

Management's Discussion and Analysis

Mission, Organization, and Major Program Activities

Our Mission

To 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 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:

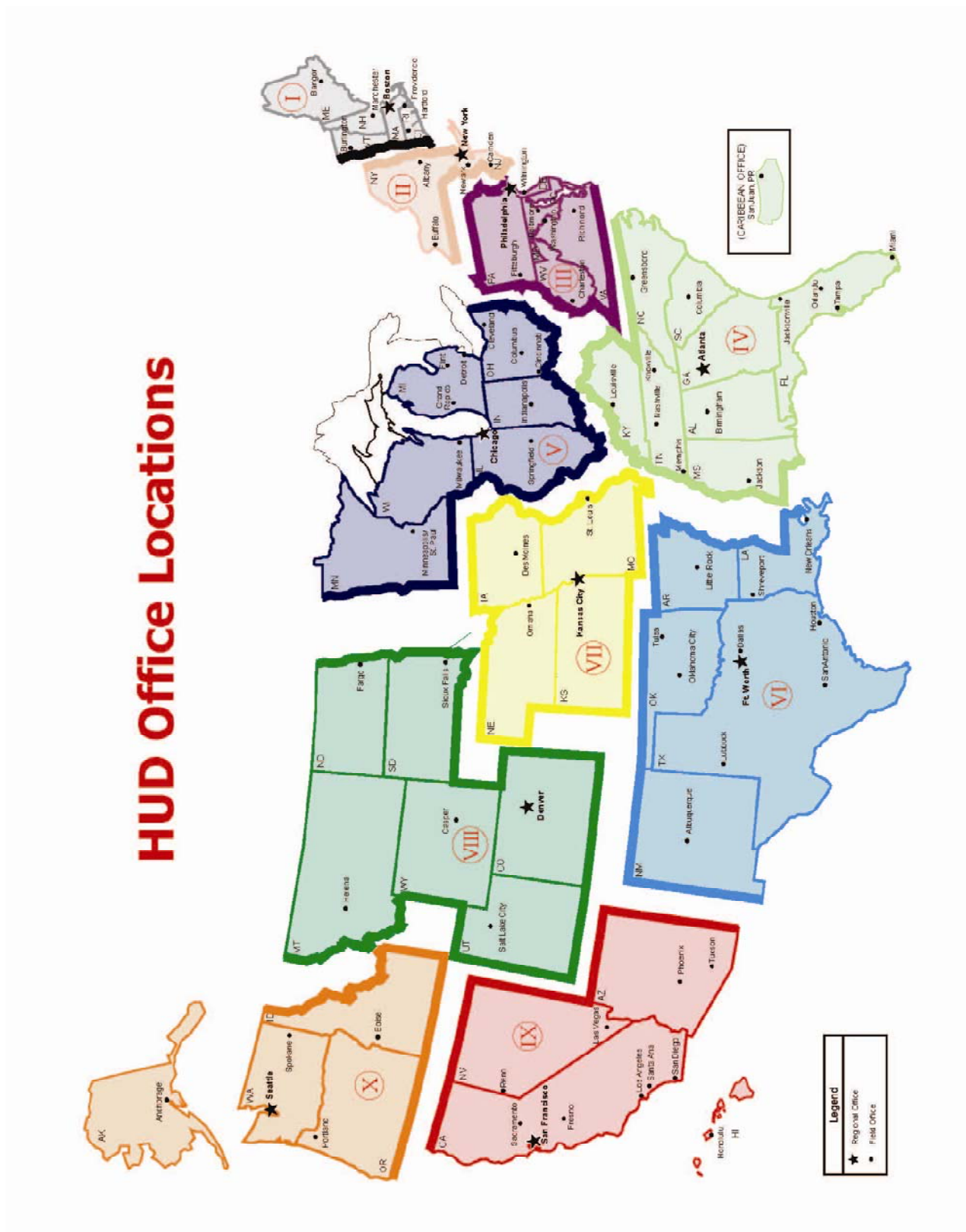
- Foster the orderly growth and development of the nation's urban areas;
- Coordinate Federal activities affecting housing and urban development;
- Provide technical assistance and information to aid state, county, town, or other local governments in developing solutions to community and metropolitan 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 mission has been more prominent during the last few years. Congress has appropriated additional funds, first to deal with national disasters including the New York City terrorism attacks, hurricanes, tornados, and floods, and more currently to help address the worst economic crisis since the Great Depression.

The Department accomplishes its mission through component organizations and offices that administer various programs, which are carried out through a network of regional offices and smaller field offices (shown below), as well as through grantees, contractors, and other business partners.

HUD FY 2009 Performance and Accountability Report

Section 1: Management's Discussion and Analysis



HUD program areas include:

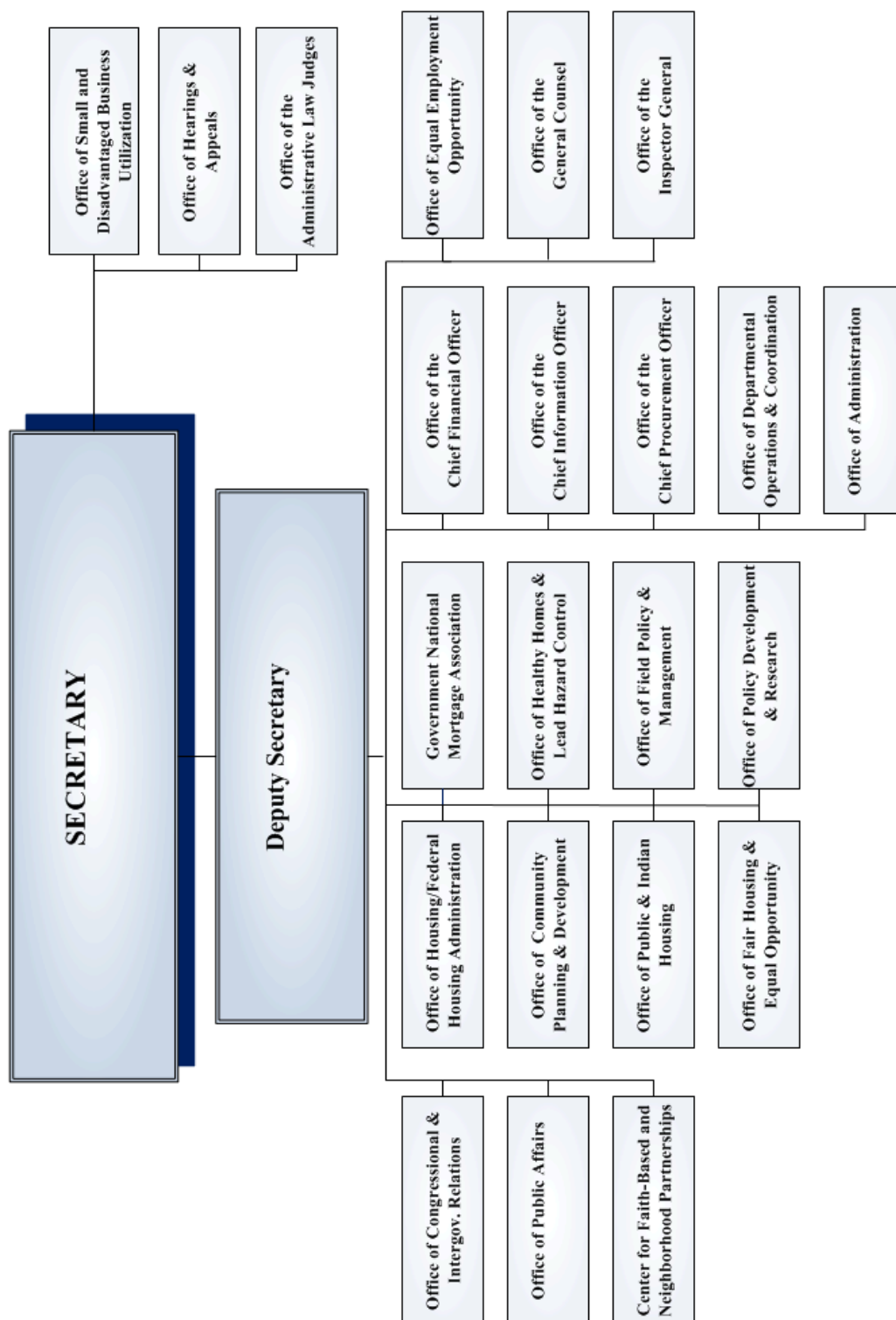
- The Office of Housing – Federal Housing Administration (Housing/FHA),
- The Government National Mortgage Association (Ginnie Mae),
- The Office of Public and Indian Housing (PIH),
- The Office of Community Planning and Development (CPD),
- The Office of Fair Housing and Equal Opportunity (FHEO),
- The Office of Healthy Homes and Lead Hazard Control (OHHLHC), and
- The Center for Faith-Based and Neighborhood Partnerships (CFBNP).

These offices, as well as other support organizations and their respective major activities, are shown on the organization chart and table that follow.

One of these support organizations plays a unique role in the formulation of policy and program design – the Office of Policy Development and Research. This Office 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 also provides objective program evaluation, data, and analysis to inform policy decisions and improve program results.

Major changes to HUD's organizational structure will occur in FY 2010, including the establishment of three new offices within the Office of the Deputy Secretary: the Office of Sustainable Housing and Communities, the Office of Strategic Planning and Management, and the Office of the Chief Operating Officer. These organizational changes will help guide fundamental changes throughout the Department that will promote a greater focus on the nation's needs and better results in our key areas. The proposed Office of Sustainable Housing and Communities will manage HUD's relationships with other Cabinet agencies and provide communities with the support they need to ensure housing, transportation, energy, and "green" building investments are working together to build strong neighborhoods. The Office of Strategic Planning and Management, currently located in the Office of the Chief Financial Officer, facilitates and manages HUD's strategic planning and performance measurement process and oversees HUD's FY 2009 Recovery Act programs with \$13.6 billion in funding. HUD's proposed new Office of the Chief Operating Officer will provide leadership and a comprehensive strategy for HUD's operations, including procurement, human resources, and information technology with direct oversight from the Deputy Secretary.

HUD's Organization and Reporting Structure (FY 2009)



Major Activities

Homeownership Opportunities



Insures Single Family, Multifamily, Title I, Hospital, and Long-term Care facility mortgage loans in order to make possible homeownership opportunities for households that would otherwise have difficulty obtaining mortgages (e.g., first time homebuyers or reverse mortgages for the elderly), increase the inventory of affordable housing, and enable financing opportunities for health care facilities.



Works with private lending institutions to issue eligible pools of federally insured mortgage loans, called Ginnie Mae Mortgage Backed Securities, that are sold to investors with the proceeds then being returned to Mortgagees (to be loaned again) resulting in the expansion of homeownership opportunities.

Decent Affordable Housing



Office of Housing

Provides rental subsidy and grant programs such as Section 8 Project-Based Rental Assistance, which provides housing to low-, very low-, and moderate-income persons.



Office of Public and Indian Housing

Provides Housing Choice Voucher program participants (low-income families) with the ability to choose and lease or purchase safe, decent, and affordable privately-owned rental housing; furnishes technical and professional assistance as well as subsidies in planning, developing, and managing public housing developments for low-income families, the elderly, and persons with disabilities; and makes available grants and loans to lower-income Native American, Alaska Native, and Native Hawaiian communities and families.

Provides Public Housing Capital Funds by formula for public housing capital improvements (i.e., developing, rehabilitating, or demolishing units), replacement housing, and management improvements; provides Public Housing Operating Funds for financial assistance in the form of Operating Subsidies which are provided for project operation.



Office of Community Planning and Development

Provides non-profit community housing organizations with HOME funds for home rehabilitation, homebuyer assistance, rental housing production, and tenant-based rental assistance as a means to strengthen communities and promote decent, safe, affordable housing.

Strengthen Communities



Office of Community Planning and Development

Provides grants for programs and projects to communities, which in turn encourages empowerment of local residents by helping to give them a voice in the future of their neighborhoods and also awards grants to state governments, large cities, urban counties, and U.S. territories for the purpose of providing homeless persons with basic shelter and essential supportive services, rehabilitation or remodeling of buildings used as a shelters, operation and maintenance of these facilities, essential supportive services (i.e., case management, physical and mental health treatment, substance abuse counseling, or childcare), homeless prevention, and grant administration.



Office of Healthy Homes and Lead Hazard Control

Provides funds to state and local governments and the private sector to develop and implement cost-effective ways to reduce lead-based paint and other residential safety and health hazards.

Equal Opportunity in Housing



Office of Fair Housing and Equal Opportunity

Ensures equal housing opportunities for all persons living in America by increasing public awareness of fair housing laws, housing discrimination, lending discrimination and predatory lending; educates the public about what they can do and where to go for assistance; and investigates and resolves complaints of alleged housing discrimination filed by private citizens and interest groups throughout the nation.

Participation of Faith Based and Community Organizations



Center for Faith Based and Neighborhood Partnerships

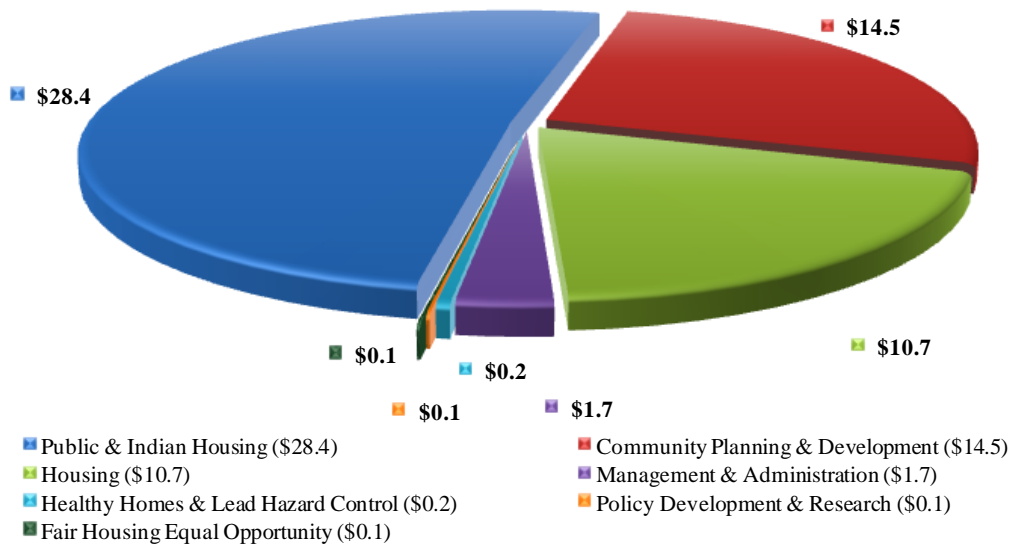
Provides grant writing training sessions for organizations seeking to obtain federal grants. The Center also works to bring together state, local, and federal community partners within the participating area to build bridges and form partnerships with faith-based and community organizations.

HUD FY 2009 Performance and Accountability Report

Section 1: Management's Discussion and Analysis

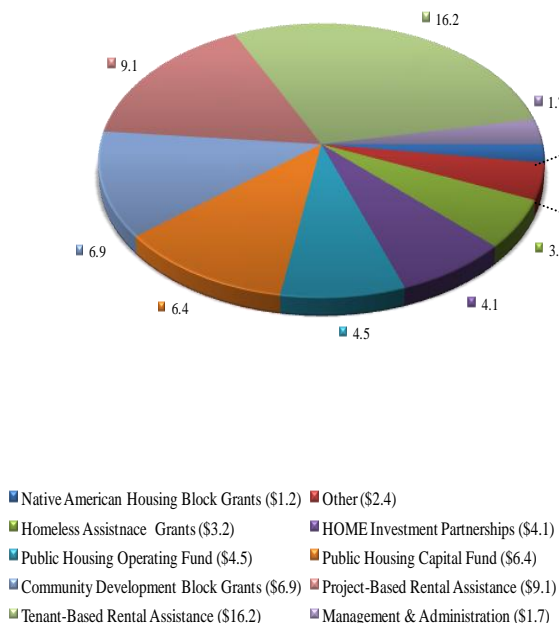
As noted in the table on the previous page, the Department's major activities cross organizational boundaries. It is HUD's team approach that enables the Department to be focused and effective in supporting HUD's mission and achieving its Strategic Goals. Resources, i.e., budget authority, for HUD's principal organizations and programs are shown in the charts below:

HUD FY 2009 Discretionary Gross Budget Authority (*\$55.7 billion)
Dollars In Billions

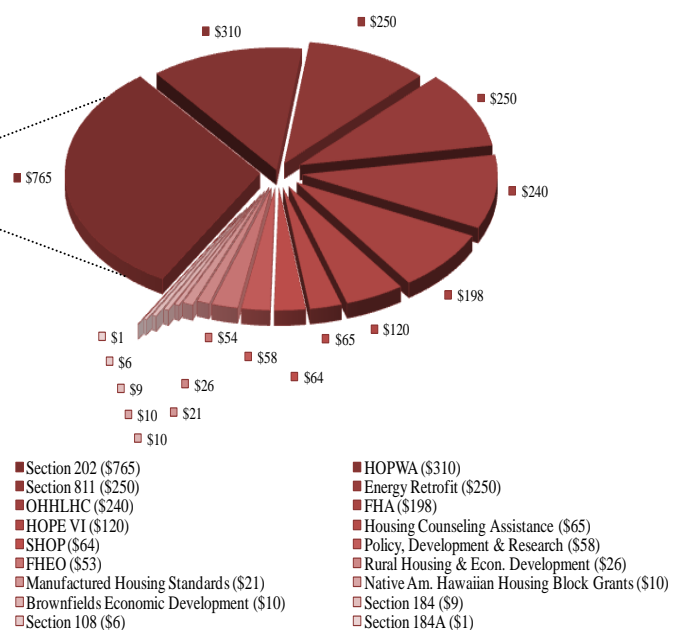


*Gross budget authority includes Recovery Act funds.

HUD FY 2009 Major Programs With Budget Authority >\$1B
Dollars In Billions



HUD FY 2009 "Other" Programs With Budget Authority <\$1B*
Dollars In Millions



*Numbers are rounded.

Management's Discussion and Analysis
Mission, Organization, and Major Program Activities

The resources (dollars and staff) allocated to HUD strategic goals are reflected on the table shown below:

STRATEGIC GOAL A	
Increase Homeownership Opportunities	
Summary	FY 2009 Actual
Expenditures (\$M)	\$13,571.5
Staffing	1,235
STRATEGIC GOAL B	
Promote Decent Affordable Housing	
Summary	FY 2009 Actual
Expenditures (\$M)	\$34,474.2
Staffing	3,046
STRATEGIC GOAL C	
Strengthen Communities	
Summary	FY 2009 Actual
Expenditures (\$M)	\$5,550.8
Staffing	971
STRATEGIC GOAL D	
Ensure Equal Opportunity in Housing	
Summary	FY 2009 Actual
Expenditures (\$M)	\$21.1
Staffing	655
STRATEGIC GOAL E	
Embrace High Standard of Ethics, Management, and Accountability	
Summary	FY 2009 Actual
Expenditures (\$M)	\$8,125.1
Staffing	2,910
STRATEGIC GOAL F	
Promote Participation of Faith-Based and Community Organizations	
Summary	FY 2009 Actual
Expenditures (\$M)	\$1.8
Staffing	64
TOTAL	
Expenditures (\$M)	\$61,744.5
Staffing	8,881

The expenditures reflected on the above table represent prorated gross costs, less unassigned costs of \$182 million, as reported on the Consolidated Statement of Net Cost found in Section 3 of this report.

HUD's Strategic Framework

The Government Performance and Results Act (GPRA) requires each Agency to develop a five or more year strategic plan and update that plan every three years. HUD's current Strategic Plan runs from FY 2006 to 2011. In accordance with the above requirement, the Department is updating the Plan to better capture the existing challenges and roles of the Department and the priorities of the new Administration. The Department expects to provide the updated Strategic Plan for Congressional consideration and public comment in January 2010. This report addresses the FY 2009 results, accomplishments, and challenges in conjunction with the current Strategic Plan.

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

HUD's four-tiered performance management framework for measuring performance begins by setting strategic goals and is illustrated in the following chart:



HUD's six Strategic Goals (available online at <http://www.hud.gov/offices/cfo/stratplan.cfm>) 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. A companion discussion that summarizes the public benefit and resources HUD uses to achieve its mission through key program and policy activities, individual measurements, and results is found in Section 2, Performance Information.

HUD's Strategic Goals

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

FY 2009 Performance Overview

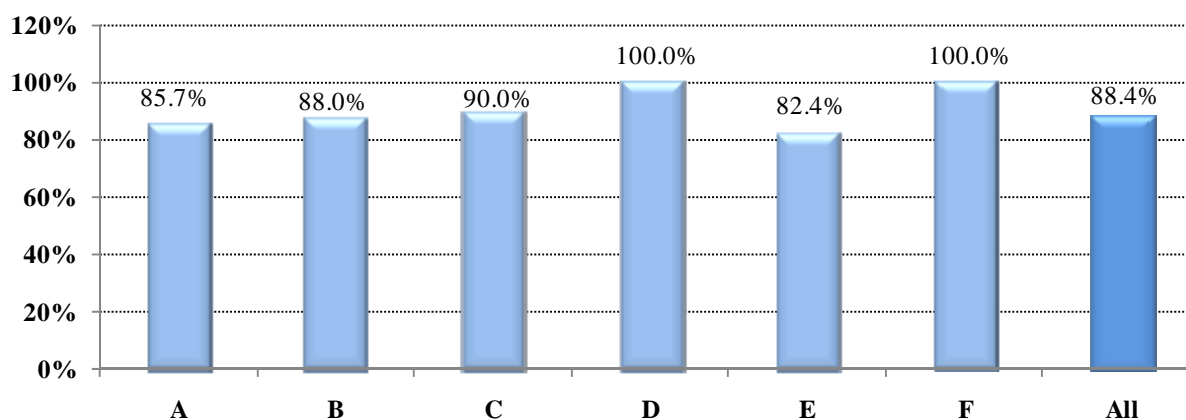
The Department and the nation have faced an extremely challenging year as the economic crisis continued. President Obama and Secretary Donovan recognize the importance of a recovery in the housing arena as a bedrock to the revitalization of the nation's economy. The Department's programs place HUD at 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 to stabilize the housing market. HUD was a leading player in foreclosure mitigation, homeownership counseling, and multiple efforts to curb mortgage abuse and lending discrimination.

HUD also helped to restore and maintain the integrity of housing and neighborhoods struck by national disasters. In addition to the ongoing efforts to rebuild in the Gulf Coast states that were damaged by hurricanes in 2005, HUD provided disaster assistance funding to victims of recent storms and flooding in Alabama, Oklahoma, Oregon, South Dakota, Texas, and Washington.

HUD's FY 2009 Overall Results

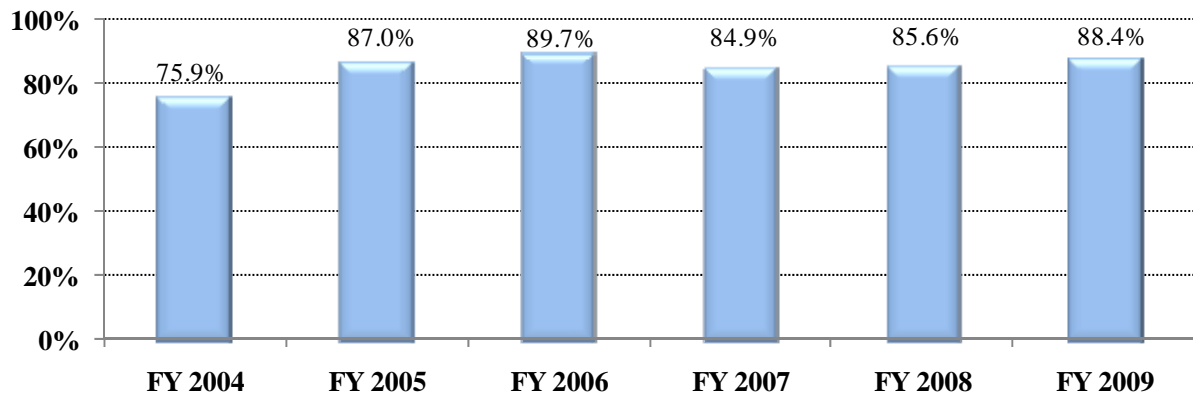
The two charts below provide a graphical summary of HUD's performance indicators for FY 2009 by strategic goal, and an historical representation of HUD's summary performance over the past six years.

**Percent of FY 2009
Performance Indicators Met**
Strategic Goal



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

Summary of Performance Indicators Met



The collective efforts of HUD's staff resulted in achievement of 88.4 percent of its FY 2009 performance goals, maintaining the positive trend of the last two years. This is especially noteworthy given the financial upheaval experienced by the nation this past year, which impacted the housing industry particularly hard. For a broader explanation regarding each performance indicator, including a description of the public benefit, results, and resource information, see Section 2.

The following pages provide a high level summary, including accomplishments, challenges, and forward looking information on each of HUD's strategic goals. The Recovery Act also provided additional funding for eight HUD programs totaling \$13.6 billion, and at the end of FY 2009, HUD had obligated over \$11.3 billion (approximately 83 percent) to grantees, and disbursed nearly \$1.5 billion (or 14 percent) to the grantees. These programs are crosscutting among HUD's programmatic strategic goals. The Recovery Act is described in more detail beginning on page 40 of this document, and a further explanation appears in the Management Challenges narrative found in Section 4.

Goal A: Increasing Homeownership Opportunities

For those ready to become a homeowner, homeownership can contribute to personal asset development, better neighborhoods and schools, stability of job tenure, and a wider choice of housing types as noted in a 2003 study by Robert D. Dietz of Ohio State University on *The Social Consequences of Homeownership*. The current foreclosure crisis has taken a toll on homeownership, with millions of Americans projected to lose their homes within the next few years. HUD is playing a central role in the Administration's efforts to prevent foreclosures and to mitigate the impact that foreclosed and abandoned properties have on neighborhoods.

Historically, HUD's strategic goal of increasing homeownership opportunities has been achieved primarily through providing FHA single family mortgage insurance, improving decision-making through housing counseling, and fighting practices that permit predatory lending. In addition, several other HUD programs support homeownership, among which are: Community

HUD FY 2009 Performance and Accountability Report

Section 1: Management's Discussion and Analysis

Development Block Grants, HOME Investment Partnerships, Self-help Opportunities program, Native American Housing Assistance and Self-Determination, and HOPE VI.

Under the 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 non-profit organizations to stabilize communities and neighborhoods that have been negatively affected by foreclosures.

Accomplishments

This year, the Department has had an increased focus on keeping families in their homes, while still assisting potential home buyers in attaining their dream of homeownership. There are several key programs that contributed to the accomplishment of these objectives.

Making Home Affordable (MHA)

The MHA program was launched in February 2009 as a joint effort of HUD and the Department of the Treasury to strengthen homeownership and to reduce foreclosures and abandonment. The initiative includes two key components:

- ✦ The Home Affordable Refinance Program (HARP), which helps families refinance into lower interest rate mortgages; and
- ✦ The Home Affordable Modification Program (HAMP), which is providing up to \$75 billion, including \$50 billion from the Troubled Asset Recovery Program, to offer incentives to all parties for making mortgage modifications that will provide sustainable, affordable mortgage payments for borrowers.

At the outset, MHA allowed homeowners to refinance up to 5 percent above their current appraised value. On July 1, 2009, Secretary Donovan announced that this program would expand, allowing refinancing of FHA-insured mortgages for up to 125 percent of the value of the home for eligible homeowners. Beginning August 15, 2009, the MHA added another tool to help homeowners by allowing eligible borrowers to permanently reduce their mortgage payment through the use of a partial claim, which defers the repayment of mortgage principal through an interest-free subordinate mortgage that is not due until the first mortgage is paid off. This program has been extremely successful in keeping homeowners in their homes. As of September 30, 2009, 487,081 borrowers have received either temporary or permanent loan modifications through MHA.

Housing Counseling Assistance

The Housing Counseling program supports the Department in achieving its strategic goal to increase homeownership opportunities through delivery of a wide variety of housing counseling services to potential homebuyers and existing homeowners. The FY 2009 performance goal to ensure that at least 30 percent of clients receiving pre-purchase counseling attain the outcome of purchasing a home or becoming mortgage-ready within 90 days was significantly exceeded at

42.2 percent. In addition, HUD significantly exceeded the 80 percent target for total mortgagors that complete counseling for resolving or preventing mortgage delinquency and then successfully avoid foreclosure, with a result of 96.8 percent. The levels for both goals achieved reflect the results through the third quarter of FY 2009, which is the most recent data. [For more detailed information, see Section 2, Indicators A.8 and A.10.]

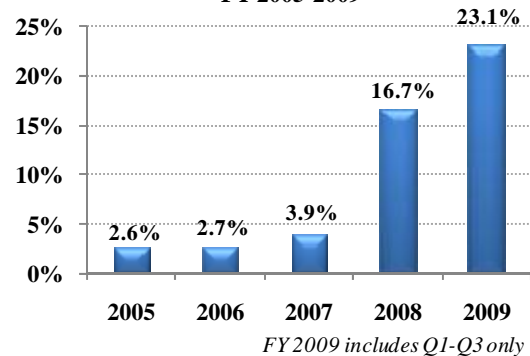
During the current economic crisis, FHA has contributed to preventing foreclosures through its loss mitigation programs. For the fiscal year that ended September 30, 2009, approximately 450,000 loss mitigation transactions were processed for FHA borrowers. These transactions consisted of 322,000 forbearances 21,000 special forbearances, 84,000 loan modifications, and 23,000 partial claims. [For more detailed information, see Section 2, Indicator A.16.]

FHA Single Family Insurance

FHA's main programs are designed to promote sustainable homeownership by stabilizing the availability of mortgage credit in the marketplace via mortgage insurance, which encourages lending to households not served or underserved by the private sector, most notably first time and minority homebuyers.

The number of FHA single family mortgage insurance endorsements during FY 2009 was 1,947,158, exceeding the number of FY 2008 endorsements of 1,200,111, an increase of 62 percent (and which represents nearly a third of the total mortgage market). Of those endorsements, the share that went to first time homebuyers was approximately 79 percent, and the percentage to minorities was 32 percent. The goal for endorsements to first time homebuyers was exceeded by 6 percentage points while the goal for minorities (Goal A.7) was missed by 1.0 percent, as performance in this area was significantly constrained by the housing market and economic conditions. [For more detailed information, see Section 2, Indicators A.5, A.6, and A.7.]

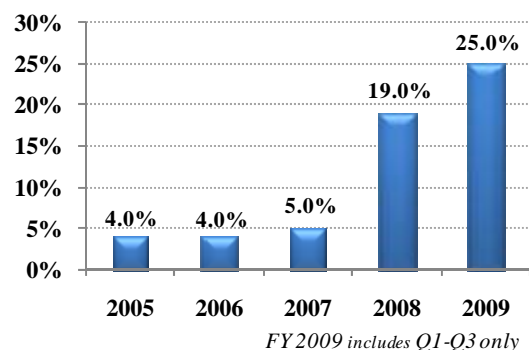
Single Family Purchase Insurance Activity
FHA Percentage of Market Share
FY 2005-2009



Ginnie Mae

Ginnie Mae expands affordable housing by working with private lending institutions that issue eligible government insured loans, which are then pooled as collateral for Ginnie Mae Mortgage Backed Securities. These pooled securities are sold to investors with the proceeds then being returned to the Mortgagees to be lent out again, expanding homeownership. The full faith and credit of

Ginnie Mae Percentage of Market Share
FY 2005-2009



HUD FY 2009 Performance and Accountability Report

Section 1: Management's Discussion and Analysis

the U.S. government back these pooled loans, guaranteeing the payment of principal and interest, as they are insured by FHA, the Department of Veterans Affairs, the Office of Public and Indian Housing, and the Department of Agriculture's Rural Development Housing and Community Facilities Program. Ginnie Mae's share of the secondary mortgage market also increased during the year to over 30 percent. (More information about Ginnie Mae is available at <http://www.ginniemae.gov/>.)

Other Programs

CPD and PIH also contributed to the goal of providing homeownership assistance through various programs targeted to help specific groups of low- and moderate-income households. CPD targeted assistance to 34,145 households in FY 2009 through its HOME program, and actually provided assistance to 35,610 low-income homebuyers and homeowners. Additionally, through the CDBG program, HUD provided assistance to an estimated 106,367 households, of which 2,441 households received homeownership assistance, and 103,926 units of owner-occupied rehabilitation were completed. A total of 2,417 loan guarantees were also provided through PIH's Sections 184 and 184A Loan Guarantee programs for Indian and Native Hawaiian housing, targeted at 1,717 loan guarantees for FY 2009. [For more detailed information, see Section 2, Indicator A.1.]

Challenges

The complexity and severity of the economic downturn has been a challenge to HUD's efforts to assist homeowners. Those challenges are noted below:

Stability of FHA

The possibility of a sizable volume of delinquencies remains a significant risk for the housing market and for FHA in the near term. Nonetheless, HUD anticipates that the Mutual Mortgage Insurance Fund will remain financially sound.

FHA's combined reserve funds hold more than \$31 billion in reserves. The capital reserve ratio, which is an indicator of the financial soundness of the fund, has dropped below two percent, due to higher than expected future net losses as a result of the severe decline in house prices, overall performance of the economy, and future housing price projections. However, the combined reserves are more than sufficient to meet all but the most catastrophic likelihoods. Further, the capital ratio is projected to rise above the Congressionally-mandated level within a few years without any program modifications, and the Department is not seeking taxpayer assistance. [For more detailed information, see Section 2, Indicator E.8.]

Hope for Homeowners (H4H)

The H4H program, significantly underused since its inception on October 1, 2008, was modified on May 20, 2009 and integrated with the Making Home Affordable Program to make it more appealing to lenders. Under the program, borrowers having difficulty paying their mortgages

will be eligible to refinance into FHA-insured mortgages they can afford. Participating lenders receive an incentive to “write down” the size of the mortgage and extend the term to 360 months.

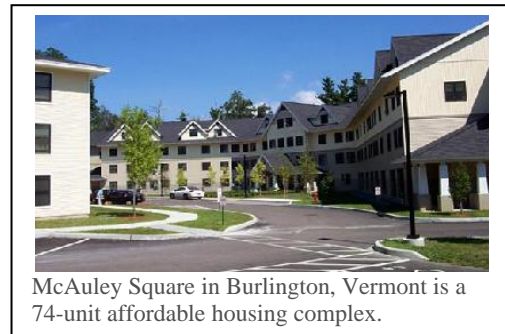
Looking to the Future

HUD’s FY 2010 budget includes a comprehensive “Combating Abusive and Fraudulent Mortgage Practices” initiative. The \$37 million, cross-cutting initiative has three major objectives: 1) ensure fair lending with respect to discrimination and abusive loan modifications; 2) effectively enforce the Real Estate Settlement Procedures Act and the Secure Fair Enforcement Mortgage Licensing Act of 2008; and 3) upgrade data systems, administration, and staffing of FHA to protect consumers and the FHA Mutual Mortgage Insurance fund from fraud, while expanding the availability of mortgages to credit-worthy borrowers.

Additionally, new real estate settlement procedure regulations will take effect on January 1, 2010, requiring loan originators to provide borrowers with a standard Good Faith Estimate that clearly discloses key loan terms and closing costs and also requiring closing agents to provide borrowers with a new HUD-1 settlement statement. The new regulations help 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 kickbacks that increase the cost of settlement services.

Goal B: Promoting Decent Affordable Housing

HUD is critical to addressing the structural gap between household incomes and housing costs and the persistent un-affordability of housing. The Department plays an important role in making housing affordable through its investments in rental vouchers, public and assisted housing, mortgage loan insurance to finance the construction or rehabilitation of a broad range of rental housing, and HUD-funded efforts led by states and localities.



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 quality schools, continuing education, good jobs, and important health services. HUD’s strategic goal of promoting decent affordable housing is achieved through expanding access to affordable rental housing and improving the physical quality and management accountability of public and assisted housing. HUD is also working to increase housing opportunities for the elderly and persons with disabilities, and transitioning families from HUD assisted housing to self-sufficiency.

Accomplishments

HUD measures its success in meeting this goal in part through the program performance measures discussed on the following pages.

Section 8 Housing Choice Voucher Program

One of the Department's larger programs, the Section 8 Housing Choice Voucher Program, 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 more than 2,450 PHAs. This program provides participants with the ability to seek rental housing of their choice and has portable features so that families are permitted to take their vouchers to other rental markets in pursuit of available job and other economic opportunities. One of HUD's priorities is to improve the utilization of Housing Choice Voucher funding which enables PHAs to provide more eligible families with affordable housing. HUD has noted an increase in the utilization rate from 90.0 percent in FY 2006 to 102 percent in FY 2009). [For more detailed information, see Section 2, Indicator B.16.]

Public Housing

The Department's commitment to provide decent and safe affordable housing is also recognized through public housing assistance to low-income families. There are approximately 1.1 million households living in public housing units, managed by 3,150 Public Housing Agencies (PHAs). One of HUD's goals is to provide technical assistance to PHAs in managing their asset management properties and preventing PHAs from becoming low performing or troubled agencies. To meet these goals, HUD's Public Housing Hubs and Program Centers provide technical assistance through comprehensive/consolidated reviews on selected PHAs that manage 80 percent of PIH funds and on-site asset management reviews on selected developments. [For more detailed information, see Section 2, Indicator B.17 to B.19.]

Project-Based Rental Assistance (PBRA) Program

The Project-Based Rental Assistance (PBRA) Program assists approximately 1.2 million low- and very low-income households in obtaining decent, safe, and sanitary housing in private accommodations. This critical program serves families, elderly households, disabled households, and provides transitional housing for the homeless. Through PBRA funding, HUD renews Section 8 Project-Based assistance contracts with owners of multifamily rental housing. HUD makes up the difference between what a household can afford and the approved rent for an adequate housing unit in a multifamily development. Without this assistance, most of the people served by this program would face unsafe housing, overcrowded housing, or homelessness.

In FY 2009, the Recovery Act provided \$2 billion to the PBRA program to fully fund 12-month rental assistance contracts with owners of multifamily rental housing projects. Without this funding, many Section 8 contracts could have run out of money during 2009. In the past, contracts were being funded for periods of less than one year. As a result of the Recovery Act,

there will be sufficient money to fund all expiring Section 8 contracts for full twelve month terms.

Housing for the Elderly (Section 202) and Housing for Persons with Disabilities (Section 811)

HUD runs highly targeted programs to promote affordable housing for underserved populations. Two such programs are Housing for the Elderly (Section 202) and Housing for Persons with Disabilities (Section 811). Households headed by an elderly individual or a person with a disability receive HUD rental assistance that provides them with the opportunity to afford a decent place to live and often helps them to live independent lives. These programs supported the goal to increase the availability of affordable housing for the elderly and persons with disabilities by creating an additional 208 projects in FY 2009. The FY 2009 level was determined to be at 4,162 Section 202 units (111 projects) and 1,035 Section 811 units (97 projects) respectively, thereby exceeding both targets. [For more detailed information, see Section 2, Indicator B.11.]

FHA Multifamily Insurance

Maintaining FHA multifamily volume will help fulfill the outcome goal of making more decent rental housing available to consumers at a modest cost. (Without this program, more families would be at risk of facing possible worst case housing needs.) FHA brings stability to the mortgage market for multifamily housing. FHA's programs are important for a number of higher-risk entities, including small builders, buyers or owners of aging inner-city properties, and nonprofit sponsors which play a crucial role in the affordable housing market. FHA's unique and valuable products include insurance that covers both the construction financing and long-term permanent financing of modest-cost rental housing. Further, these products serve as a vehicle to help lenders obtain the benefits of Ginnie Mae securitization. FHA also retains a leadership position in the market for high loan-to-value and long-term fully amortizing multifamily loans, which can help in the provision of affordable rental housing.

FHA promotes decent affordable housing through its Multifamily Insurance program and its goal to endorse at least 626 multifamily mortgages. In FY 2009, FHA endorsed 713 multifamily loans, which exceeded the targeted level of 626 by 14 percent. These loans provided the public a variety of housing options that included 449 rental projects, 179 nursing homes, 77 assisted living facilities, 7 cooperatives, and one board and care facility. [For more detailed information, see Section 2, Indicator B.4.]

Physical Quality Standards

The Department's commitment to provide decent and safe affordable housing is also supported through goals that track compliance with HUD's physical inspection standards for insured privately owned multifamily properties and public housing. Through the Department's physical housing assessment process, PHAs and multifamily property owners are provided information on the status of the physical condition of their inventory, an analysis of the most common deficiencies, and a comparison to the prior inspection, so that they can monitor their progress in

HUD FY 2009 Performance and Accountability Report

Section 1: Management's Discussion and Analysis

providing decent and safe affordable housing. HUD's field office staff uses this data to prioritize their monitoring and technical assistance to PHAs that represent the greatest risk to the program. As of September 30, 2009, 84.5 percent of public housing units met HUD's physical condition standards. This is consistent with the FY 2008 performance. In privately insured multifamily properties, 93.3 percent of public housing units met HUD's physical condition standards, exceeding the targeted level of 92 percent. [For more detailed information, see Section 2, Indicators B.9 and B.17.]

Asset Management

Financial management affects HUD's ability to promote decent affordable housing. A "Public Housing Cost Study" mandated by Congress and conducted by the Harvard University Graduate School of Design recommended a transition to asset management to increase the focus and accountability of PHAs for each of their properties. This study recommended that public housing adopt a business model similar to multifamily housing, with project based budgeting, accounting, and management. PHAs with 400 or more units will fully implement asset management by FY 2011. As of the end of FY 2009, HUD had certified conversion to asset management for 92 PHAs, or 75 percent of those that applied. This surpassed the HUD goal of 50 percent. [For more detailed information, see Section 2, Indicator B.25.]

Other HUD Programs

The Department is committed to developing new voucher programs. June 22, 2009 marked the tenth anniversary of the Supreme Court's ruling in *Olmstead v. L.C. & E.W.*, which affirmed the rights of individuals with disabilities to live independently. To commemorate this landmark decision, the President declared 2009 the *Year of Community Living*. HUD joined the President's commemoration of the tenth anniversary of the Supreme Court's *Olmstead* decision by offering rental assistance to 4,000 non-elderly families with disabilities, including 1,000 vouchers specifically targeted to those transitioning out of nursing homes and other care facilities.

Other major HUD programs promote decent safe affordable housing. The CDBG, HOME Investment Partnerships, Housing Opportunities for Persons With AIDS, Section 202, Section 811, and Indian Housing Block Grant programs all provide rental assistance. Together, these programs provided assistance to 122,889 households in FY 2009. This amount exceeded HUD's FY 2009 goal of assisting 113,387 households by 9,498, or eight percent. [For more detailed information, see Section 2, Indicator B.1.]

Challenges

Challenges for this strategic goal relate to affordability and supply that affect program cost. A recurring challenge is HUD's efforts to address improper payments and how the Department will further reduce its improper payment rate.

Housing Affordability

Housing affordability for low-income individuals is a critical problem, as reduction to income for this group of renters has been among the highest. The number of people facing disproportionate rental cost burdens remains extremely high in light of weaker incomes and escalating rents due to the increasing demand for the most affordable housing. The number of families earning between \$20,000 and \$50,000 who now pay more than a third of their income for housing has increased by 20 percent in just the last three years. It is clear that the need for rental assistance for the most vulnerable families will be a continuing challenge.

Supply of Affordable Rental Units

HUD's goal of promoting decent affordable housing also focuses on the long-term structural gap between the cost of building and operating a standard-quality housing unit, and the ability of lower-income households to afford such units. Over the past decade, HUD's Rental Assistance programs have not kept pace in providing support to the nation's renters to bridge this gap. In 2005, nearly 6.0 million very low-income renter households had "worst case needs," because they had either severe rent burdens (91 percent) or severely inadequate units (4.4 percent), or both (4.3 percent).¹ The primary underlying factor is the insufficient supply of rental units affordable to households with extremely low incomes.

The nation's housing stock grew by only 0.7 percent during the 12 months ending in June 2009. Among occupied units, owner-occupied stock declined by 110,000 while renter-occupied units expanded by 1,000,000. 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. Unsubsidized new apartments tend not to be affordable: among units completed in the first quarter of 2009, the median asking rent was \$1,002, down 12 percent from a year earlier.² Such units remain out of reach for extremely low-income households, whose average monthly income was only \$679 in 2007.³

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, CDBG, and HOPE VI, supports the annual addition of more than 100,000 units, of which 95 percent qualify as affordable.⁴ However, major purchasers of housing tax credits experienced sharp declines in profits during the financial crisis. The lack of profits in 2008 reduced their need for the tax shelter such credits offer, which resulted in numerous proposals for affordable housing developments without financing.

¹ HUD, 2007, "Affordable Housing Needs 2005: Report to Congress."
<http://www.huduser.org/publications/affhsg/affhsgneeds.html>

² Data are from "U.S. Housing Market Conditions, 2nd Quarter, 2009."

³ Policy Development and Research tabulations of the American Housing Survey

⁴ Office of Policy Development and Research (January 2006), "Updating the Low Income Housing Tax Credit Database: Projects Placed in Service Through 2003," available at
<http://www.huduser.org/Datasets/lihtc/report9503.pdf>

Program Cost Control

HUD's Housing Choice Voucher Program (HCVP) needs to adapt to changing market conditions and identify ways to reduce and/or control the program costs. PIH is designing a comprehensive system to better manage and administer the HCVP that provides prompt data accessibility and reporting, as well as research and demonstration efforts. These efforts can also address other HCVP issues such as administrative fee costs, energy costs and energy savings proposals, and voucher usage patterns.

Information Technology Systems

For the Project-Based Rental Assistance program, the Department will focus on developing and modifying information technology systems to combat problems of late payments, improper payments, and inaccurate contract data. More specifically, HUD will start development of a system that will keep real-time contract data, maintain and improve its system for contract disbursements, improve the ability to forecast short-term and long-term program funding needs, and reduce improper payments through improved verification of tenant income statements. These development efforts will help HUD increase the efficiency and effectiveness of future program appropriations and facilitate improved Departmental compliance with the Improper Payments Information Act of 2002.

Looking to the Future

Looking forward, HUD has several major initiatives described below to promote decent, affordable housing. These efforts build upon each other to achieve this strategic goal in order to maximize the number of people we serve.

The Department continues to work with Congress on proposed legislation, the Section 8 Voucher Reform Act of 2009 (HR 3045), which contains reforms that would streamline and simplify the administration of the Department's rental assistance programs, reducing errors in subsidy payments.

The Department plans to invest \$1 billion in the initial capitalization of the Housing Trust Fund. Authorized by the Housing and Economic Recovery Act of 2008, the Housing Trust Fund represents the first new major federal housing production program since the creation of the HOME Investment Partnerships Program in 1990. In coordination with the HOME program, the primary purpose of the Trust Fund is to increase and preserve the supply of rental housing for low- and very low-income households.

On May 20, 2009, the President signed the Homeless Emergency and Rapid Transition to Housing (HEARTH) Act into law. Under the HEARTH Act, federal funds can be used to help homeless and at-risk families or individuals obtain transitional or permanent housing as well as supportive services such as child-care activities designed to end or prevent homelessness for those served through HUD's programs. These efforts are targeted to underserved populations and are designed to promote affordable housing for vulnerable households through a comprehensive set of housing and servicing activities.

HUD's proposed Transformation Initiative included in the FY 2010 budget would make available resources for program demonstrations, enabling the

rigorous testing of alternatives and enhancements to improve the effectiveness and efficiency of federal housing assistance programs. The proposed FY 2010 Energy Innovation Fund also includes multifamily energy enhancement financing that will increase energy efficiency and reduce operating costs in the assisted multifamily stock.

In FY 2010, the Department's Housing Counseling Assistance program will place an emphasis on rental counseling, which is critical during the current foreclosure crisis. Many households are transitioning from homeownership to the rental market, or are being forced to find new rental housing. Housing counselors traditionally provide housing "search" services, helping families find and access affordable rental housing and or rental assistance. HUD estimates that as much as \$11.6 million from the FY 2010 appropriation will be spent on rental counseling, serving approximately 58,000 households.

HUD's Sustainable Communities Initiative will facilitate major research and evaluation efforts to be jointly administered by HUD and the Department of Transportation. This effort will aggressively pursue data development, information platforms, analytic tools, and research that support both HUD's mission of affordable housing and community development and the Department of Transportation's mission of efficient transportation, thus laying a foundation for greater sustainability in the nation's built environment. HUD plans to administer all these efforts



Yakima Nation

In partnership with the University of Washington's School of Architecture, the Yakima Nation Housing Authority has completed two prototype homes at Adams View in Wapato, Washington. The homes use energy efficient features, including passive solar orientation, ground source heat pumps, heat recovery ventilation systems, de-stratification fans to facilitate air flow, and energy star appliances and lighting. The exterior façade and footprint were inspired by traditional basket weaving.

through a new Office of Sustainable Housing and Communities, in close collaboration with the Office of Policy Development and Research, as well as other program offices in the Department.

Goal C: Strengthen Communities

HUD performs a vital role in strengthening communities by providing flexible program designs and resources targeted to promote economic development, which increases homeownership opportunities, and promotes affordable housing. Through these programs, localities and states are able to design local solutions to address local problems, and target scarce resources to efforts that benefit low- and moderate-income groups and communities.



The new Colvin Neighborhood City Hall in Wichita's Planeview area was financed with HUD's Community Development Block Grants program.

Accomplishments

Community Development Block Grant Program

CDBG grants were awarded to state and local governments that provided affordable housing in response to foreclosures, homelessness, and disasters. As one of the Federal government's largest and most flexible programs, CDBG grants provide states with funding to address locally determined community and economic development priorities. They are typically used to rehabilitate housing, improve infrastructure, provide job training, finance revolving loan funds, and finance other community determined projects. Some examples include the building of city halls, community centers, firehouses, or repairing sewage treatment plants.

CDBG grants also create jobs through the expansion and retention of businesses. The substantial unemployment that the nation faced due to the economic crisis threatened the fiscal soundness of many communities and posed risks of escalating foreclosures, which endangered neighborhood stability. Grants provided by HUD resulted in at least 29,398 jobs being created/retained through its CDBG and Section 108 loan guarantee assistance programs. [For more detailed information, see Section 2, Indicator C.4.]

CDBG also contributes to the restoration and strengthening of communities by improving the quality of residents' lives through removing vacant, abandoned, and boarded up properties found in blighted and slum neighborhoods. This year CDBG grantees cleared or demolished 7,450 properties. This exceeds the goal of 5,000 by 49 percent. [For more detailed information, see Section 2, Indicator C.8.]

Disaster Recovery Assistance

The CDBG program has been an especially robust provider of disaster related funding. In prior years, funding provided assistance to victims and localities of the attacks on New York City and the hurricanes which occurred in 2005 through 2008. This year, Gulf Coast recovery grantees have at least 41,372 units of affordable rental housing in development and have completed 4,128 units, far exceeding the goal of 17,000 units in development or in service by

September 30, 2009. This represents approximately \$1.9 billion in funding budgeted for these developments. HUD's goal to disburse \$9.0 billion for homeowner compensation payments to 145,000 households in Mississippi and Louisiana was also exceeded with 150,122 grants distributed, totaling over \$9.8 billion. [For more detailed information, see Section 2, Indicators C.1 and C2.]

In FY 2009, CDBG awarded over \$1.5 billion (more than double the goal of \$700 million) in disaster recovery grants for public facilities, streets, water systems, and other projects to help communities build or re-build their infrastructure. This is more than double the goal of \$700 million. [For more detailed information, see Section 2, Indicator C.3.]

Neighborhood Stabilization Program (NSP)

In response to the foreclosure and economic crisis, the Department awarded grants via the NSP to states and local governments to stabilize communities hardest hit by foreclosures, abandonment, and mortgage delinquencies, and for the provision of capacity building to stabilize neighborhoods. The Housing and Economic Recovery Act (HERA) of 2008 allocated \$3.92 billion for the first round of NSP (i.e., NSP-1) providing grants to state and local governments to acquire land and property, demolish or rehabilitate abandoned properties, offer down payment and closing cost assistance to low- to moderate-income homebuyers, and help create or preserve jobs. An additional \$2 billion for competitive grants was allocated for NSP (i.e., NSP-2) under the Recovery Act of 2009. NSP-2 provides communities with the opportunity to develop programs responsive to local real estate market conditions and includes non-profit organizations as eligible grantees.

Special Needs Assistance Programs (SNAPS)

The primary focus of SNAPS has been to reduce homelessness by developing and implementing programs to move families and individuals into permanent housing. Through the Homeless Assistance Grants program funded by SNAPS, homeless families and individuals are able to achieve permanent housing and self-sufficiency. This year, the percentage of formerly homeless individuals who remained housed in HUD's permanent housing projects for at least six months was over 82 percent, exceeding the goal of 77 percent. This represents an increase of over 7 percent from FY 2008. [For more detailed information, see Section 2, Indicator C.9.] The percentage of homeless persons who have moved from HUD transitional housing into permanent housing was approximately 67 percent. These amounts represent an increase from FY 2008, and suggest that HUD continues to improve in its efforts to reduce homelessness in the country. In addition, the percentage of persons exiting HUD-funded homeless assistance projects was approximately 20 percent. While the employment rate of persons exiting HUD homeless assistance projects decreased by 2.2 percent from FY 2008, there was a 66 percent increase in the number of individuals receiving employment income among participants in HUD-funded projects in FY 2009. These achievements demonstrate that HUD-funded homelessness programs are responsive to changing economic trends and continue to provide critical resources and services. [For more detailed information, see Section 2, Indicators C.10 and C11.]

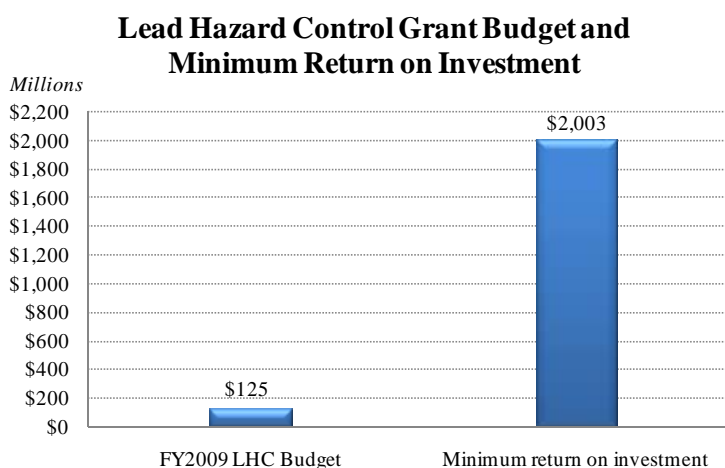
HUD FY 2009 Performance and Accountability Report

Section 1: Management's Discussion and Analysis

The Housing Opportunities for Persons With AIDS (HOPWA) program is a CPD special needs program that targets families and individuals who are living with the challenges of HIV/AIDS and risks of homelessness. HOPWA resources are used in supportive housing interventions to assist beneficiaries to obtain permanent housing results, as well as address short-term and transitional housing needs. This year, HOPWA permanent housing programs exceeded their performance goal of 85 percent and reported that 94 percent of households received tenant-based rental assistance or resided in permanent housing residences and achieved good outcomes for demonstrating housing stability and access to care. In addition, the program's short-term and transitional housing programs also exceeded their performance goal of 60 percent and reported that 92 percent of these households achieved good outcomes in reducing their risks of homelessness along with connecting to permanent housing results. [For more detailed information, see Section 2, Indicators C.12.]

Lead Hazard Control Program

Lead poisoning is the number one environmental disease impacting children. Consequences for a community include higher health care costs, lower academic performance, higher special education costs, higher delinquency rates, and lower earning capacity in adulthood. Under HUD's lead hazard control grant program, States and local governments identify and control lead-based paint hazards in homes, especially low-income homes with young children. These control measures provide early intervention to prevent adverse environmental conditions in the home from affecting young children; the benefits continue through adolescence and into adulthood. For example, preschool blood lead levels are related to mental retardation rates and SAT scores; reducing lead exposure reduces government costs for special education and health care programs. Better school performance in turn increases lifetime earnings. The very strong association between elevated blood lead levels in preschool children and subsequent crime rate trends is another example of the effect of lead poisoning; reducing young children's exposure to lead decreases delinquency and crime rates. Overall, each dollar invested in lead paint hazard control results in a return of at least \$17, and as much as \$221, so the FY 2009 lead hazard control grant programs' FY 2009 total budget of \$125.2 million will yield a net savings in the range of \$2.0 billion to \$27.5 billion.



As part of HUD's 10-year effort to eradicate lead poisoning in children, HUD continues to conduct the nation's most extensive evaluation and control programs for lead hazards in housing, using grants supplemented by contracts and interagency agreements. As a result of these efforts, HUD made 13,873 housing units lead-safe under the Department's lead hazard control grant programs in FY 2009, exceeding its target for the fiscal year by 18 percent. As of September 2009, the lead hazard control grant program has made 124,617 units lead-safe since inception. [For more detailed information, see Section 2, Indicator C.20.]

Challenges

The challenges facing communities are widespread and complex. Despite the flexibility given communities by HUD's programs, challenges remain and are described below.

Problems Facing Communities

HUD's goal of strengthening America's communities is affected by challenges and problems that extend far beyond their borders, and require unprecedented levels of coordination to address effectively. Neighborhood quality is constrained by schools and the engagement of families. Commuting regions extend many miles, causing energy waste and traffic congestion. Natural disasters are linked to climate change—which in turn links back to local development choices. Because of such interactions, the concept of sustainability resonates powerfully for many citizens and local leaders.

Lack of regional coordination of housing development, land use, and transportation affects many aspects of community health. Local zoning ordinances and land use controls can prevent the construction of affordable housing, forcing lower income households away from their place of employment to areas where housing is more affordable.

Lead Hazard Control Program

The number of homes that can be made lead-safe is directly related to the funding available. With additional funding, additional homes would be made lead safe in existing communities and additional qualified communities could be awarded grants.

Looking to the Future

The Department will continue to dedicate its resources and programs to strengthen communities throughout the nation. New programs, such as the Recovery Act, and the Administration's proposed enhancements to current HUD programs are dedicated to improving physical conditions and quality of life within communities. HUD has proposed a change to the CDBG formula which aims to improve targeting of program resources. Other proposed enhancements are for the "Sustainable Communities Initiatives," which would (1) assist localities in undertaking a new wave of zoning and land use reform that is more sustainable and "green," and (2) fund a joint HUD and Department of Transportation regional planning effort to catalyze the next generation of metropolitan transportation, housing, land use, and energy planning.

In July 2009, the Office of Healthy Homes and Lead Hazard Control (OHHLHC) published the *Healthy Homes Strategic Plan* (http://www.hud.gov/offices/lead/library/hhi/hh_strategic_plan.pdf) to focus the Department's efforts towards providing healthy homes for all Americans. The *Healthy Homes Strategic Plan* will serve as a dynamic roadmap for developing, disseminating, and integrating the healthy homes concept. By coordinating disparate health and housing agendas, supporting key research, incorporating the healthy homes approach into existing practices, and providing tools to build sustainable local healthy homes programs, the OHHLHC's Healthy Homes program will continue its leadership role in helping to ensure an adequate supply of healthy and affordable housing. This plan will enable the Department to be focused and effective in achieving program goals and in supporting the Department's goal of strengthening communities for FY 2010.

Goal D: Ensure Equal Opportunity in Housing

The basis of this strategic goal is the Fair Housing Act of 1968 (Title VIII of the Civil Rights Act of 1968). The Act's purpose is to ensure an "open" housing market in which a person's background (e.g., ethnicity, race, religion, as opposed to financial resources) does not arbitrarily restrict housing or housing-related opportunities whether it be homeownership or rental property. HUD achieves this strategic goal through enforcement of the laws and improved public awareness of fair housing laws. HUD also provides a fair and efficient administrative process to investigate and resolve housing discrimination complaints.

HUD's testing for discrimination has revealed continued discrimination against African Americans, Hispanics, Asians, and Pacific Islanders in residential sales and rental markets. HUD's research also has revealed discrimination against people with disabilities, including frequent refusals to allow reasonable accommodations.

HUD surveys reveal widespread lack of knowledge of many aspects of fair housing laws. While the public has become more aware of protections for families with children and prohibitions of racial steering, they are less aware of laws that prohibited 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. HUD's public awareness study found that 90 percent of persons who experienced housing discrimination did nothing, and only one percent reported that they filed a complaint with a government agency. Reasons may include a lack of understanding of how to file a complaint or a perception that complaints would not be addressed seriously.

Accomplishments

HUD measures its success in meeting this goal, in part, through the two program performance measures shown below. These activities seek to increase access to the nation's housing stock so that all Americans can choose housing without being restricted by race, having children, presence of a disability, or other statutorily protected basis.

Fair Housing Assistance Program (FHAP)

Through the FHAP, HUD provides funding annually to state and local agencies for enforcement of fair housing laws that are substantially equivalent to the federal Fair Housing Act. Under this program, state and local FHAP agencies investigate and resolve complaints of alleged housing discrimination filed by private citizens and interest groups throughout the nation. Through vigilant enforcement efforts, HUD and its FHAP partners are transmitting the message that fair housing laws are a key priority and must be obeyed. FHAP agencies exceeded both FY 2009 performance goals by closing 53 percent of their complaints within 100 days and 97 percent of their aged complaint inventory carried over from the prior year. [For more detailed information, see Section 2, Indicator D.1.]



Victor Rolon Cruz of Toa Alta, PR, suffers from medical conditions that impair his mobility and require him to use a cane for support. Last year, he had railings installed at the front entrance of his home. The local homeowners association demanded they be removed and threatened legal action. HUD brought the case before an administrative law judge, and the decision allowed Mr. Rolon Cruz to retain the railings and awarded him a \$21,500 settlement.

Fair Housing Initiatives Program (FHIP)

The Department's FHIP provides funding to fair housing organizations and other non-profits to assist people who believe they have been victims of housing discrimination. These organizations partner with HUD to help the public identify government agencies that handle complaints of housing discrimination. In addition, this program's Education and Outreach Initiative provides funding for projects that educate the public on their rights and obligations provided under the Fair Housing Act and substantially equivalent state and local fair housing laws. In FY 2009, HUD held 933 education and outreach events reaching 1,060,320 people, which is approximately four times greater than the initial goal of 270,000 people. This goal was exceeded by such a large amount because of: 1) grantees using larger venues to conduct national seminars, forums, and programs on fair housing and 2) increased use of internet-social networking sites and other websites promoting fair housing. [For more detailed information, see Section 2, Indicator D.2.]

Challenges

HUD's goal of ensuring equal opportunity in housing is necessarily linked with demographic factors. Rapid growth of the elderly population that will begin in 2010 will have fair housing implications, as will growth of the Hispanic population, which is projected to reach 23 percent of the U.S. population by 2030. This will create new and evolving challenges for HUD's fair housing responsibilities for rental housing and homeownership, including housing counseling, and for community development, including the Colonias (defined as communities within 150 miles of the U.S.-Mexico border, except for any metropolitan area exceeding one million people, that lacks decent, safe, and sanitary housing).

Looking to the Future

Looking forward, HUD has several major initiatives described below to combat housing discrimination. These efforts build upon each other to achieve this strategic goal.

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. 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. These teams periodically update the codes to ensure that multifamily housing developers comply with statutory accessibility requirements that meet the needs of disabled populations.

As part of the Department's emphasis on fair housing enforcement, HUD is taking proactive steps to address lending discrimination as part of the Department's Mortgage Abuse Initiative. Rising unemployment and falling home prices, combined with the freezing of credit markets, have led to a dramatic increase in foreclosures and foreclosure-prevention scams across the nation. The latter often target their foreclosure rescue schemes to minority communities. To combat this problem, HUD's Mortgage Abuse Initiative will assist victims of lending discrimination by working directly with victims to modify loans, resolve discrimination, or investigate claims of discrimination. The Department will also focus on educating the public on lending discrimination and mortgage refinance schemes through workshops, presentations, public service announcements, and pamphlets.

Additionally, under the Department's Transformation Initiative, HUD plans to conduct a study in 2010 of the level of housing discrimination in the United States. Since 1977, HUD has assessed the extent of housing discrimination in the United States about once each decade. The most recent study, *Housing Discrimination Study 2000*, showed substantial declines in discrimination between 1990 and 2000 in the sales market for both African-Americans and

Hispanics, declines for African Americans renters, and no change for Hispanic renters. The 2000 study also provided the first national estimate of discrimination faced by Asians and Pacific Islanders in the rental and sales market. These studies have also shown how patterns of discrimination have changed over time. Although the nature and level of discrimination has changed, it remains a substantial problem, with minorities facing consistent adverse treatment ranging from 17 percent for African Americans in the sales market to 26 percent for Hispanics in the rental market. The 2010 study will provide comparable data to determine any changes in the level of discrimination from the 2000 study, providing key insights to inform fair housing strategies and program management.

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

HUD's strategic goal of embracing high standards of ethics, management, and accountability is achieved through resolving audit issues in a timely manner, improving its internal controls and systems, and rebuilding and better managing its human capital.

Accomplishments

This year, the Department's efforts focused on transparency and accountability. There were two significant transparency related goals of note in this year's strategic goal. The first is related to the review of HUD's financial statements and accompanying notes, and the second is related to improper payments.

HUD continued its focus on making significant improvements in financial management and reporting. The Department received an unqualified or "clean" audit opinion with no material weaknesses for FY 2009. An unqualified audit opinion indicates that HUD's "principal financial statements present fairly, in all material respects, the financial position of HUD...in conformity with accounting principles generally accepted in the United States of America." HUD has now received unqualified audit opinions for the past ten consecutive years, and FHA for 17 consecutive years. [For more detailed information, see Section 2, Indicator E.11 and the Independent Auditor's Report in Section 3.]



For the third consecutive year, HUD received the Certificate of Excellence in Accountability Reporting (CEAR) award for its FY 2008 Performance and Accountability Report (PAR) from the Association of Government Accountants (AGA). The CEAR is awarded to agencies that have demonstrated excellence in integrating performance and accountability reporting.

HUD FY 2009 Performance and Accountability Report

Section 1: Management's Discussion and Analysis

HUD missed its goal for improper payment reductions in 2009 by 0.1 percent. The leveling off in the improper payment rate this year was driven by an increase in income reporting errors. It should be noted that the Department 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 the current level of 3.5 percent, a substantial reduction. The overall reduction in improper payments for over the past nine years has been primarily attributed to HUD's efforts to work with PHAs and multifamily property owners through enhanced program guidance, training, oversight, improved tenant income verification methods, and enforcement. [For more detailed information, see Section 2, Indicator E.3 and Section 4, Improper Payments Information Act Reporting.]

The Departmental Training Action Plan and HUD's *Strategic Human Capital Management: Revised Human Capital Plan FY 2008 - FY 2009* report (located at <http://www.hud.gov/offices/adm/omap/hshcp.cfm>) identified mission critical skill gaps within the workforce and bolstered training programs to close these gaps. HUD has institutionalized succession planning programs to ensure a smooth transition of highly energized interns to continue its mission long into the future. Performance management programs have been strengthened and enhanced by the new ePerformance system and the full implementation of SMART (Specific, Measurable, Attainable, Relevant, Time-bound) standards to hold all employees accountable for achieving results. The Department links organizational performance to employee performance, and recognizes employees with awards for their achievements. These accomplishments document HUD's substantial progress under three human capital goals: (1) to be a mission focused agency; (2) to maintain a high quality workforce; and (3) to do effective succession planning.

Challenges

Internal and external challenges for this strategic goal can be found in the following discussion. The external ones were a result of the impact on local governments by the economic downturn and the internal ones were related to HUD's workforce.

HUD Partner Fiscal Constraints

HUD's goal of sustaining ethics, management and accountability, as well as the broader success of HUD's programs, requires active participation from a wide variety of state and local partners. 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. Many decisions about activities and strategies for using formula block grants are made by local partners. Increasing fiscal constraints of state and local governments may reduce their ability to assist in accomplishing shared objectives.

Succession Planning

Human capital issues are critical for the Department. Like many federal agencies, HUD has an aging workforce, with more than 58 percent of employees eligible to retire within the next three years. Workforce and succession planning are hindered by lack of funding to support authorized full-time equivalent staffing levels.

Looking to the Future

Looking forward, HUD is planning several major initiatives described below to attain more effective and efficient operations. These efforts build upon each other to achieve this strategic goal.

HUD's Transformation Initiative, detailed in the President's FY 2010 Budget, is a major commitment to better, evidence-based management and effective operations. The Transformation Initiative involves a one percent set-aside from nearly every HUD program, to be made available for four complementary purposes: research, evaluation and performance metrics; program demonstrations; technical assistance and capacity building; and next-generation Information Technology (supplementing system maintenance resources in the Working Capital Fund).

During FY 2010, survey results about the satisfaction of HUD's partner organizations will again become available and, for the first time, offer information about crucial partners such as FHA-approved lenders and Fair Housing Initiative Program participants, as well as providing detailed results at the field office level to identify geographic opportunities to improve the Department's effectiveness.

Internally, HUD continues to face critical workforce planning issues such as succession planning and mitigating skill gaps. The Department's efforts to address these issues include implementing and refining an Intern Program to attract new employees and using the *HUD 2009 Departmental Training Action Plan* to identify skill gaps and managerial training needs. HUD's training strategy will focus on meeting specific mission critical training while ensuring that HUD's training funds are used to address the most critical training needs across the Department.

The FHA plans to implement changes to strengthen its internal controls. For the first time in the FHA's 75-year history, a new Chief Risk Officer has been hired. FHA will also require supervised mortgagees (mortgagees overseen by a financial regulator, e.g., banks and credit unions) to submit audited annual financial statements to FHA, modify procedures for streamlined refinance transactions (in order to strengthen documentation standards and ensure borrowers' capacity to pay their new mortgages), and require appraiser independence in loan origination. Changes that HUD is pursuing via the rulemaking process include modifying policies for mortgagee approval to facilitate more effective oversight of mortgage brokers and increasing net-worth requirements for mortgagees.

The measure of flexibility provided by the Transformation Initiative will enable the new Office of Strategic Planning and Management to address persistent management challenges. The development of HUD's FY 2010 - FY 2015 Strategic Plan, officially initiated during October 2009, will provide both a vision and a solid foundation for effective performance management. The Office also will become the primary driver of ongoing performance measurement and improvement activities, providing Department-wide internal consulting and support for solution delivery.

Additionally, HUD will be creating a new Office of the Chief Operating Officer (COO) within the Office of the Deputy Secretary to provide leadership and a comprehensive strategy for HUD's current operations of procurement, human resources, and information technology. A new Office of Disaster Planning and Emergency Preparedness also will be established in the Office of the COO to coordinate HUD's response to disasters and lead the agency in its emergency preparedness effort. The Office of the COO will provide a way to coordinate these interdependent functions in order to provide comprehensive and coordinated strategies for decision making and ensuring accountability. As part of this effort, a study will be conducted in FY 2010 on procurement, human resources, and information technology business functions with the goal of achieving breakthroughs in these functional areas that are strategic and enterprise-wide in nature, with the ability to have a positive, lasting impact on the agency.

The Office of Sustainable Housing and Communities is another proposed new office within the Office of the Deputy Secretary for FY 2010 that will enhance the management and effectiveness of cross cutting program efforts. In close collaboration with the Office of Policy Development & Research, as well as other program offices in the Department, the Office of Sustainable Housing and Communities will administer HUD's FY 2010 Sustainable Communities Initiative. This program will promote pedestrian-friendly, public transit-oriented, mixed-income and mixed-use communities in order to substantially reduce transportation costs (now a greater part of many family budgets than housing costs), create energy savings (by reducing vehicle-miles traveled), and enhance access to employment and educational opportunities.

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

The Center for Faith-Based and Neighborhood Partnerships (CFBNP), formerly the "Center for Faith-Based and Community Initiatives," is the organization at HUD tasked with building and strengthening partnerships between HUD and faith-based and secular neighborhood non-profit organizations. President Obama established his new White House Office of Faith-Based and Neighborhood Partnerships by Executive Order in February 2009, noting that "the change that Americans are looking for will not come from government alone," and reaffirmed the important role of the Centers established at federal agencies to work with Cabinet Secretaries and the White House to ensure that organizations working on the front lines to address community needs have a seat at the table in government programs and policy-making decisions.

As HUD works to mitigate the foreclosure crisis and implement the Recovery Act, in addition to its other strategic objectives, the Center plays a vital role in: 1) serving as a resource center to conduct outreach and share information with faith-based and neighborhood organizations about HUD programs and partnership opportunities; 2) convening non-profits and other local stakeholders to identify and work to address ongoing community needs, especially through peer learning and promotion of best practices; and 3) providing technical assistance to faith-based and secular neighborhood non-profit organizations working to address housing.

Accomplishments

CFBNP builds partnerships and serves as a liaison between the grassroots and the federal government, ensuring that groups have the latest information about HUD initiatives and programs as well as other federal resources available to their communities. This year in addition to the launch of its new website, extensive representational travel to a series of conferences and gatherings enabled HUD to expand its reach to constituents to share information about the work of the Recovery Act, other key programs, funding opportunities, and information to help affirmatively further fair housing.

The Center reached over 50,000 individuals and over 4,000 individual organizations through its outreach and programs in FY 2009.

In 2009, the Center has also heavily promoted the call to service by Secretary Donovan and President Obama's "United We Serve" agenda, by encouraging hundreds of non-profits across the country to offer volunteer opportunities to citizens in their communities that benefit both the volunteers and some of the nation's most vulnerable citizens.

Challenges

The effects of the recession have impacted many of HUD's organizational partners who work with the Department to deliver HUD programs and services. At a time of heightened need across American communities, many non-profits and human services providers have seen a sharp decline in assets and programming dollars. The Center will continue to work with other HUD offices to develop strategies, especially related to technical assistance and capacity building, for an appropriate department response to support the efforts of partners who are trying to accomplish more with less.

Looking to the Future

Reflecting the emphasis of HUD's Transformation Initiative on evidence-based programming and improved data collection, in FY 2010 the Center will be working closely with other HUD offices to invest in improved data collection and to refine metrics to assess the outcomes of all program activities, but especially outreach, partnership initiatives, and the provision of technical assistance.

The Recovery Act

The Recovery Act includes \$13.6 billion for projects and programs administered by the U.S. Department of Housing and Urban Development, nearly 75 percent of which was allocated via formulaic grants to state and local recipients on February 25, 2009 – only eight days after the President signed the Act into law. The remaining 25 percent of funds are being awarded via competition, with full distribution expected by early 2010. Through these programs, HUD has committed the Recovery Act funds quickly and responsibly, obligating over \$11.3 billion (approximately 83 percent) to grantees as of end of FY 2009. Of the total amount obligated, nearly \$1.5 billion (or 14 percent) has been disbursed to the grantees.



**The Recovery Act allocated \$15M to the HUD Office of Inspector General for oversight and audit of the Recovery Act funded programs, grants, and activities.*

HUD's Recovery funding is divided among three broad themes:

1. Promoting Energy Efficiency and Creating Green Jobs

- The Public Housing Capital Fund has obligated a total of \$4 billion in both formula and competitive grants in capital improvements to our Nation's critical public housing inventory, including \$600 million dedicated exclusively to the creation of energy efficient, "green" communities.

- The Indian Housing Block Grant program was appropriated \$510 million to develop sustainable communities, and modernize and construct decent, safe, affordable housing in Indian Country.

Many projects will renovate older units to be more energy efficient.

- The Lead Hazard Reduction and Healthy Homes program obligated \$100 million in lead based paint hazard reduction and abatement activities.
- This fall, Assisted Housing Energy Retrofit will commit \$250 million in energy efficient modernization and renovation of housing of HUD-sponsored housing for low-income, elderly, and disabled persons.



Chateau d'Orleans is a 205 unit project located in eastern New Orleans. The property was severely damaged in Hurricane Katrina. The property received Recovery Act funding and was completely restored, and is a source of affordable housing for families.

These investments are powerful vehicles for economic recovery because they work quickly, are labor-intensive, create jobs where they are needed most, and lead to lasting neighborhood benefits. Many will also reduce greenhouse gas emissions and save Americans money by retrofitting housing to make it more energy efficient.

2. Supporting Shovel-Ready Projects and Assisted Housing Improvements

- The Tax Credit Assistance Program invests \$2.25 billion in a special allocation of HOME funds to accelerate the production and preservation of tens of thousands of units of affordable housing.
- The Project-Based Rental Assistance program utilizes \$2 billion to fully fund 12-month rental assistance contracts with owners of multifamily rental housing projects. This funding will enable owners to undertake much-needed project improvements to maintain the quality of this critical affordable housing.

These investments will support a broad range of housing and community development projects that are ready to go. Many of these projects have been held up for lack of private investment due to fallout from the broader economic crisis and credit crunch.

3. Promoting Stable Communities and Helping Families Hardest Hit by the Economic Crisis

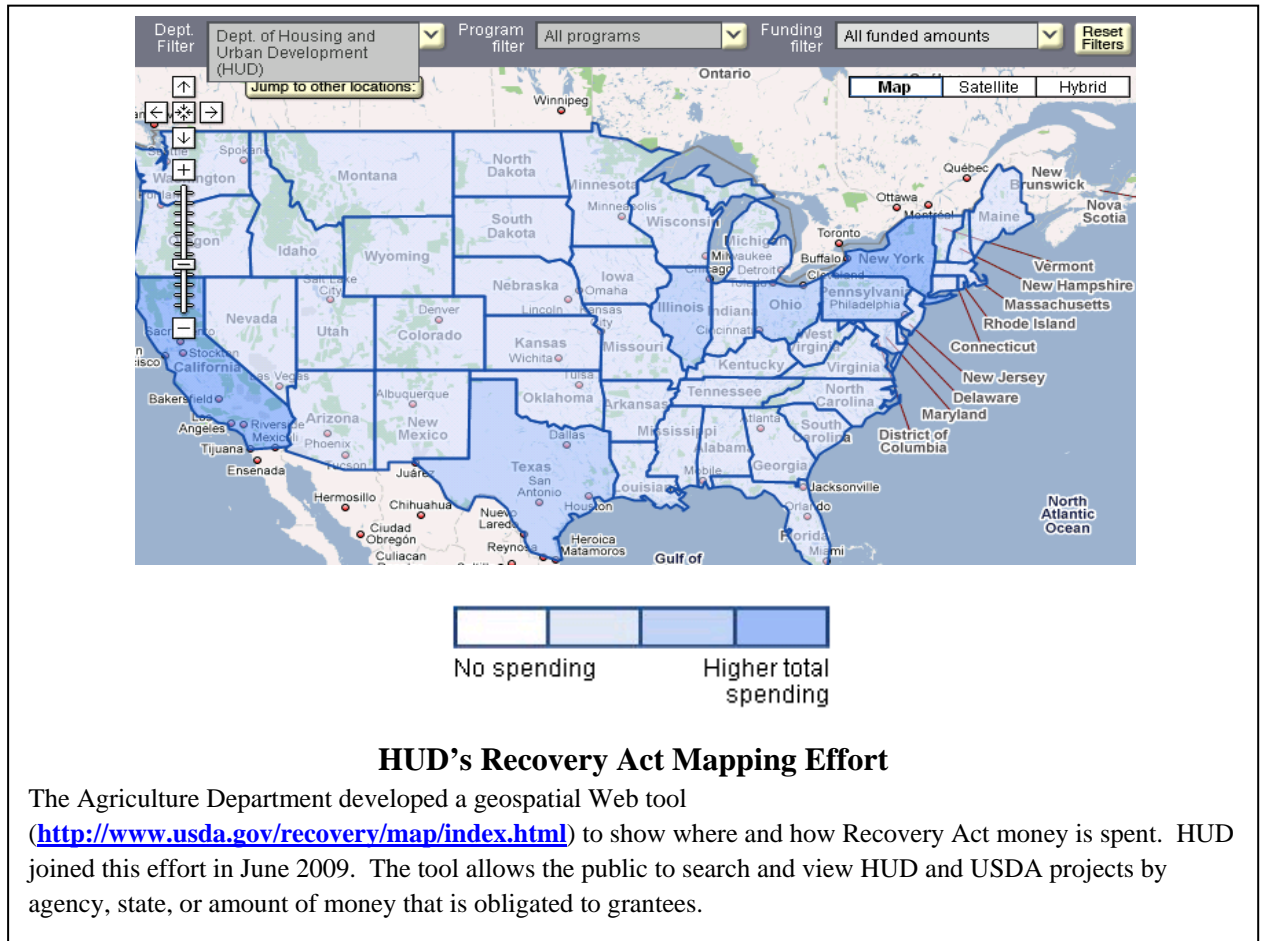
- Neighborhood Stabilization Program will use \$2 billion to mitigate the impact of foreclosures through the purchase and rehabilitation of foreclosed, vacant properties in order to create more affordable housing and renew neighborhoods devastated by the economic crisis.
- Homelessness Prevention devotes \$1.5 billion to prevent homelessness and enable the rapid re-housing of homeless families and individuals, helping them re-enter the labor market more quickly, and preventing the further destabilization of neighborhoods.
- Community Development Block Grants invests \$1 billion for approximately 1,200 state and local governments to invest in their own community development priorities. Most local governments use this investment to rehabilitate affordable housing and improve key public facilities – stabilizing communities and creating jobs locally. Tribes that received Indian Community Development Block Grant funds in FY 2008 are eligible to compete for a portion of these CDBG funds.



These investments will help communities and families that have experienced the brunt of the economic downturn. Resources will be used to stabilize and revive local neighborhoods and housing markets with heavy concentrations of foreclosed properties. Funds also will assist the vulnerable families and individuals who are on the brink of homelessness or have recently become homeless.

In an unprecedented transparency and accountability effort, Recovery Act grantees are required to report their project activities and job creation/retention into FederalReporting.gov on a quarterly basis. The first report of this kind took place between October 1 and October 10, 2009. With this information being made available online, both HUD and the American public will have a clear view the results of these investments over time.

The most current information and reporting on the use of funds can be found at:
<http://portal.hud.gov/portal/page/portal/RECOVERY>.



Analysis of Financial Condition and Results

As a reflection of HUD's ongoing commitment to financial management excellence, the Department has received an unqualified opinion on our financial statements from HUD's Office of the Inspector General, for the 10th year in a row. In order to help the reader to understand the Department's financial results, position, and condition, the following analysis addresses the relevance of particular balances and amounts as well as major changes in types and/or amounts of assets, liabilities, costs, revenues, obligations, and outlays.

The principal financial statements have been prepared from the Department's accounting records in order to report the financial position and results of HUD's operations, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are provided in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

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)

	2009	2008
Total Assets	\$143,322	\$125,036
Total Liabilities	\$44,975	\$30,521
Net Position	\$98,347	\$94,515
FHA Insurance-In-Force ¹	\$817,122	\$575,462
Ginnie Mae Mortgage-Backed Securities Guarantees	\$826,000	\$576,800
Other HUD Program Commitments	\$68,423	\$57,027

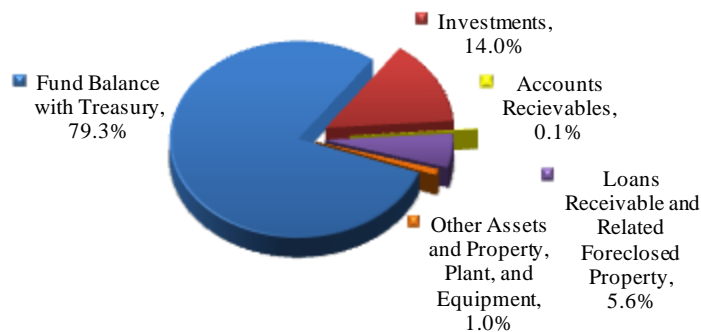
¹ Last year, the FHA Insurance-In-Force (IIF) for FY 2008 was reported as \$573,196 million. This was based on the Outstanding Principal of Guaranteed Loans' Face Value. FHA, however, reports IIF based on the Amount of Outstanding Principal Guaranteed. This and future reports will conform to FHA reporting practices. Also, the Home Equity Conversion Mortgage (HECM) loans have been moved to the Mutual Mortgage Insurance (MMI) fund, and this year's figures include the Current Outstanding Balance of HECM loans, which were \$43,741 million for FY 2008 and \$59,877 million for FY 2009.

Analysis of Financial Position

Assets - Major Accounts

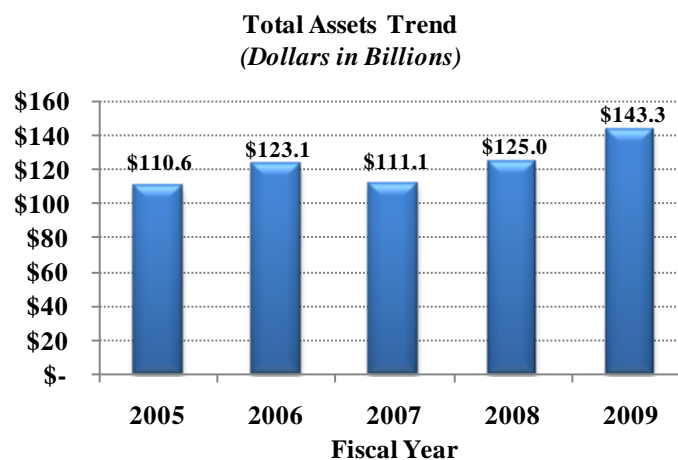
Total Assets for FY 2009, as reported in the Consolidated Balance Sheets, are displayed in the graph on the following page. *Total Assets* of \$143.3 billion are comprised primarily of *Fund Balance with Treasury* of \$113.6 billion (79.3 percent) and Investments of \$20.1 billion (14.0 percent) at September 30, 2009.

Composition of HUD Assets - FY 2009



Total Assets increased \$18.3 billion (14.6 percent) from \$125.0 billion at September 30, 2008. The net increase was due primarily to an increase of \$28.1 billion (32.9 percent) in *Fund Balance with Treasury* from \$85.5 billion at September 30, 2008, with a net decrease in *Intragovernmental Investments* of \$8.6 billion (30.2 percent) from \$28.5 billion at September 30, 2008.

The table below shows *Total Assets* for FY 2009 and the four preceding years. The changes and trends impacting *Total Assets* are discussed below.



Fund Balance with Treasury of \$113.6 billion represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities. *Fund Balance with Treasury*

HUD FY 2009 Performance and Accountability Report

Section 1: Management's Discussion and Analysis

increased due to an increase of \$17.5 billion in funding for the FHA, an increase in funding for PIH of \$4.2 billion, an increase in funding for Section 8 of \$2.8 billion, and an increase in funding for HOME of \$2.1 billion, which are offset by decreases in funding for CDBG of \$3.5 billion and for Section 202/811 of \$1.4 billion. Funding for all other programs increased by \$5.9 billion. The increases are primarily due to a larger appropriation in FY 2009 as a result of the 2009 American Recovery and Reinvestment Act, maturing FHA investments, and upward re-estimates in the FHA Financing accounts.

Investments of \$20.1 billion consist primarily of investments by FHA's Mutual Mortgage Insurance/Cooperative Management Housing Insurance Fund and by Ginnie Mae, in non-marketable, intra-governmental, Treasury securities (i.e., investments not sold in public markets). FHA investments decreased by \$8.5 billion, a 44 percent decrease since FY 2008, due to an \$8.5 billion dollar decrease in the net value of Federal Non-marketable securities held in FHA's MMI/CMHI Capital Reserve Fund. This decrease resulted from the maturity and sale of large bonds for the MMI upward re-estimate.

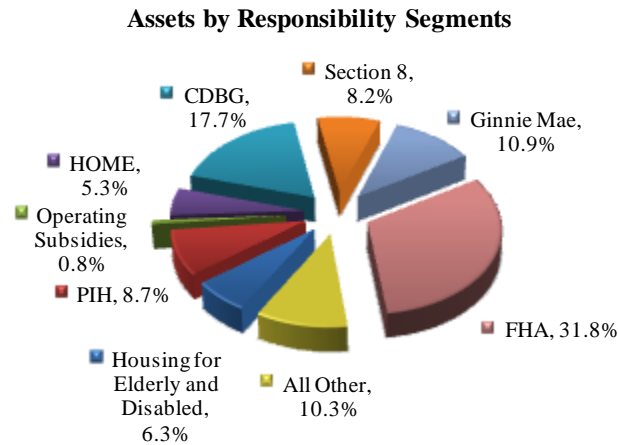
Accounts Receivable of \$0.13 billion primarily consists of claims to cash from the public and state and local authorities for bond refunding, Ginnie Mae premiums, FHA insurance premiums, and Section 8 year-end settlements. A 100 percent allowance for loss is established for all delinquent debt 90 days and over. The *Accounts Receivable* decrease of \$0.1 billion is primarily due to reclassifying the allowance for generic debt from loans receivable to the accounts receivable line in FHA.

Loans Receivable and Related Foreclosed Property of \$8.1 billion are generated by FHA credit program receivables and by HUD's support of construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program. The decrease of \$1.5 billion is primarily due to the increase in the allowance for subsidy in FHA's MMI financing account due to decreasing recovery rates for assigned assets.

Remaining Assets of \$1.4 billion, comprising 1.0 percent of *Total Assets*, include fixed assets and other assets. The net change pertaining to the *Remaining Assets* balance was an increase by nearly 32 percent compared to the prior fiscal year, primarily due to a 49 percent increase in Ginnie Mae's *Remaining Assets*, to a total of \$1.1 billion.

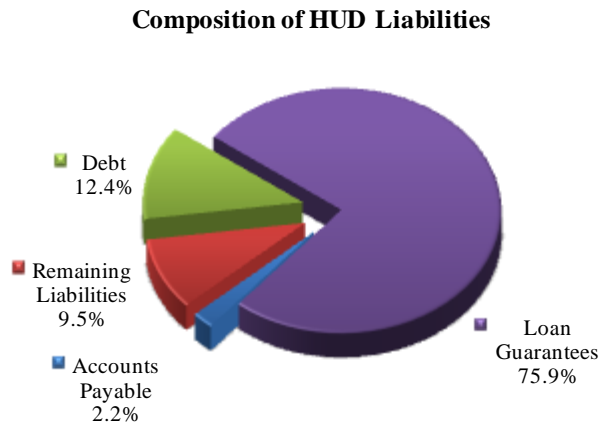
Assets - Major Programs

The chart below presents *Total Assets* for FY 2009 by major responsibility segment or program.



Liabilities – Major Accounts

Total Liabilities for FY 2009, as reported in the Consolidated Balance Sheets, are displayed in the chart below.



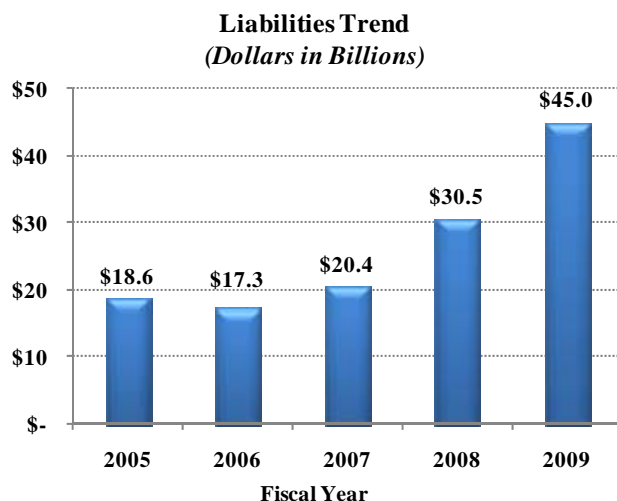
Total Liabilities of \$45.0 billion consists primarily of loan guarantee liabilities of \$34.2 billion (75.9 percent), debt in the amount of \$5.6 billion (12.4 percent), accounts payable of \$1.0 billion (2.2 percent), and remaining liabilities amounting to \$4.2 billion (9.5 percent) at September 30, 2009.

Total Liabilities increased \$14.5 billion (47.4 percent) from \$30.5 billion at September 30, 2008, due primarily to an increase of \$14.5 billion in *Loan Guarantees*. This increase is due primarily to an upward adjustment to FHA's subsidy re-estimate and a new upward subsidy re-estimate for FY 2009.

HUD FY 2009 Performance and Accountability Report

Section 1: Management's Discussion and Analysis

The chart below presents *Total Liabilities* for FY 2009 and the four preceding years. A discussion of the changes and trends impacting Total Liabilities is presented in the subsequent paragraphs.



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 \$14.5 billion was primarily due to an overall increase of guarantees for FHA programs.

Debt includes *Intragovernmental Debt* of \$5.1 billion and debt held by the public of \$0.5 billion. The *Intragovernmental Debt* consists primarily of loans from the Treasury but also includes funds borrowed from the Federal Financing bank by Public Housing Authorities and Tribally Designated Housing Entities to finance construction and rehabilitation of low rent housing. *Debt Held by the Public* consists of existing housing authority bonds and debentures issued in lieu of cash disbursements to the public at par by FHA to pay claims. The \$0.8 billion decrease in debt (repayments exceed new borrowings) from \$6.3 billion at September 30, 2008, was due to a \$0.5 billion decrease in FHA debt and a \$0.3 billion decrease in PIH debt.

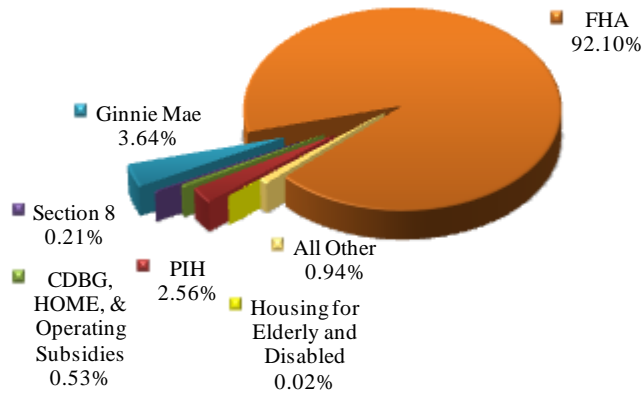
Accounts Payable consist primarily of pending grants payments.

Remaining Liabilities of \$4.2 billion consist primarily of Intragovernmental Liabilities, Federal Employee and Veteran Benefits, and Other Liabilities. The *Remaining Liability* balance increased by \$0.6 billion (9.5 percent) compared to the prior fiscal year.

Liabilities – Major Programs

The below chart presents *Total Liabilities* for FY 2009 by responsibility segment.

Liabilities by Responsibility Segment



Changes in Net Position

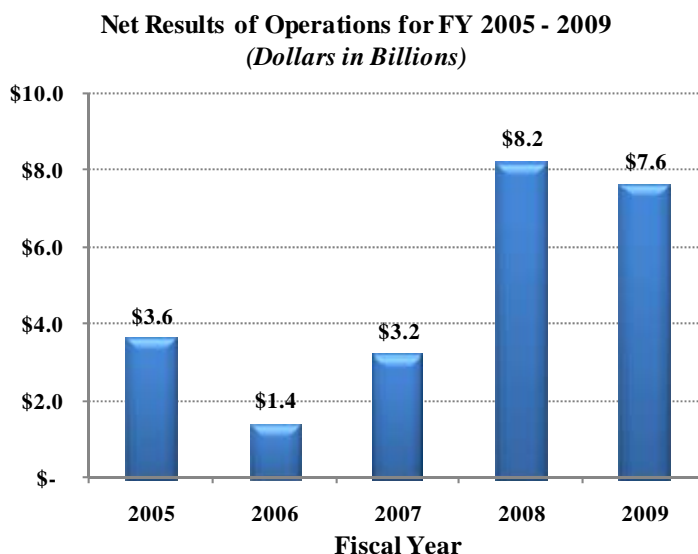
Changes in *Unexpended Appropriations*, *Net Cost of Operations*, and *Financing Sources* combine to determine the *Net Position* at the end of the year. The elements are further discussed below. *Net Position* as reported in the *Statements of Changes in Net Position* reflects an increase of \$3.8 billion or 4.1 percent from the prior fiscal year. This increase in *Net Position* is primarily attributable to an \$11.4 billion increase in *Unexpended Appropriations* and a \$7.6 billion decrease in *Cumulative Results of Operations*.

The combined effect of HUD's *Net Cost of Operations* and *Financing Sources* resulted in a 6.5 percent decrease in *Change of Net Cost of Operations* of \$7.6 billion during FY 2009. The significant year-to-year fluctuation shown in the chart below 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.

HUD FY 2009 Performance and Accountability Report

Section 1: Management's Discussion and Analysis

This chart presents HUD's *Net Results of Operations* for FY 2009 and the four preceding years.

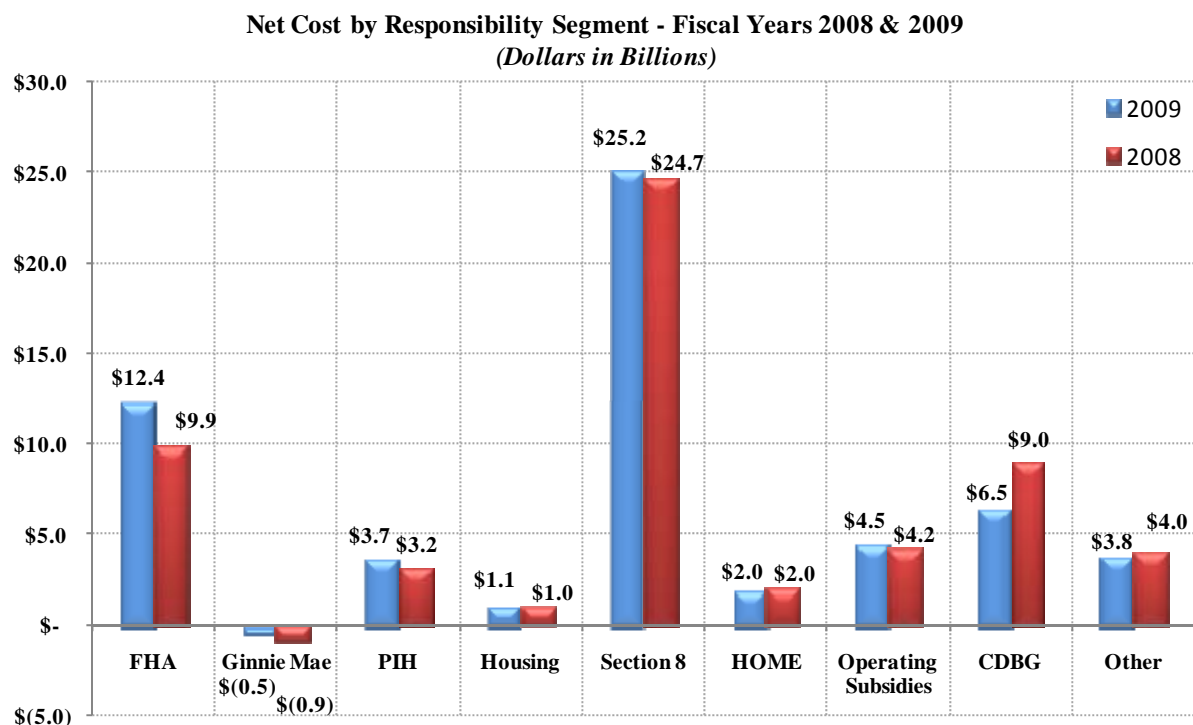


Unexpended Appropriations: which increased 17.3 percent from \$66.5 billion in FY 2008 to \$77.9 billion in FY 2009, represent the accumulation of appropriated funds not yet disbursed, and can change as the *Fund Balance With Treasury* changes. A significant portion of these unexpended funds is attributable 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 2009 totaled \$51.0 billion. This amount is comprised primarily of \$54.7 billion in Appropriations Used, offset by approximately \$3.8 billion in net transfers out. The transfers out consist of new FHA subsidy endorsements and credit subsidy upward re-estimates.

Net Cost of Operations: as reported in the *Consolidated Statements of Net Cost* amounts to \$58.7 billion for FY 2009, an increase of \$1.5 billion (a 2.6 percent increase) from the 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).

The chart below presents HUD's *Total Net Cost* for FY 2009 by responsibility segment.



As shown in the chart, *Cost of Operations* was primarily a result of spending of \$25.3 billion, or 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 change in *Net Cost* for the Section 8 programs was \$0.5 billion, or 2.1 percent, more than the prior fiscal year. FHA *Net Cost* increased by \$2.5 billion, primarily due to a large increase in the subsidy re-estimate in FHA's Financing accounts, caused by the deterioration of the single family housing market between FY 2008 and FY 2009. The increase was offset by a decrease in CDBG *Net Cost* of \$2.5 billion.

Analysis of Off-Balance-Sheet Risk

The financial risks of HUD's credit activities are due primarily to managing FHA's insurance of mortgage guarantees and Ginnie Mae's guarantees of mortgage-backed securities. Financial operations of these entities can be affected by large unanticipated losses from defaults by borrowers and issuers and by an inability to sell the underlying collateral for an amount sufficient to recover all costs incurred.

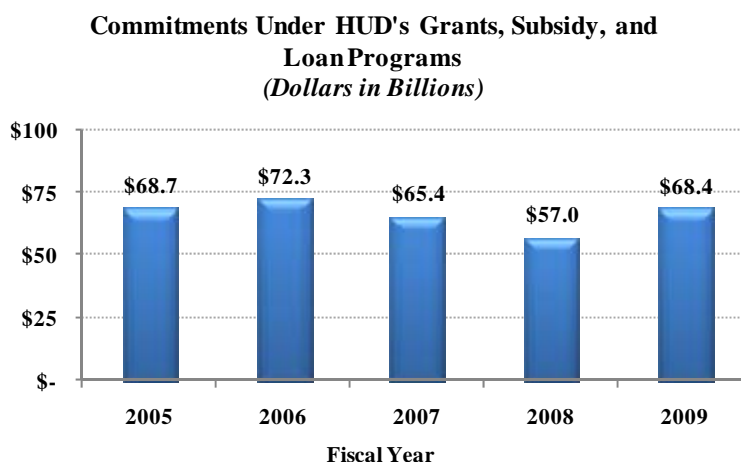
Contractual and Administrative Commitments

HUD's contractual commitments of \$68.4 billion in FY 2009 represents HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. Administrative Commitments (reservations) of \$2.4 billion relate to specific projects for which funds will be provided upon execution of the related contract.

HUD FY 2009 Performance and Accountability Report

Section 1: Management's Discussion and Analysis

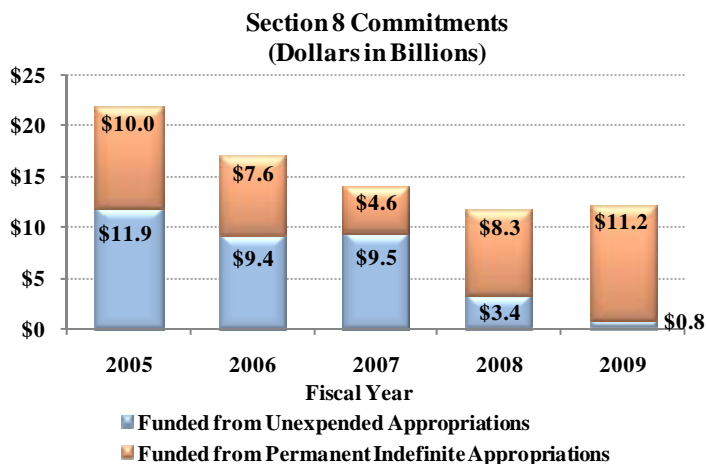
The chart below presents HUD's Contractual Commitments for FY 2009 and the four preceding years.



These commitments are primarily funded by a combination of unexpended appropriations and permanent indefinite appropriations, depending on the inception date of the contract. HUD draws on permanent indefinite budget authority to fund the current year's portion of contracts entered into prior to FY 1988. Since FY 1988, HUD has been appropriated funds in advance for the entire contract term in the initial year, resulting in substantial increases and sustained balances in HUD's unexpended appropriations.

Total commitments (contractual and administrative) increased by \$10.8 billion or 18.0 percent during FY 2009. The change is primarily attributable to an increase of \$3.6 billion in PIH commitments, an increase of \$2.2 billion in HOME program commitments, and an increase of \$5.1 billion in All Other commitments.

The chart below presents HUD's Section 8 Contractual Commitments for FY 2009 and the four preceding years.



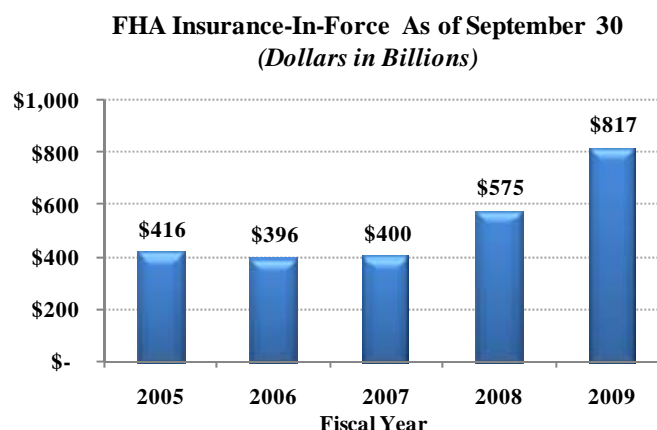
To contain the costs of future Section 8 contract renewals, HUD began converting all expiring contracts to one-year terms during FY 1996. By changing to one-year contract terms, HUD effectively reduced the annual budget authority needed from Congress to fund the subsidies while still maintaining the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

FHA Insurance-in-Force

FHA's insurance-in-force is reported two ways in Note 7E: as Outstanding Principal, Guaranteed Loans, Face Value and as Amount of Outstanding Principal Guaranteed. Note 7E also includes non-FHA loan guarantee programs. FHA uses the Amount of Outstanding Principal Guaranteed to report insurance-in-force. This year, the Analysis of Financial Condition and Results is switching to FHA's preferred method of reporting insurance-in-force. This change does not affect the financial statements or the notes.

In addition, FHA has begun to include Home Equity Conversion Loans in the MMI fund. FHA's total insurance-in-force for FY 2009 is \$757.2 billion of Outstanding Principal Guaranteed plus \$59.9 billion in current outstanding balance for HECM loans, for a total of \$817.1 billion in FHA insurance-in-force. This is an increase of \$241.7 billion (or 42 percent) from the FY 2008 FHA insurance-in-force of \$575.5 billion. The increase in FHA's insurance-in-force was primarily due to an upward adjustment to FHA's FY 2008 re-estimate and a net upward re-estimate for FY 2009.

The chart below presents FHA's insurance-in-force for FY 2009 and the four preceding years. The amounts for years FY 2005 through FY 2007 do not reflect the adjustment to FHA's reporting standard nor the inclusion of HECM loan guarantees.



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

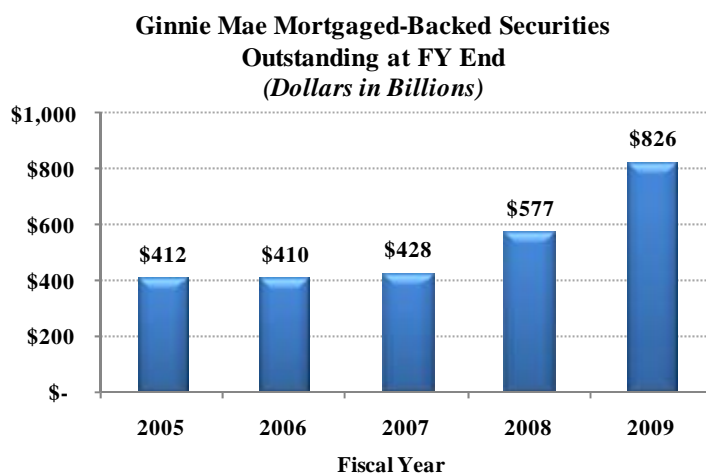
HUD FY 2009 Performance and Accountability Report

Section 1: Management's Discussion and Analysis

September 30, 2008 and 2009, was approximately \$576.8 billion and \$826.0 billion, respectively. However, Ginnie Mae's potential loss is considerably less because the FHA and Rural Housing Service insurance and Veterans Affairs guaranty serve to indemnify Ginnie Mae for most losses. Also, as a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty Mortgage-Backed Securities. The commitment ends when the Mortgage-Backed Securities are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of Mortgage-Backed Securities. Outstanding commitments as of September 30, 2009 and 2008 were \$98.4 billion and \$71.2 billion, respectively.

The chart on the next page presents Ginnie Mae Mortgage-Backed Securities for FY 2009 and the four preceding years.



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 2009 and 2008, Ginnie Mae issued a total of \$79.6 billion and \$43.4 billion, respectively, in its multi-class securities program. The estimated outstanding balance of multiclass securities in the total MBS securities balance at September 30, 2009 and 2008 were \$350 billion and \$253 billion, respectively. These securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the Mortgage-Backed Securities program.

Multi-class securities include:

- REMICs – Real Estate Mortgage Investment Conduits are a type of multiclass mortgage-related security in which interest and principal payments from mortgages are structured into separately traded securities.

- Stripped MBS – Stripped Mortgage Backed Securities are securities created by “stripping” or separating the principal and interest payments from the underlying pool of mortgages into two classes of securities, with each receiving a different proportion of the principal and interest payments.
- Platinums – A Ginnie Mae Platinum security is formed by combining Ginnie Mae MBS pools that have uniform coupons and original terms to maturity into a single certificate.

Management Assurances

The Federal Managers' Financial Integrity Act (FMFIA) of 1982

The Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget (OMB) Circular A-123 *Management's Responsibility for Internal Control* present the main internal control requirements for the federal government. FMFIA explains management's responsibility for, and its role in, the assessment of accounting and administrative internal controls. FMFIA also requires the agency head to annually assess and report on the effectiveness of internal controls that protect the integrity of federal programs as well as financial management systems reporting.

Senior management throughout the Department annually provide assurance statements concerning the effectiveness and efficiency of internal controls within their programs, the reliability of internal control over financial reporting, and compliance with applicable laws and regulations. Using a building block concept, the Secretary's assurance statement shown in this section is based upon these supporting statements.

OMB Circular A-123 also requires agencies to identify the material weaknesses affecting the agency. 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. For FY 2009, no material weaknesses were identified for the Department.

Section 4 of FMFIA

Section 4 of FMFIA requires agencies to report instances of material non-conformance, including the preparation of remediation plans that address the non-conformance.

OMB Circular A-127 requirements address all aspects of managing financial management systems. A system is considered non-conforming when it does not comply with the requirements of the Circular. The materiality or severity of the impact of non-conformance is evaluated against the overall capability of the system to consistently generate accurate, reliable, and timely financial information essential for effective and efficient management of the Agency.

During FY 2009, HUD identified no new material non-conformance issues and maintained its focus on successfully implementing its aggressive approach toward resolving past financial system non-conformance concerns. HUD's program offices are vigorously working to ensure compliance with FMFIA and OMB Circular A-127.

HUD FY 2009 Performance and Accountability Report

Section 1: Management's Discussion and Analysis

At the end of FY 2009, two financial systems, HPS and SPS, remain non-compliant. These two systems were identified as non-compliant as part of HUD's FY 2006 financial statement audit. HUD developed remediation plans to replace these systems with the HUD Integrated Acquisition Management System (HIAMS) to meet the agency's procurement and business needs. However, the acquisition of HIAMS was delayed due to a lack of funding. Partial funding was provided in the third quarter of FY 2009, and the acquisition process has been restarted. While HIAMS is being developed, HPS and SPS have compensating controls in place in order to mitigate their noncompliance issues.

During FY 2009, HUD began the process of reviewing and documenting its financial management systems interfaces. This process will continue in FY 2010 and will address future interfaces, manual processes, and security interfaces to be implemented.

Federal Financial Management Improvement Act (FFMIA) of 1996

The Federal Financial Management Improvement Act of 1996 and OMB Circular A-127 *Financial Management Systems* prescribes policies and standards for executive departments and agencies to follow when managing their financial management systems. According to OMB Circular A-127, financial management systems are substantially compliant when an agency's financial management systems routinely provide reliable and timely financial information for managing day-to-day operations as well as to produce reliable financial statements, maintain effective internal control, and comply with legal and regulatory requirements.

The Secretary has determined that the Department is in compliance with FFMIA, although our auditor has opined that the Department's financial management systems did not substantially comply with the Act (for more detailed information, see Section 3, *Independent Auditor's Report*). HUD management disagrees with the audit opinion, and asserts that our financial management systems satisfy OMB's three-part requirement needed to report substantial compliance with FFMIA. The requirements specifically state that agencies are in substantial compliance when they can prepare financial statements and other required financial and budget reports using information generated by the financial management system(s) which: (1) provide reliable and timely financial information for managing current operations; (2) account for assets reliably so that they can be properly protected from loss, misappropriation, or destruction; and (3) do all of the above in a manner that is consistent with federal accounting standards and the U.S. Government Standard General Ledger at the transaction level. HUD's financial management systems satisfy all of these requirements.

HUD continues to strengthen and improve its financial management systems. The Department 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 addition, as part of the Secretary's Transformation

Initiative, the Department will target Transformation Initiative funding toward modernizing HUD's IT systems for existing programs.

Federal Information Security Management Act (FISMA) of 2002

The Federal Information Security Management Act of 2002 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 agency heads 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, and the agency continues to improve its Information System Security Program. The implemented improvements during FY 2009 increase HUD's ability to protect the availability, integrity, and confidentiality of information stored on its systems. Noted accomplishments include: ensured 100 percent of HUD's information systems maintained a current certification and accreditation; built a stronger vulnerability management program to cost effectively reduce security risks discovered on the Department's technical infrastructure; ensured that all applicable information systems and business processes have been assessed for privacy impacts; and expanded the Department's security awareness program.

The OIG's audit report noted a non-compliance with FISMA for two Ginnie Mae financial systems. However, HUD disagrees with the OIG's finding of non-compliance with FISMA. Contrary to the OIG's report, the Integrated Portfolio Management System was certified and accredited on 06/30/2009, and the Single Family Mastersubservicer System is in transition.

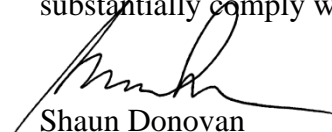
Federal Managers' Financial Integrity Act
FY 2009 Annual Assurance Statement

The Department of Housing and Urban Development's management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA), Sections 2 and 4. HUD conducted its assessment of the effectiveness of its internal control over the efficiency and effectiveness of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, HUD can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, as of September 30, 2009, was operating effectively with no material weaknesses found in the design of its 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. Based on the results of this evaluation, HUD can provide reasonable assurance that its internal control over financial reporting, as of June 30, 2009, was operating effectively and that no material weaknesses were found in the design or operation of the internal control over financial reporting.

In accordance with guidance established by the American Recovery and Reinvestment Act (Recovery Act) of 2009, HUD can provide reasonable assurance that all Recovery Act programs were managed effectively and efficiently, utilized reliable and accurate data to report achievement of program goals, and were in compliance with applicable laws and regulations. All HUD Recovery Act funds were awarded and distributed in a prompt, fair, and reasonable manner for the sole purpose designated in the Recovery Act.

The Federal Financial Management Improvement Act of 1996 (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 hereby provides reasonable assurance that its financial management systems substantially comply with FFMIA for FY 2009.



Shaun Donovan

Secretary

November 16, 2009

Improper Payments Information Act Reporting

Please see the narratives for Performance Indicator E.3 in Section 2, and the Improper Payments Act Reporting Details in Section 4 for more information.

Data Relevance and Reliability

In 2000, HUD launched the Data Quality Improvement Program to enhance the quality of Annual Performance Plan performance indicator data in HUD's IT systems. This program includes a three-step process: 1) independent assessment; 2) data quality cleanup and improvement; and 3) certification that critical data elements meet HUD's 4-sigma standard, reflecting fewer than 6,210 errors per million. The initial emphasis of the program is assessing and certifying information systems and data elements used to report on program performance under the Government Performance and Results Act.

The performance indicators have value in portraying HUD's programs only to the extent that the Department can demonstrate their reliability. To do this, HUD engages in a number of efforts to verify and validate the performance data.

Those efforts include, but are not limited to:

- The review of grantee reports to assess accuracy and monitor grantees to ensure that reported performance measures are accurate and that the results are produced in compliance with program requirements.
- The utilization of the FHA Consolidated Single-Family Statistical System. HUD verifies FHA data for underserved communities by comparison with Home Mortgage Disclosure Act data.
- Verification via random checks of physical case files and documentation of case closures.
- Data validation by matching the monthly Ginnie Mae database and the FHA systems.
- Independent physical inspections of units, buildings, and sites.

More detailed information can be found in the data discussion paragraph of each performance indicator in Section 2.