

Message from the Secretary

November 16, 2009

I am honored to present the U.S. Department of Housing and Urban Development's annual Performance and Accountability Report (PAR) for FY 2009. This report describes our financial and performance results during a year of financial upheaval for our Nation.

For the 10th consecutive year, the Department has earned a "clean" opinion on its financial statements from independent auditors, and, for the 2nd consecutive year, the Department has no material weaknesses. Although our performance data are complete and reliable, we continue to improve our timeliness and accuracy as discussed in the Management's Discussion and Analysis section of this report. This section of the report also addresses information and assurances about the Department's financial systems and management controls required by the Federal Managers' Financial Integrity Act (FMFIA). These systems and controls provide reasonable assurance that the objectives of the FMFIA are being met.

As Congress and President Obama have strategized to bring about stability and recovery, HUD's role has been increasingly prominent. Expanded programs with increased funding have occupied management at HUD, while the ongoing work of promoting sustainable homeownership, community and urban development, and access to affordable housing continued. Our work touches the lives of millions of American families, and never has this work been more critical. The following six strategic principles define HUD's role in addressing national priorities.

HUD is at the forefront of the federal response to the national mortgage meltdown and foreclosure emergency. In the midst of a credit crunch, the Federal Housing Administration (FHA) is playing a critical countercyclical role. FHA's home purchase mortgage insurance business represented 23.1 percent of single family mortgage dollar volume in the first 3 quarters of FY 2009, up from 3.9 percent in 2007. Including refinanced homes, FHA assisted nearly 1.95 million households in FY 2009. HUD is actively leading the efforts in foreclosure mitigation, homeownership counseling, and curbing mortgage abuse and lending discrimination. HUD is an instrumental player in the federal government's efforts to rethink and develop a regulatory structure governing the housing sector to prevent the repetition of the reckless and speculative lending that precipitated the current housing crisis. In addition, FHA's mortgage insurance programs are being updated to better serve today's homebuyers. FHA is currently instituting credit policy changes to strengthen its programs so that they will be available for future generations of homebuyers. And, as it has always done, FHA will continue to employ



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financially sound underwriting techniques in evaluating the mortgages it insures. That practice has enabled the FHA single family mortgage insurance programs to operate over the years without extraordinary assistance from the Congress or the American taxpayer.

Under the American Recovery and Reinvestment Act (Recovery Act), HUD also received an additional \$2 billion to continue the Neighborhood Stabilization Program (NSP) that was established in 2008 to help address and mitigate the Nation's foreclosure crisis. NSP provides grant funds to state and local governments and nonprofit organizations to stabilize communities and neighborhoods that have been negatively affected by foreclosures.

HUD is essential to broader economic recovery and restructuring, given its power to generate jobs quickly and catalyze housing construction and renovation. The Recovery Act invested \$13.6 billion in HUD programs in an ambitious effort to modernize and "green" the public and assisted housing inventory, jumpstart the stalled low-income housing tax credit market, stabilize neighborhoods hard hit by foreclosures, and prevent homelessness. With affordable housing renovation and construction underfunded in recent years, the Recovery Act initiatives will generate local jobs in neighborhoods hardest hit by unemployment. By the end of the fiscal year, 83 percent of the Recovery Act funds had been obligated, and 14 percent of obligated funds had been disbursed. Public tracking of job creation will commence later this month.

HUD is critical to addressing the structural gap between household incomes and housing prices and the persistent unaffordability of housing. HUD already plays an important role in making housing affordable through its investments in rental vouchers, public and assisted housing, and HUD-funded efforts led by states and localities. These efforts recognize that ensuring a stable supply of affordable housing in safe, quality communities enables low-income families and individuals (young and old) to live healthy, productive lives through ready access to first rate schools, continuing education, good jobs, and vital health services. By the end of FY 2009, 4.7 million rental households in America were receiving assistance through HUD programs.

HUD is a clearinghouse for disaster recovery funding, helping to restore and maintain the integrity of housing and neighborhoods that have been struck by natural disasters. HUD continues its ongoing efforts to rebuild in the Gulf Coast states that were damaged by hurricanes in 2005. In FY 2009, HUD disbursed \$9.8 billion for homeowner compensation payments to 150,122 grantees. This year, HUD's Gulf Coast recovery grantees had at least 41,372 units of affordable rental housing in development.

HUD assures that Fair Housing laws are publicized and enforced. HUD also is taking proactive steps to address lending discrimination as part of the Department's Mortgage Abuse Initiative. During the fiscal year, 60 percent of complaints received were closed within 100 days, and 97 percent of prior year complaints were closed. The Department has included an increase in its FY 2010 funding to expedite the handling of complaints. Also in FY 2009, HUD held 933 education and outreach events, reaching more than one million people, in the Department's effort to educate the public on their rights and obligations provided under the Fair Housing Act

and substantially equivalent state and local fair housing laws. We will remain vigilant in our efforts to educate citizens with respect to housing and lending rights and responsibilities and to ensure that the rights of all Americans are protected and enforced.

HUD is a vehicle for advancing sustainable and inclusive growth patterns on a metropolitan scale, communities of choice on a neighborhood scale, and energy efficiency on an individual building scale. HUD is establishing unprecedented partnerships with the Departments of Transportation, Health and Human Services, Education, and Energy, and with the Environmental Protection Agency to ensure that the location of affordable housing enhances access to public transportation, health services, employment, energy conservation, “greening” of the environment, and educational opportunities. These collaborative efforts establish community development and redevelopment as critical components to addressing climate change and energy independence.

These roles require that HUD be nimble and market savvy, with the capacity and expertise necessary to galvanize its vast network of partners which include, but is not limited to: state and local governments, builders, lenders, realtors, appraisers, energy auditors, community development corporations, technical providers, and research institutions.

The President’s budget request for FY 2010 includes the development of a “Transformation Initiative” that would dedicate one percent of HUD’s budget to rigorous research and evaluation programs, major research demonstrations, technical assistance, capacity building, and information technology. Too often, federal agencies operate in a “fact-free zone,” and little consideration is given to whether the tremendous efforts necessary to implement programs are likely to yield, or have yielded commensurate results.

Looking ahead, the Department will be focusing on five strategic priorities to improve business functions and delivery of services.

- HUD must embrace *Systemic Reform* to reinvent the way it delivers traditional programs, such as public and assisted housing, rental vouchers, and FHA’s mortgage insurance programs.
- HUD must and will engage in continuous *Policy Innovation* to move beyond legacy programs and shape new markets and methods in the production and preservation of affordable housing, the “greening” of residential housing, the regeneration of distressed neighborhoods, and the promotion of sustainable growth in metropolitan America.
- HUD must and will harness *Private Sector Capital and Talent* to ensure that innovations become widely adopted in market practice and that public resources leverage private sector investment.

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- ✦ HUD must invent a new kind of *Partnership and Collaboration*, to respond to multidimensional challenges facing the country (e.g., congestion, climate change, competitiveness, aging, and poverty), by integrating federal housing and related policies on transportation, energy, labor, health, environment, and education.
- ✦ Finally, HUD must commit to an unprecedented level of *Transparency and Accountability*, to use metrics to gauge performance; research to evaluate programs; demonstrations to foster policy innovation; technical assistance to identify and diffuse innovation; and technology to track spending, inform decisions, and help curb fraud, waste, and abuse.

These priorities must and will be addressed as we strive to optimize our human capital resources, modernize our information technology, and maximize our program efficiency and effectiveness.

Planning for the Nation's housing needs and community development is not optional. It is essential that we, as a Nation, address the basic living needs of every citizen, recognizing how place and time can alter our strategy, and that we manage the resources of the American public with integrity, accountability, and transparency. At HUD, this is our commitment to the people we serve.



Shaun Donovan

Secretary