

# Management's Discussion and Analysis

## Mission, Organizations and Major Program Activities, and Strategic Plan

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### Our Mission

*Create strong, sustainable, inclusive communities  
and quality, affordable homes for all.*

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HUD's mission stems from a directive in the Housing Act of 1949 to create "a decent home and suitable living environment for every American family." This founding mandate is the groundwork for which we continue to develop and preserve quality, healthy, and affordable homes.

The core focus of HUD's mission is one in which housing and communities result in a better quality of life and the fulfillment of the promise that America holds for all people. Moreover, it prioritizes responsible decisions about owning or renting that are financially appropriate for the individual or family. HUD is committed in its mission to serve its residents, partners, employees, and the communities. For its residents, HUD provides access to the opportunities that result from living in homes and neighborhoods that are safe, healthy, affordable, and inclusive. For its partners, HUD is committed to strengthening partnerships among federal, state, and local entities across the public, nonprofit, and private sectors to meet the housing and community development needs of this country.

Success in delivering services to the nation's residents and partners is dependent on HUD's employees. Therefore, HUD's focus will be to invoke a work environment that is mission driven, results oriented, innovative, and collaborative.

### Organizations and Major Program Activities

HUD accomplishes its mission through component organizations (outlined on the following pages) and offices that administer place-based programs that collaboratively seek to meet the mission of the Department. Place-based programs leverage investments by focusing resources in targeted places and drawing on the compounding effect of well-coordinated action. Effective place-based programs can influence how rural and metropolitan areas develop, how well they function as places to live, work, operate a business, preserve heritage, and more. A new vigorous effort is underway in collaborating with other Federal agencies to meld the

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Department's coordinated interests and strengths to pursue better results. Such policies can also streamline otherwise redundant and disconnected programs.

As part of reinventing the Department and to better meet its mission, HUD established an Office of the Chief Operating Officer (OCOO) to provide leadership and a comprehensive strategy for HUD's current operations of procurement, human resources, and information technology. The OCOO will provide a way to coordinate these interdependent functions in order to facilitate decision making and ensure accountability. Within the OCOO, a new Office of Disaster Management and National Security was also established to develop, coordinate, and implement HUD's response to disasters, as well as lead the agency in its disaster and emergency preparedness, protective services, and intra- and interagency disaster recovery efforts. In addition, the Office of Sustainable Housing and Communities was created to support HUD's energy efficiency and green building efforts, and administer HUD's FY 2010 Sustainable Communities Initiative. This initiative promotes pedestrian-friendly, public transit-oriented, mixed-income and mixed-use communities in order to substantially reduce transportation costs, to create energy savings (by reducing vehicle-miles traveled), and enhance access to employment and educational opportunities. In FY 2010, the Office of Strategic Planning and Management (OSPM) was created to develop and implement the Strategic Plan, and to track agency performance against quantitative outcome goals and help drive the agency's transformation effort.

HUD's programs are carried out through a network of regional offices and smaller field offices, as well as through grantees, contractors, and other business partners. A detailed map of HUD's regional and field offices is located at [HUD's local offices](#).<sup>E1</sup> HUD's major organizations include:

- The [Office of Housing](#)<sup>E2</sup> provides vital public services through its nationally administered programs. It oversees the Federal Housing Administration (FHA), the largest mortgage insurer in the world, as well as regulates housing industry business. Within the Office of Housing are six business areas:
  - [Single Family Housing](#)<sup>E3</sup>—HUD's Single Family programs include mortgage insurance on loans to purchase new or existing homes, condominiums, manufactured housing, houses needing rehabilitation, and for reverse equity mortgages to elderly homeowners. In FY 2010, Single Family programs endorsed 1,661,917 loans and carried nearly a \$1 trillion of Insurance-In-Force.
  - [Housing Counseling Program](#)<sup>E4</sup>—HUD's housing counseling program provided support and training to 2,743 counseling agencies, of which 2,252 were authorized to provide mortgage delinquency and default resolution counseling. In FY 2010, about half of the citizens participating in the program received foreclosure prevention counseling, and of those completing that counseling and for whom results are known, almost half received a mortgage modification and another 15 percent entered into a forbearance agreement or repayment plan.

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- [Multifamily Housing](#)<sup>E5</sup>—HUD’s Multifamily programs provide mortgage insurance to HUD-approved lenders to facilitate the construction, substantial rehabilitation, purchase, and refinancing of multifamily housing projects and healthcare facilities. In FY 2010, HUD’s portfolio of insured Multifamily mortgages totaled 12,519 mortgages that covered 1.5 million units. Multifamily’s Project-Based Rental Assistance (PBRA) program assists approximately 1.4 million low- and very low-income households in obtaining decent, safe, and sanitary housing in privately owned rental housing.
- [Healthcare Programs](#)<sup>E6</sup>—HUD’s healthcare programs consist of Section 242, which provides mortgage insurance for hospitals, and Section 232, which provides mortgage insurance for long-term care facilities. The healthcare and hospital portfolio contains 2,602 loans, of which 326 loans were added this year.
- [Regulatory Programs](#)<sup>E7</sup>—HUD’s Regulatory programs are designed to protect homeowners and homebuyers, while regulating real estate transactions.
- The [Government National Mortgage Association](#)<sup>E8</sup> (Ginnie Mae) channels global capital into the U.S. housing market, providing liquidity and stability in support of affordable homeownership and rental housing at no cost to the U.S. Government. The Ginnie Mae guaranty ensures available funding, strong pricing and favorable spreads, which translate into lower interest rates to borrowers. In FY 2010, the Ginnie Mae program provided funding for \$413 billion in funding for federal housing programs, financing approximately 99 percent of all government-insured or guaranteed mortgage loans. Ginnie Mae is ending the fiscal year with \$1.05 trillion in Mortgage-Backed Securities (MBS) outstanding, this represents private market capital in use to finance housing for over 6.9 million households.
- The [Office of Public and Indian Housing](#)<sup>E9</sup> (PIH) is responsible for administering and managing a range of programs for low-income families. The mission of PIH is to ensure safe, decent, and affordable housing for low-income families; create opportunities for residents’ self-sufficiency and economic independence; ensure fiscal integrity by all program participants; and support mixed income developments to replace distressed public housing. More than 4,100 PHAs provide affordable housing opportunities for 3.2 million low-income families. In order to facilitate this mission, PIH has 11 major offices within Headquarters, 46 field offices, more than 1,500 staff, and six area offices for Native American programs. PIH administers a budget of more than \$26 billion, which represents approximately 56 percent of HUD’s budget. Within the Office of Public and Indian Housing are two major business areas:
  - The Office of [Public Housing](#)<sup>E10</sup> and [Voucher](#)<sup>E11</sup> Programs provides affordable housing to 1.1 million households through the Low Rent Public Housing program, and 2.1 million households receive assistance through the Housing Choice Voucher program.

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- The [Office of Native American Programs](#)<sup>E12</sup> (ONAP) provides safe, decent, and affordable housing for low-income families through more than 550 tribes that administer its programs. Additionally, ONAP increases homeownership opportunities for American Indians, Alaska Natives, and Native Hawaiians through the Indian Housing Block Grant program, Indian Community Development Block Grant program, the Indian Housing Loan Guarantee Fund, as well as Native Hawaiian Loan Guarantee and the Native Hawaiian Housing Block Grant program.
- The [Office of Community Planning and Development](#)<sup>E13</sup> (CPD) provides funding to a broad array of state and local governments, non-profit and for-profit organizations to administer a wide range of housing, economic development, homeless assistance, infrastructure, disaster recovery, and other community development activities in urban and rural areas across the country. In partnership, CPD and its local funding recipients develop viable communities by providing decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons.
- The [Office of Fair Housing and Equal Opportunity](#)<sup>E14</sup> (FHEO) administers and enforces federal laws and establishes policies that ensure equal access to housing and housing-related services in the United States. FHEO and its partners in the Fair Housing Assistance Program (FHAP) investigated 10,120 filed cases in FY 2010 including referrals from its partners in the Fair Housing Initiatives Program (FHIP). Of these FHIP referrals, 61 percent resulted in positive outcomes (conciliated, resolved, or charged) that benefitted the complainants.
- The [Office of Healthy Homes and Lead Hazard Control](#)<sup>E15</sup> (OHHLHC) seeks to eliminate lead-based paint hazards in America's privately-owned and low-income housing and to lead the nation in addressing other housing-related health hazards that threaten vulnerable residents. In FY 2010, as a result of grants executed in prior years, the OHHLHC's grant programs eliminated lead-based paint and other housing-related environmental health hazards in over 12,000 low-income housing units. In addition, the OHHLHC awarded 67 new grants totaling \$129.6 million to help communities address these hazards.
- The [Office of Sustainable Housing and Communities](#)<sup>E16</sup> helps provide communities with the support they need to ensure that housing, transportation, water, energy, and "green" building investments are working together to build strong, healthy, and inclusive neighborhoods. The Office also supports the Partnership for Sustainable Communities, an unprecedented collaboration between HUD, the Department of Transportation (DOT) and the U.S. Environmental Protection Agency (EPA) to coordinate federal resources in support of sustainable development and livable communities in the U.S.
- The [Office of Strategic Planning and Management](#)<sup>E17</sup> oversees the development and implementation of the Department's FY 2010 - 2015 Strategic Plan and is responsible for oversight of performance management.
- The [Office of Policy Development and Research](#)<sup>E18</sup> (PD&R) is responsible for maintaining a repository of resources on housing needs, market conditions, and existing

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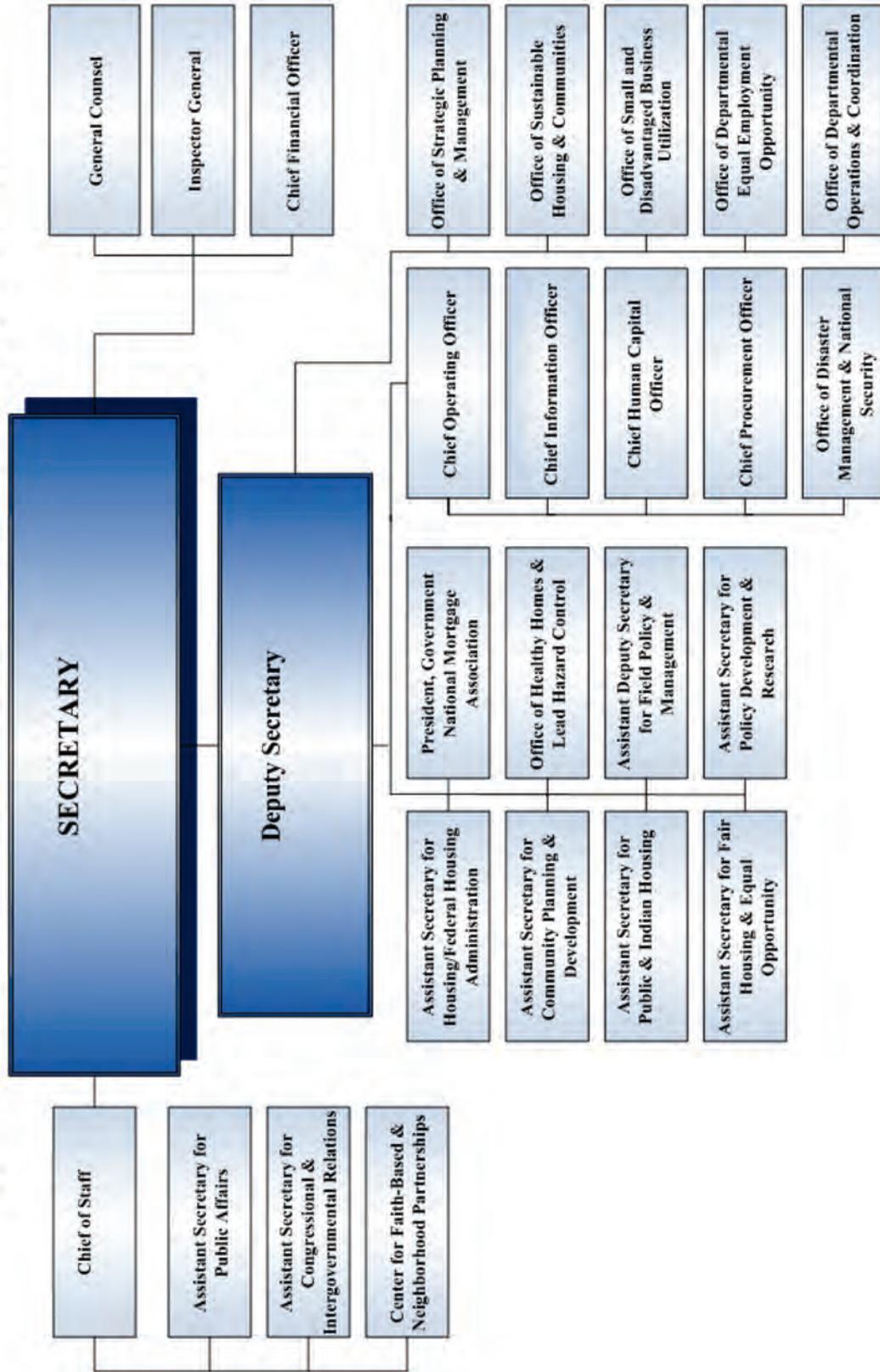
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programs, as well as conducting research on priority housing and community development issues. The Office also provides objective program evaluation, data, and analysis to inform policy decisions and improve program results.

- The [Center for Faith-Based and Neighborhood Partnerships](#)<sup>E19</sup> plays a critical role in special event planning and execution, programs and projects that are cross-programmatic and at times inter-Departmental, and outreach to constituents for Secretarial priorities. The Center disseminates information of great timeliness and necessity for leaders of faith-based and secular neighborhood organizations addressing crises or emergencies in their community. For instance, regarding foreclosure prevention, the Center convened 125 faith-based and non-profit leaders, in Atlanta to meet with Secretary Donovan about “Making Home Affordable” and FHA loss mitigation options, as well as [First Look](#)<sup>E20</sup> a program to accelerate restoration of neighborhoods damaged by foreclosures.

The organization chart found on the following page reflects the principal lines of authority for the Department.

# HUD’s Organization and Reporting Structure (FY 2010)



## HUD's Strategic Plan

On May 5, 2010, HUD updated and published its [Strategic Plan](#)<sup>E21</sup> to address the economic, financial, and community development issues confronting the nation. As a result, the Department created five overarching Strategic Goals that are guiding the transformation of HUD into a cutting edge, streamlined organization capable of implementing place-based policies; overseeing a balanced, comprehensive national housing policy that supports sustainable homeownership and affordable rental homes alike; and building the strong, inclusive communities necessary to make home the foundation of stability and opportunity. An introduction to these goals is provided below, followed by the Department's Strategic Framework found on the following page.

**Goal 1: Strengthen The Nation's Housing Market To Bolster The Economy And Protect Consumers**<sup>E22</sup> will focus on rebuilding the nation's housing market and economy to ensure long-term stability and success.

**Goal 2: Meet The Need For Quality Affordable Rental Homes**<sup>E23</sup> discusses the need to balance support for sustainable homeownership with affordable homes, in order for housing markets to return to stability.

**Goal 3: Utilize Housing As A Platform For Improving Quality Of Life**<sup>E24</sup> emphasizes the basis of stable housing as an ideal platform to deliver a wide variety of health and social services to improve the education, health, economic security, and safety of its residents.

**Goal 4: Build Inclusive And Sustainable Communities Free From Discrimination**<sup>E25</sup> charts a course for HUD to catalyze economic development and job creation; promote energy efficiency and location efficiency in buildings; and facilitate disaster preparedness, recovery, and resiliency in healthy, affordable and diverse communities.

**Goal 5: Transform The Way HUD Does Business**<sup>E26</sup> is the foundation of the Department's Strategic Goals and aims to transform HUD into a responsive partner to build capacity within the Department; improve performance management and accountability; decentralize decision making to empower staff; and simplify programs, rules, and regulations.

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## HUD’s Strategic Framework

<b>HUD’S FY 2010-2015 STRATEGIC FRAMEWORK</b>			
<b>Our Mission: Create Strong, Sustainable, Inclusive Communities and Quality, Affordable Homes For All</b>			
<b>Goal 1.</b>	<b>Goal 2.</b>	<b>Goal 3.</b>	<b>Goal 4.</b>
<b>Strengthen the Nation’s housing market to bolster the economy and protect consumers.</b>	<b>Meet the need for quality affordable rental homes.</b>	<b>Utilize housing as a platform for improving quality of life.</b>	<b>Build inclusive and sustainable communities free from discrimination.</b>
<b>Sub-Goals</b>			
1A. Stem the foreclosure crisis.	2A. End homelessness and substantially reduce the number of families and individuals with severe housing needs.	3A. Utilize HUD assistance to improve educational outcomes and early learning development.	4A. Catalyze economic development and job creation, while enhancing and preserving community assets.
1B. Protect and educate consumers when they buy, refinance, or rent a home.	2B. Expand the supply of affordable rental homes where most needed.	3B. Utilize HUD assistance to improve health outcomes.	4B. Promote energy-efficient buildings and location efficient communities that are healthy, affordable, and diverse.
1C. Create financially sustainable homeownership opportunities.	2C. Preserve the affordability and improve the quality of federally assisted and private unassisted affordable rental homes.	3C. Utilize HUD assistance to increase economic security and self-sufficiency.	4C. Ensure open, diverse, and equitable communities.
1D. Establish an accountable and sustainable housing finance system.	2D. Expand families’ choices of affordable rental homes located in a broad range of communities.	3D. Utilize HUD assistance to improve housing stability through supportive services for vulnerable populations, including the elderly, people with disabilities, homeless people, and those individuals and families at risk of becoming homeless.	4D. Facilitate disaster preparedness, recovery, and resiliency.
		3E. Utilize HUD assistance to improve public safety.	4E. Build the capacity of local, state, and regional public and private organizations.
<b>Goal 5.</b>			
<b>Transform the way HUD does business.</b>			
<b>Sub-Goals</b>			
5A. Build capacity — Create a flexible and high performing learning organization with a motivated, skilled workforce.			
5B. Focus on results — Create an empowered organization that is customer centered, place-based, collaborative, and responsive to employee and stakeholder feedback.			
5C. Bureaucracy busting — Create flexible, modern rules and systems that promote responsiveness, openness, and transparency.			
5D. Culture change — Create a healthy, open, flexible work environment that reflects the values of HUD’s mission.			

## **FY 2010 Performance Overview**

Due to the timing of the publication of the Department's Strategic Plan and a compressed timeframe to gather performance data on the new goals, FY 2010 is considered a transition year from the old Strategic Plan to the new. The results reported in this FY 2010 Agency Financial Report are through the end of the third quarter, June 30, 2010. Because the results reported are not for a full year, a trend comparison for the Department is not included in this report. Complete FY 2010 performance results and trend information will be reported in HUD's Annual Performance Report that will be published in February 2011. The transition also impacts the ability to provide net costs by the new strategic goals by any other means but estimation.

The actual net cost (dollars and staff) and FY 2010 appropriations are allocated to HUD's strategic goals as reflected below:

### **Costs By Strategic Goal\* and FY 2010 Appropriations**

<p style="text-align: center;"><b>GOAL 1</b> <b>Strengthen The Nation's Housing Market To Bolster The Economy And Protect Consumers</b></p> <ul style="list-style-type: none"><li>•Expenditure \$3,674 million</li><li>•Staffing 619</li><li>•FY 2010 Appropriation \$3,112 million</li></ul>
<p style="text-align: center;"><b>GOAL 2</b> <b>Meet The Need For Quality Affordable Rental Homes</b></p> <ul style="list-style-type: none"><li>•Expenditure \$37,000 million</li><li>•Staffing 6,242</li><li>•FY 2010 Appropriation \$31,346 million</li></ul>
<p style="text-align: center;"><b>GOAL 3</b> <b>Utilize Housing As A Platform For Improving The Quality Of Life</b></p> <ul style="list-style-type: none"><li>•Expenditure \$2,960 million</li><li>•Staffing 499</li><li>•FY 2010 Appropriation \$2,508 million</li></ul>
<p style="text-align: center;"><b>GOAL 4</b> <b>Build Inclusive And Sustainable Communities Free From Discrimination</b></p> <ul style="list-style-type: none"><li>•Expenditure \$11,068 million</li><li>•Staffing 1,867</li><li>•FY 2010 Appropriation \$9,377 million</li></ul>
<p style="text-align: center;"><b>GOAL 5</b> <b>Transform The Way HUD Does Business</b></p> <ul style="list-style-type: none"><li>•Expenditure \$1,972 million</li><li>•Staffing 332</li><li>•FY 2010 Appropriation \$1,671 million</li></ul>

*\*The expenditures reflected in the above chart represent prorated gross costs, less unassigned costs of \$191 million, as reported on the Consolidated Statement of New Cost found in Section II of this report.*

Concurrent with the development of the strategic plan, the Administration initiated its own performance management improvement strategies, including having agencies establish, as part of their performance metrics, four priority performance goals that represent challenging, near-term performance improvements under existing legislative and budgetary authority. HUD’s four priority goals are:

- (1) Assist 3.1 million homeowners who are at risk of losing their homes to foreclosure;
- (2) Serve 207,000 more families with its rental assistance programs;
- (3) Reduce the number of homeless veterans to 59,000 by helping them move into permanent housing, jointly with the Department of Veterans’ Affairs (VA); and
- (4) Enable the cost-effective green and energy retrofits of an estimated 159,000 HUD-assisted and public housing units.

The priority goals are discussed on the following pages.

## **Priority Goal 1: Foreclosure Prevention**

### **Overview**

Over the past several years, the nation has experienced rapidly declining property values, lost home equity, increased foreclosures, and sharp blows to the financial system. A decade of the aggressive and sometimes abusive mortgage lending left many borrowers with debt they could not repay, financial institutions with mounting losses, and the economy in disarray. From their peak, home prices fell by more than 30 percent nationally, with even deeper declines occurring in the hardest hit communities. With sales of new and existing home falling rapidly, by December of 2008, the economy was losing nearly 700,000 jobs a month and the nation was caught in what would turn out to be the deepest and longest recession in memory. The near collapse of the housing and housing finance markets caused American families to lose over \$6 trillion in housing wealth, damaged the integrity of neighborhoods, and threatened the financial viability of major financial institutions including the FHA.

In response, as part of its FY 2010 – 2015 [Strategic Plan](#),<sup>E1</sup> HUD established an aggressive goal to assist the mounting number of borrowers at risk of losing their homes to foreclosure, while at the same time restoring the ability of FHA to play its historical countercyclical role of promoting widespread access to mortgage capital to those families traditionally not well served by the private marketplace. Goal 1 seeks to “Strengthen the Nation’s Housing Market to Bolster the Economy and Protect Consumers.” To accomplish this goal, HUD will work with other federal agencies and private sector partners to stabilize the housing market in the short term, while implementing programs that protect consumers and prevent the crisis from happening again. Key components include:

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- 1) Assist 3.1 million homeowners who are at risk of losing their homes due to foreclosure by the end of FY 2011:
  - 400,000 homeowners will be assisted through FHA early delinquency intervention;
  - 300,000 homeowners will be assisted through FHA loss mitigation programs;
  - 2.4 million homeowners will be assisted through joint HUD/Treasury programs; and
  - Achieve a Consolidated Claim Workout (CCW) Ratio of 75 percent for FHA borrowers that receive loss mitigation assistance, and achieve a 6 month re-default rate of 20 percent or less for those receiving a CCW.
- 2) Restore FHA's excess capital reserve ratio to the Congressionally mandated 2 percent level by 2014.

### **Contributing Programs**

#### *FHA Single Family Mortgage Insurance*

Since its inception in 1934, FHA has been assisting underserved, low- and moderate-income, and often first-time or minority homebuyers by insuring mortgages for single family homes. Not only does FHA provide opportunities to buy a home, it also has the tools to assist homeowners to stay in their home. To accomplish these activities, FHA must be financially strong, operate in an effective and efficient manner, and adhere to congressionally mandated capital reserve requirements.

#### *Housing Counseling Assistance*

HUD's housing counseling program helps consumers make well-informed decisions concerning home buying and mortgage finance. As the scope of the recent crisis grew, HUD's housing counseling efforts were redirected toward foreclosure prevention. HUD provides grants to housing counseling agencies with which these organizations provide comprehensive advice and assistance to households in making appropriate housing choices. Services provided free of charge by HUD-approved housing counseling agencies include Homebuyer Education Programs, Mortgage Delinquency and Default Resolution Counseling, Predatory Lending Avoidance, Renters Assistance, and Services for Homeless.

#### *Fair Lending Initiative*

The Office of Fair Housing and Equal Opportunity (FHEO), in partnership with state and local fair housing agencies participating in the Fair Housing Assistance Program, enforce the fair lending provisions of the Fair Housing Act. These provisions provide protections when communities or neighborhoods are targeted for mortgage fraud or discrimination because of the personal characteristics of residents, including race, color, religion, national origin, sex, disability or familial status. FHEO does this directly and through the Fair Housing Initiatives Program, which provides some grants specifically to address discriminatory mortgage rescue

schemes. In addition to enforcement, FHEO provides education and outreach to homeowners on fair lending and foreclosure prevention. FHEO also ensures that mortgage rescue programs are available to all people regardless of race, color, religion, national origin, sex, disability or familial status.

### Activities and Measures

FHA has developed a comprehensive set of tools to support struggling homeowners, which are described below.

#### *Loss Mitigation Programs*

This performance measure allows HUD to track progress toward achieving the goal of assisting 300,000 homeowners through FHA loss mitigation. FHA's set of loss mitigation products includes special forbearance agreements, mortgage modifications, partial claims, pre-foreclosure sales, deeds-in-lieu (the borrower turns over the deed to the lender without going through the formal foreclosure process), and short sales.

A borrower from Milwaukee, Wisconsin, in default due to unemployment, called the National Servicing Center (NSC) in December 2009. She was working part time and waiting for disability income. Her disabled son and elderly father also lived with her. The NSC representative explained the loss mitigation retention options to her. After reviewing her financial information and the financial information from her son and father, who were also contributing to the household income, the representative advised the mortgagor about how to submit her information to the lender for loss mitigation review. The NSC representative also contacted the lender on her behalf and faxed over the information she had provided. The lender reviewed the information and qualified the mortgagor for a partial claim, allowing her to keep her home and to continue to provide a place to live for her disabled son and elderly father.



#### *Consolidated Claim Workout (CCW) Ratio*

CCW combine FHA partial claims, loan modifications, and new [Making Home Affordable](#)<sup>E2</sup> (MHA) modifications but exclude less affordable forbearance programs (an agreement between a lender and a borrower that allows the borrower to catch up and become current on his or her mortgage after experiencing a temporary setback). The CCW ratio presents this aggregation of claims types as a share of all FHA borrowers that become 30 days late and are at risk of foreclosure. Historically, the CCW ratio has been in the mid 60 percent range. HUD's goal is to raise this ratio to 75 percent and is strongly encouraging lender partners to further deploy more affordable loss mitigation solutions to achieve this.

#### *Re-default Rate*

This measure allows HUD to track progress toward achieving the goal of reducing the 6-month re-default rate to 20 percent or less for those homeowners receiving a CCW. Since most re-defaults tend to occur in the first six months after the workout, the 6-month period was selected to allow measurement of goal performance within a given year.

#### *Early Delinquency Intervention*

To achieve the goal of assisting 400,000 homeowners avoid foreclosure, FHA has developed a comprehensive set of tools to support struggling homeowners. Early delinquency intervention – the type of assistance most commonly offered by loan servicers to homeowners struggling to pay

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their mortgages – includes cases where lenders and borrowers enter into formal forbearance agreements (non-incentive repayment plans).

#### *Joint HUD-Treasury Programs*

Through these programs, 2.4 million homeowners will be assisted jointly by HUD and the Department of the Treasury through the MHA program which provides opportunities to modify or refinance mortgages to more affordable levels. In March 2010, the initial suite of MHA program offerings was expanded to include a new FHA refinance product designed to assist under water borrowers (borrowers owing more on their home mortgage than their property is worth) to avoid foreclosure.

#### *Restore FHA Excess Capital Reserve Ratio*

As reported in the FY 2009 actuarial review, the severe decline in home prices, the sluggish performance of the economy, and the abusive behavior of some lending partners drove the excess capital reserve ratio to below the Congressionally mandated level of 2 percent. A strong FHA is critical to the recovery of the housing market and our economy at large, and FHA is working to better identify and manage risk, hold lenders to the highest standards of conduct and recoup losses from lenders who abuse the privilege of participating in FHA programs. In addition, FHA implemented a new mortgage insurance premium structure (put in place in September 2010) and revised underwriting standards to more properly price risk. Finally, the Department conducted servicer visits which involve a high level review of a servicer's process from collections through foreclosure.

### **Accomplishments**

As of June 30, 2010, and as shown in the program details below, HUD has assisted a total of 1.55 million homeowners to avoid foreclosure, which is half of the two year goal of assisting 3.1 million.

#### *Loss Mitigation Programs*

During the first three quarters of FY 2010 (through June 30, 2010), HUD assisted 133,099 new homeowners (44.0 percent of the Department's two-year goal of assisting 300,000) with FHA loss mitigation initiatives.

#### *Consolidated Claim Workout (CCW) Ratio*

Of those FHA borrowers that received loss mitigation assistance during FY 2010, the percentage that achieved a consolidated claim workout has increased slightly to 66.4 percent and is on target to reach 75 percent in FY 2011.

#### *Re-default Rate*

During the first three quarters of FY 2010 (through June 30, 2010), the percentage of six-month re-defaults decreased from 26.3 percent to 19.6 percent, meeting our goal.

### *Early Delinquency Intervention*

As of June 30, 2010, the Department had assisted an additional 121,955 homeowners with early delinquency interventions (nearly 30 percent of the Department's two-year goal). HUD is about 15 percent behind in this target due to a lender that had been improperly reporting certain forbearance loans. The problem was corrected and HUD expects to reach the FY 2011 goal.

### *Joint HUD-Treasury Programs*

Since May 2009, MHA has assisted nearly 1.3 million homeowners, approximately 54 percent of HUD's FY 2011 goal of assisting 2.4 million homeowners.

### *Restore FHA Excess Capital Reserve Ratio*

In FY 2010, 1,335 formerly FHA-approved mortgagees were removed for failing to meet the Department's standards. These efforts have set the stage for HUD meeting its goal of restoring the FHA excess capital reserve ratio to 2 percent by 2014.

### *Data Sources and Relevance*

Performance data on loan mitigation and other foreclosure prevention programs come from metatables from the Single Family Data Warehouse (SFDW). Lenders involved in preventing foreclosures provide this data through a monitored interface process. There are also internal validation routines in the SFDW that provide a check on data validity. Data for the Treasury components of the Joint HUD-Treasury programs come from the Treasury's Office of Financial Stability and its IR-2 Database. The information needed to assess progress on the excess capital reserve ratio goal is presented annually by the independently generated actuarial review of the FHA mortgage insurance funds.

## **Challenges**

In the near term, FHA will continue to be a major player in stabilizing the mortgage market. A high rate of foreclosures could continue if high unemployment, low housing prices, and an unstable financial market persist. FHA and its private sector partners will continue to play an important role in combating the housing crisis and addressing homeownership issues. The Department's [signature initiative](#)<sup>E3</sup> in this area seeks to promote sustainable homeownership, implement new mortgage insurance premiums and underwriting policies, and restore FHA's capital reserve ratio to the Congressionally mandated 2 percent level by 2014.

## **Looking to the Future**

Over time, HUD expects FHA's role to diminish as private mortgage capital returns to the market place. Already, \$1.02 trillion in aggregate home equity has been returned to the housing market since April 2009. Even so, FHA must continue to work to enhance program operations, properly price and manage the risk associated with its mortgage insurance activities, and continue to offer effective counseling for consumers seeking both FHA insured mortgages, as well as loans offered by a revitalized private mortgage market.

## Priority Goal 2: Rental Assistance

### Overview

HUD's rental assistance programs provide housing security to families who would otherwise face risk of instability or homelessness. The average income of such families ranges from about \$9,400 to \$13,600 per year.<sup>1</sup> Overall, only one-quarter of families who would qualify for rental assistance based on their incomes actually receive such assistance.<sup>2</sup> The Department's budget for rental assistance in FY 2010 was approximately \$34 billion or 72 percent of the total budget.

This Agency Priority Goal reflects HUD's commitment to preserving and strengthening the nation's portfolio of affordable rental housing. Through smart investments in affordable units funded under existing programs and through a signature initiative focused on streamlining and simplifying such programs, HUD expects to be able to serve 5.46 million families by the end of FY 2011, which is 207,000 more than in 2009.

The major programs supporting this goal are described below.

### Contributing Programs

#### *Housing Choice Vouchers*

The Office of Public and Indian Housing's (PIH's) Section 8 Housing Choice Voucher (HCV) program is the Federal government's largest program generally recognized as a cost-effective means for assisting families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private rental market. The HCV program, administered through nearly 2,450 public housing agencies, provides participants with the ability to seek rental housing of their choice, within certain rent parameters. The portability feature of the program enables families to move from one jurisdiction to another for reasons such as the pursuit of a job or other economic opportunity or to care for an aging or sick family member. The average income of an HCV household is approximately \$13,100 annually; 18 percent of such households are 62 years of age or older, and 32 percent are non-elderly disabled.<sup>3</sup>

#### *Project-Based Rental Assistance*

The Office of Housing's Project-Based Rental Assistance (PBRA) program assists families to obtain decent, safe, and sanitary housing in privately owned rental housing that is made affordable through a subsidy payment to the owner that makes up the difference between the HUD-approved rent for the unit and the family's income-based contribution toward rent. The average income of a household assisted through the PBRA program is \$11,400 annually;

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<sup>1</sup> Picture of Subsidized Households, 2008 (<http://www.huduser.org/portal/picture2008/index.html>).

<sup>2</sup> The State of the Nation's Housing 2010 (<http://www.jchs.harvard.edu/son/index.htm>).

<sup>3</sup> PIC Resident Characteristics Report (<http://hudatwork/po/p/systems/pic/picstats.cfm>).

53 percent of PBRA-assisted households are 62 years of age or older, and 38 percent are non-elderly disabled.<sup>4</sup>

### *Public Housing*

PIH's Public Housing program is comparable to project-based housing in that HUD assistance is linked to particular housing units. These units are owned and operated by Public Housing Agencies (PHAs). In order to support the management and operations of public housing, Operating and Capital funds are provided to PHAs on an annual basis. PIH's Public Housing Operating Fund assists PHAs in meeting public housing operating and management expenses for their public housing projects. The Public Housing Capital Fund, also administered by PIH, provides funds annually to approximately 3,150 PHAs for the development, financing, and modernization of the public housing stock (including energy and green retrofits) and for management improvements. The average income of a public housing resident is \$13,600 annually; 31 percent of such residents are 62 years of age or older and 30 percent are non-elderly disabled.

### *Other Programs*

Other major HUD programs also promote decent safe affordable housing. The [Community Development Block Grants \(CDBG\)](#),<sup>E1</sup> [HOME Investment Partnerships](#),<sup>E2</sup> [Housing Opportunities for Persons With HIV/AIDS](#),<sup>E3</sup> [Section 202](#),<sup>E4</sup> [Section 811](#),<sup>E5</sup> [Multifamily Insurance](#),<sup>E6</sup> and [Indian Housing Block Grant](#)<sup>E7</sup> programs also contribute to this goal by increasing the overall supply of affordable housing units.

## **Accomplishments**

### *All Rental Assistance Programs*

For the first three quarters of FY 2010, the Department substantially met the goal to serve 5,304,317 families by serving 5,276,043 families through all of its rental assistance programs.

### *Tenant Based Rental Assistance (TBRA)*

For the first three quarters of FY 2010, the Department substantially met the goal to serve 2,158,244 families by serving 2,131,556 families. This measure is comprised of both HCV and [Mainstream vouchers](#).<sup>E8</sup> In an effort to further assist PHAs so that they are able to more appropriately manage their funds, PIH developed a voucher stabilization forecasting tool and established a Shortfall Prevention Team to stabilize HCV funding utilization activity. In addition, PIH identified subject matter experts across the country and initiated extensive capacity building and training sessions to enable HUD staff to provide more targeted technical assistance to PHAs.

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<sup>4</sup> The percentages of elderly and non-elderly disabled represent properties assisted under the Section 8 NC/SR program.

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#### *Project-Based Rental Assistance (PBRA)*

For the first three quarters of FY 2010, the Department exceeded the goal to serve 1,169,900 families by 1.1 percent (or 12,441 families). The Office of Housing reserved and obligated the entire PBRA Recovery Act appropriation of \$2 billion in FY 2009, helping to ensure the continued affordability of units assisted under some 6,300 contracts. In addition, 99.3 percent of this appropriation has been spent as of September 30, 2010.

#### *Public Housing*

For FY 2010, performance results for this annual measure will be reported in the Annual Performance Report in February 2011.

In an effort to assist PHAs with increasing Public Housing occupancy, PIH is developing a number of tools for both internal use and PHAs. One of the tools that will be used by Field Offices was piloted in 2010. Through enhanced guidance, data validation, technical assistance, monitoring, and oversight, PIH is working to ensure that public housing occupancy rates are high. Thus, the Department has identified actionable steps to retain the number of families served, and to continue to grow the potential to serve more families by modernizing and occupying units.

A significant contribution to supporting the modernization and increased occupancy of public housing units has come from the Public Housing Capital Funds provided through the Recovery Act. PIH obligated nearly the entire \$4 billion appropriation of Recovery Act Public Housing Capital Funds in FY 2009, and 50.9 percent of these funds have already been spent as of September 30, 2010. To ensure sound stewardship of the \$4 billion made available through the Recovery Act for both formula and competitive awards, PIH's monitoring strategy included remote reviews for all grantees.

To date, more than 150,000 public housing units have been rehabilitated and a little over 1,000 public housing units were built with Recovery Act Capital Fund awards. These funds have led to the creation over 10,000 jobs. Additionally, more than 257,000 public housing units are targeted for energy efficiency improvements, and of these, approximately 88,000 public units have already undergone energy efficiency improvements.

#### *Data Sources and Relevance*

The "All Rental Assistance Programs" measure has multiple data sources with estimates or FY 2009 baseline data used for some programs where data is not yet available. For the "TBRA" measure, HUD staff reviews the status data for consistency prior to quarterly reporting, which includes an opportunity for PHAs to correct any deficiencies. The "PBRA" measure has status data updated by Housing field staff and contractors and is generally considered as reliable. For the "Public Housing" measure, quarterly data is obtained from PIH's Inventory Management System with known data anomalies filtered from the count provided. Capacity building and

training is being provided to both HUD and PHA staff, as well as technical assistance to PHAs, in order to improve the data quality in this system.

## Challenges

The capital needs of our Nation's affordable, federally-assisted housing stock are substantial and urgent. The Public Housing program in particular has long wrestled with an old physical stock, and currently has a backlog of unmet capital repair and replacement needs in the range of \$20 billion to \$30 billion. It is far more costly to build new units than to preserve existing affordable housing. The absence of a viable preservation strategy has led to the loss of 150,000 public housing units through demolition or sale over the last 15 years. To address these issues, HUD proposes to launch an ambitious, multi-year effort called the Transforming Rental Assistance (TRA) initiative (described below).

## Looking to the Future

Going forward, the Department has several initiatives to address the critical need for quality affordable rental homes. A more in-depth look at additional future strategies can be found both in HUD's [FY 2010 – FY 2015 Strategic Plan](#)<sup>E9</sup> and in the [FY 2011 Budget Summary](#).<sup>E10</sup>

TRA is HUD's signature transformation initiative. The Department proposes to begin this multiyear effort, which seeks to preserve existing units, streamline the Department's rental assistance programs, and provide residents with the sort of mobility option that is currently available only to voucher program participants. Legislation has been submitted to Congress to authorize essential elements of the TRA initiative including long-term property-based rental assistance contracts with a resident mobility feature, changes to existing law governing the project-basing of HCV assistance, streamlining the administration of rental assistance, standardizing various elements across rental assistance programs, and providing HUD with more effective enforcement tools.



TRA reflects HUD's commitment to developing a reliable, long-term solution to preserve affordable housing, support affordable housing reinvestment and neighborhood revitalization efforts, and bring enhanced opportunity and choice to residents. More information on this initiative can be found online at [www.hud.gov/tra](http://www.hud.gov/tra).

## Priority Goal 3: Veterans Homelessness

### Overview

Despite recent inroads, homelessness continues to be a challenge for communities across the United States. While homelessness is unacceptable generally, perhaps nowhere is it more abhorrent than among Veterans of U.S. military service. Across the nation today, a large number

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of Veterans live with the effects of post-traumatic stress disorder (PTSD), debilitating injuries, and other problems resulting from their experiences in armed combat, which are often compounded by a lack of family and social support networks. As a result, many of these Veterans struggle with unemployment, poor health, disabling conditions, substance abuse, and/or criminal records, which all pose significant barriers to both obtaining and maintaining housing. Of the nearly 1.6 million people (or 1 in every 200 Americans) experiencing homelessness last year, more than 10 percent were Veterans.<sup>5</sup>

Eliminating Veterans' homelessness in five years is one of the key tenants of the [Administration's Federal Strategy to Prevent and End Homelessness](#)<sup>E1</sup> which calls for increased collaboration at a federal and local level, for both government and community providers. In support of this strategy, HUD's programs have a target goal of assisting a yearly average of 13,250 homeless Veterans to move into permanent housing.

A subset of this effort is HUD's joint Priority Goal with the Department of Veterans Affairs (VA). HUD is partnering with VA to jointly reduce the number of homeless Veterans to 59,000 by June 2012. Without this joint venture, there would be an estimated 194,000 homeless Veterans by June 2012. This Priority Goal, which will serve as a catalyst for meeting the five year goal of ending Veteran's homelessness, focuses on delivering permanent housing and thereby improving the quality of life for homeless Veterans.

The following major programs contribute to this priority goal.

### **Contributing Programs**

#### *HUD-VASH Vouchers*

The 2008 Consolidated Appropriations Act (Public Law 110-161) enacted December 26, 2007, provided \$75 million of funding for the HUD-VASH voucher program as authorized under section 8(o)(19) of the United States Housing Act of 1937. The HUD-VASH program combines HCV rental assistance for homeless veterans with case management and clinical services provided by the VA, (more details on HUD's Section 8 program can be found in the narrative for Priority Goal 2). The HCV program aids very low-income families in obtaining decent, safe, and sanitary rental housing, and more specifically, the HUD-VASH Vouchers are tailored towards assisting Veterans. This is the third year HUD is supporting the housing and service needs of homeless Veterans across America through HUD-VASH.

#### *Special Needs Assistance Program (SNAPS)*

The SNAPS aim to reduce homelessness by providing resources to move families and individuals into permanent housing. Communities use SNAPS to provide supportive housing (including short-term housing) to all homeless sub-populations, as well as homeless Veterans. Approximately 11.1 percent of the sheltered homeless population consists of Veterans.

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<sup>5</sup> The 5<sup>th</sup> [Homeless Assessment Report](#), Executive Summary, p.iii.

The SNAPS programs offer Homeless Assistance Grants (HAG) and Housing Opportunities for Persons With HIV/AIDS (HOPWA). The goal of the HAG program is to help homeless families and individuals achieve the outcome of staying in permanent housing and obtaining self-sufficiency, thereby reducing the number of homeless and chronically homeless persons in the Nation. The HOPWA program assists persons with HIV/AIDS maintain stable housing as a base to access HIV treatment and other care. HOPWA is the only federal program dedicated to address the housing needs of persons living with HIV/AIDS and their families.

## **Accomplishments**

### *HUD-VASH Vouchers*

During the first three quarters of FY 2010, PHAs participating in HUD-VASH issued 11,161 vouchers and enabled 8,408 Veterans to rent units with HUD-VASH vouchers. Compared with the numbers achieved in FY 2009, participating PHAs issued 16 percent more vouchers and enabled 28 percent more Veterans to lease units in FY 2010. Since the inception of the HUD-VASH program in FY 2008, PHAs have assisted a total of 15,304 homeless Veterans to become permanently housed.

### *SNAPS*

HUD grantees of the SNAPS programs report their performance outcomes to the Department on an annual basis through Annual Performance Reports. Preliminary data from the FY 2010 Annual Performance Reports indicate that Homeless Assistance Grant permanent supportive housing programs are on track to serve over 3,000 homeless Veterans. Nearly 1,000 homeless Veterans are already reported as served with just 25 percent of the expected Annual Performance Reports entered into the reporting system thus far.

### *Data Source and Relevance*

The VA sends monthly field reports (VA Dashboard) to HUD. This data is reported quarterly. HUD reviews the data and converts it to a PHA-specific format. The data quality and accuracy is deemed high, due to the numerous levels of oversight by the VA (including senior staff at local, regional, and national levels), and HUD's review of data for quality control purposes. In addition, the Annual Performance Report is submitted by all projects that receive funding. There are enhancements in progress by SNAPS to improve the database and the validations checks on the data.

## **Challenges**

Veterans account for a larger portion of those experiencing homelessness compared to the overall population. Data from FY 2009 reflects that on any given night Veterans comprise 11.8 percent of the homeless population but only 7.6 percent of the general population. Causes of homelessness among Veterans are similar to causes of homelessness among non-Veterans (interrelated economic, health, and personal factors as well as a shortage of affordable housing).

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Combat introduces additional factors from post-traumatic stress. Like other populations, the complexity of navigating systems makes it difficult for Veterans to get their needs met.

There are unique and robust programs and supports available for Veterans although for some, their lack of awareness about such programs or their ambivalence about seeking care may keep them from receiving these services. In some cases, their military discharge status or lack of records may create complications in obtaining services.

### **Looking to the Future**

In an effort to address these challenges, HUD will continue its joint partnership with the VA around the HUD-VASH program, discussed above. In addition, HUD has created a signature initiative (*Ending Homelessness By Preventing It*), described below, to address the critical need for confronting homelessness, and HUD is an active partner in the implementation of the Federal Strategic Plan to Prevent and End Homelessness.

#### *Signature Transformation Initiative - Ending Homelessness by Preventing It*

In HUD's 2011 budget request, the Department will partner with the Department of Health and Human Services (HHS) to link health and social services with housing vouchers in order to end homelessness for 4,000 chronically homeless households. In addition, HUD will partner with both HHS and the Department of Education (ED) to connect 6,000 homeless families and families at-risk of becoming homeless with housing vouchers, supportive services, and educational services for youth. By forging new partnerships through the two initiatives, HUD, HHS, and ED will model and encourage the development of new strategies at a local level for effectively combining mainstream federal programs in order to better serve homeless families and individuals, including unaccompanied homeless Veterans and those with families.

HUD's signature initiative will serve as the building block for making housing a platform for improving the quality of life for homeless persons, including Veterans. More detailed information regarding HUD's future strategies for homelessness are located at [HUD's Strategic Plan \(Goal 3\)](#),<sup>E2</sup> and [HUD's Budget Summary FY 2011](#).<sup>E3</sup>

#### *Federal Strategic Plan to Prevent and End Homelessness*

HUD is also a principal partner in the Administration's Federal Strategic Plan (FSP) to Prevent and End Homelessness, which is designed to spur increased collaboration at both a federal and local level, for both government and community providers. One of the key goals of the FSP is to end Veterans' homelessness in five years by strategically aligning HUD and other federal resources targeted at homeless Veterans. This homeless Veterans component of the FSP will not only help individual Veterans escape homelessness, but it will also test models of local and federal collaboration on behalf of Veterans. It also presents an opportunity to look at cross-agency savings. As part of the FSP, HUD and VA will be partnering with Public Housing Agencies to make better use of mainstream voucher and public housing units to serve homeless Veterans with families.

## Priority Goal 4: Energy and Green Retrofits

HUD's fourth Priority Goal is to complete cost-effective energy and green retrofits of 159,000 public, assisted, and other HUD-supported affordable homes by the end of FY 2011.

The residential sector generates 20 percent of greenhouse gas emissions, 33 percent of electricity demand, and 22 percent of energy consumption in the U.S. With HUD itself annually funding energy costs exceeding \$5 billion in public and assisted rental housing programs, the Department is providing federal leadership in taking action to reduce energy costs. HUD has committed to catalyzing a residential energy retrofit and new construction market in the affordable housing sector by making significant investments in energy efficiency measures in federally assisted housing developments.

[HUD is collaborating with the Department of Energy \(DOE\)](#)<sup>E1</sup> to support energy efficiency improvements totaling 1.1 million homes through FY 2011. Of this number, HUD, through several programs, will complete cost-effective energy retrofits of an estimated 126,000 HUD-assisted and public housing units. In addition to the joint energy retrofit goal with DOE, HUD will complete healthy and green improvements in 33,000 low-income housing units that will yield positive health outcomes for individuals and families, and have the potential to drastically and permanently change the way housing, energy, and health concerns are addressed in cities across our nation.

The following outlines the Department's activities addressing this goal.

### Contributing Programs

#### *Programs Administered by the Office of Public and Indian Housing (PIH)*

PIH will utilize Recovery Act and regular appropriations, as well as third party financing through Energy Performance Contracts, to complete nearly 74,000 cost-effective energy efficient retrofits and affordable green units through FY 2011. PIH provides financing for renovations of existing buildings with Energy Conservation Measures that include energy efficient lighting; new, more efficient heating and cooling systems; additional insulation; and upgraded windows and doors. PIH also supports new



A new wave of energy efficient, green public housing is exemplified by (above) Maverick Gardens (Boston) that includes photovoltaic solar panels, a cogeneration system that produces both electricity and hot water, and is built to Energy Star for New Homes and [Leadership in Energy and Environmental Design](#)<sup>E2</sup> (LEED) standards. Below, High Point (Seattle) reduced energy bills by 20 percent (\$371 for a 3-bedroom unit) and includes 35 "Breath Easy" homes to reduce the risk of childhood asthma.



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construction and substantial rehabilitation of existing housing built to Energy Star standards for New Homes, Enterprise Green Communities, LEED, or other green standards.

Key PIH programs that support these improvements include:

[Capital Fund](#)<sup>E3</sup> (Recovery Act). PIH awarded \$3 billion in formula grants for capital improvements that included significant investments in energy improvements. In addition, PIH awarded \$600 million in competitive grants to public housing authorities to either build new or rehabilitate existing housing to meet the Enterprise Green Communities standard, or to undertake comprehensive energy retrofits of existing housing.

[Native American Housing and Indian Community Development Block Grants](#)<sup>E4</sup> (Recovery Act). PIH awarded competitive and formula grants to tribes to support new construction, acquisition, rehabilitation and infrastructure development activities, with strong incentives for energy efficiency and green building.

[HOPE VI Revitalization Grants](#) (HOPE VI).<sup>E5</sup> HUD includes language in its annual Notice of Funding Availability (NOFA) that encourages the adoption of Energy Star for New Homes in HOPE VI projects, and provides additional points when rating and ranking HOPE VI proposals for projects that meet this standard, or a national green building standard that incorporates this standard.

[Operating Fund](#).<sup>E6</sup> PIH provides incentives for energy performance contracting in public housing. An [energy performance contract](#)<sup>E7</sup> is an agreement with a third-party energy services company which performs an energy audit, arranges financing, oversees the installation of energy efficiency measures, and provides additional services, such as monitoring of energy use, training of maintenance staff, and resident education.

#### *Programs Administered by the Office of Multifamily Housing*

Several multifamily housing programs are contributing to this priority goal:

[Green Retrofit Program](#)<sup>E8</sup> (Recovery Act). This program aims to reduce energy costs, cut water consumption, and improve indoor air quality. The program is designed to create or save thousands of green jobs in retrofitting 20,000 units in federally assisted multifamily developments with energy efficient technologies and green building products and practices.

[Mark to Market](#)<sup>E9</sup> (M2M) Green Initiative. The Office of Housing will complete up to 8,000 energy and green retrofits through the M2M program. By restructuring the underlying debt, the M2M program supports rents at reduced levels prevalent in the market on thousands of privately owned multifamily properties with federally insured mortgages. The Office of Affordable Housing Preservation administers the M2M program together with its Green Initiative to encourage, with modest incentives, owners and purchasers of affordable housing, multifamily properties to rehabilitate and operate their properties using sustainable Green Building principles.

[Section 202 Supportive Housing for the Elderly](#)<sup>E10</sup> and [Section 811 Supportive Housing for Persons with Disabilities](#).<sup>E11</sup> The Office of Housing will continue to incentivize energy efficiency through the Sections 202 and 811 with up to 5,500 units with energy efficiency improvements expected to be completed through FY 2011.

*Programs administered by the Office of Healthy Homes and Lead Hazard Control (OHHLHC)*

The [OHHLHC](#)'s<sup>E12</sup> Lead Hazard Control and Healthy Homes Grant Programs, the Green and Healthy Homes Initiative, and programmatic enforcement all achieve lead hazard control interventions and broader, healthy homes interventions in housing, including green improvements.

*Programs Administered by the Office of Community Planning and Development*

Other contributing programs include homes built to the Energy Star for New Homes standard through the [HOME](#),<sup>E13</sup> [CDBG](#),<sup>E14</sup> and the [Tax Credit Assistance \(TCAP\) Program](#)<sup>E15</sup> funded through the Recovery Act. The HOME and CDBG funded new home construction<sup>6</sup> that met EPA's Energy Star for New Homes. TCAP grants awarded by formula to state housing credit agencies facilitate the development of projects that received LIHTC.

*HUD-DOE Multifamily Weatherization Partnership*

In May 2009, HUD signed a Memorandum of Understanding with the DOE aimed at lowering barriers to the use of DOE Weatherization Assistance Program (WAP) funds in public and assisted multifamily housing. As a result, DOE issued a new rule in January 2010 that streamlined the WAP's income eligibility determinations and procedural requirements applicable to public housing and other HUD-assisted multifamily housing properties. These enhancements and increased funding have resulted in increased participation and facilitated the start up of new and expanded multifamily energy efficiency programs in several states. [See [www.hud.gov/recovery/weatherization](http://www.hud.gov/recovery/weatherization).<sup>E16</sup>]

## **Accomplishments**

HUD has made significant investments, both through the Recovery Act and its on-going programs, to further its commitment to energy efficiency and green building. The following accomplishments were reported through the third quarter of FY 2010. Significant numbers of additional units are in the pipeline and on track for completion by the end of FY 2011.

*Public and Indian Housing Programs*

Public Housing will report on the results of this goal in the FY 2010 Annual Performance Report to be issued in February 2011.

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<sup>6</sup> CDBG funds cannot generally fund new housing construction, unless these are through the exceptions provided in CFR 570.207.

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#### *Multifamily Housing Programs*

Through the on-going M2M Green Initiative, green retrofits of 950 units of assisted multifamily housing were completed. Energy efficiency improvements were completed in 2,169 units of Section 202 housing for the elderly and Section 811 housing for persons with disabilities.

#### *Healthy Homes and Lead Hazard Control Programs*

Lead-based paint and other housing-related environmental health hazards were eliminated in 12,216 low-income housing units.

#### *Community Planning and Development Program.*

CPD programs supported 3,864 homes meeting the Energy Star for New Homes standard, including 3,428 homes through the HOME program, 396 homes through the CDBG program, and 40 homes through the TCAP program.

#### *Data Sources and Relevance*

With respect to verification and validation of data, HUD will upgrade data collection and reporting systems for programs to improve HUD's capacity to collect more accurate data and report on energy efficient retrofitting activities. HUD is working to establish mechanisms to determine the cost effectiveness of energy retrofitting activities. As these are established, the agency will work to collect data and educate grantees and recipients to allow for more detailed and comprehensive energy data collection. Data collection will be facilitated by upgrades to HUD's data systems to track grantee accomplishments in developing energy efficient housing.

### **Challenges**

HUD's success on this goal depends upon effective execution by HUD partners and grantees. HUD is working with local housing authorities, local governments, and for-profit and non-profit housing developers and property owners to build their capacity to integrate energy efficiency and green building practices into their local programs. The Department is also working to increase coordination of HUD's programs and reporting systems with those of federal, state, and local governments, including the Department of Energy's Weatherization Assistance Program, Better Buildings Program, and other Recovery Act funded programs.

### **Looking to the Future**

In addition to catalyzing a residential energy retrofit and new construction market with renovations to its own stock of older, federally-assisted affordable housing, HUD has established an [Office of Sustainable Housing and Communities](#)<sup>E17</sup> and an interagency [Sustainable Communities Initiative](#)<sup>E18</sup> to assist in these efforts. The Sustainable Communities Initiative is a partnership among HUD, the Department of Transportation, and EPA. The initiative aims to lower carbon emissions and household costs through competitive grant awards that support integrated housing, transportation programs, and environmental planning as well as through innovative land use, zoning, and affordable housing practices.

In addition, FHA will pilot \$50 million in innovative, energy efficient retrofit financing for both single-family and multifamily housing in FY 2011 through the new Energy Innovation Fund. HUD will submit its updated Energy Action Plan to Congress as required under the Energy Policy Act of 2005. The plan will provide a roadmap for HUD to build on its FY 2010 and FY 2011 energy retrofit goals. Through these initiatives, HUD will serve as a model to help disseminate effective approaches to reduce green house gas emissions and improve the energy and location efficiency of the nation's housing stock.

## **Transform the Way HUD Does Business**

### **Overview**

The Strategic Goal to [\*Transform the Way HUD Does Business\*](#)<sup>E1</sup> works with and strengthens the other four programmatic goals, and aligns with the President's priority on performance management.

To improve its capabilities, HUD initiated a transformational program to create:

- A flexible and high performing learning organization with a motivated, skilled workforce;
- An empowered organization that is customer centered, place-based, collaborative, and responsive to employee and stakeholder feedback;
- Flexible, modern, rules and systems that promote responsiveness, openness, and transparency; and
- A healthy, open, flexible work environment that reflects the values of HUD's mission.

Key elements of this goal are described below.

### **Areas and Results of Transformation**

#### *Human Capital*

On February 3, 2010, Congress approved the reorganization of offices within the Department, including the establishment of the Office of the Chief Human Capital Officer (OCHCO) to replace the Office of Administration. Through this action, the core of OCHCO will include all services designed to foster partnering relationships with HUD's Program Offices to improve their ability to attract, develop, and retain people, and knowledge in the accomplishment of the Department's mission. The reorganization will create an infrastructure, which will streamline human capital functions and establish a customer service-oriented human resource organization.

Since the reorganization, OCHCO:

- Cut hiring time in half:
  - HUD is below the 80-day goal set by the U.S. Office of Personnel Management (OPM) for agencies; and

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- HUD is now considered a model for government hiring reform.
- Initiated an automated human capital staffing and classification system;
- Brought talent into the Department via selection of 99 Presidential Management Fellows and four summer interns to participate in the Student Ambassador program;
- Developed the following goals in the HUD Strategic Sustainability Plan:
  - Reduce the Department's Greenhouse Gas (GHG) emissions in half by 2020 from sources owned or controlled by HUD; and
  - Reduce the carbon footprint of the HUD Headquarters buildings in half by the end of the Energy Savings Performance Contract (ESPC) project, anticipated to be late calendar year 2013.
- The ESPC project will provide approximately \$34 million in major building system and equipment upgrades to:
  - Meet or exceed mandated energy and water conservation goals; and
  - Improve indoor air quality.

#### *Delegation of Authority*

As a part of a [Place-Based Decision Making Initiative](#),<sup>E2</sup> HUD is simplifying rules, eliminating outdated processes, and streamlining decision-making. This initiative will improve response time and efficiency by delegating authority for place based decisions to the field. The Office of Field Policy and Management (See box at right) is playing a vital role in this initiative). For example, HUD has delegated to the field the authority to approve travel on non-contract carriers and hiring authority within Housing. So far, nine planned delegations have been made to improve HUD's service to the public.

#### *HUD's Transformation Initiative*

The [Transformation Initiative](#)<sup>E3</sup> (TI), proposed and first funded in FY 2010, is aimed at enabling greater capacity and flexibility in responding to critical short- and long-term Departmental needs.

#### **Office of Field Policy and Management (OFPM)**

OFPM provides management and oversight to HUD's 80 field offices which contains over 65 percent of HUD's staff. Their focus in FY 2010 has been on bringing more place-based authority to the field offices.

OFPM works on an on-going basis with local elected officials and other external partners on several initiatives including:

- Field Transformation
- Sustainable Communities
- Recovery Act Place-Based Reporting/Monitoring
- Foreclosure Prevention/Congressional Black Caucus/Making Home Affordable Events
- Choice Neighborhoods

OFPM field staff coordinates and oversees formula and competitive grant announcements and events with Congressional representatives. OFPM actively participates in the Notice of Funds Availability Departmental clearance process providing valuable comments and recommendations which lead to a better grant delivery system.

Notably, through OFPM's efforts 100 percent of Recovery Act funds were obligated and nearly \$6.3 billion expended by September 30, 2010.

In the future, OFPM will delegate more program authorities to the local level, develop place-based solutions to local issues, and is responsible for local coordinating and delivery of disaster supplemental appropriations by maintaining an up-to-date grantee and client database.

This Initiative will enable HUD to:

- Have a predictable stream of funding for high quality research and evaluation;
- Design and execute a series of major research demonstrations to test new ideas for improving its programs and helping state and local governments develop more effective housing and community and economic development strategies;
- Deliver a new level of technical assistance and capacity building; and
- Develop next generation information technology systems.

With respect to FHA, specific funding was provided in FY 2010 for FHA Transformation. This has enabled FHA to begin executing the highest priority initiatives identified in the comprehensive Office of Housing/FHA IT Strategy and Improvement Plan developed in 2009. This plan set the stage for FHA information system technology improvements for the future across multiple lines of business within FHA (e.g., Single Family, Multifamily, Healthcare Facilities). Current disparate systems and functions will be upgraded by leveraging modern capabilities of a Financial Industry Standard Platform, composed of commercially available products and services, to provide a Case Management foundation to FHA's business processes. The resulting benefits will enable seamless processing of "FHA Cases" from initial data submission through endorsement and beyond.

A primary and initial component of the FHA Transformation is the Risk and Fraud initiative, which is focused on identifying and correcting deficiencies in FHA's systems, processes, and programs that create unnecessary risks to the stability of the Mutual Mortgage Insurance (MMI) fund. The initiatives comprised three contract vehicles which allow FHA to address emerging risk areas as identified by senior management that greatly enhances FHA's capabilities related to fraud detection/prevention and risk mitigation by providing access to industry-leading tools and professional services.

Specifically, the initiative consists of three functional areas covering Counterparty Risk Management Functionality, Analytical Consulting Services, and Consulting and Contracting Services for Loan-level File Review. These focused work streams improve FHA's ability to address risk in the pre-loan endorsement and pre-claim phases of the loan-lifecycle, develop more advanced loan level decisioning in line with industry standards, and focus on improved risk management efforts in the post-loan endorsement phase.

### *HUDStat*

Critical to the TI, HUDStat is a system in development that will enable performance reporting with drill down capabilities by place, strategic goal, program, and reporting period. HUDStat supports the execution of the Strategic Plan and will optimize the public benefit of HUD's multi-billion dollar programs. HUDStat will be the process by which the leadership team will review progress toward achievement of the agency's strategic goals. Meetings will be held monthly, with each meeting focusing on a different strategic goal, in rotation. The meetings will be

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attended by all affected HUD staff from headquarters and the field – and will utilize program financial and performance data and collective knowledge to highlight successes, as well as identify and resolve challenges. HUDStat provides the agency with a forum for collaborative problem solving among program, support, and field offices.

HUD will measure success in the TI by its performance against the following criteria: improvement in performance management from HUDStat; employee ratings of opportunities to increase skills; partner ratings of HUD employees and decision-making; and advances in HUD's ranking in the Partnership for Public Service's report - *Best Places to Work in the Federal Government*.

### Challenges

HUD's overall "Best Places to Work" score in 2010 declined slightly from 2008, and HUD fell in the rankings as other agencies improved. Overall, the survey results and focus groups suggest that HUD must address fundamental issues to achieve its transformation and significantly improve its "Best Places" ranking. While there are a number of major initiatives underway at HUD to address these core issues, the Department has a long way to go.

### Looking to the Future

In addition to the efforts described above, HUD has established several initiatives to improve agency operations.

- [Eliminate and Simplify HUD's Rules and Reports Initiative](#):<sup>E4</sup>
  - Reduce administrative burden on staff and partners;
  - Use input from HUD partners to identify the most counterproductive rules; and
  - In addition, HUD's Office of Congressional and Intergovernmental Relations is in the process of identifying reports that are redundant or unnecessary.
- [Create Upward Mobility and Internal Placement Opportunities for HUD Staff Initiative](#):<sup>E5</sup>
  - Increase institutional knowledge, workforce flexibility, and employee retention;
  - Potentially lower the cost of personnel disputes; and
  - Create a mobility program with lateral reassignments, rotations, and bridge positions to foster career advancement.
- Emerging Professionals Program
  - Support the development and career advancement of our staff members at the General Schedule grade 11 level and below; and
  - Develop candidates to support the agency succession planning efforts and enhance employee career progression.

- HUD Ideas in Action
  - Facilitate direct communication between front-line staff and leadership;
  - Capture ideas for improvement from all levels of the organization; and
  - Collect citizen input as HUD becomes more transparent and open.

## The Recovery Act

### Overview

The [American Recovery and Reinvestment Act](#)<sup>E1</sup> (Recovery Act) provided \$13.6 billion for projects and programs administered by HUD, of which nearly 75 percent was allocated via formula grants to state and local recipients on February 25, 2009 - only eight days after the President signed the Act into law. The remaining 25 percent of funds were awarded via competition, with 100 percent of grant and loan funds obligated, and nearly \$6.3 billion (or 46.7 percent) disbursed to grantees by September 30, 2010. Fifty percent of funds were disbursed within weeks after the end of the fiscal year, which is approximately one month ahead of Administration expectations.

HUD's Recovery Act funds are already being invested in programs that: (1) promote energy efficiency and create green jobs, (2) support assisted housing improvements and critical public projects in need of gap funding, and (3) promote stable communities and help families hardest hit by the economic crisis. As reported by Recovery Act recipients, since the inception of the Act these funds have led to over half a million people being served through homelessness prevention assistance, nearly 3,000 homes being developed, and over 315,000 units of housing being renovated, many of which have improved energy efficiency. In the second quarter of calendar year 2010, HUD Recovery Act recipients reported over 26,000 jobs saved or created. HUD has also completed two quarters of analysis on where its dollars are performing relative to a variety of indicators including geography, income, race, and poverty level.

More detailed information on funding allocations and on spending progress of the Recovery Act funds for HUD programs can be found at [www.HUD.Gov/Recovery](http://www.HUD.Gov/Recovery).

## Analysis of Financial Condition and Results

As a reflection of HUD's ongoing commitment to financial management excellence, the Department has received an unqualified opinion on our financial statements from HUD's Office of Inspector General, for the 11<sup>th</sup> year in a row. To help the reader to understand the Department's financial results, position, and condition, the following analysis addresses the relevance of particular balances and amounts as well as major changes in types and/or amounts of assets, liabilities, costs, revenues, obligations, and outlays.

The principal financial statements have been prepared from the Department's accounting records to report the financial position and results of HUD's operations, pursuant to the requirements of

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

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

This analysis provides a summary of HUD's:

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

#### Summarized Financial Data

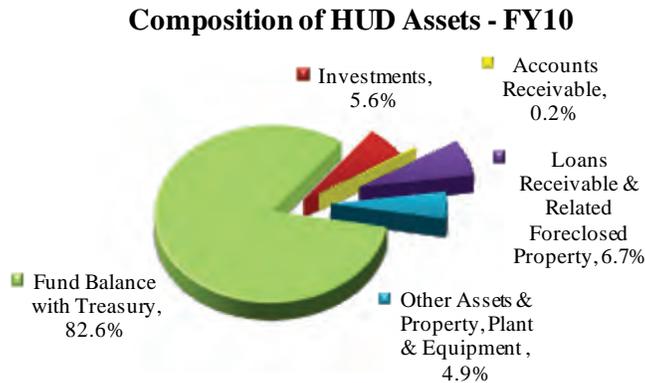
*(Dollars in Billions)*

	2010	2009
Total Assets	\$140.5	\$143.3
Total Liabilities	\$45.4	\$45.0
Net Position	\$95.0	\$98.3
FHA Insurance-In-Force	\$1,041.0	\$817.1
Ginnie Mae Mortgage-Backed Securities Guarantees	\$1,046.0	\$826.0
Other HUD Program Commitments	\$64.8	\$68.4

## Analysis of Financial Position

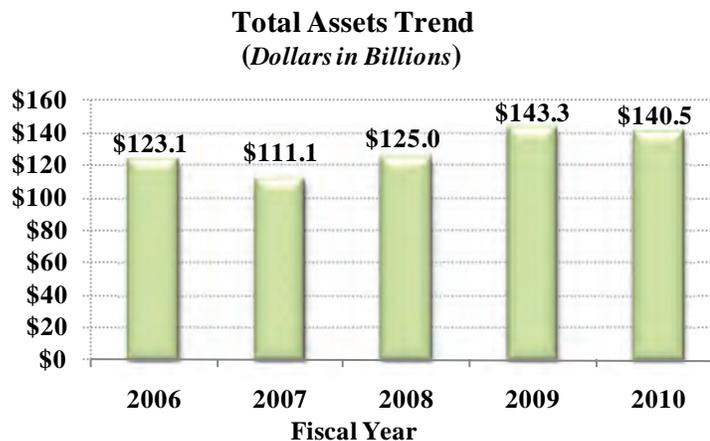
### Assets - Major Accounts

*Total Assets* for FY 2010, as reported in the Consolidated Balance Sheets, are displayed in the graph below. *Total Assets* of \$140.5 billion are comprised primarily of *Fund Balance with Treasury* of \$115.9 billion and *Loans Receivable & Related Foreclosed Property* of \$9.4 billion at September 30, 2010.



*Total Assets* decreased \$2.9 billion or two percent from \$143.3 billion at September 30, 2009. The net decrease was due primarily to a decrease of \$12.2 billion (sixty-one percent) in *Intragovernmental Investments* from \$19.9 billion at September 30, 2009, which are offset by increases of \$9.3 billion in *Fund Balance with Treasury*, *Loans Receivable and Related Foreclosed Property*, and *Other Assets and Property, Plant & Equipment*.

The table below shows *Total Assets* for FY 2010 and the four preceding years. The changes and trends impacting *Total Assets* are discussed below.



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*Fund Balance with Treasury* of \$115.9 billion represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities. *Fund Balance with Treasury* increased \$2.3 billion due to an increase of \$8.9 billion in funding for the FHA and an increase of \$1.4 billion in funding for Ginnie Mae, which are offset by decreases in funding for PIH of \$3.1 billion, for CDBG of \$2.6 billion, and for HOME of \$1.0 billion. Funding for all other programs decreased by \$1.3 billion. The increase is primarily due to the maturity and sale of FHA investments and the upward re-estimates in FHA financing accounts.

*Investments* of \$7.9 billion consist primarily of investments by FHA's Mutual Mortgage Insurance/Cooperative Management Housing Insurance Fund and by Ginnie Mae, in non-marketable, intra-governmental, Treasury securities (i.e., investments not sold in public markets). FHA investments decreased by \$6.5 billion, a sixty-one percent decrease since FY 2009, due to a \$6.4 billion dollar decrease in the net value of federal non-marketable securities and a decrease of \$0.6 billion of related interest receivable held in FHA's MMI/CMHI Capital Reserve Fund. The decrease in the net value of the FHA investments is caused by the maturity and the sale of several large bonds. Ginnie Mae investments decreased by \$5.7 billion, a sixty-two percent decrease from prior year, due to a \$6.0 billion divestiture of U.S. government securities to fund loan buyouts.

*Accounts Receivable* of \$0.3 billion primarily consists of claims to cash from the public and state and local authorities for bond refunding, Ginnie Mae premiums, FHA insurance premiums, and Section 8 year-end settlements. A 100 percent allowance for loss is established for all delinquent debt 90 days and over. The *Accounts Receivable* increase of \$0.2 billion is primarily due to an increase in Ginnie Mae's accrued mortgage interest receivable resulting from a larger mortgage balance.

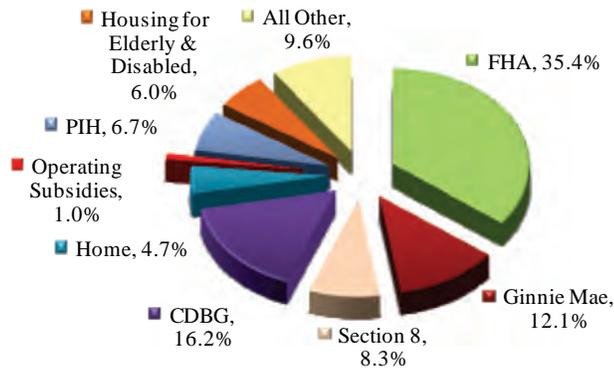
*Loans Receivable and Related Foreclosed Property* of \$9.4 billion are generated by FHA credit program receivables and by HUD's support of construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program. The increase of \$1.4 billion is primarily due to an increase in the gross value of Single-Family Foreclosed Property Held for Sale in the MMI financing account.

*Remaining Assets* of \$6.9 billion, comprising five percent of *Total Assets*, include fixed assets and other assets. The net change pertaining to the *Remaining Assets* balance was an increase by nearly 383 percent compared to the prior fiscal year, due primarily to a \$5.3 billion increase in Ginnie Mae's *Remaining Assets*. The increase is due to an increase in mortgage balance resulting from large loan buyout and advances.

*Assets - Major Programs*

The chart below presents *Total Assets* for FY 2010 by major responsibility segment or program.

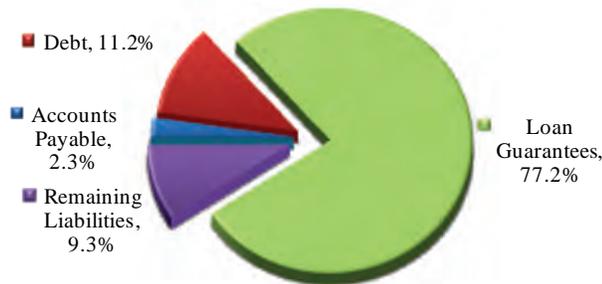
**Assets by Responsibility Segments**



**Liabilities – Major Accounts**

*Total Liabilities* for FY 2010, as reported in the Consolidated Balance Sheets, are displayed in the chart below.

**Composition of HUD Liabilities**



*Total Liabilities* of \$45.4 billion consists primarily of loan guarantee liabilities of \$35.0 billion (seventy-seven percent), debt in the amount of \$5.1 billion (eleven percent), accounts payable of \$1.0 billion (two percent), and remaining liabilities amounting to \$4.2 billion (nine percent) at September 30, 2010.

*Total Liabilities* increased \$0.4 billion (one percent) from \$45.0 billion at September 30, 2009, due primarily to an increase of \$0.9 billion in *Loan Guarantees*. This increase is due primarily to an upward adjustment to FHA’s subsidy re-estimate and Ginnie Mae’s loss reserves related to default related expenses.

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The chart below presents *Total Liabilities* for FY 2010 and the four preceding years. A discussion of the changes and trends impacting Total Liabilities is presented in the subsequent paragraphs.



*Loan Guarantees* consist of the *Liability for Loan Guarantees* related to Credit Reform loans made after October 1, 1991 and the *Loan Loss Reserve* related to guaranteed loans made before October 1, 1991. The liability for *Loan Guarantees* and the *Loan Loss Reserve* are both comprised of the present value of anticipated cash outflows for defaults such as claim payments, premium refunds, property expense for on-hand properties, and sales expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from property sales, and principal interest on Secretary-held notes.

*Debt* includes *Intragovernmental Debt* of \$4.8 billion and debt held by the public of \$0.3 billion. The *Intragovernmental Debt* consists primarily of loans from the Treasury but also includes funds borrowed from the Federal Financing Bank by Public Housing Authorities and Tribally Designated Housing Entities to finance construction and rehabilitation of low rent housing. *Debt Held by the Public* consists of existing housing authority bonds and debentures issued in lieu of cash disbursements to the public at par by FHA to pay claims. The \$0.5 billion decrease in debt (repayments exceed new borrowings) from \$5.6 billion at September 30, 2009, was due to a \$0.8 billion decrease in PIH debt.

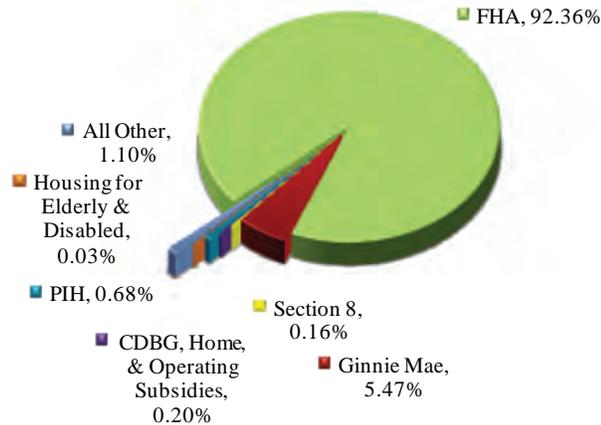
*Accounts Payable* consist primarily of pending grants payments.

*Remaining Liabilities* of \$4.2 billion consist primarily of *Intragovernmental Liabilities*, *Federal Employee and Veteran Benefits*, and *Other Liabilities*. The *Remaining Liability* balance remained the same as that of the prior fiscal year.

*Liabilities – Major Programs*

The chart below presents *Total Liabilities* for FY 2010 by responsibility segment.

**Liabilities by Responsibility Segment**



**Changes in Net Position**

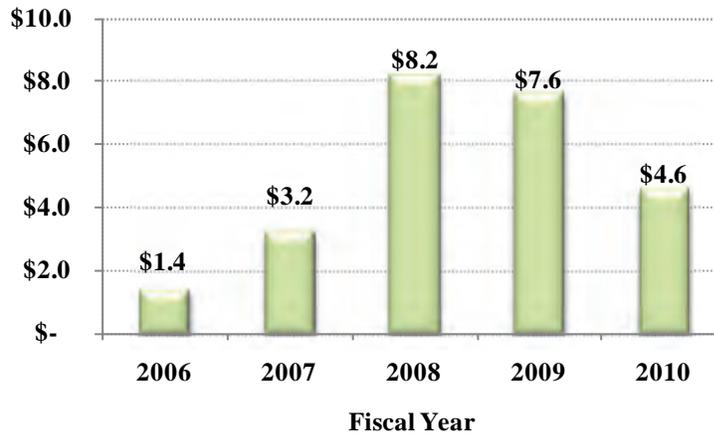
Changes in *Unexpended Appropriations*, *Net Cost of Operations*, and *Financing Sources* combine to determine the *Net Position* at the end of the year. The elements are further discussed below. *Net Position* as reported in the *Statements of Changes in Net Position* reflects a decrease of \$3.3 billion or three percent from the prior fiscal year. The net decrease in *Net Position* is primarily attributable to a \$7.9 billion decrease in *Unexpended Appropriations* and a \$4.6 billion increase in *Cumulative Results of Operations*.

The combined effect of HUD's *Net Cost of Operations* and *Financing Sources* resulted in a 160 percent decrease in *Change in Net Results of Operations* of \$4.6 billion during FY 2010. The significant year-to-year fluctuation shown in the chart below is due primarily to the annual re-estimation of long-term credit program costs and capital transfers of \$0.8 billion related to the Department's liquidating programs.

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This chart presents HUD's *Net Results of Operations* for FY 2010 and the four preceding years.

**Net Results of Operations for FY 2006 - 2010**  
*(Dollars in Billions)*

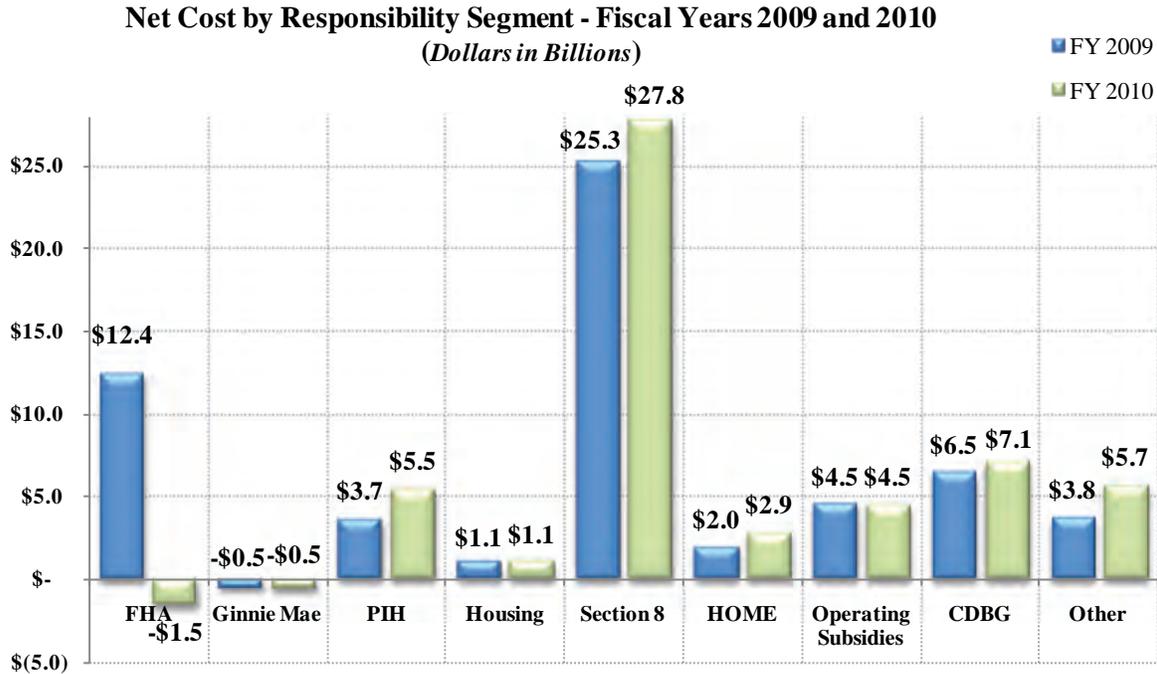


*Unexpended Appropriations:* The decrease by ten percent from \$77.9 billion in FY 2009 to \$70.0 billion in FY 2010 represents the accumulation of appropriated funds not yet disbursed and can change as the *Fund Balance with Treasury* changes.

*Financing Sources:* As shown in HUD's *Statement of Changes in Net Position*, HUD's financing sources for FY 2010 totaled \$57.0 billion. This amount is comprised primarily of \$57.1 billion in *Appropriations Used*, offset by approximately \$0.2 billion in net transfers out. The transfers out consist of new FHA subsidy endorsements and credit subsidy upward re-estimates.

*Net Cost of Operations:* As reported in the *Consolidated Statements of Net Cost*, *Net Cost of Operations* amounts to \$52.5 billion for FY 2010, a decrease of \$6.2 billion or ten percent from the prior fiscal year. *Net Cost of Operations* consists of total costs, including direct program and administrative costs, offset by program exchange revenues.

The chart below presents HUD's *Total Net Cost* for FY 2010 by responsibility segment.



As shown in the chart, *Cost of Operations* was primarily a result of spending of \$27.8 billion, or fifty-three percent of *Net Cost*, in support of the Section 8 program (administered jointly by the Housing, Community Planning and Development, and PIH programs). The current fiscal year change in *Net Cost* for the Section 8 programs was \$2.5 billion, or ten percent, more than the prior fiscal year. FHA *Net Cost* decreased by \$14.0 billion, due primarily to a \$12.0 billion, or 126 percent, decrease in gross costs due to a decrease in credit subsidy expense from the re-estimate and a decrease in credit subsidy expense from current year endorsements in the MMI financing account. The remaining \$2.0 billion, or thirty-six percent, decrease in gross costs is attributable to a decrease in bad debt expense in the General Insurance/Special Risk Insurance (GI/SRI) liquidating account and a decrease in subsidy expense in the GI/SRI financing account.

### Analysis of Off-Balance-Sheet Risk

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

### Contractual and Administrative Commitments

HUD's *Contractual Commitments* of \$65.0 billion in FY 2010 represents HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs.

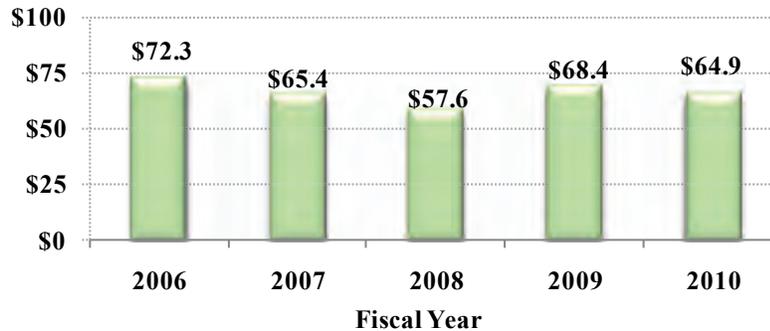
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*Administrative Commitments* (reservations) of \$2.2 billion relate to specific projects for which funds will be provided upon execution of the related contract.

The chart below presents HUD's *Contractual Commitments* for FY 2010 and the four preceding years.

**Commitments Under HUD's Grants,  
Subsidy, and Loan Programs  
(Dollars in Billions)**

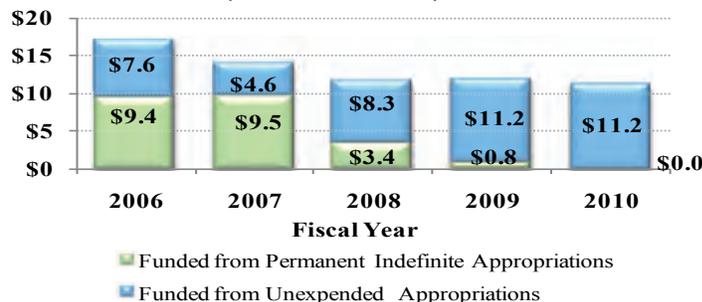


These commitments are primarily funded by a combination of unexpended appropriations and permanent indefinite appropriations, depending on the inception date of the contract. HUD draws on permanent indefinite budget authority to fund the current year's portion of contracts entered into prior to FY 1988.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

*Total Commitments* (contractual and administrative) decreased by \$3.7 billion or five percent during FY 2010. The change is primarily attributable to a decrease of \$3.1 billion in PIH commitments, a decrease of \$1.0 billion in HOME program commitments, and a decrease of \$1.9 billion in *All Other Commitments*, which are slightly offset by an increase in commitments of \$3.2 billion for CDBG.

The chart below presents HUD's Section 8 *Contractual Commitments* for FY 2010 and the four preceding years.

**Section 8 Commitments  
(Dollars in Billions)**



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

### FHA Insurance-In-Force

The chart below presents FHA's Insurance-In-Force of \$1,041 billion for FY 2010 and the four preceding years. This is an increase of \$224 billion (or twenty-seven percent) from the FY 2009 FHA Insurance-In-Force of \$817 billion. FHA's volume has grown significantly during the mortgage crisis as a result of constrained activity by private mortgage insurers and private lenders.



### Ginnie Mae Guarantees

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of MBS and commitments to guarantee. The securities are backed by pools of FHA and PIH insured, Rural Housing Service-insured, and Veterans Affairs-guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2009 and 2010, was approximately \$826 billion and \$1,046 billion, respectively. However, Ginnie Mae's potential loss is considerably less because the FHA and Rural Housing Service insurance and Veterans Affairs guaranty serve to indemnify Ginnie Mae for most losses. Also, as a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment

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authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2010 and 2009 were \$80.0 billion and \$98.4 billion, respectively.

The chart on the next page presents Ginnie Mae MBS for FY 2010 and the four preceding years.



Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers. In FY 2010 and 2009, Ginnie Mae issued a total of \$184.3 billion and \$79.6 billion, respectively, in its multi-class securities program. The estimated outstanding balance of multiclass securities in the total MBS securities balance at September 30, 2010 and 2009 were \$489 billion and \$350 billion, respectively. These securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

Multi-class securities include:

- REMICs – Real Estate Mortgage Investment Conduits are a type of multiclass mortgage-related security in which interest and principal payments from mortgages are structured into separately traded securities.
- Stripped MBS – Stripped MBS are securities created by “stripping” or separating the principal and interest payments from the underlying pool of mortgages into two classes of securities, with each receiving a different proportion of the principal and interest payments.
- Platinums – A Ginnie Mae Platinum security is formed by combining Ginnie Mae MBS pools that have uniform coupons and original terms to maturity into a single certificate.

## Management Assurances

HUD is responsible for establishing, maintaining, and assessing internal controls to provide reasonable assurance that the internal control objectives of the *Federal Managers' Financial Integrity Act (FMFIA)*, 31 U.S.C. 3512 Sections 2 and 4, the *Federal Financial Management Improvement Act (FFMIA)*, P.L. 104-208, and the *Federal Information Security Management Act (FISMA)* are met.

### The Federal Managers' Financial Integrity Act (FMFIA) of 1982 and Federal Financial Management Improvement Act (FFMIA) of 1996

The Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget (OMB) Circular A-123 *Management's Responsibility for Internal Control* present the main internal control requirements for the Federal government. FMFIA specifies management's responsibility for, and its role in, the assessment of accounting and administrative internal controls. FMFIA requires the agency head to annually assess and report on the effectiveness of internal controls that protect the integrity of federal programs and financial management systems and to report any instances of material weaknesses including the preparation of remediation plans. For FY 2010, no material weaknesses were identified.

In FY 2010, OMB Circular A-127, *Financial Management Systems* was substantially revised. The revised Circular introduced a simplified risk-based approach to determine FFMIA substantial compliance by targeting the agency's most significant financial statement audit risks. In order for HUD's financial management systems to be in substantial compliance with FFMIA, its systems must meet the three requirements as defined by Section 803(a) of FFMIA. These requirements are: (1) Federal Financial Management Systems requirements, (2) the applicable Federal Accounting Standards, and (3) U.S. Standard General Ledger at the transaction level.

Based on the revisions to OMB Circular A-127, supplemental guidance was issued for consideration when determining compliance with FFMIA. It requires management to determine if system performance prevents the Agency from providing reliable and timely financial information. Generally, identified deficiencies for systems that do not prevent the agency from meeting its reporting requirements should not be considered as a part of FFMIA compliance determination. Additionally, for FFMIA compliance, it does not require that all systems be entirely automated, nor does it require ideal or state of the art system performance or system efficiency. However, the systems should routinely provide reliable financial information consistently, accurately, and uniformly.

At the end of FY 2010, HUD determined that the Department is in compliance with FFMIA. HUD's OIG auditors cited the Department for not substantially complying with the Act; however, HUD management disagrees with this audit finding, and asserts that our financial

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management systems satisfy OMB's three-part requirement needed to report substantial compliance with FFMIA.

#### *HUD's Integrated Financial Management Improvement Project (HIFMIP)*

HUD continues to strengthen and improve its financial management systems. The Department is currently engaged in the development of a major financial systems modernization project. HIFMIP establishes an enterprise vision to achieve a core financial management system as a resolution to the Department's integration and modernization efforts.

The HIFMIP contract was awarded on September 23, 2010. HIFMIP will replace the functionality of the HUD Central Accounting and Program System (HUDCAPS) with the Integrated Core Financial System (ICFS). The ICFS will replace HUD's outdated legacy systems, provide timely, accurate, and reliable data, and improve efficiency by eliminating time-consuming, manual processes. As part of the Secretary's Transformation Initiative, the Department targets funding toward modernizing HUD's Information Technology (IT) systems. During FY 2010, HUD began the process of reviewing and documenting its financial management systems interfaces. This process will continue in FY 2011 and will address future interfaces, manual processes, and security interfaces to be implemented.

At the end of FY 2010, HUD had three non-compliant financial systems: HUD Procurement System (HPS), Small Purchase System (SPS), and the Facilities Integrated Resources Management System (FIRMS). The two systems, HPS and SPS, were identified as non-compliant as part of HUD's FY 2006 financial statement audit. HUD developed remediation plans to replace these systems with the HUD Integrated Acquisition Management System (HIAMS) to meet the agency's procurement and business needs. A solicitation was issued in FY 2010, and HUD awarded a contract on September 30, 2010. While HIAMS is being developed, compensating controls are in place to mitigate noncompliance issues. FIRMS was identified as being non-compliant with FFMIA. In FY 2010, HUD made significant improvements in the areas of security and internal controls for FIRMS; however, internal control weaknesses still exist.

### **Federal Information Security Management Act (FISMA) of 2002**

The Federal Information Security Management Act of 2002 requires each agency to generate: "...a comprehensive framework for ensuring the effectiveness of information security controls over information resources that support Federal operations and assets..." It assigns specific responsibilities to Federal agencies, the National Institute of Standards and Technology, and the Office of Management and Budget (OMB) in order to strengthen information system security. In particular, FISMA requires agency heads to implement policies and procedures to cost-effectively reduce information technology security risks to an acceptable level and to annually report to OMB on the effectiveness of the agencies' security programs.

HUD relies extensively on IT to carry out its operations, and the agency continues to improve its Information System Security Program. The implemented improvements during FY 2010 increase HUD's ability to protect the availability, integrity, and confidentiality of information stored on its systems. Noted accomplishments include:

- Ensured all of HUD's information systems maintained a current authorization to operate;
- Matured the vulnerability management program to cost effectively reduce security risks discovered on the Department's technical infrastructure;
- Deployed an automated security management capability to improve visibility into the security posture of HUD's IT systems; and
- Expanded the Department's security awareness program.

In FY 2010, the OIG reports focused on HUD's network security devices. Weaknesses discovered revolved around configuration management of the devices. HUD is developing corrective action plans to improve the configuration management of its network security devices consistent with the OIG's recommendations.

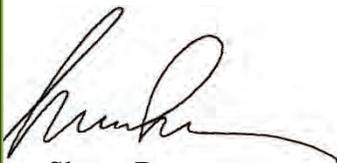
## The Secretary's Letter of Assurance FY 2010 Annual Assurance Statement

The Department of Housing and Urban Development's management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA), Sections 2 and 4. HUD conducted its assessment of the effectiveness of its internal control over the efficiency and effectiveness of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, HUD can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, as of September 30, 2010, was operating effectively with no material weaknesses found in the design or operation of the internal controls.

In addition, HUD conducted an assessment of the effectiveness of its internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, HUD can provide reasonable assurance that its internal control over financial reporting, as of June 30, 2010, was operating effectively and that no material weaknesses were found in the design or operation of the internal control over financial reporting.

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

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires federal agencies to implement and maintain financial management systems that are in substantial compliance with federal financial management systems requirements, federal accounting standards, and the United States Government Standard General Ledger at the transaction level. HUD hereby provides reasonable assurance that its financial management systems substantially comply with FFMIA for FY 2010.



Shaun Donovan  
Secretary

November 15, 2010