U.S. Department of Housing and Urban Development
Office of Inspector General
451 7th St., S.W.
Washington, D.C. 20410-4500

October 19, 2007

MEMORANDUM FOR: Alphonso Jackson, Secretary, S

FROM: Kenneth M. Donohue, Inspector General, G

SUBJECT: Management and Performance Challenges

In accordance with Section 3 of the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) is submitting its annual statement to you summarizing our current assessment of the most serious management and performance challenges facing the Department of Housing and Urban Development (HUD) in fiscal year (FY) 2008 and beyond. Through our audits and investigations, we work with departmental managers in recommending actions that best address these challenges. More details on our efforts in relation to these issues can be found in our audit and investigative chapters of our Semiannual Report to the Congress.

The Department's primary mission is to expand housing opportunities for American families seeking to better their quality of life. HUD seeks to accomplish this mission through a wide variety of housing and community development grant, subsidy, and loan programs. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single-family and multifamily properties. HUD relies upon numerous partners for the performance and integrity of a large number of diverse programs. Among these partners are hundreds of cities that manage HUD's Community Development Block Grant (CDBG) funds, hundreds of public housing authorities that manage assisted housing funds, thousands of HUD-approved lenders that originate and service FHA-insured loans, hundreds of Ginnie Mae mortgage-backed security issuers that provide mortgage capital, and other federal agencies with which HUD coordinates to accomplish its goals. HUD also has a substantial responsibility for administering disaster assistance programs in the Gulf Coast region.

Achieving HUD's mission continues to be an ambitious challenge for its limited staff, given the agency's diverse mission, the thousands of program intermediaries assisting the Department in this mission, and the millions of beneficiaries in its housing programs. HUD's management problems had for years kept it on the Government Accountability Office's (GAO) list of agencies with high-risk programs. In its January 2007 high risk update, GAO removed HUD's single-family mortgage insurance and rental housing assistance programs from its high risk list. Although HUD was removed from the GAO high risk list, it needs to continue to place a high priority on efficient and effective management of these programs. Proposed program changes could introduce new risks and oversight challenges. More specifically, HUD has proposed changes to its single-family mortgage insurance program that would increase the size of the mortgages HUD could insure, give HUD flexibility to set insurance premiums based on the credit risk of borrowers, and reduce downpayment requirements from the current 3 percent to potentially zero. In addition, HUD has seen a dramatic increase in FHA-insured home equity conversion (also known as "reverse") mortgages. As a result, HUD will be challenged to develop adequate systems to account for those loans.

HUD's reported management challenges are addressed in the President's Management Agenda's government-wide and HUD-specific initiatives. As of the end of the third quarter of FY 2007, HUD's President's Management Agenda scoring status for the nine applicable initiatives consisted of five "green," two "yellow," and two "red" baseline goal scores. Based upon a comprehensive set of standards, an agency is "green" if it meets all of the standards for success, "yellow" if it has achieved some but not all of the criteria, and "red" if it has even one of a number of serious flaws. It is noteworthy that for the first time since the President's Management Agenda was announced in August 2001, HUD received a green status rating for Improved Financial Performance in the second quarter of FY 2007.

HUD's baseline score for competitive sourcing status declined from yellow in the second quarter to red in the third quarter of FY 2007. Competitive sourcing is a process that compares private-sector and government bids to determine the most cost-effective way to buy services. HUD was downgraded from yellow to red because it did not implement a competition after it was completed and also did not notify OMB of the final disposition of the competition in a timely manner. HUD plans to streamline competitions to elevate its rating. HUD has been scored red on its credit management program since it was added to the President's Management Agenda in FY 2006.

Although the management structure, size, and range of departmental programs make it difficult to correct and overcome program weaknesses, HUD is working to address these challenges and, as shown by the President's Management Agenda scoring, has made progress. The Department's management challenges we are reporting this year include the following:

- Human capital management,
- Financial management systems,
- FHA single-family origination,
- Public and assisted housing program administration, and
- Administering programs directed toward victims of Hurricanes Katrina, Rita, and Wilma.

The attachment provides a greater discussion of these challenges and OIG's efforts to help the Department resolve these matters.

Attachment

HUD Management and Performance Challenges

Fiscal Year 2008 and Beyond

Human Capital Management. For many years, one of the Department's major challenges has been to effectively manage its limited staff resources to accomplish its primary mission. In addition to having limited staff resources, approximately 60 percent of HUD's workforce will be eligible to retire by fiscal year (FY) 2009.

To address its human capital needs and respond to the President's Management Agenda, HUD developed a comprehensive Five-Year Strategic Human Capital Management Plan that identifies three strategic goals for human capital:

- Mission-focused agency to align employees and work to support HUD's mission;
- High quality workforce, which recruits, develops, manages, and retains a diverse workforce; and
- Effective succession planning to ensure that retirees over the next five years are succeeded by qualified employees.

To address staffing imbalances and other human capital challenges, the Department seeks to determine its optimal organizational structure and reduce mission-critical skill gaps to ensure that it is positioned to provide maximum service to its constituents. The Department is also proceeding to develop a vision for the future to address what its work will be, how it should be organized to carry out the work, and the required skills in relation to full-time employees and training efforts. HUD continued to implement its Five-Year (FY 2003-2008) Strategic Human Capital Management Plan, enabling it to recruit, develop, manage, and retain a high-performance workforce that is capable of effectively supporting HUD's mission.

To address the potential staff reduction due to retirement, HUD implemented a probability model to more accurately project future retirement and target high-risk critical positions for succession planning purposes in May 2006. A recent Office of Inspector General (OIG) audit found that HUD had not fully initiated adequate succession planning to address future staffing concerns. Specifically, some HUD offices had failed to identify and/or support the actions taken to fully implement HUD's succession plan. To ensure that adequate succession planning is in place, HUD needs to implement adequate procedures and controls to ensure that all program offices initiate succession planning to comply with HUD's requirements.

Competitive sourcing is a government-wide initiative designed to ensure that the government acquires commercially available services at the best value for the taxpayer, regardless of whether such services are provided by the private sector or federal government. The Department is committed to using competitive sourcing as a means of achieving efficiencies, increasing cost effectiveness, and improving services, while minimizing program risks. HUD is challenged with carefully balancing the impact of outsourcing on program risk.

As evidenced in OIG's recent audit of HUD's contract administration process, as HUD contracts out for more services, it is challenged to provide adequate in-house staff to monitor those contracts. OIG found that HUD did not have adequate controls over processes to ensure (1) quality of statements of work, (2) the continued need for goods and services, (3) support for payments to contractors, and (4) proper evaluation and reporting of contractor performance. OIG audits of HUD's oversight of contractors' marketing of real estate-owned properties and HUD's oversight of project-based Section 8 contract administrators have resulted in findings that oversight shortcomings have adversely impacted contractor performance.

***Financial Management Systems*.** Since FY 1991, OIG has annually reported on the lack of an integrated financial system in compliance with all federal financial management system requirements, including the need to enhance the Federal Housing Administration's (FHA) management controls over its portfolio of integrated insurance and financial systems. During the past several years, HUD has made progress in implementing a new financial system at FHA and addressing most of the weaknesses that OIG identified. These improvements enabled OIG to reclassify the weakness in financial management system requirements from a material weakness to a reportable condition. Other weaknesses noted were as follows:

- FHA needs to continue progress in integrating its financial management systems.
- FHA needs to improve its compliance with HUD and federal information system security requirements.
- HUD's ability to prepare financial statements and other financial information requires extensive compensating procedures.
- HUD has limited availability of information to assist management in effectively managing operations on an ongoing basis.

For the past several years, OIG's financial audits have also reported weaknesses in internal controls and security over HUD's general data processing operations and specific applications. The effect of these weaknesses is that HUD cannot be reasonably assured that system information will remain confidential, protected from loss, and available to those who need it without interruption.

***FHA Single-Family Origination*.** FHA's single-family mortgage insurance programs enable millions of first-time, minority, low-income, elderly, and other underserved households to realize the benefits of homeownership. HUD manages about $340 billion in single-family insured mortgages. Effective management of this high-risk portfolio represents a continuing challenge for the Department. The President's Management Agenda has committed HUD to tackling long-standing management problems that expose FHA homebuyers to fraudulent practices. HUD has, however, proposed changes to its single-family mortgage insurance program that could introduce new risks and oversight challenges. Specifically, HUD's proposed changes and challenges include the following:

- Creating a new, risk-based insurance premium structure for FHA that would match the premium amount with the credit profile of the borrower. OIG is concerned that this structure could expose the insurance program to fair housing questions and accusations of "redlining" unless the decision matrix for pricing is unimpeachably objective.

- Eliminating the current statutory 3 percent minimum downpayment, reducing a significant barrier to homeownership. HUD has to address concerns that lowering the minimum downpayment could increase default risks.

- Increasing and simplifying FHA's loan limits. OIG is concerned that raising FHA area loan limits, especially in high-cost areas, will not help low- and moderate-income families become homeowners and will expose the insurance fund to increased risk from regional economic downturns.

In addition to proposed reform, HUD has taken a number of recent actions to reduce risks including the following:

- At our urging and in light of an Internal Revenue Service ruling regarding nonprofits that provide seller-funded downpayment assistance, HUD published a final rule that will prohibit downpayment gifts, when the gift was derived either directly or indirectly from the seller.

- HUD incorporated better risk factors and monitoring tools into FHA's single-family insured mortgage program risk analysis and liability estimation process, and

- HUD continues to improve its review of the credit reform estimation process.

We continue to focus internal audit resources on the single-family program. For example, our audit of the Title II manufactured housing loan program found that more than 80 percent of FHA Title II insured manufactured housing loans that closed from 2003 through 2005 were installed on substandard foundations. As a result, FHA's insurance fund is not adequately protected, homeowner equity and resale values are diminished, and the structural integrity and safety of the homes are questionable. We recommended that HUD correct program weaknesses to ensure that Title II manufactured housing foundations meet FHA requirements and avoid unnecessary losses to the insurance fund.

In support of HUD and the President's Management Agenda, OIG's strategic plan gives priority to detecting and preventing fraud in FHA mortgage lending through targeted audits and investigations. Our audits target lenders with high default rates. Our detailed testing focuses on mortgage loans that defaulted and resulted in FHA insurance losses. Results from these audits have noted significant lender underwriting deficiencies, prohibited late-endorsed loans, inadequate quality controls, and other operational irregularities. During FY 2007, we completed 12 external audits of FHA-approved mortgage lenders as well as five internal audits of single-family program activities. We identified questioned costs of $2.2 million and funds that could be put to better use totaling $47.5 million. During FY 2007, judicial actions taken on Office of Investigation single-family related cases included 232 indictments/informations.

***Public and Assisted Housing Program Administration*.** HUD provides housing assistance funds under various grant and subsidy programs to public housing agencies and multifamily project owners. These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. HUD monitors these intermediaries' administration of the assisted housing programs.

The project-based Section 8 program has evolved over the years, and, accordingly, the services required from the contractors to administer the program have changed. However, our audits have shown that the terms of the contracts between HUD and the contractors have not been modified as the program service needs have changed. In addition, HUD faces challenges in establishing processes and systems for budgeting and funding Section 8 project-based contract renewals and amendments to meet program needs and ensuring appropriate funds control.

Accurate and timely information about households participating in HUD housing programs is necessary to enable HUD to monitor the effectiveness of the program, assess agency compliance with regulations, and analyze the impacts of proposed program changes. The level of reporting is a criterion for housing agencies' performance in both the Public Housing Assessment System and the Section 8 Management Assessment Program. HUD's goal is to obtain a minimum of 95 percent reporting of tenant data into the system.

HUD's ability to effectively monitor housing agencies and assisted multifamily projects continues to present challenges in achieving the intended statutory purposes of the housing assistance funds. These deficiencies have been reported for a number of years in OIG's annual audits of HUD's financial statements. However, HUD has continued to make progress in this area by implementing several initiatives that address the problems surrounding housing authorities' rental subsidy determinations, underreported income, and assistance billings. This progress assisted the Department in being removed from GAO's high risk list.

The estimate of erroneous payments that HUD reports in its performance and accountability report relates to its inability to ensure or verify the accuracy of subsidy payments being determined and paid to assisted households. The baseline estimate of gross annual improper payments was reduced from $3.2 billion in 2000 to $1.2 billion in the 2004 study, a 62 percent reduction. However, the estimate did increase slightly to $1.5 billion in the 2005 study. The $1.5 billion consisted of rent determination errors made by the intermediaries to whom HUD incorrectly paid $925 million in annual housing subsidies, $338 million in housing subsidy overpayments caused by tenants' misreporting their income, and an error estimate of $206 million for billing errors. Although HUD has made substantial progress in reducing erroneous payments, it must continue regular on-site and remote monitoring of the public housing agencies and project owners and use the results from the monitoring efforts to focus on corrective actions when needed.

Paralleling HUD efforts, our investigative and audit focus is concentrating on fraudulent practices and the lack of compliance with the Section 8 program statute and requirements. OIG conducted 30 external audits and two internal audits of the Section 8 Housing Choice Voucher program during FY 2007. OIG also has professional appraisers on staff to assist in evaluating housing quality requirements as part of our audit efforts. In total, these external audits addressed whether housing agencies are correctly calculating subsidy amounts, correctly determining family income, complying with housing quality standards, fully using authorized vouchers, and implementing controls to prevent duplicative and fraudulent housing assistance payments. Our audits identified questioned costs of more than $13.7 million and reported more than $80.8 million that could be put to better use.

Administering Programs Directed Toward Victims of Hurricanes Katrina, Rita, and Wilma. In the aftermath of Hurricanes Katrina, Rita, and Wilma, the operations of HUD have been thoroughly tested in the Gulf Coast area and have created extraordinary challenges for the residents, HUD employees, and the business community. The losses to HUD and its housing and community development programs are significant and continue to be a focus and challenge for HUD OIG. To deal with the enormous task of enforcement and oversight, OIG has established a new regional office, headquartered in New Orleans, Louisiana. OIG audit, investigative, and inspections staff provide a continuing and comprehensive review of the expenditure of funds and their administration.

Regarding the accountability and oversight of the approximately $17 billion in supplemental disaster funding, we have identified some specific program areas that will need immediate attention during this period due to high risk, potential substantial additional funding requests, and high profile special assistance requirements. These areas include the following:

- Community Development Block Grant funding for Louisiana’s Road Home program,
- The Disaster Housing Assistance Program, and
- Disaster funds to assist public housing agencies in the Gulf Coast region.

HUD OIG has concerns about the accountability and oversight of HUD-funded programs in the Gulf Coast region because of (1) substantial potential additional funding requests for Road Home applicants, (2) high profile special assistance requirements for the Disaster Housing Assistance Program, and (3) risks associated with possible duplication and inappropriate uses of funding sources for the repair and reconstruction of public housing units.

There are also continuing problems with the execution of data matching among federal agencies. It took months for OIG to finalize a protocol with the Federal Emergency Management Agency to use its data for matching purposes to detect potentially fraudulent payments. The problems that we have encountered would be greatly mitigated if the Privacy Act included an exception for post disaster data matching or if alternative legislation required federal agencies to engage in data matching as a routine procedure in their provision of disaster assistance.

Inspector General and HUD Management Perspectives

In accordance with the Reports Consolidation Act of 2000, HUD's annual Performance and Accountability Report "…shall include a statement prepared by the agency's inspector general that summarizes what the inspector general considers to be the most serious management and performance challenges facing the agency and briefly assesses the agency's progress in addressing those challenges." On October 19, 2007, HUD's Inspector General (IG) provided a statement on five management challenges for inclusion in this FY 2007 Performance and Accountability Report:

1. Human capital management;
2. Financial management systems;
3. FHA single family origination;
4. Public and assisted housing program administration; and
5. Administering programs directed toward the victims of Hurricanes Katrina, Rita, and Wilma.

The full text of the HUD Inspector General's Management and Performance Challenges statement is presented immediately before this summary of HUD management's current perspective on these challenges.

HUD Management's Perspective

HUD management generally agrees that the five areas identified in the Inspector General's statement are challenges currently facing the Department. As an indicator of the importance being placed on addressing each of these issues, the first four of these five challenges are included in high-visibility initiatives in the President's Management Agenda, and the fifth challenge, administering HUD's hurricane disaster relief efforts, is being carried-out in accordance with OMB guidance on expediting benefits and controlling the risk of fraud, waste, and abuse in hurricane disaster relief efforts. In addition to the progress on these challenges that is summarized below, and which is also acknowledged in the IG's statement, further information on HUD's specific FY 2007 actions to meet these challenges is provided in the President's Management Agenda section of this report.

Human Capital Management – This challenge is covered through HUD actions taken and planned under the PMA initiative on "Strategic Management of Human Capital." As cited in the Inspector General's memorandum, HUD has recognized the significance of succession planning with the possibility of a large loss of institutional knowledge in the next five years. On October 4, 2006, the Office of Personnel Management (OPM) approved HUD's Succession Management Plan for implementation beginning in FY 2007. OPM applauded the Department's Plan as being one of the most comprehensive and thoroughly written plans submitted to their Center for General Government. The Department's theme for the coming fiscal year is "Succession Planning: Preparing HUD's Workforce for the Future."

The Department's Plan embraces training and development as a most essential component for tapping and expanding the potential of existing staff for more responsible positions at various grade levels. The Department's Training Strategy, which was announced to all HUD employees by Secretary Jackson on August 30, 2006, also includes the expansion of several developmental programs and other succession strategies. An additional strategy implemented this fiscal year included the centralization of all interns within the Office of Administration in accordance with the Department's multi-faceted succession plan. A total of 50 interns have been hired for the initial two-year program beginning in FY 2007, with new classes of 100 interns proposed for two-year programs beginning in FY 2008 and 2009.

Regarding Human Capital Management as a whole, HUD has taken significant steps to better utilize existing staff capacity, and to obtain, develop, and maintain the capacity necessary to adequately support HUD's future mission-critical program delivery. The Department's five-year Human Capital Management Strategy seeks to ensure that: 1) HUD's organizational structure is optimized; 2) succession strategies are in place to provide a continuously updated talent pool; 3) performance appraisal plans for all managers and staff ensure accountability for results and a link to the goals and objectives of HUD's mission; 4) hiring strategies are in place to sustain a diverse workforce; 5) skill gaps are assessed and corrected; and 6) human capital management accountability systems are in place to support effective management of HUD's human capital.

Financial Management Systems – During FY 2007, HUD continued to build on the successes generated in previous years, and again was able to report substantial compliance with the federal financial systems requirements of the Federal Financial Management Improvement Act of 1996 and Section 4 of the Federal Managers' Financial Integrity Act of 1982.

Additionally, HUD was able to report substantial compliance of the Department's internal control over financial reporting, as required by Appendix A of OMB Circular A-123. HUD's financial systems supported the preparation and audit of Department-wide consolidated financial statements within 45 days after the end of the fiscal year, with an unqualified audit opinion.

The Department does not agree, however, with the Inspector General's assessment that HUD has limited availability of information to assist management in effectively managing operations on an ongoing basis. During FY 2007, the Department was upgraded from a score of "Red" at the end of FY 2006 to "Green" on the "Improved Financial Performance" initiative of the President's Management Agenda, in large part due to the Department's ability to document the availability and current uses of financial information to facilitate decision-making, much of which comes from the HUD Financial Data Mart. The Financial Data Mart assists management decisions in the areas of budget planning, budget execution and spending, project management, and contract management. Data is also used to support information requests, improve trend analyses, meet OMB's accelerated deadlines for financial reporting, provide metrics to measure financial/accounting performance, identify and reduce unneeded unobligated balances, and ensure that unexpended funds are managed appropriately.

The Department has provided Financial Data Mart access to over 350 users representing 10 major allotment holders and over 150 unique HUD organizational units. The users are primarily those that are responsible for financial decision-making, e.g., budget officers, program managers, financial analysts, accountants, and auditors. Users of the Data Mart access hundreds of millions of financial records via over 250 web-based or broadcast reports, primarily financial in nature, e.g., Status of Funds, cash management, general ledger reconciliation, grant-level subsidiaries, contract balances, historical activity-based, and event-based quality assurance. In addition, HUD staff has created hundreds of specialized reports over the past eight years to meet ad-hoc requests.

HUD acknowledges the need for increased internal controls and security over its general data processing operations and specific applications. To that end, HUD has made significant progress as noted by its score of "A+" by the Government Reform Committee of Congress on compliance with the Financial Information Security Management Act. This score recognized HUD's improvement in its annual testing of security controls and contingency plans as well as more systems having been certified and accredited. HUD recognizes the need to continue to enhance its internal controls and systems security through increased discipline in its access controls and by continuing to capitalize on state of the art technology to confront increasingly more sophisticated threats.

The completion of the procurement of a highly qualified systems integrator and hosting service provider to support HUD's implementation of a "modern integrated core financial management system" is scheduled for early in FY 2008, but is dependent upon appropriation of sufficient funding for IT investments in HUD's Working Capital Fund.

FHA Single Family Origination – Risks of the FHA Single Family Housing Mortgage Insurance Programs have been reduced through actions taken under the HUD Management and Performance initiative of the President's Management Agenda, as acknowledged in the Inspector General's statement. Of major significance, in January 2007, the Government Accountability Office removed the single family mortgage insurance and rental housing assistance programs from its list of "High Risk" programs for the first time since 1994. In the area of single family mortgage insurance, HUD's completed actions include:

- Implementation of an FHA computer system changes to accept a new 30-day delinquency reporting standard;
- Conducting training on enhancements to HUD's internal controls over processing payments for property management services;
- Implementation of Credit Watch Termination program which identifies FHA lenders with excessive default and claim rates relative to their geographic area, and terminates the ability of the worst lenders to originate FHA insured mortgages. Appraiser Watch similarly targets appraisers with poor performance records for monitoring and disqualification if they have violated FHA standards; and
- Implementation of the "Technology Open To Approved Lenders" automated underwriting process to provide more consistent, objective evaluations of the credit worthiness of borrowers.

Additionally, FHA refined the assumptions used to calculate credit subsidy estimates to account for the increased risk associated with borrowers who receive gift letters and to incorporate borrower credit score information.

In response to the challenges identified in this area, HUD has the following comments:

- Risk-based Premiums - FHA is more than confident that its risk-based premiums structure will pass any challenge as to fair housing and "redlining" - the illegal practice of discrimination against a particular racial group by real estate lenders or insurance companies. The premium structure is based solely on borrower credit and Loan-To-Value ratio and was developed by extensive analysis of insured mortgages where the eventual outcome (claim or no claim to the insurance fund) was known. Credit score and Loan-To-Value are reliable predictors of mortgage performance and are non-discriminatory.

- Eliminating the 3 percent downpayment - FHA will of course address concern that lowering the minimum downpayment could increase default risks. That is why FHA is implementing risk-based premiums, and why FHA will limit eligibility to low or no downpayment mortgages to only those likely to sustain homeownership. FHA's analysis shows that FHA can reduce the most significant barrier to homeownership, i.e., the downpayment, in a responsible, actuarially sound manner.
- Loan Limits - FHA disagrees that simplifying and increasing loan limits will not help low- and moderate-income families become homeowners. FHA's loan limits keep it out of many markets where it is needed, especially for homebuyers wishing to purchase newly constructed (and generally more expensive) homes. Finally, FHA questions how higher loan limits "will expose the insurance fund to increased risk from regional economic downturns." Economic downturns will affect FHA no matter how high or low the mortgage limits are, and it is FHA's responsibility to provide mortgage insurance in these areas to help stabilize the housing market.

FHA must still overcome the challenge of modernizing and integrating old, COBOL- based program feeder systems into its integrated core financial system, the FHA Subsidiary Ledger System. Systems development plans have been delayed by funding cuts in HUD's Working Capital Fund for IT investments. Sufficient IT systems investments will eliminate the need for compensating manual controls over aspects of FHA's business.

Public and Assisted Housing Program Administration – As noted in the IG's memorandum, the project-based Section 8 program has evolved over the years, and the services required from the contractors to administer the program have changed. Concerning the comment that contractors are being paid for work not performed, the contracts are being revised and will compensate for programmatic changes impacting contractor performance and the payments, eliminating provisions for work no longer required.

HUD set and communicated clear measurable goals and corrective actions for reducing improper rental housing assistance payments and improving public and assisted housing conditions, and continues to work collaboratively with the housing industry and local housing program administrators to meet or exceed those goals.

As noted previously, for the first time since 1994, the Government Accountability Office removed HUD's single family mortgage insurance and rental housing assistance programs from the list of "High Risk" programs. This outcome was achieved partly as a result of HUD's multi-year effort to strengthen internal controls over rental housing assistance payments. Since 2001, improper payments due to program administrator subsidy determination errors and tenant underreporting of income have been reduced from $3.22 billion to $1.34 billion - a reduction of 58.4 percent. Because of this effort, the Department also maintained a score of "Green" for the Eliminate Improper Payments President's Management Agenda initiative**.**

HUD also has continued to improve housing quality standards. The percentage of properties meeting HUD's physical condition standards in FY 2007 has increased to 91 percent for public housing, representing 85.7 percent of units, and 94 percent for assisted multifamily housing, from the previous score of 83 percent for public housing and 87 percent for insured and assisted multifamily housing in FY 2000.

To accomplish this progress, PIH modified its overall monitoring strategy for public and assisted housing during FY 2007 by stratifying PHAs into two tiers. Tier 1 is composed of approximately 500 PHAs, which account for more than 80 percent of the PIH funding provided. Tier 2 covers the remaining 3,600 PHAs. HUD conducted detailed annual reviews of approximately 20 percent of the Tier 1 PHAs and as many of the Tier 2 PHAs as administrative funds will allow, concentrating monitoring resources on the PHA's with the greatest risk.

Similarly, HUD's Office of Multifamily Housing and their Performance-Based Contract Administrators continued to conduct on-site monitoring reviews in FY 2007, directed at improving program administrator performance to reduce improper payments and improve housing conditions. The full implementation of HUD's new Enterprise Income Verification System for upfront verification of tenant income has the potential to eliminate much of the remaining improper rental assistance payment problem caused by tenant under reporting of income. Implementation of EIV began in PIH programs in FY 2006 and will be initiated for Multifamily Housing Programs in FY 2008.

Administering Programs Directed Toward Victims of Hurricanes Katrina and Rita - HUD responded quickly in the wake of this unprecedented natural disaster to help meet the temporary housing needs of displaced households, assess the impacts on HUD-supported housing, and plan the long-term recovery of the devastated region. While HUD's response was immediate and comprehensive, it also recognized that the enormous amount of relief funds creates the potential for fraud and abuse. Over $6.2 billion in CDBG Disaster Assistance Grant funds were disbursed to the five states affected by the Hurricanes during FY 2007. HUD awarded a new monitoring contract to supplement its own oversight efforts in FY 2008 and beyond. Also, the Department continues to utilize the Disaster Recovery Grant Report system to comply with quarterly Congressional reporting requirements and to aid in the detection and prevention of fraud, abuse, or mismanagement.

Improper Payments Information Act Reporting Details

The Requirements

Under the Improper Payments Information Act (IPIA) of 2002 (Public Law 107-300), and the Office of Management and Budget (OMB) implementing guidance in Appendix C of Circular No. A-123, agencies are to assess all programs and activities they administer and identify those that may be susceptible to significant improper payments. Where the risk of improper payments is assessed as potentially significant, agencies are required to estimate the annual amount of improper payments and report the estimates along with plans to reduce improper payments to the President and the Congress. The statute defines a "significant" level of improper payments as annual improper payments exceeding a $10 million dollar threshold.

An "improper payment" is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments and underpayments (including inappropriate denials of payment or service). An improper payment includes any payment that was made to an ineligible recipient or for an ineligible service. Improper payments are also duplicate payments, payments for services not received, and payments that do not account for credit for applicable discounts. Also, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an error. In addition to identifying substantive errors that might warrant repayment, HUD's statistical sampling of support for payments also considered "process" errors that increase the risk of substantive payment errors, and process errors are included in HUD's improper payment estimates.

HUD's Commitment

The Secretary designated the Chief Financial Officer as the lead official for directing and overseeing HUD actions to address improper payment issues and bring HUD into compliance with requirements of the IPIA and OMB implementing guidance. The Office of the Chief Financial Officer developed a plan for implementing the IPIA and after necessary contract support services were put in place by the Chief Financial Officer and FHA, HUD began to execute the plan in FY 2004. HUD's plans, goals and results for identifying and reducing improper payments are tracked under the President's Management Agenda.

HUD's Process

The HUD process for complying with the Improper Payments Information Act consists of four steps. The first step is an initial survey of all program and administrative activities, regardless of size, for potential indicators of significant improper payments. Any program activities identified in the survey and all program activities with annual expenditures in excess of $40 million are subjected to the second step, which is a detailed risk assessment. The third step consists of statistical sample testing of payments by independent reviewers to determine the estimated amount of improper payments in any program activity determined to be susceptible to a significant improper payment level. The fourth step is to establish, execute, and monitor corrective action plans for reducing improper payments in the identified at-risk programs.

Summary of HUD Results to Date

HUD is fully compliant with the requirements of the IPIA and was the first federal agency to achieve the President's goals for reducing improper payments. HUD's initial annual assessment of the risk of improper payments was conducted in FY 2004, based on the $52.9 billion in payments made in FY 2003 in support of over 200 programs and administrative activities.

HUD's initial assessment identified 10 activities, representing 57 percent of all payments, as potentially "at risk" of a significant improper payment level. Statistical sampling to measure and estimate the actual level of improper payments in those 10 program activities found that only 5 of the 10 areas actually had a significant improper payment problem. Corrective actions were subsequently completed to eliminate the significant improper payments in 2 of those 5 areas, pertaining to payments under the Single Family Acquired Asset Management System and the Public Housing Capital Fund.

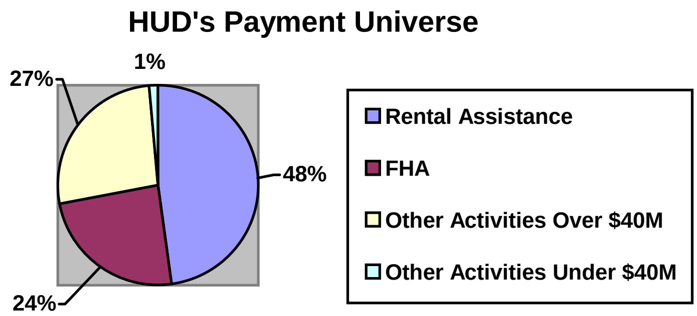
Prior to enactment of the Improper Payments Information Act, the Office of Management and Budget requested agency input on improper payments in select programs, including the CDBG Entitlement and State/Small Cities Programs, through Section 57 of OMB Circular No. A-11. HUD's original Section 57 assessment and initial annual risk assessments found these CDBG programs to be at low risk of improper payments not warranting reporting. However, OMB subsequently revised its guidance to clarify that agencies should report on the former Section 57 programs until they can document a minimum of two consecutive years of improper payments that are less than $10 million annually, as the basis for a request for OMB relief from annual reporting. CPD headquarters staff analyzed the data from their monitoring results and extrapolated to the annual funds disbursed for fiscal years 2003 to 2006 to determine the total estimated annual CDBG improper payment level for the four-year period.

HUD's analysis determined that the CDBG Program is below the annual $10 million threshold for required reporting, and on March 14, 2007, OMB approved HUD's request for relief from annual improper payment reporting. HUD will continue to conduct an annual risk assessment of the CDBG programs and provide results to OMB by March 31 annually.

HUD set aggressive goals for reducing improper payments in the remaining three high-risk program areas – the Public Housing, Tenant-Based Voucher and Project-Based Assistance Programs – collectively referred to as HUD's rental housing assistance programs. HUD has reduced the combined baseline gross improper rental housing assistance payment estimates of $3.430 billion in Fiscal Year 2000 to $1.519 billion in Fiscal Year 2006, a reduction of 56 percent.

Results of Annual Risk Assessment Update and Continued Payment Testing

The annual improper payment risk assessment update is based on prior year data. The FY 2007 update was based on payment and other relevant activity that occurred during FY 2006. An inventory of over 200 distinct program and administrative payment activities was identified from all of HUD's financial management systems in FY 2006, with total payments of $57.7 billion. The payment universe consisted of the following general distribution:



HUD's risk assessment update in FY 2007 did not identify any new activities as being at-risk of a significant improper payment level. Programs that previously tested below the improper payment threshold established by the IPIA were removed from HUD's at-risk inventory and are not subject to re-testing unless there is significant change in the nature of the activity, HUD's internal control structure, or operating environment.

Rental Housing Assistance Programs

HUD's various rental housing assistance programs – public housing, tenant-based assistance, and project-based assistance – had previously been assessed as at high risk of significant improper payment levels, and continue to be reported as such, with corresponding error measurement methodologies, corrective action plans, and error reduction goals described below. These programs constituted over $27 billion, or 48 percent, of HUD's total payments in FY 2006.

Prior to enactment of the IPIA, HUD had already established the Rental Housing Integrity Improvement Project in FY 2001 to reduce an acknowledged improper payment problem in its rental assistance programs. This project is directed by the responsible HUD program offices, with oversight by the Office of the Chief Financial Officer and statistical sampling support from the Office of Policy Development and Research. HUD's rental assistance programs are administered by over 26,000 public housing agencies and multifamily housing owners or management agents on HUD's behalf. In general, beneficiaries pay 30 percent of their adjusted income as rent, and HUD payments cover the remainder of the rental cost (or the operating cost, in the case of public housing).

There are three major components of potential errors and improper payments in these complex programs:

1) Program administrator error – the program administrator's failure to properly apply income exclusions and deductions and correctly determine income, rent, and subsidy levels;

2) Tenant income reporting error – the tenant beneficiary's failure to properly disclose all income sources and amounts upon which subsidies are determined; and

3) Billing error – errors in the billing and payment of subsidies due between HUD and third party program administrators and/or housing providers.

From FY 2000 through FY 2006, HUD reduced the gross improper payments for the first 2 of these 3 categories of error from $3.22 billion to $1.34 billion, a reduction of 58.3 percent. The third component, billing error, in FY 2006 was estimated to be $180 million. The following chart provides a summary for all three error components for FY 2006 as compared to FY 2005 and the baseline year (FY 2000).

IMPROPER RENTAL ASSISTANCE PAYMENT ESTIMATES

Administration/ Error Type	2006 Subsidy Over-Payments*	2006 Subsidy Under-Payments*	2006 Net Erroneous Payments*	2006 Gross Erroneous Payments*	2005 Gross Erroneous Payments*	2000 Gross Erroneous Payments*
Public Housing						
Administrator Error	$119,472	$53,352	$66,120	$172,824	$220,464	$602,557
Income Reporting Error	101,050	0	101,050	101,050	109,000	294,000
Billing Error**	35,000	14,000	21,000	49,000	49,000	Not available
Subtotal:	**$255,522**	**$67,352**	**$188,170**	**$322,874**	**$378,464**	**$896,557**
Section 8 Voucher						
Administrator Error	$354,192	$165,828	$188,364	$520,020	$456,240	$1,096,535
Income Reporting Error	193,428	0	193,428	193,428	195,000	418,000
Billing Error**	50,000	22,000	28,000	72,000	72,000	Not available
Subtotal:	**$597,620**	**$187,828**	**$409,792**	**$785,448**	**$723,240**	**$1,514,535**
Total PHA Administered						
Administrator Error	$473,664	$219,180	$254,484	$692,844	$676,704	$1,699,092
Income Reporting Error	294,478	0	294,478	294,478	304,000	712,000
Billing Error**	85,000	36,000	$49,000	121,000	121,000	Not available
PHA Subtotal:	**$853,142**	**$255,180**	**$597,962**	**$1,108,322**	**$1,101,704**	**$2,411,092**
Total Project Based/Owner Administered						
Administrator Error	$174,540	$86,784	$87,756	$261,324	$248,580	$539,160
Income Reporting Error	90,512	0	90,512	90,512	55,000	266,000
Billing Error**	24,000	35,000	(11,000)	59,000	59,000	Not available
Project Based Subtotal:	**$289,052**	**$121,784**	**$167,268**	**$410,836**	**$362,580**	**$805,160**
Total Improper Payments						
Administrator Error	$648,204	$305,964	$342,240	$954,168	$925,284	$2,238,252
Income Reporting Error	384,990	0	384,990	384,990	359,000	978,000
Billing Error**	109,000	71,000	38,000	180,000	180,000	Not available
GRAND TOTAL:	**$1,142,194**	**$376,964**	**$765,230**	**$1,519,158**	**$1,464,284**	**$3,216,252**
TOTAL PROGRAM PAYMENTS				$27,505,331	$27,242,000	$18,800,000
IMPROPER PAYMENT RATE				5.5 %	5.4 %	17.1 %

* - Dollars in Thousands.

** - Billing error estimates are baselines established in FY 2004 for PHA Administrators and FY 2005 for Owner Administrators.

Program Administrator Error - HUD's update of the measure of program administrator rent and subsidy determination errors in FY 2006 found a 57.4 percent reduction in this improper payment component since FY 2000, from $2.238 billion to $954 million. Although the FY 2006 study indicated a small increase in gross dollars in erroneous payments compared to FY 2005, the independent research team determined it was not a statistically significant difference.

Tenant Income Reporting Error - HUD estimates that the total error attributable to tenant underreporting of income was $385 million in FY 2006, a decline of 61 percent from the FY 2000 baseline of $978 million. This was primarily attributable to implementation of HUD's Enterprise Income Verification System, which makes income data from the National Directory of New Hires available to local PHAs to allow them to conduct more effective and timely income verification for tenants. This FY 2006 level of income underreporting, however, represents an increase of approximately $26 million from the FY 2005 level. The increase was primarily due to three factors:

1) Revised Research Methodology. A revised research methodology was implemented in the FY 2007 study. This revised methodology was incorporated based on recommendations from HUD's Office of the Inspector General. The revisions were recommended to take advantage of the capabilities of the Enterprise Income Verification System, and required third party verification of income in instances where an income source was evident in quarters adjacent to the quarter being reviewed. These revisions broadened the rules used to identify unreported sources of income in the Database, thereby increasing the number of potential candidates with underreported income which required more third party verifications;

2) Increased Verification Response Rates. Employer response rates (i.e., third party verification rates) increased from the FY 2006 study to the FY 2007 study, which provided more complete information on which to determine and extrapolate unreported sources of income; and

3) Enterprise Income Verification Implementation and Use. The implementation of this Verification tool to HUD's Project Based Owners was delayed until FY 2008. Additionally, due to a need to learn the capabilities and benefits of this new Verification System and to change their existing business models, HUD's Public Housing Agencies did not fully incorporate the use of the Enterprise Income Verification system into their day-to-day operations.

HUD believes that the general downward trend in tenant income error will continue as the result of an improved methodology for reviewing income discrepancies identified through computer matching and third party verification to better determine actual cases of underreported income impacting subsidy levels. The reduction will also be facilitated by: technical assistance and training to minimize PHA errors; implementation of the Enterprise Income Verification system in multifamily housing; and approval of a proposed rule, which was published in FY 2007 and which is planned for final implementation in late FY 2008, that will mandate use of the Enterprise Income Verification system.

Billing Cycle Error – Billing errors occur when program administrators submit billings or payment vouchers to HUD for activities and amounts that: deviate from allowable HUD contract terms and conditions; differ from local rent rolls and subsidy determinations; or pertain to allowable subsidies or utility allowances that are not properly remitted to participating landlords or tenants.

Changes to the manner in which the public housing and voucher programs are funded as well as the Office of Housing's enforcement of Project-Based Contract Administrators should reduce the opportunity for billing error. In any event, HUD's increased review of payment vouchers and on-site monitoring of support for vouchers is key to reducing this component of improper payments.

HUD will continue to take aggressive steps to address the causes of improper rental assistance payments to ensure that the right benefits go to the right people. Based on the above results for the three types of rental assistance error, as well as plans to address known causes and levels of improper payments, HUD provides the statistical results for FY 2006 and the outlook for improper payment percentages on a combined program basis from FY 2007 to FY 2009, as follows:

Rental Assistance Improper Payment Reduction Outlook
FY 2006 – FY 2009
(Dollars shown in billions)

Activity	FY 2005 Payments	FY 2005 IP $	FY 2005 IP % Goal/Actual	FY 2006 Payments	FY 2006 IP $	FY 2006 IP % Goal/Actual	FY 2007 IP % Goal	FY 2008 IP % Goal	FY 2009 IP % Goal
Rental Assistance	$27.242	1.464	5.6 / 5.4	$27.505	1.519	5.0/5.5	5.0	3.0	2.5

* The annual Improper Payments calculation is based on prior year data. Accordingly, the FY 2007, FY 2008, and FY 2009 goals will be reported in the FY 2008, FY 2009, and FY 2010 PARs respectively.

The FY 2007 Goal was revised based on the aforementioned change in research methodology, the increase in third party verification response rates, and the delay in EIV implementation for HUD's Project Based/Owner Administered housing until FY 2008, coupled with the need to improve PHA usage of the capabilities of the EIV system. HUD believes that the goals for FY 2007 and beyond are realistic and achievable.

Further information on HUD's efforts to reduce improper rental housing assistance payments is provided in Indicator E4.1 in Section 2 of this report.

Recovery Auditing Activity

In addition to the requirements of the IPIA, Section 831 of the Defense Authorization Act of 2002, and OMB guidance, require agencies that enter into contracts with a total value in excess of $500 million in a fiscal year to carry out a cost-effective program for identifying errors made in paying contractors and for recovering amounts improperly paid to contractors. In FY 2003 HUD hired a contractor to conduct an independent recovery auditing review. In its study, HUD's contractor performed a detailed review on contracts with a value of $206.5 million to determine the potential universe of contracts for which recovery auditing was appropriate. Their review identified potential recoveries of only $46,650 on two contracts, which they referred to HUD for validation. Further work by HUD's Contracting Officer and Government

Technical Representative validated these payments as being proper and correct. As a result, no recoveries were realized from the contractor's efforts.

The current internal controls present in HUD's contract payment and contract close-out process are adequate to reduce the risks of overpayments. HUD continues to focus on strengthening its funds control processes, increasing training classes for Government Technical Representatives and Government Technical Monitors, and further improving the contract close-out process. Therefore, HUD concluded that a recovery auditing program would not be cost beneficial and is not warranted.

UNITS/HOUSEHOLDS RECEIVING HUD ASSISTANCE

	2004	2005	2006	2007
Section 8 Low Income Rental Assistance Program:				
Tenant-based assistance (a)	2,087,344	2,056,430	2,084,917	2,110,000
Project-based assistance	1,309,427	1,306,740	1,287,529	1,286,662
Total Section 8	3,396,771	3,363,170	3,372,446	3,396,662
Public Housing Program	1,188,649	1,177,337	1,172,204	1,155,377
Sub-total	4,585,420	4,540,507	4,544,650	4,552,039
Housing for the Elderly Sec. 202	75,227	82,359	86,056	93,925
Housing for the Disabled Sec. 811	21,646	23,243	25,227	26,656
Tenant-based 811	14,447	14,739	14,634	14,836
Sub-total	111,320	120,341	125,917	135,417
Other Assistance Programs				
Homeownership Assistance Program (Section 235)	8,447	6,699	5,573	4,758
Rental Housing Assistance Program (Section 236)	346,802	322,083	318,561	298,046
Rent Supplement	17,290	17,239	16,619	15,041
Sub-total	372,539	346,021	340,753	317,845
Less estimated number of households receiving more than one form of assistance (double count)	(217,250)	(217,250)	(217,250)	(217,250)
Total, Public and Assisted Housing (a)	4,852,029	4,789,619	4,794,070	4,788,051
HOME Tenant-Based Assistance	15,479	20,554	23,325	18,172
HOME Rental Units Completed	23,392	33,612	47,598	28,039
HOME Homebuyer Units Completed	30,780	32,307	55,652	34,985
HOME Existing Homeowners Completed	10,112	14,832	16,821	11,221
HOME Total Households	79,763	101,305	143,396	92,417
CDBG Households	159,703	166,992	177,314	151,107
Self Help Homeownership Opportunity Program New Homebuyers (b)	1,735	2,277	1,868	1,887
Housing Opportunities for Person With AIDS Households	70,779	70,325	67,000	67,850
Indian Housing Block Grant Households	7,700	8,606	8,027	6,168
Rural Housing & Economic Development	NA	NA	NA	NA
Native Hawaiian Homeland Block Grant Households	NA	72	23	65
Total of CDBG, HOME, Self Help Homeownership Opportunity Program, Housing Opportunities for Persons With AIDS, Indian Housing Block Grant, Rural, Title VI Native Hawaiian Homeland Block Grant, Households Served	319,680	349,577	397,628	319,494

(a) In FY 2004 the number of contracted units is displayed. Beginning in FY 2005, figures represent HUD's estimate of funded units.

(b) This number is for the period July 1, 2006 to June 30, 2007. Fourth quarter data were not available in time for publication of the PAR.

Funded units are the number of units leased during a snapshot in FY 2004 with increases for new tenant protection vouchers in FY 2005, FY 2006, and FY 2007. Disaster assistance vouchers are not included.

NA-Not Available

FINANCIAL MANAGEMENT SYSTEMS
AS OF SEPTEMBER 30, 2007

TOTAL: 42
TOTAL Non-compliant: 2

COMPLIANT SYSTEMS - 40

Office of Administration (2)

D67A	Facilities Integrated Resources Management System (FIRMS) **
P162	HUD Integrated Human Resources Training System (HIHRTS)

Office of Chief Financial Officer (15)

A21	Loan Accounting System (LAS)
A39	HUD Consolidated Financial Statement System (HCFSS) (Hyperion)
A65A	Section 235 Automated Validation and Editing (SAVE)
A67	Line of Credit Control System (LOCCS)
A75	HUD Central Accounting and Program System (HUDCAPS)
A91	Consolidated Cost and FTE Files (CCFF)
A96	Program Accounting System (PAS)
D08	Bond Payment System (BONDMAPPER)
D21	Departmental Accounts Receivable Tracking / Collection System (DARTS)
D61	EZBudget Budget Formulation System (EZB)
D65A	Section 8 Budget Outlay Support System (BOSS)
D91A	Total Estimation and Allocation Mechanism –Resource Estimation and Allocation Process (TEAM-REAP)
H18	Integrated Automated Travel System (IATS)
P001	HUD Travel Management System (HTMS)
P221	Electronic Travel System Interface (eTravel)
HIFMIP	HUD Integrated Financial Management Improvement Project *

Community Planning and Development (2)

C04	Integrated Disbursement & Information System (IDIS)
C38	Special Needs Assistance Program (SNAPS)

Government National Mortgage Association (1)

P237	Ginnie Mae Financial & Accounting System (GFAS)

* In development; this system is not included in the total inventory count of 42
**Compliant, pending independent verification

Public and Indian Housing (2)

P113	Inventory Management System (IMS)
P232	Subsidy and Grants Info. System (SAGIS)*

Office of Housing (19)

A43	Single Family Insurance System (SFIS)
A43C	Single Family Insurance Claims Subsystem (CLAIMS)
A80B	Single Family Premium Collection System-Periodic (SFPCS-P)
A80D	Distributive Shares and Refund Subsystem (DSRS)
A80N	Single Family Mortgage Notes (SFMN)
A80R	Single Family Premium Collection System-Upfront (SFPCS-U)
A80S	Single Family Acquired Asset Management System (SAMS)
D64A	SF Housing Enterprise Data Warehouse (SFHEDW)
F12	Home Equity Conversion Mortgages (HECM)
F17	Computerized Home Underwriting Management System (CHUMS)
F42D	SF Default Monitoring Subsystem (SFDMS)
F47	Multifamily Insurance (MFIS)
F51	Institution Master File (IMF)
F71	Debt Collection & Assets Management System - Title I Notes (DCAMS)
F72	Title I Insurance and Claims (TIIS)
F75	Multifamily Insurance and Claims (MFIC)
F87	Tenant Rental Assistance Certification System* (TRACS)
P013	FHA Subsidiary Ledger (FHA-SL)
P057	Multifamily Delinquency and Default Reporting (MDDR)

NON COMPLIANT SYSTEMS - 2

Office of Chief Procurement Officer (2)

A35	HUD Procurement System (HPS)
P035	Small Purchase System (SPS)

Role of Program Evaluations and Research Studies in Assessing Program Performance

Each year, HUD completes a number of program evaluations and research studies related to significant policy issues. These studies provide a level of detail and confidence about the programmatic impacts that performance measures alone cannot capture. The Department uses the findings of this research to make informed decisions on HUD policies, programs, budget, and legislative proposals. This Appendix presents the primary findings of selected research reports completed since the beginning of FY 2007. Most of the reports are available from the Office of Policy Development and Research clearinghouse, HUD USER, which can be accessed at http://www.huduser.org.

Strategic Goal A: Increasing Homeownership Opportunities

The following studies relevant to Strategic Goal H were completed during FY 2007. HUD also publishes the U.S. Housing Market Conditions (quarterly), the American Housing Survey for specific metro areas (annually), and the American Housing Survey for the United States (biennially) to provide data analysis about housing markets. In addition to these survey reports, HUD, in collaboration with the Census Bureau, releases monthly statistics on new residential construction including starts, permits, inventories of unused permits, new housing units under construction and completions, and new residential sales such as new single-family sales, prices and inventories of unsold homes. HUD also publishes quarterly reports on the placement of new manufactured housing units and the absorption of new multifamily housing units.

Do First Time Home Buyers in the U.S. Improve Their Neighborhood Quality? This study examines how becoming a home buyer affects the quality of the neighborhood in which lower-income buyers live. Results from the study indicate that home buyers located in neighborhoods that were similar in quality to those in which they rented. Continuing renters, however, improved the quality of the neighborhoods between the first and second surveys, while home owners did not. This study also found that while the neighborhoods in which new buyers lived are improving, they are doing so at a slower rate than both the neighborhoods from which they moved and those of the continuing renters.

Ideas That Work: Building Communities Through Homeownership. This study offers practical advice on how to establish homeownership programs. It draws on the experiences and successes of HUD's Office of University Partnerships grantees nationwide who have developed and implemented a variety of programs and initiatives that promote homeownership. This study also outlines the unique academic resources that institutions of higher education can bring to the process of designing community-based homeownership programs; describes how the institutions and their community partners can promote homeownership by either actively building affordable housing, marketing community neighborhoods to prospective homeowners, or developing a comprehensive neighborhood revitalization strategy of which homeownership is only a part; focuses on services that local partnerships can provide directly to prospective homeowners; and presents several unique programs through which grantees support homeownership by training the individuals who will eventually build and finance owner-occupied homes.

Interim Evaluation of HUD's Homeownership Zone Initiative. HUD launched the Homeownership Zone demonstration program in 1996 as part of a national strategy to expand homeownership. The demonstration was intended to test the idea that a well-designed, large-scale, mixed-income homeownership housing development could transform a blighted neighborhood into a stable, vibrant community where families would want to live. This interim evaluation of participating cities took place in 2004 – 2005 to collect baseline date. A final evaluation will be conducted at the end of the demonstration program to assess how well each city has implemented its plan, and to identify best practices for transforming deteriorated neighborhoods using mixed-income homeownership development.

Assessment of the 602 Non-Profit Disposition Program. HUD's 602 Nonprofit Property Disposition program sells HUD-held single-family homes at deep discounts to units of general local government and nonprofits. The homes are then rehabilitated and resold, providing homeownership opportunities to low- and moderate-income households while helping revitalize troubled neighborhoods. The Department has sponsored research to identify appropriate baseline information and an associated analytic structure for future evaluations of the 602 Program. This report describes the evaluation strategy and the prospective statistical analysis developed; discusses short-term progress of the program in three cities (Baltimore, Maryland; Salt Lake City, Utah; and Rochester, New York); and provides readers with a general understanding of the operations and potential benefits of the 602 program.

Measurement and Management of Mortgage Credit Risk in the United States: Implications for Emerging Mortgage Markets. This study describes the legal, regulatory, and institutional factors that make possible the effective identification, measurement, management, and mitigation of mortgage credit risk, with special emphasis on the role of government. Transparency in government actions, along with a functioning legal system that fully recognizes and respects personal property rights, are found necessary for the development of market mechanisms that can effectively manage credit risk. This report shows that the ability to properly assess, price, and mitigate credit risk is critical for success in developing emerging mortgage markets.

Strategic Goal B: Promote Decent Affordable Housing

Affordable Housing Needs 2005: Report to Congress. This report is the tenth in a series of Worst Case Needs reports to Congress. Households with "worst case needs" are defined as unassisted renters with very low incomes (below 50 percent of area median income), who pay more than half of their income for housing or live in severely inadequate housing. In addition to examining the experience of renters, their income, and the amounts they pay in rent, this study also explores the availability of affordable rental housing and how these supply issues may affect worse case needs. The report examines the duration of severe rent burdens, and includes a new analysis of how worst case needs relate to neighborhood poverty rates. The report allows policymakers to monitor the continued, significant need for housing among very low-income households across the nation.

Best Practices for Effecting the Rehabilitation of Affordable Housing - Volume 1: Framework and Findings; Volume 2: Technical Analyses and Case Studies. The rehabilitation of affordable housing faces many institutional and regulatory barriers. Because the existing stock varies so much in condition, age, and construction methods, the rehabilitation process is far less predictable and in many ways more challenging than new construction. Nevertheless, the rehabilitation of the country's aging stock is a major resource for meeting the nation's affordable housing needs. This two-volume report distills the practices that have been shown to work in many settings to implement the renovation of affordable housing. These best practices are designed to address the challenges to rehabilitation at its development, construction, and occupancy stages. Volume 1 is a comprehensive resource guide to state, local, and federal tools for overcoming barriers. Volume 2 provides analyses of key rehabilitation resources and barriers, and case studies of state and local efforts to overcome major regulatory impediments.

Impact Fees: Equity and Housing Affordability. Impact fees are one-time charges applied to new development. Impact fees are a form of land-use regulation designed to assure that communities maintain adequate levels of public facilities in the face of growth. This study finds that impact fees are not the best method to finance most public facilities from a variety of theoretical perspectives; rather, taxes are preferable. The study concludes, however, that elected officials may see impact fees as a pragmatic solution when they lack legal or political ability to raise taxes yet desire to maintain level-of-service quality in their communities.

Synthesis of Findings from the Study of Affordable Housing Plus Services for Low- and Modest-Income Older Adults. This study examined the literature on integrating affordable housing with health and supportive services for older adults, developed an inventory of promising Affordable Housing Plus Services strategies and programs, and brought together several hundred stakeholders from the fields of affordable housing and aging services in four workshops convened in four regions of the country. The study found a wide variety of Affordable Housing Plus Services programs in operation, typically at the initiative of individual housing providers.

Strategic Goal C: Strengthen Communities

Effects of Housing Vouchers on Welfare Families. This report presents the final analysis of a study conducted over several years to measure the impacts of Housing Choice Vouchers on the housing mobility of low-income families, the characteristics of their neighborhoods, the composition of their households, their employment, earnings, participation in education and training, their receipt of public assistance, their poverty and material hardship, and the well-being of their children. The analysis, based on a six-site research sample of 8,731 families, uses an experimental design and makes use of outcome measures derived from tract-level Census data, person-level administrative data, and a follow-up survey. The impact estimates in this report encompass a follow-up period that is sixteen quarters in duration for all sites, and longer for some sites. Augmenting the experimental findings are insights from intensive interviews with a sample of 141 families.

Annual Homeless Assessment Report to Congress. This report marks the first time since 1984 that HUD has reported the number of homeless people in the United States. The Department used electronic person-based Homeless Management Information System data and locally implemented homeless counts to arrive at the number of sheltered and unsheltered homeless people, estimated at 335,000 on an average day, as well as the characteristics of homeless people living in shelters. The report offers a baseline for future reports that will explore patterns of homelessness over time.

Applicability of Housing First Models to Homeless Persons with Serious Mental Illness. This report presents the findings from an exploratory study of the Housing First approach of providing permanent supportive housing to single, homeless adults with mental illness and co-occurring substance-related disorders. In recent years, Congress and the leadership of the

Department of Housing and Urban Development have encouraged the development of permanent housing for homeless people.

Study of Subdivision Requirements as a Regulatory Barrier. This study addresses the characterization on a national basis of the regulatory cost barriers associated with land subdivision, specifically barriers to the subdivision of land that can be developed with single-family detached dwellings. Prior to this study, this issue had been addressed only on a very small geographic scale and had not been examined at the national level.

Strategic Goal D: Ensure Equal Opportunity In Housing

Testing HUD's New Mortgage Disclosure Forms With American Homebuyers. On July 29, 2002, the Department of Housing and Urban Development proposed a new rule under the Real Estate Settlement Procedures Act to simplify and improve the process for consumers to obtain home mortgages. Between 2003 and 2004, HUD tested several versions of mortgage disclosure forms, including a Good Faith Estimate and Mortgage Package Offer form, in several locations throughout the United States. These reports describe the development and testing of forms to improve borrower comprehension of the information and eliminate potential bias against mortgage brokers. The final round of testing showed that participants using the Good Faith Estimate form were highly successful in identifying the least expensive loans, with success rates exceeding 90 percent regardless of whether the offer was made by a lender or mortgage broker or if the two offers cost the same. The work has implications for policy addressing homeownership in general as well as predatory lending.

Subprime Lending and Alternative Financial Service Providers: A Literature Review and Empirical Analysis. This report examines subprime lending and the prevalence of alternative financial service providers such as check cashers, payday lenders, and pawnshops, using a common lens to investigate the extent of similarities and differences in the prevalence of these activities in low-income and minority communities. The trends cause concern because of high fees for their services and disproportionate targeting of low-income and minority households, and the absence of banks from low-income and minority communities that contribute to their growth. The first part of the report reviews the literature related to subprime lending and alternative financial service providers, and examines how regulation of financial services can affect banking services, capital availability, and consumer protection in these markets. The second part of the report analyzes the association between neighborhood characteristics (including race-ethnicity, income, and credit risk measures) and the patterns of subprime lending and location of alternative financial service providers and banks in the Dallas metropolitan area.

Strategic Goal E: Embrace High Standards of Ethics, Management, and Accountability

Quality Control for Rental Assistance Subsidies Determinations: Final Report for FY 2006. Findings for the 2006 Quality Control report show that the percent of errors is no longer declining when compared with results from previous studies. The study found that HUD paid approximately $648 million in excess housing subsidy payments in FY 2006, up from $584 million in FY 2005. Additionally, there was about $306 million in subsidy underpayment resulting from tenants overpaying their rents, for a net subsidy cost of about $342 million in 2006.