Discussion and Analysis of Operations

Discussion and Analysis of Operations – Introduction

HUD's major program areas fall into three categories:

The Federal Housing Administration (FHA);

The Government National Mortgage Association (Ginnie Mae); and

HUD's grant, subsidy, and loan programs.

FHA and Ginnie Mae

The program objectives carried out by FHA and Ginnie Mae relate directly to developing affordable housing. Accordingly, the discussion of these programs is located in the "Increase Homeownership Opportunities, Especially in Central Cities, through a Variety of Tools, such as Expanding Access to Mortgage Credit" section of this report. Discussion of FHA's multifamily housing programs is located in the " Increase Availability of Affordable Housing in Standard Condition to Families and Individuals, Particularly the Nation's Poor and Disadvantaged" section.

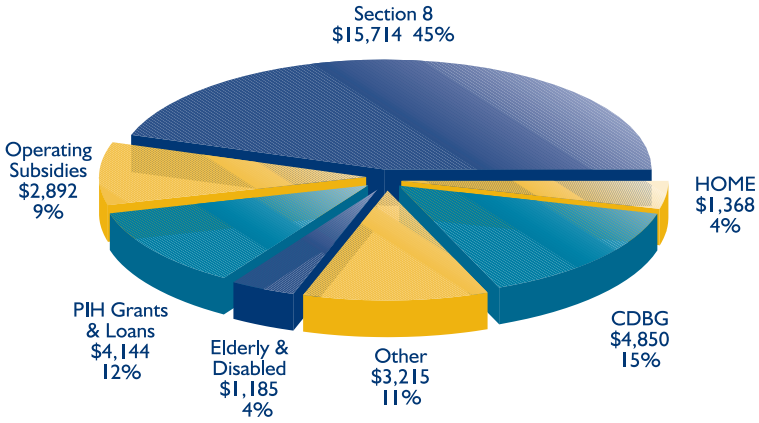
Grant, Subsidy, and Loan Programs

HUD's grant, subsidy, and loan programs relate to all of the Department's strategic objectives and are, therefore, addressed throughout the remainder of the Discussion and Analysis section of this report. HUD's most significant grant, subsidy, and loan programs, in terms of expenses, are:

- Section 8 Lower Income Rental Assistance;
- HOME Investment Partnerships;
- Community Development Block Grants;
- Housing for the Elderly and Disabled;
- Public and Indian Housing Grants and Loans; and
- Operating Subsidies for Public Housing Agencies.

The consolidating financial statements provide information for each of the above programs. Expenses during fiscal 1999 for HUD's grant, subsidy and loan programs totaled $33.4 billion.

Grant, Subsidy, and Loan Programs Expenses for Fiscal 1999
(Dollars in Millions)



Several of HUD's subsidy programs provide assistance for the purchase or rental of housing units. The following table shows the number of housing units eligible for HUD assistance during the last five years.

Total Number of Housing Units Eligible for HUD Assistance

During the Last Five Fiscal Years

Program	1995	1996	1997	1998	1999
HUD's Major Assistance Programs					
Section 8 Lower Income Rental Assistance Program:					
Tenant-based Assistance	1,397,747	1,451,397	1,460,899	1,605,898	1,580,501
Project-based Assistance	1,513,945	1,506,765	1,482,735	1,395,037	1,404,838
Total Section 8	2,911,692	2,958,162	2,943,634	3,000,935	2,985,339
Public Housing Programs	1,397,205	1,388,746	1,372,260	1,295,437	1,273,500
Sub-total	4,308,897	4,346,908	4,315,894	4,296,372	4,258,839
Other Assistance Programs					
Homeownership Assistance Program (Section 235)	76,092	68,473	60,810	52,713	43,116
Rental Housing Assistance Program (Section 236)	508,353	505,305	494,121	476,451	464,020
Rent Supplement	20,860	20,860	20,860	20,860	20,860
Sub-total	605,305	594,638	575,791	550,024	527,996
Less estimated number of households receiving more than one form of assistance (double count)	(190,140)	(190,140)	(190,140)	(190,140)	(190,140)
TOTAL	4,724,062	4,751,406	4,701,545	4,656,256	4,596,695

Increase Homeownership Opportunities, Especially in Central Cities, Through a Variety of Tools Such as Expanding Access to Mortgage Credit

This section covers the following major programs:

Federal Housing Administration

Government National Mortgage Association (Ginnie Mae)

Federal Housing Administration[1]

The Federal Housing Administration (FHA) was established under the National Housing Act of 1934 to:

- improve housing standards and conditions;
- provide an adequate home financing system by insurance of housing mortgages and credit; and
- stabilize the mortgage market.

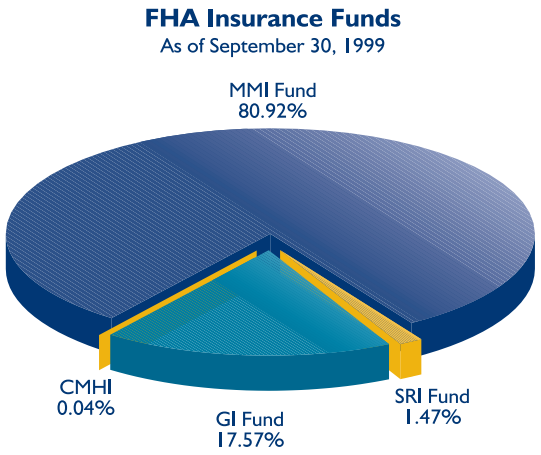
FHA was consolidated into the newly established Department of Housing and Urban Development (HUD) in 1965 and is subject to the provisions of the Government Corporation Control Act.

FHA has been extremely successful in achieving its mission of supporting the availability of capital for single family and multifamily homeownership and for the development of affordable rental housing. For over 60 years, FHA has been a persistent force in stabilizing the housing markets and providing homeownership opportunities.

FHA insures private lenders against loss on mortgages, financing single family homes, multifamily projects, and healthcare facilities. FHA also insures private lenders against loss on loans for property improvements and manufactured homes. The overall goal of FHA's insurance activities is to help expand homeownership and affordable housing opportunities for all Americans. Its activities are financed by the FHA Enterprise Fund, which is supported through premium and fee income, interest income, congressional appropriations, borrowings from the U.S. Treasury (Treasury) and other miscellaneous sources. The FHA Enterprise Fund is composed of four funds:

- **The Mutual Mortgage Insurance (MMI) Fund,** which supports FHA's basic single family homeownership program. Historically this fund has been self-sustaining.
- **The General Insurance (GI) Fund,** which supports a wide variety of multifamily and single family insured loan programs for rental apartments, cooperatives, condominiums, housing for the elderly, nursing homes, hospitals, property improvement, manufactured housing (Title I), and disaster assistance.
- **The Special Risk Insurance (SRI) Fund,** which supports multifamily rental projects and loans to high-risk borrowers.
- **The Cooperative Management Housing Insurance (CMHI) Fund,** which supports insurance on market-rate cooperative apartment projects. Historically this fund has been self-sustaining. This fund is currently no longer active, except for refinancing.

[1] *Multifamily Housing is addressed in the "Increase Availability of Affordable Housing…" section of the Discussion and Analysis.*



Insurance-In-Force

As of September 30, 1999, the total mortgage insurance-in-force in the FHA Fund was $508 billion, an increase of 7 percent, or $33 billion, over fiscal 1998. Specifically, the MMI Fund increased by $31 billion, the GI Fund increased by $2.5 billion, and the SRI Fund experienced a modest decrease of $600 million.

The nation's home ownership rate soared to an all time high of 67 percent at the end of fiscal 1999

FHA's single family mortgage insurance business comprised 88.6 percent of its total insurance-in-force, the multifamily and health care insurance comprised 10.4 percent, and Title I property improvement and manufactured home insurance comprised the remaining 1 percent.

FHA Single Family Programs

FHA single family programs have been extremely successful in achieving their mission of providing capital for single family homeownership. Specifically, because of FHA mortgage insurance products, the nation's home ownership rate has soared to an all time high of 67 percent at the end of fiscal 1999; well on the way towards the goal of 67.5 percent by the year 2000. A total of 70.5 million American families owned homes as of the end of fiscal 1999. FHA endorsed 1,291,269 single family mortgage loans in fiscal 1999, including refinancing, exceeding its goal by 19.1 percent. FHA also exceeded its goal of increasing single family mortgage insurance endorsements for under-served populations by 15.7 percent and endorsed 424,658 such loans during fiscal 1999.

FHA insurance provides assurance that should the borrower default, no monetary loss will accrue to the lender. First-time homebuyers were the recipients of 81.1 percent of FHA's insured mortgages, helping to increase the homeownership rate of Americans. This distribution clearly indicates that FHA is successfully serving the intended populations. By setting specific goals, FHA has clearly expressed its intent of providing expanded opportunities for affordable homeownership for all persons.

Section 203(k)

The Section 203(k) program allows a borrower to finance the purchase and rehabilitation of a single family property with a mortgage loan insured by the FHA. FHA serves a significant role in this market since conventional construction financing for rehabilitation loans is extremely difficult for borrowers to obtain. This program also facilitates FHA's mission to rebuild the housing stock in the country's aging cities.

A fiscal 1999 goal was to increase 203(k) production to 14,500 owner-occupied loans and increase the

number of single family properties rehabilitated by a revamped 203(k) program. This goal aims at stabilizing homeownership in older and distressed neighborhoods and provides the opportunity for homeowners to improve their living conditions. FHA fell short of the goal by 10.2 percent and endorsed 13,019 203(k) loans in fiscal 1999. The goal remains important, and FHA is currently reengineering the program to make it a more viable tool.

FHA experienced a decline in the 203(k) program since for-profit investor participation was suspended in October 1996. To offset this decline, FHA has encouraged not-for-profit corporations to use 203(k) financing as part of their affordable housing programs for owner-occupant buyers. Growth in not-for-profit loan volume has occurred in fiscal 1999.

Title I

The Title I program finances property improvement and manufactured home loans. The property improvement loan guarantee finances loans on properties owned by the borrower for improvements to individual homes, apartment buildings, and non-residential structures. FHA established a fiscal 1999 goal to achieve success in revamping the direct Title I home improvement loan program and increasing its usage while stabilizing home-ownership in older and distressed urban neighborhoods.

The volume of property improvement loan production has declined since fiscal 1997 to 30,760 loans. FHA is revamping the program by improving program controls, restoring financial soundness, and reducing areas of program risk. Reforms are currently being finalized, and the claims review process has been enhanced. This goal not only contributes to the achievement of making homeownership accessible and affordable, but also further serves FHA's objective of contributing positively to the revitalization of the inner cities where there is often housing needing substantial rehabilitation.

Single Family Program Accomplishments

Efforts to target housing discrimination and to offer more funds opened new homeownership opportunities to minorities, low- and moderate-income families, and city residents. The homeownership rate among minorities and in cities grew faster than white homeownership during 1999. Because of FHA's commitment and the continued strong growth rate, approximately 41 percent of the new homeowners since 1994 are minorities although minorities account for only 23 percent of the population.

With respect to FHA's goal to increase the homeownership rate in Central Cities to 52.5 percent in fiscal 2000, the Central Cities homeownership rate achieved in fiscal 1999 was 50.5 percent. Programs such as the Officer Next Door will continue to increase homeownership in Central Cities in fiscal 2000. The Officer Next Door Program aims to improve neighborhoods by increasing the presence of police and other public safety officers by allowing them to buy real estate owned (REO) properties in revitalization areas at a 50 percent discount. In fiscal 1999, 81 percent of FHA loans originated were for first-time homebuyers, compared with 80 percent in fiscal 1998 and 76 percent in fiscal 1997. Because of FHA, over 745,000 families were able to purchase their first home during this year. Fiscal 1999's results continue to show an increasing trend in the share of first time homeowners.

FHA exceeded its goal of increasing the average net recovery on REO property sales by 9.8 percent for an average net recovery of $54,007 in fiscal 1999. The MMI Fund is designed to be self-sustaining. Disposal of assets for the highest return helps to meet this objective. FHA's single family goal was to reduce losses through foreclosure avoidance. There were 78,890 claims paid during fiscal 1999, of which 4,056 were pre-foreclosure claims. FHA also paid 20,818 other loss mitigation claims as partial payment, forbearance or other modifications. FHA's goal for fiscal 1999 was to resolve 6,072 claims by use of loss mitigation and alternatives to foreclosure. FHA exceeded this by resolving 24,874 claims, or 310 percent more than the goal.

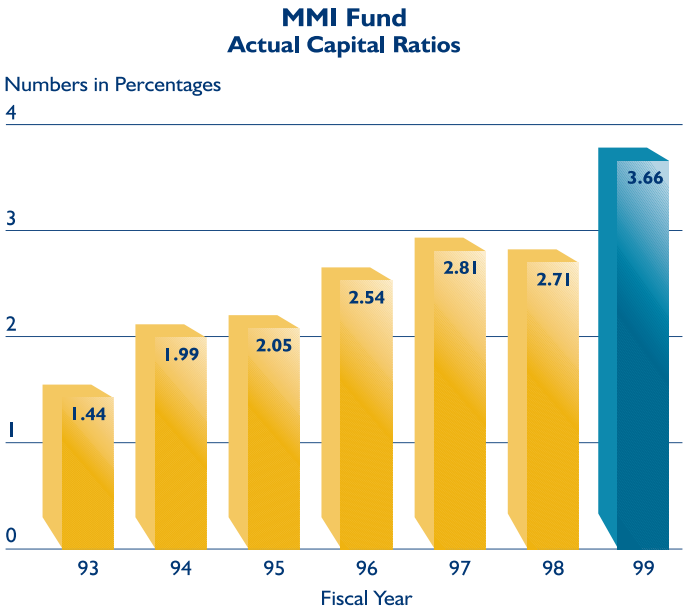
FHA exceeded its goal of increasing REO properties sold to non-profit organizations and governmental entities by 30.7 percent with 5,883 properties sold. This goal contributes to the achievement of making homeownership accessible and affordable by allowing non-profit entities to purchase FHA REO properties at discounts in certain designated areas where revitalization efforts are occurring. Traditionally, these non-profits are more capable of overseeing rehabilitation and/or establishing supportive organizations that educate borrowers in the transition to homeownership. They also traditionally pass much of the discount on to the ultimate purchasers that make these properties affordable.

An additional FHA goal was to increase the share of first-time homebuyers in each HUD field office by 1 percent per year over fiscal 1998. In this regard, FHA's fiscal 1999 goal was 629,341 first time home-buyer endorsements. FHA exceeded this goal by 18.5 percent and endorsed 745,671 loans to first time home buyers. This represents 81 percent of FHA's total new endorsements, excluding refinancings, of 919,756 loans.

MMI Capital Ratio

The MMI Fund constitutes the majority of FHA single family business, with over 90 percent of the total single family insurance-in-force. The financial soundness of this fund is measured by the MMI capital ratio. The National Affordable Housing Act of 1990 requires an independent actuarial analysis of the economic net worth of the MMI Fund. The Act also mandates that the MMI Fund achieve a capital ratio (a measure of the Fund's cushion against unexpected insurance losses) of at least 2.0 percent by the year 2000. The cushion ensures that FHA's basic single family insurance program could withstand unexpected losses without exposing the taxpayers to financial risk.

The table below shows the capital ratios for the last several years. The projected capital ratio for fiscal 2000 is 3.81percent.



Secretary-Held Mortgage Notes

A note is assigned to the Secretary when FHA pays a claim prior to foreclosure and takes possession of the mortgage note for servicing. Mortgage notes in default were assigned to FHA for servicing until 1996 when the program was terminated due to the high cost of servicing assigned notes. However, in fiscal 1999, notes were assigned to HUD that were held by borrowers who applied for the program before April 1996.

Secretary-Held Mortgage Notes
As of September 30th
(Dollars in Billions)

	1995	1996	1997	1998	1999
Single Family	$ 4.774	$3.023	$ .677	$ .731	$ .699
Title I	.380	.294	.356	.497	.469
Multifamily	5.916	3.259	2.256	2.108	2.135
TOTAL	$11.070	$6.576	$3.289	$3.336	$3.303

FHA has reduced its single family and Title I note inventories from approximately $5.2 billion in 1995 to $1.2 billion in 1999 through bulk note sales. During fiscal 1999, the HUD-held note inventory decreased by 2.56 percent. Although the unpaid principal balance of single family notes in inventory decreased by $32 million in fiscal 1999, the number of mortgages in inventory increased 30.9 percent. The number of Title I notes in inventory declined by 11.1 percent due to collections and write-offs, and the inventory of multifamily notes decreased by 1.4 percent. A note sale is planned during fiscal 2000 to dispose of the remaining single family and multifamily unsubsidized assigned notes in inventory.

Secretary – Held Property

FHA acquires single family and multifamily properties through conveyance claims. FHA also acquires properties when FHA forecloses on single family notes that were assigned to the Secretary.

Secretary-Held Property
As of September 30th
(Dollars in Billions)

	1995	1996	1997	1998	1999
Single Family	$1.803	$1.850	$2.418	$3.254	$4.194
Multifamily	.535	.490	.355	.376	.527
TOTAL	$2.338	$2.340	$2.773	$3.630	$4.721

The increase in Secretary-held property from fiscal 1995 through fiscal 1999 is entirely the result of a rise in single family property conveyances. Part of the increase in single family property conveyances can be attributed to the termination of the single family note assignment program. This shift from assignments to direct conveyances was fully anticipated. In addition, conveyance claims have increased due to high claim rates among borrowers in Southern California, especially those who selected adjustable rate mortgages (ARMs). In March 1998, FHA revised its ARM underwriting guidelines to terminate the use of ARMs with interest rate buy-downs, a sales practice prevalent in areas undergoing house price declines. It also required borrowers seeking mortgages with loan-to-value ratios exceeding 95 percent to qualify at one percentage point over the initial contract rate. This change has the effect of reducing the use of ARMs by marginally qualified borrowers. Both of these changes should reduce the frequency of ARM claims in the future.

FHA Material Weaknesses

In last year's report, there were three material weaknesses that pertained to FHA. During fiscal 1999, significant actions were taken on all material weaknesses, eliminating one, and downgrading another to a management concern.

FHA Resource and Asset Management Strategy

This material weakness has been eliminated. It dealt with the need for FHA to review its staffing levels, assess the skills of its workforce versus skill needs, and assess the training resources under the initiatives to streamline work into the Single Family Home Ownership Centers and to reengineer Multifamily operations.

FHA pursued resolution of the material weakness through the following avenues of reform: reorganization and consolidation, increased staff capacity, increased use of technology, and contracting.

- Multifamily Housing consolidated its functions into 18 Program Hubs and Single Family Housing consolidated all single family operations into four Home Ownership Centers. This consolidation, along with the establishment of the Real Estate Assessment Center (REAC), the Enforcement Center and the Financial Management Center, allowed FHA to streamline processes and achieve economies of scale.
- FHA increased its staff capacity by providing comprehensive training that will help ensure that managers and staff perform their jobs efficiently, protect the Department's financial interests, and reasonably protect against waste, fraud, and abuse.
- FHA undertook a number of initiatives that have propelled HUD to the forefront of Government agencies that effectively use technology in conducting its business. These initiatives included: expanded use of internet-based applications such as the FHA Connection which

provides FHA system access to customers, thereby freeing up staff from data entry and responding to customer inquiries; development of new systems that consolidated information that was found in numerous systems; and re-engineering existing systems to better meet program requirements, thereby eliminating manual manipulation of data.

- FHA outsourced the servicing of the Single Family Secretary-held note portfolio in April 1999. This alleviated staffing and administrative resource issues, and also improved servicing of the portfolio. A contract was also awarded in the 4th quarter of fiscal 1999, to secure program advisor services to facilitate the sale of FHA's inventory of Single Family and Multifamily mortgage notes. The notes are expected to be sold by the end of fiscal 2001. Additionally, Management and Marketing (M&M) contracts were fully implemented in fiscal 1999. Private sector real estate professionals are now being utilized to perform all property maintenance and marketing functions.

- Significant progress was made in the eventual transfer of responsibility for administering Housing Assistance Payments (HAP) contracts to third-party contract administrators. While this process was delayed, in part, because of lengthy consultations with OMB, on May 3, 1999, Housing issued a Request for Proposals (RFP) to solicit third-party contract administration services from public housing agencies to administer project based Section 8 HAP contracts. Initial contracts have been signed and the Department anticipates that all contracts will be in place by the beginning of next fiscal year.

Early Warning and Loss Prevention for FHA Insured Mortgages

FHA needed to improve its efforts to identify and cure troubled multifamily mortgages before they became seriously delinquent. It also needed to improve risk management for the single family portfolio. During fiscal 1999, FHA made notable progress in its ability to monitor its insured portfolio and, as a result, management has downgraded this material weakness to a management concern. The REAC and Enforcement Center are now fully operational and are providing the complementary services needed to effectively monitor and manage FHA's portfolio.

REAC created a standardized physical inspection protocol that enables both project managers and Office of Housing management to assess the quality of the multifamily portfolio on a national basis, and implement a risk-based monitoring strategy. REAC has inspected 20,000 multifamily properties and will complete inspection of the entire portfolio by the end of the second quarter fiscal 2000. With the new physical inspection protocol, all urgent health and safety issues are delivered to the on-site property manager immediately after the inspection is complete. Prompt notification of health and safety problems enables property managers to correct deficiencies quickly, and improve the living conditions for the tenants. REAC has also developed and implemented an Internet-based Financial Assessment Subsystem for Multifamily Housing (FASS-MFH) to collect and assess essential program monitoring data. In the past, the labor intensive manual collection and review of this monitoring information was inconsistently performed and acted upon across HUD's 51 multifamily field office sites. Under FASS-MFH, project owners or their authorized representatives directly send their annual financial statement, supplementary compliance data, and related audit information to HUD electronically through a secured internet site.

Single Family has also made significant progress in improving its early warning and loss prevention processes. With the implementation of Neighborhood Watch and Credit Watch, FHA has the ability to trend claim and default data by lender, and impose sanctions on problem lenders. Using the analyses performed under these initiatives, lenders with excessive claim rates have been terminated, and quality assurance reviews conducted in fiscal 1999 increased 112 percent over fiscal 1998. Additionally, Single Family has increased the number of seriously delinquent loans that have avoided foreclosure by expanding its use of loss mitigation tools. To determine the actual success of the loss mitigation program, Single Family has begun to track the ultimate outcome of loans that enter the program.

FHA Federal Basis and Budgetary Reporting

The remaining material weakness identifies the need for FHA to perform analyses and reconciliations of all of its obligation systems, to ensure that all obligated amounts are properly recorded and that funds control is maintained and implemented in all systems.

Although this material weakness remains open, significant actions have been taken. By the end of fiscal 1999, FHA had implemented routine procedures to analyze unliquidated obligations for contracts and purchase orders and to de-obligate expired items. Additionally, FHA had reconciled all of its accounting and budget systems for loan guarantee commitments and endorsements to ensure all credit subsidy amounts had been properly recorded.

FHA has prepared formal documentation of the process that it will use to prepare Federal Basis financial statements and the SF-133 which includes cross-walks of GAAP accounts to the Federal basis and identify all required sources of budgetary system information. Additionally, FHA has prepared formal documentation of the cost allocation time survey process and will conduct the surveys periodically during the year. FHA is also implementing existing plans to address identified financial management issues related to the Liability for Loan Guarantees.

Government National Mortgage Association (Ginnie Mae)

Ginnie Mae, a wholly-owned Government corporation within the Department of Housing and Urban Development, was created by Congress in 1968. Ginnie Mae's mission is to support affordable homeownership for low- and moderate-income families by providing liquidity to the secondary mortgage market and by attracting capital from capital markets into residential mortgage markets.

Through its well-known mortgage-backed securities (MBS) programs, Ginnie Mae creates a vehicle for channeling funds from the securities markets into the mortgage market and helps to increase the supply of credit available for housing.

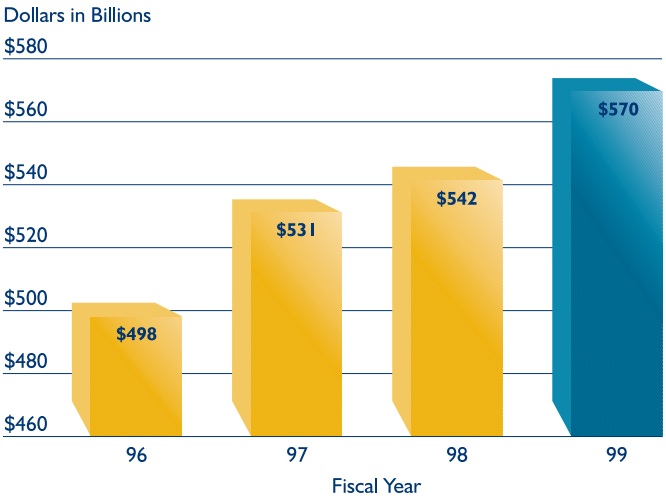
Since inception of the MBS Program in 1970, Ginnie Mae has guaranteed the issuance of over $1.5 trillion in securities providing the capital to purchase or refinance 24.5 million homes.

Administration of Program Activities

Through the MBS Program, Ginnie Mae guarantees the timely payment of principal and interest to investors of privately issued "Ginnie Mae" securities. These securities are backed by pools of residential mortgages insured or guaranteed by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), the Rural Housing Service (RHS), and the HUD Office of Public and Indian Housing (PIH). Ginnie Mae's guaranty is backed by the full faith and credit of the U.S.. In fiscal 1999, Ginnie Mae guaranteed the securitization of 87.2 percent of eligible FHA and VA loans.

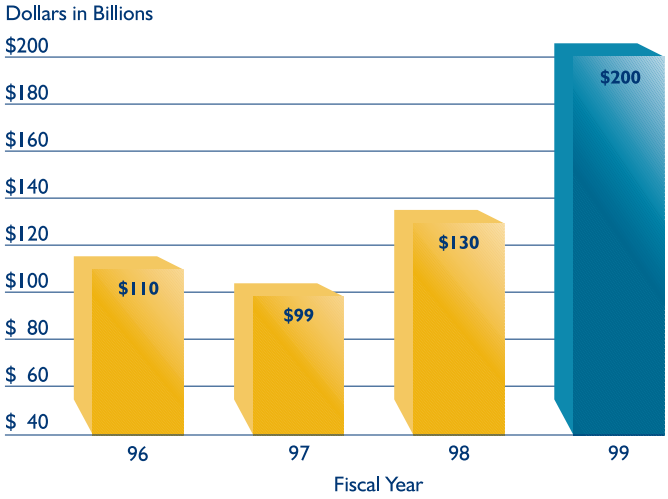
Outstanding Ginnie Mae MBS securities at the end of fiscal 1999 were $569.6 billion, an increase of $27.4 billion from the end of fiscal 1998.

GINNIE MAE
Mortgage-Backed Securities
Outstanding at FY End

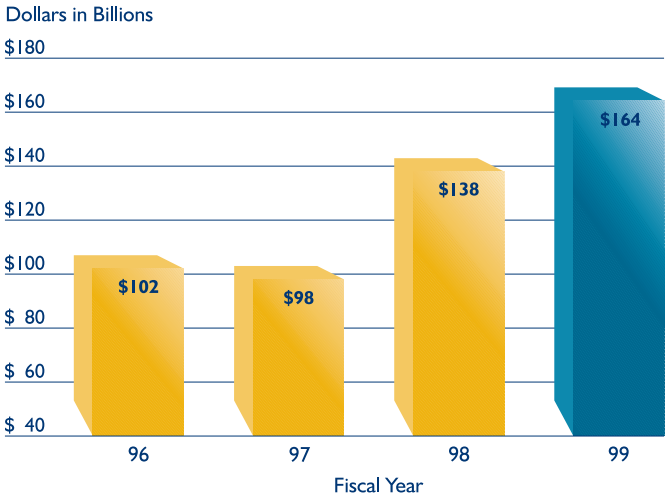


Commitment and issuance activity increased during the year. This increase was the result of lower interest rates and a stronger housing market. Of the security guarantees issued, over $159 billion of securities were backed by single family mortgages; $4 billion backed by multifamily construction and project loans; and $300 million backed by manufactured housing loans.

GINNIE MAE
Mortgage-Backed Securities
Commitments Issued



GINNIE MAE
Mortgage-Backed Securities
Security Guarantees Issued



Delinquency ratios for the MBS pooled mortgages declined in the multifamily and manufactured housing programs compared to the previous year. The single family delinquency rate decreased slightly to 1.5 percent in fiscal 1999 from 1.6 percent in fiscal 1998, demonstrating an improvement in the delinquency ratios in past fiscal years.

The manufactured housing delinquency rate declined to 3.0 percent in fiscal 1999 from 3.5 percent in fiscal 1998. Security issuance in the manufactured housing program continues to decrease.

Delinquency ratios in the multifamily programs declined to 0.6 percent in fiscal 1999 from 0.8 percent in fiscal 1998, a 26 percent decline.

Ginnie Mae will continue to monitor issuers through the Issuer Portfolio Analysis Database System for unusual fluctuations in portfolio delinquency rates. Ginnie Mae increased its multifamily securitization percentage rate of FHA-insured dollar volume from 81 percent in fiscal 1998 to 98 percent in fiscal 1999.

Annual Defaulted Unpaid Principal Balance by Portfolio
(Numbers in Percent)

Portfolio	1996	1997	1998	1999
Single Family	1.96	1.97	1.64	1.52
Multifamily	1.44	0.92	0.78	0.58
Manufactured Housing	5.31	4.64	3.52	3.00

In the Single-Family and Manufactured-Housing programs, serious delinquencies are loans which are three months or more delinquent plus foreclosures. In Multifamily programs, serious delinquencies are loans delinquent two months or more plus foreclosures.

Ginnie Mae continues to work with FHA, VA and RHS to develop enhancements intended to help expand homeownership opportunities for low- and moderate-income American families. Ginnie Mae continues to fulfill its mandate to promote access to mortgage credit throughout the nation by increasing the liquidity of investment capital available to the residential mortgage finance market. Ginnie Mae's Targeted Lending Initiative has proven to be tremendously effective in helping to increase homeownership levels in targeted central city communities. In fiscal 1999, Ginnie Mae continued the Targeted Lending Initiative, which was initiated in fiscal 1997 to help raise homeownership levels in central city areas. From fiscal 1997 through fiscal 1999, $10.5 billion of targeted lending pools have been issued in 4,905 pools, representing 112,343 loans.

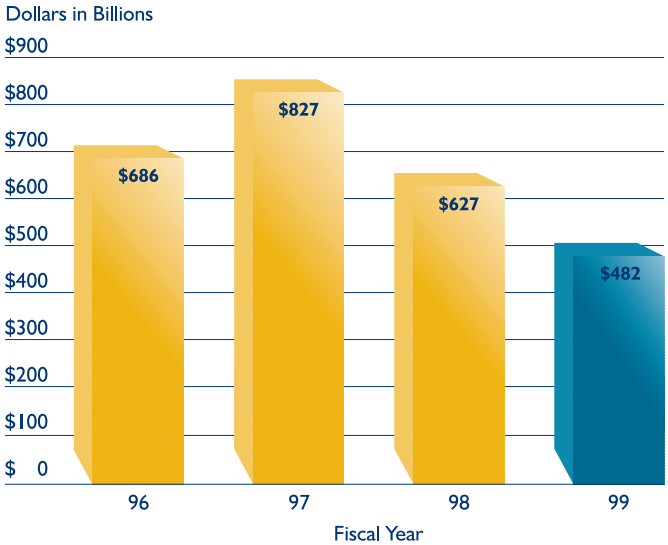
The Targeted Lending Initiative provides financial incentives for lenders to increase loan volumes in traditionally under-served areas. By increasing lender activity in these targeted areas, Ginnie Mae provides families and households with additional opportunities to achieve homeownership. Under the Targeted Lending Initiative, Ginnie Mae may reduce its guaranty fee by up to 50 percent when approved issuers originate (or purchase) home mortgage loans in one of the designated 72 urban communities around the nation and place them in Ginnie Mae pools. In fiscal 1999, 15 additional communities were added as eligible communities. In addition, communities with a significant Native American population also became eligible.

Asset Management Activities

Upon default of an issuer, Ginnie Mae acquires the issuer's outstanding Ginnie Mae servicing portfolio. Ginnie Mae works to ensure that the servicing of loans collateralizing mortgage-backed securities is maintained and the payment of principal and interest to security holders is made in a timely manner.

By the end of fiscal 1999, Ginnie Mae had an acquired servicing portfolio of $482 million compared to $627 million in fiscal 1998. The $145 million decrease was due to the reduced number of acquisitions as a result of an improved economy, interest rates, and housing market. Ginnie Mae services defaulted issuers' portfolios until such time as the servicing rights can be packaged and sold through an open and competitive bid process to approved Ginnie Mae issuers. Ginnie Mae works to bring a Ginnie Mae-held portfolio to a positive net present value before conducting a sale.

GINNIE MAE
Aquired Servicing Portfolio
End of Fiscal Year



Ginnie Mae Multiclass Program

During fiscal 1999, Ginnie Mae guaranteed $19.7 billion in Real Estate Mortgage Investment Conduit (REMIC) securities. This was Ginnie Mae's sixth year in the REMIC market, and Ginnie Mae continues to improve its competitiveness in the government-backed REMICs market. REMICs have reclaimed their role as an important tool for investors to manage mortgage cash flows. Ginnie Mae expects that the demand for Ginnie Mae REMICs will continue to experience growth due to the improved liquidity of the security. The Ginnie Mae Platinum Program facilitates the combination of smaller, less liquid pools of MBS into larger Ginnie Mae Platinum securities. In fiscal 1999, over $29.5 billion in Ginnie Mae Platinum Securities were issued. The Ginnie Mae Platinum Program (the industry standard for large MBS pools) should also continue to be a major product.

Ginnie Mae's performance measurement on the multiclass program was to increase volume of multiclass securities by 10 percent in fiscal 1999. Ginnie Mae increased multiclass volume by approximately 35 percent in fiscal 1999. Ginnie Mae expects to continue its strong issuance volume for Multiclass Securities and to meet demand for new security products.

The Officer Next Door Program aims to improve neighborhoods by increasing the presence of police and other public safety officers by allowing them to buy real estate owned property (REO) in revitalization areas at a 50 percent discount.

Increase Availability of Affordable Housing in Standard Condition to Families and Individuals, Particularly the Nation's Poor and Disadvantaged

This section covers the following major programs:

Section 8 Lower Income Rental Assistance Program

Operating Subsidies, Grants, and Loans to Housing Agencies

HOME Investment Partnerships Program

FHA Multifamily Housing Programs

Housing Opportunities for Persons With AIDS (HOPWA)

Lead Hazard Control

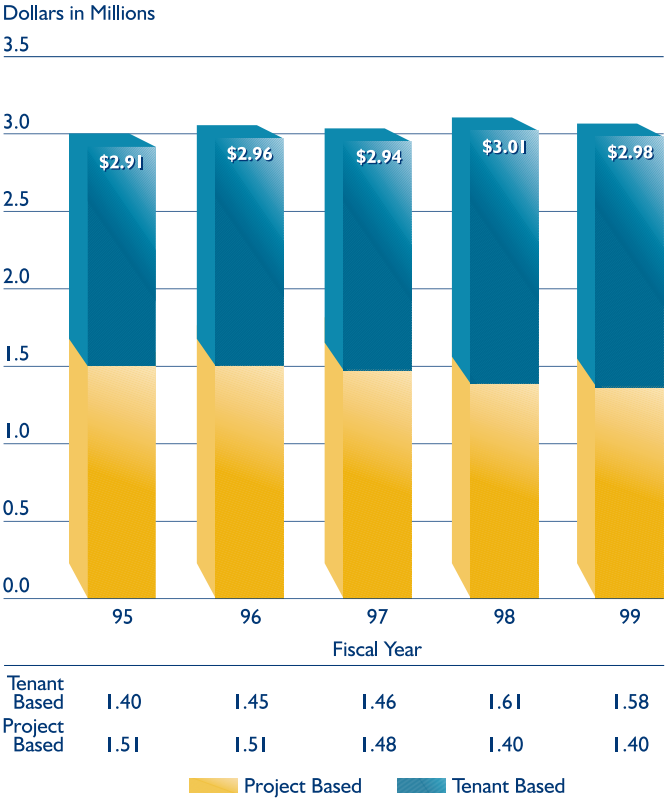
HUD's 1997 Report to Congress on Worst Case Housing Needs entitled *Rental Housing Assistance – The Crisis Continues*, states that "the number of very-low-income renters with worst case housing needs remained at an all-time high – 5.3 million."

> ***"In 1995 (the latest year for which data is available), 5.3 million very-low-income renters without housing assistance paid over half their income for housing or lived in severely substandard housing."***
>
> ***"Almost 70 percent of unassisted renters with extremely low incomes had worst case housing needs in 1995."***
>
> ***"Not even families working full time at the minimum wage can afford decent housing in the private rental market."***

Section 8 Lower Income Rental Assistance Program

The Section 8 Lower Income Rental Assistance Program assists low and very-low income families in obtaining decent, safe, and sanitary housing at rents they can afford. HUD classifies Section 8 programs as either tenant-based or project based.

Section 8 Housing Units Eligible for HUD Assistance



The tenant-based program's objective is to enable low and very-low income families to afford decent, safe and sanitary housing. Under these programs, HUD enters into contracts with the housing agencies (HAs) which administer the programs. The HAs provide either rental certificates or rental vouchers to eligible tenants.

Rental certificates and vouchers allow families to rent a housing unit of their choice. For certificates, HUD determines the amount of assistance by calculating the difference between what the family can afford and the rent for the unit. For vouchers, the amount of assistance given is the difference between what the family can afford and the approved payment standard for the area.

In fiscal 1999, Congress allocated an additional 50,000 vouchers to the Department. This was the first increase in four years. In addition, Congress repealed a provision that delayed the use of vouchers. The total number of units eligible for tenant-based assistance was 1,580,501 in fiscal 1999 (See chart above).

The project-based program's objectives are to:

1) encourage the construction and rehabilitation of rental units, by tying the subsidy directly to the unit constructed or rehabilitated;

2) stabilize the cash flow of FHA-insured or HUD-held multifamily projects which are in financial difficulty;

3) preserve the low-income use of certain multi-family projects; and

4) facilitate the sale of multifamily projects by providing Section 8 assistance to related units.

The number of project-based units eligible for assistance has decreased over the past several years due to expiration of Section 8 contracts; "opt outs," in which project owners opt to cancel their Section 8 contracts and instead, make those units eligible for fair market rents; and replacement of some project-based units with tenant-based .

Although HUD is not entering into any new contracts for construction or substantial rehabilitation activities, there are still a number of existing contracts for these projects which require funding for amendments and renewals. HUD provides project-based rental assistance directly to multifamily project owners through a number of programs.

Section 8 Obligations

Obligations relating to HUD's Section 8 tenant-based and project-based programs totaled approximately $54.5 and $60.1 billion as of September 30, 1999 and 1998, respectively. HUD enters into multi-year contracts with Housing Agencies and Project Owners to provide rental subsidies over the term of these contracts. These obligations consist of the subsidies to be paid by HUD applicable to the remaining terms of these contracts.

The Department funds a significant portion of these obligations through permanent indefinite appropriations ($38.9 and $39.3 billion as of September 30, 1999 and 1998, respectively). These obligations relate to future amounts due under subsidy contracts entered into prior to fiscal 1988 (primarily relating to the Section 8 and Section 235/236 programs) which operated under contract authority. Contract authority enabled the Department to enter into multi-year contracts with an annual draw against permanent indefinite appropriations to fund amounts due under these contracts.

Determination of Excess Rental Subsidies

Because the amount of rental subsidies paid on behalf of a tenant is based on that tenant's income, failure of a tenant to report all income to the program administrator and failure of the program administrator to properly certify tenants results in the Department paying excess rental subsidies. This issue applies to the Department's Section 8 and Low-rent public housing programs.

During the last four fiscal years (1996-1999), the Department selected from its household databases a statistical sample of Section 8 and Low-rent public housing households and computer-matched their income against income information maintained by the Internal Revenue Service (IRS) and the Social Security Administration (SSA). The results of the most recent sample, extrapolated to the entire population of subsidized households, indicated that excess subsidies paid during

calendar year 1998 (the most recent year in which information was available for computer matching purposes) totaled $935 million ± $133 million. Additional information on this issue can be found in Note 17 to the financial statements.

The phrase "excessive rental subsidies" does not necessarily equate to budgetary reductions that could be achieved by eliminating the excessive rental assistance. HUD's budgetary needs are affected by many variables not recognized in the above estimates.

Excess Rental Subsidies Material Weakness

The Department declared a material weakness during fiscal 1996 that related to the payment of excess rental subsidies (including subsidies relating to the Section 8 program).

The Department determines rental subsidies based on the amount of income reported by tenants. To the extent that tenants under-report their income, the Department pays excess subsidies. The recommendation of a task force set up the prior year to address this issue was to computer match income reported for all tenants with IRS/SSA records. In response to that recommendation, in fiscal 1999 HUD's Real Estate Assessment Center (REAC) developed the Tenant Assessment Subsystem which allows HUD to conduct computer matching of tenant-reported income maintained in HUD's tenant databases with tenant Federal tax data. In September 1999, the REAC obtained Federal tax data from the Internal Revenue Service and the Social Security Administration for calendar year 1998 and subsequently during the fourth quarter of calendar year 1999, performed a computer match of 2.4 million households to identify potential tenant income discrepancies.

As a result of the above computer matching, the REAC is in the process of preparing approximately 280,000 letters to be sent to tenants with potential income discrepancies. These letters identify the tenants' Federal tax data and inform the tenants of their responsibility to redisclose the data to program administrators. Concurrent with the mailing of tenant letters, the REAC is preparing notifications for program administrators to inform them of tenants who were sent discrepancy letters.

The REAC has prepared a detailed guide to assist program administrators in resolving tenant income discrepancies. This guide will be mailed with the discrepancy notifications. By March 2000, program administrators will be required to submit their first online status reports regarding their resolution of tenant income discrepancies and their recovery of excess rental assistance. The REAC will review these reports to determine the success of large-scale computer matching income verification in ensuring that subsidies are based on correct tenant income. In an additional quality assurance effort, the REAC will deploy auditors to program administrators to ensure the integrity of administrator income discrepancy resolution activities.

The REAC has successfully completed nationwide implementation of a computer matching program that provides social security and supplemental security income information to program administrators for all subsidized tenants included in HUD's tenant databases. The administrators receive monthly reports from the REAC to use in scheduled annual tenant recertifications. The information in these reports is used to detect prior unreported income and excess rental assistance and to verify current tenant incomes used to compute the following year's rental assistance.

The computer matching income verification initiatives cited above substantially assist program administrators to ensure that subsidies are based on correct tenant income by:

- detecting and correcting past, unreported income and excess rental assistance and
- preventing and deterring future, unreported income and excess rental assistance.

Operating Subsidies, Grants, and Loans to Housing Agencies

There are approximately 4,500 housing authorities (HAs) across the nation which manage HUD rental assistance programs (e.g., Section 8 and Public and Indian Housing programs). These HAs are primarily composed of public housing agencies (PHAs) and Tribally Designated Housing Entities (TDHEs). Of these, 3,169 PHAs manage approximately 1.3 million public housing units that are homes for some 2.97 million persons. In addition, approximately 355 TDHEs manage an estimated 70,000 to 80,000 public housing units (under the Native American Housing Assistance and Self Determination Act, TDHEs are not required to report to HUD). The Department provides funding to HAs through the following programs:

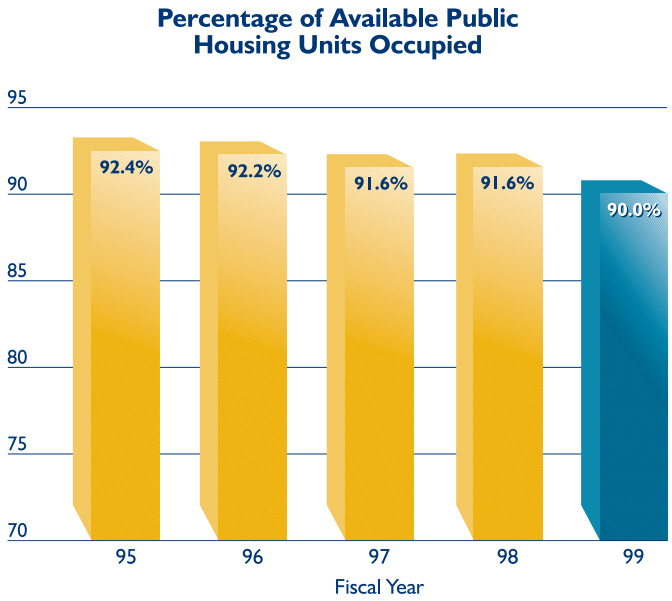
- **Operating Subsidies** are financial subsidies that HUD provides directly to HAs, based on a formula calculating the allowable expense level (AEL) for each HA. HUD provides a subsidy to bridge the gap between the AEL plus utility costs and the HA's rental and other income.
- **Low-rent Public Housing Grants** assist HAs with the upkeep of housing units and provide funds to increase the housing stock. HUD also provides grants for modernization/rehabilitation of existing housing units and for development activities to demolish obsolete housing and/or acquire or construct additional housing units.
- **Low-rent Public Housing Loans** were used prior to fiscal 1986 by HAs to obtain loans from the private sector and from the Federal Financing Bank to finance the development and rehabilitation of low-rent housing projects. HUD has assumed repayment of these loans and, accordingly, pays the annual debt service costs.

Public Housing Units Occupied

Ideally, qualified tenants would occupy 100 percent of the available housing units. However, this is not attainable due to several factors including the time periods when tenants are moving into and out of units.

Keeping the occupancy rate high is also important because rent collected from tenants in occupied units is part of the total PHA income used to maintain all available units. As the amount of rental income increases, the amount of HUD-subsidy needed decreases accordingly. The national occupancy rate has remained within three percentage points over the past six fiscal years. HUD estimates the number of units occupied in fiscal 1999 to be 90 percent, a slight reduction from fiscal 1998. This reduction is likely attributed to the large number of units approved for demolition that are unoccupied but are still considered to be available for occupancy.

New HOPE VI public housing at Centennial Place in Atlanta, Georgia.



Housing Authority Performance

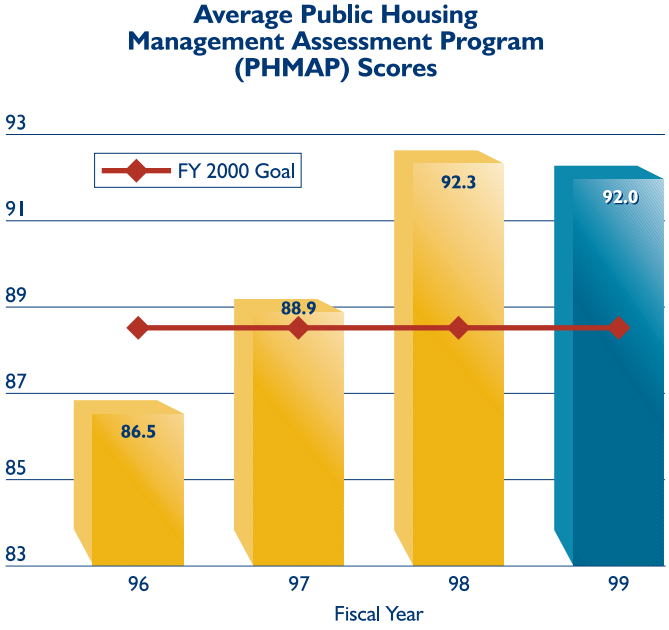
The Public Housing Management Assessment Program (PHMAP) continues to serve as the Department's vehicle for measuring the performance of PHAs in major areas of public housing operations such as vacancy rates and unit turnaround time, efforts to modernize units, and financial management. HUD scores PHAs on each major area, with a total score placing them in one of the following categories:

High Performer: A score of at least 90 points.

Standard Performer: A score of at least 60 but less than 90 points.

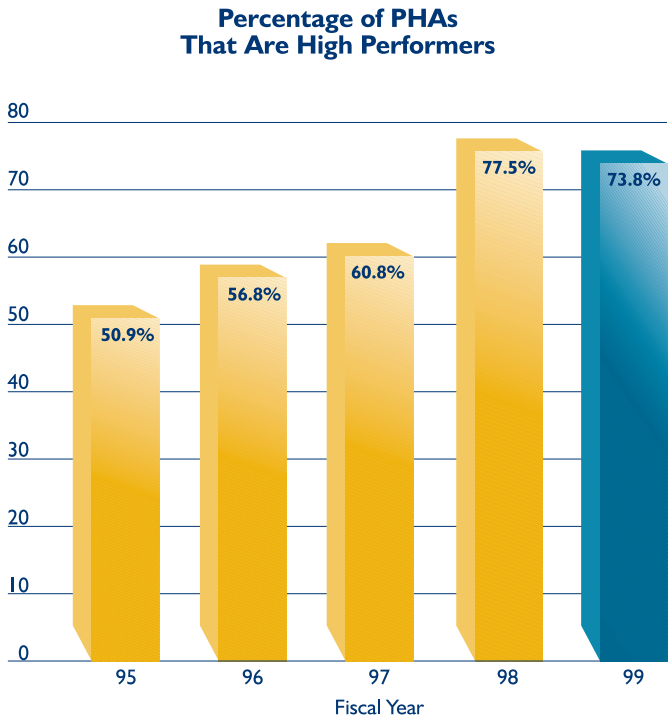
***Troubled Performer*:** A score of less than 60 points.

The Department exceeded the goal of improving its average PHMAP score to 88.5 by fiscal 2000 for the third year in a row. As HUD retires the PHMAP this year and replaces it with the new Public Housing Assessment System (PHAS), the Department records its second highest national average PHMAP score on record. Management performance of the 3,200 Public Housing Authorities is definitely improving as the number of high performing PHAs increases to over 1,800. The new PHAS, which is a more comprehensive performance evaluation tool, will begin full implementation in fiscal 2000 and will begin reporting PHAS scores in fiscal 2001 after capturing 1-½ years of advisory scores.



High Performers

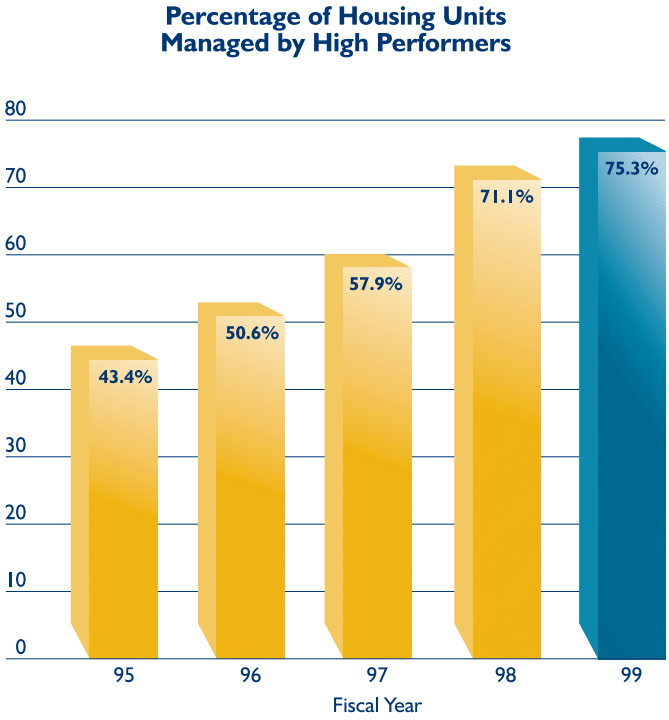
High Performers are PHAs with an assessed performance score of 90 points or higher. Increasing the number of high performers is important to assure that HAs are using funds effectively and efficiently, maintaining the housing units in a decent, safe, and sanitary manner, and maximizing the number of housing units available for occupancy. High performers generally occupy a higher percentage of units, maintain the units in better condition, have a higher level of resident satisfaction, and maintain a better financial condition (e.g., the amount of operating funds in a reserve account is at the appropriate level). High performers also provide a service as a resource to other HAs for technical assistance and to HUD for insight into improved management procedures and comments on proposed legislation and regulations. For fiscal 1999, HUD classified 73.8 percent of its PHAs as High Performers – a 3.7 percentage point decrease from fiscal 1998, but still a dramatic improvement from fiscal 1997 and earlier years.



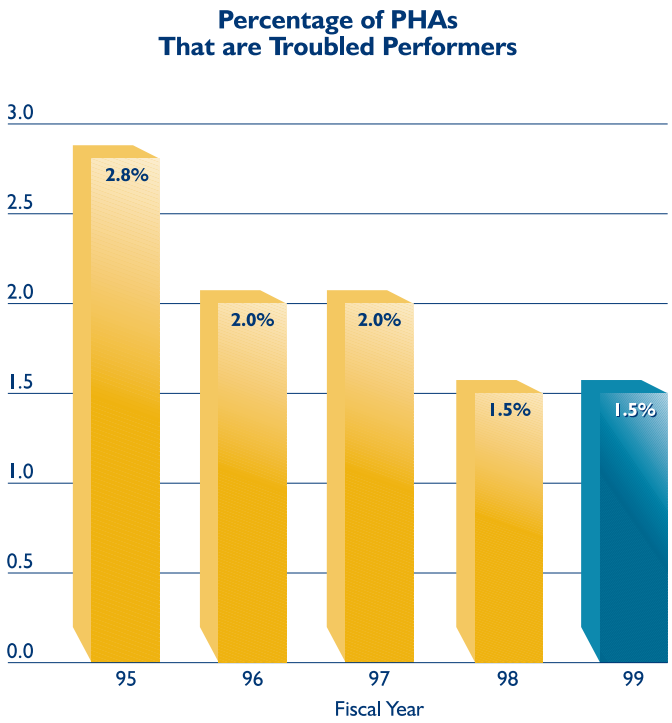
Several factors influence the number of high performers and the housing units managed by them. These factors include the collective efforts of HUD and HA staff technical assistance providers and long-term management improvements. Individual PHAs manage different numbers of housing units – from a few units to tens of thousands. The Department encourages high performers to manage large numbers of housing units, since the high performers have a successful record of managing housing units well. The percentage of units managed by high performers in fiscal 1999 was 75.3 percent – a 4.2 percentage point increase from fiscal 1998 due to the improvement in some large housing authorities that were previously troubled. The Atlanta Housing Authority is an example of a large previously troubled HA that has now achieved high performer status. Since a relatively small number of HAs manage a large number of housing units, there is no direct relationship between the percentage of HAs classified as high performers and the percentage of housing units they manage.

Troubled Performers

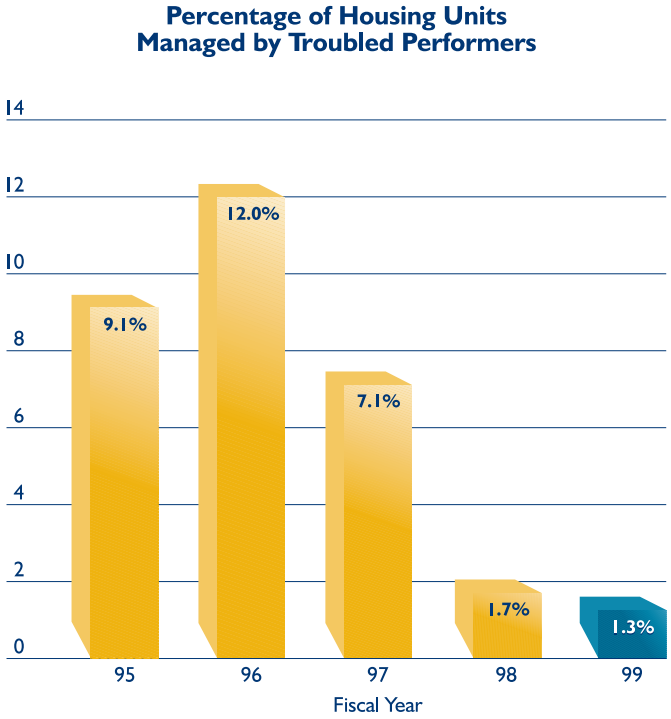
Troubled performers are HAs with a performance score of less than 60 points. The Department strives to reduce the number of troubled PHAs to minimize the number of poorly managed housing units, thus increasing the number of housing units that are well managed. This indicator continues to provide the basis for determining the type and extent of HUD technical assistance that the PHAs need and where the Department should focus its resources.



The percentage of PHAs that are troubled performers was 1.5 percent in fiscal 1999 – virtually the same percentage as the prior year, but an impressive 46 percent reduction from fiscal 1995.



The percentage of housing units that troubled performers manage also declined to 1.3 percent in fiscal 1999. This reflects a 26 percent reduction from fiscal 1998, an even more impressive 86 percent reduction since fiscal 1995, and a continued 3-year decrease in this measure since fiscal 1996. HUD has been successful in reducing the number of troubled performers by working with troubled HAs to address their management and operating difficulties. HUD uses this measure to determine where the Department needs to focus its technical assistance resources.



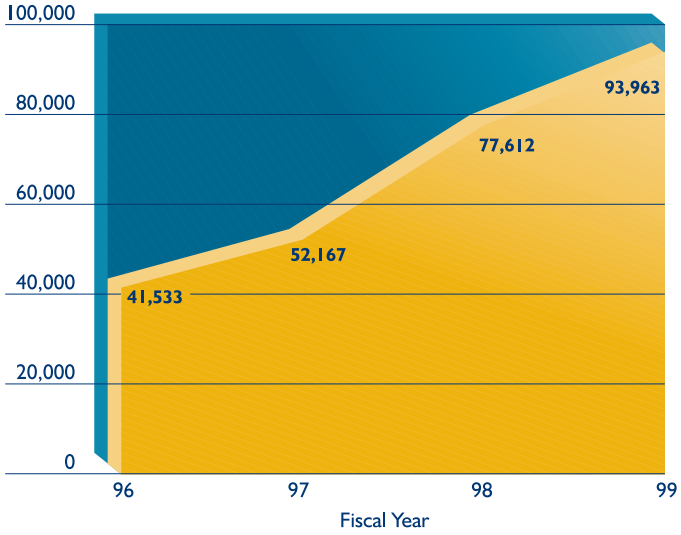
Reducing the Number of Distressed Public Housing Units

In fiscal 1998, Section 535 of the Public Housing Reform Act created an authorization of the Hope VI Program. Eligible activities funded by Hope VI include the capital costs of major rehabilitation, new construction, and other physical improvements; management improvements; planning and technical assistance; self-sufficiency programs for residents; and demolition of severely distressed public housing. HUD has renewed its efforts to reduce the number of obsolete or distressed housing units to revitalize neighborhoods and remove the blight associated with boarded-up housing units. The Department is replacing the demolished units with lower density housing. And HUD is providing tenants of these units with housing certificates and vouchers that allow them to obtain private sector housing.

During fiscal 1999, the Hope VI Program awarded 21 grants for revitalization totaling $571.3 million which will allow housing authorities to demolish 15,819 severely distressed and obsolete units, rehabilitate 408 units, create 3,720 new units, and begin 1,359 units of homeownership housing.

The Department established a goal of approving 15,000 public housing units for demolition fiscal 1999. HUD exceeded the goal by approving 16,141 units for demolition, bringing its total since fiscal 1996 to 93,963 units approved for demolition. The Department should easily exceed its fiscal 2000 goal of approving a total of 100,000 units for demolition between fiscal 1996 and 2000. In order to achieve this goal, HUD will have to approve only 6,037 additional units for demolition.

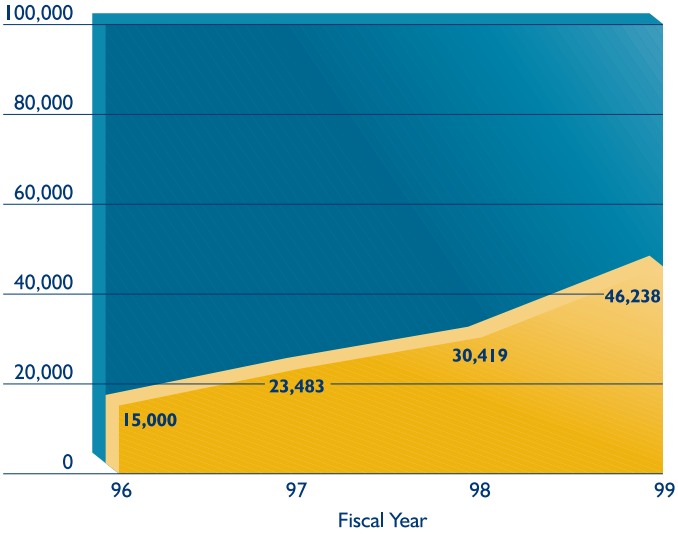
Approve 100,000 Units for Demolition by Fiscal 2000



For actual demolition of public housing units, the goal is to demolish 100,000 units by fiscal 2003. Through fiscal 1999, HUD has demolished 46,238 units. It continues to take PHAs longer to demolish units than obtain approval since the PHA has to relocate tenants, do hazardous waste abatement, and finally demolish the units.

Last year, HUD's Accountability Report indicated that a large number of approved demolitions were awaiting action and that the number of demolitions would dramatically increase during fiscal 1999. This occurred. In fiscal 1997 and 1998, the Department demolished 8,483 and 6,936 units respectively, while in fiscal 99, HUD demolished 15,819 units – a 128 percent increase over the number demolished the prior year. Based on this increased rate of demolitions, HUD is confident that it will reach its goal of 100,000 cumulative demolitions by the end of fiscal 2003.

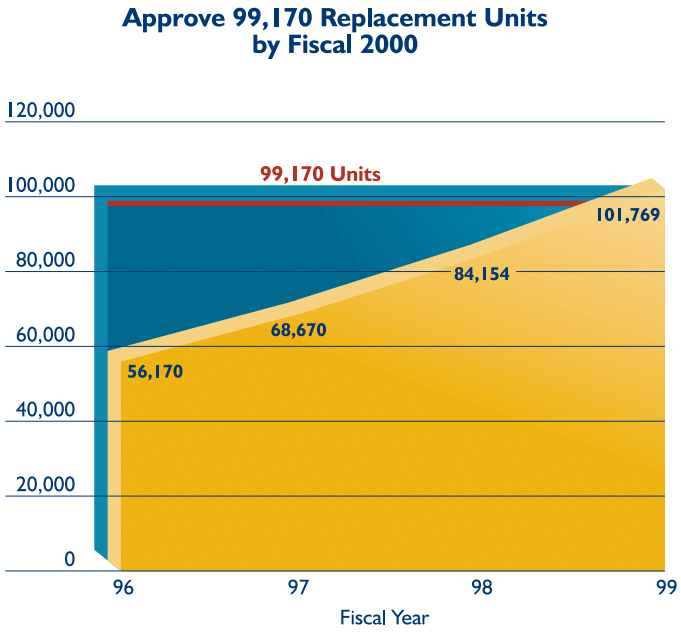
Demolish 100,000 Units by Fiscal 2003



Public Housing Replacement Units

Currently, HAs are legally required to replace any units demolished or disposed of on a one-for-one basis and provide housing for at least the same number of residents. However, Congress has suspended these requirements in HUD's most recent funding legislation.

Notwithstanding the legislative suspension, the Department remains committed to replacing units as part of the revitalization process within communities. For fiscal 1999, HUD established a goal of approving 13,500 replacement units. The Department exceeded this goal and approved 17,615 replacement units. The cumulative total of approvals through fiscal 1999 is 101,769 units, which already exceeds HUD's goal of approving 99,170 replacement units by fiscal 2000.



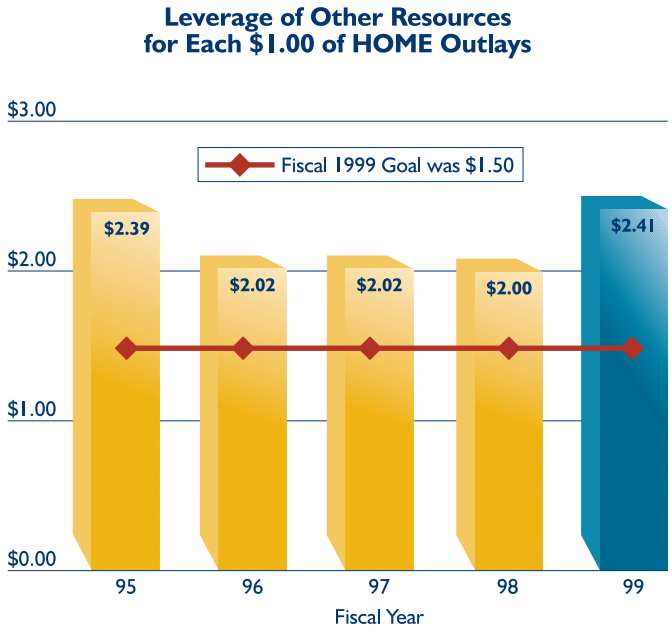
HOME Investment Partnerships Program

The HOME Investment Partnerships Program provides funds to State and local governments to address their affordable housing needs. HOME encourages public-private partnerships by providing incentives to for-profit and non-profit developers for production of housing for low-income households. Eligible activities include the acquisition of existing housing; reconstruction and rehabilitation of sub-standard housing; construction of new housing; assistance to new home buyers; demolition and site improvements; and tenant-based rental assistance. The HOME program assists low-income families, which are defined as those with an income at or below 80 percent of the area median.

In fiscal 1999, outlays for the HOME program were $1.25 billion. HUD estimates that outlays were $1.29 billion in fiscal 1998 and $1.17 billion in fiscal 1997. HUD used trend analysis to estimate fiscal 1997 and fiscal 1998 data because the systems used to extract this information were under conversion to a new data system (IDIS). The new system was in operation for fiscal 1999 reporting.

Last year, HUD reported that every dollar of HOME funds for fiscal 1997 and fiscal 1998 leveraged an estimated $2.00 in other resources. For fiscal 1999, the leveraged amount was $2.41 for every dollar of committed HOME funds. The increase in the leveraged amount in fiscal 1999 is primarily due to a more accurate method of calculating this measure which uses completed units rather than committed units.

Young resident of Robert Taylor Homes, Chicago, Illinois, before revitalization.



HOME Program Commitment[1] Rates

HOME program commitments by participating jurisdictions (PJs) for housing units have increased rapidly. The increase corresponds to the higher levels of funding beginning in fiscal 1995 and the increased capacity of the PJs and their non-profit and for-profit partners to use the funds. The table below shows the cumulative amount of funds committed as of the end of each of the prior 5 years, the cumulative number of housing units assisted, and the cumulative number of families receiving-tenant based assistance.

By statute, a PJ must commit its HOME funds within 24-months of HUD's notification that the Department has executed the PJ's HOME Investment Partnership Agreement. HUD deobligates funds from PJs that do not meet this commitment requirement. The percentage of all available funding committed as of the end of fiscal 1999 was 76.7 percent. Uncommitted funds were $2.49 billion.

[1] *As stated in 24 CFR 92.2, commitment means the participating jurisdiction has executed a legally binding agreement with a State recipient, a subrecipient, or a contractor to use a specific amount of HOME funds to produce affordable housing or provide tenant-based rental assistance; or has executed a written agreement reserving a specific amount of funds to a community housing development organization; or has met the requirements to commit to a specific local project.*

At the current national commitment rate, this amount will be committed well within the 24-month deadline. The Department has issued procedures to HUD Field Offices for tracking and monitoring HOME performance, including commitment levels. HUD will continue to monitor commitment rates closely to ensure continued improvement of this performance measure.

Fiscal Year	Cumulative Commitments (Dollars in Billions)	Cumulative Housing Units	Cumulative Families Receiving Rental Assistance
95	2.6	153,212	19,148
96	3.6	215,155	28,266
97	4.8	279,652	36,058
98	5.9	346,729	44,304
99	8.2	464,780	55,045

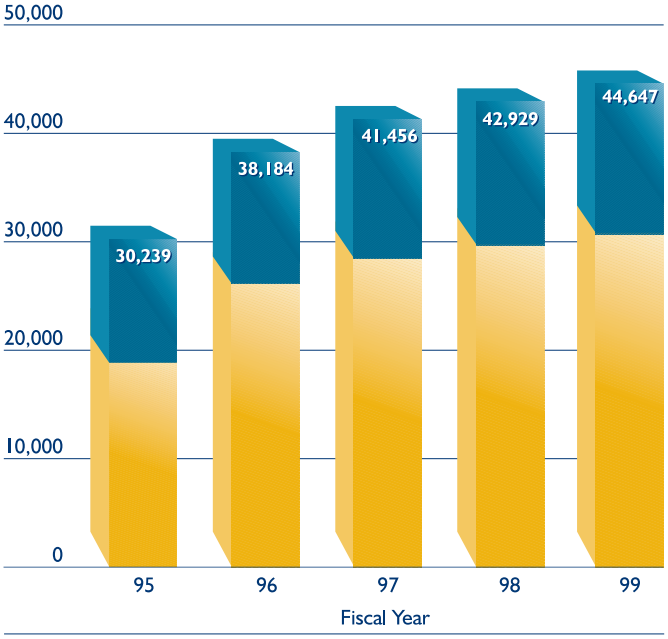
Homeownership and Rental Assistance

The HOME program provides assistance for both homeowners and renters. During the 5-year period from fiscal 1995 to fiscal 1999, the HOME program has experienced a 16 percent increase in the annual number of households it has assisted – from 67,178 in fiscal 1995 to 78,007 in fiscal 1999. The HOME Program has been able to assist more households between fiscal 1995 and fiscal 1999 because of increased annual appropriations during that same period and because of the increased capacity of participating jurisdictions and sub-recipients to use these appropriations.

During the same 5-year period, the HOME program has increased its annual homeownership assistance for both new and existing homeowners by 48 percent – from 30,239 in fiscal 1995 to 44,647 in fiscal 1999. This reflects the Department's increased emphasis on expanding affordable homeownership.

During this period, assistance to renters through development of rental units and tenant-based rental assistance remained fairly constant.

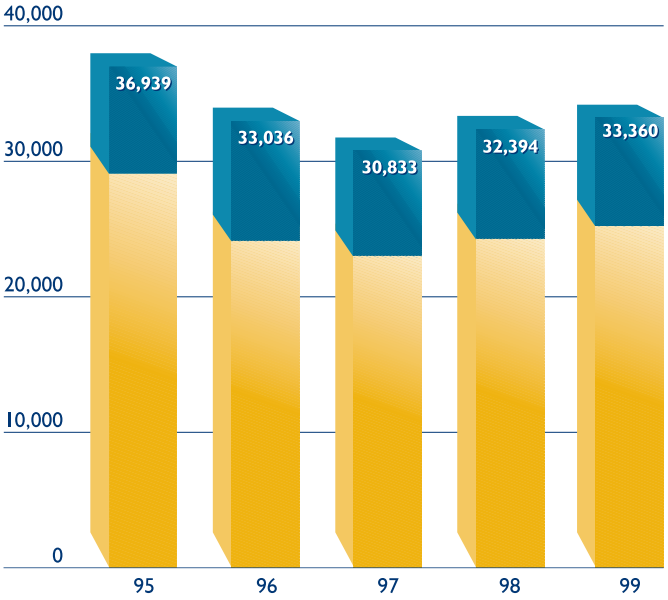
HOME Program Assistance Provided to Homeowners



	95	96	97	98	99
Existing	11,440	12,086	13,053	13,415	13,952
New	18,799	26,098	28,403	29,514	30,695

New Homeowners Existing Homeowners

HOME Program Assistance Provided to Renters

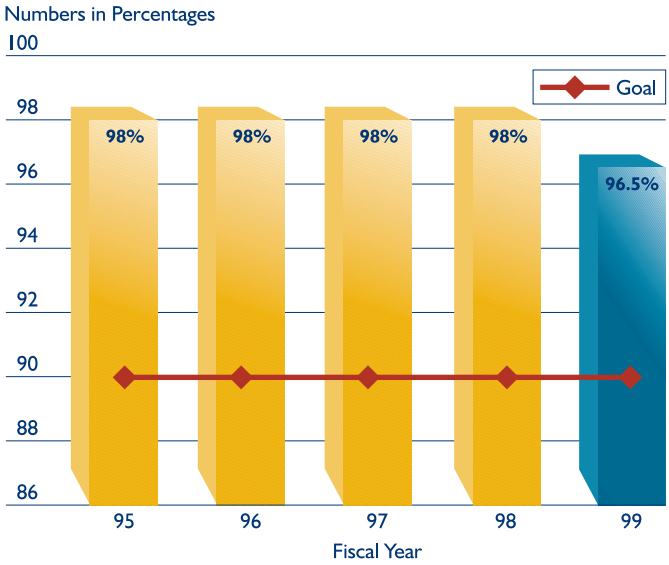


	95	96	97	98	99
TBRA	7,841	9,118	7,792	8,246	8,246
Rental Units	29,098	23,918	23,041	24,148	25,114

Rental Units Tenant-Based Rental Units (TBRA)

The HOME program requires that not less than 90 percent of the families living in HOME-assisted rental units or receiving tenant-based rental assistance must be families whose annual incomes do not exceed 60 percent of the median family income. The HOME program has continually exceeded this requirement.

At Least 90% of Families Assisted by HOME Rental Housing Must Earn Below 60% of Median Income



FHA Multifamily Housing Programs

FHA continued to provide financing support for rental housing and health care facilities by insuring multifamily loans and risk-sharing mortgages. In fiscal 1999, FHA endorsed multifamily loans totaling approximately $3.6 billion. The number of mortgages currently held in the portfolio is 15,458 with an unpaid principal balance (UPB) of nearly $53 billion. FHA exceeded its goal of initially endorsing 400 multifamily loans by 66 percent and endorsed 663 loans in fiscal 1999.

Section 223(f)

The Section 223(f) program was established in 1975 to provide mortgage insurance for the refinance or acquisition of existing multifamily rental properties consisting of five or more units. Under this program, FHA may insure only up to 85 percent of the

lesser of the project's appraised value or its replacement cost. The program is applicable to both formerly FHA-insured and non-insured projects. FHA fell short of its goal to use the 223(f) program for 85 existing apartment buildings in underserved areas; this program was used for 68 apartment buildings, 20 percent short of the goal.

Mark-to-Market Program

Under the Mark-to-Market program, FHA-insured Section 8 housing properties with above market rents are eligible for debt restructuring to reduce rent levels to those of comparable market rate properties or to the minimum level necessary to support proper operations and maintenance. The general process involves either a full or partial payment of claims paid by FHA on the original mortgage. A new mortgage is subsequently committed that can be supported at fair market rents. While the Mark-to-Market program is expected to preserve the stock of low-income housing, FHA anticipates it will realize a substantial liability as a result of these subsidies. FHA estimates that the Mark-to-Market program will cost FHA approximately $4.6 billion. HUD expects that the reduction of Section 8 renewal cost will offset some of the cost to FHA.

Multifamily Program Accomplishments

The Office of Multifamily Housing Programs has taken significant actions to improve the administration and oversight of the multifamily housing programs. Specific improvement actions were targeted in the areas of staff alignment and resources; improved data systems; streamlining the delivery of multifamily housing programs; and improved oversight of the multifamily housing portfolio. In fiscal 1999, Housing's challenge was to incorporate the services and support provided by the new 2020 centers, especially the Real Estate Assessment Center (REAC) and the Departmental Enforcement Center (DEC) into the administration and oversight of the multifamily programs and to continue to refine and improve the working relationships between Housing and the 2020 centers.

The REAC was established to provide timely, accurate financial and physical condition information to multifamily staff in Hub and Program Center offices. The REAC started operations in September 1998, with the initiation of physical inspections of multifamily projects beginning in October 1998, and completed physical inspections and assessments of 20,000 multifamily properties. As of August 31, 1999, the REAC began assessing multifamily properties' annual financial statements that are being submitted electronically. Based on the REAC assessment and evaluation, referrals will be made to the DEC and Multifamily Hub offices for further review and resolution.

The DEC centralized many of the enforcement activities previously performed by multifamily housing field office personnel. The DEC will dedicate resources to handle enforcement activities on the most troubled properties, thereby freeing staff in the field offices from a significant portion of this demanding and time-consuming responsibility.

Multifamily Housing Material Weakness

HUD had an open Departmental material weakness at the end of fiscal 1999, relating to the need to improve the monitoring of multifamily housing projects. This material weakness was declared in fiscal 1996. HUD recognized that the monitoring of these projects was inadequate to ensure that participating projects provide decent, safe and sanitary housing, in full accordance with HUD regulatory and contractual requirements, and that rental subsidies are properly provided to tenants that meet the Department's eligibility requirements. To these ends, HUD has put an improved internal control structure in place to address this material weakness area. Actions taken included:

- Development and implementation of the above discussed REAC physical inspection and financial compliance assessment and referral processes, with corresponding protocols for the handling of housing quality and other compliance deficiencies by the Office of Housing and DEC.
- Establishment of senior project manager positions in each of the 18 multifamily hubs to focus on those projects requiring special servicing.
- Provision of training and procedures to Housing and DEC field staff on the new REAC assessment processes and related protocols for addressing deficiencies.

- Establishment of risk-based goals for Multifamily monitoring, using REAC assessment input.
- Issuance of a Request for Proposals (RFP), in May 1999, to solicit third-party contract administration services from public housing agencies to administer 21,000 project based Section 8 HAP contracts currently administered by HUD staff. Three initial contracts have been signed and the Department anticipates that all contracts will be in place by the end of fiscal 2000. This outsourcing effort will improve the operation of controls over subsidy payments, and free Housing staff to focus on addressing the needs of problem projects. HUD anticipates resolution of this material weakness once this process is fully implemented.

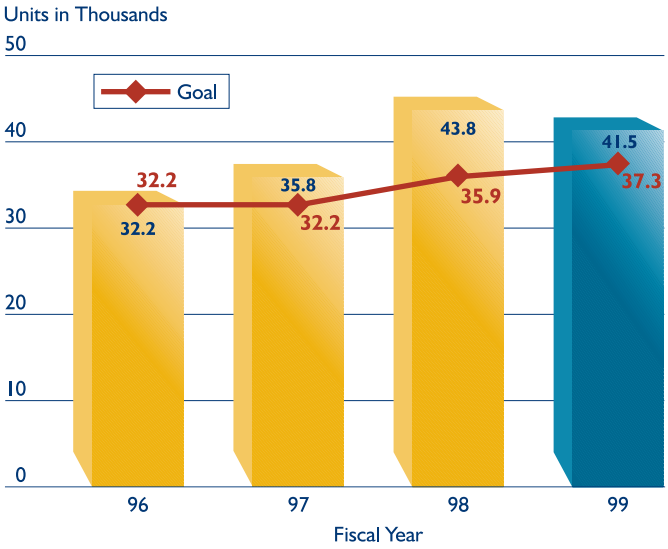
Housing Opportunities for Persons with AIDS (HOPWA)

HUD designed the HOPWA program to meet the housing and supportive service needs of low-income individuals with AIDS or HIV and the needs of their families. The AIDS Housing Opportunity Act as amended by the 1992 Housing and Community Development Act provides the authority for this program. The Department distributes funds to States and localities that have devised long-term strategies for meeting the housing and supportive needs of eligible persons in connection with area consolidated planning efforts. This program provides both formula and competitively awarded grants to States, local governments, and non-profit organizations. These organizations support a range of eligible activities including housing development, operation of facilities, rental and technical assistance, and supportive services.

The budget authority for HOPWA was $225 million in fiscal 1999, $204 million in fiscal 1998, $196 million in fiscal 1997, and $171 million in fiscal 1996. The program distributed 90 percent of the above amounts by formula allocations to States and cities in metropolitan areas that had the largest number of AIDS cases. Ninety seven communities received these funds in fiscal 1999, compared to 88 communities in fiscal 1998 and 80 in fiscal 1997. HOPWA distributed the remaining 10 percent of its appropriation through a competitive process.

HUD also provides housing assistance and supportive services to low-income persons living with HIV/AIDS. The chart below shows the number of housing units provided with HOPWA assistance. This assistance consists of on-going rental assistance payments, development and operation of housing facilities, such as community residences, and the use of emergency and short-term payments that prevented homelessness for clients and family members who reside with the persons living with HIV/AIDS. Between fiscal 1996 and fiscal 1998, HUD achieved its goal of increasing the number of short term and permanent housing units it provided in connection with healthcare and related supportive services. Fiscal 1999 reflects the Department's fiscal 1999 – 2001 planning numbers that it has used in its budget estimates.

Increase Units Provided With Related Supportive Services (Estimated)



Lead Hazard Control

One of the Department's goals is to reduce or eliminate residential lead-based paint hazards. To measure progress in meeting this goal, the Department has established the following measures.

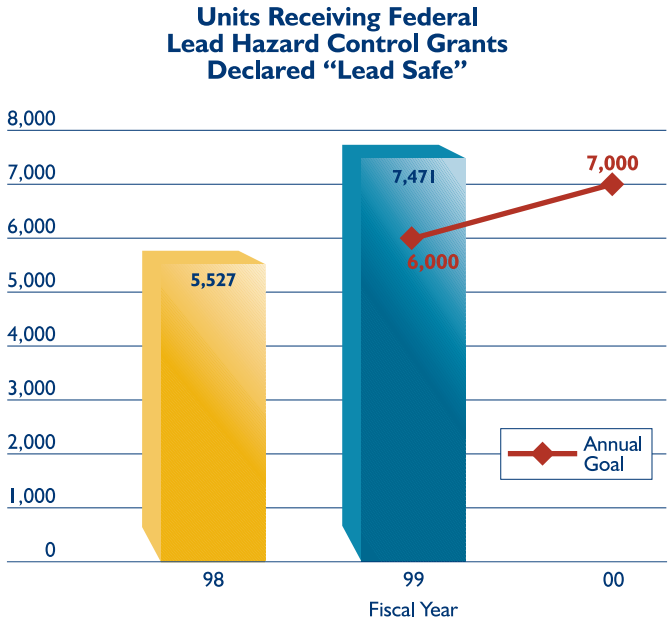
The percentage reduction in the geometric mean[2] blood lead levels in children who have lived in abated housing units for at least one year. The target percentage reduction for fiscal 1998 through 2000 is 45. The actual decline for fiscal 1999 was 26. This represents a 30 percent improvement from fiscal 1998's score.

The number of units receiving Federal lead hazard control grants that are declared "lead-safe." In fiscal 1999, 7,471 units were declared "lead-safe". This was a 35 percent increase from fiscal 1998 and exceeded both the fiscal 1999 goal of 6,000 units and fiscal 2000's goal of 7,000 units. This accomplishment is the result of the following:

a) the capacity to make the housing units "lead-safe" is rising as a greater number of certified contractors enter the market;

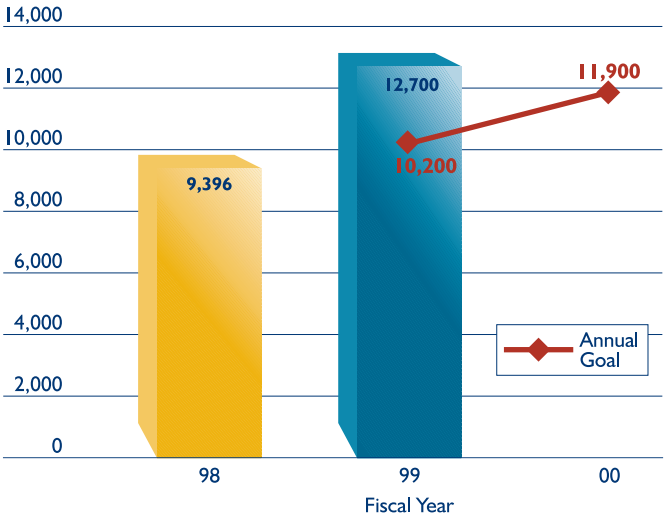
b) the grantees are improving their ability to manage the program more efficiently as they acquire more experience and expertise in operating the grants; and

c) the large number of grantees that received awards in fiscal 1995 (35, 2.5 times the annual level) were able to achieve their lead-safe designations this fiscal year.



[2] *The geometric mean is used with data concerned with measuring the rate of change. The geometric mean of two measures is the square root of their product; of three measures, the cube root of their product; and of n measures, the nth root of their product. Thus, the geometric mean of 2 and 8 is 4 (the square root of 2 times 8).*

The number of children protected by the lead hazard program in neighborhoods where grants have actually been awarded. This measure is an estimate based on the average number of young children living in the units measured in this program (1.7 children per unit). It is important to note that this does not include the thousands of other children assisted through the large-scale public education efforts conducted by these grantees as part of their program. However, there is no reliable method to measure the number of children protected through the grantees' public education programs. For fiscal 1999, the estimated number of children protected was 12,700 – a 35 percent increase from fiscal 1998, and exceeding fiscal 1999's goal of 10,200 children and fiscal 2000's goal of 11,900 children.



The percentage decline in median floor dust levels in units that are made "lead safe" one year after work is completed. This measure is the principal pathway of exposure to lead paint dust. Hence, it is the best measure of whether or not homes that have received the grant are remaining lead-safe. The data reflects that the levels of lead in house dust are 64 percent lower than baseline levels 2 years after the work has been completed and that there has been no significant re-accumulation. This demonstrates that the program has been successful in preventing exposure to lead-based paint and the contaminated dust it generates.

Ellen Wilson Homes, Washington, DC. One of many examples of Public Housing transformation under the HOPE VI program.

Empower Communities To Meet Local Needs

This section covers the following major programs:

Consolidated Planning Process

Community Development Block Grants:
- *Entitlement Program*
- *Nonentitlement Programs*
- *Section 108 Loan Guarantees*

HUD's mission of creating communities of opportunity requires more than just administering programs on a day-to-day basis. HUD must take a pro-active leadership role in partnering with the nation's communities. As the Department moves toward the next century, HUD will help communities solve their own problems by:

- Planning and executing housing and community development initiatives that are community-driven;

New York's Canal Corridor Initiative received CDGB funds as part of a long-term coordinated commitment to revitalize upstate New York communities.

- Coordinating comprehensive, sustainable solutions to urban problems;
- Streamlining housing and community development programs to make them more efficient and effective; and
- Increasing access by and communication between citizens and government at all levels.

Consolidated Planning Process

The key to meeting these objectives is the Consolidated Planning Process (CPP). HUD initiated the Consolidated Plan/Community Connections system in 1994 to offer a more comprehensive and rational approach to housing and community development planning. CPP's goal is to break down the barriers between four block grant programs totaling over $6 billion annually by allowing communities more flexibility in using different programs in an integrated way to solve local problems. HUD combined 12 different planning, application, and reporting requirements from these four grant programs into one planning and reporting system, enabling the communities to address their individual problems more comprehensively.

This approach has been a success. Every large city, urban county, and State in the United States developed a 3 to 5 year strategic plan in fiscal 1995 and fiscal 1996 as part of their Consolidated Plan. Annually, every State and local jurisdiction is to submit an action plan showing how it is going to spend current fiscal year funds to carry out the priority needs, goals, and specific objectives identified in its strategic plan. In fiscal 1998, HUD developed the guidelines for assessing Consolidated Plans and planned to have the standardized assessment ready for implementation in fiscal 1999 to achieve the goal of assessing 1,025 Consolidated Plans. As of September 1999, the Community Planning and Development (CPD) office was modifying the new standardized assessment for implementation in fiscal 2000. Nevertheless, CPD assessed 1,115 Consolidated Plans using standardized criteria in its Grants Management System. CPD will use the new standardized assessment for 100 percent of the Consolidated Plans submitted in fiscal 2000.

Community Development Block Grants

Several of HUD's efforts are targeted to empower communities to meet their local needs. The primary one is the Community Development Block Grant (CDBG) program which was authorized by the Housing and Community Development Act of 1974. This program supports a wide variety of community development activities in cities, counties, and States. The three major components of the CDBG program are:

- Entitlement Programs;
- Non-entitlement Programs; and
- Section 108 Loan Guarantees.

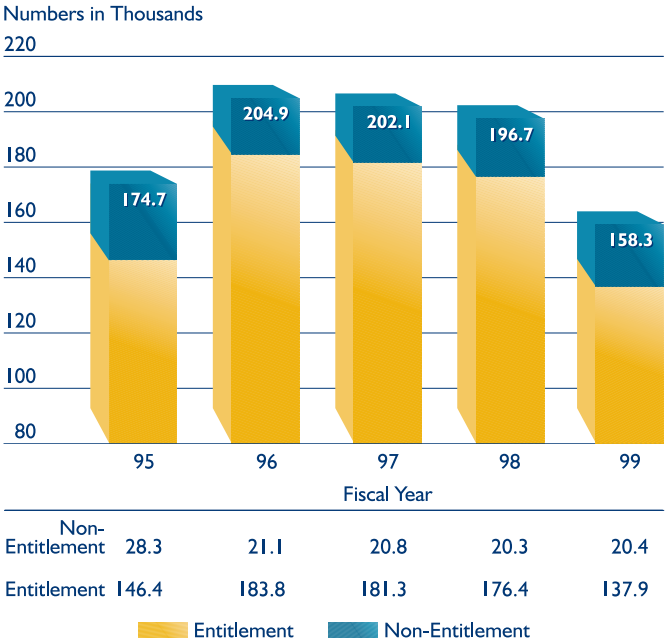
Entitlement and Non-Entitlement Programs

The first two CDBG components are the entitlement and non-entitlement programs, which HUD allocates by formula. The entitlement program provides Federal grants directly to large cities and urban counties. The non-entitlement program funds small communities through their States (State-administered CDBG program) or through competition that HUD conducts (HUD-administered CDBG program).

Under current law, HUD reserves 70 percent of the CDBG funds for entitlement community programs. The remaining 30 percent are for the small community programs. Total funding in fiscal 1999 under the entitlement and nonentitlement programs was $3.51 billion and $1.35 billion, respectively.

HUD measures performance in these programs by determining the number of households assisted. The chart below shows the number of households assisted under these programs over the past 5 years. Prior to fiscal 1999, the Department used historical data to estimate the number of households assisted with CDBG funds. There is decrease in fiscal 1999 because the results for that year are based on actual usage by the entitlement communities. The non-entitlement component decrease was affected by the fact that HUD used funds committed rather than allocated (set aside) to compute the number of households assisted in fiscal 1999.

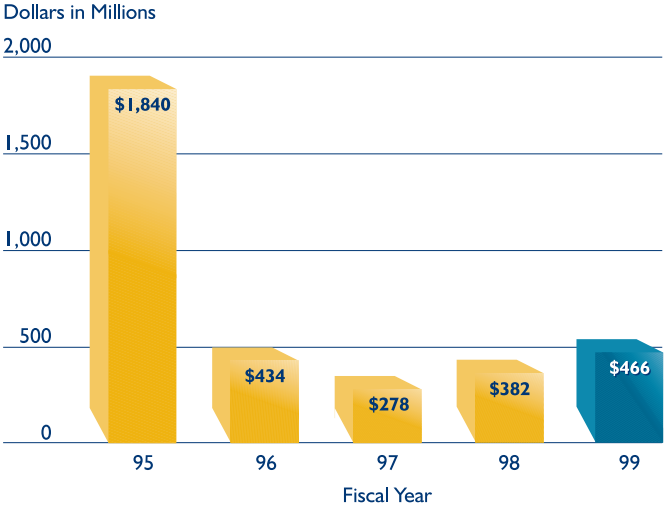
CDBG
Number of Households Assisted



Section 108 Loan Guarantees

The third major component of the CDBG program is the loan guarantee provision (Section 108 Loan Guarantees). This component provides a source of lender financing to CDBG grantees for economic development, housing rehabilitation, public facilities, and large-scale physical development projects. The chart below shows loan commitments by year, which vary depending on the amount of funding provided for the Economic Development Initiatives (EDI) and Empowerment Zones (EZ).

Section 108 Loan Guarantee Program Commitments



Help Communities and States Establish a Full Continuum of Housing and Services Designed to Assist Homeless Individuals and Families in Achieving Permanent Housing and Self-Sufficiency

This section covers the following major programs:

Continuum of Care

The best approach to alleviating homelessness is a community-based process that responds comprehensively to the varying needs of homeless individuals and families. A comprehensive and coordinated housing and service delivery approach helps communities plan for and execute that balanced response.

Continuum of Care

HUD works with communities to help establish cost-effective "Continuum of Care" (COC) systems that enable communities to identify and fill gaps in housing and services that homeless families and individuals need in order to move into permanent housing. The COC is an inclusive process that coordinates the energy and experience of non-profit organizations, State and local governmental agencies, housing developers and service providers, private foundations, local businesses, the banking community, neighborhood groups, and homeless and formerly homeless persons.

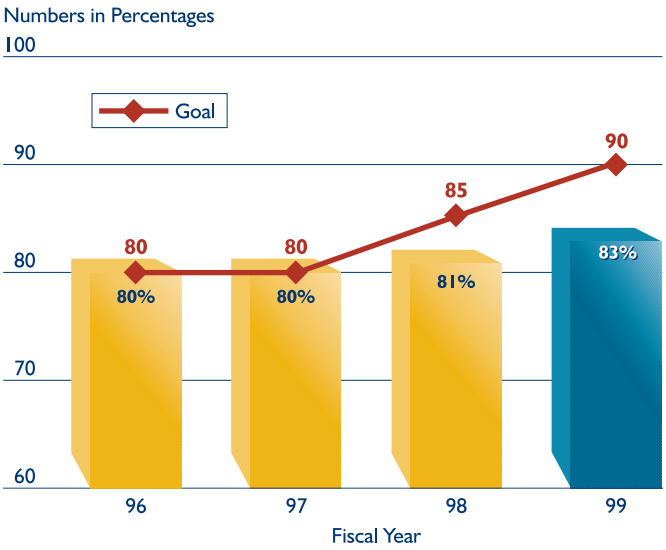
Each year communities submit applications to HUD requesting COC funding. Included in the application is a description of the community's COC approach for alleviating homelessness.

The Department measures success in the COC program by determining the percentage of the U.S. population represented by communities that have developed COC systems. In fiscal 1999, HUD estimated the percentage of the U.S. population represented by communities which had developed COC systems to be 83 percent, compared with 81 percent (adjusted to actual) in fiscal 1998 and 80 percent in fiscal 1996 and fiscal 1997. The increase in fiscal 1999 was due to a slight increase in funding and a greater number of communities desiring COCs.

A COC system includes the following components:

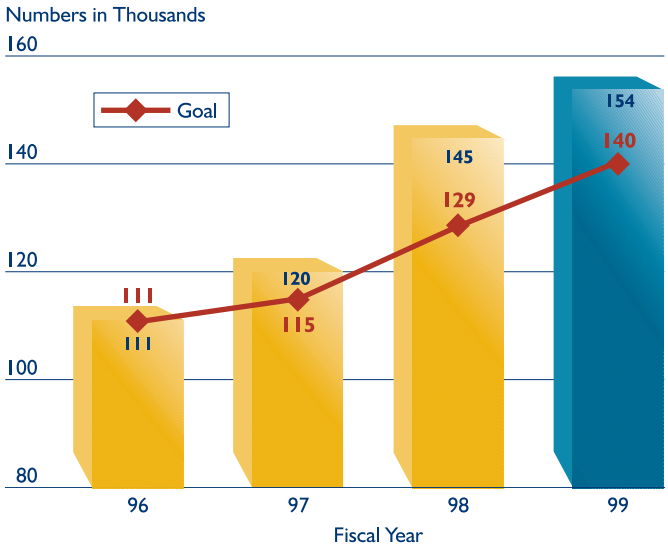
- out-reach and assessment;
- emergency shelter;
- transitional housing with appropriate supportive services; and
- permanent housing (with or without supportive services).

Percentage of Population Supported by Continuum of Care Systems



Transitional housing with supportive services offers homeless people the time, place, and services to overcome many of the circumstances that led to homelessness. A mark of success in the transitional housing component is the national number of HUD-funded transitional housing beds (which allow people to be housed for up to 24 months and receive supportive services that help them become self-sufficient). The Department estimates the number of transitional housing beds linked to supportive services to be 154,000 in fiscal 1999 which marks the third consecutive year of increases. Two factors affect the increase from year to year: increasing inventory for the last 10 years and limited funding.

Increase the Number of Transitional Housing Beds Linked to Supportive Services



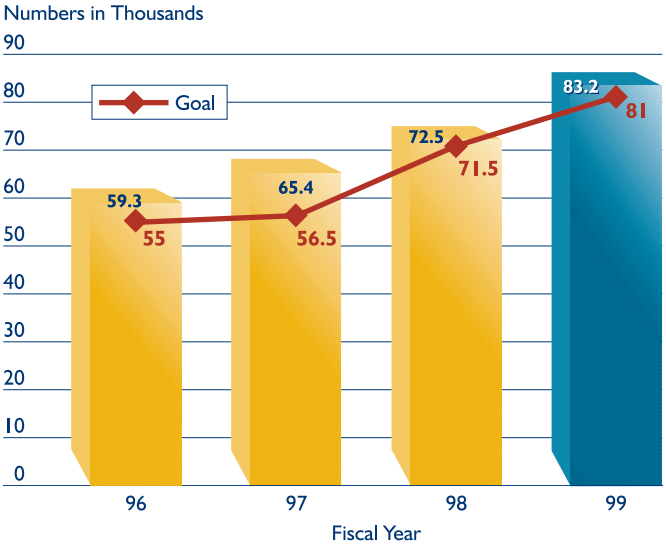
Permanent housing is another major component of the COC program. This program provides permanent housing with needed supportive services, primarily for people who are both homeless and disabled. The program provides a valuable alternative to the revolving door of relatives, friends, institutions, and the nation's streets. The Department measures performance by the national number of HUD-funded permanent housing beds operated through the COC program. There are no time limits on duration of stay in these beds.

The number of permanent beds provided has increased over the last 4 years to 81,000 beds in fiscal 1999. Two factors contributed to this annual increase:

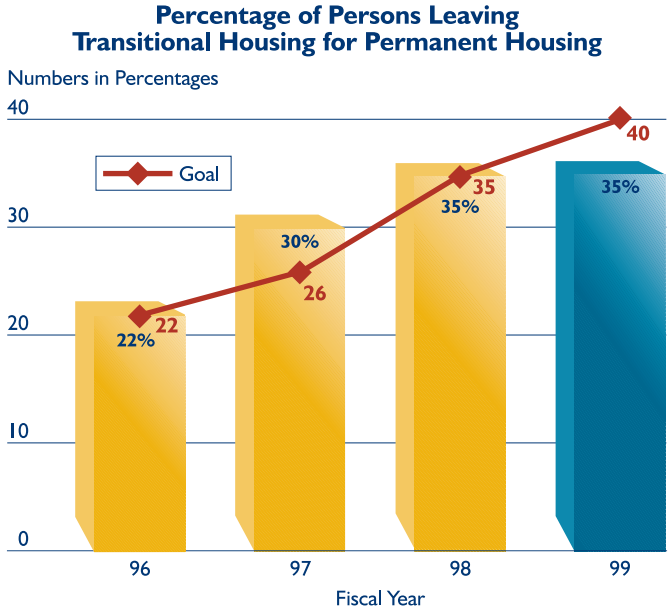
1) the HUD-supported inventory of permanent housing has been accumulating over a period of 10 years; and

2) there has been a noticeable increase in demand by communities for permanent housing assistance.

Increase Number of Permanent Beds Linked to Supportive Services



Each year, a number of people leave transitional housing and move to some form of permanent housing. The percentage of people leaving transitional for permanent housing provides an indication of how successful HUD has been in helping homeless individuals move to more permanent housing. The chart below shows the percentage of people leaving traditional housing for permanent housing over the last 4 years and the goal for each year.



Another critical element in a community's efforts to successfully implement a COC is its ability to provide supplemental resources (i.e., proposed Federal, State, local, and private contributions) to the Federal funds awarded through the COC application process. HUD strives to ensure that communities commit at least $1 for every $1 of homeless funds that HUD awards. This element, presented in the form of a ratio, identifies the level of resources that communities commit compared to funds that HUD awards. The ratios for fiscal 1996 to 1999 were successfully in excess of 1 to 1.

Provide Empowerment and Self-Sufficiency Opportunities for Low-Income Individuals and Families, Particularly the Nation's Poor and Disadvantaged

This section covers the following major programs:

Neighborhood Networks

Community Development Block Grants

Section 108 Loan Guarantees

Economic Development Initiatives

The Department is working with community organizations, States, cities, and other Federal agencies to effectively implement this objective. The Department proposes an initial four-pronged action plan to begin implementing the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. The action plan includes:

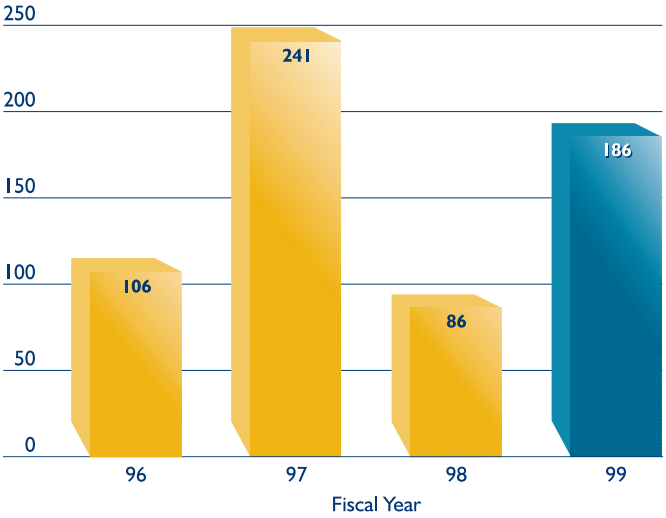
- Create and retain jobs;
- Use tenant-based rental assistance strategically to link welfare recipients to jobs through innovative uses of incremental housing assistance and regional counseling;
- Coordinate housing assistance with Welfare Reform efforts; and
- Provide and leverage services to help welfare recipients make the transition from dependency to work through expansion of the Bridges to Work initiative, funding for Public Housing Supportive Services, expansion of Neighborhood Networks learning centers in assisted housing, and the Youth-build program to provide access to education and job training.

HUD is in a unique position to assist in helping people move from welfare to work. Through public housing, Section 8, and Community Development Block Grant (CDBG) target areas, HUD programs have a physical presence where the poor live. HUD programs provide flexible assistance capable of affecting different interventions that may be necessary to promote self-sufficiency. HUD can both provide the assistance needed to create and retain jobs and provide the training and other services that lower-income individuals need to be able to take advantage of those jobs. Flexible formula grants, like CDBG, let communities take advantage of more restricted funding that other agencies provide. CDBG, for example, can fund local plans for promoting self-sufficiency. It can also fund services that may be needed to help people take advantage of opportunities provided by other agencies.

Neighborhood Networks

HUD established Neighborhood Networks (NNs) at the end of fiscal 1995 to enhance the self-sufficiency, employability, and economic self-reliance of low-income families and the elderly living in HUD-insured and HUD-assisted multi-family properties in disadvantaged areas.

Establish Neighborhood Network Centers



The Department opened a total of 186 Neighborhood Network Centers with approved business plans in fiscal 1999 which exceeded the fiscal 1999 goal of opening 100 centers by 86 percent.

These Centers provide the residents of the properties and their neighbors with on-site access to computer and training resources. Owners and tenants, with the assistance of local community volunteers and FHA, design and operate these facilities. The Centers provide residents with:

- Early childhood educational programs;
- Educational and research opportunities for school-age children;
- Adult educational opportunities at the high school, vocational, community college, and university levels;
- Typing, word processing, and computer skills;
- Access to job data banks;
- Micro-enterprise development opportunities; and
- Participation in on-line civic and government forums.

Linked to the world as never before, disadvantaged groups are able to gain access to opportunities and ideas that will empower them to participate more fully in the nation's economic, social, and civic life.

This initiative also enhances the value of the FHA multi-family loan portfolio by improving resident morale and income opportunities, reducing maintenance expenses and criminal activity, and increasing marketability.

New day care center, part of revitalization at Centennial Place, Atlanta, Georgia.

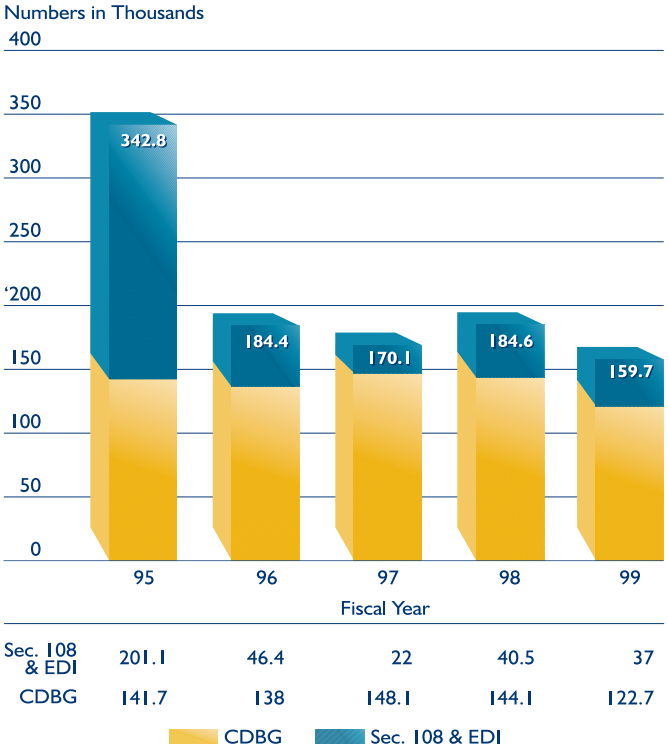
CDBG, Section 108, and EDI

HUD designed the Community Development Block Grant (CDBG) entitlement, non-entitlement, economic development initiatives (EDI), and the Section 108 loan guarantee programs to help stimulate economic activity in distressed areas. These programs will leverage billions of dollars in additional public and private investments and create additional jobs in States and communities that receive such funding.

The Department revised the process for determining the number of jobs created for fiscal 1999, resulting in a decrease in the number of jobs reported for that year. HUD used actual expenditures to determine the amount of funds that the major entitlement communities disbursed during the year. The Department then divided the average cost to create a job into the disbursement figure to determine the number of jobs created. In past years, the Department used allocations rather than actual disbursements in the equation.

The estimate for the number of jobs created through the Section 108 and EDI programs used the same formula as before, with one exception. The Department determined that the level of funding commitments that were job related was 60 percent rather than the 75 percent previously used. As before, the Department divided the resulting product by the average cost for the creation of a job to arrive at the number of jobs created.

Increase Number of Jobs Created



The large decrease in the number of jobs created since 1995 is due to significantly lower levels of loan commitments for the Section 108 program subsequent to that year.

HUD awards grants to develop viable urban communities for the purpose of providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons. Each grantee develops its own program and funding priorities but must involve its citizens in the process. Development of its priorities is the core element of HUD's Consolidated Planning process for a formula grantee.

Each grantee must certify that CDBG funds are used for activities that:

- Benefit persons of low- and moderate-income (at least 70 percent of all funds must fall into this category, as measured over a 1-to-3 year period selected by the grantee);
- Aid in the prevention or elimination of slums and blight; or
- Meet an urgent community development need that poses a serious and immediate threat to community health or welfare where other financial resources are not available.

CDBG considers compliance with the 70 percent requirement to be one of its major performance measures. The grantee must certify in its Consolidated Plan submission that it is complying with this requirement. The field staff verifies compliance by closely reviewing grantee plans and monitoring their activities. The most recent reviews showed that over the last 3 fiscal years, low- and moderate-income persons in the affected entitlement communities received approximately 94 percent of the total CDBG funds expended.

Promote Equal Housing Opportunities for Those Protected by Law

This section covers the following major programs:

Fair Housing Enforcement

Program Compliance

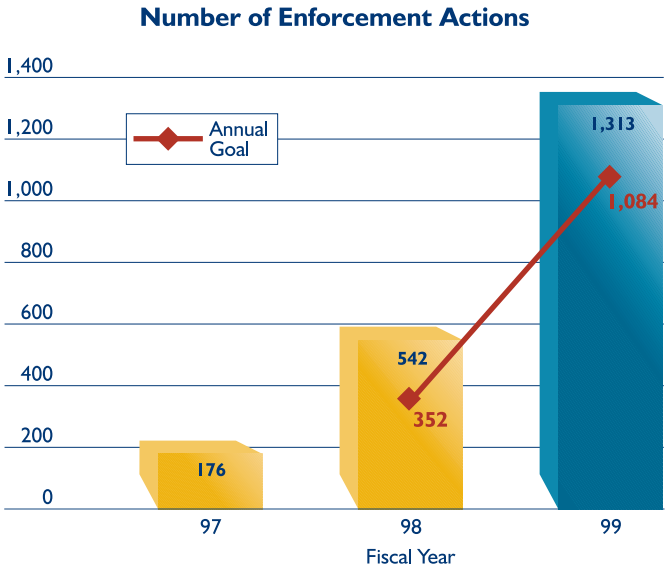
The mission of HUD's Office of Fair Housing and Equal Opportunity (FHEO) is to enforce the Fair Housing Act and other civil rights laws. It does this by taking proactive steps to identify and combat discrimination in both its most obvious and more subtle forms and to ensure the right of equal housing opportunity and free and fair housing choice without discrimination based on race, color, religion, sex, national origin, disability or family composition. The business objectives for FHEO are designed to enforce the nondiscrimination requirements of the Fair Housing Act and other civil rights laws; take proactive steps to assure that HUD programs are delivered in a nondiscriminatory manner; and affirmatively further fair housing in HUD programs and provide leadership for affirmative programs carried out by other Federal Departments and Agencies. These goals are carried out by:

- Reducing discrimination in housing through aggressive enforcement of civil rights and fair housing laws, the promotion of substantial equivalency among State and local governments enforcing fair housing laws, and the administration of grant programs;
- Promoting geographic mobility for minority and low-income households;
- Integrating fair housing planning into HUD's Consolidated Plans in order to identify impediments to housing choice; and
- Ensuring that other Federal agency programs that affect housing choice also further the goals of the Fair Housing Act.

Fair Housing Enforcement

The Fair Housing Act prohibits discrimination in housing based on race, color, religion, sex, national origin, disability, or familial status. HUD's Fair Housing Initiatives Program (FHIP) helps meet the objectives of the Fair Housing Act by providing funding to public and private entities formulating or carrying out programs to prevent or eliminate discriminatory housing practices.

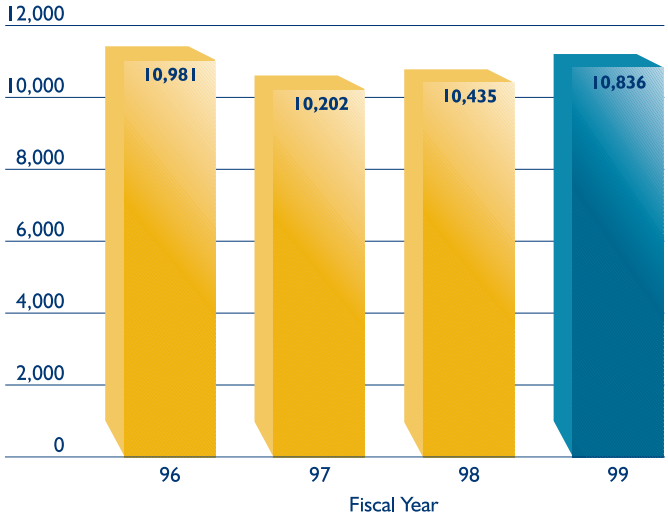
In 1997, the Department challenged FHEO to double enforcement actions over the 4-year period beginning in fiscal 1997 and ending in fiscal 2000. FHEO has more than met the challenge recording 1,313 enforcement actions in fiscal 1999.



The Department encourages each fair housing organization to carry out long-term enforcement projects. In fiscal 1999, FHEO awarded 27 organizations 2-year Private Enforcement Initiative grants to carry out long-term enforcement projects in their jurisdictions.

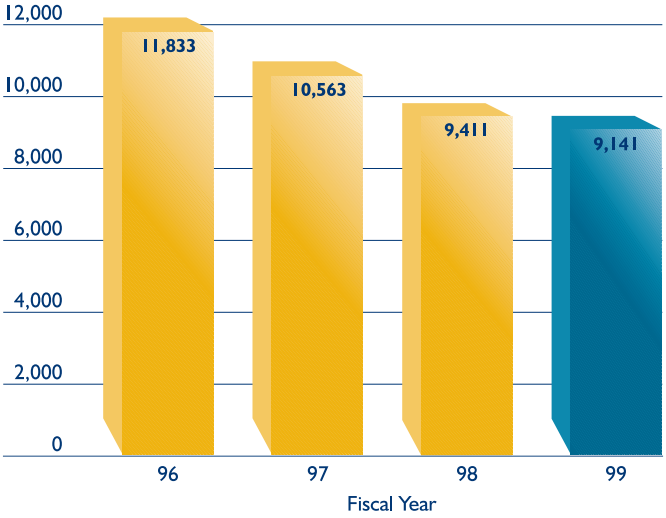
The following charts show the number of housing discrimination cases that FHEO has received and closed between fiscal 1996 and fiscal 1999. A Claim is a category of discrimination inquiry that raises issues of discrimination, but which may not be a jurisdictional complaint when fully developed.

Number of Discrimination Cases Received



Closures shown on the chart below include actual closures (administrative, conciliation/settlements, and no-cause determinations), cause determinations and transfers of complaints to the Department of Justice (DOJ) (certain categories of complaints, specifically those related to zoning and those involving criminal activity are statutorily required to be transferred to DOJ). Some of the cases closed were carried forward from previous years. During fiscal 1999, 38 percent of complaint closures were closed by consensual resolution, as compared to 39 percent in fiscal 1998, 38 percent in fiscal 1997, and 36 percent in fiscal 1996.

Number of Discrimination Cases Closed



The percentage of cases remaining open longer than 100 days rose slightly in fiscal 1999. For fiscal 1999, 79 percent of the cases closed were more than 100 days old compared to 76.5 percent in fiscal 1998, 78 percent in fiscal 1997, and 83 percent in fiscal 1996.

In fiscal 1999, FHEO decided to make old, complex, and/or logistically difficult cases a top priority. Also, the office received a mandate to increase enforcement actions through fiscal 2000. As a result of this mandate, FHEO received more cases than it closed. In fiscal 1999, the office resolved 77 percent of the cases it received, compared to an 89 percent resolution rate in fiscal 1998, 108 percent in fiscal 1997, and 86 percent in fiscal 1996.

Program Compliance

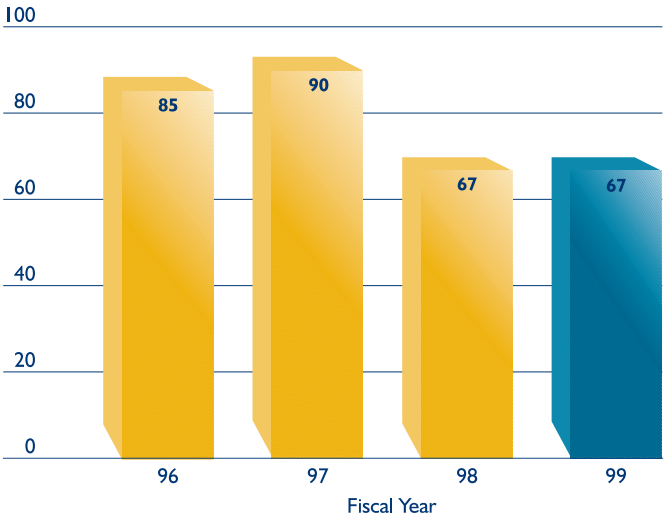
FHEO endeavors to increase housing choice in HUD-assisted housing for beneficiaries through aggressive enforcement of compliance with civil rights statutes in all HUD-funded programs and activities, and assures that persons with disabilities are afforded equal access and opportunities to housing of their choice. FHEO continues to undertake a number of initiatives to achieve this goal, including activities designed to reduce the incidence of segregation based on race and national origin in public and Federally assisted housing. In fiscal 1999, the following were achieved in furthering the Department's goal of providing fair housing and equal opportunities to its beneficiaries:

- FHEO conducted 35 compliance reviews in fiscal 1999. This equaled the number of reviews conducted in fiscal 1998 but was substantially lower than the 137 it conducted in fiscal 1997 and 131 in fiscal 1996. This reduction is due to FHEO focusing resources on President Clinton's priority to double enforcement efforts under the Fair Housing Act. HUD expects the compliance reviews to increase the awareness of persons' individual rights under the law. Pursuant to the Interim Injunction in the Young v. Cuomo litigation, the Department must conduct over 50 compliance reviews within a 2-year period.

- FHEO undertakes a number of initiatives to reduce the incidence of segregation based on race and national origin in public and Federally-assisted housing. In fiscal 1999, FHEO investigated 431 complaints, equal to the number it investigated in fiscal 1998 yet fewer than the 487 and 582 it investigated in fiscal 1997 and 1996 respectively. Again, this reduction is due to the President's priority for the Department to double enforcement actions annually.

- The following chart shows the number of Voluntary Compliance Agreements executed over the last several years. Certain statutes require HUD to conduct compliance reviews of its recipients. When found to be in non-compliance, HUD must take appropriate action to obtain compliance by obtaining a Voluntary Compliance Agreement. If not voluntary, HUD can suspend or terminate assistance or refer the action to the DOJ for enforcement. HUD maintains its "get tough" policy with recipients and continues its compliance activity and comprehensive investigation of complaints.

Voluntary Compliance Agreements Executed



- FHEO processed two Architectural Barriers Act (ABA) complaints in fiscal 1999, which is lower than the six complaints it processed in fiscal 1998. The number of complaints FHEO investigates is driven by the number of complaints that the Architectural and Transportation Barriers Compliance Board refers to FHEO for processing.

Public Trust Offices and Processing Centers

HUD's 2020 Management Reform Plan, announced in June 1997, initiated several reforms and organizational changes to restore HUD's public reputation and credibility and improve the efficiency and effectiveness of the Department's programs, operations, and provision of services. Three key changes were the creation of the:

- *Real Estate Assessment Center (REAC) for reviewing and evaluating physical inspections and financial reporting;*
- *Financial Management Center (FMC) for consolidating Section 8 payment functions for Public and Indian Housing (PIH) and the Office of Housing; and*
- *Departmental Enforcement Center (DEC) for taking aggressive enforcement action on multifamily and public housing referrals for noncompliance violations.*

Real Estate Assessment Center (REAC)

Demonstrating HUD's commitment to improving its oversight of public and assisted housing, the Department formed the REAC to meet one of the primary objectives of HUD's 2020 Management Reform Plan – combine all housing assessment functions into a single integrated operation. During fiscal 1999, the REAC successfully developed and deployed all of its major assessment systems to produce physical, financial and Public Housing Assessment System (PHAS) scores for public housing and multifamily (MF) assisted properties. With these newly automated systems, the REAC began providing timely, accurate, and objective information describing the condition of the nation's public and assisted housing. The Center met, and in many cases exceeded, its 1999 Annual Performance Goals, several of which are highlighted below.

During fiscal 1999, the REAC continued to develop and implement e-business solutions to collect, verify, analyze, and score physical assessments on a nationwide basis. The Center regularly processes information related to 40,000 building inspections, 33,000 financial statements, 4.5 million tenant verifications, and 1 million appraisals.

HUD required the REAC to establish financial and physical baseline scores in fiscal 1999. It accomplished this based on the number of physical inspections and financial soundness assessments it completed in fiscal 1999. Program areas use this data for preliminary risk analyses. In fiscal 2000, HUD will also use fiscal 1999's scores as the baseline for measuring future improvements in the physical and financial condition of public housing authorities (PHAs) and MF assisted properties.

Also, in fiscal 1999 HUD required the REAC to increase the number of properties physically inspected and scored. The purpose of these inspections is to identify the number of public and MF housing properties that meet HUD safety and life-threatening condition standards. The REAC examined 28,835 properties in fiscal 1999, exceeding its goal of 21,900 inspections. Immediately after an inspection, the property manager receives a report identifying the property's health and safety deficiencies, which the manager must correct within 72 hours. In fiscal 2000, the REAC will inspect at least 30,000 properties.

HUD has increased the number of MF properties required to submit information electronically to the REAC. This type of data submission will facilitate monitoring and management of program compliance requirements and reduce the financial risks related to the MF housing portfolio. The Center's FY 99 goal was 12,000 submissions. At the end of the fiscal year, it had received and assessed 10,356 submissions with an additional 1,940 received and being processed. In fiscal 2000, the REAC expects to receive and assess between 15,000 and 17,000 electronic submissions.

HUD also required an increase in the number of PHAs that receive integrated PHAS advisory scores. These advisory scores serve as the Department's vehicle for measuring the performance of PHAs in major areas of public housing and identify PHAs as High Performers, Standard Performers, or Troubled Performers. During fiscal 1999, the REAC issued 2,544 PHAS advisory scores, exceeding its goal by 44. In fiscal 2000, the goal is to issue 3,170 advisory scores.

HUD is dedicated to improving the oversight of its housing portfolio and reducing the burden of the assessment process on its business partners. The REAC is facilitating this by transitioning all paper reporting to electronic mediums, using the Internet as its primary communication vehicle with partners and customers. The Center has placed all assessment information including handbooks, guidance, data input features, and secure connections for receiving assessment scores on its website. The REAC has also established an extended-hour Customer Service Call Center to manage the more than 12,000 phone, fax, and e-mail communications that it receives monthly.

Financial Management Center (FMC)

In fiscal 1999, the FMC became responsible for the financial management of the Public and Indian Housing (PIH) tenant-based and Office of Multifamily (MF) Housing project-based Section 8 programs which HUD administers with Annual Contributions Contracts (ACCs). The FMC provides financial management support for approximately 10,400 ACCs. HUD uses annual budgets and requisitions/payment schedules to advance funds to the Housing Authorities (HAs) and Contract Administrators (CAs) that administer these programs.

The Center must approve all budgets and payment schedules to allow for payment on the first date of the budget period. At the end of fiscal 1999, 239 ACCs (2.3 percent) did not have their payments scheduled. By November 1, the FMC had reduced this to 179 ACCs (1.6 percent).

HAs/CAs must submit budgets or payment schedules to the Center within 45 days of the beginning of the fiscal year. If they do not, they will receive written notification that their funding is contingent upon the receipt of their budget/payment schedule within 15-days of notification. The FMC has standard procedures to ensure this occurs.

HAs/CAs must also submit year-end settlements within 45 days of the end of the fiscal year to the Center, because the settlement is the only vehicle to identify and recoup excess advances made to the HAs/CAs and since it is the only source document that identifies excess reserves that HUD should recapture. In fiscal 2000, the FMC will modify its procedures to clearly identify settlements it has not received on-time, enable closer oversight, and ensure greater accountability and collection of excess advances.

The FMC is developing processes to insure that it reviews, reconciles, and approves at least 90 percent of year-end settlements within 30-days of receipt; schedules underpayments for immediate payment; and offsets overpayments with the next available payment. It did not meet these time standards during fiscal 1999 since its resources were focused on closing approximately 1,000 delinquent MF Housing settlements prior to conversion to HUD's new core accounting system and before the transfer of MF records to the FMC. Additionally, the Center had given priority to closing all settlements for tenant-based Certificate and Voucher programs through December 1998. In fiscal 2000, the Center will develop an internal report to identify overpayments to facilitate timely closing of year-end settlements.

HUD requires the FMC to identify incidences of rejected payments and have them corrected within three business days. The Center has developed a process to identify all rejected payments. When it began this process in June 1998, the FMC identified 248 of 6,025 tenant-based ACCs that had payments rejected. In November 1999, the Center reported that only 47 of 10,400 tenant- and project-based ACCs had payments rejected. Currently, rejections are infrequent and are generally due to insufficient budget authority or a technical problem.

HUD requires the FMC to insure that contracts are established for all reserved funds within 60-days of receipt unless delayed by some type of HUD action. The Center has unilateral contracting authority for all tenant-based ACCs (the Center's financial analysts contract these funds in a timely fashion). Since the contracting action for tenant-based incremental funding and MF project-based ACCs is less controllable, the Center has developed controls to identify uncontracted funds for these programs and to facilitate establishment of the contracts.

HUD Next Door Storefront Offices bring access to HUD programs into communities across the country.

HUD also requires the FMC to identify rejected payment vouchers and pay the vouchers within three business days if payment is within HUD's control. Currently, the Center is unable to meet this goal. In mid-1999, the Office of Housing allowed owners to merge multiple Housing Assistance Payment (HAP) contracts on a single property into one contract at the time of the next renewal. This change caused the number of rejected vouchers to triple to approximately 1,000 per month. The FMC has modified its procedures to expedite the review of rejected vouchers and has made recommendations to field offices and HAP owners on how to reduce the frequency of rejections.

Departmental Enforcement Center (DEC)

The DEC began operations on September 1, 1998. It was established to centralize the management of enforcement initiatives so HUD could be more effective in bringing resolution to the most difficult and significant non-compliance issues among the recipients of the Department's program resources. Although the DEC is organizationally autonomous, it functions in a collaborative manner with other HUD program offices. By taking aggressive enforcement action on multifamily and public housing referrals for noncompliance violations, HUD has moved closer to restoring the public trust in its ability to provide decent, safe, and sanitary housing for low and moderate income households.

In fiscal 1999, the DEC Headquarters was focused on completing approximately 483 cases referred for evaluation by the Office of Housing and the REAC. Additionally, administrative proceedings activities which included debarments and suspensions referred by the field offices, the handling of Limited Denials of Participation (LDPs) appeals, and multifamily previous participation appeals resulted in taking over 660 administrative sanctions which contributed to an extremely productive first year for the DEC.

In fiscal 1999, the DEC was successful in beginning to reduce risk to the FHA fund by closing 34 percent of the cases referred by the REAC and Multifamily Housing. The 483 referrals from REAC and Multifamily Housing related to properties that had failed physical inspections. The DEC implemented a "team critical case review" evaluation process which yielded the best enforcement plans for resolution of noncompliance issues. The DEC also worked closely with the Office of Housing and Multifamily HUB Directors to foster a collaborative spirit on multifamily issues and to establish guidelines for handling sensitive cases.

Throughout fiscal 1999, DEC representatives met with members of the housing industry and other HUD program offices to communicate its mission and objectives and to defend its aggressive but fair enforcement actions. The DEC's presence alone has served as a credible deterrent and has encouraged owners to comply with HUD regulations.

The DEC's most significant accomplishment in fiscal 1999 was the building of greater capacity within the organization to resolve cases in a more effective, efficient, and timely manner. The Center has implemented new policies and procedures based on findings and recommendations of an independent management study.

In fiscal 1999, the Department transferred the Mortgagee Review Board to the DEC. At the time of the transfer, a backlog of cases existed and many cases were pending before the Board. The DEC successfully eliminated the backlog and significantly reduced the normal processing time for cases from over 1 year to approximately 9 months. These achievements have clearly sent the message that HUD is serious about enforcement. In addition, the DEC is responsible for making determinations on referrals for suspensions, proposed debarments, LDPs, and 2530 participation appeals for HUD. Furthermore, DEC over the past year took legal enforcement action for the Department that resulted in a dramatic increase in monetary recoveries. In fiscal 1999, recoveries were in excess of $15.5 million compared to $5 million in fiscal 1998 by predecessor enforcement entities. The DEC also completed enforcement actions related to 366 properties. The enforcement actions included:

- 19 foreclosures commenced;
- 8 managing agents replaced;
- 21 notices of regulatory agreement or HAP contract violations sent to owners;
- 968 housing units restored to decent, safe, and sanitary conditions;
- $4.6 million in pre-payments obtained; and
- $500,000 in owner improvements to properties obtained.

Other actions taken by the Administrative Proceedings staff during the year included:

- reviewing the legal sufficiency of 255 suspensions and/or proposed debarment notices;
- assisting the Mortgagee Review Board in withdrawing the approval of seven mortgagees;
- assessing $3.1 million in loan indemnifications; and
- assisting the Office of Housing with legal counsel and administration of the appeal process in terminating the loan origination authority of 27 institutions under the Credit Watch program.

Establishment of the DEC has sent a clear signal that HUD is committed to eliminating waste, fraud, and abuse, while recovering damages for fraud and violations of the nation's housing laws.