Performance and Accountability Report

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

DISASTER REVITALIZATION

FAIR HOUSING

HOMEOWNERSHIP

AFFORDABLE HOUSING

FISCAL YEAR 2008

The FY 2008 Performance and Accountability Report for the U.S. Department of Housing and Urban Development consists of five major components:

- Secretary's Message
- Section 1, Management's Discussion and Analysis
- Section 2, Performance Information
- Section 3, Financial Information
- Section 4, Other Accompanying Information

This report and prior year Performance and Accountability Reports are available at:

www.hud.gov/offices/cfo/reports/cforept.cfm

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

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

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Message from the Secretary

November 17, 2008

I am pleased to present the U.S. Department of Housing and Urban Development's annual Performance and Accountability Report (PAR) for Fiscal Year (FY) 2008. This report describes our financial and performance results for the last year as we pursued promoting sustainable homeownership, community and urban development, and access to affordable housing. Our work touches the lives of millions of American families, and never has this work been more critical than in the past year.

I was appointed Secretary in June of this year, and from the moment I stepped through the front doors, I've been impressed by the dedication and commitment of the HUD staff as they work to modernize, develop, and implement programs to address the challenges confronting America's housing and financial markets. At the heart of the nation's financial system are our housing and mortgage markets. Resetting interest rates for adjustable rate subprime mortgages and falling home prices have contributed to the current and unique challenges affecting the stability of our communities. This report will detail the actions HUD has taken to help homeowners, including HUD's *FHASecure* program, and other newly legislated programs such as the *HOPE for Homeowners and Neighborhood Stabilization Programs* that were launched on October 1st. HUD's Federal Housing Administration has been particularly successful, helping over 400,000 families stay in their homes.

In the 43 year history of the U.S. Department of Housing and Urban Development (HUD), never has the agency's mission been more important. We remain very focused on continuing to efficiently and effectively serve our customers including:

- The chronically homeless;
- Those who cannot afford market prices for rent;
- Those looking to buy or refinance a home;
- Those looking to keep their homes;
- People confronting disasters; and
- People working to rebuild or revitalize our cities.

The Department's success in these areas is truly noteworthy. Year after year, the Department reports on its delivery of rental assistance to households. In FY 2008, HUD assisted 4.7 million households. Additionally, the homeownership market recognized the stability of FHA, as reflected by a 125 percent increase in business with over 1.2 million single family mortgages insured during the year.

This PAR addresses the Federal Managers' Financial Integrity Act (FMFIA) reporting requirements. FMFIA requires that federal programs be operated efficiently, effectively, and in compliance with relevant laws. The financial and performance data presented in this report are complete and reliable. Throughout the year, our senior managers analyze financial and program performance data to assess the efficiency and effectiveness of each organization. Management relies on these data to identify control deficiencies and material inadequacies in our financial and program performance to help determine corrective tasks needed to resolve them.

This report provides a useful look at the activities the Department has taken, and is taking, to address the housing crisis during this very critical time for our nation. It describes the many successes of our existing core programs that ensure Americans have roofs over their heads. HUD's successes can be overwhelmingly attributed to the Department's most valuable asset – our employees. I am confident that the new initiatives HUD has implemented, along with our existing programs, will continue to receive the full support of the employees of the Department and will result in HUD remaining a critical factor in the recovery of the housing market.

Steven C. Preston
Secretary

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 of 1996
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
HUD	Department of Housing and Urban Development
MD&A	Management's Discussion and Analysis
IPIA	Improper Payment Information Act of 2002
OIG	Office of Inspector General
OMB	Office of Management and Budget
PART	Program Assessment Rating Tool
PHA	Public Housing Agency
PIH	Office of Public and Indian Housing
PMA	President's Management Agenda
Treasury	U.S. Department of the Treasury

THE MISSION OF HUD

The first FHA Insured Home

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, 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 begins by setting strategic goals and is illustrated in the following chart:

DESCRIPTION	
Strategic Goals	HUD has three programmatic Strategic Goals and three cross-cutting goals directed toward meeting its mission.
Strategic Objectives	Broad operational focus areas designed to achieve Strategic Goals. HUD has 16 programmatic strategic objectives and 11 cross-cutting objectives.
Performance Indicators	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.
Performance Targets	Quantifiable expressions of desired performance/success levels.

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 strengthen our communities. Three other Strategic Goals are cross-cutting goals that support each of the first three. A companion discussion that summarizes the public benefit and resources HUD uses to achieve its mission through key program and policy activities, measurements, and results is found in 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
A1: Expand national homeownership opportunities. A2: Increase minority homeownership. A3: Make the homebuying process less complicated and less expensive. A4: Reduce predatory lending through reform, education, and enforcement. A5: Help HUD-assisted renters become homeowners. A6: Keep existing homeowners from losing their homes.	B1: Expand access to and availability of decent, affordable rental housing. B2: Improve the management accountability and physical quality of public and assisted housing. B3: Improve housing opportunities for the elderly and persons with disabilities. B4: Promote housing self-sufficiency. B5: Facilitate more effective delivery of affordable housing by reforming public housing and the Housing Choice Voucher program.	C1: Assist disaster recovery in the Gulf Coast region. C2: Enhance sustainability of communities by expanding economic opportunities. C3: Foster a suitable living environment in communities by improving physical conditions and quality of life. C4: End chronic homelessness and move homeless families and individuals to permanent housing. C5: Address housing conditions that threaten health.

Cross-Cutting Strategic Goals

D: Ensure equal opportunity in housing

D1: Ensure access to a fair and effective administrative process to investigate and resolve complaints of discrimination.
D2: Improve public awareness of rights and responsibilities under fair housing laws.
D3: Improve housing accessibility for persons with disabilities.
D4: Ensure that HUD-funded entities comply with fair housing and other civil rights laws.

E: Embrace high standards of ethics, management, and accountability

E1: Strategically manage HUD's human capital to increase employee satisfaction and improve HUD performance.
E2: Improve HUD's management and internal controls to ensure program compliance and resolve audit issues.
E3: Improve accountability, service delivery, and customer service of HUD and its partners.
E4: Capitalize on modernized technology to improve the delivery of HUD's core business functions.

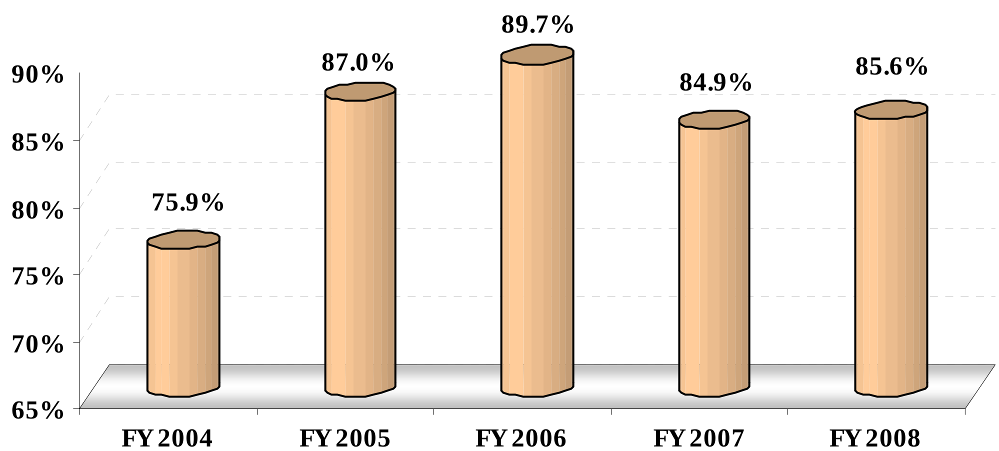
F: Promote participation of faith-based and community organizations

F1: Reduce barriers to faith-based and community organizations' participation in HUD-sponsored programs.
F2: Conduct outreach and provide technical assistance to strengthen the capacity of faith-based and community organizations to attract partners and secure resources.
F3: Encourage partnerships between faith-based/community organizations and HUD grantees and sub-grantees.

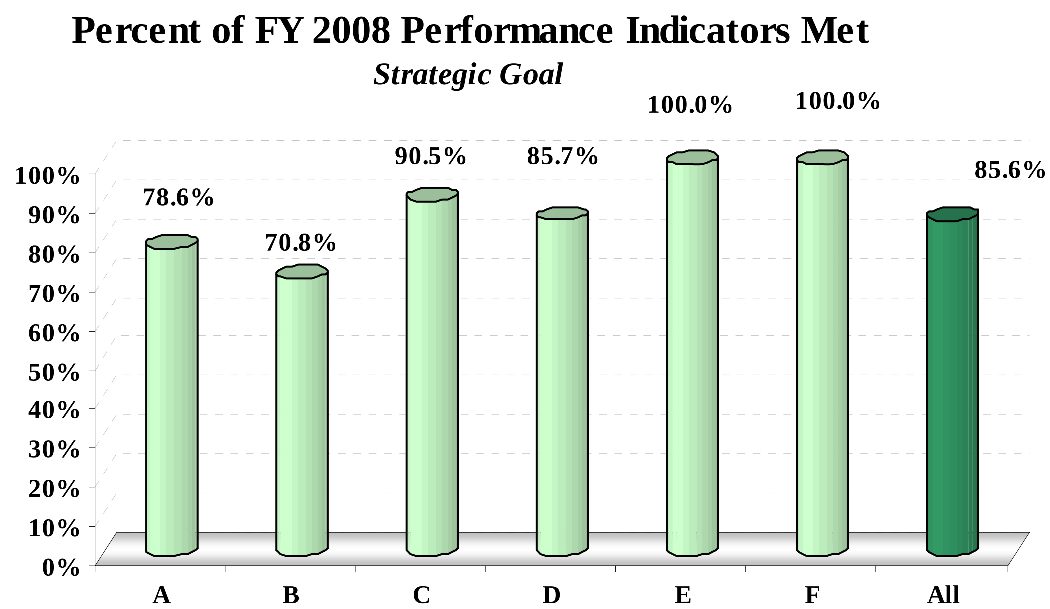
Performance Overview

The Department is required to report on its actual performance related to the performance indicators and targets published in the Department's FY 2008 Annual Performance Plan. Below is a graphical summary of our performance on all indicators over the past five years, FY 2008 indicators by Strategic Goal, and FY indicators by Program Office.

Summary of Performance Indicators Met



Fiscal Year 2008 performance reflects a slight increase over FY 2007 results, though it is still below the levels established in FY 2005 and FY 2006. The Department's ability to achieve a higher success rate was hindered by 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 2, the Performance Section. The details regarding each performance indicator, including a description of the public benefit, background, and current results, can also be found in Section 2.



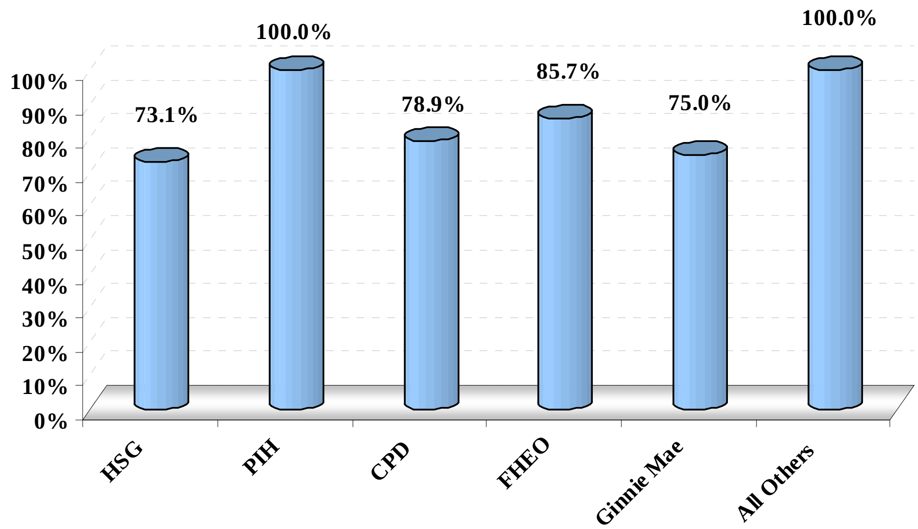
A: Increase Homeownership Opportunities; **B:** Promote Decent Affordable Housing; **C:** Strengthen Communities
D: Ensure Equal Opportunity In Housing: **E:** Embrace High Standards of Ethics, Management and Accountability;
F: Promote Participation of Faith-Based and Community Organizations

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), and
- Office of Fair Housing and Equal Opportunity (FHEO).
- Government National Mortgage Association (Ginnie Mae),

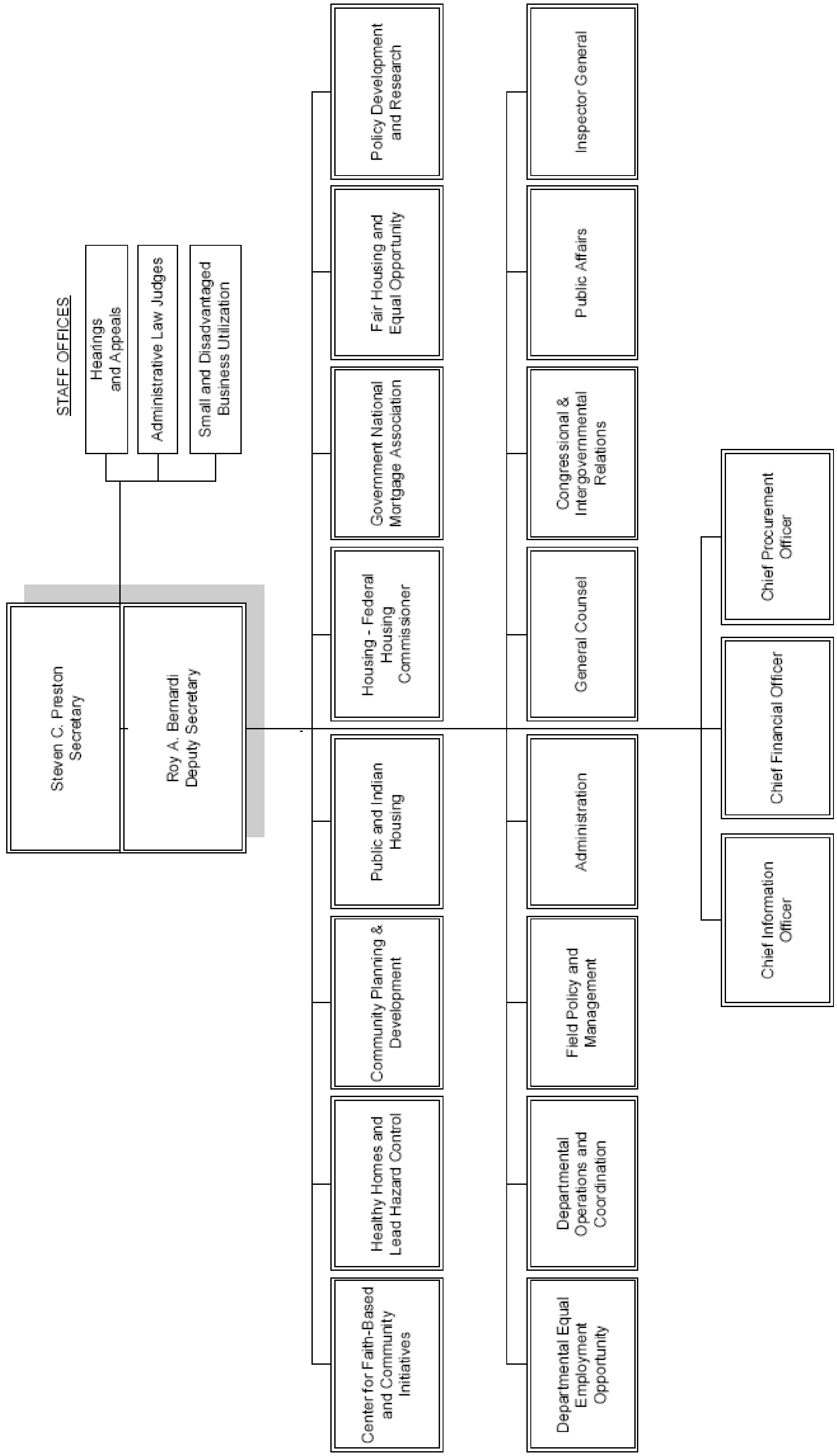
Each office has a primary focus on one or more of the Strategic Goals of HUD's Mission, and their programs are generally focused on a particular housing program delivery constituency, such as state and local governments (CPD), public housing agencies (PIH), private sector lenders and owners (Housing/FHA),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

Percent of FY 2008 Performance Indicators Met
Program Office



The following pages provide a snapshot of the Department's major organizations and their respective programs, how they work and who they serve and their accomplishments and challenges during FY 2008. Additionally, in the following section are other program and support organizations that address a specific housing area and/or perform a specific function. Each office's specific performance measures are discussed in depth in the Performance Section (Section 2) of this report. Section 2 details the FY 2008 results, explaining HUD's successes and challenges, and how HUD addressed the challenges.

DEPARTMENT OVERVIEW

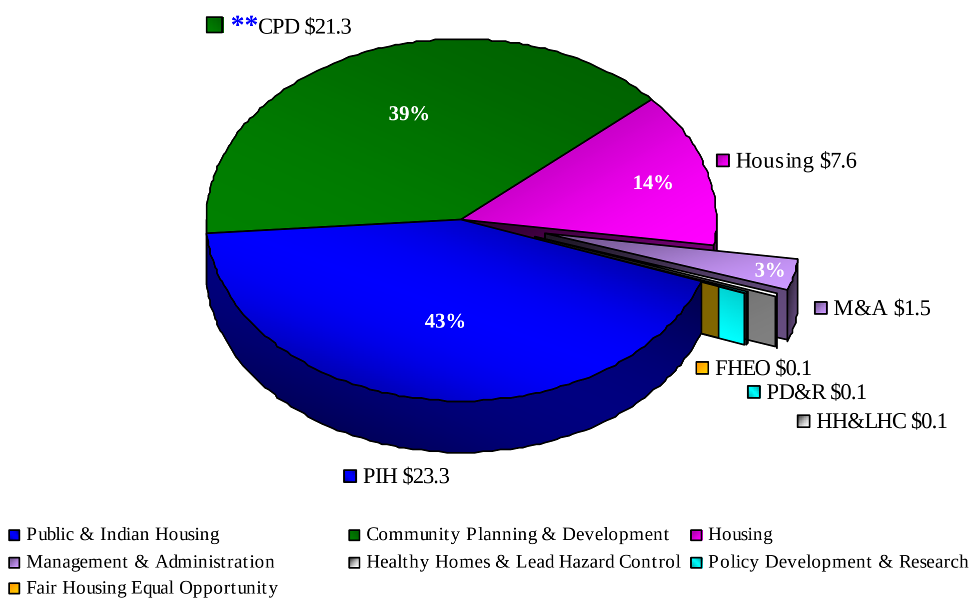


September 30, 2008

HUD PROGRAM OFFICES

The following chart illustrates the new discretionary Budget Authority provided to HUD by the Congress in FY 2008. 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. The chart does not reflect rescissions of prior year funds. Salaries and Expenses (S&E) in the amount of $1.2 billion, including expenses for Information Technology of $234 million, are reflected in Management and Administration (M&A). Ginnie Mae is not reflected in the chart because it receives only S&E appropriations ($8.3 million) that are included in M&A.

HUD FY 2008 Discretionary Gross Budget Authority (*$54.0 billion)
Dollars In Billions



**Gross budget authority does not include the enacted $1.3 billion overall rescission directed to be from any available HUD resources, and does not include the $723 million enacted rescission directed from the Section 8 Tenant Based Rental program, or $37.6 million directed from the Section 236 Rental Assistance Program (RAP).*

***CPD budget includes $13.7 billion in supplemental funding for disaster recovery and associated foreclosure assistance, which occurred in FY 2008.*

OFFICE OF HOUSING

Primary Focus: Increase Homeownership Opportunities and Affordable Rental Housing

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

FY 2008 Budget Authority
Gross Appropriated Budget Authority: $7.6 Billion
Insurance and Loan Guarantees: $181+ Billion
FHA Collections: $15.7 Billion
Authorized Staffing: 3,108 Full Time Equivalent

Performance Indicators
Number of Measures: 26 Number Met: 19 Number Missed: 7

Program Web Address: http://www.hud.gov/offices/hsg/index.cfm

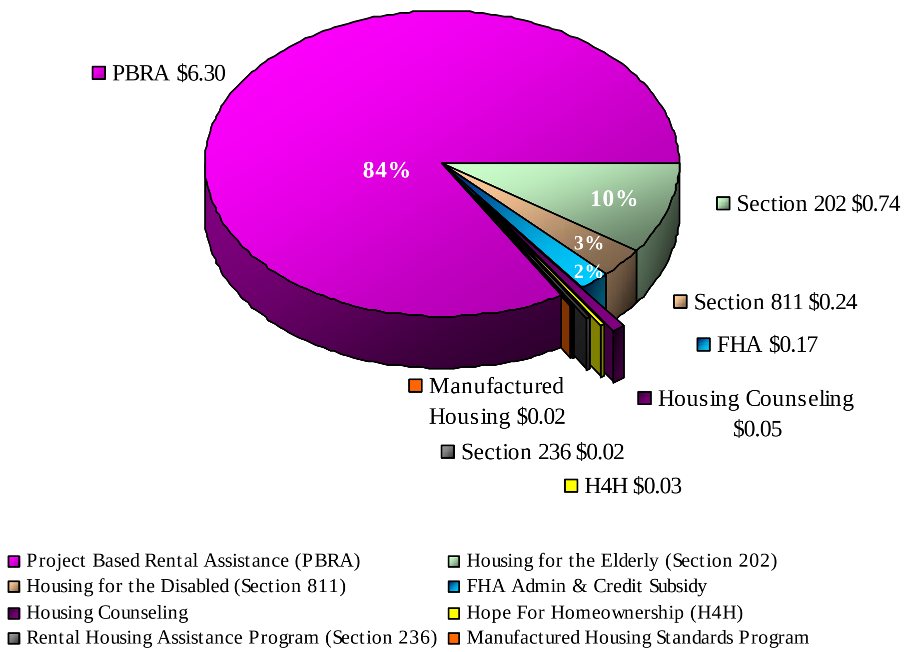
The Office of Housing consists of the Federal Housing Administration (FHA), a government corporation within HUD, and various other programs that support a mission to contribute to building and preserving healthy neighborhoods and communities; to maintain and expand homeownership, rental housing and healthcare opportunities; and to stabilize credit markets in times of disruption. The three business areas that support the mission of the Office of Housing are Single Family Housing, Multifamily Housing, and Regulatory Programs.

These Housing programs provide mortgage insurance on loans for the purchase of new or existing homes, condominiums, manufactured housing, and houses needing rehabilitation; facilitate the construction, substantial rehabilitation, refinancing, and purchase of multifamily housing projects and healthcare facilities; and provide elderly homeowners with reverse equity mortgages. Within the Office of Housing, the Office of Regulatory Affairs and Manufactured Housing also regulates and enforces the Real Estate Settlement Procedures Act to protect homebuyers; regulates interstate land sales to protect consumers from fraud and abuse; regulates construction and enforces construction standards for certain factory built housing units, known as manufactured homes; and establishes minimum property standards for buildings constructed under HUD housing programs.

The Office of Housing is partially funded through Congressional appropriations, which totaled $7.6 billion in FY 2008. The FHA insurance program is primarily funded through insurance premiums collected from borrowers when they obtain an FHA insured mortgage. The credit subsidy, which is the present value of the estimated difference between the long term cost to the government (for defaults, delinquencies, and other payments for FHA insured loans) and the amount collected (from fees, premiums, penalties, and recoveries), is also funded through the appropriation process.

The following chart displays the major components of the Office of Housing's FY 2008 Gross Budget Authority.

HOUSING
Gross Budget Authority FY 2008 ($7.6 billion)
Dollars In Billions



FHA's Mission and History

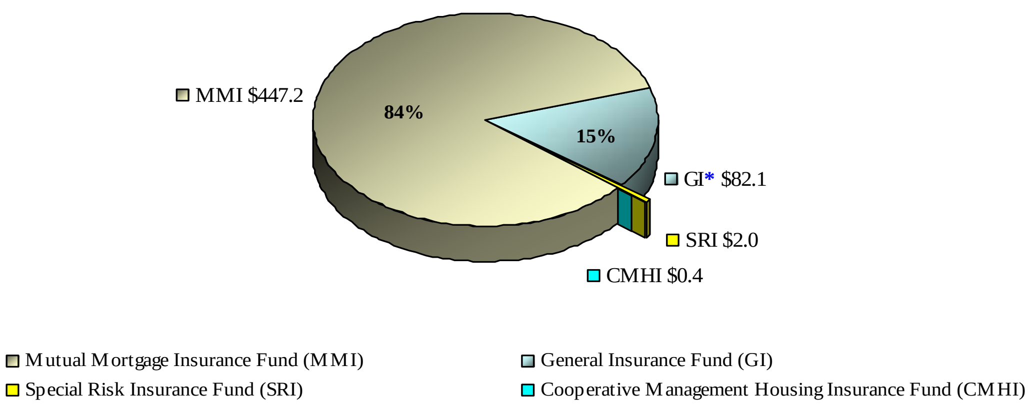
The FHA was established in 1934 with the primary purpose of increasing homeownership at a time when two million construction workers had lost their jobs, mortgage terms were limited to 50 percent of a home's market value, and only four in 10 households owned homes. In that environment, FHA began insuring home mortgages, allowing lenders to provide upfront versus annual market rate loans to all eligible purchasers. When a borrower obtains an FHA insured mortgage, he or she pays an upfront premium and an annual premium to FHA. The proceeds from those premiums are used to fund FHA program costs, including claims on defaulted mortgages and (with disposition of properties conveyed to HUD through foreclosures on FHA insured mortgages) holding costs, property management fees, property sales, and other associated costs.

FHA has been, and continues to be, a stabilizing presence for credit markets in times of economic disruption, as it did when private insurers tightened standards and some closed their businesses during the deep regional recessions of the 1980s. In the current credit crisis, FHA is providing a financially conservative and stabilizing presence, as will be discussed below.

Over the past 74 years, FHA has provided insurance for over 35 million home mortgages (contributing to a current homeownership rate of over 68.1 percent) and for over 50 thousand multifamily project mortgages. FHA's current portfolio contains approximately 4.5 million insured single family mortgages and 12 thousand insured multifamily projects (containing 1.4 million household units). In the last two years, these single family numbers have begun to expand dramatically, primarily due to the many subprime mortgages which are being refinanced through FHA.

FHA programs operate through four insurance funds supported by premium and fee income, interest income, Congressional appropriations, borrowing from the Treasury, and other miscellaneous sources. By collecting mortgage insurance premiums and other fees, most FHA programs are self-sustaining. The four funds are the Mutual Mortgage Insurance (MMI) Fund, the General Insurance (GI) Fund, the Special Risk Insurance (SRI) Fund, and the Cooperative Management Housing Insurance (CMHI) Fund. MMI, which supports FHA's basic single family homeownership programs, is the most prominent fund and is self-sustaining with its unpaid principal balance representing 84 percent of the total insurance-in-force.

FHA Insurance In Force ($531.7 billion)
Dollars In Billions



** HECM are not included in the amount for GI Insurance-In-Force due to the unique nature of the program. As of September 30, 2008, the maximum potential liability for HECM's was $78 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.

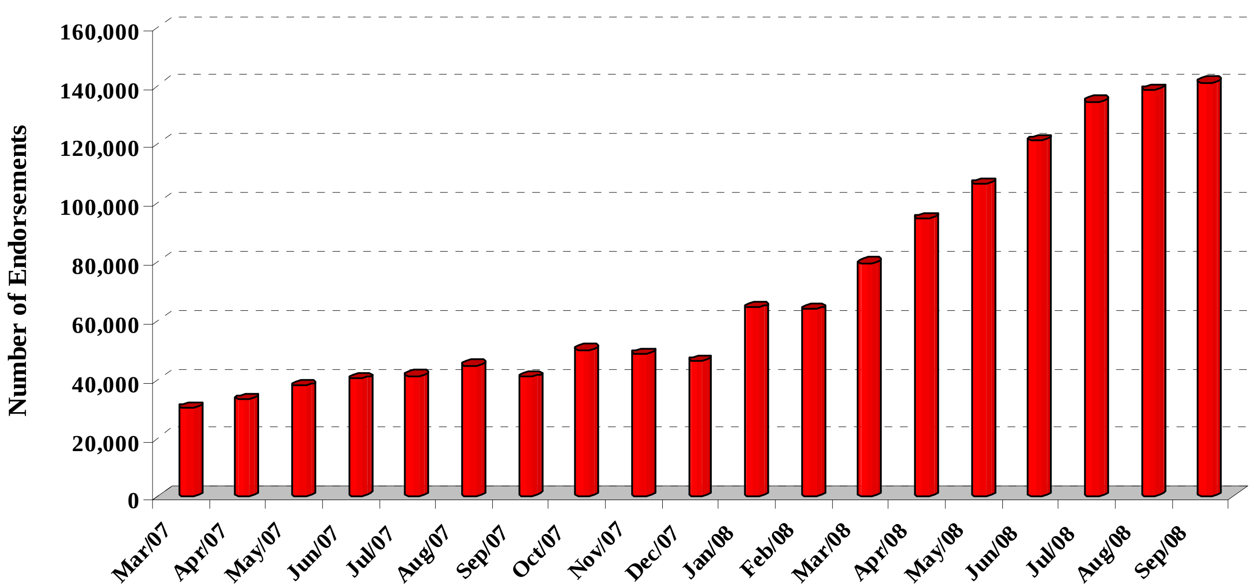
Additional information about FHA can be found in its annual report available on the web at: http://www.hud.gov/offices/hsg/fhafy08annualmanagementreport.pdf.

FHA's role in improving homeownership opportunities is tracked by the volume of FHA insured loans. (For more detailed information, see Section 2, Performance Section, Indicators A.1, A.2, A.5, and A.6.) During FY 2008, FHA endorsed new mortgage insurance for over 1.2 million single family mortgages including 111,661 Home Equity Conversion Mortgages (HECM), representing $177 billion of new mortgage endorsements. This is up from over 532 thousand endorsements in FY 2007 representing $60 billion of mortgage insurance coverage. Of the new endorsements in FY 2008, 77.9 percent were to first time homebuyers, with 31.2 percent being made to minorities.

In 2002, the President announced the Minority Homeownership Initiative to add 5.5 million minority homeowners by the end of the decade (i.e., between the second quarter of 2002 and the last quarter of 2010). By the end of the third quarter of 2008, 4.992 million minority homeowners have been added, accomplishing 91 percent of the goal, with only 74 percent of the time having elapsed.

Recent FHA Endorsement Trends

March 2007 - September 2008



As of the end of the fiscal year, there were 4,377,795 outstanding single family home mortgages insured by FHA, representing an outstanding unpaid principal balance of $475 billion.

The *Home Equity Conversion Mortgage* program enables elderly homeowners to access the equity in their homes and continue to occupy their homes with no repayment requirement until the property is vacated or sold. In FY 2008, 111,661 endorsements were for reverse mortgages, having a maximum potential liability of $24 billion.

The financial stability of the Mutual Mortgage Insurance fund is a major concern of HUD and the Congress. To ensure the stability of this fund, Congress has mandated a minimum level for the capital ratio, currently set at 2.0 percent. The capital ratio is defined as the ratio of estimated economic value of the Fund to outstanding insurance-in-force. Economic value is a measure of the excess of resources available to FHA over its liabilities. Resources include assets plus the present value of expected future premium revenues on outstanding loan guarantees. Liabilities are the (present value of) expected future claim payments on outstanding loan guarantees. Economic value, the difference between these two, is then a cushion against adverse and unexpected changes in future loan performance. The capital ratio has consistently exceeded this minimum requirement, and was 6.4 percent in FY 2007. In FY 2008, HUD again surpassed the minimum level, though this ratio decreased significantly to 3.0 percent. This decrease was caused by two primary factors. The estimated economic value of the fund decreased significantly with the forecast of expected house price declines due to the declining housing market. Conversely, the total MMI insurance in force increased significantly due to the volume of new endorsements. The combination of these factors resulted in the decrease in the capital ratio. Directly related to the decrease in the capital ratio, FHA projected a significant increase in its Liability for Loan Guarantees. This projected additional liability is recorded to reflect anticipated future losses as a result of increased claim rates and reduced recovery rates.
Much of the increased activity in the FHA single family programs during FY 2008 is due to the decrease in interest rates and the increase in FHA mortgage refinancing due to the crisis in the subprime mortgage lending and the reset of Adjustable Rage Mortgages (ARMs). Additionally, higher FHA loan limits, decreasing home prices, and tightening of available credit have encouraged low- and moderate-income buyers to seek out traditional financing available through FHA Insurance Programs that offer buyers flexible down payment options. For an in depth explanation of HUD's response to the resulting financial crisis, see the report on "Risks, Trends, and Factors Affecting Goals," found elsewhere in this section.

FHA's multifamily programs provide mortgage insurance to HUD approved lenders to facilitate the construction, substantial rehabilitation, purchase and refinancing of multifamily housing projects and healthcare facilities. The loans are for all facility types (apartments, co-ops, nursing homes, assisted living, and mobile home parks) except for hospitals and medical group practices. Because FHA insurance and Risk Sharing guarantees protect lenders if borrowers default, these tools make lenders more willing to finance multifamily housing and contribute directly to HUD's strategic goal of providing decent and affordable housing. This year, the FHA endorsed mortgage insurance for 647 new multifamily housing loans (representing 70,914 units) and 8 new healthcare facilities, bringing the totals to 11,931 multifamily housing loans and 81 healthcare facilities, and representing an aggregate of $4.17 billion of insurance coverage. (For more detailed information, see Section 2, Performance Section, indicator B.4.) Although the number of multifamily endorsements fell short of the FY 2008 goal, the results still represent a significant achievement in light of the major economic downturn impacting our country.

Rental Housing

The Office of Housing administers rental subsidy, homeownership subsidy, and grant programs designed to provide housing to low- and moderate-income persons. HUD seeks to increase the number of available affordable rental housing units through insuring loans for multifamily projects or providing subsidies on existing projects. The latter is provided via three legislative provisions: Section 8 Project-Based Rental Assistance; Section 202 Supportive Housing for the Elderly; and Section 811 Supportive Housing for Persons with Disabilities.

Section 8 Project-Based Rental Assistance

The Section 8 Project-based Rental Assistance Program, named for the section of the U.S. Housing Act of 1937 under which the original subsidy program was authorized, differs from the Housing Choice Voucher program (described in the Public and Indian Housing section of this report) in that the assistance is not provided to individual families, but is instead attached to multifamily housing properties to ensure that these properties remain affordable to low income families. In FY 2008, approximately 1.3 million units were provided Section 8 assistance.

Section 202 Supportive Housing for the Elderly

Established by a provision of the Housing Act of 1959, Section 202 authorizes HUD to provide interest free capital advances to private, non-profit sponsors to finance the development of supportive housing for the elderly. The advance need not be repaid as long as the project serves very low-income elderly persons, including the frail elderly, for at least 40 years. Rent subsidies are also provided in order to make the facilities affordable. (For more detailed information, see Section 2, Performance Section, Indicators B.11, B.12, B.13, and B.14.)

The Grand Opening of Glengarra Place in Missoula, Montana, took place on February 20, 2008. The 41-unit development, funded under HUD's Supportive Housing for the Elderly Program, was developed by the KillKenny Corporation with support from the Missoula Housing Authority and the City of Missoula, Montana. HUD's contribution was $4,719,029 for project construction, plus rental assistance to cover the difference between HUD-approved operating costs and the tenants' contribution. The development serves very low-income seniors.

Section 811 Supportive Housing for Persons with Disabilities

Authorized by the National Affordable Housing Act of 1990, the Section 811 subsidy operates in a similar manner as Section 202. Section 811 provides affordable housing for very low-income households in which at least one member, 18 years or older, has a physical or developmental disability or chronic mental illness. (For more detailed information, see Section 2, Performance Section, Indicators B.11, B.13, and B.14.)

The goals for Section 202 and Section 811 were combined in FY 2008. The target was to reach initial closing on 200 projects. The actual number closed was 224 projects, which resulted in an additional 4,560 Section 202 units and 1,137 Section 811 units.

Physical Condition Standards

Ensuring the quality and viability of subsidized housing also is a major commitment of the Department, and HUD has established a goal to monitor the physical and financial condition of insured and assisted multifamily housing projects.

The Office of Insured Housing enforces the physical standards established by HUD which are applicable to multifamily Section 8, Section 202, and Section 811 dwellings that provide housing for families. As of the end of FY 2008, 93 percent of 31,497 properties met physical condition standards as reported in the Physical Assessment Subsystem. This result failed to meet the FY 2008 target by 2 percent. (For more detailed information, see Indicator B.9.) Given the level of funds, and an aging housing stock, it has been difficult to meet the standards. However, HUD will continue to look to provide adequate resources not only to maintain, but improve the physical condition of the housing stock.

Finally, the Department strives to ensure that multifamily projects are managed well financially. HUD monitors multifamily project owners for compliance with HUD established financial management standards, and, through its Financial Assessment Subsystem, identifies financial risks and compliance deficiencies that need loss mitigation or enforcement action. The percentage of multifamily project owners found to be compliant with HUD financial management standards in FY 2008 was 99.9 percent, surpassing the goal of 98 percent. (For more information, see Indicator B.10.)

Regulatory Programs

The Office of Housing also operates programs for overseeing regulations that protect homeowners and homebuyers. Among these is the administration of the Real Estate Settlement Procedures Act (RESPA). The RESPA is a consumer protection statute enforced by HUD. This Act helps consumers be better shoppers in the home buying and mortgage loan process by requiring that consumers receive disclosures at various times in the transactions and by prohibiting practices, such as paying kickbacks, that increase the cost of settlement services. The Act also provides consumers with protections relating to the servicing of their loans, including proper escrow account management. For more information, go to http://www.hud.gov/respa. HUD's FY 2008 goal was to respond to 3,000 inquiries and complaints related to RESPA. HUD responded to 5,578 inquiries, far exceeding its goal. In March of 2008, HUD proposed a rule to revise RESPA, which will be published in the first quarter of FY 2009, in order to simplify and improve the process of obtaining mortgages and reduce consumer settlement costs. Once made final, this rule will help consumers make better informed decisions concerning the various provisions of their loan documents, especially with regard to interest resets and early payment penalties.

FHA Reform

As a result of the housing crisis, there was an extraordinary amount of legislation passed in FY 2008. The following is a brief description of that activity.

The sharp increase in mortgage foreclosures experienced during FY 2008 occurred due to a variety of factors including: rising energy costs, increased joblessness, lax conventional underwriting standards, falling home prices, and resetting interest rates for adjustable rate subprime mortgages.

The collapse of the subprime market and interest rate resets have brought a large volume of FHA refinanced mortgages. FHA began advocating for reform in 2006. Noting that the mortgage market had drifted away from FHA insured loans and the mandatory underwriting standards that accompany them, in February of 2006, as part of the President's FY 2007 budget submission, FHA submitted a modernization proposal to provide greater flexibility for FHA-funded mortgages. The request sought legislative reform to increase FHA loan limits, create a risk-based premium structure, enhance flexibility for downpayment requirements, simplify requirements for condominium loans, expand the use of reverse mortgages, and increase access to pre- and post-purchase counseling for low- and moderate-income homeowners. Most of these modifications were included in the **Housing and Economic Recovery Act of 2008** that was signed into law on July 30, 2008, which is discussed later in this section.

In FY 2007, FHA announced the ***FHASecure*** Program as a temporary measure to provide refinancing opportunities to homeowners with various types of Adjustable Rate Mortgages (ARMs). *FHASecure* gives qualified homeowners with non-FHA ARMs (whether current or delinquent and regardless of reset status) the ability to refinance into a FHA-insured mortgage. Homeowners who can no longer afford their mortgages and missed up to three monthly mortgage payments over the past 12 months are eligible for *FHASecure*. As a result, as of September 30, 2008, more than 368,000 homeowners refinanced through *FHASecure* since the program began.

Housing and Economic Recovery Act of 2008

On July 30, 2008, the President signed the **Housing and Economic Recovery Act of 2008** (**HERA**). This wide sweeping legislation implements many of the reforms recommended in the FHA Modernization package that was included in the President's FY 2007 budget. It also makes broad changes which lawmakers deemed necessary for correcting problems in the mortgage market, as evidenced by the increasing number of foreclosures and the consequent deterioration of the credit market.

In addition to provisions mandating FHA's involvement in helping homeowners to retain their homes despite recent mortgage payment defaults, HERA established provisions for the prosecution of mortgage fraud, and provided tax credits for certain mortgagors of both single family and multifamily homes. HERA also greatly increased FHA's limits on size of loans, aggregate amount of loans, and numbers of loans they could insure.

One provision of HERA is the creation of the *HOPE for Homeowners (**H4H**) Program*, which allows FHA to insure up to $300 billion in mortgages to assist homeowners to refinance with FHA to avoid foreclosure. H4H was implemented through a major program effort by FHA management, with support from the Department of the Treasury, the Federal Reserve Board, the Federal Depositors Insurance Corporation, and the Office of Management and Budget. The H4H program is operational, available to all FHA-approved mortgage lenders, and should serve the borrowers most in need of the refinancing option it provides. The program has features useful for those with no other choice than foreclosure. Currently, FHA management is engaging in industry outreach to mortgage lenders and servicers to explain underwriting and servicing policies of this program and will be training lenders on the new H4H.

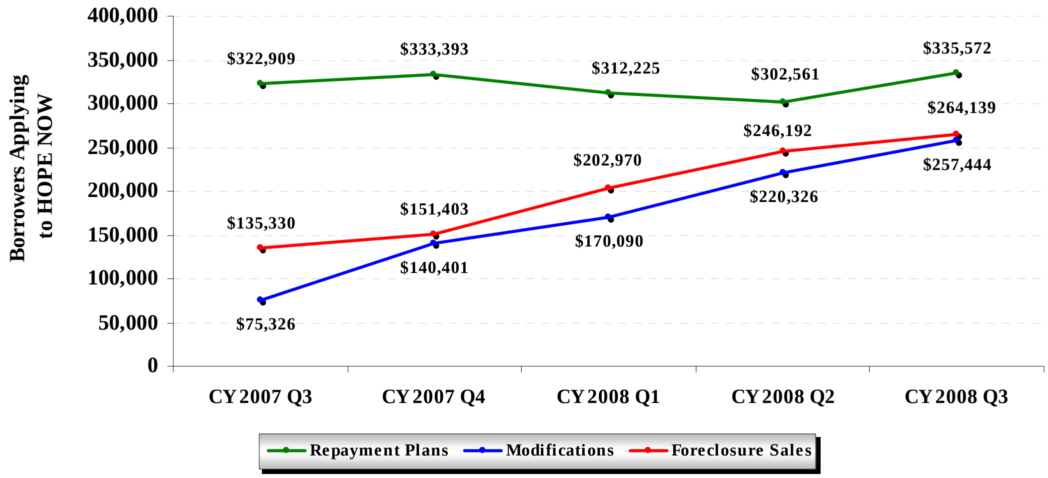
Finally, HERA established the Federal Housing Finance Agency (FHFA) which consolidates the oversight of the Government Sponsored Enterprises (GSE) Fannie Mae and Freddie Mac (formerly provided by the Office of Federal Housing Enterprise Oversight (OFHEO) within HUD), as well as the Federal Home Loan Banks. The GSE oversight goals, as well as the staff, office equipment, and supplies of OFHEO, were transferred to FHFA. In addition to providing for improved supervision, HERA requires the Federal Housing Finance Agency to take prompt corrective action when needed and to enforce regulations governing GSE activities.

More information on the Office of Housing is available at http://www.hud.gov/offices/hsg.

HOPE NOW

In October 2007, HUD joined with the Department of the Treasury and mortgage and banking officials to help form **HOPE NOW**, a private, independent coalition for counseling troubled homeowners regarding refinancing or restructuring their loans to avoid foreclosure. This expanded HUD's Housing Counseling outreach activities significantly as the coalition began to assist affected homeowners. In the chart below, based on national data from HOPE NOW, the Repayment Plans and the Modifications together represent homeowners who have avoided foreclosure through workout plans made with HOPE NOW assistance. In FY 2008 over 2,000,000 homeowners (about 70 percent of those who have sought counseling) avoided foreclosure through HOPE NOW.

Borrower Loan Workout Plans and Foreclosures
(Calendar Quarterly Data)



Many foreclosures are being prevented without a major restructuring of debt, and many lenders are willing to take actions to keep homeowners solvent. HOPE NOW counselors are all HUD intermediaries and are approved by HUD to provide Housing Counseling.

GINNIE MAE

Primary Focus: Increase Homeownership Opportunities

Major Programs: Mortgage-Backed Securities Guarantees

FY 2008 Budget Authority
Gross Budget Authority: $8.25 Million for Salaries and Expenses
Commitment Authority: $258.3 Billion
Mortgage-Backed Securities Income and Interest Income: $1.0 Billion
Ginnie Mae Securities Outstanding: $576.8 Billion
Authorized Staffing: 69 Full Time Equivalent

Performance Indicators
Number of Measures: 4 Number Met: 3 Number Missed: 1

Program Web Address: http://www.ginniemae.gov

Under the umbrella of HUD's efforts to promote affordable homeownership, the Government National Mortgage Association, commonly known as Ginnie Mae, has been effectively working in the secondary housing market to channel funds to lenders, enhancing the availability of funds for new mortgages and reducing the mortgage interest rates consumers pay. In the current uncertain environment of the housing crisis and financial crisis due to mortgage foreclosures, Ginnie Mae is strong and stable.

History of Ginnie Mae

In 1968, Congress established Ginnie Mae as a government corporation within the Department of Housing and Urban Development. Ginnie Mae revolutionized the American housing industry in 1970 by pioneering the issuance of Mortgage Backed Securities (MBS). By pooling packages of qualifying FHA, VA (Veterans Affairs), U.S. Department of Agriculture (USDA) Rural Development Housing and Community Facilities programs, or PIH (Public and Indian Housing - HUD) mortgages and converting them into securities, Ginnie Mae guarantees investors the timely payment of principal and interest on these securities.

Since its inception, Ginnie Mae has guaranteed approximately $2.9 trillion in MBS, providing homeownership for millions of households by securitizing government-insured loans.

Until the recent government takeover of Fannie Mae and Freddie Mac under a conservatorship arrangement, Ginnie Mae securities were the only MBS that offered the full faith and credit guaranty of the United States government.

Ginnie Mae and the Housing Crisis

The subprime collapse did not damage Ginnie Mae in the way that it did Fannie Mae and Freddie Mac. There are several reasons why.

1. Ginnie Mae securitizes loans that are insured by FHA, VA, USDA, and PIH (HUD). Thus it is able to offer investors a MBS that is backed by the full faith and credit of the United States government. Not only are the underwriting standards for these loans very high, but the backing gives Ginnie Mae an edge in times of market insecurity.
2. Ginnie Mae has high standards for the lenders they service.
3. Ginnie Mae has always taken a very conservative approach to investment and risk.

For these reasons, Ginnie Mae experienced a rise in the level of MBS issuance from $85.0 billion in FY 2007 to $220.6 billion in FY 2008, increasing its market share from 4 percent to 19 percent.

As the credit crisis began to swell, and FHA began to develop programs to bolster homeowners with delinquent loans, Ginnie Mae responded by creating new MBS pools to accommodate *FHASecure* delinquent loans and FHA higher balance loans, thus enabling even more borrowers to qualify for safe, affordable loans. With FHA's new programs and increasing market share, and with the increasing prominence of Ginnie Mae in the secondary market due to problems affecting the mortgage markets, Ginnie Mae has also taken specific actions to establish stability and assure confidence in Ginnie Mae's products.

Ginnie Mae has created a position of Chief Risk Officer responsible for establishing an overall risk governance structure and providing an independent evaluation of all risk management activities. The Chief Risk Officer evaluates lender eligibility requirements such as net worth and fidelity bonding, oversees standards for commitment authority, and monitors matching policy.

An Issuer Review Board (IRB) was also created to evaluate and approve decisions for risks that exceed the established standards or guidelines. The IRB reviews applications for new issuers (with authority to recommend by program area if overall standards are not met), reviews mergers and acquisitions, and reviews transfers of issuer responsibility.

A Risk Committee was created, composed of senior management, to address decisions regarding corporate risk issues affecting business functions, back office operations, financial statements, compliance risks, internal controls of policies and procedures that ensure strategy and management directives are carried out at all levels, monitoring controls, and independent reviews.

Ginnie Mae's recent volume increases will set the tone for the future of the secondary market and the strategies that will be needed to maintain high liquidity and stability for the sake of America's homebuyers. With the security of guaranteed, fixed, and timely interest and principal payments – regardless of declines in the housing market, increases in unemployment or difficulties at issuing financial firms – investments in Ginnie Mae securities are among the safest on the market.

PUBLIC AND INDIAN HOUSING

Primary Focus: Promote Decent Affordable Rental Housing

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

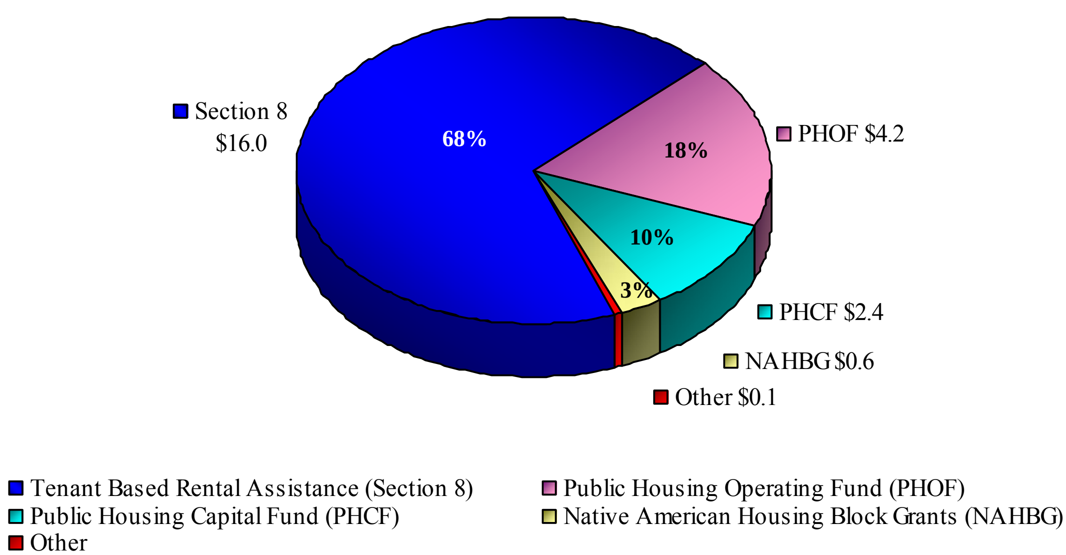
FY 2008 Budget Authority
Gross Budget Authority: $23.3 Billion
Authorized Staffing: 1,513 Full Time Equivalent

Performance
Number of Measures: 11 Number Met: 11 Number Missed: 0

Program Web Address
http://www.hud.gov/offices/pih/index.cfm

PIH's mission is to ensure safe, decent, and affordable housing for low-income households. PIH's success is measured by the number of American households that receive housing assistance in safe and secure units, and ensuring the financial stability of PHAs. During FY 2008, approximately 3.2 million households were assisted through PIH's programs.

PUBLIC AND INDIAN HOUSING
Gross Budget Authority FY 2008 ($23.3 billion)
Dollars In Billions



Additionally, PIH contributes to the strategic goal of Promoting Homeownership through the homeownership option of the Housing Choice Voucher/Housing Certificate Fund, the Indian and Native Hawaiian Block Grants, and through its Section 184 and 184A mortgage guarantee programs.

PIH administers $23.3 billion (43 percent) of HUD's annual discretionary budget authority for the benefit of low-income households. One of the Department's larger programs, Section 8 Housing Choice Vouchers, has been recognized as a cost-effective means for delivering decent, safe, and affordable housing to low-income families, serving approximately 2.1 million households through vouchers administered by more than 2,400 PHAs. These vouchers assist eligible families to obtain housing in the private market, and in a neighborhood of their choosing. This program appropriates funds for PHAs on a budget-based system, thereby making the PHAs more accountable in managing their budgets. HUD is in the process of streamlining the Section 8 program to make it more results-oriented. The initial analysis of the needed changes has been conducted and the proposed rule was developed and is in review.

One of HUD's priorities is to increase the PHAs utilization of voucher funds provided by the Department. HUD has noted an increase in the utilization rate from 90.0 percent in FY 2006, to 91.7 percent in FY 2007, and to 93.3 percent in FY 2008. (For more detailed information, see Indicator B.16.) Although this is an improvement, HUD still expects much greater utilization of these funds. To achieve improved utilization in the future, HUD plans to continue outreach to PHAs and to link future administrative fee payments to PHA leasing levels.

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. HUD has been a government leader in addressing this issue, reducing its improper payment rate from an estimated 17.1 percent in 2000 to 3.5 percent today, and was the first Department to receive a Status Score of Green for this President's Management Agenda Initiative from OMB. Further details, including specific changes to address this issue within the PIH programs, can be found in Section 4 under Improper Payment Information Act Reporting and in Section 2, Indicator E.3.

PIH also distributes part of its annual budget authority to PHAs through Public Housing Operating Funds and Public Housing Capital Funds. These programs serve almost 1.1 million households. Given the significance of the resources and responsibilities entrusted to the PHAs, HUD has established comprehensive remote monitoring systems to assess performance and the need to target on-site monitoring, technical assistance, or other intervention actions to improve performance. Additionally, HUD provides funding for Native American families through block grant and loan guarantee programs.

River Garden Community new homeowners Lillie Daniels and her husband Ronald Craig welcome Secretary Steve Preston to their home in New Orleans. Daniels and Craig moved into their new home on May 1 after living in Memphis, Tenn. following Hurricane Katrina.

Operating Funds are provided to over 3,100 PHAs to assist them in meeting public housing project and management expenses such as administration, routine maintenance, anti-crime and anti-drug activities, resident participation in management, insurance costs, energy costs, and other costs, as appropriate, related principally to the operation of management of mixed finance projects. In FY 2008, the Public Housing Operating Fund was appropriated $4.2 billion to carry out its mission.

One of the largest expenses incurred by a PHA is its energy costs. During FY 2008, energy costs continued to escalate. To address the rising energy costs, HUD is:

- promoting energy efficiency nationwide;
- building HOPE VI developments to a high level of efficiency;
- improving tracking and monitoring of energy efficiency in public housing; and
- stream-lining energy performance contracting in public housing.

Since 2002, PIH's aggressive outreach program to promote energy performance contracts, for which PIH received a 2008 Presidential Leadership Award for Energy Management, has resulted in projected annual savings of $103 million. An example of an aggregate project is the Danbury Housing Authority, CT where projected annual savings of $65,000 for 12 years are expected from a $314,500 contract.

The "Public Housing Cost Study" recommended a transition to asset management to increase the focus and accountability of PHAs for each of their individual public housing properties as a valuable low-rent real estate asset. FY 2008 was the second year of the new Operating Fund formula, which requires conversion to asset management. Asset management includes adoption of project-based budgeting, accounting, and asset management to align PHA accounting and management practices to those used by private industry for PHAs with 400 or more units. Concurrent with the start of their fiscal year cycle, certain PHAs began implementation of project based accounting in FY 2007. In FY 2008, PHAs were funded via individual asset management projects for the first time instead of being funded at a PHA-wide level, and are required to fully implement asset management by FY 2011. As of the end of FY 2008, 99 percent had implemented asset-based accounting (For more detailed information, see Indicator B.25) and 258 PHAs (eight percent) had completed the conversion to asset management, exceeding the goal by 60 percent. (For more detailed information, see Indicator B.26.)

Recognizing that the implementation of asset management by PHAs is a complex process, HUD has provided guidance and assistance to PHAs through issuance of a number of timely notices, both informational and program-specific, development of a comprehensive training program, and web-site access to these and other tools to assist during the transition phase. These notices provided detailed information to the PHAs regarding the steps needed to complete the transition to asset management.

Additionally, through the Department's physical housing assessment process, PHAs are provided information on the physical condition of every property in their inventory. PHAs are also provided with an analysis of the most common deficiencies identified with a comparison to the prior inspection so that PHAs can monitor their progress in correcting identified deficiencies. HUD's field office staff used the information obtained from the physical assessment process in their risk management activities and to prioritize their monitoring and technical assistance to those PHAs that present the greatest risk to the program. As of September 30, 2008, the percentage of public housing units meeting HUD's physical condition standards was 84.5 percent, substantially meeting the goal of 85.0 percent. (For more detailed information, see Indicator B.17.) Once the Department has completed the transition to asset management, the physical condition goal will be tracked on a property level basis.

In addition to the physical condition of PHA properties, the Department also evaluates the performance of the PHA on management operations, financial condition, and resident satisfaction using its Public Housing Assessment System. The composite score of these four factors, if below 60 percent, or a single factor below 18 percent, results in the PHA being classified as "troubled." The number of PHAs in this category dropped from 161 as of October 1, 2007 to 95 at the end of the fiscal year, a reduction of 77.4 percent. (For more detailed information, see Indicator B.19.)

Public Housing Capital Funds were provided to over 3,100 PHAs with the average grant amounting to $750,000 during FY 2008 to finance capital improvements including the development, financing, and modernization of public housing developments and for management improvements. The Public Housing Capital Fund account protects and enhances the value of this important affordable housing resource. Without this inventory, more families would be at risk of facing possible worst case housing needs (Worst-case housing needs are unassisted families and individuals with "very low-incomes" (i.e., less than 50 percent of area median income)) and would be further at risk of homelessness.

Under the Capital Fund Financing Program, a PHA may borrow funds from the private markets, pledge a portion of its future year annual capital funds, subject to the availability of appropriations, and then repay the financing as they receive their capital funds. This allows PHAs to leverage resources to meet pressing capital needs. During FY 2008, the Office of Capital Improvements approved approximately $504 million of leveraged funds through the Capital Fund Financing Program. This approval provided 15 PHAs with funding to modernize and develop public housing, thus protecting and enhancing the affordable housing stock.

Promoting Homeownership

HOPE VI, Section 184 Loan Guarantee program, the Section 184A Loan Guarantee program for Native Hawaiians, and the homeownership option under the Housing Choice Voucher, Family Self-Sufficiency, and Moving to Work programs are each focused on a particular housing program delivery constituency. In total, they helped 9,314 households become homeowners in FY 2008, exceeding the goal of 8,000 for the year. The results for each program can be found in Section 2 under Indicator A.1.

Disaster Assistance

In August and September, 2008, Hurricanes Ike and Gustav struck the United States, causing catastrophic damage to property, loss of life, and the displacement of tens of thousands of individuals from their homes and communities. On September 23, 2008, HUD and Federal Emergency Management Agency executed an Interagency Agreement under which HUD shall act as the servicing agency of Disaster Housing Assistance Program - Ike, and will begin administration of the program effective November 1, 2008. HUD will once again utilize its existing network of local PHAs to administer tenant-based rental assistance and provide case management services, and security deposit and utility deposit assistance to impacted families under Disaster Housing Assistance Program - Ike. PHAs administer the Housing Choice Voucher Program and, as a result, have the necessary local market knowledge and expertise in assisting families through a tenant-based subsidy program. In addition, through their prior administration of the Disaster Housing Assistance Program, the Disaster Voucher Program and the Katrina Disaster Housing Assistance Program, PHAs are experienced in working with significant numbers of families that have been displaced by disasters. Pursuant to the Federal Emergency Management Agency's grant authority, grants will be provided to local PHAs to administer Disaster Housing Assistance Program - Ike on behalf of Federal Emergency Management Agency. PHAs will make rental assistance payments on behalf of eligible families to participating landlords for a period not to exceed 17 months, commencing November 1, 2008 and ending no later than March 2010.

Floods in Wisconsin, Spring 2008

The Office of Public and Indian Housing was also recognized for its disaster relief efforts. Its **National Housing Locator (https://hudapps.hud.gov/nhls/)** was the nation's first National Housing Locator system for rental housing assistance in disaster areas. This intergovernmental 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 such as was experienced in this year's floods in the Midwest, and by Hurricanes Gustav and Ike in the South.

COMMUNITY PLANNING AND DEVELOPMENT

Primary Focus: Strengthen communities and expand economic and community development opportunities for low- and moderate-income households

Major Programs: Community Development Block Grants, Affordable Housing, and Special Needs Assistance

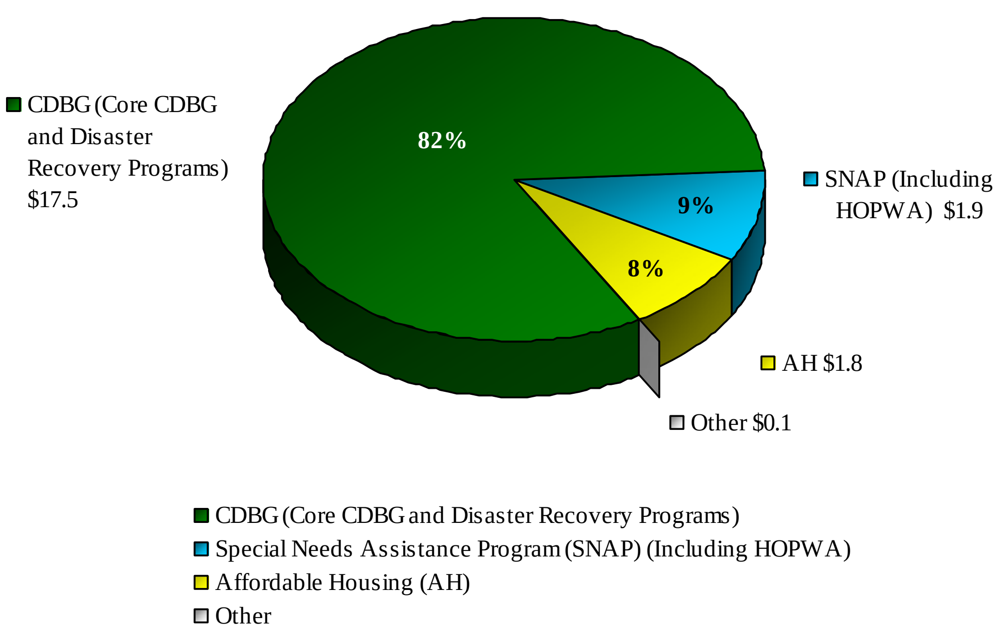
FY 2008 Budget Authority:
Gross Budget Authority: $21.3 Billion
CPD Core Programs: $7.6 Billion
CPD Disaster Relief: $13.7 Billion
Authorized Staffing: 777 Full Time Equivalent

Performance Indicators:
Number of Measures: 19 Number Met: 15 Number Missed: 4

Program Web Address: http://www.hud.gov/offices/cpd/about/cpd_programs

The Office of Community Planning and Development (CPD) seeks to develop viable communities by promoting integrated approaches that expand economic opportunities for low- and moderate-income persons, and provide decent housing with a suitable living environment. The primary means towards this end is the development of partnerships among all levels of government and the private sector, including for-profit and non-profit organizations.

COMMUNITY PLANNING AND DEVELOPMENT
Gross Budget Authoriy FY 2008 ($21.3 billion)
Dollars In Billions



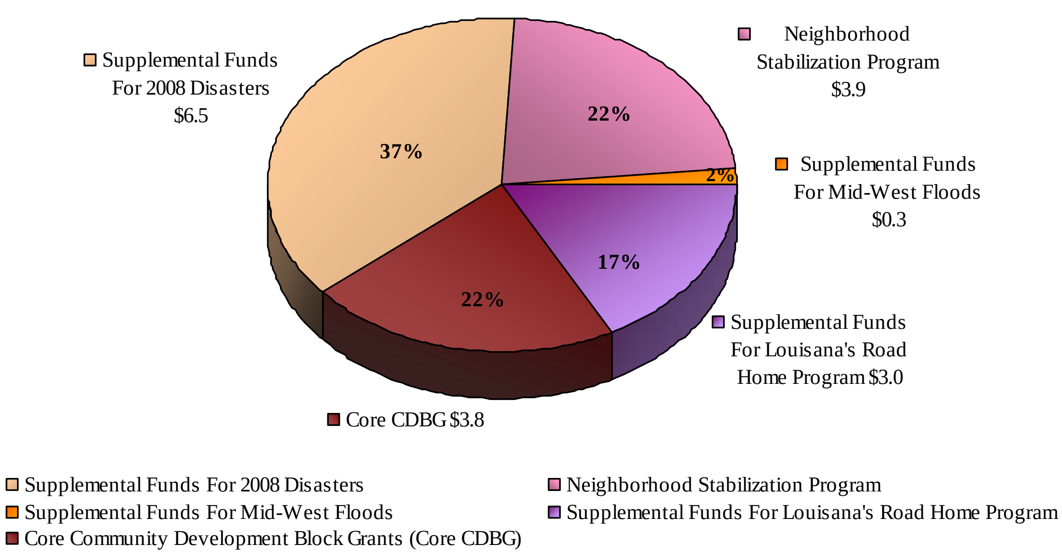
CPD seeks to encourage empowerment of local residents by helping to give them a voice in the future of their neighborhoods; stimulate the creation of community based organizations; and enhance the management skills of existing organizations so they can achieve greater production capacity. Housing and community development are not viewed as separate programs, but rather as among the myriad of elements that make up a comprehensive vision of community development. These groups are at the heart of a bottom-up housing and community development strategy.

While CPD does offer flexibility in its programs, it continuously monitors (remote and on-site) to ensure compliance with applicable Federal and HUD regulations and requirements and to ensure performance standards are met. In FY 2008, the CPD field office staff monitored 1,076 grantees, or 22 percent of 4,789 active competitive and formula grantees, thereby exceeding the goal of 20 percent. (For more detailed information, see Indicator E.5.) Monitoring measures the effectiveness of grantees' financial management controls and ensures program compliance with applicable Federal and HUD rules and regulations, and serves to deter and prevent fraud, waste, abuse and mismanagement of funds. It also identifies whether HUD resources are targeted to improve underserved communities.

The primary CPD programs consist of Community Development Block Grants, Affordable Housing program, and Special Needs Assistance. A description of these programs and their major accomplishments and challenges follows.

Community Development Block Grants (CDBG)

Core CDBG And Disaster Recovery Programs ($17.5 billion)
Dollars In Billions



While the CDBG program has generated notable results throughout its history, HUD is pursuing changes to the program to further improve HUD's assistance to state and local governments.

The CDBG program has remained essentially unchanged since its inception in 1974. HUD submitted a proposal to the Congress to reform the program. The implementation of this reform legislation is one of HUD's goals, but is dependant upon Congressional action. (For more detailed information, see Indicator C.7.) The proposed legislation includes:

- CDBG formula reform intended to target funding to the nation's neediest communities;
- A provision for challenge grant funds that will be awarded to communities that show the greatest improvements in measures of community livability and investment; and
- Performance measurement provisions to hold grantees more accountable for meeting their own goals.

The CDBG program operates to ensure suitable affordable housing, to administer grants to the most vulnerable communities and create jobs through the expansion and retention of businesses. CDBG is a significant mechanism that assists local governments to address exigent problems endured by their communities. Since its inception in 1974, the CDBG program has paid approximately $141 billion to state and local governments, to help strengthen communities across the nation.

In FY 2008, CDBG's total budget was approximately $17.5 billion. This represents an increase of 373 percent from FY 2007, primarily due to a $13.7 billion budget addition, comprised of disaster supplemental emergency funds for Louisiana ($3.0 billion), Mid-west floods ($300 million), Neighborhood Stabilization Program for foreclosed homes ($3.9 billion), and supplemental funds for 2008 disasters ($6.5 billion as enacted). Furthermore, HUD received FEMA mission assignments to staff their respective joint field offices and the disaster recovery centers to provide housing-related expertise and housing opportunities using the HUD National Housing Locator system.

The CDBG program can be classified into two parts, core CDBG and disaster recovery assistance. The ensuing discussion details the results and overall benefit to the general public.

Core CDBG Programs

The core CDBG program is comprised of three major programs: 1) Entitlement Communities, 2) State Programs, and 3) Section 108 Loan Guarantees.

The Entitlement Communities and State Programs provide grants to units of general and local government and states for the funding of local community development programs. Annual grant funds are awarded to entitlement communities containing metropolitan cities with populations of 50,000 and qualified urban counties with populations of at least 200,000. State programs are cities with populations of less than 50,000, except cities that are designated principal cities of Metropolitan Statistical Areas and counties with populations of less than 200,000. The program's primary objective is to develop viable urban communities by providing affordable and decent housing and a suitable living environment, as well as expanding economic opportunities to individuals of low- and moderate-incomes. One of the goals is to expend at least 90 percent of state and entitlement CDBG funds on activities that benefit low- and moderate-income persons. (For more detailed information, see Indicator C.6.) In FY 2008, the results were exceptional, with 95.6 percent benefiting those groups. Another goal is to eliminate 5,000 vacant, boarded up, or abandoned properties by the end of FY 2008. The elimination of these structures helps improve the quality of life of residents as the existence of these properties indicates a neighborhood in decline. CPD was very successful in regard to this goal, as 9,180 properties were demolished. (For more detailed information, see Indicator C.9.)

The Community Development Loan Guarantee (Section 108) is the loan guarantee provision of the CDBG program, which provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects. Section 108 allows local governments to leverage their CDBG funds into federally guaranteed loans large enough to pursue physical and economic revitalization projects that can renew entire neighborhoods. Projects funded with Section 108 commitments approved in FY 2008 will result in 6,491 jobs being created because of Section 108 loan guarantee assistance. In FY 2008, Section 108's authority level was $205 million, representing a 52 percent increase over the $135 million provided in FY 2007, which is below the historic rate of $2 billion dollars. (For more detailed information, see Indicator C.4.)

In FY 2008, CDBG grantees expended approximately $4.3 billion in grant funds and program income for programs and activities such as housing ($1.1 billion), economic development ($343 million), public improvements ($1.4 billion), public services ($466 million), and others ($1 billion).

In addition to HUD's core Community Development programs, Congress provided supplemental funding to HUD to provide support and relief to citizens and communities devastated by various disasters. This funding was provided to address the recovery efforts for hurricanes that occurred in 2005 (Katrina, Rita, and Wilma) and for the 2008 hurricanes and mid-west floods. A summary of these disaster recovery assistance programs follows.

Disaster Recovery Assistance (Gulf Coast States)

The Gulf Coast States are still recovering from the devastating hurricanes of 2005. Congress appropriated Disaster Recovery Assistance funds to HUD in 2005 and 2006 in the amount of $11.5 billion and $5.2 billion respectively, for the states of Alabama, Florida, Louisiana, Mississippi, and Texas to address the devastations of hurricanes Katrina, Rita and Wilma. In FY 2008, Congress appropriated an additional $3.0 billion for the State of Louisiana solely for the purpose of covering costs associated with otherwise uncompensated but eligible claims that were filed on or before July 31, 2007, under the *Road Home* program administered by the state in accordance with plans accepted by HUD's Secretary. The *Road Home* program is designed to provide compensation to its citizen homeowners affected by Hurricanes Katrina or Rita for the damages of their homes and is administered by the State of Louisiana.

All five Gulf Coast disaster grantees (states) have HUD approved action plans for their respective self-designed programs, to address a number of immediate and long-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. Two years after the disasters, all five states have sustained progress towards assisting its citizens in recovering from the hurricane damages, and have helped low- to moderate-income individuals and communities affected by the disasters.

Ninety-six percent of the appropriated funds have been allocated to the states of Louisiana and Mississippi, with Louisiana receiving $13.4 billion and Mississippi $5.5 billion. Of the total $13.4 billion awarded to Louisiana, 75 percent of the monies are for the *Road Home* program. This program offers several options based on eligibility criteria and is targeted to assist homeowners, small-scale rental property owners, and building professionals. Fifty percent of the $5.5 billion awarded to Mississippi is for the *Homeowner Program*, which is designed to provide financial assistance to homeowners that were outside the flood plains. In FY 2008, Louisiana provided $7.1 billion to 118,335 *Road Home* applicants while Mississippi provided $1.7 billion to 23,651 *Homeowner Program* applicants.

The remaining CDBG funds for Louisiana and Mississippi are allocated for state and local infrastructure activities, restoration of homeless support and housing activities, public services, economic development, as well as other activities.

The aftermath of hurricane Katrina caused the Martin Luther King, Jr. Elementary School to be flooded in excess of 10 feet.

The CDBG disaster funds helped to renovate and rebuild the Martin Luther King, Jr. elementary school, which later re-opened in June 2007, making it the first school to re-open in the Lower Ninth Ward.

In support of affordable rental housing, the State of Louisiana has allocated $1.52 billion for the development of small rental housing and multifamily rental housing, representing over 18,000 affordable housing units. The State of Mississippi awarded $105 million to rehabilitate, reconstruct, or replace 2,965 public housing units, and allocated $262 million to the small rental assistance program for the development of over 3,400 housing units.

The hurricanes of 2005 severely affected Louisiana's and Mississippi's economic infrastructure. For example, Louisiana's fisheries industry suffered vast infrastructure damage, which precipitated a sharp decline in consumer consumption of fish, both in the commercial and retail industries. Studies initiated by the National Oceanic and Atmospheric Administration estimate that Hurricane Katrina alone generated more than $1.3 billion of economic loss to Louisiana's fishing industry. To assist this ailing industry, Louisiana has proposed funding approximately $9.75 million from the first supplemental appropriation to improve and expand infrastructure critical to the recreational and commercial fisheries industries, including, docks, icehouses, boat launches, processing and shipping facilities, boats and other necessary infrastructure.

The State of Louisiana has allocated another $330 million for economic development, including loan and grant capital for small firms, technical assistance to help companies adjust to the new business environment, and funding for tourism marketing to attract visitors and conventions. The State of Mississippi has allocated $1.25 billion for economic development, including $542 million for the Port of Gulfport. The Port was the third busiest container port in the Gulf of Mexico and the 17th busiest in the United States. Prior to Hurricane Katrina, for the month of December 2004, the Port exported and imported a total of almost 228,000 tons of cargo. For the month of December 2005, four months after the storm, the Port was able to move only 98,000 tons of cargo. Under these economic development programs, the State of Mississippi expects to create 8,898 jobs, including 5,400 for the Port of Gulfport.

The States of Alabama, Florida, and Texas comprise the remaining 4 percent of the total Gulf Coast appropriated funds, with $781 million in funding for these states. In all three states, funding is targeted primarily to housing, infrastructure, and public facilities.



After the hurricane storm damage: **(left)** east view and **(middle)** west view. New home from CDBG funds **(right)**.

The elderly husband and wife who own this single family home had lived at this address for seven years before the hurricane of 2005. After the hurricane's devastation, the husband lost his job as a local shipbuilder, and the family had no income. The family lived in a FEMA trailer for 2 years, after their house was deemed beyond repair and was condemned. They were later approved for a new home through the City of Bayou La Batre's HUD CDBG grant funds and stayed in a FEMA trailer on-site until construction of their home was complete.

2008 Hurricane Disasters

In addition to the Gulf Coast hurricane disasters of 2005, the effects of the strong spring storms in 2008 resulted in Congress appropriating $300 million in emergency disaster assistance for the Midwestern states which were affected by the floods in late spring. In addition, Congress appropriated $6.5 billion as enacted for disaster relief, long-term revitalization in federally declared disaster areas affected by hurricanes (including Ike and Gustav), floods and other natural disasters occurring during 2008.

Abandoned/Foreclosed Homes (*Neighborhood Stabilization Program*)

The **Housing and Economic Recovery Act of 2008** (The Act) provided $3.92 billion in emergency assistance to state and local governments to use for the redevelopment of abandoned and foreclosed homes and residential properties. The grant program is commonly referred to as the Neighborhood Stabilization Program (NSP). The NSP provides targeted emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their communities. State and local governments can use their neighborhood stabilization grants to purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon in order to sell, rent or redevelop these properties, demolish blighted structures, redevelop demolished or vacant properties, and/or provide downpayment, closing costs or other assistance to help low-, moderate-, and middle-income households purchase these properties. In addition, grantees can create "land banks" to assemble, temporarily manage, and dispose of vacant land for the purpose of stabilizing neighborhoods and encouraging re-use or redevelopment of urban property.

The Act requires funds be allocated to states and units of general local government with the greatest need, as such need is determined in the discretion of the Secretary based on: 1) the number and percentage of home foreclosures in each state or unit of general local government; 2) the number and percentage of homes financed by a subprime mortgage related loan in each state or unit of general local government; and, 3) the number and percentage of homes in default or delinquency in each state or unit of general local government.

The NSP allocations were announced on September 26, 2008, and appear on HUD's website at **http://www.hud.gov/nsp**. In addition, HUD published a Notice in the *Federal Register* on October 6, 2008, that provides the details about the funding formula, grantee application procedures, and other rules and requirements specific to the administration of NSP funds. The Notice is also available on HUD's website.

AFFORDABLE HOUSING

The Office of Affordable Housing administers three separate programs designed to address the nationwide shortage of affordable housing. The HOME Investment Partnerships, Self-Help Homeownership Opportunity (SHOP), and Homeownership Zone programs provide federal resources directly to the state and local level for use in the development of affordable housing units, or to assist income-eligible households in purchasing, rehabilitating, or renting safe and decent housing.

HOME

The HOME program helps to expand the supply of decent, affordable housing for low- and very low-income families by providing grants to states and local governments called participating jurisdictions or "PJs". PJs use their HOME grants to fund housing programs that meet local needs and priorities. Forty percent of HOME funds are allocated to states and 60 percent are allocated to units of local government. PJs have a great deal of flexibility in designing their local HOME programs within the guidelines established by the HOME program statute and final rule. PJs may use their HOME funds to help renters, new homebuyers, or existing homeowners. Since its inception in 1990, the HOME program has acquired, constructed, or rehabilitated nearly 873,000 affordable housing units and nearly 198,000 tenants have received direct rental assistance.

In FY 2008, HOME's budget was $1.7 billion, which is expected to result in 85,350 units of affordable housing, through new construction, rehabilitation and acquisition, and which will assist 17,760 low-income households with tenant-based rental assistance. During FY 2008, 642 PJs used HOME funds to complete 30,999 new homebuyer units and/or directly assist homebuyer households. Additionally, 384 American Dream Down Payment Initiative (ADDI) recipients received ADDI funds to complete 4,209 new homebuyer units and/or directly assist first-time homebuyer households.

This 52-unit project, located in Cuyahoga County (Cleveland), was the first new Permanent Supportive Housing for the homeless. CPD HOME funding for this project included $500,000 from the Cuyahoga Housing Consortium and $1.25 million from the City of Cleveland.

The owner of this home is a single mother with 2 boys, and is a first time homebuyer. The home is an ENERGY STAR certified Heritage home designed to be sustainable and affordable for the future.

SPECIAL NEEDS ASSISTANCE

The Special Needs Assistance program's primary focus is to assist in the reduction of homelessness in the Nation, by funding programs to help persons who are homeless by offering permanent supportive housing. Special needs efforts also involve housing assistance for low-income persons living with HIV/AIDS.

Homeless Assistance Grants (HAG)

In FY 2008, the HAG program had a budget of approximately $1.6 billion, which represents approximately 8 percent of CPD's total budget. The goal of homeless assistance is to help homeless families and individuals achieve the outcome of staying in permanent housing and obtaining self-sufficiency, thereby reducing the number of homeless and chronically homeless persons in the Nation. To meet this goal, HUD funds a continuum of care—housing and services to meet all levels of need, from emergency shelter to transitional housing to permanent supportive housing. Congress requires that 30 percent of HUD's homeless assistance funding be allocated to permanent housing, and HUD's programs and policies support this requirement. For example, HUD strives to assist the homeless to remain in permanent housing for more than six months. Shelter Plus Care provides permanent housing assistance, while communities secure an equal level of funding for a variety of supportive services from other sources. This combination ensures that residents receive the housing and services they need to maintain stable permanent housing and to make progress towards self-sufficiency.

In FY 2008, HUD exceeded its targeted assistance goals to reduce the effects of chronic homelessness. The Department achieved 75.1 percent of formerly homeless persons remaining in permanent housing for at least six months. This achievement is 3.6 percentage points, or 5 percent above the target of 71.5 percent. Similar progress was evidenced in transitional housing, wherein 71.1 percent of homeless persons moved from transitional housing into permanent housing. This is an increase of 7.6 percentage points, or 12 percent increase above the 63.5 percent target for FY 2008. Employment of homeless persons exiting permanent housing also saw an increase of 2.9 percentage points, or 15 percent, from its targeted goal of 19 percent, thereby yielding 21.9 percent for FY 2008. Details for each of these areas can be found in Section 2 of this report.

Housing Opportunities For Persons With AIDS Program (HOPWA)

HOPWA assists persons with HIV/AIDS maintain stable housing as a base to access HIV treatment and other care. HOPWA is the only federal program dedicated to address the housing needs of persons living with HIV/AIDS and their families.

One of the primary purposes of HOPWA is to reduce the risk of homelessness for persons living with HIV/AIDS. HOPWA provides 1) support to develop and operate community residences and other housing facilities, 2) short-term rent, mortgage, and utility assistance, which is a limited housing payment provided to homeowners and renters to prevent homelessness, and 3) tenant-based rental assistance.

In FY 2008, HOPWA's budget was $300 million which allowed HUD to provide assistance to 127 jurisdictions nationwide. Initial data reports indicate that this assistance helped 92 percent of households receiving assistance attain housing stability. (For more detailed information, see Indicator C.13.) Approximately 21,405 households received support through HOPWA's permanent housing projects, another 40,805 received benefits to reduce risks of homelessness under the short-term and transitional housing projects and 35,253 eligible persons benefited under housing assistance leveraged from other state, local or private sources operating under the community's HIV housing efforts. (For more detailed information, see Indicator B.1.)

OTHER CPD PROGRAMS

HUD works with the public and private sectors, as well as not-for-profit organizations, to provide financial and technical assistance to local communities to develop and implement their own economic development and community revitalization strategies. In an effort to lend greater weight to local economic development priorities, the Department has adopted a streamlined process for the approval of requests for assistance, moving significant decision-making authority closer to communities in need, through our Community Planning and Development field offices. HUD's programs include (1) Empowerment Zone and Renewal Community, which encourage businesses to open and expand and to hire local residents, (2) Rural Housing and Economic Development, which was established to assist nonprofit organizations in rural communities across America, and (3) the Brownfield Economic Development Initiative, which assists in returning to productive use real property that is abandoned, idled or under-used and where expansion or redevelopment is complicated by the presence or potential presence of environmental contamination. The Empowerment Zone and Renewal Community employment credits offer financial incentives to employers to hire residents of Empowerment Zones and Renewal Communities. Employers who use these credits regularly save a great deal at tax time, which helps them to retain current employees and make additional hires. In FY 2008, sole proprietors claimed approximately $121 million in Empowerment Zone and Renewal Community employment credits, which is $46 million less than the FY 2008 goal of $167 million. The $121 million represents a 22 percent reduction from the actual total of approximately $155 million from the previous year. (For more detailed information, see Indicator C.8.) This reduction was surprising, since employment credit claims in the

Empowerment Zones and Renewal Communities had been steadily increasing for several years, sometimes by more than 20 percent annually.

FAIR HOUSING AND EQUAL OPPORTUNITY

Primary Focus: Create Equal Housing Opportunities

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

FY 2008 Budget Authority:
Gross Budget Authority: $50 Million
Authorized Staffing: 583 Full Time Equivalent

Performance Indicators:
Number of Measures: 7 Number Met: 6 Number Missed: 1

Program Web Address: **http://www.hud.gov/offices/fheo/index.cfm**

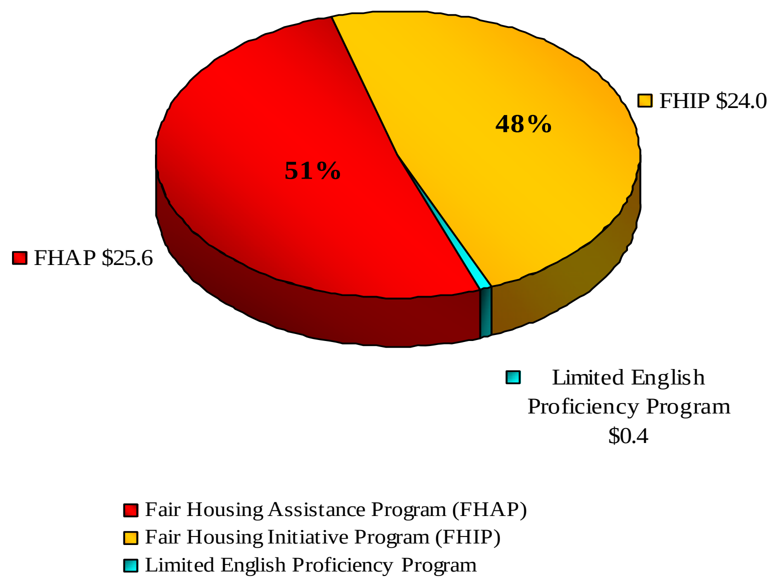
The Office of Fair Housing and Equal Opportunity (FHEO) strives to create equal housing opportunities by enforcing Federal laws that prohibit discrimination in housing on the basis of race, color, religion, sex, national origin, disability, familial status, and age.

Discrimination in mortgage lending is also prohibited by the federal **Fair Housing Act**, and FHEO actively enforces those provisions of the law. The Fair Housing Act makes it unlawful to engage in the following practices based on race, color, national origin, religion, sex, familial status, or handicap (disability):

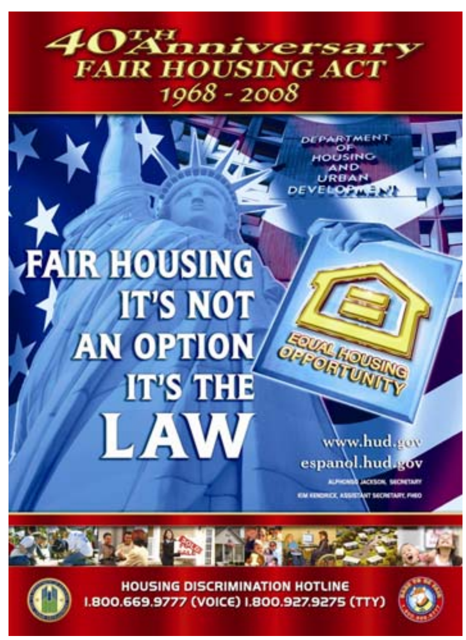
- Refuse to make a mortgage loan;
- Refuse to provide information regarding loans;
- Impose different terms or conditions on a loan, such as different interest rates, points, or fees;
- Discriminate in appraising property; and
- Refuse to purchase a loan or set different terms or conditions for purchasing a loan.

FHEO, with an FY 2008 appropriation of $50 million, administers two major funding programs to assist in reducing the incidence of housing discrimination: the Fair Housing Assistance Program and the Fair Housing Initiatives Program. In addition, through its Limited English Proficiency program, FHEO provides translation resources for its programs and activities to individuals with limited English communications skills.

FAIR HOUSING AND EQUAL OPPORTUNITY
Gross Budget Authority FY 2008 ($50 million)
Dollars In Millions



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, conducting 1,783 education and outreach events during FY 2008. These events reached nearly 300,000 people. (For more detailed information, see Indicator D.2.)



Enforcement of fair housing laws is crucial to enhancing housing opportunities for all people of the United States. 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. Victims of housing discrimination need to know that they will receive timely relief from discriminatory housing practices. Efficiency and timeliness of complaint processing is a major focus for the Department's FY 2008 goals. Several goals track both the progress in meeting a 100 day standard for completing cases and the progress in closing cases aged beyond 100 days. As a result, the Department established a goal to complete 55 percent of all discrimination cases within 100 days. In FY 2008, the Department completed 60 percent of new complaints filed within 100 days, exceeding its target by 5 percent. The Department also exceeded its goals related to "aged" cases during the year. (For more detailed information regarding both of these goals, see Indicator D.1.)

The Department did not achieve its goal related to Fair Housing Assistance Program agencies closing 53 percent of fair housing complaints referred by HUD within 100 days, closing only 50 percent. The principle reason that HUD fell short in meeting this goal is that some jurisdictions have overriding concerns that require them to focus on goals other than completing cases within 100 days. For example, the California Department of Fair Employment and Housing is required under California Fair Employment and Housing Act to complete its investigations within 365 days, or it loses jurisdiction over the case and can no longer investigate it. This statutory requirement forces California Department of Fair Employment and Housing to focus on completing all of its cases within 365 days, rather than most of its cases within 100 days. This has a significant impact on the overall performance of the program because the California Department of Fair Employment and Housing is the largest agency in the Fair Housing Assistance Program, responsible for processing approximately 15 percent of all Fair Housing Assistance Program cases in FY 2008. (For more detailed information, see Indicator D.1.)

HUD also met its goal to develop a database of accessible housing units to establish a framework for monitoring the efforts of Public Housing Authorities to increase the number of HUD-assisted units made accessible as a result of Voluntary Compliance Agreements. (For more detailed information, see Indicator D.3.)

HUD investigates complaints of housing discrimination, including discriminatory lending complaints, at no cost to individuals who believe they have experienced discrimination. Individuals should visit our housing discrimination complaint website (http://www.hud.gov/offices/fheo/complaint-process.cfm) to learn more about the complaint process.

OTHER ORGANIZATIONS IN HUD

Healthy Homes and Lead Hazard Control

(http://www.hud.gov/offices/lead/)

The elimination of lead poisoning in children as a major public health problem by 2010 is one of the President's and Secretary's priorities. This effort is the responsibility of the Office of Healthy Homes and Lead Hazard Control (OHHLHC). The OHHLHC, with an FY 2008 appropriation of $145 million, 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. In the 1990 to 1994 time period, the number of children with elevated blood lead levels was 890,000. As of the end of FY 2008, that number was 215,000. 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 promote public education and awareness of lead hazards; and Lead Technical Studies grants to support research on evaluating and controlling lead hazards more efficiently. The goal to reduce the number to less than 220,000 children that had elevated blood lead levels was met. HUD also exceeded its goal of making 11,500 housing units lead-safe by 1,069 units as a result of its grant awards program. (For more detailed information on these goals, see Indicators C.20 and C.21.)

The pavilion is a transportable model home that is utilized to educate the public about how to keep a safe and healthy home.

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.

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.

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's and Secretary's priority effort to eliminate lead poisoning in children. These results are directly aligned to the accomplishments of HUD grantees under its lead grant programs and of HUD's regulatory enforcement program.

Faith Based and Community Initiatives

http://www.hud.gov/offices/fbci/

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 these organizations as partners in fulfilling HUD's mission. One of the Center's activities to assist organizations to obtain federal grants is through grant writing training sessions. In FY 2008, 68 training sessions were held, 38 more than the goal. (For more detailed information, see Indicator F2.1.) The Center also works to bring together state, local and federal community partners within the participating area to build bridges and form partnerships with faith-base and community organizations through its Unlocking Doors Initiative. (For more detailed information, see Indicator F.3.) In collaboration with the Office of PIH, the HOPE VI Mentoring pilot project aims to encourage Public Housing Authorities to enlist area faith-based and community organizations to supply mentors for public housing residents in order to increase the residents' Fair Isaac Corporation (FICO) credit scores, attain General Education Degrees (GEDs), and meet other benchmarks as they move to self-sufficiency. These two projects highlight the successful local strategies for involving faith-based and community organizations in affordable housing plans and promoting homeownership throughout the nation.

Other Support Offices

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

The Office of Administration

http://www.hud.gov/offices/adm/

The Office of Administration is responsible for developing and implementing policies and procedures associated with human capital management and the administrative management of the Department. The Assistant Secretary for Administration advises the Secretary and senior management on administrative management and human resource matters.

The Office of the Chief Financial Officer

http://www.hud.gov/offices/cfo/

The Office of the CFO ensures that the Department employs sound financial management practices to help meet the Department's mission to promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination.

CFO staff functions include: accounting, budget, and financial management for HUD's budget appropriation. In addition, CFO financial systems process millions of transactions annually to support HUD projects and meet the needs of the housing community.

The Office of the Chief Information Officer

http://www.hud.gov/offices/cio/

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 by providing high-quality information technology solutions and services.

The Office of the Chief Procurement Officer

http://www.hud.gov/offices/cpo/

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 Office of Field Policy and Management

http://www.hud.gov/offices/fpm/

The Office of Field Policy and Management (FPM) 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. It also communicates other management and administrative functions to the local field offices. In addition, the Office ensures that critical field program delivery issues are addressed and program impacts and customer service at the local level are assessed. The Office provides operational feedback designed to constructively influence program design and Departmental policy making.

FPM directs and coordinates the execution of the field offices' response (personnel and government operations) to natural and other types of disasters. Furthermore, FPM is the coordinating entity that oversees the Department's field offices and maintains plans for transfer of power and reconstitution, so as to allocate human capital and alternate facilities for required interoperable communications and essential functions within the field offices.

The Office of Congressional and Intergovernmental Relations

http://www.hud.gov/offices/cir/

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

http://www.hud.gov/directory/dirodoc.cfm

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

http://www.hud.gov/offices/ogc/

The Office of General Counsel (OGC) plays a vital role in helping the Department accomplish its mission of assuring decent and affordable housing, enabling all Americans to achieve homeownership, providing resources for communities to build strong neighborhoods, preventing homelessness, and enforcing fair housing laws. OGC attorneys provide legal opinions, advice and services with respect to all departmental programs and activities.

The Office of Inspector General

http://www.hud.gov/offices/oig/

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

The Office of Policy Development and Research

http://www.huduser.org/

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

http://www.hud.gov/news/index.cfm

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 operates under an annual budget that represents 1.2 percent of the federal budget[1] and 0.2 percent of the nation's $14.3 trillion gross domestic product. Within the housing market, HUD's FY 2008 budget amounted to 7.0 percent of the $503 billion invested into housing.[2] These comparatively small federal investments indicate that external factors strongly affect HUD's accomplishments and extend beyond its span of control. Understanding external factors enables more successful programs by allowing HUD to plan for contingencies, form strategic partnerships, and better focus and leverage resources to accomplish its strategic goals.

This section discusses the risks, developing trends, and factors that affect HUD's strategic goals in homeownership, rental housing, equal opportunity housing, community development, and HUD's management operations. This section is organized by three categories of external factors -- economic, demographic and social, and physical environment -- plus internal organization and management. Each subsection also summarizes key policy and program initiatives by which HUD is responding to the external factors.

Economic Factors

Mortgage and Financial Markets

In FY 2008, a national subprime mortgage crisis not only threatened HUD's goals of raising minority and low-income homeownership, but triggered a global financial crisis. The crises have led to record-level foreclosures and defaults, communities in decline, and an unstable housing market. Many homeowners that held subprime adjustable rate mortgages (ARMs) unexpectedly but inevitably faced interest rate shocks after their periods of low fixed rates ended. As a result, mortgage default rates, which were at record lows a few years ago, have increased sharply. In the second quarter of calendar 2008, 4.58 percent of all mortgages were in default or foreclosure, up from 3.30 percent a year earlier. Among subprime ARM mortgagors, 26.96 percent were in default or foreclosure in the second quarter, compared with 12.46 percent a year earlier.

Concentrated foreclosures have left many communities distressed as they exacerbate the decline of home prices and cause rising levels of abandoned or vacant properties. This has critical impacts on minorities and low-income households who committed to a major share of subprime mortgages.

The weakened housing market--along with uncertainty about risks associated with subprime loans, mortgage-backed securities and their derivatives in the capital market -- has led lenders to tighten mortgage credit. The most recent available data from the Home Mortgage Disclosure Act reporting show that 15.9 percent of mortgage applications were denied in 2007, the same as in 2006, but up from 13.8 percent in 2005. Higher denial rates, in combination with stagnant or declining prices, have blocked many homeowners' intended strategies to refinance ARMs before their higher rates kicked in.

[1] FY 2007 budget authority, from "Budget of the U.S. Government, Fiscal Year 2009: Historical Tables," Table 5.2.
[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, 2008," available at http://www.huduser.org/periodicals/ushmc.html.

Policy Response to Mortgage & Financial Markets

During FY 2008, the stabilization of capital markets became an area of intense focus for Congress, the Department of Treasury, and the Federal Reserve. Ongoing availability of credit is an issue with global reach, and is an essential precondition for stabilization of housing prices and default rates. It also has the potential for affecting HUD's goals in other ways, as tightened credit could trigger a broader economic downturn and reduce the ability of state and local governments to finance capital projects at reasonable cost.

HUD has responded to the direct housing aspects of the subprime mortgage crisis in a number of ways. These include developing and implementing program responses, including key components of the Housing and Economic Recovery Act (HERA) of 2008.

The **Federal Housing Administration** has improved its management practices and business processes to provide FHA insurance to more low-income households seeking to become homeowners or to secure homeownership for the future. FHA's efforts to modernize and streamline its business practices, and the recent FHA modernization bill, reflect HUD's emphasis on improving products, reducing risk, and automating business processes. In FY 2008, FHA expanded both the use of the Technology Open To Approved Lenders (TOTAL) scorecard and the eligibility standard for automated underwriting approval. This will result in direct savings to homebuyers and will expedite loan origination for thousands of households. The capital ratio for the FHA Mutual Mortgage Insurance Fund remains above the statutory minimum of 2 percent, even in the midst of the deepest housing recession of the modern era. That ratio was estimated by an independent actuarial study to be 3 percent at the end of FY 2008. The ratio represents reserves over-and-above what will be necessary to pay for expected insurance claims in the future. The capital ratio directly influences FHA's ability to continue to offer insurance coverage to mortgagors. It is vital in the current market environment that FHA be a viable option for homebuyers and for homeowners who need to refinance out of costly subprime mortgages. FHA's share of mortgage originations rose from under 2 percent in early 2007 to 22 percent in July 2008.

Early in FY 2008, HUD and the Department of Treasury encouraged mortgage market participants to form the HOPE NOW Alliance, including counselors, servicers, investors, and other groups. The Alliance provides coordinated outreach to homeowners in distress to help them stay in their homes. HUD-funded counseling organizations play a central role, providing borrowers with in-depth counseling about debt management, credit, and foreclosure prevention. The Alliance estimates that the efforts of the mortgage lending industry during the first three quarters of calendar 2008 had enabled approximately 1.6 million homeowners to avoid foreclosure.[3]

HUD also introduced *FHASecure* at the end of FY 2007 in response to the growing foreclosure crisis. *FHASecure* is helping homeowners with subprime ARMs refinance to affordable, fixed-rate, FHA-insured loans. Since inception, FHA assisted almost 369,000 homeowners through the *FHASecure* initiative as of September 30, 2008.

FHA default rates have been very stable while those for Subprime ARMs have escalated. FHA's seriously delinquent rate (defaults plus in-foreclosure) in the second quarter of FY 2008 was

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[3] http://www.hopenow.com/media/press_release.php

5.43 percent, compared with 18 percent for all subprime loans, and 27 percent for Subprime ARM loans. Additionally, FHA has significant program safeguards that reduce and contain the risk of foreclosure for borrowers who experience mortgage default.

FHA also has taken substantial steps to reduce predatory lending among minority households and neighborhoods. This includes denying FHA insurance for mortgages on homes that have been "flipped" at inflated prices and deploying special monitors to pursue unscrupulous appraisers and lenders.

The **Housing and Economic Recovery Act**[4] has enabled FHA to better assist in the refinance of at-risk mortgages by establishing a $300 billion HOPE for Homeowners program. Through the Program, FHA helps distressed homeowners avoid foreclosure by insuring new, refinanced mortgages that have lower balances, fixed interest rates, and at least 30-year terms. To balance risk to the HOPE Insurance Fund, loans must be restructured so that mortgage payments are no more than 31 percent of monthly income, with an exception to 38 percent if the borrower first demonstrates the willingness and ability to make those higher payments. Also, all second mortgages must be canceled and all late fees and prepayment penalties must be waived. Mortgagees also must write down the loan's principal balance to 90 percent of the home's appraised value. This saves them from potentially larger losses should they rather pursue foreclosure, while at the same time creating a more stable situation for the homeowner.

The housing government-sponsored enterprises, Fannie Mae and Freddie Mac, were placed under conservatorship in September 2008, because they held inadequate reserves of capital relative to their probable risk from defaults. Through the HERA, Congress created the new Federal Housing Finance Agency, and transferred to it two key regulatory roles for the enterprises -- the safety and soundness oversight role of the Office of Federal Housing Enterprise Oversight, as well as HUD's role of regulating the enterprises' affordable housing mission. The conservatorship will allow the GSEs to remain liquid enough to inject needed capital to help steady the mortgage market.

Ginnie Mae also continues to guarantee mortgage-backed securities backed by federally insured or guaranteed loans. Ginnie Mae guaranteed $220.6 billion in securities during FY 2008, providing continued support for the secondary mortgage market while increasing market share. The twelve Federal Home Loan Banks, which also are government-sponsored enterprises, likewise continue to provide large amounts of mortgage capital.

Housing Supply and Prices

The nation's housing stock grew by 1.7 percent through the second quarter of 2008, adding a half-million each of owner- and renter-occupied units as well as more that 1.25 million vacant units. The rental vacancy rate of 10.0 percent in the second quarter was up from 9.5 percent a year earlier. Although rental vacancy rates remain above historical averages, many local rental markets have very little housing that extremely low-income renters can afford without HUD program assistance. Newly constructed apartments tend not to be affordable: those completed in the first quarter of 2008 had median asking rent of $1,111, up 16 percent from a year earlier.

Among single family homes, declining home prices (largely attributed to the mortgage crisis), and additions to the housing stock have made homeownership slightly more affordable in

[4] Public Law 110-289, available at http://www.gpoaccess.gov/plaws/index.html.

FY 2008, after a decade of rising home prices. In September 2008, the median sales price of an existing home was 8.8 percent less than a year ago. This was partially due to a more restrictive credit market and a drop-off of investor purchases that reduced demand for new homes. As a result, sales of new homes in September were 33.1 percent below last year's volume. Sales of existing homes, however, began to recover, with 7.8 percent more homes sold in September compared with a year earlier, and with the inventory of existing homes for sale shrinking by 2.4 percent over the same period.[5]

To reduce the surplus of new single-family homes, developers continued to slow construction of single family homes in FY 2008, after record level activity during 2005 and 2006. Seasonally adjusted annual rates for single family building permits during the second quarter of 2008 were 40 percent lower than a year earlier.

Household Incomes and Affordability

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).[6] This was primarily due to the insufficient supply of rental units affordable to households with extremely low-incomes.

However, the "housing opportunity index," (HOI) calculated by the National Association of Home Builders and Wells Fargo showed an improvement in housing affordability for single family owner-occupied homes. HOI represents the percentage of homes that are affordable to a median income family in a metro area. The index improved to 55.0 percent in the second quarter of 2008, a jump of 11.9 points from a year earlier, and implying that over half of homes sold were affordable to median income families. Nevertheless, the index value of 63.7 percent recorded in 2002 and 2003 was substantially better, because both home prices and interest rates were lower then.

As a result, homeownership remains out of reach for many low and moderate income families. Given the nation's record level foreclosures and defaults, the demand for affordable rental housing is likely to increase further. However, limited federal resources for housing assistance constrain HUD's ability to provide access to more affordable housing. Substantial increases in voucher costs and utilization have strained HUD's Section 8 program resources.

Residential energy costs are often overlooked as a factor affecting housing affordability. According to the Joint Center for Housing Studies, 2.5 million extremely low-income households spent more than 30 percent of their incomes on home energy in 2003.[7] From the end of 2002 to September 2008, housing "fuels and utilities" prices have increased by 58 percent.[8] High energy prices pose a risk to HUD's public housing and Section 8 programs, which cover utility costs as part of gross rents.

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[5] Figures are seasonally adjusted annual rates. 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 .

[6] HUD, 2007, "Affordable Housing Needs 2005: Report to Congress." http://www.huduser.org/publications/affhsg/affhsgneeds.html

[7] Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing 2006," page 8.

[8] See Consumer Price Index tables for urban consumers at http://www.bls.gov/cpi/#tables.

Employment

The **unemployment rate** is an indication of shocks to household income that may make housing unaffordable. Due to a waning economy and an unstable housing market, the unemployment rate increased to 6.1 percent at the end of FY 2008, up from 4.7 percent a year earlier. According to the Bureau of Labor Statistics, FY 2008 closed with a net loss of 519,000 jobs, following gains in the first quarter.[9] The industries with the greatest numbers of unemployed persons are construction, manufacturing, and professional business services. The manufacturing sector currently accounts for 9.7 percent of total non-farm employment, but is expected to shrink to 8.2 percent 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 new skills accrued by manufactured workers. These macroeconomic trends can affect HUD's success in strengthening communities.

At the local level, unemployment can indicate workforce skill gaps, or spatial mismatches between unemployed workers and available jobs that are exacerbated by insufficient transportation options. Many older communities also face fiscal pressures as they struggle to provide quality services, attract employers, and manage the deterioration of housing stock, especially as real estate values decline eroding the property tax base. 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.

For individuals in marginal housing situations or challenged by personal issues, loss of employment can quickly lead to homelessness**.** Along with the availability of low-cost housing, personal issues such as domestic violence, substance abuse, mental illness, disabilities, and lack of education and job skills can lead one to become homeless.

Policy Responses to Other Economic Factors

Federal budget constraints have made it challenging to expand the nation's affordable housing supply. In recent years, federal expenditures for production of rental housing largely have been through the Low Income Housing Tax Credit. With $5 billion of annual budget authority, the tax credit program, in combination with HUD programs such as HOME and CDBG, adds more than 100,000 units annually, of which 95 percent qualify as affordable.[10]

The Housing and Economic Recovery Act provided $3.92 billion of emergency assistance grants under CDBG to stabilize communities that have been harmed by concentrated foreclosures. The ***Neighborhood Stabilization Program*** grants may be used to acquire and redevelop foreclosed properties that otherwise would trigger further abandonment and blight. HUD allocated the funds at the end of FY 2008, for communities to use within 18 months.

Resource constraints, especially for rental housing, have led HUD to improve its verification of tenant income for households receiving rental assistance to ensure the efficient and fair allocation of resources. Tenant-paid rents are established as a percentage of income in HUD's rental assistance programs, so that lower tenant incomes require larger rent subsidies. The

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[9] From the table "Employment, Hours, and Earnings from the Current Employment Statistics survey (National)," at http://www.bls.gov/data/#employment. August and September estimates remain preliminary as of Oct.10, 2008.

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

Department has worked to ensure that tenants do not under-report wages, social security benefits, and unemployment income and that assisted housing providers adequately verify reported income.[11] HUD has cooperated with program partners and tenant groups to strengthen and adhere to internal controls. In FY 2006, HUD implemented the Enterprise Income Verification system (EIV) to enable housing agencies to more accurately verify tenant income. The expansion of the verification process to assisted multifamily programs[12] in FY 2008 will eliminate the majority of improper payments attributable to tenant underreporting of income. This effort might also be strengthened by statutory changes to simplify and standardize subsidy program requirements.

HUD also has implemented regulatory changes to the operating subsidy program to move public housing agencies toward asset management practices and greater energy efficiency. PHAs will be able to reduce operating costs, retain savings, and take advantage of financial incentives and strategies for reducing utility consumption.

Regulations also provide for Energy Performance Contracts to help PHAs control utility and maintenance costs. These contracts are part of an innovative financing technique that uses cost savings from reduced energy consumption to repay the cost of energy conservation measures. The Federal Energy Policy Act of 2005 enhanced the contracts by extending payback periods from 12 to 20 years. This flexibility makes the contracts financially more attractive to small and medium size PHAs, and can generate funding to incorporate more energy-saving retrofits.

To improve energy efficiency among homeowners, FHA is offering energy efficient mortgages to homebuyers and homeowners that seek to upgrade their homes to reduce energy consumption. In addition, HUD has partnered with the Department of Energy to promote the use of Energy Star products within HUD programs, including in housing developments financed by HOPE VI, HOME, and CDBG.

Demographic/Social Factors

Demographic factors, such as growing populations of seniors and persons with disabilities, also affect HUD's strategic goals. The elderly population (65 and older) is projected to increase from 12 percent in 2000 to 19 percent by 2030, with rapid growth beginning in 2010. As life expectancy continues to lengthen, helping the elderly to remain homeowners or age in place will become increasingly important for containing medical costs and improving quality of life.

For persons with disabilities, the Supreme Court in 1999 ruled that states must place persons with disabilities in community settings rather than institutions when treatment professionals determine that community placement is appropriate (Olmstead vs L.C. (98-536) 527 U.S. 581 (1999)). As a result of this decision, more persons with disabilities could be moving into communities where the supply of affordable housing remains low. Local resistance to group housing, along with zoning regulations, frequently become barriers to meeting the housing needs of this disadvantaged population.

Another demographic trend is the growth of the Hispanic population. This ethnic shift, projected to reach 23 percent of the population by 2030, will continue to create new and evolving

[11] For more information, please see "Improper Payments" discussion in Section 4 of this report.
[12] See http://www.hud.gov/offices/adm/hudclips/notices/hsg/files/08-03HSGN.doc

challenges for HUD's fair housing responsibilities, for rental housing and homeownership, including housing counseling, and for community development, including the Colonias.

Geography of Poverty

The past decade has seen significant changes in the distribution of poverty within numerous U.S. metropolitan areas. HOPE VI redevelopment and expanded use of vouchers has dispersed large concentrations of poverty associated with large public housing developments. In parallel with this trend, mixed income communities and upscale loft housing development are reviving 24-hour city living in urban cores.

However, gentrification, such as sometimes occurs when older affordable neighborhoods experience rapid increases in demand, has had negative side effects by displacing low-income households to suburban areas. Between 1999 and 2005, growth in the numbers of suburban poor outpaced growth of poor persons in central cities by 1 million people.[13] This trend may continue as cities face declines in affordable housing stock, rising home prices, and continued gentrification of poorer neighborhoods. The quality of neighborhood schools interacts strongly with poverty and neighborhood quality. Countless families with children make location decisions based on schools, leading frequently to neighborhoods sorted by income.

Public Awareness of Fair Housing Law

HUD's survey, the Housing Discrimination Study 2006, revealed the need for greater education on some aspects of the fair housing laws.[14] The most recent work indicates that the public has become more aware of protections for families with children and prohibitions of racial steering, but was less aware of laws that prohibit advertisements that discriminate on the basis of religion. The lack of public awareness of housing discrimination laws greatly hinders HUD's ability to enforce fair housing, affecting both compliance and responses of victims. Other HUD studies have found persistent discrimination against African Americans, Hispanics, Asians, and Pacific Islanders in residential sales and rental markets. HUD's research also has revealed discrimination against persons with disabilities, including frequent refusals to allow reasonable accommodations.

While HUD's studies suggest that housing discrimination occurs frequently, victims do not always report the discrimination. This may be due to a tenant's lack of education regarding the fair housing law or the erroneous belief that filing a compliant would cost them money. HUD's public awareness study found that 90 percent of persons who experienced housing discrimination did nothing; and one percent reported that they filed a complaint with a government agency.

Policy Responses to Demographic Factors

To assist elderly populations in affordable homeownership, FHA's Home Equity Conversion Mortgage program endorsed 111,661 reverse mortgages in FY 2008, raising the total since the program's inception to 454,745 loans. These reverse mortgages support aging in place and adequate incomes for elderly homeowners by allowing them to tap into home equity.

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[13] Brookings Institute. "Two Steps Back: City and Suburban Poverty Trends 1999–2005." http://www.brookings.edu/reports/2006/12poverty_berube.aspx
[14] Available at www.huduser.org

To enhance the private response to housing needs for persons with disabilities, HUD works with teams to help improve the International Building Code and the International Residential Code. The cooperative effort periodically updates the codes to ensure that multifamily housing developers comply with statutory accessibility requirements that meet the needs of disabled populations.

Community needs and urban conditions and challenges have evolved substantially over the past several decades. To address these challenges, including those related to shifting demographics, HUD has proposed Community Development Block Grant reform. The legislation would reform the CDBG allocation formula to more equitably target funds toward current community needs and to promote more focused efforts within jurisdictions. HUD also continues to strengthen the use of performance measurement for community development.

To reduce housing discrimination, HUD continues to promote fair housing by investigating, conciliating, and prosecuting discrimination in the private market, and ensuring non-discrimination in its own programs. The Department is reviewing regulatory requirements and responses concerning "analyses of impediments" to fair housing that jurisdictions conduct as part of their planning for community development. Additionally, FHA has worked to ensure equal housing opportunities through targeted marketing and outreach to unserved and underserved markets.

Physical Environment Factors

Natural disasters have provided ongoing challenges and risks to many of HUD's strategic goals, destroying lives, infrastructure and housing stock, and displacing families. In 2005, hurricanes Katrina, Rita and Wilma severely damaged or destroyed an estimated 193,000 owner-occupied homes,[15] of which many were occupied by families with low- or very low-incomes. Similar dangerous and destructive hurricanes continued to occur in 2008, while severe thunderstorms brought a "500-year" flood to Iowa and other states. Evidence that severe hurricane activity may worsen highlights the risk of extensive development of coastal areas in recent decades. Additionally, disasters such as severe earthquakes and wildfires along the West Coast or the Midwest's New Madrid fault could radically reshape urban America, as could further terrorist actions.

Land Use and Development

Rising land costs, congestion, and local zoning ordinances are among the factors affecting private decisions about residential location as well as commercial development. As the price of land increases, private developers may choose to construct less affordable single and multifamily housing without additional federal assistance. Because affordable units for rent and sale are priced below the market rate, private developers may produce less affordable units if their construction costs are too high.

Local zoning ordinances and land use controls can prevent the construction of affordable housing. Land use policies that require minimum density or lot sizes can indirectly affect construction costs and the types of housing built. High housing prices may force lower income households away from their place of employment to areas where housing is more affordable.

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

This has increased traffic congestion and average commuting times, and high commuting costs are exacerbated by recent increases in fuel prices.

Policy Responses to Physical Environment Factors

While much of the federal initiative to assist hurricane efforts remains with the Federal Emergency Management Agency (FEMA), HUD received a mission assignment from FEMA to assist with re-housing families displaced from the Gulf Coast. FHA's loss mitigation solutions enabled more than 20,000 homeowners in areas afflicted by Katrina, Rita, and Wilma to retain homeownership through the end of FY 2008. HUD has marshaled a full range of program authority in the service of rebuilding New Orleans and other hurricane-damaged communities. HUD has allocated more than $19 billion in CDBG disaster supplemental grants to the Gulf Coast states where 90 percent of funds have been used for housing-related activities. This includes the resident relocation, housing rehabilitation and development reconstruction. Additionally, improved coordination with FEMA in disaster response planning will pay dividends in future disasters.

Although land use remains primarily a state and local issue, HUD is addressing land use costs in the form of regulatory barriers through a focused research program and sharing of best practices. The Regulatory Barriers Clearinghouse provides an extensive array of strategies intended to support affordable housing. Additionally, HUD is engaged with the Federal Transit Administration to promote affordable housing near transit through the coordination of housing and transportation programs.

Organization and Management Factors

In addition to the three categories of external factors identified above, several additional types of factors affecting performance and risk are tied more directly to internal processes and organization. These factors and HUD's responses are discussed here.

Relations with Business Partners

Communities have a great deal of flexibility when using HUD funds to address economic conditions. Local partners can use several programs, and particularly CDBG, for a variety of eligible activities such as job training and small business development. However, this local discretion complicates HUD's ability to set goals and assess results at a national level. HUD is working closely with state and local partners to enhance local assessments without restricting CDBG flexibility.

Additionally, program success requires active participation from a wide variety of organizations. For example, the continuum of care needed to assist homeless populations engages a wide variety of partners, which may include state and local agencies, nonprofit organizations, service providers, housing developers, private foundations, the banking community and local businesses. Increasing fiscal constraints of state and local governments may reduce their ability to contribute to shared objectives.

Federal Workforce

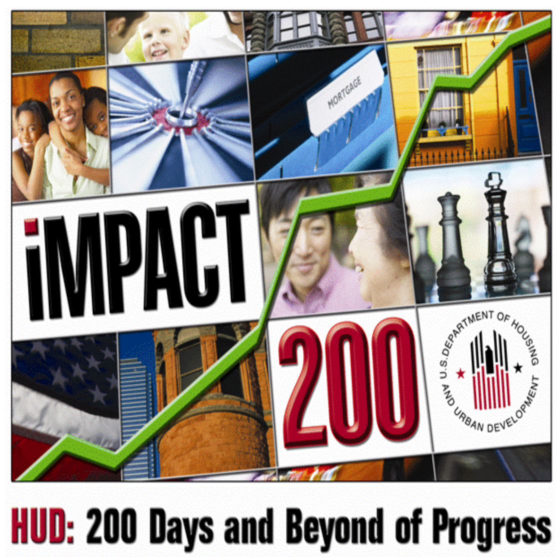
Like many federal agencies, HUD has an aging workforce, where more than 58 percent of employees are eligible to retire within the next three years. Succession planning is critical, yet workforce planning is hindered by lack of funding to support authorized full-time equivalent staffing levels. The funding gap is worsened by the need to fund salary increases that are not provided in HUD's annual appropriations. To use funds more effectively, HUD is using a variety of tools including employee surveys, workforce planning, and a centralized training strategy to upgrade staff capabilities.

To ensure continued program accountability under staffing constraints, HUD is refining and strengthening 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.

Information Management

Adequate funding of HUD's information technology portfolio is necessary in efficiently managing HUD programs. Funding constraints have hindered progress in upgrading outdated legacy systems that support critical program operations and financial controls. HUD needs the commitment and funding to complete the modernization of legacy information systems, employing enterprise architecture principles. HUD also has established a collaborative structure through which HUD program managers assume a stronger system 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.

The Secretary's Management Agenda



Secretary Preston assumed the leadership of HUD in June 2008. Upon his confirmation, the Secretary embarked on an ambitious agenda to further enhance HUD's performance and advance HUD's mission. This agenda -- entitled *iMPACT 200* -- provides a framework for his term of roughly 200 days as Secretary of the Department. It focuses on ways to support our constituents, provide transparency to our major initiatives, and move the Department forward. *iMPACT 200* is built on the idea that HUD must engage its customers and empower its employees. At a time when HUD's mission has never been more important, *iMPACT 200* establishes reasonable timetables and relies on the outstanding service, personal sacrifice, and total commitment of the HUD team to accomplish three strategic goals:

- Promote responsible, sustainable homeownership for all Americans,
- Maximize options for safe and affordable housing so all Americans can embark on a path to self-sufficiency, and
- Deliver effective, timely service to our customers, employees, and partners.

The Department has made significant progress on the Secretary's agenda. Of major significance is the implementation of the new housing legislation, the Housing and Economic Recovery Act of 2008, which established the *HOPE for Homeowners* and *Neighborhood Stabilization*

Programs. The Act also expanded authority for the *FHASecure* program that had already assisted over 368,000 homeowners since its inception in 2007.

Additionally, the Department has also undertaken several Business Process Reengineering (BPR) efforts in the Offices of Housing, Administration, and Procurement as part of the Secretary's agenda. The Office of Housing has led the way on Lean BPRs with an initiative to accelerate automation and streamlining across all FHA program areas. This same Lean BPR technique is being applied by the Office of Administration to improve the Human Resources function and streamline the process for recruitment and hiring new employees, while providing a blueprint of the BPR staffing/hiring process to the incoming Administration. The Office of the Chief Procurement Office also is undertaking a Lean BPR effort to strengthen and improve the procurement and acquisition process by mapping and automating the current process from the annual strategic plan through award, creating paperless procurement request process, reducing the number of forms significantly, standardizing the review process, and providing improved accountability.

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 2008, these initiatives included (Year initiated):

- Strategic Management of Human Capital (FY 2002),
- Commercial Services Management (formerly Competitive Sourcing) (FY 2002),
- Improved Financial Performance (FY 2002),
- Expanded Electronic Government (FY 2002),
- Performance Improvement (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 three were identified by OMB and HUD officials as significant areas for improved performance at the agency level. A fourth HUD-specific Initiative entitled "Improved HUD Management and Performance" was established in FY 2002, and the actions associated with this Initiative were successfully completed in FY 2007, resulting in HUD receiving a final rating of GREEN and removal of this Initiative from the PMA. 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.

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.

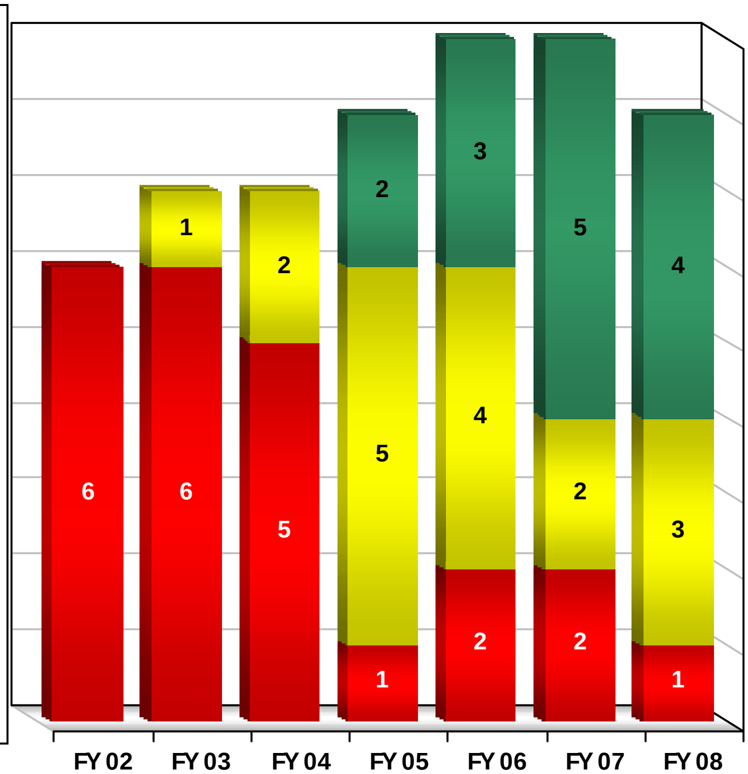
Following is a summary table followed by a detailed description of HUD's FY 2008 PMA activities and results as of June 30, 2008:

OMB instituted a "stoplight" scoring system to evaluate the status and progress of each agency.

- **Green** for success,
- **Yellow** for mixed results, and
- **Red** for unsatisfactory.

Status:
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 reporting cycle ending June 30, 2008, HUD earned four GREEN scores, three YELLOW, and one RED status score.

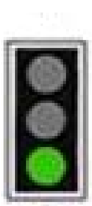


HUD's Overall PMA Scoring Progress 2002-2008

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

Initiative	HUD's Overall PMA Scoring Progress 2002-2008 By Initiative						
	June 2002	**June 2003**	**June 2004**	**June 2005**	**June 2006**	**June 2007**	**June 2008**
Human Capital	Red	Red	↑ Yellow	Yellow	Yellow	Yellow	↑ Green
Commercial Services/ Competitive Sourcing	Red	Red	Red	↑ Yellow	Yellow	↓ Red	↑ Yellow
Improved Financial Performance	Red	Red	Red	Red	Red	↑ Green	Green
Expanded E-Government	Red	Red	Red	↑ Yellow	↑ Green	Green	↓ Yellow
Performance Improvement	Red	Red	Red	↑ Yellow	Yellow	Yellow	Yellow
HUD Management and Performance	Red	Red	Red	↑ Yellow	Yellow	↑ Green	Complete*
Faith-Based and Community Initiatives	N/A	Yellow	Yellow	↑ Green	Green	Green	Green
Eliminate Improper Payments	N/A	N/A	N/A	↑ Green	Green	Green	Green
Credit Program Management	N/A	N/A	N/A	N/A	Red	Red	Red

* Management and Performance. The actions associated with the Management and Performance initiative were successfully completed, and HUD received a final rating of GREEN.

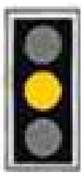


1. Human Capital. HUD has received a rating of GREEN for status and GREEN for progress for this initiative. HUD's Human Capital initiative is structured to accomplish the PMA goal of having processes in place that ensure quality personnel are selected and performing at optimum levels. The Department 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 core tenets of 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.

To achieve the Green score on this Initiative in FY 2008, HUD:

- Demonstrated progress in reducing identified skill gaps and in continuing to pursue a more optimal organization;
- Developed a Succession Management Plan to address the potential retirement of approximately 60 percent of HUD's workforce over the next 3 years;
- Fully integrated its strategic and annual plan goals with the performance appraisal plans for all executives, managers, supervisors, and employees to promote a Department wide results-oriented performance culture.



2. Commercial Services Management. HUD has received a status rating of **YELLOW** and a **YELLOW** progress score for this initiative. Commercial Services Management is 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. Commercial Services Management also tracks internal Business Process Reengineering (BPR) efforts pursued by HUD to improve its operations.

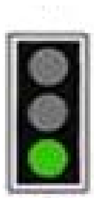
Prior to the President's emphasis on competitive sourcing, HUD had already outsourced many of its services, and accordingly it must carefully consider the affect on program risk of any further outsourcing. To date, the Department had completed seven competitions and implemented the results of five, with an anticipated cost savings totaling $22.6 million over a period of five years. However, no new competitions were held in FY 2008.

During FY 2008, HUD began implementation of the results of a streamlined competition announced last fiscal year on 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, and continued its BPR efforts on the Controlled Correspondence and IT Web functions. Additionally, the Department has undertaken Lean BPR reviews in the Offices of Housing, Administration, and Procurement. The Office of Housing has led the way on Lean BPRs with an initiative to accelerate automation and streamlining across all FHA program areas. To date, the Lean BPR approach has been used for the following two Housing programs:

- **232-223(f) Skilled Nursing Facility/Assisted Living Facility:**
  Project Charter: To improve consistency of decisions and processing and timeliness in reaching firm commitment and closing of 232 applications.
- **Single Family (SF) Home Ownership Center (HOC) endorsement process:**
  Project Charter: Improve process efficiency to maximize resources to handle the increased volume/demand, as well as to respond to crisis in the mortgage industry and prepare for the new legislation.

This same Lean BPR technique is being applied by the Office of Administration to improve the Human Resources function and streamline the process for recruitment and hiring new employees, while providing a blueprint of the BPR staffing/hiring process to the incoming Administration. The Office of the Chief Procurement Office also is undertaking a Lean BPR effort to strengthen and improve the procurement and acquisition process by mapping and automating the current process from the annual strategic plan through award, creating paperless procurement request process, reducing the number of forms significantly, standardizing the review process and providing improved accountability.



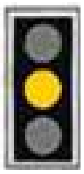
3. Improved Financial Performance. HUD is one of 13, out of a total of 26 major agencies, to earn a GREEN status and GREEN progress rating. Financial performance is a significant indicator of an agency's ability to fulfill its mission and meet the needs of the citizens and their government. Adequate control over financial operations enables the agency to reduce the risk of fraud, waste, and abuse; 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) Meet financial reporting deadlines; 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 continued to maintain its status of GREEN based largely on:

- Achieving its ninth consecutive unqualified audit opinion on its consolidated financial statements;
- Eliminating its two FY 2007 auditor identified material weaknesses;
- Meeting all accelerated financial reporting requirements;
- Reducing unexpended funds balances to necessary levels;
- Implementing strengthened policies, procedures, training, and practices related to HUD's administrative control of funds;
- Achieving full compliance with OMB's A-123 assessment and assurance requirements for internal controls over financial reporting;
- Ensuring financial management systems are substantially compliant with FFMIA requirements; and
- Demonstrating effective uses of financial information to drive improved performance results through HUD's Financial Data-Mart, with plans for further continuous improvements.

Our progress and success have been recognized by our toughest examiners, the HUD Office of Inspector General, the GAO, and our OMB examiners.



4. Expanded Electronic Government. On June 30, 2007, HUD was one of five government agencies that had achieved GREEN status out of 26 agencies that were rated on this initiative. For each of the next three quarters, HUD continued to achieve GREEN status until June 30, 2008, when HUD's E-Government Initiative status score fell to **YELLOW.** The progress score also fell to **YELLOW** that quarter.

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.

Through the first three quarters of FY 2008, HUD met all the requirements for maintaining GREEN status based on actions that included:

- Implementation of an Enterprise Architecture that is guiding HUD's IT investment decisions in an efficient and effective manner;
- Progress towards completion of the E-Government Initiatives Implementation plan;
- Improvements to IT project management, with adherence to project cost, schedule and performance goals over 90 percent of the time;
- Maintenance of an approved NCS 3-10 plan for Continuation of Operations (COOP) and Continuation of Government (COG);
- Full compliance with the Federal Information Security Management Act (FISMA), as verified by the HUD OIG; and
- Completion of all reports, certifications, notices, and assurances in a timely fashion.

HUD was downgraded by OMB, however, for failure to fulfill all E-Government funding requirements and for failure to submit a revised Grants Management Line of Business Strategy Plan that comports to OMB's mandate. While HUD has worked extensively with Congress to obtain the necessary funding, certain funding requirements are still outstanding. HUD received a cut of 21 percent ($65 million) of its overall IT budget in FY 2008. Without the necessary appropriations, HUD was unable to proceed in the implementation of certain aspects of the E-Government implementation plan that require congressional funding.

HUD's E-Government performance has not gone unnoticed, however. HUD received the "2008 Excellence.Gov" Award from the American Council of Technology for implementation of the Enterprise Income Verification system that verifies income and benefits for low-income households, an important tool for eliminating improper payments. HUD also received the Intergovernmental Solutions Awards for development of the National Housing Locator System, now available to federal, state, and local agencies to rapidly identify available housing for citizens displaced from their homes by natural or man-made disasters. The system was developed in 2006 upon recognition of a need that became clear in the wake of hurricane Katrina. Currently, the National Housing Locator System identifies more than 350,000 rental housing vacancies available nationwide.

5. Performance Improvement Initiative. HUD has received a status rating of **YELLOW** and **GREEN** on progress for this initiative. The Performance Improvement Initiative -- which was formerly called the Budget and Performance Integration initiative of the PMA -- seeks 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 and improve performance.

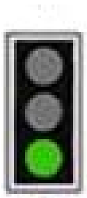
HUD has maintained a status of YELLOW while working with OMB to complete 35 PART assessments covering all of HUD's major programs and nearly all of its annual budget authority. Of the programs assessed, OMB determined that 22, or 63 percent, were Effective, Moderately Effective, or Adequate. OMB rated the remaining13 programs, or 37 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 program and to produce better outcome and efficiency measures that evidence the programs are cost-effective and producing desired results.

Throughout FY 2008, HUD clearly demonstrated its ongoing efforts to achieve the goals set forth in the President's Management Agenda. To date, HUD has accomplished the following:

- The Department has reported important progress in key outcome areas including the initiation of the *FHASecure* program to improve homeownership and deal with the foreclosure crisis. This effort has been greatly expanded upon by the enactment of the Housing and Economic Recovery Act of 2008 that provides an even broader response to the homeownership and foreclosure issues that the Nation faces. The Department has made significant progress in developing more and better outcome measures, and in improving performance in programs that were previously scored as having Results Not Demonstrated under OMB's PART.
- A further significant accomplishment is the provision of disaster and emergency relief to areas impacted by hurricanes Katrina, Rita, Wilma and Ike and Gustav, as well as Midwest floods and other recent disasters.
- The Department named a Performance Improvement Officer to address improvement actions and future plans. Meetings are held on a regular basis by senior agency officials to review program and departmental performance.
- The Department established performance standards and plans for all levels of employees linked to the agency mission and strategic goals.
- For the second consecutive year, HUD received the Certificate of Excellence in Accountability Reporting (CEAR) award for its FY 2007 Performance and Accountability Report (PAR).

- The Department updated reporting on results through the ExpectMore.gov website, available to the public. Progress is noted on all major areas including the assisted affordable housing rental programs, community development programs, fair housing programs, and homeownership and other housing development and supportive programs.



6. Eliminate Improper Payments. The Department continues to be a leader in obtaining GREEN status and GREEN progress ratings for this initiative. 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.

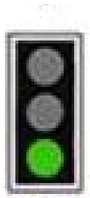
In FY 2005, HUD became the first agency to earn a GREEN status by reaching full compliance with the Improper Payments Information Act of 2002, and achieved the President's goals for eliminating improper payments. In FY 2008, HUD reduced improper payments by 71 percent from the FY 2000 baseline of $3.43 billion to FY 2007 results of $993 million. (There is a one-year lag in the reporting of improper payments.)

The overall reduction in improper payments for HUD's Rental Housing Assistance programs is primarily attributed to HUD's efforts to work with its housing industry partners through enhanced program guidance, training, oversight, and enforcement. Collectively, these efforts have had a positive impact on the program administrators' ability to reduce their errors in the calculation of income and rent.

In HUD's Public Housing program, significant program structure changes were implemented to improve the efficient use of funding in the Public Housing Operating Fund. These structure changes effectively eliminated improper payments in all three previously reported error sub-components – Administrator, Income Reporting, and Billing. In addition, the establishment of a budget based funding methodology in the Housing Choice Voucher Program eliminated the opportunity for billing errors.

The Department also has found a direct correlation in the reduction of improper payments to the number of monitoring reviews of public housing and the number of management and occupancy reviews of multifamily housing, as well as the expanded use of the Enterprise Income

Verification system to owners, management agents and contract administrators for HUD's Project Based Assistance programs.

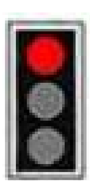


7. Increased Faith-Based and Community Organization Participation. HUD was the first of eleven agencies to earn a status rating of GREEN and continues to maintain its GREEN status. HUD also maintained a GREEN progress score on this initiative. These 11 agencies are leading the government-wide effort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

The Department's objectives for this initiative continue to 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 2008, HUD's Office of Faith-Based and Community Initiatives facilitated 68 grant writing seminars in 68 cities, began publishing monthly on-line newsletters for faith-based and community organizations, and conducted various technical assistance programs to maintain its GREEN status on this initiative. Additionally, HUD continued its efforts to:

- Identify and eliminate unnecessary regulatory and administrative barriers to faith-based participation;
- Improve data collection on faith-based participation;
- Initiate several successful pilot program efforts designed to better utilize faith-based organizations in HUD's program delivery -- such as the Unlocking Doors Initiative (UDI) which partners cities with faith-based and community organizations to improve their effectiveness in implementing affordable housing and homeownership strategies; and
- Encourage faith-based and community organizations to apply for HUD funding. From FY 2006 to FY 2007, the number of grants to these organizations increased from 1,160 to 1,226, an increase of 5.3 percent. (FY 2008 data is not yet available.)



8. Credit Program Management. HUD received a RED status rating and a GREEN progress rating for progress for this new initiative. This 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 planned actions for the credit program initiative were only recently finalized. Achievement of the President's goal requires 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. Additionally, FHA multifamily is developing a statement of governance for the

Business Process Reengineering effort related to multifamily accelerated processing and traditional application processing.

HUD has traditionally been a leader on OMB's Credit Program Policy Council, through efforts such as sharing and expanding FHA's Credit Alert Interactive Voice Response System (CAIVRS) process for use by all federal programs. Further, HUD has completed a number of significant internal control improvements to reduce the risk of the FHA Single Family Housing Mortgage Insurance Programs -- such as the implementation of the Credit Watch Termination Initiative and Appraiser Watch; updates to the Neighborhood Watch Early Warning System (lender and loan level risk management tool); and the implementation of the TOTAL automated underwriting process.

During FY 2008, as the nation experienced increasing numbers of mortgage foreclosures and the failure of large financial institutions, much of the Department's effort was focused on finding creative ways to address the nation's housing crisis, while maintaining FHA's strong underwriting criteria. Noting that the mortgage market had been drifting away from FHA insured loans and the mandatory underwriting standards that accompany them, in February of 2006, as part of the President's FY 2007 budget submission, FHA submitted a modernization proposal to provide greater flexibility for FHA-funded mortgages. The request sought legislative reform to increase FHA loan limits, create a risk-based premium structure, enhance flexibility for downpayment requirements, simplify requirements for condominium loans, expand the use of reverse mortgages, and increase access to pre- and post-purchase counseling for low- and moderate-income homeowners. Most of these modifications were included in the Housing and Economic Recovery Act of 2008 that was signed into law on July 30, 2008.

Also in FY 2007, FHA announced the *FHASecure* Program as a temporary measure to provide refinancing opportunities to homeowners with various types of ARMs. *FHASecure* gives qualified homeowners with non-FHA Adjustable Rate Mortgages the ability to refinance into a FHA-insured mortgage.

The sharp increase in mortgage foreclosures experienced during FY 2008 has occurred due to rising energy costs, increased joblessness, lax conventional underwriting, falling home prices, and resetting interest rates for adjustable rate subprime mortgages.

As HUD begins to implement the provisions of the new housing bill, the credit program management strategy will be refined, and the Department will continue its efforts to progress in this vital initiative.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS

This section provides a summary of HUD's:

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

Summarized Financial Data

(Dollars in Millions)

	2008	2007
Total Assets	$125,036	$111,074
Total Liabilities	$30,521	$20,360
Net Position	$94,515	$90,714
FHA Insurance-In-Force	$573,196	$399,960
Ginnie Mae Mortgage-Backed Securities Guarantees	$576,800	$427,600
Other HUD Program Commitments	$57,027	$65,472

Analysis of Financial Position

Assets - Major Accounts

Total Assets for fiscal year 2008, as reported in the Consolidated Balance Sheets, are displayed in Chart 1. Total Assets of $125.0 billion are comprised primarily of Fund Balance with Treasury of $85.5 billion (68.4 percent) and Investments of $28.6 billion (22.9 percent).

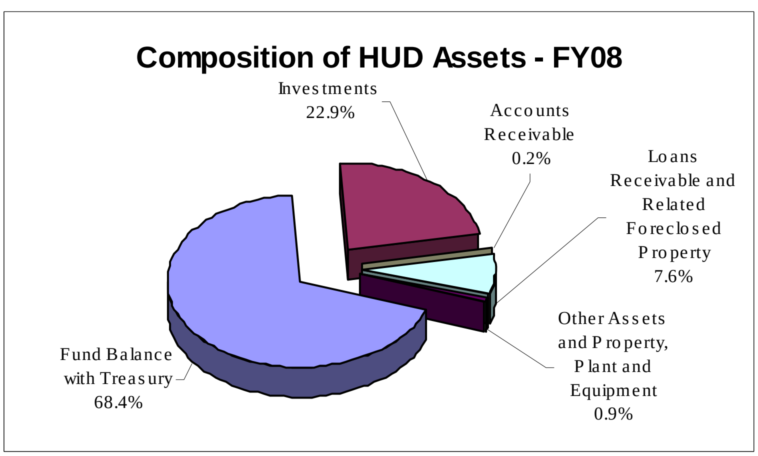


Chart 1 – Composition of HUD Assets –FY08

Total Assets increased $13.9 billion (12.5 percent) from $111.1 billion at September 30, 2007 to $125.0 billion at September 30, 2008. The net increase was due primarily to an increase of $16.5 billion (23.9 percent) in Fund Balance with Treasury from $69.0 billion at September 30, 2007 to $85.5 billion at September 30, 2008.

Table 1 presents total assets for fiscal year 2008 and the four preceding years. The changes and trends impacting Total Assets are discussed below.

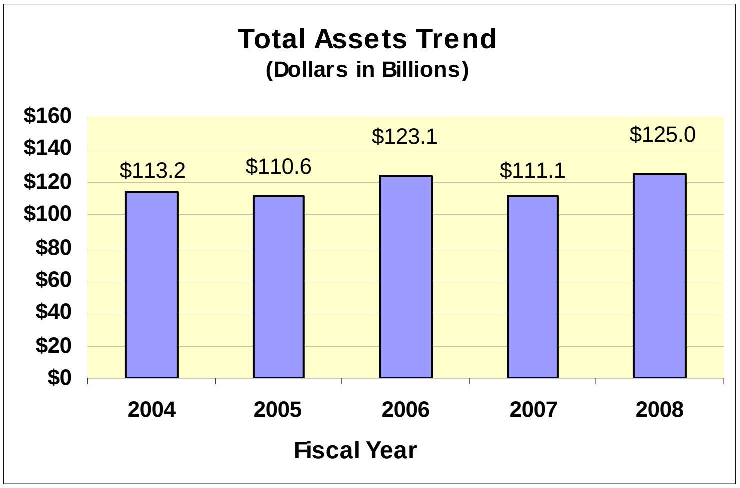


Table 1 – Total Assets Trend

Fund Balance with Treasury of $85.5 billion represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities. Fund Balance with Treasury increased due to an increase of $8.2 billion in funding for the Community Development Block Program (CDBG), an increase in funding for Section 8 of $3.5 billion, and an increase in funding for FHA of $3.0 billion.

Investments of $28.6 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 decrease in Investments.

Accounts Receivable of $0.24 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 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.

Remaining assets of $1.1 billion, comprising 0.9 percent of Total Assets, include fixed assets and other assets. Net changes pertaining to remaining asset balances increased by 33.9 percent compared to prior fiscal year.

Assets - Major Programs

Chart 2 presents Total Assets for fiscal year 2008 by major responsibility segment or program.

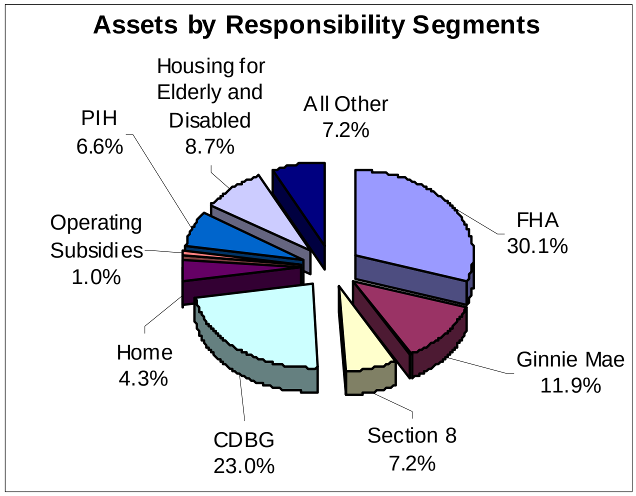


Chart 2 – Assets by Responsibility Segment

Liabilities – Major Accounts

Total Liabilities for fiscal year 2008, as reported in the Consolidated Balance Sheets, are displayed in Chart 3.

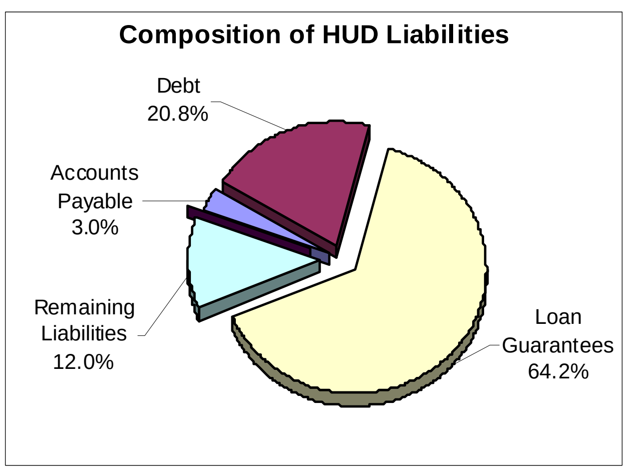


Chart 3 – Composition of HUD Liabilities

Total Liabilities of $30.5 billion consists primarily of debt in the amount of $6.3 billion (20.8 percent), loan guarantee liabilities of $19.6 billion (64.2 percent), accounts payable of $0.9 billion (3.0 percent), and remaining liabilities amounting to $3.7 billion (12.0 percent).

Total Liabilities increased $10.2 billion, 49.9 percent, from $20.4 billion at September 30, 2007 to $30.5 billion at September 30, 2008. The net increase in total liabilities was due primarily to an increase of $12.1 billion in Loan Guarantees offset by a net decrease of $1.9 billion in Remaining Liabilities.

Table 2 presents total liabilities for fiscal year 2008 and the four preceding years. A discussion of the changes and trends impacting Total Liabilities is presented in the subsequent paragraphs.

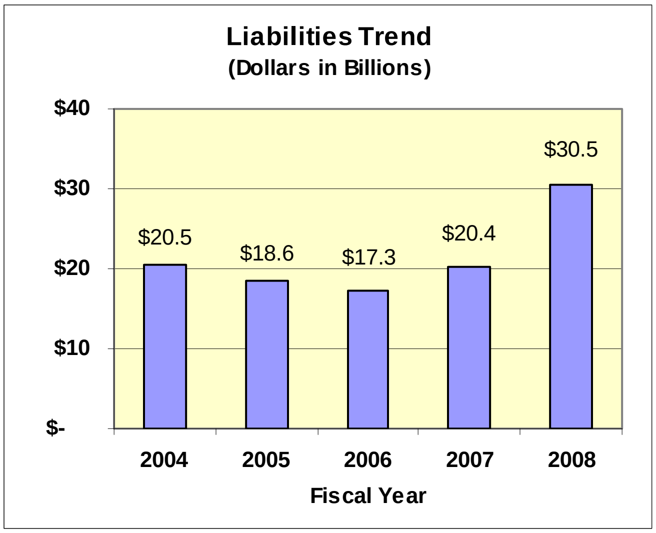


Table 2 – Liabilities Trend

Debt includes intra-governmental debt of $5.6 billion and debt held by the public of $0.7 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 $0.1 billion decrease in debt (repayments exceed new borrowings) was due to a $0.2 billion increase in FHA debt and a decrease of $0.3 billion in PIH 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 $12.1 billion was primarily due to an overall increase in guarantees for FHA programs.

Remaining liabilities of $3.7 billion consist primarily of Insurance Liabilities, Federal Employee and Veteran Benefits, and Other Liabilities. Net changes pertaining to remaining liability balances decreased by $1.9 billion, 12.0 percent, as compared to prior fiscal year.

Liabilities – Major Programs

Chart 4 presents Total Liabilities for FY 2008 by responsibility segment.

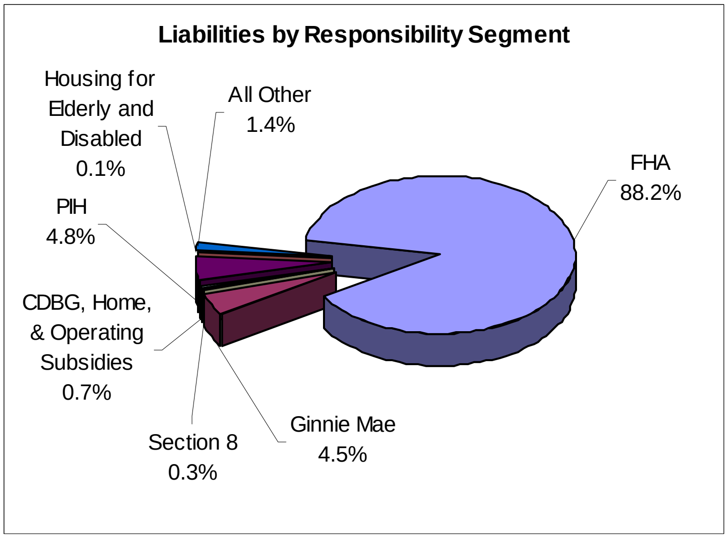


Chart 4 – Liabilities by Responsible Segment

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 an increase of $3.8 billion or 4.2 percent from the prior fiscal year. This increase in Net Position is primarily attributable to an $11.9 billion increase in Unexpended Appropriations and an $8.2 billion decrease in cumulative results of operations (Financing Sources in excess of Net Cost of Operations).

Unexpended Appropriations: which increased 21.9 percent from $54.5 billion in FY 2007 to $66.5 billion in FY 2008, 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 FY 2008 totaled $49.0 billion. This amount is comprised primarily of $49.5 billion in Appropriations Used, offset by approximately $0.66 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 $57.2 billion for FY 2008, and reflects an 11.8 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 FY 2008 by responsibility segment.

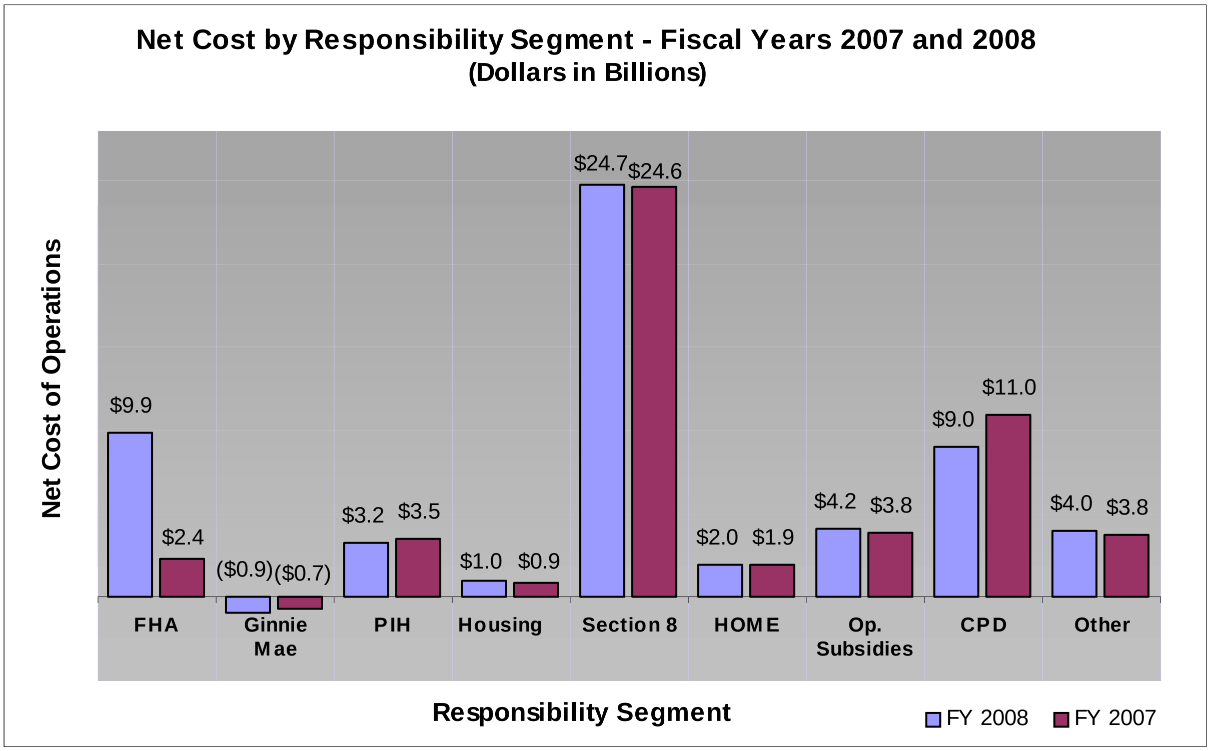


Table 3 – Net Cost by Responsibility Segment

As presented in Table 3, Cost of Operations was primarily a result of spending of $24.7 billion, 43 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 $24.7 billion for the Section 8 programs was $0.1 billion, or 0.4 percent, more than prior fiscal year. Total HUD Net Costs include FHA net loss of $9.9 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 155.3 percent change in Net Results of Operations of $8.2 billion during FY 2008. 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 impacted by both program performance and economic forecasts.

Table 4 presents HUD's Net Results of Operations for FY 2008 and the four preceding years.

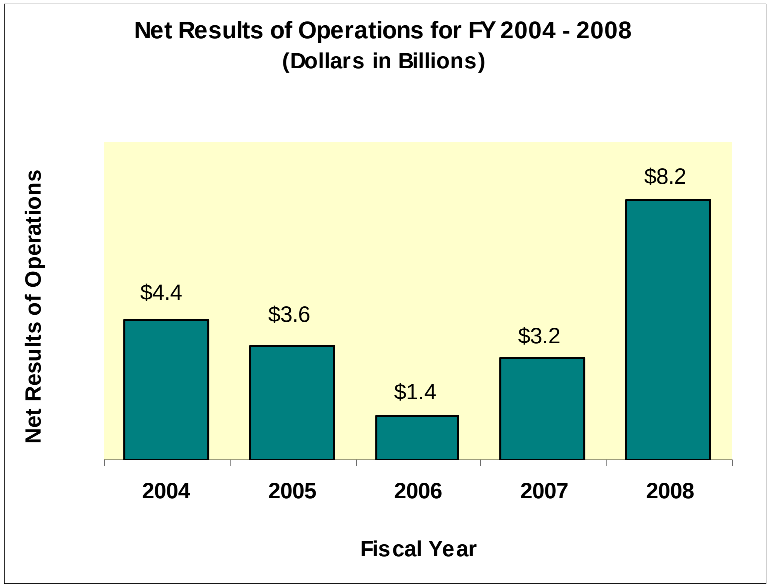


Table 4- Net Results of Operations Trend

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 $57.0 billion in FY 2008 represents HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. Administrative Commitments (reservations) of $3.0 billion relate to specific projects for which funds will be provided upon execution of the related contract.

Table 5 presents HUD's Contractual Commitments for FY 2008 and the four preceding years.

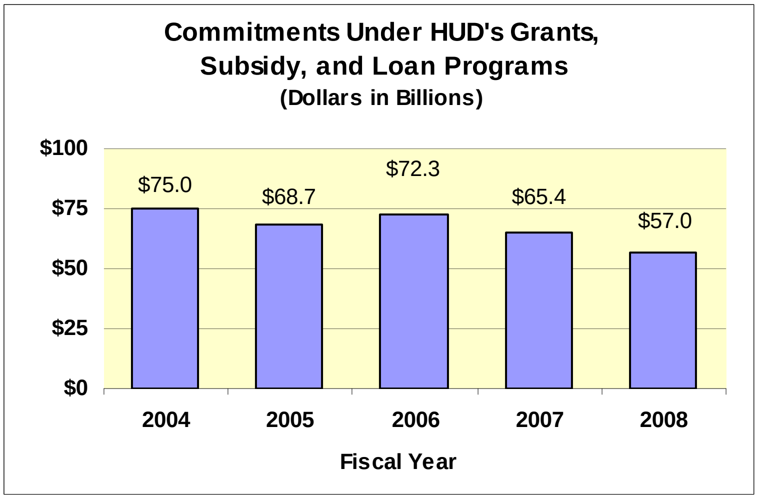


Table 5 – Commitments Under HUD's Grants, Subsidy and Loan Programs

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 FY 1988. Since FY 1988, HUD has been appropriated funds in advance for the entire contract term in the initial year, resulting in substantial increases and sustained balances in HUD's unexpended appropriations.

Total commitments (contractual and administrative) decreased $8.2 billion or 12.0 percent during FY 2008. The change is primarily attributable to a decrease of $2.5 billion in Section 8 commitments along with decreases of $3.0 billion in CDBG, $1.7 billion in Section 202/235/236, $0.4 billion in PIH, and $0.6 billion in All Other commitments.

Table 6 presents HUD's Section 8 Contractual Commitments for FY 2008 and the four preceding years.

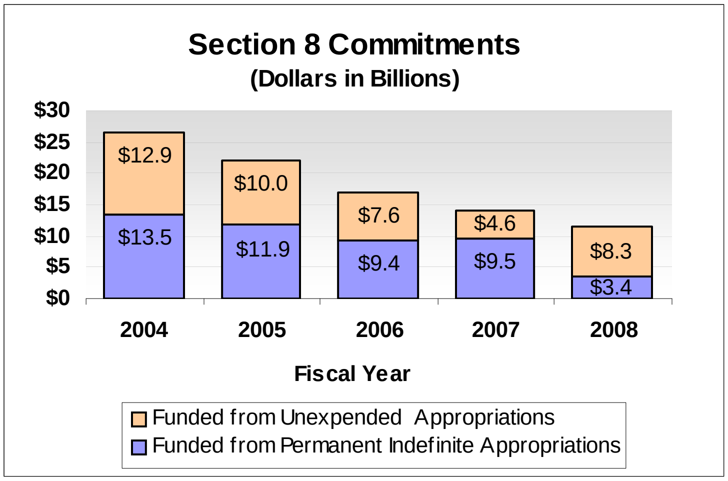


Table 6 – Section 8 Commitments

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

FHA Insurance in Force

FHA's total insurance-in-force increased $173.2 billion or 43.3 percent from $400.0 billion in FY 2007 to $573.2 billion in FY 2008. The increase in FHA's insurance-in-force was primarily due to higher endorsements in the last quarter of FY 2008 and an increase in the FHA reverse mortgage program (Home Equity Conversion Mortgages).

Table 7 presents FHA's Insurance in Force for FY 2008 and the four preceding years.

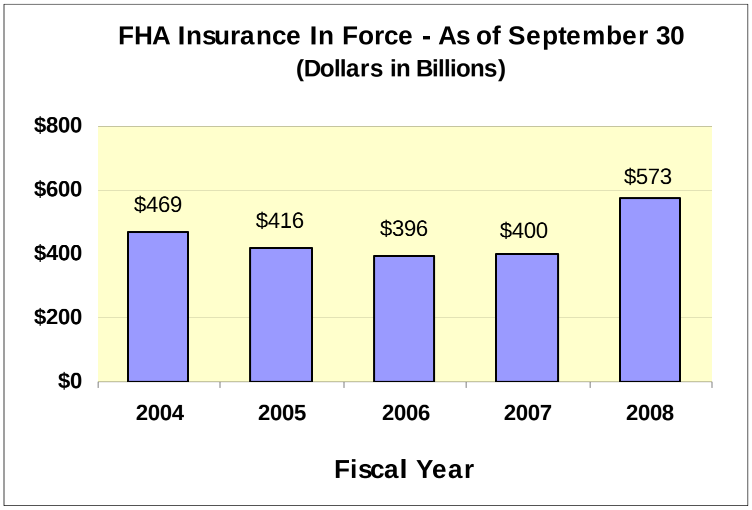


Table 7 – FHA's Insurance in Force at Year End

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, 2008 and 2007, was approximately $576.8 billion and $427.6 billion, respectively. Ginnie Mae's outstanding securities increased commensurate with endorsement volume increases at FHA. 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, 2008 and 2007 were $71.2 billion and $35.8 billion, respectively.

Table 8 presents Ginnie Mae Mortgage-Backed Securities for FY 2008 and the four preceding years.

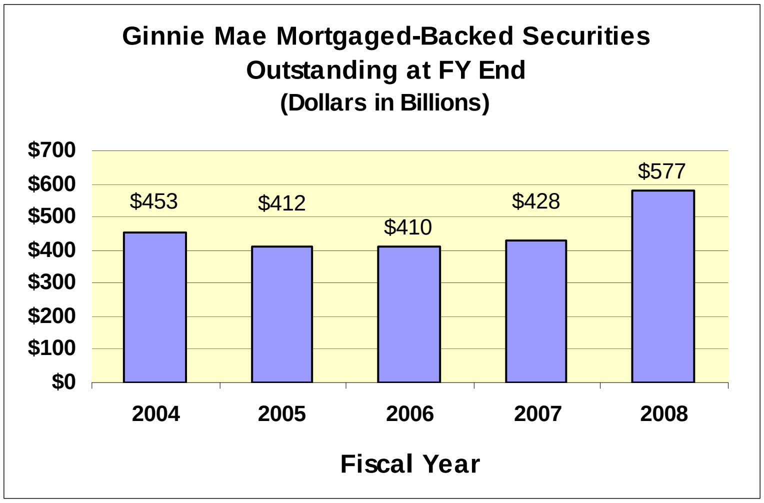


Table 8 – Ginnie Mae Mortgage-Backed Securities for FY 2008

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 2008 and 2007, Ginnie Mae issued a total of $86.4 billion and $44.6 billion, respectively, in its multi-class securities program (REMICs, Stripped MBS, and Platinums). The estimated outstanding balance of multiclass securities in the total MBS securities balance at September 30, 2008 and 2007 were $253.1 billion and $201.0 billion, respectively. These securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the Mortgage-Backed Securities program.

MANAGEMENT ASSURANCES

Federal Managers' Financial Integrity Act Annual Assurance Statement for FY 2008

The Department of Housing and Urban Development's (HUD) 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 opera`tions 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, 2008, was operating effectively and that no material weaknesses were found in the design or operations of the internal controls.

In addition, HUD conducted its assessment of the effectiveness of HUD's internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations 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, 2008, was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

The Federal Financial Management Improvement Act (FFMIA) requires federal agencies to implement and maintain financial management systems that are in substantial compliance with federal financial management systems requirements, federal accounting standards, and the United States Government Standard General Ledger at the transaction level. HUD provides reasonable assurance that its financial management systems substantially comply with FFMIA for FY 2008.

Steven C. Preston
Secretary
U.S. Department of Housing and Urban Development

Federal Managers' Financial Integrity Act

HUD 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 (FMFIA) and OMB Circular A-123, *Management's Responsibility for Internal*

Control. FMFIA requires agencies to establish internal controls over its operations. The controls include program, operational, and administrative areas, as well as accounting and financial management. It explains management's responsibility and role in the assessment of accounting and administrative internal controls. FMFIA Section 2 requires the agency head to annually assess and report on the effectiveness of its internal controls that protect the integrity of federal programs. FMFIA Section 4 requires the reporting of any material non-conformance with financial management systems prescribed in OMB Circular A-127, *Financial Management Systems* together with corresponding remediation plans. Additionally, FMFIA requires agencies to provide an annual statement of assurance regarding the effectiveness of internal and accounting controls over financial systems. OMB-Circular A-123 requires agencies to provide an assurance statement on management's assessment of the effectiveness of internal control over financial reporting as of June 30th of each fiscal year.

OMB Circular A-123 also requires agencies to identify the material weaknesses (MW) and significant deficiencies (SD) affecting the agency. The Government Accountability Office's July 2007 revision of *Government Auditing Standards* (also known as *The Yellow Book*) defines a control deficiency as follows: a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect, or correct errors in assertions made by management on a timely basis. *The Yellow Book* defines a significant deficiency as 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 such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. According to *The Yellow Book*, a material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

HUD recognizes the importance of correcting material weaknesses and significant deficiencies in a timely manner. HUD continuously monitors the progress of corrective actions for all reported material weaknesses and significant deficiencies. This progress is discussed in the following sections.

Auditor Reported Material Weaknesses

HUD's Office of the Inspector General (OIG) reported two material weaknesses in the agency's FY 2007 Annual Consolidated Financial Statement Audit for the Federal Housing Administration's Home Equity Conversion Mortgage (HECM) program. HUD management disagreed with OIG that these issues warranted reporting as Material Weaknesses and reported them as a single Significant Deficiency. One material weakness is now closed and the other has been reduced to a significant deficiency as discussed in the next section.

Auditor Reported Material Weaknesses
FY 2007 Carry Over Issue and FY 2008 Status

First Reported	Auditor Reported Material Weakness	Status at End of FY 2008
2007	Develop a Risk Assessment and Systems Development Plan for FHA's HECM Systems and Transactions	Reduced to Significant Deficiency
2007	Enhance the HECM Credit Subsidy Cash Flow Model	Closed

The following tables provide a summary of financial audit findings in regards to audit opinion and management assurances. The first table is a summary of the results of the independent audit of HUD's consolidated financial statements, as well as information on the material weaknesses reported by HUD's auditors in connection with the FY 2007 Financial Statement Audit.

Summary of Financial Statement Audit

Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
FHA's Home Equity Conversion Mortgage Systems (HECM) Risk Assessment	1		1		0
HECM Credit Subsidy	1		1		0
Total Material Weaknesses	2		2		0

The second table is a summary of management assurances related to the effectiveness of internal control over HUD's financial reporting and operations, and its conformance with financial management system requirements under Sections 2 and 4, respectively, of the Federal Managers' Financial Integrity Act (FMFIA). The last portion of this table is a summary of HUD's compliance with the Federal Financial Management Improvement Act (FFMIA).

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0
Total non-conformances	0	0	0	0	0	0

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	Yes	No
1. System Requirements	Yes	
2. Accounting Standards	Yes	
3. USSGL at Transaction Level	Yes	

Remaining Material Weakness Reclassified as Significant Deficiency

The Department's comprehensive strategy for addressing weaknesses in its internal controls over FHA's systems for processing HECM transactions and the lack of a documented program level risk assessment progressed to the point where the material weakness has been reclassified as a significant deficiency. In FY 2008, FHA's actions to mitigate this material weakness include performance of a comprehensive program risk assessment and completion of a privacy act assessment on the HECM Notes servicer. The HECM Notes servicer was evaluated via a Statement on Auditing Standards (SAS) Number 70, *Service Organizations*, Type I audit. FHA's FY 2009 plans to resolve this significant deficiency are as follows:

- To implement corrective actions resulting from the SAS 70 Type I audit in FY 2008;
- To conduct a SAS 70 Type II audit on the HECM Notes servicer that includes detailed testing over a six month period; and
- To procure a system development contractor to implement a new HECM information technology system in FHA.

Material Weakness – Closed

FHA's extensive FY 2008 efforts to resolve a material weakness that called for enhancements to the HECM Credit Subsidy Cash Flow Model were completed by the end of FY 2008. Actions taken to resolve this material weakness are described below.

- The HECM Cash Flow Model Documentation now addresses:
    - How specific assignment and termination rates are calculated and how macroeconomic projections are incorporated in the model;

- Results of the current pricing and termination model reviews;
- Previous HECM studies and how they informed the HECM Cash Flow Model;
- How the HECM model replicates the methodology in OMB's Credit Subsidy Calculator 2 (CSC2) to calculate the HECM liability for loan guarantee (LLG);
- How the HECM model discounts future cash flows in accordance with the OMB Circular A-11, *Preparation, Submission and Execution of the Budget*; and
- How FHA has reviewed and improved its method for estimating note recoveries.

- All HECM Cash Flow Model changes and impacts were documented in accordance with the Configuration Management Plan.
- During the validation process, FHA now compares actual premium collections to model estimates. After validation and model changes, FHA internally reviews the HECM model and documents model changes in the configuration management memo prior to LLG estimation.
- The methodology of estimating the credit subsidy rate was reviewed and, per the request of OMB (as documented in the HECM Cash Flow Model Documentation Appendix), FHA did not incorporate the use of disbursements.
- FHA enhanced the functionality of the cash flow model to include a sensitivity analysis. Extraneous data was also removed from the cash flow model for ease of use.

Significant Deficiencies

HUD has demonstrated its commitment to resolving the significant deficiencies. The Department will report a significant deficiency as ***corrected*** when the following occurs:

- Corrective actions have been substantially completed;
- The remaining actions are minor in scope, and the actions will be completed within the next fiscal year; and
- Substantial validation of corrective action effectiveness has been performed.

Significant deficiencies continue to be reviewed internally by monitoring the progress of their corrective actions. HUD began FY 2008 with 12 significant deficiencies. Considerable progress was made to correct these significant deficiencies. At the end of FY 2008, HUD management determined that all but one should remain listed as Open deficiencies requiring further corrective action. FY 2008 accomplishments and remaining planned actions for each significant deficiency are provided in the following table.

STATUS OF REMAINING SIGNIFICANT DEFICIENCIES

SD 1 **Performance Measures**	**HUD needs to improve quality controls over performance measure data to ensure data: accuracy, timeliness, estimation, and availability.**
FY 2008 Accomplishments	• Completed two data quality assessments of performance measure data used to support Annual Performance Plan (APP) reporting. Supporting information systems were Interstate Land Sales/Real Estate Settlement Procedures Act system - RESPA module and Real Estate Management System.
Planned Actions	• Assess data quality of information systems whose data supports HUD's performance reporting.
Status at the end of FY 2008	**Open**
SD3 **PHA Monitoring**	**Continued efforts are needed to improve housing authority monitoring to ensure that program funds are expended in compliance with laws and regulations.**
FY 2008 Accomplishments	• Developed an internal tool to identify PHAs requiring on-site monitoring visits based on asset management. • Provided training to the Public Housing Revitalization Specialist (PHRS), Financial Analyst (FA), and Facilities Management (FM) staff members on conducting the monitoring reviews. • Conducted 101 Tier I monitoring activities for all PHAs selected during the risk assessment phase.
Planned Actions	• Modify the on-site monitoring strategy adding on-site monitoring reviews at the project level in addition to the comprehensive Tier 1 reviews. • Perform on-site management reviews on 180 selected Asset Management Projects.
Status at the end of FY 2008	**Open**

SD 4 **HUD's Computing Environment**	**Controls over HUD's computing environment can be further strengthened to reduce the risks associated with safeguarding funds, property, and assets from unauthorized use or misappropriation.**
FY 2008 Accomplishments	• Obtained sufficient audit record storage capacity. • Established an audit reduction and report generation capability to support the fact investigations of security incidents. • Ensured that all Unisys security audit log events are monitored, analyzed, reported and followed up for the Unisys production system. • Restricted access to log files to those whose job function requires that access. • Improved monitoring and oversight for user access. • Developed procedures to routinely review accounts on General Support System (GSS) to disable/delete users with inactive accounts. • Continued process improvements to the Centralized HUD Account Management Process (CHAMP) and the migration of legacy data.
Planned Actions	• Investigate opportunities to begin system access removal procedures earlier in the employee separation to ensure terminated employees access is revoked in a timely manner. • Educate application owners on their responsibilities for removing user access and the associated process. • Ensure that any controls specific to the non-major application and required by NIST SP 800-53A are documented in the system security plans of the GSS. • Develop a plan to monitor the annual self assessments completed for GSS to ensure that all applicable security controls are reviewed and implemented by information technology contractors. • Establish security configuration baselines and perform periodic reviews of security configurations settings against the baseline to ensure the configurations match current security requirements. • Review database administrative practices to improve communication between database administrators and database owners.
Status at the end of FY 2008	**Open**

SD 7 **Obligation Balances**	**HUD needs to improve controls over the monitoring of obligated balances to determine whether they remain needed and legally valid as of the end of the fiscal year.**
FY 2008 Accomplishments	• Implemented an automated payment process for the Section 235 Homeownership Program, utilizing the Department's Line of Credit Control System. • Implemented the Pay.gov process for the Excess Rental Income program in compliance with the Strategic Cash Management Agreement with Treasury. • Reviewed 95 percent of unliquidated obligations over the threshold ($217K for program funds and $17.5K for administrative funds). • De-obligated $9 million of program and administrative funds. • Recaptured $58 million of Section 236 Interest Reduction Program funds. • Developed additional management tools to better manage the de-obligation and recapture process. • Provided training to stakeholders and coordinated with the Office of the Chief Procurement Officer, the Office of the Chief Financial Officer, and the applicable program offices to determine contract validity and/or fund de-obligation or recapture eligibility. • Implemented a periodic review of terminated Rent Supplement and Rental Assistance Payments projects to ensure excess undisbursed contract authority is recaptured in a timely fashion.
Planned Actions	• Continue to perform quarterly reviews of unliquidated obligations. • Based on corrective actions completed in FY 2008, this issue is considered closed by management.
Status at the end of FY 2008	**Closed**
SD 13 **Resource Management**	**HUD needs to develop a comprehensive strategy to manage its resources and better estimate staffing needs and support its staffing requests.**
FY 2008 Accomplishments	• Continued reduction in competency gaps in leadership, mission critical occupations, human resources and information technology occupations. • Prepared of a gap analysis report and improvement plan by the Office of the Chief Procurement Officer for the acquisition occupation.

	• Implementation of "SMART" performance plans throughout HUD, including training on SMART for managers, supervisors, and employees. • Quarterly reporting to OPM on HUD's efforts in meeting OPM's 45-day hiring timeline for non-SES positions and the 61-day hiring timeline for SES positions. • Continued implementation HUD's Succession Management Plan, which included implementation of HUD Fellows Program and appointment of 2008 class of Emerging Leaders. • Prepared and submitted HUD's first Human Capital Accountability Report to OPM. • Initiated a Lean Six Sigma Business Process Re-engineering Study to accelerate and improve the staffing/ hiring process.
Planned Actions	• Continue efforts in closing skill gaps, which include establishing baseline gaps and targets for mission critical occupations throughout HUD. • Continue reporting to OPM on progress in meeting hiring timeline goals. • Continue implementing succession plan strategies. • Submit annually HUD's Human Capital Management Report to OPM. • Conduct an internal accountability review of the human resources program in one of the Field HR servicing offices. • Complete efforts to improve the end-to-end staffing/hiring process.
Status at the end of FY 2008	**Open**
SD 14 **Management Controls**	**Weaknesses in the Department's control environment impact HUD's ability to effectively manage its programs.**
FY 2008 Accomplishments	• Participated in HUD's Quality Management Reviews to assess Field Offices' operations. • Enhanced the reporting process for program offices to submit their annual FMFIA Internal Control Assurance Statement. • Issued A-123 Statement of Assurance on Internal Control over Financial Reporting.
Planned Actions	Conduct entity level internal control acquisition assessments as mandated by OMB Circular A-123.

	• Update guidance for a Front-End Risk Assessment of New or Substantially Revised Programs or Administrative Functions, in accordance with *Departmental Management Control Handbook, 1840.1 REV-3, Chapter 8*.
Status at the end of FY 2008	**Open**
<u>SD 16</u> Single Audit Act Coverage	**HUD needs to improve its oversight of program participant compliance with the Single Audit Act requirements, and consider central oversight of single audit results.**
FY 2008 Accomplishments	• Developed a new Single Audit Act module in HUD's Audit Resolution and Corrective Action Tracking System and testing is underway. The new system will permit OIG personnel, HUD management officials, and Audit Liaison Officers to work in concert to track corrective actions and address identified deficiencies.
Planned Actions	• Implement the new system pending successful outcome of testing by the first quarter of FY 2009. • Complete the guide prior to implementation of the new system.
Status at the end of FY 2008	**Open**
<u>SD 18</u> Controls over Rental Housing Assistance	**Continued efforts are needed to improve housing authority monitoring to ensure that program funds are expended in compliance with laws and regulations.**
FY 2008 Accomplishments	• Conducted 101 "Tier 1" monitoring activities • Continued improvements in oversight and monitoring of subsidy calculations and intermediaries program performance by timely completing all monitoring activities. • Awarded a contract to perform: o Evaluation of the accuracy of how units were categorized. o Evaluation of the accuracy of HUD Form-52723, submitted to HUD. o Verification of the Utility Expense Level factor being used on the HUD Form-52723. o Research to determine the applicability and benefit of a checklist to be used by PHAs to identify the source documents.

	• Issued an Operating Subsidy Review Guide. • Completed a thorough review of all operating subsidy calculations by the Subsidy and Grants Information Systems (SAGIS) and on the excel tool submitted by housing authorities. • Conducted Training at the National Association of Housing and Redevelopment Officials meetings on the requirements of the new subsidy calculation and SAGIS requirements. • Provided Enterprise Income Verification (EIV) Training to all HUB and Program Centers. • Instituted the EIV to reduce the improper reporting of wages. • Conducted 92 Voucher Management System (VMS) onsite reviews. • Made funding available to cover the increased scope of A-133 audits. • Developed and trained staff to review Financial Assessment Sub-System (FASS) submissions. • Developed Utilization and Net Restricted Assets-Housing Assistance Payment (NRA-HAP) tools for the Field. • Converted Section 8 projects under the FMC payment process to Performance Based Contract Administrator contracts under Housing. • Converted the remaining portfolio of the traditional Contract Administrators' Section 8 contracts back into the Housing's accounting system.
Planned Actions	• Comprehensive reviews will continue and will be supplemented by 420 reviews at selected PHAs on asset management. • Update validation edits in VMS. • Develop a FASS/VMS NRA validation model. • Update PIC to collect additional subsidy and Low Income Tax Credit information. • Implement "mandatory EIV use" policy.
Status at the end of FY 2008	**Open**
SD 19 **Departmental Financial Management Systems**	**Lack of an integrated financial system in compliance with all federal financial management system requirements.**

FY 2008 Accomplishments	• Examined and documented 18 OCFO financial management systems and their interfaces with HUD Program Office systems and external business partner systems to document and verify 114 interfaces with supporting functional descriptions, data elements / data file layouts, technical requirements, and quality assurance actions in preparation for HUD Integrated Financial Management Improvement Project (HIFMIP) systems implementation / integration. • Automated the HECM Notes interface to the FHA Subsidiary Ledger.
Planned Actions	• Implement the core systems modernization HIFMIP strategy as discussed in the following systems section. • Support business process engineering and related development and configuration work to adapt the FHA Subsidiary Ledger to new processes for HECM financial operations. • Support business process engineering and related development and configuration work to adapt the FHA Subsidiary Ledger to new FHA Modernization, Hope for Homeowners, and Manufactured Housing insurance programs mandated by the Housing and Economic Recovery Act.
Status at the end of FY 2008	**Open**
SD 20 **Section 8 Project-Based Housing Assistance Payment Contracts**	**Improved controls are needed for budgeting, renewing, amending and paying Section 8 Project-Based Housing Assistance Payment Contracts**
FY 2008 Accomplishments	• Performed a detailed review to ensure that PAS data on Section 8 project-based contracts used to compute obligation balances is accurate and reliable.
Planned Actions	• Develop a long-term financial management system solution to streamline and automate the overall Section 8 project-based budgeting, payment, and contract management process. • Consider revising current Section 8 Project-base recapture methodology to include recapturing funds from expired Section 8 contracts. • Complete development of a Section 8 Project Based Assistance reporting structure using the Financial Data Mart.

Status at the end of FY 2008	**Open**
<u>SD 21</u> HECM Credit Subsidy Cash Flow Model	**Improved quality controls are needed to ensure accurate data is entered into the Home Equity Conversion Mortgage (HECM) Model.**
FY 2008 Accomplishments	• Enhanced documentation on how specific assignment and termination rates are calculated and how macroeconomic projections are incorporated. • Developed the HECM cash flow model to reflect current and future cash flows of the HECM program. • Performed a comprehensive program risk assessment. • Developed the requirements for a new HECM system and procurement for a contractor is in progress. • Completed a privacy act assessment on the HECM Notes servicer. • Performed a SAS 70 Type I review on the HECM Notes servicer. • Directed application system owners to fully assume the roles and responsibilities of system owners in accordance with *HUD Handbook 2400.25 REV-1, Information Technology Security Policy*. • Mandated a role-based training program for FHA program staff with significant information security responsibilities.
Planned Actions	• Complete SAS 70 Type II audit and implement remaining corrective actions identified in the Type I audit. • Procure a system development contractor to implement a new HECM information technology system.
Status at the end of FY 2008	**Open**
<u>SD 22</u> Ginnie Mae Mortgage-Backed Securities (MBS) Monitoring	**Improved program compliance and controls regarding monitoring of issuers are needed.**

FY 2008 Accomplishments	• Instituted a new reporting process where Ginnie Mae senior management will be provided information to improve communication of issuers that are not in compliance with program requirements. • Reviewed and strengthened the completeness and timeliness of the automated pool collateral matching process as well as follow-up on unmatched loans with issuers. Full implementation of this process is scheduled for FY09.
Planned Actions	• Segregation of duty issues enumerated by OIG will be alleviated when Ginnie Mae fills the position of Senior Vice President of the Office of Mortgage-Backed Securities which is scheduled for early FY09. • Refine and complete implementation of the automated pool collateral matching process.
Status at the end of FY 2008	**Open**

SYSTEM NON-CONFORMANCE ISSUES

Section 4 of FMFIA provides the requirements for reporting instances of material non-conformance with the criterion, which includes preparing remediation plans that address each non-conformance. OMB Circular A-127 and the Federal Financial Management Improvement Act of 1996 (FFMIA) established federal financial management system criteria. Financial management systems are compliant when they fulfill the 12 requirements outlined in OMB Circular A-127, Section 7. OMB guidelines specify that departments and agencies are substantially compliant with FFMIA 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 considered non-conforming when it does not comply with the required factors. The materiality or severity of the impact of non-conformance is evaluated against the overall capability of the system to consistently generate accurate, reliable, financial information required for effective and efficient agency management.

During FY 2008, HUD's financial systems substantially complied with FFMIA. We maintained our focus on successfully implementing an aggressive approach toward resolving past financial system non-conformance concerns. The next section details HUD's strategy for meeting this requirement.

STATUS OF REMAINING SYSTEMS NON-CONFORMANCE ISSUES

HUD is currently engaged in the development of a major financial systems modernization project. The HUD Integrated Financial Management Improvement Project (HIFMIP) establishes an enterprise vision to achieve a core financial management system as a resolution to the Department's integration and modernization efforts. In FY 2008, HUD committed its efforts to a continued enhanced development of its departmental financial management systems as discussed below.

(a) The Federal Housing Administration (FHA) continued to improve its financial management through the phased implementation of an integrated financial management system to better support FHA's business needs, respond to internal and external conformance requirements, and adequately safeguard agency resources from mismanagement, fraud, waste, and abuse.

(b) An Integrated Procurement Team (IPT) continued to conduct a full and open competition to select a qualified service provider to support the integration of the Department's legacy core accounting system to the new Commercial Off-The-Shelf (COTS) federally certified software system. Concurrently, three major program organizations within the Department are completing their own financial systems modernization projects and are scheduled to integrate those system functions to the enterprise core financial management system.

(c) The Office of the Chief Financial Officer (OCFO) developed an incremental project approach to ensure that integration of the three systems would be accomplished with minimal disruption to ongoing operations, given the complexity and large number of programs managed by the Department. The project timeline and established goal to achieve full integration is FY 2013.

(d) The OCFO developed a roadmap to support a phased integration of the three core financial systems currently maintained by the Department. After retirement of two systems, 14 of the 16 legacy systems remain of those systems originally identified for consolidation or retirement.

A complete listing of Departmental financial and mixed financial management systems is shown in Section 4. All agency financial systems undergo an annual self-assessment by the system owner, and are subject to an independent validation review to ensure they remain compliant. At the end of FY 2008, two financial systems, the HUD Procurement System (HPS) and the Small Purchase System (SPS), remained non-compliant.

Remediation plans for HPS and SPS were developed by the Office of the Chief Procurement Officer (OCPO). The plans fully addressed the financial management system compliance and regulatory requirements. Since the development of the remediation plans, it was determined that it would be more cost effective to acquire a new system than to modify the existing systems. The replacement system is referred to as "HUD Integrated Acquisition Management System" (HIAMS). Due to limited funding to develop HIAMS, OCPO has implemented compensating controls to mitigate their noncompliance issues. Based on the implementation of compensating controls, HUD believes these systems do not warrant being reported as non-conforming under Section 4 of FMFIA.

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 implemented improvements during FY 2008 increase HUD's ability to protect the availability, integrity, and confidentiality of information stored on its systems. HUD's noted accomplishments include certification and accreditation of 100 percent of HUD's general support systems and major applications, conducting privacy impact assessments, issuing a NIST compliant IT Security Policy, and providing a more comprehensive Security Awareness training.

SUMMARY OF HUD'S PERFORMANCE ACTIVITIES

The following is a summary of HUD's performance activities under each of the Department's six Strategic Goals. For each goal and major activity, this summary provides a brief explanation of the public benefits, the key activities and measures that HUD is pursuing, and the types and levels of resources dedicated.

This summary is designed to give the reader a sense of the overall plan and impact of HUD's program efforts. The reader can pursue the entire complement of write-ups in the indicator section of PART II which follows.

GOAL A: INCREASE HOMEOWNERSHIP OPPORTUNITIES

Public Benefit

Opening doors to homeownership is a core aspect of HUD's mission, originating when Congress created the Federal Housing Administration in the 1930s. Homeownership allows an individual or family to make an investment in the future. A home is an asset that can grow in value and provide capital to finance future needs of a family, such as college education or retirement. Homeownership helps stabilize neighborhoods, strengthen communities, and stimulate economic growth.

Resource Investment

Although the portion of HUD's budget authority for this goal at $2.8 billion is only 5.5 percent of the Department's total of $51.1 billion in gross discretionary non-salary and expense budget authority including disaster and other supplementals, there are also very large mortgage guarantee amounts that provide a significant contribution to the National homeownership rate. HUD's FHA single family program is a major contributor to homeownership. In Fiscal Year 2008, FHA insured 492,369 first-time homebuyer mortgages. It is estimated that an increase of 100,000 new homeowners adds one-tenth of a percent to the national homeownership rate. HUD efforts have added 671,135 additional units, reflecting an important contribution to the National homeownership rate. HUD efforts have been particularly critical during FY 2008 because of the turmoil in the mortgage and housing markets. FHA single overall family homeownership activity (including refinancing) has grown from 532,000 units to 1.2 million units and from 2 percent market share to seventeen percent market share. This growth reflects HUD's ability to fulfill unmet needs in the private mortgage and housing markets with stable, transparent and reasonable mortgage products. These often have low down payments that provide strong support for homeownership, including both first-time homeownership and affordable and stable refinancing terms.

In addition, the share of first-time minority FHA homebuyers was 31.2 percent. FHA is an important contributor to the President's goal of adding 5.5 million new minority homeowners by 2010. This goal recognizes the significant (24.1 percent) homeownership gap between minority and non-minority households. Through the third quarter for fiscal year 2008, there has been a gross increase of 4.992 million minority homeowners representing 91 percent of the goal set by the President in 74 percent of the time. The FHA single family program had an overall commitment ceiling of $185 billion and actual commitments were $171.9 billion.

The Congress enacted significant reform of the FHA program that provides substantially expanded help to targeted populations. In addition, the newly initiated HUD *FHASecure* program provides key assistance to a segment of homeowners facing default and foreclosure pressures. FHA has already helped 368,000 families, between September 2007 and September 2008, refinance their mortgages and is on pace to help 500,000 families by the end of this calendar year.

Approximately 1 million persons a year (an estimated 45.9 percent minorities) are assisted with homeownership and avoidance of foreclosure and attendant property abandonment through HUD's housing counseling program, which efficiently also utilizes other non-federal sources of funds. This program is particularly important given the current problems in the sub-prime market and the overwhelming number of mortgage defaults and foreclosures that in many instances are destabilizing both financial markets and communities.

Other significant contributions to this goal include the Ginnie Mae, HOME Block Grant, Community Development Block Grants, Self Help Opportunity Program, and voucher homeownership programs.

- The HOME Program assisted 30,999 new homebuyer units and 47 percent were minorities. The American Dream Downpayment Initiative contributed 4,209 of this total.
- The Community Development Block Grant Program assisted 4,521 homeownership units and 121,158 involving rehabilitation of owner-occupied units.
- Ginnie Mae securitized 96.9 percent of FHA single family loans; 91.6 percent of single family fixed rate VA loans; and, 27.8 percent of all single family pools were in Targeted Lending Initiative neighborhoods.
- The Self Help Opportunity Program assisted 1,927 new homeowner units.
- In addition, 3,434 new homeowners were assisted through HUD's voucher and HOPE VI programs.

GOAL B: PROMOTE DECENT AFFORDABLE HOUSING

Public Benefit

Making quality affordable rental housing opportunities available for very-low income households has been a long standing objective of the Department, with programs originating in the 1930's. The latest data show that in 2005, worst cases housing needs afflicted 5.99 million households, including 2.32 million families with children, 1.29 million elderly households, and 694 thousand households with disabilities. Worst case needs are caused by rents that exceed 50 percent of income and by housing of poor physical quality. There is a substantial national shortage of affordable housing, with only 76.8 rental units affordable and available for every 100 very-low income renter households, and only 67.9 units per 100 renters when physical conditions are also reflected.

The Department's affordable rental programs serve 4.7 million families on an income targeted basis and prevent large numbers of families from being added to the worst case housing caseload. The Department estimates that, absent our large rental assistance programs servicing 4.7 million families and clients with limited incomes in FY 2008, 52 percent as a low bound estimate, or 2.5 million would be classified as worst case housing need renters without HUD assistance. This number is probably understated because HUD programs serve populations including very low income renters, elderly, and persons with disabilities, all of which face more severe shortages of suitable, affordable, available units in the private marketplace. In addition, these rental assistance programs add to the inventory of affordable housing opportunities for families with very limited incomes and provide safe, decent, affordable housing that also contributes to reductions in homelessness and poverty.

Resource Investment

This Strategic Goal reflects the largest budget authority, at $25.0 billion or 48.9 percent, of the total $51.1 billion gross discretionary non-salary and expense Departmental total budget authority including disaster and other supplementals. The largest portion of affordable housing resources is used to maintain the 2.1 million households tenant-based voucher assistance; 1.25 million project-based assistance and 1.15 million public housing residents; and 0.15 million elderly, disabled and other smaller programs (total of 4.7 million). The voucher program budget authority resources total $21.9 billion of which $15.9 billion is for tenant-based vouchers and $6.0 billion is for project-based vouchers. An additional $6.6 billion is for public housing of which $2.4 billion was for the Public Housing Capital Fund and $4.2 billion for the Operating fund.

Other key contributors to advancing affordable housing are as follows:

- Housing choice voucher utilization increased from 91.7 percent to 93.3 percent with projected increase in the goal to 97% by calendar year 2011.
- 134,020 income targeted households received affordable housing assistance from the Community Development Block Grant, HOME Program, Housing Opportunities for Persons with AIDS, and Indian Housing Block Grant and Native Hawaiian Housing Block Grant.
- FHA endorsed 647 risk sharing multi-family loans.
- Ginnie Mae securitized 96.4 percent of eligible FHA multifamily mortgages.
- HUD completed 62 percent of mark-to-market mortgages restructurings in order to preserve existing affordable housing.
- The share of the multifamily inventory that met physical standards was 93 percent.
- Public Housing was statistically equivalent to the physical quality goal of 85 percent with 84.5 percent. Improvement is projected in the next several years as part of a total new paradigm based on project-based asset management. HUD continued to work on increasing the proportion of households who transition from HUD's public housing and voucher program and reducing the proportion of households who have very lengthy stays in HUD's housing assistance.
- Public Housing reduced the number of units in troubled housing by 77 percent.
- The availability of affordable housing for the elderly and persons with disabilities was increased by bringing 224 projects to initial closing exceeding the goal of 200.

GOAL C: STRENGTHEN COMMUNITIES

Public Benefit

Providing communities throughout the entire Nation with resources and tools to promote economic development and community vitality is a key component of HUD's mission. The hallmarks of this effort are flexible program designs and resources targeted to very low and low income households. Localities and States are able to design local solutions to local problems, and provide scarce resources in a manner that targets the majority of the efforts to low and moderate income groups and communities.

Other key contributors to strengthening communities are as follows:

- The Community Development Block Grant Program (CDBG) is the federal governments' largest most flexible block grant. CDBG formula funding is provided to over 1,145 entitlement communities and all to 50 states which then distribute 30 percent of the formula funds to rural areas. In FY 2008, the Congress again provided substantial amounts of supplemental funding for disaster assistance and a new sub-program for foreclosure and abandonment assistance to communities. The Department did pursue a major proposal to improve the program results by better targeting and stronger focus on both need and performance but the Congress has not acted on the proposal. The CDBG program results were as follows:
  - The share of CDBG entitlement and State funds that benefited low-and moderate-income persons averaged 95.59 percent exceeding the target of 90 percent and the statutory requirement of 70 percent. This underscores the effective prioritization of the program based on need.
  - A total of $17.7 billion of the $19.7 billion of CDBG disaster assistance funds to aid the 5 states affected by Katrina, Wilma, and Rita was obligated. CDBG disaster recovery funds provided compensation payments to 141,236 homeowners exceeding the goal of 130,000. Each of the five States began activities to facilitate the restoration and enhancement of infrastructure in the Gulf Coast region.
  - CDBG funds created or retained 38,214 jobs or 91 percent of the goal and the related Section 108 Loan program aided in creating 6,491 jobs exceeding the goal of 4,100 by more than half.
  - The Department exceeded the CDBG goal of 50 percent with 85 percent of entitlement communities with unemployment rates above the national average utilizing CDBG funds for economic development.
  - CDBG funds were used to eliminate 9,180 blighted structures, 84 percent above the goal of 5,000 properties.
- The share of FHA multifamily properties in underserved communities was 59.4 percent exceeding the goal of 33 percent; and 39.2 percent of single-family mortgages were in underserved communities exceeding the goal of 35 percent.
- Homeless funding of $1.3 billion, which is 90 percent of total homeless funding, is directed toward housing homeless persons in HUD-supported permanent housing, and moving homeless from HUD-supported transitional to permanent. Both these housing targets were

exceeded (75.1 percent vs. 71.5 percent and 71.1 percent vs. 63.5 percent respectively). The goal for attaining employment was exceeded at 21.9 percent versus the target of 19 percent.

- Overcrowding in Indian Country was significantly reduced by more than the 1 percent target with a 4.7 percent reduction.
- Housing conditions that affect health were vastly improved with targets exceeded for lead abatement with 12,569 units completed versus a target of 11,500 units. The program is on track to meet the aggressive and top priority goal of elimination of lead hazards for children.

Resource Investment

Approximately 35.8 percent of total net discretionary non-salary and expense program budget authority is for this goal or $18.3 billion compared to the total of $51.1 billion. In FY 2008, this total budget authority includes $3 billion additional disaster aid related to hurricanes Katrina, Wilma, and Rita as well as $6.5 billion for hurricanes Gustav and Ike, $300 million for Midwest floods and other disasters, $3.9 billion for supplemental housing abandonment and foreclosure aid, and $73 million for additional homeless and project based disaster assistance. The scope of these supplemental fundings reflect the effectiveness and flexibility of the CDBG program.

A major CDBG reform proposal has been submitted to Congress with the core tenet a change in the formula to further target scarce resources to needier communities.

The CDBG program in FY 2008 is 87 percent or $15.9 billion of the overall $18.3 billion resources devoted to this strategic goal and approximately 50 percent exclusive of disaster funding. Three indicators track the progress in assistance to the Gulf Coast Region including homeowner and infrastructure assistance. CDBG assistance is also tracked in terms of jobs created and percentage that is targeted to low and moderate income groups, which at approximately 96 percent, vastly exceeded the statutory requirement of 70 percent.

This Performance and Accountability Report is the second year that new CDBG outcome indicators are being reported on that begin to capture the outcomes of CDBG on neighborhoods with high unemployment as significant elimination of vacant, boarded up properties that blight neighborhoods.

GOAL D: ENSURE EQUAL OPPORTUNITY IN HOUSING

Public Benefit

The Department enforces a body of civil rights and fair housing laws that protect all of our citizens. Both the Fair Housing Assistance Program and Fair Housing Initiatives Program have strong enforcement efforts as well as education efforts. These efforts significantly expand homeownership and affordable housing opportunities to all citizens and through these opportunities families and communities are strengthened. In addition, the Department maintains a focus that all of our programs are operated in a manner that affirmatively furthers fair housing policy.

Resource Investment

The FY 2008 funding for the Fair Housing Equal Opportunity program is $50 million, an increase of approximately $4.5 million over the FY 2007 funding. The Fair Housing Assistance

Program was funded at $25.6 million and performance was measured in terms of reducing aged caseloads by both HUD efforts and efforts of the 108 Fair Housing Equivalent Agencies across the country.

The Fair Housing Initiatives Program was funded at $24.0 million and focused on both enforcement activities including using paired testers as well as education and outreach activities. All of these efforts were aided by the continued activities of the Fair Housing Training Academy, which is in the early years of its existence. Education and outreach was accomplished by 1,783 public events that helped reach 296,641 people involved in grassroots and faith based efforts, as well as public service outreach that potentially informed millions of our citizens of their rights and responsibilities. The Fair Housing and Equal Opportunity office also worked with all other HUD program offices to ensure that all HUD programs complied with relevant civil rights and fair housing laws and standards.

In the enforcement arena HUD actions completed 60 percent of its new cases within the recommended standards of 100 days versus the target of 55 percent. The Fair Housing Equivalent Agencies in states and cities closed 50 percent of their cases within 100 days but not quite at the 53 percent target. At the same time, HUD closed 73 percent of already aged cases higher than the goal of 60 percent, and Fair Housing equivalent agencies closed 97 percent of the aged cases in their inventory, or 2 percent more than the goal of 95 percent. Closed out already aged cases and reducing newly aged cases is a key to reducing future discrimination cases and providing justice for aggrieved parties.

GOAL E: EMBRACE HIGH STANDARDS OF ETHICS, MANAGEMENT, AND ACCOUNTABILITY

Public Benefit

The Department assists families and communities across the entire nation with a significant array of housing, community development, fair housing and related programs. The Department is the public steward of $52.6 billion in gross budget authority including disaster funding and $39.2 billion exclusive of supplemental disaster and other assistance. This strategic goal reports on HUD's efforts to improve management and operational activities in all areas so as to provide more effective and efficient results. Improvements are focused on developing a highly skilled and adept workforce as well as investing in, and updating, information technology and financial systems to better serve internal customers and external partners.

The Department has achieved notable successes in the following areas:

- Receipt of a "green" rating for status and progress for financial performance by OMB for FY 2008 (only 13 of 26 major agencies were rated green).
- Receipt of an unqualified financial audit opinion for the ninth consecutive year.
- For E-Government, HUD was one of only 5 out of 26 agencies rated green for status but the status was changed to yellow in the fourth quarter of FY 2008. HUD was not able to achieve all of our E-Government goals because of a shortage in funding. HUD did receive the "2008 Excellence.Gov Award" from the American Council of Technology for implementation of the Enterprise Income Verification system that helps eliminate improper payments in our

rental assistance programs and has resulted in savings of several billion dollars since FY 2000.

- HUD continued to advance the enterprise-wide financial management system that will improve HUD's financial efficiency and is anticipated to be operative in FY 2013.
- HUD significantly reduced the rate of improper rental program payments to 3.5 percent exceeding the goal of 4.6 percent of total recent payments.
- The goal of increasing HUD employee satisfaction and thereby improving the work environment and work results was fully met. A critical part of this effort was putting in place measurable performance standards for the work force (70 percent in place) and identifying and recognizing high performance by employees.
- HUD achieved its goal of at least a 50 percent reduction in targeted mission critical competencies (skill gaps) for employees and 25 percent for managers. HUD also retained 93 percent of fellows and interns exceeding the goal of 80 percent, this strengthened workforce skills and capabilities and helped address critical succession issues.
- In the area of information technology HUD fully met its Enterprise Architecture target to continue significant progress in business system modernization, resulting in updated systems and information that is more reliable, more usable and provided in a more efficient and effective manner. Strategic improvement of Information Technology results in better interactions between HUD employees, business partners, and citizens.
- HUD also achieved its goals in the information technology security area and assessment of selected major information systems.
- This strategic goal includes a number of benchmarks across HUD's program areas to determine whether programs are being operated effectively. These benchmarks include all Community Development and Policy programs, FHA Mutual Mortgage Insurance, PHA related programs, the Departmental Enforcement Center, Policy Development and Research programs.

Resource Investment

This Strategic Goal includes $5.0 billion, or 9.7 percent of the $51.1 billion, in total gross non-salary and expenses discretionary budget authority, including disaster and other supplementals. The larger investments include administrative costs for most HUD programs including $1.8 billion for the rental assistance programs that represent over 60 percent of HUD's total resources, Public Housing Operating Resources of $2.4 billion that protect an investment valued at $90 billion, and overall Public and Indian Housing program funding of $6.3 billion.

For Community Development programs, $264 million is associated with the administration, operation and monitoring of the CDBG program; $175 million for the same purposes for the HOME program; $148 million for the Homeless Assistance program; and $17 million for the Housing Opportunities for Persons with AIDS program.

For FHA programs, $170 million was provided for administration, operations and management.

For the Office of Policy Development and Research, $6.3 million was associated with management and accountability specific efforts.

The Department is a leader across the government in reducing improper payments and has reduced improper rental payments by 58 percent between 2000 and 2007 (most recent data reflecting a one-year lag) with a net over payment reduction of $1.2 billion.

GOAL F: PROMOTE PARTICIPATION OF FAITH-BASED AND COMMUNITY ORGANIZATIONS

Public Benefit and Resources

This Strategic Goal supports HUD's efforts to maximize the opportunities for Faith-Based and Community Development Organizations to participate in HUD-sponsored programs. The President issued an Executive Order in FY 2004 that created the White House Office of Faith-Based activities and provided that the Department would be one of several leaders in the Federal government to increase opportunities for Faith-Based and other Community Development Organizations in order to utilize their special talents and skills. Activities supporting this goal permeate the funding and operation issues involving all of HUD's programs.

In the first phases of this effort barriers to participation for these organizations were removed. In FY 2006, 2007 and 2008, focus has been on developing the relevant skill set for these groups, expanding opportunities to participate in HUD's programs, providing comprehensive outreach and technical assistance, and conducting pilot programs that capture the promise of this overall effort. Measurements in this area track the outreach, training and technical assistance efforts, all of which have been met or exceeded. Measurements also follow the pilot programs and measure the level of participation in HUD's competitive programs.

- The Center helped create opportunity for Faith-Based and Community Development organizations to obtain HUD grants worth $513 million in FY 2007 (there is a one-year reporting lag), roughly the same as $512 million in FY 2006.
- The Center for Faith-Based and Community Initiatives provided 68 grant writing sessions, more than double its goal of 30.
- The Center collaborated with PIH in the operation of PIH's HOPE VI Mentoring Pilot Project, successfully operated the Doors of Hope program, and further developed and disseminated the Hurricane Toolkit that makes resources accessible to those experiencing hurricane and similar disaster situations and needs.

RESOURCES SUPPORTING HUD'S MISSION

Summary of Resources By Strategic Goal

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2007 Approp.	2008 Approp.	2009 Request
Strategic Goal A: Increase Homeownership Opportunities			
Discretionary BA	$3,002,324	$2,839,216	$2,889,354
FTE	1,178	1,152	1,151
S&E Cost	$128,187	$132,773	$139,162
Strategic Goal B: Promote Decent Affordable Housing			
Discretionary BA	$23,978,632	$24,977,483	$25,697,911
FTE	2,929	2,724	2,776
S&E Cost	$321,863	$312,289	$333,381
Strategic Goal C: Strengthen Communities			
Discretionary BA	$4,792,599	$18,302,016	$4,202,643
FTE	816	859	896
S&E Cost	$89,577	$99,732	$105,464
Strategic Goal D: Ensure Equal Opportunity in Housing			
Discretionary BA	$46,000	$50,000	$51,300
FTE	541	596	603
S&E Cost	$59,145	$67,100	$71,098
Strategic Goal E: Embrace High Standards of Ethics, Management, and Accountability			
Discretionary BA	$4,814,537	$4,950,771	$5,076,843
FTE	3,175	3,437	3,495
S&E Cost	$579,915	$636,036	$680,472
Strategic Goal F: Promote Participation of Faith-Based and Community Organizations			
Discretionary BA	0	0	0
FTE	8	10	10
S&E Cost	$1,586	$1,870	$2,175
Total Resources			
Total BA	$36,634,092	$51,119,486	$37,918,051
FTE	8,647	8,778	8,931
S&E Cost	$1,180,273	$1,249,800	$1,331,752

Fiscal Years 2007 and 2008 Discretionary BA include supplemental disaster funding. Discretionary BA is gross, exclusive of receipts and is net of rescissions. FTEs and S&E are not included in the Total Resources for the Inspector General's office and the Office of Federal Housing Enterprise Oversight because each has independent budget presentations. S&E and FTEs for the Working Capital Fund are reflected as part of the overall resources. The FY 2007, 2008, and 2009 Discretionary BAs are net of S&E BA.

Strategic Goal A: Increase Homeownership Opportunities

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2007 Approp.	2008 Approp.	2009 Request	2008 vs. 2009
Office of Public and Indian Housing				
Tenant-Based Rental Assistance				
Discretionary BA	$1,575,928	$1,544,752	$1,592,190	$47,438
FTE	76	46	47	1
S&E Cost	$9,033	$5,660	$6,006	$46
Housing Certificate Fund				
Discretionary BA	-$125,530	-$28,176	0	$28,176
Permanent Supportive Housing				
Discretionary BA	0	$2,300	0	($2,300)
Project-Based Rental Assistance				
Discretionary BA	$19,659	$18,192	$19,953	$1,761
Native American Housing Block Grants				
Discretionary BA	$280,665	$280,836	$282,150	$1,314
FTE	64	70	70	0
S&E Cost	$7,546	$8,642	$9,047	$405
Indian Housing Loan Guarantee Fund				
Discretionary BA	$6,000	$7,450	$9,000	$1,550
FTE	25	27	28	1
S&E Cost	$2,992	$3,483	$3,649	$166
Native Hawaiian Loan Guarantee Fund				
Discretionary BA	$891	($1,909)	0	$1,909
FTE	1	2	1	(1)
S&E Cost	$64	$75	$77	$2
Revitalization of Severely Distressed Public Housing				
Discretionary BA	$28,590	$29,805	0	($29,805)
FTE	23	25	26	1
S&E Cost	$2,769	$3,035	$3,280	$245
PIH TOTAL				
Discretionary BA	$1,786,204	$1,853,251	$1,903,293	$50,042
FTE	189	170	172	2
S&E Cost	$22,407	$20,894	$22,059	$1,165
COMMUNITY PLANNING AND DEVELOPMENT				
Community Development Block Grants				
Discretionary BA	$377,250	$387,830	$273,678	($114,152)

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2007 Approp.	2008 Approp.	2009 Request	2008 vs. 2009
FTE	29	28	27	(1)
S&E Cost	$3,185	$3,587	$3,883	246
HOME Investment Partnership Program				
Discretionary BA	$446,069	$428,705	$511,326	$82,621
FTE	37	36	34	(2)
S&E Cost	$4,059	$4,449	$4,734	285
Self-Help Homeownership Opportunity Program				
Discretionary BA	$19,800	$26,500	$40,000	$13,500
FTE	5	5	4	(1)
S&E Cost	$549	$327	$513	$186
CPD TOTAL				
Discretionary BA	$837,119	$836,035	$825,004	($11,031)
FTE	71	69	65	(4)
S&E Cost	$7,792	$8,363	$9,080	$717
OFFICE OF HOUSING				
FHA-GI/SRI				
Discretionary BA	$20,660	$6,125	$110	($6,015)
FTE	76	74	2	(72)
S&E Cost	$7,951	$8,198	$254	$7,944
FHA-MMI/CHMI				
Discretionary BA	$291,630	$54,507	$83,070	$28,563
FTE	670	650	719	69
S&E Cost	$69,963	$71,879	$82,883	$11,004
Housing Counseling Assistance				
Discretionary BA	$31,710	$39,474	$50,560	$11,086
FTE	77	90	91	1
S&E Cost	$7,922	$9,840	$10,356	$516
Housing for Homeowners				
Discretionary BA	0	$29,535	0	($29,535)
Interstate Land Sales (and RESPA)				
FTE	16	17	19	2
S&E Cost	$1,989	$2,790	$3,132	$342
HOUSING TOTAL				
Discretionary BA	$344,006	$129,641	$133,740	$4,099
FTE	839	831	831	0
S&E Cost	$87,825	$92,707	$96,625	$3,918

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2007 Approp.	2008 Approp.	2009 Request	2008 vs. 2009
GNMA				
Mortgage-Backed Securities				
Discretionary BA	$7,950			
FTE	49	52	52	0
S&E Cost	$6,103	$6,537	$6,834	$297
OFFICE OF POLICY DEVELOPMENT AND RESEARCH				
Discretionary BA	$27,045	$20,289	$27,317	$7,028
FTE	30	30	31	1
S&E Cost	$4,060	$4,272	$4,564	$292
Total for Strategic Goal A				
Discretionary BA	$3,002,324	$2,839,216	$2,889,354	$50,138
FTE	1,178	1,152	1,151	(1)
S&E Cost	$128,187	$132,773	$139,162	$6,389
OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT				
FTE	230	251	0	(251)
S&E Cost	$67,000	$59,000	0	($59,000)

Strategic Goal B: Promote Decent Affordable Housing

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions	2007 Approp.	2008 Approp.	2009 Request	2008 vs. 2009
OFFICE OF PUBLIC AND INDIAN HOUSING				
Tenant-Based Rental Assistance				
Discretionary BA	$12,607,427	$12,358,017	$12,737,520	$379,503
FTE	609	369	374	5
S&E Cost	$72,291	$45,276	$48,048	$2,772
Project-Based Rental Assistance				
Discretionary BA	$157,725	$145,532	$159,625	$14,093
Housing Certificate Fund				
Discretionary BA	($1,004,240)	($225,408)	0	$25,408
Permanent Supportive Housing				
Discretionary BA	0	$18,400	0	($18,400)
Native American Housing Block Grants				
Discretionary BA	$280,665	$280,836	$282,150	($1,314)
FTE	63	69	69	0
S&E Cost	$7,546	$8,642	$9,047	405
Public Housing Operating Fund				
Discretionary BA	$1,545,600	$1,679,977	$1,720,000	$40,023
FTE	53	220	239	19
S&E Cost	$6,270	$27,032	$30,726	$3,694
Public Housing Capital Fund				
Discretionary BA	2,431,400	2,425,130	2,024,000	($401,130)
FTE	347	233	254	21
S&E Cost	$41,210	$28,555	$32,677	$4,122
Revitalization of Severely Distressed Public Housing				
Discretionary BA	$66,710	$69,546	0	($69,546)
FTE	54	58	60	2
S&E Cost	$6,461	$7,081	$7,652	$571
Native Hawaiian Housing Block Grant				
Discretionary BA	$8,727	$9,000	$5,940	($3,060)
FTE	1	1	1	0
S&E Cost	$38	$38	$39	**1**
Drug Elimination Grants				
Discretionary BA	0	($1,081)	0	$1,081

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions	**2007 Approp.**	**2008 Approp.**	**2009 Request**	**2008 vs. 2009**
PIH TOTAL				
Discretionary BA	$16,093,564	$16,759,950	$16,929,235	$169,285
FTE	1,127	950	997	47
S&E Cost	$133,816	$116,623	$128,190	$11,567
OFFICE OF COMMUNITY DEVELOPMENT AND PLANNING				
Community Development Block Grants				
Discretionary BA	$556,875	$571,245	$410,517	($160,728)
FTE	44	44	40	(4)
S&E Cost	$4,804	$5,097	$5,158	61
HOME Investment Partnerships Program				
Discretionary BA	$1,098,333	$1,055,049	$1,258,695	203,646
FTE	93	93	83	(10)
S&E Cost	$10,556	$10,613	$10,698	85
Housing Opportunities for Persons With AIDS				
Discretionary BA	$231,177	$242,468	$242,481	13
FTE	37	37	35	(2)
S&E Cost	$4,037	$4,388	$4,511	123
CPD TOTAL				
Discretionary BA	$1,886,404	$1868,762	$1,911,693	$42,931
FTE	174	174	158	(16)
S&E Cost	$18,997	$20,098	$20,367	269
OFFICE OF HOUSING				
Section 202, Housing for the Elderly				
Discretionary BA	$688,602	$656,905	$492,727	($161,178)
FTE	263	272	271	(1)
S&E Cost	$26,914	$29,406	$30,490	$1,084
Section 811, Housing for the Disabled				
Discretionary BA	$222,784	$218,632	$150,986	($67,646)
FTE	129	134	134	0
S&E Cost	$13,233	$14,508	$15,106	$598
FHA-GI/SRI				
Discretionary BA	$204,746	$55,457	$37,554	($17,903)
FTE	753	670	692	22
S&E Cost	$78,132	$73,657	$79,119	$5,462
FTE	6	6	6	0
S&E Cost	$607	$642	$668	$26

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions	2007 Approp.	2008 Approp.	2009 Request	2008 vs. 2009
Rent Supplement Program				
FTE	5	5	5	0
S&E Cost	$518	$547	$571	$24
Rental Housing Assistance Program (Section 236)				
Discretionary BA	($304,900)	($52,581)	0	$52,581
FTE	26	26	26	0
S&E Cost	$2,643	$2,793	$2,908	$115
Project-Based Rental Assistance				
Discretionary BA	$5,194,604	$5,458,764	$6,159,444	$700,680
FTE	352	394	393	(1)
S&E Cost	$36,389	$43,173	$44,620	$1,447
Housing Counseling Assistance				
Discretionary BA	$9,885	$10,526	14,440	$3,914
FTE	24	24	26	2
S&E Cost	$2,467	$2,608	$2,943	$335
HOUSING TOTAL				
Discretionary BA	$5,995,722	$6,347,704	$6,855,151	$507,477
FTE	1,558	1,531	1,553	22
S&E Cost	$160,903	$167,334	$176,425	$9,091
GINNIE MAE				
Mortgage Backed Securities				
Discretionary BA	$2,650			
FTE	16	17	17	1
S&E Cost	$2,034	$2,179	$2,278	$99
OFFICE OF POLICY DEVELOPMENT AND RESEARCH				
Research and Technology				
Discretionary BA	$292	$1067	$1,832	$765
FTE	54	52	51	(1)
S&E Cost	$6,113	$6,055	$6,121	$66
Total for Strategic Goal B				
Discretionary BA	$23,978,632	$24,977,483	$25,697,911	$720,428
FTE	2,929	2,724	2,776	52
S&E Cost	$321,863	$312,289	$333,381	$21,092

Strategic Goal C: Strengthen Communities

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2007 Approp.	2008 Approp.	2009 Request	2008 vs. 2009
OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT				
Community Development Block Grants				
Discretionary BA (1)	$4,300,000	$15,927,946	$1,861,010	($16,066,936)
FTE	190	198	181	(17)
S&E Cost	$21,246	$22,220	$20,638	($1,582)
Homeless Assistance Grants				
Discretionary BA	$1,329,970	$1,488,535	1529,118	($40,583)
FTE	251	254	293	39
S&E Cost	$27,695	$30,035	$33,402	$3,367
Housing Opportunities for Persons With AIDS				
Discretionary BA	$37,470	$39,313	$39,313	0
FTE	6	6	6	0
S&E Cost	$660	$684	$684	0
Brownfields Redevelopment Program				
Discretionary BA	$6,100	($1,374)	0	$1,374
FTE	7	8	8	0
S&E Cost	$767	$787	$912	$125
Urban Development Action Grants				
Discretionary BA	0	($1,424)	0	$1,424
Community Development Loan Guarnatees				
Discretionary BA	3,700	4,500	0	(4,500)
Section 4				
Discretionary BA	$29,600	$30,050	0	($30,050)
FTE	3	3	1	(2)
S&E Cost	$329	$196	$128	($68)
Community Renewals				
Discretionary BA	0	(110)	0	($110)
FTE	19	19	20	1
S&E Cost	$2,081	$2,194	$2,280	$86
Rural Housing and Economic Development				
Discretionary BA	$16,800	$12,913	0	($12,913)
FTE	15	15	18	3
S&E Cost	$1,641	$1,872	$2,320	$448

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2007 Approp.	2008 Approp.	2009 Request	2008 vs. 2009
CPD TOTAL				
Discretionary BA	$3,947,941	$17,500,348	$3,429,441	($14,070,907)
FTE	491	503	527	24
S&E Cost	$54,419	$57,988	$60,364	$2,376
OFFICE OF HOUSING				
Section 202, Housing for the Elderly				
Discretionary BA	$66,098	$65,207	$47,273	($17,934)
FTE	26	27	26	(1)
S&E Cost	$2,655	$2,913	$2,908	(5)
Section 811, Housing for the Disabled				
Discretionary BA	$13,816	$13,053	$9,014	($4,039)
FTE	8	8	8	0
S&E Cost	$820	$866	$905	39
FHA-GI/SRI				
Discretionary BA	$42,961	$15,644	$10,745	($4,899)
FTE	158	189	198	9
S&E Cost	$16,307	$20,858	$22,838	1,980
FHA-MMI/CHMI				
Discretionary BA	$2,612	$503	$809	$306
FTE	6	6	7	1
S&E Cost	$658	$696	$839	$143
Manufactured Home Inspection and Monitor Program				
Discretionary BA	$12,900	$16,000	$16,000	0
FTE	11	11	11	0
S&E Cost	$1,229	$1,301	$1,352	$51
Project-Based Rental Assistance				
Discretionary BA	$413,207	$401,787	$438,841	$37,054
FTE	28	29	28	(1)
S&E Cost	$2,869	$3,138	$3,142	4
HOUSING TOTAL				
Discretionary BA	$551,594	$512,194	$522,682	$10,488
FTE	237	270	278	8
S&E Cost	$24,538	$29,772	$31,984	$2,212

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2007 Approp.	2008 Approp.	2009 Request	2008 vs. 2009
OFFICE OF PUBLIC AND INDIAN HOUSING				
Native American Housing Block Grants				
Discretionary BA	$62,370	$63,000	$62,700	($300)
FTE	14	16	16	0
S&E Cost	$1,677	$1,920	$2,011	$91
Native American Indian Community Development Block Grants				
Discretionary BA	$59,400	$62,000	$57,420	($4,580)
PIH Total				
Discretionary BA	$121,770	$124,408	$120,120	($4,288)
FTE	14	16	16	0
S&E Cost	$1,677	$1,920	$2,011	$91
OFFICE OF POLICY DEVELOPMENT AND RESEARCH				
Research and Technology				
Discretionary BA	$21,294	$22,830	$14,400	($8,430)
FTE	18	20	21	1
S&E Cost	$2,437	$2,849	$3,092	$243
OFFICE OF FAIR HOUSING AND EQUAL OPPORTUNITY				
Other FHEO Programs				
FTE	7	NA	NA	NA
S&E Cost	$765	NA	NA	NA
LEAD HAZARD CONTROL				
Discretionary BA	$150,000	$142,236	$116,000	($26,236)
FTE	49	50	54	4
S&E Cost	$5,741	$7,203	$8,013	$810
Total for Strategic Goal C				
Discretionary BA	$4,792,599	$18,302,016	$4,202,643	(14,099,373
FTE	816	859	896	37
S&E Cost	$89,577	$99,732	$105,464	$5,732

(1) The amount for fiscal year 2008 Community Development Block Grants discretionary BA includes $13,392,860 in supplemental funding for hurricane, flood and related disaster recovery.

Strategic Goal D: Ensure Equal Opportunity in Housing

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2007 Approp.	2008 Approp.	2009 Request	2008 vs. 2009
OFFICE OF POLICY DEVELOPMENT AND RESEARCH				
Research and Technology				
Discretionary BA	$500	0	$300	$300
FTE	2	0	2	2
S&E Cost	$270	0	$300	$300
FAIR HOUSING AND EQUAL OPPORTUNITY				
Fair Housing Initiatives Program				
Discretionary BA	$19,800	$24,000	$26,000	$2,000
FTE	25	23	23	0
S&E Cost	$2,731	$2,590	$3,652	$1,062
Fair Housing Assistance Program				
Discretionary BA	$25,700	$25,620	$25,000	($620)
FTE	22	25	27	2
S&E Cost	$2,403	$2,815	$4,287	$1,472
Other FHEO Programs				
Discretionary BA (1)	0	$380	0	($380)
FTE	492	534	551	17
S&E Cost	$53,741	$61,695	$62,859	$1,164
FHEO TOTAL				
Discretionary BA	$45,500	$50,000	$51,000	$1,000
FTE	539	596	601	5
S&E Cost	$58,875	$67,100	$70,798	$3,698
Total for Strategic Goal D				
Discretionary BA	$46,000	$50,000	$51,300	$1,300
FTE	541	596	603	7
S&E Cost	$59,145	$67,100	$71,098	$3,998

(1) The FY 2008 BA of $380,000 is for the creation and promotion of translated materials and other programs that support the assistance of persons with limited English proficiency in utilizing the services provided by the Department.

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

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2007 Approp.	2008 Approp.	2009 Request	2008 vs. 2009
OFFICE OF PUBLIC AND INDIAN HOUSING				
Tenant-Based Rental Assistance				
Discretionary BA	$1,579,928	$1,544,752	$1,592,190	$47,438
FTE	76	46	47	1
S&E Cost	$9,036	$5,660	$6,006	$346
Project-Based Rental Assistance				
Discretionary BA	$19,659	$18,192	$19,953	$1,761
Housing Certificate Fund				
Discretionary BA	($125,530)	($28,176)	0	$28,176
Public Housing Operating Fund				
Discretionary BA	$2,318,400	$2,519,966	$2,580,000	$60,034
FTE	79	330	358	28
S&E Cost	$9,405	$40,548	$46,090	$5,542
PIH TOTAL				
Discretionary BA	$3,788,458	$4,057,034	$4,192,143	$135,109
FTE	155	376	405	29
S&E Cost	$18,442	$46,207	$52,096	$5,889
OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT				
Community Development Block Grants				
Discretionary BA	$259,875	$266,581	$191,575	($75,006)
FTE	21	21	18	(3)
S&E Cost	$2,264	$2,310	$2,139	(171)
HOME Investment Partnerships Program				
Discretionary BA	$171,565	$164,886	$196,664	$31,778
FTE	15	15	13	(2)
S&E Cost	$1,622	$1,693	$1,545	(148)
Homeless Assistance Grants				
Discretionary BA	$152,880	$164,974	$175,355	$10,381
FTE	29	29	34	5
S&E Cost	$3,138	$3,500	$4,089	$589

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	**2007 Approp.**	**2008 Approp.**	**2009 Request**	**2008 vs. 2009**
Office of CPD TOTAL				
Discretionary BA	$601,473	$614,478	$581,900	($32,848)
FTE	68	68	68	0
S&E Cost	$7,350	$7,826	$8,130	$304
OFFICE OF HOUSING				
FHA-GI/SRI				
Discretionary BA	$48,128	$14,485	$9,063	($5,422)
FTE	177	175	167	(8)
S&E Cost	$19,038	$19,876	$19,793	($83)
FHA-MMI/CHMI				
Discretionary BA	$119,262	$22,390	$32,120	9,730
FTE	274	267	278	11
S&E Cost	$30,917	$31,917	$34,528	$2,611
Project-Based Rental Assistance				
Discretionary BA	$250,876	$215,530	$250,766	$35,236
FTE	17	17	16	(1)
S&E Cost	$1,786	$1,912	$1,869	($43)
Interstate Land Sales				
FTE	17	17	19	2
S&E Cost	$1,919	$2,029	$2,363	$334
HOUSING TOTAL				
Discretionary BA	$418,265	$272,405	$291,949	$19,544
FTE	485	476	480	4
S&E Cost	$53,660	$55,734	$58,553	$2,819
OFFICE OF POLICY DEVELOPMENT AND RESEARCH				
Research and Technology				
Discretionary BA	$6,341	$6,584	$10,851	$4,267
FTE	37	39	41	2
S&E Cost	$6,762	$7,932	$7,914	($18)
OFFICE OF FAIR HOUSING AND EQUAL OPPORTUNITY				
Other FHEO Programs				
FTE	33	NA	NA	NA
S&E Cost	$3,584	NA	NA	NA
DEPARTMENTAL EQUAL EMPLOYMENT OPPORTUNITY				
FTE	24	26	26	0
S&E Cost	$2,994	$3,268	$3,438	$170

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	**2007 Approp.**	**2008 Approp.**	**2009 Request**	**2008 vs. 2009**
DEPARTMENTAL MANAGEMENT				
FTE	84	80	80	0
S&E Cost	$10,476	$12,676	$11,819	($857)
CHIEF FINANCIAL OFFICER				
FTE	206	211	216	5
S&E Cost	$37,625	$45,698	$50,683	$4,985
GENERAL COUNSEL				
FTE	640	661	661	0
S&E Cost	$80,885	$87,463	$90,937	$3,474
ADMINISTRATION AND STAFF SERVICES				
FTE	518	615	649	34
S&E Cost	$244,177	$255,136	$275,642	$20,506
CHIEF PROCUREMENT OFFICER				
FTE	107	116	117	1
S&E Cost	$12,040	$14,117	$14,229	$112
FIELD POLICY AND MANAGEMENT				
FTE	431	400	383	(17)
S&E Cost	$51,752	$49,857	$52,256	$2,399
WORKING CAPITAL FUND				
FTE	298	280	280	0
S&E Cost	$38,349	$37,800	$41,752	$3,952
Total for Strategic Goal E				
Discretionary BA	$4,814,537	$4,950,771	$5,076,843	$126,072
FTE	3,175	3,437	3,495	58
S&E Cost	$579,915	$636,036	$680,472	$44,436
OFFICE OF INSPECTOR GENERAL				
FTE	632	650	650	0
S&E Cost	$110,153	$116,000	$119,000	$3,000

Strategic Goal F: Promote Participation of Faith-Based and Community Organizations

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	**2007 Approp.**	**2008 Approp.**	**2009 Request**	**2008 vs. 2009**
CENTER FOR FAITH-BASED AND COMMUNITY INITIATIVES				
FTE	8	10	10	2
S&E Cost	$1,586	$1,870	$2,175	$305
Total for Strategic Goal F	`			
FTE	8	10	10	2
S&E Cost	$1,586	$1,870	$2,175	$305

Goal A: Increase Homeownership Opportunities

PERFORMANCE REPORT CARD – GOAL A

	Performance Indicators	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2008 Target	Met	Notes
	Cross-Departmental							
A.1	HUD's major programs will promote affordable homeownership opportunities.							
	Community Planning and Development	172,596	204,381	166,748	169,452	158,375	✓	
	Public and Indian Housing	12,518	11,140	11,367	9,314	8,000	✓	
A.2	Improve national homeownership opportunities in support of first-time homebuyers.	68.8%	69.0%	68.2%	67.9%	N/A	N/A	a
	The share of all homebuyers who are first-time homebuyers.	38.1%	N/A	34.8%	N/A	N/A	N/A	b
A.3	The homeownership rate among targeted households.							
	Homeownership among minority households	51.2%	51.7%	51.0%	51.0%	N/A	N/A	a
	Households with income less than median family income	52.8%	53.0%	53.0%	52.0%	N/A	N/A	a
	Homeownership among central city households	54.0%	54.6%	53.5%	53.6%	N/A	N/A	a
A.4	Add 5.5 million minority homeowners between 2002 and 2010.	2.35	3.48	3.19	4.99	N/A	N/A	c
	The gap in homeownership rates of minority and non-minority households.	24.6%	24.6%	24.3%	24.1%	N/A	N/A	a
	FHA/Housing							
A.5	The number of FHA single family mortgage endorsements nationwide.	556	502	532	1,200	N/A	N/A	d
A.6	The share of first-time homebuyers among FHA home purchase endorsements is 73 percent.	79.3%	79.3%	79.5%	77.9%	73.0%	✓	
A.7	The share of first-time minority homebuyers among FHA first-time home purchase endorsements is 33 percent.	34.4%	31.7%	33.0%	31.2%	33.0%	✗	
A.8	At least 30 percent of clients receiving pre-purchase counseling will purchase a home or become mortgage-ready within 90 days.	37.1%	42.7%	49.1%	44.5%	30.0%	✓	e

PERFORMANCE REPORT CARD – GOAL A

	Performance Indicators	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2008 Target	Met	Notes
A.9	Minority clients are at least 50 percent of total clients receiving housing counseling in FY 2008.	58.4%	47.3%	45.7%	45.9%	50.0%	✗	e
A.10	More than 80 percent of total mortgagors that complete counseling for resolving or preventing mortgage delinquency will successfully avoid foreclosure.	96.7%	92.5%	96.3%	96.7%	80.0%	✓	e
A.11	The share of FHA real estate owned properties that are sold to owner-occupants is 45 percent.	N/A	N/A	N/A	50.1%	45.0%	✓	
A.12	HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for low- and-moderate income mortgage purchases.							
	Fannie Mae	53.4%	55.1%	56.9%	N/A	N/A	N/A	
	Freddie Mac	52.5%	54.0%	55.9%	N/A	N/A	N/A	
A.13	HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for mortgages financing special affordable housing.							
	Fannie Mae	23.6%	26.3%	27.8%	N/A	N/A	N/A	
	Freddie Mac	23.0%	24.3%	26.4%	N/A	N/A	N/A	
A.14	Respond to 3,000 inquiries and complaints from consumers and industry regarding the Real Estate Settlement Procedures Act and the home buying and mortgage loan process.	1,245	1,355	6,622	5,578	3,000	✓	
A.15	FHA ensures that the percentage of at risk loans that substantively comply with FHA program requirements is at least 85 percent.	90.0%	95.0%	96.8%	97.3%	85.0%	✓	
A.16	Loss mitigation claims are 55 percent of the total claims on FHA-insured single family mortgages.	59.1%	61.0%	64.9%	64.5%	55.0%	✓	

PERFORMANCE REPORT CARD – GOAL A

	Performance Indicators	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2008 Target	Met	Notes
	Ginnie Mae							
A.17	Ginnie Mae securitizes at least 93.5 percent of eligible single family, fixed-rate FHA loans.	92.7%	91.4%	93.0%	96.9%	93.5%	✓	
A.18	Ginnie Mae securitizes at least 84 percent of Veterans Affairs single family, fixed-rate loans.	N/A	N/A	92.0%	91.6%	84.0%	✓	
A.19	At least 29 percent of all Ginnie Mae single family pools issued in FY 2008 are Targeted Lending Initiative Pools.	25.9%	26.3%	26.0%	27.8%	29.0%	✗	

N/A: not available

a – third quarter of the calendar year (last quarter of fiscal year; not the entire fiscal year)

b – calendar year beginning during the fiscal year shown

c – number reported in millions

d – number reported in thousands

e - reporting results from FY 2008, third quarter

Cross-Departmental

A.1: HUD's major programs will promote affordable homeownership opportunities.

Public Benefit. Homeownership is a way for an individual or a family to make an investment for the future and can contribute to stabilizing neighborhoods and stimulating economic growth. Homeownership has always been a long-term potential source of wealth creation for millions of American families.

Increasing homeownership opportunities is a key component of HUD's mission and through a variety of housing, loan guarantee, and community development programs, the Department supports a substantial number of homeownership opportunities, particularly those targeted toward populations with more limited incomes and other special characteristics. The largest contributor is the Federal Housing Administration's (FHA) single family mortgage insurance program. It is estimated that each 100,000 new homeowners represent a one-tenth of one percent increase in the overall national homeownership rate.

Home Ownership / Home Rehabilitation Assistance (in units)	**2005 Actual**	**2006 Actual**	**2007 Actual**	**2008 Actual**	**2008 Target**
TOTAL FHA Single Family[1]	**280,188**	**248,953**	**224,084**	**492,369**	**N/A**
CDBG (homeownership assistance)	7,530	7,628	6,919	4,521	6,708
CDBG (owner-occupied rehabilitation)	124,544	131,508	117,830	121,158	114,228
HOME (new homebuyer assistance)[2]	23,413	46,556	28,891	30,999	27,264
HOME (existing-homeowner rehabilitation)[2]	14,832	16,821	11,221	10,847	8,675
SHOP (homeowners assistance)	2,277	1,868	1,887	1,927	1,500
TOTAL Community Planning and Development	**172,596**	**204,381**	**166,748**	**169,452**	**158,375**
Indian Housing Block Grant (homeownership assistance and owner-occupied rehabilitation)	7,449[3]	6,852[3]	5,220[3]	4,192	4,349
Native Hawaiian Housing Block Grant (homeownership assistance and owner-occupied rehabilitation)	72	23	65	95	101
HOPE VI	1,284	718	1,841	2,234	800
Section 184 home loan guarantees	634	1,139	1,340	1,576	1,500
Section 184A home loan guarantees	10	1	0	17	50
Homeownership Vouchers	3,069	2,407	2,901	1,200	1,200
TOTAL Public and Indian Housing	**12,518**	**11,140**	**11,367**	**9,314**	**8,000**
TOTAL	**465,302**	**464,474**	**402,199**	**671,135**	**166,375**[4]

[1] These figures represent only first time homebuyers, as they exclude refinanced or non-first time home buyers.
[2] Unlike CDBG, all HOME assisted units must be brought up to code upon completion of the rehabilitation. HOME funds cannot be used in weatherization only or emergency rehabilitation projects that do not result in all structural and component systems meeting code requirements.
[3] These figures have been revised from those reported in the Performance and Accountability Report due to subsequent adjustments to the database.
[4] Does not include impact of FHA single family program as it is a tracking indicator with out a numerical goal.

In FY 2008, the single family mortgage insurance program assisted 492,369 first-time homebuyers. In addition, FHA has played a key role in helping hundreds of thousands of households refinance into more stable, affordable mortgages, in many cases allowing families to remain in their homes when they would otherwise not have been able. FHA mortgage insurance also helps to create and maintain greater liquidity in the mortgage market and continues to be a key stabilizing force (See also indicators A.2, A.5, and A.6.).

In addition to FHA, the offices of Community Planning and Development (CPD) and Public and Indian Housing (PIH) have important programs designed to create affordable homeownership options for the American public. In total, the Department's programs provided 671,135 households with homeownership opportunities.

Background. The results tracked by this indicator show the contribution made by FHA, CPD, and PIH to the outcome of promoting affordable homeownership opportunities. HUD created this indicator in FY 2008 by combining the homeownership activities of seven previously reported indicators.

FHA manages the Single Family Mortgage Insurance Program, which represents a major component of HUD's efforts to promote affordable homeownership opportunities for low-income Americans. By providing insurance to commercial mortgage lenders, HUD encourages them to invest capital in the home mortgage market.

CPD manages the following programs in support of providing homeownership opportunities: HOME Investment Partnership program, American Dream Down Payment Initiative, Self-help Homeownership Opportunity Program, and the CDBG program.

- The HOME Investment Partnerships Program provides grants to states and local governments to increase homeownership and create homeownership opportunities for low-income Americans.
- The American Dream Down Payment Initiative provides grants designed to offer down payment assistance and other purchase assistance to low-income first time homebuyers.
- The Self-help Homeownership Opportunity Program provides grants on a competitive basis to nonprofit organizations that assist low-income Americans to purchase homes. Homebuyers are required to invest a significant amount of "sweat equity" in order to participate in the program.
- The CDBG program is HUD's largest and most flexible formula grant program providing funds to states and local governments for a variety of eligible activities including increasing homeownership opportunities.

PIH manages the following programs in support of providing homeownership opportunities: the Indian Housing Block Grant and Native Hawaiian Housing Block Grant, HOPE VI, Section 184 Loan Guarantees for Indian Housing and Section 184A Loan Guarantees for Native Hawaiian Housing, Homeownership Vouchers, and Family Self-Sufficiency.

- The Indian Housing Block Grant and the Native Hawaiian Housing Block Grant programs provide grants to Native American and Native Hawaiian communities for a variety of eligible activities including expanding homeownership opportunities.
- The HOPE VI program provides funding to eradicate and revitalize severely distressed public housing. Eligible activities include creating homeownership opportunities for low-income Americans.

- Homeownership Vouchers is an eligible activity in Public Housing designed to provide opportunities for homeownership to public housing tenants.

Program Websites.

http://www.fha.gov/

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

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

http://www.hud.gov/offices/cpd/communitydevelopment/programs

http://www.hud.gov/offices/pih/ih/grants/ihbg.cfm

http://www.hud.gov/offices/pih/ih/codetalk/onap/nhhbgprogram.cfm

http://www.hud.gov/offices/pih/programs/ph/hope6

http://www.hud.gov/offices/pih/ih/homeownership/184

http://www.hud.gov/offices/pih/ih/codetalk/onap/program184a.cfm

http://www.hud.gov/offices/pih/programs/hcv/homeownership/index.cfm

Results and Analysis.

For all of the HUD programs reporting in this indicator, a total of approximately 671,000 homeownership opportunities were supported. This is a 67 percent increase over FY 2007 and is above the target for FY 2008 for non-FHA programs. FHA reports this data as a tracking indicator so there is no target. The greatest share of the increase is a result of the dramatic expansion of FHA mortgage insurance endorsements. As a result of the deteriorating private sector mortgage market throughout the fiscal year, FHA has become a keystone of the mortgage market, accounting for almost half of new mortgages and refinances nationwide.

FHA

This is a tracking indicator for FHA because of the effect that macro-economic conditions can have on results. FHA provided 492,369 mortgage endorsements to first-time homebuyers. This is a 120 percent increase from 224,084 in FY 2007. Since the launch of the *FHASecure* program at the end of FY 2007, FHA has also helped more than 400,000 families refinance into safe, secure, fixed-rate mortgages, enabling them to avoid foreclosure and stay in their homes. FHA offers safe, secure, and affordable mortgages and is a key stabilizing force in an overall difficult housing market.

CPD

In FY 2008, CPD provided assistance to 169,452 units, exceeding the overall FY 2008 goal by 11,077 units.

- The CDBG program provided homeownership assistance to 4,521 households missing the goal of 6,708 by 2,187. CDBG did exceed the goal of 114,228 for owner-occupied rehabilitation by six percent, completing rehabilitation of 121,158 units.

- The HOME Investment Partnerships program provided new homebuyer assistance to 30,999 households, exceeding the goal by approximately 13.7 percent. These results indicate a 2,108 increase in the number of units assisted compared to FY 2007. Participating jurisdictions used HOME funds to rehabilitate 10,847 owner-occupied units. This exceeds the FY 2008 goal of 8,675 units by 25 percent or 2,172 units. It also represents a reduction of 374 units completed compared to the FY 2007 level of 11,221 units.
- For the year ended June 30, 2008, the American Dream Downpayment Initiative program provided 4,209 (part of the HOME number) households the opportunity to become new homeowners, exceeding the goal by approximately 50 percent.
- For the year ended June 30, 2008, the Self-help Homeownership Opportunity Program provided homeowner's assistance to 1,927 households, surpassing the program goal of 1,500 units by 427, or 28.5 percent, and exceeding the FY 2007 level of 1,887 by 40 units.

Each CPD result exceeded HUD's homeownership assistance goals with the exception of CDBG. The design of the CDBG program allows flexibility to local decision-makers to allocate funds based on needs and priorities from among several eligible activities, including promoting homeownership opportunities. Market conditions and other factors can affect how state and local governments allocate CDBG funds, making it difficult for HUD to accurately set targets. While the FY 2008 target was not met, homeownership assistance remains a key goal for CDBG.

PIH

In 2008, PIH provided homeownership opportunities to 9,314 households exceeding the collective goal of 8,000 by more than 16 percent.

- The Indian and Native Hawaiian Housing Block Grant programs helped 4,287 households remain in their homes or purchase new homes. The Indian Block Grant program is designed to provide local decision-makers with the flexibility to allocate funds from among a number of eligible activities. Changing market conditions can cause funds to be shifted from one activity to another making it difficult for HUD to accurately set targets.
- The HOPE VI program provided affordable homeownership opportunities for 2,234 households.
- The Indian and Native Hawaiian home loan guarantee programs (Sections 184 and 184A) helped 1,593 households. The Section 184 Indian Housing Loan Guarantee program provides up to a 100 percent guarantee of mortgages in Indian country where there is an acute lack of affordable homeownership opportunities.

Resources and Performance Link.

FHA

- The Mutual Mortgage Insurance Fund received FY 2008 appropriations in the amount of $77.4 million, a 25 percent increase from $62 million in FY 2007. FY 2008 appropriations allowed the program to guarantee up to $185 billion worth of mortgage loans. Loan guarantees on this scale provide increased liquidity in mortgage markets and help to lower the interest rates consumers pay on their home loans. Together, these effects help to increase the availability of commercial mortgage financing as well as make homeownership more affordable.

CPD

- The CDBG formula grant program was appropriated $3.586 billion in FY 2008, a three percent decrease from $3.704 billion in FY 2007. Local governments receive formula CDBG funds either directly from HUD or through states. Local governments and states develop plans and priorities for expenditure of CDBG funds through CPD's consolidated planning process. The number of units assisted is primarily a function of grantee funding decisions and local level implementation. In FY 2008, CDBG grantees expended $547.6 million on single-unit residential rehabilitation, which represents 12.58 percent of all non-supplemental disbursements during the fiscal year. This represents the largest single use of CDBG funds but is a $34.6 million reduction from the FY 2007 expenditure level for the same activity.
- The HOME Investment Partnership Program was appropriated $1.704 billion in FY 2008, a three percent decrease from $1.757 billion in FY 2007. The HOME program exceeded its homeownership assistance goal in FY 2008. The goal was lowered for FY 2008 and the total was short of the FY 2007 result. This is due in part to the decrease in available appropriations as well as inflation in construction and material costs. The HOME per-unit cost of assistance increased four percent in FY 2008 from FY 2007.
- The American Dream Downpayment Initiative Program is funded as a part of the HOME Investment Partnership program and its budget is a part of the HOME appropriation. In FY 2008, the American Dream Downpayment Initiative program was appropriated $10 million, a 60 percent decrease from $24.75 million in FY 2007. Despite a significant reduction in funding in FY 2008, the program exceeded its goal of assisting 2,800 new homeowners by over 50 percent. The number of homeowners assisted in FY 2008 was 4,209, while in FY 2007 the number of homeowners assisted was 6,094. The American Dream Downpayment Initiative program is also impacted by lower appropriations, inflation in construction and material costs, and recent housing market conditions.
- The Self-help Homeownership Opportunity Program was appropriated $26.5 million in FY 2008, a 42 percent increase from $18.7 million in FY 2007. The full effect of the FY 2004 increase from $10,000 to $15,000 in the Self-help Homeownership Opportunity program's allowable average assistance level per unit will continue to be felt. Consequently, the FY 2009 assistance goal is maintained at 1,500 households. The 42 percent program funding increase requested in FY 2008, compared to the FY 2007 appropriation level, will begin to affect results late in FY 2009, as FY 2008 funds will be awarded on a competitive basis during the first quarter of FY 2009.

PIH

- The Indian Housing Block Grant Program was appropriated $630 million in FY 2008, a one percent increase from $623.4 million in FY 2007. The Native Hawaiian Housing Block Grant program was appropriated $9 million for FY 2008, a three percent increase from $8.7 million in FY 2007. In recent years, targets have been based on relatively flat funding levels and annual trend data. These grant programs are often the main source or sole source of funding for affordable housing on Tribal and Native Hawaiian areas. Block grant housing projects frequently involve multi-year efforts and grant recipients only report on their accomplishments in the year that projects are completed.

It can be difficult to predict the number of units that will be reported as built, acquired, and rehabilitated in any given year. Therefore, the link between resources and performance can take several years to reflect changes in performance. Homeownership assistance has trended down in recent years for the Indian Housing Block Grant program while it has generally trended up for the Native Hawaiian Housing Block Grant program.

- The HOPE VI Program was appropriated $100 million in FY 2008. In the President's FY 2009 budget request to Congress, HUD proposed no new funding for the HOPE VI program. HUD remains focused, however, on continuing the progress of currently active projects and maximizing the effective use of program existing resources. Accordingly, performance targets and future activity related to this goal would be accomplished with remaining prior year funds.
- The Section 184 Indian Housing Loan Guarantee program received $7.45 million in FY 2008 appropriations, a 24 percent increase from $6 million in FY 2007. The FY 2008 appropriations allowed the program to guarantee up to $367 million in loans. Section 184's appropriations and loan guarantee portfolio have grown significantly in recent years. The program's loan guarantee portfolio grew from $190 million at the close of FY 2004 to $940 million in FY 2008. Loan guarantees are an important resource in HUD's efforts to expand homeownership opportunities in tribal areas.
- The Section 184A Native Hawaiian Housing Loan Guarantee program received $1,044,000 in FY 2008 appropriations, a 17 percent increase from $891,000 in FY 2007. FY 2008 appropriations allowed the program to guarantee up to $41.5 million in loans.
- For the Voucher Program, the Department works toward its goal through an administrative fee incentive and by providing direct technical assistance to PHAs that are interested in exercising a voluntary homeownership option or by working to accelerate the number of homeownership closings under an existing PHA homeownership program. HUD continues to work closely with PHA's to provide homeownership opportunities to tenants of Public Housing.

Reasons for Shortfalls / Plans and Schedule to Meet the Goals.

The overall goal for CDBG, which combines owner-occupied rehabilitations and homeownership assistance, was met. The shortfall occurred in the homeownership assistance sub-category of this CDBG goal. Housing market conditions throughout FY 2008 resulted in a significant reduction in home purchases nationwide. The formula grant structure of the CDBG program allows grantees to allocate funds from among a variety of eligible activities to most efficiently meet the needs of their communities. Due to the reduction in home purchases throughout the fiscal year, demand for CDBG homeownership assistance fell while the need increased for other CDBG activities such as rental assistance and employment services.

PIH programs were treated as a single output with a goal of 8,000 units. The results for PIH programs exceeded this goal by 16 percent with a total 9,314 units. The combined goal for PIH recognizes that some programs' grantees can and have chosen to use significantly different amounts of funding for homeownership assistance versus other uses. In addition, individual program results are significantly impacted by local market conditions, current program design, and/or operational changes in the programs.

Homeownership assistance remains an important part of HUD's mission. HUD will continue to emphasize the importance of homeownership and expanding homeownership opportunities, particularly for low-income and other underserved Americans.

Data Discussion.

FHA

- Data for the FHA Single Family Mortgage Insurance program originates in the Computerized Homes Underwriting Management System and is reported in FHA's Single Family Housing Enterprise Data Warehouse. Direct endorsement lenders enter data with FHA monitoring. As part of the Department's data quality initiative, the Computerized Homes Underwriting Management System was identified by the Enterprise Data Management Group as passing six-sigma quality tests for validity, completeness, and consistency.

CPD

- Data for the HOME Investment Partnerships program and the American Dream Downpayment Initiative program are reported in HUD's Integrated Disbursement and Information System by participating jurisdictions.
- Reports compiled by Self-help Homeownership Opportunity Program grantees are used to track performance under this indicator. HUD Headquarters staff monitors grantees to ensure that reported accomplishments are accurate.
- CDBG accomplishments are reported by grantees in HUD's Integrated Disbursement and Information System. The CDBG program also continues to work closely with grantees to address reporting and data quality in an effort to ensure accurate results and allow the CDBG program to base its targets on the most current data. In FY 2009 additional training on data will be undertaken to ensure that grantees properly account for all CDBG accomplishments.
- CPD has pursued a variety of enhancements to the Integrated Disbursement and Information System that, along with data clean-up efforts, have been the focus of ongoing data quality improvement efforts. CPD staff also verify data when monitoring grantees.

PIH

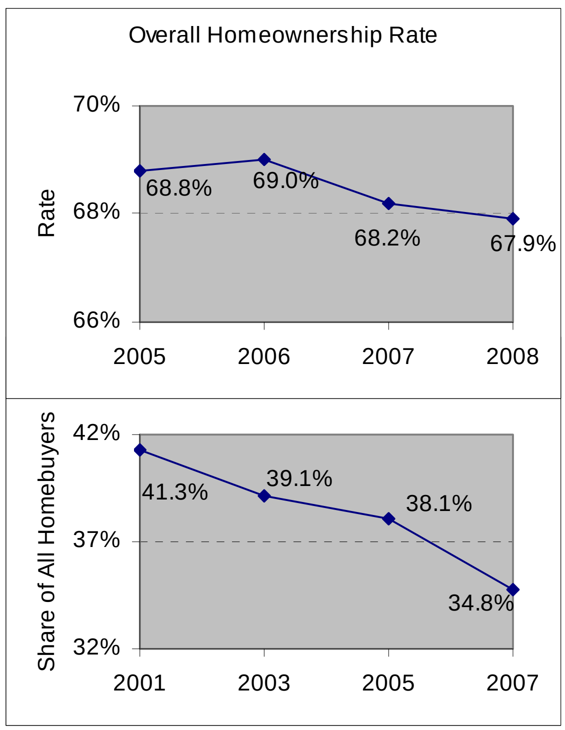
- Indian Housing Block Grant data come from more than 500 grant recipients through annual performance reports. The data are captured in the Performance Tracking Databases of regional Office of Native American Programs and then aggregated into a national database at HUD Headquarters. Indian Housing Block Grant recipients with fiscal years ending after June 30 report in the next federal fiscal year. Therefore, accomplishments of the Indian Housing Block Grant program reported in this document are subject to future adjustment. The Office of Native American Programs works closely with grantees to ensure timely and accurate data reporting.
- The Native Hawaiian Housing Block Grant data come from grantees' Annual Performance Reports. Results are for the period July 1, 2007, through June 30, 2008.

- Data for the HOPE VI program are accumulated through PIH's HOPE VI Progress Reporting system. Data are reviewed and verified by HUD staff through close communications with grantees and regular site visits. Progress is closely monitored and regularly compared to grantees' established goals.
- The Section 184 Loan Guarantees for Indian Housing and Section 184A Loan Guarantees for Native Hawaiian Housing programs compile data on the dollar amount and the number of loan guarantee certificates issued upon loan closing. The Director of the Office of Loan Guarantee and the PIH Budget Office both validate the data on a monthly basis.
- PIH compiles data for the Homeownership Vouchers program in HUD's 50058 module from household data reported by PHAs.

A.2: Improve national homeownership opportunities in support of first-time homebuyers.

Public Benefit. Responsibly expanding opportunities for homeownership to Americans is a key component of HUD's mission supporting the American dream. Homeownership is recognized for building wealth and encouraging commitment to communities. Two key indicators of national outcomes are the overall homeownership rate and the proportion of homebuyers who are first-time purchasers. HUD does not establish performance targets for these tracking indicators because of the Department's limited span of control relative to economic factors.

Background. As a core component of HUD's mission, each major program area has HUD programs that support increases in the homeownership rate. In line with the Presidential priorities, HUD has placed substantial emphasis on homeownership for minority families and other disadvantaged groups (see indicators A.3 and A.4). The two indicators, overall homeownership rate and share of first-time homebuyers, were consolidated under a single heading through a revision in the FY 2009 Annual Performance Plan for FY 2008.



Program Website. http://www.huduser.org/periodicals/ushmc.html

Results and Analysis. The national homeownership rate for all households in the third quarter of calendar year 2008 was 67.9 percent, compared with 68.2 percent in the third quarter of 2007. It is probable that the homeownership rate will decrease in the future. Mortgage defaults increased during FY 2008 due to property value declines and resetting of many adjustable rate mortgages to higher interest rates.

To track first-time homebuying, the most recent available data show that 34.8 percent of households who reported during 2007 that they had purchased a home in 2006 were first-time homebuyers. This reflects a decrease of 3.3 percentage points from the proportion of first-time buyers among purchasers reporting during 2005. The decline extends the downward trend from the peak observed among purchasers reporting in 2001.

Resources and Performance Link. Each 0.1 percentage point increase in the national homeownership rate translates to about 100,000 new homeowners (if total households remain constant). Such results are well within range of HUD program impacts reported through a number of performance indicators (see indicator A.1).

HUD programs continue to play an important role in mitigating the difficulties of purchasing a first home. Homeownership vouchers and the American Dream Downpayment Initiative, in particular, help households overcome their lack of savings for a down payment. FHA insured 1,200,111 single family mortgages in FY 2008, of which 77.9 percent were to first-time homebuyers. The FHA insurance programs are measured in terms of insurance-in-force rather than program budget authority. In FY 2008, the Mutual Mortgage Insurance Fund endorsed approximately $171.8 billion of mortgages.

In response to the growing foreclosure crisis, HUD introduced *FHASecure* in FY 2007 to refinance distressed homeowners with a secure, affordable, fixed-rate, FHA-insured loans. In FY 2008, the Housing and Economic Recovery Act established a $300 billion Home Ownership Preservation Entity fund for the HOPE for Homeowners program. FHA launched the program to help distressed homeowners avoid foreclosure by insuring new, refinanced mortgages that have lower, fixed interest rates, up to 30-year terms, and principal balances not exceeding 90 percent of appraised value.

Data Discussion. The national homeownership measure is based on averages of monthly Current Population Survey data for the third quarter (the last quarter of the fiscal year). The data are free of limitations affecting the measure’s reliability. Changes in the estimated homeownership rate exceeding 0.7 percentage points are statistically significant with 90 percent confidence, using a conservative estimate and assuming the two samples are drawn independently from the same population.

The first-time homebuyer measure uses data from the biennial American Housing Survey. Calendar Year 2009 data will be released during 2010. The data represent homeowners who reported, during the odd years shown, that they moved during the previous even years. This offset allows the data to represent a complete year and avoids seasonal distortions, because odd year homebuyers who moved after they were surveyed would not be represented. Information on first-time status was missing for 6.8 percent of homebuyers who purchased in 2006 and reported in 2007, so those households are excluded. During 2002, HUD contractors completed a study that verified and validated the American Housing Survey for purposes of mortgage market and housing finance analysis. Researchers assessed the replicability, internal consistency, and reliability of American Housing Survey estimates and found the data generally reliable.

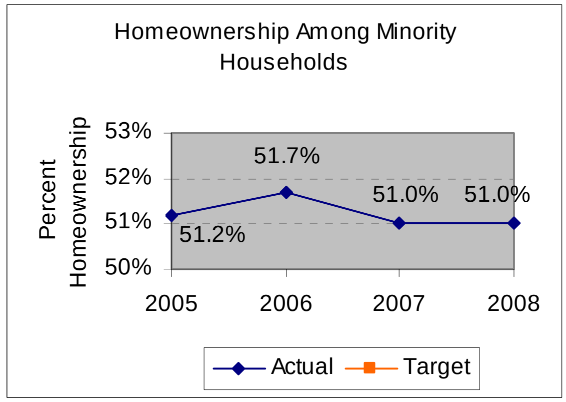
A.3: The homeownership rate among targeted households.

Public Benefit. Responsibly expanding the benefits of homeownership can help stabilize neighborhoods, strengthen communities, and stimulate economic growth. Three tracking indicators help HUD assess progress in promoting homeownership among underserved populations. These are the homeownership rates of racial and ethnic minority households, households with incomes below the area median income, and households in central cities. HUD did not establish FY 2008 performance targets for these indicators because of the current dominant impact of the macro-economy.

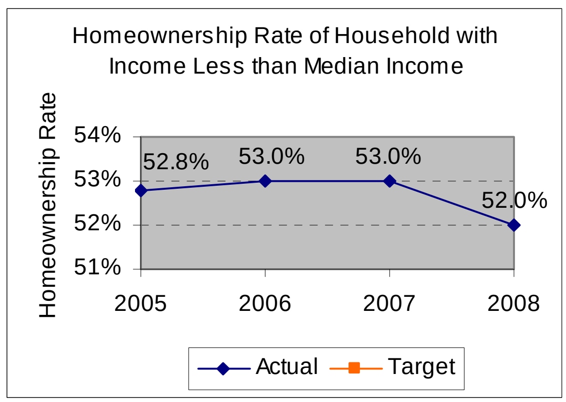
Background. It has long been recognized that homeownership creates incentives for improving communities and is a method to secure personal wealth. Yet, there are many population groups that face greater barriers to homeownership. HUD has been engaged in serving target populations by providing assistance with down payments, by supporting homeowner education, and by implementing the President's Minority Homeownership Initiative, which established the goal of adding 5.5 million minority homeowners by the end of the decade (see indicator A.4).

Program Website. http://www.huduser.org/periodicals/ushmc.html

Results and Analysis. The homeownership rate for all minorities combined was 51.0 percent in the third quarter of 2008, unchanged from the third quarter of 2007. There were 16,847,000 minority homeowners in the third quarter of 2008, an increase of 337,000 since the end of FY 2007.

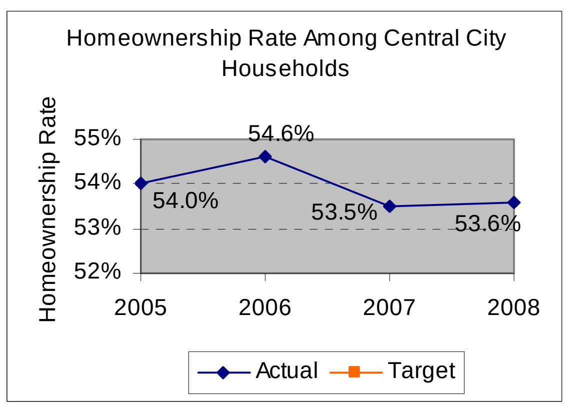


Another indicator tracking homeownership among HUD's target populations is for households with incomes below the national median income. Homeownership among these households declined to 52.0 percent in the third quarter of 2008, down 1.0 percentage point from 53.0 percent at the end of FY 2007.



The homeownership rate in central cities was 53.6 percent in the third quarter of 2008, about the same as the 53.5 percent in the third quarter of 2007.

Resources and Performance Link. Homeownership rates had increased through 2006 for each of these target populations during the extended period of low mortgage interest rates and innovative mortgage products. Despite negative macroeconomic factors, HUD's programs continue to play a significant supporting role. Minority households represented 31.2 percent of FHA-insured first-time homebuyers in FY 2008. HUD's strategies to increase minority homeownership include increased outreach and continued enforcement of equal opportunity in housing. HUD's largest block grant programs, CDBG and the HOME Investment Partnership Program, each have a sizable homeownership component. The HOME



Investment Partnership Program, for example, assisted 31,000 homeowners during FY 2008.

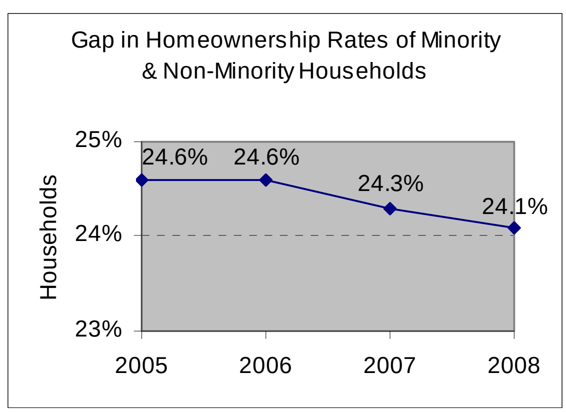
In FY 2008, sustaining homeownership among distressed homeowners became a primary focus. HUD's housing counseling program has protected thousands of households by educating them on predatory lending and lax underwriting practices, and housing counseling has helped homeowners sustain their tenure. *FHASecure* and the HOPE for Homeowners program are becoming centers of intense activity as the nation responds to the subprime mortgage crisis.

Data Discussion. The three indicators are based on averages of monthly Current Population Survey data for the final quarter of the fiscal year. The data are free of serious problems, and the sample size is sufficient to report this measure with low variance. Changes in homeownership rates are statistically significant with 90 percent confidence when they exceed 1.2 percentage points for minority homeownership and 0.9 percentage points for households with incomes below median family income, in each case using a conservative estimate and assuming the two samples were drawn independently from the same population. The estimates shown reflect Census 2000 population information and housing unit controls and survey procedures that allow respondents to select more than one race.

A.4: Add 5.5 million minority homeowners between 2002 and 2010.

Public Benefit. This indicator addresses the President's Minority Homeownership Initiative of adding 5.5 million minority homeowners by the end of the decade (that is, the last quarter of 2010 compared with the second quarter of 2002). This presidential priority is an important theme and outcome goal in HUD's Strategic Plan and supports the Department's long-term objectives to expand national homeownership opportunities and increase minority homeownership. Homeownership rates are most susceptible to policy intervention among renters who are marginally creditworthy, discouraged by discrimination, or unaware of the economic benefits of homeownership.

Background. The performance goal is supported by two tracking indicators. First, the gap in homeownership rates of minority and non-minority households is measured as the difference in percentage points between the homeownership rate of households who are "non-Hispanic white alone" and the homeownership rate of minority households. Second, a tracking indicator for minority mortgage denial rates addresses financing trends, which are critical for decreasing disparities in homeownership. These three indicators were consolidated under a single heading as described in the FY 2009 Annual Performance Plan, but HUD has not established targets for the latter two because of the overriding influence of external factors.



Program Website.
http://www.huduser.org/periodicals/ushmc.html

Results and Analysis. Between the beginning of the President's Initiative in June 2002 and the third quarter of 2008, an estimated 4.992 million minority homeowners have been added, accomplishing 91 percent of the goal while 74 percent of the time has elapsed. This is a gross measure, so it is not influenced by households that leave homeownership each year as part of the typical course of life. Declining home values and growing awareness in the secondary mortgage market of risks from subprime mortgages increasingly were holding back progress toward the goal in FY 2008.

During the third quarter of calendar year 2008, the minority homeownership gap was 24.1 percentage points, a statistically insignificant improvement from the 24.3 point gap observed in the third quarter of 2007. The change reflects a small decrease in non-minority homeownership rates while minority rates held steady.

The most recent data for mortgage denial rates cover calendar year 2007, and therefore overlap only with the first quarter of FY 2008. The data show that the rate at which mortgage applications were denied continued to turn sharply upward for minorities, while flattening out for non-minority applicants. Minority households continued to be denied mortgages at higher rates, averaging 24.1 percent, 13 percentage points more than white alone households. The detailed table below shows that during 2007, minority mortgage applicants experienced denial rates ranging from 14.9 percent to 27.5 percent, compared with 11.1 percent for applicants who were "white alone."

Denial Rates* for Mortgage Applications by Race and Ethnicity

Race/Ethnicity of Primary Borrower	2004	2005	2006	2007
Hispanic/Latino	16.3%	18.0%	21.9%	24.9%
Native American/Alaska Native alone	15.8%	16.9%	19.3%	19.5%
Asian alone	11.7%	13.7%	14.7%	14.9%
Black/African American alone	19.6%	21.4%	25.3%	27.5%
Native Hawaiian/Pacific Islander alone	13.9%	15.2%	18.4%	20.5%
White alone	9.5%	10.5%	11.2%	11.1%
Two or more races	12.4%	14.7%	14.7%	17.8%
Other/Unknown/Missing	17.3%	16.9%	18.2%	18.3%
Total	12.5%	13.8%	15.9%	15.9%
All minority**	16.5%	18.4%	22.0%	24.1%

* Excludes denials at the preapproval stage.
** Includes "two or more races," but excludes "other/unknown/missing."
Source – HUD tabulations of Home Mortgage Disclosure Act data.

The volume of mortgage applications was 4.94 million in 2007, down substantially from 7.25 million in 2006. Although denial rates remained unchanged overall, at 15.9 percent of applications, this was possible only because there were disproportionately greater reductions in minority applications between 2006 and 2007.

Changes in macro-economic conditions as well as turmoil in the sub-prime mortgage market has made homeownership less affordable and stable for new purchasers and has begun to force an increased number of defaults among recent purchasers with adjustable rate and other specialty mortgages. In addition, tightening credit markets can serve to limit the number of new homebuyers approved for mortgages.

The primary causes of disparities in mortgage denial rates among race and ethnic groups are differences in their average disposable income and creditworthiness. In some cases, lenders have been shown to discriminate against minority applicants by disapproving their mortgages while approving non-minorities who were less creditworthy or had less income. In such cases HUD can take fair housing enforcement actions. HUD's Office of Fair Housing and Equal Opportunity is focusing increased attention on addressing the role of discrimination in contributing to mortgage approval disparities.

Resources and Performance Link. A number of HUD grant programs provide sustainable homeownership opportunities, such as HOME, CDBG, and the sweat-equity model of the Self-help Opportunity Program. FHA is a major source of mortgage financing for minority homebuyers, and maintaining first-time minority homebuyers as a substantial proportion of FHA's mortgage insurance business is a key aspect of reducing homeownership gaps. During FY 2008, 31.2 percent of FHA home purchase endorsements were for first-time minority homebuyers, providing them with secure, affordable financing as an alternative to subprime lenders.

For homeowners whose mortgages are already distressed, FHA makes substantial efforts to keep them in their homes through loss mitigation and foreclosure prevention programs. *FHASecure* provides refinancing to keep families in their homes. The Housing and Economic Recovery Act of 2008 established a $300 billion Home Ownership Preservation Entity fund for the HOPE for Homeowners program. Through the program, FHA has begun helping distressed homeowners avoid foreclosure by insuring new, refinanced mortgages that have lower, fixed interest rates, terms of 30 years, and principal balances written down to no more than 90 percent of the home's appraised value.

In current market conditions, ensuring that homeownership gains are sustainable has become even more crucial. A primary strategy for addressing the long-standing disparity in mortgage denial rates is to use housing counseling, funded at $50 million in FY 2008, to help potential homebuyers understand their income eligibility and improve their creditworthiness. Pre- and post-purchase homeownership counseling is targeted to groups who are disadvantaged in their familiarity with the homebuying and financing process, thus reducing disparities.

Also, strong fair housing efforts, reflecting $50 million of budget authority in FY 2008, are key to eliminating discriminatory barriers to home purchase and finance, and preventing predatory lending.

Data Discussion. The minority homeowner indicator is based on third-quarter calendar year estimates from the Current Population Survey, conducted monthly by the Bureau of Census. This corresponds to the final quarter of the fiscal year. The homeownership gap is based on the same source, but using fiscal year averages of the quarterly estimates to increase reliability for the small subgroups. Current Population Survey data have the advantage of being nationally representative, reliable, and widely recognized. Gross change estimates of minority homeowners are made using the American Housing Survey.

The denial rate indicator uses Home Mortgage Disclosure Act data, which are collected from lenders on a calendar year basis. Calendar Year 2008 data are not yet available. The mortgage applications counted are conforming loans or loans insured by FHA, Veterans Affairs, or Rural Housing Service and are limited to owner-occupied single family homes purchased in core-based statistical areas. Loan denials at the pre-approval stage are excluded, although new, but incomplete, data suggest that initially denied or unaccepted pre-approvals may account for at least one percent of all loans. Refinance loans and manufactured housing loans are excluded. The data present a generally reliable picture of mortgage denial disparities, although the 18.3 percent denial rate shown for borrowers with missing race or ethnicity data suggests that such borrowers disproportionately are minority households.

FHA/Housing

A.5: The number of FHA single family mortgage endorsements nationwide.

Public Benefit. The number of FHA single family mortgage endorsements nationwide is a key indicator for the Department because it has a profound impact on the overall goal of maintaining and increasing homeownership opportunities for individuals and families everywhere. FHA insurance has become a much more prominent portion of the nation's overall mortgage market with FHA's refinancing efforts for homeowners with unsustainable mortgages increasing markedly during FY 2008. Recent enactment of the FHA Modernization Act of 2008, part of the Housing and Economic Recovery Act of 2008, will modernize FHA single family mortgage insurance activities to better achieve its mission of reducing barriers to homeownership.

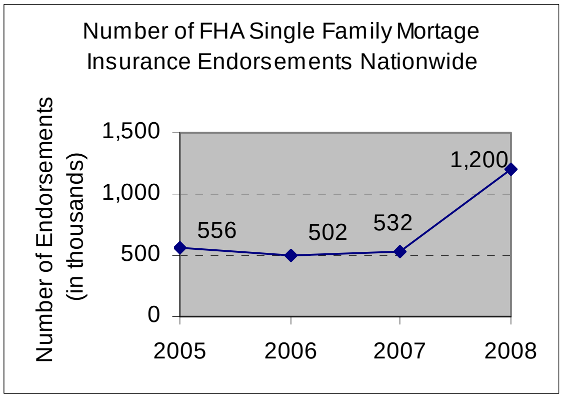
The Housing and Economic Recovery Act of 2008 includes a multifaceted approach to dealing with the current mortgage crisis including the FHA Modernization Act of 2008 and the HOPE for Homeowners program. The FHA Modernization Act of 2008 increases FHA's loan limits, eliminates seller-funded down payment assistance, revises the amount of the required down payment for borrowers getting FHA loans, makes condominium projects easier to approve, expands use of reverse mortgages for senior homeowners, and increases access to pre-purchase and post purchase counseling for low and moderate income homeowners. In addition, the new bill establishes the HOPE for Homeowners program that will allow FHA to insure up to $300 billion in loans for at-risk borrowers who refinance their unaffordable old mortgages into new low-cost, fixed-rate loans insured by the FHA. The new legislation reduces statutory barriers and increases FHA's flexibility to respond to changes in the marketplace. As a result, FHA will be able to reach more prospective homebuyers to provide an alternative to subprime loans with high interest rates and closing costs, as well as expensive repayment penalties, and will help reduce the number of foreclosures.

Background. This is a tracking indicator. FHA insures mortgages issued by private lenders, increasing access to mortgage capital to increase homeownership opportunities. This indicator tracks FHA's contribution to the homeownership rate through the annual volume of FHA-insured single family mortgage loans. It is a key component of the Department's priority outcome of strengthening the national homeownership rate and fulfilling the President and Secretary's commitment to create 5.5 million new minority homeowners by 2010. This indicator has important implications for first-time and minority homeownership in addition to overall homeownership because a significant proportion of FHA participants are first-time minority homeowners (see indicators A.6 and A.7).

Balancing the importance of reporting this key measure of HUD activity with an appreciation of the substantial role of the market in the final result, the Department decided to continue tracking the number of endorsements but not establish a numeric goal for FY 2008.

Program Website. http://www.hud.gov/offices/hsg/sfh/hsgsingle.cfm

Results and Analysis. During FY 2008, FHA endorsed 1,200,111 single family mortgages for insurance. Although no goal had been established for FY 2008, this result represents a vast increase from the level of endorsement activity that took place during FY 2007 (532,494 mortgage insurance endorsements). The increase in single family endorsement levels from FY 2007 to FY 2008 was largely attributable to the collapse of the subprime lending market. Other factors contributing to the increase in FHA endorsement levels include a rise in the number of mortgage re-finance transactions, a continued significant volume of reverse mortgage endorsements, and an overall strong homebuyer acceptance of FHA products.



In FY 2008, the Department and the Congress put in place several actions and programs to deal with the crosscurrents in the mortgage markets and, in particular, the high rates of foreclosure. FHA expanded its refinance program, *FHASecure*, to provide additional assistance for subprime borrowers who are at risk of foreclosure. Since inception in September 2007, *FHASecure* has brought much needed liquidity into the mortgage market by contributing $62 billion of insurance-in-force. As of September 2008, the program has helped 368,718 homeowners, who are current or past due on their loans, avoid foreclosure. It is expected to assist a total of 500,000 families by December 31, 2008, with more borrowers being eligible for the expanded program.

Resources and Performance Link. FHA and the Office of Single Family Housing administer the 203(b), 234(c), and Home Equity Conversion Mortgage loan products. These programs are self-sustaining and generated sufficient income through operations without requiring any funding through Congressional appropriations for FY 2008. In FY 2008, FHA vastly increased the number of endorsements from the previous fiscal year, reversing a trend that had seen endorsement totals decrease in previous years. This trend is likely to continue.

Data Discussion. Data for this indicator are drawn from FHA's Single Family Data Warehouse, based on the Computerized Homes Underwriting Management System (CHUMS). There are no data deficiencies affecting this measure. Direct-endorsement lenders enter FHA data into the Computerized Homes Underwriting Management System with monitoring by FHA.

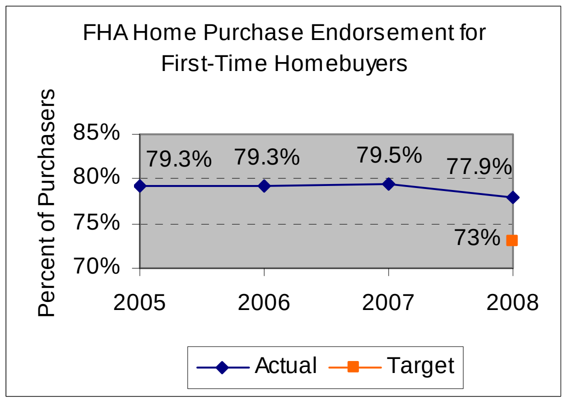
A.6: The share of first-time homebuyers among FHA home purchase endorsements is 73 percent.

Public Benefit. FHA insurance enables the private mortgage market to provide financing for first-time homebuyers as well as for minority and lower income buyers. In the past 10 years, FHA has endorsed more than 9.4 million mortgages for insurance. HUD will help achieve the outcome of strengthening the overall homeownership rate, as well as reducing the homeownership gap between whites and minorities, by maximizing FHA endorsements for first-time homebuyers.

Background. FHA is a major source of mortgage financing for first-time buyers as well as for minority and lower income buyers. To help increase the number of families able to secure financing for their first home, FHA established a target of 73 percent for its Homeownership Centers for single family home purchase mortgage endorsements to first-time homebuyers. This indicator tracks the share of first-time homebuyers among FHA endorsements for home purchases – thus excluding loans made for home improvements.

Program Website. http://www.hud.gov/offices/hsg/sfh/hsgsingle.cfm

Results and Analysis. In FY 2008, 77.9 percent of FHA-insured single family home purchase mortgages were to first-time homebuyers, compared with the target of 73 percent and the 79.5 percent achieved in FY 2007. This comparable level of home purchase mortgages endorsed to first-time homebuyers for FY 2008 (77.9 percent) may be attributable to FHA's continued commitment to reaching first-time homebuyers. FHA will continue to concentrate business efforts towards first-time homebuyers, enabling FHA to meet this goal.



In FY 2008, the Congress enacted the Housing and Economic Recovery Act of 2008 that includes the FHA Modernization Act of 2008 that will make affordable financing available to more households. Key provisions of the FHA Modernization Act of 2008 include an increase in FHA loan limits, elimination of seller-funded down payment assistance, revision in the amount of required down payment for borrowers getting FHA loans, simplified requirements for condominium loans, expanded use of reverse mortgages for senior homeowners, and increased access to pre- and post-purchase counseling for low- and moderate-income homeowners. This new legislation reduces statutory barriers and increases FHA's flexibility to respond to changes in the marketplace. As a result, FHA will be able to reach more prospective homebuyers to provide an alternative to subprime loans with high interest rates and closing costs, as well as expensive repayment penalties.

Resources and Performance Link. In FY 2008, the share of endorsements to first-time homebuyers was comparable to those achieved in previous years. This is indicative of HUD's commitment to assist people towards achieving the dream of homeownership. The FHA insurance programs are measured in terms of insurance-in-force rather than program budget authority. In FY 2008, the Mutual Mortgage Insurance Fund endorsed approximately $171.8 billion of mortgages.

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

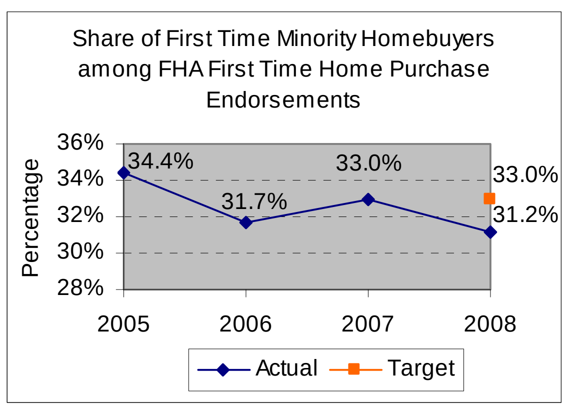
A.7: The share of first-time minority homebuyers among FHA first-time home purchase endorsements is 33 percent.

Public Benefit. This indicator directly supports the President and Secretary's commitment to add 5.5 million minority homebuyers by 2010. An important component of the long-term success of this goal is to maintain first-time minority homebuyers as a substantial proportion of FHA's mortgage insurance business. In FY 2008, the Congress enacted the Housing and Economic Recovery Act of 2008 that provides for FHA modernization and HOPE for Homeowners program, among other key provisions, that will make affordable financing available to more households and allow FHA to insure up to $300 billion in loans for at-risk borrowers who refinance their unaffordable old mortgages into new low-cost, fixed-rate loans insured by the FHA.

Background. Despite the stressful market conditions during FY 2008, HUD's programs continued to play a significant supporting role. Minority households represented 31.2 percent of FHA-insured, first-time homebuyers in FY 2008. The decrease in minority homeownership reflects the generalized decrease in homeownership during challenging market conditions, particularly in the subprime and Alt-A portions of the housing market. HUD's strategies to increase minority homeownership include continued outreach and marketing efforts and full implementation of the HOPE for Homeowners legislation enacted on July 30, 2008. Homeownership counseling is also critical in improving homeownership readiness and sustainability.

Program Website. http://www.hud.gov/offices/hsg/sfh/hsgsingle.cfm

Results and Analysis. During FY 2008, 31.2 percent of FHA endorsed loans were to first-time minority homebuyers. This result falls short of meeting the established goal of 33 percent for FY 2008 and 33 percent of first-time minority endorsements achieved in FY 2007.



Reasons for Shortfall / Plans and Schedule to Meet the Goal. Despite unfavorable market conditions, FHA made substantial progress toward meeting its 33 percent goal. Barriers affecting the successful completion of this goal primarily lie outside of the control of HUD. During the first half of FY 2008, first-time minority homebuyers opted for subprime and non-conventional loan products. The proliferation of non-traditional loan products provided prospective homebuyers with a variety of products that appeared attractive on the surface, but contained features detrimental to the long-term financial health of the homebuyer. Conversely, the second half of the fiscal year, many potential homebuyers realized the uncertainty and danger of certain subprime products, ultimately leading to the collapse of the non-prime market and the beginning of an overall real estate market downturn. By implementing key provisions of recently enacted legislation, FHA will be able to reach more prospective homebuyers and recapture this portion of the first-time minority market lost to subprime loans. In addition, FHA aims to increase its first-time minority endorsements through continued outreach and marketing efforts to effectively meet the President's goal of increasing minority homeownership.

Since FY 2001, FHA has seen first-time minority endorsements decrease from 39.7 percent to 31.2 percent in FY 2008. Changes in macroeconomic conditions, as well as turmoil in the subprime market, made homeownership less affordable and stable for new purchasers and began to force an increased number of defaults among recent purchasers with adjustable rate and other specialty mortgages. In addition, tightening credit markets served to limit the number of new homebuyers approved for mortgages.

In FY 2008, the Department and the Congress put in place several actions and programs to deal with the crosscurrents in the mortgage markets and in particular the high rates of foreclosure.

The Congress enacted the Housing and Economic Recovery Act of 2008 that provides for a multifaceted approach to dealing with the current mortgage crisis including the FHA Modernization Act of 2008 and the HOPE for Homeowners program. The FHA Modernization Act of 2008 increases FHA's loan limits, eliminates seller-funded down payment assistance, revises the amount of required down payment for borrowers getting FHA loans, makes condominium projects easier to approve, expands use of reverse mortgages for senior homeowners, and increases access to pre-purchase and post-purchase counseling for low- and moderate-income homeowners. In addition, the new bill establishes the HOPE for Homeowners program that will allow FHA to insure up to $300 billion in loans for at-risk borrowers who refinance their unaffordable old mortgages into new low-cost, fixed-rate loans insured by the FHA. The new legislation reduces statutory barriers and increases FHA's flexibility to respond to changes in the marketplace. As a result, FHA will be able to reach more prospective homebuyers to provide an alternative to subprime loans with high interest rates and closing costs, as well as expensive repayment penalties.

Resources and Performance Link. FHA and the Office of Single Family Housing administer the 203(b), 234(c), and Home Equity Conversion Mortgage loan products. These programs are self-sustaining and generated sufficient income through operations without requiring any funding through Congressional appropriations for FY 2008. The share of mortgage insurance for minority homeowners was 31.2 percent, or $53.6 billion, of $171.8 billion, a very significant amount of financial resources. This effort will be significantly augmented by the use of up to $300 billion in available resources from the newly enacted HOPE for Homeowners program. The decrease in minority homeownership in FY 2008 reflects the generalized decrease in homeownership during challenging market conditions. Results of this indicator are beyond the control of HUD. The FY 2008 goal was to remain on pace in adding minority homebuyers through the end of the fiscal year, while also minimizing attrition of existing minority homeowners during stressful market conditions. HUD is continuing with its major programmatic efforts to ensure that homeownership gains are sustainable, including FHA's housing counseling program, funded at $50 million in FY 2008, and FHA's loss mitigation and foreclosure prevention programs.

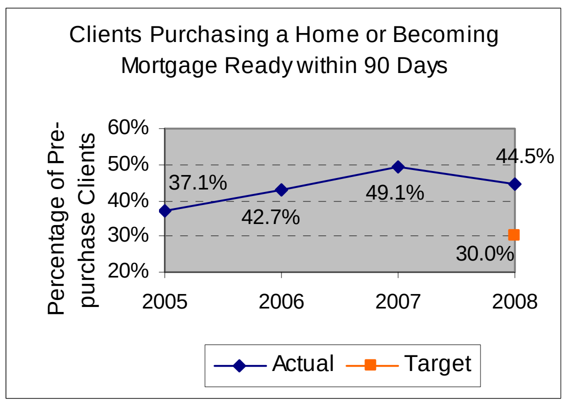
Data Discussion. The data source for this performance indicator originates in the Computerized Homes Underwriting Management System, based on data submitted by direct-endorsement lenders, and for convenience is reported from FHA's Single Family Housing Enterprise Data Warehouse. The data are judged to be reliable for this measure. FHA data are entered by direct-endorsement lenders with monitoring by FHA.

A.8: At least 30 percent of clients receiving pre-purchase counseling will purchase a home or become mortgage-ready within 90 days.

Public Benefit. Clients tracked through this indicator include those receiving housing counseling for pre-purchase reasons, including clients who are preparing to purchase a home or working to become mortgage-ready. A home purchase has the potential to be a very positive outcome for households, especially those that make wise decisions, as a result of counseling, regarding the purchase and mortgage financing. The FY 2008 goal is to ensure that at least 30 percent of clients receiving pre-purchase counseling achieve the outcome goal of purchasing a home or becoming mortgage-ready within 90 days.

Background. The Department continues to emphasize the critical role of counseling in the home buying process. Counselors assist homebuyers in an objective manner, honestly evaluating clients' readiness for homeownership. Counselors help clients learn about different loan features and products, comparing their costs and benefits. Counseling helps homebuyers make smarter decisions regarding home purchase and financing and helps clients to escape the high interest rates, hidden costs, prepayment penalties and other often predatory practices currently putting many Americans on a collision course with financial disaster. Many of the homeowners currently experiencing problems with exotic and subprime loans were simply unaware of less expensive and safer options, such as FHA, for which they could qualify.

Program Website. www.fha.gov/sf/counseling/index.cfm



Results and Analysis. Although final results are not yet available, reported results from the first three quarters of FY 2008 exceed the target and indicate that 44.5 percent, or 67,755 clients out of the 152,384 completing pre-purchase counseling from HUD-approved agencies, and for whom an outcome is known, purchased a home or became mortgage-ready within 90 days. The FY 2008 third quarter result of 44.5 percent of clients receiving pre-purchase counseling would exceed the FY 2008 goal of 30 percent. With increased training and outreach and continuous efforts to improve efficiency and effectiveness, there is no reason to anticipate a decrease in program performance in FY 2008 fourth quarter reporting. The final housing counseling activity data needed to report on this measure will become available early in FY 2009. HUD-approved housing counseling agencies are given 90 days following the end of a fiscal year to report the results of counseling activity for that fiscal year and to submit requests to HUD for reimbursement for counseling services provided.

Resources and Performance Link. Funding in FY 2008 of $50 million was provided to housing counseling agencies to provide counseling and counselor training services. FHA and the Office of Single Family Housing support housing counseling agencies throughout the country that provide advice on buying a home, renting, defaults, foreclosures, credit issues, and reverse mortgages to clients at a low or minimal cost. As evidenced by the problems in the subprime market and record-setting defaults and foreclosures, the housing market is as complex and dynamic as ever. More than ever, people need housing counseling services to have a trusted counselor that they can approach with housing-related questions and prepare themselves for the responsibilities of homeownership. Additional funding is needed to support pre-purchase counseling, particularly since supplemental appropriations this past year have focused specifically on default counseling. Without a significant investment in pre-purchase counseling, the demand for default counseling will continue to be high. Millions of households need to be assisted at the front-end so that they make smarter decisions regarding home purchase and financing in order to be able to meet the responsibilities of homeownership.

Data Discussion. HUD collects data on clients receiving pre-purchase counseling through the Housing Counseling System (HCS – F11). The data include the total number of clients, the type of counseling they received, and the results or outcomes of the counseling. An independent assessment in 2005 showed that the Housing Counseling System performance indicator data passed 6-sigma quality tests for validity, completeness, and consistency. A limitation of the data collection instrument is that it does not differentiate the level of counseling given to each client. The quality and level of counseling may vary significantly. It is also one-year, aggregate data, making it difficult to analyze the impact of counseling. To improve the quality of housing counseling information that is used by HUD, the Department is implementing a new automated data collection instrument that will enable it to collect client-level data beginning in FY 2009.

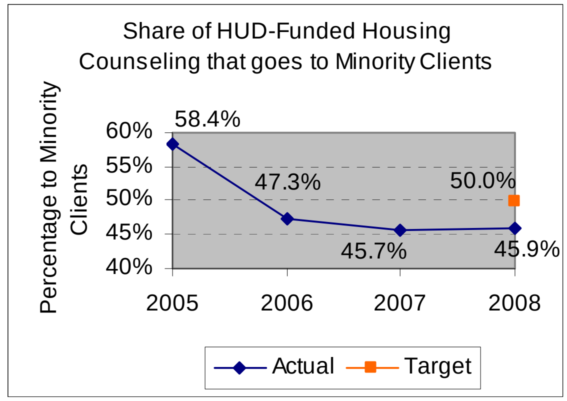
A.9: Minority clients are at least 50 percent of total clients receiving housing counseling in FY 2008.

Public Benefit. Clients tracked through this indicator include those receiving housing counseling in FY 2008. The FY 2008 goal is to ensure that at least 50 percent of clients receiving housing counseling are minorities. Clients tracked through this indicator include those receiving various forms of housing counseling from homebuyer education, pre-purchase, and loss mitigation/default counseling to rental, fair housing, and homeless counseling.

Housing counseling assistance program is an integral part of achieving the outcome of helping to increase the minority homeownership rate. It supports the President and Secretary's commitment to add 5.5 million homebuyers by 2010. The program is also critical in order to combat predatory, unscrupulous lenders, and other industry representatives that target minority communities and communities with limited English proficiency, and minimize the likelihood that these communities are disproportionately affected by defaults and foreclosures, and increase the likelihood that homeownership can help effectively build wealth and improve financial situations.

Background. In order to increase targeted outreach to minority communities, the program gives additional incentive to this activity in the application for grant funding, the Housing Counseling Notice of Funding Availability (NOFA). The program is also proactively working to reach out and approve local housing counseling agencies and intermediaries that specifically target their services to minority and under-served communities.

Program Website. www.fha.gov/sf/counseling/index.cfm



Results and Analysis. HUD does not expect to meet this goal, although final results for clients counseled in FY 2008 could not be fully assessed by the date of this publication. Reported results through the FY 2008, third quarter indicate that 397,144 of the 864,886 households receiving housing counseling to be minorities. This FY 2008 third quarter result of 45.9 percent indicates that the established FY 2008 minimum goal of 50 percent will not be achieved. By comparison, reporting results from the first three quarters of fiscal year 2007 indicate that 45.7 percent, or 483,252, of the 1,056,872 clients receiving counseling and education from agencies participating in HUD's Housing Counseling Program were minorities. Final housing counseling data will become available early in FY 2009. HUD-approved counseling agencies are given 90 days after the end of their fiscal year to report the results of counseling activity for that fiscal year and to submit requests to HUD for reimbursement for counseling services provided.

Resources and Performance Link. FHA and the Office of Single Family Housing support housing counseling agencies throughout the country that provide advice on buying a home, renting, defaults, foreclosures, credit issues, and reverse mortgages to clients at a low or minimal cost. Funding in FY 2008 of $50 million was provided to housing counseling agencies to provide counseling and counseling training services. This is an increase of $8.3 million, or 19.9 percent, since FY 2005. In the wake of the subprime market collapse and record-setting defaults and foreclosures, more than ever before, minority communities need critical housing counseling services. Additional funding is needed to support targeted outreach to minority and underserved communities.

Reason for Shortfall / Plans and Schedule to Meet this Goal. HUD's inability to meet this goal is due to reasons beyond HUD's control. HUD can do little to influence who will actually seek housing counseling services. However, housing counseling is readily available for anyone who desires to receive it. Additionally, in order to increase targeted outreach to minority communities, the program includes incentives for this activity in the application for grant funding, the Housing Counseling Notice of Funding Availability (NOFA). The program is also proactively working to reach out and approve local housing counseling agencies and intermediaries that specifically target their services to minority and under-served communities.

Data Discussion. The data source for this performance indicator is the Housing Counseling System (HCS –F11) based on information submitted through Housing Counseling Agency Fiscal Year Activity Reports (Form HUD-9902). The data include total number of clients, the type of counseling received, and the results of the counseling. An independent assessment in 2005 showed that the Housing Counseling System performance indicator data passed six-sigma quality tests for validity, completeness, and consistency. A limitation of the data for this indicator is that it is difficult for counselors to collect demographic data from individuals participating in group education sessions. The lack of confidentiality and privacy discourages many responses. HUD is working with counselors to encourage them to discreetly collect this information, in an effort to improve reporting rates.

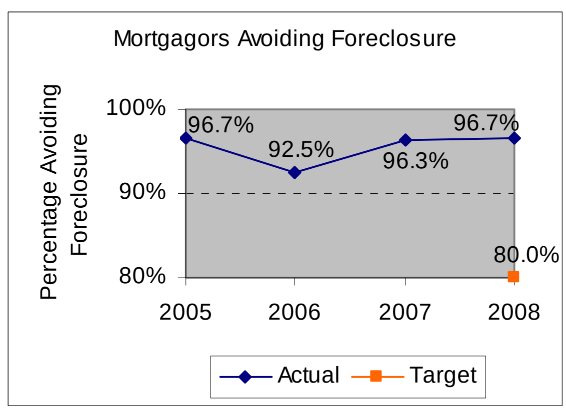
A.10: More than 80 percent of total mortgagors that complete counseling for resolving or preventing mortgage delinquency will successfully avoid foreclosure.

Public Benefit. The FY 2008 performance goal is to ensure that more than 80 percent of total mortgagors seeking help with resolving or preventing mortgage delinquency, and complete counseling, successfully avoid foreclosure. Clients tracked through this indicator include homeowners with mortgages who are at risk of default or that have already defaulted, and are seeking assistance in order to remain in their home and meet the responsibilities of homeownership.

Default and foreclosure is occurring nationwide at record rates. Housing counseling is one of the most cost-effective ways to assist individuals in default and foreclosure, and helps them avoid default and foreclosure in the first place. Counselors have the skills and expertise to make available to affected households aggressive loss mitigation, lender advocacy, and other tools and strategies to help them modify their loans, refinance, or otherwise escape foreclosure. Moreover, by limiting foreclosure, default counseling is a cost-effective way to reduce HUD's exposure to risk while contributing to the growth and stability of families and communities across the country.

Background. This target was revised in the FY 2008 APP, Appendix A, to incorporate a new methodology for calculating fiscal year performance. Under the new methodology, clients whose outcome is counted as "currently receiving counseling" are now excluded from the calculation since counseling has not concluded and their outcome is still unknown. Removing these cases, and focusing only on those for whom counseling has been completed, and results known, will provide more accurate results on the success of the clients in preventing mortgage delinquency. Moreover, default counseling is increasingly important when targeted towards areas with higher unemployment or markets experiencing rapid home price escalation. Through the first three quarters of FY 2008, default counseling represented 31 percent of the total activity by counseling agencies. By comparison, through the first three quarters of FY 2007, default counseling represented 15 percent of the total activity by counseling agencies.

Program Website.
www.fha.gov/sf/counseling/index.cfm



Results and Analysis. HUD expects to exceed this goal. Reported results from FY 2008, third quarter, indicate that 96.7 percent of total mortgagors seeking help with resolving or preventing mortgage delinquency have successfully avoided foreclosure. Specifically, 172,822 out of the 178,704 mortgagors completing default counseling, for which an outcome is known, successfully avoided foreclosure. These results indicate that HUD is trending ahead of the target to reach the FY 2008 goal of 80 percent. By comparison, reporting results from the first three quarters of fiscal year 2007 indicated that 96.3 percent, or 82,652 out of 85,823 mortgagors completing default counseling, and for whom an outcome is known, successfully avoided foreclosure. Final results for clients counseled in FY 2008 could not be fully assessed by the date of this publication. HUD approved counseling agencies are given 90 days after the end of their fiscal year to report the results of counseling activity for that fiscal year and to submit requests to HUD for reimbursement for counseling services provided.

Resources and Performance Link. FHA and the Office of Single Family Housing support housing counseling agencies throughout the country. Funding in FY 2008 of $50 million was provided to housing counseling agencies to provide counseling and counseling training services. In the wake of the subprime market collapse and record setting foreclosures, counseling services are more critical than they have ever been. Millions of households need assistance resolving delinquency and avoiding foreclosure. Millions more need to be assisted at the front-end so that they make smarter decisions regarding home purchase and financing in order to be able to meet the responsibilities of homeownership.

Data Discussion. The data source for this performance indicator is the Housing Counseling System (HCS –F11) based on information submitted through Housing Counseling Agency Fiscal Year Activity Reports (Form HUD-9902). The data include total number of clients, the type of counseling received, and the results of the counseling. An independent assessment in 2005 showed that the Housing Counseling System performance indicator data passed six-sigma quality tests for validity, completeness, and consistency. One limitation of the data is that mortgagors can, and often do, go in and out of default. Consequently, a mortgagor whose counseling outcome was recorded as "reinstated" in a given year could actually result in "foreclosure" in another year. It is also one-year, aggregate data, making it difficult to analyze the impact of counseling. In an effort to further improve its ability to collect detailed information about the families and individuals seeking help with resolving or preventing mortgage delinquency, among other data, the Department will implement an automated data collection instrument that will enable it to collect client-level information beginning in FY 2009.

A.11: The share of FHA real estate owned (REO) properties that are sold to owner-occupants is 45 percent.

Public Benefit. This indicator measures the number of FHA real estate owned properties that are sold to owner-occupant purchasers. Real estate owned properties are homes acquired by HUD as a result of mortgage foreclosures and insurance claim conveyance payments made to lenders. The real estate owned properties held in HUD's inventory are Departmental assets and provide a resource for increasing the availability of affordable homes to potential homebuyers. This indicator is a measure of the Department's success in achieving the outcomes of expanding homeownership opportunities and helping stabilize neighborhoods.

Background. HUD intends to increase sales of its real estate owned homes directly to families who will occupy them rather than to investors. The FY 2008 goal was to ensure that 45 percent of FHA real estate owned property sales are to owner-occupants.

Program Website. www.hud.gov/offices/hsg/sfh/hsgsingle.cfm

Results and Analysis. The FY 2008 result of 50.1 percent (23,185 of 46,308) of FHA real estate owned single family properties sold to owner-occupants exceeded the goal of 45 percent.

In addition, of the real estate owned single family properties that were sold that met FHA appraisal standards, 84.3 percent were sold to owner-occupants.

Resources and Performance Link. The goal was revised in FY 2008; therefore, historical data is not available.

This indicator will no longer be reported in the FY 2008 Annual Performance Plan in its current form. It has been revised to reflect the original, broader Annual Performance Plan reporting which encompasses all real estate owned properties sold to owner-occupants, regardless of whether the dwelling is identified as "insurable" or "uninsurable" on the FHA appraisal. This inclusion is important because many "uninsurable" properties sold are to owner occupants who use other rehab products or FHA's 203(k) rehab program to rehabilitate them. The established target reflects current market trends. The title of the revised indicator is, "A.11: The share of FHA real estate owned (REO) properties that are sold to owner-occupants is 45 percent."

Data Discussion. The data for this indicator are from FHA's Single Family Acquired Asset Management System. The data is used as a part of the overall monitoring of FHA's portfolio and as a component of the internal controls of FHA. HUD regulations require that properties be sold as-is without repairs.

A.12: HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for low- and moderate-income mortgage purchases. (HUD responsibility ended during FY 2008.)

The Department will no longer be reporting on Fannie Mae and Freddie Mac's performance. Pursuant to the Housing and Economic Recovery Act of 2008, which became law on July 30, 2008, HUD's regulatory responsibilities over Fannie Mae and Freddie Mac (government sponsored enterprises) have transferred to a new regulator, the Federal Housing Finance Agency, effective immediately. This means, among other things, that the Federal Housing Finance Agency assumed responsibility for the affordable housing goals.

Prior to the Housing and Economic Recovery Act of 2008, the Secretary of HUD was the mission regulator for the government sponsored enterprises, with oversight authority to ensure that both government sponsored enterprises complied with the public purposes set forth in their charters. HUD had general regulatory authority for oversight responsibilities, which included establishing housing goals; monitoring and enforcing compliance with housing goals; new program approval; collecting loan-level data from the government sponsored enterprises on their mortgage purchase activities; making available to the public a database on non-proprietary government sponsored enterprise loan purchase data; and ensuring government sponsored enterprises compliance with fair lending requirements. An independent office of HUD, the Office of Federal Housing Enterprise Oversight regulated the government sponsored enterprises for safety and soundness by ensuring that they were adequately capitalized and operating their businesses in a financially sound manner.

With the exception of fair lending oversight, which remains at HUD, HUD's mission oversight responsibilities, as well as the Office of Federal Housing Enterprise Oversight's safety and soundness responsibilities, have been transferred to the Federal Housing Finance Agency.

Additional information regarding the role and function of the Federal Housing Finance Agency will be available on its website, currently in development.

A.13: HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for mortgages financing special affordable housing. (HUD responsibility ended during FY 2008.)

The Department will no longer be reporting on Fannie Mae and Freddie Mac's performance. Pursuant to the Housing and Economic Recovery Act of 2008, which became law on July 30, 2008, HUD's regulatory responsibilities over Fannie Mae and Freddie Mac (government sponsored enterprises) have transferred to a new regulator, the Federal Housing Finance Agency, effective immediately. This means, among other things, that the Federal Housing Finance Agency assumed responsibility for the affordable housing goals.

Prior to the Housing and Economic Recovery Act of 2008, the Secretary of HUD was the mission regulator for the government sponsored enterprises, with oversight authority to ensure that both government sponsored enterprises complied with the public purposes set forth in their charters. HUD had general regulatory authority for oversight responsibilities, which included establishing housing goals; monitoring and enforcing compliance with housing goals; new program approval; collecting loan-level data from the government sponsored enterprises on their mortgage purchase activities; making available to the public a database on non-proprietary government sponsored enterprise loan purchase data; and ensuring government sponsored enterprises compliance with fair lending requirements. An independent office of HUD, the Office of Federal Housing Enterprise Oversight regulated the government sponsored enterprises for safety and soundness by ensuring that they were adequately capitalized and operating their businesses in a financially sound manner.

With the exception of fair lending oversight, which remains at HUD, HUD's mission oversight responsibilities, as well as the Office of Federal Housing Enterprise Oversight's safety and soundness responsibilities, have been transferred to the Federal Housing Finance Agency.

Additional information regarding the role and function of the Federal Housing Finance Agency will be available on its website, currently in development.

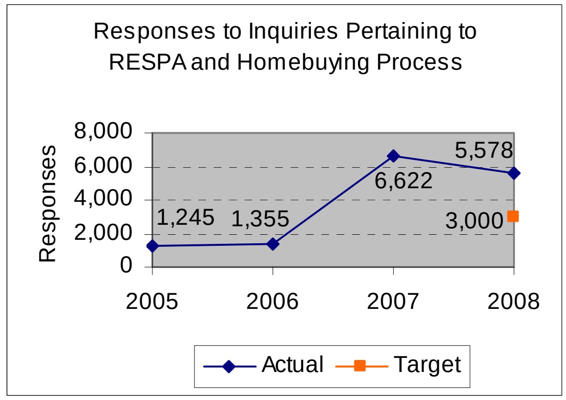
A.14: Respond to 3,000 inquiries and complaints from consumers and industry regarding the Real Estate Settlement Procedures Act and the home buying and mortgage loan process.

Public Benefit. The Department's responses to the inquiries and complaints received are a measure of its public assistance and enforcement activities. This is a major consumer protection activity that protects citizens in financial transactions involving billions of dollars annually.

Background. The Real Estate Settlement Procedures Act (RESPA) is a consumer protection statute enforced by HUD. This Act helps consumers be better shoppers in the home buying and mortgage loan process by requiring that consumers receive disclosures at various times in the transactions and by prohibiting practices, such as paying kickbacks, that increase the cost of settlement services. The Act also provides consumers with protections relating to the servicing of their loans, including proper escrow account management. The Department currently receives inquiries and complaints from consumers, industry, and other state and federal regulatory agencies by mail, telephone, and e-mail. The FY 2008 goal was to respond to 3,000 of these inquiries and complaints.

Program Website. http://www.hud.gov/respa

Results and Analysis. The Office of Real Estate Settlement Procedures Act and Interstate Land Sales exceeded its goal by responding to 5,578 inquiries and complaints during FY 2008. This number exceeds the goal by 85 percent.



HUD's Office of Real Estate Settlement Procedures Act and Interstate Land Sales tracks responses to inquiries and complaints regarding the home buying, home financing, and settlement process, as well as inquiries from industry, state, and federal regulators regarding practices that may violate the Act. The office anticipated that by increasing public awareness of enforcement, an increasing number of consumers, industry, and other regulatory agencies would file complaints alleging violations of the Act. This increased public awareness has helped bring additional violations of the Act to the attention of the Department and enabled the Department to provide greater assistance to the public, particularly consumers.

Resources and Performance Link. The Office of Real Estate Settlement Procedures Act and Interstate Land Sales exceeded its goal of 3,000, by responding to 5,578 complaints and inquiries regarding the homebuying and mortgage process. These included questions and complaints from industry, consumer, state, and federal regulators regarding practices that violate RESPA.

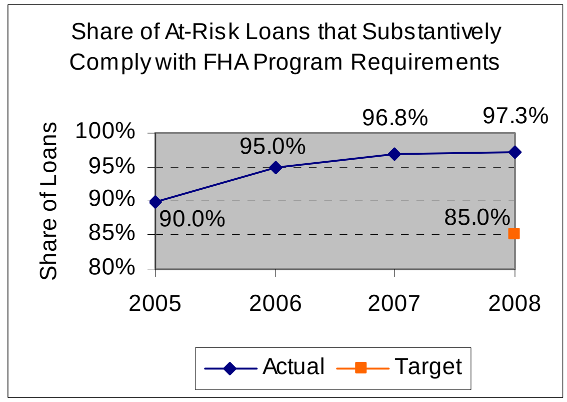
Data discussion. The data are compiled from the Office of Real Estate Settlement Procedures Act's Case Management System, which maintains an electronic record of complaints and telephone calls received by the Office. In addition, e-mail responses are maintained in Lotus Notes via the Real Estate Settlement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

A.15: FHA ensures that the percentage of at-risk loans that substantively comply with FHA program requirements is at least 85 percent.

Public Benefit. This indicator tracks efforts to reduce non-compliance with FHA program requirements relative to the number of insured single family loans reviewed that have material findings. A material finding is defined as a failure to adhere to FHA program requirements pertaining to the origination and/or servicing of mortgage loans that result in the indemnification of the loan. Lenders are reviewed on the basis of a target methodology that focuses on high early default and claim rates in addition to other risk factors. Loans that are originated by the lenders are reviewed and then evaluated for material findings. This indicator supports HUD's Strategic Goal to reduce predatory lending through reform, education, and enforcement.

Background. Quality Assurance Division (QAD) reviews of FHA-approved lenders provide the means of data collection for this performance measure. FHA tracks performance under this indicator as a ratio of at-risk loans reviewed as the denominator and at-risk loans reviewed without material findings as the numerator. The program goal is to have a compliance ratio that is at least 85 percent.

Program Website. www.hud.gov/offices/hsg/sfh/hsgsingle.cfm



Results and Analysis. Of the 15,400 at-risk loans reviewed in FY 2008, 14,987 or 97.3 percent were determined to have no material findings, far exceeding the program goal of 85 percent. This compares favorably to the 12,813 reviews on loans originated by FHA-approved lenders in FY 2007, when 12,406, or 96.8 percent, were determined to have no material findings. These outcomes show that focusing monitoring efforts on those lenders that are high and moderate risks allows FHA to identify and develop remedies for consistent patterns of risk and material violations to program requirements. More effective remedies to program violations mean that FHA's insurance funds remain fiscally sound and in a position to help current homeowners and prospective homebuyers.

Resources and Performance Link. FHA, through its Office of Single Family Housing, administers the 203(b), 234(c), and Home Equity Conversion Mortgage loan products. These programs are self-sustaining and generated sufficient income through operations without requiring any funding through Congressional appropriations for FY 2008. In FY 2008, the Mutual Mortgage Insurance Fund endorsed approximately $171.8 billion of mortgages. The trend for the review of FHA mortgage lenders to ensure accountability and transparency of their lending practices continued to exceed the percentage goal. FHA's monitoring and oversight efforts continue to reduce the incidence of non-compliance among FHA-approved lenders by uncovering and correcting material violations to FHA program requirements. These efforts in turn keep FHA's insurance funds fiscally sound and allow FHA to serve more people.

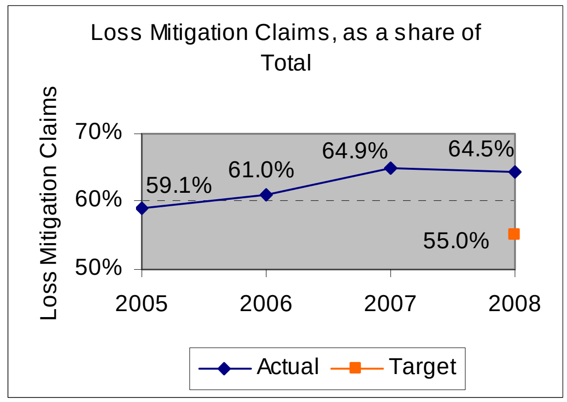
Data Discussion. Loan review and findings data are drawn from the Approval Recertification Review Tracking System (ARRTS/F51A). Data are generated independently and entered into this system by Quality Assurance Division monitors operating throughout the country, with secondary review and verification by FHA Homeownership Centers. Quality Assurance Division functions and data are included in the annual FHA Financial Statements audit. An independent assessment in FY 2005 showed that ARRTS data for this performance indicator passed four-sigma quality tests for validity, completeness, and consistency.

A.16: Loss mitigation claims are 55 percent of the total claims on FHA-insured single family mortgages.

Public Benefit. This indicator measures the success of FHA loan servicers in implementing statutorily required loss mitigation techniques when borrowers default on their FHA mortgages. A borrower can resolve a default (90-day delinquency) in several ways short of foreclosure. A borrower may do so, for example, by paying down the delinquency (cure), by a pre-foreclosure sale with FHA paying an insurance claim in the amount of the shortfall, or by surrendering a deed in lieu of foreclosure. Improved loss mitigation efforts, such as enhanced borrower counseling, help borrowers keep their current homes or permit them to buy another home sooner. For these reasons, HUD will help increase the overall homeownership rate by achieving this goal.

Background. Avoidance of foreclosure reduces FHA's insurance losses, making FHA more financially sound and enabling it to assist more borrowers. This goal seeks alternative actions to foreclosures in the event of borrower default on a loan. Reductions in foreclosure claim expenses are a key component of departmental budget estimates for FY 2008. The FY 2008 goal is to ensure that at least 55 percent of claims are resolved through loss mitigation.

Program Website. www.hud.gov/offices/hsg/sfh/hsgsingle.cfm



Results and Analysis. In FY 2008, 64.5 percent (101,167 out of 156,867) of FHA mortgage defaults were resolved through loss mitigation alternatives to foreclosure, exceeding the goal of 55 percent and is in close proximity with the performance level of 64.9 percent achieved in FY 2007. This performance level represents a continuation of increased success. Loss mitigation does not always permanently stabilize many borrowers' financial status. This reduction in foreclosure claim expense is a key component of Departmental budget estimates for FY 2008. Our programmatic objective is to sustain the high level of participation in loss mitigation even as the Office of Housing tightens programmatic requirements designed to increase the ultimate success rate of loss mitigation in helping borrowers avoid foreclosure.

Resources and Performance Link. FHA and the Office of Single Family Housing track this goal without a direct appropriation from Congress. The net benefit of $235.98 million paid in home retention claims in FY 2008 equates to $3.22 billion in loss avoidance for the FHA insurance funds. Loss mitigation tools seek the best alternative for the homeowner to prevent foreclosure on the property. Loss mitigation techniques limit losses to the FHA fund which, in turn, enables FHA to assist additional people. Default rates for mortgage loans continued to rise due to rising interest rates and slowing housing market. During FY 2008, FHA continued the trend to increase the proportion of mortgagors with troubled mortgages who were able to resolve their mortgage defaults, rather than going through foreclosure. Through techniques such as home retention tools, pre-foreclosure sales, deeds-in-lieu, and housing counseling services, more defaults were resolved and fewer homeowners lost their homes.

Data Discussion. The data originate in the Single Family Insurance, CLAIMS subsystem (CLAIMS/A43C), and for convenience are reported from FHA's Single Family Enterprise Data Warehouse, Loss Mitigation table. The resolutions that are counted as loss mitigation are: forbearance agreements, loan modifications, partial claims, pre-foreclosure sales, and deeds-in-lieu of foreclosure. Total claims comprise loss mitigation claims plus conveyance claims. No data limitations are known to affect this indicator. FHA data are entered by the loan servicers with monitoring by FHA. The results reported for this performance indicator are consistent with those reported in the FHA Management Report for FY 2008. FHA now collects

30- and 60-day default data, which provides better information about typical default patterns and insight towards improving loss mitigation efforts.

Ginnie Mae

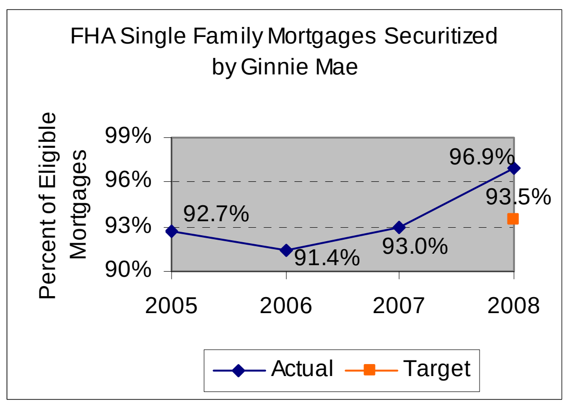
A.17: Ginnie Mae securitizes at least 93.5 percent of eligible single family, fixed-rate FHA loans.

Public Benefit. This indicator measures Ginnie Mae's share of the residential mortgage loans insured or guaranteed by the Federal Housing Administration (FHA). As articulated in Title III of the National Housing Act, Ginnie Mae's purpose is "to establish secondary market facilities for residential mortgages, to provide that the operations thereof shall be financed by private capital to the maximum extent feasible", and to conduct certain other secondary market functions consistent with this purpose. Ginnie Mae was authorized to guarantee securities backed by government guaranteed or insured loans when it was established as a government corporation on September 1, 1968. Ginnie Mae securitization increases the capital available in the mortgage market and decreases the cost of said capital.

Background. Ginnie Mae continues to address the specific need of promoting liquidity and the flow of investment capital for FHA mortgages. The total amount of Ginnie Mae securities outstanding have increased every month since early 2008 to approximately $30 billion a month. At the end of FY 2008, the amount of Ginnie Mae securities outstanding was approximately $576.8 billion, of which single family program securities were $536.2 billion and $1.1 billion in Home Equity Conversion Mortgages. Since 1970, when it pioneered the mortgage-backed pass-through security (MBS), Ginnie Mae has guaranteed over approximately $2.9 trillion in securities.

Program Website. http://www.ginniemae.gov

Results and Analysis. The target of 93.5 percent was met. As of the end of FY 2008, Ginnie Mae securitized 96.9 percent of eligible single family, fixed-rate FHA loans. This result is an increase of 3.9 percentage points over last year's result of 93 percent. Single family securities outstanding increased from $389.1 billion in FY 2007 to $536.2 billion in FY 2008. Ginnie Mae's share of the Mortgage-Backed Securities Market since the financial crisis has increased to approximately 30 percent from 4 percent.



Ginnie Mae was able to meet its goal by guaranteeing securities that provide the best execution from a pricing standpoint. Also important was Ginnie Mae's continued success in reducing issuers' back-end processing costs and improving security disclosures. The Department anticipates that it will also meet the FY 2009 target of 94 percent.

Resources and Performance Link. Commitment Authority is used by Ginnie Mae to guarantee securities backed by government-guaranteed or insured loans. In FY 2008, Ginnie Mae commitment authority was $200 billion in new commitment authority and $200 billion commitment authority carried forward from FY 2007. In FY 2008, Ginnie Mae approved a total of $258.3 billion in commitment authority and issued a total of $220.6 billion in securities. Of the $258.3 billion in commitment authority approved, $254.1 billion was single family, and of the $220.6 billion issued in securities, $216.2 was issued in the single family program.

Data Discussion. Data for this indicator are based on FHA-insured loan level data of monthly endorsements collected by Ginnie Mae in its Mortgage-Backed Security Information System. The data that populate Ginnie Mae's Mortgage-Backed Security Information System reflect the most recent data of insured or guaranteed loans. A third party, independent auditor conducts Ginnie Mae's annual financial statements audit, which includes auditing Ginnie Mae's data systems each year; Ginnie Mae has consistently received an unqualified, or clean, opinion in prior fiscal years, and again received a clean opinion for the FY 2008 audit.

A.18: Ginnie Mae securitizes at least 84 percent of Veterans Affairs single family, fixed-rate loans.

Public Benefit. By securitizing pools of mortgages as Mortgage-Backed Securities, Ginnie Mae enables qualified lenders to access international credit markets. Lenders can then sell the securities at prices that allow them to offer loans to qualified homebuyers and developers at lower interest rates, thus lowering costs for homeowners. By supporting an efficient secondary market for these loans, Ginnie Mae helps to increase the availability of mortgage credit for veterans and their families.

Background. This indicator measures Ginnie Mae's share of the residential mortgage loans guaranteed by the Department of Veterans Affairs (VA).

Program Website. http://www.ginniemae.gov

Results and Analysis. The target goal of 84 percent was exceeded. As of the end of FY 2008, Ginnie Mae securitized 91.6 percent of eligible single family, fixed-rate Veteran Affairs loans. This result is 7.6 percentage points above the target of 84 percent. Ginnie Mae was able to meet its goal by guaranteeing securities that provide the best execution from a pricing standpoint. Also important were Ginnie Mae's continued success in reducing issuers' back-end processing costs and improving security disclosures. The Department anticipates that it will also meet the FY 2009 target.

Resources and Performance Link. This goal was implemented in FY 2007 and it accounts for approximately 17 percent of Ginnie Mae's portfolio. Funding was provided through Commitment Authority guaranteed government loans.

Data Discussion. Data for this indicator are based on monthly loan level data from the VA and collected by Ginnie Mae in its Mortgage-Backed Security Information System. The data that populates Ginnie Mae's Mortgage-Backed Security Information System reflect the most recent data of insured or guaranteed loans. A third party, independent auditor conducts Ginnie Mae's annual financial statements audit, which includes auditing Ginnie Mae's data systems each year; Ginnie Mae has consistently received an unqualified, or clean, opinion in prior fiscal years, and again received a clean opinion for the FY 2008 audit.

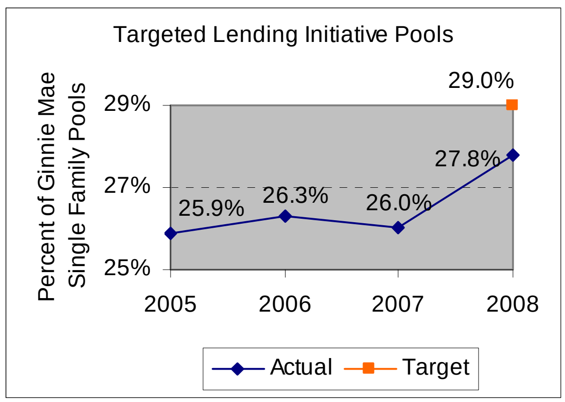
A.19: At least 29 percent of all Ginnie Mae single family pools issued in FY 2008 are Targeted Lending Initiative pools.

Public Benefit. Ginnie Mae established the Targeted Lending Initiative in FY 1996 in order to provide incentives for lenders to increase loan volumes in the following traditionally under-served areas: HUD-designated Renewal Communities, Urban Enterprise Zones, Urban Empowerment Zones, Native American Lands, Rural Empowerment Zones, and Rural Enterprise Communities. Ginnie Mae expanded the Targeted Lending Initiative in FY 2004 to include the colonias (poor rural communities, almost always unincorporated, that lie in a 150-mile-wide strip along the U.S. Mexico border between Texas and California). Most recently, Ginnie Mae expanded the program to include those census tracts that were declared disaster areas as a result of Hurricane Katrina.

Background. The Targeted Lending Initiative program offers discounts ranging from one to three basis points on Ginnie Mae's six basis point guaranty fee, depending on the percentage of Targeted Lending Initiative-eligible loans within the security. The reduced guaranty fee gives lenders an incentive to originate loans in Targeted Lending Initiative areas.

Program Website. http://www.ginniemae.gov

Results and Analysis. The target was not met. As of the end of FY 2008, 27.8 percent of all single family pools issued received Targeted Lending Initiative credit. This result is 1.2 percentage points below the target of 29 percent. The result, however, was an improvement of 1.8 percentage points over FY 2007.



Resources and Performance Link. This goal was originated in FY 2008. Funding provided through Commitment Authority insured or guaranteed government loans in approximately 35,000 cumulative pools.

Reasons for Shortfall / Plans and Schedule to Meet the Goal. In FY 2008, more issuers formed Targeted Lending Initiative pools than in FY 2007, but the share represented by Targeted Lending Initiative pools did not match the rate of growth of the overall single family volume. This may be due, in part, to a shift to Ginnie Mae Mortgage-Backed Securities in the mortgage industry, particularly in higher balance loans during the second half of the year; those loans are less likely to be in Targeted Lending Initiative areas. Ginnie Mae plans to reach out to its issuers in FY 2009, particularly any previously active Targeted Lending Initiative issuers who were not active in FY 2008. Although the goal was not met, the overall volume of Targeted Lending Initiative in underserved areas increased.

Data Discussion. Monthly Master Pool files detailing characteristics of pools securitized by Ginnie Mae. No data limitations are known to affect this indicator. Ginnie Mae and FHA numbers are subject to annual financial audits because they represent an obligation on the part of the United States.

Goal B: Promote Decent Affordable Housing

PERFORMANCE REPORT CARD – GOAL B

	Performance Indicators	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2008 Target	Met	Notes
	Cross-Departmental							
B.1	Rental households and rental units will be assisted through major HUD programs.							
	CDBG (rental units rehabilitated)	34,918	38,178	26,358	21,418	25,552	✗	
	HOME (tenant-based assistance)	20,554	23,325	18,172	25,381	9,486	✓	
	HOME (rental units completed)	33,612	47,598	28,039	23,170	20,077	✓	
	Housing Opportunities for Persons With AIDS	67,012	67,000	67,850	62,210	67,000	✗	
	Indian Housing Block Grant	1,729	1,781	1,569	1,841	1,380	✓	
B.2	The number of households with worst case housing needs among families with children, the elderly, and non-elderly persons with disabilities.							
	Families with children	2,324,000	N/A	N/A	N/A	N/A	N/A	
	Elderly households	1,291,000	N/A	N/A	N/A	N/A	N/A	
	Households with disabilities	694,000	N/A	N/A	N/A	N/A	N/A	
B.3	Implement Phase II of HUD's plan for increasing the energy performance and reducing utility costs in HUD-supported housing.	N/A	N/A	$33.70	$37.00	N/A	N/A	a
	FHA/Housing							
B.4	FHA endorses at least 750 multifamily mortgages.	1,017	1,016	881	647	750	✗	
B.5	HUD will complete 80 percent of the initial FY 2008 Mark-to-Market pipeline during the fiscal year, reducing rents and restructuring mortgages where appropriate.	82.0%	86.0%	92.0%	62.0%	80.0%	✗	
B.6	At least 70 percent of clients receiving rental or homeless counseling either find suitable housing or receive social service assistance to improve their housing situation.	75.0%	71.5%	67.1%	71.8%	70.0%	✓	b

PERFORMANCE REPORT CARD – GOAL B

	Performance Indicators	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2008 Target	Met	Notes
B.7	HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for special affordable multifamily mortgage purchases.							
	Fannie Mae	$7.32	$10.39	$13.31	N/A	N/A	N/A	
	Freddie Mac	$7.77	$12.35	$13.58	N/A	N/A	N/A	
B.8	Reduce the average number of observed exigent deficiencies per property for substandard multifamily housing properties by five percent.	N/A	7.60	3.20	4.48	6.48	✓	
B.9	The share of assisted and insured privately owned multifamily properties that meet HUD-established physical standards are maintained at no less than 95 percent.	96.0%	95.0%	93.8%	93.0%	95.0%	✗	
B.10	For households living in assisted and insured privately-owned multifamily properties, the share of properties that meets HUD's financial management compliance is maintained at no less than 98 percent.	98.0%	98.0%	99.0%	100.0%	98.0%	✓	c
B.11	Increase the availability of affordable housing for the elderly and persons with disabilities by bringing 4,000 Section 202 units (100 projects) and 1,100 Section 811 units (100 projects) to initial closing.	302	315	245	224	200	✓	
B.12	The number of elderly households living in private assisted housing developments served by a service coordinator is maintained at the FY 2007 level.	N/A	N/A	353.8	347.9	353.8	✗	d
B.13	For both Section 202 and Section 811, at least 70 percent of projects that are initially closed in FY 2008 will have completed the process within 24 months; and, of these, 25 percent will have completed the process within 18 months.	N/A	N/A	N/A	69.0%	70.0%	✗	
B.14	The number of Section 202 units serving the elderly and Section 811 units serving persons with disabilities is maintained at 98 percent of those at the FY 2007 level, excluding new units added to inventory.	N/A	N/A	N/A	99.1%	98.0%	✓	

PERFORMANCE REPORT CARD – GOAL B

	Performance Indicators	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2008 Target	Met	Notes
	Ginnie Mae							
B.15	Ginnie Mae securitizes at least 95 percent of eligible FHA multifamily mortgages.	91.1%	96.9%	98.0%	96.4%	95.0%	✓	
	PIH							
B.16	Improve the utilization rate of Housing Choice Voucher funding to 97 percent by Calendar Year 2011.	97.0%	90.0%	91.7%	93.3%	N/A	N/A	e
B.17	The share of public housing units that meet HUD established physical inspection standards will be 85 percent.	85.1%	85.8%	85.7%	84.5%	85%	✓	f
B.18	Key measures under the Public Housing Assessment System including (a) the unit-weighted average score, (b) observed exigent deficiencies per property among PHAs that are designated as troubled and have five or more deficiencies per property for public housing, and (c) the share of units that have functioning smoke detectors.							
	Unit weighted average score	85.8%	85.0%	85.2%	85.2%	N/A	N/A	
	Observed exigent deficiencies per property	N/A	54.0%	58.0%	44.0%	N/A	N/A	g
	Share of units with functioning smoke detectors	92.9%	93.6%	93.4%	93.2%	N/A	N/A	
B.19	The percent of public housing units under management of troubled housing agencies.	33.0%	31.0%	43.0%	23.0%	N/A	N/A	h
B.20	The proportion of the Housing Choice Voucher Program funding administered by troubled housing agencies.	N/A	6.1%	4.5%	2.9%	N/A	N/A	i
B.21	The HOPE VI Revitalization program demolishes 4,000 units and completes 9,000 new and rehabilitated units.							
	Units demolished	8,765	5,034	6,601	4,374	4,000	✓	
	Units constructed or rehabilitated	9,632	9,389	8,436	9,978	9,000	✓	
B.22	Ensure that unit production is completed for 89 HOPE IV grants awarded from FY 1993 to FY 2004.	N/A	N/A	76	92	89	✓	

PERFORMANCE REPORT CARD – GOAL B

	Performance Indicators	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2008 Target	Met	Notes
B.23	The Department will approve and facilitate $700 million of activity using alternative financing methods.	$1,826	$1,244	$860	$1,453	$700	✓	a
B.24	Implement changes based on completed analysis of the Section 8 Management Assessment Program and development of a more accurate and efficient tool.	N/A	N/A	Complete	Complete	Complete	✓	
B.25	Asset-based accounting will be implemented in 99 percent of PHAs by FY 2008.	N/A	N/A	30.0%	99.0%	99.0%	✓	c
B.26	Asset management will be implemented in five percent of PHAs with 250 or more units by FY 2008.	N/A	N/A	N/A	8.0%	5.0%	✓	

N/A: not available

a – number reported in millions

b – reporting results from FY 2008, third quarter

c – number estimated

d – number reported in thousands

e – data through first half of calendar year

f – difference from goal is not statistically significant

g – measured in terms of percentage reduction from prior year

h – tracks the percent of "troubled" agencies that successfully return to "standard"

i – most recent, validated data

Cross-Departmental

B.1: Rental households and rental units will be assisted through major HUD programs.

Public Benefit. Promoting decent affordable housing is a key strategic goal for HUD. The Department's rental assistance programs are an important component of this effort. The outcome of HUD's rental assistance programs is a significant reduction in the number of households that would otherwise fall under worst-case housing needs. Worst-case housing needs is defined by the Department as unassisted renters with very low incomes who have one of two "priority problems," either paying more than half of their income for housing or living in severely substandard housing.[1] Households with worst-case housing needs are at a high risk of homelessness, malnutrition, and other housing and health related issues. HUD strives to reduce the incidence of worst-case housing needs by addressing shortages of affordable rental housing nationwide, by maintaining existing housing units in decent condition, and producing new affordable housing units.

Rental Households/Rental Units Receiving Assistance	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2008 Target
CDBG (rental units rehabilitated)	34,918	38,178	26,358	21,418	25,552
HOME (tenant-based assistance)	20,554	23,325	18,172	25,381	9,486
HOME (rental units completed)	33,612	47,598	28,039	23,170	20,077
Housing Opportunities for Persons With AIDS	67,012	67,000	67,850	62,210	67,000
Indian Housing Block Grant	1,729*	1,781*	1,569*	1,841	1,380
TOTAL	**157,825**	**177,882**	**141,988**	**134,020**	**123,495**

* These figures, previously reported in the Performance and Accountability Report, have changed due to subsequent adjustments to the database.

Background. This indicator tracks the number of new households that receive affordable rental housing assistance through HUD programs in FY 2008. Rental housing assistance includes rehabilitation, construction, and acquisition of rental housing units. The data for reporting this measure is compiled from the Community Development Block Grants (CDBG), HOME Investment Partnerships, Housing Opportunities for Persons With AIDS, and Indian Housing Block Grant programs.

The CDBG program provides state and local governments' block grant funding on a formula basis targeted to communities across the country with the greatest need. The CDBG program remains the federal government's largest and most flexible community development program that enables communities to carry out a variety of development activities, including rehabilitation and expansion of decent, affordable rental housing.

[1] *Affordable Housing Needs 2005: Report to Congress.* U.S. Department of Housing and Urban Development, Office of Policy Development and Research, May 2007.

The HOME Investment Partnerships program is one of HUD's major affordable housing production programs. The HOME program's block grant structure enables participating state and local governments to build or rehabilitate housing for rent or ownership, provide home purchase or rehabilitation financing assistance to existing homeowners and to new homebuyers, and provides tenant-based rental assistance to assist low-income households.

The Housing Opportunities for Persons With AIDS program provides state and local governments and nonprofit organizations with vital resources to address the supportive housing needs of a particularly vulnerable population of low-income households. The Housing Opportunities for Persons With AIDS program provides tenant-based rental assistance, permanent housing facility assistance, short-term housing assistance, and support through transitional facilities in the effort to reduce the risk of homelessness among persons living with HIV/AIDS.

The Indian Housing Block Grant program provides grants to maintain and expand the supply of affordable rental housing on tribal lands. Shortages of decent, affordable, rental housing are particularly acute in many of these areas, and the Indian Housing Block Grant program is an important source of funding to address this need.

Program Websites.

http://www.hud.gov/offices/cpd/communitydevelopment/programs/

http://www.hud.gov/homeprogram/

http://www.hud.gov/offices/cpd/aidshousing/index.cfm

http://www.hud.gov/offices/pih/ih/grants/ihbg.cfm

Results and Analysis. FY 2008 goals were exceeded for two of the four programs counted in this measure. Together these programs supported over 134,000 households and exceeded the combined goal of assisting 123,495 households by 10,505 households or eight percent.

The actual number of multi-unit rehabilitation units assisted in FY 2008 through the CDBG program was 21,418. This was 4,134 units short of CDBG's FY 2008 goal of assisting 25,552 units. In FY 2007, the number of multi-unit rehabilitation units assisted through the CDBG program was 26,358 units, 4,940 more than the number of units assisted in FY 2008. The FY 2008 goal for CDBG rental assistance was adjusted to account for the actual outcome in FY 2007 and the FY 2008 appropriation.

The HOME program exceeded its goals for both rental housing production and tenant-based rental assistance in FY 2008. The HOME-funded tenant-based rental assistance supported 25,381 households exceeding the goal of 9,486 by 15,895 households or 168 percent. This also represents an increase of 7,209 households compared to FY 2007 when the HOME program assisted 18,172 households. In FY 2008, the HOME program anticipated a significant decline in the number of households receiving tenant-based rental assistance. This anticipated decline did not occur. The increase in households assisted with HOME-funded tenant-based rental assistance is attributable to rapidly worsening housing market conditions during FY 2008, which made assistance to low-income tenants a higher priority than assistance to homebuyers in many jurisdictions. (See Indicator A.1 for HOME assistance to homebuyers and existing homeowners).

The HOME program completed 23,170 rental housing units in FY 2008, exceeding the goal of 20,077 units by 3,093 units or 15 percent. The FY 2008 result is a decrease of 4,869 units, however, from the 28,039 units completed in FY 2007. The decline in the number of units produced in FY 2008 is partly attributable to a significant increase in the costs of construction and building materials during the period as well as to a reduction in available funding for the HOME program. Based on completions, the average per-unit HOME cost of producing a rental unit in FY 2008 increased by $892 to $24,564, or 3.8 percent, compared to FY 2007, while the annual cost of providing tenant-based rental assistance to a household decreased to $2,847 in FY 2008, a decrease of $48 or 1.6 percent.

In FY 2008, Housing Opportunities for Persons With AIDS program grants supported 21,405 households through permanent housing projects. An additional 40,805 households received benefits to reduce risks of homelessness under the short-term and transitional housing projects. This total of 62,210 households supported through Housing Opportunities for Persons With AIDS grants is below the goal of 67,000 by 4,790 households, or 7 percent. This result is due in part to a shift in HUD's focus from providing more short-term housing assistance to promoting more long-term outcomes through permanent housing solutions and on-going support (reported being achieved under Indicator C.13.) Data changes also reflect verification and management efforts undertaken in program training, data cleanup, and evaluation efforts. While HUD did not meet the Housing Opportunities for Persons With AIDS goal of supporting 67,000 households, grantees reported that an additional 35,253 eligible households benefited under housing assistance leveraged by Housing Opportunities for Persons With AIDS grantees from other state, local, or private sources.

The Indian Housing Block Grant program built, rehabilitated, or acquired 1,841 units. This exceeded the FY 2008 goal of 1,380 by 461 units or 33 percent. It was also a 17 percent increase over the 1,569 units built, rehabilitated, or acquired in FY 2007. The number of units built, rehabilitated, and acquired each year under the Indian Housing Block Grant program can vary because local grantees have the flexibility to determine which of the eligible activities they will carry out based on need and changing circumstances. Rising construction costs and relatively constant appropriations in recent years have limited increases each year in the number of units built, rehabilitated, or acquired with Indian Housing Block Grant funds.

Reasons for Shortfall / Plans and Schedule to Meet the Goal. By statute, CDBG's formula block grants provide targeted assistance to communities throughout the country and allow the flexibility for local decision-makers to determine how to invest the funds most efficiently and effectively from among a wide range of community development activities. HUD does not dictate the proportion of funds to be spent on rental housing activities and bases its goal each year for this activity on actual results and trends from previous fiscal years. The CDBG goal for multi-unit rehabilitation assistance was reduced in FY 2008 to account for actual CDBG program outcomes in FY 2007 and the FY 2008 appropriation. The proportion of CDBG funds spent on multi-unit rehabilitation assistance has been declining significantly in recent years. The CDBG program received technical assistance funds in FY 2008, the first appropriation for such funds in three years, and these funds will be awarded in FY 2009 to assist with grantee training. In the CDBG grantee community there are high levels of staff turnover, increasing the need for consistent annual training.

This result for Housing Opportunities for Persons With AIDS is due in part to the Department's focus on promoting long-term outcomes (reported being achieved under Indicator C.13) by using funds for permanent housing, on-going support, and reducing reliance on short-term efforts. Data changes also reflect verification and management efforts undertaken in program training, data cleanup, and evaluation efforts.

Resources and Performance Link. Combined, the CDBG, HOME, Housing Opportunities for Persons With AIDS, and Indian Housing Block Grant programs received appropriations totaling $6.22 billion for FY 2008, compared with $6.38 billion in FY 2007. Excluding supplemental disaster relief funds, the FY 2008 appropriations for these programs represents 15.9 percent of HUD's total gross discretionary budget authority of $39.22 billion. Significant portions of CDBG, HOME, and Indian Housing Block Grant funding, however, are allocated to activities other than rental housing assistance. The CDBG, HOME, Housing Opportunities for Persons With AIDS, and Indian Housing Block Grant programs together represented $1.619 billion in funding for rental housing assistance in FY 2008. HUD also provides extensive rental housing assistance through its Tenant-Based Rental Assistance program (see indicators B.16, B.20, and B.24), Project-Based Rental Assistance program (see indicators B.8, B.9, and B.10), Public Housing (see indicators B.17, B.18, B.19, B.25, and B.26), and the Housing for the Elderly and Persons With Disabilities programs (see indicators B.11, B.12, B.13, and B14).

In FY 2008, CDBG grantees expended approximately $75 million on multi-unit rehabilitation housing assistance compared with $89 million in FY 2007. The decline in CDBG funds spent on multi-unit rehabilitation housing assistance continues a downward trend in recent years from a high of $102 million in FY 2005. Between FY 2005 and FY 2008, the amount of CDBG funds allocated to multi-unit rehabilitation housing assistance efforts has declined 26 percent. The total CDBG appropriation in FY 2008, excluding disaster supplemental funding and set-asides, was $3.59 billion, down from $3.71 billion in FY 2007. Multi-unit rehabilitation assistance accounted for approximately two percent of CDBG funding in FY 2008.

In FY 2008, the HOME program expended approximately $906 million on rental projects and committed an additional $47.9 million for tenant-based rental assistance. The total HOME appropriation in FY 2008 was $1.70 billion, *down* from $1.76 billion in FY 2007. This continues a downward trend in recent years from a high of $1.915 billion in FY 2005. Between FY 2005 and FY 2008, HOME appropriations have declined 11 percent. Through FY 2008, rental units and direct rental assistance accounted for approximately 53 percent of overall HOME funding.

The Housing Opportunities for Persons With AIDS program received FY 2008 appropriations of $300.1 million, a five percent increase from $286.1 million in FY 2007. The Housing Opportunities for Persons With AIDS program is achieving its related client outcome goals as further detailed under the program's outcome indicator (see indicator C.13), with 92 percent of households in permanent housing and 62 percent of households under short-term projects having stable housing outcomes. In 2008, Housing Opportunities for Persons With AIDS was reviewed under the Performance Assessment Rating Tool (PART), and received a rating of "effective," the highest rating possible. The assessment demonstrated that the Housing Opportunities for Persons With AIDS program is performing at a high level and is accountable for achieving its key outcomes. The amount of assistance provided to Housing Opportunities for Persons With AIDS' targeted recipients is directly related to changes in the levels of appropriations, as well as general economic conditions and participation at the local level.

In FY 2008, the Indian Housing Block Grant program received appropriations of $630 million, a one percent increase from $623.7 million in FY 2007. Funding levels have remained relatively stable since FY 2005. For many American Indian tribes and Alaska Native villages, the Indian Housing Block Grant program is the primary or sole source of funding for affordable housing. Because affordable housing projects in Indian Country tend to be long-term, there is not a direct correlation to funding levels and households assisted in a given fiscal year. Projects can take several years to complete before they are recorded in HUD's data for rental units receiving assistance. In addition, Indian Housing Block Grant recipients can allocate grant funds to a number of eligible activities that are not recorded. While this makes it difficult to predict the number of rental units that will be built, acquired, and rehabilitated in a given fiscal year, this measure remains a primary indicator of program output.

Data Discussion. Data for this indicator are collected by the programs individually. For the CDBG and HOME programs, data are reported by grantees in HUD's Integrated Disbursement and Information System (IDIS). For Housing Opportunities for Persons With AIDS, data comes from grantees through IDIS or from grantee annual reports. For the Indian Housing Block Grant program, data come from grantee annual reports that are entered into a database at the regional Offices of Native American Programs and aggregated at HUD Headquarters. Each of the programs undertakes continual efforts to improve data collection efforts and ensure data integrity. These efforts include upgrading data reporting systems, having HUD staff verify data and data collection processes when monitoring grantees, establishing and enforcing data reporting requirements, conducting training and meetings focused on data reporting, and undertaking data clean-up efforts.

B.2: The number of households with worst case housing needs among families with children, the elderly, and non-elderly persons with disabilities.

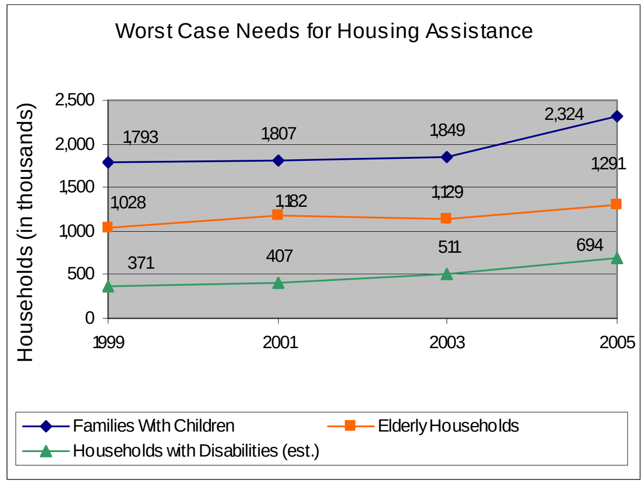
Public Benefit. This tracking indicator is a key measure of whether the nation is advancing or losing ground in the fight to ensure decent, safe, and affordable housing for America's most vulnerable populations. The indicator focuses on the elderly, non-elderly disabled persons, and families with children because they are particularly susceptible to housing problems and are targeted by HUD housing programs. Nearly every added unit of public housing or Section 8 assistance, whether linked to projects or provided directly through a voucher, prevents a very low-income family or individual from having severe housing problems.

The Department estimates that, without HUD's rental assistance programs which served 4.7 million families and clients with limited incomes in FY 2008, at least 52 percent of participating households (2.5 million) would have worst case housing needs. This lower bound estimate does not reflect the additional public benefit of PHA targeting to extremely low-income renters, elderly households, and persons with disabilities, all of whom face more severe shortages of suitable, affordable, available units in the private marketplace.

Background. Worst case needs are defined as unassisted renters with very low incomes (that is, not more than 50 percent of area median income) and a priority housing problem – either severely inadequate housing or, more commonly, severe housing cost burden, meaning total costs exceed 50 percent of monthly income. HUD has not established a performance target for this indicator because of the dominant influence of the macro-economy relative to program funding.

Program Website. "Affordable Housing Needs 2005: Report to Congress" is available at http://www.huduser.org/publications/affhsg/affhsgneeds.html.

Results and Analysis. The most recent published tracking data show that in calendar year 2005, 2.32 million families with children had worst case housing needs and 1.29 million elderly households had worst case needs. These estimates reflect statistically significant and substantial increases of 26 percent and 14 percent from 2003 levels. For households with disabilities, HUD recently used a newly-enhanced proxy measure to estimate that there were 694,000 households containing adults with disabilities and having worst case needs in 2005.



National and regional economic conditions affect worst case needs by changing the number of very low-income renters (that is, households eligible for worst case status if unassisted) and the availability of affordable private-market rental units. Between 2003 and 2005, the number of very low-income renters increased by 2.6 percent, from 15.7 million to 16.1 million. Lack of affordable housing units relative to the growing number of units demanded by very low-income households is a central aspect of the problem: for every 100 very low-income renter households in 2005, there were only 76.8 rental units that were affordable and available. When physical quality of the unit is also considered, then only 67.9 units were adequate, affordable, and available per 100 very low-income renter households.

Resources and Performance Link. The vast majority of HUD's non-disaster budget helps program partners meet the affordable housing needs of very low-income renters. Multiple programs provide affordable housing opportunities for targeted income groups as well as subpopulations including the elderly, disabled, and homeless. Contributing programs include vouchers, Project-Based Section 8, public housing, HOME Investment Partnerships program, CDBG, Housing Opportunities for Persons With AIDS, homeless programs, multifamily mortgage insurance, and capital advances for supportive housing under Sections 202 and 811. Although recent funding levels for these programs have not supported expanded coverage, collectively they produce a critical outcome: keeping many of the nearly five million households served out of worst case status (see the table "Units/Households Receiving HUD Assistance" in Section 4 of this report).

In 2005, 4.6 million very low-income renters were prevented from having worst case housing needs by receiving housing assistance, according to a report in the American Housing Survey. Despite issues with self-reported receipt of assistance, this estimate is very similar to the number of households that HUD assists. Among those without housing assistance, 58 percent of elderly very low-income renters, 65 percent of disabled very low-income renters, and 72 percent of extremely low-income renters had worst case housing needs in 2005. Because these are populations that HUD frequently assists, the proportions indicate that if HUD-assisted households were to lose their assistance, a sizable majority quickly would have worst case housing needs.

Data Discussion. The data for this indicator come from the national American Housing Survey, conducted for HUD by the Census Bureau on a biennial basis. In FY 2009, HUD plans to report to Congress on the extent of worst case needs during 2007. Changes in estimated worst case needs are statistically significant (with 90 percent confidence) when the difference from year to year exceeds 170,000 households for families with children, 140,000 households for elderly families, or 90,000 households containing persons with disabilities. Estimates of households containing non-elderly persons with disabilities are created using a proxy based on income sources related to disabilities. The improved proxy discussed above identifies additional non-elderly, disabled adults by taking advantage of a new American Housing Survey question about disability income.[2]

In preparing the 2003 report, the Office of Policy Development and Research verified estimates of worst case needs overall through comparisons with the American Community Survey and the Survey of Income and Program Participation. Estimates of very low-income renters with severe rent burdens produced with the 2001 Survey of Income and Program Participation data showed 37 percent fewer elderly households, 11 percent fewer families with children, and 2 percent more households with disabilities than did the 2001 American Housing Survey. The 2003 and 2005 reports also present preliminary research about the duration of severe rent burdens from year-to-year.

B.3: Implement Phase II of HUD's plan for increasing the energy performance and reducing utility costs in HUD-supported housing.

Public Benefit. With energy prices reaching record levels during FY 2008, energy savings continue to be a key policy concern for the Department. Owners and tenants in HUD's public and assisted housing programs spend more than $5 billion on energy, including $1.8 billion in public housing. Energy savings in HUD's public and assisted housing will reduce budget costs and keep the inventory of HUD-assisted and public housing affordable.

Background. HUD has undertaken a Department-wide effort to address rising energy costs. The statutory framework for this effort is Section 154 of the Energy Policy Act of 2005 (P.L. 109-58), which required HUD to prepare an integrated energy strategy and to report on progress every two years. In addition, the Energy Independence and Security Act of 2007 requires HUD to upgrade its energy standards for HUD-assisted or insured new construction and major rehabilitation projects. The organizational framework is provided by the Department's Energy Task Force, co-chaired by the offices of Policy Development and Research and Community Planning and Development, and including key program and support offices: Housing, Public and Indian Housing, Field Policy and Management, and Healthy Homes and Lead Hazard Control. Regional Energy Coordinators represent HUD's field offices on the Task Force, and many field offices have been active in developing local energy partnerships.

[2] See "Housing Needs of Persons with Disabilities: Supplemental Findings to the *Affordable Housing Needs 2005* Report," at http://www.huduser.org/publications/affhsg/affhsgneedsdis.html. An independent analysis makes further adjustments to accommodate American Housing Survey data to other data sources that identify greater proportions of adults with disabilities. This procedure produces an estimate of 1.3–1.4 million worst case households with disabilities in 2005. See the Technical Assistance Collaborative. http://www.tacinc.org/HH/housingcrises.htm.

HUD continued implementation of HUD's Phase II Energy Action Plan, first implemented in FY 2007. The Plan includes 25 actions aimed at upgrading the energy efficiency of existing and new HUD-assisted and HUD-financed housing, and using an established inventory of proven energy-efficient products and appliances, with a strong emphasis on expanding the use of the Energy Star label for both products and new homes. A detailed two-year progress report describes key results.[3] HUD also continues to work with the Environmental Protection Agency to promote the use of Energy Star products and appliances through HUD programs. The Government Accountability Office, in October 2008, found that "HUD has taken steps to promote energy efficiency by providing information, training, and technical assistance, but its efforts have limitations."

Program Websites.

www.hud.gov/energy

www.hud.gov/offices/cpd/library/energy/index.cfm

www.hud.gov/offices/pih/programs/ph/phecc/econserve.cfm

Results and Analysis. An estimated $37 million in documented energy savings in FY 2008 were reported in four program areas: HOME, CDBG, energy performance contracting in public housing, and Energy Efficient Mortgages insured by FHA. This represents increased savings of $3.3 million, or nine percent, over FY 2007 results.

- A total of 29 new performance contracts in public housing were reported, involving a capital investment of $99 million and an estimated annual savings of $34.8 million. While the dollar investment is significantly lower than the investment reported in FY 2007 ($141 million), the annual savings are $2.6 million higher, representing a significantly higher return on investment.[4]
- A total of 1,235 FHA-insured Energy Efficient Mortgages totaling an estimated $98 million were reported, for an estimated savings of $442,130 – a 16 percent increase over FY 2007.[5]
- A total of 5,921 units of HOME-funded new construction projects were reported as having achieved the Energy Star label for new homes (achieving 15 percent energy savings over the 2004 International Residential Code), for an estimated savings of $1.7 million.[6] This represents a 54 percent increase over estimated savings achieved in FY 2007.
- A total of 290 units of CDBG-funded projects were reported as having achieved the Energy Star label, for an estimated savings of $85,550. This is double (109 percent more) the estimated savings reported in FY 2007.

[3] U.S. Department of Housing and Urban Development, *Implementing HUD's Energy Strategy: Progress Report*, October 2008. See www.hud.gov/energy.
[4] Comparable EPC figures for FY 2007 were as follows: 32 contracts, capital investment of $141.3 million, estimated annual savings of $32 million.
[5] Savings for existing homes assumed at $358 per unit, based on average savings achieved through the comparable Department of Energy Low-Income Weatherization Assistance Program.
[6] The number of HOME and CDBG units reporting Energy Star compliance include 164 units that were funded by both programs; the savings reported for the HOME program have been discounted accordingly.

Continued implementation of HUD's Phase II Energy Plan resulted in the following additional results:

- HUD continued to include energy as a policy priority in determining awards for several discretionary grant programs through HUD's Super Notice of Funding Availability (SuperNOFA).
- PIH continued to provide technical support to PHAs to implement energy performance contracts, continued to develop a utility benchmarking tool that will assist PHAs in managing energy, and operated a Public Housing Energy and Environmental Clearinghouse.
- HUD's 10 Regional Energy Coordinators continued to play a prominent role in leveraging resources for HUD customers and partners and working with field offices in conducting training and outreach. Significant energy and green building conferences were held, for example in South Carolina, Texas and Arizona, and an important pilot project was initiated in California to use CDBG and HOME funds to finance solar energy installations in affordable housing.
- The HOME Investment Partnerships (HOME) Program implemented a new training curriculum on building green, Energy Star qualified new homes.
- Several green building initiatives were launched, that, in addition to addressing energy efficiency, include support for water efficiency, indoor environmental quality, and other elements of green building. These efforts included regional and national training workshops sponsored by the Office of Native American Programs, the Green Remodeling Initiative for multifamily projects in the Mark-to-Market program, and HUD's first "green" Notice of Funds Availability, sponsored by the HOME Investment Partnerships Program.
- Among HOPE VI sites redeveloping public housing neighborhoods in 2008, 13 of 49 sites surveyed, representing 1,695 units, reported achieving the Energy Star label for new homes. Of the 49 sites, 36 reported that they specify Energy Star products or appliances.
- HUD also continued to address high transportation energy costs, which reached $4 per gallon of gasoline during FY 2008, through a working partnership led by the Office of Policy Development and Research with the Federal Transit Administration.

Resources and Performance Link. Energy conservation is a highly cost-effective approach to address numerous public policy goals, simultaneously helping reduce energy imports, carbon emissions, and public expenditures. The $37 million in annual energy savings reported above for FY 2008 were achieved as a result of an investment of an estimated $117 million (for a simple payback of less than four years) as follows:

- $9 million for HOME and CDBG, assuming $1,500 per new Energy Star unit;
- $9.3 million invested in Energy Efficient Mortgages, assuming that 5 percent of an average loan of $150,000, or $7,500 per unit, is for energy efficiency; and
- $99.3 million actually invested in Energy Performance Contracts in public housing.

A financial analysis of the current portfolio of Energy Performance contracts indicated that the total investment of $570.8 million since program inception has guaranteed savings of $102.8 million annually. Assuming a 5 percent interest rate, this stream of income has a net present value (i.e., after paying for the investment) of $324.1 million over 12 years and $676.5 million over 20 years. Accordingly, HUD now permits PHAs to undertake Energy Performance Contracts paying off over a period of 20 years.

Data Discussion. This is the second year that HUD has reported energy savings projects from four sources: energy performance contracts in public housing, HOME, CDBG, and Energy Efficient Mortgages. While HUD cannot report specific results for public housing beyond energy performance contracts this year, progress is being made in HUD's ability to measure, track or report energy savings in this area. As a result of the shift to asset management, housing authorities are reporting utility consumption for individual projects which will provide an important baseline for measuring results in the future.

However, while property owners do report annual utility expenditures through the Financial Assessment Subsystem for Multifamily Housing (FASS-MF), no mechanism is in place to measure or report on energy savings in HUD's assisted or insured multifamily portfolio, and no data are yet available on energy savings achieved in Section 202 or 811 new construction. HUD is working to improve reporting on Energy Efficient Mortgages utilizing the existing Computerized Underwriting Management System (CHUMS). As noted in previous years, the Office of Policy Development and Research will continue to work with program offices to put in place sampling or other methodologies to track and/or report energy savings in FY 2009.

FHA/Housing

B.4: FHA endorses at least 750 multifamily mortgages.

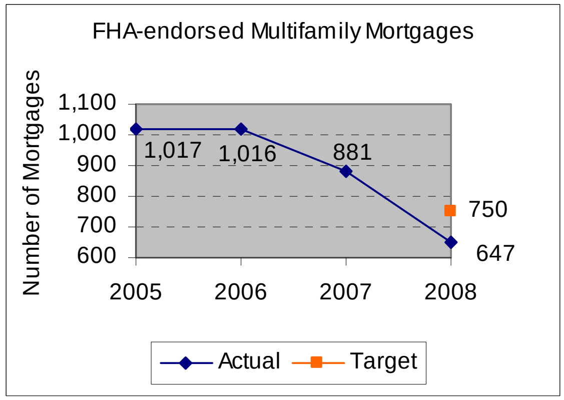
Public Benefit. This indicator measures the number of multifamily loans for which HUD has provided new FHA insurance to private lenders or Risk Sharing with state housing agencies, Fannie Mae or Freddie Mac. The indicator counts loans for all facility types (apartments, cooperatives, nursing homes, assisted living, and mobile home parks) except for hospitals and medical group practices. Because FHA insurance and Risk Sharing guarantees protect lenders if borrowers default, these tools make lenders more willing to finance multifamily housing and contribute directly to HUD's strategic goal of providing decent and affordable housing.

Background. FHA insurance is critical to maintaining a supply of affordable housing because FHA insures both construction loans and permanent financing for terms up to 40 years and does so with favorable loan-to-value ratios and debt service coverage. FHA's favorable terms allow developers to create needed housing that might otherwise go unbuilt and provide consumers with a wide array of shelter options for all life stages.

Program Website. http://www.hud.gov/offices/hsg/mfh/progdesc/progdesc.cfm

Results and Analysis. The target was not met. During FY 2008, Multifamily initially endorsed 647 FHA and Risk Sharing loans – only 86 percent of the FY 2008 revised goal of 750 loans. The 647 is less than both the 881 loans endorsed in FY 2007 and the 1016 loans endorsed in FY 2006. Production fell because of the significant economic turmoil in housing market conditions. While nationwide production fell short of the 750 loan goal, the 647 loans still represent a significant achievement in the face of a major economic downturn. The 647 loans supported 70,914 units or beds in 47 states, the District of Columbia, and Puerto Rico and provided the public with a variety of shelter options: 449 rental projects, 123 nursing homes, 69 assisted living facilities, 5 cooperatives, and 1 mobile home park.

In total, 260 (40 percent) of the 647 loans were made under special initiatives that make the units affordable specifically to low- and moderate-income families, while 384 loans were made for properties located in underserved areas. Of the 260 loans, 166 loans refinanced Section 202 Elderly Housing projects, 16 loans decoupled Section 236 Interest Reduction Payment (IRP) contracts, and 78 projects in 25 states and the District of Columbia received Low Income Housing Tax Credits (LIHTC) in conjunction with these loan transactions.



Because FHA programs are market-rate and demand driven, FY 2009 production will be determined primarily by the state of the U.S. economy. Production will improve only if current efforts to restore liquidity and confidence and control interest rates are successful, and the excess supply created by the over-development of condominiums is absorbed.

Resources and Performance Link. Loan authority and credit subsidy were more than adequate to cover the lower FY 2008 production level, and neither is expected to constrain future production. Production levels will be driven more by economic factors – interest rates; housing demand and supply; availability of credit and equity; and confidence in the economy. Whatever the production level, Multifamily will require systems development money and adequate staffing in both Headquarters and Multifamily's field offices. While current staff levels are handling current workload, spot shortages of technical skills (e.g., appraisal, mortgage credit, etc.) essential to efficient underwriting are appearing as Development staff retires and these shortages could cause processing delays and discourage borrowers from choosing FHA. To avoid such delays, Development is exploring work-sharing across offices, centralizing some programs (e.g., health care loans) within selected offices, and filling critical vacancies.

Reasons for Shortfall / Plans and Schedule to Meet Goal. Because HUD's FHA and Risk Sharing programs offer only market-rate loans, FHA production levels are determined primarily by economic factors (interest rates; availability of debt and equity financing; demand and supply for specific housing types; demographics; and construction and operating costs). Initial endorsements dropped sharply in FY 2008 because nearly all of these economic factors deteriorated in 2008. Refinancings dropped sharply because interest rates on apartment loans climbed significantly and because heavy refinancing activity in FY 2005 through FY 2007 reduced the number of loans available for refinancing. New construction fell for several reasons. Foreclosed single family homes and failed cooperatives converted to rentals, reducing the demand for new construction. The credit crunch and rising interest rates made debt financing scarce or expensive. Financial problems at Fannie Mae and Freddie Mac, reduced investor demand for tax credits, and falling Low Income Housing Tax Credits (LIHTC) prices made equity and gap financing more difficult.

To attract more borrowers and lenders in this soft market, Development will work with industry and field staff to streamline FHA systems and processes to make FHA programs even more attractive than they already are. While market forces will still be the main determinants of volume, efficient processing and streamlined application requirements could bring HUD an increased portion of the reduced market demand.

Data Discussion. As Development's field staff close loans, the staff record the closing (endorsement) in the Development Application Processing system which generates a hard copy closing memo for the F47 Multifamily Insurance System. The F47 Multifamily Insurance System staff manually enters the endorsement data into F47 Multifamily Insurance System and it then electronically sends data to both Integrated Real Estate Management System (iREMs) and the Development Application Processing system (DAP) nightly. The Development Application Processing system compares data on key data fields and flags any cases where the F47 Multifamily Insurance System has manually entered data different than in the Development Application Processing system (DAP). Development and F47 Multifamily Insurance System staff checks the loan closing files and make any necessary corrections so that the data in both systems agree.

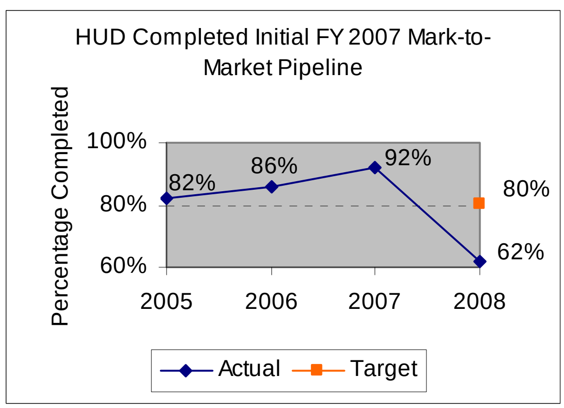
B.5: HUD will complete 80 percent of the initial FY 2008 Mark-to-Market pipeline during the fiscal year, reducing rents and restructuring mortgages where appropriate.

Public Benefit. The Mark-to-Market program seeks to preserve affordable housing stock by maintaining the long-term physical and financial integrity of such housing and to reduce the Section 8 rental assistance costs and the cost of FHA insurance claims.

Background. Under the Mark-to-Market program, the Office of Affordable Housing Preservation analyzes FHA-insured multifamily properties for which Section 8 rents exceed comparable market rents, and reduces Section 8 rents to bring them in line with comparable market rents or levels that preserve financial viability. Properties also are eligible for full debt restructuring that involves a write-down of the existing mortgage in conjunction with the reduced rent levels. This indicator measures completions and closings as a percentage of projects in the pipeline at the beginning of the fiscal year.

Program Website. http://www.hud.gov/offices/hsg/omhar/index.cfm

Results and Analysis. The Department completed 62 percent of the initial FY 2008 pipeline which means that it did not make its original target of 80 percent. In FY 2008, the Office of Affordable Housing Preservation completed/closed 88 properties under the Mark-to-Market program, resulting in annual Section 8 savings (non-incurrence of cost) of $26.8 million. The Office of Affordable Housing Preservation's initial active pipeline on October 1, 2007, was 142 assets. The average savings (cost) per debt restructure reflects shifts in the pipeline itself, as



transactions present more difficult issues and require more intensive interventions in order to be made viable; as each year passes, properties have increasing deferred maintenance needs.

Resources and Performance Link. Utilizing partial insurance claims against the FHA fund as its funding mechanism, Mark-to-Market in FY 2008 rehabilitated, preserved, and restructured debt on 43 properties with nearly 3,600 units of affordable housing nationwide. This included over $20 million in physical improvements to properties in the Section 8 portfolio. Over 3,100 properties have been completed or closed under the Mark-to-Market program since FY 2000, resulting in Section 8 savings (non-incurrence of cost) of approximately $216 million per year.

Reasons for Shortfall / Plans and Schedule to Meet the Goal. Two factors contributed to the shortfall in FY 2008. First, a number of Mark-to-Market transactions were planned using Low Income Housing Tax Credits as a source of funds. During the fiscal year, the turmoil in the credit and equity markets dried up the market for tax credits, reduced the equity value of the credits, and therefore the equity available to the transactions, restricted the availability of debt, and caused postponement and re-underwriting delays on these transactions. Rather than discontinue processing of these transactions, which would count as completions toward this goal, in the interest of preservation of the properties HUD kept these transactions “inactive,” in order to move as soon as the credit markets improve.

Second, the introduction of the Green Initiative, a pilot initiative to encourage owners of eligible Mark-to-Market properties to rehabilitate their properties in the most sustainable way feasible, delayed the completion of active properties by up to three months during FY 2008. Throughout FY 2008, the Office of Affordable Housing Preservation continued efforts to reach out and improve communication and coordination with HUD staff, performance-based contract administrators, owners, and industry groups. The purpose was to educate owners, HUD staff, and other stakeholders about the Mark-to-Market program. As a result, 33 new referrals were received into the Mark-to-Market program and 19 properties re-entered the Mark-to-Market program, for a total of 52 referrals for the fiscal year. Under the “Once Eligible, Always Eligible” provision in the statute, any property that was initially eligible for the Mark-to-Market program but failed to close as a full debt restructuring, remains eligible to re-enter the program. The Office of Affordable Housing Preservation continues its efforts under the Mark-to-Market program to preserve the affordability and availability of low-income rental housing and reducing long-term Project-Based Section 8 rental assistance costs. HUD expects to meet this completion target in FY 2009.

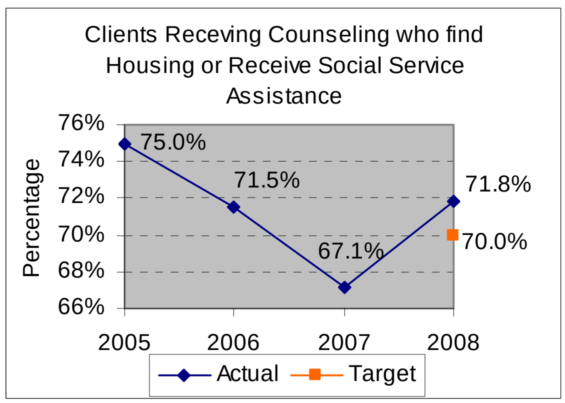
Data Discussion. This measure uses data from the Mark-to-Market Management Information System. Results are reported on a fiscal year basis. Values reflect status as of September 2008, including revisions to previously-reported results caused by properties re-entering the Mark-to-Market program under the “Once Eligible, Always Eligible” provision. The Office of Affordable Housing Preservation has put into place various data quality checks to ensure that the information stored in the Mark-to-Market Management Information System is reliable and complete. Monthly data integrity meetings are held between the Office of Affordable Housing Preservation’s system manager and its Production Office staff. These meetings focus on timeliness in updating the system as the various milestones of the properties are completed and reviewing system reports to ensure that dates and data are within established parameters. During the audits of Participating Administrative Entities, the performance dates are reviewed against three sources: dates entered into the Mark-to-Market Management Information System; dates recorded in the final files; and dates shown on supporting documents such as the date the appraisal was completed. For those properties that received a full debt restructuring, staff also examine three separate data sources to be sure all entered data are consistent. The sources include data entered into the Mark-to-Market underwriting model, information reported in the closing dockets, and data entered into the Mark-to-Market Management Information System. The Mark-to-Market System is primarily used to track the milestones completed and final rent determinations for each Mark-to-Market property, enabling the Office of Affordable Housing Preservation to measure performance, estimate savings, and provide budget projections.

B.6: At least 70 percent of clients receiving rental or homeless counseling either find suitable housing or receive social service assistance to improve their housing situation.

Public Benefit. This indicator focuses on FY 2008 outcomes associated with clients receiving rental or homeless counseling. The FY 2008 performance goal is to ensure that at least 70 percent of clients receiving rental or homeless counseling either find suitable housing or receive social service assistance to improve their housing situation by the end of the fiscal year. This outcome is being measured because homeownership is not right for everyone, and households need assistance resolving issues with rental subsidies, mobility, fair housing, and finding safe and affordable housing.

Background. The Department continues to place emphasis on housing counseling, including counseling for homeless clients and families seeking affordable rental housing. Through the first three quarters of FY 2008, rental counseling represented 16 percent of the data reported by agencies participating in the program; homeless counseling represented two percent.

Program Website. www.fha.gov/sf/counseling/index.cfm



Results and Analysis. The program is on target to meet this goal. Reporting results from FY 2008, third quarter, indicate that 135,802 out of 189,076 households (71.8 percent) receiving rental or homeless counseling have either found suitable housing or received social service assistance to improve their housing situation. HUD anticipates that the level of performance will continue as FY 2008 data are finalized and efforts to improve program efficiency and effectiveness continue to be made. Actual FY 2008 outcome data will become available early in FY 2009. Actual outcome data from FY 2007 indicate that 253,666 out of 373,200 households (68.0 percent / 67.1 percent through three quarters of FY 2007) receiving rental or homeless counseling have either found suitable housing or received social service assistance to improve their housing situation. HUD-approved housing counseling agencies are given 90 days after the end of their fiscal year to report the results of counseling activity for that fiscal year.

Resources and Performance Link. FHA and the Office of Single Family Housing support housing counseling agencies throughout the country. Funding in FY 2008 of $50 million was provided to housing counseling agencies to provide counseling and counselor training services. Funding in FY 2007 of $41.6 million was provided to housing counseling agencies to provide counseling services. In the wake of the subprime market collapse, record-setting foreclosures, and a tight credit market, rental housing will continue to be an extremely important option for millions of Americans. Additional funding is needed to ensure that sufficient resources are available to support this critical counseling, particularly at a time when agencies are increasingly devoting resources and capacity to default counseling.

Data Discussion. HUD collects data on renters and homeless clients counseled through the Housing Counseling System (HCS-F11). The data include the total number of clients, the type of counseling received, and the results of the counseling. An independent assessment in 2005 showed that the Housing Counseling System performance indicator data passed six-sigma quality tests for validity, completeness, and consistency. However, a limitation of the data collection instrument is that it does not differentiate the level of counseling given to each client, as the quality and level of counseling provided to each client may vary significantly. It is also one-year, aggregate data, making it difficult to analyze the impact of counseling. To improve the quality of housing counseling data, HUD will implement a new automated data collection instrument that will enable it to collect client-level data beginning in FY 2009.

B.7: HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for special or affordable multifamily mortgage purchases. (HUD responsibility ended during FY 2008.)

The Department will no longer be reporting on Fannie Mae and Freddie Mac's performance. Pursuant to the Housing and Economic Recovery Act of 2008, which became law on July 30, 2008, HUD's regulatory responsibilities over Fannie Mae and Freddie Mac (government sponsored enterprises) have transferred to a new regulator, the Federal Housing Finance Agency, effective immediately. This means, among other things, that the Federal Housing Finance Agency assumed responsibility for the affordable housing goals.

Prior to the Housing and Economic Recovery Act of 2008, the Secretary of HUD was the mission regulator for the government sponsored enterprises, with oversight authority to ensure that both government sponsored enterprises complied with the public purposes set forth in their charters. HUD had general regulatory authority for oversight responsibilities, which included establishing housing goals; monitoring and enforcing compliance with housing goals; new program approval; collecting loan-level data from the government sponsored enterprises on their mortgage purchase activities; making available to the public a database on non-proprietary government sponsored enterprise loan purchase data; and ensuring government sponsored enterprises compliance with fair lending requirements. An independent office of HUD, the Office of Federal Housing Enterprise Oversight regulated the government sponsored enterprises for safety and soundness by ensuring that they were adequately capitalized and operating their businesses in a financially sound manner.

With the exception of fair lending oversight, which remains at HUD, HUD's mission oversight responsibilities, as well as the Office of Federal Housing Enterprise Oversight's safety and soundness responsibilities, have been transferred to the Federal Housing Finance Agency.

Additional information regarding the role and function of the Federal Housing Finance Agency will be available on its website, currently in development.

B.8: Reduce the average number of observed exigent deficiencies per property for substandard multifamily housing properties by five percent.

Public Benefit. This indicator helps measure the overall physical condition, health and safety, as well as corrective actions taken on deficiencies, for privately-owned multifamily properties. This measure contributes to HUD's strategic goal of providing decent, safe, and affordable housing.

HUD exceeded its goal for the reduction in the number of exigent health and safety hazards for privately-owned multifamily properties with a Physical Assessment Subsystem score of less than 60. For FY 2008, there were 1,787 substandard properties with an average of 4.48 exigent deficiencies per property, down from an initial average of 6.82 exigent deficiencies per property, a 34 percent reduction in exigent health and safety hazards for HUD's privately-owned properties with Physical Assessment Subsystem scores of fewer than 60.

Multifamily Housing believes that the number of substandard properties identified this year increased due to the delays in inspections, which were the result of funding delays in the earlier fiscal years, that contributed to a significant number of late inspections.

Background. HUD's Real Estate Assessment Center conducts physical inspections that identify exigent health and safety or fire safety deficiencies. Exigent health and safety hazards include: 1) air quality and gas leaks; 2) electrical hazards and exposed wires/open panels; 3) water leaks on or near electrical equipment; 4) emergency/fire exits/blocked/unusable fire escapes; 5) blocked egress/ladders; and 6) carbon monoxide hazards. Fire safety hazards include: 1) window security bars preventing egress and 2) fire extinguishers expired. (Smoke detectors are excluded from exigent health and safety or fire safety for this measure because they are covered in Indicator C.18.) In prior years, the Department focused on the reductions in exigent health and safety or fire safety on an overall basis. From FY 2001 to FY 2005, the average number of exigent health and safety or fire safety deficiencies observed per property was reduced from 1.81 to 1.40 for multifamily housing. Due to scarce monitoring resources, the Department shifted and targeted its focus to the reduction of deficiencies at the worst properties in FY 2006. The goal for FY 2008 was to continue to reduce the average exigent defects per property for substandard properties with a Physical Assessment Subsystem score of less than 60 by five percent.

Program Website. http://www.hud.gov/offices/hsg/hsgmulti.cfm

Results and Analysis. HUD significantly exceeded its goal for the reduction in the number of exigent health and safety hazards for privately-owned multifamily properties with a Physical Assessment Subsystem score of less than 60. For FY 2008, there were 1,787 substandard properties with an average of 4.48 exigent deficiencies per property, which is a 34 percent reduction in exigent health and safety hazards for HUD's privately-owned properties with Physical Assessment Subsystem scores of less than 60. Those properties with Physical Assessment Subsystem scores of less than 60 had an initial average of 6.82 exigent deficiencies per property. As noted above the methodology for measuring this goal was revised in FY 2007. Since 2007, the goal measures the average exigent deficiencies against properties that are classified as substandard.

This is a very difficult goal to forecast or control, as the worst properties will have the highest likelihood of exigent deficiencies. However, taking prompt action to require correction in conjunction with the Department focusing on reducing substandard housing, a trend showing a reduction in average exigent deficiencies should be evident in future years. Over the entire portfolio, the average number of exigent deficiencies was 1.44 in 2008 compared to 1.67 for FY 2007 for the same 27,278 properties.

Resources and Performance Link. Funding for physical inspections of HUD-supported privately-owned multifamily housing is provided through one of six (five Departmental and one from the mortgagee) possible sources depending upon the characteristics of the project.

For projects that are insured with or without subsidy, the cost of routine inspections under HUD's Uniform Physical Inspection Standards is borne by the mortgagee under its contract of insurance. Special and follow-up inspections of properties scoring below standard are funded through the General Insurance Fund. For uninsured projects with Project-Based Section 8, funding is provided through the Project-Based Rental Assistance Account. For Section 202 direct loan projects with Section 8 and pre-1987 Section 202 projects funds are from the Section 202/8 allocation. For Section 202 Capital Advance and Section 811 projects, funding is provided from those allocations. In FY 2007, the Department funded 7,225 inspections at an average cost of $324 per inspection, for a total of $2.3 million. That compares to FY 2006, when the Department funded 9,080 inspections at an average cost of $397, for a total of $3.6 million. Through the implementation of its Uniform Physical Inspection Standards, providing for timely, consistent, objective inspections, the Department insures that quality and improvement in the HUD-involved housing is achieved.

Data Discussion. The Real Estate Assessment Center's Physical Assessment Subsystem, consisting of electronically coded and transmitted results of independent physical inspections of units, buildings, and sites, is stored in the National Inspection Contract – Central Integrated Data Repository. Unit-level data are estimated on the basis of project-level sample observations, extrapolated to the universe of all units. The multifamily program is on a "3-2-1" inspection schedule so that the higher performing properties are not re-inspected every year like troubled properties. High scoring properties' scores carry forward until a new inspection is conducted. As a result, not every property in the portfolio, or the units associated with those properties, are reflected in the Exigent Health and Safety or Fire Safety percentages. There may also be a distortion of the data since many of the properties that receive a Physical Assessment Subsystem score of less than 60 may be inspected more than once annually. Owners and managers validate Exigent Health and Safety Report contents by acknowledging receipt at the time of inspection and reporting corrective actions. In addition, the Real Estate Assessment Center re-inspects units and properties on a sample basis for quality assurance.

B.9: The share of assisted and insured privately owned multifamily properties that meet HUD-established physical standards are maintained at no less than 95 percent.

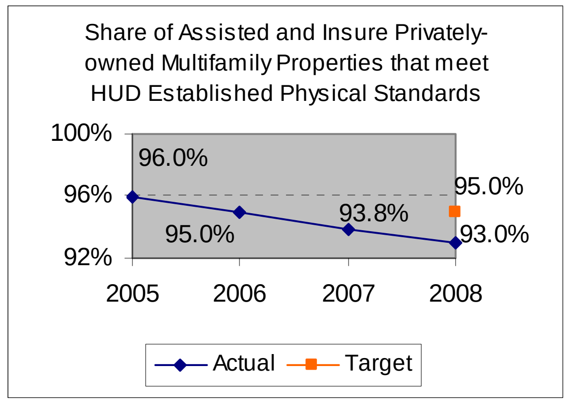
Public Benefit. This indicator helps measure the overall physical condition, health and safety, as well as corrective actions taken on deficiencies for privately-owned multifamily properties. This measure contributes to HUD's strategic goal of providing decent, safe, and affordable housing.

Background. Over 4 million American families live in rental housing that is owned, insured, or subsidized by HUD. Well-maintained projects are central to HUD's mission of providing decent, safe, and sanitary housing.

HUD's Real Estate Assessment Center conducts physical inspections that identify property deficiencies. Properties that receive a score of 60 or more (out of 100) are deemed to meet the established physical standards. This performance goal builds on recent successes and exceeds the benchmark established in the President's Management Agenda, setting a goal that at least 95 percent of assisted multifamily properties will continue to meet HUD's standards for physical condition. This is a very high performance rate and reflects the important outcome goal of providing healthy, quality, and safe housing for HUD's multifamily inventory.

Program Website. http://www.hud.gov/offices/hsg/hsgmulti.cfm

Results and Analysis. In FY 2008, as of the latest inspection, 29,380 properties in Multifamily's portfolio of 31,496 (93 percent) were found to have acceptable physical condition slightly missing the goal of 95 percent. The Multifamily Program is on a "3-2-1" inspection schedule, so that the higher performing properties are not re-inspected every year like troubled properties. High scoring properties' scores carry forward until a new inspection is conducted.



Resources and Performance Link. Funding for physical inspections of HUD involved privately-owned multifamily housing is provided through one of six (five Departmental and one from the mortgagee) possible sources depending upon the characteristics of the project.

For projects that are insured with or without subsidy, the cost of routine inspections under HUD's Uniform Physical Inspection Standards is borne by the mortgagee under its contract of insurance. Special and follow-up inspections of properties scoring below standard are funded through the General Insurance Fund. For uninsured projects with Project-Based Section 8, funding is provided through the Project-Based Rental Assistance Account. For Section 202 direct loan projects with Section 8 and pre-1987 Section 202 projects funds are from the Section 202/8 allocation. For Section 202 Capital Advance and Section 811 projects, funding is provided from those allocations. In FY 2007, the Department funded 7,225 inspections at an average cost of $324 per inspection, for a total of $2.3 million. That compares to FY 2006, when the Department funded 9,080 inspections at an average cost of $397, for a total of $3.6 million. Through the implementation of its Uniform Physical Inspection Standards, providing for timely, consistent, objective inspections, the Department insures that quality and improvement in the HUD involved housing is achieved.

Reasons for Shortfall / Plans and Schedule to Meet the Goal. Properties overseen by the Office of Multifamily Programs are on a "3-2-1" inspection schedule, so that the higher performing properties are not re-inspected every year like troubled properties. High scoring properties' scores carry forward until a new inspection is conducted. Given this inspection, properties that previously scored higher can fall below the defined threshold for meeting acceptable physical standards. Given the severity of the items noted during inspections and timing of the inspection during the fiscal years, some items may be addressed through repairs paid for using the property's reserve for replacement account or may require an infusion of capital through new financing, change of ownership, and even foreclosure, all of which take time complete. HUD will continue to work actively with owners to ensure that the properties overseen by the Department are maintained at an acceptable physical standard.

Multifamily housing quality overall remains quite high with the year-to-year change in FY 2008 not statistically significant. The multifamily inventory is on the whole an aging, static inventory and the capital needs of the housing are financed by the individual landlord. There is no dedicated source of Federal assistance for capital costs.

Data Discussion. The Real Estate Assessment Center's Physical Assessment Subsystem consists of electronically coded and transmitted results of physical inspections of units, buildings, and sites, and is stored in the National Inspection Contract – Central Integrated Data Repository. The Physical Assessment Subsystem is a component of the overall Public Housing Assessment System, and is used separately for privately-owned multifamily housing. Inspections are conducted independently and are statistically representative of assisted private multifamily housing. Because of the necessity of evaluating common areas, the number of passing units is determined by multiplying passing projects by the number of units they contain. Improvements to the Physical Assessment Subsystem may alter slightly the selection and weighting of individual inspection items from year-to-year.

Under the "3-2-1 Rule" that took effect in August 2000, inspections of some multifamily developments occur at longer intervals of two or three years if their scores are high enough in the first year. Because some multifamily scores accordingly carry over from previous years, the average score will change about 40 percent less than it would if the measure were limited to projects that were present in both samples. As reported to Congress in the March 1, 2001, Conferee Report titled *PHAS-Physical Inspection System*, the Real Estate Assessment Center's physical assessment program ensures the proper application and interpretation of the inspection protocol and the accuracy of inspection scores, which were validated by an independent engineering firm as reflected in the subject report.

B.10: For households living in assisted and insured privately-owned multifamily properties, the share of properties that meets HUD's financial management compliance is maintained at no less than 98 percent.

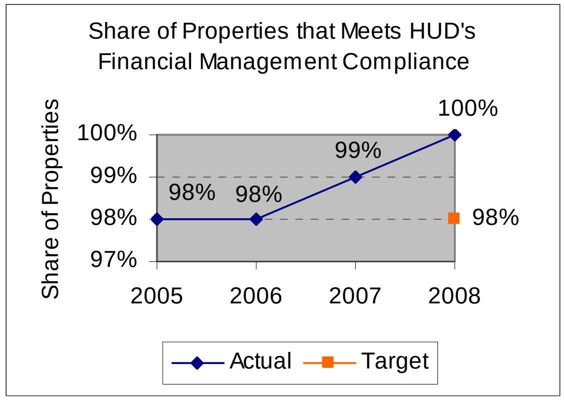
Public Benefit. Financial reporting has the important outcome of protecting FHA funds and supports both the quantity and quality of the affordable housing inventory.

Background. The goal is to maintain high compliance and successful resolutions so that at least 98 percent of the properties submitting audited financial statements either have no compliance issues or audit findings, or have such issues or findings closed (resolved) by the end of each fiscal year. Property owners must submit annual financial statements so the Department can ensure that project owners are in compliance with their business agreements, i.e., the regulatory agreement, mortgage and note, and any subsidy contracts. These compliance factors are used in the evaluation of project operations and guide business and operating decisions and have the important outcome of protecting subsidy and FHA funds. Multifamily project managers in the field offices are responsible for resolving all compliance issues or findings identified by HUD's Real Estate

Assessment Center to achieve the outcome of ensuring that there is the necessary financial information to make business and operating decisions. Owners not submitting their audited financial statements in a timely manner are referred to the Departmental Enforcement Center. HUD's Real Estate Assessment Center evaluates the financial management of both public housing agencies and privately-owned multifamily properties based on generally accepted accounting principles.

Program Website. http://www.hud.gov/offices/hsg/hsgmulti.cfm

Results and Analysis. The target was met for FY 2008 with essentially 100 percent of financial reviews having no conditions or conditions closed. This goal was achieved with only five compliance findings remaining open at year end, out of a total 19,171 properties reviewed. To meet this goal the Real Estate Assessment Center's Financial Assessment Subsystem reviews electronically submitted financial statements for indicators of non-compliance. In addition, field office staff in the Office of Multifamily Housing reviews all financial statements and follows up on issues of non-compliance to ensure the goal is met. Should a property's financial statements identify an issue of non-compliance, the Department obtains owner compliance or pursues appropriate enforcement action.



Resources and Performance Link. The collection and system analysis of annual financial statement is through the Financial Assessment Subsystem operated by the Department's Real Estate Assessment Center. Housing contributed $7.5 million towards the assessments systems provided by the Real Estate Assessment Center. The system electronically collected and assessed over 19,000 financial statements in FY 2008 and FY 2007. The collection and assessment of annual financial statements is crucial to the Department's oversight of the HUD involved properties and the owners' compliance with their business agreements and programmatic requirements. The assessment also provides early warning of financial difficulties improving the Department's ability to forestall or mitigate loss.

Data Discussion. The data come from the Office of Housing's Real Estate Management System and the Real Estate Assessment Center's Financial Assessment Subsystem. The submission of financial statements is a process validated by the American Institute of Certified Public Accountants. Further refinements may be necessary as the assessment process matures. The Real Estate Assessment Center performs quality assurance reviews of the audited financial statements of multifamily property owners submitted by independent public accountants. The quality assurance review provides assurance that the audited statements are accurate and reliable and that audits are conducted in accordance with government and professional standards. The Financial Assessment Subsystem incorporates extensive data checks and both targeted and random review by independent auditors.

B.11: Increase the availability of affordable housing for the elderly and persons with disabilities by bringing 4,000 Section 202 units (100 projects) and 1,100 Section 811 units (100 projects) to initial closing.

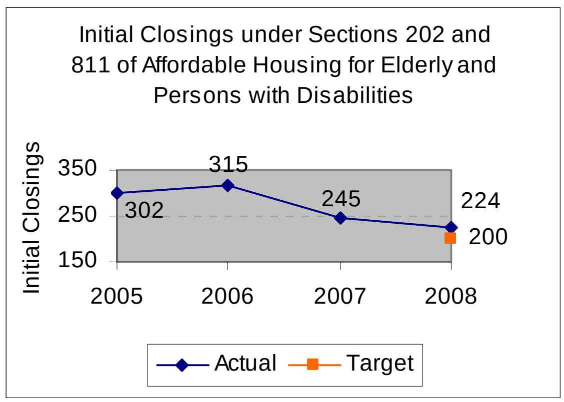
Public Benefit. This indicator measures the number of projects that reach the initial closing stage (when the project design has been approved and all of the local community requirements have been met, and the sponsor is ready to start construction). It measures the Department's commitment to providing and preserving affordable housing and services designated for the elderly and persons with disabilities.

Background. The Section 202 and Section 811 programs provide capital advances for multifamily housing for elderly and disabled households, respectively. The outcome of this funding is the expansion of affordable rental housing for very low-income elderly persons and persons with disabilities.

Section 202 and 811 projects can be a challenge to bring to closing. Sponsors are usually required to find other sources of funding to pay for costs that exceed the amount of those that can be covered by the Section 202 or Section 811 funds and project features that are not able to be funded by the programs. In addition, neighborhoods sometimes oppose the developments.

Program Website. http://www.hud.gov/offices/hsg/hsgmulti.cfm

Results and Analysis. During FY 2008, HUD reached initial closing on 224 Section 202 and 811 projects, resulting in an additional 4,560 Section 202 units and 1,137 Section 811 units. The Department successfully exceeded the goal by initially closing 112 percent of the Annual Performance Plan goal of 200 projects. In FY 2007, the Department reached initial closing on 245 Section 202 and 811 projects, exceeding the target goal of 200 projects by 23 percent. The decline in part reflects the level funding of the programs over the past few years and the increasing cost of projects.



In FY 2009, the goal will be to continue to close a projected 180 projects. However, the goal will be modified to reflect the number of units that will be generated by 90 initially closed Section 202 and 90 Section 811 projects in FY 2009. The overall goal will be 4,550 units (3,600 units for the elderly and 950 units for persons with disabilities).

Resources and Performance Link. The expansion of affordable rental housing for very low-income elderly persons and persons with disabilities is linked to the fiscal year's appropriation. As more and more of the project rental assistance contracts expire, more of the funds appropriated will go towards extending those contracts, leaving fewer dollars for the development of new units in the future. However, with more emphasis being placed on the development of additional affordable units through the use of low income housing tax credits, it is anticipated that the number of affordable rental housing units will at least be maintained at the current level if not increased. In FY 2008, $629 million was appropriated for Section 202 capital advance and $162 million for Section 811.

Data Discussion. The data are captured in the Office of Housing Development Application Processing System and the Housing Enterprise Real Estate Management System. The indicators of project status during the development process stage consist of straightforward and easily verifiable counts. The data are judged to be reliable for this measure. Historical data are currently unavailable to provide context and a performance baseline. Submitted data are reviewed, verified, and approved by HUD field office staff. The Office of Housing receives copies of the closing documents that will be used to verify data system entries.

B.12: The number of elderly households living in private assisted housing developments served by a service coordinator is maintained at the FY 2007 level.

Public Benefit. This indicator measures the Department's commitment to providing and preserving affordable housing and services designated for the elderly and persons with disabilities by showing the number of properties that receive funding for the employment of service coordinators at elderly and assisted housing developments.

Service Coordinators improve the quality of life of the tenants, support independent living, and improve the medical and other aspects of living for their clients.

Background. A service coordinator is a staff person who is hired or contracted for by the development's owner for the purpose of helping elderly residents, especially those who are frail and at-risk, obtain needed supportive services that will further enable independent living and aging in place. The baseline was established at 353,765 units.

Program Website. http://www.hud.gov/offices/hsg/hsgmulti.cfm

Results and Analysis. The Department did not accomplish the FY 2008 goal by maintaining the number of units covered by service coordinators in FY 2007. During FY 2008, the Service Coordinator Program served a total of 347,922 households which is slightly less than the 353,765 households served in FY 2007, a difference of 5,843 households.

Resources and Performance Link. In future fiscal years, the percentage of the appropriated funds needed to extend the service coordinators in the previously funded projects is expected to increase to the extent that no funds will remain for new coordinators, unless there is a significant increase in appropriated funds. However, HUD will continue to encourage owners to use operating funds residual receipts and excess income to leverage federal resources in order to increase the number of service-enhanced units.

Reasons for Shortfall / Plans and Schedule to Meet the Goal. The percentage of the appropriated funds needed to extend the service coordinators from previously funded projects is increasing to the extent that little or no funds remain for supplying new coordinators. However, HUD will continue to encourage owners to use operating funds residual receipts and excess income to leverage federal resources in order to increase the number of service-enhanced units.

Data Discussion. The data was captured in the Real Estate Management System, surveys, and management reviews during FY 2008. Activities for FY 2009 and future fiscal year performance targets will be measured against the FY 2008 level of 347,922. Tabulations will be reviewed and any problems or discrepancies will be reported.

B.13: For both Section 202 and Section 811, at least 70 percent of projects that are initially closed in FY 2008 will have completed the process within 24 months; and, of these, 25 percent will have completed the process within 18 months.

Public Benefit. This indicator measures the Department's commitment to providing and preserving affordable housing and services designated for the elderly and persons with disabilities by showing the number of 202 and 811 properties that have completed the process within 24 months (goal is 70 percent) and within 18 months (goal is 25 percent). The focus is to speed the project pipeline and therefore serve more tenants sooner.

Background. This efficiency indicator measures the Department's success in achieving the intended outcome by maximizing the time needed for project Section 202 and 811 projects to proceed from fund reservation to initial closing.

Program Website. http://www.hud.gov/offices/hsg/hsgmulti.cfm

Results and Analysis. The Department was just under the FY 2008 goal of 70 percent by closing 69 percent of Section 202 and Section 811 properties within 24 months and this level substantially meets the target of the goal and reflects a significant accomplishment in these programs. The Department did accomplish closing 26 percent of these Section 202 and Section 811 properties within 18 months.

Resources and Performance Link. The expansion of affordable rental housing for very low-income elderly persons and persons with disabilities is linked to the fiscal year's appropriation. As more and more of the project rental assistance contracts expire, more of the funds appropriated will go towards extending those contracts, leaving fewer dollars for the development of new units in the future. However, with more emphasis being placed on the development of additional affordable units through the use of low income housing tax credits, it is anticipated that the number of affordable rental housing units will at least be maintained at the current level if not increased. In FY 2008, $629 million was appropriated for Section 202 capital advance and $162 million for Section 811.

Reasons for Shortfall / Plans and Schedule to Meet the Goal. HUD will continue to encourage and work with sponsors to ensure that closings under the Section 202 and Section 811 programs occur within the prescribed time frames.

Data Discussion. The data was captured in the Real Estate Management System during FY 2008. Activities for FY 2009 and future fiscal year performance targets will be measured against that established baseline of 70 percent and 25 percent. Tabulations will be reviewed and any problems or discrepancies will be reported.

B.14.: The number of Section 202 units serving the elderly and Section 811 units serving persons with disabilities is maintained for each program at 98 percent of those at the FY 2007 level, excluding new units added to the inventory.

Public Benefit. This indicator measures the Department's commitment to providing and preserving Affordable Housing and Services designated for the Elderly and Persons with Disabilities. The Annual Performance Goals contribute to HUD's strategic goal of providing decent and affordable housing.

Background. In order to reinforce the Department's commitment to preserving affordable housing for the elderly and persons with disabilities, this indicator reports the number of Section 202 and Section 811 units in multifamily housing developments that serve the elderly and persons with disabilities. This indicator tracks the number of 202 and 811 units that are maintained against levels of the previous year. The baseline was established in FY 2007.

Program Website. http://www.hud.gov/offices/hsg/hsgmulti.cfm

Results and Analysis. The Department fully met the goal by maintaining 99.1 percent of the Section 202-Elderly program and Section 811-Housing for Persons with Disabilities program inventory, exceeding the 98 percent target by 1.1 percent.

During FY 2007, the Department established the baseline for the Section 202 and Section 811 portfolio as described below. The goal was to preserve at least 98 percent of the units.

Total Section 202, 811 Inventory

Program	Properties	Total Units
202	5,184	256,372
202/162	326	11,074
811	2,079	23,823
202 (prepaid with restricted units)	777	35,427
Total	8,366	326,696

During FY 2008, the Department experienced the following losses of affordable housing to the elderly and persons with disabilities programs:

- 10 Section 202 properties with a total of 283 units were foreclosed. No Section 811 properties were foreclosed during FY 2008.
- 38 Section 202 properties with a total of 2,550 units were authorized to prepay without use restrictions. HUD notes that the owners of these properties have been authorized to prepay. However, the owners ultimately may choose to not prepay. More important, 2,438 of the units had project-based assistance and because owners typically choose to maintain the project-based assistance, the units will remain affordable to very low-income households.

Therefore, during FY 2008 the potential loss to the affordable housing inventory was a maximum of 2,833 units, leaving 323,863 units. This represents 99.1 percent of the portfolio that was identified in FY 2007.

Resources and Performance Link. HUD will continue to provide Project Rental Assistance Contract (PRAC) funding and financing options to owners and sponsors who meet Housing Quality Standards and wish to recapitalize their properties. The FY 2008 appropriation for the Section 202 program and Section 811 program was $629 million and $162 million, respectively, the same as in FY 2007.

Data Discussion. The data was captured in the Real Estate Management System during FY 2008.

Ginnie Mae

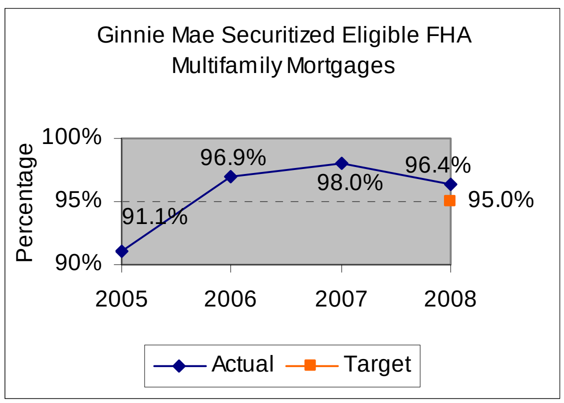
B.15: Ginnie Mae securitizes at least 95 percent of eligible FHA multifamily mortgages.

Public Benefit. This indicator measures Ginnie Mae's share of the residential mortgage loans insured or guaranteed by the Federal Housing Administration (FHA). As articulated in Title III of the National Housing Act, Ginnie Mae's purpose is "to establish secondary market facilities for residential mortgages, to provide that the operations thereof shall be financed by private capital to the maximum extent feasible," and to conduct certain other secondary market functions consistent with this purpose. Ginnie Mae was authorized to guarantee securities backed by government insured loans when it was established as a government corporation on September 1, 1968. By promoting access to mortgage credit and enhancing the liquidity of mortgage investment, Ginnie Mae has increased the availability of affordable rental housing for millions of Americans. This is directly evidenced by the consistent growth in the outstanding balance of the multifamily portfolio in FY 2008; it increased by $1 billion.

Background. Ginnie Mae continues to address the specific need of promoting liquidity and the flow of investment capital for FHA multifamily mortgages. The total amount of Ginnie Mae securities outstanding have increased every month since 2008. At the end of FY 2008, the amount of Ginnie Mae securities outstanding was approximately $576.8 billion, of which multifamily program securities outstanding were $39.4 billion.

Program Website. http://www.ginniemae.gov

Results and Analysis. The target was exceeded. As of the end of FY 2008, Ginnie Mae securitized 96.4 percent of eligible multifamily FHA loans. This result is a 1.4 percentage point increase over this year's goal of 95 percent. Multifamily securities outstanding increased from $38.4 billion in FY 2007 to $39.4 billion in FY 2008. Ginnie Mae strives to maintain a strong supply of decent, affordable rental housing by financing affordable multifamily housing units including apartment buildings, nursing homes and assisted-living facilities. Ginnie Mae has continued to streamline the multifamily program, enhancing its efficiency as a securitization vehicle, and making the program more attractive to investors.



The Department anticipates that it will also meet the FY 2009 target of 95 percent.

Resources and Performance Link. Funding provided through Commitment Authority is used by Ginnie Mae to guarantee securities backed by government guaranteed or insured loans. Commitment authority approved in FY 2008 was $258.3 billion and securities issued were $220.6 billion**.** Of the $258.3 billion of commitment authority approved, the Multifamily Program used $4.2 billion in commitment authority and issued $4.4 billion in securities.

Data Discussion. Data for this indicator are based on FHA-insured loan level data of monthly endorsements collected by Ginnie Mae in its Mortgage-Backed Security Information System.

The data that populate Ginnie Mae's Mortgage-Backed Security Information System reflect the most recent data of insured or guaranteed loans. The Office of Inspector General conducts Ginnie Mae's annual financial statements audit, which includes auditing Ginnie Mae's data systems each year and, not only had Ginnie Mae consistently received an unqualified, or clean, opinion in prior fiscal years, it again received a clean opinion for the FY 2008 audit.

Public and Indian Housing

B.16: Improve the utilization rate of Housing Choice Voucher funding to 97 percent by Calendar Year 2011.

Public Benefit. The objective of this goal is to ensure that substantially all of the funding provided by Congress for Housing Choice Vouchers is effectively used. The effective use of budgetary authority supports the Department's strategic goals for expanding access to decent, affordable rental housing and maximizes the number of targeted low-income families and individuals served.

Background. The Housing Choice Voucher program provides low-income participants with the ability to seek rental housing of their choice, with certain rent parameters and portability features enabling families to take their vouchers to other rental markets in pursuit of available jobs and other economic opportunities.

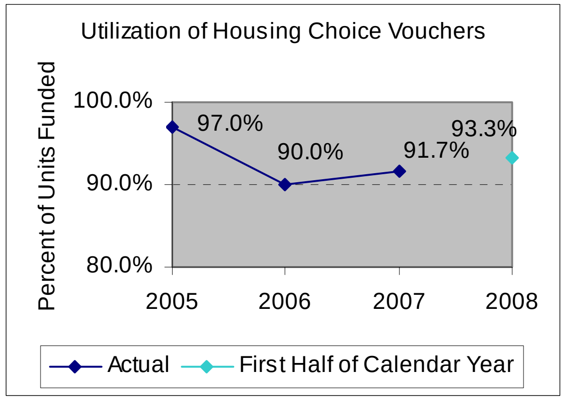
While the vast majority of the Housing Choice Voucher program annual budget authority is currently being used to assist low-income families, some PHAs are not fully using all the budget authority allocated to them. Increasing PHAs use of voucher funds remains a key HUD priority. In Calendar Year 2008, the Department allocated administrative fee funding based on a formula tied to the number of assisted households, as opposed to the prior year where PHAs received a flat amount per year for administrative costs based on a percentage of rental payments, which does not provide an incentive to increase the number of families served. The Department expects that tying the administrative fee formula to the number of assisted households will provide an incentive to increase the number of families served. Also, the Office of Housing Voucher Program will earmark funds to perform an Administrative Cost Study that will determine a more effective formula to compensate the Public Housing Agencies for administering the Housing Voucher Programs.

The Department has also submitted a rule to OMB in FY 2008 that would substantially revise the Tenant-Based Voucher program. In doing so, the renewal funding formula would be revised to provide a predictable and transparent methodology to the PHAs. In doing so, PHAs will be able to better control their program funding and leasing rates.

The Office of Public and Indian Housing is in the process of revising the assessment tool for this program from 16 indicators to four core indicators. The four indicators will measure accuracy of reporting, financial condition of a PHA, utilization of budget authority, and quality of units. Until such time as the new assessment system is implemented, the Department will report the utilization of Housing Choice Voucher funding as a tracking indicator.

Program Website. http://www.hud.gov/offices/pih/programs/hcv/

Results and Analysis. For the six months ended June 30, 2008, PHAs had a projected utilization rate of 93.3 percent. This is an increase from calendar year 2007 when PHAs used 91.7 percent of their funding. Although this is an improvement, HUD still expects much greater utilization of these funds. To achieve improved utilization, HUD plans to continue outreach to PHAs and to link future administrative fee payments to PHA leasing levels.



Resources and Performance Link. For 2008, Congress provided over $14.7 billion for Housing Assistance Payment funding (Tenant-Based Rental Assistance – Contract Renewals). Housing Assistance Payment funding was allocated to PHAs based upon a pro-rata share of their inflated 2006 Housing Assistance Payment expenditures. From year-to-year, Congress may change the manner in which PHAs are to be funded. For example, in 2005, the Voucher Management System data from May to July 2004 was used to allocate funding. In 2006, PHAs received a pro-rata share based on their 2005 funding. In 2007, PHAs received funding based on 12 months of actual leasing and cost data. In 2008, HUD has proposed a regulation that would revise the renewal funding formula so that it would provide a predictable, consistent methodology so that PHAs can adjust and improve their utilization rate.

Data Discussion. The Voucher Management System will be the primary source to measure annual budget authority utilization. The primary purpose of this system is to monitor and manage PHA's use of vouchers. The Voucher Management System collects data that enables the Department to budget, fund, and obligate voucher funding based on actual PHA activity.

Quality Assurance Division analysts conduct on-site reviews to verify the Voucher Management System reporting accuracy and data integrity. This verification is accomplished through the visual inspection of the PHAs' source documentation that was used to support Voucher Management system data entry. The Quality Assurance Division analyst also reviews a random sample of actual Housing Assistance Payment contracts and compares the data to the PHA's financial systems.

B.17: The share of public housing units that meet HUD established physical inspection standards will be 85 percent.

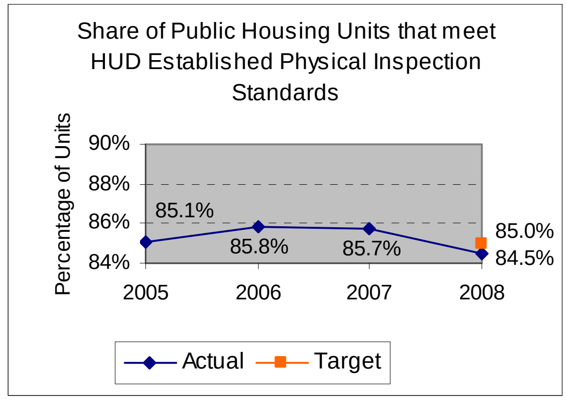
Public Benefit. This indicator tracks the proportion of units in public housing facilities that meet these physical standards, helping the Department to monitor its success in improving the physical conditions in public housing. This goal is important as expanding the access to decent, affordable housing is one of the Department's key strategic objectives.

Background. HUD requires PHAs to inspect and maintain public housing to ensure compliance with HUD-established standards for physical condition or with local codes if they are more stringent. This reflects the commitment in the President's Management Agenda to steadily improve the physical quality of public housing, for which HUD's Strategic Plan established a goal of 87.5 percent by FY 2011.

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

Results and Analysis. Despite several years of decreased funding for the maintenance and operation of Public Housing Agencies, PIH has been very successful in assisting PHAs in the provision of rental housing that is decent, safe, sanitary, and in good condition. For FY 2008, 84.5 percent of the units met Standard Levels, which is 0.5 percent less than the FY 2008 goal of

85.0 percent. Because of the sampling method used (see below) this variance is not statistically meaningful and accordingly the Department deems this goal substantially met. Additionally supporting this position, it should be noted that when looking at the results on a property basis, 91.3 percent of PHA properties met or exceeded the established physical inspection standards versus 91.0 percent in FY 2007 (an improvement of 0.3 percent). When the conversion to asset management is completed, PIH intends to revise this goal such that reporting is on a project, and not unit, basis, in keeping with the goals of asset management.



Resources and Performance Link. The principle budgetary resources supporting this effort are the Operating and Capital Funds. For FY 2008, the budget for the Operating and Capital Funds was $4.2 billion and $2.4 billion, respectively. Over the past five years, resources were relatively flat. The Operating Fund ranged between $2.4 billion and $3.8 billion and the Capital Fund ranged between $2.4 billion and $2.7 billion.

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

B.18: Key measures under the Public Housing Assessment System including (a) the unit-weighted average score, (b) observed exigent deficiencies per property among PHAs that are designated as troubled and have five or more deficiencies per property for public housing, and (c) the share of units that have functioning smoke detectors.

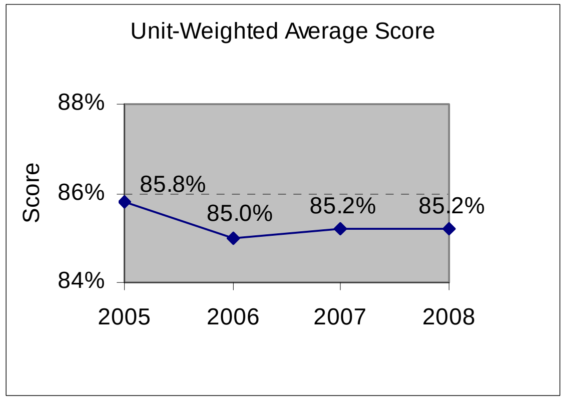
Public Benefit. The Public Housing Assessment System scores provide an indication of the quality of the housing stock and the management conditions within which each public housing resident lives. By closely monitoring these indicators, HUD is working to further its commitment in the President's Management Agenda to steadily improve the quality of public housing the three key measures (unit-weighted average score, reductions in exigent health and safety or fire safety deficiencies, and share of unit with functional smoke detection systems) track HUD's progress toward increasing the capability and accountability of PHA partners and increasing the safety and satisfaction of residents.

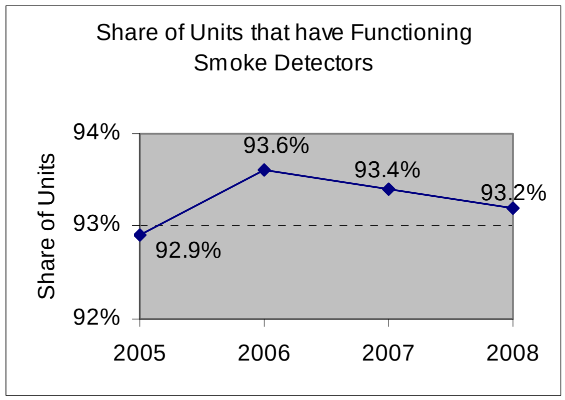
Background. The Public Housing Assessment System assesses the performance of PHAs based on their physical and financial condition and their management quality (30 points each), as well as on resident satisfaction (10 points), for a total score of up to 100 points. Housing agencies with composite scores below 60 points or scores below 18 points for any one component are classified as "troubled" agencies.

The Department is in the process of redesigning and implementing changes in the assessment systems for both its public housing and voucher programs during the next few years. During this period a comparison of results from year-to-year will be problematic. Additionally, after the new assessment system is functional, the Department will develop new performance goals which will support PHA operations under asset management. Until such time as asset management and the new assessment system are implemented, the Department will report this measure as a tracking indicator.

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

Results and Analysis. The unit-weighted average Public Housing Assessment System score was 85.2 percent, the same as in FY 2007. The average exigent health and safety defects per property assessed (for properties with a physical assessment score of less than 60) dropped from 10.6 defects noted in their previous inspection to 5.9 defects noted in their FY 2008 inspection; this was a reduction of 44 percent. For the last sub-goal, 93.2 percent of public housing units had functioning smoke detectors and were in buildings with functioning smoke detection systems, compared to 93.4 percent in FY 2007.





Resources and Performance Link. Adequate resources are required for good results under these indicators, particularly during the transition to asset management. The two main budgetary resources come from the Public Housing Operating Fund and Capital Fund programs. In FY 2008, the funding for PIH Capital Fund was \$2.4 billion, a decrease from \$2.7 billion in FY 2003 and 2004. The Operating fund was \$4.2 billion in FY 2008, an increase from \$3.6 billion in FY 2003 and 2004. The combined operating and capital assistance of \$6.6 billion represented 16.8 percent of HUD’s net, non-disaster discretionary budget authority of \$39.22 billion in FY 2008 and reflected the priority and significant amount of resources allocated to this effort.

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

All the goals related to the Public Housing Assessment System are predicated on the timely release of scores by the Real Estate Assessment Center. In the event that the Real Estate Assessment Center experiences a significant delay in the issuance of Public Housing Assessment System scores in a particular year, it could affect the outcome and may represent a skewed assessment of the performance trends within a reporting period.

B.19: The percent of public housing units under management of troubled housing agencies.

Public Benefit. This goal will assist PIH in promoting more access to the number of affordable housing units offered by public housing agencies. Increasing the operational effectiveness of troubled agencies will improve physical conditions, financial performance, and program execution – thereby increasing the number of units available for occupancy for underserved families in these respective communities.

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

Results and Analysis. The number of troubled PHAs as of September 30, 2007, totaled 161, with 55,338 low-rent units. As of September 30, 2008, 66 PHAs from this list were recovered. There were 95 troubled PHAs with 42,649 units remaining as of September 30, 2008, a reduction of 23 percent. This compares to a 43 percent reduction for FY 2007.

Resources and Performance Link. The principal budgetary resources supporting this effort are the Operating and Capital Funds. For FY 2008, the budget for the Operating and Capital Funds were $4.2 billion and $2.44 billion, respectively. Over the past five years resources were relatively flat. The Operating Fund ranged between $2.4 billion and $3.8 billion, and the Capital Fund ranged between $2.4 billion and $2.7 billion.

Data Discussion. To calculate the percent of troubled housing units that are no longer managed by troubled agencies, the Department collects and analyzes the September 2007 and September 2008 Troubled Lists. The Troubled List is a monthly document that reports the status of troubled PHAs. PHAs will remain on the Troubled List until the housing authority receives a passing Public Housing Assessment System score – i.e. recovered. For purposes of this analysis, the Department only examines data related to low-rent units.

To identify changes to the number of low-rent units under the management of troubled PHAs, the September 2007 Troubled List served as the control group for measuring variation in the Troubled Portfolio. Because Public Housing Assessment System scores are released on a daily basis, it is necessary to establish a control group to assess changes in the scores and designations. To determine the rate at which field offices were recovering troubled agencies for FY 2008, the Department tracked the number of PHAs that were added or removed from the troubled list. The Department then compared the number of PHAs that were listed on the September 30, 2007 report to the number of PHAs that are listed on the September 30, 2008 report. Those PHAs that were not reported on the September 30, 2007 list are considered recovered. The number of units managed by the recovered PHAs was used to calculate the percentage decrease in units managed by troubled agencies.

The analysis only represents a "snap-shot" of the Department's ability to assist troubled PHAs. Because of reporting delays, appeals, or quality assurance reviews, PHA scores are not always released in a timely fashion. Because of these fluctuations in the release or changes to the scores, this analysis only reflects variations between scores and units of the control group (September 30, 2007 Troubled List) and the PHAs that were deemed troubled as of September 30, 2008.

B.20: The proportion of the Housing Choice Voucher Program funding administered by troubled housing agencies.

Public Benefit. The purpose of this goal is to monitor how well PHAs administering the Housing Choice Voucher Program are managing their program. A poorly managed program does not effectively use the budgetary resources provided and effective use of budgetary authority supports the Department's strategic goals for expanding access to decent, affordable rental housing.

Background. The Department is the midst of significant changes in its assessment systems and development of new benchmarks to report results (for detailed discussion see indicator B.24). During FY 2006 to FY 2008, HUD developed a new proposed regulation for assessing whether a PHA is troubled under the Section 8 Management Assessment Program. In FY 2008, HUD sent a proposed rule on the new Section 8 Management Assessment Program to OMB. HUD will determine the baseline percentage of Housing Choice Voucher Program funding that is administered by PHAs that are determined to be troubled. Once the new performance assessment system is implemented, the Department will implement Annual Performance Plan goals to manage PHA performance. Until such time as the new assessment system is implemented, the Department will report the utilization of Housing Choice Voucher funding as a tracking indicator.

Program Website. http://www.hud.gov/offices/pih/programs/hcv/

Results and Analysis. Although this is a tracking indicator until the new assessment system is established, there has been a substantial improvement in this indicator. For 2008, there were 116 troubled agencies with Housing Assistance Payment funding of $430 million (2.9 percent of the total Housing Assistance Payment funding). For 2007, there were 152 troubled agencies, with Housing Assistance Payment funding of $644.6 million (4.5 percent the total Housing Payment funding). This represents a decrease of 33 percent in the funding that those agencies administered and a 24 percent reduction in the number of troubled PHAs. Note that this FY 2008 data is based on the most recent, validated Section 8 Management Assessment Program scores as reflected in HUD Central Accounting and Program System and PIH Information Center.

Resource and Performance Link. The overall funding for the Housing Choice Voucher Program includes $14.7 billion in Housing Assistance Payments and $1.35 billion in Administrative Fees and represents approximately 42 percent of the Department budget.

Data Discussion. The data source for this goal will be the new performance assessment system for the Housing Choice Voucher Program established in accordance with revised regulations. The assessment system and the data elements have yet to be determined. The new performance assessment system will incorporate lessons learned in the development and operation of the current assessment system.

B.21: The HOPE VI Revitalization program demolishes 4,000 units and completes 9,000 new and rehabilitated units.

Public Benefit. HOPE VI is HUD's primary program for eliminating distressed public housing by demolishing unsustainable developments and rebuilding in accordance with community-sensitive principles. The HOPE VI program supports the Department's strategic goals for creating decent, affordable housing as well as homeownership opportunities. The Department established annual indicators to track the number of severely distressed public housing units demolished and new and rehabilitated units completed as part of HOPE VI revitalization plans. These two indicators best represent the program and the outcome of more affordable housing.

Background. The HOPE VI program began in 1993, as a result of recommendations by the National Commission on Severely Distressed Public Housing, which was charged with proposing a National Action Plan to eradicate severely distressed public housing. The specific elements of public housing transformation that are key to HOPE VI include changing the physical shape of public housing; providing comprehensive community and supportive services for residents; lessening concentrations of poverty by placing public housing in non-poverty neighborhoods and promoting mixed-income communities; and forging partnerships with other agencies, local governments, nonprofit organizations, and private businesses to leverage support and resources. However, because of the extensive planning and partnering involved, Public Housing Agencies have been slower in implementing HOPE VI revitalization plans than anticipated.

Program Website. http://www.hud.gov/offices/pih/programs/ph/hope6/

Results and Analysis. For FY 2008 grantees demolished 4,374 severely distressed public housing units, exceeding the goal of 4,000 units by approximately nine percent. Completions of new or rehabilitated units totaled 9,978, surpassing the 9,000-unit goal by approximately 11 percent. The FY 2008 achievements are attributable to HUD's continued emphasis on timeliness and accountability in the implementation of HOPE VI grants and the PHAs' on-going efforts to meet the commitments of their revitalization plans.

HOPE VI Achievements	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2008 Target
Units demolished	8,765	5,034	6,601	4,374	4,000
Units constructed or rehabilitated	9,632	9,389	8,436	9,978	9,000

* All figures for the 12 months ended June 30.

Since program inception, a cumulative total of 89,892 units have been demolished and 70,435 new and rehabilitated units have been completed. With approximately $883 million in HOPE VI funds awarded through June 30, 2008, but not yet expended, HUD continues to work closely with grantees to implement the grants in a timely manner and to positively affect the affected communities. The goals for FY 2009 (882 units demolished and 4,481 units completed) are lower than FY 2008 to reflect a decrease in activities as grants near completion. HUD anticipates reaching these goals.

Resources and Performance Link. This program is subject to the availability of appropriations by Congress. The Congress appropriated $100 million for the HOPE VI program in FY 2008. The President's FY 2009 budget proposes no additional funds for HOPE VI. Though the Department is not requesting additional funds for this program, it is focused on continuing the progress of current projects and maximizing the effective use of program resources. Accordingly, future activity related to this goal will be met with available prior year funds.

Data Discussion. The data are submitted quarterly to HUD by PHAs via PIH's HOPE VI quarterly progress reporting system. Data are judged to be reliable for this measure. Data for this goal is provided from July 1, 2007, through June 30, 2008. Submitted data are reviewed by HUD staff and are verified through grant management activities and site visits. HUD Headquarters staff reviews the reports each quarter and compares progress to stated goals and the results of on-site visits by HUD staff. Field and Headquarters staff verifies reports of redevelopment progress through site visits. The system has been subject to routine integrity checks by the system administrator.

B.22: Ensure that unit production is completed for 89 HOPE VI grants awarded from FY 1993 through FY 2004.

Public Benefit. HOPE VI is HUD's primary program for eliminating distressed public housing by demolishing unsustainable developments and rebuilding in accordance with community-sensitive principles. The HOPE VI program supports the Department's strategic goals for creating decent, affordable housing, as well as homeownership opportunities.

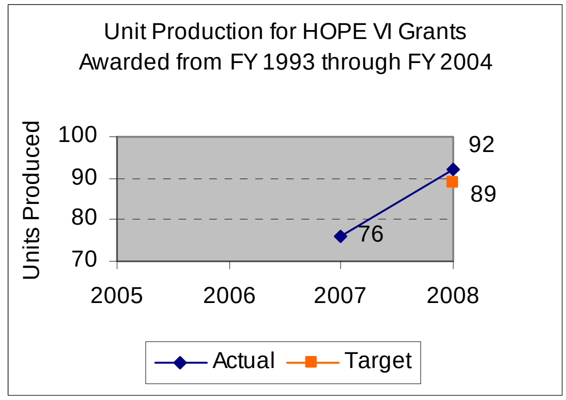
The Department established this annual indicator to track the number of HOPE VI projects that have completed all unit production as part of HOPE VI revitalization plans. The Department continues to emphasize the importance of timeliness and accountability in its programs, including HOPE VI. That is, the more projects that are completed, the more affordable housing opportunities will be available. However, because of the extensive planning and partnering involved, as well as extenuating circumstances, grantees have been implementing their HOPE VI redevelopment plans more slowly than anticipated. Nevertheless, HUD has worked diligently with grantees to increase the total number of projects completed, as measured by completion of all units (whether public housing, tax credit, market-rate, or homeownership) proposed in the revitalization plan.

Background. The HOPE VI program began in 1993, as a result of recommendations by the National Commission on Severely Distressed Public Housing, which was charged with proposing a National Action Plan to eradicate severely distressed public housing. The specific elements of public housing transformation that are key to HOPE VI include changing the physical shape of public housing; providing comprehensive community and supportive services for residents; lessening concentrations of poverty by placing public housing in non-poverty neighborhoods and promoting mixed-income communities; and forging partnerships with other agencies, local governments, nonprofit organizations, and private businesses to leverage support and resources. However, because of the extensive planning and partnering involved, PHAs have been slower in implementing HOPE VI revitalization plans than anticipated.

Program Website. http://www.hud.gov/offices/pih/programs/ph/hope6/

Results and Analysis. For FY 2008, 16 grants completed all unit production, resulting in a cumulative total of 92 completed projects for the HOPE VI program, surpassing the goal of 89 by approximately three percent. The FY 2008 achievement is attributable to HUD's continued emphasis on timeliness and accountability in the implementation of HOPE VI grants and the PHAs' on-going efforts to meet the commitments of their revitalization plans.

With approximately $883 million in HOPE VI funds awarded through June 30, 2008, but not yet expended, HUD continues to work closely with grantees to implement the grants in a timely manner and to positively affect the affected communities. HUD anticipates reaching the FY 2009 goal of 103 cumulative project completions.



Resources and Performance Link. This program is subject to the availability of appropriations by Congress. The Congress appropriated $100 million for the HOPE VI program in FY 2008. The President's FY 2009 budget proposes no additional funds for HOPE VI. Though the Department is not requesting additional funds for this program, it is focused on continuing the progress of current projects and maximizing the effective use of program resources. Accordingly, future activity related to this goal would be met with available prior year funds.

Data Discussion. The data are submitted quarterly to HUD by PHAs via Public and Indian Housing's HOPE VI quarterly progress reporting system. Data are judged to be reliable for this measure. Data for this goal is provided from July 1, 2007, through June 30, 2008. Submitted data are reviewed by HUD staff and are verified through grant management activities and site visits. HUD Headquarters staff reviews the reports each quarter and compares progress to stated goals and the results of on-site visits by HUD staff. Field and Headquarters staff verifies reports of redevelopment progress through site visits. The system has been subject to routine integrity checks by the system administrator.

B.23: The Department will approve and facilitate $700 million of activity using alternative financing methods.

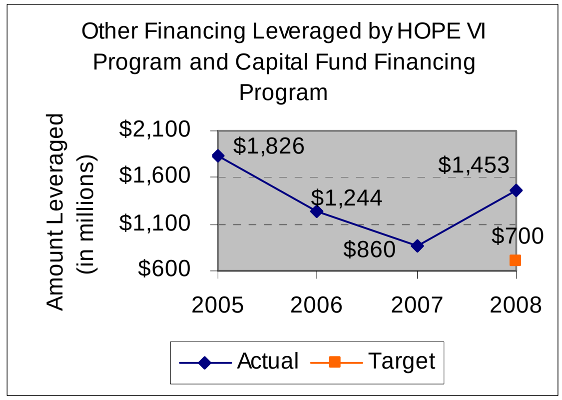
Public Benefit. The Department established this annual indicator to track the amount of other financing leveraged by its Public and Indian Housing programs. The principal programs that support this goal are the HOPE VI Revitalization program and the Capital Fund Financing Program. Such financing contribute toward the Department's strategic goals for creating decent affordable housing as well as homeownership opportunities.

Background. HOPE VI is HUD's primary program for eliminating distressed public housing by demolishing unsustainable developments and rebuilding in accordance with community-sensitive principles. The mixed-financing approach to replacement public housing development is the single most important development tool currently available to PHAs' implementing HOPE VI revitalization projects. It emphasizes the formation of public and private partnerships to ensure long-term sustainability of public housing developments and the leveraging of public and private resources to transform the isolated communities in which many public housing residents live into vibrant and sustainable mixed-income communities with a wide range of family incomes.

The Capital Fund Financing Program is an appropriations-based financing program that makes financing available to PHAs. The Congressional Capital Fund appropriation and the Capital Fund Financing Program support the Public Housing Capital Program investment, estimated to have a value of approximately $190 billion. The agencies borrow funds from the private markets, pledge their capital funds subject to the availability of appropriations, and then repay the financing as they receive their capital funds in future years. Proceeds from the Capital Fund Financing Program transactions are used for modernization and development of public housing, thus protecting and enhancing the affordable housing stock.

Program Website. http://www.hud.gov/offices/pih/programs/ph/hope6/

Results and Analysis. For FY 2008 over $1.45 billion of other financing was leveraged, exceeding the goal of $700 million by approximately twice.



Resources and Performance Link. HOPE VI is subject to the availability of appropriations by Congress. The Congress appropriated $100 million to continue a modest HOPE VI program in FY 2008. The President's FY 2009 budget proposes no additional funds for HOPE VI. Though the Department is not requesting additional funds for this program, it is focused on continuing the progress of current projects and maximizing the effective use of program resources. Accordingly, future activity related to this goal would be met with available prior year funds. Rating agencies monitor the Capital Fund Financing Program, and transactions approved using the vehicle, on an ongoing basis. Since the level of appropriations is crucial to supporting the debt service needs of the Capital Fund Financing Program, as appropriations have diminished over the course of time, rating agencies have expressed concern. By way of example, a report issued by Standard and Poor's in 2006 noted that "many issues show declining [debt] coverage due to federal cuts in modernization funds during the past few years." The report further stated that, "the trend of declining Congressional appropriations to the [Capital Fund] program warrants continued monitoring." While appropriations have stabilized since 2006, a resurgence in the trend of declining appropriations would lead to the re-emergence of the concern previously expressed by rating agencies, as well as investors and lenders that participate in the program. This is turn could lead to a fall off in the level of interest in the program, increase cost of borrowing, or both.

Data Discussion. For the HOPE VI program, the data are submitted quarterly to HUD by PHAs via PIH's HOPE VI quarterly progress reporting system. Data are judged to be reliable for this measure. Data for this goal is provided from July 1, 2007, through June 30, 2008. Submitted data are reviewed by HUD staff and are verified through grant management activities and site visits. HUD Headquarters staff reviews the reports each quarter and compares progress to stated goals and the results of on-site visits by HUD staff. Field and Headquarters staff verifies reports of redevelopment progress through site visits. The system has been subject to routine integrity checks by the system administrator. For the Capital Fund Financing Program, the data are collected by HUD and based on the Capital Fund Financing Program proposals received from PHAs. Data are judged to be reliable for this measure. The measure focuses on the key element of the program, which is the amount of funds leveraged through the program. Data are derived from the financing packages and is reviewed by HUD during its approval process.

B.24: Implement changes based on completed analysis of the Section 8 Management Assessment Program and development of a more accurate and efficient tool.

Public Benefit. A revised Section 8 Management Assessment Program that does not depend on self-reporting will effectively ensure that the significant funding appropriated by Congress for this program is effectively used.

Background. Currently, Section 8 funding is based on a fixed annual budget, yet the program's underlying law and regulations mandate a restrictive, cumbersome program that makes managing within budget very difficult. The present program monitoring tool, the Section 8 Management Assessment Program, is based on self-reported management indicators. As envisioned, a revised Section 8 assessment program would be basic and results-oriented. Under the proposed program, PHAs would be measured on four main standards: (1) implementing Housing Quality Standards requirements; (2) calculating and reporting subsidy amounts correctly; (3) operating a financially sound voucher program and effectively utilizing voucher funding; and (4) reporting complete data to HUD's information systems in a timely manner. A fifth indicator will assess whether a PHA can adequately demonstrate efforts to expand housing opportunities. The Secretary may determine additional indicators. During FY 2008, the initial analysis of the needed changes was conducted and the proposed rule was completed and submitted to OMB. The rule is awaiting review and comment at OMB.

Program Websites.

http://www.hud.gov/offices/reac/products/prodphas.cfm

http://www.hud.gov/offices/pih/programs/hcv

Results and Analysis. The Department met its target since all steps within its control were accomplished during FY 2008. PIH completed the analysis, solicited extensive comments from the Department, industry groups, and other interested partners, and developed a proposed regulation that would implement a new Section 8 Management Assessment Program. This proposed regulation was submitted to OMB. Once the regulation is published in 2009, the formal comment period begins. The Department will then finalize the regulation in 2009 and processes and procedures for implementation of the rule will be finalized.

Resources and Performance Link. The overall funding for the Housing Choice Voucher Program includes $14.4 billion in Housing Assistance Payments and $1.4 billion in Administrative Fees and represents approximately 40.3 percent of the Department's non-disaster related budget.

While the current self-certification methodology in the Section 8 Management Assessment Program does not take additional staffing or other resources, the Department believes a more effective assessment tool requires on-site assessments. The 2010 budget requests $22 million in contract support to implement the Section 8 Management Assessment Program and $20 million for information technology costs. Both of these requests will be utilized to acquire the necessary staff and infrastructure to develop and implement the new Section 8 Management Assessment Program.

Data Discussion. Accurate and timely reporting by the PHAs into the database is critical to obtain the actual condition of the PHA for any rated criteria. An advantage of the system is that the PHAs are rated against the data they provide and have a vested interest in accurate and timely reporting.

The PHAs will enter and validate their data. PHAs whose data do not meet the (yet to be developed) criteria will be subject to sanctions as well as field office review and validation. Financial data will be validated by independent public accountants. Independent inspections will address the quality of units. PHAs will be subject to annual on-site review/certification by both the Section 8 program's Quality Assurance Division and other HUD representatives.

B.25: Asset-based accounting will be implemented in 99 percent of PHAs by FY 2008.

Public Benefit. Asset management, which includes project-based budgeting and accounting, is a new business model that is intended to improve the efficiency and effectiveness of public housing. Project-based budgeting is the first step in implementing asset-based accounting. This indicator measures the percentage of PHAs that have implemented asset-based accounting. This indicator is being measured because of the requirement, found in 24 CFR 990, that all PHAs must, as part of the overall conversion to asset management, implement project-based budgeting and accounting in FY 2007.

Background. PIH Notice 2007-9 required PHAs with fiscal years beginning July 1, 2007, October 1, 2007, January 1, 2008, and April 1, 2008 to implement project-based accounting. At the end of the fiscal year, the PHAs would then submit project-level financial statements to the Real Estate Assessment Center.

Program Website. http://www.hud.gov/offices/pih/programs/ph/am

Results and Analysis. The target of 99 percent of PHAs implementing asset-based accounting was met. All PHAs are required to submit Form HUD 52574, PHA Board Resolution Approving Operating Budget prior to the start of the fiscal year. This form was modified to include a certification that project-based budgets were developed for all projects.

Resources and Performance Link. HUD's Public Housing programs include $4.2 billion in operating subsidy and $2.44 billion in capital funding in FY 2008 and represents 18 percent of HUD's non-disaster budgetary authority. Asset-based policies, including asset-based accounting, will ensure greater efficiency and effectiveness in the use of PHA resources.

Data Discussion. The data is based on Form 52574, which is submitted by the PHA to each field office prior to the start of the PHA's fiscal year. Form 52574 is self-certified. Currently there is no audit routine to verify the accuracy of this data; however, during site visits by field office staff, the budgets are subject to review. Currently there is no database that PIH maintains of the submission of the Forms 52574. For the future, PIH is considering whether to log these forms, create an electronic submission process, or to develop a new measurement instrument.

B.26: Asset management will be implemented in five percent of PHAs with 250 or more units by FY 2008.

Public Benefit. Asset management is a new business model that is intended to improve the efficiency and effectiveness of public housing. This indicator measures the number of PHAs that have successfully demonstrated conversion to asset management. This indicator is being measured because of the requirement, found in 24 CFR 990, that all PHAs with 250 or more units must convert to asset management by FY 2011[7].

Background. Although all PHAs are required to convert to asset management by FY 2011, the Department is only verifying conversion for PHAs that apply for "stop-loss" (i.e., they experience a net reduction in subsidy between the old and new funding formulas). Thus, this indicator uses the experience of the sub-set of PHAs that have applied for stop-loss as the measurement for conversion to asset management.

Program Website. http://www.hud.gov/offices/pih/programs/ph/am

Results and Analysis. The target of five percent of PHAs converting to asset management was met. Overall, 258 PHAs, or eight percent of the approximately 3,200 PHAs that operate public housing, were notified in FY 2008 that they successfully demonstrated that they converted to asset management.

The reporting period is the applications that were assessed in FY 2008. There are a total of approximately 800 PHAs that are eligible for stop-loss. Approximately 430 PHAs applied in the first year. We anticipate a smaller number of applications in the second and third years. For FY 2009, we estimate that the cumulative number of successful applications will be 10 percent of all PHAs.

Resources and Performance Link. HUD's Public Housing programs include $4.2 billion in operating subsidy and $2.45 billion in capital funding in FY 2008 and represents 17 percent of HUD's non-disaster budget authority. Asset-based policies, including asset management, will ensure greater efficiency and effectiveness in the use of PHA resources.

Data Discussion. The data is easily verifiable since it comes from approved stop-loss submissions, which are processed in the Financial Management Division.

[7] Section 225 of Title II of Division K of the Consolidated Appropriations Act, 2008, provided an exemption from asset management for 2008 for PHAs with 250 to 400 units. Because this provision was not permanent, it does not affect overall program goals and reporting.

Goal C: Strengthen Communities

PERFORMANCE REPORT CARD - GOAL C

	Performance Indicators	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2008 Target	Met	Notes
	CPD							
C.1	Assist disaster recovery in the Gulf Coast Region.	N/A	N/A	$16.673 obligated	$17.673 obligated	$17.673 obligated	✓	a
C.2	CDBG disaster recovery funds will be used to make homeowner compensation payments to 130,000 households in Louisiana and Mississippi by September 2008.	N/A	N/A	74,566	141,236	130,000	✓	
C.3	Facilitate restoration and enhancement of infrastructure throughout the Gulf Coast.	N/A	N/A	Goals Established	Goal Met	Facilitate Restoration	✓	
C.4	A total of 42,013 jobs will be created or retained through CDBG.	91,300	56,000	43,231	38,214	42,013	✗	
C.5	Increase economic opportunity through the use of CDBG funds in communities that have unemployment rates above the national unemployment rate.	N/A	N/A	87.0%	85.0%	50.0%	✓	
C.6	Grantees expend at least 90 percent of state and entitlement CDBG funds on activities that benefit low- and moderate-income persons.	N/A	N/A	N/A	95.6%	90.0%	✓	
C.7	Propose legislation to reform the CDBG formula and authorize bonus funds, then implement the reforms when passed.	N/A	N/A	Goal Met	Goal Met	Propose Legislation	✓	
C.8	Sole proprietors will claim $167 million in Empowerment Zone and Renewal Community employment credits (in millions).	$105	$128	$155	$121	$167	✗	b
C.9	Eliminate the blighting influence of 5,000 vacant, boarded up, or abandoned properties by the end of FY 2008.	N/A	N/A	5,900	9,180	5,000	✓	
C.10	The percentage of formerly homeless individuals who remain housed in HUD permanent housing for at least six months will be at least 71.5 percent.	70.0%	69.0%	74.9%	75.1%	71.5%	✓	c
C.11	The percentage of homeless persons who have moved from HUD transitional housing into permanent housing will be at least 63.5 percent.	60.0%	62.4%	68.9%	71.1%	63.5%	✓	c

PERFORMANCE REPORT CARD - GOAL C

	Performance Indicators	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2008 Target	Met	Notes
C.12	The employment rate of persons exiting HUD homeless assistance projects will be 19 percent.	17.0%	17.0%	22.8%	21.9%	19.0%	✓	c
C.13	The percentage of Housing Opportunities for Persons With AIDS program clients who maintain housing stability, avoid homelessness, and access care will reach 80 percent by 2008.	N/A	N/A	93.0%	92.0%	80.0%	✓	
	FHA/Housing							
C.14	At least 35 percent of single family mortgages endorsed for insurance by FHA are in underserved communities.	41.3%	40.2%	42.0%	39.2%	35.0%	✓	
C.15	The share of multifamily properties insured by FHA in underserved areas is maintained at 33 percent of initial endorsements.	43.0%	41.0%	46.0%	59.4%	33.0%	✓	
C.16	HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined geographic targets for mortgage purchases in underserved areas.							
	Fannie Mae	33.5%	41.4%	43.6%	N/A	N/A	N/A	
	Freddie Mac	32.3%	42.3%	42.7%	N/A	N/A	N/A	
C.17	FHA mortgage insurance enables at least seven hospitals to obtain affordable financing for construction or modernization projects.	9	9	9	8	7	✓	
C.18	The share of units that have functioning smoke detectors and are in buildings with functioning smoke detectors will be 92.8 percent or greater for multifamily housing.	94.0%	93.8%	93.5%	93.6%	92.8%	✓	
	Healthy Homes and Lead Hazard Control							
C.19	By September 30, 2008, HUD will establish fully operational dispute resolution and installation programs in HUD-administered states.	N/A	Did not completely establish	Did not fully implement	2	2	✓	
C.20	The number of children under the age of six who have elevated blood lead levels will be less than 220,000 in 2008.	N/A	270,000	235,000	215,000	220,000	✓	d

PERFORMANCE REPORT CARD - GOAL C

	Performance Indicators	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2008 Target	Met	Notes
C.21	As part of a 10-year effort to eradicate lead hazards, the Lead Hazard Control Grant programs will make 11,500 units lead safe in FY 2008.	7,500	9,638	10,602	12,569	11,500	✓	
	Public and Indian Housing							
C.22	Overcrowded households in Indian country shall be reduced by three percent.	1,960	2,002	2,176	2,174	1,400	✓	

N/A: not available

a – number reported in billions

b – two-year data lag, reported in calendar year

c – data through first three quarters of calendar year

d – number estimated

Community Planning and Development

C.1: Assist disaster recovery in the Gulf Coast Region.

Public Benefit. To date, Congress has appropriated over $19.7 billion to address unmet disaster recovery needs from Hurricanes Katrina, Rita, and Wilma. Although HUD, the Federal Emergency Management Agency, and the Small Business Administration provide a variety of resources to address short-term recovery, each state must coordinate a variety of activities at the state and local level to address housing, infrastructure, economic development, and other community needs.

Background. Under this objective, HUD is using supplemental appropriations to support the recovery of housing and critical infrastructure in the Gulf Region so the citizens can rebuild their communities and lives. HUD is assisting Louisiana, Mississippi, Alabama, Texas, and Florida in planning and implementing programs to aid in community and economic recovery of the areas destroyed by the hurricanes.

The statute provides that quarterly progress reports be submitted to the Congress and HUD. The statute also maintains broad flexibility in activities authorized under the CDBG program and maintains local discretion on the use of funds via the plans submitted through the states with local collaboration. As expected, housing and infrastructure activities predominate the rebuilding effort as well as economic development and other related activities. Initial performance goals have been established for most of these activities, but in anticipation of pending significant re-programming, baseline targets have not been established.

Note: The Congress appropriated additional supplemental disaster assistance toward the later part of FY 2008 for major disasters including $300 million for Midwest floods and $6.5 billion for Hurricanes Ike and Gustav. A $3.92 billion supplemental appropriation was also enacted for a new foreclosure abatement response program. Metrics to evaluate these efforts and results will be developed in the revised FY 2009 Annual Performance Plan indicators.

Program Websites.

http://www.doa.louisiana.gov/cdbg/dractionplans.htm (Louisiana)

http://www.mississippi.org/content/page/actionplan (Mississippi)

http://www.tdhca.state.tx.us/cdbg/index.htm (Texas)

http://www.floridacommunitydevelopment.org/disasterrecovery.cfm (Florida)

http://www.adeca.alabama.gov/C8/FY2005%20Application%20Manual/default.aspx (Alabama)

Results and Analysis. Through the end of FY 2008, HUD awarded and obligated $17.673 billion of the total $19.7 billion from the three supplemental CDBG recovery appropriations to the five states and outlayed $10.1 billion, thus meeting the goal. In FY 2008, HUD approved several new waiver packages and waiver reconsiderations to provide maximum flexibility to the states with regard to program design and implementation issues. Given the nature of the program to address disaster needs based on locally-set goals based on local allocations, ongoing national annual goals have not been established beyond homeowner compensation and restoration of infrastructure.

Through the end of FY 2008, HUD conducted numerous on-site monitoring and technical assistance visits, including two to Alabama, three to Florida, six to Louisiana, five to Mississippi, and two to Texas. In addition, HUD conducted a grantee training conference in New Orleans in April of 2008. At this event, grantees were provided training and access to HUD experts in areas such as financial management, grant administration, environmental review, and labor standards.

Resources and Performance Link. As of September 30, 2008, HUD has disbursed $10.1 billion for approved program activities with the majority of these funds having been disbursed for homeowner compensation programs in Louisiana and Mississippi (described more fully in C.2). Of the initial $11.5 billion allocation, $7.0 billion has been disbursed. Of the second allocation of $5.2 billion, almost $3.1 billion has been disbursed. This represents approximately 60 percent of each grant. As the bulk of homeowner compensation funds are disbursed, grantees are proceeding with other projects such as infrastructure, public facilities, economic development, and affordable rental housing. Each activity type has different sets of preferred measures; goals are set at the local level for each funded activity after funds are allocated.

Data Discussion. Grantees submit quarterly performance reports online in the Disaster Recovery Grant Reporting System. CPD staff in Headquarters and the Field Offices review grantee reports to assess accuracy and monitor to ensure that reported performance measures are accurate and that the results are produced in compliance with program requirements.

C.2: CDBG disaster recovery funds will be used to make homeowner compensation payments to 130,000 households in Louisiana and Mississippi by September 2008.

Public Benefit. This goal represents a substantial need for Louisiana's and Mississippi's recovery from Hurricanes Katrina, Rita, and Wilma. Through these programs, homeowners are provided compensation for recovery needs not met through insurance, the Small Business Administration, or the Federal Emergency Management Agency.

Background. The States of Louisiana and Mississippi requested eligibility waivers to allow them to use their CDBG disaster recovery funds for homeowner compensation and incentive programs. HUD granted these statutory and regulatory waivers during 2006, after which the states launched homeowner compensation programs.

These are innovative programs operating in complex and unstable economic environments. HUD established this measure to underscore and acknowledge the importance of carrying out these programs in a timely manner and will encourage these grantees to continue striving to exceed these timing goals.

Program Websites.

http://www.doa.louisiana.gov/cdbg/dractionplans.htm (Louisiana)

http://www.mississippi.org/content/page/actionplan (Mississippi)

http://www.tdhca.state.tx.us/cdbg/index.htm (Texas)

http://www.floridacommunitydevelopment.org/disasterrecovery.cfm (Florida)

http://www.adeca.alabama.gov/C8/FY2005%20Application%20Manual/default.aspx (Alabama)

Results and Analysis. This goal was met with a total of 141,236 homeowner grants distributed as of September 30, 2008, 8.6 percent above the target of 130,000. Of the 141,236 homeowner grants distributed, 117,975 recipients were from Louisiana and 23,261 were from Mississippi.

Resources and Performance Link. The States of Louisiana and Mississippi have budgeted more than $10.5 billion of their grants to support homeowner programs. The homeowner grants paid to date and the resources used to undertake this already represent a disbursement of over $9.3 billion of the Gulf Coast funds and nearly 88 percent of supplemental CDBG funds for Gulf Coast recovery. These funds highlight both the degree of devastation resulting from Hurricanes Katrina, Wilma, and Rita and the priority of rebuilding housing resources to restore stability and activity in the hardest hit hurricane locations.

Data Discussion. Grantees submit quarterly performance reports online in the Disaster Recovery Grant Reporting System. In addition, HUD receives more frequent updates from Louisiana. CPD staff in Headquarters and the Field Offices review grantee reports to assess accuracy and monitor to ensure that reported performance measures are accurate and that the results are produced in compliance with program requirements.

C.3: Facilitate restoration and enhancement of infrastructure throughout the Gulf Coast.

Public Benefit. This goal represents a substantial need for Louisiana's, Mississippi's, Texas', Alabama's, and Florida's recovery from Hurricanes Katrina, Rita and Wilma. In addition to infrastructure planning, these programs provide resources to the state and local governments to restore critical infrastructure and create infrastructure to relocate residents out of harm's way as needed.

Background. This indicator establishes a goal to restore and improve infrastructure in the Gulf Coast jurisdictions most affected by the hurricanes of 2006. HUD's Community Development Block Grant disaster recovery program creates the foundation for sustained long-term disaster recovery, including recovery of housing and jobs in low-income communities, through restoration of damaged infrastructure, often in ways that influence future development.

The five Gulf States will use CDBG disaster recovery funds to reconstruct, and construct, streets, water lines, sewer systems, critical government buildings, and other public facilities to support relief, recovery, and revitalization of the most affected areas. The use of CDBG funds for infrastructure restoration and enhancement activities is one of many choices available to grantees under this flexible disaster recovery grant program. Each state coordinates its own process for soliciting and/or developing projects within its impacted areas.

Program Websites.

http://www.doa.louisiana.gov/cdbg/dractionplans.htm (Louisiana)

http://www.mississippi.org/content/page/actionplan (Mississippi)

http://www.tdhca.state.tx.us/cdbg/index.htm (Texas)

http://www.floridacommunitydevelopment.org/disasterrecovery.cfm (Florida)

http://www.adeca.alabama.gov/C8/FY2005%20Application%20Manual/default.aspx (Alabama)

Results and Analysis. Each of the five states receiving Gulf Coast Recovery grants has allocated funds for local public facilities and infrastructure meeting the goal. Each state and local government receiving sub-awards are in various phases of projects from environmental reviews, design, procurement, and/or construction. There are approximately 65 public facility activities and 251 infrastructure and public improvement activities detailed in grantee reports along with the status of each.

Resources and Performance Link. Across the first $11.5 billion and second $5.2 billion supplemental Gulf Coast Recovery grants, approximately $2.0 billion has been budgeted to infrastructure, public improvements, and public facilities at the activity level. Of these, states reported obligating $1.0 billion to specific activities by June 30, 2008.

Data Discussion. Grantees submit quarterly performance reports online in the Disaster Recovery Grant Reporting System. CPD staff in Headquarters and the Field Offices review grantee reports to assess accuracy and monitor to ensure that reported performance measures are accurate and that the results are produced in compliance with program requirements.

C.4: A total of 42,013 jobs will be created or retained through CDBG.

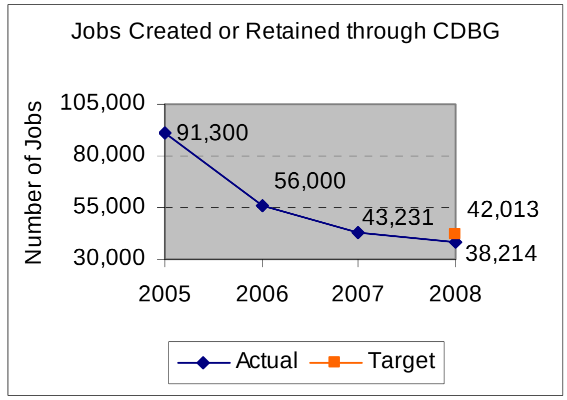
Public Benefit. The number of jobs created and retained through the use of annual Community Development Block Grant funds is a key indicator for the Department because supporting increased employment levels is an overall indicator of the health of the economy. The CDBG goal to create and retain jobs supports HUD's strategic goal to strengthen communities giving families a better place to live, work, and raise a family.

Background. CDBG grantees have the option to establish CDBG-assisted economic development programs that focus on providing financial assistance to businesses that will create or retain jobs, including assistance to micro-enterprises. Overall, CDBG amounts disbursed for economic development activities have been declining slowly over the past several years, reaching a low of $343 million, or 7.88 percent, of all disbursements in FY 2008. This is compared with levels of $378 million in FY 2007 and $380 million in FY 2006.

The Section 108 loan guarantee program provides an additional source of economic development financing for CDBG grantees. The FY 2008 authority level was $205 million, representing a 52 percent increase over the $135 million provided annually in FYs 2006 and 2007, but still far below the historic high of $2 billion. The Administration's FY 2009 budget does not request any additional guarantee authority for the Section 108 program and will provide assistance through the CDBG formula program.

As a result of the disbursement and financing trends noted above, and taking into consideration the FY 2007 actual accomplishments and the actual FY 2008 CDBG appropriation, CPD reduced its estimate of jobs to be created or retained as a result of CDBG and Section 108 assistance for FY 2008. The FY 2008 revised goals for jobs created or retained as a result of CDBG and Section 108 assistance, respectively, is 37,913 and 4,100 jobs for a total of 42,013, a reduction from the FY 2008 initial goal of 52,409. The Section 108 goal was increased from zero to 4,100 as the FY 2008 appropriation provided for loan guarantee authority in the amount of $205 million.

Program Website. http://www.hud.gov/offices/cpd/communitydevelopment/programs/



Results and Analysis. The CDBG overall goal was not met with a total of 38,214 jobs created; however, the goal for the Section 108 program was exceeded by 58 percent. In FY 2008, grantees reported that CDBG assisted in the creation or retention of 31,723 jobs, a shortfall of 6,190 jobs in comparison to the FY 2008 goal of 37,913 jobs. For the Section 108 loan guarantee program, application commitments reflect that 6,491 jobs will be created as a result of Section 108 loan guarantee assistance, an increase of 2,391 jobs over the goal of 4,100. CDBG grantees reported $343 million in disbursements for economic development activities in FY 2008, a reduction of $35 million against FY 2007 economic development activity disbursement levels. Section 108 loan guarantee commitments in FY 2008 were $161 million.

Resources and Performance Link. Local governments receive formula CDBG funds either directly from HUD or through states. Local governments and states develop plans and priorities for expenditure of CDBG funds through CPD's consolidated planning process. The number of jobs created or retained as a result of CDBG assistance is primarily a function of grantee funding decisions and local level implementation. Section 108 loan guarantees are available to local governments receiving CDBG funds either directly from HUD or through State CDBG programs. Local governments (or states) submit applications to HUD for loan guarantee assistance and commitments are approved as long as proposed projects meet basic qualifying criteria and HUD has available loan guarantee authority. Projects are developed and implemented by grantees.

Reasons for Shortfall / Plans and Schedule to Meet the Goal. Although the CDBG program experienced a shortfall in the number of jobs created or retained with CDBG, it continues to note the trend that job totals have been declining over the past several years. Potential contributing factors for missing this goal include increased project costs, a lack of complete reporting by grantees, and a lack of consistent CDBG technical assistance funds to support training for CDBG grantees. The CDBG program received technical assistance funds in FY 2008, the first appropriation for such funds in three years, and these funds will be awarded in FY 2009 to assist with grantee training. In the CDBG grantee community there are high levels of staff turnover, supporting the need for consistent annual training. Throughout FY 2008, the CDBG program continued efforts to improve the quality of data reporting by grantees. Eight training sessions focusing on correct data entry into CDBG's reporting system, the Integrated Disbursement and Information System (IDIS), were offered on a nationwide basis to educate grantees on how to properly report accomplishments.

Data Discussion. Estimates for CDBG goals are based on historical accomplishments reported by grantees in the Integrated Disbursement and Information System (IDIS) on jobs created and/or retained, the actual CDBG appropriation, jobs associated with Section 108 approved commitments, estimated spend-out rates, and a three percent adjustment for inflation. CDBG accomplishment data are derived from grantee data entries through Integrated Disbursement and Information System (IDIS). Section 108 program data is derived from applications approved during FY 2008.

C.5: Increase economic opportunity through the use of CDBG funds in communities that have unemployment rates above the national unemployment rate.

Public Benefit. The percentage of entitlement communities with unemployment rates above the national average using CDBG funds for economic development is an important measurement for HUD. CDBG funds can assist these communities in expanding economic opportunities. Promoting activities that stimulate local economies is important as it contributes to a key HUD strategic goal of strengthening communities.

Background. For FY 2008, the goal was that at least half of the entitlement communities with unemployment rates above the national average will use CDBG funds for economic development activities and other activities that promote economic opportunity. The goal remains unchanged for FY 2009. As this is only the second year measuring this goal, additional time is needed to establish any trends before adjusting the goal.

This new indicator (baseline data collected in FY 2007) establishes a goal to improve unemployment conditions in those jurisdictions where the unemployment rate is higher than that faced by the nation as a whole. High unemployment is one indicator that cities or suburbs are not sharing in national economic growth. HUD's CDBG program may be used to create jobs in low-income communities and help families make progress toward self-sufficiency, all of which contribute to reducing concentrations of unemployment. While grantees have wide discretion in their use of funds, CPD will encourage grantees with unemployment rates exceeding the national average to use their CDBG funds to create communities of opportunity and choice for lower income residents.

Entitlement communities use CDBG funds for physical development projects, such as roads, sewers, public facilities, and other infrastructure that make them more attractive locations for business investment. CDBG funds for education, job-training, and other services that support the workforce in low-income communities also make them more attractive to prospective employers. The use of CDBG funds for economic development activities is one of many choices available to grantees under this flexible block grant program.

Program Website. http://www.hud.gov/offices/cpd/communitydevelopment/programs/

Results and Analysis. CDBG exceeded its goal of at least half of entitlement communities with unemployment rates above the national average using CDBG funds for economic development activities. In total, 85 percent of CDBG entitlement grantees with unemployment rates higher than the national average used CDBG funds to address this issue. CPD's analysis of FY 2008 data indicates that 341 grantees had local employment rates (as measured by the Bureau of Labor Statistics) in excess of the 4.8 percent national employment rate, using October 2007 unemployment data. Of the 341 grantees, 289 were undertaking activities that increased economic opportunity during FY 2008. In FY 2007, 87 percent of entitlement grantees with unemployment rates higher than the national average used CDBG funds for economic development activities.

Resources and Performance Link. Local governments receive formula CDBG funds directly from HUD. In FY 2008, HUD awarded $2.51 billion to CDBG Entitlement communities down from $2.59 billion in FY 2007. This CDBG formula grant program is the federal government's largest and most flexible community development program and $2.5 billion is a significant portion of HUD's budget. Local governments develop plans and priorities for expenditure of CDBG funds through CPD's consolidated planning process. The number of activities initiated to promote economic opportunity is primarily a function of grantee funding decisions and local level implementation.

Data Discussion. HUD used the Bureau of Labor Statistics data to identify the number of entitlement grantees for which the unemployment rate is above the national average. The Bureau of Labor Statistics can provide unemployment data for only 916 of the 1,142 entitlement communities in the CDBG program for FY 2008. HUD reviewed information reported by these grantees in the Integrated Disbursement and Information System (IDIS) on their use of CDBG for activities that increase economic opportunities, including the number of jobs created and retained, number of jobs with health benefits, and the number of businesses assisted. The Bureau of Labor Statistics is the best available data source for employment and unemployment rates. The Bureau of Labor Statistics employs rigorous data quality standards, and it is not feasible for HUD to verify Bureau of Labor Statistics data independently. HUD continues its collaborations with grantees and technical assistance providers to ensure that the performance indicators will measure this long-term goal.

C.6: Grantees expend at least 90 percent of state and entitlement CDBG funds on activities that benefit low- and moderate-income persons.

Public Benefit. The percentage of CDBG entitlement and state CDBG funds that are used to directly benefit low- and moderate-income persons is a key indicator for the Department, as it supports the overall goal of the CDBG program – funds principally benefit low- and moderate-income persons. Targeting low- and moderate-income persons is the core of the CDBG program and this indicator captures a key aspect of targeting.

Background. CDBG entitlement communities have the discretion to select the activities they will assist each year but are required by statute to use at least 70 percent of the funds expended (over a one-, two-, or three-year period, selected by each grantee) for activities that benefit low- and moderate-income persons. Historically, CDBG grantees have significantly exceeded the 70 percent threshold, but HUD continues to emphasize the importance of targeting the use of CDBG funds for activities that benefit low- and moderate-income persons.

As with CDBG entitlement communities, states are required to use at least 70 percent of CDBG funds for activities that benefit low- and moderate-income persons. State CDBG grantees have historically exceeded this requirement, but HUD continues to emphasize the on-going importance of strong performance in this area.

Program Website. http://www.hud.gov/offices/cpd/communitydevelopment/programs/

Results and Analysis. The share of CDBG entitlement and State CDBG funds that benefited low- and moderate-income persons averaged 95.6 percent, exceeding the goal of 90 percent. CDBG entitlement grantees report that 95 percent of CDBG funds expended in FY 2008 were for activities that primarily benefit low- and moderate-income persons. State CDBG grantees report that 96.2 percent of CDBG funds expended in FY 2008 were for activities that primarily benefited low- and moderate-income persons. These outcomes are consistent with historical performance as the FY 2007 level of low- and moderate-income benefit was 94.8 percent for CDBG entitlement grantees and 96.4 percent for state CDBG grantees. For FY 2009, the average of these two results will be reported against the goal of grantees spending at least

90 percent of state and entitlement CDBG funds on activities that benefit low- and moderate-income persons.

Resources and Performance Link. Local governments receive formula CDBG funds directly from HUD with a FY 2008 allocation of $2.5 billion for entitlement communities. Local governments develop plans and priorities for expenditure of CDBG funds through CPD's consolidated planning process. The percentage of funds expended for activities is primarily a function of grantee funding decisions and local level implementation.

Non-entitled local governments receive formula CDBG funds through states which were allocated $1.076 billion in FY 2008. States develop plans and priorities for expenditure of CDBG funds through CPD's consolidated planning process. The percentage of funds expended for activities is primarily a function of grantee funding decisions and local level implementation.

Data Discussion. Information reported by grantees on their use of CDBG funds is compiled in the Integrated Disbursement and Information System (IDIS) to report on this goal. CDBG funds used for activities that are available to all residents of a particular geographic area (identified by the grantee) are presumed to serve low- and moderate-income persons if, generally, at least 51 percent of the residents of the area served are low- and moderate-income. In addition, for activities directly serving households and individuals, the grantee reports the income levels of those actually served. CPD Field Office staff verifies program data when monitoring grantees.

C.7: Propose legislation to reform the CDBG formula and authorize bonus funds, then implement the reforms when passed.

Public Benefit. The implementation of the CDBG Reform legislation is important as the CDBG formula has remained essentially unchanged since 1974. Implementation of the proposed legislation will result in communities receiving funding amounts more closely linked to their needs. This legislation will assure that the most distressed communities are able to more fully address their community development needs.

Background. Community Planning and Development has developed and submitted to Congress a legislative proposal to reform the CDBG program consistent with the initiatives described in the Administration's FY 2007, FY 2008, and FY 2009 budget requests.

These initiatives include:

- CDBG formula reform intended to better target funding to the nation's neediest communities;
- Challenge grant funds will be awarded to communities that show the greatest improvements in measures of community livability and investment; and
- Performance measurement provisions to hold grantees more accountable for meeting their own goals.

The CDBG program remains the largest flexible development program available to communities across the nation. The Department continues to believe that more effective targeting through CDBG formula reform is essential to meeting the needs of the communities.

Program Website. http://www.hud.gov/offices/cpd/communitydevelopment/programs/

Results and Analysis. The goal was met. The CDBG Reform Act of 2007 legislative package was forwarded to the 110th Congress by former Secretary Jackson on June 5, 2007. No member of Congress has introduced the legislation and there were no hearings related to the proposal during the 110th Congress. As there were no requests for Congressional hearings, there has been no action for implementation.

Resources and Performance Link. Enactment of the Department's proposal would significantly improve targeting of CDBG resources to the nation's neediest communities. In addition, the enhanced performance accountability provisions would assist HUD in holding grantees accountable for achieving self-defined results. The program was funded at $3.59 billion in FY 2008.

Reasons for Shortfall / Plans and Schedule to Meet the Goal. Congressional action is required to alter the CDBG formula. HUD may revise the CDBG reform proposal as part of the FY 2010 budget cycle. Implementation would follow upon enactment of a reform proposal.

Data Discussion. HUD continues to monitor congressional consideration of the reform proposal.

C.8: Sole proprietors will claim $167 million in Empowerment Zone and Renewal Community employment credits.

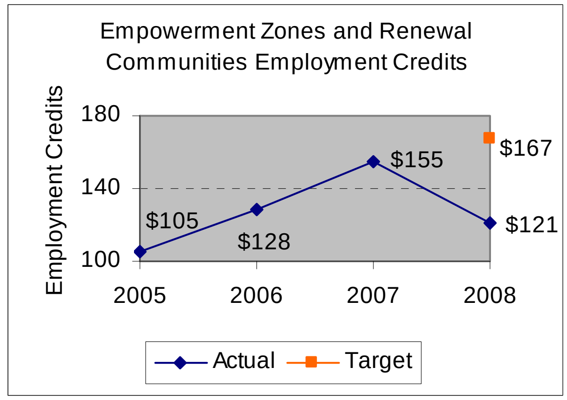
Public Benefit. The economic foundation of communities grows stronger as more businesses claim these employment credits since the credits help the businesses save money and encourage the hiring of local residents. This helps businesses stay viable and expand in distressed areas and helps maintain and increase employment options for residents of these communities. As businesses claim these tax credits in increasing rates, communities get stronger, and one of CPD's goals is to strengthen communities. In a recent three-year period, from 2004-2006, based on data from the Internal Revenue Service, HUD found that these employment credits influenced a total of more than 240,000 jobs of Empowerment Zone and Renewal Community residents.

This performance measure is considered an intermediate outcome because implementation of the Empowerment Zone and Renewal Community programs focuses strongly on making economic development professionals, business owners, and tax preparers for small- and medium-sized businesses aware of the tax incentives.

Background. The Empowerment Zone and Renewal Community employment credits offer financial incentives to employers to hire residents of Empowerment Zones and Renewal Communities. Employers who use these credits regularly save a great deal at tax time, which helps them to retain current employees and make additional hires.

The Office of Community Renewal obtains data from Internal Revenue Service on employment credit claims among business owners in Empowerment Zones and Renewal Communities. The data have helped HUD to see that these credits are becoming more and more popular and contributing to increased employment for residents of these distressed communities. This utilization has had a substantial impact on business growth and job creation. Since 1999, approximately 200,000 individual and corporate tax returns have claimed nearly $1.5 billion in Empowerment Zone and Rural Community employment credits.

Program Website. www.hud.gov/cr



Results and Analysis. In FY 2008, sole proprietors claimed approximately $121 million in Empowerment Zone and Rural Community employment credits, which is $46 million less than the FY 2008 goal of $167 million. The $121 million represents a 22 percent reduction from the actual total of approximately $155 million from the previous year. This reduction was very surprising, since employment credit claims in Empowerment Zones and Renewal Communities had been steadily increasing for several years, sometimes by more than 20 percent annually. HUD believes the reduction was due to unusual circumstances that are explained below and the Department believes that claims for these credits will increase again from FY 2008 to FY 2009. HUD expects FY 2009 credits claimed to be approximately 10 percent higher than the FY 2008 figure, or approximately $133 million.

The $121 million actual total, while less than expected, is still encouraging because it indicates that thousands of business owners are saving money and strengthening communities by employing local residents of the distressed Empowerment Zones and Renewal Communities. Based on HUD's calculations, this total in employment credits influenced approximately 70,000 local jobs in these communities of high poverty and unemployment. This is great news for residents of these communities who are seeking employment.

HUD is providing substantial amounts of technical assistance to the directors of the Department's 70 Empowerment Zones and Renewal Communities to help them market the Empowerment Zone and Rural Community tax incentives aggressively to local business owners and tax practitioners. HUD is doing this through regular conference calls with these directors and through on-site visits from an office director and her staff.

Resources and Performance Link. Congress has allocated approximately $11 billion in tax incentives to businesses in the designated Empowerment Zones and Renewal Communities through Calendar Year 2009 to encourage businesses to sustain and expand their activities in these areas and to hire local residents.

The Office of Community Renewal works in partnership with the Internal Revenue Service to provide ongoing information and technical assistance to tax practitioners, business owners, and to the administrators of the 70 Empowerment Zones and Renewal Communities that HUD has designated. This helps business owners in these areas claim the $11 billion package of tax incentives. The Office of Community Renewal believes that once a business owner learns about these valuable incentives he or she will continue to claim them each year. Therefore, the implementation effort for the Empowerment Zone and Renewal Community programs focuses on educating additional business owners on these incentives so they may begin to claim them. The increases in employment credit claims among sole proprietors in Empowerment Zones and Renewal Communities provides evidence that the Office of Community Renewal's aggressive marketing efforts have been successful.

Reasons for Shortfall / Plans and Schedule to Meet the Goal. A major reason why the actual value of employment credits in FY 2008 did not meet the goal is that HUD needed to re-calibrate its fiscal year terminology in 2008 due to difficulties receiving accurate and timely data from the Internal Revenue Service. As it had done in the past, HUD expected to provide actual FY 2008 data on employment credits for this report based on Internal Revenue Service data from one tax year earlier, i.e. 2007. In calendar year 2008, however, Internal Revenue Service notified HUD that it could not provide data in time for HUD to meet its reporting requirements. In previous years, HUD obtained these data from the Internal Revenue Service immediately before the Department's deadlines.

HUD has elected, therefore, beginning in FY 2008, to measure changes in employment credit claims by using Internal Revenue Service tax year data that are readily available and which correspond to two calendar years before HUD's fiscal year. For FY 2008, HUD would use data from the Internal Revenue Service Tax Year 2006. While this offers the advantage of using data that are easily available each year, the difference means that HUD's figures for the first year of this re-calibration, FY 2008, look unexpectedly low.

Hurricanes Katrina and Rita are also probably responsible for the unexpectedly low figure of $121 million in Empowerment Zones and Rural Communities employment credits that businesses reported in FY 2008. These hurricanes devastated large parts of Louisiana, Alabama, and Mississippi in Calendar Year 2005, which corresponds to Internal Revenue Service Tax Year 2006. HUD is reporting 2006 data because there is a two year lag in obtaining these results. Twenty percent of HUD's Renewal Communities are located in these three states. The hurricanes probably destroyed or impacted a large percentage of the businesses in these areas, which eliminated their ability to earn profits and, therefore, to claim employment credits against those profits.

Data Discussion. The Office of Community Renewal obtains data on the volume of employment credits claimed from a division of the Internal Revenue Service. The Internal Revenue Service posts the data on its website as soon as it becomes available. HUD considers these data to be valid.

C.9: Eliminate the blighting influence of 5,000 vacant, boarded up, or abandoned properties by the end of FY 2008.

Public Benefit. This initiative is expected to make a measurable contribution to the priority outcome of restoring and strengthening neighborhood communities by improving the quality of residents' lives since vacant, abandoned, or boarded up properties are associated with neighborhood decline. The removal or improvement of these properties is a promising indicator of neighborhood improvement.

Background. This initiative is measured by the number of buildings that were demolished using CDBG funds in FY 2008 as reported by grantees in the data management system. This initiative is projected in HUD's FY 2006-2011 Strategic Plan to encompass the elimination of 25,000 vacant or boarded up properties by FY 2011. CPD continues to work with HUD's Office of Policy Development and Research to best define and track this indicator and to identify reliable data sources including United States Postal Service data.

Program Website. http://www.hud.gov/offices/cpd/communitydevelopment/programs/

Results and Analysis. The goal was met with the clearance or demolition of at least 9,180 structures, 84 percent above the goal of 5,000 properties. This is a significant increase from last year's report. The most recent two-year total for the five-year goal is at least 15,000 demolitions, which is well past the halfway mark for meeting the initiative's five-year strategic goal of 25,000. We expect that next year's number will remain comparable to the first two years. CPD used the most recent data available from the Integrated Disbursement and Information System (IDIS) to identify grantees that used CDBG funds for FY 2008 activities involving demolition or clearance.

Resources and Performance Link. The total CDBG appropriation in FY 2008, excluding disaster supplemental funding and set-asides, was $3.59 billion, down three percent from $3.7 billion in FY 2007. Approximately $38.6 million of CDBG funds were expended on demolition efforts to eliminate blighting, representing one percent of the total FY 2008 CDBG appropriation. Local governments receive formula CDBG funds either directly from HUD or through states. Local governments and states develop plans and priorities for expenditure of CDBG funds through CPD's consolidated planning process. The number of structures addressed is primarily a function of grantee funding decisions and local level implementation. CDBG offers grantees the flexibility to undertake a variety of eligible community development activities. HUD does not dictate the proportion which is dedicated to the elimination of blighting. As a result, setting annual targets for this indicator can be problematic. Targets are thus based primarily on appropriation levels and recent trend data.

Data Discussion. It is important to keep in mind that this is a new and relatively untested data collection effort. Currently, the goal is measured using data as reported by CDBG grantees regarding their demolition activities. HUD is also exploring using United States Postal Service data, and is making these data available for researchers and practitioners to explore their potential utility for tracking neighborhood change on a quarterly basis. In addition to the total counts, the United States Postal Service reports to HUD the number of days an address has been in each category, such that vacancy is defined based on the number of days that delivered mail has remained uncollected at an address. The Department also is exploring whether combining this United States Postal Service data with other measures of census tract distress will allow HUD to construct a statistical definition of "vacant and abandoned that can be tracked over time."

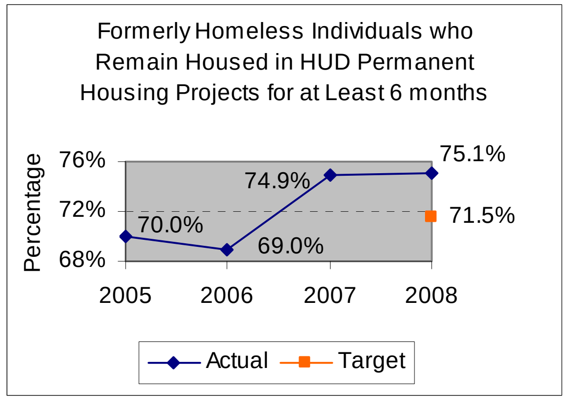
C.10: The percentage of formerly homeless individuals who remain housed in HUD permanent housing for at least six months will be at least 71.5 percent.

Public Benefit. This measure tracks the number of formerly homeless persons who remain in permanent housing for at least six months in beds funded by HUD under the McKinney-Vento Homeless Assistance Act. Housing retention demonstrates that public dollars are spent on effective programs and represents the end of the cycle of homelessness for many individuals and families.

Background. The ultimate goal of homeless assistance is to help homeless families and individuals achieve the outcome of staying in permanent housing and obtaining self-sufficiency. Congress requires that 30 percent of HUD's homeless assistance funding is allocated to permanent housing, and HUD's programs and policies support this requirement. One of HUD's programs, Shelter Plus Care, provides permanent housing assistance, while communities secure an equal level of funding for a variety of supportive services from other sources. This combination ensures that residents receive the housing and services they need to maintain stable permanent housing and make progress towards self-sufficiency. Other HUD homeless programs that provide permanent housing, including the Supportive Housing Program and the Moderate Rehabilitation/Single Room Occupancy program, help to meet other needs related to homelessness. Many communities are increasing their permanent housing stock as a direct result of the statutory requirement and HUD's emphasis on permanent housing. This increases the number of available housing units and allows communities to house more homeless persons.

Program Website. http://www.hud.gov/offices/cpd/homeless/programs/index.cfm

Results and Analysis. In FY 2008, HUD exceeded this goal, with an achievement of 75.1 percent of formerly homeless persons remaining in permanent housing for at least six months. This represents a difference of 3.6 percentage points between the target of 71.5 percent and the achievement and is a slight increase of 0.2 percentage points over the result reported in FY 2007 of 74.9 percent. The reporting period is from January 1, 2008, to September 30, 2008.



This achievement can be attributed to HUD's emphasis on permanent housing retention. An important part of this is combining new permanent housing units with appropriate supportive services. Since 2006, HUD has published this goal in its annual Homeless Assistance Grant application, highlighted it in national broadcasts and Notices of Funding Availability, and required communities to report on the steps they are taking to achieve this goal at the local level. This emphasis on performance and permanent housing has pushed communities to focus on these goals and use all available mainstream resources to aid in service provision, which in turn has led to visible successes. HUD anticipates that in FY 2009, this number will remain fairly constant, either with a slight increase or slight decrease.

Resources and Performance Link. Historically, Homeless Assistance Grants appropriation levels have increased steadily, which has contributed significantly to HUD's ability to achieve this goal. The appropriation in 2007 was $1.441 billion, and the appropriation in 2008 increased to $1.586 billion. The increases in funding ensure that existing permanent housing programs, as well as transitional housing programs that prepare homeless persons for permanent housing, will be able to continue operating, while new programs can be added in communities with remaining need. Further, the Congressional directive requiring that 30 percent of annual homeless assistance funding be allocated to permanent housing ensures a significant level of resources devoted to the development and maintenance of permanent housing. HUD's Samaritan Bonus initiative increases the link between funding levels and new permanent housing. This initiative provides communities with "bonus" funding, above their regular allocations, in order to develop new permanent housing units.

Data Discussion. Data for this indicator are collected from HUD's Annual Progress Report, which each homeless assistance project submits at the end of the operating year. This report represents a means of reporting on the outcomes of HUD-funded homeless assistance projects. Field staff monitor grantees on a sample basis to assess quality of data in grantee reports. HUD intends to improve reliability of this measure by developing an electronic Annual Progress

Report, which can be generated by the local Homeless Management Information System. This will eliminate transaction lag of the paper-based reporting system and increase response rates. Because projects begin annual operations at different times, the data reflect projects that ended their operational year in 2008 and whose Annual Progress Reports were entered in HUD's database by September 30, 2008. Due to the varied operation dates for projects, the data for all Annual Progress Report-based indicators represent at least 39 percent of all projects operating in 2008. An independent assessment in 2004 showed CPD-Annual Progress Report performance indicator data passed quality tests for validity, completeness, and consistency.

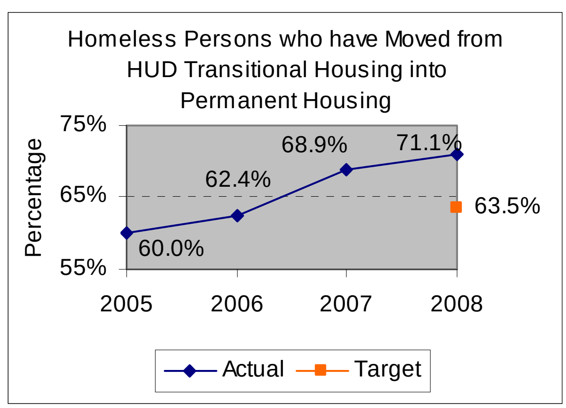
C.11: The percentage of homeless persons who have moved from HUD transitional housing into permanent housing will be at least 63.5 percent.

Public Benefit. The ultimate objective of homeless assistance is to help homeless families and individuals achieve the outcome of obtaining permanent housing and self-sufficiency. HUD has focused on creating new permanent housing, which targets hard-to-serve homeless populations that tend to have a more difficult time with permanent housing retention. When there are more permanent supportive housing options available to this population, a higher percentage of people leaving transitional housing will be able to move into permanent housing. Another benefit of this process is that it opens up availability in emergency shelters and transitional housing for other people who need housing and supportive services. This measure tracks the number of homeless persons who move from HUD-funded transitional housing projects into permanent housing or other supportive housing.

Background. Transitional housing with supportive services is an important stepping stone toward permanent housing for many homeless persons. This key part of a community's continuum of care helps homeless individuals and families gain the skills to achieve self-sufficiency. When moving to permanent housing, the needs of the homeless subpopulations within a particular community are varied. Some people need extensive supportive services while in permanent housing to maintain self-sufficiency; for others, market-rate housing with minimal services is adequate. This measure tracks formerly homeless persons moving into all types of permanent housing.

Program Website. http://www.hud.gov/offices/cpd/homeless/programs/index.cfm

Results and Analysis. In FY 2008, HUD exceeded this goal, with an achievement of 71.1 percent of homeless persons moving from transitional housing into permanent housing. This represents a difference of 7.6 percentage points between the target of 63.5 percent and the achievement, and is an increase from the result reported in FY 2007 of 68.9 percent. The reporting period is from January 1, 2008, to September 30, 2008.



HUD also continues to provide the supportive services necessary to move people who are homeless from transitional housing to permanent housing, allowing more vacancies for homeless persons in need of transitional housing and accompanying supportive services. Since 2006, HUD has published this goal in its annual Homeless Assistance Grant application and required communities to report on the steps they are taking to achieve this goal at the local level. This emphasis on performance and permanent housing has pushed communities to focus on these goals and use all available mainstream resources to aid in service provision, which in turn has led to visible successes. Further, in FY 2009, HUD expects that communities will continue to strive toward exceeding their achievements from FY 2008. HUD anticipates that the results will show these efforts and the number of individuals and families moving from transitional housing into permanent housing will increase.

Resources and Performance Link. Historically, Homeless Assistance Grants appropriation levels have increased steadily, which has contributed significantly to HUD's ability to achieve this goal. The appropriation in 2007 was $1.441 billion, and the appropriation in 2008 increased to $1.586 billion. The increases in funding ensure that existing transitional housing programs can continue offering quality services to persons who need the support in order to increase their skills and employment and move to permanent housing. At the same time, increases in funding allow new programs to be added in communities with remaining need.

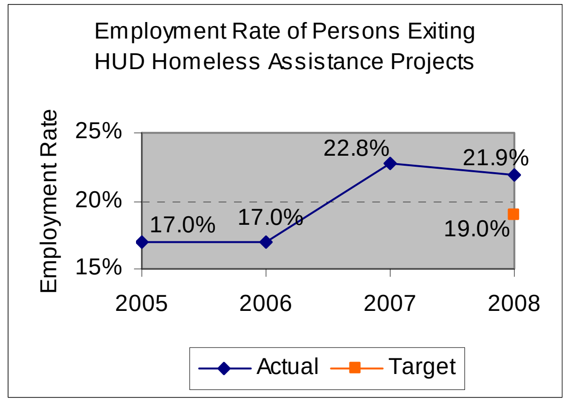
Data Discussion. Data for this indicator are collected from HUD's Annual Progress Report, which each homeless assistance project submits at the end of the operating year. This report represents a means of reporting on the outcomes of HUD-funded homeless assistance projects. Field staff monitor grantees on a sample basis to assess quality of data in grantee reports. HUD intends to improve reliability of this measure by developing an electronic Annual Progress Report, which can be generated by the local Homeless Management Information System. This will eliminate transaction lag of the paper-based reporting system and increase response rates. Because projects begin annual operations at different times, the data reflect projects that ended their operational year in 2008 and whose Annual Progress Reports were entered in HUD's database by September 30, 2008. Due to the varied operation dates for projects, the data for all Annual Progress Report-based indicators represent at least 39 percent of all projects operating in 2008. An independent assessment in 2004 showed that CPD-Annual Progress Report performance indicator data passed quality tests for validity, completeness, and consistency.

C.12: The employment rate of persons exiting HUD homeless assistance projects will be 19 percent.

Public Benefit. Stable employment is a critical step for homeless persons in achieving the outcome of greater self-sufficiency and obtaining and remaining in permanent housing. This indicator tracks the number of adult clients who are employed upon exit from HUD-funded homeless assistance projects.

Background. Housing and employment are linked in helping homeless individuals and families obtain and remain in permanent housing: when people have stable housing, it is often easier for them to maintain employment, and vice versa. HUD encourages communities to provide comprehensive housing and services to homeless individuals and families, which can include employment training and job search assistance. Homeless programs generally serve people with mental and physical disabilities or other challenges that make it difficult to obtain and retain employment. Only a portion of the population served by HUD's homeless programs have a goal of employment as a source of income. For this reason, HUD encourages linking many clients to mainstream income benefits; as people become stabilized, their barriers to employment can be addressed. This measure helps HUD gauge progress toward the goal of improved employment for homeless persons.

Program Website. http://www.hud.gov/offices/cpd/homeless/index.cfm



Results and Analysis. In FY 2008, HUD exceeded this goal, as the number of homeless persons receiving employment income upon exit was 21.9 percent. This represents a difference of 2.9 percentage points between the target of 19 percent and the achievement, and a slight decrease from the result reported in FY 2007 of 22.8 percent. The reporting period is from January 1, 2008, to September 30, 2008.

Under the Supportive Housing Program, employment assistance combined with case management and housing has enabled many communities to achieve improved employment outcomes. Since 2006, HUD has published this goal in its annual Homeless Assistance Grant application and required communities to report on the steps they are taking to achieve this goal at the local level. This emphasis on performance has pushed communities to focus on these goals and use all available mainstream resources to aid in service provision, which in turn has led to visible successes. HUD will continue to monitor the employment rate in its Annual Progress Report and through the Continuum of Care application. Past years showed strong increases, but the result for FY 2008 demonstrated that these increases could be leveling off. In FY 2009 HUD anticipates an achievement consistent with that of FY 2008.

Resources and Performance Link. Historically, Homeless Assistance Grants appropriation levels have increased steadily, which has contributed significantly to HUD's ability to achieve this goal. The appropriation in 2007 was $1.441 billion, and the appropriation in 2008 increased to $1.586 billion. The increases in funding ensure that existing programs that provide homeless persons with employment training and increased skills for self-sufficiency will be able to continue offering quality services, while new programs can be added to help more homeless persons gain skills to become employed. In this way, increases in funding enable more communities, and HUD, to achieve this goal.

Data Discussion. Data for this indicator are collected from HUD's Annual Progress Report, which each homeless assistance project submits at the end of the operating year. This report represents a means of reporting on the outcomes of HUD-funded homeless assistance projects. Field staff monitor grantees on a sample basis to assess quality of data in grantee reports. HUD intends to improve reliability of this measure by developing an electronic Annual Progress Report, which can be generated by the local Homeless Management Information System. This will eliminate transaction lag of the paper-based reporting system and increase response rates. Because projects begin annual operations at different times, the data reflect projects that ended their operational year in 2008 and whose Annual Progress Reports were entered in HUD's database by September 30, 2008. Due to the varied operation dates for projects, the data for all Annual Progress Report-based indicators represent at least 39 percent of all projects operating in 2008. An independent assessment in 2004 showed that CPD-Annual Progress Report performance indicator data passed quality tests for validity, completeness, and consistency.

C.13: The percentage of Housing Opportunities for Persons With AIDS program clients who maintain housing stability, avoid homelessness, and access care will reach 80 percent by 2008.

Public Benefit. Housing Opportunities for Persons With Aids-supported stable housing serves as a base from which program beneficiaries may participate in an effective comprehensive care program that enables this special needs population, who face other life challenges such as mental illness, substance abuse, and alcoholism to access required HIV care and treatment. In providing supportive housing to this special needs population of low-income persons living with HIV/AIDS and their families, Housing Opportunities for Persons With AIDS grant recipients must report on their client outcomes. This goal was further refined to show achievement based on the focus of their project activities, either in providing permanent housing or in using other short-term and transitional program efforts.

The revised performance goals for these objectives are that by 2012, grantees in housing stability for clients in permanent housing will reach 90 percent, and reduced risks of homelessness for clients in short-term or transitional housing will reach 70 percent. These long-term measures involve interim annual goals, targeting results to 80 percent for permanent housing projects in 2008 and in establishing a meaningful target for short-term efforts along with achieving 60 percent in 2009. The activities of the Housing Opportunities for Persons With AIDS program support HUD's 2006-2011 Strategic Plan goals to: promote decent affordable housing and strengthen communities under the objectives to expand access to affordable rental housing, end chronic homelessness, and move homeless families and individuals to permanent housing.

Background. The Housing Opportunities for Persons With AIDS program was rated "Effective" under the 2008 Performance Assessment Rating Tool assessment. The Department has successfully established client outcome goals in using these targeted federal resources. These goals were implemented with the use of data collection tools and related training on evaluating client outcomes based on assessing the status of their housing situations in quantifying the benefits received through the program's assistance. This outcome indicator reflects the Department's priority for providing stable and permanent housing assistance to one of our country's most vulnerable populations – very low-income persons who are living with HIV or AIDS and face risks of homelessness and other challenges. The housing assistance also serves as a base to access other care and support. Housing Opportunities for Persons With AIDS programs provide housing resources and related support through 121 formula and 102 competitive grants with assistance provided through partnerships with over 850 nonprofits and local housing agencies.

In completing the program's Performance Assessment Rating Tool review with OMB in 2008, HUD evaluated outcome data. Consistent with the Performance Assessment Rating Tool assessment, HUD refined the Housing Opportunities for Persons With AIDS outcome measure, to show outcome results relative for two distinct service delivery areas of the program: 1) housing stability in permanent housing and 2) reduced risks of homelessness in short-term and transitional housing. Permanent housing is provided through programs offering tenant-based rental assistance and shown in beneficiaries having housing arrangements and related support that is on-going. Within the next year, data used for this measure will also include client outcomes from households in permanent housing facilities, once a full year of this data is available. For the related outcome measure, the short-term and transitional housing efforts are designed to help households with severe risks of homelessness avoid displacement from current housing or address needs through transitional support, such as addiction counseling and treatments. The results of short-term efforts are also assessed under the new focus on Housing Opportunities for Persons With AIDS outcomes, in these efforts as beneficiaries are out-placed into other permanent housing support, are restored to more independent living or temporarily reduce their risk of homelessness thought the short-term support. The updated 2008 PART assessment is found at: http://www.whitehouse.gov/omb/expectmore/rating/effective.html

Program Website. http://www.hud.gov/offices/cpd/aidshousing/index.cfm

Results and Analysis. The Housing Opportunities for Persons With AIDS program has demonstrated success in achieving its performance goals and grantee performance reports received in program year 2007-2008 indicate that 92 percent of households receiving tenant-based rental assistance achieved housing stability (compared to the 80 percent goal for this year). Initial data on permanent housing facilities report that 88 percent of residents have obtained stable housing arrangements. These results approach HUD’s long-term 2012 performance targets of achieving 90 percent housing stability for this permanent housing component.

Program year 2007-2008 data from the short-term/transitional projects show that 62 percent of households receiving short-term rent, mortgage, and/or utility payments have stable outcomes or reduced risk of homelessness, as well as 64 percent of households participating in transitional housing programs (as reported in initial data), exceeding the goal established for 2009 at 60 percent. These results approach HUD’s long-term 2012 performance targets of achieving 70 percent reduced risks of homelessness for this component of Housing Opportunities for Persons With AIDS housing efforts by 2012. In 2009, the program annual goals are set to achieving stable results for 85 percent of beneficiaries of permanent housing projects and 60 percent of short-term or transitional projects.

Resources and Performance Link. In FY 2008, $300.1 million was appropriated to carryout the Housing Opportunities for Persons With AIDS mission. Grantees reported partnerships with 845 project sponsors, including 599 nonprofit organizations and 127 identified faith-based organizations, along with 119 government agencies. These new resources to be used over the next three years become available to communities through the Consolidated Planning process and through competitive grant selection and award procedures. The recent record of outlays by grantees in FY 2008 is $313.8 million, operatively above the level of appropriations from FY 2007 ($286.1 million), and the amount newly allocated under the FY 2008 appropriation ($300.1 million).

HUD has worked in partnership with the Centers for Disease Control and Prevention (CDC) to conduct a Housing and Health (H&H) study on the benefits of Housing Opportunities for Persons With AIDS rental housing assistance to persons living with HIV/AIDS who were homeless or at severe risk of homelessness in order to advance the body of knowledge on the relationship between housing and HIV care. Initial publications are found in the November 2007 supplement to *AIDS and Behavior*, see http://www.nationalaidshousing.org/PurchaseAIDSandBehavior.htm. The study has revealed that the use of supportive housing as an intervention for special needs households who are homeless would help reduce use and related costs for emergency services, hospitalization, and nursing care, once beneficiaries were stabilized in housing and with adequate health care arrangements. Preliminary data showed that for clients who were homeless, daily support in supportive housing efforts averages $34 per day, compared to hospitalization costs of $2,168 per day, and nursing care at $84 to $132 per day.

Currently, HUD has been measuring efficiency for the Housing Opportunities for Persons With AIDS program by comparing Housing Opportunities for Persons With AIDS housing subsidy costs combining data on rental assistance costs and short-term rent payments. These costs on average of households assisted were compared to average per unit costs for the Housing Choice Voucher program. Data for program year 2007-2008 indicates an average Housing Opportunities for Persons With AIDS program cost of $3,964 per household assisted in annual rental assistance programs ($330 per month), compared to the HUD Housing Choice Voucher Program which operates at approximately $6,984 per household assisted ($582 per month). The data show that the Housing Opportunities for Persons With AIDS program is cost effective. Five-year trends also show strong performance and consistently high levels of outlays ($287 million average per year, over five years), while the levels of appropriations have remained relatively stable. The FY 2004 appropriation was $294.8 million compared to FY 2008 at $300.1 million.

Data Discussion. Assessment of performance is required for both types of formula and competitive Housing Opportunities for Persons With AIDS grants, as implemented in standard program reporting forms, the Consolidated Annual Performance and Evaluation Report for formula grants along with related data elements in Integrated Disbursement and Information System (IDIS) and in the Annual Progress Report for competitive grants (updated 1/2008). In addition to documents and guidance available on the website, technical assistance is provided to grantees to implement reporting requirements, including data collection and verifications efforts, evaluation of results and posting of profiles. As a result, the Department has been able to collect a significant new level of information on outcomes for beneficiaries. A substantial new level of information is now available on program achievements in reporting on outcomes, as presented in the 2008 Performance Assessment Rating Tool assessment, resulting in the program's "Effective" rating. In addition, as part of collaborations during this second implementation year under the outcome focus; grantees were provided a revised reporting form that clarified nine issues and participated in additional program training that enhanced the effectiveness of the reporting. The program is also supported in undertaking quality assessment of the data collection efforts.

FHA/Housing

C.14: At least 35 percent of single family mortgages endorsed for insurance by FHA are in underserved communities.

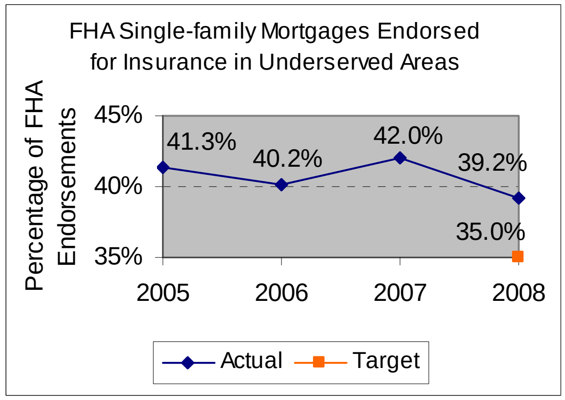
Public Benefit. FHA's role in the mortgage market is to extend homeownership opportunities to families that otherwise might not achieve homeownership. There is substantial evidence that the conventional mortgage market does not serve lower income and minority neighborhoods as well as more affluent and non-minority neighborhoods. FHA lending in disadvantaged neighborhoods increases the homeownership rate. To strengthen this indicator's focus on outcomes despite variations in the volume of single family endorsements, it was revised to ensure that at least 35 percent of all single family mortgages endorsed for insurance by FHA are in underserved areas.

Background. Underserved neighborhoods in metropolitan areas are defined as census tracts either with a minority population of 30 percent or more and median family income does not exceed 120 percent of the area median income, or with median family income no more than 90 percent of area median income (irrespective of minority population percentage). Rural underserved areas apply to non-metropolitan communities with a minority population of 30 percent or more based on census tracts data and median family income does not exceed 120 percent of the area median income, or with median family income no more than 95 percent of the greater of the state or national non-metropolitan median income (irrespective of minority population percentage).

Historically, the non-FHA mortgage market, as demonstrated by high mortgage denial rates and low mortgage origination rates, has underserved these neighborhoods.

Program Website. http://www.hud.gov/offices/hsg/sfh/hsgsingle.cfm

Results and Analysis. During FY 2008, 39.2 percent (455,523 out of 1,160,956) of single family mortgages endorsed for insurance by FHA were in underserved communities, thus meeting the goal. This result greatly exceeds the target of 35 percent and illustrates FHA's continued success in expanding homeownership opportunities, including in historically underserved communities. The high degree of success in providing service to underserved areas continues to show strong improvement, as evidenced by the increase from 34.7 percent in FY 2003 to the achievement of 39.2 percent in FY 2008. This continued success is attributable to marketing and outreach activities in underserved communities. FHA will continue its efforts to provide safe and affordable home financing options in underserved communities through participation in conferences, seminars, and other outreach events.



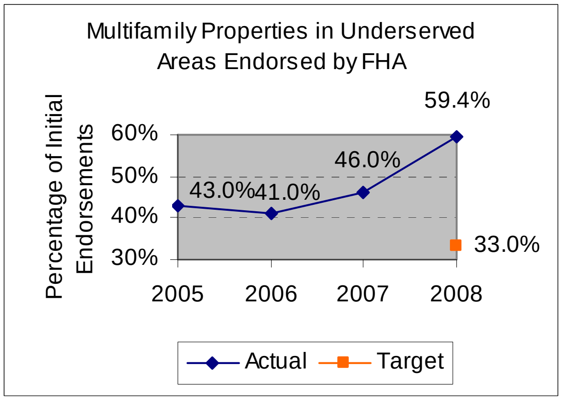
Resources and Performance Link. FHA and the Office of Single Family Housing administer the 203(b), 234(c), and Home Equity Conversion Mortgage loan products. These programs are self-sustaining and generated sufficient income through operations without requiring any funding through Congressional appropriations for FY 2008. In FY 2008, the Office of Single Family endorsed a record percentage of endorsements in underserved areas. In FY 2008, the Mutual Mortgage Insurance Fund endorsed approximately $171.8 billion of mortgages. A trend of increasing endorsements in underserved areas has emerged over the past few years. HUD's commitment to promoting endorsements in underserved communities results in not only homeownership but also can promote neighborhood stability and revitalization.

Data Discussion. This measure uses data from FHA's Consolidated Single Family Statistical System (F42). This measure may fluctuate when the census tracts constituting underserved areas are redefined using the latest census data. The fluctuations are not expected to substantially reduce the reliability of this national summary measure. An independent assessment completed in 2004 showed that Consolidated Single Family Statistical System performance indicator data passed six-sigma quality tests for validity, completeness, and consistency. HUD verifies FHA data for underserved communities by comparison with Home Mortgage Disclosure Act data.

C.15: The share of multifamily properties insured by FHA in underserved areas is maintained at 33 percent of initial endorsements.

Public Benefit. This indicator measures the number of FHA and Risk Sharing initial endorsements (loan closings) held in FY 2008 on properties located in underserved areas (census tracts with concentrations of low- and moderate-income and/or minority families). Housing is more difficult to finance in these areas because family incomes limit rents, and some lenders perceive these areas to be more risky. Because FHA insurance and Risk Sharing guarantees protect lenders if borrowers default, these tools make lenders more willing to finance housing and contribute directly to HUD's strategic goal of providing decent and affordable housing in underserved areas.

Background. Basically, "underserved areas" are census tracts that have either: 1) median income at or below 120 percent of the median income *and* a minority population of 30 percent or greater; or 2) median income at or below 90 or 95 percent of the median income (regardless of minority percentage). A more detailed, formal definition is provided at the website noted below. By providing FHA insurance and risk sharing guarantees, HUD facilitates refinancing, repair and construction of rental housing the low- and moderate-income residents of these areas need. FHA insurance and Risk Sharing supported 404 loans (with 41,221 units/beds) in FY 2007 and 384 loans (with 43,147 units/ beds) in FY 2008.



Program Website. http://hudatwork.hud.gov/po/h/hm/fog/dev/underservedgeocodesrv.cfm

Results and Analysis. The target was exceeded. During FY 2008, Multifamily Development initially endorsed 647 FHA and Risk Sharing loans and 384 (59.4 percent) of those loans were for properties located in underserved areas. While Multifamily exceeded the goal, FY 2008's 384 loan count was just slightly less than the 404 and 420 loans endorsed in underserved areas in FY 2007 and 2006, respectively. The underserved area loan count was down because FY 2008's total production (647 loans) was less than the 881 and 1016 endorsements for FY 2007 and FY 2006, respectively.

The 384 properties provided 43,147 units/beds in 44 states, Puerto Rico, and the District of Columbia. These properties supported a variety of shelter options: 291 apartments; 68 nursing homes; 22 assisted living facilities; two co-ops; and one mobile home park. Of the 384 properties, 84 involved new construction or substantial rehabilitation. The remaining 300 involved refinancings or repairs that improved the affordability and physical conditions of housing units.

In total, 176 (46 percent) of the 384 loans were made under special initiatives that make the units affordable specifically to low- and moderate-income families. Of the 176 loans, 103 loans refinanced Section 202 Elderly Housing projects, 16 loans decoupled Section 236 Interest Reduction Payment (IRP) contracts, and 57 projects received Low-Income Housing Tax Credits (LIHTC) in conjunction with these loan transactions.

While the Department has consistently met or exceeded a 33 percent underserved areas goal, achieving a 33 percent goal in FY 2009 will be more difficult. Of the 384 underserved area cases insured by FHA in FY 2008, 290 (76 percent) were refinancings and 103 (27 percent) were refinancings of 202 elderly housing loans. Since nearly all Section 202 Housing for the Elderly projects and a high percentage of non-elderly properties needing refinancings already refinanced, FHA refinancing activity in underserved areas will likely decline in FY 2009. To revive overall loan production and keep production in underserved areas at or above 33 percent of total endorsements, Multifamily will work with the industry and field staff to identify ways in which FHA and risk sharing programs can be streamlined and made even more attractive than they already are. Multifamily will also encourage its risk sharing partners (state housing agencies, Fannie Mae, and Freddie Mac) to make loans in underserved areas.

Resources and Performance Link. Loan authority and credit subsidy were more than adequate to cover the FY 2008 production level and neither is expected to constrain future production. Production levels will be driven more by economic factors such as interest rates; housing demand and supply; availability of credit and equity; and confidence in the economy. Regardless of the production level, Multifamily will require systems development funding and adequate staffing in both Headquarters and Multifamily's field offices. While current staff levels are handling current workload, spot shortages of technical skills (e.g., appraisal, mortgage credit, etc.) essential to efficient underwriting are appearing as Development staff retire and these shortages could cause processing delays and discourage borrowers from choosing FHA. To avoid such delays, Development is exploring work sharing across offices, centralizing some programs (e.g., health care loans) within selected offices, and filling critical vacancies.

Data Discussion. Initial endorsements are the loan closings recorded in the Development Application Processing system (DAP) and the F47 Multifamily Insurance System, as described in detail in Indicator B.4. Underserved area is derived using the procedures posted at the website noted above. Briefly, the Office of Policy Development and Research determines which census tracts meet the definition of underserved and annually posts a database listing each tract as served or underserved. To do so for FY 2008, Policy Development and Research used the 2000 Census' census tract boundaries, tract numbering system, and median income and minority percentage data and OMB's June 2003 Metropolitan Statistical Area specifications updated through October 2007. HUD's contractor (the Geocode Service Center) reads and standardizes property addresses HUD staff have entered in Integrated Real Estate Management System (iREMS), derives the geocodes (census tract, state, etc.) associated with each address, and looks up each census tract in Policy Development and Research's table. The Geocode Service Center's conclusion on served/underserved status is read into Integrated Real Estate Management System (iREMS) which contains reports that list the served status of each endorsement. Multifamily's conclusions on served status should be very accurate as Policy Development and Research, the Census Bureau, and OMB have rigorous data quality standards and all geocoding and status look-ups are done electronically using well-respected geocoding software.

C.16: HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined geographic targets for mortgage purchases in underserved areas. (HUD responsibility ended during FY 2008.)

The Department will no longer be reporting on Fannie Mae's and Freddie Mac's performance. Pursuant to the Housing and Economic Recovery Act of 2008, which became law on July 30, 2008, HUD's regulatory responsibilities over Fannie Mae and Freddie Mac (government sponsored enterprises) have transferred to a new regulator, the Federal Housing Finance Agency, effective immediately. This means, among other things, that the Federal Housing Finance Agency assumed responsibility for the affordable housing goals.

Prior to the Housing and Economic Recovery Act of 2008, the Secretary of HUD was the mission regulator for the government sponsored enterprises, with oversight authority to ensure that both government sponsored enterprises complied with the public purposes set forth in their charters. HUD had general regulatory authority for oversight responsibilities, which included establishing housing goals; monitoring and enforcing compliance with housing goals; new program approval; collecting loan-level data from the government sponsored enterprises on their mortgage purchase activities; making available to the public a database on non-proprietary government sponsored enterprise loan purchase data; and ensuring government sponsored enterprises compliance with fair lending requirements. An independent office of HUD, the Office of Federal Housing Enterprise Oversight, regulated the government sponsored enterprises for safety and soundness by ensuring that they were adequately capitalized and operating their businesses in a financially sound manner.

With the exception of fair lending oversight, which remains at HUD, HUD's mission oversight responsibilities, as well as the Office of Federal Housing Enterprise Oversight's safety and soundness responsibilities, have been transferred to the Federal Housing Finance Agency.

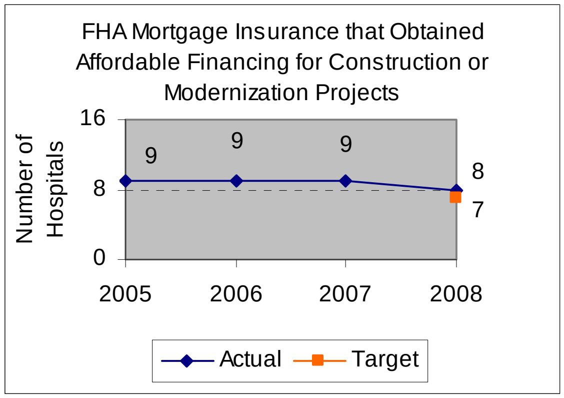
Additional information regarding the role and function of the Federal Housing Finance Agency will be available on its website, currently in development.

C.17: FHA mortgage insurance enables at least seven hospitals to obtain affordable financing for construction or modernization projects.

Public Benefit. This indicator measures the number of hospital mortgage insurance commitments issued through Section 242 and 241 of the National Housing Act. Hospitals and their construction projects help strengthen communities by contributing to local economies and the quality of life of community members. The number of employees, the total dollar amount of payroll, and the high average wage rate paid by hospitals represent a very positive, direct economic affect on the hospital's service area and community. An FHA study completed in October 2008, using the widely-respected Impact Planning and Analysis (IMPLAN) economic model, estimates that an investment in a hospital construction project creates a large number of construction and permanent jobs and generates an economic ripple effect that greatly benefits the hospital's community.

Background. FHA Section 242 mortgage insurance enables hospitals to access the capital they need in order to renovate, expand, or replace facilities to better serve their communities. FHA mortgage insurance enables hospitals to obtain a credit rating of AA for their projects. This credit enhancement significantly reduces borrowing costs for hospitals, making critical construction projects possible.

Program Website. http://www.fha.gov/healthcare/index.cfm



Results and Analysis. The target was exceeded. Eight commitments for hospital mortgage insurance were issued during FY 2008, compared to a goal of seven. FHA's commitments totaled $712 million.

According to the results of the Impact Planning and Analysis (IMPLAN) economic model, FHA's FY 2008 hospital projects will generate an economic impact of $1.65 billion and create over 5,000 jobs during the construction period alone. Once completed, these projects will create and sustain over 3,000 additional jobs and generate an annual economic benefit to their communities of $526 million.

FHA's commitments also result in significantly reduced borrowing costs for hospitals. Mortgage bankers representing the eight hospitals that received commitments in FY 2008 estimate that FHA insurance will save these facilities approximately $129.3 million in interest expenses over the lives of these loans, with a net present value of $56.8 million.

Resources and Performance Link. FHA and the Office of Insured Health Care Facilities direct the Section 242 Program, a loan guarantee program with a negative-credit subsidy receiving no appropriation from Congress. In FY 2008, the Program office issued eight commitments for rural, suburban, and urban hospitals ranging from a tiny critical access hospital in South Dakota to a major medical center outside Los Angeles, California.

Data Discussion. There are no complex data requirements to measure this result. The period of the data (number of commitments issued) is FY 2008. The data are complete, valid, and reliable.

C.18: The share of units that have functioning smoke detectors and are in buildings with functioning smoke detectors will be 92.8 percent or greater for multifamily housing.

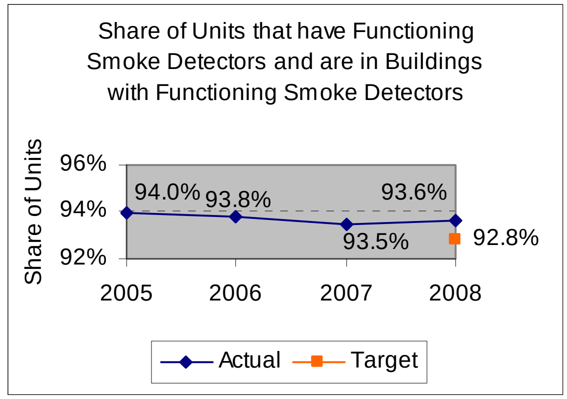
Public Benefit. This indicator helps measure the overall physical condition, health, and safety, as well as corrective actions taken on deficiencies, for Multifamily privately owned properties. This measure contributes to HUD's strategic goal of providing decent, safe, and affordable housing.

The goal was accomplished with the percentage accomplishment remaining essentially unchanged from the previous year.

Background. This indicator measures the share of units that are protected by a fully functional smoke detection system, defined as smoke detectors that are observed to be both present in the unit as well as the building in which the unit is located. Functional smoke detection systems in common areas of a building are critical to overall fire safety. The National Fire Protection Association reports that although smoke alarms cut the chances of dying in a fire by 40 to 50 percent, about one-quarter of U.S. households lack working smoke alarms. HUD's Real Estate Assessment Center's physical inspections of public and assisted housing include checks of fire safety features including the presence of operational smoke detectors in housing units, common areas, and utility areas of buildings.

Program Website. http://www.hud.gov/offices/hsg/hsgmulti.cfm

Results and Analysis. The target was exceeded. As of the end of FY 2007, 93.6 percent of HUD-involved assisted multifamily units (2,550,722 of 2,724,110) are projected to have working smoke detectors based upon statistical sampling. This exceeds the goal of 92.8 percent by 0.8 percent.



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

Resources and Performance Link. Funding for multifamily properties is provided through the Project-Based Rental Assistance Account, unlike the Office of Public and Indian Housing which uses the Capital Fund Program for maintenance of public housing properties, including maintenance of smoke detectors. Funding for multifamily properties has been on a current services basis in recent years.

Data Discussion. Data for this indicator are from the Real Estate Assessment Center's Physical Assessment Subsystem, based on a sample of units from each project, and weighted to represent the entire stock. For private multifamily properties, results for FY 2008 reflect the most recent inspections available as of September 30, 2008.

C.19: By September 30, 2008, HUD will establish fully operational dispute resolution and installation programs in HUD-administered states.

Public Benefit. This indicator helps to improve the safety and quality of manufactured homes through the full and complete establishment of dispute resolution and installation programs in HUD-administered states.

Background. The Manufactured Housing Improvement Act of 2000 (the Act) establishes new responsibilities and procedures for the Department with respect to its role in regulating Manufactured Housing. The Department was to establish installation and dispute resolution programs for manufactured homes within five years of the date of the Act. This will help accomplish the ultimate outcomes of improving the safety and quality of manufactured homes.

Program Website: http://www.hud.gov/offices/hsg/sfh/mhs/mhshome.cfm

Results and Analysis. In FY 2008, the Department fully established these programs. HUD's FY 2008 performance goal is to ensure that the two new programs are fully established in the HUD-administered states. In order to meet the Act's milestones, HUD's own internal actions for the installation and dispute resolution programs were essential. The Dispute Resolution Program became fully effective on February 8, 2008. The Final Rule for the Installation Standards established the program and was published on October 19, 2007, and the program will become operational on October 20, 2008. The Final Rule for the Installation Program Regulations was published on June 20, 2008, and will be effective the same date as the Standards.

Resources and Performance Link. The Manufactured Housing Program is funded solely from the income of manufactured housing fees collected on each transportable unit produced during the fiscal year. With production levels at their lowest point in over twenty years, the program collected only $6 million in FY 2008, although Congress authorized an appropriation of $16 million. This fee pays for staff salaries, in addition to payments to states and contracting costs. An operational budget of 50 percent of its appropriated amount reduced program capacity significantly, delaying work on all program activity, including establishment and administration of programs.

Data Discussion. Accomplishments are assessed through weekly reports submitted to the Assistant Secretary for Housing-Federal Housing Commissioner and are verifiable by consulting HUD's website.

Healthy Homes and Lead Hazard Control

C.20: The number of children under the age of 6 who have elevated blood lead levels will be less than 220,000 in 2008.

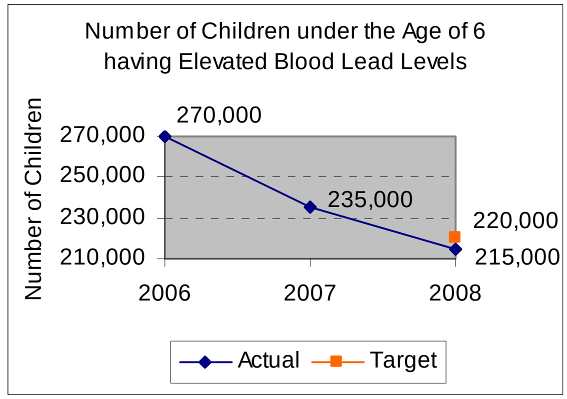
Public Benefit. Lead poisoning is the number one environmental disease impacting children. Consequences for the community include higher health care costs, lower academic performance, special education costs, higher delinquency, and lower earning capacity in adulthood. A child under age six is said to have an elevated blood lead level (i.e., be lead poisoned) if the child's blood is confirmed as having at least 10 micrograms of lead per deciliter[1]. These children, especially those less than 3 years old, are vulnerable to permanent developmental problems because of the well-documented effect of lead on developing nervous systems.

Background. This outcome indicator responds to the President's and the Secretary's priority effort to eliminate lead poisoning in children as a major public health problem by 2010; confirmatory data are expected from the Centers for Disease Control and Prevention by 2013. The number of children under the age of six who have elevated blood lead levels was less than 220,000 in 2008; the number is projected to be less than 200,000 in 2009. Childhood lead poisoning is more common among low-income children, urban children, and those living in older housing. The most significant cause of childhood lead poisoning is exposure to lead in dust generated from paint in and around the child's home. HUD has conducted the Nation's most extensive evaluation and control programs for lead hazards in housing, using grants supplemented by focused contracts and interagency agreements.

Program Website. www.hud.gov/offices/lead

Results and Analysis. The outcome target was met. Data from the Centers for Disease Control and Prevention's National Health and Nutrition Examination Survey indicate that fewer than 220,000 children had elevated blood lead levels for 2008. This meets the target and continues the downward trend of previous years.

[1] www.cdc.gov/mmwr/preview/mmwrhtml/mm5420a5.htm.



At the baseline period of 1991-1994, the Survey indicated that there were 890,000 children with elevated blood lead levels. HUD has undertaken to control lead hazards in housing through grants and enforcement of HUD's lead regulations, has conducted outreach on this issue, and has expanded the public/private infrastructure needed to implement the program. In addition to the grant programs, HUD enforces two housing-related lead safety regulations and partners with the Centers for Disease Control and Prevention, the Environmental Protection Agency, other federal, state, and local agencies, and with the private sector, to implement its lead hazard control effort. As a result, the number of children with elevated blood lead levels has dropped to fewer than 220,000. Continuation of this trend would put a stop to the totally avoidable epidemic of lead poisoning caused by housing. At that point, a national effort that ensures the integrity of lead-based paint in homes will avoid the potential for a rebound (as happened with tuberculosis) and keep our children lead safe. The number of children under the age of six who have elevated blood lead levels is projected to be less than 200,000 in 2009.

Resources and Performance Link. Funding for the lead hazard grant programs and the accompanying lead technical contracts program has been decreasing by about four percent per year since FY 2003, when Congress expanded the budget to include the Lead Hazard Demonstration Grant Program. In FY 2008, Lead Hazard reduction and technical studies funding was $130.4 million, down from $138.2 million in FY 2007. The number of housing units that can be made lead safe through both the grant and enforcement programs is a direct function of the funding level. The results are directly linked to the accomplishments of HUD grantees under its lead grant programs and of HUD's regulatory enforcement program. The grants provide communities with the funding resources and technical information to reach out to property owners and the lead hazard evaluation and control industries to establish and implement programs that make homes lead safe. The regulatory enforcement program targets violators and reaches agreements with them to control lead hazards in housing in addition to paying fines.

Data Discussion. The National Health and Nutrition Examination Survey, conducted by the Centers for Disease Control and Prevention, uses actual physical examinations of a large, nationally representative sample of children to determine blood-lead levels, among other things. This survey, the only national survey of children's blood lead levels, is regarded as providing the best national estimate of a number of health outcomes and incorporates a variety of quality control and verification procedures that make it reliable. The Centers for Disease Control and Prevention's long-term quality control data for blood lead tests validate the survey results. The Childhood Blood Lead Surveillance program, which supports state blood lead surveillance efforts, also includes a validation component[2]. HUD does not verify the survey results independently because doing so would unnecessarily duplicate the Centers for Disease Control and Prevention's verification procedures. The survey cannot identify the source of elevated blood lead levels.

[2] See www.cdc.gov/nceh/lead/surv/surv.htm.

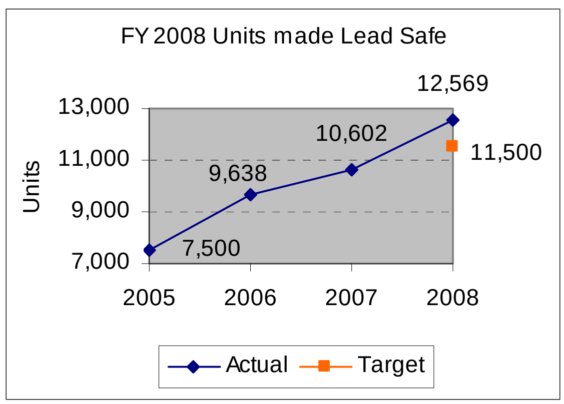
C.21: As part of a 10-year effort to eradicate lead hazards, the Lead Hazard Control Grant programs will make 11,500 units lead safe in FY 2008.

Public Benefit. Lead poisoning is the number one environmental disease impacting children. Consequences for the community include higher health care costs, lower academic performance, special education costs, higher delinquency, and lower earning capacity in adulthood. A child under age six is said to have an elevated blood lead level (i.e., be lead poisoned) if the child's blood is confirmed as having at least 10 micrograms of lead per deciliter[3]. These children, especially those less than 3 years old, are vulnerable to permanent developmental problems because of the well-documented effect of lead on developing nervous systems.

Background. The Lead Hazard Control Grant program goal for FY 2008 was to make 11,500 housing units lead safe as a result of lead hazard control work as verified by independent clearance examination. Because the most significant cause of childhood lead poisoning is exposure to lead in dust generated from paint in and around the child's home, a substantial lead hazard control effort is essential to the President and the Secretary's priority effort to eliminate lead poisoning in children as a major public health problem by 2010.

The Office of Healthy Homes and Lead Hazard Control provides grants to state and local government agencies, and to private sector organizations, to control lead and housing-related hazards in privately owned, low-income housing. The successful completion of lead hazard control work in a home is the independent determination that the work has been completed and that the lead dust levels are below the federal health-based standards (known as passing the clearance examination). The primary output measure of the program is the number of homes made lead-safe by the grantee.

Program Website. www.hud.gov/offices/lead



Results and Analysis. The target was exceeded. In FY 2008, the program exceeded its goal of making 11,500 housing units lead-safe by making 12,569 housing units lead-safe, which exceeds the goal by over nine percent. The performance continues a trend since FY 2005 of increased annual output.

As in previous years, the FY 2008 data were for housing units that passed clearance during the fiscal year after lead hazard work had been performed in them under the Office of Healthy Homes and Lead Hazard Control's lead hazard control grants. HUD's grants have achieved their success by providing communities with the funding resources and technical information to implement lead hazard control programs. The program has made a significant contribution toward the Presidential goal to eliminate lead poisoning in children as a major public health problem by 2010; external factors in the housing market (e.g., normal rates of renovation) appear to have also had a major impact. A rigorous, peer-reviewed scientific evaluation of the program found that the grant program hazard control methods reduce the blood lead levels of children

[3] www.cdc.gov/mmwr/preview/mmwrhtml/mm5420a5.htm.

occupying treated units and also significantly reduce lead dust in treated homes[4]. HUD expects grantees to continue to exceed the goal in FY 2009 by clearing 11,800 units as a result of increasing contractor and local government experience and technical advances.

Resources and Performance Link. Funding for the lead hazard grant programs and the accompanying lead technical contracts program has been decreasing by about 4 percent per year since FY 2003, when Congress expanded the budget to include the Lead Hazard Demonstration Grant Program. In FY 2008, Lead Hazard reduction and technical studies funding was $130.4 million, down from $138.2 million in FY 2007. The number of housing units that can be made lead-safe through both the grant and enforcement programs is a direct function of the funding level. The results are directly linked to the accomplishments of HUD grantees under the lead hazard control grant programs. The grants provide communities with the funding resources and technical information to reach out to the community and the lead hazard evaluation and control industries so they can establish and implement programs that make homes lead safe.

Data Discussion. This measure uses the Office of Healthy Homes and Lead Hazard Control administrative data derived from grant agreements, quarterly and final reports collected from grantees by its web-based Quarterly Progress Reporting System, as well as from monitoring. Reports provide detailed quantitative and qualitative information regarding progress, achievements, and barriers to performance, and are used to help grantees to maximize their performance, thereby protect the largest number of children possible from lead poisoning. The reporting system is supplemented by telephone and written communication, as well as on-site monitoring by HUD field and Headquarters staff, and quality assurance checks, including reviewing post-hazard control clearance reports for all units, and reviewing invoice documentation in detail for each grantee at least annually and as needed. The data are considered fully reliable and complete. Since the inception of the formalized Quarterly Performance Reporting System, data reporting errors have been negligible. The data are appropriately conservative in that they underreport the number of housing units made lead-safe as a result of public outreach/education programs; leveraging of other funds; federal, state, and local enforcement efforts; technical studies; and other HUD rehabilitation housing assistance covered by the HUD Lead Safe Housing Rule for assisted housing.

Public and Indian Housing

C.22: Overcrowded households in Indian Country shall be reduced by an additional three percent.

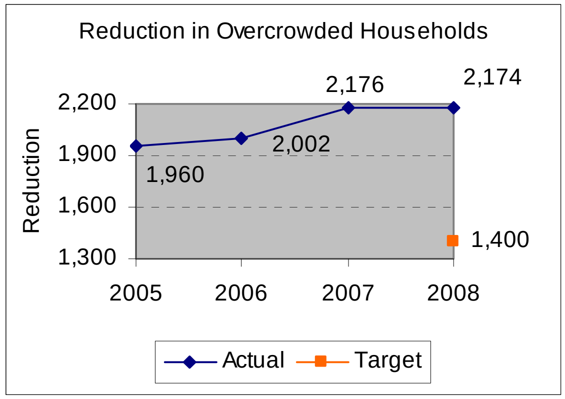
Public Benefit. The Department has identified overcrowding in Indian Country as a national concern. This indicator measures the reduction in the number of overcrowded households in Indian Country. Overcrowding in Indian Country is generally caused by a lack of available affordable housing and can lead to a range of health and social problems. The Indian Housing Block Grant program is designed to provide more housing and thus relieve overcrowding. This supports the Department's strategic goals of providing permanent housing to homeless families and mitigating housing conditions that threaten health.

[4] Dixon, S. et al., "Effectiveness of lead-hazard control interventions on dust lead loadings: findings from the evaluation of the HUD Lead-Based Paint Hazard Control Grant Program," *Environmental Research* 98 (303-314), 2005.

Background. During FY 2003, the Office of Native American Programs and several participating tribes developed an estimate of the extent of overcrowding in Indian Country, based partly on Census data. They concluded that an estimated 47,169 households were overcrowded in 2003. The Department's goal for the past several years had been to reduce the number of overcrowded households by one percent of that baseline, each year. Because of better than expected performance, the target was raised to three percent in FY 2008 and onward.

Program Website. http://www.hud.gov/offices/pih/ih/grants/ihbg.cfm

Results and Analysis. In FY 2008, the target was met. The Indian Housing Block Grant program funded the construction of 2,174 new affordable housing units, which significantly exceeds the target of three percent (1,400 units) of the 2003 baseline. Since HUD's Performance and Accountability Reports were published in FY 2006 and FY 2007, updated information has been aggregated in HUD's database. As of October 2008, the revised accomplishment for FY 2005 is 1,960; for FY 2006, 2,002; and for FY 2007, 2,176. Since FY 2003, the original baseline of 47,169 overcrowded households has been reduced by 13,749 households (29 percent) to 33,420 overcrowded households.



With increasing construction costs and the level of program funding remaining relatively flat for the last three years, HUD does not anticipate increased annual unit production for this indicator.

Resources and Performance Link. Over the last 5 years, the average appropriation for this program has been $629 million. For most of its grantees, the Indian Housing Block Grant is the sole source or the main source of funding for affordable housing. However, affordable housing projects in Indian Country tend to be long-term, and HUD has not observed performance levels immediately corresponding to changes in funding levels. Nevertheless, such corresponding changes would be inevitable over a course of several years. Also, performance levels for this indicator may not closely correspond to funding levels because grantees may choose to spend grant funds on other eligible activities other than new construction.

Data Discussion. Data on overcrowding come from the decennial United States Census. Data on the number of new housing units built are collected from more than 500 grantees' Annual Performance Reports, captured in the Performance Tracking Databases of each of the six Area Office of Native American Programs, and then aggregated into a national database at Headquarters. Grantees must report annually, no later than 90 days after their program year ends. The results reported herein include the most recent grantee fiscal year report received.

Accomplishments reported in this document will likely require annual revision as grantees continue reporting and submitting updates to their Annual Performance Reports. Indian Housing Block Grant recipients have 90 days after their fiscal year ends to report. Recipients whose fiscal year ends on September 30 report in the next fiscal year.

The current measurement method assumes that each new housing unit constructed relieves overcrowding by one household. HUD recognizes this is an imperfect method to measure overcrowding, but a more precise, cost effective, and feasible measurement tool has not yet been identified. It would be cost prohibitive to conduct an annual census, and so the exact number of the new units that specifically go toward the reduction of the overcrowding cannot be determined. A study was conducted to examine the feasibility of alternative measurement methods, and several are being considered. HUD has worked with tribal housing representatives to revise the planning and reporting forms that grantees are required to submit annually. The improved forms will be designed to collect more information relevant to overcrowding and other housing conditions, while simplifying the overall planning and reporting processes.

Goal D: Ensure Equal Opportunity in Housing

PERFORMANCE REPORT CARD - GOAL D

	Performance Indicators	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2008 Target	Met	Notes
	Fair Housing and Equal Opportunity							
D.1	Increase the impact of Fair Housing Act enforcement by increasing the efficiency of fair housing complaint processing.							
	HUD will close or charge 55 percent of its Fair Housing Act complaints filed during the fiscal year within 100 days.	N/A	N/A	N/A	60.0%	55.0%	✓	
	Fair Housing Assistance Program agencies will close 53 percent of fair housing complaints referred by HUD in 100 days, excluding recommended cause and systemic complaints.	48.0%	51.0%	46.0%	50.0%	53.0%	✗	
	HUD will close or charge 60 percent of its aged Fair Housing Act complaints within the fiscal year.	N/A	N/A	63.0%	73.0%	60.0%	✓	
	Fair Housing Assistance Program agencies will close or charge 95 percent of its aged Fair Housing complaints within the fiscal year.	N/A	N/A	N/A	97.0%	95.0%	✓	
D.2	Recipients of Fair Housing Initiatives Program education and outreach grants will hold at least 300 public events, to include outreach to faith-based and grassroots organizations, reaching at least 180,000 people.							
	Public events held	405	697	1,486	1,783	300	✓	
	People reached at public events	519,000	250,799	247,201	296,641	180,000	✓	
D.3	Increase the number of HUD-assisted units made accessible as a result of Voluntary Compliance Agreements.	N/A	N/A	Develop	Goal Met	Develop	✓	

N/A: Not available

D.1: Increase the impact of Fair Housing Act enforcement by increasing the efficiency of fair housing complaint processing.

1. HUD will close or charge 55 percent of its Fair Housing Act complaints filed during the fiscal year within 100 days.

Public Benefit. Enforcement of fair housing laws is crucial to enhancing housing opportunities for all people of the United States. The percentage of cases completed within 100 days is a key indicator for HUD because it affects the public's confidence in the Department's efforts to ensure equal opportunity in housing. Victims of housing discrimination need to know that they will receive timely relief from discriminatory housing practices in order to file complaints with the Department.

Background. The Fair Housing Act ensures everyone the right to seek, purchase, rent, and occupy housing free from discrimination. The Fair Housing Act charges HUD with being the principal enforcer of those rights, allowing the Department to receive and investigate complaints of housing discrimination. The Fair Housing Act prescribes that HUD complete investigations of housing discrimination complaints within 100 days, unless it is impracticable to do so. The Department's goal is to provide effective, quality investigations within 100 days, with an understanding that, as implied in the Act, some percentage of cases will require a longer investigation period.

The FY 2008 target represents a change in how HUD examines its efficiency in case processing. In previous years, HUD excluded a subset of complex cases from the measure in an attempt to recognize that some types of cases require more than 100 days. The revised measure includes all cases that could pass 100 days in FY 2008 and is therefore a more accurate reflection of HUD's efficiency in case processing.

Program Website. http://www.hud.gov/fairhousing

Results and Analysis. HUD completed 60 percent of its new cases in FY 2008 in 100 days. This exceeded the target of closing 55 percent within 100 days by five percentage points, or nine percent.

This increase is attributable to a number of factors. First and foremost, HUD investigators were more efficient in their handling of fair housing investigations. In addition, in FY 2008, the Office of Fair Housing and Equal Opportunity began tracking its performance on this indicator on a monthly basis. This allowed Fair Housing and Equal Opportunity to allocate resources to offices to ensure an even distribution of the workload. This resulted in more efficient case processing.

Resources and Performance Link. One of the most crucial resources when investigating fair housing cases is staffing. Sufficient staffing allows the Department to ensure that each investigator is carrying a workload that allows him or her to conduct a timely and quality investigation of a fair housing complaint.

Over the past five years, staffing in Fair Housing and Equal Opportunity has decreased, from 710 in FY 2004, to 582 in FY 2008. The number of cases investigated by HUD has decreased as well, from 2,884 in FY 2004, to 2,513 in FY 2008. However, this represents only a portion of fair housing case investigations overall. In addition to cases directly investigated by HUD, fair housing agencies also investigate fair housing cases and together total investigations have increased in recent years.

Data Discussion. The Department records and maintains case data in the Office of Fair Housing and Equal Opportunity's Title VIII Automated Paperless Office and Tracking System. Data entries are verified through random checks of physical case files and documented case closures.

2. Fair Housing Assistance Program agencies will close 53 percent of fair housing complaints referred by HUD in 100 days, excluding recommended cause and systemic complaints.

Public Benefit. Enforcement of fair housing laws is crucial to enhancing housing opportunities for all people of the United States. The percentage of cases completed within 100 days by agencies in the Fair Housing Assistance Program is a key indicator for HUD because it has a profound impact on public confidence in the Department's efforts to ensure equal opportunity in housing. The 108 agencies in the Fair Housing Assistance Program provide the majority of fair housing enforcement in the country. In FY 2008, the Department and Fair Housing Assistance Program agencies across the country completed more than 10,000 investigations. Fair Housing Assistance Program agencies investigated more than 75 percent of those cases. Therefore the efficiency and quality of case processing by Fair Housing Assistance Program agencies has a significant impact on fair housing enforcement in the country.

Background. The Fair Housing Act provides everyone the right to seek, purchase, rent, and occupy housing free from discrimination. The Fair Housing Act also authorizes HUD to establish the Fair Housing Assistance Program. Under this program, the Department certifies that state and local fair housing laws are substantially equivalent to the Fair Housing Act and authorizes the agencies administering those laws to investigate housing discrimination complaints. If the Department receives a complaint within the jurisdiction of the Fair Housing Assistance Program agency, it will refer the complaint to that agency for investigation.

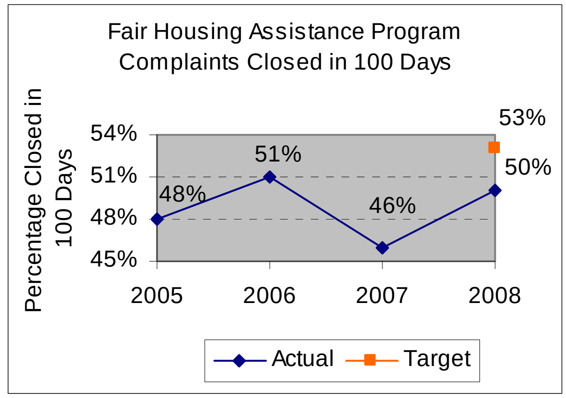
The Fair Housing Act and state and local laws that HUD has certified as substantially equivalent prescribe that investigations of complaints of housing discrimination be completed within 100 days, unless it is impracticable to do so. Fair Housing Assistance Program agencies provide effective quality investigations within 100 days, with an understanding that, as implied in the Act, some percentage of cases will require more time. Case processing efficiency is calculated by dividing the number of cases closed within 100 days by the number of defined cases closed during the fiscal year.

In FY 2009, the Department is revising this goal to mirror the efficiency goal for HUD. The former goal excluded a subset of complex cases from the measure in an attempt to recognize that some types of cases require more than 100 days. The revised measure will include all cases and is therefore a more accurate reflection of HUD's efficiency in case processing.

Program Website. http://www.hud.gov/offices/fheo/partners/FHAP/

Results and Analysis. HUD did not meet the case processing efficiency goal for Fair Housing Assistance Program agencies in FY 2008. Fair Housing Assistance Program agencies closed 50 percent of their cases within 100 days, three percentage points less than the goal of closing 53 percent within 100 days.

Resources and Performance Link. The Fair Housing Assistance Program received $25.62 million in funding for FY 2008 down from $26 million in FY 2007. There are currently 108 state and local agencies in the Fair Housing Assistance Program. HUD reimbursed Fair Housing Assistance Program agencies for each fair housing investigation completed. In FY 2008, the maximum reimbursement amount was $2,400 for each case with an additional $500 possible for complex or resource intensive cases. The standard reimbursement amount has remained constant since FY 2003.



Reasons for Shortfall / Plans and Schedule to Meet the Goal. There are two principal reasons that HUD fell short of meeting this goal. First, some jurisdictions have overriding concerns that require them to focus on goals other than completing cases within 100 days. For example, the California Department of Fair Employment and Housing is required under California Fair Employment and Housing Act to complete its investigations within 365 days, or it loses jurisdiction over the case and can no longer investigate it. This statutory requirement forces California Department of Fair Employment and Housing to focus on completing all of its cases within 365 days, rather than most of its cases within 100 days. This has a significant impact on the overall performance of the program because California Department of Fair Employment and Housing is the largest agency in the Fair Housing Assistance Program, responsible for processing approximately 15 percent of all Fair Housing Assistance Program cases in FY 2008.

Second, the Department pays agencies on a per case basis based on the Standards for Timeliness and Quality (the Standards). In FY 2008, the Standards authorized full payment of non-complex cases even if they were processed in over 100 days.

In an effort to meet the Fair Housing Assistance Program efficiency goal and create additional incentives to close non-complex cases within the statutory timeframe, the Department revised the Standards for FY 2009 to authorize full payment only for non-complex cases processed within 100 days.

Data Discussion. Fair Housing Assistance Program agencies record and maintain case data in the Office of Fair Housing and Equal Opportunity's Title VIII Automated Paperless Office and Tracking System. The data system entries are verified through random checks of physical case files and documentation of case closures.

3. HUD will close or charge 60 percent of its aged Fair Housing Act complaints within the fiscal year.

Public Benefit. The percentage of aged cases closed out by HUD is a key indicator for the Department because it reflects the Department's commitment to getting justice for victims of discrimination. This shows that, in addition to focusing on completing new cases in a timely manner, the Department is committed to completing a quality investigation on previously filed cases. It is critical that HUD complete the investigation of "aged" cases, those that have been open for more than 100 days, in order to instill public confidence and to preserve evidence.

Background. The Fair Housing Act directs HUD to complete its housing discrimination investigations within 100 days, unless it is impracticable to do so. The Department strives to complete most investigations within the prescribed period of 100 days, with an understanding that, as provided in the Fair Housing Act, some cases will require a longer investigation.

This indicator measures HUD's efficiency at closing cases that had been open for more than 100 days prior to the start of FY 2008. The Department added this indicator in FY 2008 in order to take a more comprehensive approach to its case processing. Previously, there was one indicator that measured the percentage of all cases that the Department closed within 100 days whether aged or not. Thus, any case that was open for more than 100 days would "count against" the previous Annual Performance Plan goal. The addition of this goal created an incentive to close those cases that exceeded 100 days and isolates the Department's performance on this subset of cases. Thus at the end of FY 2008, the Department had only 265 cases still open that had aged prior to FY 2008 though it started the year with an inventory of 979 cases that exceeded 100 days.

Program Website. http://www.hud.gov/fairhousing

Results and Analysis. The Department significantly exceeded this goal. In FY 2008, the Department closed 73 percent of its aged inventory by the end of the fiscal year. This was 13 percentage points, or a 22 percent increase, over the goal of closing 60 percent of the aged case inventory. It is a 10 percentage points, or 16 percent increase, from FY 2007, when the Department closed 63 percent of its aged cases.

Resources and Performance Link. The Fair Housing Assistance Program received $25.62 million in funding for FY 2008, down from $26 million in FY 2007. One of the most crucial resources when investigating fair housing cases is staffing. Sufficient staffing allows the Department to ensure that each investigator is carrying a workload that allows him or her to conduct a timely and quality investigation of the fair housing complaint.

Over the past five years, staffing in the Office of Fair Housing and Equal Opportunity has decreased, from 710 in FY 2004, to 582 in FY 2008. The number of cases investigated by HUD has decreased as well, from 2,884 in FY 2004, to 2,513 in FY 2008. However, this represents only a portion of fair housing case investigations overall. In addition to cases directly investigated by HUD, fair housing agencies also investigate fair housing cases and together total investigations have increased in recent years.

Data Discussion. The Department records and maintains case data in the Office of Fair Housing and Equal Opportunity's Title VIII Automated Paperless Office and Tracking System. Data entries are verified through random checks of physical case files and documented case closures.

4. Fair Housing Assistance Program agencies will close or charge 95 percent of its aged Fair Housing complaints within the fiscal year.

Public Benefit. The percentage of aged cases closed out by agencies in the Fair Housing Assistance Program is a key indicator for HUD because it reflects the Department's commitment to getting justice for victims of discrimination. Fair Housing Assistance Program agencies are responsible for the investigation of more than 75 percent of the fair housing complaints in this country. It is critical that the Department ensure that Fair Housing Assistance Program agencies complete the investigation of "aged" cases, those that have been open for more than 100 days, in order to instill public confidence and to preserve evidence.

Background. The Fair Housing Act and state and local laws HUD certifies as substantially equivalent prescribe that investigations of complaints of housing discrimination be completed within 100 days, unless it is impracticable to do so. The Department strives to complete most investigations within the prescribed period of 100 days, with an understanding that, as provided in the Fair Housing Act, some cases will require a longer investigation.

This indicator measures efficiency of Fair Housing Assistance Program agencies at closing cases that had been open for more than 100 days prior to the start of FY 2008. The Department added this indicator in FY 2008 in order to take a more comprehensive approach to its case processing.

Program Website. http://www.hud.gov/offices/fheo/partners/FHAP/

Results and Analysis. The Department exceeded this goal. Agencies in the Fair Housing Assistance Program closed 97 percent of the "aged" cases in their inventory in FY 2008. This was two percent more than the Department's goal of 95 percent. The agencies were just 38 cases away from closing out the entire aged case inventory for FY 2008.

One factor in the Fair Housing Assistance Program agencies' success in closing out their aged case inventory is the Fair Housing Assistance Program payment standards. HUD decreases the amount that it reimburses Fair Housing Assistance Program agencies based on the age of a case. The older a case is the less that the Department will reimburse the Fair Housing Assistance Program agency for its investigation. If a case is open for an excessive period of time, the Department can withhold payment entirely. As a result, Fair Housing Assistance Program agencies strive to maintain as few aged cases as possible from year to year in order to ensure their reimbursement.

Another contributing factor to the efficient handling of Fair Housing Assistance Program investigations is the training provided at HUD's National Fair Housing Training Academy. The Training Academy, established in 2004, provides comprehensive training for fair housing professionals. Since its inception, more than 2,647 fair housing professionals have attended classes there. This comprehensive program provides classes on intake, jurisdiction, investigation techniques, and conciliation strategies. These courses allow Fair Housing Assistance Program investigators to most efficiently provide a quality fair housing investigation.

Resources and Performance Link. The Fair Housing Assistance Program received $25.62 million in funding in FY 2008 down from $26 million in FY 2007. There are currently 108 state and local agencies in the Fair Housing Assistance Program. The Department reimbursed Fair Housing Assistance Program agencies for each fair housing investigation completed. In FY 2008, the maximum reimbursement amount was $2,400 for each case with an additional $500 for complex or resource intensive cases. The standard reimbursement amount has remained constant since FY 2003.

Data Discussion. Fair Housing Assistance Program agencies record and maintain case data in the Office of Fair Housing and Equal Opportunity's Title VIII Automated Paperless Office and Tracking System. The data system entries are verified through random checks of physical case files and documentation of case closures.

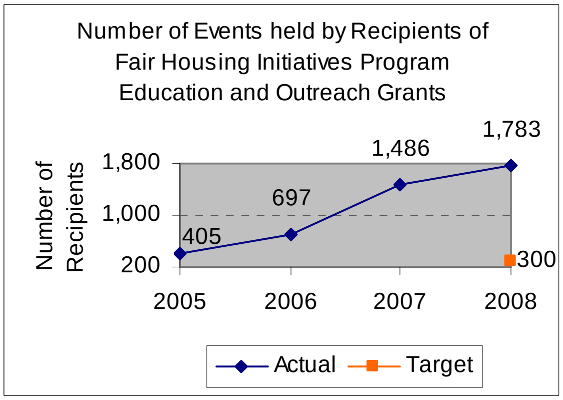
D.2: Recipients of Fair Housing Initiatives Program education and outreach grants will hold at least 300 public events, to include outreach to faith-based and grassroots organizations, reaching at least 180,000 people.

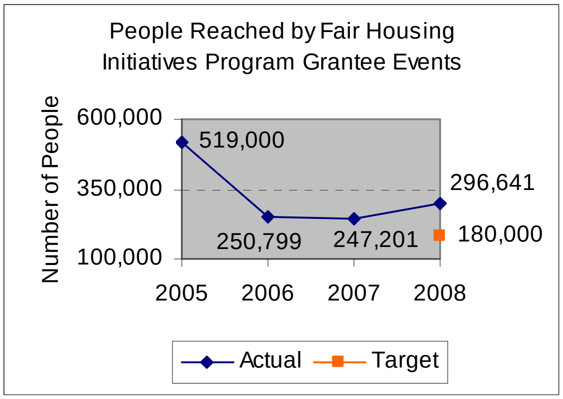
Public Benefit. Tracking outreach events by Fair Housing Initiatives Program grantees is an important indicator for HUD because it impacts the public's understanding of their fair housing rights. The Fair Housing Act's principal enforcement mechanism is the filing of individual complaints. It is therefore critical to fair housing enforcement that the public understand their rights and know how to file a complaint if those rights are violated.

Background. Created under the Housing and Community Development Act of 1987, the Fair Housing Initiatives Program provides funding to public and private organizations that develop programs that are designed to prevent or eliminate discriminatory housing practices. Through the Education and Outreach Initiative, the Fair Housing Initiatives Program provides grants to state and local government agencies and nonprofit organizations for initiatives that explain to the general public and housing providers what equal opportunity in housing means and what housing providers need to do to comply with the Fair Housing Act. To further these efforts these groups hold housing fairs, fair housing conferences, educational seminars, and outreach at community events.

Program Website. http://www.hud.gov/offices/fheo/partners/FHIP/fhip.cfm

Results and Analysis. HUD vastly exceeded this goal. Fair Housing Initiatives Program grantees held 1,783 education and outreach events and activities in FY 2008, exceeding by almost 500 percent, the initial goal of 300 events. These events reached 296,641 people during FY 2008, which is 65 percent greater than the initial goal of 180,000 people.





As a result of the housing market downturn and a rise in foreclosures in FY 2008, Fair Housing Initiatives Program grantees significantly increased the number of outreach events in order to assist those in need. These outreach sessions informed consumers about housing discrimination, lending discrimination, and what they can do if they believe that they are a victim.

Resources and Performance Link. The amount of fair housing education and outreach in the country is directly related to the amount of funding awarded through the Education and Outreach Initiative in the Fair Housing Initiatives Program. In FY 2008, the Department provided $3,100,000 in Education and Outreach Initiative funding to 32 groups who held education and outreach events. Although funding for the Education and Outreach Initiative decreased from FY 2007 when the Department funding was $4,200,000 for 43 groups, a requirement was added that Private Enforcement Initiative grantees commit 10 percent of their $14,000,000 in funding to education and outreach efforts. Consequently, the net total funding for FY 2008 was $4,500,000.

Data Discussion. HUD requires Fair Housing Initiatives Program grantees to report their education and outreach activities. HUD tracks the total number of events held and persons reached based on data derived from the quarterly and final reports submitted by the grantees. HUD also requires that Fair Housing Initiatives Program grantees submit copies of items, such as the programs and attendance sheets from education and outreach activities, to verify their activities. The data are reported in HUD's Integrated Performance Reporting System.

D.3: Increase the number of HUD-assisted units made accessible as a result of Voluntary Compliance Agreements.

Public Benefit. The number of accessible units created as the result of Voluntary Compliance Agreements is an important indicator of HUD's efforts to ensure that recipients of HUD funding provide equal access to persons with disabilities.

Background. Section 504 of the Rehabilitation Act of 1973 requires that a public housing authority make units accessible for individuals with disabilities, including mobility disabilities. HUD requires that five percent of the units in a multifamily housing project (including public housing) be accessible to individuals with mobility impairments, and that an additional two percent of the units are accessible for individuals with hearing or vision impairments. Section 504 regulations allow HUD to prescribe a higher percentage of accessible units based on census data or other available current data or in response to evidence of a need.

HUD conducts compliance reviews of housing authorities in every region of the country in order to ensure that they comply with the requirements of Section 504. If the Department finds that a Housing Authority is not in compliance it will issue a Letter of Findings and attempt to resolve the findings through a Voluntary Compliance Agreement between the Department and the Housing Authority. This indicator tracks the number of accessible units created as a result of those agreements.

In FY 2008, the Department's goal was to establish for the first time a database to track the Department's Voluntary Compliance Agreements with Public Housing Authorities and to assess the number of accessible units created as a result of those agreements.

Program Website. http://www.hud.gov/offices/fheo/disabilities/index.cfm

Results and Analysis. The Department met this goal. The database was developed and the information is being evaluated to establish a framework for future reporting. The Department expects to compile baseline data during FY 2009 and establish targets and performance measures the following fiscal year.

Resources and Performance Link. The Office of Information Services and Communications is working on developing criteria for field offices to report and manage the data in the database to establish a baseline for the purpose of setting a target for this measure. The Office of Fair Housing and Equal Opportunity will continue to work collaboratively with HUD's Office of the Chief Information Officer in further developing the system.

Data Discussion. Managers will provide quality assurance by reviewing the results of fair housing enforcement efforts. Accessible housing units will also be verified through on-site inspections conducted by field staff to ensure compliance with applicable fair housing laws and other regulations. The Office of Fair Housing and Equal Opportunity's Office of Information Services and Communications and Office of Policy, Legislative Initiatives and Outreach worked together to develop a Voluntary Compliance Agreements database and to determine data requirements for the database system. Data has been compiled in the database and will be periodically updated which will allow the Department to monitor the effectiveness of the Voluntary Compliance Agreements in increasing the number of accessible units made available by recipients of HUD federal financial assistance.

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

PERFORMANCE REPORT CARD - GOAL E

	Performance Indicators	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2008 Target	Met	Notes
	Cross-Departmental							
E.1	HUD will reduce mission critical skill gaps by reducing targeted competency gaps by 50 percent in its four core business program offices: Public and Indian Housing; Housing; Community Planning and Development; and Fair Housing and Equal Opportunity.	1	10.0%	50.0%	70.0%	50.0%	✓	a
E.2	By the end of FY 2013, HUD will have an enterprise-wide financial management system that is compliant with all laws and regulations.	N/A	N/A	Progress toward completion	Goal Met	Evaluate contract proposals	✓	b
E.3	The rate of program errors and improper payments in HUD's rental housing assistance programs will continue to be reduced.	5.6%	5.4%	5.5%	3.5%	4.6%	✓	b
E.4	HUD employees continue to become increasingly satisfied with the Department's performance and work environment.	1.0%	N/A	61.0%	90.0%	90.0%	✓	c
	CPD							
E.5	Financial management and targeting of CPD program resources to meet the needs of underserved populations are maximized through the monitoring of 20 percent of grantees for compliance with program requirements.	21.0%	23.0%	22.0%	22.0%	20.0%	✓	
	FHA/Housing							
E.6	The Accelerated Claim and Asset Disposition demonstration program (Section 601) will exceed the rate of net recovery received through the conveyance program on the sale of Single Family assets.	77.40%	76.00%	72.93%	66.31%	53.40%	✓	d
E.7	Respond to 2,000 inquiries, complaints, and subdivision registrations related to the Interstate Land Sales Full Disclosure Act.	8,696	5,671	7,609	7,701	2,000	✓	
E.8	The FHA Mutual Mortgage Insurance fund meets congressionally mandated capital reserve targets.	6.02%	6.82%	6.40%	3.00%	2.00%	✓	

PERFORMANCE REPORT CARD - GOAL E

	Performance Indicators	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2008 Target	Met	Notes
	Support Offices							
E.9	HUD will reduce mission critical skill gaps by 25 percent in the identified leadership and management competency of the Management Competency plan.	N/A	N/A	100.0%	29.0%	25.0%	✓	a
E.10	Eighty percent of HUD fellows and interns are retained and targeted for mission-critical positions in HUD offices.	84.0%	Recruit	98.0%	93.0%	80.0%	✓	
E.11	HUD financial statements receive an unqualified audit opinion.	Yes	Yes	Yes	Yes	Yes	✓	
E.12	HUD will conduct training and exercise the Continuity of Operations Plan.	N/A	Yes	Yes	Yes	Yes	✓	
E.13	Use the structure established by Vision 2010 and the Department's Enterprise Architecture transition strategy to modernize HUD's business and information management environment, maintain well-managed information technology investments, and promote collaboration between mission areas.							
	Progress in business system modernization.	N/A	N/A	Yes	Yes	Yes	✓	
	Initiate segment architecture development and maintenance for priority modernization initiatives.	N/A	N/A	80.0%	80.0%	80.0%	✓	
	Provide portfolio-level and initiated-level enterprise architecture guidance and recommendations for all modernization efforts.	N/A	N/A	100.0%	100.0%	100.0%	✓	
	Evaluation of information technology investments against HUD investment performance indicators.	N/A	N/A	100.0%	100.0%	90.0%	✓	
E.14	HUD will meet specified information technology-related security requirements.							
	Continue the Certification and Accreditation effort to ensure that 100 percent of major applications documented in the Inventory of Automated Systems have been certified and accredited.	N/A	N/A	N/A	100.0%	100.0%	✓	
	Prioritize and remedy high priority risks.	N/A	N/A	N/A	100.0%	100.0%	✓	
	Ensure 90 percent of HUD employees and contractors will have completed IT Security and Awareness Training.	N/A	N/A	N/A	96.0%	90.0%	✓	c

PERFORMANCE REPORT CARD - GOAL E

	Performance Indicators	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2008 Target	Met	Notes
E.15	The Office of the Chief Information Officer will perform Data Management Maturity assessments of four major HUD information systems and report on their level of maturity.	N/A	N/A	N/A	4	4	✓	
E.16	HUD partners become more satisfied with the Department's performance, operations, and programs.	N/A	N/A	N/A	N/A	N/A	N/A	
E.17	Policy Development and Research work products will be high quality and useful to customers.							
	Percent of key users who are satisfied.	87.0%	94.0%	N/A	N/A	85.0%	N/A	e
	Files downloaded from the HUD USER research clearinghouse.	5.90	8.30	7.41	7.18	6.20	✓	f

N/A: not available

a – lowest percent used as actual

b – one-year lag in data

c – rounded number

d – data through 8/31/2008

e – data not available

f – number reported in millions

Cross-Departmental

E.1: HUD will reduce mission critical skill gaps by reducing targeted competency gaps by 50 percent in its four core business program offices: Public and Indian Housing; Housing; Community Planning and Development; and Fair Housing and Equal Opportunity.

Public Benefit. The mission critical competencies were identified for their direct link to organizational goals and priorities, as well as for their impact on mission accomplishments. The expectation was that success in closing these skill gaps would help ensure qualified staff to continue HUD's principal mission and program operations, into the future, in a highly effective and efficient manner, for the highest quality of service to HUD customers.

Background. As part of HUD's Strategic Plan, the Strategic Human Capital Management Plan, and the Office of Administration Management Plan, HUD program offices were tasked to develop and implement workforce planning strategies to identify and develop the workforce needed to address future challenges. Particular attention was vested in the Department's core business functions and under the guidance of the President's Management Agenda (PMA) for talent management, the four core business program offices were required to identify targeted mission critical competency gaps and initiate actions to address closing those skill gaps by at least 50 percent.

Program Website. http://www.hud.gov/offices/adm

Results and Analysis. Each core business office met and exceeded the established goal of a 50 percent reduction in the targeted mission critical competencies. All four offices assessed their current inventory for the identified mission critical competencies based on "Competency Demand" versus "Competency Supply." This approach yielded the dual benefit of strengthening the skills of existing staff in mission critical positions for improved performance and adding value to outreach and recruitment by helping to identify necessary technical skills among job applicants and prospective hires.

Specific results from the core business offices were as follows:

- *PIH:* The comprehensive asset management training curriculum strengthened PIH employee skill sets in project-based management and budgeting, assisting PHAs with transitioning to property management, and monitoring property financial performance.
- *Fair Housing and Equal Opportunity (FHEO):* Fair Housing and Equal Opportunity staff exhibited substantial improvement in investigative techniques and more knowledgeable responses to lending complaints. These improvements led to better documentation and fewer requested rewrites of newly submitted Letters of Determination.
- *Housing:* Employees identified to serve as Government Technical Monitors/Government Technical Representatives within the Office of Housing received the necessary and required certification training.
- *CPD:* The training CPD employees received places them in a better position to meet revised regulatory requirements for performance reporting of competitive and formula grantees.

The following chart shows the competencies targeted and the percentage of the gap reduction:

Program Office	Competency	Baseline Skill Level (number of employees)			Current Skill Level (number of employees)			Percent of Gap Closed
		Competency Demand	Competency Supply	Skill Gap	Competency Demand	Competency Supply	Remaining Gap	(Skill gap versus remaining gap)
PIH	Asset Management	429	339	90	429	410	19	79%
FHEO	Mortgage Lending	75	37	38	75	64	11	71%
Housing	Acquisition/ Contract Management	294	240	54	294	278	16	70%
CPD	Issues & Programs Concerning Persons with HIV/AIDS and Homelessness	23	18	5	23	23	0	100%

Data Discussion. A skill gap is considered reduced either by completing the specified training or through recruitment. The Office of Training Services gathered skill gap closure data from each of the program offices. The baseline data represent managers' perceptions of their staff and may be limited by subjectivity. Initially, the data was developed at a strategic level, based on managers' knowledge of the capability of existing staff and subsequently augmented with employee input during the development of Individual Training Action Plans. The progress of the targeted competency gap closure was monitored quarterly with the Office of Personnel Management oversight partners under the PMA scorecard for human capital.

E.2: By the end of FY 2013, HUD will have an enterprise-wide financial management system that is compliant with all laws and regulations.

Public Benefit. This indicator measures the progress the Department has made in the modernization of its core financial system. For FY 2008, the goal is to "continue to evaluate contract proposals for a systems integrator/shared service provider." In addition to being responsive to a primary President's Management Agenda initiative, completion of this outcome measure will result in a reduction in the number of systems maintained, provide on-line, real-time information for management decision making, enable the Department to more fully participate in E-Government Initiatives, and align with HUD's information technology modernization goals. Maintaining an integrated financial management system will ensure standardization of systems and processes, reduce costly and inefficient operations maintenance, ensure ongoing compliance with federal financial and accounting requirements, and strengthen internal controls to ensure full compliance with all pertinent laws and regulations.

Background. A major initiative for the Department is the modernization of its core financial systems through the HUD Integrated Financial Management Improvement Project, which will ensure that all financial systems initiatives at HUD transition to a single integrated system to achieve consolidated financial management.

The Department currently maintains three financial systems that support core financial functions including a reporting system to prepare consolidated financial statements for internal and external reporting. The initiative will be to implement an enterprise financial system via a multi-year phased project plan that builds upon the successful financial systems modernization work completed by FHA, Ginnie Mae, and the Office of Federal Housing Enterprise Oversight. (Note: The Office of Federal Housing Enterprise Oversight core financial system was spun off from HUD as part of the Federal Housing Finance Regulatory Reform Act of 2008 that created a new regulatory agency.)

Contractor resources will be obtained through a fixed price performance based contract and service level agreement to ensure the contractor assumes a portion of the responsibility for timely completion of the project. The consolidated business case and project plan developed will include collaboration with the contractor project team that will participate in and share the goals and objectives established for the project.

Program Website. http://www.hud.gov/offices/cfo/

Results and Analysis. The performance measure was met. The evaluation of contract proposals continued with an expected award to be made in the first quarter of FY 2009. Following the award, HUD and the award winner will develop a plan and schedule for the next phase of the project. Due to the sensitivity of the procurement process, details can not be shared.

Resources and Performance Link. Currently, a contract is in the process of being awarded to a Systems Integrator/Shared Service Provider to assist in the project to consolidate old legacy systems into one core financial system. The resulting single integrated financial system will reduce internal and contractor resources required to support core financial system functions. It will also enable the Department to participate in E-Government Initiatives and align HUD's information technology modernization goals, which collectively will streamline resources (thereby decreasing costs) to enable improved management decision making.

Data Discussion. The source of this information is the President's Management Agenda FY 2008 Scorecards for the Improving Financial Performance Initiative and the Congressional Budget Justifications. Due to sensitivity of this document, information cannot be further detailed.

E.3: The rate of program errors and improper payments in HUD's rental housing assistance programs will continue to be reduced.

Public Benefit. By reducing erroneous payments, the integrity of programs involving $28 billion in HUD resources is protected and the number of families that can be served through our assisted housing programs is maximized. Since the inception of this measurement, HUD has reduced the rate of erroneous payments (i.e., the percent of improper payments as a percent of total payments for HUD's three Rental Housing Assistance Programs) from 17.1 percent in

FY 2000 to 3.5 percent in FY 2007, as measured and reported in the FY 2008 Performance and Accountability Report. This Performance Indicator measures the annual progress the Department has made in the reduction of these improper payments (both under and overpayments) as a percent of HUD's total payments for these three high-risk programs. HUD has taken aggressive steps to address the root causes of improper rental assistance payments to better ensure that the right benefits go to the right people.

Background. The rental housing assistance programs (Public Housing, Housing Choice Vouchers, and Project-Based Assistance programs) constitute HUD's largest appropriated activity, with over $28 billion in annual outlays. In FY 2000, a HUD Quality Control Study estimated that approximately $3.2 billion in gross improper payments were attributed to a combination of program administrator errors and tenant income reporting errors. A third type of error, billing errors, was later identified.

The three major sources of error that result in under or overpayments in these complex programs are defined as follows:

- Program administrator error: the program administrator's failure to properly apply income exclusions and deductions and correctly determine income, rent, and subsidy levels;
- Tenant income reporting: the tenant beneficiary's failure to properly disclose all income sources; and
- Billing: errors in the billing and payment of subsidies between third party program administrators and HUD.

To reduce these errors, HUD committed to specific, aggressive corrective actions and initiated the Rental Housing Integrity Improvement Project in the spring of 2001 to address this improper payment issue and the associated high program risks and material internal control weaknesses identified by the Government Accountability Office and the HUD Inspector General.

With enactment of the Improper Payments Information Act of 2002, and issuance of OMB's implementation guidance for the Act, HUD is now required to annually set goals and report on its progress in reducing gross improper payment levels as a percentage of total program payments. HUD's goals and results are reflected in the table below:

Rental Assistance Improper Payment Reduction History
FY 2000 – FY 2007

	FY 2000 Baseline Improper Payment Amount and Percentage	FY 2005		FY 2006		FY 2007	
		Goal	Actual	Goal	Actual	Goal	Actual
Rental Assistance	$3.2B (17.1%)	5.6%	5.4%	5.0%	5.5%	4.6%	3.5%

Program Websites.

http://www.hud.gov/offices/pih/

http://www.hud.gov/offices/hsg/

Results and Analysis. HUD has surpassed its improper payment goal for the FY 2008 reporting period (based on FY 2007 data) by reducing improper payments to 3.5 percent, or 1.1 percentage point below the goal and an improvement of 2.0 percentage points from the previous year's result of 5.5 percent. The FY 2007 goal was originally set at 5.5 percent; during FY 2008, however, HUD's analysis of program changes made to HUD's Public Housing program during FY 2007 indicated that further reductions were possible and the goal should be further lowered. Accordingly, HUD revised its improper payment goal, and lowered the FY 2007 target to 4.6 percent.

The overall reduction in improper payments for HUD's three major types of Rental Housing Assistance Programs over the past eight years has been primarily attributed to HUD's efforts to work with its housing industry partners through enhanced program guidance, training, oversight, and enforcement. Collectively, these efforts have had a positive impact on the program administrators' ability to reduce their errors in the calculation of income, rent, and subsidies. The Department also has found a direct correlation in the reduction of improper payments to the number of monitoring reviews of public housing agencies (PHAs) and the number of management and occupancy reviews at multifamily housing properties, as well as the increased availability and use of the Enterprise Income Verification system by PHAs, and by owners, management agents, and contract administrators for HUD's Project-Based Assistance programs.

More recently, program structure changes have reduced the opportunities for improper payments in two of HUD's Rental Assistance Programs. In HUD's Public Housing program, significant program structure changes were implemented to improve the efficient use of funding in the Public Housing Operating Fund. These structure changes effectively eliminated all three previously reported types of improper payments due to Administrator, Income Reporting, and Billing errors. It should be noted that PHAs could still make Administrator errors, and tenants could still under-report or not report their income. However, in the new structure, the effect of these errors would be borne by the PHA and HUD's subsidy payment would remain unchanged. Nonetheless, HUD retains program oversight responsibility to ensure the proper performance and benefits of the program, and will continue to focus on effective measures to reduce performance errors by PHAs. In addition, the establishment of a budget based funding methodology was implemented for the Housing Choice Voucher Program in FY 2005 to eliminate the opportunity for billing errors in that program.

Resources and Performance Link. The reduction of improper payments increases the number of households that will receive subsidies in conjunction with HUD's strategic goal to provide access to affordable housing. The Department has found a direct correlation in the reduction of improper payments to the number of monitoring reviews of public housing and the number of management and occupancy reviews of multifamily housing, as well as the expanded use of the Enterprise Income Verification system to owners, management agents, and contract administrators for HUD's Project-Based Assistance programs.

Data Discussion. Periodic error measurement studies overseen by the Office of Policy Development and Research are supported by the PIH and Housing program organizations.

The data are reliable for this measure, assuming availability of funding to cover the cost of the studies. The independent HUD Office of Inspector General reviews the error measurement methodology and support, as well as management controls over the related program activity, as part of its audit of HUD's annual financial statements. The Government Accountability Office also oversees HUD's progress in addressing this issue, which the Government Accountability Office had designated as a high-risk program area. (Due to HUD's progress in reducing improper payments in the rental housing assistance program, the Government Accountability Office's high-risk program designation was eliminated in 2007.)

E.4: HUD employees continue to become increasingly satisfied with the Department's performance and work environment.

Public Benefit. A satisfied workforce translates to a strong workforce and helps to support two of the Department's human capital goals, which are to become a mission-focused agency and to maintain a high-quality, effective, and efficient workforce. This indicator is directly linked to both the Department's Strategic Plan and its Strategic Human Capital Management Plan, and is tied to the President's Management Agenda.

Background. In August 2006, the Office of Personnel Management administered the Federal Human Capital Survey, of which 29 major federal agencies, including HUD, participated. The results indicated that an organization's cultural environment has a sufficient impact on how employees react or respond to surveys. Engaged employees are more likely to respond to survey questions based on actuality. Because of the results provided by the 2006 Federal Human Capital Survey, a working group developed recommendations in the format of a Federal Human Capital Survey action plan to improve employee satisfaction in the areas of leadership and communication. The action plan was approved by the Secretary in June 2007.

Program Website. http://www.hud.gov/offices/adm

Results and Analysis. The Department fully met its target in FY 2008. The action plan consists of nine developed recommendations to facilitate an increase in employee satisfaction. Out of the nine recommendations, eight (89 percent) have been fully implemented or are in the process of implementation. Examples of recommendations implemented include:

- Create and use peer work groups for managers. The Department has initiated the use of peer work groups for managers by giving an overview of the program at two of the new supervisors training sessions. All new supervisors were assigned a peer work group and invited to all the group's events.
- Use E-Performance SMART Plans. Measurable performance standards were written and put in place for 100 percent of the Department.
- Town Hall meetings with the Secretary or Deputy. Secretary Preston held a town hall meeting for all employees on July 17, 2008. The purpose of the town hall meeting was to discuss the Department's iMPACT 200 agenda for the next 200 days. A second town hall meeting was held on October 2, 2008, at which time the Secretary gave an update on the iMPACT 200 agenda.

- All-employee Awards Ceremony hosted by the Secretary or Deputy Secretary. Secretary Preston hosted a Departmental Awards ceremony recognizing singular employee accomplishments on September 17, 2008. The ceremony was webcast to all HUD offices.
- Use existing, multiple communication vehicles to illustrate employee value. Over 17 weekly web casts featuring employees sharing information that demonstrates employee value have been conducted. In addition, at least five HUD program offices have an electronic newsletter that highlights specific employee achievements.

Resources and Performance Link. The Federal Human Capital Survey is administered every two years by the Office of Personnel Management at no cost to HUD. The survey includes questions that satisfy the requirement by law to conduct an Annual Employee Survey. In years when the Federal Human Capital Survey is not administered by the Office of Personnel Management, HUD expects to complete the requirement through other resources which may include contract services. HUD will continue to conduct the Federal Human Capital Survey in lieu of the Organizational Assessment.

Data Discussion. The Office of Personnel Management completed the administration of the 2008 Federal Human Capital Survey at HUD on September 26, 2008. Survey results are scheduled to be provided to Federal agencies during January 2009. At that time, the results will be analyzed to support any modifications to the existing 2006 Federal Human Capital Survey Action Plan. The analyses will also serve to support any other actions required to enhance employee satisfaction.

CPD

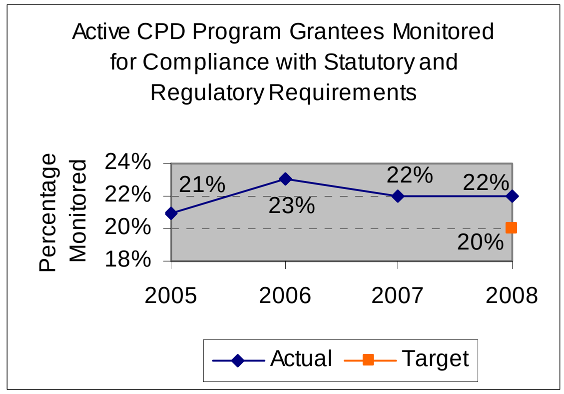
E.5: Financial management and targeting of CPD program resources to meet the needs of underserved populations are maximized through the monitoring of 20 percent of grantees for compliance with program requirements.

Public Benefit. State and local governments, as well as non-profit organizations, are recipients of Community Planning and Development formula and competitive grants to assist in building viable neighborhoods, expanding homeownership and affordable opportunities, and providing economic opportunities. This indicator measures whether the grantee has adequate policies and procedures to ensure HUD funds are used in compliance with applicable statutory and regulatory provisions, and that funds are spent for eligible activities, produces measurable results, and meet financial and grants management requirements. In FY 2008, 20 percent of grantees (958) were scheduled for monitoring to ensure compliance with statutory and regulatory requirements.

Background. This indicator includes all CPD grantees. Annually, CPD field offices conduct risk assessments on all active formula and competitive grantees. Program requirements monitored are based on results of the annual risk assessment. Monitoring serves to promote improvement in grantee performance. Based on risk assessment results, CPD selects grantees for monitoring and technical assistance to improve performance of poor performing grantees, and/or to validate grantee accomplishments and compliance.

Program Website. Not available.

Results and Analysis. CPD field office staff monitored 1,076 grantees, or 22 percent, of 4,789 active competitive and formula grantees, thereby exceeding the goal of 20 percent.



Monitoring measures the effectiveness of grantees' financial management controls in reducing the number of erroneous payments for questionable and ineligible uses. It also identifies whether HUD resources are targeted to improve underserved communities. Monitoring supports the HUD strategic goal of embracing high standards of ethics, management and accountability by ensuring that financial resources are properly used for eligible activities to meet underserved community needs of low- and moderate-income persons.

Resources and Performance Link. The number of on-site monitoring events is dictated by the amount of travel funds allocated to each field office. Monitoring events compete with other program priorities, technical assistance, and training needs.

Data Discussion. CPD field offices report how many grantees were monitored in the Department's internal tracking system, HUD Integrated Performance Reporting System. Monitoring activities are carried out in compliance with guidelines established in the HUD Monitoring Desk Guide (Training Edition) and CPD Monitoring Handbook. Field office supervisors review monitoring activity and reporting by field office staff.

FHA / Housing

E.6: The Accelerated Claim and Asset Disposition demonstration program (Section 601) will exceed the rate of net recovery received through the conveyance program on the sale of Single Family assets.

Public Benefit. There are several Public Benefits to FHA NOW Pilot (formerly known as Accelerated Claims Disposition Demonstration). In these auctions, the winning bidder formed a limited liability company (LLC) in which HUD retained a 30 percent or 40 percent equity share, to acquire loans in default. Because notes are assigned rather than properties conveyed, homeowners remained in their homes and the limited liability company's servicer succeeded in identifying options and strategies to allow a growing number of homeowners to keep their homes. The Department benefits by reducing its portfolio of foreclosed homes with the related costs and more importantly by providing homeowners who have defaulted on their mortgages with a greater range of options to remain in their homes. By being able to remain in their homes, the social impact and value of neighborhood stabilization is key and a large part of price stabilization. Abandoned properties used for criminal activity lead to destabilization of communities and neighborhoods and require additional police services.

In a devaluing market, foreclosed homes add to a growing inventory and exacerbate the downward trend in home values as supply exceeds demand. Empty and devaluing properties reduce the property taxes available to units of local government and therefore the availability of community services.

Keeping borrowers in their homes has far-reaching public benefits.

Background. FHA implemented the FHA NOW Pilot with its first initiative ("SFJV-2002-1, LLC"). Under this pilot, four sealed bid auctions resulted in the sale of a majority membership interest in limited liability companies formed to acquire approximately 22,000 loans with an unpaid balance of $2 billion. During monthly settlements, a pipeline of assets was sold to the winning bidder according to their winning pricing schedules.

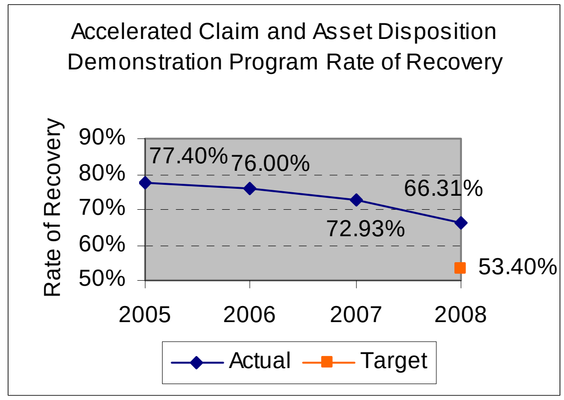
A key element to FHA's business is the payment of claims on defaulted insured loans. Title VI, Section 601 of the Veterans Administration, HUD, and Independent Agencies Appropriations Act (1999) reformed the single family claims and property disposition process. The legislation enables HUD/FHA to: (1) pay claims upon assignment of mortgages rather than upon conveyance of the properties; (2) take assignment of notes and transfer them to private parties for servicing, foreclosure avoidance, foreclosure, property management, and asset disposition; and (3) participate as an equity partner with private entities in asset disposition. The overall goal of the Accelerated Claim and Asset Disposition demonstration program is to ensure that FHA's public policy issues are addressed while expediting the disposition of defaulted FHA single family assets and maximizing return to FHA Insurance Funds. The first demonstration initiative was a sealed bid auction held in October 2002. Claims were paid beginning October 31, 2002. Three subsequent auctions were held September 2003, June 2004, and May 2005. A fifth Joint Venture sale will be conducted on October 22, 2008.

Program Website. http://www.hud.gov/offices/hsg/comp/asset/sfam/sfls.cfm

Results and Analysis. As the Accelerated Claim and Asset Disposition Demonstration mature and final disposition outcomes are made, the Department anticipates that recoveries from the program will continue to exceed Conveyance Recoveries of 53.4 percent. Section 601 recoveries as of August 31, 2008, for the four Single Family Sales Initiatives are as follows:

<u>Section 601 Recoveries Table</u>

Single Family Sales Initiatives	Recoveries Adjusted for Claim Cost as of August 31, 2008
Single Family - Sale I 2002 (assets sold in FY 2003)	71 percent
Single Family - Sale II 2003 (assets sold in FY 2003)	74 percent
Single Family - Sale III 2004 (assets sold in FY 2004)	78 percent
Single Family - Sale IV 2005 (assets sold in FY 2005)	76 percent



The average net recovery rate on the 656 cases sold from the Joint Venture during FY 2008 to date is 66.31 percent of Unpaid Principal Balance. An average recovery of 74.46 percent of Unpaid Principal Balance on approximately 22,000 loans has been achieved across the life of the Demonstration.

Resources and Performance Link. The required resources for the 601 program are minimal, and the contract support needed to properly conduct sales and monitor outcomes is minimal as well. The Asset Sales Office served as the Transaction Specialist for the Single Family Joint Venture sales of 2004 and 2005, which eliminated a contract requirement from previous sales. The 601 program continues to meet the goals as established by the Department.

The Section 601 Recoveries Table (see above) indicated that the two most recent sales have maintained higher recoveries to the Government than the first two initiatives. This is happening in an environment where the Conveyance program recoveries continue to shrink and the 601 program has required less contract support.

Data Discussion. The data source is the Single Family Insurance System – Claims Subsystem, which provides the acquisition cost data for this indicator. FHA's Single Family Acquired Asset Management System provides the expense detail for the conveyance program (Claims subsystem "type 1" transfer claims) rate of net recovery. FHA's Subsidiary Ledger provides the Accelerated Claim and Asset Disposition recovery rate on sale of assets (Claims subsystem "type 2" claims) through its PeopleSoft financial program. For convenience, all data are reported from FHA's Single Family Housing Enterprise Data Warehouse.

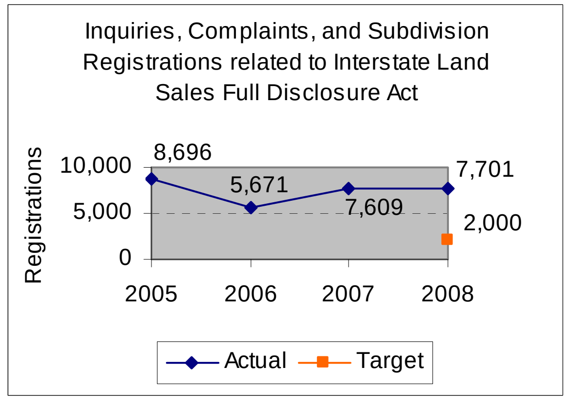
E.7: Respond to 2,000 inquiries, complaints, and subdivision registrations related to the Interstate Land Sales Full Disclosure Act.

Public Benefit. The Interstate Land Sales program protects consumers from fraud and abuse in the sale or lease of land. Inquiries from the public are a sign that the Interstate Land Sales program requirements are being followed, and consumers are getting information about the subdivisions as envisioned by the law.

Background. In 1968 Congress enacted the Interstate Land Sales Full Disclosure Act, which is patterned after the Securities Law of 1933 and requires land developers to register subdivisions of 100 or more non-exempt lots with HUD and to provide each purchaser with a disclosure document called a Property Report. The Property Report contains relevant information about the subdivision and must be delivered to each purchaser before the signing of the contract or agreement.

Program Website. http://www.hud.gov/offices/hsg/sfh/ils/ilshome.cfm

Results and Analysis. The Office of Interstate Land Sales exceeded its targeted goal by 5,701, completing 6,141 registration filings and reviewing 1,560 complaints for a total of 7,701 complaints addressed. The 7,701 exceeds the target of 2,000 as well as the 7,609 done in FY 2007.



Resources and Performance Link. With 34 full-time equivalents in 2008, the Office of RESPA and Interstate Land Sales closed 204 Interstate Land Sales cases which included addressing consumers' complaints with the purchase of improved and unimproved land as well as issuing developers Exemption Orders, Advisory Opinions, and No Action Letters.

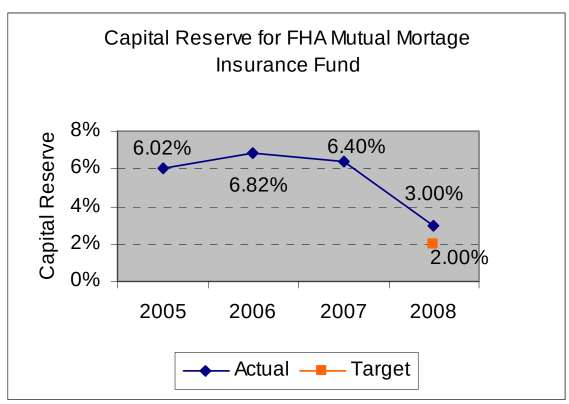
E.8: The FHA Mutual Mortgage Insurance Fund meets congressionally mandated capital reserve targets.

Public Benefit. FHA's Mutual Mortgage Insurance Fund (Fund) is expected to be entirely self-financing from up-front and annual insurance premiums paid by borrowers obtaining FHA mortgage loans, and from earnings on Fund assets. The Department is expected to operate the program in an actuarially sound way and the Fund is subject to an annual independent actuarial study. The results of that study are published in an Actuarial Review that is provided to the Congress. The Review assesses the Fund's current economic value, its capital ratio, and its ability to provide homeownership opportunities while remaining self-sustaining based on current and expected future cash flows.

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

Program Website. http://www.hud.gov/offices/hsg/hsgrroom.cfm

Results and Analysis. The FY 2008 Actuarial Review estimates the Fund capital ratio to be three percent, as of September 30, 2008. That ratio represents a 3.40 percentage point decline from the FY 2007 result of 6.40 percent. At the same time, the capital ratio remains above the congressionally mandated minimum of two percent. Roughly half of the decline during FY 2008 was caused by a drop in the estimated economic value of the Fund, and the other half was due to growth in the insured portfolio. Economic value is a measure of funds available



over-and-above what is required to pay for expected future claim expenses. Economic value declined by 39 percent, from $21.27 billion in FY 2007 to $12.9 billion during FY 2008, while insurance-in-force, the denominator of the capital ratio, rose 29 percent from $332 billion to $430 billion. HUD projects even more growth in the insured portfolio in FY 2009, due to recent tightening of mortgage credit availability in the conventional mortgage market and to the transfer of single family programs previously in the General and Special Insurance Fund into the Mutual Mortgage Insurance Fund.

Resources and Performance Link. HUD obligated $821,688 in contract funds for the FY 2008 actuarial study and formal written Actuarial Review. The final capital ratio is scrutinized by the HUD OIG, the Government Accountability Office, and the Congress, as an indication of the ability of FHA single family insurance programs to remain self-supporting through an unexpected economic shock. Today, in the midst of the first national housing downturn of modern times, the capital ratio remains well above the minimum statutory requirement of two percent.

Data Discussion. The value of the capital ratio is determined through an annual independent actuarial study of the Mutual Mortgage Insurance Fund. Data on historical loan originations and performance are provided to the actuarial study contractor by HUD. The contractor then develops statistical and financial models to project future cash flows on outstanding business, and to measure the final capital ratio number. FHA loan-level data are entered into HUD information systems by direct-endorsement lenders and loan servicers, with monitoring by FHA. The methods and results of the independent actuarial study are validated through the audit process.

Support Offices

E.9: HUD will reduce mission critical skill gaps by 25 percent in the identified leadership and management competency of the Management Competency plan.

Public Benefit. As HUD continues to implement both the Department's Strategic Plan and its Strategic Human Capital Management Plan, HUD remains committed to having a high quality, results-oriented workforce. In response to the President's Management Agenda, HUD developed a Department-wide Management Competency Plan to ensure that HUD maintains a highly trained and effective corps of supervisors, managers, and executives to lead the Department in accomplishing its current and future mission, goals, and objectives. In FY 2008, HUD will identify a targeted competency from the Management Competency Plan and then implement an action plan for closing the identified leadership and management competency skill gap by at least 25 percent.

Background. In FY 2006, HUD trained all current supervisors, managers, and executives in the identified leadership and management competency on conflict management or alternative dispute resolution. In FY 2007, HUD implemented a supervisory training curriculum aimed at providing needed introductory and refresher supervisory training for HUD managers and supervisors, which includes mandatory supervisory training for all new managers and supervisors.

Program Website. http://hudatwork.hud.gov/po/a/train.cfm

Results and Analysis. The Department exceeded this goal for all the identified competencies. In FY 2008, HUD's top three management skill gaps were: (1) Human Resource Management, (2) Conflict Management, and (3) New Supervisor Training. The annual training need assessment showed that there were a total of 815 employees needing training in these three areas. In addition, all supervisors and managers were trained on the new time and attendance system called webTA which provides further efficiencies for the Department. The chart below shows the competencies targeted and the percentage of gap reduction:

Competency	Baseline Skill Level (number of non-Senior Executive Service (SES) supervisors)			Current Skill Level (number of non-Senior Executive Service (SES) supervisors)			Percent of Gap
	Total Number of Supervisors	Already Trained Supervisors	Skill Gap	Trained	Not Trained	Remaining Gap	
Human Resource Management	1500	1127	373	373	0	0	100%
Conflict Management	1500	1159	341	100	241	241	29%
New Supervisor's Training	1500	1399	101	86	15	15	85%

Resources and Performance Link. Spending for leadership and management training during FY 2008 amounted to $472,667.

Data Discussion. A skill gap is considered reduced either by completing the specified training or through recruitment. Skill gap closure data was gathered by the Office of Training Services from each of the Department's program offices. As indicated above, a number of training sessions were conducted via HUD broadcasts/webcasts. While an actual number of supervisors and managers trained could not be captured using these mechanisms, it is probable that a high percentage did view from their desks, in light of the wide advertisement and promotion of the training sessions.

E.10: Eighty percent of HUD fellows and interns are retained and targeted for mission-critical positions in HUD offices.

Public Benefit. The HUD fellow and intern programs are used to recruit and develop highly qualified people for mission-critical positions and to meet future workforce needs. These programs offer individuals valuable work experiences and training opportunities and provide the training necessary to fill mission-critical skill gaps as employees retire. This indicator is a key component of an outcome measure of effective succession planning, which will ensure that the Department's employees have the skills and knowledge they need to achieve HUD's mission and that institutional knowledge is sustained.

Background. This indicator is directly linked to both the Department's Strategic Plan and its Strategic Human Capital Management Plan and is tied to the President's Management Agenda. Key programs used in the succession planning efforts include: a) the Presidential Management Fellows, b) the Federal Career Interns, c) the Legal Honors Interns, and d) the MBA Fellows. The FY 2008 goal was to retain 80 percent of the interns that were hired in 2007 and early 2008. The HUD fellow and intern programs are used to recruit and develop highly qualified people for mission-critical positions and to meet future workforce needs.

Program Website. http://hudatwork.hud.gov/po/a/

Results and Analysis. The *"HUD Fellows Program"* retained 93 percent of all interns, exceeding the 80 percent retention target. In accordance with program office needs, the Interns are being allocated to various offices and remain in training to fill mission critical positions upon conversion at the end of the two-year developmental period. HUD's Succession Management Plan outlined various strategies to be used to replenish anticipated losses of mission critical employees in the Department, chief among them being to centralize the Intern Program for FY 2007. Since that time the Program has grown from 47 Interns/Fellows to a total of 135 Interns/Fellows by the end FY 2008. A HUD Fellows Program Manager has been designated by the Office of Administration. A small HUD Fellows Program staff has also been formed.

The centralized program was recruited in two cycles this fiscal year and hosted several mini orientations during the first, second, and third quarters. The first class of Fellows has made a significant impact in a number of program offices during their initial year at HUD. A sizable number of Fellows have participated in vital projects within the Department and are the current recipients of various awards for their valuable contributions. This has not only increased program office support but has solidified management support from the Secretary on down in favor of the HUD Fellows Program as part of a viable strategy to replenish the workforce. The HUD Fellows Program was also applauded by way of an article in the well known publication, *Federal Times*, during Fiscal Year 2008.

Resources and Performance Link. The Department has dedicated $1,500 as a training allowance for each HUD Fellow. All training is required to be essential to their development for the targeted occupation in the program office. Each HUD Fellow has a performance plan that is tailored to their specific program office. The Office of Administration reviews and monitors all Individual Development Plans to ensure that each Fellow receives the requisite training for their targeted position. The HUD Fellows Program expects to recruit additional participants during Fiscal Year 2009 as the budget allows.

Data Discussion. All performance reviews are jointly prepared by the program offices and the HUD Fellows Program Staff. The HUD Fellows Program Staff is responsible for the overall administration of the centralized program and promotions of participants upon the successful completion of yearly requirements during the course of the developmental program.

E.11: HUD financial statements receive an unqualified audit opinion.

Public Benefit. The success or failure of an organization's financial stewardship is measured in the annual audit of its financial statements. The receipt of an unqualified audit opinion is a strong indicator of HUD's accountability and the success of efforts to stabilize its financial management systems and operating environment.

Background. HUD's Office of the Inspector General conducts the consolidated financial statements audit annually. Financial statement audits review the accuracy of the financial statements, the adequacy of the underlying data systems and internal controls, and compliance with applicable laws and regulations. In addition to providing an opinion on the financial information presented in HUD's financial statements, the auditors also identify internal control weaknesses that could have a material impact on that presentation, with recommendations for needed improvements.

For eight consecutive fiscal years from 2000-2007, the Department has received an unqualified audit opinion. HUD consistently has met the prescribed timelines for the issuance of its quarterly and annual financial statements, 21 and 45 days respectively. HUD continues to provide timely information to program decision makers in Congress and the Executive Branch.

Program Website. http://www.hud.gov/offices/cfo/

Results and Analysis. This performance measure was met. In its FY 2008 consolidated financial statements, HUD received an unqualified (i.e., "clean") audit opinion for the ninth consecutive year. In addition, HUD's audit was completed within the 45 day time requirement. All existing material weaknesses were resolved. In FY 2008, the OIG reported no material weaknesses and seven significant deficiencies.

HUD provides fiscal effectiveness and efficiency of operations by continuing to produce its annual and quarterly financial statements within the required time frames. The Department will continue to take corrective actions to strengthen internal controls to eliminate identified significant deficiencies.

Resources and Performance Link. The financial statements report the cost associated with program delivery and cover all of HUD's operations and the entire FY 2008 gross discretionary budget authority of $54.0 billion. The financial statements identify the major program areas and the budgetary and proprietary resources expended to ensure that HUD met its program goals.

Data Discussion. The Office of Inspector General audits are independent of HUD management, performed in accordance with the Government Accountability Office auditing standards, and adhere to the Office of Management and Budget and other guidelines and standards governing the preparation and audit of agency financial statements.

E.12: HUD will conduct training and exercise the Continuity of Operations Plan.

Public Benefit. The ability to continue government services in the event of a disaster will impact HUD's ability to provide housing assistance to the public. A Continuity of Operations plan ensures HUD is able to continue performing its essential functions under a broad range of emergency circumstances by defining roles and responsibilities and deploying personnel to emergency relocation sites.

Background. Federal policy requires federal agencies to maintain a comprehensive and effective continuity capability composed of Continuity of Operations and Continuity of Government programs in order to ensure the preservation of our form of government under the Constitution and the continuing performance of national essential functions under all conditions (see National Security Presidential Directive (NSPD)-51/Homeland Security Presidential Directive (HSPD)-20, *National Continuity Policy*, dated May 4, 2007). The Department's

FY 2008 goals were to perform quarterly testing of all Headquarters Program Office Continuity of Operations notification procedures at a 95 percent contact rate and conduct training of at least 80 percent of the Headquarters Continuity of Operations Program Office Coordinators.

Results and Analysis. In FY 2008, HUD successfully exceeded this goal. HUD achieved this goal by performing required quarterly testing of all Headquarters Program Office Continuity of Operations notification procedures at a 100 percent contact rate and conducting a Continuity of Operations training conference, which was attended by 81 percent of the Headquarters Program Office Coordinators and 93 percent of the HUD Office Coordinators nationwide. Additionally, HUD participated in National Level Exercise 2-08, which included the activation of the Headquarters continuity plan, relocation of Principal Staff and emergency relocation group personnel to the emergency relocation site, testing of systems and procedures, and performance of HUD's essential functions. In FY 2009, HUD will continue to perform quarterly testing of Continuity of Operations notification procedures and conduct annual training of Program Office Coordinators.

Resources and Performance Link. Spending for Continuity of Operations planning during FY 2008 amounted to $2.9 million, which included salaries, alternate site support, contractor support services, and travel. This spending is comparable to previous years.

Data Discussion. The Office of Security and Emergency Planning maintains a database to document the mandatory reporting of the results of testing and training activities. These activities are conducted in accordance with the HUD Continuity of Operations Program Test, Training, and Exercise Plan. HUD maintains comprehensive information by office that quarterly notification tests, annual training sessions, as well as other indicators, have been completed. The information is self-reported by the offices and reviewed by the office heads to ensure accuracy. The Office of Security and Emergency Planning performs an initial evaluation of data quality and the Government Accountability Office/OIG may perform independent assessments and evaluations. The data are reliable for this measure.

E.13: Use the structure established by Vision 2010 and the Department's Enterprise Architecture (EA) transition strategy to modernize HUD's business and information management environment, maintain well-managed information technology investments, and promote collaboration between mission areas.

Public Benefit. Vision 2010 will increase access to relevant business information through simple, self-service utilities and improve the effectiveness of interactions between HUD employees, business partners, and citizens. This can result in the significant outcomes of improving data and performance. Modernization includes the introduction of shared tools to enhance HUD's current applications and the disposition of redundant or obsolete systems, which will decrease costs associated with these systems.

Background. Vision 2010 is a five-year plan to modernize HUD's business processes and information technology environment, and it represents a significant change in the way HUD designs, invests in, and implements information technology in support of its business. Better information technology can improve service delivery and more effectively carry out HUD's mission. This plan presents a methodology for designing and implementing its information technology systems modernization by promoting collaboration of business functions, or "Segments," and on "Core Information Technology Services."

Not only does Vision 2010 guide the modernization process, this structure provides a blueprint for HUD to direct its Development, Modernization, and Enhancement investments so that no investment allocation is changed without first considering how it affects the whole system. Ultimately, a Department-wide system that encourages coordination in this way can provide cost savings for HUD. Redirected investment allocations will also result in a more optimized information technology portfolio.

Program Websites.

http://www.hud.gov/offices/cio/ea/newea/index.cfm

http://hudatwork.hud.gov/po/i/cap/

Results and Analysis.

Enterprise Architecture. The established goals were met. HUD's Enterprise Architecture has met its target goal to continue significant progress in business system modernization in the areas of Single Family, Multifamily Housing, Rental Housing Assistance, Financial Management, and Grants Management by the following activities:

- Collaboration with business areas to enhance performance measures and milestones for major modernization initiatives and investments, and execution of regular data calls to track progress and measure performance for milestones in the Information Technology Master Schedule. In addition, Enterprise Architecture program staff worked directly with business areas in advance of the Annual Select process to prioritize projects and improve the quality and alignment of investment business cases with the agency Enterprise Architecture and Enterprise Modernization Plan/Transition Strategy.
- Execution of annual Strategic Portfolio Review, supporting the consolidation of the agency information technology investment portfolio and major modernization initiatives around core mission areas, business services, and enterprise services. The Enterprise Architecture Program Team presented Strategic Portfolio Review findings to the Technology Investment Board Working Group, and conducted one-on-one meetings with business areas to discuss initiative-level and portfolio-level recommendations in advance of the Annual Select.
- Facilitation of a Business Modernization Plan for Acquisition Management business services. The Enterprise Architecture Program Team supported the Acquisition Management Integrated Project Team during development of the modernization plan and approval by key Office of Chief Information Officer and Office of Chief Procurement Officer stakeholders.
- Development and implementation of an Enterprise Architecture value measurement framework to measure and monitor value across each phase of HUD's Information Technology Lifecycle Framework. Enterprise Architecture value measures were applied to update HUD Enterprise Architecture Program and enhance Enterprise Architecture products and services.

Information Technology Investment Management. The established goals were met. HUD maintains well-managed information technology investments, and promotes collaboration between mission areas by the following activities:

- Strengthened the governance of the Information Technology Investment Management process by re-establishing the Senior Review Board, the working arm of the Technology Investment Board Executive Committee, which provides priorities and direction to the Technology Investment Board Working Group.
- Developed policy and guidelines for program areas and administrative offices to conduct an Operational Analysis of HUD's information technology systems. Collected and analyzed results of Operational Analysis for major and non-major information technology systems.
- Conducted and facilitated emergency sessions of the Technology Investment Board Working Group to prioritize the FY 2008 Operating Plan which was appropriated $54 million less than the President's budget request of $299 million. The Technology Investment Board Executive Committee approved the recommendations of the Technology Investment Board Working Group.
- Developed FY 2009 President's Information Technology Priorities for $333 million request.
- Developed and prioritized the FY 2010 Information Technology Portfolio of $388 million by collecting and scoring requirements from the program areas and administrative offices on alignment to Vision 2010, HUD's strategic goals, and enterprise architecture with further consideration to measurable results, information technology security and project management. Conducted and facilitated sessions of the Technology Investment Board Working Group to rank requests of more than $520 million in information technology systems maintenance and development projects to improve the mission and business results of the Department. On July 24, the Technology Investment Board Executive Committee approved the FY 2010 information technology portfolio based upon recommendations of the Technology Investment Board Working Group. Working with project managers from the program areas and administrative offices to prepare and submit on-time ten Exhibit 300s and the Exhibit 53 to reflect the FY 2010 Technology Investment Board Executive Committee-approved information technology portfolio.
- Conducted six Portfolio Management Review Board meetings to determine the degree that major information technology initiatives were on-time and on-budget and to identify and resolve programmatic issues that may impact the delivery of system applications for the department.
- Conducted two Surveillance Reviews of information technology contractors to verify they were in compliance with HUD's Earned Value Management policy to properly manage information technology projects so that they are completed on-time and on-budget and meet technical requirements.

- 80 percent of Development, Modernization, and Enhancement (non-infrastructure) spending was coordinated through Segment Architectures and Core Information Technology Services.
- 100 percent of major information technology development investments were reviewed for progress in meeting cost, schedule, risk, and benefit expectations.
- 100 percent of information technology investments were evaluated against HUD's investment performance indicators.

Resources and Performance Link. The Enterprise Architecture Team spent approximately $1.2 million in FY 2008 Enterprise Architecture efforts to ensure significant progress as business system modernization continues.

The Information Technology Investment Management Team spent approximately $1.6 million in FY 2008 Investment Technology Investment Management efforts to select, control, and evaluate information technology investments in the Working Capital Fund Investment Technology portfolio.

The FY 2007 appropriation of $249.5 million was $39.5 million less than the requested amount of $289.0 million. The FY 2008 appropriation of $234.7 million was $65.0 million less than the request of $299.7 million, a 21 percent reduction. Without adequate funding the ability to meet activity goals and deadlines is seriously constrained.

Data Discussion. Enterprise Architecture activities are included in HUD's Information Technology Strategic Plan for FY 2007 – FY 2012. Status reports provide accurate tracking information on planned activities. Program Managers regularly review the status reports to ensure that planned actions occur. Additionally, these activities are reported in the President's Management Agenda. HUD's Chief Architect regularly reviews the President's Management Agenda status reports to ensure that planned actions occur and are reported in the President's Management Agenda process.

E.14: HUD will meet specified information technology-related security requirements.

Public Benefit. With a sound information technology security program in place HUD's Office of Information Technology Security has ensured the safety of the Department's valuable information assets with the selection and application of appropriate safeguards that protect the confidentiality, integrity, availability, intended use and value of electronically stored, and processed or transmitted information within the Department.

Background. The Federal Information Security Management Act of 2002 establishes security standards and requires federal agencies to take specific steps to ensure the security of federal information systems. HUD's Office of Information Technology Security provides protection for HUD's information systems and resources and has responsibility for implementing security controls in compliance with the Federal Information Security Management Act.

In FY 2008, HUD's Office of Information Technology Security continued to reduce risks and vulnerabilities and protect HUD's information systems and resources from unauthorized access, use, and modification. This included meeting the following three requirements:

Continue the Certification and Accreditation effort to ensuring that 100 percent of major applications documented in the Inventory of Automated Systems have been certified and accredited. This requirement included:

- Integrating information technology security tasks and milestones into HUD's software development lifecycle model to ensure that security controls requirements are identified and addressed in a timely and cost effective manner, and all information technology systems are certified and accredited prior to their operation.
- Monitoring the status and effectiveness of annual system-level contingency plan testing.
- Reviewing annually all system security plans for currency and completeness; include deficiencies on Plans of Action and Milestones.

Prioritize and remedy high priority risks. This requirement includes:

- Performing a review of 100 percent of Plans of Action and Milestones, with emphasis on remediation of all weaknesses categorized as high risk.
- Ensuring that independent penetration testing of HUD's information technology infrastructure is conducted annually.

Ensure that 90 percent of HUD employees and contractors will have completed information technology Security and Awareness Training. This requirement includes:

- Promoting enterprise-wide security awareness through provision of computer-based training for all HUD users, specialized information technology security training for personnel assigned significant security responsibilities, and training of personnel serving as primary or alternate Information Systems Security Officers in the roles and responsibilities of that position.

Program Website. http://hudweb.hud.gov/po/i/it/security/secure.cfm

Results and Analysis. The established goals were met. The following information highlights the results:

- As of the end of FY 2008, 100 percent of HUD's major applications and general support systems documented in the Inventory of Automated Systems had undergone Certification and Accreditation. The Information Technology Security staff has coordinated with program offices, system owners, and project leads to integrate information technology security tasks and milestones into project plans of systems in development and ensure that such systems are certified and accredited prior to their operation.
- During FY 2008, the Office of Information Technology Security coordinated with program offices, system owners, and project management staff to ensure that system level contingency plans were effectively tested and that lessons learned during such testing were integrated into the applicable system contingency plan.
- The Office of Information Technology Security continued its program for annual review of system security plans for all major applications and general support systems for currency and completeness and included shortfalls in documentation in the plan of action and milestones applicable to the system.

- During FY 2008, individual weaknesses in Information Technology security controls continued to be prioritized according to risk and were recorded in system plans of action and milestones. Corresponding remediation efforts of program offices were monitored for timeliness and completeness, resulting in a substantial reduction in their number.
- 100 percent of Plan of Action and Milestones report were reviewed during the year and priority of effort was directed toward mitigation of high impact weaknesses.
- Annual penetration testing of components of the HUD network was conducted by HUD's incident response team.
- Over 96 percent of HUD employees and contractors completed annual information technology security training that included enterprise-wide computer-based awareness training of all users; specialized information technology security training for personnel assigned significant security responsibilities; and provision of role-based training to personnel serving in key security responsibilities.

Resources and Performance Link. In FY 2008, $1,631,456 was allocated to support the Information Technology Security Program at HUD. There are currently 13 full-time equivalent resources allocated to support a sound information technology security program ensuring the safety of the Department's information assets.

Data Discussion. The source of this information is the Office of Information Technology Security. Files and records are maintained by HUD's Office of Information Technology Security to substantiate the information provided above. The Chief Information Security Officer has reviewed the information provided in this section and vouches for its reliability and completeness. The data provided addresses progress made during Fiscal Year 2008 as of September 30, 2008. The validity of the data presented herein can be validated through coordination with the Compliance Division of the Office of Information Technology Security to obtain source documentation related to the submission.

E.15: The Office of the Chief Information Officer will perform Data Management Maturity assessments of four major HUD information systems and report on their level of maturity.

Public Benefit. Ensuring the quality of data systems and reported data allows the Department to accurately report and assess our operations, results, and effectiveness. Over the years, HUD's program offices have developed a large number of data systems for a variety of business purposes such as controlling financial resources, tracking administrative procedures, and recording program impacts. Program offices are ultimately responsible for the management and the quality of their data, including data provided by business partners. The Office of the Chief Information Officer oversees information technology investments and ensures that information systems support core business processes and achieve mission-critical goals.

Background. The Office of the Chief Information Officer has initiated an enterprise-wide effort to ensure that HUD is aligning its data management priorities with the Department's mission and program office objectives, which has resulted in improved data management functions across the enterprise. This initiative is enabling the Department, in program areas and in Lines of Business areas, to evaluate the data management practices used in these areas and to provide guidance on improving the management of the information used within these areas. The goal of this effort is to decrease costs and increase the quality, standardization, reuse, and sharing of the information necessary for HUD to conduct its mission. To meet these goals the Office of the Chief Information Officer will conduct four Data Management Maturity assessments and provide reports to the system stakeholders by the end of FY 2008.

Program Website. http://hudatwork.hud.gov/po/i/edm/index.cfm

Results and Analysis. The established goal was met for all systems. The Enterprise Information Management Group assessed the following mission critical systems:

- The Title Eight Automated Paperless Office Tracking System Data Management Maturity Assessments were completed on June 14, 2007. The tracking system data management artifacts met or exceeded all of HUD current data management requirements.
- The HUD Procurement System Data Management Maturity Assessments were completed on December 14, 2007. The HUD Procurement System data management artifacts met most HUD Data Management requirements. However, there was no Data Requirements Document provided, which is a HUD System Development Methodology requirement.
- The Real Estate Management System Data Management Maturity Assessments were completed on January 14, 2008. The Real Estate Management System Data Management artifacts met or exceeded all of HUD current Data Management requirements.
- The Voucher Management System Data Management Maturity Assessments were completed on May 16, 2008. The Voucher Management System Database Specifications Document, Data Requirements Document, and Functional Requirements Document were found to be of good quality and compliant with the HUD System Development Methodology. The Enterprise Information Management Group made five recommendations for improving Voucher Management System Data Management practices.

All four Data Management Maturity Assessments were completed ahead of schedule.

Resources and Performance Link. The Enterprise Information Management Group spent $26,577 in FY 2008 to ensure the Data Management Maturity Assessments of HUD information systems.

Data Discussion. During FY 2008, the Enterprise Information Management Group transitioned from a strictly oversight role to a management support role providing value to HUD business areas including:

- Reconciliation of different interpretations of data
- Accessibility to the uses of data across the enterprise, their composition and source
- Streamlining data management functions
- Promoting data sharing and reuse
- Establishing data standards and governance models

The data are from the following mission critical systems: Title Eight Automated Paperless Office Tracking System (assessed June 14, 2007), HUD Procurement System (assessed

December 14, 2007), Real Estate Management System (assessed January 14, 2008), and Voucher Management System (assessed May 16, 2008). Recommendations for improvement were identified to the program areas in the Data Management Maturity Assessments Report.

E.16: HUD partners become more satisfied with the Department's performance, operations, and programs.

Public Benefit. HUD partners are critical to the Department's overall performance. These partners include government, nonprofit, and for-profit entities, deliver services for a majority of HUD programs. Addressing issues to increase their satisfaction with HUD's programs and operations makes them more willing and able to support HUD in achieving common objectives.

Background. During FY 2001, the Office of Policy Development and Research surveyed eight partner groups to assess partner satisfaction with the Department and perceptions of management changes at HUD and conducted a second stakeholder survey during FY 2005. The Department's goal has been to observe an increase in satisfaction among partner groups. A third partner survey is underway, with results to be available for the next performance report. The latest survey effort has larger samples in order to be useful for assessing and improving HUD's field office operations but does not include the multifamily partner groups that previously participated. If resources are available, an enhanced survey effort of FHA's multifamily as well as single family partner organizations will be conducted during the 2009–2010 period.

Program Website. The 2006 report, "Partner Satisfaction with HUD's Performance," as well as the report for the baseline survey, is available at www.huduser.org.

Results and Analysis. Compared with FY 2001 respondents, one of eight partner groups, Mayoral partners, expressed significantly greater satisfaction with HUD's programs in FY 2005. Increases in satisfaction reported by four other groups were not significantly different.

Of the eight partner groups, three expressed significantly different levels of satisfaction in connection with HUD's operation of those programs. The change was a statistically significant improvement for two groups, Community Development agencies and Public Housing Agency partners, and a statistically significant decrease for one group, Section 202/811 Multifamily Housing partners.

E.17: Policy Development and Research work products will be high quality and useful to customers.

Public Benefit. The Office of Policy Development and Research is charged with providing data on housing and urban conditions to support program operations and external research, evaluating HUD programs, and preparing studies on housing conditions, policy, and technology. Performance is assessed with an outcome indicator and an output indicator. The outcome indicator is customers' overall assessment of whether research products are useful. The output indicator is the volume of work products downloaded from Policy Development and Research's website during the fiscal year, reflecting both the value of the research and the success of outreach and dissemination activities. The FY 2008 goal was to achieve 6.2 million downloads. The two indicators were consolidated under a single heading as noted in the FY 2009 Annual Performance Plan.

Background. A FY 2001 baseline set of discussions with key stakeholders and selected research users found that 81 percent rated the Office's research products as "valuable." The stakeholders and users interviewed during the baseline research included academics, nonprofit researchers, building professionals, trade and manufacturing associations, financial institutions, and housing advocacy groups. During FY 2005, follow-up surveys focused on customers of the Office of Policy Development and Research's online distribution center, HUD USER. The survey respondents represented three groups of customers: visitors to the website, subscribers to HUD USER's News and American Housing Survey listservs, and users of the Regulatory Barriers Clearinghouse listserv and website. Listserv customers generally may be considered key users.

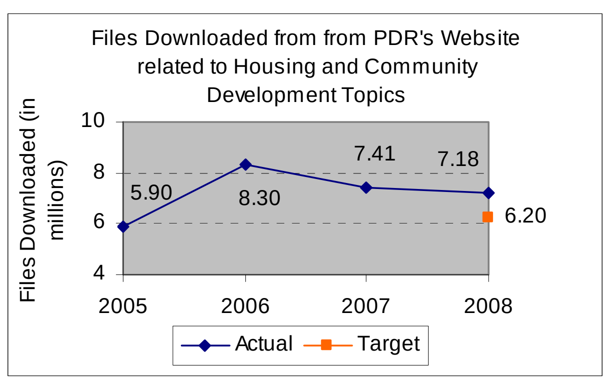
In 1978, the Office of Policy Development and Research established HUD USER, an information resource for housing and community development researchers and policymakers. HUD USER, providing over 1,000 publications and datasets, is one of the principal sources for federal government reports and information on housing policy and programs, building technology, economic development, urban planning, and other housing-related topics. HUD USER also creates and distributes a wide variety of useful information products and services and provides research support in the form of an email- and phone-based Help Desk.

Program Website. www.huduser.org

Results and Analysis. The customer satisfaction survey used to measure usefulness of Policy Development and Research products was placed under contract at the end of FY 2008; the usefulness measure can be updated after FY 2009. Among the FY 2005 survey respondents, 87 percent of all users were highly satisfied or moderately satisfied with the quality of the information available on HUD USER. Satisfaction with the quality of information was even higher among the key users of the listserv groups, reaching 94 percent. Regarding the HUD USER website itself, 84 percent of respondents expressed satisfaction. The final report, "Assessment of the Office of Policy Development and Research Website," is available at the link above.

At the end of FY 2008 the National Research Council, part of the National Academy of Sciences, completed a research report about the Office of Policy Development and Research's research agenda and operations, entitled "Rebuilding the Research Capacity at HUD." The Office is using the report's recommendations to inform the current survey effort and other initiatives to make research products more useful and serve a broader audience. The Office already is implementing key recommendations of the report, such as employing more systematic planning for the in-house research portfolio, beginning with the FY 2009 research agenda.

During FY 2008, users of the HUD USER research clearinghouse downloaded nearly 7.18 million electronic files, surpassing the goal of 6.2 million downloads. The volume is 3 percent less than the FY 2007 tally of 7.41 million downloads. The downloads were accomplished during 4.3 million visits to the HUD USER website. The number of downloads varies from month to month, reflecting the timing and popularity of new reports and information.



Resources and Performance Link. The level of research funding under the Research and Technology account was $28.4 million in FY 2008. The level of funding is a major factor affecting this indicator. The FY 2008 research funding was substantially below the $38.1 million as recently as FY 2005, when an additional $6.9 million was available for housing technology research. About 92 percent of the FY 2008 appropriation was allocated to mandatory data collection efforts, such as the American Housing Survey, and other fixed costs. Very few resources remained for discretionary research efforts needed to evaluate and strengthen national housing and community development programs and policy.

Lower appropriations have reduced the pipeline of major research efforts. As a result, fewer highly-demanded products are likely to be published in the next few years, and downloads of research products are expected to decrease accordingly. In addition, informational marketing efforts for HUD USER, which are funded from the same source, have been curtailed, with the effect that fewer state and local practitioners who need research products can be informed that they exist.

To sustain policy-relevant research, the Office of Policy Development and Research is seeking resources from program offices for priority research efforts and is also conducting more studies in-house. The Office is substantively addressing the recommendations provided by the National Research Council in their report discussed above.

Data Discussion. Users' judgments of the usefulness of research products are measured using periodic customer surveys. The FY 2005 data consist of 10,795 valid responses to the website survey and 1,832 valid responses to the listserv surveys (995 for News and American Housing Survey listservs and 837 for the Regulatory Barriers Clearinghouse listserv). All users between October 7, 2004, and December 10, 2004, were asked to participate. An analysis conducted to validate the sample revealed no significant differences between respondents and non-respondents, nor between visitors during the survey period and the rest of the year.

Data on files downloaded from HUD USER are gathered in monthly reports from Sage Computing, HUD's web hosting and content management provider for HUD USER, and provide a reliable portrayal of usage trends. Beginning in mid-2003, the counts have been generated with WebTrends software, a standard analytical application in the web hosting industry. Although no counting errors are likely, users may download multiple files while obtaining the information they were seeking, and a single user may download the same product more than once. An effort has been made to exclude partial downloads, but a small proportion of partial downloads are known to remain in the total. The FY 2005 customer survey provided independent qualitative and quantitative information for validating usage patterns from automated data.

Goal F: Promote Participation of Faith-Based and Community Organizations.

PERFORMANCE REPORT CARD - GOAL F

	Performance Indicators	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2008 Target	Met	Notes
	Center for Faith-Based and Community Initiatives							
F.1	The Center for Faith-Based and Community Initiatives will measure the participation of faith-based and community organizations, through new and past relationships with public-private partners and through the Department's Super Notice of Funding Availability process.	N/A	$512	$513	N/A	N/A	N/A	a, b
F.2	Increase partnerships and provide information on HUD programs and resources through comprehensive outreach conducted for faith-based and community organizations throughout the nation by facilitating 30 grant writing training sessions and seven "Unlocking Doors Initiatives" forums.							
	Grant Writing Sessions	N/A	N/A	52	68	30	✓	
	Seven "Unlocking Doors Initiatives" forums	N/A	N/A	N/A	7	7	✓	
F.3	The Center for Faith-Based and Community Initiatives will work with HUD program offices to implement/evaluate pilot projects (i.e., HOPE VI, Doors of Hope, and the Housing Counseling Toolkit) to strengthen partnerships between faith-based and community organizations, HUD program offices, and traditional grantees.	1	1	1	3	3	✓	

N/A: Nota available
a – number reported in millions
b – one-year lag in data

Center for Faith-Based and Community Initiatives

F.1: The Center for Faith-Based and Community Initiatives will measure the participation of faith-based and community organizations, through new and past relationships with public-private partners and through the Department's Super Notice of Funding Availability process.

Public Benefit. Faith-based and community organizations, because of their proximity to the people and communities they serve, offer unique advantages to the Department and the general public in HUD-funded activities. This indicator measures the participation of faith-based and community organizations in select HUD competitively funded programs. It also gives the White House Office of Faith-Based and Community Initiatives, the Department, and the general public a sense of the extent to which regulatory reform and agency outreach efforts, conducted by the Center and by other HUD offices, have been successful in inviting previously non-participating grassroots organizations to compete for HUD funding. It is measured in fulfillment of a White House mandate to give the White House Office an understanding of the extent to which faith-based and community organizations participate in select competitive funding streams in a given year and over time.

Background. The Center for Faith-Based and Community Initiatives compares grant award data from the last complete fiscal year against grant data from past fiscal years to check for growth, measure outcomes, and look for long-term trends.

The Center has no involvement in grant decisions and management, nor does it have authority to make or manage grants. Neither does it have numerical targets, either as to the number of organizations receiving funding or as a percentage of the total recipient pool. It does, however, conduct extensive outreach to equip faith-based and community organizations for more effective participation in, among others, Super Notice of Funding Availability competitions. While no direct links between this training outreach and the increase in faith-based and community organization participation in HUD funding streams can be rigorously established, the Center believes that this measurement suggests the extent to which the outreach, among other factors, has been successful.

Program Website. http://www.hud.gov/offices/fbci/

Results and Analysis. Data for the FY 2008 grant awards are unavailable at this time. This indicator compares data from the previous, complete fiscal year to data from previous years. In FY 2007, faith-based organizations secured approximately $513 million in HUD select program grants, of approximately $2.1 billion awarded, or 24.1 percent, and secular organizations secured approximately $1.3 billion, or 60.7 percent (educational institutions, state and local governments, and others received the remaining funds). This compares to approximately $512 million, of approximately $2 billion awarded in FY 2006, or 24.9 percent, to faith-based organizations and $1.2 billion, or 60 percent, to secular organizations (educational institutions, state and local governments, and others received the remaining funds).

Resources and Performance Link. The data collection is conducted by Center staff with active participation by HUD's program offices. The Center surveys ten programs across four program offices and is assisted by data professionals in each of the four program offices whose programs the Center surveys. In addition, program and Office leadership provide whatever other assistance may be necessary; Field Policy and Management's Faith-Based and Community Liaisons frequently provide information as well. In all, the Center leads a team of approximately 25 to 35 professionals.

Data Discussion. Data were collected through the program offices using a variety of methods to best collect the most accurate information. Each year the Center Director distributes a memo to principal staff outlining the schedule and any changes in requirements from past years. Center staff leading the project also schedules a meeting with program data collectors to review the schedule and changes. Data are provided by the program offices and checked by Center staff. In the case of any ambiguity, the Center employs a variety of methods ranging from web searching to interviewing grantees and sponsors in order to resolve the discrepancy. The Center is confident that the collection process has become more refined and accurate each year; program offices are thoroughly familiar with the reporting requirements; the Center has been able to provide longer lead-time for data collection and assembly; and a more complete understanding of how the faith-based and community organizations themselves wish to be characterized has been obtained. As the methodology is employed in conjunction with data collection efforts across the eleven Executive branch agencies with Faith-Based and Community Initiatives, and many faith-based and community organizations win grants in multiple federal agencies, the Center has external checks against its data set as well.

F.2: Increase partnerships and provide information on HUD programs and resources through comprehensive outreach conducted for faith-based and community organizations throughout the nation by facilitating 30 grant writing training sessions and 7 "Unlocking Doors Initiatives" forums.

Public Benefit. Faith-based and community organizations, because of their proximity to the people and communities they serve, offer unique advantages to the Department and the general public in HUD-funded activities. However, they may miss opportunities for leveraging their resources through effective grant competitions and through networking because they are generally small and focus on urgent community needs. The Center's outreach helps these organizations to compete more effectively for public and private funding and to develop networks and relationships that enhance their effectiveness, expand their reach, and offer their expertise to other organizations that may benefit from it.

Background. This indicator measures the extent to which the Center provided technical assistance, disseminated information, and assisted faith-based and community organizations in meeting and developing relationships with potential public and/or private partners, so that they may more effectively conduct their work. The Center delivers comprehensive outreach electronically and through participatory events. The Center facilitates or oversees the participation of HUD Faith-Based and Community Initiatives liaisons in Field Policy and Management and other program offices in national, regional, and state conferences across the country, resulting in outreach to many of the nation's grassroots and large faith-based and community social service providers. It also participates in White House national and regional interagency conferences.

The *Art & Science of Grant Writing* training is the Center's signature event for information on competitive grants, and is highly regarded throughout the Nation and by the White House Office of Faith-Based and Community Initiatives. Established in 2004, the Training has been delivered to approximately 40,000 people since its inception, addressing the misconceptions surrounding partnerships between faith-based organizations and the government, equipping non-profit groups with practical information as they strive to achieve economic empowerment and wealth creation for their communities, and educating faith-based and community organizations about opportunities for funding available through HUD programs and throughout the federal government.

The *Unlocking Doors Initiative* is one of the Center's signature efforts for creating local networking opportunities, building relationships with local governments, and for receiving information on how to work effectively with faith-based and community organizations. Established in 2005, the Unlocking Doors Initiative is designed to bring together state, local, and federal community partners within the participating area to build bridges and form partnerships with faith-based and community organizations. Strategically placed at the Unlocking Doors roundtable are local and national financial institutions, Local Initiatives Support Corporations, universities, and Community Development Corporations who are developing affordable housing projects and offering homeownership opportunities. Through this discussion, consortia and partnerships are formed to remove the barriers these organizations face that impede the progress and completion of their affordable housing projects and solve their communities' problems.

Electronic outreach programs are conducted through the Center's website and through email, teleconferences, web-casts and mass mailings, all of which are utilized in order to inform faith-based and community organizations about HUD programs. Information is provided through communication with more than 17,000 faith-based and community organizations in the Center's database. Technical assistance and training programs have reached over 400,000 constituents through strategic coordination of activities organized through HUD's 81 field offices, state and local governments, university partnerships, one-on-one meetings with faith-based and community leaders, and public speaking engagements.

Program Website. http://www.hud.gov/offices/fbci/

Results and Analysis. All targets were met or exceeded.

The Center provided 68 Grant Writing Training sessions in FY 2008, more than double its goal of 30. The Center conducted 16 more sessions this year than last and exceeded its own expectations, due to effective outreach and advertising by the Center and by the Center's regional and field liaisons, which generated demand for additional workshops. The Center was successful in meeting public demand for grant writing trainings, uncovering additional demand, and being able to fill the demand. Trained organizations are able to write more competitive grant applications, not only to HUD and other federal agencies, but to state and local agencies and private entities as well. Further, the Center conducted the sessions in a wider array of areas, increasing the potential diversity of HUD grant applicants and, through the Department's awardees, extending the scope of the Department's service.

The Center continues to meet community demand for grant writing training by expanding and diversifying its training delivery. The Center is planning to hold an additional 30 grant writing trainings through a new pilot program. The *One-Day Art and Science of Grant Writing* workshops will run from October through December 2008 (first quarter FY 2009). The purpose of the three-month pilot is to evaluate the feasibility of conducting a more focused workshop on grant writing techniques to a targeted audience of intermediate and advanced faith-based and community organizations. With the additional pilot workshops, the Center will have conducted 98 trainings for the 2008 calendar year, an all-time high. An intense evaluation of these one-day trainings will help the Center decide if there is a need for one-day trainings.

The Center held seven *Unlocking Doors Initiative* forums, meeting the targeted number. The Center reached approximately 750 faith-based and community organizations as a result of this initiative, helping them identify the methods and practices used to make cities successful in their affordable community housing efforts. The forums also provided technical support to selected cities to enable them to reach more people, expand their successful partnerships, and provide them with resources to further their efforts in affordable housing and home ownership. The outcomes the initiative has produced are impressive. Partial results in FY 2008 alone include the rehabilitation of vacant properties for affordable housing initiatives, assistance to families in foreclosure, and municipality-requested extension of services provided by housing assistance organizations.

The Center targeted and participated in four White House interagency conferences designed to provide technical assistance and networking opportunities to faith-based and community organizations. Its participation in multiple conferences and panels and dissemination of information for coalition- and capacity-building through meetings, website, listserv, and publications reached 12,000 individuals. The Center consistently sent out its monthly "Portals to Success" newsletters to members of its listserv and internally within HUD. These letters provide information on upcoming events and training opportunities, messages from the Director, and news on the Center's day-to-day activities.

Resources and Performance Link. The Center has designated three of its eight staff and two to three summer interns to full-time outreach and technical assistance efforts. Every member of the staff has participated in outreach efforts including teleconferences, webcasts, and White House national and regional conferences.

Data Discussion. Data for this indicator are taken from documentation maintained by the Center, and are reliable and complete for this fiscal year, consonant with past fiscal years. Staff members collect attendance, contact, and other data gained in their outreach efforts and record them in print and electronic media. Grant Writing Trainers from Field Policy and Management and other offices likewise maintain lists of invitees and attendees at the sessions they lead.

F.3: The Center for Faith-Based and Community Initiatives will work with HUD program offices to implement/evaluate pilot projects (i.e., HOPE VI, Doors of Hope, and the Housing Counseling Toolkit) to strengthen partnerships between faith-based and community organizations, HUD program offices, and traditional grantees.

Public Benefit. Faith-based and community organizations, because of their proximity to the people and communities they serve, offer unique advantages to the Department and the general public in HUD-funded activities. This indicator measures the Center's success at devising and implementing innovative pilot projects that advance the Department's mission by engaging faith-based and community organizations as new partners in its work. Innovative partnerships between the Department or its grantees and faith-based and community organizations currently not participating in HUD's funding streams has the effect of unleashing creativity latent in all the organizations involved, which has the further effect of unleashing the creativity latent in service beneficiaries, helping them attain personal goals that have the effect of strengthening their communities and the Nation.

Background. Three projects are measured by this indicator: the HOPE VI Mentoring Pilot Project, the Doors of Hope project, and the Hurricane Toolkit (the Center wishes to note that the report on the Housing Counseling Toolkit was intended to be on the Hurricane Toolkit).

The Center established the *HOPE VI Mentoring Pilot Project* in collaboration with the Office of Public and Indian Housing. The project aims to encourage PHAs to enlist area faith-based and community organizations to supply mentors for public housing residents in order to increase the residents' FICO scores, attain GEDs, and meet other benchmarks as they move to self-sufficiency. The project allows PHAs to compensate faith-based and community organizations on a per capita, fee-for-service basis each time a faith-based or community organization mentor successfully leads a public housing resident toward an agreed-upon benchmark. These funds were made available to determine if a mentoring demonstration program assistance model improves the results of self-sufficiency-type programs for participating residents.

The Center established the *Doors of Hope* project in FY 2007. Doors of Hope is designed to assist faith-based and community organizations in securing HUD's Section 202 funding. Section 202 grants help expand the supply of affordable housing with supportive services for low-income senior citizens. Through a selected intermediary, direct support is given to faith-based and community organizations, providing for the cost of renderings/plans and/or environmental studies for the proposed housing project. Many faith-based and community organizations in search of funding for elderly care housing do not have the assets available up-front to have the required studies and renderings/plans prepared; but with the assistance provided through Doors of Hope these organizations will have the materials needed to compete for Section 202 funding.

In consultation with the Multifamily Housing Division Director at HUD, the Center selected six faith-based and community organizations to participate in the Doors of Hope program. The organizations are the United Church of Jesus Christ, Dependable Community Development Corporation (CDC), Bronx, NY; Faith Chapel CDC and CHDO, Philadelphia, PA; Utopia Emporium Senior Village, Emporium, PA; Notre Dame Catholic Church, Dade County, FL; Calvary Baptist CDC, Durham, NC; and the Regional Neighborhood Development Corporation, New Orleans, LA.

The Center first developed its *Hurricane Toolkit* as a resource and aid to faith-based and community organizations seeking to assist those affected by Katrina and the other hurricanes of Fall 2005. Since then, the Toolkit has been revised and expanded for use any time faith-based and community organizations serve as first responders. The Hurricane Toolkit supplies information and resources for faith-based and community service providers to assist their constituents in being prepared for crisis situations now and in the future. It also helps to overcome barriers that prevent survivors from gaining access to a wide array of pre- and post-disaster services. This kit provides information about what HUD is doing to assist faith-based and community organizations involved in coordinating relief activities, as well as other useful contact information for those directly assisting the public. With the many disasters this country has recently experienced, the Hurricane Toolkit has been in very high demand and has been widely disseminated.

Program Website. http://www.hud.gov/offices/fbci/

Results and Analysis. In the *HOPE VI Mentoring Project*, the Danville, VA; Chicago, IL; and Philadelphia, PA PHAs received awards to fund faith-based and community organization that provided mentoring and fully met the goal.

The Center fully met the goal of performing *Doors of Hope* program outreach during Unlocking Doors presentations, and has had direct communication with Faith-Based and Community Organizations that have expressed interest to HUD's Multifamily Housing division in competing for Section 202 funding.

The *Hurricane Toolkit* has been revised and expanded since its first appearance in 2005 and thus fully met the goal. An electronic copy is always available on the Center's website.

Data Discussion. As benchmarks are reported from *HOPE VI Mentoring Project* award winners, the PHA partners and their case management staff, final results will be collected and a final analysis will be performed.

The Center tracks the results of the *Doors of Hope* project through ongoing communication with faith-based and community organizations and other community groups that participate in the forums. Feedback indicates where and when projects were started and brought to completion due to the open communication the Center facilitates between faith-based and community organizations and local authorities.

To date, 87,000 hard copies of the *Hurricane Toolkit* have been disseminated and the Center tracks activity through headquarters records.

Message from the Chief Financial Officer

November 17, 2008

Fiscal Year 2008 has been a challenging year for the Department. The housing crisis has kept the Department in the news on a daily basis. Legislation to address this issue also brings new responsibilities to the OCFO including front-end risk assessments and funds control plans to ensure that funds are available and used as intended, both effectively and efficiently.

In spite of these challenges, the Department of Housing and Urban Development continued to make strides towards financial management excellence. The Department's progress is measured by the results and outcomes captured in this annual Performance and Accountability Report. The report tells the story of our successes and challenges in both the financial and program arenas. It serves as the principal publication and report to the President, Congress, and the American people on our program leadership and our stewardship and management of the public funds entrusted to us.

I am particularly pleased to report that, for the ninth consecutive year, we have received an unqualified, or "clean," opinion with no material weaknesses on the Department's consolidated financial statements from our independent Office of Inspector General auditors. Attainment of an unqualified opinion is a high-water mark for any organization. In HUD's case, this is even more noteworthy because the audit noted the elimination of the two material weaknesses which were first identified in the prior year financial audit. I take this opportunity to extend a special thanks to the HUD staff who were responsible for the tremendous accomplishment of eliminating these material weaknesses within one year! The Department recognizes, however, the need for continuous improvement to maintain this level of success. While recognizing HUD's accomplishment in eliminating the two material weaknesses, the auditors did identify seven significant deficiencies for the Department. Corrective action plans are being developed to address the new deficiencies, and the Department continues to make progress in addressing prior year findings. Overall, though, HUD's favorable "clean" financial audit result affirms our continued commitment to financial and management excellence. Other significant financial management accomplishments in FY 2008 include:

- Received the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants for the second year in a row. This certificate recognizes the Department's excellence in linking budget and performance information in its FY 2007 Performance and Accountability Report.

- Obtained a score of "Green" on four of eight President's Management Agenda initiatives. Most notably, the Department improved its score from "Yellow" to "Green" on the Human Capital Management initiative, retained a "Green" score on Improved Financial Performance, and re-attained a "Green" score on the Initiative to Eliminate Improper Payments. The Department is continuing to make progress on the four remaining Initiatives – Credit Program Management, Competitive Sourcing, Electronic Government, and Performance Improvement – and has action plans in place to drive further improvements in FY 2009.

- Completed HUD's third assessment of the effectiveness of internal controls over financial reporting, in accordance with the requirements of Appendix A of OMB Circular No. A-123. This is similar to the Sarbanes-Oxley Act requirements for the private sector. Based on the results of that evaluation, the Secretary was able to report, with reasonable assurance, that the Department's internal controls over financial reporting, as of June 30, 2008, were operating effectively, and no material weaknesses were found in the design or operation of the internal controls over financial reporting. Nevertheless, opportunities for improved controls were identified and corrective actions have been initiated.

- Continued its record of receiving "Green" ratings from the Office of Management and Budget on goals for all nine key federal accounting practices, achieving: 100 percent fund balance with Treasury reconciliation, 95 percent suspense account resolution, 98 percent debt management, 99 percent prompt payment, 100 percent interest management, 97 percent electronic funds transfer, 99 percent individual travel card timeliness, 100 percent central travel card timeliness, and 100 percent purchase card timeliness. These ratings placed HUD among the top performers in the federal government.

- Continued the review and clean-up of obligated fund balances associated with terminated programs and expired contracts resulting in the deobligation of approximately $1 billion in excess/overestimated funds identified in FY 2008.

Under the Government Performance and Results Act, we continuously assessed and refined our performance measures, quality of data, and compilation procedures. We refined our procedures to assure our stakeholders that we have the most useful and accurate performance data available that also reflects the benefits to our constituents. We are proud of our many accomplishments, but realize a lot of work remains in this very challenging financial environment. We continually strive to improve our financial stewardship of the resources entrusted to us by the Congress and the American taxpayer. We will continue to promote sound business practices and improve accountability while fulfilling our mission of promoting home ownership, supporting community development, and increasing access to affordable housing free from discrimination.

I want to thank the staff of the Office of the Chief Financial Officer, the FHA Comptroller's Office, Ginnie Mae's Office of Finance, the Office of Inspector General, and other HUD program and administrative components that are involved in the stewardship of HUD's funds. Their continued dedication and effort is essential in providing HUD's program management team with the budgetary, accounting, financial management systems, auditing, and performance management services necessary to effectively support HUD's mission and deliver results for the American people.

John W. Cox

John W. Cox

INTRODUCTION TO THE FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of HUD, pursuant to the requirements of 31 U.S.C. 3515(b). While the financial statements have been prepared from HUD's books and records in accordance with formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The principal financial statements and notes should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication is that the liabilities reported in the financial statements cannot be liquidated without legislation that provides resources to do so.

The financial statements presented herein are:

The **Consolidated Balance Sheets**, as of September 30, 2008 and 2007, present those resources owned or managed by HUD which are available to provide future economic benefits (assets); amounts owed by HUD that will require payments form those resources or future resources (liabilities); and residual amounts retained by HUD comprising the difference (net position).

The **Consolidated Statement of Net Cost,** which present the net cost of HUD operations for the years ended September 30, 2008 and 2007. HUD's net cost of operations includes the gross costs incurred by HUD less any exchange revenue earned from HUD activities.

The **Consolidated States of Changes in Net Position,** which present the change in HUD's net position resulting from the net cost of HUD operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2008 and 2007.

The **Combined Statements of Budgetary Resources,** which present the budgetary resources available to HUD during FY 2008 and 2007, the status of these resources at September 30, 2008 and 2007, and the outlay of budgetary resources for the years ended September 30, 2008 and 2007.

The **Notes to the Financial Statements** provide important disclosures and details related to information reported on the statements.

Consolidated Balance Sheet
As of September 30, 2008 and 2007
(Dollars in Millions)

	2008	2007
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 4)	$85,539	$69,046
Investments (Note 5)	28,544	31,270
Other Assets (Note 9)	22	8
Total Intragovernmental Assets	$114,106	$100,324
Investments (Note 5)	48	121
Accounts Receivable (Net) (Note 6)	239	256
Credit Program Receivables and Related Foreclosed Property (Note 7)	9,565	9,567
General Property Plant and Equipment (Net) (Note 8)	234	213
Other Assets (Note 9)	845	593
TOTAL ASSETS	**$125,036**	**$111,074**
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable (Note 10)	$11	$5
Debt (Note 11)	5,608	5,459
Other Intragovernmental Liabilities (Note 14)	1,655	3,808
Total Intragovernmental Liabilities	$7,274	$9,272
Accounts Payable (Note 10)	892	769
Loan Guarantees (Note 7)	19,613	7,551
Debt Held by the Public (Note 11)	729	981
Federal Employee and Veterans' Benefits (Note 12)	85	82
Loss Reserves (Note 13)	550	536
Other Governmental Liabilities (Note 14)	1,378	1,169
TOTAL LIABILITIES	**$30,521**	**$20,360**
COMMITMENTS AND CONTINGENCIES (Notes 17 & 23)		
NET POSITION		
Unexpended Appropriations - Earmarked (Note 18)	($376)	($376)
Unexpended Appropriations	66,832	54,871
Cumulative Results of Operations - Earmarked (Note 18)	14,089	13,266
Cumulative Results of Operations	13,970	22,953
TOTAL NET POSITION	$94,515	$90,714
TOTAL LIABILITIES AND NET POSITION	**$125,036**	**$111,074**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost
For The Period Ended September 2008 and 2007
(Dollars in Millions)

	2008	2007
COSTS:		
Federal Housing Administration		
Gross Cost (Note 19)	$11,378	$3,890
Less: Earned Revenue	(1,471)	(1,521)
Net Program Costs	9,907	2,369
Government National Mortgage Association		
Gross Cost (Note 19)	110	53
Less: Earned Revenue	(1,007)	(791)
Net Program Costs	(897)	(738)
Section 8:		
Gross Cost (Note 19)	24,735	24,640
Net Program Costs	24,735	24,640
Low Rent Public Housing Loans and Grants		
Gross Cost (Note 19)	3,238	3,479
Net Program Costs	3,238	3,479
Operating Subsidies:		
Gross Cost (Note 19)	4,150	3,831
Net Program Costs	4,150	3,831
Housing for the Elderly and Disabled		
Gross Cost (Note 19)	1,392	1,317
Less: Earned Revenue	(363)	(419)
Net Program Costs	1,029	898
Community Development Block Grants:		
Gross Cost (Note 19)	8,996	10,966
Net Program Costs	8,996	10,966
HOME:		
Gross Cost (Note 19)	2,013	1,902
Net Program Costs	2,013	1,902
Other:		
Gross Cost (Note 19)	3,872	3,377
Less: Earned Revenue	(33)	(21)
Net Program Costs	3,839	3,356
Costs Not Assigned to Programs:	144	332
Consolidated:		
Gross Cost (Note 19)	$60,028	53,787
Less: Earned Revenue	(2,874)	(2,752)
Net Cost of Operations	**$57,154**	**$51,035**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position
for the period ending September 2008 and 2007
(Dollars in Millions)

	2008			2007
	EARMARKED FUNDS	ALL OTHER FUNDS	CONSOLIDATED TOTAL	CONSOLIDATED TOTAL
CUMULATIVE RESULTS OF OPERATIONS:				
Beginning of Period	$13,266	$22,953	$36,219	$39,500
Adjustments:				
Corrections of Errors		8	8	(33)
Beginning Balances, As Adjusted	13,266	22,961	36,227	39,467
BUDGETARY FINANCING SOURCES:				
Other Adjustments				2
Appropriations Used	9	49,525	49,534	50,952
Transfers In/Out Without Reimbursement		(628)	(628)	(2,419)
Other				(2)
Other Financing Sources (non-exchange):				
Transfers In/Out Without Reimbursement		(32)	(32)	(843)
Imputed Financing		112	112	97
Total Financing Sources	9	48,977	48,986	47,787
Net Cost of Operations	814	(57,968)	(57,154)	(51,035)
Net Change	823	(8,991)	(8,168)	(3,248)
CUMULATIVE RESULTS OF OPERATIONS	**$14,089**	**$13,970**	**$28,059**	**$36,219**
UNEXPENDED APPROPRIATIONS:				
Beginning of Period	(376)	54,871	54,495	$66,239
Adjustments				
Corrections of Errors		2	2	33
Beginning Balances, As Adjusted	(376)	54,873	54,497	66,272
BUDGETARY FINANCING SOURCES:				
Appropriations Received	9	63,873	63,882	40,175
Appropriations Transfers In/Out		(241)	(241)	(160)
Other Adjustments		(2,149)	(2,149)	(842)
Appropriations Used	(9)	(49,525)	(49,534)	(50,950)
Total Budgetary Financing Sources		11,958	11,958	(11,777)
Unexpended Appropriations	(376)	66,831	66,455	54,495
NET POSITION	**$13,713**	**$80,801**	**$94,514**	**$90,714**

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources
For the Period Ended September 2008 and 2007
(Dollars in Millions)

	2008		2007	
	Budgetary	NonBudgetary Credit Program Financing Accounts	Budgetary	NonBudgetary Credit Program Financing Accounts
Budgetary Resources:				
Unobligated Balance, Brought Forward	$42,984	$4,219	$48,465	$7,158
Recoveries of Prior Year Unpaid Obligations	940	19	2,674	125
Budget Authority				
Appropriation	63,888		40,181	2
Borrowing Authority	4	940	17	602
Spending Auth from Offsetting Collections				
Earned				
Collected	4,361	14,188	4,647	9,131
Change in Receivable from Fed Sources	(66)	(41)	52	42
Change in Unfilled Customer Orders				
Advance Received	1		(29)	
W/O Advance from Federal Sources	1	(2)	(9)	(2)
Subtotal Budget Authority	68,189	15,085	44,859	9,775
Nonexpenditure Transters, Net	(2)			
Temporarily Not Available Per PL				
Permanently not available	(11,343)	(691)	(4,268)	(2,315)
Total Budgetary Resources	**$100,768**	**$18,632**	**$91,730**	**$14,742**
Status of Budgetary Resources:				
Obligations Incurred				
Direct	46,634	10,332	48,416	10,523
Reimbursable	753		329	
Subtotal	$47,387	$10,332	$48,745	$10,523
Unobligated Balances				
Apportioned	17,757	2,638	5,712	1,007
Subtotal	17,757	2,638	5,712	1,007
Unobligated Balances Not Available	$35,624	$5,662	$37,273	$3,212
Total Status of Budgetary Resources	**$100,768**	**$18,632**	**$91,730**	**$14,742**
Change in Obligated Balance				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward	65,807	1,342	72,610	1,377
Less: Uncollected Customer Payments from Federal Sources	(344)	(62)	(301)	(22)
Total Unpaid Obligated Balance, Net	65,462	1,280	72,309	1,355
Obligations Incurred, Net	47,386	10,332	48,745	10,523
Less: Gross Outlays	(55,119)	(10,059)	(52,875)	(10,433)
Obligated Balance Transferred, Net				
Actual Transfers, Unpaid Obligations				
Actual Transfers, Uncollected Customer Payments from Federal Sources				
Total Unpaid Obligated Balance Transferred, Net				
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(940)	(19)	(2,674)	(125)
Change in Uncollected Customer Payments from Federal Sources	65	43	(43)	(40)
Obligated Balance, Net - End of Period				
Unpaid Obligations	57,133	1,595	65,805	1,342
Less: Uncollected Customer Payments from Federal Sources	(279)	(18)	(344)	(62)
Total Obligated Balance, Net - End of Period	**$56,854**	**$1,577**	**$65,461**	**$1,280**
Net Outlays				
Gross Outlays	55,120	10,060	52,875	10,433
Less: Offsetting Collections	(4,362)	(14,188)	(4,618)	(9,131)
Less: Distributed Offsetting Receipts	(1,541)		(2,807)	
Net Outlays	**$49,217**	**($4,128)**	**$45,450**	**$1,302**

The accompanying notes are an integral part of these statements.

Consolidating Balance Sheet
As of September 2008
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies
ASSETS						
Intragovernmental						
Fund Balance with Treasury	$12,590	$4,836	$8,877	$28,806	$5,426	$1,186
Investments	19,254	9,290				
Other Assets	21		1	2	1	3
Total Intragovernmental Assets	31,865	14,127	8,877	28,808	5,427	1,189
Investments	48					
Accounts Receivable (Net)	128	26	78		1	
Credit Program Receivables and Related Foreclosed Property	5,506					
General Property Plant and Equipment (Net)		27				
Other Assets	134	709				
TOTAL ASSETS	**$37,681**	**$14,888**	**$8,955**	**$28,808**	**$5,429**	**$1,189**
LIABILITIES						
Intragovernmental Liabilities						
Accounts Payable			$1	$3		
Debt	4,832					
Other Intragovernmental Liabilities	1,530		65	2	1	2
Total Intragovernmental Liabilities	6,362		66	5	1	2
Accounts Payable	585	39	23	31	8	139
Loan Guarantees	19,486					
Debt Held by the Public	52					
Federal Employee and Veterans' Benefits			8	7	3	5
Loss Reserves		550				
Other Governmental Liabilities	438	773	10	7	4	7
TOTAL LIABILITIES	**$26,924**	**$1,362**	**$106**	**$50**	**$15**	**$154**
NET POSITION						
Unexpended Appropriations - Earmarked						
Unexpended Appropriations	411		8,849	28,758	5,414	1,035
Cumulative Results of Operations - Earmarked		13,527				
Cumulative Results of Operations	10,347					
TOTAL NET POSITION	$10,757	$13,527	$8,849	$28,758	$5,414	$1,035
TOTAL LIABILITIES AND NET POSITION	**$37,681**	**$14,888**	**$8,955**	**$28,808**	**$5,429**	**$1,189**

Figures may not add to totals because of rounding.

Consolidating Balance Sheet (continued)
As of September 2008
(Dollars in Millions)

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
ASSETS				
Intragovernmental				
Fund Balance with Treasury	$8,306	$6,861	$8,652	$85,539
Investments				28,544
Other Assets	3		(9)	22
Total Intragovernmental Assets	$8,309	$6,861	$8,642	$114,105
Investments				48
Accounts Receivable (Net)			6	239
Credit Program Receivables and Related Foreclosed Property	1	3,979	79	9,565
General Property Plant and Equipment (Net)			208	234
Other Assets			2	845
TOTAL ASSETS	**$8,310**	**$10,839**	**$8,936**	**$125,036**
LIABILITIES				
Intragovernmental Liabilities				
Accounts Payable			$7	$11
Debt	775			5,608
Other Intragovernmental Liabilities	1	1	53	1,655
Total Intragovernmental Liabilities	$777	$1	$59	$7,274
Accounts Payable	16	10	41	892
Loan Guarantees			128	19,613
Debt Held by the Public	677			729
Federal Employee and Veterans' Benefits	2	2	59	85
Loss Reserves				550
Other Governmental Liabilities	3	8	129	1,378
TOTAL LIABILITIES	**$1,475**	**$20**	**$416**	**$30,521**
NET POSITION				
Unexpended Appropriations - Earmarked			(376)	(376)
Unexpended Appropriations	8,201	5,865	8,299	66,832
Cumulative Results of Operations - Earmarked			563	14,089
Cumulative Results of Operations	(1,365)	4,954	35	13,970
TOTAL NET POSITION	$6,836	$10,819	$8,520	$94,515
TOTAL LIABILITIES AND NET POSITION	**$8,310**	**$10,839**	**$8,936**	**$125,036**

Figures may not add to totals because of rounding.

Consolidating Balance Sheet
As of September 2007
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies
ASSETS						
Intragovernmental						
Fund Balance with Treasury	$9,559	$4,433	$5,350	$20,553	$5,700	$1,100
Investments	22,481	8,789				
Other Assets	4		1	3	2	8
Total Intragovernmental Assets	32,044	13,222	5,351	20,556	5,702	1,108
Investments	121					
Accounts Receivable (Net)	119	23	102		2	
Credit Program Receivables and Related Foreclosed Property	4,738					
General Property Plant and Equipment (Net)		17				
Other Assets	143	449				
TOTAL ASSETS	**$37,165**	**$13,711**	**$5,453**	**$20,556**	**$5,705**	**$1,108**
LIABILITIES						
Intragovernmental Liabilities						
Accounts Payable			$1	$4		
Debt	4,573					
Other Intragovernmental Liabilities	3,656		$77	2	1	2
Total Intragovernmental Liabilities	$8,229		$77	$6	$1	$2
Accounts Payable	385	42	4	64	21	189
Loan Guarantees	7,431					
Debt Held by the Public	70					
Federal Employee and Veterans' Benefits			8	7	3	5
Loss Reserves		536				
Other Governmental Liabilities	474	513	9	6	3	6
TOTAL LIABILITIES	**$16,590**	**$1,090**	**$98**	**$82**	**$28**	**$202**
NET POSITION						
Unexpended Appropriations - Earmarked						
Unexpended Appropriations	544		5,355	20,474	5,677	906
Cumulative Results of Operations - Earmarked		12,620				
Cumulative Results of Operations	20,031					
TOTAL NET POSITION	$20,575	$12,620	$5,355	$20,474	$5,677	$906
TOTAL LIABILITIES AND NET POSITION	**$37,165**	**$13,711**	**$5,453**	**$20,556**	**$5,705**	**$1,108**

Figures may not add to totals because of rounding.

Consolidating Balance Sheet
As of September 2007
(Dollars in Millions)

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
ASSETS				
Intragovernmental				
Fund Balance with Treasury	$7,777	$6,255	$8,318	$69,046
Investments				31,270
Other Assets	7		(17)	8
Total Intragovernmental Assets	7,784	6,255	8,302	100,324
Investments				121
Accounts Receivable (Net)	1		9	256
Credit Program Receivables and Related Foreclosed Property	1	4,634	193	9,567
General Property Plant and Equipment (Net)			196	213
Other Assets			1	593
TOTAL ASSETS	**$7,786**	**$10,889**	**$8,701**	**$111,074**
LIABILITIES				
Intragovernmental Liabilities				
Accounts Payable			($1)	$5
Debt	886			5,459
Other Intragovernmental Liabilities	1	1	69	3,808
Total Intragovernmental Liabilities	$888	$1	$68	$9,272
Accounts Payable	22	6	36	769
Loan Guarantees			120	7,551
Debt Held by the Public	911			981
Federal Employee and Veterans' Benefits	2	2	57	82
Loss Reserves				536
Other Governmental Liabilities	2	32	125	1,169
TOTAL LIABILITIES	**$1,824**	**$41**	**$406**	**$20,360**
NET POSITION				
Unexpended Appropriations - Earmarked			(376)	(376)
Unexpended Appropriations	7,658	6,247	8,010	54,871
Cumulative Results of Operations - Earmarked			645	13,266
Cumulative Results of Operations	(1,696)	4,602	16	22,953
TOTAL NET POSITION	$5,962	$10,849	$8,295	$90,714
TOTAL LIABILITIES AND NET POSITION	**$7,786**	**$10,889**	**$8,701**	**$111,074**

Figures may not add to totals because of rounding.

Consolidating Statement of Net Cost
For the Period Ended September 2008 and 2007
(Dollars in Millions)

2008	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies
PROGRAM COSTS						
Gross Costs	$11,378	$110	$24,735	$8,996	$2,013	$4,150
Less: Earned Revenues	(1,471)	(1,007)				
Net Costs	$9,907	($897)	$24,735	$8,996	$2,013	$4,150
Costs Not Assigned to Programs						
Earned Revenue Not Assigned						
Net Cost of Operations	**$9,907**	**($897)**	**$24,735**	**$8,996**	**$2,013**	**$4,150**

2007	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies
PROGRAM COSTS						
Gross Costs	3,890	53	24,640	10,966	1,902	3,831
Less: Earned Revenues	(1,521)	(791)				
Net Costs	$2,369	($738)	$24,640	$10,966	$1,902	$3,831
Costs Not Assigned to Programs						
Earned Revenue Not Assigned						
Net Cost of Operations	**$2,369**	**($738)**	**$24,640**	**$10,966**	**$1,902**	**$3,831**

Figures may not add to totals because of rounding.

Consolidating Statement of Net Cost (continued)
For the Period Ended September 2008 and 2007
(Dollars in Millions)

2008	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
PROGRAM COSTS				
Gross Costs	$3,238	$1,392	$3,872	$59,884
Less: Earned Revenues		(363)	(33)	(2,874)
Net Costs	$3,238	$1,029	$3,839	$57,011
Costs Not Assigned to Programs			$144	$144
Earned Revenue Not Assigned				
Net Cost of Operations	**$3,238**	**$1,029**	**$3,982**	**$57,154**

2007	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
PROGRAM COSTS				
Gross Costs	$3,479	$1,317	$3,377	$53,454
Less: Earned Revenues		(419)	(21)	(2,752)
Net Costs	$3,479	$898	$3,356	$50,702
Costs Not Assigned to Programs			$332	$332
Earned Revenue Not Assigned				
Net Cost of Operations	**$3,479**	**$898**	**$3,688**	**$51,035**

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position
for the period ended September 2008
(Dollars in Millions)

Cumulative Results of Operations

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies
Net Position - Beginning of Period						
- Earmarked Funds		$12,620				
- All Other Funds	$20,031					
Beginning Balances	20,031	12,620				
Adjustments						
Corrections of Errors						
- All Other Funds						
Beginning Balances, As Adjusted						
- Earmarked Funds		12,620				
- All Other Funds	20,031					
Total Beginning Balances, As Adjusted	20,031	12,620				
Budgetary Financing Sources:						
Appropriations Used						
- Earmarked Funds		8				
- All Other Funds	435		24,500	8,902	1,957	4,067
Transfers In/Out Without Reimbursement						
- All Other Funds	(614)					
Other Budgetary Financing Sources						
- All Other Funds			235	94	56	83
Other Financing Sources:						
Transfers In/Out Without Reimbursement						
- All Other Funds	387					
Imputed Financing From Costs Absorbed from Others						
- Earmarked Funds		1				
- All Other Funds	14					
Total Financing Sources						
- Earmarked Funds		9				
- All Other Funds	222		24,735	8,996	2,014	4,150
Total Financing Sources	**222**	**9**	**24,735**	**8,996**	**2,014**	**4,150**
Net Cost of Operations						
- Earmarked Funds		897				
- All Other Funds	(9,907)		(24,735)	(8,996)	(2,014)	(4,150)
Net Change						
- Earmarked Funds		906				
- All Other Funds	(9,684)					
Total All Funds						
- Earmarked Funds		13,527				
- All Other Funds	10,347					
Total All Funds	**$10,347**	**$13,527**				

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position (continued)
for the period ended September 2008
(Dollars in Millions)

Cumulative Results of Operations

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
Net Position - Beginning of Period				
- Earmarked Funds			$645	$13,266
- All Other Funds	($1,696)	$4,602	16	22,953
Beginning Balances	(1,696)	4,602	661	36,219
Adjustments				
Corrections of Errors				
- All Other Funds			9	8
Beginning Balances, As Adjusted				
- Earmarked Funds			645	13,266
- All Other Funds	(1,696)	4,602	25	22,963
Total Beginning Balances, As Adjusted	**(1,696)**	**4,602**	**670**	**36,228**
Budgetary Financing Sources:				
Appropriations Used				
- Earmarked Funds			1	9
- All Other Funds	3,503	1,334	4,827	49,525
Transfers In/Out Without Reimbursement				
- All Other Funds		(14)	(1)	(628)
Other Budgetary Financing Sources				
- All Other Funds	67	61	(595)	
Other Financing Sources:				
Transfers In/Out Without Reimbursement				
- All Other Funds			(419)	(32)
Imputed Financing From Costs Absorbed from Others				
- Earmarked Funds				
- All Other Funds			97	112
Total Financing Sources				
- Earmarked Funds			1	9
- All Other Funds	3,569	1,381	3,909	48,977
Total Financing Sources	**3,569**	**1,381**	**3,909**	**48,985**
Net Cost of Operations				
- Earmarked Funds			(83)	814
- All Other Funds	(3,239)	(1,029)	(3,899)	(57,968)
Net Change				
- Earmarked Funds			(83)	824
- All Other Funds	331	351	10	(8,993)
Total All Funds				
- Earmarked Funds			563	14,089
- All Other Funds	(1,365)	4,954	35	13,970
Total All Funds	**($1,365)**	**$4,954**	**$598**	**$28,059**

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position
for the period ended September 2008
(Dollars in Millions)

Unexpended Appropriations

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies
Net Position - Beginning of Period						
- Earmarked Funds						
- All Other Funds	$544		$5,355	$20,474	$5,677	$906
Beginning Balances	544		5,355	20,474	5,677	906
Adjustments						
Corrections of Errors						
- All Other Funds						
Beginning Balances, As Adjusted						
- Earmarked Funds						
- All Other Funds	544		5,355	20,474	5,677	906
Total Beginning Balances, As Adjusted	**544**		**5,355**	**20,474**	**5,677**	**906**
Budgetary Financing Sources						
Appropriations Received						
- Earmarked Funds		8				
- All Other Funds	627		29,443	17,586	1,704	4,200
Appropriations Transfers In/Out						
- Earmarked Funds						
- All Other Funds	(276)		(10)	(1)	(3)	
Other Adjustments (Rescissions, etc)						
- Earmarked Funds						
- All Other Funds	(50)		(1,438)	(399)	(6)	(3)
Appropriations Used						
- Earmarked Funds		(8)				
- All Other Funds	(435)		(24,474)	(8,902)	(1,957)	(4,067)
Other Financing Sources:						
Total Financing Sources						
- Earmarked Funds						
- All Other Funds	(133)		3,520	8,284	(263)	129
Total Financing Sources	**(133)**		**3,520**	**8,284**	**(263)**	**129**
Net Change						
- Earmarked Funds						
- All Other Funds	(133)		3,520	8,284	(263)	129
Total All Funds						
- **Earmarked Funds**						
- All Other Funds	411		8,849	28,758	5,414	1,035
Total All Funds	**$411**		**$8,849**	**$28,758**	**$5,414**	**$1,035**

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position
for the period ended September 2008
(Dollars in Millions)

Unexpended Appropriations

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
Net Position - Beginning of Period				
- Earmarked Funds			($376)	($376)
- All Other Funds	$7,658	$6,247	8,010	54,871
Beginning Balances	7,658	6,247	7,634	54,495
Adjustments				
Corrections of Errors				
- Earmarked Funds				
- All Other Funds			2	2
Beginning Balances, As Adjusted				
- Earmarked Funds			(376)	(376)
- All Other Funds	7,658	6,247	8,012	54,873
Total Beginning Balances, As Adjusted	**7,658**	**6,247**	**7,636**	**54,497**
Budgetary Financing Sources				
Appropriations Received				
- Earmarked Funds			1	9
- All Other Funds	4,082	972	5,259	63,873
Appropriations Transfers In/Out				
- Earmarked Funds				
- All Other Funds	(17)	(2)	68	(241)
Other Adjustments (Rescissions, etc)				
- Earmarked Funds				
- All Other Funds	(20)	(18)	(215)	(2,149)
Appropriations Used				
- Earmarked Funds			(1)	(9)
- All Other Funds	(3,503)	(1,334)	(4,827)	(49,525)
Other Financing Sources:				
Total Financing Sources				
- Earmarked Funds				
- All Other Funds	543	(382)	286	11,958
Total Financing Sources	**543**	**(382)**	**286**	**11,958**
Net Change				
- Earmarked Funds				
- All Other Funds	543	(382)	286	11,958
Total All Funds				
- Earmarked Funds			(376)	(376)
- All Other Funds	8,201	5,865	8,299	66,831
Total All Funds	**$8,201**	**$5,865**	**$7,923**	**$66,455**

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position
for the period ended September 2007
(Dollars in Millions)

Cumulative Results of Operations

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies
Net Position - Beginning of Period						
- Earmarked Funds		$11,882				
- All Other Funds	$23,405		33			
Beginning Balances	23,405	11,882	33			
Adjustments						
Corrections of Errors						
- All Other Funds			(33)			
Beginning Balances, As Adjusted						
- Earmarked Funds		11,882				
- All Other Funds	23,405					
Total Beginning Balances, As Adjusted	**23,405**	**11,882**				
Budgetary Financing Sources:						
Other Adjustments (Rescissions, etc.)						
- All Other Funds	2					
Appropriations Used						
- Earmarked Funds						
- All Other Funds	415		24,445	10,894	1,870	3,752
Transfers In/Out Without Reimbursement						
- All Other Funds	(1,013)					
Other Budgetary Financing Sources						
- All Other Funds			195	72	32	79
Other Financing Sources:						
Transfers In/Out Without Reimbursement						
- All Other Funds	(445)					
Imputed Financing From Costs Absorbed from Others						
- All Other Funds	37					
Total Financing Sources						
- Earmarked Funds						
- All Other Funds	(1,004)		24,640	10,966	1,902	3,831
Total Financing Sources	**(1,004)**		**24,640**	**10,966**	**1,902**	**3,831**
Net Cost of Operations						
- Earmarked Funds		738				
- All Other Funds	(2,370)		(24,640)	(10,966)	(1,902)	(3,831)
Net Change						
- Earmarked Funds		738				
- All Other Funds	(3,374)					
Total All Funds						
- Earmarked Funds		12,620				
- All Other Funds	20,031					
Total All Funds	**$20,031**	**$12,620**				

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position (continued)
for the period ended September 2007
(Dollars in Millions)

Cumulative Results of Operations

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
Net Position - Beginning of Period				
- Earmarked Funds			$622	$12,504
- All Other Funds	($2,032)	$5,589	1	26,996
Beginning Balances	(2,032)	5,589	623	39,500
Adjustments				
Corrections of Errors				
- All Other Funds				(33)
Beginning Balances, As Adjusted				
- Earmarked Funds			622	12,504
- All Other Funds	(2,032)	5,589	1	26,963
Total Beginning Balances, As Adjusted	**(2,032)**	**5,589**	**623**	**39,467**
Budgetary Financing Sources:				
Other Adjustments (Recissions, etc.)				
- All Other Funds				2
Appropriations Used				
- Earmarked Funds			1	1
- All Other Funds	3,702	1,279	4,594	50,951
Transfers In/Out Without Reimbursement				
- All Other Funds		(1,405)	(1)	(2,419)
Other Budgetary Financing Sources				
- All Other Funds	113	37	(530)	(2)
Other Financing Sources:				
Transfers In/Out Without Reimbursement				
- All Other Funds			(398)	(843)
Imputed Financing From Costs Absorbed from Others				
- All Other Funds			60	97
Total Financing Sources				
- Earmarked Funds			1	1
- All Other Funds	3,815	(89)	3,725	47,786
Total Financing Sources	**3,815**	**(89)**	**3,726**	**47,787**
Net Cost of Operations				
- Earmarked Funds			23	761
- All Other Funds	(3,479)	(898)	(3,709)	(51,796)
Net Change				
- Earmarked Funds			23	762
- All Other Funds	336	(987)	15	(4,009)
Total All Funds				
- Earmarked Funds			646	13,266
- All Other Funds	(1,696)	4,602	16	22,953
Total All Funds	**($1,696)**	**$4,602**	**$662**	**$36,219**

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position
for the period ended September 2007
(Dollars in Millions)

Unexpended Appropriations

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies
Net Position - Beginning of Period						
- Earmarked Funds						
- All Other Funds	$594		$8,526	$27,625	$5,790	$793
Beginning Balances	594		8,526	27,625	5,790	793
Adjustments						
Changes in Accounting Principles						
- Earmarked Funds						
- All Other Funds						
Corrections of Errors						
- Earmarked Funds						
- All Other Funds			33			
Beginning Balances, As Adjusted						
- Earmarked Funds						
- All Other Funds	594		8,559	27,625	5,790	793
Total Beginning Balances, As Adjusted	**594**		**8,559**	**27,625**	**5,790**	**793**
Budgetary Financing Sources						
Appropriations Received						
- Earmarked Funds						
- All Other Funds	1,252		21,903	3,772	1,757	3,864
Appropriations Transfers In/Out						
- Earmarked Funds						
- All Other Funds	(769)		(7)	(2)	(1)	
Other Adjustments (Rescissions, etc)						
- Earmarked Funds						
- All Other Funds	(119)		(655)	(27)		
Appropriations Used						
- Earmarked Funds						
- All Other Funds	(415)		(24,444)	(10,893)	(1,870)	(3,752)
Other Financing Sources:						
Total Financing Sources						
- Earmarked Funds						
- All Other Funds	(51)		(3,203)	(7,150)	(114)	112
Total Financing Sources	**(51)**		**(3,203)**	**(7,150)**	**(114)**	**112**
Net Change						
- Earmarked Funds						
- All Other Funds	(51)		(3,203)	(7,150)	(114)	112
Total All Funds						
- Earmarked Funds						
- All Other Funds	543		5,356	20,475	5,676	905
Total All Funds	**$543**		**$5,356**	**$20,475**	**$5,676**	**$905**

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position (continued)
for the period ended September 2007
(Dollars in Millions)

Unexpended Appropriations

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Consolidating
Net Position - Beginning of Period				
- Earmarked Funds			($376)	($376)
- All Other Funds	$8,316	6,555	8,416	66,615
Beginning Balances	8,316	6,555	8,040	66,239
Adjustments				
Changes in Accounting Principles				
- Earmarked Funds				
- All Other Funds				
Corrections of Errors				
- Earmarked Funds				
- All Other Funds				33
Beginning Balances, As Adjusted				
- Earmarked Funds			($376)	($376)
- All Other Funds	8,316	6,555	8,416	66,648
Total Beginning Balances, As Adjusted	**8,316**	**6,555**	**8,040**	**66,272**
Budgetary Financing Sources				
Appropriations Received				
- Earmarked Funds			1	1
- All Other Funds	3,061	971	3,594	40,174
Appropriations Transfers In/Out				
- Earmarked Funds				
- All Other Funds	(11)	(1)	631	(160)
Other Adjustments (Rescissions, etc)				
- Earmarked Funds				
- All Other Funds	(6)		(35)	(842)
Appropriations Used				
- Earmarked Funds			(1)	(1)
- All Other Funds	(3,702)	(1,279)	(4,594)	(50,949)
Other Financing Sources:				
Total Financing Sources				
- Earmarked Funds				
- All Other Funds	(658)	(309)	(404)	(11,777)
Total Financing Sources	**(658)**	**(309)**	**(404)**	**(11,777)**
Net Change				
- Earmarked Funds				
- All Other Funds	(658)	(309)	(404)	(11,777)
Total All Funds				
- Earmarked Funds			($376)	($376)
- All Other Funds	7,658	6,246	8,012	54,871
Total All Funds	**$7,658**	**$6,246**	**$7,636**	**$54,495**

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources
For the Period Ended September 2008
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans & Grants
Budgetary Resources:							
Unobligated Balance, Brought Forward	$22,843	$13,096	$1,202	$786	$321	$3	$224
Recoveries of Prior Year Unpaid Obligations	72		498	16	10	1	25
Budget Authority							
Appropriation	627	8	29,443	17,586	1,704	4,200	4,082
Borrowing Authority	3						1
Spending Authority from Offsetting Collections							
Earned							
Collected	1,636	1,562					99
Change in Receivable from Fed Sources	(25)	(40)					
Change in Unfilled Customer Orders							
Advanced Received							
W/O Advance from Federal Sources							
Subtotal	2,241	1,531	29,443	17,586	1,704	4,200	4,183
Non Expenditure Transters, Net	(41)		(10)	(1)	(3)		(17)
Permanently not available	(293)		(7,956)	(398)	(5)	(2)	(1,124)
Total Budgetary Resources	**$24,821**	**$14,626**	**$23,176**	**$17,989**	**$2,027**	**$4,202**	**$3,291**
Status of Budgetary Resources:							
Obligations Incurred							
Direct	$5,274	$8	$22,561	$4,854	$1,647	$4,200	$3,052
Reimbursable		645					
Subtotal	5,274	653	22,561	4,854	1,647	4,200	3,052
Unobligated Balances							
Apportioned	365		480	13,116	375		220
Subtotal	$365		$480	$13,116	$375		$220
Unobligated Balances Not Available	19,183	13,973	135	19	4	2	19
Total Status of Budgetary Resources	**$24,821**	**$14,626**	**$23,176**	**$17,989**	**$2,027**	**$4,202**	**$3,291**

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2008
(Dollars in Millions)

	Housing for the Elderly and Disabled	All Other	Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	NonBudgetary Credit Program Financing Accounts	Total
Budgetary Resources:							
Unobligated Balance, Brought Forward	$1,179	$3,332	$42,984	$4,077	$143	$4,219	$47,203
Recoveries of Prior Year Unpaid Obligations	25	293	940	19		19	959
Budget Authority							
Appropriation	972	5,265	63,888				63,888
Borrowing Authority			4	940		940	944
Spending Authority from Offsetting Collections							
Earned							
Collected	998	66	4,361	14,160	27	14,188	18,549
Change in Receivable from Fed Sources		(1)	(66)	(41)		(41)	(107)
Change in Unfilled Customer Orders							
Advanced Received		1	1				1
W/O Advance from Federal Sources		1	1		(2)	(2)	(1)
Subtotal	1,970	5,332	68,189	15,059	26	15,085	83,273
Non Expenditure Transfers, Net	(2)	72	(2)				(3)
Permanently not available	(32)	(1,533)	(11,343)	(691)		(691)	(12,033)
Total Budgetary Resources	**$3,139**	**$7,496**	**$100,768**	**$18,464**	**$168**	**$18,632**	**$119,400**
Status of Budgetary Resources:							
Obligations Incurred							
Direct	$1,038	$4,000	$46,634	$10,316	$16	$10,332	$56,966
Reimbursable		107	753				752
Subtotal	1,038	4,107	47,387	10,316	16	10,332	57,718
Unobligated Balances							
Apportioned	978	2,222	17,757	2,622	16	2,638	20,395
Subtotal	$978	$2,222	$17,757	$2,622	$16	$2,638	$20,395
Unobligated Balances Not Available	1,124	1,167	35,624	5,526	136	5,662	41,286
Total Status of Budgetary Resources	**$3,139**	**$7,496**	**$100,768**	**$18,464**	**$168**	**$18,632**	**$119,400**

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2008
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans & Grants
Change in Obligated Balance							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward	$954	$129	$14,067	$19,768	$5,379	$1,097	$9,129
Less: Uncollected Customer Payments from Federal Sources	(263)	(77)					
Total Unpaid Obligated Balance, Net	**692**	**52**	**14,067**	**19,768**	**5,379**	**1,097**	**9,129**
Obligations Incurred, Net	5,274	653	22,561	4,854	1,647	4,200	3,052
Less: Gross Outlays	(5,293)	(650)	(24,467)	(8,935)	(1,969)	(4,113)	(3,518)
Obligated Balance Transferred, Net							
Actual Transfers, Unpaid Obligations							
Actual Transfers, Uncollected Customer Payments from Federal Sources							
Total Unpaid Obligated Balance Transferred, Net							
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(72)		(498)	(16)	(10)	(1)	(25)
Change in Uncollected Customer Payments from Federal Sources	25	40					
Obligated Balance, Net - End of Period							
Unpaid Obligations	863	131	11,663	15,671	5,047	1,184	8,638
Less: Uncollected Customer Payments from Federal Sources	(238)	(37)					
Total Obligated Balance, Net - End of Period	**626**	**95**	**11,663**	**15,671**	**5,047**	**1,184**	**8,638**
Net Outlays							
Gross Outlays	5,293	650	24,467	8,935	1,969	4,113	3,518
Less: Offsetting Collections	(1,636)	(1,562)					(100)
Less: Distributed Offsetting Receipts	(1,511)		(11)				
Net Outlays	**$2,147**	**($912)**	**$24,456**	**$8,935**	**$1,969**	**$4,113**	**$3,418**

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2008
(Dollars in Millions)

	Housing for the Elderly and Disabled	All Other	Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	NonBudgetary Credit Program Financing Accounts	Total
Change in Obligated Balance							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward	$5,076	$10,207	$65,807	$1,342		$1,342	$67,149
Less: Uncollected Customer Payments from Federal Sources		(5)	(344)	(44)	(18)	(62)	(406)
Total Unpaid Obligated Balance, Net	**5,076**	**10,202**	**65,462**	**1,298**	**(18)**	**1,280**	**66,743**
Obligations Incurred, Net	1,038	4,107	47,386	10,316	16	10,332	57,718
Less: Gross Outlays	(1,330)	(4,844)	(55,119)	(10,043)	(16)	(10,059)	(65,180)
Obligated Balance Transferred, Net							
Actual Transfers, Unpaid Obligations							
Actual Transfers, Uncollected Customer Payments from Federal Sources							
Total Unpaid Obligated Balance Transferred, Net							
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(25)	(293)	(940)	(19)		(19)	(959)
Change in Uncollected Customer Payments from Federal Sources			65	42	2	43	108
Obligated Balance, Net - End of Period							
Unpaid Obligations	4,759	9,177	57,133	1,595		1,595	58,728
Less: Uncollected Customer Payments from Federal Sources		(5)	(279)	(2)	(16)	(18)	(297)
Total Obligated Balance, Net - End of Period	**4,759**	**9,172**	**56,854**	**1,593**	**(16)**	**1,577**	**58,431**
Net Outlays							
Gross Outlays	1,330	4,844	55,120	10,043	16	10,060	65,180
Less: Offsetting Collections	(998)	(67)	(4,362)	(14,160)	(27)	(14,188)	(18,550)
Less: Distributed Offsetting Receipts		(19)	(1,541)				(1,541)
Net Outlays	**$332**	**$4,758**	**$49,217**	**($4,117)**	**($11)**	**($4,128)**	**$45,089**

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources
For the Period Ended September 2007
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans & Grants
Budgetary Resources:							
Unobligated Balance, Brought Forward	$22,390	$12,368	$2,242	$6,265	$270	$2	$416
Recoveries of Prior Year Unpaid Obligations	89		2,065	24	6	1	22
Budget Authority							
Appropriation	1,252		21,903	3,772	1,757	3,864	3,061
Borrowing Authority	15						2
Contract Authority							
Spending Authority from Offsetting Collections							
Earned							
Collected	2,057	1,060				2	94
Change in Receivable from Fed Sources	56	(4)					
Change in Unfilled Customer Orders							
Advanced Received							
W/O Advance from Federal Sources							
Subtotal	3,380	1,056	21,903	3,772	1,757	3,866	3,156
Non Expenditure Transfers, Net	(609)		(7)	(2)	(1)		(11)
Temporarily Not Available Per PL							
Permanently not available	(291)		(1,464)	(28)			(107)
Total Budgetary Resources	**$24,959**	**$13,425**	**$24,739**	**$10,032**	**$2,032**	**$3,869**	**$3,476**
Status of Budgetary Resources:							
Obligations Incurred							
Direct	$2,116		$23,537	$9,246	$1,711	$3,865	$3,252
Reimbursable		329					
Subtotal	2,116	329	23,537	9,246	1,711	3,865	3,252
Unobligated Balances							
Apportioned	187		943	766	317		206
Subtotal	187		943	766	317		206
Unobligated Balances Not Available	22,656	13,095	259	20	5	4	18
Total Status of Budgetary Resources	**$24,959**	**$13,425**	**$24,739**	**$10,032**	**$2,032**	**$3,869**	**$3,476**

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2007
(Dollars in Millions)

	Housing for the Elderly and Disabled	All Other	Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	NonBudgetary Credit Program Financing Accounts	Total
Budgetary Resources:							
Unobligated Balance, Brought Forward	$1,241	$3,270	$48,465	$7,032	$126	$7,158	$55,623
Recoveries of Prior Year Unpaid Obligations	24	442	2,674	125		125	2,798
Budget Authority							
Appropriation	971	3,601	40,181	2		2	40,183
Borrowing Authority			17	602		602	619
Contract Authority							
Spending Authority from Offsetting Collections							
Earned							
Collected	1,348	86	4,647	9,104	28	9,131	13,778
Change in Receivable from Fed Sources			52	42		42	94
Change in Unfilled Customer Orders							
Advanced Received		(29)	(29)				(29)
W/O Advance from Federal Sources		(9)	(9)	(4)	2	(2)	(12)
Subtotal	2,319	3,649	44,859	9,745	30	9,775	54,634
Non Expenditure Transfers, Net	(1)	631					(0)
Temporarily Not Available Per PL							
Permanently not available	(1,405)	(972)	(4,268)	(2,315)		(2,315)	(6,583)
Total Budgetary Resources	**$2,178**	**$7,020**	**$91,730**	**$14,586**	**$156**	**$14,742**	**$106,472**
Status of Budgetary Resources:							
Obligations Incurred							
Direct	$1,000	$3,688	$48,416	$10,510	$14	$10,523	$58,938
Reimbursable			329				329
Subtotal	1,000	3,688	48,745	10,510	14	10,523	59,268
Unobligated Balances							
Apportioned	1,052	2,242	5,712	993	14	1,007	6,720
Subtotal	$1,052	$2,242	$5,712	$993	$14	$1,007	$6,720
Unobligated Balances Not Available	126	1,090	37,273	3,084	128	3,212	40,485
Total Status of Budgetary Resources	**$2,178**	**$7,020**	**$91,730**	**$14,586**	**$156**	**$14,742**	**$106,472**

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2007
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans & Grants
Change in Obligated Balance							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward	$980	$112	$16,986	$21,413	$5,550	$940	$9,610
Less: Uncollected Customer Payments from Federal Sources	(207)	(80)					
Total Unpaid Obligated Balance, Net	**$774**	**$32**	**$16,986**	**$21,413**	**$5,550**	**$940**	**$9,610**
Obligations Incurred, Net	2,116	329	23,537	9,246	1,711	3,865	3,252
Less: Gross Outlays	(2,053)	(313)	(24,392)	(10,867)	(1,876)	(3,708)	(3,711)
Obligated Balance Transferred, Net							
Actual Transfers, Unpaid Obligations							
Actual Transfers, Uncollected Customer Payments from Federal Sources							
Total Unpaid Obligated Balance Transferred, Net							
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(89)		(2,065)	(24)	(6)	(1)	(22)
Change in Uncollected Customer Payments from Federal Sources	(56)	4					
Obligated Balance, Net - End of Period							
Unpaid Obligations	954	129	14,067	19,768	5,379	1,096	9,129
Less: Uncollected Customer Payments from Federal Sources	(263)	(77)					
Total Obligated Balance, Net - End of Period	**$692**	**$52**	**$14,067**	**$19,768**	**$5,379**	**$1,096**	**$9,129**
Net Outlays							
Gross Outlays	$2,053	$313	$24,392	$10,867	$1,876	$3,708	$3,711
Less: Offsetting Collections	(2,057)	(1,060)				(2)	(94)
Less: Distributed Offsetting Receipts	(2,759)		(13)				
Net Outlays	**($2,763)**	**($747)**	**$24,379**	**$10,867**	**$1,876**	**$3,706**	**$3,617**

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2007
(Dollars in Millions)

	Housing for the Elderly and Disabled	All Other	Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	NonBudgetary Credit Program Financing Accounts	Total
Change in Obligated Balance							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward	$5,385	$11,633	$72,610	$1,377		$1,377	$73,987
Less: Uncollected Customer Payments from Federal Sources		(14)	(301)	(6)	(16)	(22)	(323)
Total Unpaid Obligated Balance, Net	**$5,385**	**$11,619**	**$72,309**	**$1,370**	**($16)**	**$1,355**	**$73,664**
Obligations Incurred, Net	1,000	3,688	48,745	10,510	14	10,523	59,268
Less: Gross Outlays	(1,284)	(4,672)	(52,875)	(10,420)	(14)	(10,433)	(63,309)
Obligated Balance Transferred, Net							
Actual Transfers, Unpaid Obligations							
Actual Transfers, Uncollected Customer Payments from Federal Sources							
Total Unpaid Obligated Balance Transferred, Net							
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(24)	(442)	(2,674)	(125)		(125)	(2,798)
Change in Uncollected Customer Payments from Federal Sources		9	(43)	(38)	(2)	(40)	(83)
Obligated Balance, Net - End of Period							
Unpaid Obligations	5,076	10,207	65,805	1,342		1,342	67,147
Less: Uncollected Customer Payments from Federal Sources		(5)	(344)	(44)	(18)	(62)	(406)
Total Obligated Balance, Net - End of Period	**$5,076**	**$10,202**	**$65,461**	**$1,298**	**($18)**	**$1,280**	**$66,742**
Net Outlays							
Gross Outlays	$1,284	$4,672	$52,875	$10,420	$14	$10,433	$63,309
Less: Offsetting Collections	(1,348)	(57)	(4,618)	(9,104)	(28)	(9,131)	(13,749)
Less: Distributed Offsetting Receipts		(36)	(2,807)				(2,808)
Net Outlays	**($64)**	**$4,579**	**$45,450**	**$1,316**	**($14)**	**$1,302**	**$46,751**

Figures may not add to totals because of rounding.

NOTES TO FINANCIAL STATEMENTS

September 30, 2008 and 2007

NOTE 1 - ENTITY AND MISSION

The U.S. Department of Housing and Urban Development (HUD) was created in 1965 to (1) provide housing subsidies for low and moderate income families, (2) provide grants to states and communities for community development activities, (3) provide direct loans and capital advances for construction and rehabilitation of housing projects for the elderly and persons with disabilities, and (4) promote and enforce fair housing and equal housing opportunity. In addition, HUD insures mortgages for single family and multifamily dwellings; insures loans for home improvements and manufactured homes; and facilitates financing for the purchase or refinancing of millions of American homes.

HUD's major programs are as follows:

The **Federal Housing Administration** (FHA) was established under the National Housing Act of 1934 and became a wholly owned government corporation in 1948 subject to the Government Corporation Control Act, as amended. While FHA was established as a separate Federal entity, it was subsequently merged into HUD in 1965. FHA administers active mortgage insurance programs which are designed to make mortgage financing more accessible to the home-buying public and thereby to develop affordable housing. FHA insures private lenders against loss on mortgages which finance single family homes, multifamily projects, health care facilities, property improvements, and manufactured homes.

The **Government National Mortgage Association** (Ginnie Mae) was created in 1968 as a wholly owned Government corporation within HUD to administer mortgage support programs that could not be carried out in the private market. Ginnie Mae guarantees the timely payment of principal and interest on mortgage-backed securities issued by approved private mortgage institutions and backed by pools of mortgages insured or guaranteed by FHA, the Rural Housing Service (RHS), the Department of Veterans Affairs (VA) and the HUD Office of Public and Indian Housing (PIH).

The **Section 8 Rental Assistance** programs assist low- and very low-income families in obtaining decent and safe rental housing. HUD makes up the difference between what a low- and very low-income family can afford and the approved rent for an adequate housing unit with the Housing Choice Voucher (HCV) Program funding cycle that started January 1, 2005 and ended December 31, 2005. As of January 1, 2005, Congress changed the basis of the program funding to PHAs from a “unit-based” process where program variables affected the annual Federal funding amount to a “budget-based” process where annual Federal funding is a fixed amount. Under the budget-based process, PHAs draw the program fund allocated to them on a monthly basis, i.e., one twelve of the annual allocation.

Operating Subsidies are provided to PHAs and Tribally Designated Housing Entities (TDHEs) to help finance the operations and maintenance costs of their housing projects.

The **Community Development Block Grant** (CDBG) programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, and improved community facilities and services. The United States Congress appropriated $2 billion in FY 2002 and $783 million in emergency supplemental appropriations in FY 2001 for a "Community Development Fund" for emergency expenses to respond to the September 11, 2001 terrorist attacks on the United States. Of the amounts appropriated, $177.8 million and $231.5 million were disbursed as of September 30, 2008 and 2007, respectively. Any remaining un-obligated balances shall remain available until expended. The United States Congress appropriated $17.5 billion in FY 2008 and $150 million in emergency supplemental appropriations in FY 2005 for the "Community Development Fund" for emergency expenses to respond to the Hurricane Katrina relief efforts. Of the amounts appropriated, $4.6 billion and $6.2 billion were disbursed as of September 30, 2008 and 2007, respectively. Any remaining un-obligated balances shall remain available until expended.

The **Low Rent Public Housing Grants** program provides grants to PHAs and TDHEs for construction and rehabilitation of low-rent housing. This program is a continuation of the Low Rent Public Housing Loan program which pays principal and interest on long-term loans made to PHAs and TDHEs for construction and rehabilitation of low-rent housing.

The **Section 202/811 Supportive Housing for the Elderly and Persons with Disabilities** programs, prior to fiscal 1992, provided 40 year loans to nonprofit organizations sponsoring rental housing for the elderly or disabled. During fiscal 1992, the program was converted to a grant program. The grant program provides capital for long-term supportive housing for the elderly (Section 202) and disabled (Section 811).

The **Home Investments Partnerships** program provides grants to States, local Governments, and Indian tribes to implement local housing strategies designed to increase home ownership and affordable housing opportunities for low- and very low-income families.

Other Programs not included above consist of other smaller programs which provide grant, subsidy funding, and direct loans to support other HUD objectives such as fair housing and equal opportunity, energy conservation, assistance for the homeless, rehabilitation of housing units, removal of lead hazards, and home ownership. The programs provide 8.00 percent of HUD's consolidated revenues and financing sources for fiscal 2008 and 7.59 percent of HUD's consolidated revenues and financing sources for fiscal 2007.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Consolidation

The financial statements include all funds and programs for which HUD is responsible. All significant intra-fund balances and transactions have been eliminated in consolidation. HUD has two transfer appropriations, the Appalachian Regional Committee and Surface Transportation Projects. These transfer appropriations perform their own financial reporting and, therefore, are not included in the consolidation.

B. Basis of Accounting

The financial statements include the accounts and transactions of the Office of Fair Housing and Equal Opportunity (OFHEO), Ginnie Mae, FHA, and HUD's Grant, Subsidy and Loan programs.

On July 30, the President signed into law the Housing and Economic Recovery Act of 2008, Pub. L. 110-289, 122 Stat. 2654 (HERA), which amended the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and the Federal Home Loan Bank Act (1992 Act). One of the provisions of HERA created the Federal Housing Finance Agency (FHFA), which is empowered with regulatory oversight of Fannie Mae, Freddie Mac and the Federal Home Loan Banks (collectively, regulated entities). The formation of this new agency comprises the transfer of personnel, property, and program activities of the Federal Housing Enterprise Oversight (OFHEO); the Federal Housing Finance Board (FHFB), which provides oversight for the Federal Home Loan Banks, and certain employees and activities of the Department of Housing and Urban Development (HUD) related to the regulation of the housing mission of Fannie Mae and Freddie Mac.

Specifically, (1) the transfer of FHFA and OFHEO employees is to be accomplished not later than one year after enactment of HERA, and the transfer of the certain HUD employees will take place after such employees are identified for transfer; (2) the funds of both OFHEO and FHFB became funds of FHFA upon enactment of HERA; (3) FHFA may use the property of OFHEO and FHFB to facilitate the transfer of functions and such property is transferred to FHFA upon abolishment of FHFB and OFHEO. OFHEO and FHFB continue to exist for the sole purpose of winding up their affairs until they are abolished one year after enactment of HERA.

As noted above, upon enactment of HERA, the funds of both OFHEO and FHFB are treated as amounts received from assessments by FHFA of the regulated entities. These funds may be used to provide for reasonable expenses (including administrative and start-up costs) of FHFA, and for use by FHFA in the windup of the affairs of OFHEO and FHFB. As a practical matter, funds from OFHEO and the FHFB were kept in their respective Treasury funds. Also, a simplified accounting structure was created for FHFA within OFHEO's accounting system to segregate and track the non-personnel expenses for FHFA. At the end of FY 2008 OFHEO transferred $6.2 million and FHFB transferred $.1 million of assessment collections to FHFA to fund the non-personnel obligations incurred by FHFA during the August to September period.

OFHEO's transfer of $6.2 million is reflected in the Balance Sheet, the Statement of Changes in Net Position and in the Statement of Budgetary Resources. These non-personnel obligations are comprised of $6.1 million for the regulation of Fannie Mae and Freddie Mac, including $5.5 million for legal services related to the Enterprises' conservatorships, and $.1 million for start-up and overhead costs. FHFA incurred $1.0 million in personnel costs from OFHEO related to FHFA activities. These personnel costs were paid directly from OFHEO's fund as they were incurred.

Under the authority of the Federal Home Loan Bank Act, as amended by HERA, FHFA placed Fannie Mae and Freddie Mac under conservatorship on September 6, 2008, to stabilize the two entities with the objective of maintaining normal business operations and restoring safety and soundness. FHFA, as conservator, assumed the power of board and management. As conservator, FHFA appointed a Chief Executive Officer for each enterprise and new boards of directors are being formed. FHFA delegated to the Enterprises certain business and operational authority. FHFA personnel monitor the operations of the enterprises.

The financial statements are presented in accordance with the Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements and in conformance with the Federal Accounting Standards Advisory Board's (FASAB) Statements of Federal Financial Accounting Standards (SFFAS).

The financial statements are presented on the accrual and budgetary bases of accounting. Under the accrual method, HUD recognizes revenues when earned, and expenses when a liability is incurred, without regard to receipt or payment of cash. Generally, procedures for HUD's major grant and subsidy programs require recipients to request periodic disbursement concurrent with incurring eligible costs. Budgetary accounting facilitates compliance with legal requirements on the use of federal funds.

The department's disbursement policy permits grantees/recipients to request funds to meet immediate cash needs to reimburse themselves for eligible incurred expenses and eligible expenses expected to be received and paid within three days or as subsidies are payable. HUD's disbursement of funds for these purposes are not considered advance payments, but are viewed as good cash management between the department and the grantees. In the event it is determined that the grantee/recipient did not disburse the funds within the three days time frame, interest earned must be returned to HUD and deposited into one of Treasury's miscellaneous receipt accounts.

C. Use of Estimates

The preparation of the principal financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Amounts reported for net loans receivable and related foreclosed property and the loan guarantee liability represent the Department's best estimates based on pertinent information available.

To estimate the allowance for subsidy (AFS) associated with loans receivable and related to foreclosed property and the Liability for Loan Guarantees (LLG), the Department uses cash flow model assumptions associated with loan guarantee cases subject to the Federal Credit Reform Act of 1990 (FCRA), as described in Note 7, to estimate the cash flows associated with future loan performance. To make reasonable projections of future loan performance, the Department develops assumptions based on historical data, current and forecasted program and economic assumptions.

Certain programs have higher risks due to increased chances of fraudulent activities perpetrated against the Department. The Department accounts for these risks through the assumptions used in the liabilities for loan guarantee estimates. HUD develops the assumptions based on historical performance and management's judgments about future loan performance.

D. Credit Reform Accounting

The primary purpose of the Federal Credit Reform Act of 1990, which became effective on October 1, 1991, is to more accurately measure the cost of Federal credit programs and to place the cost of such credit programs on a basis equivalent with other Federal spending. OMB Circular No. A-11, Part 5, Federal Credit Programs defines Loan Guarantee as any guarantee, insurance or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower (Issuer) to a non-Federal lender (Investor). FHA practices Credit Reform accounting. In the opinion of Ginnie Mae management, and HUD's General Counsel, the Federal Credit Reform Act does not apply to Ginnie Mae. Nevertheless, in consultation with the OMB, Ginnie Mae has adopted certain credit reform practices.

The FCRA establishes the use of the program, financing, general fund receipt and capital reserve accounts for loan guarantees committed and direct loans obligated after September 30, 1991 (Credit Reform). It also establishes the liquidating account for activity relating to any loan guarantees committed and direct loans obligated before October 1, 1991 (pre-Credit Reform). These accounts are classified as either budgetary or non-budgetary in the Combined Statements of Budgetary Resources. The budgetary accounts include the program, capital reserve and liquidating accounts. The non-budgetary accounts consist of the credit reform financing accounts.

The program account is a budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to the financing account. The program account also receives appropriations for administrative expenses. The financing account is a non-budgetary account that records all of the cash flows resulting from Credit Reform direct loans or loan guarantees. It disburses loans, collects repayments and fees, makes claim payments, holds balances, borrows from U.S. Treasury, earns or pays interest, and receives the subsidy cost payment from the program account.

The general fund receipt account is a budget account used for the receipt of amounts paid from the financing account when there is a negative subsidy from the original estimate or a downward re-estimate. In most cases, the receipt account is a general fund receipt account and amounts are not earmarked for the credit program. They are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in this account are non-entity assets and are offset by intragovernmental liabilities. At the beginning of the following fiscal year, the fund balance in the general fund receipt account is transferred to U.S. Treasury general fund. The FHA general fund receipt accounts of the General Insurance (GI) and Special Risk Insurance (SRI) funds are in this category.

In order to resolve the different requirements between the FCRA and the National Affordable Housing Act of 1990 (NAHA), OMB instructed FHA to create the capital reserve account to retain the Mutual Mortgage Insurance/Cooperative Management Housing Insurance (MMI/CMHI) negative subsidy and subsequent downward re-estimates. Specifically, the NAHA required that FHA's MMI fund achieve a Capital Ratio of 2.0 percent by fiscal year 2000. The Capital Ratio is defined as the ratio of economic net worth (current cash plus the present value of all future net cash flows) of the MMI fund to unamortized insurance in force (the unpaid balance of insured mortgages). Therefore, to ensure that the calculated Capital Ratio reflects the actual strength of the MMI fund, the resources of the capital reserve account, which are considered FHA assets, are included in the calculation of the MMI fund's economic net worth. At the end of fiscal year 1995, FHA met and has since maintained the Capital Ratio requirement. FHA's actuary estimated the September 30, 2008, Capital Ratio at 3.0 percent and the September 30, 2007 Capital Ratio at 6.40 percent.

The liquidating account is a budget account that records all cash flows to and from FHA resulting from pre-Credit Reform direct loans or loan guarantees. Liquidating account collections in any year are available only for obligations incurred during that year or to repay debt. Unobligated balances remaining in the GI and SRI liquidating funds at year-end are transferred to the U.S. Treasury's General Fund. Consequently, in the event that resources in the GI/SRI liquidating account are otherwise insufficient to cover the payments for obligations or commitments, the FCRA provides the GI/SRI liquidating account with permanent indefinite authority to cover any resource shortages.

E. Operating Revenue and Financing Sources

HUD finances operations principally through appropriations, collection of premiums and fees on its FHA and Ginnie Mae programs, and interest income on its mortgage notes, loans, and investments portfolio.

Appropriations for Grant and Subsidy Programs

HUD receives both annual and multi-year appropriations, and recognizes those appropriations as revenue when related program expenses are incurred. Accordingly, HUD recognizes grant-related revenue and related expenses as recipients perform under the contracts. HUD recognizes subsidy-related revenue and related expenses when the underlying assistance (e.g., provision of a Section 8 rental unit by a housing owner) is provided or upon disbursal of funds to PHAs.

FHA Unearned Premiums

Premiums charged by FHA for single family mortgage insurance provided by its Mutual Mortgage Insurance (MMI) Fund and Cooperative Management Housing Insurance (CMHI) Fund include up-front and annual risk based premiums. Pre-credit reform up-front risk based premiums are recorded as unearned revenue upon collection and are recognized as revenue over the period in which losses and insurance costs are expected to occur. Annual risk-based premiums are recognized as revenue on a straight-line basis throughout the year. FHA's other activities charge periodic insurance premiums over the mortgage insurance term. Premiums on annual installment policies are recognized for the liquidating accounts on a straight-line basis throughout the year.

Premiums associated with Credit Reform loan guarantees are included in the calculation of the Liability for Loan Guarantees (LLG) and not included in the unearned premium amount reported on the Balance Sheet, since the LLG represents the net present value of future cash flows associated with those insurance portfolios.

Ginnie Mae Fees

Fees received for Ginnie Mae’s guaranty of mortgage-backed securities are recognized as earned. Commitment fees represent income that Ginnie Mae earns for providing approved issuers with authority to pool mortgages into Ginnie Mae mortgage-backed securities. The authority Ginnie Mae provides issuers expires 12 months from issuance for single family issuers and 24 months from issuance for multifamily issuers. Ginnie Mae receives Commitment Fees as issuers request Commitment Authority and recognizes the Commitment Fees as earned as Issuers use their Commitment Authority, with the balance deferred until earned or expired, whichever occurs first. Fees from expired commitment Authority are not returned to issuers.

F. Appropriations and Moneys Received from Other HUD Programs

The National Housing Act of 1990, as amended, provides for appropriations from Congress to finance the operations of GI and SRI funds. For Credit Reform loan guarantees, appropriations to the GI and SRI funds are provided at the beginning of each fiscal year to cover estimated losses on insured loans during the year. For pre-Credit Reform loan guarantees, FHA has permanent indefinite appropriation authority to finance any shortages of resources needed for operations.

Monies received from other HUD programs, such as interest subsidies and rent supplements, are recorded as revenue for the liquidating accounts when services are rendered. Monies received for the financing accounts are recorded as additions to the LLG or the Allowance for Subsidy when collected.

G. Investments

HUD limits its investments, principally comprised of investments by FHA's MMI/CMHI Fund and by Ginnie Mae, to non-marketable market-based Treasury interest-bearing obligations (i.e., investments not sold in public markets). The market value and interest rates established for such investments are the same as those for similar Treasury issues, which are publicly marketed.

HUD's investment decisions are limited by Treasury policy which: (1) only allows investment in Treasury notes, bills, and bonds; and (2) prohibits HUD from engaging in practices that result in "windfall" gains and profits, such as security trading and full scale restructuring of portfolios, in order to take advantage of interest rate fluctuations.

FHA's normal policy is to hold investments in U.S. Government securities to maturity. However, in certain circumstances, FHA may have to liquidate its U.S. Government securities before maturity to finance claim payments.

HUD reports investments in U.S. Government securities at amortized cost. Premiums or discounts are amortized into interest income over the term of the investment. HUD intends to hold investments to maturity, unless needed for operations. No provision is made to record unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

The Departments of Veterans Affairs and Housing and Urban Development Appropriations Act of 1999 and Section 601 of the Independent Agencies Act of 1999 provide FHA with new flexibility in reforming its single family claims and property disposition activities. In accordance with these Acts, FHA implemented the Accelerated Claims Disposition Demonstration program (the 601 program) to shorten the claim filing process, obtain higher recoveries from its defaulted guaranteed loans, and support the Office of Housing's mission of keeping homeowners in their home. To achieve these objectives, FHA transfers assigned mortgage notes to private-sector entities in exchange for cash and equity interest. The servicing and disposition of the mortgage notes are performed by the private-sector entities whose primary mission is dedicated to these types of activity.

FHA implemented the Accelerated Claims Disposition Demonstration program (the 601 program) to shorten the claim filing process, obtain higher recoveries from its defaulted guaranteed loans, and support the Office of Housing's mission of keeping homeowners in their home. To achieve these objectives, FHA transfers assigned mortgage notes to private sector entities in exchange for cash and equity interest. With the transfer of assigned mortgage notes under the 601 program, FHA obtains ownership interest in the private-sector entities. To comply with the requirement of Opinion No. 18 issued by the Accounting Principles Board (APB 18), FHA uses the equity method of accounting to measure the value of its investments in these entities. The equity method of accounting requires FHA to record its investments in the entities at cost initially. Periodically, the carrying amount of the investments is adjusted for cash distributions to FHA and for FHA's share of the entities' earnings or losses.

Multifamily Risk Sharing Debentures [Section 542(c)] is a program available to lenders where the lender shares the risk in a property by issuing debentures for claim amount paid by FHA on defaulted insured loans. If FHA's risk is over 50%, HUD must review and approve the underwriting standards, terms, and conditions of the loan. If the loan defaults FHA pays the lender the initial settlement. On the settlement date the lender issues FHA a debenture for the amount of the settlement at the note rate (determined by the U.S. Treasury) thus sharing the risk in the property.

H. Credit Program Receivables and Related Foreclosed Property

HUD finances mortgages and provides loans to support construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program. Prior to April 1996, mortgages were also assigned to HUD through FHA claims settlement (i.e., Mortgage Notes Assigned (MNAs)). Single family mortgages were assigned to FHA when the mortgagor defaulted due to certain "temporary hardship" conditions beyond the control of the mortgagor, and when, in management's judgment, it is likely that the mortgage could be brought current in the future. FHA's loans receivable include MNAs, also described as Secretary-held notes, and purchase money mortgages (PMM). Under the requirements of the FCRA, PMM notes are considered to be direct loans while MNA notes are considered to be defaulted guaranteed loans. The PMM loans are generated from the sales on credit of FHA's foreclosed properties to qualified non-profit organizations. The MNA notes are created when FHA pays the lenders for claims on defaulted guaranteed loans and takes assignment of the defaulted loans for direct collections. In addition, multifamily mortgages are assigned to FHA when lenders file mortgage insurance claims for defaulted notes.

Credit program receivables for direct loan programs and defaulted guaranteed loans assigned for direct collection are valued differently based on the direct loan obligation or loan guarantee commitment date. These valuations are in accordance with the Federal Credit Reform Act of 1990 and SFFAS No. 2, "Accounting for Direct Loans and Loan Guarantees," as amended by SFFAS No. 18. Those obligated or committed on or after October 1, 1991 (post-Credit Reform) are valued at the net present value of expected cash flows from the related receivables.

Credit program receivables resulting from obligations or commitments prior to October 1, 1991 (pre-Credit Reform) are recorded at the lower of cost or fair value (net realizable value). Fair value is estimated based on the prevailing market interest rates at the date of mortgage assignment. When fair value is less than cost, discounts are recorded and amortized to interest income over the remaining terms of the mortgages or upon sale of the mortgages. Interest is recognized as income when earned. However, when full collection of principal is considered doubtful, the accrual of interest income is suspended and receipts (both interest and principal) are recorded as collections of principal. Pre-Credit Reform loans are reported net of allowance for loss and any unamortized discount. The estimate for the allowance on credit program receivables is based on historical loss rates and recovery rates resulting from asset sales and property recovery rates, net of cost of sales.

Foreclosed property acquired as a result of defaults of loans obligated or loan guarantees committed on or after October 1, 1991, is valued at the net present value of the projected cash flows associated with the property. Foreclosed property acquired as a result in defaulted loans obligated or loan guarantees committed prior to 1992 is valued at net realizable value. The estimate for the allowance for loss related to the net realizable value of foreclosed property is based on historical loss rates and recovery rates resulting from property sales, net of cost of sales.

I. Borrowings

As further discussed in Note 11, several of HUD's programs have the authority to borrow funds from the U.S. Treasury for program operations. These borrowings, representing unpaid principal balances and future accrued interest is reported as debt in HUD's consolidated financial statements. The PIH Low Rent Public Housing Loan Program and the Housing for the Elderly or Handicapped fund were financed through borrowings from the Federal Financing Bank or the U.S. Treasury prior to the Department's conversion of these programs to grant programs. The Department also borrowed funds from the private sector to assist in the construction and rehabilitation of low rent housing projects under the PIH Low Rent Public Housing Loan Program. Repayments of these long-term borrowings have terms up to 40 years.

In accordance with Credit Reform accounting, FHA also borrows from the U.S. Treasury when cash is needed in its financing accounts. Usually, the need for cash arises when FHA has to transfer the negative credit subsidy amount related to new loan disbursements, and existing loan modifications from the financing accounts to the general fund receipts account (for cases in GI/SRI funds) or the liquidating account (for cases in MMI/CMHI funds). In some instances, borrowings are also needed to transfer the credit subsidy related to downward re-estimate from the GI/SRI financing account to the GI/SRI receipt account or when available cash is less than claim payments due.

J. Liability for Loan Guarantees

The potential future losses related to FHA's central business of providing mortgage insurance are accounted for as Loan Guarantee Liability in the consolidated balance sheets. As required by SFFAS No. 2, the Loan Guarantee Liability includes the Credit Reform related Liabilities for Loan Guarantees (LLG) and the Loan Loss Reserve (LLR).

The LLG and LLR are calculated as the present value of anticipated cash outflows for defaults, such as claim payments, premium refunds, property expense for on-hand properties and sale expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from asset sales and principal and interest on Secretary-held notes acquired from FHA's claim settlements of defaulted mortgages or pursuant to Section 221 (g) (4) of the National Housing Act.

HUD records its loan loss reserves for its mortgage insurance programs operated through FHA. FHA loss reserves are recorded for the net present value of estimated future cash flows associated with FHA-insured mortgage loans endorsed before fiscal year 1992.

K. Full Cost Reporting

Beginning in fiscal 1998, SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, required that full costing of program outputs be included in Federal agency financial statements. Full cost reporting includes direct, indirect, and inter-entity costs. For purposes of the consolidated department financial statements, HUD identified each responsible segment's share of the program costs or resources provided by HUD or other Federal agencies. These costs are treated as imputed cost for the Statement of Net Cost and imputed financing for the Statement of Changes in Net Position.

L. Accrued Unfunded Leave and Federal Employees Compensation Act (FECA) Liabilities

Annual leave and compensatory time are accrued as earned and the liability is reduced as leave is taken. The liability at year-end reflects cumulative leave earned but not taken, priced at current wage rates. Earned leave deferred to future periods is to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources in the Net Position section of its Consolidated Balance Sheet. Sick leave and other types of leave are expensed as taken.

HUD also accrues the portion of the estimated liability for disability benefits assigned to the agency under the Federal Employee Compensation Act (FECA), administered and determined by the Department of Labor (DOL). The liability, based on the net present value of estimated future payments based on a study conducted by DOL, was $85 million as of September 30, 2008 and $82 million as of September 30, 2007. Future payments on this liability are to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources.

M. Retirement Plans

The majority of HUD's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS went into effect pursuant to Public Law 99-335 on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired before January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. HUD expenses its contributions to the retirement plans.

A primary feature of FERS is that it offers a savings plan whereby HUD automatically contributes 1 percent of pay and matches any employee contribution up to 5 percent of an individual's basic pay. Under CSRS, employees can contribute up to $15,000 of their pay to the savings plan, but there is no corresponding matching by HUD. Although HUD funds a portion of the benefits under FERS relating to its employees and makes the necessary withholdings from them, it has no liability for future payments to employees under these plans, nor does it report CSRS, FERS, or FECA assets, accumulated plan benefits, or unfunded liabilities applicable to its employees' retirement plans. These amounts are reported by the Office of Personnel Management (OPM) and are not allocated to the individual employers. HUD's matching contribution to these retirement plans during fiscal 2007 was $43 million. The amount for fiscal 2008 was $32 million.

N. Loss Reserves

HUD records loss reserves for its mortgage insurance programs operated through FHA and its financial guaranty programs operated by Ginnie Mae. FHA loss reserves are recorded for the net present value of estimated future cash flows associated with FHA-insured mortgage loans endorsed before fiscal year 1992. Ginnie Mae establishes reserves for actual and probable defaults of issuers of Ginnie Mae-guaranteed mortgage-backed securities; such reserves are based on management's judgment about historical claim and loss information and current and projected economic factors.

O. Financial Accounting Standards Board Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees

The Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees*, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107, and Rescission of FASB Interpretation No. 34, in November 2002. FIN 45 clarifies the requirements of FASB Statement No. 5, Accounting for Contingencies, relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under the guarantee. We have computed the fair value of our guarantee based on the life of the mortgage-backed securities and their underlying loans. Based on this evaluation we have disclosed an asset and liability of $680.2 million as of September 30, 2008, and $425.9 million as of September 30, 2007 categorized as other assets and other liabilities, see Note A. There is no impact on the net financial position of Ginnie Mae due to FIN 45.

P. Reclassification of HUD's Equity Balances

HUD entered into a reimbursable agreement with the Department of Commerce in Fiscal Year 2007. An $11 million dollar advance for reimbursable activity was incorrectly recorded in HUD's Financial Reporting System used to generate HUD's Financial Statements in Fiscal Year 2007. The $11 million dollar error created an understatement of assets on the Balance Sheet and overstated expenses on the Statement of Net Cost and Statement of Changes in Net Position for Fiscal Year 2007. CFO Management concluded that the financial statement error was not material and therefore no restatement of HUD's Fiscal Year 2007 financial statements was warranted.

NOTE 3 – ENTITY AND NON-ENTITY ASSETS

Non-entity assets consist of assets that belong to other entities but are included in the Department's consolidated financial statements and are offset by various liabilities to accurately reflect HUD's net position. The Department's non-entity assets principally consist of: (1) U.S. deposit of negative credit subsidy in the GI/SRI general fund receipt account, (2) escrow monies collected by FHA that are either deposited at the U.S Treasury, Minority-Owned banks or invested in U.S. Treasury securities, and (3) cash remittances from Section 8 bond refundings deposited in the General Fund of the Treasury.

HUD's assets as of September 30, 2008 and 2007 were as follows (dollars in millions):

Description	2008			2007		
	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Intragovernmental						
Fund Balance with Treasury (Note 4)	$ 83,916	$ 1,623	$ 85,539	$ 66,141	$ 2,905	$ 69,046
Investments (Note 5)	28,536	8	28,544	31,265	5	31,270
Other Assets (Note 9)	22	-	22	8	-	8
Total Intragovernmental Assets	$ 112,474	$ 1,631	$ 114,105	$ 97,414	$ 2,910	$ 100,324
Investments (Note 5)	48	-	48	121	-	121
Accounts Receivable (net) (Note 6)	183	56	239	186	70	256
Loan Receivables and Related Foreclosed Property (net) (Note 7)	9,565	-	9,565	9,567	-	9,567
General Property, Plant, and Equipment (net) (Note 8)	234	-	234	213	-	213
Other Assets (Note 9)	742	103	845	483	110	593
Total Assets	$ 123,246	$ 1,790	$ 125,036	$ 107,984	$ 3,090	$ 111,074

NOTE 4 – FUND BALANCE WITH THE U.S. TREASURY

The U.S. Treasury, which, in effect, maintains HUD's bank accounts, processes substantially all of HUD's receipts and disbursements. HUD's fund balances with the U.S. Treasury as of September 30, 2008 and 2007 were as follows (dollars in millions):

Description	2008	2007
Revolving Funds	$ 17,126	$ 11,418
Appropriated Funds	66,802	54,757
Trust Funds	4	5
Other	1,607	2,866
Total - Fund Balance	$ 85,539	$ 69,046

The Department's Fund Balance with Treasury includes receipt accounts established under current Federal Credit Reform legislation and cash collections deposited in restricted accounts that cannot be used by HUD for its programmatic needs. These designated funds established by the Department of Treasury are classified as suspense and/or deposit funds and consist of accounts receivable balances due from the public. A Statement of Budgetary Resources is not prepared for these funds since any cash remittances received by the Department are not defined as a budgetary resource.

In addition to fund balance, contract and investment authority are also a part of HUD's funding sources. Contract authority permits an agency to incur obligations in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. HUD has permanent indefinite contract authority. Since federal securities are considered the equivalent of cash for budget purposes, investments in them are treated as a change in the mix of assets held, rather than as a purchase of assets.

A primary reason for the increase in HUD's fund balance with Treasury is appropriations received for hurricane disaster relief efforts as further explained in Note 24.

HUD's fund balances with U.S. Treasury as reflected in the entity's general ledger as of September 30, 2008, were as follows (dollars in millions):

Status of Resources - 2008

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 2,987	$ 24,707	$ 2,458	$ (240)	$ 29,912	$ 11,079	$ 18,834	$ 29,913
GNMA	-	13,973	131	(37)	14,067	4,836	9,231	14,067
Section 8 Rental Assistance	480	135	11,663	-	12,278	8,865	3,413	12,278
CDBG	13,116	19	15,671	-	28,806	28,806	-	28,806
HOME	375	4	5,047	-	5,426	5,426	-	5,426
Operating Subsidies	-	2	1,184	-	1,186	1,186 0	-	1,186
PIH Loans and Grants	220	19	8,638	-	8,877	8,306	571	8,877
Section 202/811	978	1,124	4,759	-	6,861	6,861	-	6,861
Section 235/236	10	771	4,294	-	5,075	975	4,099	5,074
All Other	2,229	532	4,883	(20)	7,624	7,625	(2)	7,623
Total	$ 20,395	$ 41,286	$ 58,728	$ (297)	$ 120,112	$ 83,966	$ 36,146	$ 120,111

Status of Resources Covered by Fund Balance

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Fund Balance	Non-Bugdetary: Deposit and Receipt Accounts	Suspense,	Total Fund Balance
FHA	$ 2,987	$ 5,874	$ 2,458	$ (240)	$ 11,079	$ 1,511	$ -	$ 12,590
GNMA	-	4,742	131	(37)	4,836		-	4,836
Section 8 Rental Assistance	443	135	8,287		8,865	11	-	8,876
CDBG	13,116	19	15,671		28,806		-	28,806
HOME	375	4	5,047		5,426		-	5,426
Operating Subsidies	-	2	1,184		1,186		-	1,186
PIH Loans and Grants	220	19	8,067		8,306		-	8,306
Section 202/811	978	1,124	4,759		6,861		-	6,861
Section 235/236	1	2	972		975		-	975
All Other	2,228	532	4,886	(20)	7,626	51	-	7,677
Total	$ 20,348	$ 12,453	$ 51,462	$ (297)	$ 83,966	$ 1,573	$ -	$ 85,539

Status of Resources Covered by Other Authority

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Permanent Indefinite Authority	Investment Authority
FHA	$ -	$ 18,834	$ -	$ -	$ -	$ 18,834
GNMA		9,231				9,231
Section 8 Rental Assistance	37	-	3,376		3,413	
PIH Loans and Grants	-	-	571		571	
Section 235/236	8	769	3,322		4,099	
All Other	-	-	(3)		(3)	
Total	$ 45	$ 28,834	$ 7,266	$ -	$ 8,080	$ 28,065

Status of Receipt Account Balances

Description	Fund Balance
FHA	$ 1,511
Section 8 Rental Assistance	11
All Other	51
Total	$ 1,573

Status of Resources - 2007

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 1,180	$ 25,740	$ 2,296	$ (1)	$ 29,215	$ 6,800	$ 22,416	$ 29,216
GNMA	-	13,095	129	(76)	13,148	4,433	8,715	13,148
Section 8 Rental Assistance	943	259	14,067	-	15,269	5,336	9,932	15,268
CDBG	766	20	19,768	-	20,554	20,554	-	20,554
HOME	317	5	5,379	-	5,701	5,700	-	5,700
Operating Subsidies	-	4	1,096	-	1,100	1,100 0	-	1,100
PIH Loans and Grants	206	18	9,129	-	9,353	7,777	1,576	9,353
Section 202/811	1,052	126	5,076	-	6,254	6,255	-	6,255
Section 235/236	31	740	4,972	-	5,743	349	5,394	5,743
All Other	2,225	478	5,235	(22)	7,916	7,907	9	7,916
Total	$ 6,720	$ 40,485	$ 67,147	$ (99)	$ 114,253	66,211	$ 48,042	$ 114,253

Status of Resources Covered by Fund Balance

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Fund Balance	Non-Bugdetary: Deposit and Receipt Accounts	Suspense,	Total Fund Balance
FHA	$ 1,180	$ 3,325	$ 2,296	$ (1)	$ 6,800	$ 2,759	$ -	9,559
GNMA	-	4,380	129	(76)	4,433	-	-	4,433
Section 8 Rental Assistance	532	202	4,602	-	5,336	13	-	5,349
CDBG	766	20	19,768	-	20,554	-	-	20,554
HOME	317	4	5,379	-	5,700	-	-	5,700
Operating Subsidies	-	4	1,096	-	1,100	-	-	1,100
PIH Loans and Grants	206	18	7,553	-	7,777	-	-	7,777
Section 202/811	1,053	126	5,076	-	6,255	-	-	6,255
Section 235/236	5	3	341	-	349	-	-	349
All Other	2,225	470	5,234	(22)	7,907	63	-	7,970
Total	$ 6,284	$ 8,552	$ 51,474	$ (99)	$ 66,211	$ 2,835	$ -	$ 69,046

Status of Resources Covered by Other Authority

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Permanent Indefinite Authority	Investment Authority
FHA	$ -	$ 22,415	$ -	$ -	$ -	$ 22,415
GNMA	-	8,715	-	-	-	8,715
Section 8 Rental Assistance	410	57	9,465	-	9,932	-
Grants	-	-	1,576	-	1,576	-
Section 235/236	26	737	4,631	-	5,394	-
All Other	-	8	1	-	9	-
Total	$ 436	$ 31,932	$ 15,673	$ -	$ 16,911	$ 31,130

Status of Receipt Account Balances

Description	Fund Balance
FHA	$ 2,759
Section 8 Rental Assistance	13
All Other	63
Total	$ 2,835

An immaterial difference exists between HUD's recorded Fund Balances with the U.S. Treasury and the U.S. Department of Treasury's records. It is the Department's practice to adjust its records to agree with Treasury's balances at the end of the fiscal year. The adjustments are reversed at the beginning of the following fiscal year.

NOTE 5 - INVESTMENTS

The U.S. Government securities are non-marketable intra-governmental securities. Interest rates are established by the U.S. Treasury and during fiscal year 2008 ranged from 2.63 percent to 7.25 percent. During fiscal year 2007 interest rates ranged from 0.88 percent to 6.50 percent.

The amortized cost and estimated market value of investments in debt securities as of September 30, 2008 and 2007 were as follows (dollars in millions):

	Cost	Amortized (Premium)/ Discount, Net	Accrued Interest	Net Investments	Market Value
FY 2008	$ 28,237	$ 39	$ 269	$ 28,544	$ 29,745
FY 2007	$ 30,893	$ 62	$ 315	$ 31,270	$ 31,723

Investments in Private-Sector Entities

These investments in private-sector entities are the result of FHA's participation in the Accelerated Claims Disposition Demonstration program and Risk Sharing Debentures in fiscal years 2008 and 2007 as discussed in Note 2G. The following table presents financial data on FHA's investments Section 601 and Risk Sharing Debentures as of September 30, 2008 and 2007 (dollars in millions):

(Dollars in Millions)	Beginning Balance	New Acquisitions	Share of Earnings or Losses	Return of Investment	Redeemed	Ending Balance
2008						
601 Program	$ 41	$ -	$ (4)	$ (19)	$ -	$ 18
Risk Sharing Debentures	80	-	-	-	(50)	30
Total	$ 121	$ -	$ (4)	$ (19)	$ (50)	$ 48
2007						
601 Program	$ 98	$ -	$ (1)	$ (56)	$ -	$ 41
Risk Sharing Debentures	-	80	-	-	-	80
Total	$ 98	$ 80	$ (1)	$ (56)	$ -	$ 121

The fiscal year for Section 601 Program investments is from December 1 to November 30 for 2008 and a combination of December 1 to November 30 and January 1 to December 31 for 2007. The condensed, audited financial information is as follows:

(Dollars in Millions)	December 31, 2007		December 31, 2006	
Total assets, primarily mortgage loans	$	107	$	258
Liabilities		-		2
Partners' capital		107		256
Total liabilities and partners' capital	$	107	$	258
Revenues		7		78
Expenses		(5)		(23)
Net Income	$	2	$	55

NOTE 6 - ACCOUNTS RECEIVABLE (NET)

The department's accounts receivable represents Section 8 year-end settlements, claims to cash from the public and state and local authorities for bond refundings, sustained audit findings, FHA insurance premiums and foreclosed property proceeds. A 100 percent allowance for loss is established for all delinquent accounts 90 days and over.

Section 8 Settlements

Prior to January 1, 2005, the Housing Choice Voucher (HCV) Program's Section 8 subsidies were disbursed based on estimated amounts due under the contracts. At the end of each year, the actual amount due under the contracts was determined. The excess of subsidies paid to PHAs during the year over the actual amount due was reflected as an accounts receivable in the balance sheet. These receivable amounts were "collected" by offsetting such amounts with subsidies due to the PHAs in subsequent periods. On January 1, 2005, Congress changed the basis of the 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. Under this "budget-based" process, HUD records an expense for the HCV Program when each monthly allocation of program funds is added to the PHAs letter-of-credit for drawdown and the PHA records a corresponding revenue on its books. A year end settlement process to determine actual amounts due is no longer applicable.

Bond Refundings

Many of the Section 8 projects constructed in the late 1970s and early 1980s were financed with tax exempt bonds with maturities ranging from 20 to 40 years. The related Section 8 contracts provided that the subsidies would be based on the difference between what tenants could pay pursuant to a formula, and the total operating costs of the Section 8 project, including debt service. The high interest rates during the construction period resulted in high subsidies. When interest rates came down in the 1980s, HUD was interested in getting the bonds refunded. One method used to account for the savings when bonds are refunded (PHAs sell a new series of bonds at a lower interest rate, to liquidate the original bonds), is to continue to pay the original amount of the bond debt service to a trustee. The amounts paid in excess of the lower "refunded" debt service and any related financing costs, are considered savings. One-half of these savings are provided to the PHA, the remaining half is returned to HUD. As of September 30, 2008 and 2007, HUD was due $52 million and $62 million, respectively.

Other Receivables

Other receivables include sustained audit findings, refunds of overpayment, FHA insurance premiums and foreclosed property proceeds due from the public.

The following shows accounts receivable as reflected in the Balance Sheet as of September 30, 2008 and 2007 (dollars in millions):

	2008			2007		
Description	Gross Accounts Receivable	Allowance for Loss	Total, Net	Gross Accounts Receivable	Allowance for Loss	Total, Net
Public						
Section 8 Settlements	$ 73	$ (47)	$ 26	$ 82	$ (42)	$ 40
Bond Refundings	54	(2)	52	65	(3)	62
Other Receivables:						
FHA	131	(3)	128	124	(5)	119
Other Receivables	43	(10)	33	49	(14)	35
Total Assets	$ 301	$ (62)	$ 239	$ 320	$ (64)	$ 256

NOTE 7 - DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS

HUD reports direct loan obligations or loan guarantee commitments made prior to fiscal 1992 and the resulting direct loans or defaulted guaranteed loans, net of allowance for estimated uncollectible loans or estimated losses.

Direct loan obligations or loan guarantee commitments made after fiscal 1991, and the resulting direct loans or defaulted guaranteed loans, are governed by the Federal Credit Reform Act of 1990 and are recorded as the net present value of the associated cash flows (i.e. interest rate differential, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows).

Additionally, HUD insures Home Equity Conversion Mortgages (HECM), also known as reverse mortgages. These loans are used by senior homeowners age 62 and older to convert the equity in their home into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the home. Unlike ordinary home equity loans, a HUD reverse mortgage does not require repayment as long as the home is the borrower's principal residence.

The following is an analysis of loan receivables, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees for fiscal 2008 and 2007:

A. List of HUD's Direct Loan and/or Loan Guarantee Programs:

1. FHA
   a) MMI/CMHI Direct Loan Program
   b) GI/SRI Direct Loan Program
   c) MMI/CMHI Loan Guarantee Program
   d) GI/SRI Loan Guarantee Program

   e) HECM

2. Ginnie Mae
3. Housing for the Elderly and Disabled
4. Low Rent Public Housing Loan Fund
5. All Other
   a) Revolving Fund
   b) Flexible Subsidy
   c) CDBG, Section 108(b)
   d) Indian Housing Loan Guarantee Fund
   e) Loan Guarantee Recovery Fund
   f) Native Hawaiian Housing Loan Guarantee Fund
   g) Title VI Indian Housing Loan Guarantee Fund

B. Direct Loans Pre and Post Credit Reform Act 1990 (dollars in millions):

	2008				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA					
a) MMI/CHMI Direct Loan Program	$ 1	$ -	$ (4)	$ -	$ (3)
b) GI/SRI Direct Loan Program	13	4	(5)	-	12
Housing for the Elderly and Disabled	3,943	48	(12)	-	3,979
Low Rent Public Housing Loans	1	1	-	-	2
All Other					
a) CPD Revolving Fund	5	-	(5)	1	1
b) Flexible Subsidy Fund	626	10	(559)	-	77
Total	$ 4,589	$ 63	$ (585)	$ 1	$ 4,068

	2007				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA					
a) MMI/CHMI Direct Loan Program	$ 2	$ 1	$ (4)	$ -	$ (1)
b) GI/SRI Direct Loan Program	15	4	(6)	-	13
Housing for the Elderly and Disabled	4,594	56	(17)	1	4,634
Low Rent Public Housing Loans	1	1	-	-	2
All Other					
a) CPD Revolving Fund	655	11	(475)	1	192
Total	$ 5,267	$ 73	$ (502)	$ 2	$ 4,840

C. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method)(dollars in millions):

	2008				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Current Year Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA					
a) MMI/CMHI Funds	$ 16	$ 3	$ (2)	$ 9	$ 26
b) GI/SRI Funds, Excluding HECM	2,796	182	(744)	5	2,239
c) GI/SRI Funds, HECM	5	2	-	1	8
Total	$ 2,817	$ 187	$ (746)	$ 15	$ 2,273

	2007				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Current Year Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA					
a) MMI/CMHI Funds	$ 10	$ 4	$ (2)	$ 4	$ 16
b) GI/SRI Funds, Excluding HECM	2,974	206	(802)	4	2,382
c) GI/SRI Funds, HECM	5	2	-	-	7
Total	$ 2,989	$ 212	$ (804)	$ 8	$ 2,405

D. Defaulted Guaranteed Loans from Post-FY 1991 Guarantees (dollars in millions):

2008

	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA					
a) MMI/CMHI Funds	$ 403	$ -	$ (2,219)	$ 4,053	$ 2,237
b) GI/SRI Funds, Excluding HECM	395	1	(576)	400	220
c) GI/SRI Funds, HECM	565	277	(89)	13	766
All Other	-	-	-	-	-
Total	$ 1,363	$ 278	$ (2,884)	$ 4,466	$ 3,223

2007

	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA					
a) MMI/CMHI Funds	$ 331	$ (1)	$ (1,661)	$ 2,710	$ 1,379
b) GI/SRI Funds, Excluding HECM	231	(2)	(118)	328	439
c) GI/SRI Funds, HECM	310	189	-	3	502
All Other	-	-	-	-	-
Total	$ 872	$ 186	$ (1,779)	$ 3,041	$ 2,320

	2008	2007
Total Credit Program Receivables and Related Foreclosed Property, Net	$ 9,565	$9,567

E. Guaranteed Loans Outstanding (dollars in millions):

2008

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 479,995	$ 447,652
b) GI/SRI Funds	93,201	84,069
All Other	3,182	3,177
Total	$ 576,378	$ 534,898

2007

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 352,200	$ 322,152
b) GI/SRI Funds	86,673	77,808
All Other	2,998	2,993
Total	$ 441,871	$ 402,953

Home Equity Conversion Mortgage Loans Outstanding:

Loan Guarantee Programs	2008 Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximun Potential Liability
FHA GI/SRI Funds, HECM	$ 24,166	$ 43,741	$ 77,736

Loan Guarantee Programs	2007 Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximun Potential Liability
FHA GI/SRI Funds, HECM	$ 24,567	$ 29,982	$ 56,676

New Guaranteed Loans Disbursed (Current Reporting Year):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 171,825	$ 167,352
b) GI/SRI Funds	12,907	12,650
All Other	486	485
Total	$ 185,218	$ 180,487

New Guaranteed Loans Disbursed (Prior Reporting Years):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 56,510	$ 56,168
b) GI/SRI Funds	7,001	6,971
All Other	312	311
Total	$ 63,823	$ 63,450

F. Liability for Loan Guarantees (Estimated Future Default Claims, Pre-1992) (dollars in millions):

2008

Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	Total Liabilities For Loan Guarantees
FHA Programs			
a) MMI/CMHI Funds	$ 20	$ 17,378	$ 17,398
b) GI/SRI Funds, Excluding HECM	163	403	566
c) GI/SRI Funds, HECM		1,521	1,521
All Other		128	128
Total	$ 183	$ 19,430	$ 19,613

2007

Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	Total Liabilities For Loan Guarantees
FHA Programs			
a) MMI/CMHI Funds	$ 89	$ 6,902	$ 6,991
b) GI/SRI Funds, Excluding HECM	284	(168)	116
c) GI/SRI Funds, HECM	(2)	326	324
All Other	-	120	120
Total	$ 371	$ 7,180	$ 7,551

G. Subsidy Expense for Post-FY 1991 Loan Guarantees:

Subsidy Expense for Current Year Loan Guarantees (dollars in millions)

Loan Guarantee Programs	2008 Endorsement Amount	Default Component	Fees Component	Other Component	Subsidy Amount
FHA					
a) MMI/CMHI Funds	$ 171,875	$ 4,546	$ (6,601)	$ 1,620	$ (435)
b) GI/SRI Funds, Excluding HECM	13,883	435	(566)	-	(131)
c) GI/SRI Funds, HECM	24,311	486	(948)	-	(462)
All Other		12			12
Total	$ 210,069	$ 5,479	$ (8,115)	$ 1,620	$ (1,016)

Loan Guarantee Programs	2007 Endorsement Amount	Default Component	Fees Component	Other Component	Subsidy Amount
FHA					
a) MMI/CMHI Funds	$ 56,517	$ 1,249	$ (2,125)	$ 667	$ (210)
b) GI/SRI Funds, Excluding HECM	8,365	263	(381)	-	(119)
c) GI/SRI Funds, HECM	24,694	491	(1,188)	-	(696)
All Other		8	-	-	8
Total	$ 89,576	$ 2,011	$ (3,694)	$ 667	$ (1,017)

Modification and Re-estimates (dollars in millions)

Loan Guarantee Programs	2008 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
FHA				
a) MMI/CMHI Funds	$ -	$ -	$ 8,650	$ 8,650
b) GI/SRI Funds	-	-	1,709	1,709
All Other	-	-	(9)	(9)
Total	$ -	$ -	$ 10,350	$ 10,350

Loan Guarantee Programs	2007 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
FHA				
a) MMI/CMHI Funds	$ (5)	$ -	$ 3,940	$ 3,935
b) GI/SRI Funds	-	-	(310)	(310)
All Other	-	-	(3)	(3)
Total	$ (5)	$ -	$ 3,627	$ 3,622

Total Loan Guarantee Subsidy Expense (dollars in millions)

Loan Guarantee Programs	Current Year	Prior Year
FHA		
a) MMI/CMHI Funds	$ 8,215	$ 3,726
b) GI/SRI Funds	116	(1,125)
All Other	4	5
Total	$ 8,335	$ 2,606

H. Subsidy Rates for Loan Guarantees by Programs and Component:

Budget Subsidy Rates for Loans Guarantee for FY 2008

Loan Guarantee Program	Default	Fees and Other Collections	Other	Total
FHA	2.60%	-3.86%	0.77%	-0.49%
All Other				
CDBG, Section 108(b)	2.25%			2.25%
Loan Guarantee Recovery	50.00%			50.00%
Indian Housing	2.42%			2.42%
Native Hawaiian Housing	2.42%			2.42%
Title VI Indian Housing	12.12%			12.12%

The subsidy rates above pertain only to FY 2008 cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohort. The subsidy expense reported in the current year also includes modifications re-estimates.

J. Schedule for Reconciling Loan Guarantee Liability Balances (post 1991 Loan Guarantees):

(dollars in millions)

Beginning Balance, Changes, and Ending Balance	FY 2008		FY 2007	
Beginning balance of the loan guarantee liability	$	7,551	$	3,589
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:				
(a) Interest supplement costs		5,466		-
(b) Default costs (net of recoveries)		(8,102)		2,012
(c) Fees and other collections		1,620		(3,694)
(d) Othe subsidy costs		-		667
Total of the above subsidy expense components	$	(1,016)	$	(1,015)
Adjustments:				
(a) Loan guarantee modifications		-		-
(b) Fees Received		5,469		3,234
(c) Interest supplemental paid		-		-
(d) Foreclosed property and loans acquired		4,683		3,756
(e) Claim payments to lenders		(8,490)		(5,870)
(f) Interest accumulation on the liability balance		167		(61)
(g) Other		(66)		(6)
Ending balance of the subsidy cost allowance before reestimates	$	8,298	$	3,627
Add or Subtract subsidy reestimates by component:				
(a) Interest rate reestimate		10,180		381
(b) Technical/default reestimate		1,141		3,543
(c) Adjustment of prior years credit subsity reestimates		(6)		-
Total of the above reestimate components		11,315		3,924
Ending balance of the subsidy cost allowance	$	19,613	$	7,551

K. Administrative Expense (dollars in millions):

Loan Guarantee Program	FY 2008		FY 2007	
FHA	$	505	$	493
All Other		1		1
Total	$	506	$	494

NOTE 8 – GENERAL PROPERTY, PLANT, AND EQUIPMENT (NET)

General property, plant, and equipment consists of furniture, fixtures, equipment and data processing software used in providing goods and services that have an estimated useful life of two or more years. Purchases of $100,000 or more are recorded as an asset and depreciated over their estimated useful life on a straight-line basis with no salvage value. Capitalized replacement and improvement costs are depreciated over the remaining useful life of the replaced or improved asset. Generally, the department's assets are depreciated over a 4-year period, unless it can be demonstrated that the estimated useful life is significantly greater than 4 years.

The following shows general property, plant, and equipment as of September 30, 2008 and 2007, (dollars in millions):

Description	FY 2008 Cost	FY 2008 Accum Depr and Amortization	FY 2008 Book Value	FY 2007 Cost	FY 2007 Accum Depr and Amortization	FY 2007 Book Value
Equipment	$ 36	$ (32)	$ 4	$ 16	$ (12)	$ 4
Leasehold Improvements	7	(6)	1	6	(4)	2
Internal Use Software	130	(89)	41	126	(76)	50
Internal Use Software in Development	188	-	188	157	-	157
Total Assets	$ 361	$ (127)	$ 234	$ 305	$ (92)	$ 213

NOTE 9 - OTHER ASSETS

The following shows HUD's Other Assets as of September 30, 2008 (dollars in millions):

Description	FHA	Ginnie Mae	All Other	Total
Intragovernmental Assets:				
Other Assets	$ 21	$ -	$ 1	$ 22
Total Intragovernmental Assets	21	-	-	22
Mortgagor Reserves for Replacement - Cash	$ 103	-	-	103
Financial Accounting Standards Board Interpretation No 45		680	-	680
Other Assets	31	29	2	62
Total	$ 155	$ 709	$ 2	$ 867

The following shows HUD's Other Assets as of September 30, 2007 (dollars in millions):

Description	FHA	Ginnie Mae	All Other	Total
Intragovernmental Assets:				
Other Assets	$ -	$ -	$ 8	$ 8
Total Intragovernmental Assets	-	-	8	8
Mortgagor Reserves for Replacement - Cash	$ 110	$ -	$ -	$ 110
Financial Accounting Standards Board Interpretation No 45	-	426	-	426
Other Assets	33	23	1	57
Total	$ 143	$ 449	$ 9	$ 601

NOTE 10 – LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

The following shows HUD's liabilities as of September 30, 2008 and 2007 (dollars in millions):

Description	2008			2007		
	Covered	Not-Covered	Total	Covered	Not-Covered	Total
Intragovernmental						
Accounts Payable	$ 11	$ -	$ 11	$ 5	$ -	$ 5
Debt	5,608	-	5,608	5,459	-	5,459
Other Intragovernmental Liabilities	1,631	24	1,655	3,790	18	3,808
Total Intragovernmental Liabilities	$ 7,250	$ 24	$ 7,274	$ 9,254	$ 18	$ 9,272
Accounts Payable	892	-	892	769	-	769
Liabilities for Loan Guarantees	19,613	-	19,613	7,551	-	7,551
Debt	729	-	729	981	-	981
Federal Employee and Veterans' Benefits	-	85	85	-	82	82
Loss Reserves	550	-	550	536	-	536
Other Liabilities	1,295	83	1,378	1,086	83	1,169
Total Liabilities	$ 30,329	$ 192	$ 30,521	$ 20,177	$ 183	$ 20,360

Of the $1.68 billion reported as other governmental Liabilities $5.53 million represents collections on civil penalties assessed against former Fannie Mae executives ($3.03 million) and a Freddie Mac executive ($2.00 million) as part of the settlements with OFHEO regarding accounting improprieties uncovered in separate examinations. A liability Due to Treasury is reported by OFHEO at September 30, 2008 for the amount of the penalties collected.

An additional $0.50 million was accrued by OFHEO for the amount remaining to be paid as part of the settlement terms with the former Freddie Mac executive. The liability Due to Treasury includes the penalty due to be collected.

NOTE 11 - DEBT

Several HUD programs have the authority to borrow funds from the U.S. Treasury for program operations. Additionally, the National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to pay claims. Also, PHAs and TDHEs borrowed funds from the private sector and from the Federal Financing Bank (FFB) to finance construction and rehabilitation of low rent housing. HUD is repaying these borrowings on behalf of the PHAs and TDHEs.

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2008 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$ 886	$ (111)	$ 775
Held by the Public	981	(252)	729
Total Agency Debt	$ 1,867	$ (363)	$ 1,504
Other Debt:			
Debt to the U.S. Treasury	$ 4,573	$ 260	$ 4,833
Total Debt	$ 6,440	$ (103)	$ 6,337
Classification of Debt:			
Intragovernmental Debt			$ 5,608
Debt held by the Public			729
Total Debt			$ 6,337

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2007 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$ 991	$ (105)	$ 886
Held by the Public	1,251	(270)	981
Total Agency Debt	$ 2,242	$ (375)	$ 1,867
Other Debt:			
Debt to the U.S. Treasury	$ 6,258	$ (1,685)	$ 4,573
Total Debt	$ 8,500	$ (2,060)	$ 6,440
Classification of Debt:			
Intragovernmental Debt			$ 5,459
Debt held by the Public			981
Total Debt			$ 6,440

Interest paid on borrowings as of September 30, 2008 and 2007 was $294 million and $117 million respectively. The purpose of these borrowings is discussed in the following paragraphs.

Borrowings from the U.S. Treasury

HUD is authorized to borrow from the U.S. Treasury to finance Housing for Elderly and Disabled loans. The Treasury borrowings typically have a 15-year term, but may be repaid prior to maturity at HUD's discretion. However, such borrowings must be repaid in the sequence in which they were borrowed from Treasury. The interest rates on the borrowings are based on Treasury's 30-year bond yield at the time the notes are issued. Interest is payable on April 30 and October 31. Interest rates ranged from 10.67 percent to 16.18 percent during year 2007. All Treasury borrowings were paid in full during fiscal year 2007.

In fiscal 2008 and 2007, FHA borrowed $940 million and $0 million, respectively, from the U.S. Treasury. The borrowings were needed when FHA initially determined negative credit subsidy amounts related to new loan disbursements or to existing loan modifications. In some instances, borrowings were needed where available cash was less than claim payments due or downward subsidy-estimates. All borrowings were made by FHA's financing accounts. Negative subsidies were generated primarily by the MMI/CMHI Fund financing account; downward re-estimates have occurred from activity of the FHA's loan guarantee financing accounts. These borrowings carried interest rates ranging from 2.33 percent to 7.34 percent during fiscal 2008 and from 2.33 percent to 7.34 percent during fiscal year 2007.

Borrowings from the Federal Financing Bank (FFB) and the Public

During the 1960s, 1970s, and 1980s, PHAs obtained loans from the private sector and from the FFB to finance development and rehabilitation of low rent housing projects. HUD is repaying these borrowings on behalf of the PHAs, through the Low Rent Public Housing program. For borrowings from the Public, interest is payable throughout the year. Interest rates range from 3.25 percent to 6.0 percent during both fiscal year 2008 and 2007. The borrowings from the FFB and the private sector have terms up to 40 years. FFB interest is payable annually on November 1. Interest rates range from 10.67 percent to 16.18 percent during both fiscal year 2008 and 2007.

Before July 1, 1986, the FFB purchased notes issued by units of general local government and guaranteed by HUD under Section 108. These notes had various maturities and carried interest rates that were one-eighth of one percent above rates on comparable Treasury obligations. The FFB still holds substantially all outstanding notes, and no note purchased by the FFB has ever been declared in default.

Debentures Issued To Claimants

The National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to settle claims. FHA-issued debentures bear interest at rates established by the U.S. Treasury. Interest rates related to the outstanding debentures ranged from 4.00 percent to 12.88 percent during both FY 2008 and FY 2007. Debentures may be redeemed by lenders prior to maturity to pay mortgage insurance premiums to FHA, or they may be called with the approval of the Secretary of the U. S. Treasury.

NOTE 12 – FEDERAL EMPLOYEE and VETERANS' BENEFITS

HUD also accrues the portion of the estimated liability for disability benefits assigned to the agency under the Federal Employee Compensation Act (FECA), administered and determined by the Department of Labor (DOL). The liability, based on the net present value of estimated future payments based on a study conducted by DOL, was $85 million as of September 30, 2008, and $82 million as of September 30, 2007. Future payments on this liability are to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources.

The Department's Federal Employee and Veterans' benefit expenses totaled approximately $141 million for fiscal 2008; this includes $39 million to be funded by OPM. Federal Employee and Veterans' benefit expenses totaled approximately $135 million for fiscal 2007. This included

$35 million to be funded by OPM. Amounts funded by OPM are charged to expense with a corresponding amount considered as an imputed financing source in the statement of changes in net position.

NOTE 13 - LOSS RESERVES

For fiscal years 2008 and 2007, Ginnie Mae established loss reserves of $550 million and $536 million, respectively, which represents probable defaults by issuers of mortgage-backed securities, through a provision charged to operations. The reserve is relieved as losses are realized from the disposal of the defaulted issuers' portfolios. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios and the sale of servicing rights which transfers to Ginnie Mae upon the default of the issuer. Ginnie Mae management believes that its reserve is adequate to cover probable losses from defaults by issuers of Ginnie Mae guaranteed mortgage-backed securities.

Ginnie Mae incurs losses when insurance and guarantees do not cover expenses that result from issuer defaults. Such expenses include: (1) unrecoverable losses on individual mortgage defaults because of coverage limitations on mortgage insurance or guarantees, (2) ineligible mortgages included in defaulted Ginnie Mae pools, (3) improper use of proceeds by an issuer, and (4) non-reimbursable administrative expenses and costs incurred to service and liquidate portfolios of defaulted issuers.

NOTE 14 - OTHER LIABILITIES

The following shows HUD's Other Liabilities as of September 30, 2008 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$ -	$ 1,530	$ 1,530
Unfunded FECA Liability	18	-	18
Employer Contributions and Payroll Taxes	-	6	6
OFHEO/Fannie Mae Penalty Settlement	-	6	6
Miscellaneous Receipts Payable to Treasury	81	-	81
Advances to Federal Agencies	-	14	14
Total Intragovernmental Liabilities	$ 99	$ 1,556	$ 1,655
Other Liabilities			
FHA Other Liabilities	$ -	$ 259	$ 259
FHA Escrow Funds Related to Mortgage Notes	-	151	151
FHA Unearned Premiums	13	15	28
Ginnie Mae Deferred Income	-	90	90
Deferred Credits	-	9	9
Deposit Funds	27	2	29
Accrued Unfunded Annual Leave	83	-	83
Accrued Funded Payroll Benefits	-	49	49
Other - FIN 45	-	680	680
Total Other Liabilities	$ 222	$ 2,811	$ 3,033

Special Receipt Account Liability

The special receipt account liability is created from negative subsidy endorsements and downward credit subsidy in the GI/SRI special receipt account.

The following shows HUD's Other Liabilities as of September 30, 2007 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$ -	$ 3,657	$ 3,657
Unfunded FECA Liability	18	-	18
Employer Contributions and Payroll Taxes	-	5	5
Miscellaneous Receipts Payable to Treasury	-	106	106
Advances to Federal Agencies	-	22	22
Total Intragovernmental Liabilities	$ 18	$ 3,790	$ 3,808
Other Liabilities			
FHA Other Liabilities	$ -	$ 288	$ 288
FHA Escrow Funds Related to Mortgage Notes	-	155	155
FHA Unearned Premiums	7	24	31
Ginnie Mae Deffered Income	-	76	76
Deferred Credits	-	5	5
Deposit Funds	58	11	69
Accrued Unfunded Annual Leave	77	-	77
Accrued Funded Payroll Benefits	-	36	36
Other - FIN 45	-	426	426
Other	6	-	6
Total Other Liabilities	$ 166	$ 4,811	$ 4,977

NOTE 15 – OPERATING LEASES

OFHEO has an occupancy lease with the Office of Thrift Supervision (OTS) at 1700 G Street NW, Washington DC that covers office space and building services which include utilities, security guards, janitorial services, mail delivery, use of the loading dock, garage parking and building operation and maintenance. The initial term of the lease was for five years beginning in 1993, with the option to renew for three 5-year terms. OFHEO has exercised the second of the three option terms.

OFHEO may terminate the lease agreement with OTS in whole or in part. In the event of a termination at OFHEO's discretion, OFHEO would be required to pay two months rent. If either party ceases to exist or merges with another entity by operation of law, either party may terminate the rental agreement. In the event of termination under this provision, neither party is liable for further costs, fees, damages or other monies due to the termination, except for payments through the date of termination. Due to this termination clause, no deferred rent is established for this lease nor is disclosure of minimum future lease payments required under Financial Accounting Standard Board Statement #13. If OFHEO continues renting up to the expiration date of its current option term ending November 2008, lease payments for fiscal year 2009 are estimated to be $0.8 million.

In FY 2005, OFHEO obtained additional rental space at 1750 Pennsylvania Avenue, NW, Washington, DC through a private sector sublessor. The expiration date of the lease is March 30, 2011. If the primary lease would terminate earlier than the expiration date, the sublease would then also terminate. A deferred rent liability is established for this lease.

Under existing commitments, the future minimum lease payments through FY 2011 are as follows:

Period Ending September 30, 2008	1750 Penn Ave NW (In Millions)
2009	.9
2010	1.0
2011	.5
Total Future Minimum Lease Payments	2.4

1 Lease runs through March, 2011.

Total rent expense on the two leases for the years ended September 30, 2008 and 2007 was approximately $5.3 million and $5.1 million, respectively. As described in Note 2B, the funds of OFHEO became funds of FHFA upon enactment of HERA, and OFHEO will be abolished one year after said enactment.

NOTE 16 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Some of HUD's programs, principally those operated through FHA and Ginnie Mae, enter into financial arrangements with off-balance sheet risk in the normal course of their operations.

A. FHA Mortgage Insurance

Unamortized insurance in force outstanding for FHA's mortgage insurance programs as of September 30, 2008 and 2007 was $573 billion and $400 billion, respectively as disclosed in Note 7F.

B. Ginnie Mae Mortgage-Backed Securities

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of Mortgage-Backed Securities (MBS) and commitments to guaranty MBS. The securities are backed by pools of FHA-insured, RHS-insured, and VA-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, 2008 and 2007, was approximately $576.8 billion and $427.6 billion, respectively. However, Ginnie Mae's potential loss is considerably less because the FHA and RHS insurance and VA 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 MBS. The commitment ends when the MBS 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 MBS. Outstanding commitments as of September 30, 2008 and 2007 were $71.2 billion and $35.8 billion, respectively. Generally, Ginnie Mae's MBS 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 fiscal 2008 and 2007, Ginnie Mae issued a total of $43.4 billion and $32.7 billion respectively in its REMIC multi-class securities program. The estimated outstanding balance for the complete multi-class securities program (REMICs, Platinum's, etc.) at September 30, 2008 and 2007, were $253 billion and $201 billion, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

C. Section 108 Loan Guarantees

Under HUD's Section 108 Loan Guarantee program, recipients of CDBG Entitlement Grant program funds may pledge future grant funds as collateral for loans guaranteed by HUD (these loans were provided from private lenders since July 1, 1986). This Loan Guarantee Program provides entitlement communities with a source of financing for projects that are too large to be financed from annual grants. The amount of loan guarantees outstanding as of September 30, 2008 and 2007 was $ 2.4 billion and $2.3 billion, respectively. HUD's management believes its exposure in providing these loan guarantees is limited, since loan repayments can be offset from future CDBG Entitlement Program Funds and, if necessary, other funds provided to the recipient by HUD. HUD has never had a loss under this program since its inception in 1974.

NOTE 17 - CONTINGENCIES

Lawsuits and Other

HUD is party to a number of claims and tort actions related to lawsuits brought against it concerning the implementation or operation of its various programs. One group of related cases challenges the legality of actions the Department took in accordance with laws aimed at preserving rental housing units for low-income tenants and has been on-going for several years. The cases within this group were consolidated by the court under central case names. Two of the consolidated groups' cases have been settled and payment, $35 million and $2 million, has or will come from the Judgment Fund**.** One additional case, reported after the close of the fiscal year, will accrue a FY 2009 liability of $1.25 million. The potential loss related to the remaining cases cannot be accurately estimated at this time and; therefore, the Department has not accrued a liability in connection with the cases.

In another unrelated case that was settled, the Department accrued an additional liability of $19 million where $5 million had already been accrued in FY 2006 for these cases.

FHA is party in various legal actions and claims brought by or against it. In the opinion of management and general counsel, the ultimate resolution of these legal actions and claims will not have a material affect on FHA's consolidated financial statements as of September 30, 2008. FHA has not recognized any contingent liability due to the probable, or likely, adverse judgment in these cases. However, there are legal actions where judgment against FHA is considered reasonably possible with an estimated potential loss of $3 million.

Ginnie Mae has no legal actions pending. However, GinnieMae's management recognizes the uncertainties that could occur in regard to potential default issuers and other indirect guarantees.

In addition, a number of varying cases exists for differing sums. The Department has determined the likelihood of loss is reasonably possible or remote and uncertain in amount; consequently, no contingent liabilities were accrued by the Department for these cases.

NOTE 18 – EARMARKED FUNDS

Earmarked funds are financed by specifically identified revenues and are required by statute to be used for designated activities or purposes.

Rental Housing Assistance Fund

The Housing and Urban Development Act of 1968 authorized the Secretary to establish a revolving fund into which rental collections in excess of the established basic rents for units in section 236 subsidized projects would be deposited. The Housing and Community Development Amendment of 1978 authorized the Secretary, subject to approval in appropriation acts, to transfer excess rent collections received after 1978 to the Troubled Projects Operating Subsidy program, renamed the Flexible Subsidy Fund. Prior to that time, collections were used for paying tax and utility increases in section 236 projects. The Housing and Community Development Act of 1980 amended the 1978 Act by authorizing the transfer of excess rent collections regardless of when collected.

All uncommitted balances of excess rental charges from the Rental Housing Assistance Fund as of June 30, 2005, and any collections made during fiscal year 2005 and all subsequent fiscal years, shall be transferred to the Flexible Subsidy Fund, as authorized by section 236(g) of the National Housing Act, as amended.

Flexible Subsidy

The Flexible Subsidy Fund assists financially troubled subsidized projects under certain FHA authorities. The subsidies are intended to prevent potential losses to the FHA fund resulting from project insolvency and to preserve these projects as a viable source of housing for low and moderate-income tenants. Priority was given with Federal insurance-in-force and then to those with mortgages that had been assigned to the Department.

Manufactured Housing Fees Trust Fund

The National Manufactured Housing Construction and Safety Standards Act of 1974, as amended by the Manufactured Housing Improvement Act of 2000, authorizes development and enforcement of appropriate standards for the construction, design, and performance of manufactured homes to assure their quality, durability, affordability, and safety.

Fees are charged to the manufacturers for each manufactured home transportable section produced and will be used to fund the costs of all authorized activities necessary for the consensus committee, HUD, and its agents to carry out all aspects of the manufactured housing legislation. Fees are deposited in a trust fund administered by the Department, a portion of the fee receipts are transferred to the salaries and expense account to defray the direct administrative expenses to the program.

This account also presents activities formerly shown under the Interstate Land Sales account which provides protection to the public with respect to purchases or leases of subdivision lots.

The fee receipts are permanently appropriated and have helped finance a portion of the direct administrative expenses incurred in program operations. Activities are initially financed via transfer from the Manufactured Housing General Fund. At year-end, the transferred funds are returned to the general fund.

Ginnie Mae

Ginnie Mae was created in 1968 through an amendment to the National Housing Act as a wholly-owned government corporation within the Department, and is administered by the Secretary of HUD and the President of Ginnie Mae. As such, Ginnie Mae is a self-financed government corporation and receives funds from general tax revenues for salaries and expenses. Program operations are financed by a variety of fees, such as guaranty, commitment, new issuer, handling, and transfer servicing fees, which are only to be used for Ginnie Mae's legislatively authorized mission.

The following shows earmarked funds activity as of September 30, 2008 (dollars in millions):

	GNMA	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Manufactured Housing Fees Receipt Acct	Eliminations	Total Earmarked Funds
Balance Sheet							
Fund Balance w/Treasury	$ 4,836	$ 4	$ 103	$ 3	$ -	$ -	$ 4,946
Investments	9,290	-	-	-	-	-	9,290
Accounts Receivable	26	-	-	-	-	-	26
Loans Receivable	-	-	77	-	-	-	77
General Property, Plant and Equipment	27	-	-	-	-	-	27
Other	709	-	-		-	-	709
Total Assets	$ 14,888	$ 4	$ 180	$ 3	$ -	$ -	$ 15,075
Accounts Payable	$ 39	$ -	$ -	$ -	$ -	$ -	$ 39
Loss Reserves	550	-	-	-	-	-	550
Other Liabilities	773	-	-	-	-	-	773
Total Liabilities	$ 1,362	$ -	$ -	$ -	$ -	$ -	$ 1,362
Unexpended Appropriations	$ -	$ -	$ (376)	$ -	$ -	$ -	$ (376)
Cumulative Results of Operations	13,527	4	555	3	-	-	14,089
Total Net Position	$ 13,527	$ 4	$ 179	$ 3	$ -	$ -	$ 13,713
Total Liabilities and Net Position	$ 14,888	$ 4	$ 179	$ 3	$ -	$ -	$ 15,075
Statement of Net Cost For the Period Ended							
Gross Costs	$ 110	$ 8	$ 94	$ 7	$ -	$ (8)	$ 211
Less Earned Revenues	(1,007)	(4)	(17)	(5)	-	8	(1,025)
Net Costs	$ (897)	$ 4	$ 77	$ 2	$ -	$ -	$ (814)
Statement of Changes in Net Position for the Period Ended							
Net Position Beginning of Period	$ 12,620	$ 8	$ 256	$ 4	$ -	$ -	$ 12,888
							-
Appropriations Received	8	-	-	-	-	-	8
Imputed Financing Costs	1	-	-	-	-	-	1
Net Cost of Operations	897	(4)	(77)	(1)	-	-	815
Change in Net Position	$ 906	$ (4)	$ (77)	$ (1)	$ -	$ -	$ 824
Net Position End of Period	$ 13,527	$ 4	$ 179	$ 3	$ -	$ -	$ 13,712

The following shows earmarked funds activity as of September 30, 2007 (dollars in millions):

	GNMA	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Manufactured Housing Fees Receipt Acct	Eliminations	Total Earmarked Funds
Balance Sheet							
Fund Balance w/Treasury	$ 4,433	$ 8	$ 66	$ 4	$ -	$ -	$ 4,511
Investments	8,789	-	-	-	-	-	8,789
Accounts Receivable	23	-	-	-	-	-	23
Loans Receivable	-	-	192	-	-	-	192
General Property, Plant and Equipment	17	-	-	-	-	-	17
Other	449	-	-	-	-	-	449
Total Assets	$ 13,711	$ 8	$ 258	$ 4	$ -	$ -	$ 13,981
Accounts Payable	$ 42	$ -	$ -	$ -	$ -	$ -	$ 42
Loss Reserves	536	-	-	-	-	-	536
Other Liabilities	513	-	-	-	-		513
Total Liabilities	$ 1,091	$ -	$ -	$ -	$ -	$ -	$ 1,091
Unexpended Appropriations	-	-	(376)	-	-	-	(376)
Cumulative Results of Operations	12,620	8	634	4	-	-	13,266
Total Net Position	12,620	8	258	4	-	-	12,890
Total Liabilities and Net Position	$ 13,711	$ 8	$ 258	$ 4	$ -	$ -	$ 13,981
Statement of Net Cost For the Period Ended							
Gross Costs	$ 53	$ -	$ (9)	$ 7	$ -	$ 1	$ 52
Less Earned Revenues	(791)	(4)	(12)		(7)	-	(814)
Net Costs	$ (738)	$ (4)	$ (21)	$ 7	$ (7)	$ 1	$ (762)
Statement of Changes in Net Position for the Period Ended							
Net Position Beginning of Period	$ 11,882	$ 4	$ 237	$ 5	$ -	$ -	$ 12,128
							-
Appropriations Received	-	-	-	-	-	1	1
Transfers In/Out Without Reimbursement	-	-	-	6	(7)	-	(1)
Net Cost of Operations	738	4	21	(7)	7	(1)	762
Change in Net Position	738	4	21	(1)	-	-	762
Net Position End of Period	$ 12,620	$ 8	$ 258	$ 4	$ -	$ -	$ 12,890

NOTE 19 – INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

The data below shows HUD's intragovernmental costs and earned revenue separately from activity with the public. Intragovernmental transactions are exchange transactions made between two reporting entities within the Federal government. Intragovernmental costs are identified by the source of the goods and services; both the buyer and seller are Federal entities. Also note that there may be instances where the revenue may be classified as non-Federal if the goods or services are subsequently sold to the public. Public activity involves exchange transactions between the reporting entity and a non-Federal entity.

The following shows HUD's intragovernmental costs and exchange revenue (dollars in millions):

2008	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
Intragovernmental Costs	$314	$2	$79	$26	$15	$29	$119	$31	$245		$860
Public Costs	11,064	108	24,656	8,970	1,998	4,121	3,119	1,361	3,627		59,024
Subtotal Costs	$11,378	$110	$24,735	$8,996	$2,013	$4,150	$3,238	$1,392	$3,872		$59,884
Costs Not Assigned									$144		$144
Total Costs											$60,028
Intragovernmental Earned Revenue	($1,394)	($633)	$0	$0	$0	$0	$0	$0	($15)		($2,042)
Public Earned Revenue	(77)	(374)	0	0	0	0	0	(363)	(18)		(832)
Total Earned Revenue	($1,471)	($1,007)	$0	$0	$0	$0	$0	($363)	($33)		($2,874)
Net Cost of Operations	$9,907	($897)	$24,735	$8,996	$2,013	$4,150	$3,238	$1,029	$3,839		$57,154

2007	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME	Operating Subsidies	Public and Indian Housing Loansand Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
Intragovernmental Costs	$425	$11	$82	$33	$15	$33	$164	$15	$188		$966
Public Costs	3,465	42	24,558	10,933	1,887	3,798	3,315	1,302	3,189		52,489
Subtotal Costs	$3,890	$53	$24,640	$10,966	$1,902	$3,831	$3,479	$1,317	$3,377		$53,455
Costs Not Assigned									$332		$332
Total Costs											$53,787
Intragovernmental Earned Revenue	($1,407)	($481)	$0	$0	$0	$0	$0	$0	$0		($1,888)
Public Earned Revenue	(114)	(310)	0	0	0	0	0	(419)	(21)		(864)
Total Earned Revenue	($1,521)	($791)	$0	$0	$0	$0	$0	($419)	($21)		($2,752)
Net Cost of Operations	$2,369	($738)	$24,640	$10,966	$1,902	$3,831	$3,479	$898	$3,356		$51,035

NOTE 20 - TOTAL COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION

The following shows HUD's total cost and earned revenue by budget functional classification for fiscal 2008 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 16	$ -	$ 16
Community and Regional Development	90	(17)	73
Income Security	438	3	441
Mortgage Credit	315	(2,027)	(1,712)
Total Intragovernmental	$ 859	$ (2,041)	$ (1,182)
With the Public:			
Commerce and Housing Credit	$ 396	$ (369)	$ 27
Community and Regional Development	9,499	-	9,499
Income Security	37,905	(13)	37,892
Administration of Justice	54	-	54
Mortgage Credit	11,171	(451)	10,720
Total with the Public	$ 59,025	$ (833)	$ 58,192
Not Assigned to Programs:			
Income Security	144	-	144
Total with the Public	$ 144	$ -	$ 144
TOTAL:			
Commerce and Housing Credit	$ 412	$ (369)	$ 43
Community and Regional Development	9,589	(17)	9,572
Income Security	38,487	(10)	38,477
Administration of Justice	54	-	54
Mortgage Credit	11,486	(2,478)	9,008
TOTAL:	$ 60,028	$ (2,874)	$ 57,154

The following shows HUD's total cost and earned revenue by budget functional classification for fiscal 2007 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 15	$ -	$ 15
Community and Regional Development	20	2	22
Income Security	496	(2)	494
Mortgage Credit	436	(1,888)	(1,452)
Total Intragovernmental	$ 967	$ (1,888)	$ (921)
With the Public:			
Commerce and Housing Credit	$ 372	$ (425)	$ (53)
Community and Regional Development	11,196	-	11,196
Income Security	37,367	(15)	37,352
Administration of Justice	46	-	46
Mortgage Credit	3,507	(424)	3,083
Total with the Public	$ 52,488	$ (864)	$ 51,624
Not Assigned to Programs:			
Income Security	332	-	332
Total with the Public	$ 332	$ -	$ 332
TOTAL:			
Commerce and Housing Credit	$ 387	$ (425)	$ (38)
Community and Regional Development	11,216	2	11,218
Income Security	38,195	(17)	38,178
Administration of Justice	46	-	46
Mortgage Credit	3,943	(2,312)	1,631
TOTAL:	$ 53,787	$ (2,752)	$ 51,035

NOTE 21 – NET COSTS of HUD's CROSS-CUTTING PROGRAMS

This note provides a categorization of net costs for two of HUD's major program areas whose costs were incurred across multiple programs. Section 8 costs are incurred to assist low- and very low- income families in obtaining decent and safe rental housing. In addition, costs incurred under the Other major program represent HUD's smaller programs. These programs provide assistance to support other HUD objectives such as fair housing and equal opportunity, energy conservation, homeless assistance, housing unit rehabilitation, and home ownership.

The following charts show the cross-cutting of HUD's major program areas that incur costs across multiple program areas (dollars in millions):

Fiscal Year 2008

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8:					
Intragovernmental Gross Costs	$ 38	$ 42	$ -	$ -	$ 80
Intragovernmental Net Costs	$ 38	$ 42	$ -	$ -	$ 80
Gross Costs with the Public	$ 21,843	$ 2,811	$ 1	$ -	$ 24,655
Net Costs with the Public	$ 21,843	$ 2,811	$ 1	$ -	$ 24,655
Net Program Costs	$ 21,881	$ 2,853	$ 1	$ -	$ 24,735
Other:					
Intragovernmental Gross Costs	$ 28	$ 89	$ 21	$ 101	$ 239
Intragovernmental Earned Revenues	(1)	-	(5)	(8)	(14)
Intragovernmental Net Costs	$ 27	$ 89	$ 16	$ 93	$ 225
Gross Costs with the Public	$ 646	$ 834	$ 1,916	$ 379	$ 3,775
Earned Revenues	-	(18)	-	-	(18)
Net Costs with the Public	$ 646	$ 816	$ 1,916	$ 379	$ 3,757
Net Program Costs	$ 673	$ 905	$ 1,932	$ 472	$ 3,982

Fiscal Year 2007

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8:					
Intragovernmental Gross Costs	$ 61	$ 22	$ -	$ -	$ 83
Intragovernmental Net Costs	$ 61	$ 22	$ -	$ -	$ 83
Gross Costs with the Public	$ 21,648	$ 2,909	$ -	$ -	$ 24,557
Net Costs with the Public	$ 21,648	$ 2,909	$ -	$ -	$ 24,557
Net Program Costs	$ 21,709	$ 2,931	$ -	$ -	$ 24,640
Other:					
Intragovernmental Gross Costs	$ 28	$ 40	$ 48	$ 59	$ 175
Intragovernmental Earned Revenues	5	-	(5)	-	-
Intragovernmental Net Costs	$ 33	$ 40	$ 43	$ 59	$ 175
Gross Costs with the Public	$ 569	$ 622	$ 1,812	$ 198	$ 3,201
Earned Revenues	-	(21)	-	-	$ (21)
Net Costs with the Public	$ 569	$ 601	$ 1,812	$ 198	$ 3,180
Net Program Costs	$ 602	$ 641	$ 1,855	$ 257	$ 3,355

NOTE 22 – FHA NET COSTS

FHA organizes its operations into two overall program types: MMI/CMHI and GI/SRI. These program types are composed of four major funds. The Mutual Mortgage Insurance fund (MMI), FHA's largest fund, provides basic Single Family mortgage insurance and is a mutual insurance fund, whereby mortgagors, upon non-claim termination of their mortgages, share surplus premiums paid into the MMI fund that are not required for operating expenses and losses or to build equity. The Cooperative Management Housing Insurance fund (CMHI), another mutual fund, provides mortgage insurance for management-type cooperatives. The General Insurance fund (GI), provides a large number of specialized mortgage insurance activities, including insurance of loans for property improvements, cooperatives, condominiums, housing for the elderly, land development, group practice medical facilities and nonprofit hospitals. The Special Risk Insurance fund (SRI) provides mortgage insurance on behalf of mortgagors eligible for interest reduction payments who otherwise would not be eligible for mortgage insurance.

The following table shows Net Cost detail for the Federal Housing Administration (dollars in millions):

	Fiscal Year 2008			Fiscal Year 2007		
	GI/SRI Program	MMI/CMHI Program	Total	GI/SRI Program	MMI/CMHI Program	Total
Costs						
Intragovernmental Gross Costs	$ 138	$ 175	$ 313	$ 141	$ 284	$ 425
Intragovernmental Earned Revenues	(73)	(1,321)	(1,394)	(107)	(1,299)	(1,406)
Intragovernmental Net Costs	$ 65	$ (1,146)	$ (1,081)	$ 34	$ (1,015)	$ (981)
Gross Costs with the Public	$ 1,569	$ 9,496	$ 11,065	$ (1,235)	$ 4,700	$ 3,465
Earned Revenues	(68)	(9)	(77)	(90)	(25)	(115)
Net Costs with the Public	$ 1,501	$ 9,487	$ 10,988	$ (1,325)	$ 4,675	$ 3,350
Net Program Costs	$ 1,566	$ 8,341	$ 9,907	$ (1,291)	$ 3,660	$ 2,369

NOTE 23 – COMMITMENTS UNDER HUD'S GRANT, SUBSIDY, AND LOAN PROGRAMS

A. Contractual Commitments

HUD has entered into extensive long-term commitments that consist of legally binding agreements to provide grants, subsidies, or loans. Commitments become liabilities when all actions required for payment under an agreement have occurred. The mechanism for funding subsidy commitments generally differs depending on whether the agreements were entered into before or after 1988.

Prior to fiscal 1988, HUD's subsidy programs, primarily the Section 8 program and the Section 235/236 programs, operated under contract authority. Each year, Congress provided HUD the authority to enter into multiyear contracts within annual and total contract limitation ceilings. HUD then drew on and continues to draw on permanent indefinite appropriations to fund the current year's portion of those multiyear contracts. Because of the duration of these contracts (up to 40 years), significant authority exists to draw on the permanent indefinite appropriations. Beginning in fiscal 1988, the Section 8 and the Section 235/236 programs began operating under multiyear budget authority whereby the Congress appropriates the funds "up-front" for the entire contract term in the initial year.

As shown below, appropriations to fund a substantial portion of these commitments will be provided through permanent indefinite authority. These commitments relate primarily to the Section 8 program, and the Section 235/236 rental assistance and interest reduction programs, and are explained in greater detail below.

HUD's commitment balances are based on the amount of unliquidated obligations recorded in HUD's accounting records with no provision for changes in future eligibility, and thus are equal to the maximum amounts available under existing agreements and contracts. Unexpended appropriations and cumulative results of operations shown in the Consolidated Balance Sheet comprise funds in the U.S. Treasury available to fund existing commitments that were provided through "up-front" appropriations, and also include permanent indefinite appropriations received in excess of amounts used to fund the pre-1988 subsidy contracts and offsetting collections.

FHA enters into long-term contracts for both program and administrative services. FHA funds these contractual obligations through appropriations, permanent indefinite authority, and offsetting collections. The appropriated funds are primarily used to support administrative contract expenses, while the permanent indefinite authority and the offsetting collections are used for program services.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2008 (dollars in millions):

	Undelivered Orders			
Programs	Unexpended Appropriations	Permanent Indefinite or Investment Authority	Offsetting Collection	Undelivered Orders - Obligations, Unpaid
FHA	$ 159	$ 300	$ 861	$ 1,320
Section 8 Rental Assistance	8,266	3,375	-	11,641
Community Development Block Grants	15,638	-	-	15,638
HOME Partnership Investment Program	5,040	-	-	5,040
Operating Subsidies	1,045	-	-	1,045
Low Rent Public Housing Grants and Loans	7,957	571	-	8,528
Housing for Elderly and Disabled	4,749	-	-	4,749
Section 235/236	971	3,322	-	4,293
All Other	4,692	-	81	4,773
Total	$ 48,517	$ 7,568	$ 942	$ 57,027

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2008**,** $6.9 billion relates to project-based commitments, and $4.8 billion relates to tenant-based commitments.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2007 (dollars in millions):

Programs	Undelivered Orders: Unexpended Appropriations		Undelivered Orders: Permanent Indefinite or Investment Authority		Undelivered Orders: Offsetting Collection		Undelivered Orders - Obligations, Unpaid	
FHA	$	167	$	331	$	751	$	1,249
Section 8 Rental Assistance		4,599		9,465		-		14,064
Community Development Block Grants		19,701		-		-		19,701
HOME Partnership Investment Program		5,359		-		-		5,359
Operating Subsidies		908		-		-		908
Low Rent Public Housing Grants and Loans		7,422		1,576		-		8,998
Housing for Elderly and Disabled		5,070		-		-		5,070
Section 235/236		340		4,631		-		4,971
All Other		5,087		2		63		5,152
Total	$	48,653	$	16,005	$	814	$	65,472

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2007**,** $12.3 billion relates to project-based commitments, and $1.8 billion relates to tenant-based commitments. With the exception of the Housing for the Elderly and Disabled and Low Rent Public Housing Loan Programs (which have been converted to grant programs), Section 235/236, and a portion of "all other" programs, HUD management expects all of the above programs to continue to incur new commitments under authority granted by Congress in future years. However, estimated future commitments under such new authority are not included in the amounts above.

B. Administrative Commitments

In addition to the above contractual commitments, HUD has entered into administrative commitments which are reservations of funds for specific projects (including those for which a contract has not yet been executed) to obligate all or part of those funds. Administrative commitments become contractual commitments upon contract execution.

The following shows HUD's administrative commitments as of September 30, 2008 (dollars in millions):

Programs	Reservations: Unexpended Appropriations		Reservations: Permanent Indefinite Appropriations		Reservations: Offsetting Collections		Total Reservations	
Section 8 Rental Assistance Project-Based	$	100	$	8		-	$	108
Community Development Block Grants		1,814		-		-		1,814
HOME Partnership Investment Program		349		-		-		349
Low Rent Public Housing Grants and Loans		122		-		-		122
Housing for Elderly and Disabled		227		-		-		227
Section 235/236		-		5		-		5
All Other		405		-	$	-		405
Total	$	3,017	$	13	$	-	$	3,030

The following chart shows HUD's administrative commitments as of September 30, 2007 (dollars in millions):

	Reservations			
Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance Project-Based	$ 124	$ 39	-	$ 163
Community Development Block Grants	745	-	-	745
HOME Partnership Investment Program	286	-	-	286
Low Rent Public Housing Grants and Loans	61	-	-	61
Housing for Elderly and Disabled	912	-	-	912
Section 235/236	-	25		25
All Other	586	-	$ 1	587
Total	$ 2,714	$ 64	$ 1	$ 2,779

NOTE 24 – EFFECTS of HURRICANES

Multifamily Hurricane Cost

Ginnie Mae guarantees to advance payments of principal and interest on Mortgage Backed Securities (MBS) when the issuer of the pooled mortgages behind the MBS's defaults. Ginnie Mae files the claims for loans defaulted within the defaulted issuer's portfolio to FHA, VA, or RHS. Ginnie Mae has not incurred any losses due to date and does not expect any material future losses.

The effects of Hurricanes Katrina, Rita, and Wilma in 2005 and Hurricanes Ike and Gustav in 2008 resulted in increased funding for the Department for assisting in meeting housing needs of those displaced by the disaster.

The Department continues to provide transitional housing assistance to displaced public housing residents, displaced Section 8 participants, displaced families from other HUD assisted programs, and individuals who were homeless in the disaster affected area prior to Katrina. FHA is providing assistance to affected homeowners through its existing programs.

The following shows the status of budgetary resources information for HUD's programs funded to support disaster relief as of September 30, 2008 (dollars in millions):

	CDBG	Tenant-Based Rental Assistance	Prevention of Resident Displacement	Total
Budgetary Resources				
Unobligated Balance, beginning of period	$ -	$ -	$ 3	$ 3
Recoveries	-	6	2	8
Budget Authority	13,720	-	-	13,720
Spending Authority from Offsetting Collections	-	-	(4)	(4)
Permanently Not Available, Recissions	(377)	-	-	(377)
Total Budgetary Resources	$ 13,343	$ 6	$ 1	$ 13,350
Status of Budgetary Resources				
Obligations Incurred	$ 1,085	$ 6	$ -	$ 1,091
Unobligated Balance, available	8,338	-	1	8,339
Unobligated Balance, not available	3,920	-	-	3,920
Total Status of Budgetary Resources	$ 13,343	$ 6	$ 1	$ 13,350
Change in Obligated Balance				
Obligated Balance, net beginning of period	$ 10,529	$ 105	$ 2	$ 10,636
Obligations Incurred	1,085	5	-	1,090
Gross Outlays	(4,414)	(70)	-	(4,484)
Recoveries	-	(5)	(2)	(7)
Obligated Balance, net end of period	$ 7,200	$ 35	$ -	$ 7,235
Net Outlays	4,414	70	4	4,488

The data below displays cumulative activity by state from program inception. The major recipients are listed individually and the remaining states are grouped together and listed as "other." The obligations incurred and gross outlays shown above represents fiscal year activity. Dollars are in millions.

	Obligations	Outlays	Unliquidated
Florida	$ 285	$ 103	$ 182
Louisiana	11,600	8,180	3,420
Mississippi	5,525	2,487	3,038
Texas	638	200	438
Other	285	109	176
Total	$ 18,333	$ 11,079	$ 7,254

The following shows the status of budgetary resources information for HUD's programs funded to support disaster relief as of September 30, 2007 (dollars in millions):

	CDBG	Tenant-Based Rental Assistance	Prevention of Resident Displacement	Total
Budgetary Resources				
Unobligated Balance, beginning of period	$ 5,256	$ 258	$ 7	$ 5,521
Recoveries	-	-	6	6
Spending Authority from Offsetting Collections	-	-	(10)	(10)
Total Budgetary Resources	$ 5,256	$ 258	$ 3	$ 5,517
Status of Budgetary Resources				
Obligations Incurred	$ 5,256	$ 258	$ -	$ 5,514
Unobligated Balance, available	-	-	1	1
Unobligated Balance, not available	-	-	2	2
Total Status of Budgetary Resources	$ 5,256	$ 258	$ 3	$ 5,517
Change in Obligated Balance				
Obligated Balance, net beginning of period	$ 11,337	$ 22	$ 1	$ 11,360
Obligations Incurred	5,256	258	-	5,514
Gross Outlays	(6,064)	(175)	7	(6,232)
Recoveries	-	-	(6)	(6)
Obligated Balance, net end of period	$ 10,529	$ 105	$ 2	$ 10,636
Net Outlays	6,064	175	3	6,242

The data below displays cumulative activity by state from program inception. The major recipients are listed individually and the remaining states are grouped together and listed as "other." The obligations incurred and gross outlays shown above represents fiscal year activity. Dollars are in millions.

	Obligations	Outlays	Unliquidated
Florida	$ 184	$ 2	$ 182
Louisiana	10,600	4,651	5,949
Mississippi	5,525	1,669	3,856
Texas	638	114	524
Other	150	50	100
Total	$ 17,097	$ 6,486	$ 10,611

NOTE 25 – APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Budgetary resources are usually distributed in an account or fund by specific time periods, activities, projects, objects, or a combination of these categories. Resources apportioned by fiscal quarters are classified as Category A apportionments. Apportionments by any other category would be classified as Category B apportionments.

HUD's categories of obligations incurred were as follows (dollars in millions):

	Category A	Category B	Exempt From Apportionment	Total
2008				
Direct	$ 1,481	$ 55,484	$ -	$ 56,965
Reimbursable	-	753	-	753
	$ 1,481	$ 56,237	$ -	$ 57,718
2007				
Direct	$ 1,265	$ 57,674	$ -	$ 58,939
Reimbursable	11	318	-	329
	$ 1,276	$ 57,992	$ -	$ 59,268

NOTE 26 – EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT

The President's Budget containing actual FY 2008 data is not available for comparison to the Statement of Budgetary Resources. Actual FY 2008 data will be available in the Appendix to the Budget of the United States Government, fiscal year 2009.

For fiscal year 2007, an analysis to compare HUD's Statement of Budgetary Resources to the President's Budget of the United States was performed to identify any differences.

The following shows the difference between Budgetary Resources reported in the Statement of Budgetary Resources and the President's Budget for fiscal year 2007 (dollars in millions):

	Budgetary Resources	Obligations Incurred	Net Outlays
Combined Statement of Budgetary Resources	$106,472	$59,268	$46,751
Difference #1 - Offsetting receipts	0	0	2,808
Difference #2 - Resources related to HUD's expired accounts not reported in the President's Budget	(456)	(16)	0
Difference #3 - Rounding	2	(3)	4
Difference #4 - Transfer of negative subsidy to GNMA Reserve Receipt account	0	0	193
Difference #5 - Adjustment of GNMA's Financing and Liquidating accounts FY 2007 ending balances	0	0	0
United States Budget	$106,018	$59,249	$49,756

NOTE 27 – RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

This note (formerly the Statement of Financing) links the proprietary data to the budgetary data. Most transactions are recorded in both proprietary and budgetary accounts. However, because different accounting bases are used for budgetary and proprietary accounting, some transactions may appear in only one set of accounts. The Reconciliation of Net Cost of Operations to Budget is as follows for the periods ending September 30, 2008 and 2007.

	2008	2007
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 57,718	$ 59,268
Spending Authority from Offsetting Collections and Recoveries	(19,409)	(16,631)
Obligations Net of Offsetting Collections	$ 38,309	$ 42,637
Offsetting Receipts	(1,541)	(2,807)
Net Obligations	$ 36,768	$ 39,830
Other Resources		
Transfers In/Out Without Reimbursement	$ (32)	$ (843)
Imputed Financing from Costs Absorbed by Others	111	97
Other Resources	(20)	(10)
Net Other Resources Used to Finance Activites	$ 59	$ (756)
Total Resources Used to Finance Activities	$ 36,827	$ 39,074
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods/Services/Benefits Ordered but not Provided	$ 8,423	$ 6,904
Credit Program Resources not Included in Net Cost (Surplus) of Operations	16,836	14,067
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	(15,522)	(11,582)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ 9,737	$ 9,389
Total Resources Used to Finance the Net Cost of Operations	$ 46,564	$ 48,463
Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period		
Upward/Downward Reestimates of Credit Subsidy Expense	$ 11,499	$ 4,038
Increase in Exchange Revenue Receivable from the Public	(373)	(429)
Change in Loan Loss Reserve	(192)	(127)
Changes in Bad Debt Expenses Related to Credit Reform Receivables	(44)	(9)
Modifications	(1,047)	(1,032)
Other	747	130
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	$ 10,590	$ 2,571
Net Cost of Operations	$ 57,154	$ 51,034

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

INTRODUCTION

This section provides information on resources entrusted to HUD that do not meet the criteria for information required to be reported or audited in HUD's financial statements but are, nonetheless, important to understand HUD's operations and financial conditions. The stewardship objective requires that HUD report on the broad outcomes of its actions associated with these resources. Such reporting will provide information that will help report users assess the impact of HUD's operations and activities.

HUD's stewardship reporting responsibilities extend to the investments made by a number of HUD programs in Non-Federal Physical Property, Human Capital, and Research and Development. Due to the relative immateriality of the calculations and in the application of the related administrative costs, most of the amounts reported below reflect direct program costs only. The investments addressed in this section are attributable to programs administered through the following divisions/departments:

- Community Planning and Development (CPD),
- Public and Indian Housing (PIH),
- Policy Development and Research (PD&R), and
- Healthy Homes and Lead Hazard Control (HHLHC).

OVERVIEW OF HUD'S MAJOR PROGRAMS

CPD seeks to develop viable communities by promoting integrated approaches that provide decent housing, a suitable living environment, and expanded economic opportunities for low and moderate-income persons. HUD makes stewardship investments through the following CPD programs:

- **Community Development Block Grants (CDBG)** are provided to state and local communities, which use these funds to support a wide variety of community development activities within their jurisdiction. These activities are designed to benefit low and moderate-income persons, aid in the prevention of slums and blight, and meet other urgent community development needs. State and local communities use the funds as they deem necessary, as long as the use of these funds meet at least one of these objectives. A portion of the funds supports the acquisition or rehabilitation of property owned by state and local governments, while other funds help to provide employment and job training to low and moderate-income persons.
- **Disaster Grants** help state and local governments recover from major natural disasters. A portion of these funds can be used to acquire, rehabilitate, construct or demolish physical property.
- **Housing Investment Partnership (HOME)** provides formula grants to states and localities (used often in partnership with local nonprofit groups) to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for low-income persons.

- **YouthBuild** grants assist young individuals to obtain education, employment skills, and meaningful work experience in the construction trade, enabling them to become more productive and self-sufficient.

PIH ensures safe, decent, and affordable housing, creates opportunities for residents' self-sufficiency and economic independence, and assures the fiscal integrity of all program participants. HUD makes stewardship investments through the following PIH programs:

- **The Public Housing (PH) Capital Fund** provides grants to Public Housing Agencies (PHAs) to improve the physical conditions and to upgrade the management and operation of existing public housing.
- **HOPE VI Revitalization Grants (HOPE VI)** are provided to support the improvement of the living environment of public housing residents in distressed public housing units. Some investments support the acquisition, construction or rehabilitation of property owned by the PHA, state or local governments, while others help to provide education and job training to residents of the communities targeted for rehabilitation.
- **Indian Housing Block Grants (IHBG)** provide funds needed to allow tribal housing organizations to maintain existing units and to begin development of new units to meet their critical long-term housing needs.
- **Indian Community Development Block Grants (ICDBG)** provide funds to Indian organizations to develop viable communities, including decent housing, a suitable living environment, and economic opportunities, principally for low and moderate-income recipients.

PD&R's stewardship responsibilities include maintaining current information to monitor housing needs and housing market conditions, and to support and conduct research on priority housing and community development issues.

HUD makes stewardship investments through the following programs:

- **Community Development Work Study (CDWS):** Colleges and universities throughout the United Sates use this program to offer financial aid and work experience to students enrolled in a full-time graduate program in community development or a closely related field such as urban planning, public policy, or public administration.
- **Partnership for Advancing Technology in Housing (PATH)** is a public/private sector initiative which seeks to expand the development and utilization of new technologies in order to make American homes stronger, safer, and more durable; more energy efficient and environmentally friendly; easier to maintain and less costly to operate; and more comfortable and exciting to live in. PATH links key agencies in the federal government with leaders from the home building, product manufacturing, insurance, financial, and regulatory communities in a unique partnership focused on technological innovation in the American housing industry.

The **HHLHC** program seeks to eliminate childhood lead poisoning caused by lead-based paint hazards and to address other childhood diseases and injuries, such as asthma, unintentional injury, and carbon monoxide poisoning, caused by substandard housing conditions.

- **Lead Technical Assistance Division,** in support of the departmental Lead Hazard Control program, establishes and coordinates lead-based paint regulations and policy, and supports compliance assistance and enforcement. These programs also support technical assistance and the conduct of technical studies and demonstrations to identify innovative methods to create lead-safe housing at reduced cost. In addition, these programs are designed to increase the awareness of lead professionals, parents, building owners, housing and public health professionals, and others with respect to lead-based paint and related property-based health issues.

RSSI REPORTING - HUD'S MAJOR PROGRAMS

Non-Federal Physical Property

Investment in Non-Federal Physical Property: Non-Federal physical property investments support the purchase, construction, or major renovation of physical property owned by state and local governments. These investments support HUD's strategic goals, which are to increase the availability of decent, safe, and affordable housing in American communities; improve community quality of life and economic vitality; and ensure public trust in HUD. The following table summarizes material program investments in Non-Federal Physical Property. Additional information regarding the following programs' contributions to HUD's goals may be found in Section II of this report.

Investments in Non-Federal Physical Property
Fiscal Year 2004 - 2008
(Dollars in millions)

Program	2004	2005	2006	2007	2008
CPD					
CDBG	$1,193	$1,175	$1,170	$1,262	$1,284
Disaster Grants (1)	$114	$40	$299	$120	$169
HOME	$26	$44	$30	$38	$54
PIH					
ICDBG	$58	$71	$68	$58	$56
IHBG (2)	$412	$326	$321	$267	$234
HOPE VI	$127	$157	$72	$95	$97
PH Capital Fund	$1,758	$1,289	$1,340	$1,793	$1,786
TOTAL	**$3,688**	**$3,102**	**$3,299**	**$3,631**	**$3,679**

Notes:
1. *Amount reported for fiscal year 2008 represents 9 months of data.*
2. *Office of Native American Programs (ONAP) Performance Tracking Database has updated the figures for fiscal years 2004 – 2007.*

Human Capital

Investment in Human Capital: Human Capital investments support education and training programs that are intended to increase or maintain national economic productive capacity. These investments support HUD's strategic goals, which are to promote self-sufficiency and asset development of families and individuals; improve community quality of life and economic vitality; and ensure public trust in HUD. The table below summarizes material program investments in Human Capital, for fiscal years 2004 through 2008. Additional information regarding the following programs' contributions to HUD's goals may be found in Section II of this report.

Investments in Human Capital
Fiscal Year 2004 - 2008
(Dollars in millions)

INVESTMENT IN HUMAN CAPITAL					
Program	**2004**	**2005**	**2006**	**2007**	**2008**
CPD					
CDBG	$26	$28	$4	$23	$32
Youthbuild	$21	$22	$22	$23	$19
PIH					
HOPE VI	$10	$13	$6	$8	$8
PD&R					
CDWS (3)	$3	$3	$0	$0	$0
OHHLHC					
Lead Technical Assistance (4)	$0	$0	$0	$0	$0
TOTAL	**$60**	**$66**	**$31**	**$54**	**$60**

Notes:

3. *Congress did not fund the CDWS in FY 2008.*
4. *Congress did not fund the Lead Technical Assistance program in FY 2008.*

Results of Human Capital Investments: The following table presents the results (number of people trained) of human capital investments made by HUD's CPD, PD&R, and HHLHC programs:

Results of Investments in Human Capital
Number of People Trained
Fiscal Year 2004 - 2008

Program	**2004**	**2005**	**2006**	**2007**	**2008**
CPD					
CDBG	131,653	122,578	79,833	52,277	60,498
Youthbuild	3,508	4,366	3,929	3,103	2,987
PIH					
Hope VI (*see table below*)					
PD&R					
CDWS (4)	99	108	0	0	0
OHHLHC					
Lead Technical Assistance (5)	0	0	0	0	400
TOTAL	**135,260**	**127,052**	**83,762**	**55,380**	**63,885**

HOPE VI Results of Investments in Human Capital: Since the inception of the HOPE VI program in fiscal year 1993, the program has made significant investments in Human Capital related initiatives (i.e., education and training). The following table presents HOPE VI's key cumulative performance information for fiscal years 2007 and 2008, since the program's inception.

Key Results of HOPE VI Program Activities
Fiscal Year 2007 and 2008

HOPE VI Service	2007 Enrolled	2007 Completed	% Completed	2008 Enrolled	2008 Completed	% Completed
Employment Preparation, Placement, & Retention	72,890	N/A	N/A	71,727	N/A	N/A
Job Skills Training Programs	29,777	16,205	54%	29,821	15,992	54%
High School Equivalent Education	15,305	4,272	28%	15,593	4,631	30%
Entrepreneurship Training	3,229	1,304	40%	3,394	1,459	43%
Homeownership Counseling	14,252	6,533	46%	14,450	6,086	42%

Research and Development

Investments in Research and Development: Research and development investments support (a) the search for new knowledge, and (b) the refinement and application of knowledge or ideas, pertaining to development of new or improved products or processes. Research and development investments are intended to increase economic productive capacity or yield other future benefits. As such, these investments support HUD's strategic goals, which are to increase the availability of decent, safe, and affordable housing in America communities; and ensure public trust in HUD.

The following table summarizes HUD's research and development investments. Additional information regarding the following programs' contributions to HUD's goals may be found in Section II of this report.

Investments in Research and Development
Fiscal Year 2004 - 2008
(Dollars in millions)

Program	2004	2005	2006	2007	2008
PD&R					
PATH (5)	$8	$8	$5	$0	$0
OHHLHC					
Lead Hazard Control	$6	$5	$11	$5	$4
TOTAL	**$14**	**$13**	**$16**	**$5**	**$4**

Note:
5. *PATH did not receive any appropriation in FY 2008.*

Results of Investments in Research and Development: In support of HUD's lead hazard control initiatives, the HHLHC program has conducted various studies. As indicated in the following table, such studies have contributed to an overall reduction in the per-housing unit cost of lead hazard evaluation and control efforts. These studies have also lead to the identification of the prevalence of related hazards.

Per-Housing Unit Cost of Lead Hazard Evaluation and Control
Fiscal Year 2004 – 2008

Program	2004	2005	2006	2007	2008
OHHLHC					
Lead Hazard Control	$4,577	$6,650	$4,926	$4,900	$5,570
TOTAL	**$4,577**	**$6,650**	**$4,926**	**$4,900**	**$5,570**

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Intragovernmental Balances

HUD's Intragovernmental amounts represent transactions with other federal entities included in the government's annual report. These transactions include assets, liabilities and earned revenues as follows:

September 30, 2008
(dollars in millions):

Intragovernmental Assets:

Trading Partner	Fund Balance	Accounts Receivable	Investments	Other Assets	Total
Department of Treasury	$ 85,539	$ -	$ 28,544	$ 1	$ 114,084
Department of Commerce	-	-	-	$ 18	$ 18
Department of Justice	-	-	-	3	$ 3
Total	$ 85,539	$ -	$ 28,544	$ 22	$ 114,105

Intragovernmental Liabilities:

Trading Partner	Accounts Payable	Debt	Other	Total
Department of Treasury		$ 5,608	$ 1,625	$ 7,233
General Services Administration	$ 10			$ 10
Other Agencies	1	-	30	31
Total	11	$ 5,608	$ 1,655	$ 7,274

Intragovernmental Earned Revenues and Related Costs:

Trading Partner	Earned Revenue
Department of Treasury	$ 2,033
Other Agencies	8
Total	$ 2,041

Budget Functional Classification	Gross Cost to Generate Revenue
Commerce and Housing Credit	$ -
Community and Regional Dev	-
Income Security	-
Total	$ -

September 30, 2007
(dollars in millions):

Intragovernmental Assets:

Trading Partner	Fund Balance	Accounts Receivable	Investments	Other Assets	Total
Department of Treasury	$ 69,046	$ -	$ 31,270	$ -	$ 100,316
Department of Commerce	-	-	-	$ 16	$ 16
Department of Justice	-	-	-	10	$ 10
Total	$ 69,046	$ -	$ 31,270	$ 26	$ 100,342

Intragovernmental Liabilities:

Trading Partner	Accounts Payable	Debt	Other	Total
Department of Treasury	$ -	$ 5,459	$ 3,763	$ 9,222
General Service Administration	$ 5			$ 5
Other Agencies	-	-	45	45
Total	-	$ 5,459	$ 3,808	$ 9,272

Intragovernmental Earned Revenues and Related Costs:

Trading Partner	Earned Revenue
Department of Treasury	$ 1,895
Other Agencies	(7)
Total	$ 1,888

Budget Functional Classification	Gross Cost to Generate Revenue
Commerce and Housing Credit	$ -
Community and Regional Dev	-
Income Security	-
Total	$ -

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

INDEPENDENT AUDITOR'S REPORT[1]

To the Secretary,
U.S. Department of Housing and Urban Development:

In accordance with the Chief Financial Officers (CFO) Act of 1990, the Department has prepared the accompanying consolidated balance sheets of the Department of Housing and Urban Development (HUD) as of September 30, 2008 and 2007 and the related consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources for the fiscal years then ended. We are required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994 and implemented by Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements,* to audit HUD's principal financial statements or select an independent auditor to do so. The objective of our audit was to express an opinion on the fair presentation of these principal financial statements.

With respect to the fiscal years 2008 and 2007 financial statements, we did not audit the financial statements of the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae) for the periods ending September 30, 2008 and 2007, whose statements reflected total assets constituting 42 and 46 percent, respectively, of the related consolidated totals. Other independent auditors, whose reports have been furnished to us, audited those statements and our opinion on the fiscal year 2008 and 2007 financial statements, insofar as it relates to the amounts included for FHA and Ginnie Mae as of September 30, 2008 and 2007, is based solely on the reports of the other auditors. In connection with our audit, we also considered HUD's internal control over financial reporting and tested HUD's compliance with certain provisions of applicable laws, regulations, government-wide policy requirements, as well as certain provisions of contracts and grant agreements that could have a direct and material effect on its principal financial statements.

1 This report is supplemented by a separate report issued by HUD-OIG to provide a more detailed discussion of the internal control and compliance issues and to provide specific recommendations to HUD management. The report is available at the HUD, OIG Internet site at http://www.hud.gov/oig/oigindex.html and is titled: Additional Details to Supplement Our Report on HUD's Fiscal Years 2008 and 2007 Financial Statements (2009-FO-0003, dated November 14, 2008).

Opinion on the Fiscal Years 2008 and 2007 Financial Statements

In our opinion, based on our audit and the reports of other auditors, for the accompanying fiscal years 2008 and 2007, the principal financial statements present fairly, in all material respects, the financial position of HUD as of September 30, 2008 and 2007 and its net costs, changes in net position, and budgetary resources for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

As reported by FHA's auditor, the FHA Single Family Insurance Program is reported under the Federal Credit Reform Act of 1990. The act's objective is to estimate the program interest subsidy costs on a present value basis and to recognize the current budgetary impact during the life of the long-term mortgage assets rather than upon the actual future termination or default of the loans. To ensure the safety and soundness of FHA's Mutual Mortgage Insurance Fund, Congress enacted the Cranston-Gonzales National Affordable Housing Act of 1990 that required FHA to maintain a capital ratio of at least 2 percent. As reported by management, in Note 6 to FHA's Principal Financial Statements[2], an independent actuarial study found that the capital ratio has dropped from 6.4 percent in fiscal year 2007 to 3.0 percent at the end of fiscal year 2008. This FHA study used independent macroeconomic forecast data as of June 2008 as well as certain management assumptions to estimate the economic value of the fund. Based on these assumptions, the study projects the capital ratio will decline slightly through fiscal year 2011, but remain slightly above 2.0 percent, before beginning to increase through fiscal year 2015. These projections are profoundly sensitive to macroeconomic data forecasts and several alternative projections using more pessimistic assumptions, including higher loss rates on foreclosed properties and the continued use of seller–funded down payment assistance, show the capital ratio dropping below 2.0 percent in future years. The dramatic deterioration in the macroeconomic environment during the third and fourth quarters of 2008 may further contribute to even more pessimistic economic value estimates that could deteriorate the future financial condition of the fund resulting in a violation of the statutory capital ratio.

The other auditors and our audit also disclosed the following significant deficiencies in internal controls related to the need to:

[2] Urbach Kahn and Werlin LLP's report on FHA, Audit of Federal Housing Administration Financial Statements for Fiscal Years 2008and 2007 (2009-FO-0002, dated November 07, 2008).

- Continue improvements in the oversight and monitoring of subsidy calculations and intermediaries program performance to promote full utilization of Housing Choice Voucher funds;
- Improve the processes for reviewing obligation balances;
- Comply with federal financial management systems requirements;
- Further strengthen controls over HUD's computing environment;
- Improve personnel security practices for access to the Department's critical financial systems;
- Continue to enhance and modernize FHA's financial information systems; and
- Strengthen Ginnie Mae's monitoring and management controls in regard to the mortgage-backed security program.

Most of these control weaknesses were reported in prior efforts to audit HUD's financial statements and some represent long-standing challenges. Our findings also include the following instances of non-compliance with applicable laws and regulations, government-wide policy requirements, and provisions of contract and grant agreements that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin 07-04.

- HUD did not substantially comply with the Federal Financial Management Improvement Act regarding system requirements;
- HUD did not substantially comply with the Anti-deficiency Act;
- FHA did not fully comply with the Credit Reform Act of 1990; and
- Ginnie Mae did not comply with the Federal Information Management Security Act.

The audit also identified $122.9 million in excess obligations recorded in HUD's records. We also are recommending that HUD seek legislative authority to implement $1.4 billion in offsets against Public Housing Agencies' excess unusable funding held in Net Restricted Assets Accounts. These amounts represent funds that HUD could put to better use.

Consolidating Financial Information

We conducted our audit for the purpose of forming an opinion on the consolidated principal financial statements taken as a whole. HUD has presented consolidating balance sheets and related consolidating statements of net costs and changes in net position, and combining statements of budgetary resources as supplementary information in its *Fiscal Year 2008 Performance and Accountability Report.* The consolidating and combining financial information is presented for purposes of additional analysis of the financial statements rather than to present the financial position, changes in net position, budgetary resources, and net costs of HUD's major activities. The consolidating and combining financial information is not a required part of the principal financial statements. The fiscal year 2008 and 2007 financial information has been subjected to the auditing procedures applied to the principal financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Required Supplementary Information

In its *Fiscal Year* 2008 *Performance and Accountability Report,* HUD presents "Required Supplemental Stewardship Information" and "Required Supplementary Information." The Required Supplemental Stewardship Information presents information on investments in non-Federal physical property and human capital and investments in research and development. In the Required Supplementary Information, HUD provides a schedule of intragovernmental balances. In addition, HUD presents a "Management Discussion and Analysis of Operations". This information is not a required part of the basic financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular A-136. We did not audit and do not express an opinion on this information; however, we applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information.

Additional details on the other auditors' and our findings regarding HUD's internal controls are summarized below and were provided in separate reports to HUD management. These additional details also augment the discussions of instances in which HUD had not complied with applicable laws and regulations, the information regarding our audit objectives, scope, and methodology, and recommendations to HUD management resulting from our audit.

Significant Deficiencies

HUD Management Must Continue to Improve Oversight and Monitoring of Subsidy Calculations and Intermediaries' Program Performance and Promote Full Utilization of Housing Choice Voucher Funds

Since 1996, we have reported on weaknesses with the monitoring of the housing assistance programs' delivery and the verification of subsidy payments. We focused on the impact these weaknesses had on HUD's ability to (1) ensure intermediaries are correctly calculating housing subsidies and (2) verify tenant income and billings for subsidies. During the past several years, HUD has made progress in correcting this deficiency and HUD's increased and improved monitoring has resulted in a significant decline in improper payment estimates over the last six years. However, HUD needs to continue to place emphasis on its on-site monitoring and technical assistance to ensure that acceptable levels of performance and compliance are achieved and periodically assess the accuracy of intermediaries rent determinations, tenant income verifications, and billings.

In our fiscal year 2008 review of the Housing Choice Voucher program, we also noted that housing agencies have accumulated $1.9 billion in funds in a Net Restricted Asset Account, of which $1.4 billion has been categorized as unusable to the housing agencies. Housing agencies have experienced a decline in utilization rates of both vouchers and funds since a change from unit based to budget based funding in fiscal year 2005. HUD has not successfully implemented the needed monitoring activities to ensure that the Housing Choice Voucher program resources are used to maximize the number of low income families being served.

HUD Needs to Improve Processes for Reviewing Obligation Balances
HUD needs to improve controls over the monitoring of obligation balances to ensure they remain needed and legally valid as of the end of the fiscal year. HUD's procedures for identifying and deobligating funds that are no longer needed to meet its obligations were not always effective. This has been a long-standing weakness. Our review of the 2008 year-end obligation balances showed $ 122.9 million in excess funds that could be recaptured. We have been reporting deficiencies in this area for several years and while HUD has been working to implement improved procedures and information systems, progress has been slow.

HUD Financial Management Systems Need to Comply with Federal Financial Management System Requirements. As reported in prior years, HUD has not completed development of an adequate integrated financial management system. HUD is required to implement a unified set of financial systems and the financial portions of mixed systems. This encompasses the software, hardware, personnel, processes (manual and automated), procedures, controls, and data necessary to carry out financial management functions, manage financial operations of the agency, and report on the agency's financial status to central agencies, Congress, and the public. As currently configured, HUD financial management systems do not meet the test of being unified, meaning that the systems are not planned for and managed together, operated in an integrated fashion, and linked electronically to efficiently and effectively provide agency-wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.

Controls over HUD's Computing Environment Can Be Further Strengthened. HUD's computing environment, data centers, networks, and servers provide critical support to all facets of the Department's programs, mortgage insurance, servicing, and administrative operations. In prior years, we reported on various weaknesses with general system controls and controls over certain applications, as well as weak security management. These deficiencies increase risks associated with safeguarding funds, property, and assets from waste, loss, unauthorized use, or misappropriation. We evaluated selected information system general controls of the Department's computer systems on which HUD's financial systems reside. Our review found information systems control weaknesses that could negatively affect the integrity, confidentiality, and availability of computerized data.

Weak Personnel Security Practices Continue to Pose Risks of Unauthorized Access to the Department's Critical Financial Systems. For several years, HUD's personnel security practices over access to critical and sensitive systems have been inadequate and, therefore, the risk of unauthorized access to HUD's financial systems remains a critical issue. OIG followed up on previously reported information technology personnel security weaknesses and found that deficiencies still exist. HUD has no assurance that all users who have access to HUD critical and sensitive systems have had the appropriate background investigation.

FHA Needs to Continue to Enhance and Modernize its financial information systems. FHA continues to make progress improving its overall financial system control environment despite limited systems resources. Efforts to implement newly legislated HUD and FHA programs have increased the demand on these resources. This may further reduce FHA's ability to address various system initiatives and control deficiencies affecting the reliability of FHA's financial information. We recommend FHA management work with the HUD Secretary and CIO to conduct a risk assessment of the various systems initiatives in connection with the OCIO Strategic Plan and ensure HUD IT resources are appropriately allocated to address the Department's and FHA's highest system priorities.

Ginnie Mae Should Improve Programs Compliance and Controls Regarding Monitoring of Issuers. Ginnie Mae needs to strengthen monitoring in the mortgage-backed securities program. Improvements are needed to (1) assure more effective follow up of the automated matching process with insurer loan data to minimize the risk for issuer default and (2) segregate the issuer approval and issuer monitoring functions within

Ginnie Mae to enhance oversight and to provide independent management control of the mortgage-backed securities program.

Compliance with Laws and Regulations

HUD Did Not Substantially Comply with the Federal Financial Management Improvement Act. In its *Fiscal Year 2008 Performance and Accountability Report*, HUD reports that 2 of its 42 financial management systems do not comply with the requirements of the Federal Financial Management Improvement Act and OMB Circular A-127, *Financial Management Systems*. Even though 40 individual systems have been certified as compliant with federal financial management systems requirements, collectively and in the aggregate, deficiencies still exist.

HUD did not comply with the OMB Circular A -127 financial system assessment requirement. HUD did not complete any of the planned 2007 and 2008 independent reviews of its current financial management systems to verify compliance with financial system requirements, identify system and procedural weaknesses, and develop corrective actions to address identified weaknesses. Additionally, HUD only completed four independent reviews that were planned in 2006. HUD is required to perform reviews of all HUD financial management systems within a three year cycle.

We continue to report as significant deficiencies that (1) *Controls over HUD's Computing Environment Can Be Further Strengthened and (2) Weak Personnel Security Practices Continue to Pose Risks of Unauthorized Access to the Department's Critical Financial Systems.* These significant deficiencies discuss how weaknesses with general controls and certain application controls, and weak security management increase risks associated with safeguarding funds, property, and assets from waste, loss, unauthorized use or misappropriation.

Also, OIG audit reports have disclosed that security over financial information was not provided in accordance with OMB Circular A-130 *Management of Federal Information Resources*, Appendix III and the Federal Information Security Management Act.

HUD Did Not Substantially Comply with the Anti-Deficiency Act HUD's Office of the Chief Financial Officer (OCFO) is not conducting, completing, reporting and closing the investigation of potential Anti-Deficiency Act violations in a timely manner and has not created timeframes for the conduct and completion of the investigations of potential Anti-Deficiency Act violations, as required by the FY 2003

Appropriation Act, Public Law 108-7, Title II – Department of Housing and Urban Development. Additionally, the OCFO has not reported known violations immediately to the President through OMB, Congress, nor GAO, as required by the Anti-Deficiency Act.

FHA Does Not Comply with the Credit Reform Act of 1990. Due to deficiencies within certain system interfaces, the FHA's core financial management system does not maintain accurate trial balance account information at the cohort level for the financing accounts in accordance with the Credit Reform Act of 1990. These balances are adjusted manually at the end of the year.

Ginnie Mae Does Not Comply with the Federal Information Security Management Act. The Act requires Ginnie Mae to implement agency-wide information security program to provide information security for the information systems that support the operations and assets of the agency including those provided or managed by a contractor. The IPA's review found Ginnie Mae lacks assurance that critical information technology general control elements for the Integrated Portfolio Management System (IPMS), which is managed and controlled by a Ginnie Mae contractor, are working effectively to reduce agency information system risks.

Results of the Audit of FHA's Financial Statements

The independent certified public accounting firm of Urbach Kahn and Werlin LLP performed a separate audit of FHA's fiscal years 2008 and 2007 financial statements. Their report on FHA's financial statements, dated November 7, 2008[3] includes an unqualified opinion on FHA's financial statements, along with discussion one significant deficiency in internal controls and two instances of non-compliance with laws and regulations.

Results of the Audit of Ginnie Mae's Financial Statements

The independent certified public accounting firm of Carmichael, Brasher, Tuvell and Company performed a separate audit of the Ginnie Mae's fiscal years 2008 and 2007 financial statements. Carmichael, Brasher, Tuvell and Company's report on Ginnie Mae's financial statements, dated

[3] Urbach Kahn and Werlin LLP's report on FHA, Audit of Federal Housing Administration Financial Statements for Fiscal Years 2008 and 2007 (2009-FO-0002, dated November 7, 2008) was incorporated into this report.

November 7, 2008,[4] includes an unqualified opinion on these financial statements. In addition, the audit results indicate there was one significant deficiency with Ginnie Mae's internal controls and one instance of non-compliance with laws and regulations.

Objectives, Scope and Methodology

The accompanying principal financial statements are the responsibility of HUD management. Our responsibility is to express an opinion on these principal financial statements. As part of our audit, we considered HUD's internal controls over financial reporting by obtaining an understanding of the design effectiveness of internal controls, determined whether they have been placed in operation, assessed control risks, and performed tests of the reporting entity's internal controls to determine our audit procedures for the purpose of expressing our opinion on the principal financial statements and not to provide assurance on those internal controls. Consequently, we do not provide an opinion on internal controls. We conducted our audit in accordance with *Government Auditing Standards*, and the requirements of OMB Bulletin 07-04 as amended. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

We also tested HUD's compliance with laws, regulations, government-wide policies, and provisions of contract and grant agreements that could have a direct and material effect on the financial statements. However, our consideration of HUD's internal controls and our testing of its compliance with laws, regulations, government-wide policies, and provisions of contract and grant agreements were not designed to and did not provide sufficient evidence to express an opinion on such matters and would not necessarily disclose all matters that might be material weaknesses, significant deficiencies or noncompliance with laws, regulations, government-wide policies, and provisions of contract and grant agreements. Accordingly, we do not express an opinion on HUD's internal controls or on its compliance with laws, regulations, government-wide policies, and provisions of contract and grant agreements.

[4] Carmichael, Brasher, Tuvell and Company's report on Ginnie Mae, Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2008 and 2007 (2009-FO-0001, dated November 7, 2008) was incorporated into this report.

With respect to internal controls related to performance measures to be reported in the Management's Discussion and Analysis and HUD's *Fiscal Year 2008 Performance and Accountability Report*, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as described in Section 230.5 of OMB Circular A-11 *Preparation, Submission and Execution of the Budget*. We performed limited testing procedures as required by AU Section 558 *Required* Supplementary *Information* and OMB Bulletin 07-04 *Audit Requirements for Federal Financial Statements, as amended.* Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion on such controls.

Agency Comments and Our Evaluation

On October 30, 2008, we provided a draft of the internal control and compliance sections of our report to the CFO and appropriate assistant secretaries and other Departmental officials for review and comment, and requested that the CFO coordinate a Department-wide response. The CFO responded in a memorandum dated November 5, 2008, which is included in its entirety in our separate report. The Department's response was considered in preparing the final version of this report.

This report is intended for the information and use of the management of HUD, OMB, the Government Accountability Office, and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited. In addition to a separate report detailing the internal control and compliance issues included in this report and providing specific recommendations to HUD management, we noted other matters involving internal control over financial reporting and its operation that we are reporting to HUD management in a separate "management letter."

James A. Heist

James A. Heist
Assistant Inspector General for Audit

November 14, 2008

SECRETARY'S AUDIT RESOLUTION REPORT TO CONGRESS

This information on the Department of Housing and Urban Development's audit resolution and follow-up activity covers the period October 1, 2007, through September 30, 2008. It is required by Section 106 of the Inspector General Act Amendments (Public Law 100-504), and provides information on the status of audit recommendations without management decisions and recommendations with management decisions, but no final action. The report also furnishes statistics on the total number of audit reports and dollar value of disallowed costs for FY 2008, and statistics on the total number of audit reports and dollar value of recommendations that funds be put to better use.

Audit Resolution Highlights

During FY 2008, the Department completed 1,055 approved management decisions and successfully implemented 922 recommendations. The Department also made good progress in reducing its inventory of significantly overdue final actions, which are those recommendations greater than 12 months overdue. On October 1, 2007, the Department identified a combined total of 70 recommendations that were, or could have become, significantly overdue by September 30, 2008. In February, two recommendations were reopened, increasing this total to 72 recommendations. This inventory was reduced significantly and the Department ended the year with three significantly overdue recommendations. This achievement was the result of a multi-year and concerted Department-wide effort to address and prevent overdue recommendations.

Recommendations Without Management Decisions

The Department is statutorily required to provide a management decision (an action plan with milestones) for each audit recommendation within 6 months of report issuance by the Inspector General.

At the beginning of FY 2008, there were a total of 327 recommendations without a management decision. During the year, 1,098 recommendations requiring management decisions were added to our active workload, and management decisions were made on a total of 1,055 recommendations. FY 2008 ended with 369 recommendations not yet overdue for management decisions and just one recommendation beyond the statutory period of six months.

Summary of Recommendations Without Management Decisions
October 1, 2007 – September 30, 2008

Opening Inventory Requiring Decisions	327
New Audit Recommendations Requiring Decisions	1098
Management Decisions Already Made	(1055)
Audit Recommendations Awaiting Management Decision	369
Recommendation Beyond Statutory Resolution Period	1

Recommendations With Management Decision, But No Final Action Taken

The Department began the year with an inventory of 1,049 management decisions requiring final action. During the year, 1,055 additional management decisions were made and the Department completed final action on a total of 922 recommendations. The total number of audit recommendations with management decisions, but final actions not yet completed at the end of the year was 1,182. Of these 1,182 recommendations, 112 were under active multi-year repayment plans that remain open until the collection activities are completed.

At the beginning of FY 2008, the Department established a performance goal for each program office within HUD to address the balance of final actions that would be more than 12 months overdue at the close of the fiscal year. During FY 2008, 72 actions were identified as needing resolution. The Department successfully addressed 69 of the 72, leaving three final actions that were more than 12 months overdue, however short of our goal to have no final actions more than 12 months overdue. These three actions are projected to be completed by the close of the calendar year.

Summary of Recommendations With Management Decisions and No Final Action October 1, 2007 – September 30, 2008

Opening Inventory – Final Actions Pending	1049[1]
Management Decisions Made During Report Period	1055
Sub-Total No Final Action at End of Period	2104
Final Actions Taken	(922)
Audit Recommendations Reopened During Period (Without Final Actions)	0
Total Audit Recommendations Still Requiring Final Actions	1182[2]

[1]The opening balance was increased from 1,048 to 1,049 due to an audit being reopened.

[2]The Department had 64 audit reports with 112 recommendations under current repayment plans. These recommendations are considered open and count in the audit inventory until final repayment is made.

Status of Audits With Disallowed Costs

As of October 1, 2007, there were 202 audits with management decisions on which final action had not been taken, with a dollar value of disallowed costs totaling approximately $331.8 million. During FY 2008, management decisions were made for 107 audits with disallowed costs totaling approximately $248.5 million. The Department had 80 audits in which final action was taken during the fiscal year, with approximately $52.8 million in recoveries and $29.2 million in write-offs. As of September 30, 2008, there were 229 audit reports with recommendations involving disallowed costs awaiting final action, with an associated value of approximately $498.4 million.

The Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total disallowed costs in the report are reported as open until all recommendations in a report are closed. When reporting is done at the more detailed recommendation level, the $498.4 million of disallowed costs awaiting final action are reduced by approximately $110.9 million leaving a balance of approximately $387.4 million. (See the notation below corresponding to footnote 5.)

Management Report on Final Actions on Audits With Disallowed Costs
For the Fiscal Year Ended 9/30/08

Classification	Number of Audit Reports	Disallowed Costs
A. Audit Reports with management decisions on which final action had not been taken at the beginning of the period.	202[1]	331,830,811
B. Audit Reports on which management decisions were made during the period.	107	248,526,130
C. Total audit reports pending final action during period (total of A and B)	309	580,356,941
D. Audit Reports on which final action was taken during the period		
1. Recoveries	65[2]	52,778,353
(a) Collections and offsets	56	48,864,688
(b) Property	0	0
(c) Other	14	3,913,665
2. Write-offs	40	29,183,376
3. Total of 1 and 2	80[3]	81,961,729
E. Audit Reports needing final action at the end of the period (subtract D3 from C)	229[4]	498,395,212
F. Open Recommendations (with disallowed costs): (subtract D3 from C)	(481)[5]	($387,470,149)

[1] The opening balance was increased from 201 to 202 due to an audit that was reopened.
[2] Audit Reports are duplicated in D.1.(a), D.1.(b) and D.1.(c); thus the total is reduced by 5.
[3] Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 25.
[4] Litigation, legislation, or investigation is pending for 28 audit reports with costs totaling $104,975,140.
[5] The figures in brackets represent data at the recommendation level as compared to the report level.

Status of Audits With Recommendations That Funds Be Put to Better Use

At the beginning of FY 2008, there were 139 audits with management decisions on which final action had not been taken with recommendations to put funds to better use (i.e., used more efficiently), with a dollar value of approximately $2.8 billion. During FY 2008, management decisions were made for 85 audits with funds put to better use costs totaling approximately $1.1 billion. The Department had 62 audits for which final action was taken during the fiscal year with a dollar value of approximately $1 billion, and 19 audits totaling approximately $28 million that management concluded should not or could not be implemented. At the end of the year, there were 155 audits with recommendations to put funds to better use awaiting final action with an associated value of approximately $2.9 billion.

The Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total funds put to better use in the report are reported as open until all recommendations in a report are closed. When reporting is done at the more detailed recommendation level, the $2.9 billion of funds put to better use awaiting final action is reduced by approximately $1.7 billion, leaving a balance of approximately $1.2 billion. (See the notation below corresponding to footnote 4.)

Management Report on Final Action On Audits With Recommendations That Funds Be Put to Better Use For The Fiscal Year Ended 9/30/08

Classification	Number of Audit Reports	Funds to be put to Better Use
A. Audit Reports with management decisions on which final action had not been taken at the beginning of the period.	139[1]	2,811,595,832
B. Audit Reports on which management decisions were made during the period.	85	1,129,808,770
C. Total audit reports pending final action during period (total of A and B)	224	3,941,404,602
D. Audit Reports on which final action was taken during the period		
1. Value of Audit Reports implemented (completed)	62	1,020,382,683
2. Value of Audit Reports that management concluded should not or could not be implemented	19	28,066,042
3. Total of 1 and 2	69[2]	1,048,448,725
E. Audit Reports needing final action at the end of the period (subtract D3 from C)	155[3]	2,892,955,876
F. Open Recommendations (with funds put to better use): (subtract D3 from C)	(141)[4]	($1,153,555,826)

[1] *The opening balance was increase from 138 to 139 due to an audit that was reopened.*
[2] *Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 12.*
[3] *Litigation, legislation, or investigation is pending for 21 audit reports with costs totaling $60,373,534.*
[4] *The figures in brackets represent data at the recommendation level as compared to the report level.*

DELINQUENT DEBT COLLECTION

Fiscal Year Ending	Total Debt (In millions)	Delinquent Debt (In millions)	Delinquent Debt Collections (In millions)
2008*	**$9,955**	**$689**	**$142**

**The above totals reflect FY 2008 data from the Third Quarter Treasury Report on Receivables Due from the Public. The Treasury Report on Receivables for the Fourth Quarter was not available in time for incorporation into this report. The vast majority of these totals are comprised of debts from FHA and Housing programs. Less than one percent of delinquent debt originates from all other HUD programs. The Housing Financial Operations Center in Albany, New York, administers the vast majority of delinquent, eligible debts that HUD refers to the Department of the Treasury.*

HUD's Financial Operations Center remains committed to maximizing collections on delinquent FHA debts using all available collection tools, and to maintaining systems and processes that assure full compliance with the Debt Collection Improvement Act of 1996 (DCIA).

During FY 2008, the Center submitted $32.8 million of new delinquent debts to the Treasury Offset Program (TOP). At the end of FY 2008, a total of 12,294 debtors, representing $148.1 million in debt owed, were eligible for offset. Offset collections for HUD debts during FY 2008 totaled $15.5 million. Also, during FY 2008, $26.2 million of new delinquent debts were referred to Treasury's Financial Management Service (FMS) for cross-servicing. At the end of 2008, a total of 4,406 HUD debts amounting to $60.7 million were at cross-servicing.

During FY 2008, HUD mailed a total of 2,822 "Notice of Intent" letters to delinquent debtors advising them that their debts were past due. These notices provide debtors with the right to establish repayment plans or appeal the enforceability of debts through the HUD Office of Appeals, or for federal employees, through an Administrative Law Judge. Debtors who fail to make payment arrangements or exercise their appeal rights are referred to FMS and are subjected to an assortment of collection endeavors.

The Center continues to efficiently handle accounts where the debtor has filed bankruptcy by using the U.S. Court's Public Access to Court Electronic Records system. This system offers inexpensive, fast, and comprehensive bankruptcy case information on active and recently closed cases.

HUD received an award from FMS for its continued leadership in the use of administrative wage garnishment (AWG) as a tool for the collection of debt. HUD has used AWG, via the cross-servicing program, since 2002, and the Albany Center initiates direct AWG actions on debts returned uncollected from FMS when warranted. The Center assisted FMS' efforts to expand the use of AWG by other agencies by sharing HUD's written procedures, submitting an article for an FMS newsletter, serving on best practices panels at FMS conferences, and serving as an AWG consultant to the Department of Transportation and the Department of Agriculture. FMS reported $1.0 million in administrative wage garnishment collections for HUD debt during FY 2008, with 300 active Wage Garnishment Orders in place at the end of the fiscal year. During FY 2008, the Center collected an additional $924,769 via its direct administrative wage garnishment program.

The Center suspended active collections against all debtors located within the FEMA-designated areas following the Hurricane Katrina disaster. During FY 2008, the Center completed a detailed review of the status of affected debtors that resulted in the resumption of collection activities for 2,285 debtors. The Department will continue to re-evaluate whether a collection moratorium is appropriate for the remaining affected debtors.

Additional HUD debt collection initiatives during FY 2008 included: collaboration with FMS to establish a mutual Performance Expectation Agreement for FY 2008, a draft update to HUD's claims collection regulations, a comprehensive re-write of the Center's Debt Collection Handbook, FMS training of HUD staff on FMS' new 'TOP Webclient" system, system enhancements to improve reporting to HUD's Credit Alert Interactive Voice Response System, use of the Electronic On-line Solutions for Complete and Accurate Reporting System to respond to 1,709 consumer disputes that were filed with credit bureaus regarding HUD's credit reporting of delinquent debts, and responding within three days to all 490 requests for documents or information from FMS to support their cross-servicing efforts.

U.S. Department of Housing and Urban Development

Office of Inspector General

451 7th St., S.W.

Washington, D.C. 20410-4500

October 17, 2008

MEMORANDUM FOR: Steven Preston, 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 U.S. Department of Housing and Urban Development (HUD) in fiscal year 2009 and beyond. Through our audits, investigations, and inspections and evaluations, 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 Semiannual Report to Congress.

The Department's primary mission is to increase homeownership, support community development and increase access to affordable housing free from discrimination. 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 funds, hundreds of public housing agencies 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. Currently, HUD is administering new mortgage assistance and grant programs in response to the nation's financial crisis, increase in foreclosures, and declining home values.

Achieving HUD's mission continues to be an ambitious challenge for its limited staff, given the agency's diverse programs, the thousands of intermediaries assisting the Department, and the millions of beneficiaries in its housing programs. In its January 2007 high risk update, the Government Accountability Office removed HUD's single-family mortgage insurance and rental housing assistance programs from its high risk list. Although HUD was removed from the high risk list, it needs to continue to place a high priority on efficient and effective management of these programs. Proposed and new program changes have introduced new risks and oversight and enforcement challenges. More specifically, HUD has implemented mortgage assistance for homeowners at risk of foreclosure through refinance options in its FHA-Secure and Hope for Homeowners programs. 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 these loans and help prevent fraud on this vulnerable population of seniors.

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 fiscal year 2008, HUD's President's Management Agenda scoring status for the nine applicable initiatives consisted of five "green," three "yellow," and one "red" baseline goal scores. Based upon a comprehensive set of standards, an agency is green if it meets all of the standards for success, yellow if it has achieved some but not all of the criteria, and red if it has even one serious flaw. It is noteworthy that HUD's human capital score has progressed from yellow to green; however, as noted in two OIG reports, HUD needs to improve existing procedures and controls regarding its succession planning and management of human capital. HUD's score for competitive sourcing declined to red during the third quarter of fiscal year 2007; however, during fiscal year 2008, the score increased from red to yellow.

HUD's baseline score for E-Government (E-Gov) declined from green to yellow during fiscal year 2008. HUD was downgraded from green to yellow because it did not remediate weaknesses in the agency's strategic plan and did not fulfill all E-Gov funding requirements. HUD's initiative to eliminate improper payments had declined from green to yellow because it was unable to achieve its reduction target by 0.5 percent. In the most recent scorecard, however, the score was raised back to green. HUD has been scored red on its credit management program since it was added to the President's Management Agenda in fiscal year 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. The Department's management challenges we are reporting this year include the following:

- HUD's response to the nation's financial crisis,
- Human capital management,
- Financial management systems,
- FHA single-family management,
- Public and assisted housing program administration, and
- Administering programs directed toward victims of natural disasters.

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 2009 and Beyond

HUD's response to the nation's financial crisis. In view of the current credit and financial crisis impacting the nation, we are reporting a new management challenge to recognize the profound impact this will have on HUD. As we note later in our discussion of FHA's single-family program, HUD has already sustained significant losses in its single-family program, based on the results of the latest actuarial study, and is taking on additional risk. In response to increasing delinquencies and foreclosures brought about by the deteriorating subprime mortgage market, in September 2007, HUD acted administratively to provide mortgage assistance through the FHA Secure program to refinance existing conventional mortgages. This program was expanded in May 2008 to provide lenders the added flexibility to refinance and insure more mortgages, including those for borrowers who were late on a few payments and/or received a voluntary mortgage principal write-down from their lenders. The Housing and Economic Recovery Act of 2008 was enacted on July 30, 2008, and created a new Hope for Homeowners program to enable FHA to refinance the mortgages of at-risk borrowers provided that (1) mortgage holders write down the principal of the mortgages, (2) borrowers agree to share future equity with the federal government, and (3) borrowers can afford to repay their new loans. These programs are challenges for HUD to administer while minimizing risk to the FHA fund. The Congress authorized FHA to guarantee $300 billion in new loans to help prevent an estimated 400,000 homeowners from foreclosure.

The Housing and Economic Recovery Act of 2008 also created a new Neighborhood Stabilization Program. As part of this legislation, HUD must administer $3.92 billion in Community Development Block Grant funds to redevelop abandoned and foreclosed homes. In response to the state and local communities hard-hit by foreclosure, HUD was required to design the program and determine funding allocations within 60 days of enactment. Currently, there is no database that will provide HUD with sufficient data on units assisted, acquired, or disposed of. HUD must rely on the grantees to maintain this information at the local level. HUD is challenged to ensure, as Congress directed, that these grant funds are obligated for specific activities within 18 months and that state and local governments make the most effective use of available funds.

HUD needs to quickly hire more staff and upgrade its technology to be able to handle the huge increase expected in new business, but questions remain as to whether HUD will be given the resources it needs. In addition, we are concerned as to whether HUD has the necessary capacity or internal controls in place to assume the risks of the mortgage market being placed upon the agency. In creating the Hope for Homeowners program, the Housing and Economic Recovery Act of 2008 provided a mechanism, through the issuance of "HOPE bonds," to fund administrative costs for that program. HUD reports that funding for 22 staff positions and about $20 million in systems improvements have been made available in this manner. The Housing and Economic Recovery Act of 2008, however, did not provide for additional resources for other FHA modernization initiatives in the Act, nor did it provide HUD with additional resources to implement the Neighborhood Stabilization Program. FHA has had to reprogram other funds to address other FHA modernization needs. While the Congress subsequently appropriated $6.5

million that HUD may use for the Neighborhood Stabilization Program, part of that funding is also to be used for other unrelated disaster recovery activities.

Human capital management. For many years, one of the Department's major challenges has been to effectively manage its limited staff to accomplish its primary mission. 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:

- Becoming a "mission-focused agency," resulting in a more effectively deployed workforce;
- Maintaining a "high quality workforce," which recruits, develops, manages, and retains a diverse workforce; and
- Implementing "effective succession planning" to ensure that retirees over the next five years are succeeded by qualified employees.

To link HUD's human capital initiatives as presented in the Strategic Human Capital Management Plan, HUD has recently instituted a Human Capital Accountability System. In May 2006, 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. A 2007 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 needed to fully implement HUD's succession plan. HUD needs to ensure that all program offices initiate succession planning to comply with HUD's requirements.

HUD lacked a valid basis for assessing its human resource needs and allocating staff within program offices, as evidenced in OIG's 2008 audit pertaining to HUD's management of human resources. Three of the five offices we reviewed could not provide adequate documentation to support their assessment of human resource needs and allocation of staff among their headquarters and field office locations. As a result, HUD lacked assurance that its allocation of staff was based on supportable need and it accurately determined the human resources required to meet its performance goals. Some of HUD's program offices lacked adequate documentation to support their hiring practices. As a result, HUD lacked assurance that its program offices' hiring was appropriate.

Financial management systems. Since fiscal year 1991, OIG has annually reported on the lack of an integrated financial management system, including the need to enhance FHA's management controls over its portfolio of integrated insurance and financial systems. During the past several years, HUD has made progress by partially implementing new core financial systems at FHA and Ginnie Mae and addressing most of the previous weaknesses that OIG identified. These improvements enabled OIG to reclassify the weakness in financial management system requirements from a material weakness to a significant deficiency. However, the FHA home equity conversion mortgage systems were identified as a material weakness in the fiscal year 2007 FHA financial statement audit. The rapidly growing program was being supported by a combination of servicer-provided applications, vendor databases, modification of existing FHA legacy systems, and manually performed input to FHA's general ledger. FHA initiated a series of planned corrective actions during fiscal year 2008. These actions included performing a risk analysis of home equity conversion mortgage processing to identify accounting control risks. The risk analysis identified staff capacity as the primary vulnerability, and, reportedly, FHA is addressing this risk.

The HUD Integrated Financial Management Improvement Project (HIFMIP), launched in fiscal year 2003, has been plagued by delays, and implementation of the core financial system has not yet begun. Additionally, the HIFMIP project manager position has been vacant since February 2008. HIFMIP was intended to modernize HUD's financial management systems in accordance with a vision consistent with administration priorities, legislation, Office of Management and Budget directives, modern business practices, customer service, and technology. HIFMIP will encompass all of HUD's financial systems, including those supporting FHA and Ginnie Mae. HUD had intended to begin the implementation in fiscal year 2006. Due to delays with the procurement process, however, HUD anticipates that it will not be able to begin the implementation of its core financial system until fiscal year 2009. The success of the HIFMIP project continues to be at risk due to dated requirement documents, as well as the project manager vacancy. We continue to note the following weaknesses with HUD's financial management systems:

- 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.

We continue to report weaknesses in internal controls and security regarding 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, safeguarded, and available to those who need it without interruption.

Another information technology systems concern is FHA's inability to fund systems development and to upgrade and replace legacy (developed in the 1970s and 1980s) application systems that had been previously scheduled to be integrated. Given the significant growth in FHA market share (from 16 to 36 percent during the year ending July 2008) that is expected to continue, FHA's system environment remains at risk.

As of June 30, 2008, HUD's E-Gov element on the President's scorecard has slipped from green to yellow status. In addition, as part of our annual information technology security review mandated by the Federal Information Security Management Act, we found that HUD has not completed all risk assessments for systems that are Web accessible and require some form of authentication (e.g., password).

FHA single-family management. FHA's single-family mortgage insurance programs enable millions of first-time borrower, minority, low-income, elderly, and other underserved households to realize the benefits of homeownership. HUD manages a rapidly growing portfolio of more than $450 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. A key component of the Housing and Economic Recovery Act of 2008 is the FHA Modernization Act of 2008, which includes the following provisions:

- Increasing the minimum cash investment or downpayment for an FHA mortgage from 3.0 to 3.5 percent.
- Raising FHA loan limits in high-cost areas by setting the limit in such areas at 115 percent of the local area median home price, not to exceed a nationwide loan ceiling of $625,500 (150 percent of the conforming loan limit).
- Making several changes to FHA reverse mortgages by creating a higher, nationwide uniform loan limit, capping the maximum fee lenders can charge seniors for FHA reverse mortgages, establishing protections to prohibit requiring seniors to purchase other financial products in conjunction with FHA reverse mortgages, and authorizing reverse mortgages to be eligible for home purchase.
- Imposing a one-year moratorium on risk-based FHA insurance premiums.
- Eliminating seller-funded downpayment assistance.

While FHA did not participate directly in the subprime mortgage market, the collapse of that market and resultant decline in house prices has already had a significant impact on FHA's risk exposure. The recently completed actuarial review of FHA's Mutual Mortgage Insurance Fund estimates that the fund's economic value decreased from last year's $21.3 billion to $12.9 billion. This decline, coupled with a 29 percent increase in insurance in force, resulted in the fund's fiscal year 2008 capital ratio's decreasing from last year's 6.4 percent to 3.0 percent. The fund is mandated by law to maintain a capital ratio of at least 2.0 percent.

We continue to focus internal audit resources on the single family program. For example, we reported that HUD's Office of Single Family Housing had not fully implemented an internal control structure in accordance with Government Accountability Office internal control standards and HUD requirements. Specifically, it did not (1) perform a formal, systematic annual risk assessment of its programs and administrative functions, (2) plan and conduct ongoing management control reviews or alternative management control reviews of its programs, (3) establish an overall strategy regarding its risk-based monitoring of program activities and participants, or (4) identify corrective actions required to improve its management controls in a timely manner. Our internal audit of controls over the FHA appraiser roster indentified weaknesses in the quality control reviews and monitoring of the roster and in the retention of the initial application packages for all active appraisers on the roster. The roster contained unreliable data including the listing of 3,480 appraisers with expired licenses and 119 appraisers that had been state sanctioned. In another audit, we found that HUD's appraiser review process was not adequate to reliably and consistently identify and remedy deficiencies associated with appraisers. Additionally, HUD did not maintain information necessary to assess the effectiveness of its review process.

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 fiscal year 2008, we completed 16 external audits of FHA-approved mortgage lenders as well as seven internal audits of single-family program activities. Judicial actions taken on Office of Investigation single-family-related cases included 261 indictments/informations. Recoveries on investigative cases totaled more than $45 million.

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.

HUD's Section 8 voucher program has evolved over the last four years as Congress passed legislation in the fiscal year 2005 appropriation bill that included budget-based funding for the Section 8 Housing Choice Voucher program. Under this methodology, public housing agencies receive an annual fixed amount of program funds. At year end, all excess funds are retained by the housing agencies, which account for the excess funds in a net restricted assets equity account but report to HUD on a quarterly basis. The excess program funds not used during the current year are eligible for program use in the next fiscal year, or if not used in subsequent fiscal years, the funds are reclassified as unusable but remain at the housing agencies. The challenges HUD faces in the monitoring of the Section 8 voucher program to ensure that housing agencies are fully utilizing public housing vouchers are evidenced in the June 30, 2008 indicators of public housing agency use of funds and voucher utilization rates, as follows:

- 2,335 public housing agencies participating in the Section 8 Program have accumulated $1.9 billion in excess funds since 2005, of which $1.4 billion is classified as unusable by HUD under the current program rules.
- The average voucher utilization rate for the 2,335 participating public housing agencies is 93.3 percent, which is less than the fiscal year 2004 rate of 98.5 percent achieved using the previous funding mechanism.
- 17 public housing agencies participating in the Moving to Work program have accumulated $1.8 billion in excess funds. Under the Moving to Work program, funds are expended in accordance with an agreement between HUD and each public housing agency.

While progress has been made, HUD continues to face 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. Our work in fiscal year 2007 indicated that approximately $752 million in funding could have been recaptured.

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. HUD has made progress but needs to complete the implementation of the initiatives that address housing agencies' rental subsidy determinations, underreported income, and assistance billings. Although HUD has made substantial progress in taking steps to reduce 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 34 external audits and two internal audits of the Section 8 Housing Choice Voucher program during fiscal year 2008. 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 external audits identified questioned costs of $95 million and reported more than $40 million that could be put to better use.

Administering programs directed toward victims of natural disasters. Natural disasters continued to be a challenge for HUD in 2008. After spring floods in the Midwest and fires in California, the Gulf Coast was hit by two more major hurricanes, Gustav and Ike. Ike caused major home destruction in Texas along the Gulf Coast including Galveston and in the city of Houston. Gustav caused damage in Louisiana in and around New Orleans, as well as in the city of Baton Rouge. As result, HUD received more than $6.6 billion in emergency supplemental funding for rental assistance, the public housing capital fund, and the community development fund. As the disaster funds are awarded to various states, our OIG audit, investigative, and inspection staff resources will be assigned accordingly, since disaster funding is particularly vulnerable to waste, fraud, and abuse.

Due to unprecedented storm damage caused by hurricanes Katrina, Rita, and Wilma in 2005, HUD is overseeing approximately $20 billion provided in three separate supplemental disaster appropriations. For the period ending September 30, 2008, more than $10.5 billion has been disbursed for disaster recovery by the five Gulf Coast states: Alabama, Florida, Louisiana, Mississippi, and Texas. During the past year, we issued seven audit reports, resulting in findings of questioned costs of more than $20 million. In addition to the homeowner program, OIG has identified some other high-risk areas that will require continued oversight, including the following:

- Economic development (Small Business Loan Program),

- Texas Homeowner Program, and
- Gulf Coast regional infrastructure programs.

The Office of Investigation focused on disaster fraud regarding not only the Gulf Coast region hurricanes, but also the California wildfires and the Midwest region's floods. We continue to work with HUD to improve oversight and reduce program vulnerabilities. Current accountability concerns include (1) new disaster programs involving huge amounts of money, introduced with untested requirements and results, and (2) restrictions in using computer matching between HUD and other federal and local agencies. Such natural disasters will impact on HUD's resources and remain challenges into the future.

MANAGEMENT AND PERFORMANCE CHALLENGES - 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, 2008, HUD's Inspector General (IG) provided a statement on six management challenges for inclusion in this FY 2008 Performance and Accountability Report:

1. HUD's response to the nation's financial crisis;
2. Human capital management;
3. Financial management systems;
4. FHA single family management;
5. Public and assisted housing program administration; and
6. Administering programs directed toward the victims of natural disaster.

HUD Management's Perspective

HUD management generally agrees that the six areas identified in the Inspector General's statement are challenges currently facing the Department. As an indicator of the importance being placed on addressing each of these issues, four of these six challenges are included in high-visibility initiatives in the President's Management Agenda. The remaining two challenges (i.e., HUD's response to the nation's financial crisis, and administering programs directed toward victims of natural disasters) are being addressed by very specific initiatives directed toward recovery of the housing market (one of the significant issues contributing to the financial crisis), and for providing relief to the victims of hurricanes and other natural disasters. In addition to the progress on these challenges that is discussed below, and which is also acknowledged in the IG's statement, further information on HUD's specific FY 2008 actions to meet these challenges is provided in the President's Management Agenda section of this report.

HUD's response to the nation's financial crisis

HUD's response to the financial crisis is an enormous challenge, as well as an enormous opportunity for the Department to provide significant relief in a tumultuous housing market, while maintaining the viability of its mortgage insurance program and maximizing the benefits from grant funds available for redeveloping abandoned and foreclosed homes.

HUD understands the importance of its role in providing safe and affordable mortgage options to potential homebuyers and to homeowners facing difficulties in meeting obligations of existing mortgages. HUD has risen to the challenge of these difficult times by changing some requirements for FHA insured loans, first through *FHASecure* and more recently, through the implementation of *Hope for Homeowners* program mandated by the Housing and Economic

Recovery Act of 2008. To expeditiously implement a fiscally sound program, the requirements for the *Hope for Homeowners* program were crafted by a board consisting of high level officials of not only HUD, but also Treasury, the Federal Reserve Board, and the Federal Deposit Insurance Corporation. A front end risk assessment is currently underway at HUD to examine the risks and controls needed for this newly implemented program. HUD is also discussing whether another front end risk assessment is needed to review elements of the FHA Modernization Act, which was also enacted in the July 2008 legislation. As HUD analyzes risk, a major focus will be to ensure the financial stability of the FHA insurance funds. As noted in the Housing section of the MD&A, the capital ratio dropped from 6.4 percent in FY 2007 to 3.0 percent in FY 2008, still above the congressionally mandated minimum of 2.0 percent, but reflecting the serious downturn in the housing market.

Management acknowledges the strain that these new programs have on its resources. Recognizing the need for increased staff, HUD has focused on an initiative to accelerate and improve the hiring and recruiting process. A streamlined hiring process was adopted and 545 new positions were approved. As of September 30, 2008, 274 jobs had been filled by the Office of Housing during the 4th quarter. And, as noted in the IG Memorandum, resources for system development are scarce; however, management is working with Congress to obtain the resources needed to implement these very critical programs.

A front end risk assessment of the new Neighborhood Stabilization Program is also underway by HUD's Office of Community Planning and Development. HUD has published a Federal Register notice of allocations and application procedures for grants under this program and is proceeding to implement this program in a timely manner.

HUD disagrees with the IG's assertion that HUD does not have a database that provides sufficient data on units assisted, acquired, or disposed. The Disaster Recovery Grant Recovery system possesses the capability to collect such data at an address level. CPD expects that grantees will report address level data directly to HUD via the Disaster Recovery Grant Reporting (DRGR) system.

There is no doubt that risk has increased in this time of financial crisis, and that HUD must be vigilant in monitoring the effects of the changes to programs so that outcomes can be determined and reported accurately and corrective actions can be promptly taken to mitigate risk levels.

Human Capital Management – Management has recognized the challenges in this area and is moving forward with implementation of its Strategic Human Capital Management Plan. The Office of Personnel Management and the Office of Management and Budget have recognized the progress that has been made by scoring HUD as "Green" on the President's Management Agenda Human Capital Initiative in the 3rd quarter of FY 2008.

HUD has organized its current workforce of only 9,183 fulltime equivalent (FTE) staff[1] to more efficiently and effectively deliver 112 active programs and many more program set-asides and terminated programs that are still spending-out old obligations. This significant level of activity is supported by $54.0 billion in annual budgetary resources that includes supplemental disaster and related funding, and significant off-budget risks and costs associated with a combined FHA

[1] Includes all staffing funded from both Salaries & Expense (S&E) and Working Capital Fund (WCF), with the exclusion of OIG, OFHEO, and FHFB, which are independent organizations not involved in the administration of HUD's programs.

housing mortgage insurance and Ginnie Mae Mortgage-Backed Securities program portfolio that peaked at over one-trillion dollars early in this administration. HUD currently has eight program organizations, and thirteen support organizations that represent both the typical support functions required of a major cabinet level federal agency, as well as two unique organizational components (FPM and ODOC) necessary to coordinate, support and oversee HUD's extensive field office operations and decentralized program activity.

HUD's last major reorganization/realignment occurred in the 1996-1998 period, with input from a congressionally mandated study by the National Academy of Public Administration (NAPA). Those changes included centralization and/or streamlining of many functions, as well as an elimination of a regional program management structure to make field resources more accountable to the program Assistant Secretaries responsible for program performance. That reorganization/realignment also enabled HUD to better adapt to a budget-driven downsizing of the HUD workforce by 30 percent. For example, the HUD CFO closed 10 Regional Accounting Offices and centralized accounting in the Fort Worth Office. This was a major contributor to the overall reduction in OCFO staffing from 480 FTE staff to a current level of 212 FTE staff. HUD also established and centralized two new organizations with cross-program functional responsibility for program enforcement (the Departmental Enforcement Center - DEC) and implementation of remote monitoring systems on the physical conditions and financial compliance of the public and assisted housing portfolios (the Real Estate Assessment Center – REAC). REAC systems support multiple program areas and produce data that enable program staff to use risk-based targeting of available resources for on-site monitoring, technical assistance and enforcement to improve program compliance and performance.

A study of the need for further organizational refinements was conducted at the beginning of this administration in 2001, and additional realignments and staffing strategies were executed to make support functions more accountable to program clients and to right-size the staffing in support functions to free-up available resources for core program needs. For example, the CIO and CPO organizations were split out of the Office of Administration, who is also a key client of the CIO and CPO, and now report directly to the Deputy Secretary to better serve the Department. The new Departmental Enforcement Center was realigned under OGC to better support legal enforcement activity, and REAC was closer aligned with the public and assisted housing program areas to better work with those organizations. Staffing in the Office of Field Policy and Management, a HUD organization/function that coordinates, supports and oversees program field office activity, was reduced from 934 FTE staff in 2000 to 386 FTE staff for 2008, to free-up a greater percentage of HUD's resources for direct program needs.

The organizational changes implemented at HUD over the past 10 years have been contributing factors to the Department's success in eliminating material weakness and high-risk program designations identified by the OIG and GAO. HUD continues to look for opportunities to further streamline operations through improved use of automation and business process reengineering (BPR). BPR studies are currently underway in the areas of correspondence control and tracking and Internet web site management. Additionally, the Department has undertaken Lean BPR reviews in the Offices of Housing, Administration, and Procurement. The Office of Housing has led the way on Lean BPRs with an initiative to accelerate automation and streamlining across all FHA program areas. To date, the Lean BPR approach has been used for the 232-223(f) Skilled Nursing Facility/Assisted Living Facility and the Single Family (SF) Home Ownership Center (HOC) endorsement process. These same Lean BPR techniques are being applied by the Office of Administration to improve the Human Resources function and streamline the process for recruitment and hiring new employees, while providing a blueprint of the BPR staffing/hiring process to the incoming Administration. The Office of the Chief Procurement Office also is undertaking a Lean BPR effort to strengthen and improve the procurement and acquisition process by mapping and automating the current process from the annual strategic plan through award, creating paperless procurement request process, reducing the number of forms significantly, standardizing the review process and providing improved accountability. In addition, HUD is piloting the use of service level agreements by central service providers in the Admin/HR, CIO, CPO and CFO/Budget functions as a possible means of streamlining processes, improving performance, and reducing shadow support staff in program client organizations to free-up resources for program needs.

Like other agencies that are already scored green on this PMA initiative, HUD has met the Green "organization structure" standards of this initiative through demonstrated improvements to the organization of available resources to improve performance results. In addition, we have strategies and plans to continue to assess and pursue opportunities for further efficiencies in the organization of available resources to improve results. The three areas identified in the IG's memorandum have been addressed by HUD as follows:

- Becoming a "mission-focused agency." HUD has implemented "SMART" performance plans throughout HUD. These plans tie each individual's performance plan and critical elements to specific strategic goals of the Department from senior executives to front-line staff. Managers and supervisors were provided training on how to develop SMART standards to meet these criteria.
- Maintaining a "high quality workforce." The Secretary has recognized the need to recruit, develop, manage, and retain a diverse workforce. Upon his arrival at HUD in July, he established a 200 day plan called iMPACT 200 that included two working groups to further address the Department's human capital needs. One group's focus was on HUD's hiring process and the other on management effectiveness. The hiring process working group's focus was on conducting a business process reengineering effort to address current inefficiencies in the office that slows the hiring of new employees. The management effectiveness working group focused on training, specifically for managers, but also for employees. Currently, 300 managers are participating in a 360 assessment program that will assist them in developing their managerial skills. The managers, in conjunction with this program will also be assisted by personal coaching. The working group recommended, and the Secretary accepted a recommendation to establish an executive board with representation from each program area to provide oversight over HUD's training academy to ensure all training needs are being assessed. The managerial working group also is looking at best practices used by other agencies to retain staff.
- Succession planning. HUD continues to implement its Succession Management Plan. This year, management implemented the HUD Fellows Program and the appointment of the 2008 class of Emerging Leaders to develop its leaders for the future.

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 – Management recognizes the challenges in this area as well, and OMB has recognized the progress that HUD has made on the Improving Financial Performance Initiative of the President's Management Agenda by scoring HUD's status as "Green." Specifically, OMB recognized HUD's use of financial information by managers for decision making and the continued progress towards the implementation of the HUD Integrated Financial Management Information Project (HIFMIP). Also during FY 2008, 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.

Further, HUD was able to report substantial compliance for 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.

To address the specific issues identified in the OIG's memorandum, management provides the following comments.

HUD has significantly addressed the FHA home equity conversion mortgage system material weaknesses through its corrective actions to eliminate one material weaknesses, and lower the second material weakness to the level of a significant deficiency. FHA continues its efforts to improve in this area by supporting business process engineering and related development and configuration work to adapt the FHA Subsidiary Ledger to new processes for HECM financial operations.

Progress continues towards an implementation of HIFMIP. As noted in the OIG Memorandum, the project manager position has been unfilled since February 2008, however the position has been filled in an "Acting" capacity since that time, and a selection for the position has been made.

HUD disagrees that the requirements documents are dated. Since the issuance of the original Request For Proposal, the requirements have been updated with each of the 10 amendments to the proposal.

A Shared Service Provider/Systems Integrator contract will be awarded in Quarter 1 of FY 2009 and as mentioned above, a project manager has been selected and will report in early FY 2009. During FY 2008, HUD staff examined and documented 18 OCFO financial management systems and their interfaces with HUD Program Office systems and external business partner systems to document and verify 114 interfaces with supporting functional descriptions, data elements/data file layouts, technical requirements, and quality assurance actions in preparation for HIFMIP systems implementation/integration.

HUD's ability to prepare financial statements accurately and timely has not been deterred by the lack of a new core financial system, however, we recognize the benefits in efficiencies and effectiveness of procuring a system utilizing the latest technologies, and are moving forward as expeditiously and prudently as possible.

HUD continues to improve its controls over HUD's computing environment to reduce the risks associated with safeguarding funds, property, and assets from unauthorized use or misappropriation. In FY 2008, HUD:

- Obtained sufficient audit record storage capacity,
- Established an audit reduction and report generation capability to support the fact investigations of security incidents,
- Ensured that all Unisys security audit log events are monitored, analyzed, reported and followed up for the Unisys production system, and
- Restricted access to log files to those whose job function requires that access.

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 2008, the Department maintained its score of "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 400 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 530 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 since deployment of the Financial Data Mart to meet ad-hoc requests.

The IG's concern about FHA's inability to fund systems development and upgrade and replace legacy application systems that had been previously scheduled to be integrated has been partially addressed through Home Economic Recovery Act provisions that allow HUD to finance administrative costs including system development by selling bonds. Although this does not cover all system development needs, it does provide some funding relief.

HUD acknowledges the slippage in its scores on the PMA E-GOV initiative. HUD had an OMB approved Plan of Action and Milestones, and HUD met all but two milestones during FY 2008. OMB lowered HUD's score because it did not obtain the funding from Congress for all its

E-GOV initiatives and because HUD did not use one of the grant management line of business centers of excellence for its grant management systems. The Appropriators did not have the same sense of urgency regarding the funding of E-GOV initiatives as HUD concerning the former, while the latter was a prudent business decision on HUD's part to not proceed with a change in the business process that would not meet its requirements, as the centers of excellence were unable to meet HUD's unique requirements for grant management.

FHA single family management – FHA Single Family Housing Mortgage Insurance Program risks are higher in the current economic climate, and HUD has taken actions to ensure these risks are managed effectively. HUD is monitoring, through program evaluations, the impact of new activities for the purpose of proposing legislative or administrative changes to ensure the financial stability of FHA. The financial stability of the Mutual Mortgage Insurance fund is important to HUD and the Congress. To ensure the stability of this fund, Congress has mandated a minimum level for the capital ratio, currently set at 2.0 percent. The capital ratio is defined as the ratio of the economic value or present value of cash flows (i.e., the present value of premiums and proceeds from the sale of foreclosed properties) to the value of the insurance-in-force. The capital ratio has consistently exceeded this minimum requirement. In FY 2007, it significantly exceeded the requirement at a value of 6.4 percent. In FY 2008, HUD again surpassed the minimum level, though this ratio decreased significantly to 3.0 percent. This decrease was caused by two primary factors. The estimated economic value of the fund decreased significantly with the forecast of expected house price declines due to the declining housing market. Conversely, the total MMI insurance-in-force increased significantly due to the volume of new endorsements. The combination of these factors resulted in the decrease in the capital ratio.

FHA is striving to conduct the actions noted by the IG including performing a formal, systematic annual risk assessment of its programs and administrative functions, planning and conducting ongoing management control reviews, establishing an overall strategy regarding its risk-based monitoring of program activities and participants, and identifying corrective actions required to improve its management controls in a timely manner.

In order to effectively implement new programs, 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, there are several issues concerning public and assisted housing. HUD has undertaken a comprehensive approach to address the utilization of public housing vouchers and the monitoring of housing agencies and assisted multifamily projects.

To enhance its monitoring efforts that will address both of the above issues, during FY 2008, HUD:

- Continued improvements in oversight and monitoring of subsidy calculations and intermediaries program performance by timely completing all monitoring activities, including the development of an internal tool to identify high-risk PHAs targeted for on-site monitoring, and providing training to the Public Housing Revitalization Specialists, Financial Analysts, and Facilities Management staff members on conducting the monitoring reviews, and developed an internal checklist that ensures consistency in gathering and analyzing monitoring information,

- Conducted 90 Tier I monitoring activities, as prescribed in the PIH FY 2008 Management Plan, and 92 Voucher Management System onsite reviews,
- Conducted on-site reviews in multifamily housing,
- Awarded a contract to assist in the review, evaluation, and verification of rental assistance data,
- Issued an Operating Subsidy Review Guide,
- Completed a thorough review of all operating subsidy calculations by the Subsidy and Grants Information Systems and provided training on the same to National Association of Housing and Redevelopment Officials,
- Provided Enterprise Income Verification training to all HUB and Program Centers to coincide with the implementation of EIV for multifamily housing, with publication of the final rule for mandatory use of EIV scheduled for early FY 2009,
- Obtained sufficient funding to increase the scope of A-133 audits,
- Trained staff on how to review Financial Assessment Subsystem submissions,
- Developed Utilization and Net Restricted Assets-Housing Assistance Payment tools for the field,
- Converted Section 8 projects under the FMC payment process to Performance Based Contract Administrator contracts under Housing, and
- Converted the remaining portfolio of the traditional Contract Administrators' Section 8 contracts back into Housing's accounting system.

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.

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 funding permitted, concentrating monitoring resources on the PHAs 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 2008, directed at improving program administrator performance to reduce improper payments and improve housing conditions. The full implementation of HUD's 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 was initiated for Multifamily Housing Programs in January 2008.

Results of the increased monitoring focus that began in FY 2007, in addition to program changes, have resulted in a profound reduction in the improper payment rate for HUD's rental assistance programs. The estimated recovery rate for FY 2007 (there is a one year lag in the reporting) was 3.5 percent compared to a goal of 4.6 percent. This achievement resulted in HUD's score for the Eliminating Improper Payment PMA Initiative to returning to a status of "Green" at June 30, 2008.

Finally, to address the IG's specific comment concerning their estimate that approximately $752 million in funding for Section 8 project-based contracts should have been recaptured, HUD responded to the IG on March 17, 2008 that upon further review, approximately only $100 million should have been recaptured. However, HUD agrees to modify its FY 2008 recapture methodology to include consideration of current year expirations (that were not included in the prior methodology) in our review. Recaptures will be made when field offices can certify that the contract is terminated and no outstanding, unpaid vouchers remain.

Concerning unused Housing Assistance Payment (HAP) funds and their classification as "unusable," the terms "usable" and "unusable" are informal designations of that portion respectively of the Net Restricted Assets (NRA) that is estimated to be required for a program to reach 100 percent utilization, and the portion that is estimated to not be required for that purpose. In reality, all NRA funds are available to be used and no portion is officially categorized as unusable.

A challenge to raising the utilization rate and using all funds is the leasing cap that has been included in each recent Appropriations Act which restricts each PHA to assisting only the number of households covered by vouchers provided for in its Annual Contributions Contract. Accordingly, if a PHA is more efficient in the use of the funds provided, it will reach the leasing cap, and thus create or increase the NRA balance.

Similarly, a dollar based budget with a fixed number of vouchers creates the opportunity for lower utilization. If the PHA nears the dollar limit, but has an ample number of vouchers and due to the uncertainty of what the funding provisions in future years will be, the PHA will under-lease in order to build a cushion in their NRA accounts to avoid the potential need to terminate families' assistance if all funds are used.

Additionally, regarding the $1.9 billion NRA balances accumulated as of June 30, 2008, we must clarify that Congress required an offset of $723 million of the (unusable) NRA balances in 2008. This was accomplished. Language has also been incorporated in the President's FY 2009 and FY 2010 budget requests to account for the NRA balances in future funding allocations.

Notwithstanding these challenges, PIH is concerned with and taking steps to improve utilization rates. Since implementing the budget-based approach, utilization rates improved in 2007 and 2008. As of June 30, 2007, the voucher utilization rate was 91.7 percent and as of June 30, 2008, the rate increased to 93.3 percent. The HCVP goal will be 95 percent by 2010, and 97 percent by 2011.

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. The Community Planning and Development (CPD) Disaster Recovery and Assistance (DRA) Division was provided an influx of disaster funding beginning in FY 2005 and continuing into FY 2008 to address the hurricane disaster recoveries. In addition to the $19 billion of appropriated funds for hurricanes Katrina, Rita, Wilma, in FY 2008, HUD received (1) $300 million for the Mid-west floods, (2) $3.9 billion for the Neighborhood Stabilization Program (NSP) to assist state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their communities, and (3) $6.5 billion supplemental funds as enacted for 2008 disasters. In total, HUD has oversight of approximately $30 billion in disaster supplemental funding.

Management recognizes the program vulnerability, and the need for oversight of disaster funds. To address such concerns, in FY 2008 CPD awarded a contract to examine grantee oversight of the Gulf Coast disaster recovery funds, by assessing the design and execution of the program delivery structure and internal controls for the States of Louisiana and Mississippi. Funding for these states comprises more than 90 percent of the $19 billion in Gulf Coast disaster recovery funds. The contractor's overall assessment concluded that both states had design control gaps as lacking either: (1) written policies and procedures to guide internal control and quality assurance, or (2) a formal monitoring plan that seperately addresses fraud, waste, abuse, and mismanagement of funds.

The contractor's report on suggested best-practices recommended more stringent monitoring protocols over disaster recovery funds to together reduce program vulnerabilities. Action on a number of the recommendations was already underway because the issues had previously been identified as part of HUD program monitoring, grantee internal audit, or audits by the Office of Inspector General.

Additionally, CPD recognizes the shortcomings of staffing, support, and systems mentioned in the memo, and is proposing funding in the FY 2010 budget to address them.

IMPROPER PAYMENTS INFORMATION ACT REPORTING DETAILS

The Requirements

Under the Improper Payments Information Act (IPIA) of 2002 (Public Law 107-300) and 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:

1) Step one is an initial survey of all program and administrative activities, for potential indicators of significant improper payments;
2) Step two is a detailed risk assessment of programs identified in the first step with annual expenditures in excess of $40 million;
3) Step three consists of statistical sample testing of payments by independent reviewers in any program activity determined to be susceptible to a significant improper payment level; and

4) The final 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.

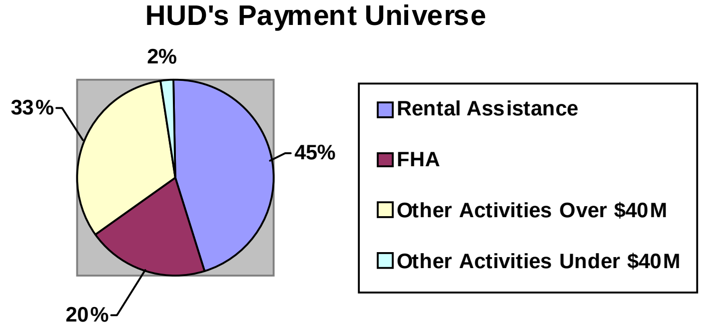
HUD's analysis determined that the CDBG Program is below the annual $10 million threshold for required reporting, and on March 14, 2007, OMB approved HUD's request for relief from annual improper payment reporting. HUD will continue to conduct an annual assessment of the CDBG programs and provide results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

HUD set aggressive goals for reducing improper payments in the remaining three high-risk program areas – the Public Housing, Housing Choice Vouchers 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 $993 million in Fiscal Year 2007, a reduction of 71 percent.

Results of Annual Risk Assessment Update and Continued Payment Testing

The FY 2008 risk assessment update was based on payment and other relevant activity that occurred during FY 2007. An inventory of over 200 distinct program and administrative payment activities was identified from all of HUD's financial management systems in FY 2007, with total payments of $63.3 billion.

The payment universe consisted of the following general distribution:



HUD's risk assessment update in FY 2008 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 rental housing assistance programs – Public Housing, Housing Choice Vouchers, 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 $28 billion, or 45 percent, of HUD's total payments in FY 2007.

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 Housing 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 2007, HUD reduced the gross improper payments for the first 2 of these 3 categories of error from $3.22 billion to $921 million, a reduction of 71 percent. A baseline measurement for the third component, billing error, was completed in FY 2005, based on FY 2003 expenditures, and was estimated to be $214 million. In FY 2007 the billing error was estimated to be $71 million. The following chart provides a summary for all three error components for FY 2007 as compared to FY 2006 and the baseline year (FY 2000).

IMPROPER RENTAL ASSISTANCE PAYMENT ESTIMATES

Administration/ Error Type	2007 Subsidy Over-Payments*	2007 Subsidy Under-Payments*	2007 Net Erroneous Payments*	2007 Gross Erroneous Payments*	2006 Gross Erroneous Payments*	2000 Gross Erroneous Payments*
Public Housing						
Administrator Error	$26,598	$10,743	$15,855	$37,341	$172,824	$602,557
Income Reporting Error	13,864	0	13,864	13,864	101,050	294,000
Billing Error**	8,750	3,500	5,250	12,250	49,000	Not available
Subtotal:	**$49,212**	**$14,243**	**$34,969**	**$63,455**	**$322,874**	**$896,557**
Housing Choice Vouchers						
Administrator Error	$282,840	$152,172	$130,668	$435,012	$520,020	$1,096,535
Income Reporting Error	97,543	0	97,543	97,543	193,428	418,000
Billing Error**	0	0	0	0	72,000	Not available
Subtotal:	**$380,383**	**$152,172**	**$228,211**	**$532,555**	**$785,448**	**$1,514,535**
Total PHA Administered						
Administrator Error	$309,438	$162,915	$146,523	$472,353	$692,844	$1,699,092
Income Reporting Error	111,407	0	111,407	111,407	294,478	712,000
Billing Error**	8,750	3,500	5,250	12,250	121,000	Not available
PHA Subtotal:	**$429,595**	**$166,415**	**$263,180**	**$596,010**	**$1,108,322**	**$2,411,092**
Total Project Based/Owner Administered						
Administrator Error	$134,460	$64,644	$69,816	$199,104	$261,324	$539,160
Income Reporting Error	138,412	0	138,412	138,412	90,512	266,000
Billing Error**	24,000	35,000	(11,000)	59,000	59,000	Not available
Project Based Subtotal:	**$296,872**	**$99,644**	**$197,228**	**$396,516**	**$410,836**	**$805,160**
Total Improper Payments						
Administrator Error	$443,898	$227,559	$216,339	$671,457	$954,168	$2,238,252
Income Reporting Error	249,819	0	249,819	249,819	384,990	978,000
Billing Error**	32,750	38,500	(5,750)	71,250	180,000	Not available
GRAND TOTAL:	**$726,467**	**$266,059**	**$460,408**	**$992,526**	**$1,519,158**	**$3,216,252**
TOTAL PROGRAM PAYMENTS				$28,151,954	$27,505,331	$18,800,000
IMPROPER PAYMENT RATE				3.5 %	5.5 %	17.1 %

* Dollars in Thousands.

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

Percent Reductions in Improper Payments

Error Type	Baseline Estimates*	FY 2007 Estimates*	Percent Reduction
Administrator Error	$2.238	$0.671	70%
Income Reporting Error	$0.978	$0.250	74%
Billing Error	$0.214	$0.071	67%
Total	$3.430	$0.992	71%

* Dollars in billions

Corrective Actions Taken to Reduce Improper Payments

The overall reduction in improper payments for HUD's three major types of Rental Housing Assistance Programs over the past eight years has been primarily attributed to HUD's efforts to work with its housing industry partners through enhanced program guidance, training, oversight, and enforcement. Collectively, these efforts have had a positive impact on the program administrators' ability to reduce their errors in the calculation of income, rent and subsidies. The Department also has found a direct correlation in the reduction of improper payments to the number of monitoring reviews of public housing agencies (PHAs) and the number of management and occupancy reviews at multifamily housing properties, as well as the increased availability and use of the Enterprise Income Verification system by PHAs, owners, management agents, and contract administrators for HUD's Project-based Assistance programs.

More recently, program structure changes have reduced the opportunities for improper payments in two of HUD's Rental Housing Assistance Programs. In HUD's Public Housing program, significant program structure changes were implemented to improve the efficient use of funding in the Public Housing Operating Fund. These structure changes effectively eliminated all three previously reported types of improper payments due to Administrator, Income Reporting, and Billing errors. It should be noted that PHAs could still make Administrator errors, and tenants could still not report or under-report their income. However, in the new structure, the effect of these errors would be borne by the PHA and HUD's subsidy payment would remain unchanged. Nonetheless, HUD retains program oversight responsibility to ensure the proper performance and benefits of the program, and will continue to focus on effective measures to reduce performance errors by PHAs. These changes were implemented in the second quarter of FY 2007 (i.e., error reductions affecting HUD were realized for three-quarters of the year); accordingly, the Improper Rental Assistance Payment Estimate chart on the preceding page reflects the estimated improper payment amount for the first quarter. In addition, the establishment of a budget based funding methodology was implemented for the Housing Choice Voucher Program in FY 2005 to eliminate the opportunity for billing errors in that program.

HUD's Improper Payment Reduction Forecast

HUD will continue to take aggressive steps to address the causes of improper rental housing assistance payments to ensure that the right benefits go to the right people. Based on the above results for the three types of rental housing assistance errors, as well as plans to address known causes and levels of improper payments, HUD provides the statistical results for FY 2007 and the outlook for improper payment percentages on a combined program basis from FY 2008 – FY 2010, as follows:

Rental Assistance Improper Payment Reduction Outlook
FY 2008 – FY 2010
(Dollars shown in billions)

Activity	FY 2006 Payments	FY 2006 IP	FY 2006 IP% Goal/ Actual	FY 2007 Payments	FY 2007 IP	FY 2007 IP% Goal/ Actual	FY 2008 IP% Goal	FY 2009 IP% Goal	FY 2010 IP% Goal
Rental Assistance	$27.505	$1.519	5.0 / 5.5	$28.151	$0.992	4.6/3.5	3.4	3.2	3.1
Estimated Payments							$28,553	$29,000	$29,000

* The annual Improper Payments calculation is based on prior year data. Accordingly, the FY 2008, FY 2009, and FY 2010 results will be reported in the FY 2009, FY 2010, and FY 2011 PARs respectively.

The FY 2007 goal was originally set at 5.5 percent. During FY 2008, however, the FY 2007 goal was revised based on program changes made to the Rental Housing Assistance Programs during FY 2007. The full implementation of the Enterprise Income Verification system, the efficient use of funding in the Public Housing Operating Fund, the establishment of a budget based funding methodology in the Housing Choice Voucher Program, and the technical assistance and training to minimize Administrator errors made it possible to lower HUD's FY 2007 and future improper payment reduction outlook. HUD believes that the goals for FY 2008 and beyond are realistic and achievable.

Further information on HUD's efforts to reduce improper rental housing assistance payments is provided in Indicator E.3 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, requires 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 beneficial and is not warranted.

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 2008. 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

HUD 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 and analysis about housing markets. HUD and the Census Bureau jointly release monthly statistics on new residential construction including starts, permits, inventories of unused permits, new housing units under construction and completions, 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.

Study of Closing Costs for FHA Mortgages. This study presents findings on how much borrowers pay in closing costs when they purchase a house, how much these costs vary, and factors to which the variation is related. The analysis uses data from a national sample of 7,560 FHA-insured, 30-year fixed-rate home purchase loans. Findings of the study demonstrate that loan fees, title fees, and real estate agent fees all add significantly to the total closing costs incurred by homebuyers. Closing costs vary with borrower characteristics, lender characteristics, neighborhood racial composition, and across states, even after controlling for factors that are legitimately related to lender costs. Minority borrowers and borrowers in minority neighborhoods and neighborhoods with lower educational attainment consistently pay higher fees. In addition, borrowers in neighborhoods with low educational attainment receive substantially higher-cost offers, and although a significant share “walk away” from these offers, enough accept them to be profitable to lenders and brokers.

Cityscape: A Journal of Policy Development and Research, Vol. 10 No. 2. This special issue examines the homeownership experience of low-income and minority households over time, and whether their experiences differ from those of higher income households. The articles show that low-income and minority households are as likely as others to gain from home value appreciation and reap the traditional benefits of homeownership. However, such households are more likely to face higher payment burdens, which make them more likely than higher income and non-minority households to return to being renters.

Strategic Goal B: Promote Decent Affordable Housing

Housing Needs of Persons With Disabilities: Supplemental Findings to the Affordable Housing Needs 2005 Report. This study supplements *Affordable Housing Needs 2005,* which presented estimates of worst case needs for affordable rental housing. It provides additional analysis and findings about worst case needs among households with disabilities. The new results indicate that a larger proportion of the 5.99 million households with worst case needs in 2005 included persons with disabilities than previously estimated.

Section 202 Supportive Housing for Elderly: Program Status and Performance Measurement. The Supportive Housing for the Elderly program provides capital advances and project rental assistance, under Section 202 of the Housing Act of 1959, for housing projects serving elderly households. This study assesses whether the program has been effective in meeting the needs of very low-income elderly Americans. The research findings demonstrate that Section 202 provides good quality housing for its residents. The study also offers programmatic recommendations for performance measurements.

Intergenerational Housing Needs and HUD Program Options: Report to Congress. This report addresses a Congressional mandate for "a study to determine an estimate of the number of covered families in the United States and their affordable housing needs" and includes "recommendations...regarding how the major assisted housing programs of the Department of Housing and Urban Development, including the supportive housing for the elderly program under Section 202 of the Housing Act of 1959 can be used and, if appropriate, amended or altered, to meet the affordable housing needs of covered families." The study, conducted by HUD and the Bureau of the Census, uses 2000 Census and American Housing Survey data to clarify the housing issues faced by grandparents and other relatives who accept the responsibility of providing care for minor children.

Trends in Housing Costs: 1985 - 2005 and the 30-Percent-of-Income-Standard. Public policy has focused on the ability of families both to acquire safe and sanitary housing in decent neighborhoods and to have sufficient income left over to purchase other basic necessities. Over time, policy analysts have come to use "30 percent" of household income as a standard to assess the affordability of housing. The belief is that households who have to pay more than 30 percent of their incomes for housing may be forced to forego other necessities. In this study, HUD examined the adequacy of the 30 percent-of-income standard. In general, the study finds that if spending 30 percent of income for housing allowed for an adequate level of non-housing expenditures in 1985, then spending 30 percent on housing in 2005 also allowed for an adequate level of non-housing expenditures. Additionally, the study examined changes in housing costs relative to income for owners with mortgages, owners without mortgages, and renters, and found that housing costs rose for each group.

Characteristics of HUD-Assisted Renters and Their Units in 2003. This report is the fourth in a series of reports providing information on the size, composition, and quality of HUD-assisted housing stock and the characteristics of its occupants. These reports are intended for the use of policymakers, analysts, and proponents of housing assistance for low-income households. HUD obtains this information by identifying assisted households that are also surveyed in the biennial national American Housing Survey. Data in the report represent assisted households and units in all 50 states and the District of Columbia, but exclude households and units in Puerto Rico, Guam, and the Virgin Islands, which are not included in the American Housing Study. The 2003 data are a statistically valid description of assisted households.

Cityscape: A Journal of Policy Development and Research, Vol. 10 No. 1. This issue of Cityscape represents the second series of articles devoted to research on the over 4 million households that receive housing assistance from HUD. Assisted housing is found in every metropolitan area and in every state, and nearly 15 percent is in non-metropolitan areas. The papers use a variety of theoretical and methodological tools to examine the relationship between housing assistance and poverty deconcentration; family composition and tenure in voucher program; and housing assistance and neighborhood quality.

US Housing Market Conditions. This is a series of quarterly reports on the current housing market conditions produced by HUD. The reports examine mortgage interest rates, as well as housing production and vacancy rates among single and multifamily homes. Each report also includes national, regional and historical data on housing activity. In addition, the last four quarterly reports (Q3 2007 – Q2 2008) have focused on the purchase goals of the GSEs, New Market Tax Credits, Home Equity Conversion Mortgages, and the use of income leverage in studying the recent mortgage market turmoil.

Strategic Goal C: Strengthen Communities

Study of Subdivision Requirements as a Regulatory Barrier. This study addresses the regulatory barriers that increase costs during the subdivision of land for single-family detached dwellings. Two distinguishable types of regulatory barriers were identified: a) those that lengthen the time for approval of a subdivision and b) land and site development standards that are more costly than minimum "benchmark" standards selected to provide adequate public health and safety.

Cityscape: A Journal of Policy Development and Research, Vol. 9 No. 3. This issue focuses on the challenges facing communities in planning for and responding to disasters. The goal of the articles is to highlight opportunities for planners to proactively position their communities for increased disaster resiliency. Each paper illustrates actions that can help minimize the effects of disaster on a community. Long-range planning and preparation can strengthen a community's pre-disaster environment as well as its response during rescue and recovery. Thus, a well-developed plan can position communities to accelerate some recovery aspects through rapid, critical decision-making.

Comprehensive Housing Market Analysis Report. HUD's Economic and Market Analysis Division prepares Comprehensive Housing Market Analyses that assist and guide HUD in its operations, but also could be useful to builders, mortgagees, and others concerned with local housing conditions and trends. Each analysis takes into consideration changes in the economic, demographic, and housing inventory characteristics of a specific housing market area during three periods: from 1990 to 2000, from 2000 to the as-of date of the analysis, and from the as-of date to a forecast date. The reports present counts and estimates of employment, population, households, and housing inventory. Comprehensive housing market analyses were completed for 18 cities and counties across the nation including Baton Rouge, Louisiana; Memphis, Tennessee; Orange County, California; and Reno, Nevada.

Empowering Local Communities Through Leadership Development and Capacity Building. This report offers practical approaches to developing and managing leadership development and capacity-building initiatives that have been supported by HUD's Office of University Partnerships. The research was based on a one-year study by program staff. Key approaches that grantees used in their communities include relationship building, leadership development, and service provision.

Regional Approaches to Affordable Housing. This report, prepared by the American Planning Association with funding from HUD and the Fannie Mae Foundation, examines regional planning strategies that enhance the feasibility of affordable housing development and retention. The study identifies successful and promising planning approaches, effective institutional structures, alternative ways of providing financial assistance, and incentives for local governments to address regional housing needs. Among the strategies examined are fair-share programs, state and regional affordable housing trust funds, and private sector approaches.

Review of Regulatory Barriers to Employer Ability to Recruit and Retain Employees. This literature review surveys existing research on the influences of residential development regulation on housing markets, and through them, on businesses, labor markets, and regional economic competitiveness.

Zoning as a Barrier to Multi-family Housing Development. This study, part of HUD's Regulatory Barriers to Affordable Housing research series, examines whether zoning regulations limit the development of multifamily housing. Examination of census data, interviews of land-use experts, and reviews of zoning statutes reveals that the impact of zoning ordinances generally depends on factors such as local housing conditions and regional oversight on local zoning.

Accessory Dwelling Units: Case Study. Communities with land use restrictions or where all available land is used have significant barriers to overcome for increasing the stock of affordable housing. The limited availability of land suitable for development forces community leaders to come up with creative solutions to the affordable housing crisis. Several jurisdictions are now turning to accessory dwelling units -- also referred to as granny flats, accessory apartments, or second units -- as an inexpensive way to increase their housing supply. Restrictive zoning policies are being revised to allow development of these units. However, such policies are often met with community opposition from residents concerned that accessory units will change their neighborhood's character, promote overcrowding, and increase traffic congestion. This case study examines the history and benefits of accessory dwelling units, and highlights six communities that have successfully implemented ordinances to permit them.

Strategic Goal D: Ensure Equal Opportunity In Housing

Evaluation of the 2005 Change in the American Housing Survey (AHS) Income Questionnaire. After redesigning the AHS in 1997, the Census Bureau and HUD compared the income data collected in that survey with those found in the Current Population Survey. That study found that the AHS reported fewer households with non-wage income than the Current Population Survey and that American Housing Survey respondents tended to report self-employment income as wages. In addition, American Housing Survey data users requested that disability-related income sources be reported separately from other sources, to make it easier to count the number of households with disabled persons.

Summary Report: Consumer Testing of Good Faith Estimate Form. During the 2002 - 2007 period, a contractor conducted six rounds of qualitative testing on various mortgage forms to determine how they could be revised to become more consumer friendly. The objective was to increase clarity about added fees, interest rate comparisons across loan types, and the fiduciary roles of lenders and brokers, so that borrowers could become better consumers. The final outcome led to several key improvements to the Good Faith Estimate form, including additional consumer information, loan price comparisons, and important loan dates to note.

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

Quality Control for Rental Assistance Subsidies Determinations: Final Report for FY 2007. This study provides national estimates of the extent, severity, costs, and sources of rent errors in tenant subsidies for the PHA-administered public housing, Section 8 Housing Choice Voucher, and Moderate Rehabilitation programs, as well as owner-administered Section 8 programs. Findings show a continued downward trend in the percentage of errors when compared with results from previous studies. Detailed results are presented elsewhere in this report.

UNITS/HOUSEHOLDS RECEIVING HUD ASSISTANCE

	2005	2006	2007	2008 Actual
Section 8 Low Income Rental Assistance Program:				
Tenant-based assistance a/	2,056,430	2,084,917	2,110,000	2,071,195
Project-based assistance	1,306,740	1,287,529	1,286,662	1,285,331
Total Section 8	3,363,170	3,372,446	3,396,662	3,356,526
Public Housing Program b/	1,177,337	1,172,204	1,155,377	1,140,294
Sub-total	4,540,507	4,544,650	4,552,039	4,496,820
Housing for the Elderly Sec. 202	82,359	86,056	93,925	99,221
Housing for the Disabled Sec. 811	23,243	25,227	26,656	28,014
Tenant-based 811	14,739	14,634	14,836	14,811
Sub-total	120,341	125,917	135,417	142,046
Other Assistance Programs				
Homeownership Assistance Program (Section 235)	6,699	5,573	4,758	4,302
Rental Housing Assistance Program (Section 236)	322,083	318,561	298,046	280,636
Rent Supplement	17,239	16,619	15,041	13,904
Sub-total	346,021	340,753	317,845	298,842
Less estimated number of households receiving more than one form of assistance (double count)	(217,250)	(217,250)	(217,250)	(189,069)
Total, Public and Assisted Housing a/	4,789,619	4,794,070	4,788,051	4,748,639
HOME Tenant-Based Assistance	20,554	23,325	18,172	25,381
HOME Rental Units Completed	33,612	47,598	28,039	23,170
HOME Homebuyer Units Completed	32,307	55,652	34,985	26,790
HOME Existing Homeowners Completed	14,832	16,821	11,221	10,847
HOME Total Households	101,305	143,396	92,417	86,188
CDBG Households (homeownership assistance)	7,530	7,628	6,919	4,521
CDBG Households (owner-occupied rehabilitation)	124,544	131,508	117,830	121,158
Self Help Homeownership Opportunity Program New Homebuyers	2,277	1,868	1,887	1,927 c/
Housing Opportunities for Person With AIDS Households	70,325	67,000	67,850	62,210
Indian Housing Block Grant Households	8,606	8,027	6,168	4,192
Rural Housing & Economic Development	NA	NA	NA	NA
Native Hawaiian Homeland Block Grant Households	72	23	65	95
ADDI (American Dream Downpayment Initiative)	8,894	9,096	6,094	4,209
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	323,553	368,546	299,230	284,500

a/ Figures represent HUD's estimate of funded units. Funded units are the number of units leased during a snapshot in FY 2004 with increases for new tenant protection vouchers. Disaster assistance vouchers are not included.
b/ The calculation used for the PAR has changed to Eligible Unit Months (EUMSs), which is the basic unit for the Operating Fund formula. In addition, most formula elements are paid "per unit month" (PUM) in accordance with the formula regulation.
c/ This number is for the period July 1, 2007 to June 30, 2008. Fourth quarter data were not available in time for publication of the PAR.

NA-Not Available

FINANCIAL MANAGEMENT SYSTEMS

AS OF SEPTEMBER 30, 2008

Total Systems: 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 (14) *

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

Office of Chief Procurement Officer (0) *

HIAMS HUD Integrated Acquisition Management System *

Community Planning and Development (2)

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

Ginnie Mae (1)

P237 Ginnie Mae Financial & Accounting System (GFAS)

* In development; these systems are not included in the total inventory count of 42.

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) **

**During FY 2008, the Office of Housing reported these systems as non financial. However, they need to be validated by independent reviews.

NON COMPLIANT SYSTEMS - 2

Office of Chief Procurement Officer (2)

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

If you have any questions or comments, please call

Frank Murphy
Assistant Chief Financial Officer for Financial Management
at 202-402-3466.

Written comments or suggestions for improving this report
may be submitted by mail to:

U.S. Department of Housing and Urban Development
451 7th St. SW, Room 2210
Washington, DC 20410
Attention: Frank Murphy
Assistant Chief Financial Officer for Financial Management

Or by e-mail to
Frank.J.Murphy@hud.gov

For additional copies of this report, please call the
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EQUAL HOUSING OPPORTUNITY

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT