPD),
- Office of Fair Housing and Equal Opportunity (FHEO),
- Government National Mortgage Association (GNMA), and
- Office of Healthy Homes and Lead Hazard Control (OHHLHC).

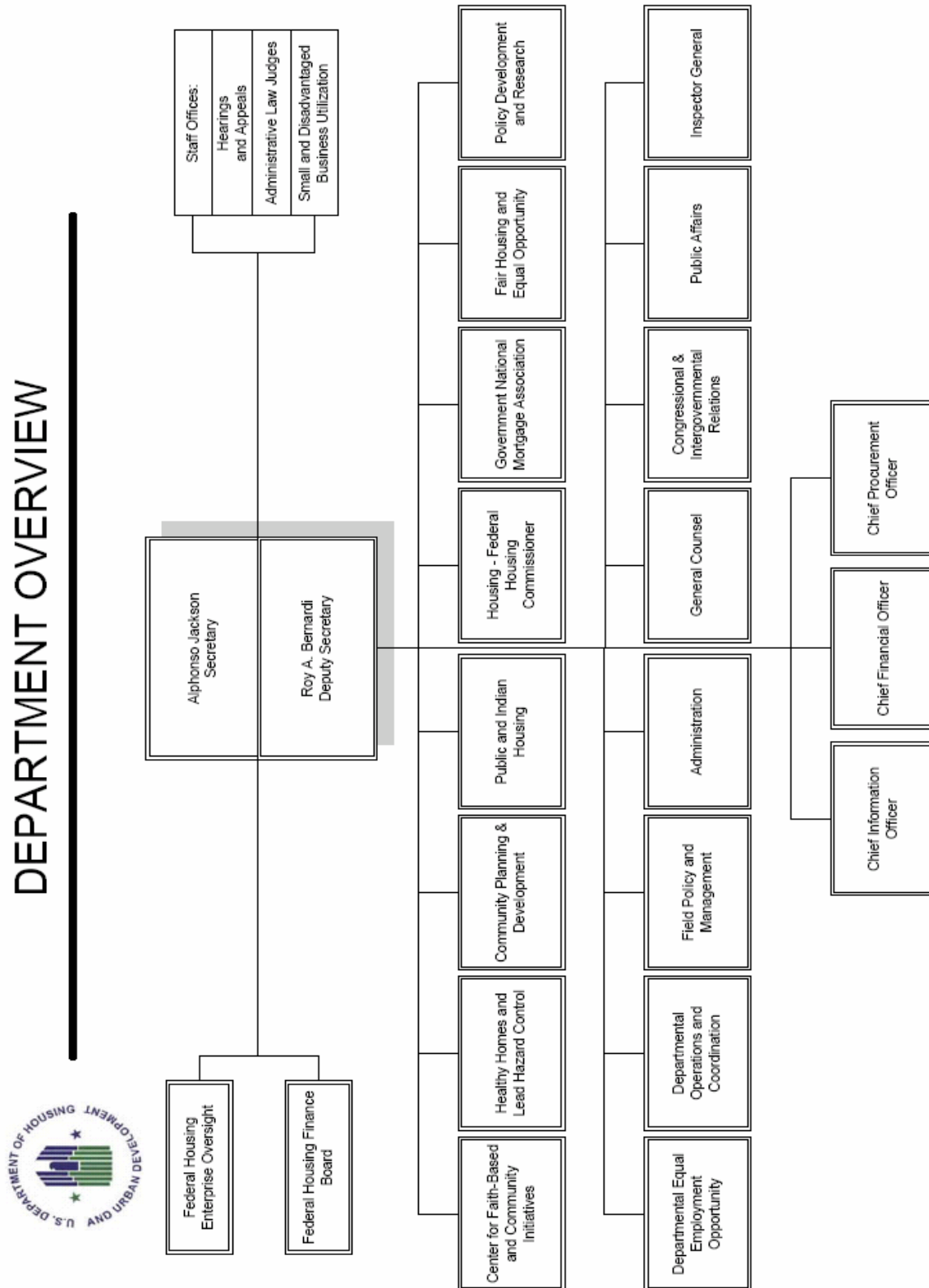
Each office has a primary focus on one or more of the Strategic Goals of HUD's Mission, and their programs are generally focused on a particular housing program delivery constituency, such as state and local governments (CPD), public housing agencies (PIH), private sector lenders and owners (Housing/FHA), or the secondary mortgage market (Ginnie Mae). Additionally, HUD has a number of other administrative, financial and support offices, including the Center for Faith-Based and Community Initiatives, that directly support the Mission goals and/or provide valuable support to the six major program offices.

**Percent of FY 2007
Performance Indicators Met
By Program Office**



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT FY 2007 PERFORMANCE AND ACCOUNTABILITY REPORT

The following provides a schematic overview of the organizational components of the Department.



September 30, 2007

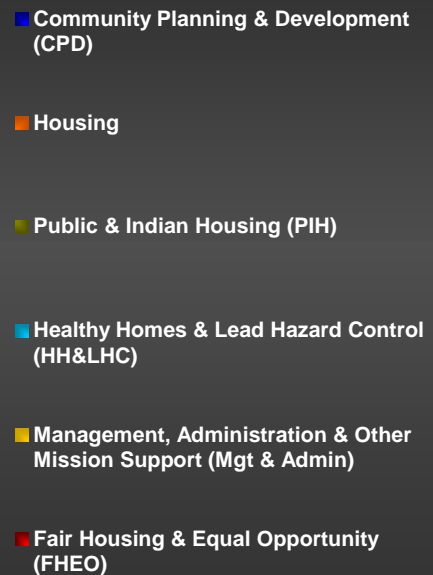
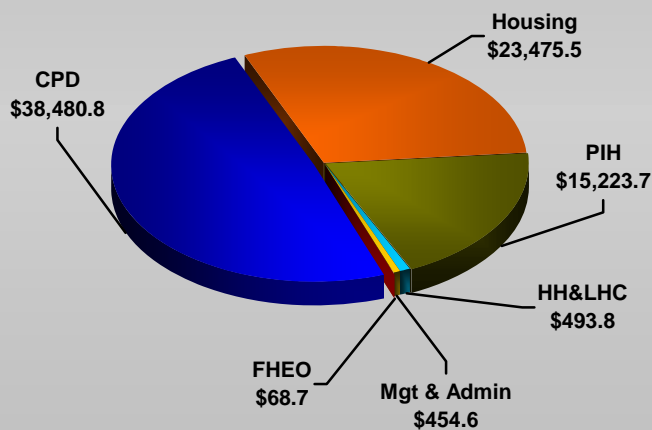
SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

HUD PROGRAM OFFICES

The following charts show budgetary resources available to HUD in FY 2007. The Unexpended Balances chart reflects prior year funds that were still available for obligation or expenditure at the beginning of the year. HUD has many long-term program obligations that are still spending-out from prior periods. This chart also reflects \$16.6 billion in supplemental CDBG Disaster Recovery Grant funding for the Gulf Coast States. The second chart shows new discretionary Budget Authority provided to HUD by the Congress in FY 2007. In addition, HUD has permanent indefinite authority for some of its FHA and Ginnie Mae program activity, based on revenues generated by those self-sustaining programs over the years.

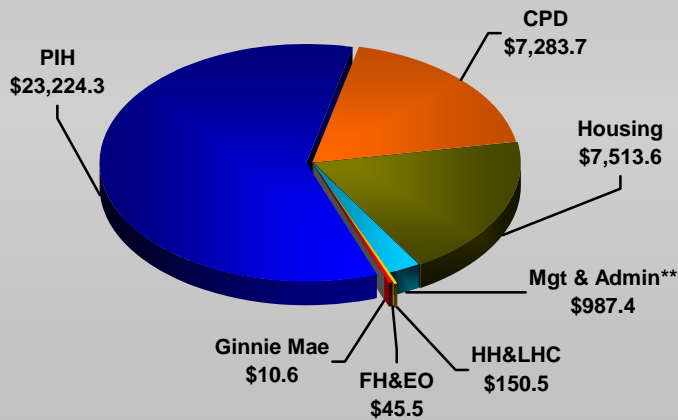
HUD Unexpended Balances By Program Office

End of FY 2006 - \$78,197.1
(Dollars in Millions)



HUD FY 2007 Discretionary Gross Budget Authority -

\$39,215.6*
(Dollars in Millions)



* Amount does not include rescissions of prior year balances.

** Amount includes \$56.1 million in Policy Development and Research Program Area Funds.

Selected Measures, Significant Achievements and Current Challenges

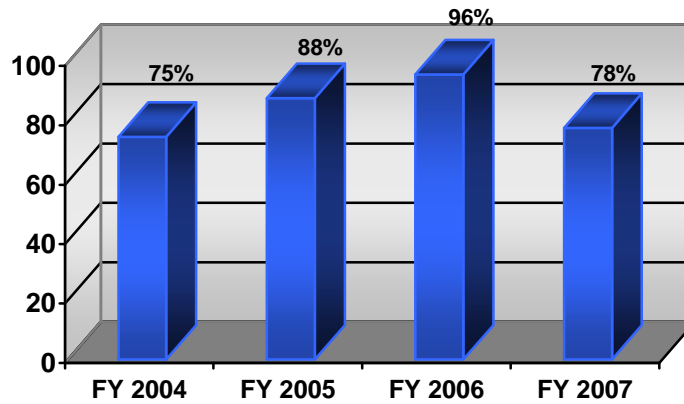
This section provides a description of each program, including tables reflecting selected performance measures, and historical performance trends for these measures. Those tables are not intended to be all inclusive, since a broader explanation of each indicator is included in the Performance Section of this report. The tables of selected measures are followed by discussion of significant achievements, challenges, and plans.

- **Selected Measures** are those that measure mission-critical activities. As of FY 2007, 87 percent of HUD's selected measures have been in place for at least three years. This provides the Department's leadership with the ability to track significant performance trends over time and to make strategic adjustments when necessary. It also helps HUD to maintain a focus on the use of outcome and efficiency measures to assess mission-critical performances.
- **Significant Achievements, Current Challenges, and Plans** are the Department's most important FY 2007 operational achievements related to strategic goals and key supporting strategic objectives, as well as its current challenges, and plans.

Each HUD program office has a primary focus on one of the housing program delivery constituencies – such as private sector lenders and owners, public housing agencies, state and local governments, non-profit sponsors, or the secondary mortgage market - in support of one or more specific Strategic Goal. For instance, while the primary focus of Office of Housing may be on increasing homeownership, it also administers a number of significant multifamily housing programs that support the goal of increasing affordable rental housing.

Based on the total number of reported results during a fiscal year, the following chart shows the percent of performance targets for selected measures that were achieved for programs for the current and past three years. The discussion that follows highlights programs and indicators administered by the major program offices. Expanded discussions of these results are included in Section 2 of this Report.

**Percent of Selected Performance Indicators
Met
Overall by Fiscal Year**



The following provides an overview of HUD's major program offices and their role in achieving HUD's mission to meet the full range of housing and community development needs.

Office of Housing/Federal Housing Administration

Primary Focus: Increase Homeownership Opportunities and Affordable Rental Housing

Major Programs: FHA Single Family and Multifamily Housing Mortgage Insurance, Housing Counseling, Section 8 Project-Based Rental Assistance, Section 202 Housing for the Elderly, Section 811 Housing for the Disabled

FY 2007 Budget Authority

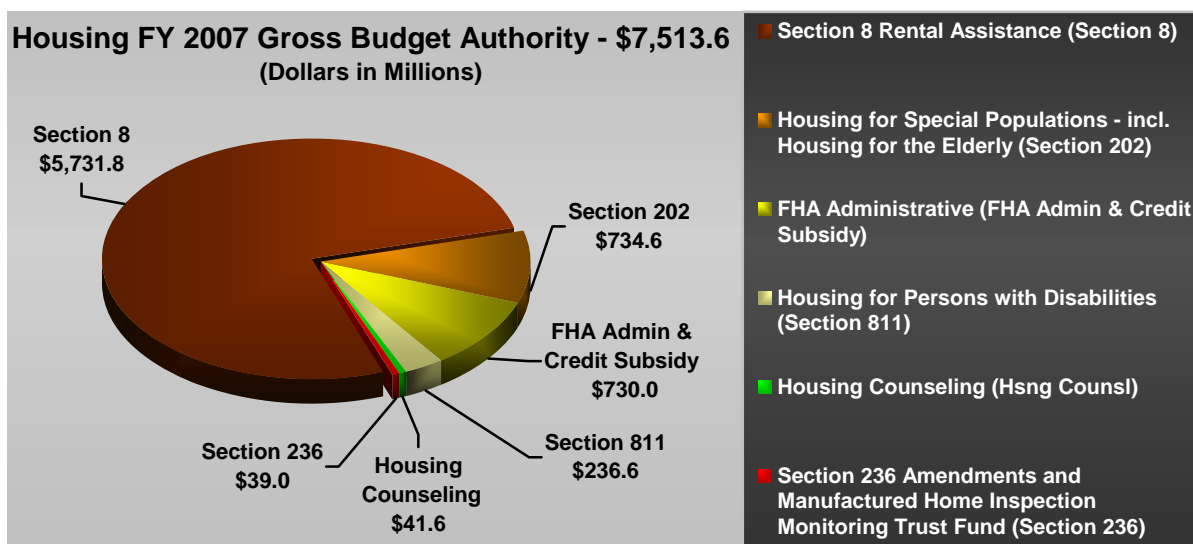
Gross Appropriated Budget Authority: \$7.5 Billion

Insurance and Loan Guarantees: \$400.0 Billion Insurance-In-Force

FHA Collections: \$11.3 Billion

Authorized Staffing: 3,120 Full Time Equivalent

The Office of Housing/FHA provides vital public services through its nationally administered housing programs, including various mortgage insurance, homeownership subsidy, housing counseling, rental subsidy, and grant programs designed to provide housing to low- and moderate-income households. Within the Office of Housing are three business areas – Single Family Housing, Multifamily Housing, and Regulatory programs. These business areas are funded by annual appropriations from the Congress and the receipt of FHA mortgage insurance premiums and other collections.



The **OFFICE OF HOUSING'S** major appropriated programs include:

The **Section 8 Project-Based Rental Assistance Program**, which serves to maintain nearly 1.25 million units of affordable rental housing for lower income families. Under HUD's various rental housing assistance programs, assisted households typically pay 30 percent of their income for housing, with HUD funding covering the balance of the stipulated unit rent or remaining operational costs, in accordance with program regulations.

The **Section 202 and 811 Housing for the Elderly and Persons with Disabilities Programs**, which provide interest-free capital advances to finance the construction, rehabilitation, or acquisition of affordable housing with rental assistance and supportive services for the elderly (Section 202) and persons with disabilities (Section 811). There were over 135,000 housing units supported by these programs at the end of FY 2007.

Housing Counseling Program services for homebuyers and homeowners, which are provided through grant funding to approximately 1,300 HUD-approved counseling agencies across the country.

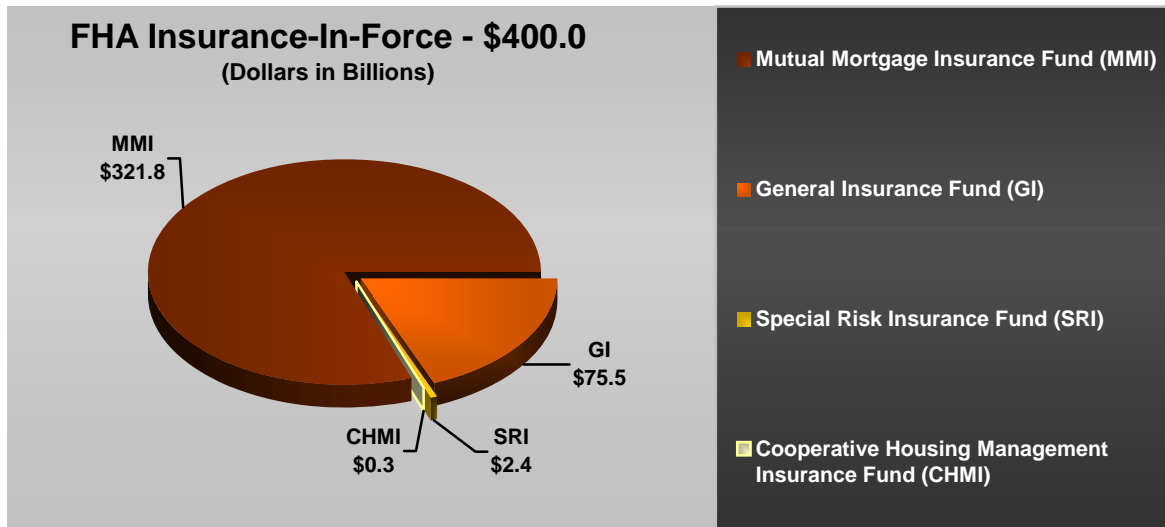
Regulatory programs, which are designed to protect homeowners, homebuyers, and to regulate real estate transactions. These programs include the issuance of manufactured housing construction and safety standards, administration of the Real Estate Settlement Procedures Act, and regulation of interstate land sales. Also, to increase the availability of mortgage credit for the very low-, low-, and moderate-income families, Housing is responsible for setting affordable-housing goals for the two primary Government Sponsored Enterprises (Freddie Mac and Fannie Mae).

More information concerning the Office of Housing is available at their website:

<http://hudatwork.hud.gov/po/h/>

FHA, the largest housing mortgage insurer in the world, is located within HUD's Office of Housing. FHA insures mortgages to guarantee payments, making it much easier for homeowners and landlords to borrow the funds they need from private lenders. By eliminating the risk of loss, lenders will provide market rate loans to all eligible purchasers. Since its inception 73 years ago, FHA has provided mortgage insurance to 34.6 million single-family households, and 50,150 multifamily projects containing 5.7 million units of housing. FHA currently has an insured portfolio of 3.7 million single-family mortgages and 12,156 multifamily housing projects with 1.47 million units.

FHA operates its programs through four insurance funds supported by premium and fee income, interest income, Congressional appropriations, borrowing from the U.S. Treasury, and other miscellaneous sources. By collecting mortgage insurance premiums and other fees, most FHA programs are self-sustaining and operate in a financially sound manner. The Insurance-In-Force in the four FHA funds at the end of FY 2007 was as follows:



* HECM are not included in the amount for GI Insurance-In-Force due to the unique nature of the program. As of September 30, 2007, the Insurance-In-Force was \$30 billion.

- ❑ *The Mutual Mortgage Insurance (MMI) Fund.* This fund supports FHA's basic single family homeownership programs. This fund is self-sustaining.
- ❑ *The General Insurance (GI) Fund.* This fund receives direct appropriation and supports a wide variety of housing programs including rental apartments, cooperatives, condominiums, nursing homes, hospitals, property improvements, manufactured housing (Title I), home equity conversion mortgages, and disaster assistance.
- ❑ *The Special Risk Insurance (SRI) Fund.* This fund receives direct appropriation and supports higher-risk single family and multifamily insured mortgages.
- ❑ *The Cooperative Management Housing Insurance (CMHI) Fund.* This fund supports insured loans on market-rate cooperatives. Historically, this fund has been self-sustaining.

Additional information about FHA can be found in its annual report available on the web at: <http://www.hud.gov/offices/hsg/fhfy07annualmanagementreport.pdf>

Making Home Buying Less Complicated

The diversity of financial products and services in today's housing market give added importance to educating consumers about the homeownership process. Each year HUD conducts a number of events during *National Homeownership Month* to inform consumers about the opportunities for homeownership and the accompanying responsibilities and benefits of owning a home.



Homeownership Event sponsored by Santa Ana Field Office and Homeownership Center on June 10, 2007

Numerous events were held throughout the year to advance HUD's Homeownership objectives and ensure that the dream of homeownership is both an available and successful experience. The event above illustrates one innovative approach to providing homeownership education.

SELECTED MEASURES

In FY 2007, the Office of Housing/FHA made significant contributions to HUD's Strategic Goals for increasing homeownership opportunities and promoting decent affordable rental housing. In many respects, production activity in FHA's housing demand programs are affected by market forces beyond HUD's control. Nevertheless, HUD has plans to improve performance in areas where current goals were not met or trends are unfavorable.

INCREASE HOMEOWNERSHIP

The FHA single family housing mortgage insurance programs and housing counseling program efforts are vital tools in HUD's efforts to increase homeownership opportunities for all Americans and are particularly important in assisting first-time and minority homeowners. The following table shows FY 2007 results on five key performance indicators related to increasing homeownership and enabling homeowners experiencing financial difficulties to stay in their homes.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FY 2007 PERFORMANCE AND ACCOUNTABILITY REPORT

SELECTED MEASURES			
Performance Indicator	Year	Target	Actual Results
The number of FHA single family mortgage insurance endorsements nationwide. (Indicator number A1.3)	2004	N/A	997,000
	2005	N/A	556,000
	2006	N/A	502,000
	2007	N/A	532,000
The share of first time homebuyers among FHA home-purchase endorsements. (Indicator number A1.4)	2004	No Goal	72.8%
	2005	79.0%	79.3%
	2006	71.0%	79.3%
	2007	71.0%	79.5%
The share of first time minority homebuyers among FHA first time home-purchase endorsements. (Indicator number A2.5)	2004	Baseline	37.2%
	2005	No Goal	34.4%
	2006	35.0%	31.7%
	2007	35.0%	33.0%
The percentage of clients receiving pre-purchase counseling who purchase a home or become mortgage-ready within 90 days. (Indicator number A1.8)	2004	N/A	42.0%
	2005	30.0%	37.1%
	2006	30.0%	42.7%
	2007	30.0%	53.0%
The percentage of mortgagors seeking help with resolving or preventing mortgage delinquency that successfully avoid foreclosure. (Indicator number A6.2)	2004	N/A	90.8%
	2005	N/A	96.7%
	2006	N/A	92.5%
	2007	80.0%	94.7%

While FHA's insurance endorsements dramatically dropped the past two fiscal years, they began to rise in FY 2007. The increase in FHA's market share is primarily due to the collapse of the subprime mortgage market. The subprime market consists of mortgages designed to serve people who lacked the credit history or income to qualify for a regular or "prime" mortgage. Prospective borrowers who had opted for subprime loans in recent years are now choosing the dependability and safety of FHA's traditional products.

FHA continued the favorable trend of first-time homebuyers making up a larger percentage of FHA's single family endorsements. Also significant is the share of first-time minority homebuyers among all first-time buyers. Though the goal of 35.0 percent was not met, the actual number of minority first-time homebuyers assisted by FHA in FY 2007 increased by 10.6 percent, a greater percentage increase than that of the total level of FHA single family mortgage insurance endorsements, which only increased by 6.0 percent. FHA continues to contribute to the President's aggressive 2002 national goal to increase minority homeownership by 5.5 million households by the end of the decade in 2010. As of the third quarter of 2007, there has been a net increase of 3.19 million minority homeowners, representing 58 percent of the President's goal.

HUD assists those who are preparing to purchase a home or working to be mortgage-ready. The need for pre-purchase counseling ebbs and flows with economic times, thus it may vary for reasons outside of HUD's control. In the third quarter of FY 2007, HUD substantially exceeded its goal for 30 percent of those individuals who receive pre-purchase counseling going on to purchase a home or become mortgage-ready within 90 days.

HUD also tries to assist those in danger of losing their homes due to foreclosure. FHA's use of loss mitigation tools over the past years has increased from 35,426 cases in FY 2000 to 91,051 cases in FY 2007. FHA exceeded its goal of an 80 percent success rate, with nearly a 95 percent success rate. Loss mitigation efforts in FHA's programs have enabled thousands of households to retain homes they otherwise would have lost.

While FHA continues to make homeownership possible for families and individuals who are either unserved or underserved by the conventional market, it has faced numerous challenges maintaining the competitiveness of its programs within the mortgage industry the past several years. Current statutory barriers, for example, do not allow FHA to effectively compete in today's housing market. As part the President's fiscal year 2007 budget submission, FHA submitted a modernization proposal requesting legislative flexibility to support key FHA policy objectives to:

- Increase the FHA loan limits
- Create a new risk-based insurance premium structure for FHA
- Enhance downpayment flexibility requirements
- Simplify requirements for condominium loans
- Expand use of Home Equity Conversion Mortgages ("reverse mortgages")
- Increase access to pre-purchase and post-purchase counseling for low- and moderate-income homeowners.

Passage of this legislation will reduce statutory barriers and increase FHA's flexibility to respond to changes in the marketplace. This will allow FHA to serve more prospective homebuyers by providing lower risk and lower cost alternatives to subprime loans.

HUD announced the **FHASecure Program** in FY 2007, as a temporary program that will provide refinancing opportunities to homeowners for various types of adjustable rate mortgages (ARMs). FHASecure is designed to increase liquidity in the mortgage market and help people who have good credit, but who have not made all of their payments on time because of rising mortgage payments due to ARMs that have "reset." This program and other FHA efforts will provide an estimated 240,000 homeowners, with options to help make their payments and keep their homes next year. For more information visit the FHASecure Internet web site at:

<http://www.fha-refinance-program.com/FHASecure.html>.

PROMOTE DECENT AFFORDABLE RENTAL HOUSING

The Office of Housing/FHA also contributed significantly to HUD's Strategic Goal of promoting decent affordable rental housing for low- and moderate-income households and other special populations in FY 2007. The FHA multifamily housing mortgage insurance program and the

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Section 202 and 811 Programs contribute to increasing the supply of affordable housing each year. The Office of Multifamily Housing is also responsible for oversight of the maintenance of approximately 30,000 insured or assisted properties with over 2.6 million units of housing for low- and moderate-income households. Primary program objectives are to assure that insured and assisted multifamily housing properties: 1) meet HUD's physical condition standards to provide low-income households a decent place to live; 2) are financially sound to properly operate the property and mitigate HUD's financial risk; and 3) are properly determining tenant eligibility and rental assistance payments due from HUD. Results on five key performance indicators in FY 2007 are as follows:

SELECTED MEASURES			
Performance Indicator	Year	Target	Actual Results
FHA endorses multifamily project mortgages. (Indicator number B1.4)	2004	1,000	1,497
	2005	1,000	1,017
	2006	1,000	1,016
	2007	1,000	881
The share of multifamily properties in underserved areas insured by FHA. (Indicator number C3.2)	2004	25.0%	34.0%
	2005	25.0%	43.0%
	2006	25.0%	41.0%
	2007	33.0%	46.0%
Increase the availability of affordable housing for the elderly and persons with disabilities by bringing 200 projects to initial closing under Sections 202 and 811. (Indicator number B3.1)	2004	250	303
	2005	250	303
	2006	250	315
	2007	200	245
The share of assisted and insured privately-owned multifamily properties that meet HUD established physical standards. (Indicator number B2.3)	2004	94.7%	94.4%
	2005	95.0%	96.0%
	2006	95.0%	95.0%
	2007	95.0%	94.0%
The share of assisted and insured multifamily properties that meets HUD's financial management compliance is maintained at no less than 98 percent. (Indicator number B2.5)	2004	95%	98%
	2005	95%	98%
	2006	98%	98%
	2007	98%	99%

FHA's multifamily housing mortgage insurance programs endorsed 881 mortgages totaling \$4.19 billion in FY 2007, providing 90,614 housing units/beds across every state, but two. While this was short of HUD's goal of 1,000 endorsements, the downward trend over the last four years can be attributed, in part, to a weakening housing market beyond HUD's control. HUD's FY 2007 goal also anticipated a level of refinancing activity that did not materialize due to rising interest rates.

The Section 202/811 Programs exceeded their goal by 23 percent, with 245 initial project closings. This resulted in 5,590 additional Section 202 units for the elderly and 1,123 additional Section 811 units for disabled households.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

HOUSING/FEDERAL HOUSING ADMINISTRATION

The results of the most recent physical inspections conducted on the multifamily housing portfolio of 30,173 properties shows that 28,294 met or exceeded HUD's physical condition standards. This represents 94 percent of the inventory and maintains a very high standard. While this represents a slight increase of substandard properties of less than one percent, this is an aging housing stock, and the 6 percent of properties with substandard conditions are under management improvement operating plans or facing an enforcement action to bring those projects up to acceptable standards.

HUD exceeded its financial compliance goal with 99 percent of insured and assisted properties with no financial compliance deficiencies. This better assures that those properties can meet their operating needs and HUD's physical condition standards, and it reduces the risk of defaults and claims on FHA-insured mortgages.

Improper payments has been a challenge for all of HUD's Rental Housing Assistance Programs – given the size, complexity and decentralized administration of the programs – and significant progress has been made in reducing improper payments. HUD has reduced its baseline improper rental assistance payment estimates by over 55 percent since 2000. As program funding has grown, HUD has also reduced the improper payment rate from 17.1 percent of rental assistance payments in FY 2000 to 5.5 percent of payments in FY 2007. As a result of HUD's improved controls and progress on this issue, HUD's Rental Housing Assistance Programs were removed from the Government Accountability Office's "high-risk" federal programs watch list in FY 2007. Further information on the improper payment issue is provided in Section 4 of this report.

Neighborhood Network Centers do make a difference in resident's lives, like the Santa Maria Village Neighborhood Networks Learning Center located in a 200-unit complex in Austin, TX. The Neighborhood Networks program is a community based initiative whose goal is to provide a resource and computer center at each HUD property. The Center's main goal is to help residents obtain professional skills to be gainfully employed and ultimately become homeowners.



Public and Indian Housing

Primary Focus: Promote Decent Affordable Rental Housing

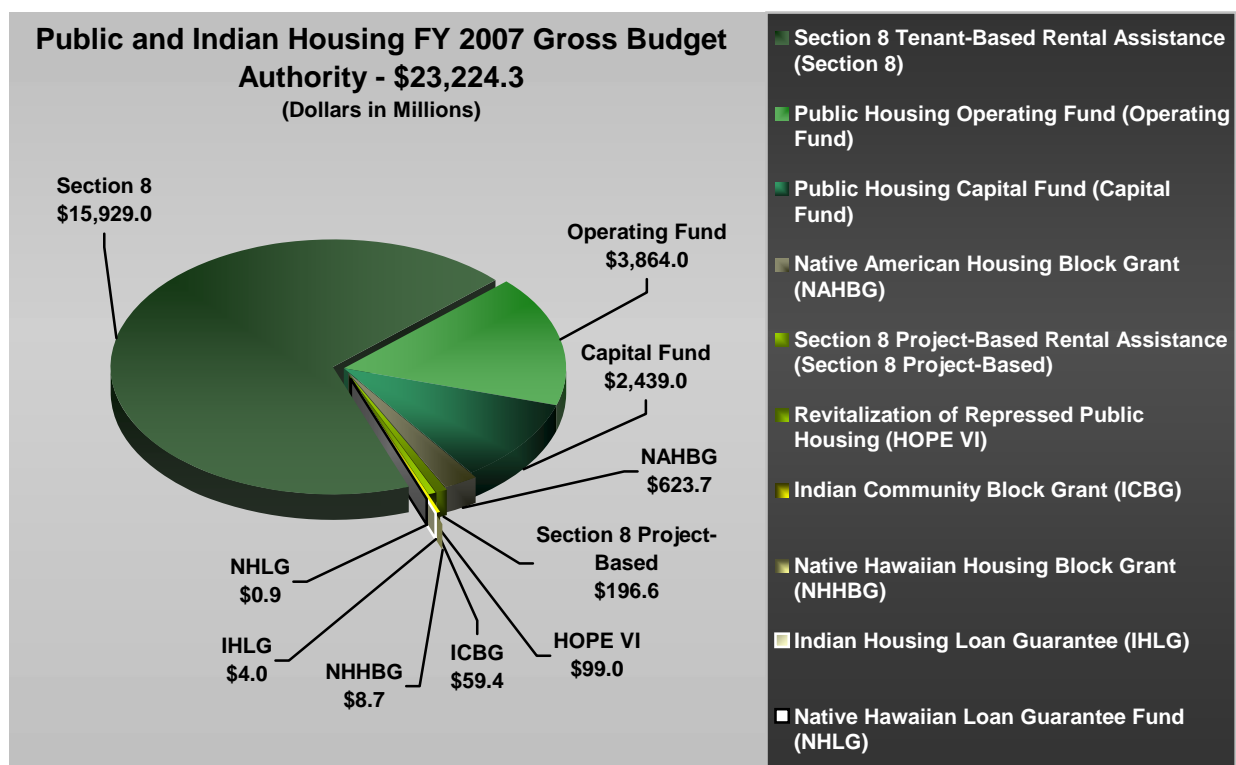
Major Programs: Section 8 Tenant- and Project-Based Rental Assistance, Public Housing Operating and Capital Funds, and Indian and Native Hawaiian Housing Loan Guarantee Funds

FY 2007 Budget Authority

Gross Budget Authority: \$23.2 Billion

Authorized Staffing: 1,489 Full Time Equivalent

The goal of the Office of Public and Indian Housing (PIH) is to ensure safe, decent, and affordable rental housing; create opportunities for residents' housing self-sufficiency; and ensure fiscal integrity by all program administrators and participants. PIH administers over 57 percent of HUD's annual discretionary program budget authority to provide affordable rental housing to about 3.3 million low-income households nationwide.



The **Section 8 Housing Choice Voucher** program, HUD's largest funded program, serves approximately 2.1 million households through vouchers administered by over 2,400 Public Housing Agencies (PHAs) and other state and local designated entities. With these vouchers, eligible families can seek housing in the private market, and in a neighborhood of their 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 payment standard.

Public Housing Operating Funds are provided to over 3,100 PHAs to help them meet housing project operating and management expenses. Funds can be used for operating and management costs, including administration, routine maintenance, anti-crime and anti-drug activities, resident participation in management, insurance costs, energy costs, and costs, as appropriate, related to the operation of management of mixed finance projects, among other things.

Public Housing Capital Funds are provided to over 3,100 PHAs to finance capital improvements (developing, rehabilitating, and demolishing units), replace housing, and fund management improvements. Some PHAs may not have enough funds in a single year to be able to make all of the improvements necessary to adequately maintain their public housing. As a result, PHAs may take advantage of the financing element of the Capital Fund. Under the Capital Fund Financing Program, a PHA may borrow private capital to make improvements and pledge, subject to the availability of appropriations, a portion of its future year annual Capital Funds to make debt service payments for either a bond or conventional bank loan transaction, essentially leveraging its future appropriations.

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.

The Ihanktonwan Community College, located on the Yankton Sioux Reservation in South Dakota, recently completed an 11,200 square foot Indian Education Center for Higher Learning. In 2004, Ihanktonwan Community College was awarded a \$900,000 Indian Community Development Block Grant (ICDBG) to expand its facility. Using the ICDBG funds and other leveraged resources, this expansion added a science lab, library, distance learning centers, and three additional classrooms as well as several faculty offices. With this addition, the Ihanktonwan Community College can pursue its quest to become accredited as a four year institution of higher learning.



Indian Education Center for Higher Learning

SELECTED MEASURES

In FY 2007, PIH made significant contributions to HUD's strategic goals for promoting decent affordable rental housing and increasing homeownership opportunities.

Promote Decent Affordable Rental Housing

Given the significance of the resources and responsibilities entrusted to the PHAs - for the Section 8 Housing Choice Voucher and various Public Housing programs - PIH has established comprehensive remote monitoring systems to assess PHA performance and the need to target on-site monitoring, technical assistance, or other intervention actions to improve performance. The FY 2007 results on two key tracking indicators for the Section 8 Housing Choice Voucher Program were:

SELECTED MEASURES			
Performance Indicator	Year	Target	Actual Results
The proportion of the Housing Choice Voucher Program funding administered by troubled housing agencies. (Indicator number B2.7).	2004	N/A	N/A
	2005	N/A	N/A
	2006	Tracking	6.1%
	2007	Tracking	4.5%
Improve the utilization rate of Housing Choice Voucher funding to 97% by 2011. (When a new assessment system under development becomes functional, HUD will develop new performance goals. In the interim, the Department will report this measure as a tracking indicator.) (Indicator number B1.10).	2004	N/A	100.0%
	2005	N/A	97.0%
	2006	N/A	90.0%
	2007	N/A	93.0%

The above first indicator tracks the portion of the Housing Choice Voucher Program funding managed by "troubled" agencies. It is an important indicator since troubled agencies do not efficiently and effectively handle the funding provided, and typically serve less recipients, have higher improper payments and/or do not assure the quality of the housing provided. Through corrective actions and technical assistance, the percentage of program funding administered by troubled agencies was reduced from 6.1 percent to 4.5 percent in FY 2007.

In FY 2005, Congress changed the basis of the Housing Choice Voucher Program funding from a "unit-based" process with program variables that affected the total annual federal funding need, to a "budget-based" process that limits the federal funding to PHAs to a fixed amount. Whereas the prior unit-based process resulted in both escalating annual federal budget needs and large balances of un-utilized funds at the end of the annual funding cycle, the budget-based process has leveled total program funding. This budget-based process is intended to provide PHAs with a steady funding stream and flexibility in the management of the program within the annually computed budget.

However, legislative change is needed to provide PHAs with the flexibility to manage their programs according to local needs and priorities. Congress did not enact HUD's proposed State and Local Housing Flexibility Act of 2005 to streamline the program and give more flexibility to

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS
PUBLIC AND INDIAN HOUSING

PHAs to administer the program to better address local needs within their set annual funding amount.

Under the current funding approach, a certain level of local program reserve is necessary given the many existing variable factors that affect the program funding utilization, such as market conditions, the local voucher acceptance rate, and changes in the tenant income mix being subsidized. Most Housing Choice Vouchers are currently being used to assist low-income families. However, many PHAs have an existing statutory ceiling on the number of leased voucher units they can fund, as a carry-over from the previous unit-based funding process. These ceilings or caps do not allow those PHAs to take advantage of program efficiencies they can achieve under budget-based funding. As a result, large undesignated funds balances have built up in the program since FY 2005. HUD proposes the Congress remove ceilings on voucher units and change the authorizing statutes to provide PHAs greater flexibility to use their fixed funding to meet local needs which would result in the rate of underutilized funding being further reduced, thus serving more low-income households.

In the interim, increasing PHAs' utilization of voucher funds remains a key HUD priority. The utilization rate improved from 90 percent to 93 percent in FY 2007. HUD will closely monitor underutilization of funds and will take appropriate action, including possible revisions to future funding allocations to ensure appropriated funds are being used to serve as many families as are authorized to receive vouchers under the program.

The FY 2007 results on two key performance indicators for the Public Housing Programs were:

SELECTED MEASURES			
Performance Indicator	Year	Target	Actual Results
The percentage reduction of public housing units under management of troubled housing agencies (Indicator B2.6). (When a new assessment system under development becomes functional, HUD will develop new performance goals. In the interim, the Department will report this measure as a tracking indicator.)	2004	Tracking	43.5%
	2005	Tracking	33.0%
	2006	Tracking	31.0%
	2007	Tracking	33.9%
The share of public housing units that meet HUD established physical inspection standards (Indicator B2.2).	2004	87.4%	85.0%
	2005	85.0%	85.1%
	2006	85.1%	85.8%
	2007	85.0%	85.7%

During FY 2007, HUD reduced the number of housing units managed by housing agencies rated as "substandard" or "troubled" by 34 percent from the previous year, returning them to at least a rating of "standard." At the beginning of FY 2006, there were 197 troubled PHAs administering 71,391 low-rent housing units. Program improvements positively affected the management and conditions at over 24,166 low-rent housing units at the 73 PHAs removed from troubled agency status in FY 2007. However, relative reductions in federal funding for the Public Housing Operating and Capital Funds are having an adverse impact on PHAs' ability to better manage and maintain the public housing stock.

The share of public housing units that meet HUD's physical condition standards has been holding relatively constant near 85 percent for the past four years. To improve the physical

quality of public housing and achieve program efficiencies, PIH is implementing the recommendations of a three-year study by Harvard University on the cost of operating a well-run PHA. HUD is using a new formula to provide operating subsidies based on the profile and needs of each public housing project based on size, location, age of facilities, and its occupancy. Also in keeping with the Harvard Study and negotiated rulemaking on the Operating Fund Program, all PHAs of 250 or more units are required to convert to asset management, including project-based budgeting, accounting, and management. Under asset management, PHAs will monitor performance on a project-level versus on a PHA-wide basis. This greater focus will improve the PHAs ability to address operating issues and thus improve the effectiveness of resources which in turn improve the physical quality of the public housing stock. PHAs have until 2011 to complete the transition to asset management; however, project-based budgeting and accounting began in 2007 (for PHAs with July fiscal years). PIH exceeded its goal to have asset-based accounting implemented at 20 percent of PHAs in FY 2007, with 30 percent actually implemented.

PIH is in the process of overhauling its systems, processes, training and operations in order to ensure that PHAs comply with the conversion to asset management. Increased responsibility due to the implementation of asset management will put a strain on resources. Without adequate budgetary resources, PIH will not be able perform the following oversight functions, all of which are essential for the implementation of asset management:

- Accept project-level financial statements from PHAs
- Conduct project-level property inspections
- Conduct on-site management reviews
- Accept project-level operating subsidy submissions from PHAs
- Perform project-based performance assessments

In FY 2007, the PIH Office of Capital Improvements approved 23 proposals under the Capital Fund Financing Program involving approximately \$191 million in financing through PHA leveraging of their capital funds. The financed funds were used for the modernization and development of public housing at 37 PHAs.

A continuing challenge related to all of HUD's rental housing assistance programs - including the Housing Choice Voucher and Public Housing Programs - is the issue of improper payments. The significance of this issue is evidenced in it being included in the President's Management Agenda as an initiative. HUD has done extremely well in addressing this issue, reducing its improper payment rate from 17.1 percent to 5.5 percent since 2000. Further details on HUD's performance on this issue can be found in Section 4 under Improper Payment Information Act Reporting.

Increase Homeownership Opportunities

PIH programs have also continued to serve to increase homeownership among low-income and minority households, and Native Americans, as indicated by the following key indicators for FY 2007:

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS
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SELECTED MEASURES

Performance Indicator	Year	Target	Actual Results
The cumulative homeownership closings under the homeownership option of the Housing Choice Voucher/Housing Certificate Fund (Indicator Number A5.1).	2004	1,674	2,052
	2005	4,000	5,121
	2006	6,000	7,528
	2007	8,000	10,429
Section 184 mortgage financing of \$197.25 million is guaranteed for Native American homeowners during FY 2007. (Indicator number A2.9)	2004	N/A	\$62.3
	2005	\$150.0	\$76.8
	2006	\$120.0	\$172.2
	2007	\$197.25	\$233.9

By FY 2007, 10,429 households became homeowners through the Housing Choice Voucher, Family Self-Sufficiency and Moving to Work homeownership programs, exceeding the FY 2007 cumulative goal of 8,000 closings.

The Section 184 mortgage financing program had a successful year due to a team approach used to educate tribes and individual Native Americans about the benefits of homeownership. HUD relied on a network of approved lenders to finance mortgage transactions through a public/private partnership.

Grand Ronde Tribal Housing Authority Rental Units

This housing development in Grand Ronde, Oregon included 72 rental units; 36 of the units are designated for low-income families and 36 units are market-rate rentals. The project was funded by the Confederated Tribes of Grand Ronde and HUD IHBG funds.



An additional achievement during FY 2007 that was not a performance indicator, but is notable just the same, was the creation of the **National Housing Locator**. PIH, in partnership with the Office of the Chief Information Officer, created the nation's first National Housing Locator system for rental housing assistance in disaster areas. The intergovernmental National Housing Locator web site was launched in January 2007 as a direct response to lessons learned from Hurricane Katrina, most notably the lack of a nationwide, single point of entry, easily searchable system identifying available rental housing in times of disaster.

Community Planning and Development

Primary Focus: Strengthening Communities

Major Programs: Community Development Block Grants, Disaster Assistance, HOME Investment Partnerships, Homeless Assistance, Housing Opportunity for Persons with AIDS

FY 2007 Budget Authority

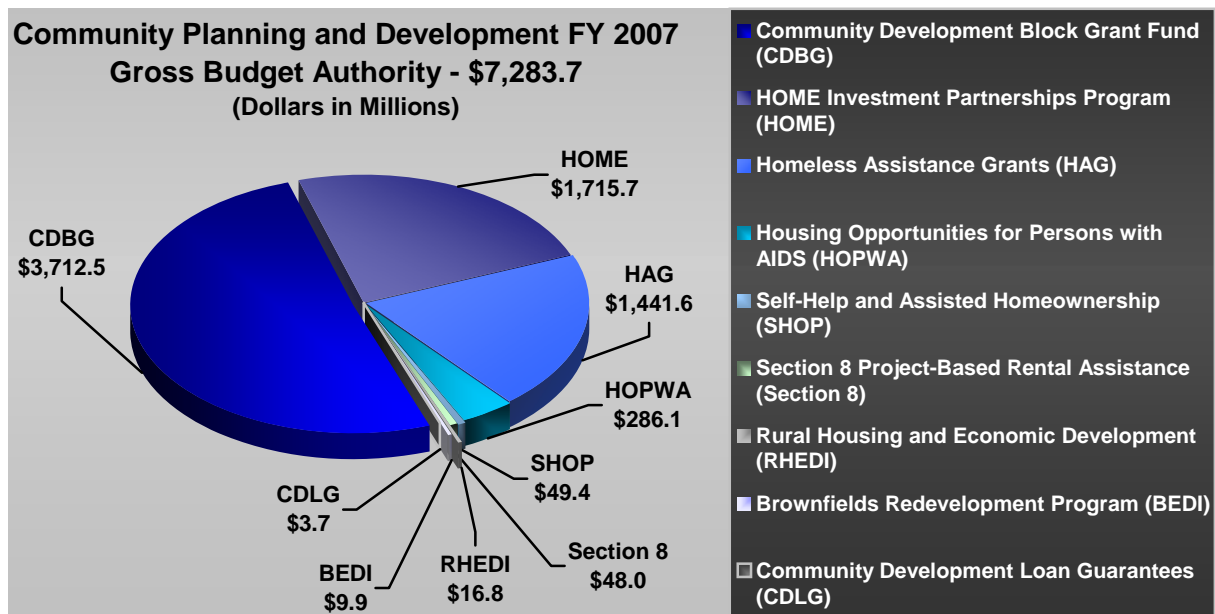
Gross Budget Authority: \$7.3 Billion

Authorized Staffing: 806 Full Time Equivalent

The Office of Community Planning and Development administers a variety of housing, community, and economic development grant programs, as well as HUD's homeless assistance programs. Together, these programs promote decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons.

These goals are achieved through partnerships with and among all levels of the government and the private sector, including for-profit and non-profit organizations.

Through programs such as Community Development Block Grant (CDBG), HOME, Homeless Assistance Grants, and Housing Opportunities for Persons with AIDS, CPD seeks to encourage the 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 locality-based housing and community development strategy.



The CDBG program is a key program administered by CPD, with an appropriation in FY 2007 of \$3.7 billion. CDBG is a formula grant program that allocates 70 percent of grant funds to units of general local governments and 30 percent to states for the funding of smaller local government that do not qualify for direct grants from HUD. The primary objective of this program is to develop viable urban and rural communities by providing decent housing, a suitable living environment, and by expanding economic opportunities. Activities undertaken with the grants must meet one of 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.

At least 70 percent of all CDBG funds expended by a grantee must be used for activities that benefit persons of low- and moderate-income.

The city of Rogers, located in northwest Arkansas, is home to a national award winning affordable housing project with a unique, eco-friendly design. Built by Habitat for Humanity of Benton County, the project resulted from a partnership with several key entities including the City's Community Development Block Grant Program and the University of Arkansas Community Design Center and Ecological Department.



Photos above: 1) Foundation being laid for a "green" Habitat Trails subdivision in Rogers, Arkansas; 2) framing going up; and 3) outside of one of the eco-friendly homes.

Disaster Assistance. On December 30, 2005, President Bush signed an appropriation which provided \$11.5 billion in CDBG disaster supplemental funding to the states of Alabama, Florida, Louisiana, Mississippi and Texas to address the affects of Hurricanes Katrina, Rita, and Wilma. In June 2006, President Bush signed into law an appropriation of an additional \$5.2 billion in CDBG supplemental funds for distribution to the five states. The states have designed programs to address a number of immediate and longer term needs including: homeowner compensation programs, housing for renters, state and local infrastructure reconstruction, economic development, public services, rent support, and restoration of homeless services. During FY 2007, the states expended more than \$6.2 billion of the available funds with the vast funds having been disbursed primarily for the homeowner compensation programs in Louisiana and Mississippi.

HOME Investment Partnerships Program is another key grant program administered by CPD. HOME provides funding to states and localities to create – often in partnership with local non-profit groups – affordable housing for low-income households. In FY 2007, \$1.7 billion was allocated to participating jurisdictions and states to carry out a broad range of activities including

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COMMUNITY PLANNING AND DEVELOPMENT

home purchase or rehabilitation financing assistance, and building/rehabilitation of housing for rent or ownership, as well as tenant-based rental assistance.

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. This program was funded with a \$24.8 million appropriation in FY 2007.

HUD's Homeless Assistance Grants program provides Federal support to address the needs of one of the nation's most vulnerable populations. In FY 2007, an appropriation of \$1.4 billion was provided to help homeless families, individuals, and chronically homeless persons to achieve housing stability, as well as an appropriate level of self-sufficiency.

The Housing Opportunities for Persons with AIDS (HOPWA) program provides funding to states and cities for assistance to low-income persons living with HIV/AIDS and their families. Rent subsidies and support in community residences enable households to reduce their risks of homelessness and improve access to healthcare and other support. The FY 2007 appropriation for HOPWA was \$286.1 million.

SELECTED MEASURES

STRENGTHEN COMMUNITIES

The Community Development Block Program (CDBG) is the largest program and most flexible in CPD. By its nature as a block grant program, CDBG gives communities maximum flexibility to choose between multiple options that best meet their unique needs, making goals and performance measurements less easy to quantify.

<i>Selected Measures</i>			
Performance Indicator	Year	Target	Results
The share of CDBG entitlement funds that benefit low- and moderate-income persons. (Indicator number C2.3)	2004	92.0%	94.9%
	2005	92.0%	95.3%
	2006	92.0%	95.1%
	2007	92.0%	94.8%
The percentage of homeless persons in HUD transitional housing at the beginning of the year who have moved into permanent housing (Indicator number C4.3)	2004	N/A	59.4%
	2005	NEW	60.0%
	2006	61.0%	62.4%
	2007	61.5%	68.9%
Create new permanent housing beds for chronically homeless persons. (New indicator number C4.5)	2004	N/A	N/A
	2005	N/A	N/A
	2006	N/A	4,397
	2007	4,000	3,865

The Community Development Block Grant Program (CDBG) provides substantial discretion for states, communities, and local governments to respond to housing and economic need, but

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these units of government are required to expend at least 70 percent of funds for activities that benefit low- and moderate-income persons as intended.

In FY 2007, HUD proposed that Congress consider legislation to modernize CDBG's formula for allocating funding based on need. This legislation would help ensure that resources are targeted to areas with the greatest need due to demographic change. There have not been any substantial changes to the CDBG entitlement formula since 1978, or to the State CDBG formula since its introduction in 1981.



Skirvin Hotel – present (L) and past (R).

HUD funding was critical to enabling the City of Oklahoma City to restore the historically significant Skirvin Hotel in heart of downtown Oklahoma City to full operation as a hotel. The oldest hotel in the state was opened in 1911, but had been vacant for almost two decades. The reopening of the Skirvin Hotel coincides with the 100th anniversary of Oklahoma statehood and is a centerpiece of the centennial celebration. CDBG funds were used to purchase the hotel. In addition, a Section 108 Loan, an EDI Grant, and a Brownsfield Economic Development Grant contributed to this economic revitalization project.

Ending chronic homelessness is one of the first steps toward self-sufficiency and the goal of homeownership. HUD homeless assistance programs provide transitional housing and assist persons toward achieving greater self-sufficiency. When that is not possible, HUD provides permanent housing beds for those that are not yet able to manage on their own. HUD set an ambitious goal in its first reporting year toward a goal of 20,000 new permanent housing beds in the next five years. Homeless Assistance Grants appropriation levels have increased steadily, which has contributed significantly to achieving this goal. As production increases, HUD should meet its five year goal, having already achieved 41.3 percent of this goal over the last two years.

INCREASE HOMEOWNERSHIP OPPORTUNITIES

The Office of Community Planning and Development contributes toward increasing opportunities for homeownership with down payment assistance provided through the HOME Investment Partnership Program.

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COMMUNITY PLANNING AND DEVELOPMENT

<i>Selected Measures</i>			
Performance Indicator	Year	Target	Results
The number of homebuyers who have been assisted with the HOME Investment Partnerships program. (Indicator number A1.9)	2004	47,190	30,780
	2005	34,806	32,307
	2006	33,501	55,652
	2007	30,221	34,985

HOME Investment Partnerships Program allows participating jurisdictions flexibility to meet their housing needs in a variety of ways, while the American Dream Downpayment Initiative component provides down payment assistance to expand homeownership. The number of homebuyers who have been assisted with the Home Investment Partnerships program exceeded its goal by 4,764 – 16 percent. Higher than usual numbers in FY 2006 represent a more complete reporting of results as part of a data improvement effort.

PROMOTE DECENT AFFORDABLE HOUSING

<i>Selected Measures</i>			
Performance Indicator	Year	Target	Results
The number of rental assisted household and rental housing units with CDBG, HOME, Housing Opportunities for Persons with AIDS, Indian Housing Block Grants, and Native Hawaiian Housing Block Grants. (Indicator number B1.3)	2004	N/A	143,226
	2005	131,720	157,763
	2006	126,773	177,501
	2007	135,929	141,787

HUD employs a number of assistance programs including rehabilitation of rental housing to meet the affordable rental housing needs of various low-income and special needs populations. Yearly results through these individual programs may vary depending on available appropriations, economic conditions, and local discretion.

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University of North Carolina's
Architecture Department students
won design contest.



Groundbreaking ceremony for
Vado/Del Cerro community.



One of the families' daughters
helping with the
groundbreaking ceremony.

Families formerly struggled to live in substandard housing in the Colonias of Southern New Mexico at a community called Vado/Del Cerro with no running water and bathroom facilities. They now have been given the opportunity to purchase a newly-constructed energy-efficient house. Twenty-one families will occupy the housing currently being built on an 11-acre plot of land. The cost of each house will be funded and subsidized by various partners including HUD, which will reduce the total cost to the homeowner to approximately \$85,000 with a \$1,000 down payment. Each house will be built using green building techniques, alternative building materials, and energy and water conservation strategies.

Fair Housing and Equal Opportunity

Primary Focus: Create Equal Housing Opportunities

Major Programs: Fair Housing Assistance Program, Fair Housing Initiatives Program, and Enforcement

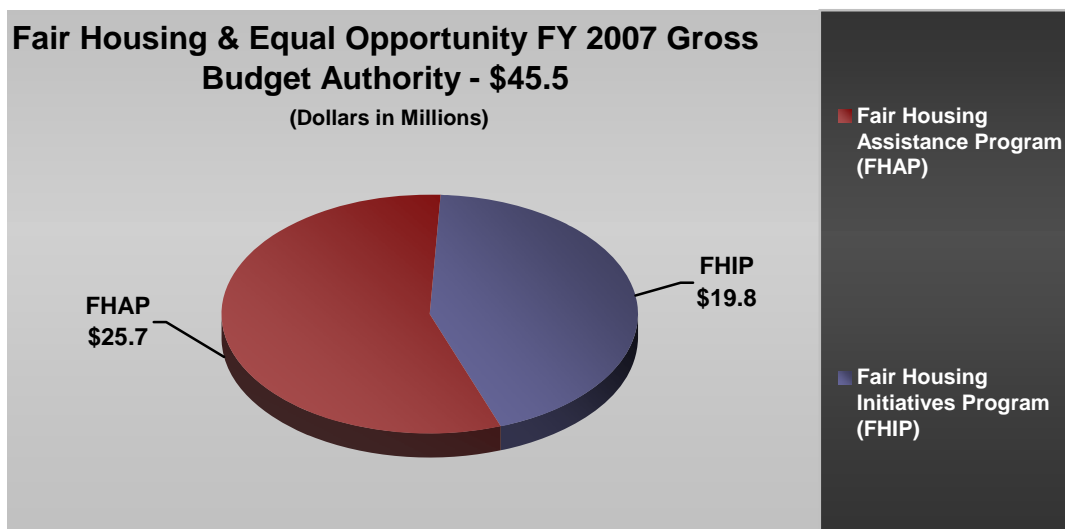
FY 2007 Budget Authority

Gross Budget Authority: \$45.5 Million

Authorized Staffing: 581 Full Time Equivalent

The Office of Fair Housing and Equal Opportunity (FHEO) strives to create equal housing opportunities by enforcing the Federal laws that prohibit discrimination in housing on the basis of race, color, religion, sex, national origin, disability, familial status, and age. FHEO also administers two grant programs to assist in reducing the incidence of housing discrimination: the Fair Housing Assistance Program and the Fair Housing Initiatives Program.

Periodically, HUD conducts studies to review the nature and extent of housing discrimination and public awareness of fair housing laws. These studies enable HUD's FHEO to target activities to increase awareness and reduce discrimination. Increased public awareness of fair housing laws, more often than not, reduces discriminatory actions. The last study's results, released in February 2006, found that there has been very little improvement in knowledge of the Fair Housing Act since the study conducted in 2000. The study reveals that most people do not take action when they believe they have experienced discrimination. According to the study, 80 percent of the people that believe they experienced discrimination did nothing about it. The next study is planned for 2010.



Fair Housing Assistance. The Fair Housing Assistance Program provides formula-based grants to state and local agencies that administer and enforce fair housing laws that are substantially equivalent to the Fair Housing Act.

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Fair Housing Initiatives. The Fair Housing Initiatives Program provides grant funds competitively to private and public entities formulating or carrying out local, regional, and national programs that assist in eliminating discriminatory housing practices.

Enforcement. FHEO also implements and enforces 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.

More information about FHEO can be found at: <http://www.hud.gov/offices/fheo/index.cfm>.

SELECTED MEASURES			
Performance Indicator	Year	Target	Results
Attendance and public events held by recipients of Fair Housing Initiatives Program education and outreach grants. (D2.1)	2004	NEW	N/A
	2005	150/120,000	405/519,000
	2006	200/160,000	697/250,799
	2007	300/180,000	1,486/247,201
Increase the percentage of fair housing complaints closed in 100 days. (D1.1)	2004	NEW	N/A
	2005	75.0%	77.0%
	2006	60.0%	73.0%
	2007	65.0%	63.0%
Percentage of Fair Housing Assistance Program complaints closed in 100 days. (D1.2)	2004	NEW	N/A
	2005	45.0%	48.0%
	2006	50.0%	51.0%
	2007	53.0%	46.0%

The first step towards reducing discrimination and unfair practices is to increase public awareness of fair housing laws, housing discrimination, lending discrimination and predatory lending, as well as educating the public about what they can do and where to go for assistance. HUD has continued to surpass its education and awareness goals.

HUD's public education program is now showing positive results as reflected in the substantial increase in complaint filings during FY 2007. This presents a challenge to HUD in managing and closing the resulting case loads in an expeditious manner. The Department closed more cases than the previous year. However, the case closure rate fell behind due to the increased number of filings, and increased emphasis on older cases, resulting in a longer average period to close cases.

Enforcement of fair housing laws is crucial to enhancing housing opportunities for all of our citizens. The ability to provide a fair, effective, expeditious, and efficient fair housing complaint process is essential to maintain public confidence that victims of housing discrimination will receive relief from discriminatory housing practices and that violators will be disciplined. In order to ensure compliance, HUD conducts periodic reviews of Public Housing Authorities, providers of HUD-assisted housing and other recipients. Enforcement actions are taken as appropriate. HUD has consistently exceeded its goals for conducting compliance reviews.

Government National Mortgage Association

Primary Focus: Increase Homeownership Opportunities

Major Programs: Mortgage-Backed Securities Guarantees

FY 2007 Budget Authority

Gross Budget Authority: \$10.6 Million for Salaries and Expenses

Mortgage-Backed Securities Income and Interest Income: \$791.3 Million

GNMA Securities Outstanding: \$427.6 Billion

Authorized Staffing: 65 Full Time Equivalent

The Mortgage-Backed Securities (MBS) program is administered through Ginnie Mae, a wholly-owned government corporation within HUD. Ginnie Mae provides guarantees for pools of mortgages that are issued by private mortgage institutions and insured by either of two HUD programs – FHA or the Office of Public and Indian Housing – or by the Department of Veterans Affairs' Home Loan Program for Veterans or the U.S. Department of Agriculture's Rural Development Housing and Community Facilities Programs. Since these mortgage-backed securities are backed by the full faith and credit of the United States government, mortgage lenders are guaranteed payment of interest and principal, even in uncertain economic times. Those lenders can obtain a better price for their mortgage loans in the secondary market, so they can use the proceeds from the resale of those loans to make new mortgage loans available.

The MBS 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. Through its guarantees, mortgagees can provide lower interest rates for these Americans. Ginnie Mae guaranteed \$85.1 billion in mortgage-backed securities in FY 2007. Cumulatively, over the past 39 years, Ginnie Mae has guaranteed the issuance of over \$2.6 trillion in mortgage-backed securities.

The Targeted Lending Initiative provides incentives for lenders to increase loan volumes in traditionally underserved areas by decreasing the guaranty fee Ginnie Mae collects on its mortgage-backed securities, depending on the percentage of eligible loans within each security.

For more information concerning Ginnie Mae, go to: <http://www.ginniemae.gov>.

To view an online copy of Ginnie Mae's annual report to Congress, go to:

<http://www.ginniemae.gov/ReportToCongress>

SELECTED MEASURES

The measures of Ginnie Mae's performance show increasing effectiveness in securing single family and multifamily loans. Data collection for VA loans began in FY 2007. Securitizing a high share of eligible FHA and VA loans increases the liquidity of funds in the market for mortgage credit, and the presence of government-backed securities lowers mortgage costs, creating homeownership incentives.

<i>SELECTED MEASURES</i>			
Performance Indicator	Year	Target	Actual Results
Securitize eligible single family fixed rate FHA loans. (Indicator number A1.5)	2004	85.0%	87.3%
	2005	85.0%	92.7%
	2006	90.0%	91.4%
	2007	93.0%	93.0%
Securitize eligible single family VA loans. (new indicator number A1.6)	2004	N/A	N/A
	2005	N/A	N/A
	2006	N/A	N/A
	2007	83.0%	92.0%
Securitize eligible FHA multifamily loans. (Indicator number B1.5)	2004	80.0%	92.0%
	2005	80.0%	91.1%
	2006	90.0%	96.9%
	2007	95.0%	98.0%

A challenge that developed during FY 2007 was the increase of default risk, introducing uncertainty into the secondary mortgage market, along with other capital markets. This has potential both to 1) influence demand for Ginnie Mae's mortgage-backed securities, and 2) limit the availability and increase the cost of the underlying loans. To alleviate the challenge, Ginnie Mae plans to strengthen oversight and the pool verification matching process. Ginnie Mae is developing reports for the purpose of monitoring issuer compliance that will provide Senior Management with information for decision making purposes. Additionally, Ginnie Mae is creating a new security backed by FHA-insured Home Equity Conversion Mortgage (reverse mortgages) loans that will provide efficient market pricing for these loans (see additional discussion in the section on Risks, Trends, and Factors Affecting Goals).

Healthy Homes and Lead Hazard Control

Primary Focus: Reduce lead-based paint hazards, promote healthier homes, enforce regulations

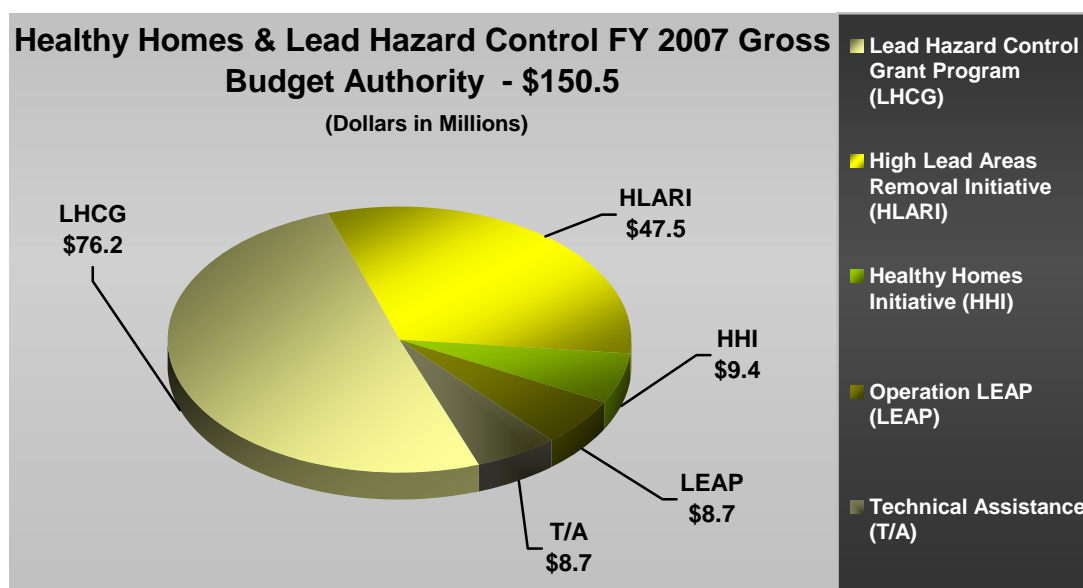
Major Programs: Lead Hazard Control Program, Healthy Homes Initiative

FY 2007 Budget Authority

Gross Budget Authority: \$150.5 Million

Authorized Staffing: 50 Full Time Equivalent

The Office of Healthy Homes and Lead Hazard Control directs programs that address the health and safety needs of homes: the Lead Hazard Control Program, the Healthy Homes Initiative, and enforcing lead safety regulations. The Office provides funds to state and local governments, and to the private sector, to develop and implement cost-effective ways to reduce lead-based paint and other residential safety and health hazards. The Office enforces the Lead Disclosure Rule and supports enforcement by Program Offices of the Lead Safe Housing Rule.



HUD's Lead Hazard Control Program is the central element of the President's program to eradicate childhood lead-based paint poisoning. HUD provides grant funds targeted to help low-income, privately owned homes that are most likely to expose children to lead-based paint hazards. HUD awards grants in several categories, including: grants to state and local jurisdictions under the Office's largest Lead Hazard Control grant programs (for Lead-Based Paint Hazard Control grants and Lead Hazard Reduction Demonstration grants, the latter going to areas with the highest need); Operation Lead Elimination Action Program (LEAP) grants to the private sector to leverage funds for making homes lead-safe; Lead Outreach grants to

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promote public education and awareness of lead hazards; and Lead Technical Studies grants to support research on evaluating and controlling lead hazards more efficiently.

HUD's Healthy Homes Initiative responds to the environmental hazards in the home that harm millions of children each year. The Initiative takes a comprehensive approach by implementing grants and contracts that address housing-related hazards in a coordinated fashion, rather than addressing a single hazard at a time. One of many ways of making homes healthy is reducing the level of allergy-inducing substances (allergens) in house dust; these are associated with debris from pets, dust mites, cockroaches, and rodents. In the last two years, HUD's Healthy Homes grants have lowered the allergen levels in over 2,600 homes, and demonstrated the feasibility of doing so at low cost.

A **"Healthy Homes for Healthy Kids"** campaign was initiated by HUD in April of 2006. This three-year, 30-city outreach effort will inform parents about health and safety hazards in the home. This outreach effort includes providing information on lead paint, mold, moisture, and pests like mice and cockroaches.

Enforcement of lead-based paint regulations in pre-1978 housing being rented, or sold, or being assisted by HUD is carried out by this Office. The Office also 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.

SELECTED MEASURES			
Performance Indicator	Fiscal Year	Target	Results
Decrease the number of children under the age of 6 who have elevated blood lead levels. (C5.2)	2004	N/A	N/A
	2005	N/A	N/A
	2006	270,000	270,000
	2007	240,000	235,000
Units will be made lead safe through Lead Hazard Control Grant programs. (C5.3)	2004	8,390	8,811
	2005	9,500	9,500
	2006	9,250	9,638
	2007	10,500	10,602
As part of a 10-year effort to eradicate lead hazards, units will be made safe pursuant to enforcement of the Department's lead safety regulations.(C5.5)	2004	N/A	14,867
	2005	N/A	7,576
	2006	N/A	6,037
	2007	8,800	9,696

Lead poisoning is the number one environmental disease affecting children. These children, especially those less than three years old, are vulnerable to permanent developmental problems due to the effect of lead on the nervous system. Addressing this problem responds to the President and Secretary's priority effort to eliminate lead poisoning in children. These results

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS
HEALTHY HOMES AND LEAD HAZARD CONTROL

are directly aligned to the accomplishments of HUD grantees under its lead grant programs and of HUD's regulatory enforcement program.

Lead hazard control grant and enforcement efforts to make low-income housing units lead-safe are essential components of eradicating lead poisoning of children as a major public health problem. This year, HUD has begun setting goals for making homes lead-safe through its enforcement actions, as it has been doing for its lead hazard control grants, as part of its 10-year effort to eradicate lead hazards in housing.

HUD's efforts, in partnership with the Centers for Disease Control and Prevention, Environmental Protection Agency, and other agencies, to control lead hazards in housing have reduced the number of children with elevated blood lead levels from 890,000 in the 1990 to 1994 time period to 235,000 children for 2007.

Contributing to this reduction, HUD's Lead Hazard Control grants made over 10,600 low-income housing units lead safe in FY 2007, and over 95,300 units since the program's inception in FY 1993; and the Department's lead regulatory enforcement program made over 9,600 units lead safe in FY 2007, and over 38,000 units since FY 2004.

Office of Federal Housing Enterprise Oversight

Primary Focus: Ensure the safety and soundness of the government-sponsored enterprises Fannie Mae and Freddie Mac.

Major Programs: Supervision of the Enterprises to ensure that they operate in a safe and sound manner, are adequately capitalized and comply with legal requirements.

FY 2007 Budget Authority

Gross Budget Authority: \$66.2 Million

Actual Staffing: 230 Full Time Equivalent

OFHEO's primary mission is to promote housing and a strong national housing finance system by ensuring the safety and soundness of two government-sponsored enterprises (GSEs) – the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). Fannie Mae and Freddie Mac are congressionally-chartered, publicly-owned corporations whose shares are listed on the New York Stock Exchange.

Fannie Mae and Freddie Mac are the nation's largest housing finance institutions. They buy mortgages from commercial banks, thrift institutions, mortgage banks, and other primary lenders, and either hold these mortgages in their own portfolios or package them into mortgage-backed securities for resale to investors. These secondary mortgage market operations play a major role in creating a ready supply of mortgage funds for American homebuyers. Combined assets and off-balance sheet obligations of Fannie Mae and Freddie Mac were more than \$4.7 trillion as of September 30, 2007, which represents 40 percent of mortgages outstanding.

OFHEO's supervision and oversight responsibilities include the following:

- Conducting broad-based and targeted examinations of Fannie Mae and Freddie Mac.
- Identifying matters requiring attention or enforcement and monitoring the progress each Enterprise makes in resolving them.
- Making quarterly findings of capital adequacy based on a minimum capital standard and a risk-based capital standard.
- Administering a risk-based capital standard, using a "stress test" that simulates interest rate and credit risk scenarios.
- Prohibiting excessive executive compensation.
- Issuing regulations concerning capital and enforcement standards.
- Taking necessary enforcement action.
- Issuing an annual Report to Congress on the financial and operational condition of the Enterprises.

OFHEO is funded through assessments on Fannie Mae and Freddie Mac. OFHEO's operations represent no direct cost to the taxpayer.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS
OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT (OFHEO)

The Administration continues to support legislative reform to strengthen GSE oversight that will provide bank regulator-like powers to a new GSE regulator overseeing Fannie Mae, Freddie Mac and the Federal Home Loan Banks. The new stronger regulator would also have the mission oversight authorities now part of HUD's Office of GSE Oversight.

More information about OFHEO, including its Performance and Accountability Report for FY 2007, can be found at: <http://www.ofheo.gov/>

Primary Focus: Support effective implementation of the HUD Mission and Goals

Major Organizations: Administration, Chief Financial Officer, Chief Information Officer, Chief Procurement Officer, Center for Faith-Based and Community Initiatives, Field Policy Management, Congressional and Intergovernmental Relations, Office of the General Counsel,

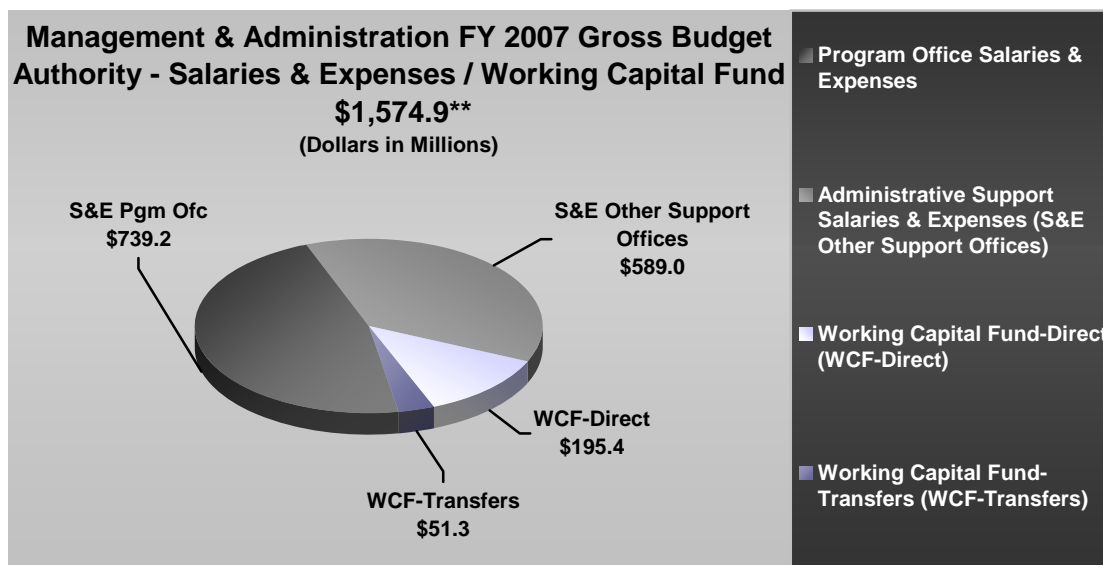
FY 2007 Budget Authority

Gross Budget Authority: \$931.3 Million*

Authorized Staffing: 3,038 Full Time Equivalent

Other Support Offices

Other Support Offices provide support to HUD's key program areas and are partially supported through direct appropriation and partially through transfers of appropriated funds. In FY 2007, Other Support Offices received \$931.3 million in direct Salaries and Expenses and Working Capital Fund appropriations, and an additional \$643.6 million via transfer of appropriated funds. The Working Capital Fund represents funds primarily used for Information Technology support for HUD's program Offices. The following chart reflects the allocation of the funding for Working Capital Fund and for Salaries and Expenses by program area and support offices.



* Amount does not include \$56.1 million for Policy Development & Research Program Area Funds.

** Includes transfers of appropriated funds (\$643.6 million).

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.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

OTHER 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 accounting, budget, financial management, and systems.

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 program and support offices.

The Center for Faith-Based and Community Initiatives is one of 10 such centers established by the President in Cabinet level agencies. The Center's goal 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

A Capacity Building Workshop was hosted by the Region VI Faith-Based Council and the Fort Worth HUD Regional Office in May at the Tarrant County Community College (TCCC) - Northwest Campus in Fort Worth, Texas. These workshops are designed to encourage partnerships and to enhance organizational capacities. At the May workshop, approximately 65 individuals attended with representation from the faith-based and non-profit communities and local government agencies such as the U.S. Dept. of Health and Human Services, the Small Business Administration, Department of Labor, Veterans Affairs, U.S. Dept. of Education, University of Texas, HUD, and others.



Photos above, left to right: 1) Eva Concha Leblanc, President of Tarrant County Community College (TCCC) – Northwest Campus; 2) Janeen Smith, TCCC's Faith-Based Liaison; Nicolas Ramon, HUD's Region VI Faith-Based Coordinator; and Patricia Bostic representing Congressman Michael Burgess; and 3) some of the attendees conversing after the workshop.

these organizations as partners in fulfilling HUD's mission.

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 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 General Counsel provides legal opinions, advice, and services with respect to all Departmental programs and activities.

The Office of Inspector General provides independent reviews 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 program evaluation, data, and analysis to inform policy decisions and improve program results. The Office is committed to involving a greater diversity of perspectives and methods in its research.

The Office of Public Affairs works 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.

Risks, Trends, and Factors Affecting Goals

HUD's annual budget represents approximately 1.3 percent of the federal budget¹, 5.3 percent of the \$670 billion invested in U.S. housing each year,² and 0.3 percent of the nation's \$13.8 trillion gross domestic product. These small proportions imply that external factors both strongly influence HUD's mission accomplishment and extend beyond HUD's span of control. The Department's successes therefore result from better understanding such factors so the agency can plan for contingencies, form partnerships wisely, and strategically focus and leverage resources, management, and leadership initiatives where public benefits will be greatest.

Homeownership

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 goals for homeownership objectives. External factors affecting the national homeownership picture include population aging and household formation, childbearing and immigration, family incomes and consumer expectations, job availability and job security, real estate and construction costs, financial markets, and operating costs of housing.

The single family housing sector continued to slow dramatically during FY 2007 after the record setting pace of activity during 2005 and 2006. Seasonally adjusted annual rates for single family building permits in September, 2007, were 26 percent lower than a year earlier. New home sales in September were 23 percent below the September 2006 volume, and existing home sales were down 19 percent during the same period.³

The affordability of homeownership improved during FY 2007, after a decade of strongly increasing home prices. In September, the median sales price of an existing home was 4.2 percent lower than a year earlier. Restrictions on credit availability and a drop-off of investor purchase activity caused the inventory of homes for sale to increase by 16 percent over the past year. Even though new home sales were off 25 percent from year-earlier levels, the median new home price rose 5.0 percent over the past year.⁴ At the same time, the mean or average new home sale price fell by 3 percent. This apparent contradiction reflects discounts on higher-priced homes, which may have kept their sales numbers from falling as much as unit sales of lower-priced homes. It is also true that median sales prices are sensitive to the distribution of sales across regions and so the higher median and lower mean prices may also reflect some shifting of regional sales patterns. The "housing opportunity index," calculated by the National Association of Home Builders and Wells Fargo, represents the percentage of houses that are affordable to a family with median income in metro areas. The index improved slightly to 43.1 percent in the second quarter of 2007, 2.5 points above the historically low level reported a year earlier. This

¹ FY 2006 budget authority, from "Budget of the U.S. Government, Fiscal Year 2008: Historical Tables," Tables 5.2. One-time supplemental appropriations of \$16.673 billion in FY 2006 for disaster recovery efforts are excluded from these calculations.

² Residential fixed investment. This and remaining statistics reported in this section, unless otherwise noted, are drawn from "U.S. Housing Market Conditions 2nd Quarter, 2007," available at <http://www.huduser.org/periodicals/ushmc.html>.

³ New home sales and median prices are reported by the Census Bureau at <http://www.census.gov/const/www/newressalesindex.html>, and existing home sales and median prices are reported by the National Association of Realtors at <http://www.realtor.org/research/nsf/Pages/EHSdata>.

⁴ Sales price data are not seasonally adjusted.

level of affordability remains substantially lower than the index value of 63.7 percent recorded in both 2002 and 2003. Non-family households generally have lower incomes than family households and thus face greater affordability challenges.

Higher mortgage interest rates, along with home prices, also affect the affordability of homeownership. Interest rates for 30-year fixed rate mortgages during FY 2007 averaged 6.4 percent, essentially unchanged from FY 2006 levels. These rates, although reasonable by historical standards, continue to exceed average rates experienced during the 2002–2005 period, and thus have the effect of constraining affordability from what it was previously. Interest rates are affected by external factors that include the Federal Reserve’s interventions in financial markets to control inflation, and activity of investors in global capital markets.

Higher interest rates reduce the number of first-time homebuyers which then usually reduce the number of home purchase loans insured by FHA. Lower interest rates attract more first-time homebuyers, but they also increase the number of refinancings by existing homeowners. The result is that declines in interest rates may increase the number of first-time buyers served by FHA, but they also reduce the proportion of FHA-insured loans going to first-time homebuyers.

As borrowers and lenders have become more sensitive to default risks associated with adjustable rate mortgage products, fixed rate mortgages have regained market share. Fixed rate loans represented 89 percent of mortgages in the second quarter of calendar year 2007, compared with 75 percent a year earlier.

The current interest rate environment still offers much in the way of benefits for homeowners with subprime adjustable rate mortgages to refinance into fixed rate loans insured by FHA. Insurance endorsement activity in this area has been steadily increasing since early 2006. In FY 2007, FHA insured 78 percent more of these loans than it did in FY 2006 (107,746 versus 60,397).

The higher interest rates now being imposed upon homeowners with subprime adjustable-rate mortgages greatly increase the risk of default and foreclosure for affected households. Liberalization of conventional mortgage credit terms during the recent housing boom also increased the risk that any housing price declines would reduce or eliminate home equity for many recent homebuyers, making foreclosure risk even greater. Mortgage default rates, which had been at record low levels a few years ago, increased sharply during FY 2007, especially among homeowners with subprime mortgages and those with adjustable rates. More than 1 million mortgages were in default or foreclosure as of June, 2007, an increase of 50 percent compared with June, 2005.⁵ As reported by the Mortgage Bankers Association, the serious delinquency rate for all mortgage loans was 2.47 percent in the second quarter of 2007, up from 1.89 percent a year earlier. Much of the increase is due to rising defaults among subprime mortgages. Subprime mortgages experienced a 9.27 percent serious delinquency rate in the second quarter, 2007, up from 6.24 percent a year earlier. Subprime ARMs had a 12.4 percent seriously delinquent rate in the second quarter of 2007⁶ The role of subprime lending in defaults

⁵ See GAO-08-78R, “Information on Recent Default and Foreclosure Trends for Home Mortgages and Associated Economic and Market Developments.”

⁶ Estimates for the second quarter, 2007, are preliminary numbers that are consistent with those from “U.S. Housing Market Conditions.”

is a significant risk factor for the national goal of increasing minority homeownership because a greater proportion of minorities have relied on subprime financing over the past six years.

FHA insured mortgages are the primary alternative to subprime lending. FHA's serious delinquency rate has been very constant over the past year, and the 5.18 percent rate reported by the Mortgage Bankers Association for the second quarter of 2007 is actually lower than the year-earlier rate of 5.40 percent. FHA has significant program safeguards that reduce and contain the risk of foreclosure for those borrowers that do experience a mortgage default. At the same time, FHA is now vulnerable to the risk of higher default and foreclosure rates because of softening housing prices in many areas of the country.

Default risk also has introduced uncertainty into the secondary mortgage market, and that has increased uncertainty in broader capital markets. A tighter supply of capital is reflected in increased rates of mortgage denials: the most recent data available from Home Mortgage Disclosure Act reporting by lenders show that 15.9 percent of mortgage applications were denied during 2006, up from 13.8 percent during 2005.

Such trends are a reversal of the loosening of underwriting standards in the conventional market that occurred in earlier years. This increases the value of FHA products, whose underwriting standards have not changed. HUD also has introduced a new initiative designed to make it easier for borrowers caught in subprime adjustable-rate mortgages with large increases in monthly payments to refinance into safer and more affordable loans. The FHASecure initiative, introduced at the end of FY 2007, offers affordable refinancing to borrowers who were steered into exotic high-cost loans with affordable teaser rates, but almost certain guarantees of large rate and payment increases in the future. Additionally, Ginnie Mae is creating a new security backed by FHASecure loans that will provide efficient market pricing and new funding sources for these loans.

Hurricane Katrina, which hit the Gulf Coast states late in FY 2005, alerted the nation to the affect of disaster-related losses of housing stock and displacement of families. An estimated 193,000 owner-occupied homes received major damage or were completely destroyed by wind or flooding during hurricanes Katrina, Rita, and Wilma.⁷ A large proportion of these units were occupied by families with low- or very low-incomes. Evidence that severe hurricane activity may increase highlights the risk of extensive development of coastal areas in recent decades.

Economic weakness and unemployment that results from normal business cycle downturns typically are associated with fewer homebuyers applying for FHA loans and higher loan default rates. These factors frequently have a disproportionate affect on low-income households. Data from the Bureau of Labor Statistics show that unemployment remained at the relatively low level of 4.7 percent during the final quarter of FY 2007. In that good economic environment, FHA sharply increased, to about 91,000, the number of mortgagors who were able to resolve their mortgage defaults rather than going through foreclosure in FY 2007. Through interventions such as long-term repayment plans, loan modifications, and FHA's own partial claim assistance, more defaults were resolved and fewer homeowners lost their homes. Housing counseling is also proving effective in reducing the incidence of defaults.

⁷ "Current Housing Unit Damage Estimates: Hurricanes Katrina, Rita and Wilma, February 12, 2006," available at http://www.huduser.org/Publications/pdf/GulfCoast_HsngDmgEst.pdf

In response to external factors, the Administration introduced FHA modernization legislation in FY 2006. FHA legislation is now under active consideration in both Houses of Congress. HUD would like to see a final bill that increases FHA's flexibility to manage its single-family insurance portfolio, and that expands the types of loans FHA can insure for first-time buyers in need of longer amortization periods or lower downpayments.

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 sustained the capital ratio of its Mutual Mortgage Insurance Fund at 6.4 percent during FY 2007, a time of challenging market conditions, with present and projected declines in home prices across the country that could last for up to three years. The capital ratio has a direct influence on FHA's ability to provide insurance coverage to homeowners. FHA's current business practices and initiatives, including FHA modernization legislation, reflect HUD's emphasis on improving products, reducing risk, and automating business processes. Proposed legislation will make FHA products more marketable, by introducing risk-based premiums, more favorable loan terms with higher loan limits, extended repayment time, and flexible down payment options.

Affordable Rental Housing

Affordable rental housing remains a challenging issue for the U.S. The most recent data show that in 2005, 5.99 million very low-income renter households had "worst case needs," either by having severe rent burdens (91 percent), severely inadequate units (4.4 percent), or both (4.3 percent).⁸ An insufficient supply of units affordable to households with extremely low incomes is the primary cause.

External factors that affect the supply of affordable rental housing include 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 remain above historical averages, local rental markets vary substantially in the availability of housing that extremely low-income renters can afford without HUD program assistance. The rental vacancy rate was 9.5 percent in the second quarter of 2007, statistically unchanged from 9.6 percent a year earlier. The recent trend of unaffordable homeownership and mortgage difficulties are likely to increase rental housing demand.

In recent years, the largest federal expenditure for increasing the supply of affordable rental housing has been through the Low Income Housing Tax Credit. Equivalent to \$5 billion of annual budget authority, the tax credit program, in combination with HUD and other programs, adds slightly more than 100,000 units annually, of which 95 percent qualify for affordability.⁹ 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.

⁸ HUD, 2007, "Affordable Housing Needs 2005: Report to Congress."

<http://www.huduser.org/publications/affhsg/affhsgneeds.html>

⁹ Office of Policy Development and Research (January 2006), "Updating the Low Income Housing Tax Credit Database: Projects Placed in Service Through 2003," available at <http://www.huduser.org/Datasets/lihtc/report9503.pdf>

Energy costs are often overlooked as a factor in housing affordability. The Joint Center for Housing Studies reports that 2.5 million households among the poorest quarter of households spent more than 30 percent of their budgets on home energy in 2003 (the date it was last measured).¹⁰ Energy prices have increased sharply since then. Housing “fuels and utilities” prices increased by 23 percent between September, 2003, and September, 2007, as shown by the Consumer Price Index for urban consumers. Such energy price increases pose a risk for HUD’s public housing and Section 8 programs, which cover utility costs as part of gross rents.

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 more efficient asset management practices used by private housing providers. The ability to reduce operating costs and retain savings under the new regulations will encourage PHAs to take advantage of financial incentives and strategies for reducing utility consumption. Energy Performance Contracts will be an important tool in a PHA’s toolbox for controlling utility and maintenance costs. Energy Performance Contracting is an innovative financing technique that uses cost savings from reduced energy consumption to repay the cost for installing energy conservation measures. In addition, the Federal Energy Policy Act of 2005 extends the allowable payback period for energy performance contracts from 12 to 20 years. This longer payback period makes these contracts financially more attractive for small and medium size PHAs and can generate funding to incorporate more energy-saving retrofits into any Energy Performance Contract.

The supply of affordable rental housing for the elderly and persons with disabilities is also affected by external factors. 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. With improvements in health and longevity of the elderly population, helping them remain homeowners will become increasingly important. FHA’s Home Equity Conversion Mortgage program is well-positioned to do so, endorsing nearly 108,000 reverse loans in FY 2007, a 14-fold increase since FY 2001. 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.* (98-536) 527 U.S. 581 (1999)). As a result of this decision, more persons with disabilities could be moving into communities while the supply of affordable housing remains low.

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 under-reported income, and assisted housing providers who inadequately verified reported income, have over the years caused assisted housing resources to be 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 4 of this report.

⁸ Joint Center for Housing Studies of Harvard University, “The State of the Nation’s Housing 2006,” page 8.

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 has major affects on an area's vulnerability to natural disasters and the magnitude of associated risk. Public awareness of these hazards and 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 equal opportunity in housing.

The latest HUD study of **public awareness** of fair housing laws, "Do We Know More Now"¹¹ found a continuing widespread lack of knowledge of many aspects of the law. The overall index of fair housing awareness has not changed significantly since the first study in 2001. Statistically significant increases in awareness were observed for protections related to families with children and against racial steering. However, there has been a decrease in public awareness of prohibitions of discriminatory advertising on the basis of religion. A lack of awareness among the public of what constitutes housing discrimination greatly hinders HUD's ability to enforce fair housing laws, so the Department has greatly expanded education efforts as well as 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

¹¹ Available at www.huduser.org.

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 “Do We Know More Now” study found that 90 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. Private sector organizations likewise play a central role in achieving fair housing outcomes, often with HUD support. 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 affect on minority households and neighborhoods, including denying FHA insurance for mortgages on homes that have been “flipped” at inflated prices and deploying special monitors to pursue unscrupulous appraisers and lenders.

Strengthening Communities

The economy produced 1.6 million new jobs during FY 2007, according to estimates of the Bureau of Labor Statistics. Most job creation is occurring in service-providing industries rather than goods-producing industries. The Bureau of Labor Statistics reports that manufacturing jobs declined from 13.2 percent to 9.8 percent of employment during the 1994–2004 period, and projects a smaller additional decrease to 8.2 percent of employment by 2014. Communities that continue to rely on manufacturing employment may be adversely affected by this trend, although such losses sometimes are compensated by economic transformation and gains in knowledge-based employment. These macroeconomic trends can affect the success of HUD’s partnership efforts.

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, attract employers, and deal with deteriorated housing stock 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.

Gulf Coast Hurricanes have 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 the Gulf Coast 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.

Communities also have a great deal of flexibility when using HUD funds to address their economic conditions and community needs and take advantage of local opportunities. 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 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.

Community needs and urban conditions and challenges have evolved substantially over the past several decades. To continue to meet these challenges effectively, on June 5, 2007, HUD provided to Congress the Community Development Block Grant Reform Act of 2007, which included three significant changes to the current CDBG program:

- **Formula Reform:** Modifying the three decades old formula so that it more equitably targets funds toward today's types of community needs;
- **Challenge Grant:** Creating a challenge grant that rewards communities who concentrate their investments in distressed neighborhoods and can show the affect of those investments; and
- **Performance Measures:** Establishing stronger requirements to measure CDBG grantee performance and to hold grantees accountable for meeting their performance goals.

Research into the CDBG program and its affects have motivated the legislative proposals. A careful study has shown that over time the current formula has lessened in its ability to accurately target funds to the communities that most need them. Other research indicates that concentrated CDBG investment is effective at making neighborhood improvements. In addition, a government-wide effort to show the results that come from federal investment has highlighted the need for statutory reforms to enhance program accountability.

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, mental illness, 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 now 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 state and local 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 CDBG or HOME, Low-Income Housing Tax Credits, and tax-exempt bonds for rental housing, which may affect the local housing supply.

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS RISKS, TRENDS, AND FACTORS AFFECTING GOALS

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 in service occupations should make it easier for many low-skilled or inexperienced workers to enter the workforce in the coming years.

Many of the educational, training, and service programs available to help families make the transition to housing self-sufficiency are operated by local recipients of federal funds from agencies other than HUD. Such factors can constrain the Department's ability to achieve marked success in promoting housing self-sufficiency and homeownership of 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 concerns discussed in the "Management and Performance Challenges" in Section 4 and "Management Assurances" discussions in Section 1 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 58 percent of the employees are eligible to retire within three years. HUD's workforce planning is adversely affected 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. During FY 2006, the Department implemented the HUD Training Strategy to address needs identified by staff through the 2005 Organizational Assessment Survey and the 2006 Workforce Planning Taskforce effort.

To use limited staff and resources more effectively, it also is essential that HUD sustain efforts to refine and strengthen the 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 advance program objectives.

Adequate funding of HUD's information technology portfolio is a concern. 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 further reduce improper payments in rental housing subsidy programs, HUD will need continued cooperation of its program partners and tenant groups to strengthen and adhere to internal controls that ensure appropriate subsidy payments go to intended beneficiaries. The Enterprise Income Verification System that HUD implemented during FY 2006 continues to enable HUD's PHA partners to more accurately verify tenant income. Expansion of this verification process to all rental assistance programs will likely eliminate the majority of improper payments in rental assistance attributable to tenant underreporting of income. Statutory changes should also be considered to simplify and standardize subsidy program requirements.

Finally, **continued improvement of HUD's acquisitions workforce** is important to assure timely award and proper administration and close out of the heavy volume of contract actions for information technology and other essential administrative and program services that HUD has outsourced. To address this need, the Department has strengthened certification and training standards for government technical representatives, hired additional staff, and installed new leadership in the Office of the Chief Procurement Officer.

President's Management Agenda

In FY 2002, the Office of Management and Budget (OMB) published the President's Management Agenda (PMA), as set forth by President George W. Bush, to implement government reform that is citizen-centered, results-oriented, and market-based. The Secretary and Deputy Secretary have emphasized, and HUD's Strategic and Annual Performance Plans reflect, activities designed to achieve the outcome goals of the PMA.

During FY 2007, these initiatives included (Year initiated):

- Strategic Management of Human Capital (FY 2002),
- Competitive Sourcing (FY 2002),
- Improved Financial Performance (FY 2002),
- Expanded Electronic Government (FY 2002),
- Performance Improvement (FY 2002),
- Improved HUD Management and Performance (FY 2002),
- Increased Faith-Based and Community Organization Participation (FY 2003),
- Eliminate Improper Payments (FY 2005), and
- Credit Program Management (FY 2006).



While the first five of these initiatives are government-wide, the last four were identified by OMB and HUD officials as significant areas for improved performance at the agency level. In order to ensure that the management orientation at HUD remains deeply committed to achieving PMA goals, the Secretary and Deputy Secretary have instituted the following activities to ingrain the PMA into HUD's normal management processes:

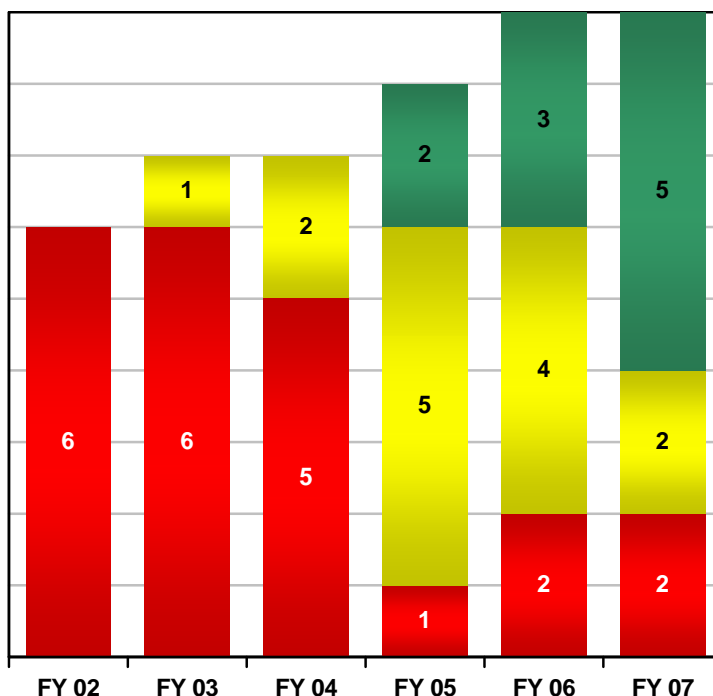
- Incorporated PMA goals in the Department's Strategic, Annual Performance, and Management Plans;
- Assigned Assistant Secretaries or equivalent level positions as PMA Initiative Owners with responsibility for planning, coordinating, and acting to achieve PMA goals;
- Developed an annual plan of actions and milestones to reflect where HUD would be "Proud-To-Be" on PMA goals, with quarterly refinements in discussion with OMB;
- Held quarterly meetings with OMB to review and discuss their quarterly scorecards on the status of overall goals and quarterly progress in completing the planned actions; and
- Communicated PMA criteria, plans, progress, and accomplishments to HUD staff and interested parties through print media, the HUD web site, and satellite broadcasts.

Following is a summary table followed by a detailed description of HUD's FY 2007 PMA activities and results to date:

HUD's Overall PMA Scoring Progress 2002-2007

OMB instituted a “stoplight” scoring system to evaluate the status and progress of each agency. At end of the first reporting cycle in June of FY 2002, most agencies, including HUD, were evaluated as mostly RED. Since that time, HUD has made steady progress in striving for GREEN status for all its initiatives.

As of the latest reporting cycle, ending June 30, 2007, HUD earned five GREEN scores, two YELLOW, and two RED status scores.



↑ ↓ Denotes an increase (decrease) in the status score from the previous year.

Initiative	HUD's Overall PMA Scoring Progress 2002-2007 By Initiative					
	June 2002	June 2003	June 2004	June 2005	June 2006	June 2007
Human Capital	Red ●	Red ●	Yellow ↑ ●	Yellow ●	Yellow ●	Yellow ●
Competitive Sourcing	Red ●	Red ●	Red ●	Yellow ↑ ●	Yellow ●	Red ↓ ●
Improved Financial Performance	Red ●	Red ●	Red ●	Red ●	Red ●	Green ↑ ●
Expanded E-Government	Red ●	Red ●	Red ●	Yellow ↑ ●	Green ↑ ●	Green ↑ ●
Budget & Performance Integration/Performance Improvement	Red ●	Red ●	Red ●	Yellow ↑ ●	Yellow ●	Yellow ●
HUD Management and Performance	Red ●	Red ●	Red ●	Yellow ↑ ●	Yellow ●	Green ↑ ●
Faith-Based and Community Initiatives	N/A	Yellow ●	Yellow ●	Green ↑ ●	Green ●	Green ●
Eliminate Improper Payments	N/A	N/A	N/A	Green ↑ ●	Green ●	Green ●
Credit Program Management	N/A	N/A	N/A	N/A	Red ●	Red ●



1. **Human Capital.** HUD has received a rating of **YELLOW** for status and **GREEN** for progress for this initiative. HUD's Human Capital initiative is structured to accomplish the PMA goal of having processes in place which ensure the right person is in the right job, at the right time, and is not only performing, but performing well.

The Department continues to demonstrate that, like the majority of agencies, the effective management of human capital is fast becoming one of HUD's most pressing needs. The Department continues to focus on the President's Management Agenda initiatives, which seek to ensure:

1) Optimization of HUD's organizational structure; 2) implementation of succession strategies to assure a continually-updated talent pool; 3) performance appraisal plans for managers and staff adhere to merit system principles, enabling accountability for results while linking the goals and objectives of HUD's mission; 4) sustaining the established processes that address diversified hiring practices; 5) continued reduction of mission critical skill gaps; and 6) that corrective actions will be taken based upon developed human capital accountability systems.

Through FY 2007, HUD has maintained a **GREEN** progress rating for Human Capital by aggressively accomplishing the following milestones:

- The successful implementation of its Human Capital Plan demonstrates that planning efforts analyzed implementation results relative to those plans, and were used in decision making to drive continuous improvement.
- The improved organizational structure and workforce plan provide greater efficiencies while reducing overall program costs and improving performance, along with competitive sourcing and E-Gov solutions as necessary.
- Through expansion of the performance pilot implemented in FY 2006, the Department is establishing a results-oriented performance culture. Clear performance expectations are being communicated to employees; ratings and awards are based on results; and supervisors throughout the Department are supporting both improved employee development and more effective appraisal of employee performance.
- The comprehensive strategy for improving HUD's hiring process has been fully implemented, ensuring that highly qualified candidates are recruited and retained. To date, at least 70 percent of agency hires are made and applicants notified of their status within 45 business days of the application deadline, significantly reducing the time to hire employees in mission critical functions.



2. **Competitive Sourcing.** HUD has received a status rating of **RED** and a **GREEN** progress score for this initiative. Competitive sourcing is a process designed to ensure that the government acquires services at the best value for the taxpayer, regardless of whether the service provider is a public entity (government staff) or private entity (contractor staff). This initiative reflects the Government's commitment to find the most cost effective way to perform functions that are identified as potentially non-governmental, i.e., able to be performed by commercial entities without jeopardizing delivery of program services to citizens and HUD's clients.

Prior to the President's emphasis on competitive sourcing, HUD had already outsourced many of its services, and accordingly it must carefully consider the affect on program risk of any further outsourcing. To date, the Department had completed six competitions and will implement the results of five, with an anticipated cost savings totaling \$15 million over a period of five years.

The competition which was not implemented was the A-76 review of the multi-family non-Section 8 Program Rental Housing Assistance contract administration function for contracts and assisted payments. This competition was undertaken to address high-risk deficiencies identified by the Government Accountability Office. The result of the competition indicated that an in-house developed program was the best source when compared to private-sector proposals. However, though the in-house program was less expensive than the private-sector bids, it would result in a request for increased budgetary resources. Concurrent with the period of the competitive sourcing review, other actions initiated by HUD management achieved performance improvements which resulted in removal of this function from GAO's high-risk designation. Accordingly, HUD chose not to incur the additional costs associated with the execution of the in-house A-76 proposal, as the desired result was already achieved.

During FY 2007, HUD announced a new Streamlined Competition for the Employee Service Center function within the Office of Administration that provides human resource management support.

The Department continues to explore opportunities for improving the efficiency with which we support our customers.



3. Improved Financial Performance. HUD is one of 12 of 26 major agencies to earn a **GREEN** rating. Financial performance is a significant indicator of an agency's ability to fulfill its mission and meet the needs of the citizens and their government. Adequate control over financial operations enables the agency to: reduce the risk of fraud, waste, and abuse; better assure that services are delivered to the public in a timely and cost effective manner; and provide support for informed budget and program decisions.

To these ends, the President has directed this initiative to: 1) Improve financial audit results; 2) Eliminate material weaknesses and strengthen internal controls; 3) Accelerate financial reporting; 4) Strengthen funds control and financial systems compliance; and 5) Improve the availability of financial data (dashboard reporting) needed to better inform budget and program decision-making.

During the year, HUD achieved the goals of this PMA initiative. In the first quarter of FY 2007, the agency's status was upgraded to **YELLOW**, and it was upgraded in the second quarter to **GREEN** based largely on:

- Achieving its seventh consecutive unqualified audit opinion on its consolidated financial statements,
- Eliminating its remaining material weaknesses,
- Meeting all accelerated financial reporting requirements,

- Developing of dashboard reporting from its Financial Data Mart, and plans for further improvement.
- Based on its results of its second annual assessment of the effectiveness of internal controls over financial reporting, the Secretary was able to report reasonable assurance that the Department's internal controls were operating effectively, and no material weaknesses were found in the design or operation of those controls in accordance with Appendix A of OMB Circular A-123.



4. Expanded Electronic Government. HUD was one of five government agencies that have achieved **GREEN** status, out of 26 agencies that were rated on this initiative as of June 30, 2007.

The President's E-Government initiative stresses the value of electronic methods for providing greater levels of public service at lower cost. HUD is a recognized leader among government agencies for this initiative. HUD's Office of the Chief Information Officer received the 2007 Laureate Medal from the Computerworld Honors Program in the Government and Non-Profit Organizations category. This medal was awarded for improving the Department's IT infrastructure to support transformation through shared services to produce measurable improvements.

Maintaining **GREEN** status over the past six quarters has required the Department to:

- demonstrate progress in developing and implementing Enterprise Architecture (using modern business practices),
- adhere to cost, schedule, and performance standards for major Information Technology projects,
- certify that all systems are secure with minimal risk of privacy violations (reducing the likelihood of identity theft), and
- complete all reports, certifications, notices, and assurances in a timely fashion.

HUD's commitment to E-Government and to the public we serve is ongoing and is well established.



5. Performance Improvement Initiative. HUD has received a status rating of **YELLOW** and **GREEN** on progress for this initiative. The Performance Improvement Initiative is designed to ensure that performance is routinely considered in funding and management decisions, and that HUD's programs achieve expected results and work toward continual improvement. Additionally, this initiative provides for clear, measurable program outcome goals and indicators to support budget and resource allocation decisions based on performance results. OMB developed this initiative and the associated Program Assessment Rating Tool (PART) to better validate that programs have clearly defined and measurable program outcomes, efficiency measures, and marginal cost measures to inform the budget decision-making process.

HUD has maintained a status of **YELLOW** while working with OMB to complete 35 PART assessments covering all of HUD's major programs and nearly all of its annual budget authority. Of the programs assessed, OMB determined that 18, or 58 percent, were Effective, Moderately Effective, or Adequate. OMB rated the remaining 13 programs, or 42 percent, as either Ineffective or Results Not Demonstrated.

The PART results have been used to help make decisions in the President's Budget request to the Congress. HUD continues to work with OMB to more clearly define expected outcomes for each of its programs and to produce better outcome and efficiency measures that evidence the programs are cost-effective in producing desired results.

Throughout FY 2007, HUD clearly demonstrated its ongoing efforts to achieve the goals set forth in the President's Management Agenda. To date, HUD has:

- Improved the integration of budget and performance data in the preparation of its fiscal year budget submissions to OMB – which is a core tenet of the performance improvement initiative;
- Developed important legislation proposals – covering FHA, Public Housing Section 8 Housing Choice Voucher, CDBG, Homeless Assistance, and Housing Opportunities for Persons with AIDS programs – that will more clearly define and improve the performance outcomes of those programs; and
- Advanced the outcome performance of its programs, and made substantial progress in developing improved outcome metrics to measure that progress.



6. **Improved HUD Management and Performance.** The actions associated with this initiative have been successfully completed and HUD received a rating of **GREEN**. This HUD-specific performance indicator was primarily established to address GAO-designated high-risk program areas and material internal control weaknesses not addressed by the other initiatives of the PMA.

After the establishment of this HUD-specific initiative, the additional multi-agency PMA initiatives were added, (Eliminating Improper Payments and Credit Program Management), which continue to address some of the issues originally covered by this HUD-specific initiative. HUD developed corrective actions, implemented all internal control improvement plans, and achieved all initial performance goals on this initiative. Confirmation of HUD's mitigation of risk and correction of deficiencies came on January 31, 2007, when the Government Accountability Office released its biennial review of its high-risk programs, noting HUD's removal from the high risk program watch list.



7. **Increased Faith-Based and Community Organization Participation.** HUD was the first of eleven agencies to earn a status rating of **GREEN** and continues to maintain its **GREEN** status. These 11 agencies are leading the government-wide effort to promote participation of faith-based and other community organizations.

The Department's objectives for this initiative include: reduce barriers to participation by faith-based and community organizations; conduct outreach and provide technical assistance to faith-

based and community organizations to strengthen their capacity to attract partners and secure resources; and encourage partnerships between faith-based and community organizations and HUD's traditional grantees.

During FY 2007, HUD's Office of Faith-Based and Community Initiatives facilitated grant writing seminars in 33 cities, published practical guides both in hard copy and on-line for faith-based and community organizations, and developed and implemented various technical assistance programs to maintain its **GREEN** status on this initiative.



8. Eliminate Improper Payments. The Department continues to be one of only four out of 15 agencies evaluated to earn a **GREEN** status rating. This initiative implements the Improper Payments Information Act of 2002, which requires federal agencies to annually assess improper payment risks and to measure improper payment levels and report on progress in reducing those levels in programs and activities that may be susceptible to combined improper payments in excess of \$10 million per year. The Act holds agency managers accountable for strengthening financial management controls in order to reduce any significant improper payment levels identified.

The specific objectives are to:

- Establish an annual agency-wide risk assessment process that identifies all programs at risk of significant improper payments;
- Provide for annual estimates of improper payment levels in at-risk programs;
- Analyze the causes of improper payments in at-risk programs to serve as the basis for setting reduction goals and corrective action plans; and
- Provide annual reporting of progress and results in attaining improper payment reduction goals.

In FY 2005, HUD became the first agency to earn a **GREEN** status by reaching full compliance with the Improper Payments Information Act of 2002, and achieved the President's goals for eliminating improper payments by reducing improper payments 55.7 percent from \$3.43 billion to \$1.52 billion.

Additionally, this year HUD executed a computer matching agreement with HHS to expand the National Directory of New Hires computer-matching program to HUD's multifamily housing programs; completed a cumulative total of 13,000 management and occupancy reviews; and provided satellite training and technical assistance on the Enterprise Income Verification (EIV) system throughout the nation. These programs, reviews, and training endeavor to ensure that limited housing resources are provided to the neediest recipients.



9. Credit Program Management. HUD earned a **RED** status rating and a **GREEN** for progress for this new initiative. This new initiative addresses the effectiveness of direct and guaranteed loan programs to ensure that HUD's credit programs are reaching the targeted borrowers at an acceptable, manageable risk level. Credit Program Management is applicable to the five largest credit agencies (Agriculture, Education,

HUD, SBA, and VA) and Treasury. It covers loan origination (both direct and guaranteed), loan servicing/lender monitoring, and debt collection.

This is a relatively new initiative of the President's Management Agenda. As such, the specific criteria to determine HUD's credit program were only recently finalized by HUD and OMB. The criteria developed to measure achievement of the President's goal require that the Agency focus on identifying and developing business requirements for changes to FHA single family loan products to meet the needs of the nation, and identify and modify the systems and processes to meet the new requirements. It also requires modification of the multifamily Financial Assessment System so that troubled projects can be targeted for intensive monitoring by HUD.

Analysis of Financial Conditions

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)

	2007	2006
Total Assets	\$111,074	\$123,063
Total Liabilities	\$20,361	\$17,323
Net Position	\$90,713	\$105,740
FHA Insurance-In-Force	\$399,960	\$395,777
Ginnie Mae Mortgage-Backed Securities Guarantees	\$427,600	\$409,990
Other HUD Program Commitments	\$65,472	\$72,355

Analysis of Financial Position

Assets - Major Accounts

Total Assets for Fiscal Year 2007, as reported in the Consolidated Balance Sheets, are displayed in Chart 1. Total Assets of \$111.1 billion are comprised primarily of Fund Balance with Treasury of \$69.0 billion (62.2 percent) and Investments of \$31.4 billion (28.3 percent).

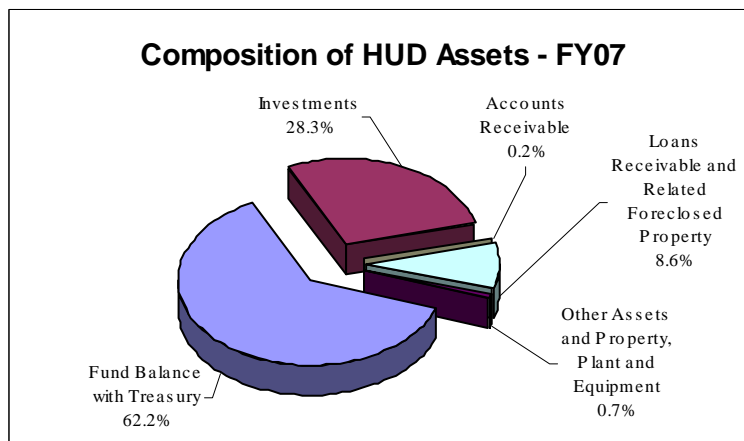


Chart 1 – Composition of HUD Assets –FY07

Total Assets decreased \$12.0 billion (9.7 percent) from \$123.1 billion at September 30, 2006 to \$111.1 billion at September 30, 2007. The net decrease was due primarily to a decrease of \$12.3 billion (15.2 percent) in Fund Balance with Treasury from \$81.4 billion at September 30, 2006 to \$69.0 billion at September 30, 2007.

Table 1 presents total assets for Fiscal Year 2007 and the four preceding years. The changes and trends affecting Total Assets are discussed below.

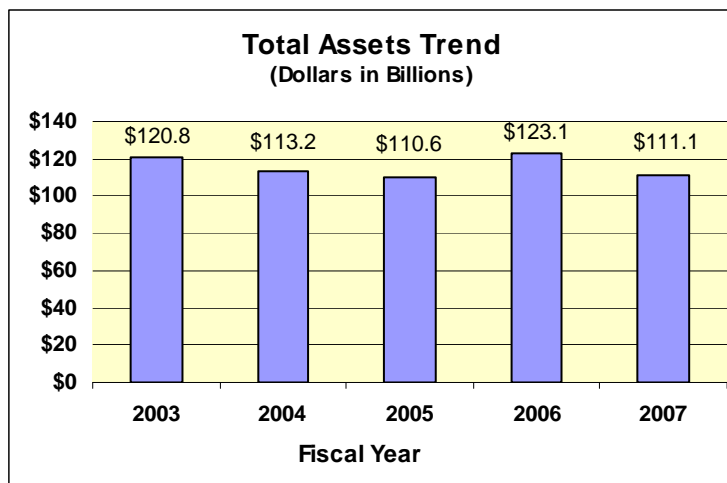


Table 1 – Total Assets Trend

Fund Balance with Treasury of \$69.0 billion represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities. Fund Balance with Treasury decreased due to a decrease of \$7.1 billion in funding for the Community Development Block Program (CDBG), a decrease in funding for Section 8 of \$3.2 billion and a decrease in funding for FHA of \$1.0 billion.

Investments of \$31.4 billion 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). Compared to last fiscal year, there was an insignificant net increase in Investments.

Accounts Receivable of \$0.3 billion primarily consists 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 sales proceeds. A 100 percent allowance for loss is established for all delinquent debt 90 days and over.

Loans Receivable and Related Foreclosed Property of \$9.6 billion 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. Compared to last fiscal year, there was a decrease in Loan Receivable and investments in Related Foreclosed Property assets of \$0.5 billion (4.7 percent).

Remaining assets of \$0.8 billion, comprising 0.7 percent of Total Assets, include fixed assets and other assets. Net changes pertaining to remaining asset balances increased by 13.5 percent compared to prior fiscal year.

Assets - Major Programs

Chart 2 presents Total Assets for Fiscal Year 2007 by major responsibility segment or program.

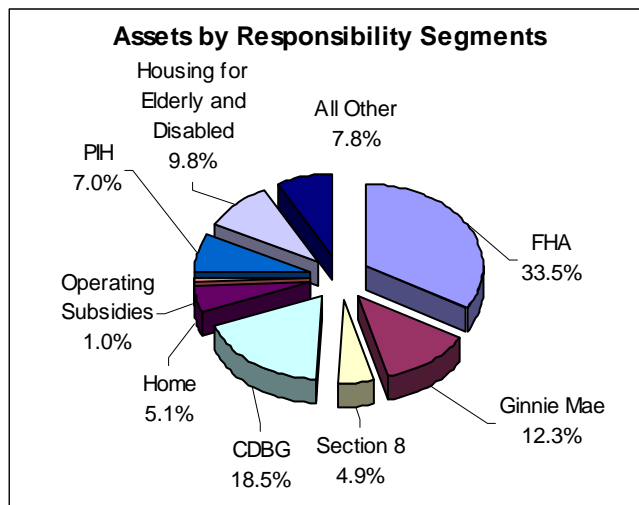


Chart 2 – Assets by Responsibility Segment

Liabilities – Major Accounts

Total Liabilities for Fiscal Year 2007, as reported in the Consolidated Balance Sheets, are displayed in Chart 3.

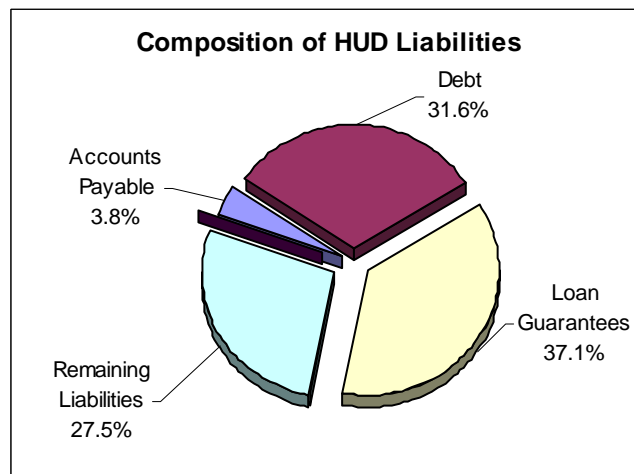


Chart 3 – Composition of HUD Liabilities

Total Liabilities of \$20.4 billion consists primarily of debt in the amount of \$6.4 billion (31.6 percent), loan guarantee liabilities of \$7.6 billion (37.1 percent), accounts payable of \$0.7 billion (3.8 percent), and remaining liabilities amounting to \$5.6 billion (27.5 percent).

Total Liabilities increased \$3.0 billion, 17.5 percent, from \$17.3 billion at September 30, 2006 to \$20.3 billion at September 30, 2007. The net increase in total liabilities was due primarily to a decrease of \$2.1 billion in Debt, offset by a net increase of \$1.1 billion in Remaining Liabilities and an increase of \$4.0 billion in Loan Guarantees.

Table 2 presents total liabilities for Fiscal Year 2007 and the four preceding years. A discussion of the changes and trends affecting Total Liabilities is presented in the subsequent paragraphs.

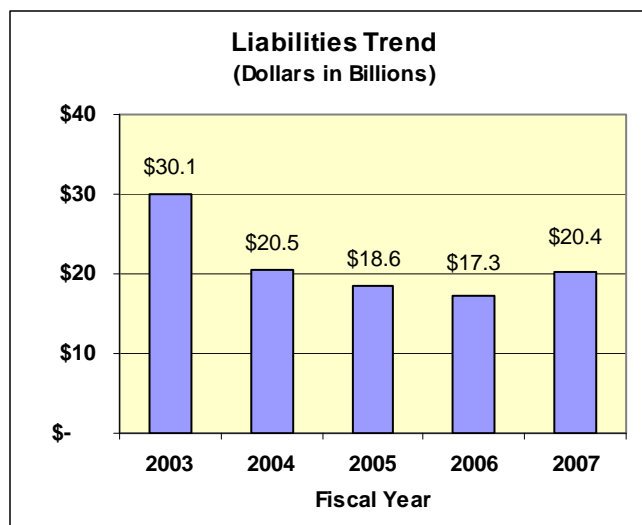


Table 2 – Liabilities Trend

Debt includes intra-governmental debt of \$5.5 billion and debt held by the public of \$0.9 billion. The intra-governmental debt consists of loans from the Treasury, Public Housing Authorities, Tribally Designated Housing Entities, Federal Financing Bank, and debentures issued by FHA in lieu of cash disbursements to pay claims. Debt held by the public consists of new housing authority bonds and FHA debentures issued to the public at par. The \$2.1 billion decrease in debt (repayments exceed new borrowings) was primarily due to a \$1.7 billion decrease in FHA debt.

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

Loan Guarantees consist 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 increase in loan guarantees of \$4.0 billion was primarily due to an overall increase guarantees for FHA programs.

Remaining liabilities of \$5.6 billion consist primarily of Insurance Liabilities, Federal Employee and Veteran Benefits, and Other Liabilities. Net changes pertaining to remaining liability balances increased by \$1.1 billion, 20.0 percent, as compared to the prior fiscal year.

Liabilities – Major Programs

Chart 4 presents Total Liabilities for FY 2007 by responsibility segment.

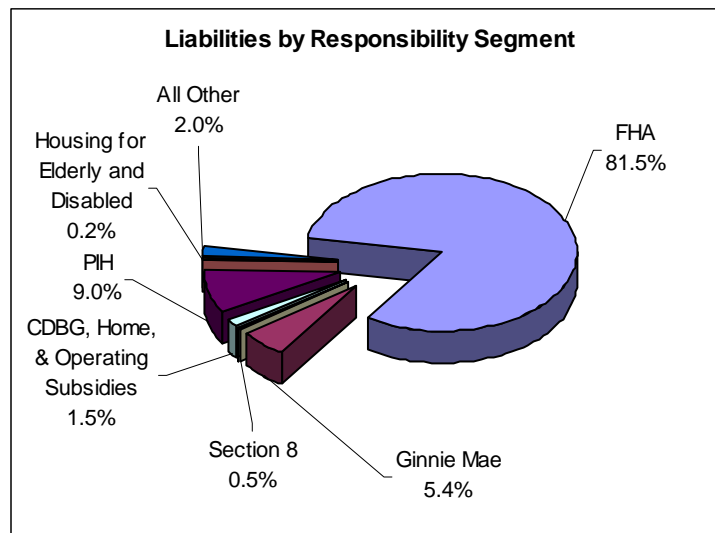


Chart 4 – Liabilities by Responsibility Segment

Changes in Net Position

Changes in Unexpended Appropriations, Net Cost of Operations, and Financing Sources combine to determine the Net Position at the end of the year. The elements are further discussed below. Net Position as reported in the Statements of Changes in Net Position reflects a decrease of \$15.0 billion or 14.2 percent from the prior fiscal year. This decrease in Net Position is primarily attributable to an \$11.7 billion decrease in Unexpended Appropriations and a \$3.3 billion decrease in cumulative results of operations (Financing Sources in excess of Net Cost of Operations).

Unexpended Appropriations, which decreased 17.7 percent from \$66.2 billion in FY 2006 to \$54.5 billion in FY 2007, represents the accumulation of appropriated funds not yet disbursed, and 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.

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 Fiscal Year 2007 totaled \$47.9 billion. This amount is comprised primarily of \$51.0 billion in Appropriations Used, offset by approximately \$3.1 billion in net transfers out. The transfers out consist of new FHA subsidy endorsements, credit subsidy upward re-estimates and the sweep of the General Insurance/Special Risk Insurance liquidating account's unobligated budgetary resources.

Net Cost of Operations, as reported in the Consolidated Statements of Net Cost, amounts to \$51.1 billion for Fiscal Year 2007, and reflects a 22.5 percent increase as compared to prior fiscal year. Net Cost of Operations consists of total costs, including direct and indirect program costs, as well as general Department costs, offset by program exchange revenues (received in exchange for services provided by HUD).

Table 3 presents HUD's Total Net Cost for Fiscal Year 2007 by responsibility segment.

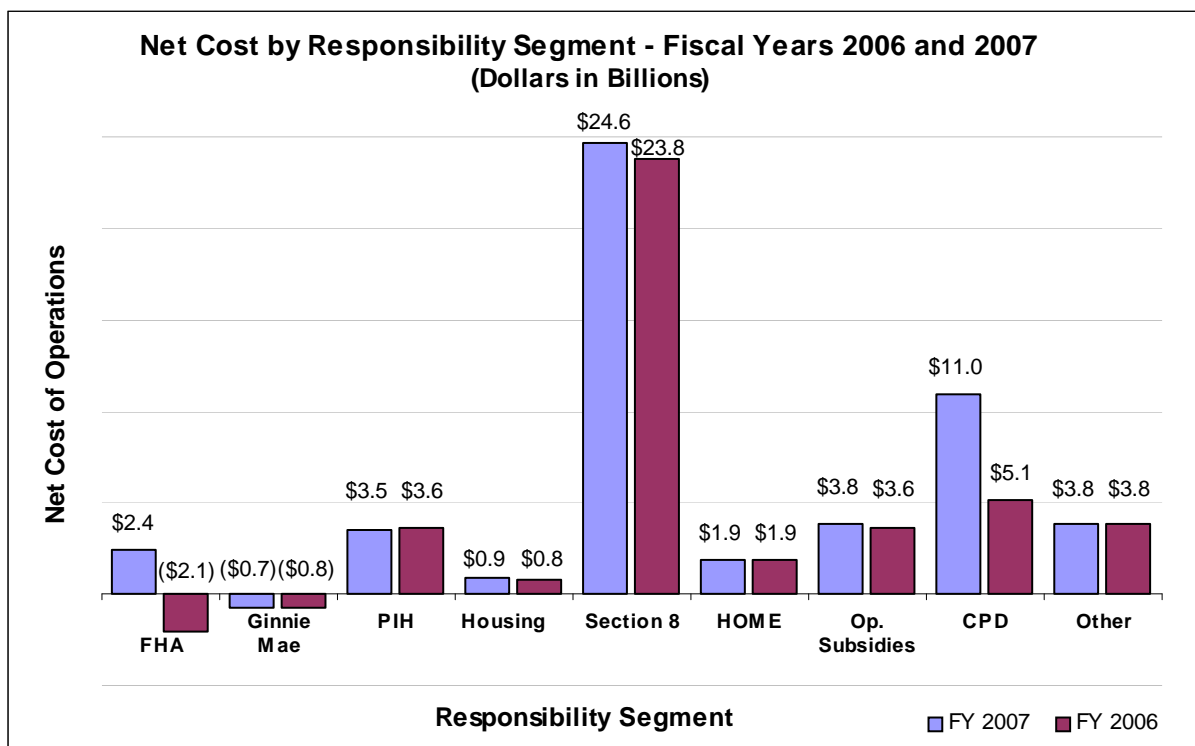


Table 3 – Net Cost by Responsibility Segment

As presented in Table 3, Cost of Operations was primarily a result of spending of \$24.6 billion, 48 percent of Net Cost, in support of the Section 8 program (administered jointly by the Housing, Community Planning and Development, and PIH programs). The current fiscal year net cost of \$24.6 billion for the Section 8 programs was \$0.8 billion, or 3.4 percent, more than the prior fiscal year. Total HUD Net Costs include FHA net loss of \$2.4 billion attributable to FHA's upward re-estimate of the anticipated long-term costs of its insurance programs.

Net Results of Operations

The combined effect of HUD's Net Cost of Operations and Financing Sources resulted in a 132.1 percent change in Net Results of Operations of \$3.2 billion during Fiscal Year 2007. The significant year-to-year fluctuation shown in Table 3 is due primarily to the annual re-estimation of long-term credit program costs, which can be affected by both program performance and economic forecasts.

Table 4 presents HUD's Net Results of Operations for Fiscal Year 2007 and the four preceding years.

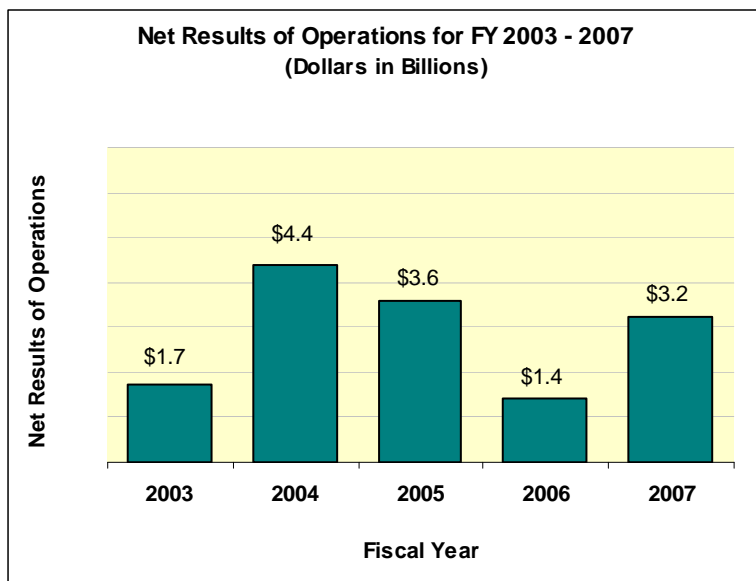


Table 4- Net Results of Operations Trend

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 \$65.4 billion in Fiscal Year 2007 represents HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. Administrative Commitments (reservations) of \$2.8 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 Fiscal Year 2007 and the four preceding years.

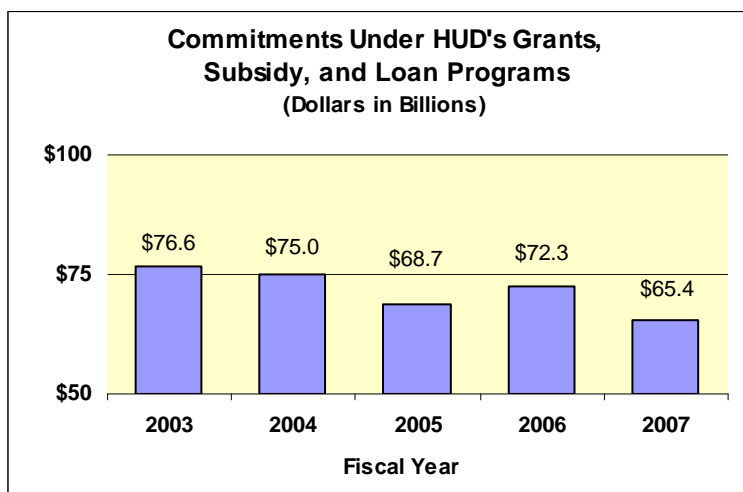


Table 5 – Commitments Under HUD's Grants, Subsidy and Loan Programs

These commitments are primarily funded by a combination of unexpended appropriations and permanent indefinite budget authority, 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 Fiscal Year 1988. Since Fiscal Year 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 (contractual and administrative) decreased \$7.0 billion, or 9.3 percent during Fiscal Year 2007. The change is primarily attributable to a decrease of \$2.8 billion in Section 8 commitments along with decreases of \$1.9 billion in CDBG, \$0.1 billion in FHA, \$1.1 billion in Section 202/235/236, \$0.5 billion in PIH, and \$0.6 billion in All Other commitments.

Table 6 presents HUD's Section 8 Contractual Commitments for Fiscal Year 2007 and the four preceding years.

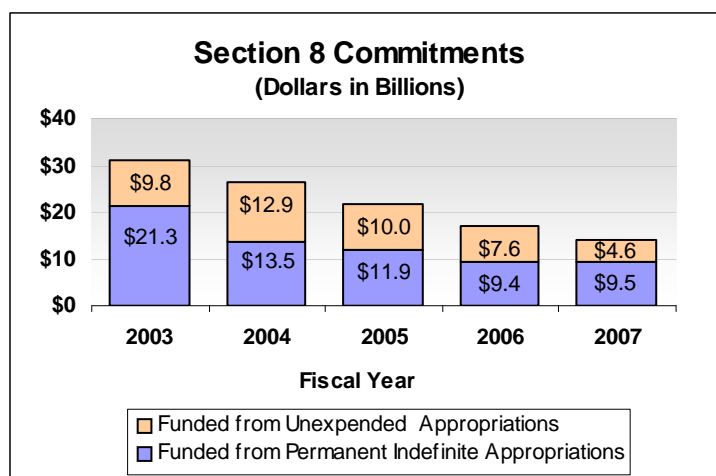


Table 6 – Section 8 Commitments

To contain the costs of future Section 8 contract renewals, HUD began converting all expiring contracts to 1-year terms during Fiscal Year 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 increased \$4.2 billion or 1.1 percent from \$395.8 billion in Fiscal Year 2006 to \$400.0 billion in fiscal year. The increase in FHA's Insurance-In-Force was primarily due to higher endorsements in the last quarter of Fiscal Year 2007 and an increase in the FHA reverse mortgage program (Home Equity Conversion Mortgages).

Table 7 presents FHA's Insurance-In-Force for Fiscal Year 2007 and the four preceding years.

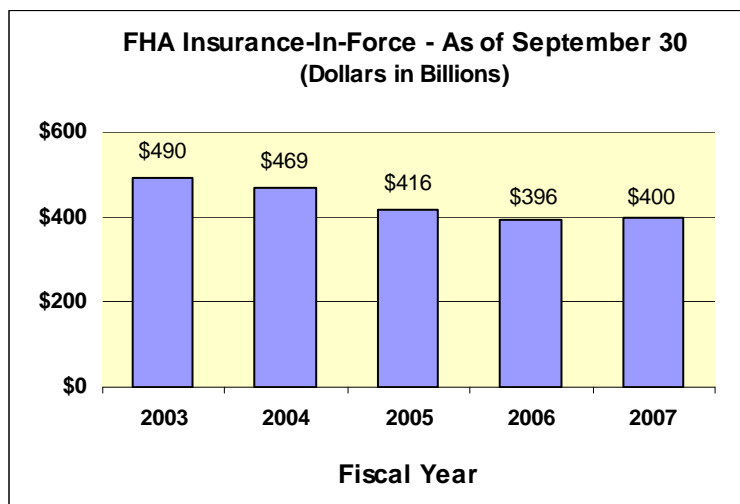


Table 7 – FHA's Insurance-In-Force at Year End

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, 2007 and 2006, was approximately \$427.6 billion and \$410.0 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, 2007 and 2006 were \$35.8 billion and \$22.8 billion, respectively.

Table 8 presents Ginnie Mae Mortgage-Backed Securities for FY 2007 and the four preceding years.

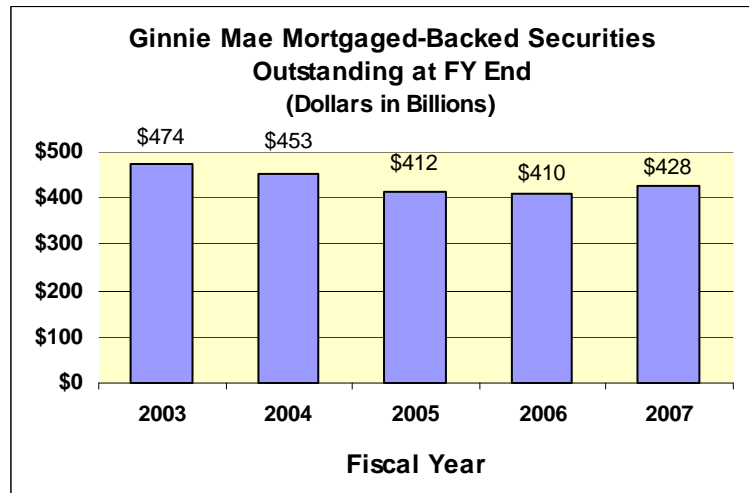


Table 8 -Ginnie Mae Mortgage-Backed Securities for FY 2007

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 2007 and 2006, Ginnie Mae issued a total of \$32.7 billion and \$23.8 billion, respectively, in its multi-class securities program. The estimated outstanding balance at September 30, 2007 and 2006, were \$201.0 billion and \$198.7 billion, respectively. These securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the Mortgage-Backed Securities program.

Management Assurances of Management Controls, Systems, and Compliance with Laws and Regulations

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT AND INTERNAL CONTROL REPORTING

The Federal Managers' Financial Integrity Act (FMFIA) and the Office of Management and Budget (OMB) Circular A-123 are the main internal control requirements for the federal government. FMFIA explains management's responsibility for, and its role in, the assessment of accounting and administrative internal controls. The controls include program, operational, and administrative areas, as well as accounting and financial management. FMFIA Section 2 requires the agency head to annually assess and report on the effectiveness of internal controls that protect the integrity of federal programs. FMFIA Section 4 requirements are related to financial management systems reporting.

OMB Circular A-123 "*Management's Responsibility for Internal Control*," provides guidance to management on improving the accountability and effectiveness of its programs and operations by establishing, assessing, correcting, and reporting on internal control. Essentially, management is responsible for developing and maintaining internal control to administer an effective and efficient operation, reliable financial reporting, and compliance with applicable laws and regulations. Additionally, agencies are to provide an assurance statement on the effectiveness of its internal control over financial reporting and are expected to integrate its efforts to meet the requirements of FMFIA. OMB Circular A-123 requires management to issue consolidated assurance statements to address the overall adequacy and effectiveness of internal control within the agency, the effectiveness of the agency's internal controls over financial reporting, and whether the agency's financial management systems conform to government-wide requirements.

For FY 2007, no material internal control weaknesses were identified for the Department. The Secretary's 2007 Annual Assurance Statement is provided on the following page.

FMFIA Annual Assurance Statement

The Department of Housing and Urban Development's management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA), Sections 2 and 4. HUD conducted its assessment of the effectiveness of its internal control over the efficiency and effectiveness of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, HUD can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2007, was operating effectively and no material weaknesses were found in the design or operations of the internal controls.

In addition, HUD conducted its assessment of the effectiveness of internal control over financial reporting, in accordance with the requirements of Appendix A of OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, HUD can provide reasonable assurance that internal control over financial reporting, as of June 30, 2007, was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.



Alphonso Jackson
Secretary of Housing and Urban Development

REPORTABLE CONDITIONS/SIGNIFICANT DEFICIENCIES

In FY 2007, SAS 112 *Communicating Internal Control Matters Identified in an Audit*, changed the term "reportable condition" to "significant deficiency." A "significant deficiency" is a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles. The term "significant deficiency" aligns with the "reportable condition" definition previously used by management to prepare our FMFIA assurance statement. Reportable conditions are internal control deficiencies that represent weaknesses in the design or operation of internal control that could adversely affect the organization's ability to meet its internal control objectives. For the purpose of this report, the terms "reportable condition" and "significant deficiency" are used interchangeably.

At the beginning of FY 2007, HUD had nine significant deficiencies. While progress was made in addressing each of these deficiencies in FY 2007, these deficiencies remain open pending further corrective action. During FY 2007, HUD Management decided to add three new

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS
MANAGEMENT ASSURANCES

significant deficiencies, “*Section 8 Project-based Housing Assistance Payment Contracts, HECM Credit Subsidy Cash Flow Model, and Ginnie Mae Mortgage Backed Securities (MBS) Monitoring*,” increasing the total number to 12 significant deficiencies. The charts below summarize HUD’s reportable conditions/significant deficiencies, and show the accomplishments and planned actions for each issue in FY 2007 as follows:

Significant Deficiencies
FY 2007 Status

Carry Over/Issues	Significant Deficiency	Status at End of FY 2007
SD1	Performance Measures	Open
SD3	PHA Monitoring	Open
SD4	HUD’s Computing Environment	Open
SD7	Obligation Balances	Open
SD13	Resource Management	Open
SD14	Management Controls	Open
SD16	Single Audit Act Coverage	Open
SD18	Controls Over Rental Housing Assistance	Open
SD19	Departmental Financial Management Systems	Open
SD20*	Section 8 Project-based Housing Assistance Payment Contracts *	Open
SD 21*	HECM Credit Subsidy Cash Flow Model *	Open
SD 22*	Ginnie Mae Mortgage Backed Securities (MBS) Monitoring *	Open

* New in FY 2007

ACTIONS ON REMAINING SIGNIFICANT DEFICIENCIES

Significant Deficiency/Problem Statement	FY 2007 Accomplishments	Planned Actions
<p>Performance Measures HUD needs to improve quality controls over performance measure data to ensure data: 1) accuracy, 2) timeliness, 3) estimation, and 4) availability.</p>	<ul style="list-style-type: none"> ❖ Implemented all corrective actions identified during data quality assessments. ❖ Integrated maintenance of data quality control in normal business practices of system sponsors, and addressed compliance as a critical element in staff performance standards. ❖ Completed eight data quality assessments (CHUMS, HOPE VI, IDIS-HOME, PIC, PIH-LOTUS, RESPA, IDIS-CDBG, MFIS) and certified two additional HUD information systems (CTS and WASS). ❖ Updated the critical systems list to ensure that semi-annual disaster recovery testing focus on assuring their availability. 	<ul style="list-style-type: none"> ❖ Assess data quality of information systems whose data supports HUD's performance reporting.
<p>Public Housing Agency Monitoring</p> <p>Continued efforts are needed to improve housing authority monitoring to ensure that program funds are expended in compliance with laws and regulations.</p>	<ul style="list-style-type: none"> ❖ Assessed monitoring, management, and operations of eight field offices during the Quality Management Review on site visits and provided technical assistance. ❖ Completed onsite internal control reviews at two field offices not included in the Quality Management Review process. ❖ Moved the temporary Consolidated Tracking Tool, used to warehouse field monitoring activities, to the Consolidated Compliance Management, a permanent IT system. ❖ Completed comprehensive coordinated reviews of 113 Public Housing Agencies (PHAs). These represented twenty percent of the PHAs that receive eighty percent of PIH funding. Based on risk assessment, an additional 1,591 limited reviews of PHAs were completed. These represented a variety of specific areas including environmental, PHA certifications, Independent Assessments, procurement, and Section 8 Management Assessment Program confirmations. ❖ Developed and field tested a management review protocol at 116 PHAs in preparation for the transition to asset management. 	<ul style="list-style-type: none"> ❖ Revise existing risk-based monitoring approach for PHAs to conform with changes related to Asset Management. ❖ Work with the Enforcement Center to develop sanction standards that would be consistently applied against PHAs when violations of compliance have been identified. ❖ Recommend changes to the Audit Compliance Supplement to include additional programmatic areas in their review. These changes would be for auditors charged with annual audits of PHAs.
<p>HUD's Computing Environment</p> <p>Controls over HUD's computing environment can be further strengthened to reduce the risks associated with safeguarding funds, property, and assets from unauthorized use or misappropriation.</p>	<ul style="list-style-type: none"> ❖ Completed planned improvements to the protection of HUD's Network by implementing Network Security Controls. ❖ Installed Intrusion Detection System Software sensors on all servers. ❖ Implemented CHAMP, the replacement system for the HUD On-Line User Registration System to support administrative workflow, multilevel approvals, self-registration, and reporting on systems access rights. ❖ Implemented a compliance review process to ensure 	<ul style="list-style-type: none"> ❖ Monitor the inventory of HUD information systems to ensure completeness and categorization of all information systems according to FIPS 199. ❖ Oversee the weakness remediation process and coordinate corrective actions of system owners to achieve significant reduction in

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS
MANAGEMENT ASSURANCES

Significant Deficiency/Problem Statement	FY 2007 Accomplishments	Planned Actions
	<p>conformance with published security baseline configuration standards.</p> <ul style="list-style-type: none"> ❖ Continued to perform quarterly reviews with program offices to monitor the quality of security documentation. ❖ Developed and delivered specialized training for program office system owners that covered risk assessment, framework for security planning, and contingency plan testing. ❖ Issued a memorandum to senior program staff from the Deputy Secretary and conducted biweekly meetings with the program information system security officers to ensure compliance with the IT Security Policy and to evaluate the status of remediation activities. ❖ Reviewed and recategorized the systems' security impact levels to ensure compliance with Federal Information Processing Standards (FIPS) 199, "Standards for Security Categorization of Federal Information and Information Systems," and National Institute of Standards and Technology Special Publication (NIST SP) 800-60, "Guide for Mapping Types of Information and Information Systems to Security Categories." ❖ Managed the development of privacy impact assessments for all major applications and new systems. Prepared a template to ensure that assessments prepared for all systems that contain personally identifiable information (PII) are in accordance with OMB Memorandum M-03-22, "OMB Guidance for Implementing the Privacy Provisions of the E-Government Act of 2002." ❖ Developed a new interconnection security agreement template for HUD systems connected to other agencies' systems to ensure that security controls for the interconnections are in place. ❖ Acquired a web application verification and validation tool, and began evaluation of HUD Web applications. The Office of the Chief Information Officer (OCIO) provided training to program offices on use of the tool for testing application technical controls. ❖ Reviewed and revaluated risk assessments and business impact analyses on each system. System documentation weaknesses were identified and corrected. ❖ Initiated a comprehensive review of E-Authentication Risk Assessments (ERA) to ensure the quality of information provided by system owners and full compliance with OMB Memorandum M-04-04, "E-Authentication Guidance for Federal Agencies." This effort has included development of a standard template, revised instructions, provision of ERA training, and development of updated policies and procedures for performing ERAs. 	<p>system risks.</p> <ul style="list-style-type: none"> ❖ Implement processes that result in full and timely reporting and resolution of security incidents. ❖ Ensure that all general support systems and major applications are certified and accredited prior to being placed into production.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FY 2007 PERFORMANCE AND ACCOUNTABILITY REPORT

Significant Deficiency/Problem Statement	FY 2007 Accomplishments	Planned Actions
<p>Obligation Balances</p> <p>HUD needs to improve controls over the monitoring of obligated balances to determine whether they remain needed and legally valid as of the end of the fiscal year.</p>	<ul style="list-style-type: none"> ❖ Fully implemented the Section 236 internal control procedures. ❖ Reconciled and de-obligated terminated/inactive Section 236 Interest Reduction contracts in coordination with the Office of Housing, resulting in approximately \$118.4 million in recaptures. ❖ Reconciled Rental Supplement and Rental Assistance Program Subsidy contracts in coordination with the Office of Housing and recaptured approximately \$76.4 million and \$56.2 million, respectively. ❖ Completed clean-up and follow-up on backlog of contract and program closeout actions so that unliquidated obligation balances on expired activity can be properly de-obligated. As a result, the amount of excess unexpended funds at fiscal year declined significantly in comparison to past years. ❖ Recouped \$21.5 million in Section 8 funds due to HUD from the Performance Based Contract Administrators. 	<ul style="list-style-type: none"> ❖ Continue to perform quarterly reconciliations of the Section 236 IRP portfolio. ❖ Work with the Office of Housing to develop procedures and implement an improved Rental Supplement/Rental Assistance Payment subsidy contracts review process. ❖ Continue to work with the HUD Contracting and Procurement Office and Program Offices to close-out expired administrative and program contracts in a timely manner.
<p>Resource Management</p> <p>HUD needs to develop a comprehensive strategy to manage its resources and better estimate staffing needs and support its staffing requests.</p>	<ul style="list-style-type: none"> ❖ Started implementing e-Recruit that will allow applicants applying for HUD jobs to apply on line. ❖ Documented/submitted competency gap targets and staffing projections for mission critical occupations, human resource management, and leadership positions. ❖ Reported the agency's strategy for implementing the Annual Employee Survey. ❖ Continued to implement the Hiring Improvement Strategy. ❖ Submitted a final report on the Service Level Agreement pilot with the Human Capital Vision Plan. ❖ Met Office of Personnel Management's (OPM) government-wide 45-day average recruitment time standard. ❖ Issued Human Capital Accountability Audit Report. ❖ Developed and began implementing HUD's Succession Management Plan, which was approved by OPM. ❖ Expanded the performance management "Beta Site" to include six additional program offices, nearly doubling the number of employees covered for results-oriented performance plans. ❖ Implemented the new ePerformance system to fully automate the steps of the performance management process. ❖ Completed Resource Estimation and Allocation Process (REAP) study of Housing's Single Family Homeownership Centers to determine recommended staffing levels. ❖ Piloted the Total Estimation and Allocation Mechanism System (TEAM) Allocation Module in the Office of Fair 	<ul style="list-style-type: none"> ❖ Continue to reduce competency gaps in leadership, mission critical occupations, human resources, and information technology. ❖ Prepare gap analysis report and improvement plan for acquisition occupation. ❖ Implement "SMART" performance plans for the remainder of HUD staff and continue to conduct performance management training, to include SMART performance standards for managers, supervisors and employees. ❖ Continue reporting on the agency's efforts toward meeting OPM's 45-day hiring timeline for non-SES positions and the 61-day hiring timeline for SES positions. ❖ Continue implementing HUD's Succession Management Plan. ❖ Prepare 2007 Human Capital Accountability report. ❖ Continue to conduct performance management training, to include SMART performance standards for managers, supervisors and

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS
MANAGEMENT ASSURANCES

Significant Deficiency/Problem Statement	FY 2007 Accomplishments	Planned Actions
	<p>Housing and Equal Opportunity (FHEO) to facilitate distribution of staff based on Management Plan and workload priorities.</p> <ul style="list-style-type: none"> ❖ Justified staffing requests in the FY 2008 Congressional Budget justifications and the FY 2009 OMB submission using REAP/TEAM data analysis. ❖ Utilized REAP/TEAM data analysis in evaluating hiring decisions. 	<p>employees.</p> <ul style="list-style-type: none"> ❖ Use Single Family Housing REAP study data as part of Housing's workforce and succession planning efforts. ❖ Complete REAP studies in selected program areas to estimate both staffing needs and staffing locations. ❖ Implement the TEAM Allocation Module to enable distribution of staff based on Management Plan and workload priorities. ❖ Use REAP/TEAM data analysis to support the Department's budget requests.
<p>Management Controls</p> <p>Weaknesses in the Department's control environment affect HUD's ability to effectively manage its programs.</p>	<ul style="list-style-type: none"> ❖ Continued participation in the Quality Management Reviews to assess field offices' performance, identify deficiencies, and develop corrective actions. Eight reviews were completed in FY 2007. ❖ Issued A-123 Statement of Assurance on Internal Control over Financial Reporting. 	<ul style="list-style-type: none"> ❖ Update the Departmental Management Control Handbook 1840.1 Rev-3 to reflect OMB Circular A-123 changes and improve FERA guidance. ❖ Continue to work with agency program offices to analyze, document, and correct internal control weaknesses and other deficiencies.
<p>Single Audit Act Coverage</p> <p>HUD needs to improve its oversight of program participant compliance with the Single Audit Act requirements, and consider central oversight of single audit results.</p>	<ul style="list-style-type: none"> ❖ Participated in HUD's Quality Management Reviews by examining the field office's documentation that supports the agencies compliance with the Single Audit Act guidance. ❖ Continued modification of a Single Audit Act Interface/Module – to identify, download and integrate HUD data from the Federal Audit Clearinghouse's two separate tracking systems. 	<ul style="list-style-type: none"> ❖ Complete the new Single Audit Act module in HUD's Audit Resolution and Corrective Action Tracking System.
<p>Controls Over Rental Housing Assistance</p> <p>HUD needs to improve its internal controls over subsidy determinations and payments in its rental housing assistance programs.</p>	<ul style="list-style-type: none"> ❖ Finalized the Computer Matching Agreement (CMA) between HUD and HHS to expand the National Directory of New Hires (NDNH) computer-matching program to Multifamily Housing. ❖ 98.61% of all PHAs have access to EIV. ❖ 94.17% of PHAs with EIV access have used the system in their day-to-day operations. ❖ Published proposed rule requiring SSNs for all program 	<ul style="list-style-type: none"> ❖ Conduct conference calls with Housing RHIIP Help Desk Representatives to ensure accurate and consistent rental assistance policy. ❖ Provide Technical Assistance and additional Satellite training on Enterprise

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Significant Deficiency/Problem Statement	FY 2007 Accomplishments	Planned Actions
	<p>participants and PHAs to use the EIV system. This is for the purpose of improving computer matching programs, deter fraud within HUD rental assistance programs, and improve subsidy determinations.</p>	<p>Income Verification (EIV) system for Multifamily Housing.</p> <ul style="list-style-type: none"> ❖ Complete a cumulative total of 15,000 Management and Occupancy Reviews for FY08 to identify and correct errors in the application of rental assistance policy. ❖ Issue updated policy guidance in Handbook 4350.3 Rev-1, Occupancy Requirements for Subsidized Multifamily Housing Programs to ensure program participants and Public Housing Authorities are aware of rental assistance policy changes. ❖ Establish a set of electronic transaction rules, validations, and transmission format standards that allow Housing to exchange data with its partners using the existing Electronic Data Interchange (EDI) protocol and/or a new EDI protocol. ❖ Develop an Error Tracking Log and User Guide for HUD and Contract Administrator staff to detect, document and report tenant error data. ❖ Develop a training course for HUD and Contract Administrator staff on using the Error Tracking Log User Guide to detect, document, and report income data errors. ❖ Increase percentage of Public Housing Authorities using EIV to 96% ❖ Improve tenant data reporting for both PIH and Multifamily Housing.
<p>HUD's Departmental Financial Management Systems</p>	<ul style="list-style-type: none"> ❖ Modified the HUD Information Technology Services contract to include FHA's Subsidiary Ledger at the Data Center in Charleston, West Virginia. Back-up process has been successfully tested. ❖ Enhanced controls in FHA's User Access Request process. FHA has submitted all user names to OCIO 	<ul style="list-style-type: none"> ❖ Reconcile Complete list of users ❖ Complete the procurement of a highly qualified systems integrator and hosting service provider to support HUD's implementation of a

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS
MANAGEMENT ASSURANCES

Significant Deficiency/Problem Statement	FY 2007 Accomplishments	Planned Actions
	<p>and is in the process of reconciling with the OCIO.</p> <ul style="list-style-type: none"> ❖ Developed and tested Contingency and Business Resumption Plans that incorporated disaster recovery procedures. ❖ Completed comprehensive functional, business, data, and system security requirements for HUD's integrated financial system for the Department. 	<p>"modern integrated core financial management system."</p> <ul style="list-style-type: none"> ❖ Complete the CFO and FHA transition to the integrated core financial system in FY 2009 that includes the integration, interfaces, and replacement of existing systems that do not support the new system or that perform redundant core financial functions. ❖ Complete integration of program feeder systems with FHA subsidiary ledger, which were delayed due to system funding cuts.
<p>Section 8 Project-based Housing Assistance Payment Contracts</p> <p>Improved controls are needed for budgeting, renewing, amending and paying Section 8 Project-Based Housing Assistance Payment Contracts.</p>	<ul style="list-style-type: none"> ❖ Fully funded obligations for the annual 12-month renewal periods of contract actions executed during the first three quarters of FY 2007 under previous contract terms. ❖ Revised contract terms for additional renewals processed in the fourth quarter of FY 2007, and for the future, to correctly structure an "incremental funding" clause to enable HUD to properly split the funding of annual contract renewals between two consecutive federal fiscal year appropriations. ❖ Re-estimated the funding needs of the remaining "long-term" Section 8 contracts, using OMB's current budget inflation factors, and recaptured excess funds for use in covering HUD's FY 2007 Section 8 contract renewal funding needs and rescission mandate. 	<ul style="list-style-type: none"> ❖ Revise the Section 8 Project Based Assistance Funds Control Plans to reflect the improved incremental funding terms and processes. ❖ Develop automated models to accurately forecast budgetary needs so that each year's budget request is sufficient to fund all annual Section 8 Project Based Assistance contract renewals and amendment needs on remaining long-term contracts. ❖ Complete on-going Section 8 Project Based Assistance data quality clean-up effort and institute controls to assure data quality on an on-going basis. ❖ Re-estimate FY 2008 and FY 2009 funding needs for OMB and Congress, considering new process, models and verified data. ❖ Complete the Rental Housing Assistance Business Process Improvement and Reengineering Project to provide the long term solution for streamlining and automating Section 8 PBA contract management and payment processing. ❖ Provide sufficient resources

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Significant Deficiency/Problem Statement	FY 2007 Accomplishments	Planned Actions
		for systems development and administration.
<p>HECM Credit Subsidy Cash Flow Model</p> <p>Improved quality controls are needed to ensure accurate data is entered into the Home Equity Conversion Mortgage (HECM) Model.</p>		<p>Subject to change based on pending approval from Housing.</p> <ul style="list-style-type: none"> ❖ Develop improved up-front quality controls to ensure data entered into the HECM model has been validated.
<p>Ginnie Mae Mortgage Backed Securities (MBS) Monitoring</p> <p>Improved program compliance and controls regarding monitoring of issuers are needed.</p>		<ul style="list-style-type: none"> ❖ Improve regular communications among Senior Officials of Ginnie Mae. ❖ Review and strengthen, where appropriate, the pool verification matching process. ❖ Develop reports related to issuer compliance that provide Senior Management with information for decision making purposes.

SYSTEMS NON-CONFORMANCE ISSUES

OMB Circular A-127 and the Federal Financial Management Improvement Act of 1996 (FFMIA) establish federal financial management system criteria. Section 4 of FMFIA states the requirements for reporting instances of material non-conformance with the criteria, which includes preparing remediation plans that address the non-conformance. Compliance with OMB Circular A-127 is guaranteed when the system meets the 12 requirements in Section 7 of the OMB Circular. OMB guidelines assert that departments and agencies are compliant with the Federal Financial Management Improvement Act when they can:

- ❖ Prepare financial statements and other required financial and budget reports using information generated by the financial management system(s);
- ❖ Provide reliable and timely financial information for managing current operations;
- ❖ Account for their assets reliably, so that they can be properly protected from loss, misappropriation, or destruction; and
- ❖ Do all of the above in a way that is consistent with federal accounting standards and the Standard General Ledger.

A system is deemed non-conforming when the system does not comply with one or more required factors. The materiality or severity of the affect of non-conformance is evaluated against the overall capability of the system to consistently generate accurate and reliable financial information as required by agency management. During FY 2007, HUD identified no new material non-conformance concerns and maintained its focus on successfully implementing its aggressive approach to address any carry-over non-conformance issues related to Departmental Financial Management Systems.

An integrated core financial management system will ensure HUD is positioned to adapt newer technologies to support the Department's current and future business requirements. HUD is currently sponsoring a major financial systems modernization project, the HUD Integrated Financial Management Improvement Project, referred to as HIFMIP. The project includes establishing an enterprise vision to achieve an integrated financial management solution for the Department.

STATUS OF REMAINING SYSTEMS NON-CONFORMANCE ISSUES

HUD's continuous task of enhancing its federal financial management systems was demonstrated by the following FY 2007 results:

- ❖ Implementation of a remediation plan and strategy to correct non-conformance issues for HPS and SPS; and
- ❖ During FY 2007, the Integrated Project Team in the Office of the Chief Financial Officer prepared and distributed a solicitation for a system integrator/shared service provider to assist HUD to achieve an integrated financial management system by FY 2012, for full implementation by FY 2013. The Integrated Project Team has identified 16 legacy systems for retirement and/or consolidation and developed a roadmap to support a phased integration of the four core financial systems currently maintained by the Department.

The OCFO Integrated Procurement Team is on schedule to complete the solicitation in FY 2008.

A complete listing of HUD's 42 financial and mixed financial management systems is shown in Section 4. All systems undergo an annual self-assessment by the system owner, and are subject to an independent review every three years to ensure they remain compliant. At the end of FY 2007, two financial systems, the Small Purchase System (SPS) and the HUD Procurement System (HPS), remain non-compliant. These two systems were identified as non-compliant based on independent compliance reviews as part of the FY 2006 financial statement audit.

Remediation plans for SPS and HPS were developed by the Office of the Chief Procurement Officer (OCPO) during October 2006. The plans fully address financial management systems' compliance and regulatory requirements. Corrective actions to remedy deficiencies in these systems are scheduled into FY 2009, and OCPO is on target to complete the scheduled corrective actions. Accordingly, HUD expects to continue reporting these systems as non-compliant until that time.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT

The Federal Information Security Management Act of 2002 (FISMA) requires each agency to generate "...a comprehensive framework for ensuring the effectiveness of information security controls over information resources that support Federal operations and assets..." It assigns specific responsibilities to Federal agencies, the National Institute of Standards and Technology (NIST), and the Office of Management and Budget (OMB) in order to strengthen information system security. In particular, FISMA requires an agency's head to implement policies and procedures to cost-effectively reduce information technology security risks to an acceptable level and to annually report to OMB on the effectiveness of the agencies' security programs.

HUD relies extensively on Information Technology to carry out its operations. The agency continues to improve its Information System Security Program. The improvements implemented this year increase HUD's ability to protect the availability, integrity, and confidentiality of information stored on its systems. HUD's noted accomplishments include reviewing and re-categorizing systems' security impact levels, developing specialized training that covered risk assessments, framework security planning and contingency plan testing, and the developing of a new interconnection security agreement template.

Improper Payments Information Act Reporting Details

Please see the narrative on Eliminate Improper Payments under the Improper Payments Information Act reporting detail in Other Accompanying Information located in Section 4.